

Copa Holdings, S.A.
Form 20-F
April 16, 2012
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As filed with the Securities and Exchange Commission on April 13, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

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)

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+507 304 2677 (Telephone)

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(Registrant's Contact Person)

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

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| 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, 2011, there were outstanding 43,895,888 shares of common stock, without par value, of which 32,957,763 were Class A shares and 10,938,125 were Class B shares.

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

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

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

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

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

Large Accelerated Filer Accelerated Filer Non-accelerated Filer
Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

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

by the International Accounting Standards Board

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

Item 17 Item 18

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

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INTRODUCTION

In this annual report on Form 20-F, unless the context otherwise requires, references to **Copa Airlines** are to Compañía Panameña de Aviación, S.A., the unconsolidated operating entity, **Copa Colombia** to refer 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** are 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 OnePass frequent flyer miles which have been renamed MileagePlus as of March 3, 2012 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

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

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Presentation of Financial and Statistical Data

Included elsewhere in this annual report are our audited consolidated statement of financial position as of December 31, 2011 and 2010, and the related audited consolidated statements of income, changes in shareholders' equity and cash flows for the years ended December 31, 2011, 2010, and 2009.

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;

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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.

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

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

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

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

The following table presents summary consolidated financial and operating data for each of the periods indicated. Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (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 for the years ended December 31, 2011, 2010, and 2009 has been derived from our audited consolidated financial statements included elsewhere in this annual report.

| | Year Ended December 31, (in thousands of dollars, except share and per share data and operating data) | | |
|------------------------------------|---|-----------|-----------|
| | 2011 | 2010 | 2009 |
| INCOME STATEMENT DATA | | | |
| Operating revenue: | | | |
| Passenger revenue | 1,747,102 | 1,338,581 | 1,189,706 |
| Cargo, mail and other | 83,819 | 76,225 | 66,370 |
| Total operating revenues | 1,830,921 | 1,414,806 | 1,256,076 |
| Operating expenses: | | | |
| Aircraft fuel | 547,221 | 354,427 | 300,816 |
| Salaries and benefits | 213,094 | 178,845 | 157,045 |
| Passenger servicing | 160,725 | 133,718 | 125,150 |
| Commissions | 72,947 | 57,677 | 57,564 |
| Reservations and sales | 70,363 | 58,813 | 56,280 |
| Maintenance, materials and repairs | 70,969 | 62,229 | 55,720 |
| Depreciation and amortization | 75,458 | 62,962 | 50,876 |

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| | | | |
|--------------------------------|--------|--------|--------|
| Flight operations | 83,782 | 70,648 | 60,873 |
| Aircraft rentals | 51,259 | 46,334 | 46,538 |
| Landing fees and other rentals | 41,881 | 40,320 | 33,628 |

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| | xxxx | xxxx | xxxx |
|--|-----------|-----------|-----------|
| Other | 58,237 | 59,185 | 52,083 |
| Special fleet charges ⁽¹⁾ | 0 | 0 | 19,417 |
| Total operating expenses | 1,445,936 | 1,125,158 | 1,015,990 |
| Operating income | 384,985 | 289,648 | 240,086 |
| Non-operating income (expense): | | | |
| Interest expense | -32,680 | -29,981 | -32,938 |
| Interest capitalized | 0 | 0 | 693 |
| Interest income | 6,774 | 4,759 | 9,185 |
| Other, net ⁽²⁾ | -13,068 | -4,403 | 58,955 |
| Total non-operating expenses, net | -38,974 | -29,625 | 35,895 |
| Income before income taxes | 346,011 | 260,023 | 275,981 |
| Provision for income taxes | 35,586 | 18,966 | 26,894 |
| Net income | 310,425 | 241,057 | 249,087 |

STATEMENT OF FINANCIAL POSITION DATA

| | | | |
|---|-----------|-----------|-----------|
| Total cash, cash equivalents and short-term investments | 506,146 | 402,603 | 352,068 |
| Accounts receivable, net | 143,001 | 89,387 | 80,791 |
| Total current assets | 754,719 | 594,383 | 503,022 |
| Purchase deposits for flight equipment | 242,287 | 205,972 | 198,697 |
| Total property and equipment | 2,000,191 | 1,772,528 | 1,480,172 |
| Total assets | 3,066,273 | 2,555,997 | 2,161,208 |
| Long-term debt | 936,657 | 888,681 | 750,971 |
| Total shareholders equity | 1,389,531 | 1,144,656 | 911,133 |
| Capital stock | 63,528 | 55,867 | 51,782 |

CASH FLOW DATA

| | | | |
|---|----------|----------|----------|
| Net cash provided by operating activities | 498,289 | 292,801 | 291,299 |
| Net cash used in investing activities | -468,250 | -445,432 | -160,314 |
| Net cash (used in) provided by financing activities | 5,775 | 95,520 | -87,849 |

OTHER FINANCIAL DATA

| | | | |
|--|------------|------------|------------|
| EBITDA ⁽³⁾ | 447,375 | 348,207 | 349,917 |
| Aircraft rentals | 51,259 | 46,334 | 46,538 |
| Operating margin ⁽⁴⁾ | 21.0% | 20.5% | 19.1% |
| Weighted average shares used in computing net income per share (basic) | 44,493,379 | 43,995,671 | 43,910,929 |
| Weighted average shares used in computing net income per share (diluted) | 44,493,379 | 43,995,671 | 43,910,929 |
| Net income per share (basic) | \$ 6.98 | \$ 5.48 | \$ 5.67 |
| Net income per share (diluted) | \$ 6.98 | \$ 5.48 | \$ 5.67 |
| Dividends declared per share | \$ 1.64 | \$ 1.09 | \$ 0.37 |
| Total number of shares at end of period | 43,895,888 | 43,597,682 | 43,344,978 |

OPERATING DATA

| | | | |
|--|---------|---------|---------|
| Revenue passengers carried ⁽⁵⁾ | 8,723 | 7,998 | 7,182 |
| Revenue passenger miles ⁽⁶⁾ | 10,198 | 8,416 | 7,397 |
| Available seat miles ⁽⁷⁾ | 13,352 | 10,950 | 9,911 |
| Load factor ⁽⁸⁾ | 76.40% | 76.90% | 74.60% |
| Break-even load factor ⁽⁹⁾ | 60.10% | 61.90% | 55.30% |
| Total block hours ⁽¹⁰⁾ | 255,638 | 221,298 | 206,726 |
| Average daily aircraft utilization ⁽¹¹⁾ | 10.5 | 10.2 | 10.1 |
| Average passenger fare | 200.3 | 167.4 | 165.6 |

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| | | | |
|---|--------|--------|--------|
| Yield ⁽¹²⁾ | 17.14 | 15.9 | 16.08 |
| Passenger revenue per ASM ⁽¹³⁾ | 13.08 | 12.22 | 12.00 |
| Operating revenue per ASM ⁽¹⁴⁾ | 13.71 | 12.92 | 12.67 |
| Operating expenses per ASM (CASM) ⁽¹⁵⁾ | 10.83 | 10.28 | 10.25 |
| Departures | 99,864 | 95,004 | 88,294 |
| Average daily departures | 273.6 | 260.3 | 241.9 |
| Average number of aircraft | 67.5 | 59.7 | 56.3 |
| Airports served at period end | 59 | 52 | 51 |

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- (1) Represents expenses related to costs associated with terms negotiated for the early termination its MD-80 aircraft as a result of Copa Colombia's transition to a more fuel efficient all Embraer-190 fleet in 2009.
- (2) Consists primarily of changes in the fair value of fuel derivative contracts and foreign exchange gains/losses.
- (3) EBITDA represents net income (loss) plus the sum of interest expense, income taxes, depreciation and amortization 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:

| | 2011 | 2010 | 2009 |
|----------------------|----------------|----------------|----------------|
| Net income | 310,425 | 241,057 | 249,087 |
| Interest expense | 32,680 | 29,981 | 32,938 |
| Income taxes | 35,586 | 18,966 | 26,894 |
| Depreciation | 75,458 | 62,962 | 50,876 |
| Subtotal | 454,149 | 352,966 | 359,795 |
| Interest capitalized | (0) | (0) | (693) |
| Interest income | (6,774) | (4,759) | (9,185) |
| EBITDA | 447,375 | 348,207 | 349,917 |

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 rent expense.

- (4) Operating margin represents operating income divided by operating revenues.
- (5) Total number of paying passengers (including all passengers redeeming OnePass (now MileagePlus) 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 and special fleet charges, this figure would have been 58.3% in 2009, 61.2% in 2010, and 59.6% in 2011.
- (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 fifteen minutes of scheduled arrival.
- (17) The average number of miles flown per flight.
- (18) Percentage of flights that depart within fifteen minutes of the scheduled departure time.
- (19) Has not historically distinguished between revenue passengers and non-revenue passengers. Revenue passenger information and other statistics derived from revenue passenger data for the year ended December 31, 2009, 2010 and 2011 has been derived from estimates that we believe to be materially accurate.

B. Capitalization and Indebtedness

Not applicable

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C. Reasons for the Offer and Use of Proceeds

Not applicable

D. Risk Factors

Risks Relating to Our Company

Our 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 assure you 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, our load factors tend to be lower than those on our established routes and our advertising and other promotional costs tend to be higher, which may 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 may 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 our 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 provide 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, may adversely affect our ability to execute our growth strategy. In recent years, 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 assure you 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.

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

Passenger demand is heavily cyclical and highly dependent on global and local 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 in the countries in which we operate could adversely affect our business, financial condition and results of operations:

changes in economic or other governmental policies;

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, global or regional, 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.

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. At December 31, 2011, we had \$651.3 million of outstanding indebtedness that is owed to financial institutions under financing arrangements guaranteed by the Export-Import Bank. In February 2011, participants from the members states of the Organization for Economic Co-operation and Development (OECD), including the 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 will continue to benefit from the previous regime, the 2011 Aircraft Sector Understanding is likely to increase our financing costs and may negatively affect our results of operation. In addition, 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. The Export-Import Bank may in the future 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 assure you 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 are dependent on our alliance with United Continental Holdings and cannot assure you that it will continue.

Historically, we maintained a broad commercial and marketing alliance with Continental Airlines, Inc., or 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 U.S. Department of Transportation, or DOT, has issued a route transfer order pursuant to which the antitrust immunity granted to Continental Airlines and Copa Airlines has been transferred to 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. In addition, the DOT has issued a route transfer order document whereby the existing antitrust immunity grand between Continental Airlines and Copa Airlines is now in effect between

UAL and Copa Airlines

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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 assure you 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 also rely on UAL's OnePass frequent flyer program, which has been renamed MileagePlus as of March 3, 2012, in which we participate globally and on a co-branded basis in Latin America. Our business may be adversely affected if this frequent flyer program does not remain a competitive marketing program. In addition, our competitors may benefit from alliances with other airlines that are more extensive than our alliance with UAL. We cannot predict the extent to which we will be disadvantaged by competing alliances. Our relationship with suppliers depends in part on our alliance with UAL.

We have decided to join Star Alliance, which could involve significant risks.

During 2008, Continental Airlines announced its intention to leave the SkyTeam Alliance and join the Star Alliance, effective the fourth quarter of 2009. Due to our long-standing alliance relationship with Continental, and in order to ensure we remain fully aligned with Continental on a number of important joint initiatives, we also exited the SkyTeam Alliance during the fourth quarter of 2009. As a result, we are currently not affiliated with any global airline alliance. In November 2010, Copa and Star Alliance jointly announced Copa's intention to join Star Alliance. Copa is currently in the process of complying with the requirements to join with a target entry date into Star Alliance during the 2nd quarter of 2012. In particular, we have been required to execute bilateral agreements with members of the alliance and integrate our technology processes. The process of joining an alliance like Star Alliance involves execution risks including potential delays due to lack of applicable approvals or difficulty in satisfying entrance requirements and is subject to our decision to withdraw from the joining process. One of our main competitors, Avianca-Taca, is also in the process of joining Star Alliance. 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 any additional implications to our current operations. Any of these factors could result in additional costs and 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 such competition is likely to continue at this level or intensify in the future. As a result, the effect of such competition on us could be significant and could have a material adverse effect on our business, financial condition and results of operations.

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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 are 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.

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 25.1% 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 assure you 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.

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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. A 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 or the imposition of other sanctions could also have a material adverse effect. 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 assure you 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. 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. Additional new regulations continue to be regularly implemented by the U.S. Transportation Security Administration, or TSA, as well.

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 assure you 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 the placing of its code 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 the facilities and infrastructure, and on the completion of the expansion of Tocumen International Airport expected to be fully operational in the 2nd quarter of 2012.

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.

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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 that govern rights to use the airport's jetways or aircraft parking spaces. Therefore, we do not have contractual recourse in the event the airport authority assigns new capacity to competing airlines, reassigns our resources to other aircraft operators, raises fees or discontinues 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 could have a material adverse impact on our results of operations. Passenger taxes and airport charges have also 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 assure you 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 assure you that we will be able to obtain a sufficient number of slots, gates and other facilities at airports to expand our services as we are proposing to do. It is also possible that airports not currently subject to capacity constraints may become so in the future. In addition, an airline must use its slots on a regular and timely basis or risk having those slots 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 assure you that airports at which there are no such restrictions may not implement restrictions in the future or that, where such restrictions exist, they may not become more onerous. Such restrictions may limit our ability to continue to provide or to increase services at such airports.

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, 2011, our interest expense and aircraft and facility rental expense under operating leases aggregated \$102.7 million. At December 31, 2011, approximately 62% of our total indebtedness bore interest at fixed rates, and a small portion of our lease obligations was determined with reference to LIBOR. Accordingly, our financing and rent expense will not decrease significantly if market interest rates decline.

As of December 31, 2011, we had firm commitments to purchase 37 Boeing 737-Next Generation, with an aggregate manufacturer's list price of approximately \$3.3 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.

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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 ability 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 successfully our business strategy, 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.

In 2012, we expect to take delivery of 13 Boeing 737-800 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, which is a relatively new aircraft to the industry. 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.

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

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

We rely on information technology systems, and we may become more dependent on such systems in the future.

We rely upon information technology systems to operate our business and increase our efficiency. We are highly reliant on certain systems for 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. These systems may not deliver their anticipated benefits. Also, in transitioning to new systems we may lose data or experience interruptions in service, which could harm 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 analysis 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.

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

In 2011, approximately 68.3% of our expenses and 40.3% 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. In 2011, we had hedges in place with respect to some of our U.S. dollar / Colombian Peso exposure.

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. Although in most countries to which we fly this period is typically between one and two weeks, in Venezuela, foreign companies, including airlines, have experienced increasing delays for approvals by the Venezuelan government to repatriate funds. We have significant cash balances in Venezuelan Bolivars subject to Venezuelan exchange controls. In recent periods, we have experienced up to a nine month delay in repatriating funds. On January 8, 2010, the Venezuelan government announced its decision to implement new fixed exchange rates effective January 11, 2010, which resulted in a significant devaluation of the Bolivars against the U.S. dollar. As a result, we incurred losses of approximately \$19.7 million in 2010. 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 should there be a further devaluation.

Our maintenance costs will increase as our fleet ages.

The average age of our fleet was approximately 5.1 years as of December 31, 2011. 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, 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 increase substantially the salaries or benefits of our employees, it may have an adverse impact on our operations and financial condition.

Approximately 58% of the Company's employees belong to a labor union. There are currently five unions covering our Copa employees based in Panama and four unions covering our Copa Colombia employees in Colombia.

The five unions in Panama are: the pilots' union (UNPAC); the flight attendants' union (SIPANAB); the mechanics' union (SITECMAP); the traffic attendants' union (UGETRACO); and a generalized union (SIELAS), which represents ground personnel, messengers, drivers, counter agents, and other non-executive administrative staff. Copa entered into collective bargaining agreements with its pilot union in November 2007, its general union in July 2008, its mechanics union in April 2009, and its flight attendants union in March 2010. Collective bargaining agreements in Panama are typically between three and four year terms. Recently, Copa settled negotiations related to alleged labor violations submitted by SIELAS. The next negotiations with SIELAS are expected to take place in September 2013. We started negotiations with UNPAC for a new collective bargaining agreement with a target completion date of August 2012. Copa Airlines has traditionally experienced good relations with its unions.

Four unions cover our employees in Colombia: the pilots' union (ACDAC), the flight attendants' union (ACAV), the industry union, and the mechanics union. We commenced negotiations with ACDAC on February 28, 2012, and expect to enter into arbitration proceedings to reach settlement with each of the ACAV, the industry union, and the mechanics union. Typically, collective bargaining agreements in Colombia have terms of two to four 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.

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The Company's employees in Brazil are covered by industry union agreements that cover all airline industry employees in the country.

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. 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, and agree to terms that are less favorable to us than our existing agreements. Employees outside of Panama that 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 2011, approximately 61% of our revenues were derived from tickets sold by travel agents or tour operators. We cannot assure you 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. For example, at airports other than Tocumen International Airport, most of our below the wing aircraft services are performed by third party contractors. Overhaul maintenance and C-checks are handled by 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.

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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 aircraft 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 assure you 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.

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 supply. 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 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. 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 approximately five daily departures to and from Cuba which provide passenger, cargo and mail transportation service. For the year ended December 31, 2011, our transported passengers to and from Cuba represented approximately 5.2% of our total passengers carried. Our operating revenues from Cuban operations during the year ended December 31, 2011 represented approximately 5.8% 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. You should understand that 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 recently 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.

Table of Contents**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.

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 Air Lines, AeroMéxico, and to a lesser extent, 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 addition, several 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. 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. It is therefore likely that Copa Colombia will face stronger competition in the future than it has in recent years, and its prior results may not be indicative of its future performance. In addition, Copa is currently in the process of complying with the requirements to join Star Alliance with a target entry date during the 2nd quarter of 2012. One of our main competitors, Avianca-Taca, is also in the process of joining Star Alliance. 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 assure you 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.

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, Spirit, which serves Latin America, including Panama, from Fort Lauderdale, JetBlue, which flies from Orlando to Bogota, San José, San Juan, Santo Domingo, and Bahamas; 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.

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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 31.5% of operating expenses in 2010 and 37.8% in 2011. 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 increased once again throughout 2010 and 2011. 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 you that we would be able to offset any increases in the price of fuel by increasing our fares.

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 finding, 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 assure you 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 national employees we may employ. Our need for qualified pilots at times exceeded the domestic supply and has caused us to hire a substantial number of non-Panamanian national pilots. We cannot assure you 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.

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

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

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

Demand for air transportation may be adversely affected by terrorist attacks, war or political and social instability, epidemics, natural disasters and other events. Any of these events in the markets in which we operate could have a material impact on our business, financial condition and results of operations. Furthermore, these types of situations could have a prolonged effect on air transportation demand and on certain cost items, such as security and insurance costs.

The terrorist attacks in the United States on September 11, 2001, for example had a severe and lasting adverse impact on the airline industry, in particular, a decrease in airline traffic in the United States and, to a lesser extent, in Latin America. Our revenues depend on the number of passengers traveling on our flights. Therefore, any future terrorist attacks or threat of attacks, whether or not involving commercial aircraft, any increase in hostilities relating to reprisals against terrorist organizations, including an escalation of military involvement in the Middle East, or otherwise and any related economic impact could result in decreased passenger traffic and materially and negatively affect our business, financial condition and results of operations.

Public health threats, such as the H1N1 flu virus, the bird flu, Severe Acute Respiratory Syndrome (SARS) and other highly communicable diseases, affect travel behavior and could have a material adverse effect on the industry. During the second quarter of 2009, passenger traffic was negatively affected as a result of the H1N1 flu crisis, which resulted in lower overall demand for intra-Latin America travel, especially to and from Mexico. Although we quickly responded to the crisis by reducing capacity, especially to Mexico, and the H1N1 flu situation normalized by July 2009, we cannot assure you that the adverse effects of future outbreaks of H1N1 or other such health threats will be able to be similarly contained. It is impossible to determine if and when such health threats, or perceived health threats, will occur, when the resulting adverse effects will abate and the extent to which they will further decrease demand for air travel, which could materially and negatively affect our business, financial condition and results of operations.

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

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

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

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

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Risks Relating to Panama and our Region

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

A substantial portion of our assets are located in the Republic of Panama and a significant proportion of our passengers either originates or ends their trip in Panama. Furthermore, substantially all of Copa's flights operate through our hub at Tocumen International Airport. As a result, we depend on economic and political conditions prevailing from time to time in Panama. Panama's economic conditions in turn highly depend on the continued profitability and economic impact of the Panama Canal. Control of the Panama Canal and many other assets were transferred from the United States to Panama in 1999 after nearly a century of U.S. control. Political events in Panama may significantly affect our operations.

Copa Colombia's results of operations are highly sensitive to macroeconomic and political conditions prevailing in Colombia, which have been highly volatile and unstable in recent decades. Although the state of affairs in Colombia has been steadily improving since 2002, political unrest and instability in Colombia could resume, which could adversely affect Copa Colombia's financial condition and results of operations.

According to International Monetary Fund estimates, the Panamanian and Colombian economies are expected to grow by 7.2% and 4.5%, respectively, in 2012 as measured by their GDP, however, if either economy experiences a sustained recession, or significant political disruptions, our business, financial condition and results of operations could be materially and negatively affected.

Any increase in the taxes we or our shareholders pay in Panama or the other countries where we do business could adversely affect the value of our Class A shares.

We cannot assure you that we will continue to pay taxes at the current rate. Our provision for income taxes was \$18.9 million and \$35.6 million in the years ended December 31, 2010 and 2011, which represented an effective income tax rate of 7.3% and 10.3% for the respective periods. We are subject to local tax regulations in each of the jurisdictions where we operate, the great majority of which are related to the taxation of income. In some of the countries to which we fly, we do not pay any income taxes, because we do not generate income under the laws of those countries either because they do not have income tax or because of treaties or other arrangements those countries have with Panama. In the remaining countries, we pay income tax at a rate ranging from 25% to 34% of income. Different countries calculate income in different ways, but they are typically derived from sales in the applicable country multiplied by our net margin or by a presumed net margin set by the relevant tax legislation. The determination of our taxable income in certain countries is based on a combination of revenues sourced to each particular country and the allocation of expenses of our operations to that particular country. The methodology for multinational transportation company sourcing of revenue and expense is not always specifically prescribed in the relevant tax regulations, and therefore is subject to interpretation by both us and the respective taxing authorities. Additionally, in some countries, the applicability of certain regulations governing non-income taxes and the determination of our filing status are also subject to interpretation. We cannot estimate the amount, if any, of potential tax liabilities that might result if the allocations, interpretations and filing positions used by us in our tax returns were challenged by the taxing authorities of one or more countries. If taxes were to increase, our financial performance and results of operations could be materially and adversely affected. Due to the competitive revenue environment, many increases in fees and taxes have been absorbed by the airline industry rather than being passed on to the passenger. Any such increases in our fees and taxes may reduce demand for air travel and thus our revenues.

As of 2010, the Panamanian tax code for the airline industry was amended and tax is now based on net income earned for traffic whose origin or destination is the Republic of Panama. The applicable tax rate for 2010 was 27.5%. For 2011 and going forward, the applicable tax rate will be 25.0%. Dividends from our Panamanian subsidiaries, including Copa, are separately subject to a 10% percent withholding tax on the portion attributable to Panamanian sourced income and a 5% withholding tax on the portion attributable to foreign sourced income. Additionally, a 7% value added tax is levied on tickets issued in Panama for travel commencing in Panama and going abroad, irrespective of where such tickets were ordered.

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

While geographic diversity helps to reduce our exposure to risks in any one country, we operate primarily within Latin America and are subject to a full range of risks associated with our international operations. These risks may include unstable political or economic conditions, lack of well-established or reliable legal systems, exchange controls and other limits on our ability to repatriate earnings and changeable legal and regulatory requirements. Although conditions throughout Latin America vary from country to country, our customers' reactions to developments in Latin America generally may result in a reduction in passenger traffic, which could materially and negatively affect our financial condition, results of operations and the market price of our Class A shares.

Risks Relating to Our Class A Shares

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

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

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

Our controlling shareholder has the ability to direct our business and affairs, and its interests could conflict with yours.

All of our Class B shares, representing approximately 25.1% of the economic interest in Copa Holdings and all of the voting power of our capital stock, are owned by CIASA. CIASA is in turn controlled by a group of Panamanian investors. In order to comply with the Panamanian Aviation Act, as amended and interpreted to date, we have amended our organizational documents to modify our share capital so that CIASA will continue to exercise voting control of Copa Holdings. CIASA will not be able to transfer its voting control unless control of our company will remain with Panamanian nationals. CIASA will maintain voting control of the company so long as CIASA continues to own a majority of our Class B shares and the Class B shares continue to represent more than 10% of our total share capital (excluding newly issued shares sold with the approval of our independent directors committee). Even after CIASA ceases to own the majority of the voting power of our capital stock, CIASA may continue to control our Board of Directors indirectly through its control of our Nominating and Corporate Governance Committee. As the controlling shareholder, CIASA may direct us to take actions that could be contrary to your interests and under certain circumstances CIASA will be able to prevent other shareholders, including you, from blocking these actions. Also, CIASA may prevent change of control transactions that might otherwise provide you with an opportunity to dispose of or realize a premium on your investment in our Class A shares.

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

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

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

CIASA owns all of our Class B shares, and those Class B shares will be converted into Class A shares if they are sold to non-Panamanian investors. In connection with our initial public offering in December 2005, Continental and CIASA reduced their ownership of our total capital stock from 49% to approximately 27.3% and from 51% to approximately 25.1%, respectively. In a follow-on offering in June 2006, Continental further reduced its ownership of our total capital stock from 27.3% to 10.0%. In May 2008, we, and CIASA, released Continental from its standstill obligations and they sold down their remaining shares in the public market. CIASA holds registration rights with respect to a significant portion of its shares pursuant to a registration rights agreement entered into in connection with our initial public offering. In March 2010, CIASA converted a portion of its Class B shares into 1.6 million non-voting Class A shares and sold such Class A shares in a SEC registered public offering. In the event CIASA seeks to reduce its ownership below 10% of our total share capital, our independent directors may decide to issue special voting shares solely to Panamanian nationals to maintain the ownership requirements mandated by the Panamanian Aviation Act. As a result, the market price of our Class A shares could drop significantly if CIASA further reduces its investment in us, other significant holders of our shares sell a significant number of shares or if the market perceives CIASA or other significant holders intend to sell them.

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

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

You may not be able to sell our Class A shares at the price or at the time you desire because an active or liquid market for the Class A shares may not continue.

Our Class A shares are listed on the NYSE. During the three months ended December 31, 2011, the average daily trading volume for our Class A shares as reported by the NYSE was approximately 348,048 shares. We cannot predict whether an active liquid public trading market for our Class A shares will be sustained. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for our investors. The liquidity of a securities market is often affected by the volume of shares publicly held by unrelated parties.

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

Our Board of Directors has adopted a dividend policy that provides for the payment of dividends to shareholders in an amount ranging from up to 30% of our annual consolidated net income. Our Board of Directors may, in its sole discretion and for any reason, amend or repeal this dividend policy. On May 4, 2011, for example, our Board of Directors amended the dividend policy to increase the level of dividends to its current range. Our Board of Directors may decrease the level of dividends provided for in this dividend policy or entirely discontinue the payment of dividends. Future dividends with respect to shares of our common stock, if any, will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions, business opportunities, provisions of applicable law and other factors that our Board of Directors may deem relevant. See Item 8A. Consolidated Financial Statements and Other Financial Information Dividend Policy.

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

Our Board of Directors has adopted a dividend policy that provides for the payment of dividends to shareholders in an amount up to 30% of our annual consolidated net income. Our Board of Directors has also reserved the right to amend the dividend policy, or pay dividends in excess of the level circumscribed in the dividend policy. The aviation industry has cyclical characteristics, and many international airlines are currently experiencing difficulties meeting their liquidity needs. Also, our business strategy contemplates substantial growth over the next several years, and we expect such growth will require a great deal of liquidity. To the extent that we pay dividends in accordance with, or in excess of, our dividend policy, the money that we distribute to shareholders will not be available to us to fund future growth and meet our other liquidity needs.

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

Under the Panamanian Aviation Act, as amended and interpreted to date, Panamanian nationals must exercise effective control over the operations of the airline and must maintain substantial ownership. These phrases are not defined in the Aviation Act itself and it is unclear how a Panamanian court would interpret them. The share ownership requirements and transfer restrictions contained in our Articles of Incorporation, as well as the dual-class structure of our voting capital stock are designed to ensure compliance with these ownership and control restrictions. See Item 10B. Memorandum and Articles of Association Description of Capital Stock. These provisions of our Articles of Incorporation may prevent change of control transactions that might otherwise provide you with an opportunity to realize a premium on your investment in our Class A shares. They also ensure that Panamanians will continue to control all the decisions of our company for the foreseeable future.

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

Under Panamanian law, the protections afforded to minority shareholders are different from, and much more limited than, those in the United States and some other Latin American countries. For example, the legal framework with respect to shareholder disputes is less developed under Panamanian law than under U.S. law and there are different procedural requirements for bringing shareholder lawsuits, including shareholder derivative suits. As a result, it may be more difficult for our minority shareholders to enforce their rights against us or our directors or controlling shareholder than it would be for shareholders of a U.S. company. In addition, Panamanian law does not afford minority shareholders as many protections for investors through corporate governance mechanisms as in the United States and provides no mandatory tender offer or similar protective mechanisms for minority shareholders in the event of a change in control. While our Articles of Incorporation provide limited rights to holders of our Class A shares to sell their shares at the same price as CIASA in the event that a sale of Class B shares by CIASA results in the purchaser having the right to elect a majority of our board, there are other change of control transactions in which holders of our Class A shares would not have the right to participate, including the sale of interests by a party that had previously acquired Class B shares from CIASA, the sale of interests by another party in conjunction with a sale by CIASA, the sale by CIASA of control to more than one party, or the sale of controlling interests in CIASA itself.

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Developments in Latin American countries and other emerging market countries may cause the market price of our Class A shares to decrease.

The market value of securities issued by Panamanian companies may be affected to varying degrees by economic and market conditions in other countries, including other Latin American and emerging market countries. Although economic conditions in emerging market countries outside Latin America may differ significantly from economic conditions in Panama and Colombia or elsewhere in Latin America, investors' reactions to developments in these other countries may have an adverse effect on the market value of securities of Panamanian issuers or issuers with significant operations in Latin America. As a result of economic problems in various emerging market countries in the past (such as the Asian financial crisis of 1997, the Russian financial crisis of 1998 and the Argentine financial crisis in 2001), investors have viewed investments in emerging markets with heightened caution. Crises in other emerging market countries may hamper investor enthusiasm for securities of Panamanian issuers, including our shares, which could adversely affect the market price of our Class A shares.

Item 4. Information on the Company

A. History and Development of the Company

General

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

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

On May 6, 1998, Copa Holdings, S.A., the holding company for Copa and related companies was incorporated as a *sociedad anónima* under the laws of Panama to facilitate the sale by CIASA of a 49% stake in Copa Holdings to Continental Airlines. In connection with Continental Airlines' investment, we entered into an extensive alliance agreement with Continental Airlines providing for code-sharing, joint marketing, technical exchanges and other cooperative initiatives between the airlines. At the time of our initial public offering in December 2005, Continental Airlines reduced its ownership of our total capital stock from 49% to approximately 27.3%. In a follow-on offering in June 2006, Continental Airlines further reduced its ownership of our total capital stock from 27.3% to 10.0%. In May 2008, Continental Airlines sold its remaining shares in the public market. In March 2010, CIASA sold 4.2% of its interest and as of December 31, 2011 held 25.1% of our total capital stock.

Since 1998, we have grown and modernized our fleet while improving customer service and reliability. Copa has expanded its fleet from 13 aircraft to 73 aircraft. In 1999, we received our first Boeing 737-700s, in 2003 we received our first Boeing 737-800s, and in 2005 we received our first Embraer 190. In the first quarter of 2005, we completed our fleet renovation program and discontinued use of our last Boeing 737-200s. During the second quarter of 2005, we purchased Copa Colombia, the third-largest domestic air carrier in Colombia in terms of number of passengers carried during 2011. Since 2005, we have expanded from 24 destinations in 18 countries to 59 destinations in 28 countries. We plan to continue our expansion, which includes increasing our fleet, over the next several years.

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On April 22, 2005, we acquired an initial 85.6% equity ownership interest in Copa Colombia which was followed by subsequent acquisitions increasing our total ownership interest in Copa Colombia to 99.9% as of December 31, 2011. Since its acquisition, Copa Colombia has been granted the authorization to fly regular services to Panama City from various cities in Colombia. During 2010, Copa Colombia launched service to six additional international destinations: Guayaquil, Ecuador; San Jose, Costa Rica; Guatemala City, Guatemala; Mexico City, Mexico; Havana, Cuba, and Cancun, Mexico. Copa Colombia was also granted authorization to fly to San Juan, Puerto Rico, Managua, Nicaragua and San Pedro Sula, Honduras via Panama as well as Mexico City, Mexico from Medellin, Colombia and to Cucuta, Colombia via Panama. We believe that Copa Airlines' operational coordination with Copa Colombia may create additional passenger traffic in our existing route network by providing Colombian passengers more convenient access to the international destinations served through our Panama hub.

Our registered office is located at Boulevard Costa del Este, Avenida Principal y Avenida de la Rotonda, Urbanización Costa del Este, Complejo Business Park, Torre Norte, Parque Lefevre, Panama City, Panama and our telephone number is +507 304-2677. The website of Copa Airlines is www.copaair.com. Information contained on, or accessible through, this website is not incorporated by reference herein and shall not be considered part of this annual report. Our agent for service in the United States is Puglisi & Associates, 850 Library Avenue, Suite 204, Newark, Delaware 19715, and its telephone number is (302) 738-6680.

Capital Expenditures

During 2012, our capital expenditures are expected to be \$358.3 million, consisting primarily of expenditures related to our purchase of seven Boeing 737-800 aircraft, as well as to expenditures related to advance payments on aircraft purchase contracts. During 2011, our capital expenditures were \$306.3 million, which consisted primarily of expenditures related to our purchase of five Boeing 737-800 aircraft, as well as to expenditures related to advance payments on aircraft purchase contracts. During 2010, our capital expenditures were \$348.7 million, which consisted primarily of expenditures related to our purchase of seven Boeing 737-800 aircraft, as well as to expenditures related to advance payments on aircraft purchase contracts. During 2009, our capital expenditures were \$211.5 million, which consisted primarily of expenditures related to advance payments on aircraft purchase contracts and also expenditures related to our purchase of one Boeing 737-800 aircraft.

B. Business Overview

We are a leading Latin American provider of airline passenger and cargo service through our two principal operating subsidiaries, Copa Airlines and Copa Colombia. Copa Airlines operates from its strategically located position in the Republic of Panama, and Copa Colombia provides service within Colombia and international flights from various cities in Colombia to Panama, Venezuela, Ecuador, México, Cuba, Guatemala and Costa Rica. We currently operate a fleet of 73 aircraft, 47 Boeing 737-Next Generation aircraft and 26 Embraer 190 aircraft. To meet its growing capacity requirements, Copa has firm orders, including purchase and lease commitments, to accept delivery of 46 additional aircraft through 2017 and has purchase rights and options that, if exercised, would allow it to accept delivery of up to 22 additional aircraft through 2018.

Copa's firm orders, including purchase and lease commitments, are for 46 additional Boeing 737-Next Generation aircraft, and its options are for up to sixteen Boeing 737-Next Generation aircraft and up to six Embraer 190s.

Copa currently offers approximately 295 daily scheduled flights among 59 destinations in 28 countries in North, Central and South America and the Caribbean from its Panama City hub. Copa provides passengers with access to flights to more than 130 other destinations through codeshare arrangements with UAL pursuant to which each airline places its name and flight designation code on the other's flights. Through its Panama City hub, Copa is able to consolidate passenger traffic from multiple points to serve each destination effectively.

Copa started its strategic alliance with Continental, in 1998. Since then, it has conducted joint marketing and code-sharing arrangements, and participated in the award-winning OnePass (now MileagePlus) frequent flyer loyalty program globally and on a co-branded basis in Latin America. We believe that Copa's co-branding and joint marketing activities, which today continue with UAL, have enhanced its brand in Latin America, and that the relationship with UAL has afforded it cost-related benefits, such as improving purchasing power in negotiations with aircraft vendors and insurers. Copa's alliance and related services agreements with UAL are in effect until 2015.

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In 2007, Copa joined the SkyTeam global alliance as an Associate Member, in part due to the support and sponsorship of Continental. Continental left the SkyTeam Alliance and joined the Star Alliance effective the fourth quarter of 2009. Due to the long-standing alliance relationship with Continental, and in order to ensure Copa remains fully aligned with Continental on a number of important joint initiatives, Copa also exited the SkyTeam Alliance during the fourth quarter of 2009. On October 1st, 2010, Continental merged with United Airlines. The combined carrier took the United Airlines name but uses the former Continental's livery and logo. All of the service and alliance agreements we had in place with Continental have been transferred to the combined UAL entity. We are currently in the process of joining Star Alliance with a target entry date of 2nd quarter of 2012.

During the second quarter of 2005, we purchased AeroRepública, now known as Copa Colombia, the second-largest domestic carrier in Colombia in terms of number of passengers carried in 2005, which at the time provided point-to-point service among 11 cities in Colombia. Copa Colombia currently operates a fleet of 14 Embraer 190 and 3 Boeing 737-Next Generation. As part of its fleet expansion plan, Copa Colombia has options to purchase up to three additional Embraer 190 aircraft through 2013.

Since January 2001, we have grown significantly and have established a track record of consistent profitability. Our total operating revenues have increased from \$290.4 million in 2001 to \$1.83 billion in 2011 while our operating margins have also increased from 8.6% to 21.0% over the same period.

Our Strengths

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

Our Hub of the Americas airport is strategically located. We believe that Copa's base of operations at the geographically central location of Tocumen International Airport in Panama City, Panama provides convenient connections to our principal markets in North, Central and South America and the Caribbean, enabling us to consolidate traffic to serve several destinations that do not generate enough demand to justify point-to-point service. Flights from Panama operate with few service disruptions due to weather, contributing to high completion factors and on-time performance. Tocumen International Airport's sea-level altitude allows our aircraft to operate without performance restrictions that they would be subject to at higher-altitude airports. We believe that Copa's hub in Panama allows us to benefit from Panama City's status as a center for financial services, shipping and commerce and from Panama's stable, dollar-based economy, free-trade zone and growing tourism.

We focus on keeping our operating costs low. In recent years, our low operating costs and efficiency have contributed significantly to our profitability. Our operating cost per available seat mile, excluding costs for fuel and fleet impairment charges, was 7.0 in 2009, 7.0 in 2010 and 6.7 in 2011. We believe that our cost per available seat mile reflects our modern fleet, efficient operations and the competitive cost of labor in Panama.

We operate a modern fleet. Our fleet consists of modern Boeing 737-Next Generation and Embraer 190 aircraft equipped with winglets and other modern cost-saving and safety features. Over the next several years, we intend to enhance our modern fleet through the addition of at least 46 additional Boeing 737-Next Generation aircraft. We believe that our modern fleet contributes to our on-time performance and high completion factor (percentage of scheduled flights not cancelled). We expect our Boeing 737-700s, 737-800s and Embraer 190s to continue offering substantial operational cost advantages.

We believe Copa has a strong brand and a reputation for quality service. We believe that the Copa brand is associated with value to passengers, providing world-class service and competitive pricing. For the year ended December 31, 2011, Copa's statistic for on-time performance was 89% and completion factor was 99.6%. Baggage handling for Copa was 2.25 mishandled bags per 1000 passengers. Our focus on customer service has helped to build passenger loyalty. We believe that our brand has also been enhanced through our relationship with UAL, including our joint marketing of the OnePass (now MileagePlus) loyalty program in Latin America, the similarity of our aircraft livery and aircraft interiors and our participation in UAL's United Club lounge program, which operates in partnership with our Copa Club lounge program.

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

Our Strategy

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

Expand our network by increasing frequencies and adding new destinations. We believe that demand for air travel in Latin America is likely to expand in the next decade, and we intend to use our increasing fleet capacity to meet this growing demand. We intend to focus on expanding our operations by increasing flight frequencies on our most profitable routes and initiating service to new destinations. Copa's Panama City hub allows us to consolidate traffic and provide service to certain underserved markets, particularly in Central America and the Caribbean, and we intend to focus on providing new service to regional destinations that we believe best enhance the overall connectivity and profitability of our network.

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

Emphasize superior service and value to our customers. We intend to continue to focus on satisfying our customers and earning their loyalty by providing a combination of superior service and competitive fares. We believe that continuing our operational success in keeping flights on time, reducing mishandled luggage and offering convenient schedules to attractive destinations will be essential to achieving this goal. We intend to continue to incentivize our employees to improve or maintain operating and service metrics relating to our customers' satisfaction by continuing our profit sharing plan and employee recognition programs and to reward customer loyalty with the popular OnePass (now MileagePlus) frequent flyer program, upgrades and access to our Copa Club lounges, which operate in partnership with United Clubs worldwide.

Capitalize on opportunities at Copa Colombia. We are seeking to enhance Copa Colombia's profitability through a variety of initiatives, including, expanding its international routes, capitalizing on aircraft interchange with Copa, further integrating its route network with Copa's and improving overall efficiency.

Industry

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

According to data from the International Air Transport Association, or IATA, Latin America comprised approximately 7.1% of worldwide passengers flown in 2010, or 127 million passengers.

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The Central American aviation market is dominated by international traffic. According to data from IATA, international traffic represented more than 81% of passengers carried in Central America in 2010. International passenger traffic is concentrated between North America and Central America. This segment represented 70% of international passengers flown in Central America in 2010, compared to 4% for passengers flown between Central America and South America and 7% for passengers flown between Central American countries. Total passengers flown on international flights in Central America remained flat in 2010, and load factors on international flights to and from Central America were 76% on average.

The chart below details passenger traffic between regions in 2010:

| | | 2010 IATA Traffic Results ⁽¹⁾ | | | | | | |
|--|-----------------|--|--------|------------|--------|-----------|--------|--------|
| | | Passengers | | Passenger | | | Load | |
| | | Carried | Change | Miles | Change | ASMs | Change | Factor |
| | | (Thousands) | (%) | (Millions) | (%) | (Million) | (%) | |
| International Scheduled Service | | | | | | | | |
| North America | Central America | 31,499 | 8.8% | 74,418 | 8.3% | 94,574 | 7.5% | 78.7% |
| North America | South America | 12,864 | 11.4% | 69,008 | 17.5% | 85,497 | 13.1% | 80.7% |
| Central America | South America | 1,682 | 12.2% | 2,578 | 18.8% | 3,660 | 15.9% | 70.4% |
| Within Central America | | 3,130 | 2.1% | 3,825 | 9.8% | 5,354 | 7.3% | 71.4% |
| Within South America | | 16,849 | 10.8% | 28,601 | 12.3% | 37,856 | 8.3% | 75.6% |
| Domestic Scheduled Service | | | | | | | | |
| Central America | | 8,819 | 9.8% | 10,761 | 13.2% | 15,392 | 11.3% | 69.9% |
| South America | | 48,283 | 15.5% | 45,206 | 18.5% | 63,988 | 14.0% | 70.6% |

⁽¹⁾ IATA passenger traffic data is not yet available for 2011.

Panama serves as a hub for connecting passenger traffic between major markets in North, South, and Central America and the Caribbean. Accordingly, passenger traffic to and from Panama is significantly influenced by economic growth in surrounding regions. Major passenger traffic markets in North, South and Central America experienced growth in their GDP in 2011. Preliminary figures indicate that real GDP increased by 8.1% in Panama and by 4.6% in Colombia, according to data of the World Economic and Financial Survey conducted by the International Monetary Fund.

| | GDP (in US\$ billions) | | GDP per Capita |
|-----------|---------------------------|--------------------------------|-------------------------------------|
| | 2010 Current Prices | 2010 Real GDP (% Growth) | 2010 Current Prices (US\$) |
| Brazil | 2,090.3 | 4.2% | 11,273 |
| Argentina | 370.0 | 7.2% | 15,901 |
| Chile | 203.3 | 3.6% | 15,040 |
| Mexico | 1,034.3 | 2.0% | 14,406 |
| Colombia | 289.4 | 4.6% | 9,593 |
| Panama | 26.8 | 8.1% | 12,615 |
| USA | 14,526.6 | 1.1% | 46,860 |

Source: International Monetary Fund, World Economic and Financial Survey, October 2011; estimated GDP growth calculated in local currency

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Panama has benefited from a stable economy with moderate inflation and steady GDP growth. According to International Monetary Fund estimates, from 1999 to 2010 Panama's real GDP grew at an average annual rate of 5.7% while inflation averaged 2.4% per year. The service sector represents approximately 75% of total real GDP in Panama, a higher percentage of GDP than the service sector represents in most other Latin American countries. The World Bank currently estimates Panama's population to be approximately 3.5 million in 2010, with the majority of the population concentrated in Panama City, where our hub at Tocumen International Airport is located. We believe the combination of a stable, service-oriented economy and steady population growth has helped drive our domestic origin and destination passenger traffic.

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

Colombia is the third largest country in Latin America in terms of population, with a population of approximately 45.5 million in 2010 according to the International Monetary Fund, and has a land area of approximately 440,000 square miles. Colombia's GDP was approximately \$289 billion in 2010, and per capita income was approximately \$9.6 thousand (current prices) according to the International Monetary Fund. Colombia's geography is marked by the Andean mountains and an inadequate road and rail infrastructure, making air travel a convenient and attractive transportation alternative. Colombia shares a border with Panama, and for historic, cultural and business reasons it represents a significant market for many Panamanian businesses.

Route Network and Schedules

As of December 31, 2011, Copa provided regularly scheduled flights to 59 cities in North, Central and South America and the Caribbean. The majority of Copa flights operate through our hub in Panama which allows us to transport passengers and cargo among a large number of destinations with service that is more frequent than if each route were served directly.

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

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

As a part of our strategic relationship with UAL, Copa provides flights through code-sharing arrangements to over 130 other destinations. Copa also provides flights through its code-sharing arrangements with Copa Colombia, KLM, Gol, and Aeromexico.

In 2007, Copa joined the SkyTeam global alliance as an Associate Member, in part due to the support and sponsorship of Continental. Continental Airlines left the SkyTeam Alliance and joined the Star Alliance effective the fourth quarter of 2009. Due to the long-standing alliance relationship with Continental, and in order to ensure Copa remains fully aligned with Continental on a number of important joint initiatives, Copa also exited the SkyTeam Alliance during the fourth quarter of 2009. We are currently in the process of joining Star Alliance, in which UAL is a member, and we have a target entry date during the 2nd quarter of 2012.

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

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

We do not currently provide any domestic service in the Republic of Panama, choosing instead to focus entirely on international traffic. The following table shows our revenue generated in each of our major operating regions.

Revenue by Region

| Region | Year Ended December 31, | | |
|--------------------|-------------------------|-------|-------|
| | 2011 | 2010 | 2009 |
| North America(1) | 16.9% | 15.1% | 15.2% |
| South America | 57.9% | 55.0% | 58.5% |
| Central America(2) | 19.3% | 23.4% | 19.5% |
| Caribbean(3) | 5.9% | 6.5% | 6.8% |

(1) The United States, Canada and Mexico.

(2) Includes Panama.

(3) Cuba, Dominican Republic, Haiti, Jamaica, Puerto Rico, Trinidad and Tobago.

Airline Operations**Passenger Operations**

Passenger revenue accounted for approximately \$1,748 million in 2011, \$1,339 million in 2010, and \$1,190 in 2009, representing 95.5%, 94.6%, and 94.7% respectively of Copa's total revenues—all earned from international routes. Leisure traffic, which makes up close to half of Copa's total traffic, tends to coincide with holidays, school vacations and cultural events and peaks in July and August, and again in December and January. Despite these seasonal variations, Copa's overall traffic pattern is relatively stable due to the constant influx of business travelers. Approximately half of Copa passengers regard Panama City as their destination or origination point, and most of the remaining passengers pass through Panama City in transit to other points on our route network.

Cargo Operations

In addition to our passenger service, we make efficient use of extra capacity in the belly of our aircraft by carrying cargo. Our cargo operations consist principally of freight service. Copa's cargo business generated revenues of approximately \$52.7 million in 2011, \$50.1 million in 2010 and \$43.7 million in 2009, representing 2.9%, 3.5% and 3.5% respectively, of Copa's operating revenues. We primarily move our cargo in the belly of our aircraft. However, we also wet-lease and charter freighter capacity when necessary to meet our cargo customers' needs.

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Pricing and Revenue Management

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

Copa charges more for tickets on higher-demand routes, tickets purchased on short notice and other itineraries suggesting a passenger would be willing to pay a premium. This represents strong value to Copa's business customer, who need more flexibility with their flight plan. The number of seats Copa offers at each fare level in each market results from a continual process of analysis and forecasting. Past booking history, seasonality, the effects of competition and current booking trends are used to forecast demand. Current fares and knowledge of upcoming events at destinations that will affect traffic volumes are included in Copa's forecasting model to arrive at optimal seat allocations for its fares on specific routes. Copa uses a combination of approaches, taking into account yields, flight load factors and effects on load factors of continuing traffic, depending on the characteristics of the markets served, to arrive at a strategy for achieving the best possible revenue per available seat mile, balancing the average fare charged against the corresponding effect on our load factors.

Relationship with UAL

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

In May 1998, Copa Airlines and Continental entered into a comprehensive alliance agreement, encompassing a broad array of activities such as Copa's participation in Continental's frequent flyer programs and VIP lounge; as well as agreements in other areas, such as trademarks. These agreements were initially signed for a period of ten years. In November 2005, Copa and Continental amended and restated these agreements and extended their term through the year 2015.

Copa Holdings is a party to a supplemental agreement with CIASA and Continental entered into in connection with Continental's May 2008 offering of our shares. The supplemental agreement terminates the shareholders' agreement between the Company, CIASA and Continental that existed prior to Continental's exit and further amends the amended and restated registration rights agreement between the parties. Pursuant to the supplemental agreement, UAL has the right to appoint a member of its senior management to our Board of Directors during the term of our alliance agreement with Continental.

On October 1, 2010, Continental merged with United Airlines and became a wholly-owned subsidiary of UAL. All the benefits from our previous alliance with Continental have been recognized by UAL.

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

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Our alliance relationship with Continental has enjoyed a grant of antitrust immunity from the US Department of Transportation, or DOT. We are pleased to note that the DOT has issued a route transfer order document whereby the existing antitrust immunity grant between Continental and Copa Airlines is now in effect between UAL and Copa Airlines.

In 2007, Copa joined the SkyTeam global alliance as an Associate Member, in part due to the support and sponsorship of Continental. Continental left the SkyTeam Alliance and joined the Star Alliance effective the fourth quarter of 2009. Due to the long-standing alliance relationship with Continental, and in order to ensure Copa remains fully aligned with Continental on a number of important joint initiatives, Copa also exited the SkyTeam Alliance during the fourth quarter of 2009. We are currently in the process of joining Star Alliance, in which UAL is a member, with a target entry date during the 2nd quarter of 2012.

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Sales, Marketing and Distribution

Sales and Distribution. Approximately 68% of sales during 2011 were completed through travel agents and other airlines while approximately 32% were direct sales via our city ticket offices (CTOs), call centers, airport counters or website. Travel agents receive base commissions, not including back-end incentive payments, ranging from 0% to 6% depending on the country. The weighted average rate for these commissions during 2011 was 2.30%. In recent years, base commissions have decreased significantly in most markets as more efficient back-end incentive programs have been implemented to reward selected travel agencies that exceed their sales targets.

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

Copa has a sales and marketing network consisting of 147 domestic and international ticket offices, including airport and city ticket offices located in Panama and Colombia. Copa has 40 CTOs co-branded with UAL. During the year ended December 31, 2011, approximately 16% and 5% of its sales were booked through its ticket counters and call center, respectively.

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

We encourage the use of direct Internet bookings by our customers because it is our most efficient distribution channel. In the third quarter of 2009, Copa introduced a new booking engine in order to offer more functionality to customers and further reduce distribution costs; 10.5% of its 2011 sales were made via the website. Copa's goal is to channel more of its total sales through the website.

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

Competition

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

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

In 2011, the LAN Group acquired Aires, a low-cost Colombian air carrier, which is now operated as LAN Colombia. In addition, several 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.

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 assure you 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.

In addition, Copa is currently in the process of complying with the requirements to join Star Alliance with a target entry date during the 2nd quarter of 2012. One of our main competitors, Avianca-Taca, is also in the process of joining Star Alliance. We cannot predict the extent to which participating in the same global alliance as one of our direct competitors may impact our revenues, our ability for future growth, or any additional implications to our current operations.

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

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

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

Aircraft

As of December 31, 2011, Copa operated a fleet consisting of 73 aircraft, including 20 Boeing 737-700 Next Generation aircraft, 27 Boeing 737-800 Next Generation aircraft and 26 Embraer 190 aircraft. As of December 31, 2011, Copa had firm orders, including purchase and lease commitments, for 46 additional Boeing 737-Next Generation aircraft. Copa also has options for an additional six Embraer 190s and purchase rights and options for an additional sixteen Boeing 737-Next Generation aircraft.

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The current composition of the Copa fleet as of December 31, 2011 is fully described below:

| | Number of Aircraft | | | Average Term of Lease Remaining (Years) | Average Age (Years) | Seating Capacity |
|----------------|--------------------|-------|--------|---|---------------------------|---------------------|
| | Total | Owned | Leased | | | |
| Boeing 737-700 | 20 | 14 | 6 | 1.8 | 9.6 | 124 |
| Boeing 737-800 | 27 | 19 | 8 | 5.9 | 2.4 | 160 |
| Embraer 190 | 26 | 19 | 7 | 4.4 | 4.4 | 94/106 |
| Total | 73 | 52 | 21 | 4.4 | 5.1 | |

We expect our fleet to continue to center on the Boeing 737-800 model. The table below describes the expected size of our fleet at the end of each year set forth below, assuming delivery of all aircraft for which we currently have firm orders but not taking into account any aircraft for which we have purchase rights and options:

| Aircraft Type | 2012 | 2013 | 2014 | 2015 | 2016 |
|---------------|------|------|------|------|------|
| 737-700(1) | 18 | 18 | 14 | 14 | 14 |
| 737-800(2) | 39 | 46 | 50 | 60 | 69 |
| Embraer 190 | 26 | 26 | 26 | 23 | 21 |
| Total Fleet | 83 | 90 | 90 | 97 | 104 |

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

(2) We have the flexibility to choose between the Boeing 737-700 and the Boeing 737-800 aircraft for most of the 737-700 aircraft deliveries. The Boeing 737-Next Generation aircraft currently in our fleet are fuel-efficient and suit our operations well for the following reasons:

They have simplified maintenance procedures.

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

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

Our focus on profitable operations means that we periodically review our fleet composition. As a result, our fleet composition changes over time when we conclude that adding other types of aircraft will help us achieve this goal. The introduction of any new type of aircraft to our fleet is only done if, after careful consideration, we determine that such a step will improve our profitability. In line with this philosophy, after conducting a careful cost-benefit analysis, we added the Embraer 190 aircraft because its combination of smaller size and highly efficient operating characteristics made it the ideal aircraft to serve new mid-sized markets and to increase frequency to existing destinations. The Embraer 190 incorporates advanced design features, such as integrated avionics, fly-by-wire flight controls, and CF34-10 engines made by General Electric. The Embraer E190 has a range of approximately 2,000 nautical miles enabling it to fly to a wide range of destinations from short-haul to certain medium-haul destinations. We have configured Copa's Embraer aircraft with a business class section similar to the business class section we have on our Boeing 737-Next Generation aircraft.

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Through several special purpose vehicles, we currently have beneficial ownership of 52 of our aircraft, including 19 Embraer 190s. In addition, we lease six of our Boeing 737-700s, eight of our Boeing 737-800s, and seven of our Embraer 190s under long-term operating lease agreements that have an average remaining term of 4.4 years. Leasing some of our aircraft provides us with flexibility to change our fleet composition if we consider it to be in our best interests to do so. We make monthly rental payments, some of which are based on floating rates, but are not required to make termination payments at the end of the lease. Currently, we do not have purchase options in any of our operating lease agreements. Under our operating lease agreements, we are required in some cases to maintain maintenance reserve accounts and in other cases to make supplemental rent payments at the end of the lease that are calculated with reference to the aircraft's maintenance schedule. In either case, we must return the aircraft in the agreed upon condition at the end of the lease term. Title to the aircraft remains with the lessor. We are responsible for the maintenance, servicing, insurance, repair and overhaul of the aircraft during the term of the lease.

To better serve the growing number of business travelers, we offer a business class (*Clase Ejecutiva*) configuration in our fleet. Our business class service features twelve luxury seats in the Boeing 737-700s with a 38-inch pitch, upgraded meal service, special check-in desks, bonus mileage for full-fare business class passengers and access to VIP lounges. Our Boeing 737-800s are currently configured with 14 business class seats. In 2010, we reconfigured our Boeing 737-800 aircraft by adding two additional business class seats and three additional economy seats, increasing the total number of seats from 155 to 160. Our Embraer 190s have 10 business class seats in a three abreast configuration and 38-inch pitch.

Each of our Boeing 737-Next Generation aircraft is powered by two CFM International Model CFM 56-7B engines. Each of our Embraer 190 aircraft is powered by two CF34-10 engines made by General Electric. We currently have eleven spare engines for service replacements and for periodic rotation through our fleet.

Maintenance

The maintenance performed on our aircraft can be divided into two general categories: line and heavy maintenance. Line maintenance consists of routine, scheduled maintenance checks on our aircraft, including pre-flight, daily and overnight checks, A-checks and any diagnostics and routine repairs. Copa's line maintenance is performed by Copa's own technicians at our base in Panama and at stations outside Panama by Copa Airlines, Copa Colombia employees or third-party contractors. Heavy maintenance consists of more complex inspections and overhauls, including C-checks, and servicing of the aircraft that cannot be accomplished during an overnight visit. Maintenance checks are performed as defined by the aircraft manufacturer. These checks are based on the number of hours or calendar months flown. We have contract with certified outside maintenance providers, such as COOPESA, which is certified as an authorized repair station by the FAA and the AAC, for heavy aircraft maintenance services. There were 23 heavy maintenance events in 2011. Copa also has an exclusive long-term contract with GE Engines whereby they will perform maintenance on all of its CFM-56 and CFM-34 engines. When possible, Copa attempts to schedule heavy maintenance during its lower-demand seasons in order to maximize productive use of its aircraft.

Copa Airlines and Copa Colombia employ, system-wide, over 436 maintenance professionals, including engineers, supervisors, technicians and mechanics, who perform maintenance in accordance with maintenance programs that are established by the manufacturer and approved and certified by international aviation authorities. Every mechanic is trained in factory procedures and goes through our own rigorous in-house training program. Every mechanic is licensed by the AAC and approximately 36 of our mechanics are also licensed by the FAA. Our safety and maintenance procedures are reviewed and periodically audited by the aircraft manufacturer, the AAC, the FAA, IATA and, to a lesser extent, every foreign country to which it flies. Copa Airlines' maintenance facility at Tocumen International Airport has been certified by the FAA as an approved repair station, and twice a year the FAA inspects its facilities to validate and renew the certification. Copa's aircraft are initially covered by warranties that have a term of four years, resulting in lower maintenance expenses during the period of coverage. All of Copa Airlines' and Copa Colombia's mechanics are trained to perform line maintenance on both the Boeing 737-Next Generation and Embraer 190s aircraft.

All of Copa Colombia's maintenance and safety procedures are performed according to Boeing standards (certified by the FAA), and certified by the Aeronautica Civil of Colombia and BVQI, the institute that issues ISO (International Organization for Standardization) quality certificates. All of Copa Colombia's maintenance personnel are licensed by the Aeronautica Civil of Colombia. In 2011, Copa Colombia received its IATA Operational Safety Audit (IOSA) compliance certification until 2013.

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Safety

We place a high priority on providing safe and reliable air service. Copa has uniform safety standards and safety-related training programs that cover all of its operations. In particular, Copa periodically evaluates the skills, experience and safety records of its pilots in order to maintain strict control over the quality of its pilot crews. All of Copa's pilots participate in training programs, some of which are sponsored by aircraft manufacturers, and all are required to undergo recurrent training two times per year. We have a full time program of Flight Data Analysis (FDA) wherein the flight data from every Copa flight is analyzed for safety or technical anomalies. During 2011, Copa successfully completed its second security certification IOSA.

On July 17, 2007, one of our Copa Colombia Embraer 190s overran a wet runway at Santa Marta, Colombia. As a result of this incident, six people suffered minor injuries and the aircraft sustained damages that caused its permanent removal from service.

The FAA periodically audits the aviation regulatory authorities of other countries. As a result of their investigation, each country is given an International Aviation Safety Assessment, or IASA, rating. Panama is currently rated as Category 1, which indicates a strong level of confidence in the safety regulation of the AAC.

Airport Facilities

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

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

Tocumen is the only airport in Central America with two operational runways. Also unlike some other regional airports, consistent modernization and growth of our hub has kept pace with our needs. Tocumen airport is currently in the process of completing Phase 2 of an expansion project which is scheduled for completion in the 2nd quarter of 2012, and there is ample room for further expansion.

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

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

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

We worked closely with the airport's management and consulted with the IATA infrastructure group to provide plans and guidance for Phase I of an airport expansion that provided eight new gate positions with jet bridges, six new remote parking positions, expanded retail areas and improved the baggage-handling facilities. The government authorized \$70 million to cover the costs of this expansion. Work on Phase I was completed in the third quarter of 2006. Phase II of the expansion which will add 12 additional jet bridge gates is expected to be completed in the 2nd quarter of 2012.

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

We lease a variety of facilities at Tocumen, including our maintenance hangar and our operations facilities in the airport terminal. From our System Operations Control Center located within our corporate headquarters building, we dispatch, track and direct our aircraft throughout the hemisphere and respond to operational contingencies as necessary. We generally cooperate with the airport authority to modify the lease terms as necessary to account for capital improvements and expansion plans. Currently, our elite passengers have access to a Copa Club at the airport, which is jointly operated with UAL. The Copa Club was expanded in 2010 to approximately one and half times, utilizing space made available during the recent expansion of the terminal.

Fuel

Fuel costs are extremely volatile, as they are subject to many global economic, geopolitical, weather, environmental and other factors that we can neither control nor accurately predict. Due to its inherent volatility, aircraft fuel has historically been our most unpredictable unit cost. The global economy has experienced increase demand for oil coupled with limited refinery capacity and instability in oil-exporting countries has led to a rapid increase in prices.

| | Aircraft Fuel Data | | |
|--|--------------------|---------|---------|
| | 2011 | 2010 | 2009 |
| Average price per gallon of jet fuel into plane (excluding hedge) (in U.S. dollars) | \$ 3.27 | \$ 2.39 | \$ 1.88 |
| Gallons consumed (in thousands) | 176,494 | 148,581 | 138,018 |
| Available seat miles (in millions) | 13,352 | 10,950 | 9,911 |
| Gallons per ASM (in hundredths) | 1.32 | 1.36 | 1.39 |

From 2006 to 2011, the average price of West Texas Intermediate crude oil, a benchmark widely used for crude oil prices that is measured in barrels and quoted in U.S. dollars, increased by 43.6% from \$66.05 per barrel to \$94.87 per barrel. During 2008, fuel prices experienced significant volatility, with West Texas Intermediate crude prices reaching the record price of approximately \$133.88 per barrel in June. Prices then dropped below \$41 per barrel at the beginning of 2009, and then stabilized at approximately \$71 per barrel in the second half of 2009. At the end of 2011, prices reached \$98.53 per barrel. In 2011, we hedged 27% of our requirements through the use of jet fuel and crude oil swap contracts. While prices have significantly decreased since their peak in 2008, we believe that fuel prices are likely to increase in the future. We have hedged approximately 20% and 10% of our anticipated fuel needs for 2012 and 2013, respectively. We will continue to evaluate various hedging strategies, and we may enter into additional hedging agreements in the future. Any prolonged increase in the price of jet fuel will likely materially and negatively affect our business, financial condition and results of operation. To date, we have managed to offset some of the increases in fuel prices with higher load factors, fuel surcharges and fare increases. In addition, our relatively young, winglet-equipped fleet also helps us mitigate the impact of higher fuel prices.

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Insurance

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

Environmental

Our operations are covered by various local, national, and international environmental regulations. These regulations cover, among other things, emissions into the atmosphere, disposal of solid waste and aqueous effluents, aircraft noise, and other activities that result from the operation of aircraft. Our aircraft comply with all environmental standards applicable to their operations as described in this annual report. In 2010, we were recognized by GreenHorizon Aviation with the World's Most Sustainable Airline Environmental Award. In 2011, we conducted, through a consulting firm, an environmental audit of our hangar and support facilities at the Tocumen International Airport to determine what, if any, measures we needed to implement in order to satisfy the Panamanian effluent standards and the General Environmental Law at those facilities. We currently comply with the General Environmental Law and are in the first phase of a multi-year plan to implement all measures based on the environmental audit. Some of these measures include maintaining a young fleet, new navigation technologies such as RNAV to reduce fuel consumption, installation of Winglets in our planes to reduce fuel consumption, CO₂ emission compensation programs for our passengers, recycling, among many others. Additionally, the Panamanian Civil Aviation Code (RACP) contains certain environmental provisions that are similar to those set forth in the General Environmental Law regarding effluents, although such provisions do not contain compliance grace periods. In the event the AAC determines that our facilities do not currently meet the RACP standards, we could be subject to a fine. The measures that will be implemented pursuant to the environmental audit will also satisfy the requirements of the RACP. In 2012, we expect to start a water treatment program using a basin for residual waters to serve part of our facilities and have formally submitted an Environmental Remediation and Management Program (PAMA) in order to seek approval thereof by the Environmental Authority. Such program sets forth an environmental compliance schedule. While we do not believe that compliance with these regulations will expose us to material expenditures, compliance with these or other environmental regulations, whether new or existing, that may be applicable to us in the future could increase our costs. In addition, failure to comply with these regulations could adversely affect us in a variety of ways, including adverse effects on our reputation.

Regulation

Panama

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

Panamanian law also requires that the aircraft operated by Copa Airlines be registered with the Panamanian National Aviation Registrar kept by the AAC, and that the AAC certifies the airworthiness of each aircraft in the fleet. Copa Airlines' aircraft must be re-certified every year. This requirement does not apply to Copa Colombia's aircraft which are registered in Colombia.

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

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Safety Assessment. Since April 2004, Panama is certified as a Category 1 country under the FAA's IASA program.

Ownership Requirements. The most significant restriction on our company imposed by the Panamanian Aviation Act, as amended and interpreted to date, is that Panamanian nationals must exercise effective control over the operations of the airline and must maintain substantial ownership. These phrases are not defined in the Aviation Act itself and it is unclear how a Panamanian court would interpret them. The share ownership requirements and transfer restrictions contained in our Articles of Incorporation, as well as the structure of our capital stock described under the caption Description of Capital Stock, are designed to ensure compliance with these ownership and control restrictions created by the Aviation Act. While we believe that our ownership structure complies with the ownership and control restrictions of the Aviation Act as interpreted by a recent decree by the Executive Branch, we cannot assure you that a Panamanian court would share our interpretation of the Aviation Act or the decree or that any such interpretations would remain valid for the entire time you hold our Class A shares.

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

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

Noise Restrictions. Panama has adopted Annex 16 of the ICAO regulations and the noise abatement provisions of ICAO, through Book XIV of the Panamanian Civil Aviation Regulations (RAC). Thus, articles 227-229 of Book XIV of the RAC require aircraft registered in Panama to comply with at least Stage 2 noise requirements, and all aircraft registered for the first time with the Panamanian Civil Aviation Authority after January 1, 2003, to comply with Stage 3 noise restrictions. Currently, all the airplanes we operate or have on order meet the most stringent noise requirements established by both ICAO and the AAC.

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Colombia

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

Colombia has expanded its open-skies agreements with several countries in the last two years. In addition to Aruba and the Andean Pact nations of Bolivia, Ecuador and Peru, open-skies agreements have been negotiated with Costa Rica, Salvador, Panama, Dominican Republic and Ecuador. In the framework of liberalization between Colombia and Panama, any airline has the right to operate unlimited frequencies between any city pair of the two countries. As a result, Copa offers scheduled services between nine main cities in Colombia and Panama. In November 2010, Colombia signed an open-skies agreement with the United States, which will take effect in January 2013. With respect to domestic aviation, airlines must present feasibility studies to secure specific route rights, and no airline may serve the city pairs with the most traffic unless that airline has at least five aircraft with valid airworthiness certificate. In addition, Aeronautica Civil sets a maximum number of competing airlines for each route based on the size of the city pairs served.

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

On December 9, 2010, Colombia was recertified as a Category 1 country under the FAA s IASA program.

U.S.

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

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

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

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

Passenger Facility Charges. Most major U.S. airports impose passenger facility charges. The ability of airlines to contest increases in these charges is restricted by federal legislation, DOT regulations and judicial decisions. With certain exceptions, air carriers pass these charges on to passengers. However, our ability to pass through passenger facility charges to our customers is subject to various factors, including market conditions and competitive factors. The current cap on passenger facility charges is \$4.50 per segment, subject to a \$9 per one-way trip and an \$18 per roundtrip cap.

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

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

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

Other Regulation. FAA regulations also require compliance with the Traffic Alert and Collision Avoidance System, approved airborne windshear warning system and aging aircraft regulations. Our fleet meets these requirements. In addition, all air carriers are subject to certain provisions of the Communications Act of 1934, because of their extensive use of radio and other communication facilities, and are required to obtain an aeronautical radio license from the Federal Communications Commission (FCC). To the extent we are subject to FCC requirements, we have taken and will continue to take all necessary steps to comply with those requirements. Additional U.S. laws and regulations have been proposed from time to time that could significantly increase the cost of airline operations by imposing additional requirements or restrictions on airlines. There can be no assurance that laws and regulations currently enacted or enacted in the future will not adversely affect our ability to maintain our current level of operating results.

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Other Jurisdictions

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

C. Organizational Structure

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

* Includes ownership by us held through wholly-owned holding companies organized in the British Virgin Islands. Copa Airlines is our principal airline operating subsidiary that operates out of our hub in Panama and provides passenger service in North, South and Central America and the Caribbean. Copa Airlines Colombia is our operating subsidiary that is primarily engaged in domestic air travel within Colombia and international service from various cities in Colombia to Panama, Venezuela, Ecuador, México, Cuba, Guatemala and Costa Rica. Oval Financial Leasing, Ltd. controls the special purpose vehicles that have a beneficial interest in the majority of our fleet.

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D. Property, Plants and Equipment

Headquarters

Our headquarters are located six miles away from Tocumen International Airport. We have leased five floors consisting of approximately 104,000 square feet of the building from Desarrollo Inmobiliario del Este, S.A., an entity controlled by the same group of investors that controls CIASA, under a 10-year lease at a rate of \$106,000 per month during the first three years, \$110,000 per month during year 4 through year 6, \$113,000 during year 7 through year 9 and \$116,000 per month in year 10, which we believe to be a market rate.

Other Property

At Tocumen International Airport, we lease a maintenance hangar, operations offices in the terminal, counter space, parking spaces and other operational properties from the entity that manages the airport. We pay approximately \$119,255 per month for this leased property. Around Panama City, we also lease various office spaces, parking spaces and other properties from a variety of lessors, for which we pay approximately \$14,813 per month in the aggregate.

In each of our destination cities, we also lease space at the airport for check-in, reservations and airport ticket office sales, and we lease space for CTOs in 42 of those cities.

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

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

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

A. Operating Results

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

We are a leading Latin American provider of airline passenger and cargo service through our two principal operating subsidiaries, Copa Airlines and Copa Colombia. Copa Airlines operates from its strategically located position in the Republic of Panama, and Copa Colombia provides service primarily within Colombia complemented by international flights from various cities in Colombia to Panama, Venezuela, Ecuador, México, Cuba, Guatemala and Costa Rica.

Copa currently offers approximately 295 daily scheduled flights among 59 destinations in 28 countries in North, Central and South America and the Caribbean from its Panama City hub. Copa provides passengers with access to flights to more than 120 other destinations through code-share arrangements with UAL pursuant to which each airline places its name and flight designation code on the other's flights. Through its Panama City hub, Copa Airlines is able to consolidate passenger traffic from multiple points to serve each destination effectively.

Copa Airlines and Copa Colombia operate a modern fleet of 47 Boeing 737-Next Generation aircraft and 26 Embraer 190 aircraft. To meet growing capacity requirements, we have firm orders, including purchase and lease commitments, to accept delivery of 46 additional aircraft through 2017 and purchase rights and options that, if exercised, would allow us to accept delivery of up to 22 additional aircraft through 2018. Our firm orders are for 46 additional Boeing 737-Next Generation aircraft, and purchase rights and options are for up to sixteen Boeing 737-Next Generation aircraft and up to six Embraer 190s.

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We started our strategic alliance with UAL in 1998. Since then, we have conducted joint marketing and code-sharing arrangements, and participated in the award-winning OnePass (now MileagePlus) frequent flyer loyalty program globally and on a co-branded basis in Latin America. We believe that Copa's co-branding and joint marketing activities with UAL have enhanced our brand in Latin America, and that the relationship with UAL has afforded cost-related benefits, such as improving purchasing power in negotiations with aircraft vendors and insurers. Copa's alliance and related service agreements with UAL are in effect until 2015.

Fuel is our single largest operating expense and, as a result, our results of operations are likely to continue to be materially affected by the cost of fuel as compared with prior periods. From 2006 to 2011, the average price of West Texas Intermediate crude oil, a benchmark widely used for crude oil prices that is measured in barrels and quoted in U.S. dollars, increased by 43.6% from \$66.05 per barrel to \$94.87 per barrel. During 2008, fuel prices experienced significant volatility, with West Texas Intermediate crude prices reaching the record price of approximately \$133.88 per barrel in June. Prices then dropped below \$41 per barrel at the beginning of 2009, and then stabilized at approximately \$71 per barrel in the second half of 2009. At the end of 2011, prices reached \$98.53 per barrel. In 2011, we hedged 27% of our requirements through the use of jet fuel and crude oil swap contracts. While prices have significantly decreased since their peak in 2008, we believe that fuel prices are likely to increase in the future. We have hedged approximately 20% and 10% of our anticipated fuel needs for 2012 and 2013, respectively. We will continue to evaluate various hedging strategies, and we may enter into additional hedging agreements in the future. Any prolonged increase in the price of jet fuel will likely materially and negatively affect our business, financial condition and results of operation. To date, we have managed to offset some of the increases in fuel prices with higher load factors, fuel surcharges and fare increases. In addition, our relatively young, winglet-equipped fleet also helps us mitigate the impact of higher fuel prices.

Regional Economic Environment

Our historical financial results have been, and we expect them to continue to be, materially affected by the general level of economic activity and growth of per capita disposable income in North, South and Central America and the Caribbean (drivers of our passenger revenue) and the volume of trade between countries in the region (the principal driver of our cargo revenue).

According to data from *The Preliminary Overview of the Economies of Latin America and the Caribbean*, an annual United Nations publication prepared by the Economic Development Division, the economy of Latin America (including the Caribbean) increased by 5.9% in 2010 and grew by 4.3% in 2011. In recent years, the Panamanian economy has outpaced the economic growth of the United States and of Latin America. In 2011, preliminary figures indicate that the Panamanian economy grew by 10.5% (versus 7.6% in 2010). Inflation in Panama rose approximately 6.8% in 2011. Additionally, the Colombian economy has experienced relatively stable growth. Preliminary numbers indicate that the Colombian gross domestic product grew by 4.3% in 2010 and by 5.5% in 2011 with inflation (as indicated by the consumer price index) rising by approximately 4.0% in 2011.

Revenues

We derive our revenues primarily from passenger transportation, which represents 95.5% of our revenues for the year ended December 31, 2011. In addition, 4.5% of our total revenues are derived from cargo and other revenues.

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

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We recognize cargo revenue when transportation is provided. Our other revenue consists primarily of excess baggage charges, ticket change fees and charter flights.

Overall demand for our passenger and cargo services is highly dependent on the regional economic environment in which we operate, including the GDP of the countries we serve and the disposable income of the residents of those countries. Approximately 50% of our passengers travel at least in part for business reasons, and the growth of intraregional trade greatly affects that portion of our business. The remaining 50% of our passengers are tourists or travelers visiting friends and family.

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

| | 2011 | 2010 | 2009 |
|---|--------|--------|-------|
| Capacity (in available seat miles, in millions) | 13,352 | 10,950 | 9,911 |
| Load factor | 76.4% | 76.9% | 74.6% |
| Yield (in cents) | 17.14 | 15.90 | 16.08 |

Seasonality

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

Operating Expenses

The main components of our operating expenses are aircraft fuel, salaries and benefits, passenger servicing, commissions, aircraft maintenance, reservations and sales and aircraft rent. A common measure of per unit costs in the airline industry is cost per available seat mile (CASM), which is generally defined as operating expenses divided by ASMs.

Aircraft fuel. The price we pay for aircraft fuel varies significantly from country to country primarily due to local taxes. While we purchase aircraft fuel at all the airports to which we fly, we attempt to negotiate fueling contracts with companies that have a multinational presence in order to benefit from volume purchases. During 2011, as a result of the location of its hub, Copa purchased 57% of its aircraft fuel in Panama. Copa has 18 suppliers of aircraft fuel across its network. In some cases, we tanker fuel in order to minimize our cost by fueling in airports where fuel prices are lowest. Our aircraft fuel expenses are variable and fluctuate based on global oil prices. From 2006 to 2011, the average price of West Texas Intermediate crude oil, a benchmark widely used for crude oil prices that is measured in barrels and quoted in U.S. dollars, increased by 43.6% from \$66.05 per barrel to \$94.87 per barrel. To date, we have managed to offset some of the increases in fuel prices with higher load factors, fuel surcharges and fare increases. In addition, our relatively young, winglet-equipped fleet also helps us mitigate the impact of higher fuel prices. Historically, we have not hedged a significant portion of our fuel costs. We have hedged 20% and 10% of our anticipated fuel needs for 2012 and 2013, respectively.

| | Aircraft Fuel Data | | |
|--|--------------------|---------|---------|
| | 2011 | 2010 | 2009 |
| Average price per gallon of jet fuel into plane (excluding hedge) (in U.S. dollars) | \$ 3.27 | \$ 2.39 | \$ 1.88 |
| Gallons consumed (in thousands) | 176,494 | 148,581 | 138,018 |
| Available seat miles (in millions) | 13,352 | 10,950 | 9,911 |
| Gallons per ASM (in hundredths) | 1.32 | 1.36 | 1.39 |

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

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

Commissions. Commission expenses are driven mainly by passenger revenues, indirect channel penetration performance, and agreed commission rates, as opposed to ASM growth. Our commission expenses consist primarily of payments for ticket sales made by travel agents and commissions paid to credit card companies. Travel agents receive base commissions, not including back-end incentive programs, ranging from 0% to 6% depending on the country. During the last few years we have reduced our commission expense per available seat mile as a result of an industry-wide trend of paying lower commissions to travel agencies and by increasing the proportion of our sales made through direct channels. We expect this trend to continue as more of our customers become accustomed to purchasing through call centers and through the internet. While increasing direct sales may increase the commissions we pay to credit card companies, we expect that the savings from the corresponding reduction in travel agency commissions will more than offset this increase. In recent years, base commissions paid to travel agents have decreased significantly. At the same time, we have encouraged travel agencies to move from standard base commissions to incentive compensation based on sales volume and fare types.

Maintenance, material and repair expenses. Our maintenance, material and repair expenses consist of aircraft repair and charges related to light and heavy maintenance of our aircraft, including maintenance materials. As the age of our fleet increases and our warranties expire, our maintenance expenses will increase. We only conduct line maintenance internally and outsource most heavy maintenance to independent third party contractors. In 2003, we negotiated with GE Engine Services a maintenance cost per hour program for the repair and maintenance of our CFM-56 engines which power our Boeing 737 Next Generation fleet. Our engine maintenance costs are also aided by the sea-level elevation of our hub and the use of winglets which allow us to operate the engines on our Boeing 737 Next Generation aircraft with lower thrust, thus putting less strain on the engines. In 2011, we negotiated with GE Engine Services a maintenance agreement for the repair and maintenance of our CF-34 engines which power our Embraer 190 fleet.

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

Reservations and sales expenses. The main variable involved in driving Reservations and Sales Expenses is the number of bookings made through our global distribution channels, as opposed to ASM. Our reservations and sales expenses arise primarily from payments to these global distribution systems, such as Amadeus and Sabre, which list our flight offerings on reservation systems around the world. These reservation systems tend to raise their rates periodically, but we expect that if we are successful in encouraging our customers to purchase tickets through our direct sales channels, these costs will decrease as a percentage of our operating costs. A portion of our reservations and sales expense is also comprised of our licensing payments for the SHARES reservation and check-in management software we use, which is not expected to change significantly from period to period.

Flight operations and landing fees and other rentals are generally directly related to the number of flights we operate, with a component attributed to fixed costs relating to facility rental expenses.

Other includes publicity and promotion expenses, expenses related to our cargo operations, technology related initiatives and miscellaneous other expenses.

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Taxes

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

As of 2010, the Panamanian tax code for the airline industry was amended; tax is now based on net income earned for traffic whose origin or destination is the Republic of Panama. The applicable tax rate for 2010 was 27.5%. For 2011 and going forward, the applicable tax rate was and will be 25.0%. Dividends from our Panamanian subsidiaries, including Copa, are separately subject to a 10% percent withholding tax on the portion attributable to Panamanian sourced income and a 5% withholding tax on the portion attributable to foreign sourced income. Additionally, a 7% value added tax is levied on tickets issued in Panama for travel commencing in Panama and going abroad, irrespective of where such tickets were ordered.

We are also subject to local tax regulations in each of the other jurisdictions where we operate, the great majority of which are related to the taxation of our income. In some of the countries to which we fly, we do not pay any income taxes because we do not generate income under the laws of those countries either because they do not have income taxes or due to treaties or other arrangements those countries have with Panama. In the remaining countries, we pay income tax at a rate ranging from 25% to 34% of our income attributable to those countries. Different countries calculate our income in different ways, but they are typically derived from our sales in the applicable country multiplied by our net margin or by a presumed net margin set by the relevant tax legislation. The determination of our taxable income in several countries is based on a combination of revenues sourced to each particular country and the allocation of expenses to that particular country. The methodology for multinational transportation company sourcing of revenue and expense is not always specifically prescribed in the relevant tax regulations, and therefore is subject to interpretation by both ourselves and the respective tax authorities. Additionally, in some countries, the applicability of certain regulations governing non-income taxes and the determination of our filing status are also subject to interpretation. We cannot estimate the amount, if any, of the potential tax liabilities that might result if the allocations, interpretations and filing positions we use in preparing our income tax returns were challenged by the tax authorities of one or more countries. If taxes were to increase, our financial performance and results of operations could be materially and adversely affected. Due to the competitive revenue environment, many increases in fees and taxes have been absorbed by the airline industry rather than being passed on to the passenger. Any such increases in our fees and taxes may reduce demand for air travel and thus our revenues.

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

We incurred income taxes totaling approximately \$35.6 million in 2011, \$19.0 million in 2010, and \$26.9 million in 2009.

Special Fleet Charges

In 2009, we decided to terminate early three MD-80 aircraft leases prior to their scheduled expiration, in connection with the transition of Copa Colombia's fleet to Embraer 190. Fees paid for early termination amounted to \$10.5 million and were recognized as Special Fleet Charges in the Consolidated Statements of Income.

In addition to the early lease termination, we wrote down amounts related to property, plant and equipment such as rotatable parts, spare engines and tools totaling \$4.9 million, and recognized a loss of \$4.0 million related to the scrapping of obsolete expendable parts.

Critical Accounting Policies and Estimates

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

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Our critical accounting policies and estimates are described below and are defined as those that are reflective of significant judgments and uncertainties and potentially result in materially different results under different assumptions and conditions. For a discussion of these and other accounting policies, see Note 1 to our annual consolidated financial statements.

Goodwill and Intangible Assets. We have allocated goodwill and intangible assets with indefinite lives acquired through business combinations for the purposes of impairment testing to a single cash-generating unit. Goodwill is tested for impairment annually, or when events or changes in circumstances indicate that the carrying amount may not be recoverable, by comparing the carrying amount to the recoverable amount of the cash-generating unit level that has been measured on the basis of its value-in-use, 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. Considerable judgment is necessary to evaluate the impact of operating and macroeconomic changes to estimate future cash flows and to measure the recoverable amount. Assumptions in the Company's impairment evaluations are consistent with internal projections and operating plans. AeroRepublica trade name and routes were acquired as part of the AeroRepublica acquisition and were capitalized at fair value at that date. The trade name and routes were considered to have an indefinite useful life (and are not amortized) due to several factors and considerations, including the brand awareness and market position, customer recognition and loyalty. The carrying values of the routes and trade names are reviewed for impairment annually or when events or changes in circumstances indicate that carrying values may not be recoverable. The Company assesses at each statement of financial position date whether intangibles assets with indefinite useful lives are impaired using discounted cash flow analyses. In the third quarter of 2010, the company changed the commercial name of AeroRepublica and began to operate under the brand Copa Colombia. As a result, we recognized an impairment to the value of the brand name of \$1.5 million during 2010. The remaining balance of this intangible asset is being amortized over 5 years. No impairment on goodwill and any other intangible assets was recognized.

Maintenance Deposit. Under its lease agreements, Copa pays maintenance deposits to lessors to be applied to future maintenance events cost, calculated based on a performance measure, such as flight hours, and are specifically to be used to reimburse 3rd-party maintenance providers. If amounts on deposit are insufficient, Copa must cover shortfall since Copa is legally responsible for maintaining leased aircraft. If there are excess amounts on deposit at expiration of lease, the lessor is entitled to retain any excess amounts. Maintenance deposits paid under lease agreements do not transfer either the obligation to maintain aircraft or cost risk associated with maintenance activities to the lessor. Any excess amounts held by the lessor or retained by the lessor upon the expiration of the lease, which are not expected to be significant, would be recognized as additional aircraft rental expense at the time it is no longer probable that such amounts will be used for maintenance for which they were deposited.

The Company makes payments for engine overhauls under power by the hour agreements (PBH). These payments related to engine overhauls under PBH agreements are recorded as other assets.

These payments are recognized as prepaid assets until the event occurs, at which time the actual costs of the maintenance are capitalized and amortized over the expected period until the next event. Management performs regular reviews of the recovery of maintenance deposits and believes that the values reflected in the consolidated statement of financial position are recoverable.

Accounting for Property, Plant and Equipment. Property, plant and equipment, including rotatable parts, are recorded at cost and are depreciated to estimated residual values over their estimated useful lives using the straight-line method. Each component of property, plant and equipment that has a cost that is significant in relation to the overall cost of the item is depreciated separately. Pre-delivery deposits refer to prepayments made based on the agreements entered into with the Boeing Company for the purchase of Boeing 737 Next Generation aircraft and includes interest and finance charges incurred during the manufacture of aircraft and the leasehold improvements.

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Under IAS 16 Property, Plant and Equipment, major engine overhauls including replacement spares and labor costs, are treated as a separate asset component with the cost capitalized and amortized over the period to the next major overhaul. All other replacement spares and costs relating to maintenance of fleet assets are charged to the income statement on consumption or as incurred. Interest costs incurred on borrowings that fund progress payments on assets under construction, including pre-delivery deposits to acquire new aircraft, are capitalized and included as part of the cost of the assets through the earlier of the date of completion or aircraft delivery.

In estimating the useful lives and expected residual values of its aircraft, the Company primarily has relied upon actual experience with the same or similar aircraft types and recommendations from Boeing and Embraer, the manufacturers of the Company's aircraft. Subsequent revisions to these estimates, which can be significant, could be caused by changes to the Company's maintenance program, changes in utilization of the aircraft (actual cycles during a given period of time), governmental regulations related to aging aircraft, and changing market prices of new and used aircraft of the same or similar types. The Company evaluates its estimates and assumptions each reporting period and, when warranted, adjusts these estimates and assumptions. These adjustments are accounted for on a prospective basis through depreciation and amortization expense, as required by IFRS.

We evaluate annually whether there is an indication that our property, plant and equipment may be impaired. Factors that would indicate potential impairment may include, but are not limited to, significant decreases in the market value of the long-lived asset(s), a significant change in the long-lived asset's physical condition, and operating or cash flow losses associated with the use of the long-lived assets. We have not identified any impairment related to our existing aircraft fleet. As of December 31, 2011, 2010 and 2009, no impairment on property, plant and equipment assets was recognized.

Lease accounting. Aircraft lease agreements can be accounted as either operating or financial leases. When the risks and benefits of the lease are transferred to us, as lessee, the lease is classified as a finance lease. Finance leases are accounted as an acquisition obtained through a financing, with the aircraft recorded as a fixed asset and a corresponding liability recorded as a loan. Financial leases are recorded based on the lesser of the fair value of the aircraft or the present value of the minimum lease payments, discounted at an implicit interest rate, when it is clearly identified in the lease agreement, or our incremental borrowing rate. The aircraft is depreciated through the lesser of its useful life or the lease term. Interest expense is recognized through the effective interest rate method, based on the implicit interest rate of the lease. Lease agreements that do not transfer the risks and benefits to us are classified as operating leases. Operating leases are accounted as a rent, and the minimum lease expense is recognized through the straight line method.

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

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

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Recently Issued Accounting Pronouncements

New and Ammended Standards and Interpretations

IAS 24 Related Party Disclosures (Amendment)

IAS 32 Financial Instruments: Presentation Classification of Rights Issues (Amendment)

IFRIC 14 Prepayment of a minimum funding requirement (Amendment)

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Company:

IFRS 7 Financial Instruments: Disclosures

IAS 1 Presentation of Financial Statements

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Company:

IFRS 3 Business Combinations (Measurement of Non Controlling Interest NCI)

IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))

IFRS 3 Business Combinations (Un-replaced and voluntarily replaced share-based payment awards)

IAS 27 Consolidated and Separate Financial Statements

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Company:

IFRIC 13 Customer Loyalty Programs (determining the fair value of award credits)

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

Standards issued but not yet effective

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Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt those standards when they become effective.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income

IAS 12 Income Taxes – Recovery of Underlying Assets

IAS 19 Employee Benefits (Amendment)

IAS 27 Separate Financial Statements (as revised in 2011)

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 10 Consolidated Financial Statements

IFRS 11 Joint Arrangements

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 13 Fair Value Measurement

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The following table shows each of the line items in our income statements for the periods indicated as a percentage of our total operating revenues for that period:

| | 2011 | 2010 | 2009 |
|---|--------|--------|--------|
| Operating revenues: | | | |
| Passenger revenue | 95.4% | 94.6% | 94.7% |
| Cargo, mail and other | 4.6% | 5.4% | 5.3% |
| Total | 100.0% | 100.0% | 100.0% |
| Operating expenses: | | | |
| Aircraft fuel | -29.9% | -25.1% | -23.9% |
| Salaries and benefits | -11.6% | -12.6% | -12.5% |
| Passenger servicing | -8.8% | -9.5% | -10.0% |
| Commissions | -4.0% | -4.1% | -4.6% |
| Reservation and sales | -3.8% | -4.2% | -4.5% |
| Maintenance, materials and repairs | -3.9% | -4.4% | -4.4% |
| Depreciation and amortization | -4.1% | -4.5% | -4.1% |
| Flight operations | -4.6% | -5.0% | -4.8% |
| Aircraft rentals | -2.8% | -3.3% | -3.7% |
| Landing fees and other rentals | -2.3% | -2.8% | -2.7% |
| Other | -3.2% | -4.2% | -4.1% |
| Special fleet charges | 0.0% | 0.0% | -1.5% |
| Total | -79.0% | -79.5% | -80.9% |
| Operating income | 21.0% | 20.5% | 19.1% |
| Non-operating income (expenses): | | | |
| Interest expense | -1.8% | -2.1% | -2.6% |
| Interest capitalized | 0.0% | 0.0% | 0.1% |
| Interest income | 0.4% | 0.3% | 0.7% |
| Other, net | -0.7% | -0.3% | 4.7% |
| Total | -2.1% | -2.1% | 2.9% |
| Income/(loss) before income taxes | 18.9% | 18.4% | 22.0% |
| Income taxes | -1.9% | -1.3% | -2.1% |
| Net income | 17.0% | 17.0% | 19.8% |

The breakdown of operating expenses per available seat mile is as follows:

| | Year Ended December 31, | | | Percent Change B/(W) 2011 vs. 2010 | Percent Change B/(W) 2010 vs. 2009 |
|---|-------------------------|-------|-------|--|--|
| | 2011 | 2010 | 2009 | | |
| Operating Expenses per ASM (in cents): | | | | | |
| Salaries and benefits | 1.60 | 1.63 | 1.58 | (2.28) | 3.08 |
| Passenger servicing | 1.20 | 1.22 | 1.26 | (1.43) | (3.29) |
| Commissions | 0.55 | 0.53 | 0.58 | 3.72 | (9.31) |
| Reservation and sales | 0.53 | 0.54 | 0.57 | (1.88) | (5.41) |
| Maintenance, materials and repairs | 0.53 | 0.57 | 0.56 | (6.47) | 1.08 |
| Depreciation and Amortization | 0.57 | 0.57 | 0.51 | (1.71) | 12.01 |
| Flight operations | 0.63 | 0.65 | 0.61 | (2.74) | 5.05 |
| Aircraft rentals | 0.38 | 0.42 | 0.47 | (9.27) | (9.89) |
| Landing fees and other rentals | 0.31 | 0.37 | 0.34 | (14.81) | 8.52 |
| Other (includes special fleet charges) | 0.44 | 0.54 | 0.72 | (19.30) | (25.08) |
| Total operating expenses per ASM before aircraft fuel | 6.73 | 7.04 | 7.22 | (4.37) | (2.46) |
| Aircraft fuel | 4.10 | 3.24 | 3.04 | 26.62 | 6.64 |
| Total operating expenses per ASM | 10.83 | 10.28 | 10.25 | 5.39 | 0.24 |

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Year 2011 Compared to Year 2010

Our consolidated net income in 2011 totaled \$310.4 million, a 28.8% increase from net income of \$241.1 million in 2010. This increase was primarily due to an increase in operating income driven by a 29.4% increase in operating revenues. We had a consolidated operating income of \$384.9 million in 2011, a 32.9% increase over operating income of \$289.6 million in 2010. Our consolidated operating margin in 2011 was 21.0%, an increase of 0.5 percentage points over an operating margin of 20.5% in 2010.

Operating revenue

Our consolidated revenue totaled \$1.8 billion in 2011, a 29.4% increase from operating revenue of \$1.4 billion in 2010, due to increases in both passenger and cargo revenue.

Passenger revenue. Passenger revenue totaled \$1.7 billion in 2011, a 30.5% increase over passenger revenue of \$1.3 billion in 2010. This increase resulted primarily from higher passenger yield, which increased by 7.8% to 17.1 cents in 2011. The increase in yield was in spite of the increase in capacity as available seat miles increased by 21.9% in 2011 as compared to 2010.

Cargo, mail and other. Cargo, mail and other revenue totaled \$83.8 million in 2011, a 10.0% increase from cargo, mail and other revenue of \$76.3 million in 2010. This increase was primarily the result of higher freight and courier revenue.

Operating expenses

Our consolidated operating expenses totaled \$1.4 billion in 2011, a 28.5% increase over operating expenses of \$1.1 billion in 2010 that was primarily the result of higher fuel cost and higher operating costs due to growth in capacity.

In 2011, our operating expenses per available seat mile excluding aircraft fuel was 6.7 cents, a 4.4% decrease from operating expenses per available seat mile excluding aircraft fuel of 7.0 cents in 2010. Aircraft fuel per available seat mile was 4.1 cents in 2011, compared to 3.2 cents in 2010. In 2011, our total operating expenses per available seat mile was 10.8 cents, a 5.3% increase from operating expenses per available seat mile of 10.3 cents in 2010.

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

Aircraft fuel. Aircraft fuel totaled \$547.2 million in 2011, a 54.4% increase from aircraft fuel of \$354.4 million in 2010. This increase was primarily a result of a 36.8% increase in the all-in average fuel price per gallon of jet fuel (\$3.27 in 2011 compared to \$2.39 in 2010) and a 19.0% higher fuel consumption due to 15.5% more block hours which was partially offset by a realized fuel hedge gain of \$29.4 million in 2011, as compared to a realized fuel hedge gain of \$2.4 million in 2010. Aircraft fuel cost per available seat mile increased by 26.6% in 2011 as compared to 2010, mainly driven by a higher fuel price.

Salaries and benefits. Salaries and benefits totaled \$213.1 million in 2011, a 19.2% increase over salaries and benefits of \$178.8 million in 2010. This increase was primarily a result of an 8.1% increase over 2010 in our employee base to support our growth in operations, the full year effect of our 13% headcount growth in 2010, and the impact of inflationary adjustments.

Passenger servicing. Passenger servicing totaled \$160.7 million in 2011 compared to \$133.7 million in 2010. This represented a 20.2% increase driven mainly by a 9.1% increase in the number of passengers transported during 2011 compared to 2010, a growth in departures of 5.1% and a higher passenger servicing rate due to the growth of our operation and longer haul flights. Passenger servicing per available seat mile decreased by 1.4%.

Commissions. Commissions totaled \$72.9 million in 2011, a 26.5% increase from commissions of \$57.7 million in 2010. This increase was due to a 30.5% increase in passenger revenue, which was partially offset by a lower average commission rate. Commissions represented 4.0% of our operating revenue in 2011 compared to 4.1% in 2010.

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Reservations and sales. Reservations and sales totaled \$70.4 million in 2011, a 19.6% increase compared to \$58.8 million in 2010. This increase was primarily due to higher passenger revenues. Reservations and sales represented 3.8% of our operating revenue in 2011 compared to 4.2% in 2010, a reduction of 0.4 percentage point. Reservations and sales expenses per available seat mile decreased by 1.9%.

Maintenance, materials and repairs. Maintenance, materials and repairs totaled \$71.0 million in 2011, a 14.0% increase over maintenance, materials and repairs of \$62.2 million in 2010. This increase was primarily a result of a 21.9% increase in capacity. Maintenance, materials and repair per available seat mile decreased by 6.5% in 2011 as compared to 2010.

Depreciation. Depreciation totaled \$75.5 million in 2011, a 19.8% increase over depreciation of \$63.0 million in 2010, as a result of higher depreciation attributable to our acquisition of ten new Boeing 737-800s in 2011.

Flight operations, aircraft rentals, and landing fees and other rentals. Combined, flight operations, aircraft rentals, and landing fees and other rentals increased from \$157.3 million in 2010 to \$176.9 million in 2011. Flight operations amounted to \$83.8 million in 2011 compared to \$70.6 million in 2010. This represented an 18.6% increase driven mainly by an increase in capacity of 21.9%. As a result, air to ground communications increased by 25%, from \$41.5 million in 2010 to \$51.9 million in 2011. Landing fees and other rentals amounted to \$41.9 million in 2011 compared to \$40.3 million in 2010. This represented a 3.9 % increase driven mainly by the same reasons, which includes the effects of expanded operations in certain markets. Additionally, simulator rent expense increased by 4% from \$5.2 million in 2010 to \$5.4 million in 2011 due to a higher usage driven by the growth in our operations.

Aircraft rentals. Aircraft rental expense amounted to \$51.3 million in the 2011 fiscal year, a 10.6% increase from \$46.3 million reported in the 2010 fiscal year. This increase results from the addition of five leased Boeing 737NG aircraft in 2011 and the full year effect of 2010, bringing our total operating aircraft leased fleet to 21 aircraft which is comprised of both Boeing 737NG aircraft and EMB 190 aircraft.

Other. Other expenses totaled \$58.2 million in 2011, a 1.6% decrease over other expenses of \$59.2 million in 2010. This decrease was primarily as a result of less discretionary spending. Other expenses per available seat mile decreased by 19.3% in 2011, as compared to 2010.

Non-operating income (expense)

Non-operating expense totaled \$38.9 million in 2011, an increase from non-operating expense of \$29.6 million in 2010, primarily due to a \$3.6 million mark-to-market loss of our fuel contracts in 2011 compared to a \$11.7 million gain in 2010 and a higher interest expense in 2011 due to more debt.

Interest expense. Interest expense totaled \$32.7 million in 2011, a 9.0% increase from interest expense of \$30.0 million in 2010, primarily resulting from a higher debt offset by lower average interest rates during the period. The average effective interest rate on our debt decreased by 22 basis points, from 3.26% during 2010 to 3.04% during 2011. At the end of 2011, 62% of our outstanding debt was fixed at an average effective rate of 3.96%.

Interest income. Interest income totaled \$6.8 million in 2011, a 42.3% increase from interest income of \$4.8 million in 2010. This increase was mainly a result of a higher cash and investment balance in the period.

Other, net. Other, net expense totaled \$13.1 million in 2011, compared to a \$4.4 million other, net expense in 2010. This change was primarily due to a \$3.6 million mark-to-market loss of our fuel contracts in 2011 compared to an \$11.7 million gain in 2010.

Year 2010 Compared to Year 2009

Our consolidated net income in 2010 totaled \$241.1 million, a 3.2% lower from net income of \$249.1 million in 2009. This decrease was primarily due to a decrease in non operating income due to a \$58.0 million gain in 2009 on mark-to-market fuel derivatives. We had a consolidated operating income of \$289.6 million in 2010, a 20.6% increase over operating income of \$240.1 million in 2009. Our consolidated operating margin in 2010 was 20.5%, an increase of 1.4 percentage point over an operating margin of 19.1% in 2009.

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Operating revenue

Our consolidated revenue totaled \$1.4 billion in 2010, a 12.6% increase from operating revenue of \$1.3 billion in 2009, due to increases in both passenger and cargo revenue.

Passenger revenue. Passenger revenue totaled \$1.3 billion in 2010, a 12.5% increase over passenger revenue of \$1.2 billion in 2009. This increase resulted primarily from a higher load factor, which increased from 74.6% in 2009 to 76.9% in 2010.

Cargo, mail and other. Cargo, mail and other revenue totaled \$76.2 million in 2010, a 14.8% increase from cargo, mail and other revenue of \$66.4 million in 2009. This increase was primarily the result of higher cargo revenue.

Operating expenses

Our consolidated operating expenses totaled \$1.1 billion in 2010, a 10.7% increase over operating expenses of \$1.0 billion in 2009 primarily the result of higher fuel cost and higher operating cost due to growth in capacity.

In 2010, our operating expenses per available seat mile excluding aircraft fuel was 7.04 cents, a 0.3% increase from operating expenses per available seat mile excluding aircraft fuel of 7.02 cents in 2009. Aircraft fuel per available seat mile was 3.24 cents in 2010, compared to 3.04 cents in 2009. In 2010, our total operating expenses per available seat mile was 10.28 cents, a 0.2% increase from operating expenses per available seat mile of 10.25 cents in 2009.

Aircraft fuel. Aircraft fuel totaled \$354.4 million in 2010, a 17.8% increase from aircraft fuel of \$300.8 million in 2009. This increase was primarily a result of a 27.1% increase in the all-in average fuel price per gallon of jet fuel (\$2.39 in 2010 compared to \$1.88 in 2009) and a 7.7% higher fuel consumption due to 7.0% more block hours which was partially offset by a realized fuel hedge gain of \$2.4 million in 2010, as compared to a realized fuel hedge loss of \$41.9 million in 2009. Aircraft fuel cost per available seat mile increased by 6.6% in 2010 as compared to 2009, mainly driven by a higher fuel price.

Salaries and benefits. Salaries and benefits totaled \$178.8 million in 2010, a 13.9% increase over salaries and benefits of \$157.0 million in 2009. This increase was primarily a result of a 13.5% increase over 2009 in our employee base to support our growth in operations and the impact of inflationary adjustments.

Passenger servicing. Passenger servicing totaled \$133.7 million in 2010 compared to \$125.2 million in 2009. This represented a 6.8% increase driven mainly by 11.4% increase in the number of passengers transported during 2010 compared to 2009, a growth in departures of 7.6% and higher passenger servicing rate due to the growth of our operation and longer haul flights. Passenger servicing per available seat mile decreased by 3.2% in 2010 as compared to 2009.

Commissions. Commissions totaled \$57.7 million in 2010, a 0.2% increase from commissions of \$57.6 million in 2009. This slight increase was due to a 12.5% increase in passenger revenue offset by a lower average commission rate. Commissions represented 4.1% of our operating revenue in 2010 compared to 4.6% in 2009.

Reservations and sales. Reservations and sales totaled \$58.8 million in 2010, a 4.5% increase compared to \$56.3 million in 2009. This increase was primarily due to higher revenue base. Reservations and sales represented 4.2% of our operating revenue in 2010 compared to 4.5% in 2009, a reduction of 0.3 percentage point. Reservations and sales expenses per available seat mile decreased by 5.4% in 2010 as compared to 2009.

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Maintenance, materials and repairs. Maintenance, materials and repairs totaled \$62.2 million in 2010, an 11.7% increase over maintenance, materials and repairs of \$55.7 million in 2009. This increase was primarily a result of a 10.5% increase in capacity and more overhaul events. Maintenance, materials and repair per available seat mile increased by 1.1% in 2010 as compared to 2009.

Depreciation. Depreciation totaled \$63.0 million in 2010, a 23.8% increase over depreciation of \$50.9 million in 2009, as a result of higher depreciation attributable to the acquisition of seven new Boeing 737-800s.

Flight operations, aircraft rentals, and landing fees and other rentals. Combined, flight operations, aircraft rentals, and landing fees and other rentals increased from \$141.0 million in 2009 to \$157.3 million in 2010. Flight operations amounted to \$70.6 million in 2010 compared to \$60.9 million in 2009. This represented a 16.1% increase driven mainly by an increase in capacity of 10.5%. As a result, air to ground communications increased by 25%, from \$35.9 million to \$41.4 million. Landing fees and other rentals amounted to \$40.3 million in 2010 compared to \$33.6 million in 2009. This represented a 19.9% increase driven mainly by the same reasons, which include the effects of expanded operations in certain markets. Additionally, simulator rent expense increased by 35% from \$3.8 million in 2009 to \$5.2 million in 2010 due to a higher usage of our own simulator driven by the growth in our operations.

Aircraft rentals. Aircraft rental expense amounted to \$46.3 million in 2010, a 0.4% decrease from \$46.5 million reported in 2009. In 2010 we did not increase the number of aircraft that we lease.

Other. Other expenses totaled \$59.2 million in 2010, a 13.6% increase over other expenses of \$52.1 million in 2009, primarily due to cargo and technology expense increases driven by our operational growth. Other expenses per available seat mile decreased by 2.9% in 2010 as compared to 2009.

Non-operating income (expense)

Non-operating expense totaled \$29.6 million in 2010, an increase from non-operating income of \$35.9 million in 2009, primarily as a result of an \$11.7 mark-to-market gain in our fuel hedge contracts in 2010 compared to a \$58.0 million mark-to-market gain in 2009, and to a \$19.7 million loss due to the devaluation of the Venezuelan Bolivar in the first quarter of 2010.

Interest expense. Interest expense totaled \$30.0 million in 2010, a 9.0% decrease from interest expense of \$32.9 million in 2009, primarily resulting from lower average interest rates during the period. The average effective interest rate on our debt decreased by 11 basis points, from 3.37% during 2009 to 3.26% during 2010. At period s end, interest rate on 61% of our outstanding debt was fixed at an average effective rate of 4.44%.

Interest income. Interest income totaled \$4.8 million in 2010, a 48.2% decrease from interest income of \$9.2 million in 2009. This decrease was mainly a result of lower average interest rates during the period.

Other, net. Other, net expense totaled \$4.4 million in 2010, compared to a \$59.0 million other, net gain in 2009. This change was primarily the result of an \$11.7 million mark-to-market gain in our fuel hedge contracts in 2010 compared to a \$58.0 million mark-to-market gain in 2009, and to a \$19.7 million loss due to the devaluation of the Venezuelan Bolivar in the first quarter of 2010.

B. Liquidity and Capital Resources

In recent years, we have been able to meet our working capital requirements through cash from our operations. Our capital expenditures, which consist primarily of aircraft purchases, are funded through a combination of our cash from operations and long-term financing. From time to time, we finance pre-delivery payments related to our aircraft with medium-term financing in the form of commercial bank loans and/or bonds privately placed with commercial banks. Our accounts receivable at December 31, 2011 increased by \$53.5 million compared with December 31, 2010, primarily as a result of the growth in operating revenues. In our opinion, the Company s working capital is sufficient for the Company s present requirements.

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Our cash, cash equivalents and short-term investments at December 31, 2011 increased by \$103.5 million, to \$506.1 million. At December 31, 2011, we had \$6.3 million in restricted cash within long-term investments as collateral for letters of credit. At December 31, 2011 we had available committed lines of credit totaling \$ 58.0 million under which there were \$5.0 million outstanding with Citi, and uncommitted lines of credit totaling \$84.2 million. These lines of credit have been secured to bridge potential liquidity gaps and account for other potential contingencies.

Operating Activities

We rely primarily on cash flows from operations to provide working capital for current and future operations. Net cash flows provided by operations for the year ended December 31, 2011 were \$498.3 million, increasing \$205.5 million compared to the \$292.8 million in 2010. The increase in cash flows from operations in 2011 is primarily due to an increase in our net income as well as an increase in air traffic liability driven by higher ticket sales in 2011 as a result of added capacity and strong demand. Net cash flows provided by operations for the year ended December 31, 2010 were \$292.8 million, increasing \$1.5 million compared to the \$291.3 million in 2009. The increase in cash flows from operations in 2010 is primarily due to more passenger ticket sales offset by higher fuel prices.

Investing Activities

During 2011, our capital expenditures were \$306.3 million, which consisted primarily of expenditures related to our purchase of five Boeing 737-800 aircraft, as well as \$175.3 million in expenditures related to advance payments on aircraft purchase contracts for aircraft delivering in 2013. During 2010, our capital expenditures were \$348.7 million, which consisted primarily of expenditures related to our purchase of three Boeing 737-800 aircraft, as well as \$157.3 million in expenditures related to advance payments on aircraft purchase contracts. During 2009, our capital expenditures were \$211.5 million, which consisted primarily of expenditures related to our purchase of three Boeing 737-800 aircraft, as well as \$151.7 million in expenditures related to advance payments on aircraft purchase contracts.

Financing Activities

Financing activities during 2011 consisted primarily of \$171.7 million of aircraft financing, the repayment of \$93.6 million in long-term debt and \$72.4 million in dividends declared and paid. Financing activities during 2010 consisted primarily of \$282.1 million of aircraft financing, the repayment of \$138.7 million in long-term debt and \$47.9 million in dividends declared and paid. Financing activities during 2009 consisted primarily of \$103.8 million of financing of one aircraft and aircraft pre-delivery payments, the repayment of \$175.4 million in long-term debt and \$16.3 million in dividends declared and paid.

Before 2010, we had generally been able to arrange medium-term financing for pre-delivery payments through loans with commercial banks. In 2010 and 2011, we financed our pre-delivery payments with our own cash. As the aircraft are delivered and the financing for the aircraft is received, these pre-delivery payments will be recovered by the company.

We have financed the acquisition of 33 Boeing 737-Next Generation aircraft through syndicated loans provided by international financial institutions with the support of partial guarantees issued by the Export-Import Bank of the United States, or Ex-Im, with repayment profiles of 12 years. The Ex-Im guarantees support 85% of the net purchase price and are secured with a first priority mortgage on the aircraft in favor of a security trustee on behalf of Ex-Im. The documentation for each loan follows standard market forms for this type of financing, including standard events of default. Our Ex-Im supported financings amortize on a quarterly basis, are denominated in dollars and originally bear interest at a floating rate linked to LIBOR. Our Ex-Im guarantee facilities typically offer an option to fix the applicable interest rate. We have exercised this option with respect to \$600.07 million as of December 31, 2011 at an average weighted interest rate of 3.77%. The remaining \$51.26 million bears interest at a weighted average interest of LIBOR plus 0.15%. At December 31, 2011, the total amount outstanding under our Ex-Im-supported financings totaled \$651.33 million.

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We have effectively extended the maturity of certain of our Boeing aircraft financing to 15 years through the use of a Stretched Overall Amortization and Repayment, or SOAR, structure which provides serial draw-downs calculated to result in a 100% loan accreting to a recourse balloon at the maturity of the Ex-Im guaranteed loan. The SOAR portions of our facilities require us to maintain certain financial covenants, including an EBITDAR to fixed charge ratio, a long-term obligation to EBITDAR ratio and a minimum unrestricted cash balance. To comply with the first ratio, our EBITDA plus aircraft rent expense, or EBITDAR, for the prior year must be at least 2.0 times our fixed charge expenses (including interest, commission, fees, discounts and other finance payments) for that year. To comply with the second ratio, our long-term obligations must be no more than six times EBITDAR. Third, our cash, cash equivalents and short-term investment balance should be at least \$50 million. As of December 31, 2011, we complied with all required covenants. We also pay a commitment fee on the unutilized portion of our SOAR loans.

In February 2011, participants from the member states of the Organization for Economic Co-operation and Development (OECD), including the Export-Import Bank of the United States, 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, lower loan-to-value ratios and more restrictive repayment terms, all based on the borrower's credit risk classification. The former 2007 Aircraft Sector Understanding will, however, continue to apply to transactions for former category 1 aircraft (e.g., Boeing 737-800) delivered by December 31, 2012 and for former category 2 and 3 aircraft (e.g., EMBRAER-190) delivered by December 31, 2013, provided the financed aircraft was subject to a firm contract concluded no later than December 31, 2010, and subject to the payment of additional commitment fee. These developments are likely to increase our financing costs and may negatively affect our results of operation.

We also have financed 10% of the purchase price of certain of our Boeing aircraft through commercial loans. Under the commercial loan agreements for aircraft received in 2002, we are required to comply with four specific financial covenants. The first covenant requires our EBITDAR for the prior year to be at least 2.0 times our finance charge expenses (including interest, commission, fees, discounts and other finance payments). The second covenant limits our net borrowings to 85% of our capitalization. The third covenant requires our tangible net worth to be at least \$120 million. The last covenant requires us to maintain a minimum of \$50 million in available cash (including cash equivalents and committed credit facilities). As of December 31, 2011, we complied with all required covenants.

Our Embraer aircraft purchases are not eligible for Ex-Im guaranteed financing. During 2008, we secured a senior term loan facility in the amount of \$100 million for the purchase of four Embraer 190 aircraft. The loans have a term of twelve years. During 2008, we utilized all of this facility. Under the 2008 loan agreement we are required to comply with certain financial covenants. The first covenant requires our EBITDAR for the prior year to be at least 2.5 times our fixed charge expenses (including interest, commission, fees, discounts and other finance payments) for that year. The second covenant requires a total liability plus operating leases minus operating cash to tangible net worth ratio of less than 5.5 to 1. The third covenant requires our tangible net worth to be at least \$160 million. The last covenant requires us to maintain a minimum of \$75 million in available cash, cash equivalents and short-term investments. As of December 31, 2011, we complied with all required covenants.

Capital resources. We finance our aircraft through long term debt and operating lease financings. Although we expect to finance future aircraft deliveries with a combination of similar debt arrangements and financing leases, we may not be able to secure such financing on attractive terms. To the extent we cannot secure financing, we may be required to modify our aircraft acquisition plans or incur higher than anticipated financing costs. In particular, the 2011 Aircraft Sector Understanding is likely to increase our financing costs and may negatively affect our results of operations. We expect to meet our operating obligations as they become due through available cash and internally generated funds, supplemented as necessary by short-term credit lines.

As of December 31, 2011, we had placed firm purchase orders with The Boeing Company for 37 Boeing 737-Next Generation aircraft and we have purchase rights and options for an additional 16 Boeing 737-Next Generation aircraft. We also have options to purchase an additional six Embraer 190 aircraft. The schedule for delivery of our firm purchase orders is as follows: seven in 2012, four in 2013, four in 2014, eight in 2015, seven in 2016 and seven in 2017. We meet our pre-delivery deposit requirements for our Boeing 737-Next Generation aircraft by using cash from operations, or by using medium-term borrowing facilities and/or vendor financing for deposits required between two years and 6 months prior to delivery. Pre-delivery deposits for our Embraer 190 aircraft are required 18, 12 and 6 months prior to delivery. In 2010 and 2011, we funded these deposits with our own cash from operations.

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We maintain available facilities for letters of credit with several banks with outstanding balances of \$33.7 million and \$26.8 million at December 31, 2011 and 2010, respectively. These letters of credit are pledged for aircraft rentals, maintenance and guarantees for airport facilities. Of this total, \$2.9 million are letters of credit opened on behalf of Copa Colombia for the same purposes listed above. In addition, Copa Airlines has lines of credit of total amount of \$142.1 million, in which it has committed lines of credit totaling \$58 million, including one line of credit for \$15 million and one overdraft line of credit of \$3 million with Banco General, an overdraft line of credit of \$10 million with Towerbank and a line of credit of \$30 million with Banco Nacional de Panamá. These lines of credit have been put in place to bridge liquidity gaps and for other potential contingencies.

As of December 31, 2011 Copa Airlines has an outstanding balance of \$5 million dollars with Citibank.

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

We believe that the Copa brand has strong value and indicates superior service and value in the Latin American travel industry. We have registered the trademarks *Copa* and *Copa Airlines* with the trademark office in Panama and have filed requests for registration in other countries, including the United States. We license certain brands, logos and trade dress under the trademark license agreement with UAL related to our alliance. We will have the right to continue to use our current logos on our aircraft for up to five years after the end of the alliance agreement term. *Copa Colombia* has registered its name as a trademark in Colombia for the next ten years, and plans to register its trademark in Panama, Ecuador, Venezuela and Peru.

We operate a number of software products under licenses from our vendors, including our booking engine, our automated pricing system from SMG Technologies, our SABRE revenue management software and our Cargo Management system. Under our agreements with Boeing, we also use a large amount of Boeing's proprietary information to maintain our aircraft. The loss of these software systems or technical support information from Boeing could negatively affect our business.

D. Trend Information

We seek to expand our operations by adding frequencies and new routes with the addition of 13 new Boeing 737-800 aircraft to our fleet in 2012. For the remainder of 2012, we expect to continue to concentrate on keeping our operating costs low and pursuing ways to make our operations more efficient.

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

Our maintenance expenses are dependent on a large number of factors, some of which can be estimated, such as aircraft usage, aircraft destination and overhaul events, while many others result from unforeseen events. In 2011, our maintenance expenses increased by 14% and we estimate that our maintenance expenses will increase by approximately 30% in 2012 mainly due to the increase in block hours, a general increase in the age of our fleet and an increase in aircraft return provisions due to 5 new leased aircraft in 2011 and 6 new leased aircraft in 2012.

We expect jet fuel prices will continue to be volatile in 2012 and expect to continue evaluating fuel hedging programs to help protect us against short-term movements in crude oil prices. We expect our operating capacity to increase approximately 22% in 2012, primarily as a result of the addition of 13 new aircraft throughout the year.

Table of Contents**E. Off-balance sheet arrangements**

None of our operating lease obligations are reflected on our consolidated statement of financial position, and we have no other off-statement of financial position arrangements. We are responsible for all maintenance, insurance and other costs associated with operating these aircraft; however, we have not made any residual value or other guarantees to our lessors.

F. Tabular Disclosure of Contractual Obligations

Our non-cancelable contractual obligations at December 31, 2011 included the following:

| | Total | At December 31, 2011 | | | More than 5 Years |
|--|------------------|----------------------|----------------|------------------|----------------------|
| | | Less than 1 Year | 1-3 Years | 3-5 Years | |
| Aircraft and engine purchase commitments | 1,450,482 | 221,493 | 420,248 | 650,373 | 158,368 |
| Aircraft operating leases | 290,614 | 56,291 | 95,350 | 80,552 | 58,421 |
| Other operating leases | 25,298 | 8,316 | 12,042 | 2,627 | 2,313 |
| Short-term debt and long-term debt(1) | 1,275,344 | 166,514 | 303,907 | 327,586 | 477,337 |
| Total | 3,041,738 | 452,614 | 831,547 | 1,061,138 | 696,439 |

(1) Includes actual interest and estimated interest for floating-rate debt based on December 31, 2011 rates. Additionally, the Company has statutory minimal contribution to pension asset which is not material.

Most contract leases include renewal options. Non-aircraft related leases have renewable terms of one year, and their respective amounts included in the table above have been estimated through 2015, but we cannot estimate amounts with respect to those leases for later years. Our leases do not include residual value guarantees.

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

We are managed by our Board of Directors which currently consists of eleven members who serve two-year terms and may be re-elected. The number of directors elected each year alternates between six directors and five directors. Messrs. Pedro Heilbron, Osvaldo Heilbron, Ricardo A. Arias, Mark Erwin, Alfredo Arias Loredó and Roberto Artavia were each re-elected for two-year terms at our annual shareholders' meeting held in May 2010. Messrs. Stanley Motta, José Castañeda Velez, Jaime Arias, Alberto C. Motta Jr., and Joseph Fidanque were re-elected as directors at our annual shareholders' meeting held on May 4, 2011. In November 2010, Mr. Douglas Leo was elected as director, filling the vacancy created by the resignation of Mr. Mark Erwin and serving for the remainder of Mr. Mark Erwin's term. Mr. Douglas Leo's election was confirmed at our annual shareholders' meeting held on May 4, 2011. Our charter does not have a mandatory retirement age for our directors.

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The following table sets forth the name, age and position of each member of our Board of Directors as of March 31, 2012. A brief biographical description of each member of our Board of Directors follows the table.

| Name | Position | Age |
|-----------------------|--------------------------------------|-----|
| Pedro Heilbron | Chief Executive Officer and Director | 54 |
| Stanley Motta | Chairman and Director | 66 |
| Oswaldo Heilbron | Director | 86 |
| Jaime Arias | Director | 77 |
| Ricardo Alberto Arias | Director | 72 |
| Alberto C. Motta, Jr. | Director | 65 |
| Douglas Leo | Director | 52 |
| Joseph Fidanque III | Director | 45 |
| Jose Castañeda Velez | Director | 68 |
| Roberto Artavia Loria | Director | 53 |
| Alfredo Arias Loredo | Director | 65 |

Mr. Pedro Heilbron. See Executive Officers.

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

Mr. Oswaldo Heilbron has been one of the directors of Copa Airlines since 1986 and a director of Copa Holdings, since it was established in 1998. Mr. Heilbron is the father of Mr. Pedro Heilbron, our chief executive officer. He serves on the boards of directors of CIASA, Desarrollo Costa Del Este, S.A., Harinas Panama, S.A., Televisora Nacional, S.A. and SSA Panama Inc.

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

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

Mr. Alberto Motta, Jr. has been one of the directors of Copa Airlines since 1983 and a director of Copa Holdings, since it was established in 1998. He is a Vice President of Inversiones Bahía, Ltd. Mr. Motta attended the University of Hartwick. He is the brother of Mr. Stanley Motta. He also serves on the boards of directors of Motta Internacional, S.A., BG Financial Group, S.A., Inversiones Costa del Este, S.A., ASSA Compañía de Seguros, S.A., Petróleos Delta, S.A., Productos Toledanos, S.A., Financiera Automotriz, S.A., Televisora Nacional, S.A., Hotel Miramar Inter-Continental and Industrias Panama Boston, S.A.

Mr. Douglas Leo has been one of the directors of Copa Holdings since the end of 2010. He is Vice President of Pricing and Revenue Management for United Airlines which is based in Chicago, Illinois. Prior to joining United Airlines in 2005, Mr. Leo was Vice President of Worldwide Sales, Distribution and the International Division for US Airways and also held several positions during a 17 year career at Northwest Airlines. Before joining the aviation industry, Mr. Leo worked at Touche-Ross and Peat, Marwick and Mitchell. Mr. Leo has a bachelor's degree from Minnesota State University-Mankato and is a Certified Public Accountant. He has also been a guest lecturer at the Sloan School of Business at M.I.T. Pursuant to contractual arrangements with us and CIASA, UAL is entitled to designate one of our directors and Mr. Douglas Leo is the UAL appointed director.

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Mr. Joseph Fidanque III has been one of the directors of Copa Airlines since 2006. He is President of Fidanque Hermanos e Hijos, S.A. and Star Contact, Ltd. He serves on the boards of directors of Multiholding Corporation Panama, Fundación Filantrópica Fidanque, Colon Import and Export and Sky Technologies Network. Mr. Fidanque holds a B.S. in Economics from Tufts University.

Mr. Roberto Artavia Loria is one of the independent directors of Copa Holdings. He is Chairman of Viva Trust and Viva Services, President of the Fundación Latinoamérica Posible in Panama and Costa Rica, Board Member and visiting professor of INCAE Business School, and Director of MarViva Foundation in Panama. Mr. Artavia Loria is also an advisor to the governments of five countries in Latin America, and a strategic advisor to Purdy Motor, S.A., the Panama Canal Authority, Coyoil Free Zone and Business Park, Grupo Nacion and FUNDESA, among other organizations in the region. Mr. Artavia Loria also serves on the Board of Directors of the World Resources Institute and the Foundation for Management Education in Central America, both in Washington, Compañía Cervecería de Nicaragua, OBS Americas in Costa Rica, and IDC of Guatemala.

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

Mr. Alfredo Arias Loredo is one of the independent directors of Copa Holdings. He is the former Executive President of Cervecería Nacional, S.A. Mr. Arias Loredo is a member of the Board of Trustees of ANCON (Asociación Nacional para la Conservación de la Naturaleza). Mr. Arias Loredo received a B.S. in Mechanical Engineering and an M.S. in Industrial Management, both from Georgia Institute of Technology.

The following table sets forth the name, age and position of each of our executive officers as of March 31, 2012. A brief biographical description of each of our executive officers follows the table.

| Name | Position | Age |
|-------------------|--|-----|
| Pedro Heilbron | Chief Executive Officer | 54 |
| Victor Vial | Chief Financial Officer | 46 |
| Daniel Gunn | Senior Vice-President of Operations | 44 |
| Leo Marchosky | Vice-President of Human Resources | 55 |
| Joe Mohan | Vice-President of Commercial and Planning | 42 |
| Ahmad Zamany | Vice-President of Maintenance | 54 |
| Vidalía de Casado | Vice-President of On-Board Services | 54 |
| David Lindskoog | Vice-President of Flight Operations | 61 |
| Peter Diaz | Vice-President of Airport Services | 45 |
| Glen Baker | Vice-President of Technology | 53 |
| Eduardo Lombana | Interim Chief Executive Officer of Copa Colombia | 50 |

Mr. Pedro Heilbron has been our Chief Executive Officer since 1988. He received an M.B.A. from George Washington University and a B.A. from College of the Holy Cross. Mr. Heilbron is the son of Mr. Osvaldo Heilbron, a member of our Board of Directors.

Mr. Victor Vial has been our Chief Financial Officer since 2000. From 1995 until 2000, Mr. Vial served as our Director of Planning. Prior to his service at Copa, Mr. Vial was a Senior Financial Analyst for HBO-Time Warner. Mr. Vial holds a B.B.A. in International Business from George Washington University.

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

Dr. Leo Marchosky has been our Vice-President of Human Resources since February 2008. Before joining Copa, he was CEO and President of Novartis Mexico and previously held top management and regional positions with the same company in Latin America, Asia and Europe. Dr. Marchosky has a Master in Business Administration from the Sao Paulo Business School in Brazil, and is also an MD with a specialty in Internal Medicine.

Mr. Joe Mohan has been our Vice-President of Commercial and Planning since February 2008. Prior to joining Copa, he was the Senior Vice President of Sales at American Land Lease and held several senior positions at Continental Airlines. Mr. Mohan received a B.A. in Economics from the University of Florida and a M.B.A. with an emphasis on strategy from Georgetown University.

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

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

Captain David Lindskoog has been our Vice-President of Flight Operations since 2008. Captain Lindskoog has worked in the airline industry since 1981, both in line operations and in management. Prior to joining Copa he held management positions at North American Airlines and ATA Airlines. Captain Lindskoog received a B.S. in Professional Pilot Technology from Purdue University.

Mr. Peter Díaz has been our Vice-President of Airport Services since January 2010. Prior to joining Copa he served as Vice-President of Primeflight Aviation Services and also held regional positions with JetBlue Airways from 2003 through 2008. He received a B.S. in Business Administration from Embry-Riddle University.

Mr. Glen Baker has been our Vice-President of Technology since March 2011. Prior to joining Copa, he served as Chief Information Officer of ATA Airlines from 2001 through 2008. He also served in the Government of the City of Indianapolis. He received his B.S. in Political Science from Franklin College in 1980.

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

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

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B. Compensation

In 2011, we paid an aggregate of approximately \$3.3 million in cash compensation to our executive officers. Although in 2006 we set aside \$3.0 million for payment to senior management related to covenants not to compete with us in the future, we have not set aside any other funds for future payments to executive officers.

At the Compensation Committee meeting held in February 2011, the Chairman announced members of our Board of Directors that are not officers of either Copa or UAL will receive an increase of \$15,000 per year to \$40,000 per year plus expenses incurred to attend our Board of Directors meetings. In addition, members of committees of the Board of Directors receive \$1,000 per committee meeting, with the chairman of the audit committee receiving \$2,000 per meeting of the audit committee. All of the members of our Board of Directors and their spouses receive benefits to travel on Copa flights as well.

Incentive Compensation Program

In 2005, the Compensation Committee of our Board of Directors eliminated the then existing Long Term Retention Plan and approved a one-time non-vested stock bonus award program for certain executive officers (the Stock Incentive Plan). Non vested stock delivered under the Stock Incentive Plan may be sourced from treasury stock, or authorized un-issued shares. In March 2006, in accordance with this program, the Compensation Committee of our Board of Directors granted 935,650 restricted stock awards. Senior management were granted 847,625 non vested stock awards, which vest over five years in yearly installments equal to 15% of the awarded stock on each of the first three anniversaries of the grant date, 25% on the fourth anniversary and 30% on the fifth anniversary. Managers, officers and key employees, not on our senior management team, were granted 88,025 non vested stock awards which vest on the second anniversary of the grant date. In each 2007, 2008, 2009, 2010 and 2011 the Compensation Committee of our Board of Directors granted 16,955, 73,374, 113,714, 52,567 and 318,464 shares of non-vested stock awards, respectively, to certain named executive officers, which vest over three to five years in yearly installments equal to one-third or one-fifth of the awarded stock on each of the anniversaries of the grant date. Non-vested stock awards were measured at their fair value, which is the same amount for which a similarly restricted share would be issued to third party, on the grant date. The fair value of these non-vested stocks award was \$56.57, \$53.92 and \$22.05, for the 2011, 2010, and 2009, grants, respectively.

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

The weighted-average fair value of the stock options at the grant date was \$22.33, and was estimated using the Black-Scholes option-pricing model assuming an expected dividend yield of 0.58%, expected volatility of approximately 37.8% based on historical volatility, weighted average risk-free interest rate of 4.59%, and an expected term of 6 years calculated under the simplified method.

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

The total compensation cost recognized for non-vested stocks and options awards was \$7.7 million, \$4.0 million and \$4.7 million in 2011, 2010 and 2009, respectively, and was recorded as a component of Salaries and benefits within Operating Expense.

During the first quarter of 2012, the Compensation Committee of the Company's Board of Directors approved two (2) new awards. Awards were granted under these new plans for approximately 42,358 shares of non-vested stock, which will vest over a period of three (3) years. The Company estimates the fair value of these awards to be approximately \$3.5 million and the 2012 compensation cost for these plans is \$1.9 million.

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

C. Board Practices

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

Currently, our Board of Directors is comprised of eleven members. The number of directors elected each year alternates between six directors and five directors. Messrs. Pedro Heilbron, Osvaldo Heilbron, Ricardo A. Arias, Mark Erwin, Alfredo Arias Loredo and Roberto Artavia were each re-elected for two-year terms at our annual shareholders meeting held in May 2010. Messrs. Stanley Motta, José Castañeda Velez, Jaime Arias, Alberto C. Motta Jr., and Joseph Fidanque were re-elected as directors for two-year terms at our annual shareholders meeting held on May 4, 2011. In November 2010, Mr. Douglas Leo was elected as director, filling the vacancy created by the resignation of Mr. Mark Erwin and serving for the remainder of Mr. Mark Erwin's term. Mr. Douglas Leo's election was confirmed at our annual shareholders meeting held on May 4, 2011. Our charter does not have a mandatory retirement age for our directors.

Pursuant to contractual arrangements with us and CIASA, UAL is entitled to designate one of our directors and Mr. Douglas Leo is the UAL appointed director.

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

Committees of the Board of Directors

Audit Committee. The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing:

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

the effectiveness of our internal financial control and risk management systems; the effectiveness of our internal audit function, the independent audit process including the appointment, retention, compensation, and supervision of the independent auditor; and

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

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

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

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

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Nominating and Corporate Governance Committee. Our Nominating and Corporate Governance Committee is responsible for developing and recommending criteria for selecting new directors, overseeing evaluations of the Board of Directors, its members and committees of the Board of Directors and handling other matters that are specifically delegated to the compensation committee by the Board of Directors from time to time. Our charter documents require that there be at least one independent member of the Nominating and Corporate Governance Committee until the first shareholders' meeting to elect directors after such time as the Class A shares are entitled to full voting rights. Messrs. Ricardo Arias, Osvaldo Heilbron and Roberto Artavia are the members of our Nominating and Corporate Governance Committee, and Mr. Ricardo Arias is the Chairman of the Nominating and Corporate Governance Committee.

Independent Directors Committee. Our Independent Directors Committee is created by our Articles of Incorporation and consists of any directors that the Board of Directors determines from time to time meet the independence requirements of the NYSE rules applicable to audit committee members of foreign private issuers. Our Articles of Incorporation provide that there will be three independent directors at all times, subject to certain exceptions. Under our Articles of Incorporation, the Independent Directors Committee must approve:

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

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

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

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

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

D. Employees

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

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Approximately 65% of Copa Airlines' and Copa Colombia's employees are located in Panama, while the remaining 35% are distributed among our foreign stations. Copa's employees can be categorized as follows:

| | December 31, | | |
|---|--------------|-------|-------|
| | 2011 | 2010 | 2009 |
| Pilots | 877 | 791 | 687 |
| Flight attendants | 1,431 | 1,178 | 980 |
| Mechanics | 511 | 488 | 450 |
| Customer service agents, reservation agents, ramp and other | 3,023 | 2,859 | 2,544 |
| Management and clerical | 1,685 | 1,650 | 1,477 |
| | | | |
| Total employees | 7,527 | 6,966 | 6,138 |

Our profit-sharing program reflects our belief that our employees will remain dedicated to our success if they have a stake in that success. We identify key performance drivers within each employee's control as part of our annual objectives plan, or Path to Success. Typically, we pay bonuses in the first quarter of the year based on our performance during the preceding calendar year. For members of management, 75% of the bonus amount is based on our performance as a whole and 25% is based on the achievement of individual goals. Bonuses for non-management employees are based on the company's performance and payment is typically a multiple of the employee's weekly salary. The bonus payments are approved by our compensation committee. We typically make accruals each month for the expected annual bonuses which are reconciled to actual payments at their dispersal in the first quarter.

We provide training for all of our employees including technical training for our pilots, dispatchers, flight attendants and other technical staff. In addition, we provide recurrent customer service training to frontline staff, as well as leadership training for managers. We currently have three flight simulators at our training facility in Panama's City of Knowledge. In 2005, we leased a Level B flight simulator for Boeing 737-Next Generation training that served 80% of our initial training, transition and upgrade training and 100% of our recurrent training needs relating to that aircraft. During 2007, we upgraded this simulator to provide 100% of our initial training. In 2008, we leased a similar flight simulator for Embraer 190 training that serves for all of our initial and recurrent training needs. In 2011 Copa bought a second 737-Next Generation Full Flight Simulator (FFS), Level D. The level D qualification is the highest certification provided by the Federal Aviation Administration (FAA) to any Flight Training Device. Another important acquisition in 2011 is the second B737 Virtual Procedure Trainer (VPT), which complements the new FFS training.

Approximately 58% of the Company's employees belong to a labor union. There are currently five unions covering our Copa employees based in Panama and four unions covering our Copa Colombia employees in Colombia.

The five unions in Panama are: the pilots' union (UNPAC); the flight attendants' union (SIPANAB); the mechanics' union (SITECMAP); the traffic attendants' union (UGETRACO); and a generalized union (SIELAS), which represents ground personnel, messengers, drivers, counter agents, and other non-executive administrative staff. Copa entered into collective bargaining agreements with its pilot union in November 2007, its general union in July 2008, its mechanics union in April 2009, and its flight attendants union in March 2010. Collective bargaining agreements in Panama are typically between three and four year terms. Recently, Copa settled negotiations related to alleged labor violations submitted by SIELAS. The next negotiations with SIELAS are expected to take place in September 2013. We are currently negotiating a new collective bargaining agreement with UNPAC, with a target completion date of August 2012. Copa Airlines has traditionally experienced good relations with its unions.

Four unions cover our employees in Colombia: the pilots' union (ACDAC), the flight attendants' union (ACAV), the industry union, and the mechanics union. We commenced negotiations with ACDAC on February 28, 2012, and expect to enter into arbitration proceedings to reach settlement with each of the ACAV, the industry union, and the mechanics union. Typically, collective bargaining agreements in Colombia have terms of two to four 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.

The Company's employees in Brazil are covered by industry union agreements that cover all airline industry employees in the country.

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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. 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, and agree to terms that are less favorable to us than our existing agreements. Employees outside of Panama that 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.

E. Share Ownership

The members of our Board of Directors and our executive officers as a group own 1.03% of our Class A shares. See Item 7A. Major Shareholders and Related Party Transactions.

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

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

The following table sets forth information relating to the beneficial ownership of our Class A shares as of December 31, 2011 by each person known to us to beneficially own 5% or more of our common shares and all our directors and officers as a group. Class A shares are limited voting shares entitled only to vote in certain specified circumstances. See Item 10B. Additional Information Memorandum and Articles of Association Description of Capital Stock.

| | Class A Shares Beneficially Owned | |
|---|--------------------------------------|--------|
| | Shares | (%)(1) |
| CIASA ⁽²⁾ | 0 | |
| Executive officers and directors as a group (20 persons) ⁽⁴⁾ | 175,394 | 0.5% |
| FMR, LLC. ⁽³⁾ | 3,058,566 | 9.3% |
| Ameriprise Financial, Inc. ⁽⁵⁾ | 2,524,209 | 7.6% |
| Others | 27,199,594 | 82.6% |
| Total | 32,957,763 | 100.0% |

(1) Based on a total of 32,957,763 Class A shares outstanding.

(2) CIASA owns 100% of the Class B shares of Copa Holdings, representing 25.1% of our total capital stock.

(3) Based on a Schedule 13G filed with the SEC, dated February 14, 2012, in which FMR, LLC. and certain related parties, reported beneficial ownership of 3,058,566 Class A Shares.

(4) Number of shares as of March, 2012.

(5) Based on a Schedule 13G filed with the SEC, dated February 14, 2012, in which Ameriprise Financial, Inc. and certain related parties reported beneficial ownership of 2,524,209 Class A Shares.

In June 2006, Continental reduced its ownership of our total capital stock from 27.3% to 10.0%. In May 2008, Continental sold down its remaining shares in the public market.

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On February 11, 2011, Ameriprise Financial, Inc. and certain related parties, filed a schedule 13G with the SEC in which they reported beneficial ownership of 2,781,337 Class A Shares, representing 8.5% of the Class A Shares. On February 14, 2012, they subsequently reported beneficial ownership of 2,524,209 Class A Shares, representing 7.6% of the Class A Shares.

On August 10, 2011, FMR, LLC. and certain related parties, filed a schedule 13G with the SEC in which they reported beneficial ownership of 3,731,364 Class A Shares, representing 11.3% of the Class A Shares. On February 14, 2012, they subsequently reported beneficial ownership of 3,058,566 Class A Shares, representing 9.3% of the Class A Shares.

On February 14, 2012, Tempus Quo Capital Management, LLC. and certain related parties, filed a schedule 13G with the SEC in which they reported beneficial ownership of zero Class A Shares. They previously reported beneficial ownership of 1,912,323 Class A Shares, representing 5.9% of the Class A Shares, as of February 11, 2011.

CIASA currently owns 100% of the Class B shares of Copa Holdings, representing all of the voting power of our capital stock. CIASA is controlled by a group of Panamanian investors representing several prominent families in Panama. This group of investors has historically acted together in a variety of business activities both in Panama and elsewhere in Latin America, including banking, insurance, real estate, telecommunications, international trade and commerce and wholesale. Members of the Motta, Heilbron and Arias families and their affiliates beneficially own approximately 90% of CIASA's shares. Our Chief Executive Officer, Mr. Pedro Heilbron, and several of our directors, including Messrs. Stanley Motta and Alberto C. Motta Jr., Mr. Osvaldo Heilbron, Mr. Jaime Arias and Mr. Ricardo Alberto Arias as a group hold beneficial ownership of approximately 78% of CIASA's shares.

The holders of more than 78% of the issued and outstanding stock of CIASA have entered into a shareholders' agreement providing that the parties to the agreement will vote all of their shares in CIASA together as a group on all matters concerning CIASA's holdings of Class B shares. Additionally, this shareholders' agreement restricts transfers of CIASA shares to non-Panamanian nationals. Messrs. Stanley Motta and Alberto C. Motta Jr. together exercise effective control of CIASA. In March 2010, CIASA converted a portion of its Class B shares into 1.6 million non-voting New York Stock Exchange listed Class A shares and sold such Class A shares in a SEC registered public offering. As a result, CIASA's ownership decreased from 29.2% to 25.1% of our capital stock. In the event CIASA seeks to reduce its ownership below 10% of our total share capital, our independent directors may decide to issue special voting shares solely to Panamanian nationals to maintain the ownership requirements mandated by the Panamanian Aviation Act.

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

It is not practicable for us to determine the number of Class A shares beneficially owned in the United States. As of March 30, 2012, we had 145 registered record holders of our Class A shares.

B. Related Party Transactions

Registration Rights Agreement

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

Agreements with our controlling shareholders and their affiliates

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

Table of Contents***Banco General, S.A.***

We have a strong commercial banking relationship with Banco General, S.A., a Panamanian bank partially owned by our controlling shareholders. We have obtained financing from Banco General under short to medium-term financing arrangements for part of the commercial loan tranche of one of the Company's Export-Import Bank facilities. We also maintain general lines of credit and time deposit accounts with Banco General. Interest payments to Banco General totaled \$0.05 million, \$1.0 million, and \$0.2 million in 2011, 2010, and 2009, respectively, and interest received from Banco General amounted to \$1.2 million, \$0.1 million and \$0.4 million in 2011, 2010, and 2009, respectively. The outstanding debt balance at December 31 amounted to \$0.7 million, \$1.5 million, and \$1.3 million in 2011, 2010, and 2009, respectively. These amounts are included in Current maturities of long-term debt and Long-term debt in the consolidated statement of financial position.

ASSA Compañía de Seguros, S.A.

Panamanian law requires us to maintain our insurance policies through a local insurance company. We have contracted with ASSA, an insurance company controlled by our controlling shareholders, to provide substantially all of our insurance. ASSA has, in turn, reinsured almost all of the risks under those policies with insurance companies around the world. The net payment to ASSA, after taking into account the reinsurance of these risks, is approximately \$30,000 per year.

Petróleos Delta, S.A.

During 2005, we entered into a contract with Petróleos Delta, S.A. to supply our jet fuel needs. The price agreed to under this contract is based on the two week average of the U.S. Gulf Coast Waterborne Mean index plus local taxes, certain third-party handling charges and a handling charge to Delta. The contract has a one year term that automatically renews for one year periods unless terminated by one of the parties. While our controlling shareholders do not hold a controlling equity interest in Petróleos Delta, S.A., several of our directors are also board members of Petróleos Delta, S.A. Payments to Petróleos Delta totaled \$283.2 million in 2011, \$170.7 million in 2010, and \$116.1 million in 2009.

Desarrollo Inmobiliario del Este, S.A.

During January 2006, we moved into headquarters located six miles away from Tocumen International Airport. We lease five floors consisting of approximately 104,000 square feet of the building from Desarrollo Inmobiliario del Este, S.A., an entity controlled by the same group of investors that controls CIASA, under a 10-year lease at a rate of \$0.1 million per month, which we believe to be a market rate. Payments to Desarrollo Inmobiliario del Este, S.A. totaled \$2.0 million, \$2.0 million, and \$2.0 million in 2011, 2010, and 2009, respectively.

Galindo, Arias & Lopez

Most of our legal work is carried out by the law firm Galindo, Arias & Lopez. Messrs. Jaime Arias and Ricardo Alberto Arias, partners of Galindo, Arias & Lopez, are indirect shareholders of CIASA and serve on our Board of Directors. Payments to Galindo, Arias & Lopez totaled \$0.5 million, \$0.6 million, and \$0.4 million in 2011, 2010, and 2009, respectively.

Other Transactions

We also purchase most of the alcohol and some of the other beverages served on our aircraft from Motta Internacional, S.A. and Global Brands, S.A., both of which are controlled by our controlling shareholders. We do not have any formal contracts for these purchases, but pay wholesale prices based on price lists periodically submitted by those importers. We paid approximately \$0.9 million in 2011, \$0.8 million in 2010, and \$0.6 million in 2009 in these entities.

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Our telecommunications services have been provided by Telecarrier. Some of the controlling shareholders of CIASA have a controlling interest in Telecarrier. Payments to Telecarrier totaled \$0.8 million in 2010 and \$0.9 million in 2009.

The advertising agency that we use in Panama is Rogelio Diaz Publicidad (RD Nexos), formerly owned by the brother -in-law of our chief executive officer and where his brother has a minority stake. Gross invoices for all services performed through RD Nexos totaled \$0.3 million, \$0.6 million and \$1.0 million in 2011, 2010, and 2009, respectively.

We have received services from Call Center Corporation, a call center that operates one of Copa's reservations and sales services and handles calls from Panama as well as to most other countries to which Copa flies. One of our directors, Joseph Fidanque III, is one of the owners of this call center. Payments to Call Center Corporation totaled \$2.6 million in 2011, \$3.9 million in 2010, and \$3.3 million in 2009.

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

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

Legal Proceedings

In the ordinary course of our business, we are party to various legal actions, which we believe are incidental to the operation of our business. While legal proceedings are inherently uncertain, we believe that the outcome of the proceedings to which we are currently a party is not likely to have a material adverse effect on our financial position, results of operations and cash flows. The Antitrust Administrative Agency (Comisión de Libre Competencia y Asuntos del Consumidor, or CLICAC), together with a group of travel agencies, has filed an antitrust lawsuit against Copa, Continental, American Airlines, Taca and Delta Airlines in the Panamanian Commercial Tribunal alleging monopolistic practices in reducing travel agents' commissions. The outcome of this lawsuit is still uncertain and may take several years. We believe that in the worst scenario the airlines could be required to pay up to \$20 million. In addition, ACES, a now-defunct Colombian airline, filed an antitrust lawsuit against Copa, Avianca and SAM, alleging monopolistic practices in relation to their code-sharing agreements. The court of first instance ruled in favor of Copa, but the defendant has appealed the decision and it is currently being reviewed by the superior court. This case could take several years to be resolved. If Copa, Avianca and/or SAM were found at fault and in breach of antitrust legislation, they could be potentially liable for up to \$11 million.

Dividends and Dividend Policy

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

Effective May 4, 2011, our dividend policy allows the Board of Directors to provide our shareholders with a dividend payment in an amount ranging up to 30% of our annual consolidated net income to be declared at our annual shareholders' meeting and paid shortly thereafter. Our Board of Directors may, in its sole discretion and for any reason, amend or discontinue the dividend policy. Our Board of Directors may change the level of dividends provided for in this dividend policy or entirely discontinue the payment of dividends. Future dividends with respect to shares of our common stock, if any, will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions, business opportunities, provisions of applicable law and other factors that our Board of Directors may deem relevant.

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On May 4, 2011, our Board of Directors declared an annual dividend of \$1.64 per share payable June 15, 2011 to shareholders of record as of May 31, 2011 which represented an aggregate dividend payment of \$72 million. On May 5, 2010, our Board of Directors declared an annual dividend of \$1.09 per share payable June 15, 2010 to shareholders of record as of May 31, 2010 which represented an aggregate dividend payment of \$47.9 million. On May 6, 2009, our Board of Directors declared an annual dividend of \$0.37 per share payable June 15, 2009 to shareholders of record as of May 30, 2009 which represented an aggregate dividend payment of \$16.3 million. On May 7, 2008, our Board of Directors declared an annual dividend of \$0.37 per share payable June 15, 2008 to shareholders of record as of May 30, 2008 which represented an aggregate dividend payment of \$16.2 million.

B. Significant Changes

None

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

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

| | Low | High |
|-----------------------|--------------|--------------|
| 2006 | | |
| Annual | 20.31 | 49.05 |
| 2007 | | |
| Annual | 30.25 | 73.33 |
| 2008 | | |
| Annual | 18.00 | 43.64 |
| 2009 | | |
| Annual | 20.36 | 56.78 |
| 2010 | | |
| Annual | 42.60 | 63.08 |
| First quarter | 47.76 | 61.74 |
| Second quarter | 43.56 | 63.08 |
| Third quarter | 42.60 | 55.95 |
| Fourth quarter | 46.97 | 59.06 |
| 2011 | | |
| Annual | 49.54 | 72.86 |
| First quarter | 49.54 | 59.92 |
| Second quarter | 51.89 | 68.44 |
| Third quarter | 59.42 | 72.86 |

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| | | |
|------------------------|--------------|--------------|
| Fourth quarter | 55.80 | 71.99 |
| 2012 | | |
| First Quarter | 58.58 | 80.31 |
| Last Six Months | | |
| October 2011 | 55.80 | 71.37 |
| November 2011 | 58.30 | 71.99 |
| December 2011 | 57.57 | 66.89 |
| January 2012 | 58.58 | 68.39 |
| February 2012 | 67.37 | 77.80 |
| March 2012 | 70.95 | 80.31 |

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B. Plan of Distribution

Not applicable.

C. Markets

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

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

Item 10. Additional Information

A. Share Capital

Not applicable.

B. Articles of Incorporation

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

Objects and Purposes

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

Description of Capital Stock

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

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

amended or interpreted.

Common Stock

Our authorized capital stock consists of 80 million shares of common stock without par value, divided into Class A shares, Class B shares and Class C shares. As of December 31, 2011, we had 32,957,763 Class A shares issued, 10,938,125 Class B shares issued and outstanding, and no Class C shares outstanding. Class A and Class B shares have the same economic rights and privileges, including the right to receive dividends, except as described in this section.

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Class A Shares

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

a transformation of Copa Holdings into another corporate type;

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

a change of corporate purpose;

voluntarily delisting Class A shares from the NYSE;

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

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

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

The Class A shareholders will acquire full voting rights, entitled to one vote per Class A share on all matters upon which shareholders are entitled to vote, if in the future our Class B shares ever represent fewer than 10% of the total number of shares of our common stock and the Independent Directors Committee shall have determined that such additional voting rights of Class A shareholders would not cause a triggering event referred to below. In such event, the right of the Class A shareholders to vote on the specific matters described in the preceding paragraph will no longer be applicable. The 10% threshold described in the first sentence of this paragraph will be calculated without giving effect to any newly issued shares sold with the approval of the Independent Directors Committee.

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

Class B Shares

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

Class C Shares

Upon the occurrence and during the continuance of a triggering event described below in Aviation Rights Protections, the Independent Directors Committee of our Board of Directors, or the Board of Directors as a whole if applicable, are authorized to issue Class C shares to the Class B holders pro rata in proportion to such Class B holders' ownership of Copa Holdings. The Class C shares will have no economic value and will not be transferable except to Class B holders, but will possess such voting rights as the Independent Directors Committee shall deem necessary to

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ensure the effective control of the company by Panamanians. The Class C shares will be redeemable by the company at such time as the Independent Directors Committee determines that such a triggering event shall no longer be in effect. The Class C shares will not be entitled to any dividends or any other economic rights.

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

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

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

Tag-along Rights

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

Aviation Rights Protections

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

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

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

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

Dividends

The payment of dividends on our shares is subject to the discretion of our Board of Directors. Under Panamanian law, we may pay dividends only out of retained earnings and capital surplus. Our Articles of Incorporation provide that all dividends declared by our Board of Directors will be paid equally with respect to all of the Class A and Class B shares. Our Board of Directors has adopted a dividend policy that provides for the payment of annual dividends, which amounts up to 30% of our annual consolidated net income to Class A and Class B shareholders. Our Board of Directors may, in its sole discretion and for any reason, amend or discontinue the dividend policy. Our Board of Directors may change the level of dividends provided for in this dividend policy or entirely discontinue the payment of dividends.

Shareholder Meetings

Ordinary Meetings

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

Extraordinary Meetings

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

Vote required

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

Notice and Location

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

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

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Quorum

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

Proxy Representation

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

Other Shareholder Rights

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

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

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

Listing

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

Transfer Agent and Registrar

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

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

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

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| Panama | Directors | Delaware |
|---|---|-----------------|
| <p><i>Conflict of Interest Transactions.</i> Transactions involving a Panamanian corporation and an interested director or officer are initially subject to the approval of the board of directors.</p> <p>At the next shareholders' meeting, shareholders will then have the right to disapprove the board of directors' decision and to decide to take legal actions against the directors or officers who voted in favor of the transaction.</p> <p><i>Terms.</i> Panamanian law does not set limits on the length of the terms that a director may serve. Staggered terms are allowed but not required.</p> <p><i>Number.</i> The board of directors must consist of a minimum of three members, which could be natural persons or legal entities.</p> <p><i>Authority to take Actions.</i> In general, a simple majority of the board of directors is necessary and sufficient to take any action on behalf of the board of directors.</p> | <p><i>Conflict of Interest Transactions.</i> Transactions involving a Delaware corporation and an interested director of that corporation are generally permitted if:</p> <p>(1) the material facts as to the interested director's relationship or interest are disclosed and a majority of disinterested directors approve the transaction;</p> <p>(2) the material facts are disclosed as to the interested director's relationship or interest and the stockholders approve the transaction; or</p> <p>(3) the transaction is fair to the corporation at the time it is authorized by the board of directors, a committee of the board of directors or the stockholders.</p> <p><i>Terms.</i> The Delaware General Corporation Law generally provides for a one-year term for directors. However, the directorships may be divided into up to three classes with up to three-year terms, with the years for each class expiring in different years, if permitted by the articles of incorporation, an initial by-law or a by-law adopted by the shareholders.</p> <p><i>Number.</i> The board of directors must consist of a minimum of one member.</p> <p><i>Authority to take Actions.</i> The articles of incorporation or by-laws can establish certain actions that require the approval of more than a majority of directors.</p> | |
| Shareholder Meetings and Voting Rights | | |
| <p><i>Quorum.</i> The quorum for shareholder meetings must be set by the articles of incorporation or the by-laws. If the articles of incorporation and the notice for a given meeting so provide, if quorum is not met a new meeting can be immediately called and quorum shall consist of those present at such new meeting.</p> <p><i>Action by Written Consent.</i> Panamanian law does not permit shareholder action without formally calling a meeting.</p> | <p><i>Quorum.</i> For stock corporations, the articles of incorporation or bylaws may specify the number to constitute a quorum but in no event shall a quorum consist of less than one-third of shares entitled to vote at a meeting. In the absence of such specifications, a majority of shares entitled to vote shall constitute a quorum.</p> <p><i>Action by Written Consent.</i> Unless otherwise provided in the articles of incorporation, any action required or permitted to be taken at any annual meeting or special meeting of stockholders of a corporation may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action to be so taken, is signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and noted.</p> | |

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| Panama | Other Shareholder Rights | Delaware |
|---|--------------------------|--|
| <p><i>Shareholder Proposals.</i> Shareholders representing 5% of the issued and outstanding capital of the corporation have the right to require a judge to call a general shareholders meeting and to propose the matters for vote.</p> | | <p><i>Shareholder Proposals.</i> Delaware law does not specifically grant shareholders the right to bring business before an annual or special meeting. If a Delaware corporation is subject to the SEC's proxy rules, a shareholder who has continuously owned at least \$2,000 in market value, or 1% of the corporation's securities entitled to vote for at least one year, may propose a matter for a vote at an annual or special meeting in accordance with those rules.</p> |
| <p><i>Appraisal Rights.</i> Shareholders of Panamanian corporation do not have the right to demand payment in cash of the judicially determined fair value of their shares in connection with a merger or consolidation involving the corporation. Nevertheless, in a merger, the majority of shareholders could approve the total or partial distribution of cash, instead of shares, of the surviving entity.</p> | | <p><i>Appraisal Rights.</i> Delaware law affords shareholders in certain cases the right to demand payment in cash of the judicially-determined fair value of their shares in connection with a merger or consolidation involving their corporation. However, no appraisal rights are available if, among other things and subject to certain exceptions, such shares were listed on a national securities exchange or such shares were held of record by more than 2,000 holders.</p> |
| <p><i>Shareholder Derivative Actions.</i> Any shareholder, with the consent of the majority of the shareholders, can sue on behalf of the corporation, the directors of the corporation for a breach of their duties of care and loyalty to the corporation or a violation of the law, the articles of incorporation or the by-laws.</p> | | <p><i>Shareholder Derivative Actions.</i> Subject to certain requirements that a shareholder make prior demand on the board of directors or have an excuse not to make such demand, a shareholder may bring a derivative action on behalf of the corporation to enforce the rights of the corporation against officers, directors and third parties. An individual may also commence a class action suit on behalf of himself and other similarly-situated stockholders if the requirements for maintaining a class action under the Delaware General Corporation Law have been met. Subject to equitable principles, a three-year period of limitations generally applies to such shareholder suits against officers and directors.</p> |
| <p><i>Inspection of Corporate Records.</i> Shareholders representing at least 5% of the issued and outstanding shares of the corporation have the right to require a judge to appoint an independent auditor to examine the corporate accounting books, the background of the company's incorporation or its operation.</p> | | <p><i>Inspection of Corporate Records.</i> A shareholder may inspect or obtain copies of a corporation's shareholder list and its other books and records for any purpose reasonably related to a person's interest as a shareholder.</p> |

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| Panama | Anti-takeover Provisions | Delaware |
|--|--|-----------------|
| <p>Panamanian corporations may include in their articles of incorporation or by-laws classified board and super-majority provisions.</p> <p>Panamanian corporation law's anti-takeover provisions apply only to companies that are:</p> <p>(1) registered with the SMV for a period of six months before the public offering,</p> <p>(2) have over 3,000 shareholders, and</p> <p>(3) have a permanent office in Panama with full time employees and investments in the country for more than \$1,000,000.</p> <p>These provisions are triggered when a buyer makes a public offer to acquire 5% or more of any class of shares with a market value of at least \$5,000,000. In sum, the buyer must deliver to the corporation a complete and accurate statement that includes</p> <p>(1) the name of the company, the number of the shares that the buyer intends to acquire and the purchase price;</p> <p>(2) the identity and background of the person acquiring the shares;</p> <p>(3) the source and amount of the funds or other goods that will be used to pay the purchase price;</p> <p>(4) the plans or project the buyer has once it has acquired the control of the company;</p> <p>(5) the number of shares of the company that the buyer already has or is a beneficiary of and those owned by any of its directors, officers, subsidiaries, or partners or the same, and any transactions made regarding the shares in the last 60 days;</p> | <p>Delaware corporations may have a classified board, super-majority voting and shareholders' rights plan.</p> <p>Unless Delaware corporations specifically elect otherwise, Delaware corporations may not enter into a business combination, including mergers, sales and leases of assets, issuances of securities and similar transactions, with an interested stockholder, or one that beneficially owns 15% or more of a corporation's voting stock, within three years of such person becoming an interested shareholder unless:</p> <p>(1) the transaction that will cause the person to become an interested shareholder is approved by the board of directors of the target prior to the transactions;</p> <p>(2) after the completion of the transaction in which the person becomes an interested shareholder, the interested shareholder holds at least 85% of the voting stock of the corporation not including shares owned by persons who are directors and also officers of interested shareholders and shares owned by specified employee benefit plans; or</p> <p>(3) after the person becomes an interested shareholder, the business combination is approved by the board of directors of the corporation and holders of at least 66.67% of the outstanding voting stock, excluding shares held by the interested shareholder.</p> | |

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

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

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

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Panama

Delaware

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

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

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

Previously Acquired Rights

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

Once a share is issued, the shareholders become entitled to the rights established in the articles of incorporation and such rights cannot be taken away, diminished nor extinguished without the express consent of the shareholders entitled to such rights. If by amending the articles of incorporation, the rights granted to a class of shareholders is somehow altered or modified to their disadvantage, those shareholders will need to approve the amendment unanimously.

No comparable provisions exist under Delaware law.

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Our alliance relationship with UAL is governed by several interrelated agreements. We have amended and restated each of these agreements and extended them through 2015 in connection with our initial public offering in December 2005. Each of the agreements as amended and restated will expire only upon three years' written notice by one of the airlines to the other, which may not be given before May 2012. As a result of the UAL merger, UAL succeeded Continental as the contracting party in each of these commercial agreements.

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

Services Agreement between UAL and Copa Airlines. Under the services agreement, both parties agree to provide to each other certain services over the course of the agreement at the providing carrier's incremental cost, subject to certain limitations. Services covered under the agreement include consolidating purchasing power for equipment purchases and insurance coverage, sharing management information systems, pooling maintenance programs and inventory management, joint training and employee exchanges, sharing the benefits of other purchase contracts for goods and services, telecommunications and other services. Other than by expiration as described above, the agreement is also terminable by a party in cases of, among other things, uncured material breaches of the alliance agreement by the other party, bankruptcy of the other party, termination of the services agreement for breach by the other party, termination of the frequent flyer participation agreement without entering into a successor agreement by the other party or certain changes of control of either of the parties and certain significant operational service failures by the other airline.

Frequent Flyer Participation Agreement between UAL and Copa Airlines. Under the frequent flyer participation agreement, we participate in Continental's OnePass (now UAL's MileagePlus) frequent flyer global program and on a co-branded basis in Latin America. Customers in the program receive credit for flying on segments operated by us, which can be redeemed for award travel on flights and those of other partner airlines. The agreement also governs joint marketing agreements under the program, settlement procedures between the airlines and revenue-sharing under bank card affinity relationships. Further, if the services agreement is terminated or expires, the compensation structure of the frequent flyer program will be revised to be comparable to other of UAL's frequent flyer relationships. We also have the right under the agreement to participate on similar terms in any successor program operated by UAL. Other than by expiration as described above, the agreement is also terminable by a party in cases of, among other things, uncured material breaches of the alliance agreement by the other party, bankruptcy of the other party, termination of the services agreement for breach by the other party, termination of the frequent flyer participation agreement without entering into a successor agreement by the other airline, certain changes of control of either of the parties and certain significant operational service failures by the other party.

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

Aircraft General Terms Agreement between The Boeing Company and Copa Airlines

In 1998, Copa entered into an agreement with the Boeing Company for the purchase of aircraft, installation of buyer furnished equipment provided by Copa, customer support services and product assurance. In addition to the aircraft supplied, the Boeing Company will provide maintenance training and flight training programs, as well as operations engineering support. The agreement has been amended several times since then, most recently in October 2010.

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

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

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

In February 2006, we entered into a purchase agreement with Empresa Brasileira de Aeronautica, S.A (Embraer) for the purchase of aircraft, customer support services and technical publications.

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

On May 22, 2011, we entered into a Rate per Engine Flight Hour Engine Services Agreement with GE Engine Services, LLC. pursuant to which GE shall be the exclusive provider of maintenance, repair and overhaul services to our aircraft engines. Most maintenance services are performed at a certain rate per engine flight hour incurred by our engines. These rates were set based on our predicated operating parameters and shall be adjusted in case of variation of those parameters. Unless terminated, this agreement will continue through September 30, 2022 and may be renewed upon the parties' mutual agreement. Either party may terminate the agreement in the event of the insolvency of the other party or, upon a material breach by the other party which remains uncured. Any material breach by us of this agreement could, at the option of GE, trigger a cross-default of all our other contracts with GE. GE may also terminate this agreement if the number of engines covered decreases below the prescribed minimum.

D. Exchange Controls

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

E. Taxation

United States

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

a bank;

a dealer in securities or currencies;

a financial institution;

a regulated investment company;

a real estate investment trust;

an insurance company;

a tax-exempt organization;

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

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

a person liable for alternative minimum tax;

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

a partnership or other pass-through entity for United States federal income tax purposes; or

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

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

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

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

an individual citizen or resident of the United States;

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

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

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

Taxation of Dividends

Distributions on the Class A shares (including amounts withheld to reflect Panamanian withholding taxes, if any) will be taxable as dividends to the extent paid out of our current or accumulated earnings and profits, as determined under United States federal income tax principles. Such income (including withheld taxes) will be includable in your gross income as ordinary income on the day actually or constructively received by you. Such dividends will not be eligible for the dividends received deduction allowed to corporations.

With respect to non-corporate United States Holders, certain dividends received in taxable years beginning before January 1, 2013 from a qualified foreign corporation may be subject to reduced rates of taxation. A foreign corporation generally is treated as a qualified foreign corporation with respect to dividends paid by that corporation on shares that are readily tradable on an established securities market in the United States. United States Treasury Department guidance indicates that our Class A shares, which are listed on the NYSE, are currently readily tradable on an established securities market in the United States. There can be no assurance, however, that our Class A shares will be considered readily tradable on an established securities market at a later date. Non-corporate United States Holders that do not meet a minimum holding period requirement during which they are not protected from the risk of loss or that elect to treat the dividend income as investment income pursuant to Section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation regardless of our status as a qualified foreign corporation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. You should consult your own tax advisors regarding the application of these rules to your particular circumstances.

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

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

are obligated to make payments related to the dividends,

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

To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits for a taxable year, as determined under United States federal income tax principles, the distribution will first be treated as a tax-free return of capital, causing a reduction in the adjusted basis of the Class A shares (thereby increasing the amount of gain, or decreasing the amount of loss, to be recognized by you on a subsequent disposition of the Class A shares), and the balance in excess of adjusted basis will be taxed as capital gain recognized on a sale or exchange (as discussed below under *Taxation of Capital Gains*). Consequently, such distributions in excess of our current and accumulated earnings and profits would generally not give rise to foreign source income and you would generally not be able to use the foreign tax credit arising from any Panamanian withholding tax imposed on such distributions unless such credit can be applied (subject to applicable limitations) against United States federal income tax due on other foreign source income in the appropriate category for foreign tax credit purposes. However, we do not intend to keep earnings and profits in accordance with United States federal income tax principles. Therefore, you should expect that a distribution will generally be treated as a dividend (as discussed above).

Passive Foreign Investment Company

We do not believe that we are a passive foreign investment company (a PFIC) for United States federal income tax purposes (or that we were one in 2011), and we expect to operate in such a manner so as not to become a PFIC. If, however, we are or become a PFIC, you could be subject to additional United States federal income taxes on gain recognized with respect to the Class A shares and on certain distributions, plus an interest charge on certain taxes treated as having been deferred under the PFIC rules. Further, non-corporate United States Holders will not be eligible for reduced rates of taxation on any dividends received from us in taxable years beginning prior to January 1, 2013, if we are a PFIC in the taxable year in which such dividends are paid or the preceding taxable year.

Taxation of Capital Gains

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

Information reporting and backup withholding

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

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

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Panamanian Taxation

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

Taxation of dividends

Dividends paid by a corporation duly licensed to do business in Panama, whether in the form of cash, stock or other property, are subject to a 10% withholding tax on the portion attributable to Panamanian sourced income, and a 5% withholding tax on the portion attributable to foreign sourced income. Dividends paid by a holding company which correspond to dividends received from its subsidiaries for which the dividend tax was previously paid, are not subject to any further withholding tax under Panamanian law. Therefore, distributions on the Class A shares would not be subject to withholding tax to the extent that said distributions are attributable to dividends received from any of our subsidiaries for which the dividend tax was previously paid.

Taxation of capital gains

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

Other Panamanian taxes

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

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

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

As a foreign private issuer, we are not subject to the same disclosure requirements as a domestic U.S. registrant under the Exchange Act. For example, we are not required to prepare and issue quarterly reports. However, we furnish our shareholders with annual reports containing financial statements audited by our independent auditors and make available to our shareholders quarterly reports containing unaudited financial data for the first three quarters of each fiscal year. We file such quarterly reports with the SEC within two months of each quarter of our fiscal year, and we file annual reports on Form 20-F within the time period required by the SEC, which is currently six months from December 31, the end of our fiscal year.

Table of Contents**I. Subsidiary Information**

Not applicable.

Item 11. Quantitative and Qualitative Disclosures about Market Risk

The risks inherent in our business are the potential losses arising from adverse changes to the price of fuel, interest rates and the U.S. dollar exchange rate. Please also refer to note 26 of our financial statements.

Aircraft Fuel. Our results of operations are affected by changes in the price and availability of aircraft fuel. To manage the price risk, we use crude oil swap agreements. Market risk is estimated as a hypothetical 10% increase in the December 31, 2011 cost per gallon of fuel. Based on projected 2012 fuel consumption, such an increase would result in an increase to aircraft fuel expense of approximately \$64.7 million in 2012, not taking into account our derivative contracts. We have hedged approximately 20% and 10% of our anticipated fuel needs for 2012 and 2013, respectively. We may enter into additional hedging agreements in the future to reduce volatility of our fuel expenses.

Interest. Our earnings are affected by changes in interest rates due to the impact those changes have on interest expense from variable-rate debt instruments and operating leases and on interest income generated from our cash and investment balances. If interest rates average 10% more in 2012 than they did during 2011, our interest expense would increase by approximately \$0.1 million and the fair value of our debt would decrease by approximately \$1.0 million. If interest rates average 10% less in 2012 than they did in 2011, our interest income from marketable securities would decrease by approximately \$0.7 million and the fair value of our debt would increase by approximately \$1.0 million. These amounts are determined by considering the impact of the hypothetical interest rates on our variable-rate debt and marketable securities equivalent balances at December 31, 2011.

Foreign Currencies. The majority of our obligations are denominated in U.S. dollars. Since Panama uses the U.S. dollar as legal tender, the majority of our operating expenses are also denominated in U.S. dollars. Our foreign exchange risk is limited as approximately 40% of our revenues are in U.S. dollars. While a significant part of our revenues are in foreign currency, no single currency represented more than 12% of our operating revenues in 2011, except for the Colombian Peso which represented 16.2%. Generally, our exposure to most of these foreign currencies, with the exception of the Venezuelan Bolivar, is limited to the period of up to two weeks between the completion of a sale and the conversion to U.S. dollars. As of February 29, 2012 we had a cash balance of \$86.1 million in Venezuela. The Colombian Peso is the functional currency of Copa Colombia, and therefore any revenue exposure is mitigated by the operating expenses, which we also denominate in Colombian Peso.

2011 Revenues and Expenses Breakdown by Currency

| | Revenue | Expense |
|---------------------------|---------|---------|
| Argentinean Peso | 7.6% | 2.4% |
| Brazilian Real | 11.4% | 6.3% |
| Chilean Peso | 3.6% | 1.5% |
| Colombian Peso | 16.2% | 10.1% |
| Costa Rican Colon | 1.8% | 0.9% |
| Mexican Peso | 3.2% | 2.0% |
| U.S. Dollar | 40.3% | 68.3% |
| Venezuelan Bolivar Fuerte | 7.7% | 3.4% |
| Other(1) | 8.1% | 5.0% |

(1) Dominican Peso, European Euro, Guatemalan Quetzal, Jamaican Dollar, Honduran Lempira, Haitian Gourde, Uruguayan Peso, Bolivian Boliviano, Trinidad and Tobago Dollar

Item 12. Description of Securities Other than Equity Securities

Not applicable.

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Part II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None

Item 15. Controls and Procedures

Disclosure controls and procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. We carried out an evaluation under the supervision of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2011. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rules 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2011. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. Based on this assessment, management believes that, as of December 31, 2011, the Company's internal control over financial reporting is effective based on those criteria.

The effectiveness of our internal controls over financial reporting as of December 31, 2011 has been audited by Ernst & Young, the independent registered public accounting firm who also audited the Company's consolidated financial statements. Ernst & Young's attestation report on the effectiveness of the Company's internal controls over financial reporting is included herein.

Changes in internal control over financial reporting

During 2011, Management identified an adjustment and concluded that the Company's previously issued financial statements for the year ended December 31, 2010 should be restated. The effects of the restatement are discussed in Note 3, Prior Period Correction, of the Notes to the Consolidated Financial Statements included in this Annual Report.

As a result of this error, Management evaluated the Company's consolidation procedures and enhanced controls over the financial statements consolidation process. Based on these enhancements, Management has concluded the related internal controls are effective as of December 31, 2011.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Shareholders

COPA HOLDINGS, S.A.

We have audited Copa Holdings, S.A. (the Company) and its subsidiaries' internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Copa Holdings, S.A. and its subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's report. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Copa Holdings, S.A. and its subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

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We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of Copa Holdings, S.A. and its subsidiaries as of December 31, 2011 and 2010 and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2011 and our report dated April 13, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young

April 13, 2012

Panama City, Republic of Panama

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

Our Board of Directors has determined that Mr. José Castañeda and Roberto Artavia qualify as an audit committee financial experts as defined by current SEC rules and meet the independence requirements of the SEC and the NYSE listing standards. For a discussion of the role of our audit committee, see Item 6C. Board Practices Audit Committee.

Item 16B. Code of Ethics

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

Item 16C. Principal Accountant Fees and Services

The following table sets forth by category of service the total fees for services performed by our independent auditors Ernst & Young during the fiscal years ended December 31, 2011, 2010, and 2009:

| | 2011 | 2010 | 2009 |
|--------------------|-------------------|-------------------|---------------------|
| Audit Fees | \$ 668,000 | \$ 662,000 | \$ 715,000 |
| Audit-Related Fees | | | |
| Tax Fees | \$ 2,850 | | |
| All Other Fees | | \$ 205,000 | \$ 538,991 |
| Total | \$ 670,850 | \$ 867,000 | \$ 1,253,991 |

Audit Fees

Audit fees for 2011, 2010, and 2009 included the audit of our annual financial statements and internal controls, the review of our quarterly reports.

Audit-Related Fees

There were no audit-related fees for 2011, 2010, and 2009.

Tax Fees

For 2011, there were \$2,850 related to tax fees. There were no tax fees for 2010 and 2009.

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All Other Fees

Other fees for 2011, 2010, and 2009 included amounts paid for permitted consulting services performed by Ernst & Young and pre-approved by our audit committee.

Pre-Approval Policies and Procedures

Our audit committee approves all audit, audit-related services, tax services and other services provided by Ernst & Young. Any services provided by Ernst & Young that are not specifically included within the scope of the audit must be pre-approved by the audit committee in advance of any engagement. Pursuant to Rule 2-01 of Regulation S-X, audit committees are permitted to approve certain fees for audit-related services, tax services and other services pursuant to a *de minimis* exception prior to the completion of an audit engagement. In 2011, none of the fees paid to Ernst & Young were approved pursuant to the *de minimis* exception.

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

None

Item 16E. Purchase of Equity Securities by the Issuer and Affiliated Purchasers

None

Item 16F. Changes in Registrant's Certifying Accountant

None

Item 16G. Corporate Governance

Companies that are registered in Panama are required to disclose whether or not they comply with certain corporate governance guidelines and principles that are recommended by the Superintendencia of the Securities Market (*Superintendencia del Mercado de Valores*, or SMV). Statements below referring to Panamanian governance standards reflect these voluntary guidelines set by the SMV rather than legal requirements or standard national practices. Our Class A shares are registered with the SMV, and we comply with the SMV's disclosure requirements.

NYSE Standards

Director Independence.

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

Executive Sessions. Non-management

directors must meet regularly in

Our Corporate Governance Practice

Panamanian corporate governance standards recommend that one in every five directors should be an independent director. The criteria for determining independence under the Panamanian corporate governance standards differs from the NYSE rules. In Panama, a director would be considered independent as long as the director does not directly or indirectly own 5% or more of the issued and outstanding voting shares of the company, is not involved in the daily management of the company and is not a spouse or related to the second degree by blood or marriage to the persons named above.

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

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

executive sessions without management.

Independent directors should meet alone

in an executive session at least once a

year. §303A.03

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NYSE Standards

Nominating/corporate governance

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

Compensation committee. *Compensation*

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

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

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

Our Corporate Governance Practice

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

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

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

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

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

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

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

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PART III

Item 17. Financial Statements

See Item 18. Financial Statements

Item 18. Financial Statements

See our consolidated financial statements beginning on page F-1.

Item 19. Exhibits

- 3.1(2) English translation of the Articles of Incorporation (Pacto Social) of the Registrant
- 10.1(2) Aircraft Lease Agreement, dated as of October 1, 1998, between First Security Bank and Compañía Panameña de Aviación, S.A., in respect of Boeing Model 737-71Q Aircraft, Serial No. 29047
- 10.1(5) Supplemental Agreement dated as of May 13, 2008 by and among Copa Holdings, S.A. Corporation de Inversiones Aereas, S.A. and Continental Airlines, Inc.
- 10.2(2) Letter Agreement dated as of November 6, 1998 amending Aircraft Lease Agreement, dated October 1, 1998, between First Security Bank and Compañía Panameña de Aviación, S.A., in respect of One Boeing Model 737-71Q Aircraft, Manufacturer s Serial No. 29047
- 10.3(2) Aircraft Lease Amendment Agreement dated as of May 21, 2003 to Aircraft Lease Agreement, dated October 1, 1998, between First Security Bank and Compañía Panameña de Aviación, S.A., in respect of Boeing Model 737-71Q Aircraft, Serial No. 29047
- 10.4(2) Aircraft Lease Agreement, dated as of October 1, 1998, between First Security Bank and Compañía Panameña de Aviación, S.A., in respect of Boeing Model 737-71Q Aircraft, Serial No. 29048
- 10.5(2) Letter Agreement dated as of November 6, 1998 amending Aircraft Lease Agreement, dated as of October 1, 1998, between First Security Bank and Compañía Panameña de Aviación, S.A., in respect of Boeing Model 737-71Q Aircraft, Serial No. 29048
- 10.6(2) Aircraft Lease Amendment Agreement dated as of May 21, 2003 to Aircraft Lease Agreement, dated October 1, 1998, between First Security Bank and Compañía Panameña de Aviación, S.A., in respect of Boeing Model 737-71Q Aircraft, Serial No. 29048
- 10.7(2) Aircraft Lease Agreement, dated as of November 18, 1998, between Aviation Financial Services Inc. and Compañía Panameña de Aviación, S.A., Boeing Model 737-700 Aircraft, Serial No. 28607
- 10.8(2) Letter Agreement No. 1 dated as of November 18, 1998 to Aircraft Lease Agreement, dated November 18, 1998, between Aviation Financial Services Inc. and Compañía Panameña de Aviación, S.A., Boeing Model 737-700 Aircraft, Serial No. 28607
- 10.9(2) Letter Agreement No. 2 dated as of March 8, 1999 to Aircraft Lease Agreement, dated November 18, 1998, between Aviation Financial Services Inc. and Compañía Panameña de Aviación, S.A., Boeing Model 737-700 Aircraft, Serial No. 28607
- 10.10(2) Lease Extension and Amendment Agreement dated as of April 30, 2003, to Aircraft Lease Agreement, dated November 18, 1998, between Aviation Financial Services Inc. and Compañía Panameña de Aviación, S.A., Boeing Model 737-700 Aircraft, Serial No. 28607
- 10.11(2) Aircraft Lease Agreement, dated as of November 18, 1998, between Aviation Financial Services Inc. and Compañía Panameña de Aviación, S.A., Boeing Model 737-700 Aircraft, Serial No. 30049

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10.12(2) Letter Agreement No. 1 dated as of November 18, 1998 to Aircraft Lease Agreement, dated November 18, 1998, between Aviation Financial Services Inc. and Compañía Panameña de Aviación, S.A., Boeing Model 737-700 Aircraft, Serial No. 30049

10.13(2) Letter Agreement No. 2 dated as of March 8, 1999 to Aircraft Lease Agreement, dated November 18, 1998, between Aviation Financial Services Inc. and Compañía Panameña de Aviación, S.A., Boeing Model 737-700 Aircraft, Serial No. 30049

10.14(2) Lease Extension and Amendment Agreement dated as of April 30, 2003, to Aircraft Lease Agreement, dated November 18, 1998, between Aviation Financial Services Inc. and Compañía Panameña de Aviación, S.A., Boeing Model 737-700 Aircraft, Serial No. 30049

10.15(2) Aircraft Lease Agreement, dated as of November 30, 2003, between International Lease Finance Corporation and Compañía Panameña de Aviación, S.A., New B737-700 or 800, Serial No. 30676

10.16(2) Aircraft Lease Agreement, dated as of March 4, 2004, between International Lease Finance Corporation and Compañía Panameña de Aviación, S.A., New B737-700 or 800, Serial No. 32800

10.17(2) Aircraft Lease Agreement dated as of December 23, 2004, between Wells Fargo Bank Northwest, N.A. and Compañía Panameña de Aviación, S.A., in respect of Boeing B737-800 Aircraft, Serial No. 29670

10.18(2) Embraer 190LR Purchase Agreement DCT-006/2003 dated as of May 2003 between Embraer Empresa Brasileira de Aeronáutica S.A. and Regional Aircraft Holdings Ltd.

10.19(2) Letter Agreement DCT-007/2003 between Embraer Empresa Brasileira de Aeronáutica S.A. and Regional Aircraft Holdings Ltd., relating to Purchase Agreement DCT-006/2003

10.20(2) Letter Agreement DCT-008/2003 between Embraer Empresa Brasileira de Aeronáutica S.A. and Regional Aircraft Holdings Ltd., relating to Purchase Agreement DCT-006/2003

10.21(2) Aircraft General Terms Agreement, dated November 25, 1998, between The Boeing Company and Copa Holdings, S.A.

10.22(2) Purchase Agreement Number 2191, dated November 25, 1998, between The Boeing Company and Copa Holdings, S.A., Inc. relating to Boeing Model 737-7V3 & 737-8V3 Aircraft

10.23(2) Supplemental Agreement No. 1 dated as of June 29, 2001 to Purchase Agreement Number 2191 between The Boeing Company and Copa Holdings, S.A.

10.24(2) Supplemental Agreement No. 2 dated as of December 21, 2001 to Purchase Agreement Number 2191 between The Boeing Company and Copa Holdings, S.A.

10.25(2) Supplemental Agreement No. 3 dated as of June 14, 2002 to Purchase Agreement Number 2191 between The Boeing Company and Copa Holdings, S.A.

10.26(2) Supplemental Agreement No. 4 dated as of December 20, 2002 to Purchase Agreement Number 2191 between The Boeing Company and Copa Holdings, S.A.

10.27(2) Supplemental Agreement No. 5 dated as of October 31, 2003 to Purchase Agreement Number 2191 between The Boeing Company and Copa Holdings, S.A.

10.28(2) Supplemental Agreement No. 6 dated as of September 9, 2004 to Purchase Agreement Number 2191 between The Boeing Company and Copa Holdings, S.A.

10.29(2) Supplemental Agreement No. 7 dated as of December 9, 2004 to Purchase Agreement Number 2191 between The Boeing Company and Copa Holdings, S.A.

10.30(2) Supplemental Agreement No. 8 dated as of April 15, 2005 to Purchase Agreement Number 2191 between The Boeing Company and Copa Holdings, S.A.

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| 10.31(2) | Maintenance Cost per Hour Engine Service Agreement, dated March 5, 2003, between G.E. Engine Services, Inc. and Copa Holdings, S.A. |
| 10.32(2) | English translation of Aviation Fuel Supply Agreement, dated July 18, 2005, between Petróleos Delta, S.A. and Compañía Panameña de Aviación, S.A. |
| 10.33(2) | Form of Amended and Restated Alliance Agreement between Continental Airlines, Inc. and Compañía Panameña de Aviación, S.A. |
| 10.34(2) | Form of Amended and Restated Services Agreement between Continental Airlines, Inc. and Compañía Panameña de Aviación, S.A. |
| 10.35(1) | Form of Second Amended and Restated Shareholders Agreement among Copa Holdings, S.A., Corporación de Inversiones Aéreas, S.A. and Continental Airlines, Inc. |
| 10.36(2) | Form of Guaranteed Loan Agreement |
| 10.37(1) | Form of Amended and Restated Registration Rights Agreement among Copa Holdings, S.A., Corporación de Inversiones Aéreas, S.A. and Continental Airlines, Inc. |
| 10.38(2) | Form of Copa Holdings, S.A. 2005 Stock Incentive Plan |
| 10.39(2) | Form of Copa Holdings, S.A. Restricted Stock Award Agreement |
| 10.40(2) | Form of Indemnification Agreement with the Registrant's directors |
| 10.41(2) | Form of Amended and Restated Trademark License Agreement between Continental Airlines, Inc. and Compañía Panameña de Aviación, S.A. |
| 10.42(1) | Embraer 190 Purchase Agreement COM 0028-06 dated February 2006 between Embraer Empresa Brasileira de Aeronáutica S.A. and Copa Holdings, S.A. relating to Embraer 190LR aircraft |
| 10.43(1) | Letter Agreement COM 0029-06 to the Embraer Agreement dated February 2006 between Embraer Empresa Brasileira de Aeronáutica S.A. and Copa Holdings, S.A. relating to Embraer 190LR aircraft |
| 10.44(1) | Supplemental Agreement No. 9 dated as of March 16, 2006 to the Boeing Purchase Agreement Number 2191 dated November 25, 1998 between the Boeing Company and Copa Holdings, S.A. |
| 10.45(1) | Supplemental Agreement No. 10 dated as of May 8, 2006 to the Boeing Purchase Agreement Number 2191 dated November 25, 1998 between the Boeing Company and Copa Holdings, S.A. |
| 10.44(3) | Supplemental Agreement No. 11 dated as of August 30, 2006 to the Boeing Purchase Agreement Number 2191 dated November 25, 1998 between the Boeing Company and Copa Holdings, S.A. |
| 10.45(3) | Supplemental Agreement No. 12 dated as of February 26, 2007 to the Boeing Purchase Agreement Number 2191 dated November 25, 1998 between the Boeing Company and Copa Holdings, S.A. |
| 10.46(3) | Supplemental Agreement No. 13 dated as of April 23, 2007 to the Boeing Purchase Agreement Number 2191 dated November 25, 1998 between the Boeing Company and Copa Holdings, S.A. |
| 10.47(4) | Supplemental Agreement No. 14 dated as of August 31, 2007 to the Boeing Purchase Agreement Number 2191 dated November 25, 1998 between the Boeing Company and Copa Holdings, S.A. |
| 10.48(4) | Supplemental Agreement No. 15 dated as of February 21, 2008 to the Boeing Purchase Agreement Number 2191 dated November 25, 1998 between the Boeing Company and Copa Holdings, S.A. |
| 10.49(6) | Supplemental Agreement No. 16 dated as of June 30, 2008 to the Boeing Purchase Agreement Number 2191 dated November 25, 1998 between the Boeing Company and Copa Holdings, S.A. |
| 10.50(6) | Supplemental Agreement No. 17 dated as of December 15, 2008 to the Boeing Purchase Agreement Number 2191 dated November 25, 1998 between the Boeing Company and Copa Holdings, S.A. |

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| 10.51(7) | Supplemental Agreement No. 18 dated as of July 15, 2009 to the Boeing Purchase Agreement Number 2191 dated November 25, 1998 between the Boeing Company and Copa Holdings, S.A |
| 10.52(7) | Supplemental Agreement No. 19 dated as of August 31, 2009 to the Boeing Purchase Agreement Number 2191 dated November 25, 1998 between the Boeing Company and Copa Holdings, S.A |
| 10.53(7) | Supplemental Agreement No. 20 dated as of November 19, 2009 to the Boeing Purchase Agreement Number 2191 dated November 25, 1998 between the Boeing Company and Copa Holdings, S.A |
| 10.54(8) | Supplemental Agreement No. 21 dated as of May 28, 2010 to the Boeing Purchase Agreement Number 2191 dated November 25, 1998 between the Boeing Company and Copa Holdings, S.A |
| 10.55(8) | Supplemental Agreement No. 22 dated as of September 24, 2010 to the Boeing Purchase Agreement Number 2191 dated November 25, 1998 between the Boeing Company and Copa Holdings, S.A |
| 10.56(8) | Supplemental Agreement No. 23 dated as of October, 2010 to the Boeing Purchase Agreement Number 2191 dated November 25, 1998 between the Boeing Company and Copa Holdings, S.A |
| 10.57 | On Point SM Solutions Rate per Engine Flight Hour Service Agreement dated as of May 22, 2011 between GE Engine Services, LLC., Copa Holdings, S.A., and Lease Management Services, LLC. |
| 12.1 | Certification of the Chief Executive Officer, pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934. |
| 12.2 | Certification of the Chief Financial Officer, pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934. |
| 13.1 | Certification of Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 13.2 | Certification of the Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 21.1(2) | Subsidiaries of the Registrant |

- (1) Previously filed with the SEC as an exhibit and incorporated by reference from our Registration Statement on Form F-1, filed June 15, 2006, File No. 333-135031.
- (2) Previously filed with the SEC as an exhibit and incorporated by reference from our Registration Statement on Form F-1, filed November 28, 2005, as amended on December 1, 2005 and December 13, 2005, File No. 333-129967.
- (3) Previously filed with the SEC as an exhibit and incorporated by reference from our Annual Report on Form 20-F, filed July 2, 2007, File No. 001-07956031.
- (4) Previously filed with the SEC as an exhibit and incorporated by reference from our Annual Report on Form 20-F, filed May 9, 2008, File No. 001-08818238.
- (5) Previously filed with the SEC as an exhibit and incorporated by reference from our Registration Statement on Form F-3, filed May 13, 2008, File No. 333-150882
- (6) Previously filed with the SEC as an exhibit and incorporated by reference from our Annual Report on Form 20-F, filed May 6, 2009, File No. 001-09801609.
- (7) Previously filed with the SEC as an exhibit and incorporated by reference from our Annual Report on Form 20-F, filed March 16, 2010, File No. 001-10686910

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- (8) Previously filed with the SEC as an exhibit and incorporated by reference from our Annual Report on Form 20-F, filed May 17, 2011, as amended on December 22, 2011, File No. 001-111276555

The Registrant was granted confidential treatment for portions of this exhibit.

The Registrant has requested confidential treatment for portions of this exhibit.

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SIGNATURES

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

COPA HOLDINGS, S.A.

By: /s/ Pedro Heilbron
Name: Pedro Heilbron
Title: Chief Executive Officer

Dated: April 13, 2012

By: /s/ Victor Vial
Name: Victor Vial
Title: Chief Financial Officer

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Consolidated Financial Statements

Copa Holdings, S. A. and Subsidiaries

Year ended December 31, 2011

with Independent Auditors Report

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COPA HOLDINGS, S. A. AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

COPA HOLDINGS, S.A.

We have audited the accompanying consolidated statements of financial position of Copa Holdings, S.A. and its subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Copa Holdings, S.A. and its subsidiaries at December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Copa Holdings, S.A. and its subsidiaries' internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 13, 2012 expressed an unqualified opinion thereon.

April 13, 2012

/s/ Ernst & Young

Panama City, Republic of Panama

Table of Contents**COPA HOLDINGS, S. A. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

(In US\$ thousands)

| | <i>Notes</i> | As of December 31, | |
|---|--------------|---------------------|---------------------|
| | 3 | 2011 | 2010 Restated |
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | 4 | \$ 243,801 | \$ 207,690 |
| Short-term investments | 5 | 262,345 | 194,913 |
| Total cash, cash equivalents and short-term investments | | 506,146 | 402,603 |
| Accounts receivable | 6 | 142,297 | 88,774 |
| Accounts receivable from related parties | 18 | 704 | 613 |
| Expendable parts and supplies | 7 | 42,382 | 45,982 |
| Prepaid expenses | 8 | 40,058 | 31,789 |
| Other current assets | 9 | 22,655 | 24,622 |
| Total Current Assets | | 754,242 | 594,383 |
| Investments | 5 | 104,834 | 6,224 |
| Property, Plant and Equipment: | | | |
| Flight equipment | 11 | 2,036,983 | 1,782,070 |
| Other | | 67,577 | 59,426 |
| | | 2,104,560 | 1,841,496 |
| Less: accumulated depreciation | 11 | (346,656) | (274,940) |
| | | 1,757,904 | 1,566,556 |
| Purchase deposits for flight equipment | 12 | 242,287 | 205,972 |
| Total Property and Equipment | | 2,000,191 | 1,772,528 |
| Other Assets: | | | |
| Prepaid pension asset | | 8,974 | 8,157 |
| Goodwill | 13 | 25,099 | 25,475 |
| Other intangible assets | 13 | 47,047 | 43,465 |
| Other assets | 10 | 125,409 | 105,765 |
| Total Other Assets | | 206,529 | 182,862 |
| Total Assets | | \$ 3,065,796 | \$ 2,555,997 |

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

Table of Contents**COPA HOLDINGS, S. A. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)**

(In US\$ thousands)

| | <i>Notes</i> | As of December 31, | |
|---|--------------|---------------------|------------------|
| | 3 | 2011 | 2010 Restated |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | |
| Current Liabilities: | | | |
| Current maturities of long-term debt | 14 | \$ 131,069 | \$ 100,860 |
| Accounts payable | | 92,842 | 68,960 |
| Accounts payable to related parties | 18 | 22,074 | 10,940 |
| Air traffic liability | 3 | 297,135 | 171,417 |
| Taxes and interest payable | | 71,223 | 49,852 |
| Accrued expenses payable | 15 | 30,472 | 47,614 |
| Other current liabilities | 16 | 13,845 | 10,934 |
| Total Current Liabilities | | 658,660 | 460,577 |
| Non-Current Liabilities: | | | |
| Long-term debt | 14 | 936,657 | 888,681 |
| Post employment benefits liability | | 5,847 | 5,733 |
| Other long-term liabilities | 17 | 44,657 | 33,703 |
| Deferred tax liabilities | 3, 21 | 30,444 | 22,647 |
| Total Non-Current Liabilities | | 1,017,605 | 950,764 |
| Total Liabilities | | 1,676,265 | 1,411,341 |
| Shareholders Equity: | | | |
| Class A common stock 33,343,164 (2010 33,025,284) shares issued, 32,957,763 (2010 32,659,557) outstanding | | 22,495 | 22,291 |
| Class B common stock 10,938,125 (2010- 10,938,125) shares issued and outstanding, no par value | | 7,466 | 7,466 |
| Additional paid in capital | | 33,567 | 26,110 |
| Retained earnings | 3 | 1,324,394 | 1,086,379 |
| Accumulated other comprehensive income | | 1,609 | 2,410 |
| Total Shareholders Equity | | 1,389,531 | 1,144,656 |
| Total Liabilities and Shareholders Equity | | \$ 3,065,796 | \$ 2,555,997 |

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

Table of Contents**COPA HOLDINGS, S. A. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF INCOME**

(In US\$ thousands)

| | Notes | Years Ended December 31, | | |
|---|--------|--------------------------|--------------|--------------|
| | | 2011 | 2010 | 2009 |
| Operating Revenue: | | | | |
| Passenger revenue | | \$ 1,747,102 | \$ 1,338,581 | \$ 1,189,706 |
| Cargo, mail and other | | 83,819 | 76,225 | \$ 66,370 |
| | | 1,830,921 | 1,414,806 | 1,256,076 |
| Operating Expenses: | | | | |
| Aircraft fuel | | 547,221 | 354,427 | 300,816 |
| Salaries and benefits | 22 | 213,094 | 178,845 | 157,045 |
| Passenger servicing | | 160,725 | 133,718 | 125,150 |
| Commissions | | 72,947 | 57,677 | 57,564 |
| Maintenance, material and repairs | | 70,969 | 62,229 | 55,720 |
| Reservations and sales | | 70,363 | 58,813 | 56,280 |
| Aircraft rentals | | 51,259 | 46,334 | 46,538 |
| Flight operations | | 83,782 | 70,648 | 60,873 |
| Depreciation and amortization | 11, 13 | 75,458 | 62,962 | 50,876 |
| Landing fees and other rentals | | 41,881 | 40,320 | 33,628 |
| Other | | 58,237 | 59,185 | 52,083 |
| Special fleet charges | | | | 19,417 |
| | | 1,445,936 | 1,125,158 | 1,015,990 |
| Operating Income | | 384,985 | 289,648 | 240,086 |
| Non-operating expense: | | | | |
| Interest costs | | 32,680 | 29,981 | 32,938 |
| Interest capitalized | | | | (693) |
| Interest income | | (6,774) | (4,759) | (9,185) |
| Exchange rate difference | 19 | 6,036 | 20,625 | (208) |
| Mark to market fuel derivative | | 3,585 | (11,721) | (58,040) |
| Other, net | | 3,447 | (4,501) | (707) |
| | | 38,974 | 29,625 | (35,895) |
| Income before income taxes | | 346,011 | 260,023 | 275,981 |
| Provision for income taxes | 21 | 35,586 | 18,966 | 26,894 |
| Net income | | \$ 310,425 | \$ 241,057 | \$ 249,087 |
| Earnings per share (Basic and diluted) | 23 | \$ 6.98 | \$ 5.48 | \$ 5.67 |

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

Table of Contents**COPA HOLDINGS, S. A. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME****(In US\$ thousands)**

| | Year Ended December 31, | | |
|--|-------------------------|------------|------------|
| | 2011 | 2010 | 2009 |
| Net income | \$ 310,425 | \$ 241,057 | \$ 249,087 |
| Other income and expense credited/charge to net equity, net of tax: | | | |
| Net change in fair value of derivative instruments | 47 | (1,301) | 1,509 |
| Exchange effect on intercompany long term balance | (1,075) | (1,062) | (1,486) |
| Foreign currency translation | 227 | 3,965 | 4,248 |
| Other comprehensive income for the year | (801) | 1,602 | 4,271 |
| Total comprehensive income for the year | \$ 309,624 | \$ 242,659 | \$ 253,358 |

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

Table of Contents**COPA HOLDINGS, S. A. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

(In US\$ thousands)

| | Notes | Common Stock (Non-par value) | | Issued Capital | | Additional Paid in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|--|-------|---------------------------------|-------------------|------------------|-----------------|----------------------------------|----------------------|---|---------------------|
| | | Class A | Class B | Class A | Class B | | | | |
| At January 1, 2009 (reported) | | 30,416,441 | 12,778,125 | \$ 20,761 | \$ 8,722 | \$ 17,613 | \$ 625,711 | \$ (3,463) | \$ 669,344 |
| Prior period correction | 3 | | | | | | 34,687 | | 34,687 |
| At January 1, 2009 (restated) | | 30,416,441 | 12,778,125 | \$ 20,761 | \$ 8,722 | \$ 17,613 | \$ 660,398 | (3,463) | 704,031 |
| Issuance of stock | | 150,412 | | 103 | | (103) | | | |
| Total comprehensive income | | | | | | | 249,087 | 4,271 | 253,358 |
| Restricted stock plan | | | | | | 4,686 | | | 4,686 |
| Dividends declared | | | | | | | (16,255) | | (16,255) |
| At December 31, 2009 (restated) | | 30,566,853 | 12,778,125 | \$ 20,864 | \$ 8,722 | \$ 22,196 | 893,230 | \$ 808 | 945,820 |
| Issuance of stock | | 2,092,704 | (1,840,000) | 1,427 | (1,256) | (171) | | | |
| Total comprehensive income | | | | | | | 241,057 | 1,602 | 242,659 |
| Restricted stock plan | | | | | | 4,085 | | | 4,085 |
| Dividends declared | 24 | | | | | | (47,908) | | (47,908) |
| At December 31, 2010 (restated) | | 32,659,557 | 10,938,125 | \$ 22,291 | \$ 7,466 | \$ 26,110 | \$ 1,086,379 | \$ 2,410 | \$ 1,144,656 |
| Issuance of stock | | 298,206 | | 204 | | (204) | | | |
| Total comprehensive income | | | | | | | 310,425 | (801) | 309,624 |
| Restricted stock plan | | | | | | 7,661 | | | 7,661 |
| Dividends declared | | | | | | | (72,410) | | (72,410) |
| At December 31, 2011 | | 32,957,763 | 10,938,125 | 22,495 | 7,466 | 33,567 | 1,324,394 | 1,609 | \$ 1,389,531 |

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

Table of Contents**COPA HOLDINGS, S. A. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF CASH FLOWS**

(In US\$ thousands)

| | Years Ended December 31, | | |
|--|--------------------------|------------------|------------------|
| | 2011 | 2010 | 2009 |
| Cash flows from operating activities | | | |
| Net income | \$ 310,425 | \$ 241,057 | \$ 249,087 |
| Adjustments for: | | | |
| Provision for income tax | 35,586 | 18,966 | 26,894 |
| Interest cost | 32,680 | 29,981 | 32,938 |
| Interest income | (6,774) | (4,759) | (9,185) |
| Depreciation and amortization | 75,458 | 62,962 | 50,876 |
| Gain on sale of property and equipment | (801) | (20) | |
| Special fleet charges | | | 8,923 |
| Provision for impairment | 347 | (540) | 55 |
| Allowance for obsolescence | 45 | 36 | 25 |
| Derivative instruments mark to market | 4,989 | (13,555) | (59,010) |
| Stock compensation | 7,661 | 4,032 | 4,686 |
| Amortization and impairment of brand name | 883 | 1,500 | |
| Currency translation adjustment | (1,145) | 62 | |
| Income tax paid | (25,568) | (13,041) | (13,843) |
| Interest paid | (28,911) | (26,249) | (32,076) |
| Interest received | 3,795 | 3,319 | 8,304 |
| Changes in: | | | |
| Accounts receivable | (53,870) | (10,208) | (4,280) |
| Accounts receivable from related parties | (91) | 4,064 | 524 |
| Other current assets | (5,037) | (32,448) | (12,997) |
| Restricted cash | (110) | 182 | 40,934 |
| Other assets | (24,550) | (9,197) | (23,002) |
| Accounts payable | 23,882 | 13,666 | (3,666) |
| Accounts payable to related parties | 11,134 | (1,832) | 7,444 |
| Air traffic liability | 125,719 | 26,351 | 1,039 |
| Other liabilities | 12,542 | (1,528) | 17,629 |
| Net cash provided by operating activities | 498,289 | 292,801 | 291,299 |
| Cash flows from investing activities | | | |
| Acquisition of investments | (319,652) | (340,268) | (217,905) |
| Proceeds from redemption of investments | 153,722 | 234,768 | 268,314 |
| Advance payments on aircraft purchase contracts | (175,354) | (157,292) | (151,676) |
| Acquisition of property and equipment | (130,973) | (191,437) | (59,857) |
| Disposal of property and equipment | 4,007 | 8,797 | 810 |
| Net cash flows used in investing activities | (468,250) | (445,432) | (160,314) |
| Cash flows from financing activities | | | |
| Proceeds from loans and borrowings | 171,747 | 282,072 | 103,780 |
| Payments on loans and borrowings | (93,562) | (138,697) | (175,374) |
| Paid-in capital | | 53 | |
| Dividends declared and paid | (72,410) | (47,908) | (16,255) |
| Net cash flows provided in financing activities | 5,775 | 95,520 | (87,849) |

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| | | | |
|--|------------|------------|------------|
| Effect of exchange rate change on cash | 297 | 2,145 | (1,288) |
| Net increase (decrease) in cash and cash equivalents | 36,111 | (54,966) | 41,848 |
| Cash and cash equivalents at January 1 st | 207,690 | 262,656 | 220,808 |
| Cash and cash equivalents at December 31 | \$ 243,801 | \$ 207,690 | \$ 262,656 |

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

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COPA HOLDINGS, S. A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011

(In US\$ thousands)

1. Corporate Information

Copa Holdings, S. A. (the Company) is a leading Latin American provider of international airline passenger and cargo services. The Company was incorporated according to the laws of the Republic of Panama. The Company owns 99.9% of the shares of Compañía Panameña de Aviación, S. A. (Copa Airlines), 100% of the shares of Oval Financial Leasing, Ltd. (OVAL), and 99.9% of the shares of AeroRepública, S.A. (Copa Colombia).

Copa Airlines, the Company's core operation, is incorporated according to the laws of the Republic of Panama and provides international air transportation for passengers, cargo and mail. Copa Airlines operates from its Panama City hub in the Republic of Panama. AeroRepublica (Copa Colombia) is a Colombian air carrier, which is incorporated according to the laws of the Republic of Colombia and provides domestic and international air transportation for passengers, cargo and mail. Copa Colombia operates in Colombia with a point-to-point route network as well as international service. During the third quarter of 2010, AeroRepública, S. A. began to operate under Copa Colombia brand. OVAL is incorporated according to the laws of the British Virgin Islands, and controls the special purpose entities that have a beneficial interest in the majority of our fleet, which are all leased to either Copa Airlines or Copa Colombia.

The Company currently offers approximately 295 daily scheduled flights among 59 destinations in 28 countries in North, Central and South America and the Caribbean, mainly from its Panama City Hub. Additionally, the Company provides passengers with access to flights to more than 130 other international destinations through codeshare agreements with United Continental and other airlines. The Company has a broad commercial alliance with United Continental which includes joint marketing, code-sharing arrangements, participation in United Continental's OnePass (starting March 2012 Mileage Plus) frequent flyer loyalty program and access to United Continental's VIP lounge program, President's Club, along with other benefits such as improved purchasing power in negotiations with service providers, aircraft vendors and insurers. In 2010, Copa Airlines was accepted to become a future member of the Star Alliance. Copa Airlines' passengers, who are members of the frequent flyer program, can earn OnePass (now Mileage Plus) miles on all flights operated by Star Alliance partners as well as are eligible to redeem their OnePass (now Mileage Plus) miles for free reward tickets to any of Star Alliance's 1,292 global destinations.

As of December 31, 2011, the Company operates a fleet of 73 aircraft with an average age of 5.05 years; consisting of 47 modern Boeing 737-Next Generation aircraft and 26 Embraer 190 aircraft.

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COPA HOLDINGS, S. A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011

(In US\$ thousands)

1. Corporate Information (continued)

The Company's principal executive offices are located at Boulevard Costa del Este, Avenida Principal y Avenida de la Rotonda, Urbanización Costa del Este, Complejo Business Park, Torre Norte, Parque Lefevre, Panama City, Republic of Panama.

As used in these Notes to Consolidated Financial Statements, the terms the Company, we, us, our and similar terms refer to Copa Holdings, S.A. and, unless the context indicates otherwise, its consolidated subsidiaries.

The consolidated financial statements have been authorized by Management for issue on April 13, 2012.

2. Summary of Significant Accounting Policies

The principal accounting policies adopted by the Company for the preparation of these consolidated financial statements are as follows:

2.1 Basis of Preparation

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).

The consolidated financial statements have been prepared on a historical cost basis, except for certain assets and liabilities, which are measured at fair value, as set out in the specific accounting policy for such assets and liabilities. The consolidated financial statements are presented in United States dollars and all values are rounded to the nearest thousand U.S.\$000, except when otherwise indicated.

2.2 New and Amended Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011:

IAS 24 Related Party Transactions (Amendment)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Company.

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COPA HOLDINGS, S. A. AND SUBSIDIARIES

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December 31, 2011

(In US\$ thousands)

2.2 New and Amended Standards and Interpretations (continued)

IAS 32 Financial Instruments: Presentation (Amendment)

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Company because the Company does not have these types of instruments.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The amendment of the interpretation has no effect on the financial position or performance of the Company.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The adoption of the following amendments resulted in changes to accounting policies, but had no impact on the financial position or performance of the Company.

IFRS 7 Financial Instruments – Disclosures: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

IAS 1 Presentation of Financial Statements: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Company:

IFRS 3 Business Combinations (Measurement of Non Controlling Interest – NCI)

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IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))

IFRS 3 Business Combinations (Un-replaced and voluntarily replaced share-based payment awards)

IAS 27 Consolidated and Separate Financial Statements

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COPA HOLDINGS, S. A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011

(In US\$ thousands)

2.2 New and Amended Standards and Interpretations (continued)

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Company:

IFRIC 13 Customer Loyalty Programs (determining the fair value of award credits)

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt those standards when they become effective.

IAS 1 *Financial Statement Presentation – Presentation of Items of Other Comprehensive Income*

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 12 *Income Taxes – Recovery of Underlying Assets*

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012. The amendment is not expected to have a material impact on the financial statements of the Company.

IAS 19 *Employee Benefits (Amendment)*

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The Company is currently determining the impact that this standard will have on financial position and performance, if any.

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COPA HOLDINGS, S. A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011

(In US\$ thousands)

2.2 New and Amended Standards and Interpretations (continued)

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Company does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The amendment is not expected to have a material impact on the financial statements of the Company.

IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Company's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets and liabilities. The Company is currently determining the impact that this standard will have on the financial position or performance, if any. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

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COPA HOLDINGS, S. A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011

(In US\$ thousands)

2.2 New and Amended Standards and Interpretations (continued)

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidation - Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013. The replacement is not expected to have a material impact on the financial statements of the Company.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities- Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after 1 January 2013. The replacement is not expected to have a material impact on the financial statements of the Company.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013. The amendment is not expected to have a material impact on the financial statements of the Company.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

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COPA HOLDINGS, S. A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(In US\$ thousands)

2.3 Principles of Consolidation

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2011. The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and continue to be consolidated until the date when such control ceases. All intercompany balances, transactions and profits arising from consolidated entities have been eliminated in consolidation.

2.4 Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, at the reporting date. Actual results could differ from those estimates. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the related asset or liability in the future.

a) Judgments

In the process of applying the Company's accounting policies, management has made judgment, apart from those involving estimations. The judgments that have the most significant effect on the amounts recognized in the consolidated financial statements are related to operating lease commitments.

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COPA HOLDINGS, S. A. AND SUBSIDIARIES

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(In US\$ thousands)

2.4 Significant Accounting Judgments, Estimates and Assumptions (continued)

The Company has entered into lease contracts on the aircraft it operates. The Company has determined, based on the terms and conditions of the arrangements, that all the significant risks and rewards of ownership of the aircraft it operates are not transferred, so it accounts for the contracts as operating leases.

The Company recognizes revenue from fares for tickets that are expected to expire unused based on historical data and experience. Estimating expected breakage requires management to make informed judgment about, among other things, the extent to which historical experience is an indication of the future customer behavior. Annually, or more frequently as the experience data suggests, management reassesses the historical data and makes required improvements.

b) Estimates and Assumptions

The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances. These underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised.

The Company believes that the tax positions taken are reasonable. However, various taxing authorities may challenge the positions taken resulting in additional liabilities for taxes and interest that may become payable in future years as a result of audits by the tax authorities. The tax positions involve considerable judgment on the part of management and tax positions are reviewed and adjusted to account for changes in circumstances, such as lapsing of applicable statutes of limitations, conclusions of tax audits, additional exposures based on identification of new issues or court decisions affecting a particular tax issue. Actual results could differ from estimates.

The Company assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill and indefinite-lived intangible assets are tested for impairment annually and at other times when such indicators exist. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The value in use is determined using discounted cash flow assumptions established by management.

The Company's management has determined that the residual value of the aircraft components owned is 15% of the cost of the asset, so the depreciation of flight equipment is made accordingly. Annually, management reviews the useful life and salvage value of each of these assets.

2.5 Cash and Cash Equivalents

Cash and cash equivalents comprise cash at banks, money market accounts and time deposits with original maturities of three months or less when purchased.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash net of outstanding bank overdraft.

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COPA HOLDINGS, S. A. AND SUBSIDIARIES

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2.6 Financial Assets Initial recognition and subsequent measurement

Financial assets within the scope of IAS 39 are classified as: (a) financial assets at fair value through profit or loss, (b) receivables, (c) held to maturity investments or as (d) derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus directly attributable transaction costs, in the case of investments not at fair value through profit and loss.

Subsequent measurement of financial assets depends on their classification.

The Company's financial assets include cash, short-term and long-term deposits, trade and other receivables and derivative financial instruments.

a) Held to maturity investments

The Company invests in short-term time deposits with original maturities of more than three months but less than one year. Additionally, the Company invests in long-term time deposits with maturities greater than one year. These investments are classified as short and long-term investments, respectively, in the accompanying consolidated statement of financial position. All of these investments are classified as held-to-maturity securities and are subsequently measured at amortized cost using the Effective Interest Rate (EIR) method, less impairment, since the Company has determined that it has the intent and ability to hold the securities to maturity. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statement of income. Restricted cash is classified within short-term and long-term investments and is held as collateral for letters of credit.

b) Receivables

Accounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial instruments, which generally have 30 days terms, are initially recognized and carried at original invoice amount, less a provision for impairment: The losses arising from impairment are recognized in the consolidated statement of income in Other operating expenses .

The Company records its best estimate of provision for impairment of receivables, on the basis of various factors, including: varying customer classifications, agreed upon credit terms, and the age of the individual debt.

c) Derivative financial assets

See 2.7 below for discussion of derivative financial instruments.

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COPA HOLDINGS, S. A. AND SUBSIDIARIES

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(In US\$ thousands)

2.7 Financial Liabilities Initial recognition and subsequent measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

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

The Company's financial liabilities include trade and other payables, loans and borrowings, and derivative financial instruments.

a) Long-term debt

All borrowings and loans are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest rate method.

Gain and losses are recognized in the consolidated statement of income when the liabilities are derecognized as well as through the EIR amortization process.

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

b) Other Financial Liabilities

Other financial liabilities are initially recognized at fair value, including directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest rate method.

Gain and losses are recognized in the consolidated statement of income when the liabilities are derecognized as well as through the amortization process.

c) Derivative financial instruments and hedging activities

Derivatives instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. The method for recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the designation of the hedging.

For the purpose of hedge accounting, hedges are classified as:

Fair value hedges

Cash flow hedges

Hedges of a net investment in a foreign operation.

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c) Derivative financial instruments and hedging activities (continued)

The Company designates certain derivatives as cash flow hedges.

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions.

The Company also documents its assessment both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions, as expected, are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes and movements on the hedging reserve in shareholders' equity are shown in note 16.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in the consolidated statement of comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of income.

Amounts recognized as other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognized as other comprehensive income are transferred to the initial carrying amount of the nonfinancial asset or liability when recognized.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into a current and non-current portion based on an assessment of the facts and circumstances:

When the Company will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.

Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.

Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and a non-current portion only if a reliable allocation can be made.

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COPA HOLDINGS, S. A. AND SUBSIDIARIES

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(In US\$ thousands)

2.8 Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

Using recent arms length market transactions

Reference to the current fair value of another instrument that is substantially the same

A discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 26.7.

2.9 Impairment

a) Impairment of Financial Assets

Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include: significant financial difficulty of the issuer or obligor; a breach of contract, such as default or delinquency in interest or principal payments; it becomes probable that the debtors will enter bankruptcy or other financial reorganization; and observable data indicating that there is a measurable decrease in the estimated future cash flows.

b) Impairment of Financial Assets Carried at Amortized Cost

For financial assets carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

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If there is objective evidence that an impairment loss on 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 present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the loss is recorded in the consolidated statement of income.

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COPA HOLDINGS, S. A. AND SUBSIDIARIES

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December 31, 2011

(In US\$ thousands)

2.9 Impairment (continued)

c) Impairment of Non-Financial Assets

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

When the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset, except for a property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognized in other comprehensive income up to the amount of any previous revaluation.

For assets, excluding goodwill and intangible asset with indefinite lives, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at the revalued amount, in which case the reversal is treated as an increase in the revaluation reserve.

d) Impairment testing of goodwill and intangibles with indefinite lives

Goodwill resulted from business combinations, have indefinite lives and have been allocated to each of the Company's cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Goodwill and intangible assets with indefinite useful lives are tested for impairment annually. The Company performs its annual impairment testing as of December 31. The determination of the terminal value is based on the present value of the cash flows in perpetuity (see discussion of key assumptions below) of the CGU to which the goodwill and the intangible assets with indefinite useful lives are allocated. The recoverable amount has been determined based on a value in use calculation using cash flow projections from financial budgets approved by management covering a five-year period.

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2.9 Impairment (continued)

Key assumptions used in value in use calculations

The calculations of value in use for the impairment testing are most sensitive to the following assumptions:

Discount rates The discount factors are based on the Company's Weighted Average Cost of Capital (WACC), and are applied using the mid-year convention. Mid-year convention assumes that cash flows are generated evenly throughout the year, as opposed to in a lump sum at the end of the year.

Long-Term Growth Rate It was determined by considering industry research, including analyst reports, and various government studies which are believed to be reliable. Additionally, management considered perpetual growth rate fairly represented the long-term growth prospects of the business.

Terminal Value Determination of the terminal value is based on the present value of the Company's cash flows in perpetuity. When estimating the cash flow for use in the residual value calculation, it is essential to clearly define the normalized cash flow level, the appropriate discount rate for the degree of risk inherent in that return stream and a constant future growth rate for the related cash flows. To estimate the value, we have used the Gordon Growth Model.

Impairment losses relating to goodwill cannot be reversed in future periods.

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(In US\$ thousands)

2.10 Derecognition

a) Derecognition of Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

The rights to receive cash flows from the asset have expired;

Company has transferred its rights to receive cash flows from the asset and either (a) the Company has transferred substantially all risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to third party under a pass through arrangement.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset.

In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

b) Derecognition of Financial Liabilities

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

Table of Contents**COPA HOLDINGS, S. A. AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2011****(In US\$ thousands)****2.11 Expendable Parts and Supplies**

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

2.12 Property, plant and equipment

Property, plant and equipment comprise mainly airframe, engines and other related flight equipments. All property, plant and equipment is stated at cost, less subsequent accumulated depreciation and accumulated impairment losses, if any. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance expenditures are charged to the consolidated statement of income as incurred.

Depreciation is calculated using the straight-line method to allocate the cost of each asset, net of its residual value, over its estimated useful life as follows:

| | |
|---|---|
| - Airframe and engines | 30 years |
| - Aircraft components | 30 years |
| - Ground equipment | 10 years |
| - Furniture, fixture, equipment and other | 5 to 10 years |
| - Major maintenance events | 1 to 8 years |
| - Leasehold improvements | lesser of remaining lease term or useful life |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each consolidated statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The carrying value of equipment and leasehold improvements are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on derecognition of the asset are determined by comparing the net disposal proceeds with the carrying amount and are included in the consolidated statement of income.

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COPA HOLDINGS, S. A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011

(In US\$ thousands)

2.12 Property, plant and equipment (continued)

Borrowing costs directly attributable to the acquisition, construction or production of any qualifying asset, that necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalized as part of the cost of the asset during that period of time. Other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Under IAS 16 Property, Plant and Equipment, major maintenance events, including major engine overhauls, are treated as a separate asset component with the cost capitalized and depreciated over the period to the next major event. All other replacement spares and costs relating to maintenance of fleet assets are charged to the consolidated statement of income on consumption or as incurred.

2.13 Goodwill

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed of the acquired subsidiary at the date of acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

2.14 Intangible assets

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

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

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

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COPA HOLDINGS, S. A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011

(In US\$ thousands)

2.14 Intangible assets (continued)

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

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

A summary of the Company's intangible assets and the policies applied is:

a) Computer Software

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

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that are estimated to generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognized as assets are amortized using the straight-line method over their estimated useful lives.

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

b) Brand name and routes

Routes rights have an indefinite useful life and are carried at cost, less any accumulated impairment. Annually they are tested for impairment.

During the third quarter of 2010, AeroRepública began to operate under Copa Colombia brand, causing a change in management's assumption from indefinite life to 5 years for the AeroRepública's brand name. Based on the change of the commercial name, an impairment loss was recognized for \$1.5 million during 2010. The remaining balance of this intangible asset is amortized over the 5 years defined life term.

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COPA HOLDINGS, S. A. AND SUBSIDIARIES

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(In US\$ thousands)

2.15 Maintenance Deposit

Under lease agreement with aircraft lessors, Copa pays maintenance deposits, for two aircrafts, to lessors to be applied to future maintenance event costs, calculated based on a performance measure, such as flight hours, and are specifically to be used to reimburse 3rd-party maintenance providers. If amounts on deposit are insufficient, Copa must cover the shortfall since Copa is legally responsible for maintaining the leased aircraft. If there are excess amounts on deposit at expiration of the lease, the lessor is entitled to retain any excess amounts. Maintenance deposits paid under lease agreements do not transfer either the obligation to maintain the aircraft or cost risk associated with maintenance activities to lessors.

The Company also makes payments for engine overhauls under power by the hour agreements (PBH). Payments related to engine overhauls under PBH agreements as well as the maintenance deposits under aircraft leases are recognized as prepaid assets until the maintenance event occurs, at which time the actual costs of the maintenance is capitalized and are amortized over the expected period until the next event. Management performs regular reviews of the recovery of maintenance deposits and believes that the values reflected in the consolidated statement of financial position are recoverable.

2.16 Provisions

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

The Company has a present legal or constructive obligation as a result of past events;

It is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation; and

The amount of obligation can be reliably estimated.

For certain operating leases, the Company is contractually obliged to return aircraft in a defined condition. The Company accrues for restitution costs related to aircraft held under operating leases at the time the asset does not meet the return conditions criteria and throughout the remaining duration of the lease. Restitution costs are based on the net present value of the estimated average costs of returning the aircrafts and are recognized in the consolidated statement of income in Maintenance, material and repairs. These costs are reviewed annually and adjusted as appropriate.

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COPA HOLDINGS, S. A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(In US\$ thousands)

2.17 Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

a) Passenger Revenue

Passenger revenue is recognized when transportation is provided rather than when a ticket is sold. The amount of passenger ticket sales, not yet recognized as revenue, is reflected as Air traffic liability in the consolidated statement of financial position. Fares for tickets that are expected to expire unused are recognized as revenue based on historical data and experience. The Company performs periodic evaluations of this liability, and any adjustments resulting there from, which can be significant, are included in operations for the periods in which the evaluations are completed.

A significant portion of the Company's ticket sales are processed through major credit card companies, resulting in accounts receivable which are generally short-term in duration and typically collected prior to when revenue is recognized. The Company believes that the credit risk associated with these receivables is minimal.

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

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COPA HOLDINGS, S. A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011

(In US\$ thousands)

2.17 Revenue Recognition (continued)

b) Cargo and Courier Services

Cargo and courier services are recognized when the Company provides the shipping services and thereby completes the earning process.

c) Other Revenue

Other revenue is primarily comprised of excess baggage charges, commissions earned on tickets sold for flights on other airlines and charter flights, and is recognized when transportation or service is provided.

d) Frequent Flyer Program

The Company participates in United Continentals One Pass (Renamed Mileage Plus in March 2012) frequent flyer program, for which the Company's passengers receive all the benefits and privileges offered by the Mileage Plus program. United Continental is responsible for the administration of the Mileage Plus program. Under the terms of the Company's frequent flyer agreement with United Continental, Mileage Plus members receive Mileage Plus frequent flyer mileage credits for traveling on the Company's flights, and the Company pays United Continental a per mile rate for each mileage credit granted by United Continental, at which point the Company has no further obligation. The amounts due to United Continental under this agreement are recognized by the Company in the passenger revenue line of the consolidated statement of income, as the mileage credits are earned by the passengers.

2.18 Passenger Traffic Commissions

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

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COPA HOLDINGS, S. A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(In US\$ thousands)

2.19 Foreign Currency Transactions and Translation

The Company's functional currency is the U.S. Dollar, the legal tender in Panama. Transactions in foreign currencies are initially recorded by the Company at the functional currency spot rate at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date.

Non-monetary assets and liabilities are translated at equivalent U.S. dollar costs at dates of the initial transaction and maintained at historical rate. Foreign exchange gains and losses are included in the exchange rate difference line in the consolidated statement of income for the year.

The financial statements of Copa Colombia are measured in Colombian Pesos, the functional currency of the subsidiary, and are translated to U.S. Dollars as follows: for assets and liabilities at the exchange rate prevailing at the reporting date and for income statement at the average exchange rate for each month. Exchange differences arising on the translation are recognized in other comprehensive income (loss).

Any goodwill arising on the acquisition of a foreign operation is treated as asset of the foreign operation and translated at the closing exchange rate.

2.20 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date, whether the fulfillment of the agreement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement. A reassessment is made after inception of the lease only if one of the following applies:

There is a change in contractual terms, other than a renewal or extension of the arrangement;

A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;

There is a change in the determination of whether fulfillment is dependent on a specified asset; or

There is a substantial change to the asset.

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

Company as a lessee

Leases where lessor effectively retains substantially all the risks and benefits of ownership of the leased item, are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term.

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COPA HOLDINGS, S. A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011

(In US\$ thousands)

2.21 Taxes

a) Current Income Tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The current income tax is calculated on the basis of the tax laws and tax rates enacted or substantially enacted at the reporting date in the countries where Company operates and generates taxable income. Income tax for the current period and for prior periods is recognized by the Company as a liability to the extent that it has not been settled. If the amount already paid in respect of the current period and of prior periods, exceeds the amount due for those periods, the excess is recognized as an asset.

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

b) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

When the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

When deferred tax asset relating to the deductible temporary difference arises from initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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COPA HOLDINGS, S. A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(In US\$ thousands)

2.21 Taxes (continued)

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

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

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

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognized subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or in profit or loss.

2.22 Share-Based Payments

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

Equity-settled transactions

The cost of equity-settled transactions is recognized, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and is recognized in Salaries and benefits expense (Note 22).

2.23 Monetary unit

The consolidated financial statements are presented in U.S. Dollar, the legal tender of the Republic of Panama. The Republic of Panama does not issue its own paper currency, instead, the U.S. Dollar (US\$) is used as legal currency.

Table of Contents**COPA HOLDINGS, S. A. AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2011****(In US\$ thousands)****2.24 Reclassifications**

Reclassification has been made in the prior years consolidated statement of income amounts and related note disclosures to conform to the current year's presentation.

Detail of the reclassifications is presented below:

| | As of December 31, 2010 | As of December 31, 2009 |
|--|--|--|
| One Pass (now Mileage Plus) Frequent Flier Program | \$ 12,346 | \$ 10,107 |

Within Operating Expenses, the amounts were reclassified from Commissions to Other to reflect the reporting of the One Pass (now Mileage Plus) Frequent Flier Program on a net basis within Operating Revenues. These adjustments do not affect operating income for those periods.

3. Prior Period Correction

In connection with its adoption of IFRS and preparation of the related transition date balance sheet, the Company adopted a different accounting policy for recognizing breakage on air traffic tickets that are expected to expire unused. Previously, the Company had recognized such breakage at the expiration date of the ticket. Upon adoption of IFRS, the Company chose to recognize revenue from fares for tickets that are expected to expire unused based on historical data and experience. This change was made retrospectively. However, the Company erroneously determined the amount of the adjustment required to the Air Traffic Liability as a result of the change in accounting as of January 1, 2009. The prior period financial statements affected by this error have been adjusted to properly state the accounts as of the transition date to IFRS as follows:

| | |
|--|-----------|
| Net increase in retained earnings | \$ 34,687 |
| Net decrease in air traffic liability | \$ 37,318 |
| Net increase in deferred tax liabilities | \$ 2,631 |

Table of Contents**COPA HOLDINGS, S. A. AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2011****(In US\$ thousands)****3. Prior Period Correction (continued)**

In addition to the effect on retained earnings at January 1, 2009 and December 31, 2009 as indicated above. The prior period amounts included in the accompanying consolidated financial statements restated have also been restated as follows:

| | December 31, 2010 | |
|---|--------------------------|-----------------|
| | Restated | Reported |
| Liabilities and Shareholder s Equity | | |
| Liabilities | | |
| Air traffic liability | \$ 171,417 | \$ 208,735 |
| Deferred tax liabilities | \$ 22,647 | \$ 20,016 |
| Shareholder s Equity | | |
| Retained earnings | \$ 1,086,379 | \$ 1,051,692 |

The adjustment did not have any effect on the consolidated statements of income, comprehensive income or cash flows for the years ended December 31, 2010 and 2009.

4. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, are as follows:

| | As of December 31, 2011 | As of December 31, 2010 |
|---|--|--|
| Checking and saving accounts | \$ 93,132 | \$ 89,889 |
| Time deposits of no more than ninety days | 110,212 | 91,958 |
| Overnight deposits | 27,914 | 17,097 |
| Others | 12,543 | 8,746 |
| | \$ 243,801 | \$ 207,690 |

Time deposits earn interest based on rates determined by the banks in which the instruments are held. The use of the time deposits depends on the cash requirements of the Company and bear interest rates ranging between 0.25% and 3.40% as of December 31, 2011 and 0.20% and 4.00% as of December 31, 2010.

As of December 31, 2011 and 2010 there were no restrictions on the use of cash and cash equivalents.

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December 31, 2011

(In US\$ thousands)

5. Investments

Investments as of December 31, consisted of the following:

| | As of December 31, 2011 | As of December 31, 2010 |
|---------------------------------------|-------------------------------|-------------------------------|
| Short-term investments: | | |
| Time deposits between 90 and 365 days | \$ 262,345 | \$ 194,913 |
| | \$ 262,345 | \$ 194,913 |
| Long term investments: | | |
| Time deposits of more than 365 days | \$ 98,500 | \$ |
| Restricted cash | 6,334 | 6,224 |
| | \$ 104,834 | \$ 6,224 |

6. Accounts Receivable

Accounts receivable as of December 31, are summarized as follows:

| | As of December 31, 2011 | As of December 31, 2010 |
|---|-------------------------------|-------------------------------|
| Travel agencies and airlines clearing house | \$ 74,955 | \$ 29,900 |
| Credit cards | 40,423 | 32,248 |
| Cargo and other travel agencies | 12,396 | 13,540 |
| Mail | 2,558 | 2,035 |
| Other | 16,502 | 15,241 |
| | 146,834 | 92,964 |
| Provision for impairment | (4,537) | (4,190) |
| | \$ 142,297 | \$ 88,774 |

Table of Contents**COPA HOLDINGS, S. A. AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2011****(In US\$ thousands)****6. Accounts Receivable (continued)**

The following is an analysis of accounts receivable, due but not impaired, as of December 31,:

| | As of December 31, 2011 | As of December 31, 2010 |
|------------------------|--|--|
| Current | \$ 83,859 | \$ 57,484 |
| Past due 0 to 30 days | 26,382 | 15,076 |
| Past due 31 to 60 days | 7,493 | 10,684 |
| More than 60 days | 29,100 | 9,720 |
| | \$ 146,834 | \$ 92,964 |

Current accounts receivable are those that do not show delays in their payments, according to the date agreed with the customer. The provision for impairment is made collectively when the Company estimates that it will not be able to collect all of the amounts past due. Movements in the provision for impairment of receivables were as follows:

| | As of December 31, 2011 | As of December 31, 2010 |
|------------------------------|--|--|
| Balance at beginning of year | \$ 4,190 | \$ 4,730 |
| Additions | 5,019 | 4,797 |
| Write-offs | (4,672) | (5,337) |
| Balance at end of year | \$ 4,537 | \$ 4,190 |

Table of Contents**COPA HOLDINGS, S. A. AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2011****(In US\$ thousands)****7. Expendable parts and supplies**

Expendable parts and supplies as of December 31, are summarized as follows:

| | As of December 31, 2011 | As of December 31, 2010 |
|---|--|--|
| Material for repair and maintenance (at net realizable value) | \$ 36,527 | \$ 34,981 |
| Purchases in transit (at cost) | 4,049 | 9,930 |
| Other inventories (at cost) | 1,806 | 1,071 |
| | \$ 42,382 | \$ 45,982 |

The amount of expendable parts and supplies recognized as an expense in the consolidated statement of income in Maintenance, material and repairs was \$18.1 million in 2011, \$17.5 million in 2010 and \$15.6 million in 2009.

8. Prepaid expenses

Prepaid expenses as of December 31, are summarized as follows:

| | As of December 31, 2011 | As of December 31, 2010 |
|---------------------|--|--|
| Prepaid taxes | \$ 12,550 | \$ 10,662 |
| Prepaid commissions | 4,195 | 3,038 |
| Prepaid insurance | 7,624 | 6,136 |
| Prepaid rent | 3,342 | 1,772 |
| Prepaid - other | 12,347 | 10,181 |
| | \$ 40,058 | \$ 31,789 |

Table of Contents**COPA HOLDINGS, S. A. AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2011****(In US\$ thousands)****9. Other current assets**

Other current assets as of December 31, are summarized as follows:

| | As of December 31, 2011 | As of December 31, 2010 |
|-----------------------------------|-------------------------------|-------------------------------|
| Derivatives financial instruments | \$ 18,605 | \$ 21,946 |
| Others | 4,050 | 2,676 |
| | \$ 22,655 | \$ 24,622 |

10. Other assets

Other assets as of December 31, are summarized as follows:

| | As of December 31, 2011 | As of December 31, 2010 |
|-------------------------|-------------------------------|-------------------------------|
| Guaranty deposits | \$ 17,066 | \$ 11,130 |
| Deposits for litigation | 18,404 | 16,347 |
| Maintenance deposits | 73,780 | 69,475 |
| Other assets | 16,159 | 8,813 |
| | \$ 125,409 | \$ 105,765 |

Guaranty deposits are amounts paid to fuel suppliers and lessors of monthly lease payments, as require at the inception of the agreements.

Deposit for litigation is paid into escrow account until the related dispute is settled. (see note 25)

Maintenance deposits mainly refer to payments made by the Company for overhaul covered by power by the hour arrangements to be used for future engines maintenance events, and for payments to lessors to be applied to future maintenance events cost. Maintenance deposits paid do not transfer either obligation to maintain aircraft or cost risk associated with maintenance activities to lessors or providers.

Table of Contents**COPA HOLDINGS, S. A. AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2011****(In US\$ thousands)****11. Property, plant and equipment, net**

A summary of equipment and leasehold improvements as of December, 31 2011, are as follows:

| | <i>Aircraft</i> | <i>Ramp and Miscellaneous Flight</i> | | | <i>Furniture, Fixtures, Equipment</i> | <i>Leasehold</i> | <i>Construction in Progress</i> | <i>Total</i> |
|--|-------------------|--|-----------------|----------------|---|---------------------|---|--------------|
| | <i>Components</i> | <i>Equipment</i> | <i>Airframe</i> | <i>Engines</i> | <i>and Other</i> | <i>Improvements</i> | | |
| At January 1, 2011, net of accumulated depreciation and amortization | \$ 72,027 | \$ 9,581 | \$ 887,172 | \$ 575,089 | \$ 5,032 | \$ 8,552 | \$ 9,103 | \$ 1,566,556 |
| Additions | 12,616 | 2,977 | 156,526 | 87,179 | 2,487 | 6 | 5,004 | 266,795 |
| Reclassifications | 2,336 | 24 | (5,517) | | (250) | 1,611 | (1,716) | (3,512) |
| Disposals | (1,876) | (551) | (306) | 0 | (1,404) | | (100) | (4,237) |
| Disposals depreciation | 256 | 561 | 3,015 | | 1,770 | 2 | | 5,604 |
| Depreciation and amortization | (4,481) | (2,846) | (41,811) | (19,699) | (2,359) | (2,106) | | (73,302) |
| At December 31, 2011, net of accumulated depreciation and amortization | \$ 80,878 | \$ 9,746 | \$ 999,079 | \$ 642,569 | \$ 5,276 | \$ 8,065 | \$ 12,291 | \$ 1,757,904 |
| At January 1, 2011 | | | | | | | | |
| At cost | \$ 85,908 | \$ 27,256 | \$ 1,034,054 | \$ 650,194 | \$ 19,099 | \$ 15,882 | \$ 9,103 | \$ 1,841,496 |
| Accumulated depreciation and amortization | (13,881) | (17,675) | (146,882) | (75,105) | (14,067) | (7,330) | | (274,940) |
| Net carrying amount | \$ 72,027 | \$ 9,581 | \$ 887,172 | \$ 575,089 | \$ 5,032 | \$ 8,552 | \$ 9,103 | \$ 1,566,556 |
| At December 31, 2011 | | | | | | | | |
| At cost | \$ 102,009 | \$ 29,623 | \$ 1,185,014 | \$ 737,197 | \$ 20,908 | \$ 17,518 | \$ 12,291 | \$ 2,104,560 |
| Accumulated depreciation and amortization | (21,131) | (19,877) | (185,935) | (94,628) | (15,632) | (9,453) | | (346,656) |
| Net carrying amount | \$ 80,878 | \$ 9,746 | \$ 999,079 | \$ 642,569 | \$ 5,276 | \$ 8,065 | \$ 12,291 | \$ 1,757,904 |

52 aircraft with a carrying value of \$1.6 billion are pledged as collateral for the obligation of the special purpose entities.

Table of Contents**COPA HOLDINGS, S. A. AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2011****(In US\$ thousands)****11. Property, plant and equipment, Net (continued)**

A summary of equipment and leasehold improvements as of December, 31 2010, are as follows:

| | <i>Aircraft</i> | <i>Ramp and Miscellaneous Flight</i> | | | <i>Furniture, Fixtures, Equipment</i> | <i>Leasehold</i> | <i>Construction in Progress</i> | <i>Total</i> |
|--|-------------------|--|-----------------|----------------|---|---------------------|---|--------------|
| | <i>Components</i> | <i>Equipment</i> | <i>Airframe</i> | <i>Engines</i> | <i>and Other</i> | <i>Improvements</i> | | |
| At January 1, 2010, net of accumulated depreciation and amortization | \$ 62,787 | \$ 8,009 | \$ 725,758 | \$ 463,697 | \$ 4,851 | \$ 8,296 | \$ 8,077 | \$ 1,281,475 |
| Additions | 12,008 | 3,924 | 196,836 | 127,687 | 2,561 | 54 | 10,411 | 353,481 |
| Reclassifications | 25 | (25) | | | | 2,170 | (2,170) | 0 |
| Disposals | (331) | (389) | 0 | 0 | (488) | | (7,215) | (8,423) |
| Disposals depreciation | 54 | 397 | | | 351 | | | 802 |
| Depreciation and amortization | (2,516) | (2,335) | (35,422) | (16,295) | (2,243) | (1,968) | | (60,779) |
| At December 31, 2010, net of accumulated depreciation and amortization | \$ 72,027 | \$ 9,581 | \$ 887,172 | \$ 575,089 | \$ 5,032 | \$ 8,552 | \$ 9,103 | \$ 1,566,556 |
| At January 1, 2010 | | | | | | | | |
| At cost | \$ 74,206 | \$ 23,746 | \$ 837,217 | \$ 522,507 | \$ 17,023 | \$ 13,662 | \$ 8,077 | \$ 1,496,438 |
| Accumulated depreciation and amortization | (11,419) | (15,737) | (111,459) | (58,810) | (12,172) | (5,366) | | (214,963) |
| Net carrying amount | \$ 62,787 | \$ 8,009 | \$ 725,758 | \$ 463,697 | \$ 4,851 | \$ 8,296 | \$ 8,077 | \$ 1,281,475 |
| At December 31, 2010 | | | | | | | | |
| At cost | \$ 85,908 | \$ 27,256 | \$ 1,034,054 | \$ 650,194 | \$ 19,099 | \$ 15,882 | \$ 9,103 | \$ 1,841,496 |
| Accumulated depreciation and amortization | (13,881) | (17,675) | (146,882) | (75,105) | (14,067) | (7,330) | | (274,940) |
| Net carrying amount | \$ 72,027 | \$ 9,581 | \$ 887,172 | \$ 575,089 | \$ 5,032 | \$ 8,552 | \$ 9,103 | \$ 1,566,556 |

47 aircraft with a carrying value of \$1.4 billion are pledged as collateral for the obligation of the special purpose entities.

Table of Contents**COPA HOLDINGS, S. A. AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2011****(In US\$ thousands)****12. Purchase deposits for flight equipment**

A detail of purchase deposit for flight equipment for the years ended December 31, is as follows:

| | Pre-Delivery Payments |
|------------------------------|----------------------------------|
| At January 1, 2010 | \$ 198,697 |
| Additions | 164,566 |
| Capitalize transfers | (157,291) |
| Year ended December 31, 2010 | 205,972 |
| Additions | 175,354 |
| Capitalize transfers | (139,039) |
| Year ended December 31, 2011 | \$ 242,287 |

13. Intangible assets

A detail of intangibles assets as of December 31, is as follows:

| | As of December 31, 2011 | As of December 31, 2010 |
|-----------------------|--|--|
| Routes | \$ 30,908 | \$ 31,371 |
| Brand name | 3,466 | 4,482 |
| Software and licenses | 12,673 | 7,612 |
| | \$ 47,047 | \$ 43,465 |

At the acquisition date both (routes and brand name) were valued and recognized as intangible assets with an indefinite useful life, and recorded in Colombian pesos, which is the functional currency of the subsidiary. Variations year over year, in the value of the routes correspond to the changes in the USD / Colombian Peso exchange rates.

Table of Contents**COPA HOLDINGS, S. A. AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2011****(In US\$ thousands)****13. Intangible assets (continued)**

During the third quarter of 2010, AeroRepública began to operate under Copa Colombia brand, causing a change in management's assumption from indefinite life to 5 years for the AeroRepública's brand name. Based on the change of the commercial name, an impairment loss was recognized for \$1.5 million during 2010. The remaining balance of this intangible asset is being amortized over 5 years.

A detail of routes and brand name rights for the years ended December 31, is as follows:

| | Years Ended | |
|------------------------------|------------------------------|------------------------------|
| | December 31, 2011 | December 31, 2010 |
| Balance at beginning of year | \$ 35,853 | \$ 34,973 |
| Changes in exchange rates | (596) | 2,380 |
| Impairment of brand name | | (1,500) |
| Amortization of brand name | (883) | |
| Balance at end of year | \$ 34,374 | \$ 35,853 |

A detail of licenses and software rights as of December 31, is as follows:

| | Years Ended | |
|---|------------------------------|------------------------------|
| | December 31, 2011 | December 31, 2010 |
| Balance at beginning of year, net of amortization | \$ 7,612 | \$ 7,620 |
| Additions internal development | 178 | 946 |
| Additions acquired separately | 2,123 | 893 |
| Intangibles in process completed | (2,148) | (1,839) |
| Intangibles in process additions | 7,064 | 2,175 |
| Disposals | | (652) |
| Disposals amortization | | 652 |
| Amortization | (2,156) | (2,183) |
| Balance at end of year, net of amortization | \$ 12,673 | \$ 7,612 |
| Intangibles, at cost | \$ 18,104 | \$ 15,803 |
| Intangibles in process | 6,849 | 1,933 |
| Accumulated amortization | (12,280) | (10,124) |
| Net value | \$ 12,673 | \$ 7,612 |

Table of Contents**COPA HOLDINGS, S. A. AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2011****(In US\$ thousands)****13. Intangible assets, net (continued)**

Movements in goodwill were as follows:

| | Years Ended | |
|--|----------------------|----------------------|
| | December 31, 2011 | December 31, 2010 |
| Balance at beginning of year | \$ 25,475 | \$ 23,852 |
| Change in exchange rates | (376) | 1,623 |
| Balance at end of year net of exchange rates | \$ 25,099 | \$ 25,475 |

14. Long-term Debt

At December 31, long-term debt consisted of the following:

| | As of December 31, 2011 | As of December 31, 2010 |
|---|-------------------------------|-------------------------------|
| Long-term fixed rate debt (secured fixed rate indebtedness due through 2023 effective rates ranged from 1.81% to 6.07%) | \$ 661,972 | \$ 526,288 |
| Long-term variable rate debt (secured variable rate indebtedness due through 2023 effective rates ranged from 0.50% to 2.08%) | 400,754 | 463,253 |
| Lines of credit | 5,000 | |
| Sub-total | 1,067,726 | 989,541 |
| Less current maturities | 131,069 | 100,860 |
| Long-term debt less current maturities | \$ 936,657 | \$ 888,681 |

Table of Contents**COPA HOLDINGS, S. A. AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2011****(In US\$ thousands)****14. Long-term Debt (continued)**

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

| Year ending December 31, | |
|--------------------------|------------|
| 2012 | \$ 131,069 |
| 2013 | \$ 95,811 |
| 2014 | \$ 131,022 |
| 2015 | \$ 128,085 |
| 2016 | \$ 104,404 |
| Thereafter | \$ 477,335 |

As of December 31, 2011 and 2010, the Company had \$651.3 and \$547.1 million of outstanding indebtedness, respectively, that is owed to financial institutions under financing arrangements guaranteed by the Export-Import Bank of the United States. The Export-Import Bank guarantees support 85% of the net purchase price of the aircraft and are secured with a first priority mortgage on the aircraft in favor of a security trustee on behalf of Export-Import Bank.

The Company's Export-Import Bank supported financings are amortized on a quarterly basis, are denominated in U.S. Dollars and originally bear interest at a floating rate linked to LIBOR. The Export-Import Bank guaranteed facilities typically offer an option to fix the applicable interest rate. The Company has exercised this option with respect to \$600.1 million as of December 31, 2011.

The Company effectively extends the maturity of its aircraft financing to 15 years through the use of a Stretched Overall Amortization and Repayment, or SOAR, structure which provides serial draw-downs calculated to result in a 100% loan accreting to a recourse balloon at the maturity of the Export-Import Bank guaranteed loan which totaled \$88.7 million as of December 31, 2011.

The Company also typically finances a portion of the purchase price of the Boeing aircraft through commercial loans which totaled \$1.7 million as of December 31, 2011.

As of December 31, 2011 the Company has one unused commitment for long-term financing agreements for approximately \$270 million to acquire seven (7) Boeing 737-800 aircraft to be delivered between March and October 2012.

Table of Contents**COPA HOLDINGS, S. A. AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2011****(In US\$ thousands)****15. Accrued expenses payable****Labor Related Provisions**

The Company sponsors a profit-sharing program for both management and non-management personnel. For members of management, profit-sharing is based on a combination of the Company's performance as a whole and the achievement of individual goals. Profit-sharing for non-management employees is based solely on the Company's performance.

GDS Expenses and Miscellaneous Provisions

The Company records estimation for charges received through clearinghouse for general distribution systems (GDS) charges related to ticket transactions; and for centralized Bank Settlement Plan (BSP) charges related to processing costs and administrative fees. These provisions are established every month and reversed the next month.

The provisions detail as of December 31, is as follows:

| | As of December 31, 2011 | As of December 31, 2010 |
|----------------------------|--|--|
| Provisions and estimations | \$ 5,641 | \$ 27,332 |
| Labor related provisions | 24,831 | 20,282 |
| | \$ 30,472 | \$ 47,614 |

16. Other current liabilities

Other current liabilities as of December 31, are summarized as follows:

| | As of December 31, 2011 | As of December 31, 2010 |
|----------------------------------|--|--|
| Derivative financial instruments | \$ 6,831 | \$ 6,503 |
| Vacation payable | 1,453 | 1,439 |
| Others | 5,561 | 2,992 |
| | \$ 13,845 | \$ 10,934 |

Table of Contents**COPA HOLDINGS, S. A. AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2011****(In US\$ thousands)****17. Other long-term liabilities**

A detail of other long-term liabilities as of December 31, 2011 is as follows:

| | Provision for contingencies | Provision for litigations | Provision for return condition | Other long term liabilities | Total |
|-------------------------|-----------------------------|---------------------------|--------------------------------|-----------------------------|--------|
| At 1 January 2011 | 378 | 16,684 | 14,680 | 1,961 | 33,703 |
| Arising during the year | 77 | 2,186 | 9,051 | 228 | 11,542 |
| Utilized | (357) | (14) | | (137) | (508) |
| Others | (14) | | | (66) | (80) |
| At 31 December 2011 | 84 | 18,856 | 23,731 | 1,986 | 44,657 |

Provision for contingencies

A provision is recognized for expected warranty claims based in labor legal cases. This provision will be used in the next 12 months.

Provision for litigations

Provisions for litigation in process (Note 25- commitments and contingencies).

Provision for return condition

For certain operating leases, the Company is contractually obliged to return aircraft in a defined condition. The Company accrues for restitution costs related to aircraft held under operating leases at the time the asset does not meet the return conditions criteria and throughout the remaining duration of the lease. During 2011 the Company increased, based on new information, its estimates for the provision of aircraft return condition in the amount of \$5.7 million.

Other long term liabilities

Provision for non-compete agreement is created for payment to senior management related to covenants not to compete with us in the future.

Table of Contents**COPA HOLDINGS, S. A. AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2011****(In US\$ thousands)****18. Accounts and Transactions with Related Parties**

The accounts receivable from and accounts payable to related parties detail at December 31, are as follows:

| | As of December 31, 2011 | As of December 31, 2010 |
|--|-------------------------------|-------------------------------|
| Accounts receivable from related parties: | | |
| ASSA Compañía de Seguros, S.A. | \$ 673 | \$ 563 |
| Others | 31 | 50 |
| | \$ 704 | \$ 613 |
| | | |
| | As of December 31, 2011 | As of December 31, 2010 |
| Accounts payable to related parties | | |
| ASSA Compañía de Seguros, S.A. | \$ 7,883 | \$ 6,393 |
| Petróleos Delta | 13,996 | 4,281 |
| Others | 195 | 266 |
| | \$ 22,074 | \$ 10,940 |

The Company does not consider United Continental as related company since management believes the current agreements in place do not meet the criteria to classify the relationship as that of a related party. The relationship between both companies is associated to commercial and services agreements which are deemed to be alliance in nature.

Table of Contents**COPA HOLDINGS, S. A. AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2011

(In US\$ thousands)

18. Accounts and Transactions with Related Parties (continued)

Transaction with related parties detail for the year ended December 31, are as follows:

| Related Party | Transaction | Amount of transaction 2011 | Amount of transaction 2010 | Amount of transaction 2009 |
|--------------------------------------|-------------------|----------------------------|----------------------------|----------------------------|
| Banco General | Debt | 705 | 1,515 | 2,261 |
| | Interest received | 1,249 | 100 | 398 |
| | Interest paid | 51 | 988 | 170 |
| ASSA Compañía de Seguros, S.A. | Insurance | 30 | 30 | 30 |
| Petróleos Delta | Purchase jet Fuel | 283,174 | 170,727 | 116,120 |
| Desarrollo Inmobiliario del Este, SA | Property | 2,055 | 2,018 | 1,947 |
| Galindo, Arias & López | Legal services | 511 | 608 | 367 |
| Motta Internacional & Global Brands | Payments | 857 | 821 | 637 |
| RD Nexos | Advertising | 339 | 616 | 1,000 |
| Call Center Corporation | Call center | 2,593 | 3,869 | 3,312 |
| Telecarrier, S.A. | Payments | | 754 | 863 |

Banco General: The Company's shareholders own approximately 40% of BG Financial Group, which is the controlling company of Banco General.

ASSA Campania de Seguros, S.A.: An insurance company controlled by the Company's controlling shareholders, is used to provide substantially all of the Company's insurance.

Petróleos Delta: The fuel company, during 2005 entered into a contract with The Company to supply its jet fuel needs. The contract has a one year term that automatically renews for one year period unless terminated by one of the parties. While the Company's controlling shareholders do not hold a controlling equity interest in Petróleos Delta, S.A., various members of the Company's Board of Directors also are board members of Petróleos Delta, S.A.

Table of Contents**COPA HOLDINGS, S. A. AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2011****(In US\$ thousands)****18. Accounts and Transactions with Related Parties (continued)**

Desarrollo Inmobiliario del Este, SA: The Company leases five floors consisting of approximately 104,000 square feet of the building from Desarrollo Inmobiliario, an entity controlled by the same group of investors that controls CIASA.

Galindo, Arias & López: Law Firm Certain partners of Galindo, Arias & Lopez are indirect shareholders of CIASA and serve on the Company's Board of Directors.

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

RD Nexos: The advertising agency that the Company uses in Panama is RD Nexos, S.A., formerly owned by the brother-in-law of the Chief Executive Officer and where his brother has minority stake.

Call Center Corporation: A call center that operates Copa Airlines' reservations and sales services and handles calls from Panama as well as most other countries to which Copa Airlines flies. One of the Company's directors is one of the owners of this call center.

Telecarrier, S.A.: The Company's telecommunications and other data services have been provided by Telecarrier, Inc. Some of the controlling shareholders of CIASA have a controlling interest in Telecarrier.

Compensation of Key Management Personnel

The Company paid in compensation to its key management personnel the following amounts:

| | December 31, 2011 | Years ended December 31, 2010 | December 31, 2009 |
|-------------------------------|------------------------------|--|------------------------------|
| Short-term employees benefits | \$ 3,281 | \$ 3,500 | \$ 2,700 |
| Post-employment pension | 64 | 68 | 52 |
| Stock based compensation | 4,100 | 4,000 | 4,661 |
| | \$ 7,445 | \$ 7,568 | \$ 7,413 |

The Company has not set aside any other additional funds for future payments to executive officers, other than pursuant to a non-compete agreement for \$3.0 million established in 2006.

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COPA HOLDINGS, S. A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011

(In US\$ thousands)

19. Exchange Rate Difference

Results of operations are translated at average exchange rates in effect during the period. Foreign exchange gains and losses are included in the exchange rate difference line in the consolidated statement of income for the year.

On January 8, 2010, the Venezuelan government announced its decision to implement new fixed exchange rates effective January 11, 2010, resulting in a significant devaluation of the bolivar (VEB) against the U.S. dollar.

Since 2005 the official exchange rate had been fixed at VEB 2.15 per U.S. dollar, however, the new regime applies two official rates to different sectors of the economy. The first exchange rate, applicable to imported goods characterized as essential, will be VEB 2.60 per U.S. dollar, and the rate applicable to all other imported goods and services, including the aviation sector, will be VEB 4.30 per U.S. dollar.

In addition, we have significant cash balances in Bolivars subject to Venezuelan exchange controls. Since 2003, under the Venezuelan foreign exchange control regime, foreign companies are required to obtain Venezuelan government approval to exchange Bolivars into U.S. dollars at the fixed official exchange rate for the purpose of transferring funds out of Venezuela. Furthermore, since 2008 foreign companies with operations in Venezuela have experienced increasing delays in obtaining such government approvals. On January 27, 2010 the Venezuelan government announced that it would apply the exchange rate of VEB 2.60 per U.S. dollar to all authorization requests in process of approval by the Venezuela Central Bank through January 8, 2010. As a result, the Company's losses related to the devaluation of these funds were approximately \$1.7 million and \$19.7 million for the years ended December 31, 2011 and 2010, respectively.

Table of Contents**COPA HOLDINGS, S. A. AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2011****(In US\$ thousands)****20. Operating Leases**

The Company leases the aircraft it operates and other assets under long-term lease arrangements. Other leased assets include real property, airport and terminal facilities, sales offices, maintenance facilities, training centers and general offices. Most contract leases include renewal options; a few have escalation clauses, but no purchase options. Non-aircraft related leases, primarily held with local governments, generally have renewable terms of one year. In certain cases, the rental payments during the renewal periods would be greater than the current payments. Because the lease renewals are not considered to be reasonably assured, the rental payments that would be due during the renewal periods are not included in the determination of rent expense until the leases are renewed. Leasehold improvements are amortized over the contractually committed lease term, which does not include the renewal periods.

At December 31, 2011, the scheduled future minimum lease rental payments required under aircraft and non-aircraft operating leases that have initial or remaining non-cancelable lease terms in excess of one year are as follows:

| | <i>Aircraft</i> | <i>Engines and Other</i> |
|---|-----------------|------------------------------|
| Up to one year | \$ 56,291 | \$ 8,316 |
| One to five years | 175,904 | 14,668 |
| Over five years | 58,421 | 2,313 |
| Total minimum lease rental payments | \$ 290,616 | \$ 25,297 |

Total rent expense was \$87.4 million, \$72.8 million and \$61.7 for the years ended December 31, 2011, 2010 and 2009, respectively.

Table of Contents**COPA HOLDINGS, S. A. AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2011****(In US\$ thousands)****21. Income Taxes**

Expense income tax for the years ended at December 31, are attributable to the following:

| | For the year ended December 31, 2011 | For the year ended December 31, 2010 | For the year ended December 31, 2009 |
|---|---|---|---|
| Current tax expense | | | |
| Current period | \$ 26,966 | \$ 26,460 | \$ 15,794 |
| Under provided in prior periods | | 1,151 | |
| | 26,966 | 27,611 | 15,794 |
| Deferred tax expense | | | |
| Origination and reversal of temporary differences | 8,620 | (8,645) | 11,100 |
| Total income tax expense | \$ 35,586 | \$ 18,966 | \$ 26,894 |

The balances of deferred taxes are as follows:

| | Consolidated Statement of Financial Position | | | Consolidated Statement of Income | | |
|------------------------------|---|----------|----------|-------------------------------------|---------|--------|
| | 2011 | 2010 | 2009 | 2011 | 2010 | 2009 |
| Deferred tax liabilities | | | | | | |
| Intangible | (11,344) | (11,831) | (11,541) | (314) | (493) | |
| Reserve for maintenance | (8,909) | (4,567) | (4,446) | 4,255 | 116 | 714 |
| Prepaid dividend tax | (3,228) | (1,324) | (7,060) | 1,904 | (5,737) | 7,060 |
| PP&E | (3,486) | (2,303) | (575) | 1,200 | 1,728 | 3,828 |
| Others | (3,477) | (2,622) | (2,928) | 661 | (147) | 210 |
| | (30,444) | (22,647) | (26,550) | 7,706 | (4,533) | 11,812 |
| Deferred tax assets | | | | | | |
| Return conditions | 2,453 | 2,976 | 1,761 | 494 | (1,210) | (550) |
| Others | 5,124 | 5,497 | 2,554 | 410 | (2,902) | (162) |
| | 7,577 | 8,473 | 4,315 | 904 | (4,112) | (712) |
| Net deferred tax liabilities | (22,867) | (14,174) | (22,235) | 8,610 | (8,645) | 11,100 |

Table of Contents**COPA HOLDINGS, S. A. AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2011****(In US\$ thousands)****21. Income Taxes (continued)**

The aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognized is \$14,550.

Reconciliation of effective tax rate is as follows:

| | For the year ended December 31, 2011 | | For the year ended December 31, 2010 | | For the year ended December 31, 2009 | |
|---|--|----------|--|----------|--|----------|
| Net income | | 310,425 | | 241,057 | | 249,087 |
| Total income tax expense | | 35,586 | | 18,966 | | 26,894 |
| Profit excluding income tax | | 346,011 | | 260,023 | | 275,981 |
| Income taxes at Panamanian statutory rates | 25.0% | 86,503 | 27.5% | 71,506 | 30.0% | 82,794 |
| Panamanian gross tax election | | | | | (1.7%) | (4,630) |
| Effect of tax rates in non-Panamanian jurisdictions | (3.9%) | (13,374) | (9.2%) | (23,992) | (7.3%) | (20,086) |
| Exemption in non-taxable countries | (10.9%) | (37,543) | (11.4%) | (29,699) | (11.3%) | (31,184) |
| Under (over) provided in prior periods | 0.0% | | 0.4% | 1,151 | 0.0% | |
| Provision for income taxes | 10.3% | 35,586 | 7.3% | 18,966 | 9.7% | 26,894 |

Table of Contents**COPA HOLDINGS, S. A. AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2011****(In US\$ thousands)****22. Share-Based Payments**

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

The Company's equity compensation plans are accounted for under IFRS No. 2, *Share-Based Payment* (IFRS 2). IFRS 2 requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award or at fair value of the award at each reporting date, depending on the type of award granted. The fair value is estimated using option-pricing models. The resulting cost is recognized over the period during which an employee is required to provide service in exchange for the award, which is usually the vesting period.

The total compensation cost recognized for non-vested stock and options awards was \$7.7 million, \$4.0 million and \$4.7 in 2011, 2010 and 2009, respectively, and was recorded as a component of Salaries and benefits within Administrative expenses.

Non-vested Stock

Copa Holdings approved a one-time non-vested stock bonus award for certain executive officers of the Company and eliminated the existing Long Term Retention Plan.

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

| Grant Date | Number of Instruments | Vesting Conditions | Contractual life |
|-------------|-----------------------|--|------------------|
| March, 2006 | 847,625 | 15% first three anniversaries, 25% fourth and 30% fifth anniversary | 5 years |
| March, 2006 | 88,025 | Second anniversary | 2 years |
| March, 2007 | 16,955 | One-third every anniversary | 3 years |
| March, 2008 | 73,374 | One-third every anniversary | 3 years |
| March, 2009 | 113,714 | One-third every anniversary | 3 years |
| March, 2010 | 52,567 | One-third every anniversary | 3 years |
| March, 2011 | 43,464 | One-third every anniversary | 3 years |
| March, 2011 | 220,000 | 15% first two anniversaries, 20% third anniversary, 30% fourth anniversary and 20% fifth anniversary | 5 years |
| March, 2011 | 55,000 | Fifth anniversary | 5 years |

Table of Contents**COPA HOLDINGS, S. A. AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2011****(In US\$ thousands)****22. Share-Based Payments (continued)**

Non-vested stock awards were measured at their fair value, which is the same amount for which a similarly restricted share would be issued to third party, on the grant date. For the 2011 grants, the fair value of these non-vested stocks award was \$56.57 (\$53.92 2010).

A summary of non-vested stock award activity under the plan as of December 31, 2011 and 2010 with changes during these years are as follows:

| | Shares | |
|---|-----------|-----------|
| | 2011 | 2010 |
| Non-vested at January 1st | 365,727 | 569,766 |
| Granted | 318,464 | 52,567 |
| Vested | (298,206) | (252,704) |
| Forfeited | (584) | (3,902) |
| Non-vested at December 31 st | 385,401 | 365,727 |

The Company uses the accelerated attribution method to recognize the compensation cost for awards with graded vesting periods. The Company estimates that the remaining compensation cost, not yet recognized for the non-vested stock awards, is \$12.2 million with a weighted average remaining contractual life of 2.1 years. Additionally, the Company estimates that the 2012 compensation cost related to this plan will be \$5.3 million.

Stock Options

In March 2007, Copa Holdings granted 35,657 equity stock options to certain named executive officers, which vested over three (3) years in yearly installments equal to one-third of the awarded stock on each of the three anniversaries of the grant date. The exercise price of the options is \$53.14, which was the market price of the Company's stock at the grant date. The stock options have a contractual term of 10 years.

The weighted-average fair value of the stock options at the grant date was \$22.33, and was estimated using the Black-Scholes option-pricing model assuming an expected dividend yield of 0.58%, expected volatility of approximately 37.8% based on historical volatility, weighted average risk-free interest rate of 4.59%, and an expected term of 6 years calculated under the simplified method.

Table of Contents**COPA HOLDINGS, S. A. AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2011****(In US\$ thousands)****22. Share-Based Payments (continued)***Stock Options (continued)*

A summary of options award activity under the plan as of December 31, 2011 and changes during the year is as follows:

| | Shares |
|----------------------------------|---------------|
| Outstanding at January 1, 2011 | 32,639 |
| Granted | |
| Exercised | |
| Forfeited or expired | |
| Outstanding at December 31, 2011 | 32,639 |

The Company uses the accelerated method to recognize the compensation cost for stock options. There is no additional compensation cost to be recognized for stock options and the weighted average contractual life is 5.2 years.

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

23. Earnings per share

Basic earnings per share amounts are calculated by dividing the net income for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net income attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

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The following reflects the income and share data used in the basic and diluted earnings per share computations:

| | For the year ended December 31, 2011 | For the year ended December 31, 2010 | For the year ended December 31, 2009 |
|---|---|---|---|
| Net income | \$ 310,425 | \$ 241,057 | \$ 249,087 |
| Denominator for basic and diluted earnings per share | | | |
| Weighted average common shares outstanding | 43,823 | 43,534 | 43,308 |
| Non-vested dividend participating shares | 670 | 462 | 603 |
| Total shares for basic and diluted earnings per share | 44,493 | 43,996 | 43,911 |
| Earnings per share | | | |
| Basic and diluted | \$ 6.98 | \$ 5.48 | \$ 5.67 |

Options to purchase 32,639 shares of common stock at \$53.14 per share outstanding at the end of 2011 were excluded in the computation of diluted EPS because the option s exercise price was greater than the average market price of the common shares.

24. Dividends paid

Dividends declared and paid were 1.64 cents per share in 2011.

25. Commitments and Contingencies

The Company has 2 purchase contracts with Boeing, one for 23 Boeing 737-Next Generation aircraft, under which the Company has seventeen (17) firm orders and six (6) purchase options, and another order for thirty (30) Boeing 737-Next Generation aircraft, under which the company has twenty (20) firm orders and ten (10) purchase options. Additionally, the Company has six purchase options with Embraer for Embraer 190 aircraft. The firm orders have an approximate value of \$3.3 billion based on aircraft list prices, including estimated amounts for contractual price escalation and pre-delivery deposits. The Company is scheduled to take delivery of the aircraft underlying the 23 firm orders between 2011 and 2015, and the aircraft underlying the 30 firm orders between 2015 and 2018.

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December 31, 2011

(In US\$ thousands)

25. Commitments and Contingencies (continued)

Covenants

As a result of the various aircraft financing contracts entered into by the Company, the Company is required to comply with certain financial covenants. These covenants, among other things, require the Company to maintain an EBITDAR to fixed charge ratio of at least 2.5 times, a minimum tangible net worth of \$160 million, an EBITDAR to finance charge expense ratio of at least 2.0 times, a net borrowings to Company's capitalization ratio of less than 85%, a total liability plus operating leases minus operating cash to tangible net worth ratio of less than 5.5, a long-term obligations to EBITDAR ratio of less than 6.0, a minimum unrestricted cash balance of \$50 million and a minimum of \$75 million in available cash, cash equivalents and short-term investments.

As of December 31, 2011, the Company was in compliance with all required covenants.

Labor Unions

Approximately 58% of the Company's 7,609 employees are unionized. There are currently nine (9) union organizations; five (5) covering employees in Panama and four (4) covering employees in Colombia.

The five (5) unions covering employees in Panama include: the pilots union (UNPAC); the flight attendants union (SIPANAB); the mechanics union (SITECMAP); the traffic agents union (UGETRACO); and a generalized union (SIELAS), which represents ground personnel, messengers, drivers, traffic agents, counter agents and other non-executive administrative staff.

Copa Airlines entered into collective bargaining agreements with its mechanics union (SITECMAP) in April 2009; its general union (SIELAS) in July 2008; its pilot union (UNPAC) in November 2007 and its flight attendants union (SIPANAB) in March 2010.

Collective bargaining agreements in Panama are typically between three and four years terms.

Recently, Copa Airlines closed the negotiation of a final statement of alleged violations submitted by SIELAS. We started negotiations with UNPAC for a new collective bargaining agreement with a target completion date of August 2012. Copa Airlines has traditionally experienced good relations with its unions.

The four (4) unions covering employees in Colombia are: Pilots union (ACDAC) which communicated to Ministry of Labor its decision to negotiate with Copa Airlines Colombia, bill of petitions is expected and can occur until June 30, 2012. Flight attendants union (ACAV) with which Copa Airlines Colombia started negotiations on October 10, 2011 that lasted until November 29, the arbitration process is to be initiated.

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(In US\$ thousands)

25. Commitments and Contingencies (continued)

Industry union in Colombia (SINTRATAC) created in August, 2010. During flight attendants union negotiations received more affiliates and presented bill of petitions on November 23, 2011. Negotiations were held without agreement, so arbitration is to be initiated. Mechanics Union in Colombia (ACMA) which presented bill of petitions along with Industry Union negotiations without agreement, so arbitration in process to be initiated.

Typically, collective bargaining agreements in Colombia have terms of two to four 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.

Lines of Credit for Working Capital and Letters of Credit

The Company maintained available facilities for letters of credit with several banks with outstanding balances of \$33.7 million and \$26.8 million at December 31, 2011 and 2010, respectively. These letters of credit are pledged mainly for operating lessors, maintenance providers and airport operators. Of this total, \$0.2 million are letters of credit opened on behalf of Copa Colombia for the same purposes listed above.

Copa Airlines has lines of credit at total amount of \$142.1 million, in which it has committed lines of credit totaling \$58 million, including one line of credit for \$15 million and one overdraft line of credit of \$3 million with Banco General, an overdraft line of credit of \$10 million with Towerbank and a line of credit of \$30 million with Banco Nacional de Panamá. These lines of credit have been put in place to bridge liquidity gaps and for other potential contingencies.

As of December 31, 2011 Copa Airlines has an outstanding balance of \$5 million dollars with Citibank.

Litigation

The Company is the plaintiffs in an action filed against INFRAERO, Brazil's airport operator, in October of 2003 challenging the legality of the Additional Airport Tariffs (*Adicional das Tarifas Aeroportuárias*, or ATAERO), which is a 50% surcharge imposed on all airlines which fly to Brazil. Similar suits have been filed against INFRAERO by other major airline carriers. In its case, the court of first instance ruled in favor of INFRAERO and has appealed the judgment. During the pendency of the litigation, the Company continues to pay the amounts of ATAERO due into an escrow account and as of December 31, 2011, the aggregate amount in such account totaled US\$18 million. In the event the Company receives a final unfavorable judgment, it will be required to release the escrowed fund to INFRAERO and will not be able to recover such amounts. The Company does not, however, expect the release of such amounts to have a material impact on its financial results.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011

(In US\$ thousands)

26. Objectives and Policies for Managing Financial Risk

26.1 Fuel Price Risk

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

Also the Company has risks that are common in its industry and these are mitigated through derivatives contracts. The main risk associated with the industry is the variation in fuel prices, which the Company mitigates through derivatives instruments contracts.

The Company periodically enters into transactions for derivative financial instruments, namely, fuel derivative instruments, with the purpose of providing for short to mid-term hedge protection (generally three to eighteen months) against sudden and significant increases in jet fuel prices, while simultaneously ensuring that the Company is not competitively disadvantaged in the event of a substantial decrease in the price of jet fuel. The Company does not hold or issue derivative financial instruments for trading purposes.

The Company's derivative contracts did not qualify as hedges for financial reporting purposes. Accordingly, changes in fair value of such derivative contracts, which amounted to \$3.5 million and \$11.7 million in years 2011 and 2010, respectively, were recorded as a component of Other, net in the consolidated statement of income.

The fair value of derivative contracts amounted to \$18.6 and \$(0.4) million at December 31, 2011 and \$21.9 million at December 31, 2010 and was recorded in Other current assets and Other current liabilities in the consolidated statement of financial position. The Company's purchases of jet fuel are made substantially from one supplier.

At December 31, 2011, the Company held derivative instruments for 20% of its projected fuel consumption for 2012, in comparison with 27% of its 2011 fuel expense.

Financial derivative instruments expose the Company to credit loss in the event of nonperformance by the counterparties to the agreements. However, the Company does not expect any failure of the counterparties to meet their obligations, as the Company's policy to manage credit risk is to engage in business with counterparties who are financially stable and well-versed in the matters of energy risk management. The amount of such credit exposure is generally the unrealized gain, if any, in such contracts.

The sensitivity of a possible change in the price of jet fuel, with all other variables held constant, of the Company's income before income taxes if the price of jet fuel were to increase or decrease by 5% would be \$27,361 in 2011.

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COPA HOLDINGS, S. A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011

(In US\$ thousands)

26. Objectives and Policies for Managing Financial Risk (continued)

26.2 Market Risk

Foreign Currency Risk

Foreign exchange risk is originated when the Company performs transactions and maintains monetary assets and liabilities in currencies that are different from the functional currency of the Company. Assets and liabilities in foreign currency are converted with the exchange rates at the end of the period, except for non-monetary assets and liabilities that are converted at the equivalent cost of the (US\$) United States dollar at the acquisition date and maintain at the historical rate. The results of operations are converted with the average exchange rates that were in place during the period. Earnings and losses deriving from exchange rates are included within *Exchange rate difference* in the consolidated statement of income.

In 2011, approximately 68% of the Company's expenses and 40% of its revenues are denominated in dollars. The rest of revenue and expenses are denominated in currencies of countries the Company flies to, on which the most significant is the Colombian Peso. Generally, the Company's exposure to foreign currency risk is limited to a period of up to two weeks, from the moment that the sale is completed until the funds are repatriated to Panama in dollars.

If the devaluation percentage of the most representatives currencies would have been 5% during 2011 and the remaining market variables were constant, the pretax income would have fallen by \$0.32 million in 2011. The decrease origin would be principally for exchange losses, due to the repatriation of the currency, due to the Company generally maintains more assets than liabilities in foreign currency, basically cash and cash equivalents.

Due to exchange controls in Venezuela, however, the Company often experiences additional delays converting cash generated from its local operations in Venezuela.

Table of Contents**COPA HOLDINGS, S. A. AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2011****(In US\$ thousands)****26.2 Market Risk (continued)***Foreign Currency Risk (continued)*

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

| | As of December 31, 2011 | As of December 31, 2010 |
|--|-------------------------------|-------------------------------|
| Assets | | |
| Cash and cash equivalents | \$ 155,303 | \$ 96,551 |
| Accounts receivables, net | 76,384 | 52,727 |
| Prepaid expenses | 11,043 | 10,444 |
| Other assets | 78,695 | 80,664 |
| Total assets | \$ 321,425 | \$ 240,386 |
| Liabilities | | |
| Loans | \$ 400 | \$ 2,905 |
| Accounts payables suppliers and agencies | 63,366 | 35,990 |
| Accumulated taxes and expenses payables | 42,938 | 28,951 |
| Air traffic liability | 6,797 | 2,054 |
| Other liabilities | 20,779 | 18,782 |
| Total liabilities | 134,280 | 88,682 |
| Net position | \$ 187,145 | \$ 151,704 |

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

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COPA HOLDINGS, S. A. AND SUBSIDIARIES

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December 31, 2011

(In US\$ thousands)

26.3 Credit Risk

The credit risk is originated from cash and cash equivalents, deposits in banks, investments in financial instruments and accounts receivables and consist in the risk that the counterparty could not be capable to fulfill its contracted obligations, causing financial losses to the Company. The Company, to mitigate the credit risk arising from deposit in banks and investments in financial instruments, only conducts business with financial instruments that have investment grade of Fitch and Standard & Poor above BBB- with strength and liquidity indicators aligning with or above the market average. Also, for the credit risk originated for commercial accounts receivables, the Company does not consider it is a significant one, since most of the accounts receivables can be easily converted into cash, usually in periods no longer than one month. Accounts receivables from cargo agencies are more likely to be exposed to credit risk, but this is mitigated with the established policies to make sure that the credit sales are to clients with good credit history. Specific credit limits and payment terms have been established according to periodic analysis of the payment capacity of the clients.

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

26.4 Interest Rates and Cash Flow Risk

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

The interest rate risk is originated mainly for long term aircraft lease payments. These long term lease payments at variable interest rates expose the Company to cash flow risk. To mitigate the effect of variable cash flows associated to contracted rates and transform them into fixed rates, the Company has entered into one Interest Rates Swap contract to hedge against market rates fluctuations. This interest rates hedge contract has been designated and qualified as cash flow hedge contracts with changes in fair value recorded in Other current assets or in Other current liabilities in the consolidated statement of financial position and offset in Accumulated other comprehensive income (loss) .

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COPA HOLDINGS, S. A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011

(In US\$ thousands)

26.4 Interest Rates and Cash Flow Risk (continued)

At December 31, 2011, the fixed interest rates vary from 1.81% to 6.07% and the main floating rate is LIBOR. Gains and losses recognized in the other comprehensive income in equity on interest rate swap contracts as of December 31, 2011 will be continuously released to the consolidated statement of income until the repayment of the debt.

The fair value of the interest rate swap hedge derivative contract amounted to \$6,464 and \$6,504 at December 31, 2011 and 2010 respectively and is recorded as a component of Other current liabilities against the Accumulated other comprehensive income (loss) .

The ineffective portion of this contract, if any, is recognized in the consolidated statement of income as a component of Other operating expenses . During these periods there was no ineffectiveness of the hedging contracts.

26.5 Liquidity Risk

The Company s policy requires having sufficient cash to fulfill its obligations. The Company maintains sufficient cash on hand and in banks or equivalents of easy realization into cash. The Company also has credit lines in financial institutions that allow it to withstand potential cash deficit to fulfill its short term commitments.

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

| | <u>Less than</u> twelve months | <u>1 to 4 years</u> | <u>More than</u> four years |
|-------------------------------------|-----------------------------------|---------------------|--------------------------------|
| <u>December 31, 2011</u> | | | |
| Long term debt | 131,069 | 354,916 | 581,741 |
| Accounts payable | 92,842 | | |
| Air traffic liability | 297,135 | | |
| Accounts payable to related parties | 22,074 | | |
| Other liabilities | 115,540 | 80,948 | |
| <u>December 31, 2010</u> | | | |
| Long term debt | 100,860 | 425,781 | 462,900 |
| Accounts payable | 68,960 | | |
| Air traffic liability | 171,417 | | |
| Accounts payable to related parties | 10,940 | | |
| Other liabilities | 108,400 | 62,083 | |

26.6 Capital Risk Management

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

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

Following is summarized the gearing ratio of the Company:

| | As of December 31, 2011 |
|--|--|
| Total loans payable (Note 14) | \$ 1,067,726 |
| Less: cash and cash equivalents and short-term investments | (506,146) |
| Net debt | 561,580 |
| Total equity | 1,389,531 |

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| | |
|---------------|--------------|
| Total capital | \$ 1,951,111 |
| Gearing ratio | 29% |

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A comparison by class of the carrying amounts and fair value of the Company's financial instruments carried in the consolidated financial statements is as follows:

| | Carrying amount | | Fair value | |
|---------------------------------------|-------------------|-------------------|-------------------|-------------------|
| | December 31, 2011 | December 31, 2010 | December 31, 2011 | December 31, 2010 |
| Financial assets | | | | |
| Cash and cash equivalents | \$ 243,801 | \$ 207,690 | \$ 243,801 | \$ 207,690 |
| Short term investments | \$ 262,345 | \$ 194,913 | \$ 262,345 | \$ 194,913 |
| Investments | \$ 104,834 | \$ 6,224 | \$ 104,834 | \$ 6,224 |
| Accounts receivable | \$ 142,297 | \$ 88,774 | \$ 142,297 | \$ 88,774 |
| Fuel derivatives | \$ 18,605 | \$ 21,785 | \$ 18,605 | \$ 21,785 |
| Currency derivatives | \$ | \$ 209 | \$ | \$ 209 |
| Financial liabilities | | | | |
| Accounts payable | \$ 92,842 | \$ 68,960 | \$ 93,457 | \$ 68,960 |
| Current maturities and long-term debt | \$ 1,067,726 | \$ 989,541 | \$ 1,143,047 | \$ 1,088,560 |
| Fuel derivatives | \$ 366 | \$ | \$ 366 | \$ |
| Interest rate hedges | \$ 6,464 | \$ 6,504 | \$ 6,464 | \$ 6,504 |

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

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

Cash and cash equivalents, short term investments approximate their carrying amounts largely due to the short-term maturities of these instruments.

Accounts receivable are evaluated by the Company based on parameters such as interest rates, risk characteristics. Based on this evaluation, allowances are taken to account for the expected losses of these receivables.

Debts obligation, financial assets and financial liabilities are estimated by discounting future cash flows using the Company's current incremental rate of borrowing for a similar liability.

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Fair value measurement is classified entirely following the hierarchy level of fair value that was included in IFRS 7 *Financial Instruments: Disclosures*; as following:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Inputs other than quoted prices including within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is derived from prices).

Level 3: Inputs for the asset or liability that is not based on observable market data (that is unobservable inputs).

The following chart summarizes the Company's financial instruments measured at fair value, classified according to the valuation method:

| Description | <i>Fair Value Measurement at Reporting Date Using</i> | | | |
|--------------------------|---|----------------|----------------|----------------|
| | December 31, 2011 | Level 1 | Level 2 | Level 3 |
| Assets | | | | |
| Fuel derivatives | 18,605 | | 18,605 | |
| Total assets | 18,605 | | 18,605 | |
| Liabilities | | | | |
| Interest rates hedges | 6,464 | | 6,464 | |
| Fuel derivatives | 366 | | 366 | |
| Total liabilities | 6,831 | | 6,831 | |

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During first quarter of 2012, the Compensation Committee of the Company's Board of Directors approved two (2) new awards. Awards were granted under these new plans for approximately 42,358 shares of non-vested stock, which will vest over a period of three (3) years. The Company estimates the fair value of these awards to be approximately \$3.5 million and the 2012 compensation cost for these plans is \$1.9 million.

28. Segment Reporting

Until December 2010 Management evaluated the financial and operating results of Copa Segment and Copa Colombia segment separately. With the change of structure during 2011, internal reporting has been changed and financial information is now reviewed at the consolidated level. Analysis is made for one segment, which is the information Management reviews in order to make decisions about resources to be deployed for the consolidated entity.

Information concerning operating revenue by principal geographic area for the period ended December 31 is as follows (in millions):

| | As of December 31 2011 | As of December 31 2010 | As of December 31 2009 |
|-------------------------------|------------------------------|------------------------------|------------------------------|
| North America | \$ 308.9 | \$ 215.3 | \$ 192.6 |
| Central America and Caribbean | 241.0 | 208.2 | 188.1 |
| Colombia | 270.7 | 245.0 | 246.4 |
| Brazil | 230.7 | 135.4 | 88.7 |
| Venezuela | 178.5 | 123.0 | 176.9 |
| Others South America | 380.3 | 281.0 | 228.2 |
| Panama | 220.8 | 206.9 | 135.1 |
| | \$ 1,830.9 | \$ 1,414.8 | \$ 1,256.0 |

We attribute revenue among the geographical areas based upon point of sales. Our tangible assets and capital expenditures consist primarily of flight and related ground support equipment, which is mobile across geographic markets and, therefore, has not been allocated.