Copa Holdings, S.A.
Form F-1/A
June 22, 2006

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As filed with the Securities and Exchange Commission on June 22, 2006

Registration No. 333-135031

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Amendment No. 1
To

Form F-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

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	**4512**	**Not Applicable**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification No.)*

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
(+507 304-2672)
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Puglisi & Associates
850 Library Avenue, Suite 204
Newark, Delaware 19711
(1-302-738-6680)
(Name, address, including zip code, and telephone number, including area code, of agent for service)

With copies to:

David L. Williams
Simpson Thacher & Bartlett LLP
425 Lexington Avenue
New York, New York 10017

Francesca Lavin
Cleary Gottlieb Steen & Hamilton LLP
One Liberty Plaza
New York, New York 10006

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, please check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price per Share(2)	Proposed Maximum Aggregate Offering Price(1)(2)	Amount of Registration Fee(3)
Class A common shares, without par value	7,546,875 shares	$ 22.94	$ 173,125,312.50	$ 18,524.41

(1) Includes Class A common shares that the underwriters may purchase solely to cover over-allotments, if any.
(2) Estimated solely for purposes of calculating the amount of the registration fee pursuant to Rule 457(c) under the Securities Act based on the average high and low prices of the Class A common shares as reported by the New York Stock Exchange on June 13, 2006.
(3) Previously paid.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act, or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PROSPECTUS (Subject to Completion)
Issued June 21, 2006

6,562,500 Shares

Copa Holdings, S.A.

CLASS A COMMON STOCK

The selling shareholder identified in this prospectus is offering 6,562,500 shares of Class A common stock to be sold in this offering.

The Class A shares are listed on the New York Stock Exchange, or NYSE, under the symbol CPA. On June 20, 2006, the reported last sale price of the Class A shares was $22.59 per share on the NYSE.

Investing in the company s Class A shares involves risks. See Risk Factors beginning on page 13.

	Price to Public	*Underwriting Discounts and Commissions*	*Proceeds to Selling Shareholder*
Per share	$	$	$
Total	$	$	$

Copa Holdings, S.A. will not receive any proceeds from the sale by the selling shareholder of Class A common stock in this offering.

The selling shareholder has granted the underwriters the right to purchase up to an additional 984,375 shares of Class A common stock to cover any over-allotments.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of Class A common stock to purchasers on , 2006.

Morgan Stanley **Merrill Lynch & Co.**

Goldman, Sachs & Co.

, 2006

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You should rely only on the information contained in this prospectus. Neither we nor the selling shareholder have, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. Neither we nor the selling shareholder are, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. This document may only be used where it is legal to sell these securities. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus, regardless of when this prospectus is delivered or when any sale of the Class A shares occurs. Our business, financial condition, results of operations and prospects may have changed since that date.

In this prospectus, we use the term Copa Holdings to refer to Copa Holdings, S.A., Copa or Copa Airlines to refer to Compañía Panameña de Aviación, S.A., a subsidiary of Copa Holdings, S.A., and AeroRepública to refer to AeroRepública, S.A., a subsidiary of Copa Holdings, S.A. The terms we, us and our refer to Copa Holdings, S.A. together with its subsidiaries, except where the context requires otherwise. References to Class A shares refer to Class A shares of Copa Holdings, S.A.

This prospectus 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 and other travel awards) flown on all flight segments (with each connecting segment being considered a separate flight segment).

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

MARKET DATA

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

PRESENTATION OF FINANCIAL AND STATISTICAL DATA

Included elsewhere in this prospectus are our audited consolidated balance sheets at December 31, 2004 and 2005 and the audited consolidated statements of income, changes in shareholders equity and cash flows for the years ended December 31, 2003, 2004 and 2005. Also included herein are our unaudited consolidated interim financial statements as of and for the three-month periods ended March 31, 2005 and 2006. The consolidated financial information as of December 31, 2003 and for the year ended December 31, 2002 has been derived from our audited consolidated financial statements that were prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP and which have not been included in this prospectus. The consolidated financial information as of December 31, 2001 and 2002 and for the year ended December 31, 2001 has been derived from our audited consolidated financial statements that were prepared under International Financial Reporting Standards and adjusted to be presented on a basis consistent with U.S. GAAP and which have not been included in this prospectus.

Our audited and unaudited consolidated financial statements have been prepared in accordance with U.S. GAAP and are stated in U.S. dollars. We began consolidating the results of our AeroRepública operating subsidiary as of its acquisition date on April 22, 2005. Unless otherwise indicated, all references in the prospectus to $ or dollars refer to U.S. dollars, and all references to Pesos or Ps. refer to Colombian pesos, the local currency of Colombia.

Unless otherwise indicated, all information contained in this prospectus assumes no exercise of the underwriters option to purchase up to 984,375 additional shares of Class A common stock to cover over-allotments.

Certain figures included in this prospectus 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.

ENFORCEABILITY OF CIVIL LIABILITIES

Copa Holdings is a corporation (*sociedad anónima*) organized under the laws of the Republic of Panama. Most of our directors and officers and certain of the experts named in this prospectus reside outside of the United States, and all or a substantial portion of the assets of such persons and ours are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons, including with respect to matters arising under the Securities Act of 1933, as amended (the Securities Act), or to effect the due process necessary to enforce judgments of courts of the United States against us or any of our directors and officers. We have been advised by our Panamanian legal counsel, Galindo, Arias & Lopez, that there is doubt as to the enforceability, in original actions in Panamanian courts, of liabilities predicated solely on the United States federal securities laws. Any judgment rendered by a U.S. court may be enforced in Panama through a suit on the judgment (*exequatur*), would be recognized and accepted by the courts of Panama and would be enforceable by the courts of Panama without a new trial or examination of the merits of the original action, provided due process had been granted to all parties and that the obligation the judgment is seeking to enforce is not illegal or against public policy in Panama.

SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements, principally under the captions Summary, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations, The Industry and Business. 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 prospectus, 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;
- competitive pressures on pricing;
- our capital expenditure plans;
- changes in the regulatory environment in which we operate;
- changes in labor costs, maintenance costs, fuel costs and insurance premiums;
- changes in market prices, customer demand and preferences and competitive conditions;
- cyclical and seasonal fluctuations in our operating results;

defects or mechanical problems with our aircraft;

our ability to successfully implement our growth strategy;

our ability to obtain financing on commercially reasonable terms; and

the risk factors discussed under Risk Factors beginning on page 13.

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The words believe, may, will, aim, estimate, continue, anticipate, intend, expect and similar words a identify forward-looking statements. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities, the effects of future regulation and the effects of competition. Forward-looking statements speak only as of the date they were made, and we undertake no obligation to update publicly or to revise any forward-looking statements after we distribute this prospectus 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 prospectus 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 prospectus.

SUMMARY

This summary highlights selected information about us and the Class A shares being offered by the selling shareholder. It may not contain all of the information that may be important to you. Before investing in the Class A shares, you should read this entire prospectus carefully for a more complete understanding of our business and this offering, including our audited and unaudited financial statements and the related notes and the sections entitled Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations.

Overview

We are a leading Latin American provider of airline passenger and cargo service through our two principal operating subsidiaries, Copa and AeroRepública. Copa operates from its strategically located position in the Republic of Panama, and AeroRepública provides service primarily within Colombia. Our fleet currently consists of 22 Boeing 737-Next Generation aircraft, two Embraer 190 aircraft, 11 MD-80 aircraft and two DC-9 aircraft (one of which is currently retired). We currently have firm orders for eight Boeing 737-Next Generation and 18 Embraer 190s and purchase rights and options for up to nine additional Boeing 737-Next Generation and 35 additional Embraer 190s.

Copa was established in 1947 and currently offers approximately 92 daily scheduled flights among 30 destinations in 20 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 codeshare arrangements with Continental Airlines Inc., or Continental, 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 operates a modern fleet of 22 Boeing 737-Next Generation aircraft and two Embraer 190 aircraft with an average age of approximately 3.6 years as of May 31, 2006. To meet its growing capacity requirements, Copa has firm commitments to accept delivery of 21 additional aircraft through 2009 and has purchase rights and options that, if exercised, would allow it to accept delivery of up to 24 additional aircraft through 2009. Copa s firm orders are for eight additional Boeing 737-Next Generation aircraft and 13 additional Embraer 190s, and its purchase rights and options are for up to nine Boeing 737-Next Generation aircraft and up to 15 Embraer 190s.

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 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 Continental have enhanced its brand in Latin America, and that the relationship with Continental 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 Continental are in effect until 2015.

During the second quarter of 2005, we purchased AeroRepública, a Colombian air carrier that was the second-largest domestic carrier in Colombia in terms of number of passengers carried in 2005, providing predominantly point-to-point service among 12 cities in Colombia and to Copa s Panama City hub. AeroRepública currently operates a fleet of eleven leased MD-80s and two owned DC-9s (one of which is currently retired). As part of its fleet modernization and expansion plan, AeroRepública has firm commitments to accept delivery of five Embraer 190 aircraft through 2007 and purchase rights and options to purchase up to 20 additional Embraer 190 aircraft through 2011.

Since January 2001, we have grown significantly and have established a track record of consistent profitability, recording five consecutive years of increasing earnings. Our total operating revenues have increased from $290.4 million in 2001 to $608.6 million in 2005, while our net income has increased from $14.8 million to $83.0 million over the same period. Our operating margins also improved from 8.6% in 2001 to 17.9% in 2005.

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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 industry.

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 was 8.72 cents in 2004 and 9.30 cents in 2005. Our operating cost per available seat mile excluding costs for fuel and fleet impairment charges was 7.50 cents in 2001, 7.59 cents in 2002, 7.17 cents in 2003, 7.01 cents in 2004, 6.52 cents in 2005 and 6.37 cents for the three months ended March 31, 2006. See Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations for a reconciliation of our operating cost per available seat mile when excluding costs for fuel and fleet impairment charges to our operating cost per available seat mile. We believe that our cost per available seat mile reflects our modern fleet, efficient operations and the competitive cost of labor in Panama.

Copa operates a modern fleet. Copa completed the replacement of all of its Boeing 737-200 aircraft in the first quarter of 2005 with Boeing 737-Next Generation aircraft equipped with winglets and other modern cost-saving and safety features. Copa also recently accepted delivery of its first two Embraer 190 aircraft. Over the next four years, Copa intends to enhance its modern fleet through the addition of at least eight additional Boeing 737-Next Generation aircraft and 13 new Embraer 190s. We believe that Copa s modern fleet contributes to its on-time performance and high completion factor (percentage of scheduled flights not cancelled). We expect our Boeing 737-700s and 737-800s and our new Embraer 190s to offer substantial operational cost savings over the replaced aircraft in terms of fuel efficiency and maintenance costs. AeroRepública is currently implementing a fleet modernization and expansion plan with firm commitments on five new Embraer 190s and options for an additional 20 Embraer 190 aircraft.

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 three months ended March 31, 2006, Copa Airline s statistic for on-time performance was 92.3%, completion factor was 99.7% and baggage handling was 1.2 mishandled bags per 1000 passengers. Our goal is to apply our expertise in these areas to improve AeroRepública s service statistics to comparable levels. Our focus on customer service has helped to build passenger loyalty. We believe that our brand has also been enhanced through our relationship with Continental, including our joint marketing of the OnePass loyalty program in Latin America, the similarity of our aircraft livery and aircraft interiors and our participation in Continental s President s Club lounge program.

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 at Copa has individual objectives based on corporate goals that serve as a basis for measuring performance. When corporate operational and financial targets are met, employees at Copa are eligible to receive bonuses according to our profit sharing program. See Business 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. Copa s goal-oriented culture and incentive programs have contributed to a motivated work force that is focused on satisfying customers, achieving efficiencies and growing profitability. We seek to create a similar culture at AeroRepública.

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. With the addition of Embraer 190 aircraft and growth in overall capacity, we expect to have more flexibility in scheduling our flights for our customers convenience.

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.

Introduce service with new Embraer 190 aircraft. We believe that the addition of the Embraer 190 aircraft allows us to provide efficient service to new destinations in underserved markets. In addition, we believe that the Embraer 190s enhance our ability to efficiently match our capacity to demand, allowing us to improve service frequencies to currently served markets and to redeploy our higher capacity aircraft to serve routes with greater demand.

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 frequent flyer program, upgrades and access to President s Club lounges.

Capitalize on opportunities at AeroRepública. We are seeking to enhance AeroRepública s market share and profitability through a variety of initiatives, including modernizing its fleet, integrating its route network with Copa s and improving overall efficiency. We also seek to increase customer loyalty by making further operational improvements at AeroRepública, such as on-time performance which improved from 70.4% during the six months ended December 31, 2005 to 81.9% during the three months ended March 31, 2006, and in March 2006, we implemented the OnePass frequent flyer program at AeroRepública.

Selling Shareholder

Our equity structure provides for two classes of stock with different voting rights. Class A shares initially have no voting rights except in certain circumstances and Class B shares are entitled to one vote per share on all matters. Continental currently holds approximately 38.4% of our Class A shares, representing approximately 27.3% of our total capital stock. After the completion of this offering, Continental is expected to hold approximately 17.3% of our Class A shares, representing approximately 12.3% of our total capital stock, assuming the underwriters over-allotment option is not exercised. Corporación de Inversiones Aéreas, S.A., or CIASA, holds all of our Class B shares, representing approximately 29.2% of our total capital stock and all of the voting rights associated with our capital stock. CIASA is therefore entitled to elect a majority of our directors and to determine the outcome of the voting on substantially all actions that require shareholder approval. See Description of Capital Stock.

Our 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 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. AeroRepública S.A. is our operating subsidiary that is primarily engaged in domestic air travel within Colombia. Oval Financial Leasing, Ltd. controls the special purpose vehicles that have a beneficial interest in the majority of our aircraft. OPAC, S.A. is a property holding company that owns our former corporate headquarters facility.

Copa Holdings was formed on May 6, 1998 as a corporation (*sociedad anónima*) duly incorporated under the laws of Panama with an indefinite duration. Copa Holdings was organized to be a holding company for Copa and related companies in connection with the acquisition by Continental of its 49% interest in us at that time.

Our 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, Panama, and our telephone number is +507 304-2677. The website of Copa is www.copaair.com. AeroRepública maintains a website at www.aerorepublica.com.co. Information contained on, or accessible through, these websites is not incorporated by reference herein and shall not be considered part of this prospectus. 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.

The Offering

Issuer	Copa Holdings, S.A.
Selling shareholder	Continental Airlines, Inc.
Shares offered	6,562,500 Class A shares, without par value.
Over-allotment option	The selling shareholder has granted the underwriters the right for a period of 30 days to purchase up to an additional 984,375 Class A shares solely to cover over-allotments, if any.
Offering price	$ per Class A share.
Shares outstanding after the offering	Immediately following the offering (assuming the underwriters over-allotment option is not exercised), the number of shares of our capital stock will be as shown below:

Class A:	
Public, including management	25,612,500 shares
Continental	5,359,375 shares
Total Class A shares	30,971,875 shares
Class B:	
CIASA	12,778,125 shares
Total outstanding shares	43,750,000 shares

Voting rights	The holders of the Class A shares have no voting rights except with respect to certain corporate transformations, mergers, consolidations or spin-offs, changes of our corporate purpose, voluntary delistings of the Class A shares from the NYSE, approval of nominations of the independent directors or amendments to the foregoing provisions that adversely affect the rights and privileges of any Class A shares. Under certain circumstances which we believe are not likely in the foreseeable future, each Class A share will entitle its record holder to one vote on all matters on which our shareholders are entitled to vote. Each Class B share is entitled to one vote on all matters for which shareholders are entitled to vote. See Description of Capital Stock.
Controlling shareholder	Following this offering, CIASA will continue to beneficially own 100% of our Class B shares which will represent all of the voting power of our capital stock. CIASA will therefore be entitled to elect a majority of our directors and to determine the outcome of the voting on substantially all actions that require shareholder approval.

Ownership restrictions	Our independent directors have the power under certain circumstances to control or restrict the level of non-Panamanian ownership of our Class B shares and the exercise of voting rights attaching to Class A shares held by non-Panamanian nationals in order to allow us to comply with Panamanian airline ownership and control requirements. See Description of Capital Stock.
Tag-along rights	Our board of directors may refuse to register any transfer of shares in which CIASA proposes to sell Class B shares 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,

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	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 CIASA shares being sold. However, a proposed purchaser could acquire control of Copa Holdings in a transaction that would not give holders of Class A shares the right to participate, including a sale by a party that had previously acquired control 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. See Description of Capital Stock Tag-Along Rights.
Use of proceeds	We will not receive any proceeds from the sale of our Class A shares by the selling shareholder.
Dividends	Holders of the Class A and Class B shares will be entitled to receive dividends to the extent they are declared by our board of directors in its absolute discretion. 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 contemplates the annual payment of equal dividends to our Class A and Class B shareholders in an aggregate amount approximately equal to 10% of our consolidated net income for each year. This dividend policy can be amended or discontinued by our board of directors at any time for any reason. See Dividends and Dividend Policy and Description of Capital Stock.
Lock-up agreements	The selling shareholder has agreed, subject to certain exceptions, not to issue or transfer without the consent of the underwriters, until after the first anniversary (or 90 days solely in the case of the over-allotment shares to the extent such option is not exercised in full or at all) of the date of this prospectus, any shares of our capital stock, any options or warrants to purchase shares of our capital stock or any securities convertible into or exchangeable for shares of our capital stock. The selling shareholder has also agreed, subject to the same exceptions, not to issue or transfer without the consent of CIASA, until after the second anniversary of the date of this prospectus, any shares of our capital stock, any options or warrants to purchase shares of our capital stock or any securities convertible into or exchangeable for shares of our capital stock. In addition, we, our directors and executive officers have agreed, subject to certain exceptions, not to issue or transfer without the consent of the underwriters, until 90 days after the date of this prospectus, any shares of our capital stock, any options or warrants to purchase shares of our capital stock or any securities convertible into or exchangeable for shares of our capital stock. CIASA has agreed, subject to certain exceptions, not to issue or transfer without the consent of the underwriters, until 180 days after the date of this prospectus, any shares of our capital stock, any options or warrants to purchase shares of our capital stock or any securities convertible into or

	exchangeable for shares of our capital stock.
Listing	The Class A shares trade on the NYSE.
NYSE symbol for the Class A shares	CPA.

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Risk factors	See Risk Factors beginning on page 13 and the other information included in this prospectus for a discussion of certain important risks you should carefully consider before deciding to invest in the Class A shares.

Expected offering timetable (subject to change):	
Commencement of marketing of the offering	Week of June 19, 2006
Announcement of offer price and allocation of Class A shares	Week of June 26, 2006
Settlement and delivery of Class A shares	Week of July 3, 2006

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Summary Financial and Operating Data

The following table presents summary consolidated financial and operating data as of the dates and for the periods indicated. Our consolidated financial statements are prepared in accordance with U.S. GAAP and are stated in U.S. dollars. You should read this information in conjunction with our consolidated financial statements included in this prospectus and Management s Discussion and Analysis of Results of Operations and Financial Condition appearing elsewhere in this prospectus.

The summary consolidated financial information as of December 31, 2004 and 2005 and for the years ended December 31, 2003, 2004 and 2005 has been derived from our audited consolidated financial statements included elsewhere in this prospectus. The consolidated financial information as of December 31, 2003 and for the year ended December 31, 2002 has been derived from our audited consolidated financial statements that were prepared under U.S. GAAP and which have not been included in this prospectus. The consolidated financial information as of December 31, 2001 and 2002 and for the year ended December 31, 2001 has been derived from our audited consolidated financial statements that were prepared under International Accounting Standards and adjusted to be presented on a basis consistent with U.S. GAAP and which have not been included in this prospectus.

The summary consolidated financial data as of and for the three months ended March 31, 2005 and 2006 has been derived from our unaudited interim consolidated financial statements for these periods appearing elsewhere in this prospectus. The results of operations for the three months ended March 31, 2006 are not necessarily indicative of the operating results to be expected for the entire year ending December 31, 2006 or for any other period.

We acquired 99.8% of the stock of AeroRepública, a Colombian air carrier, and began consolidating its results on April 22, 2005. As a result of this acquisition, our financial information at and for the year ended December 31, 2005 and for the three months ended March 31, 2006 is not comparable to the information at and for the year ended December 31, 2004 and for the three months ended March 31, 2005, respectively.

	Year Ended December 31,					Three Months Ended March 31,	
	2001	2002	2003	2004	2005[20]	2005	2006
	(in thousands of dollars, except share and per share data and operating data)						
INCOME STATEMENT DATA							
Operating revenue:							
Passenger revenue	$ 257,918	$ 269,629	$ 311,683	$ 364,611	$ 565,131	$ 105,141	$ 180,358
Cargo, mail and other	32,454	31,008	30,106	35,226	43,443	8,467	11,368
Total operating revenues	290,372	300,637	341,789	399,837	608,574	113,608	191,726
Operating expenses:							
Aircraft fuel	46,514	40,024	48,512	62,549	149,303	21,336	47,110
Salaries and benefits	38,709	39,264	45,254	51,701	69,730	13,385	19,446
Passenger servicing	32,834	33,892	36,879	39,222	50,622	10,431	14,634
Commissions	31,652	28,720	27,681	29,073	45,087	7,481	13,101
	18,629	16,707	18,011	22,118	29,213	5,725	8,265

Reservations and sales							
Maintenance, materials and repairs	25,369	20,733	20,354	19,742	32,505	4,714	10,287
Depreciation	13,325	13,377	14,040	19,279	19,857	4,739	5,417
Flight operations	13,887	14,567	15,976	17,904	24,943	4,972	7,713
Aircraft rentals	20,106	21,182	16,686	14,445	27,631	4,678	8,861
Landing fees and other rentals	8,451	8,495	10,551	12,155	17,909	3,343	5,555
Other	15,892	19,166	25,977	29,306	32,622	6,827	9,574
Fleet impairment charge[1]		13,669	3,572				
Total operating expenses	265,368	269,796	283,493	317,494	499,422	87,631	149,963
Operating income	25,004	30,841	58,296	82,343	109,152	25,977	41,763

	Year Ended December 31,					Three Months Ended March 31,	
	2001	2002	2003	2004	2005[20]	2005	200
	(in thousands of dollars, except share and per share data and operating data)						
erating (expense):							
expense	(10,988)	(7,629)	(11,613)	(16,488)	(21,629)	(4,557)	(
capitalized	1,592	1,114	2,009	963	1,089	143	
income	701	831	887	1,423	3,584	687	
et[2]	331	(1,490)	2,554	6,063	395	2,196	
n-operating s, net	(8,364)	(7,174)	(6,163)	(8,039)	(16,561)	(1,531)	(
(loss) before taxes	16,640	23,667	52,133	74,304	92,591	24,446	3
n for income	(1,822)	(2,999)	(3,644)	(5,732)	(9,592)	(1,886)	(
me (loss)	14,818	20,668	48,489	68,572	82,999	22,560	3
NCE SHEET							
sh, cash ents and rm ents	$ 28,385	$ 34,476	$ 61,432	$ 110,943	$ 114,490	$ 111,143	$ 11
s receivable,	30,210	24,006	31,019	27,706	49,492	32,372	5
rrent assets	69,040	68,940	103,523	152,087	184,793	158,876	19
e deposits t equipment	46,540	55,867	45,869	7,190	52,753	23,163	5
operty and ent	227,717	345,411	480,488	541,211	637,543	553,117	64
sets	300,121	421,935	591,915	702,050	916,912	721,862	93
rm debt	111,125	211,698	311,991	380,827	402,954	384,236	39
areholders	46,426	67,094	115,583	174,155	245,867	196,715	27
FLOW							
provided by g activities	$ 32,997	$ 55,543	$ 73,479	$ 98,051	$ 119,089	$ 13,635	$ 2
used in g activities	(39,473)	(150,203)	(151,802)	(85,738)	(163,570)	(10,345)	(1
provided by g activities	14,466	100,400	105,298	29,755	38,921	2,687	(
R CIAL							

A(3)	38,660	42,728	74,890	107,685	129,404	32,912	4(
rentals	20,106	21,182	16,686	14,445	27,631	4,678	8
ng margin(4)	8.6%	10.3%	17.1%	20.6%	17.9%	22.9%	
ed average sed in ng net per share(5)	42,812,500	42,812,500	42,812,500	42,812,500	42,812,500	42,812,500	42,81
ome (loss) e(5)	$ 0.35	$ 0.48	$ 1.13	$ 1.60	$ 1.94	$ 0.53	$

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	Year Ended December 31,					Three Months Ended March 31,	
	2001	2002	2003	2004	2005[20]	2005	2006
	(in thousands of dollars, except share and per share data and operating data)						
OPERATING DATA							
Revenue passengers carried[6]	1,794	1,819	2,028	2,333	4,361	636[22]	1,321[22]
Revenue passenger miles[7]	1,870	1,875	2,193	2,548	3,831	736[22]	1,155[22]
Available seat miles[8]	2,920	2,847	3,226	3,639	5,368	1,018	1,615
Load factor[9]	64.0%	65.9%	68.0%	70.0%	71.4%	72.3%[22]	71.5%[22]
Break-even load factor[10]	58.7%	54.5%	52.8%	52.6%	57.9%	52.1%[22]	55.8%[22]
Total block hours[11]	59,760	58,112	64,909	70,228	103,628	18,928	31,483
Average daily aircraft utilization[12]	9.1	8.8	9.0	9.3	9.8	9.9	9.7
Average passenger fare	143.8	148.2	153.7	156.3	129.6	165.3[22]	136.5[22]
Yield[13]	13.79	14.38	14.22	14.31	14.75	14.28[22]	15.61[22]
Passenger revenue per ASM[14]	8.83	9.47	9.66	10.02	10.53	10.33	11.17
Operating revenue per ASM[15]	9.94	10.56	10.60	10.99	11.34	11.16	11.87
Operating expenses per ASM (CASM)[16]	9.09	9.48	8.79	8.72	9.30	8.61	9.29
Departures	23,742	23,361	25,702	27,434	48,934	7,096	15,826
Average daily departures	65.0	64.0	70.4	75.0	156.6	78.8	176.2
Average number of aircraft.	18.0	18.1	19.8	20.6	31.0	21.2	36.1
Airports served at period end	28	27	28	29	43	29	43
SEGMENT FINANCIAL DATA							
Copa:							
Operating revenue	$ 290,372	$ 300,637	$ 341,789	$ 399,837	$ 505,655	$ 113,608	$ 151,602
Operating expenses	265,368	269,796	283,493	317,494	402,684	87,631	110,613
Depreciation	13,325	13,377	14,040	19,279	19,242	4,739	5,227
Aircraft rentals	20,106	21,182	16,686	14,445	22,096	4,678	5,858
Interest expense	10,988	7,629	11,613	16,488	19,424	4,557	5,678
Interest capitalized	1,592	1,114	2,009	963	1,089	143	508
Interest income	701	831	887	1,423	3,376	687	1,148
	16,640	23,667	52,133	74,304	89,745	24,446	37,032

Net income (loss) before tax							
Total assets	300,121	421,935	591,915	702,050	851,075	721,862	879,215
AeroRepública: [(21)]							
Operating revenue					$ 102,976		$ 40,246
Operating expenses					96,839		39,472
Depreciation					615		190
Aircraft rentals					5,535		3,003
Interest expense					2,205		600
Interest capitalized							
Interest income					208		114
Net income (loss) before tax					2,846		(686)
Total assets					98,091		90,740

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	Year Ended December 31,					Three Months Ended March 31,	
	2001	2002	2003	2004	2005[20]	2005	2006
	(in thousands of dollars, except share and per share data and operating data)						
SEGMENT OPERATING DATA							
Copa:							
Available seat miles[8]	2,920	2,847	3,226	3,639	4,409	1,018	1,216
Load factor[9]	64.0%	65.9%	68.0%	70.0%	73.4%	72.3%	77.6%
Break-even load factor	58.7%	54.5%	52.8%	52.6%	56.8%	52.1%	55.3%
Yield[13]	13.79	14.38	14.22	14.31	14.41	14.28	15.01
Operating revenue per ASM[15]	9.94	10.56	10.60	10.99	11.47	11.16	12.46
CASM[16]	9.09	9.48	8.79	8.72	9.13	8.61	9.09
Average stage length[18]	1,023	1,010	1,028	1,047	1,123	1,115	1,158
On time performance[17]	87.7%	90.5%	91.4%	91.8%	91.7%	94.9%	92.3%
***AeroRepública:*[21]**							
Available seat miles[8]					950		399
Load factor[9]					62.0%		53.1%
Break even load factor					60.8%		54.4%
Yield[13]					16.61[22]		18.32[22]
Operating revenue per ASM[15]					10.74		10.10
CASM[16]					10.10		9.90
Average stage length[18]					360		357
On time performance[19]					70.4%		81.9%

(1) Represents impairment losses on our Boeing 737-200 aircraft and related assets. See Note 8 to our consolidated financial statements.

(2) Consists primarily of changes in the fair value of fuel derivative contracts, foreign exchange gains/losses and gains on sale of Boeing 737-200 aircraft. See Management s Discussion and Analysis of Financial Condition and Results of Operations and the notes to our consolidated financial statements.

(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 U.S. GAAP 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:

	Year Ended December 31,	Three Months Ended March 31,

	2001	2002	2003	2004	2005	2005	2006
	(in thousands of dollars)						
Net income (loss)	$ 14,818	$ 20,668	$ 48,489	$ 68,572	$ 82,999	$ 22,560	$ 32,280
Interest expense	10,988	7,629	11,613	16,488	21,629	4,557	6,278
Income taxes	1,822	2,999	3,644	5,732	9,592	1,886	4,066
Depreciation	13,325	13,377	14,040	19,279	19,857	4,739	5,417
Subtotal	40,953	44,673	77,786	110,071	134,077	33,742	48,041
Interest capitalized	(1,592)	(1,114)	(2,009)	(963)	(1,089)	(143)	(508)
Interest income	(701)	(831)	(887)	(1,423)	(3,584)	(687)	(1,262)
EBITDA	38,660	42,728	74,890	107,685	129,404	32,912	46,271

Aircraft rentals represents 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, which was $20.1 million in 2001, $21.2 million in 2002, $16.7 million in 2003, $14.4 million in 2004, and $27.6 million in 2005.

(4) Operating margin represents operating income divided by operating revenues.

(5) All share and per share amounts have been retroactively restated to reflect the current capital structure described under Description of Capital Stock and in the notes to our consolidated financial statements.

(6) Total number of paying passengers (including all passengers redeeming OnePass frequent flyer miles and other travel awards) flown on all flight segments, expressed in thousands.

(7) Number of miles flown by scheduled revenue passengers, expressed in millions.

(8) Aircraft seating capacity multiplied by the number of miles the seats are flown, expressed in millions.

(9) Percentage of aircraft seating capacity that is actually utilized. Load factors are calculated by dividing revenue passenger miles by available seat miles.

(10) Load factor that would have resulted in total revenues being equal to total expenses.

(11) 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.

(12) Average number of block hours operated per day per aircraft for the total aircraft fleet.

(13) Average amount (in cents) one passenger pays to fly one mile.

(14) Passenger revenues (in cents) divided by the number of available seat miles.

(15) Total operating revenues for passenger aircraft related costs (in cents) divided by the number of available seat miles.

(16) Total operating expenses for passenger aircraft related costs (in cents) divided by the number of available seat miles.

(17) Percentage of flights that arrive at the destination gate within fifteen minutes of scheduled arrival.

(18) The average number of miles flown per flight.

(19) Percentage of flights that depart within fifteen minutes of the scheduled departure time.

(20) For AeroRepública operating data, this period covers from April 22, 2005 until December 31, 2005 which corresponds to the period that AeroRepública was consolidated in our financial statements.

(21) We have not included financial information for the three months ended March 31, 2005 which preceded our acquisition of AeroRepública on April 22, 2005.

(22) AeroRepública has not historically distinguished between revenue passengers and non-revenue passengers. Although we are implementing systems at AeroRepública to record that information, revenue passenger information and other statistics derived from revenue passenger data for the year ended December 31, 2005 and the three months ended March 31, 2006 has been derived from estimates that we believe to be materially accurate.

RISK FACTORS

An investment in our Class A shares involves a high degree of risk. You should carefully consider the risks described below before making an investment decision. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. The trading price of our Class A shares could decline due to any of these risks, and you may lose all or part of your investment. The risks described below are those known to us and that we currently believe may materially affect us.

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 grown rapidly over the past five years. We intend to continue to grow our fleet, expand our service to new markets and 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 purchases 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 obtain additional slots, could constrain the expansion of our operations.

The expansion of our business will also require additional skilled personnel, equipment and facilities. The inability to hire and retain skilled pilots and other personnel or secure the required equipment and facilities efficiently and cost-effectively may adversely affect our ability to execute our growth strategy. 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.

If we fail to successfully integrate the new Embraer 190 aircraft we have agreed to purchase into our operations, our business could be harmed.

In October 2004, Copa announced an order to purchase ten new Embraer 190 aircraft with options for an additional 20 new aircraft. Since then, Copa accepted delivery of two Embraer aircraft in the fourth quarter of 2005 and increased its firm orders for the Embraer 190 aircraft by exercising two of these options in April 2005 and three of these options in April 2006. In March 2006, AeroRepública announced an order to purchase five new Embraer 190 aircraft with options for an additional 20 new aircraft. Acquisition of an all-new type of aircraft, such as the Embraer 190, involves a variety of risks, including:

difficulties or delays in obtaining the necessary certifications from the aviation regulatory authorities of the countries to which we fly;

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 the new aircraft and its components to comply with agreed upon specifications and performance standards.

The Embraer 190 is a new aircraft and, although to date we have not had any significant problems with this aircraft, certain other airlines have in the past experienced problems generally associated with it, including difficulties with the software that operates the Embraer avionics system. As a result, we may experience similar or other problems with the Embraer 190s that will be delivered to us which could result in increased costs or service interruptions.

In addition, we also face risks in integrating a second type of aircraft into our existing infrastructure and operations, including, among other things, the additional costs, resources and time needed to hire and train new pilots, technicians and other skilled support personnel. If we fail to successfully take delivery of, place into service and integrate into our operations the new Embraer 190 aircraft, our business, financial condition and results of operations could be harmed.

We are dependent on our alliance with Continental and cannot assure you that it will continue.

We maintain a broad commercial and marketing alliance with Continental that has allowed us to enhance our network and, in some cases, offer our customers services that we could not otherwise offer. If Continental 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 Continental. Continental has incurred significant losses since September 11, 2001, primarily as a result of record high fuel prices and decreased yields. Continental reported a net loss of $68 million for 2005 and has indicated that losses of the magnitude incurred since September 11, 2001 are not sustainable if they continue. We cannot assure you that Continental s results will improve, or that it will avoid bankruptcy, and as a result we may be materially and adversely affected by a continuing deterioration of Continental s financial condition.

Since we began the alliance in 1998, we have benefited from Continental s 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. Our alliance relationship with Continental is the subject of a grant of antitrust immunity from the U.S. Department of Transportation, or DOT. If our relationship with Continental were to deteriorate, or our alliance relationship were no longer to benefit from a grant of antitrust immunity, or our alliance or services 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 Continental would likely result in a significant decrease in our revenues. We also rely on Continental s OnePass frequent flyer program that we participate in globally and on a co-branded basis in Latin America, and our business may be adversely affected if the OnePass 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 Continental. We cannot predict the extent to which we will be disadvantaged by competing alliances. See Related Party Transactions.

Continental s economic interest in our continued success can be expected to further decline over time.

In connection with our initial public offering in December 2005, Continental reduced its investment in us from 49% to approximately 27.3% of our capital stock. After giving effect to this offering, Continental is expected to further reduce its investment in us to approximately 12.3% of our capital stock (or 10.0% if the over-allotment option is exercised).

Continental can be expected to seek to monetize its remaining investment in us. Continental has certain rights pursuant to a shareholders agreement among Continental, CIASA and us, including the right to appoint one of our directors so long as our alliance agreement with Continental continues. As a result of Continental s right, following consummation of this offering, to appoint one member of our board of directors and our dependence on the alliance between the airlines, Continental will continue to have the ability to exercise significant influence over us following the offering. Nevertheless, Continental s interests will likely diverge from those of our other shareholders as Continental reduces its investment in us over time. Other than certain exclusivity provisions and a termination event for certain competitive activities contained in our alliance agreement, we do not have any non-competition agreement with Continental, and as Continental continues to reduce its economic stake in us, it may take actions that are adverse to the interests of the majority of our shareholders. See Related Party Transactions.

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

The structure of substantially all of our current flight operations (other than those of AeroRepública) generally 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. With the passage of time, and in particular as demand for air travel in Latin America increases, it is increasingly likely that one or more of our competitors will initiate non-stop service between important destinations that we currently serve through our Panamanian hub. By bypassing our hub in Panama, any non-stop service would be more convenient and possibly less expensive, than our connecting service and could significantly decrease demand for our service to those destinations. We believe that future competition from point-to-point carriers will be directed towards the largest markets that we serve. 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.

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, CIASA, a Panamanian entity, is the record owner of all of our Class B voting shares, representing approximately 29.2% 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, 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. If the Panamanian Civil Aviation Authority (the *Autoridad de Aeronáutica Civil*), which we refer to as the AAC, or a Panamanian court were to determine that substantial Panamanian ownership should be determined on the basis of our direct and indirect ownership, we could 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,

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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 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 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 and the regulators of certain other countries to which we fly, any of which may in the future impose restrictions on our fares.

We are also subject to international bilateral air transport agreements that provide for the exchange of air traffic rights between Panama 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 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. 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, 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 Continental 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. In May 2001, Panama s IASA rating was downgraded from Category 1 to Category 2 due to alleged deficiencies in Panamanian air safety standards and AAC s capability to provide regulatory oversight. As a result of this downgrade, we were prevented from offering our Copa flights to any new destinations in the United States and from certifying new aircraft for flights to the United States, and Continental was no longer able to codeshare on our flights. In April 2004, after extensive investment by the Panamanian government in the AAC and consultations among Copa, the AAC and U.S. safety officials, Panama s IASA rating was restored to Category 1. 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 Continental 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. The hub-and-spoke structure of our operations is particularly dependent on the on-time arrival of tightly coordinated groupings of flights 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. A significant interruption or disruption in service at Tocumen International Airport could have a serious impact on our business, financial condition and operating results. Also, Tocumen International Airport provides international service to the Republic of Panama s population of approximately 3.0 million, whereas the hub markets of our current competitors tend to be much larger, providing those competitors with a larger base of customers at their hub.

Tocumen International Airport is operated by a corporation that is 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, in connection with the ongoing or future expansion of the airport, the airport authority could assign new capacity to competing airlines or could reassign resources that are currently used by us to other aircraft operators. Either such event 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 landing charges and other airport access 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, such as Bogota s El Dorado airport, 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 slot restrictions during certain periods of the day. 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.

Some of the airports to which we fly impose various restrictions, including limits on aircraft noise levels, limits on the number of average daily departures and curfews on runway use. 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 and our auditors identified a material weakness in our internal controls over financial reporting in connection with the preparation of our financial statements under U.S. GAAP, and if we fail to remediate this material weakness and achieve and maintain an effective system of internal controls, we may not be able to accurately report our financial results on a timely basis. As a result, current and potential stockholders could lose confidence in our financial reporting, which would harm our business and the trading price of our Class A shares.

In connection with the preparation of our financial statements under U.S. GAAP as of and for the year ended December 31, 2005, we and our auditors identified a material weakness (as defined under standards established by the Public Company Accounting Oversight Board) in our internal controls over financial reporting. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of our annual or interim financial statements will not be prevented or detected. Specifically, we found that we did not have appropriate expertise in U.S. GAAP accounting and reporting among our financial and accounting staff to prepare our periodic financial statements without needing to make material corrective adjustments and footnote revisions when those statements are audited or reviewed. In light of this material weakness, in preparing the financial statements included in this prospectus, we performed additional analyses and other post-closing procedures in the course of preparing our financial statements and related footnotes in accordance with U.S. GAAP.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, beginning with our Annual Report on Form 20-F for the fiscal year ending December 31, 2006, we will be required to furnish a report by our management on our internal control over financial reporting. This report will contain, among other matters, an assessment of the effectiveness of our internal controls over financial reporting as of the end of the fiscal year, including a statement as to whether or not our internal controls over financial reporting are effective. We have contracted an additional accounting manager with experience in preparing financial statements under U.S. GAAP, we have engaged an internationally recognized accounting firm to assist us in developing our procedures to comply with the requirements of Section 404 and our management and audit committee are developing other plans to prepare for our compliance with the requirements of Section 404 and to correct the weakness identified above. We will incur incremental costs as a result of these efforts, including increased auditing and legal fees, the magnitude of which we are not able to estimate at this time. We may not be able to effectively and timely implement controls and procedures that adequately respond to Section 404 or other increased regulatory compliance and reporting requirements that will be applicable to us as a public company. We cannot assure you that we will not discover further weaknesses or deficiencies as we continue to develop these procedures. In addition, we cannot assure you that the steps we plan to take or the procedures we plan to implement will be sufficient to ensure that we will be able to prevent or detect any misstatements to our financial statements in the future.

Any failure to implement and maintain the improvements in the controls over our financial reporting, or difficulties encountered in the implementation of these improvements in our controls, could result in a material misstatement to the annual or interim financial statements that would not be prevented or detected or cause us to fail to meet our reporting obligations under applicable securities laws. Any failure to improve our internal controls to address the identified weakness could result in our incurring substantial liability for not having met our legal obligations and could also cause investors to lose confidence in our reported financial information, which could have a negative impact on the trading price of our Class A shares.

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 accordingly 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, 2005, our interest expense and aircraft and facility rental expense under operating leases aggregated $57.1 million. At March 31, 2006, 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 May 31, 2006, we had firm commitments to purchase eight Boeing 737-Next Generation and 18 Embraer 190s, with an aggregate manufacturer s list price of approximately $1.1 billion. We have arranged for financing for a significant portion of the commitment relating to such aircraft and will require substantial capital from external sources to meet our remaining financial commitment. 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.

The cost of refinancing our debt and obtaining additional financing for new aircraft could increase significantly if the Export-Import Bank of the United States does not continue to guarantee our debt.

We currently finance our aircraft through bank loans and, to a lesser extent, operating leases and local bond offerings. In the past, 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 will not be able to provide similar guarantees in connection with financing for our aircraft purchases from Embraer since those aircraft are not exports from the United States. At March 31, 2006, we had $329.3 million of outstanding indebtedness that is owed to financial institutions under financing arrangements guaranteed by the Export-Import Bank. 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. We may not be able to continue to obtain lease or debt financing on terms attractive to us, or at all, and if we are unable to obtain financing, we may be forced to modify our aircraft acquisition plans or to incur higher than anticipated financing costs which could have an adverse impact on the execution of our growth strategy and business.

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 Management s Discussion and Analysis of Financial Condition and Results of

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

We perform impairment reviews when there are particular risks of impairment or other indicators described in Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, in order to determine whether we need to reduce the carrying value of our aircraft and related assets with a related charge to our earnings. In addition to the fact that the value of our fleet declines as it ages, the excess capacity that currently exists in the airline industry, airline bankruptcies and other factors beyond our control may further contribute to the decline of the fair market value of our aircraft and related rotable parts and inventory. If such an impairment does occur, we would be required under U.S. GAAP to write down these assets to their estimated fair market value 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 critical systems, such as the Sceptre system for maintenance, the SHARES computer reservation and check-in system and our new revenue management system. 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. 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. 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 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 prospectus, quarter-to-quarter comparisons of our operating results may not be good indicators of our future performance. In addition, it is possible that in any quarter our operating results could be below the expectations of investors and any published reports or analyses regarding our company. In that event, the price of our Class A shares could decline, perhaps substantially.

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

An accident or incident involving one of our aircraft could involve significant claims by injured passengers and others, as well as significant costs related to the repair or replacement of a damaged aircraft and its temporary or permanent loss from service. A short time prior to our acquisition of AeroRepública, one of its aircraft slid off of a runway in an accident without serious injuries to passengers; however, the aircraft was severely damaged and declared a total loss by its insurers. 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 any future 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. Our business would also be significantly harmed if the public avoids flying our aircraft due to an adverse perception 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.

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

In 2005, approximately 72% of our expenses and 42% 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 Pesos. As a result of the acquisition of AeroRepública in April 2005, we have an increased exposure to the Colombian Peso. 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. Copa currently does not hedge the risk of fluctuation in foreign exchange rates, and AeroRepública currently has only limited hedging. We are exposed to exchange rate losses and gains due to the fluctuation in the value of local currencies vis-à-vis the U.S. dollar during the period of time (typically between 1 to 2 weeks) between the time we are paid in local currencies and the time we are able to repatriate the revenues in U.S. dollars.

Our maintenance costs will increase as Copa s fleet ages and as we perform maintenance on AeroRepública s older fleet.

Because the average age of Copa s aircraft was approximately 3.6 years as of May 31, 2006, the fleet requires less maintenance now than it will in the future. We have incurred a low level of maintenance expenses in recent years because most of the parts on Copa s aircraft were still covered under multi-year warranties. Our maintenance costs will increase significantly, both on an absolute basis and as a percentage of our operating expenses as our fleet ages and these warranties expire.

AeroRepública s fleet is considerably older than Copa s fleet, having an average age of 20.4 years as of May 31, 2006 (not taking into account our currently retired DC-9 aircraft). The aircraft operated by AeroRepública will likely be less reliable than Copa s newer aircraft and can be expected to require significantly greater expenditures on maintenance which may lead to an overall increase in our consolidated 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 cash flows.

Approximately 61% of our Copa employees belong to a labor union. There are currently five unions covering our Copa employees based in Panama: the pilots union; the flight attendants union; the mechanics union; the traffic attendants union; and a generalized union, which represents baggage handlers, aircraft cleaners, counter agents, and other non-executive administrative staff. Copa is scheduled to begin its next negotiations with the pilots union in mid-2008. Copa entered into new collective bargaining agreements with its general union and its flight attendants union on October 26, 2005 and April 3, 2006, respectively. After extensive negotiations which did not lead to a mutually satisfactory resolution, Copa and the mechanics union entered into a government-mandated arbitration, and a collective bargaining agreement was agreed to on March 29, 2006 as a result of such arbitration proceedings. Previously, Copa has not had to resort to arbitration to resolve negotiations with its unions. Collective bargaining agreements in Panama are typically between three and four year terms. We also have union contracts with our Copa employees in Brazil and Mexico. AeroRepública is a party to collective bargaining agreements that cover 95 of AeroRepública s 109 pilots and co-pilots and all of AeroRepública s 176 flight attendants. A strike,

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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. For example, in 2000 we experienced a brief localized pilots union work slow-down during contract negotiations that was eventually resolved to our satisfaction. Any renegotiated collective bargaining agreement could feature significant wage increases and a consequent increase in our operating expenses. 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 investment in AeroRepública may not generate the benefits we sought when we purchased the company.

In the second quarter of 2005, we purchased AeroRepública, a Colombian airline currently providing point-to-point service among 12 cities in Colombia and to Panama City. AeroRepública s results of operations are highly sensitive to competitive conditions in the Colombian domestic air travel market. AeroRepública s rapid growth in recent years came during a period in which the domestic market leader, Aerovías del Continente Americano S.A. (Avianca), experienced severe financial difficulties that resulted in its bankruptcy and the exit from the market of several other competitors. Avianca has emerged from bankruptcy with new management and an improved financial condition. It is therefore likely that AeroRepública 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.

AeroRepública s results of operations are significantly less profitable than those of Copa. During the first three months of 2006, AeroRepública had a net loss of approximately $746,000 and may have continuing net losses in future fiscal periods. We may not be able to achieve the cost savings and other improvements we seek at AeroRepública, and our failure to do so would harm our consolidated operating margins and results of operations. Our investment in AeroRepública is subject to many risks and uncertainties that will ultimately determine whether the acquisition will increase or reduce our overall profitability. See Business AeroRepública.

The integration of AeroRepública into our business may require a significant amount of our management s time and distract our management from our core operations.

Although we believe that our acquisition of AeroRepública represents an attractive opportunity, substantial resources are needed to implement our plan to improve its profitability. Implementation of our plan is subject to many uncertainties and may eventually require us to dedicate a potentially significant portion of our limited management resources to this effort. Inconsistencies in standards, internal controls, procedures, policies, business cultures and compensation structures between Copa and AeroRepública, and the need to implement, coordinate and harmonize various business-specific operating procedures and systems, as well as the financial, accounting, information and other systems of Copa and AeroRepública, may result in substantial costs and may divert a substantial amount of our management s resources from our core international operations. Diversion of Copa s resources could materially and negatively affect our financial condition and results of operations.

Our revenues depend on our relationship with travel agents and tour operators.

In 2005, approximately 58% 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; and catering, ground handling, cargo and baggage handling, or below the wing aircraft services. For example, at airports other than Tocumen International Airport, all of the below the wing aircraft services for Copa flights are performed by contractors. AeroRepública contracts ground handling equipment in eleven of the thirteen cities it serves and has contracted labor for below the wing tasks in eleven of the thirteen cities. Overhaul maintenance and C-checks for Copa are handled by contractors in the United States and Costa Rica, and some line maintenance for Copa 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 essential services on our behalf gives us less control over the costs, efficiency, timeliness and quality of those services. A contractor s negligence could compromise our aircraft or endanger passengers and crew. This could also have a material adverse effect on our business. We expect to be dependent on such agreements for the foreseeable future and if we enter any new market, we will need to have similar agreements in place.

We depend on a limited number of suppliers 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. AeroRepública has firm commitments to accept delivery of five Embraer 190 aircraft with options to purchase an additional 20 Embraer 190 aircraft. 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 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. Carriers that operate a more diversified fleet are better positioned than we are to manage such events.

We are dependent on key personnel.

Our success depends to a significant extent upon the efforts and abilities of our senior management team and key financial, commercial, operating and maintenance personnel. In particular, we depend on the services of our senior management team, including Pedro Heilbron, our Chief Executive Officer, Victor Vial, our Chief Financial Officer, Lawrence Ganse, our Chief Operating Officer, Jorge Isaac García, our Vice-President, Commercial, and Daniel Gunn, our Vice-President, Planning. We have no employment agreements or non-competition agreements in place with members of our senior management team other than Mr. Heilbron, our Chief Executive Officer.

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Competition for highly qualified personnel is intense, and the loss of any executive officer, senior manager or other key employee without adequate replacement or the inability to attract new qualified personnel could have a material adverse effect upon our business, operating results and financial condition.

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. We compete with a number of other airlines that currently serve the routes on which we operate, including Grupo TACA, American Airlines Inc. and Avianca. 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 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. Grupo TACA lowered many of its fares over a year ago in an effort to generate higher demand, and we were forced to respond by adjusting our fares to remain competitive on the affected routes. We cannot assure you that Grupo TACA or any of our other competitors will not undercut our fares in the future or increase capacity on routes in an effort to increase their respective market shares as they have done in the past. 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 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 Gol Intelligent Airlines Inc., or Gol, in Brazil and several new low-cost carriers planning to start service in Mexico, among others, the low-cost carrier business model appears to be gaining acceptance in the Latin American aviation industry. As a result, we may face new and substantial competition from low-cost carriers in the future which could result in significant and lasting downward pressure on the fares we charge for flights on our routes.

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

Fuel costs constitute a significant portion of our total operating expenses, representing approximately 17.1% of our operating expenses in 2003, 19.7% in 2004, 29.9% in 2005 and 31.4% in the three months ended March 31, 2006. Our fuel prices increased very significantly in 2005 and are likely to increase further, perhaps significantly. As a result, substantial increases in fuel costs may materially and adversely affect our operating results. Jet fuel costs have been subject to wide fluctuations as a result of increases in demand, sudden disruptions in and other concerns about global supply, as well as market speculation. Both the cost and availability of fuel are subject to many economic, political, weather, environmental and other factors and events occurring throughout the world that we can neither control nor accurately predict, including international political and economic circumstances such as the political instability in major oil-exporting countries in Latin America, Africa and Asia. Although we have entered into hedging agreements for a portion of Copa s fuel needs through the first five months of 2007 to hedge against fuel price volatility, these agreements provide only limited protection against future increases in the price of fuel, and we may discontinue such agreements in the future. Our current or future arrangements will not be adequate to protect us from further increases in the price of fuel, and fuel prices are likely to increase above their current levels and may do so in the near future. Indeed, numerous market experts and analysts have predicted that fuel prices can be expected to increase further, perhaps significantly, from their already high levels. 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, a further delay in the restart of the Gulf Coast refineries as a result of weather disruptions, the continued unrest in Iraq, other conflicts in the Middle East or otherwise, higher fuel prices or further reductions of scheduled airline services could result. Significant increases in fuel costs would materially and negatively affect our operating results. We cannot assure you that we would be able to offset any increases in the price of fuel by increasing our fares.

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.

Airline bankruptcies could adversely affect the industry.

Since September 11, 2001 several air carriers have sought to reorganize under Chapter 11 of the United States Bankruptcy Code, including some of our competitors such as Avianca and Delta. Successful completion of such reorganizations could present us with competitors with significantly lower operating costs derived from labor, supply and financing contracts renegotiated under the protection of the Bankruptcy Code. For example, Avianca emerged from bankruptcy with a significantly improved financial condition. In addition, air carriers involved in reorganizations have historically undertaken substantial fare discounting in order to maintain cash flows and to enhance continued customer loyalty. Such fare discounting could further lower yields for all carriers, including us. Further, the market value of aircraft would likely be negatively impacted if a number of air carriers seek to reduce capacity by eliminating aircraft from their fleets.

The 2001 terrorist attacks on the United States have adversely affected, and any additional terrorist attacks or hostilities would further adversely affect, the airline industry by decreasing demand and increasing costs.

The terrorist attacks in the United States on September 11, 2001 had a severe adverse impact on the airline industry. Airline traffic in the United States fell dramatically after the attacks and decreased less severely throughout 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 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.

The airline industry experienced increased costs following the 2001 terrorist attacks. Airlines have been required to adopt additional security measures and may be required to comply with more rigorous security guidelines in the future. 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 airline ticket prices and a decreased demand for air travel generally, which could materially and negatively affect our business, financial condition and results of operations.

The negative impact on the airline industry of the current global state of affairs, including the aftermath of the Iraq war and the threat of another outbreak of a communicable disease, may continue or possibly worsen.

The combination of continued instability in the aftermath of the Iraq war and the public s concerns about the possibility of an outbreak of a disease that can be spread by fellow commercial air passengers (such as avian flu or Severe Acute Respiratory Syndrome) has continued to have a negative impact on the public s willingness to travel by air. It is impossible to determine if and when such adverse effects will abate and whether they will further decrease demand for air travel, which could materially and negatively affect our business, financial condition and results of operations.

Risks Relating to Panama and our Region

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. A worsening of economic conditions could result in a reduction in passenger traffic, and leisure travel in particular, which in turn would materially and negatively affect our financial condition and results of operations. Any perceived weakening of economic conditions in this region could likewise negatively affect our ability to obtain financing to meet our future capital needs in international capital markets.

We are highly dependent on conditions in Panama.

A substantial portion of our assets are located in the Republic of Panama, a significant proportion of our customers are Panamanian, and 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. Although the Panamanian government is democratically elected and the Panamanian political climate is currently stable, we cannot assure you that current conditions will continue. If the Panamanian economy experiences a recession or a reduction in its economic growth rate, or if Panama experiences significant political disruptions, our business, financial condition and results of operations could be materially and negatively affected.

We have paid low taxes in the past, and any increase in the taxes we or our shareholders pay in Panama or the other countries where we do business would adversely affect the value of our Class A shares.

We cannot assure you that we will not be subject to additional taxes in the future or that current taxes will not be increased. Our provision for income taxes was $3.6 million, $5.7 million and $9.6 million in the years ended

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December 31, 2003, 2004 and 2005, which represented an effective income tax rate of 7.0%, 7.7% and 10.4% 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 six 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 35% 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 several 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. The low rate at which we pay income tax has been critical to our profitability in recent years and if it were to increase, our financial performance and results of operations would be materially and adversely affected.

In the past, our expenses attributable to operations in Panama have consistently exceeded our revenues attributable to operations in Panama. As a result, we have typically experienced losses for Panamanian income tax purposes and were not subject to any income tax obligations. Beginning in 2004, we adopted an alternate method of calculating income tax in Panama. Under this alternative method, allocation of revenues for operations in Panama is based on a general territorial principle, not specifically defined in the tax regulations. If the Panamanian tax authorities do not agree with our methods of allocating revenues, we may be subject to additional tax liability. Airlines in Panama are currently not subject to any taxes relating specifically to the airline industry other than the 4% tax collected from passengers on tickets sold in Panama for the benefit of the Panamanian Tourism Bureau.

Panama has historically afforded favorable tax treatment to investors in publicly held companies and has exempted capital gains on the sale of shares registered with the National Securities Commission, or NSC, and sold in an exchange or other organized market. From time to time, however, the Panamanian legislature considers amendments to Panama s favorable tax regime. For example, a proposed law was recently presented to the Legislative Assembly that would have imposed a tax on the sales of shares on exchanges outside of Panama, including the NYSE. Although this proposal was revised within a week of its initial presentation so as not to apply to the sale of shares registered with the NSC, which includes our shares, we cannot assure you that changes to Panama s current tax regime will not be implemented in the future. Any future change in the Panamanian tax law increasing the taxes payable by us or by investors in our shares could have a material adverse effect on the demand for, and the market value of, our Class A shares.

Political unrest and instability in Colombia may adversely affect our business and the market price of our Class A shares.

We completed our acquisition of AeroRepública in the second quarter of 2005. Almost all of AeroRepública s scheduled operations are conducted within Colombia. As a result, AeroRepública s results of operations are highly sensitive to macroeconomic and political conditions prevailing in Colombia, which have been highly volatile and unstable and may continue to be so for the foreseeable future. In addition, terrorism and violence have plagued Colombia in the past. Continuing guerrilla activity could cause political unrest and instability in Colombia, which could adversely affect AeroRepública s financial condition and results of operations. The threat of terrorist attacks could impose additional costs on us, including enhanced security to protect our aircraft, facilities and personnel against possible attacks as well as increased insurance premiums. As a result, we may encounter significant unanticipated problems at AeroRepública which could have a material adverse effect on our consolidated financial condition and results of operations.

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 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 29.2% 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.

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 delistings 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 shareholders agreement with Continental, 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 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 Continental or CIASA after this offering 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 29.2%, respectively. 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. The market price of our Class A shares could drop significantly if Continental or CIASA further reduces its investment in us, other significant holders of our shares sell a significant number of shares or if the market perceives that Continental, CIASA or other significant holders intend to sell them. In connection with this offering, Continental has agreed, subject to certain exceptions, not to issue or transfer without the consent of the underwriters, until the first anniversary of the date of this prospectus, any shares of our capital stock, any options or warrants to purchase shares of our capital stock, or any securities convertible into, or exchangeable for, shares of our capital stock. Continental has also agreed not to make any demand for, or exercise any right with respect to, the registration of any Class A shares or any security convertible into or exercisable or exchangeable for Class A shares until one year after the date of this prospectus. In addition, Continental has agreed, subject to the same exceptions, not to issue or transfer without the consent of CIASA, until the second anniversary of the date of this prospectus, any shares of our capital stock, any options or warrants to purchase shares of our capital stock or any securities convertible into or exchangeable for shares of our capital stock. Nevertheless, these lock-up agreements can be waived at any time and, in any event, after these lock-up agreements expire, Continental will not be restricted from selling its shares in the public market.

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 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 will be 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 being sold in this offering, 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 develop.

Our Class A shares are listed on the NYSE. During the three months ended March 31, 2006, the average daily trading volume for our Class A shares as reported by the NYSE was approximately 212,477 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.

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 equal to approximately 10% 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. 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 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 equal to approximately 10% of our annual consolidated net income. 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 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 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.

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

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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 recent years (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.

USE OF PROCEEDS

We will not receive any proceeds from the sale of our Class A shares by the selling shareholder.

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 Description of Capital Stock Dividends.

Our board of directors has adopted a dividend policy that provides for the payment of approximately 10% of our annual consolidated net income to shareholders as a dividend 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.

On May 11, 2006, our board of directors declared an annual dividend of $0.19 per share payable June 15, 2006 to shareholders of record as of May 31, 2006 which will represent in an aggregate dividend payment of $8.3 million. In addition, we paid an extraordinary dividend of $10 million to our shareholders in December 2004 and another extraordinary dividend of $10 million in June 2005. Prior to the December 2004 dividend payment, we had not paid a dividend since the formation of Copa Holdings in 1998.

MARKET INFORMATION

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 closing sale prices for the Class A shares on the NYSE for the periods indicated.

	Low	High
2005		
Fourth quarter(1)	$ 20.00	$ 27.30
Last Six Months		
January 2006	$ 22.20	$ 27.10
February 2006	$ 20.90	$ 23.75

March 2006	$ 21.10	$ 23.20
April 2006	$ 21.20	$ 23.13
May 2006	$ 21.15	$ 23.80
June 2006[2]	$ 22.14	$ 24.25

Source: FactSet Research Systems

(1) Period beginning December 14, 2005 through December 31, 2005.

(2) Period through June 20, 2006.

CAPITALIZATION

The following table sets forth our cash and cash equivalents, short-term debt, long-term debt and total capitalization at April 30, 2006 on an actual basis. As we will receive no proceeds from the sale of the Class A shares by the selling shareholder, there will be no change in our overall capitalization as a result of this offering. You should read this table in conjunction with Selected Financial and Operating Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and the related notes included elsewhere in this prospectus. None of our indebtedness is guaranteed by a third party.

	At April 30, 2006 Actual (in thousands)
Cash and cash equivalents	$ 102,514
Indebtedness:	
Copa	
Secured indebtedness due through 2017	413,387
Unsecured indebtedness due through 2006	27,503
AeroRepública	
Secured indebtedness due through 2012	14,635
Unsecured indebtedness due through 2010	4,792
Shareholders equity:	
Class A shares (without par value)	19,813
Class B shares (without par value)	9,410
Additional paid in capital	303
Retained earnings	261,487
Accumulated other comprehensive loss	(2,527)
Total shareholders equity	288,486
Total capitalization	748,802

SELECTED FINANCIAL AND OPERATING DATA

The following table presents summary consolidated financial and operating data as of the dates and for the periods indicated. Our consolidated financial statements are prepared in accordance with U.S. GAAP and are stated in U.S. dollars. You should read this information in conjunction with our consolidated financial statements included in this prospectus and Management s Discussion and Analysis of Results of Operations and Financial Condition appearing elsewhere in this prospectus.

The summary consolidated financial information as of December 31, 2004 and 2005 and for the years ended December 31, 2003, 2004 and 2005 has been derived from our audited consolidated financial statements included elsewhere in this prospectus. The consolidated financial information as of December 31, 2003 and for the year ended December 31, 2002 has been derived from our audited consolidated financial statements that were prepared under U.S. GAAP and which have not been included in this prospectus. The consolidated financial information as of December 31, 2001 and 2002 and for the year ended December 31, 2001 has been derived from our audited consolidated financial statements that were prepared under International Accounting Standards and adjusted to be presented on a basis consistent with U.S. GAAP and which have not been included in this prospectus.

The summary consolidated financial data as of and for the three months ended March 31, 2005 and 2006 has been derived from our unaudited interim consolidated financial statements for these periods appearing elsewhere in this prospectus. The results of operations for the three months ended March 31, 2006 are not necessarily indicative of the operating results to be expected for the entire year ending December 31, 2006 or for any other period.

We acquired 99.8% of the stock of AeroRepública, a Colombian air carrier, and began consolidating its results on April 22, 2005. As a result of this acquisition, our financial information at and for the year ended December 31, 2005 and for the three months ended March 31, 2006 is not comparable to the information at and for the year ended December 31, 2004 and for the three months ended March 31, 2005, respectively.

	Year Ended December 31,					Three Months Ended March 31,	
	2001	2002	2003	2004	2005[20]	2005	2006
	(in thousands of dollars, except share and per share data and operating data)						
INCOME STATEMENT DATA							
Operating revenue:							
Passenger revenue	$ 257,918	$ 269,629	$ 311,683	$ 364,611	$ 565,131	$ 105,141	$ 180,358
Cargo, mail and other	32,454	31,008	30,106	35,226	43,443	8,467	11,368
Total operating revenues	290,372	300,637	341,789	399,837	608,574	113,608	191,726
Operating expenses:							
Aircraft fuel	46,514	40,024	48,512	62,549	149,303	21,336	47,110
Salaries and benefits	38,709	39,264	45,254	51,701	69,730	13,385	19,446
Passenger servicing	32,834	33,892	36,879	39,222	50,622	10,431	14,634

Commissions	31,652	28,720	27,681	29,073	45,087	7,481	13,101
Reservations and sales	18,629	16,707	18,011	22,118	29,213	5,725	8,265
Maintenance, materials and repairs	25,369	20,733	20,354	19,742	32,505	4,714	10,287
Depreciation	13,325	13,377	14,040	19,279	19,857	4,739	5,417
Flight operations	13,887	14,567	15,976	17,904	24,943	4,972	7,713
Aircraft rentals	20,106	21,182	16,686	14,445	27,631	4,678	8,861
Landing fees and other rentals	8,451	8,495	10,551	12,155	17,909	3,343	5,555
Other	15,892	19,166	25,977	29,306	32,622	6,827	9,574

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	Year Ended December 31,					Three Months Ended March 31,	
	2001	2002	2003	2004	2005[20]	2005	200
	(in thousands of dollars, except share and per share data and operating data)						
rment		13,669	3,572				
ting	265,368	269,796	283,493	317,494	499,422	87,631	149
ncome	25,004	30,841	58,296	82,343	109,152	25,977	41
ing pense):							
pense	(10,988)	(7,629)	(11,613)	(16,488)	(21,629)	(4,557)	(6
italized	1,592	1,114	2,009	963	1,089	143	
ome	701	831	887	1,423	3,584	687	1
)	331	(1,490)	2,554	6,063	395	2,196	
perating et	(8,364)	(7,174)	(6,163)	(8,039)	(16,561)	(1,531)	(5
ss) before es	16,640	23,667	52,133	74,304	92,591	24,446	36
or income	(1,822)	(2,999)	(3,644)	(5,732)	(9,592)	(1,886)	(4
(loss)	14,818	20,668	48,489	68,572	82,999	22,560	32
E SHEET							
cash and s	$ 28,385	$ 34,476	$ 61,432	$ 110,943	$ 114,490	$ 111,143	$ 114
eceivable,	30,210	24,006	31,019	27,706	49,492	32,372	58
nt assets	69,040	68,940	103,523	152,087	184,793	158,876	198
eposits quipment	46,540	55,867	45,869	7,190	52,753	23,163	59
rty and	227,717	345,411	480,488	541,211	637,543	553,117	643
s	300,121	421,935	591,915	702,050	916,912	721,862	936
debt	111,125	211,698	311,991	380,827	402,954	384,236	393
holders	46,426	67,094	115,583	174,155	245,867	196,715	278
OW							

ovided by ctivities	$ 32,997	$ 55,543	$ 73,479	$ 98,051	$ 119,089	$ 13,635	$ 2
ed in ctivities	(39,473)	(150,203)	(151,802)	(85,738)	(163,570)	(10,345)	(1(
ovided by ctivities	14,466	100,400	105,298	29,755	38,921	2,687	((
AL							
	38,660	42,728	74,890	107,685	129,404	32,912	4(
ntals	20,106	21,182	16,686	14,445	27,631	4,678	8
margin(4)	8.6%	10.3%	17.1%	20.6%	17.9%	22.9%	
verage in net share(5)	42,812,500	42,812,500	42,812,500	42,812,500	42,812,500	42,812,500	42,81
(loss)	$ 0.35	$ 0.48	$ 1.13	$ 1.60	$ 1.94	$ 0.53	$
NG							
assengers	1,794	1,819	2,028	2,333	4,361	636(22)	
assenger	1,870	1,875	2,193	2,548	3,831	736(22)	
eat	2,920	2,847	3,226	3,639	5,368	1,018	
(9)	64.0%	65.9%	68.0%	70.0%	71.4%	72.3%(22)	
load	58.7%	54.5%	52.8%	52.6%	57.9%	52.1%(22)	

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	Year Ended December 31,					Three Months Ended March 31,	
	2001	2002	2003	2004	2005[20]	2005	2006
	(in thousands of dollars, except share and per share data and operating data)						
Total block hours[11]	59,760	58,112	64,909	70,228	103,628	18,928	31,483
Average daily aircraft utilization[12]	9.1	8.8	9.0	9.3	9.8	9.9	9.7
Average passenger fare	143.8	148.2	153.7	156.3	129.6	165.3(22)	136.5(22)
Yield[13]	13.79	14.38	14.22	14.31	14.75	14.28(22)	15.61(22)
Passenger revenue per ASM[14]	8.83	9.47	9.66	10.02	10.53	10.33	11.17
Operating revenue per ASM[15]	9.94	10.56	10.60	10.99	11.34	11.16	11.87
Operating expenses per ASM (CASM)[16]	9.09	9.48	8.79	8.72	9.30	8.61	9.29
Departures	23,742	23,361	25,702	27,434	48,934	7,096	15,826
Average daily departures	65.0	64.0	70.4	75.0	156.6	78.8	176.2
Average number of aircraft	18.0	18.1	19.8	20.6	31.0	21.2	36.1
Airports served at period end	28	27	28	29	43	29	43
SEGMENT FINANCIAL DATA							
Copa:							
Operating revenue	$ 290,372	$ 300,637	$ 341,789	$ 399,837	$ 505,655	$ 113,608	$ 151,602
Operating expenses	265,368	269,796	283,493	317,494	402,684	87,631	110,613
Depreciation	13,325	13,377	14,040	19,279	19,242	4,739	5,227
Aircraft rentals	20,106	21,182	16,686	14,445	22,096	4,678	5,858
Interest expense	10,988	7,629	11,613	16,488	19,424	4,557	5,678
Interest capitalized	1,592	1,114	2,009	963	1,089	143	508
Interest income	701	831	887	1,423	3,376	687	1,148
Net income (loss) before tax	16,640	23,667	52,133	74,304	89,745	24,446	37,032
Total assets	300,121	421,935	591,915	702,050	851,075	721,862	879,215
AeroRepública:[21]							
Operating revenue					$ 102,976		$ 40,246
Operating expenses					96,839		39,472
Depreciation					615		190
Aircraft rentals					5,535		3,003
Interest expense					2,205		600
Interest capitalized							
Interest income					208		114

Net income (loss) before tax					2,846		(686)
Total assets					98,091		90,740
SEGMENT OPERATING DATA							
Copa:							
Available seat miles[8]	2,920	2,847	3,226	3,639	4,409	1,018	1,216
Load factor[9]	64.0%	65.9%	68.0%	70.0%	73.4%	72.3%	77.6%
Break-even load factor	58.7%	54.5%	52.8%	52.6%	56.8%	52.1%	55.3%
Yield[13]	13.79	14.38	14.22	14.31	14.41	14.28	15.01
Operating revenue per ASM[15]	9.94	10.56	10.60	10.99	11.47	11.16	12.46
CASM[16]	9.09	9.48	8.79	8.72	9.13	8.61	9.09
Average stage length[18]	1,023	1,010	1,028	1,047	1,123	1,115	1,158
On time performance[19]	87.7%	90.5%	91.4%	91.8%	91.7%	94.9%	92.3%
AeroRepública:[21]							
Available seat miles[8]					950		399
Load factor[9]					62.0%		53.1%

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	Year Ended December 31,					Three Months Ended March 31,	
	2001	2002	2003	2004	2005[20]	2005	2006
	(in thousands of dollars, except share and per share data and operating data)						
Break even load factor					60.8%		54.4%
Yield[13]					16.61(22)		18.32(22)
Operating revenue per ASM[15]					10.74		10.10
CASM[16]					10.10		9.90
Average stage length[18]					360		357
On time performance[19]					70.4%		81.9%

(1) Represents impairment losses on our Boeing 737-200 aircraft and related assets. See Note 8 to our consolidated financial statements.

(2) Consists primarily of changes in the fair value of fuel derivative contracts, foreign exchange gains/losses and gains on sale of Boeing 737-200 aircraft. See Management s Discussion and Analysis of Financial Condition and Results of Operations and the notes to our consolidated financial statements.

(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 U.S. GAAP 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:

	Year Ended December 31,					Three Months Ended March 31,	
	2001	2002	2003	2004	2005	2005	2006
	(in thousands of dollars)						
Net income (loss)	$ 14,818	$ 20,668	$ 48,489	$ 68,572	$ 82,999	$ 22,560	$ 32,280
Interest expense	10,988	7,629	11,613	16,488	21,629	4,557	6,278
Income taxes	1,822	2,999	3,644	5,732	9,592	1,886	4,066
Depreciation	13,325	13,377	14,040	19,279	19,857	4,739	5,417
Subtotal	40,953	44,673	77,786	110,071	134,077	33,742	48,041
Interest capitalized	(1,592)	(1,114)	(2,009)	(963)	(1,089)	(143)	(508)
Interest income	(701)	(831)	(887)	(1,423)	(3,584)	(687)	(1,262)
EBITDA	38,660	42,728	74,890	107,685	129,404	32,912	46,271

Aircraft rentals represents 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, which was $20.1 million in 2001, $21.2 million in 2002, $16.7 million in 2003, $14.4 million in 2004, and $27.6 million in 2005.

(4) Operating margin represents operating income divided by operating revenues.

(5) All share and per share amounts have been retroactively restated to reflect the current capital structure described under Description of Capital Stock and in the notes to our consolidated financial statements.

(6) Total number of paying passengers (including all passengers redeeming OnePass frequent flyer miles and other travel awards) flown on all flight segments, expressed in thousands.

(7) Number of miles flown by scheduled revenue passengers, expressed in millions.

(8) Aircraft seating capacity multiplied by the number of miles the seats are flown, expressed in millions.

(9) Percentage of aircraft seating capacity that is actually utilized. Load factors are calculated by dividing revenue passenger miles by available seat miles.

(10) Load factor that would have resulted in total revenues being equal to total expenses.

(11) 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.

(12) Average number of block hours operated per day per aircraft for the total aircraft fleet.

(13) Average amount (in cents) one passenger pays to fly one mile.

(14) Passenger revenues (in cents) divided by the number of available seat miles.

(15) Total operating revenues for passenger aircraft related costs (in cents) divided by the number of available seat miles.

(16) Total operating expenses for passenger aircraft related costs (in cents) divided by the number of available seat miles.

(17) Percentage of flights that arrive at the destination gate within fifteen minutes of scheduled arrival.

(18) The average number of miles flown per flight.

(19) Percentage of flights that depart within fifteen minutes of the scheduled departure time.

(20) For AeroRepública operating data, this period covers from April 22, 2005 until December 31, 2005 which corresponds to the period that AeroRepública was consolidated in our financial statements.

(21) We have not included financial information for the three months ended March 31, 2005 which preceded our acquisition of AeroRepública on April 22, 2005.

(22) AeroRepública has not historically distinguished between revenue passengers and non-revenue passengers. Although we are implementing systems at AeroRepública to record that information, revenue passenger information and other statistics derived from revenue passenger data for the year ended December 31, 2005 and the three months ended March 31, 2006 has been derived from estimates that we believe to be materially accurate.

MANAGEMENT S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We are a leading Latin American provider of airline passenger and cargo service through our two principal operating subsidiaries, Copa and AeroRepública. Copa operates from its strategically located position in the Republic of Panama, and AeroRepública provides service primarily within Colombia. Our fleet currently consists of 22 Boeing 737-Next Generation aircraft, two Embraer 190 aircraft, 11 MD-80 aircraft and two DC-9 aircraft (one of which is currently retired). We currently have firm orders for eight Boeing 737-Next Generation and 18 Embraer 190s, and purchase rights and options for up to nine additional Boeing 737-Next Generation and 35 additional Embraer 190s.

Copa was established in 1947, and currently offers approximately 92 daily scheduled flights among 30 destinations in 20 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 codeshare arrangements with Continental 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 operates a modern fleet of 22 Boeing 737-Next Generation aircraft and two Embraer 190 aircraft with an average age of approximately 3.6 years as of May 31, 2006. To meet its growing capacity requirements, Copa has firm commitments to accept delivery of 21 additional aircraft through 2009 and has purchase rights and options that, if exercised, would allow it to accept delivery of up to 24 additional aircraft through 2009. Copa s firm orders are for eight additional Boeing 737-Next Generation aircraft and 13 additional Embraer 190s, and its purchase rights and options are for up to nine Boeing 737-Next Generation aircraft and up to 15 Embraer 190s.

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 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 Continental have enhanced its brand in Latin America, and that the relationship with Continental 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 Continental are in effect until 2015.

During the second quarter of 2005, we purchased AeroRepública S.A., a Colombian air carrier that according to the Colombian Civil Aviation Administration, *Unidad Especial Administrativa de Aeronáutica Civil*, was the second-largest domestic carrier in Colombia in terms of number of passengers carried in 2005, providing predominantly point-to-point service among 12 cities in Colombia and to Copa s Panama City hub. AeroRepública currently operates a fleet of eleven leased MD-80s and two owned DC-9s (one of which is currently retired). As part of its fleet modernization and expansion plan, AeroRepública has firm commitments to accept delivery of five Embraer 190 aircraft through 2007 and purchase rights and options to purchase up to 20 additional Embraer 190 aircraft through 2011.

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. Prices for jet fuel have risen significantly in 2005 and remained at historically high levels during the first quarter of 2006. Copa s fuel cost increased from $1.01 per gallon during 2003 to $1.32 per gallon in 2004, $1.87 per gallon in 2005 and $1.96 per gallon for the three-month period ended March 31, 2006. 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, we entered into hedging agreements with respect to approximately 12% of Copa s fuel needs for 2005 and have hedged approximately 13% of Copa s projected fuel needs for 2006 and approximately 5% of the needs for the first five months of 2007. We will continue to evaluate various hedging strategies, and we may enter into additional hedging agreements in the future.

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Our 2005 acquisition of AeroRepública has affected the comparability of our recent results of operations.

On April 22, 2005 we acquired an initial 85.6% equity ownership interest in AeroRepública which was followed by subsequent acquisitions increasing our total ownership interest in AeroRepública to 99.8% as of March 31, 2006. The total purchase price we paid for our investment in AeroRepública, including acquisition costs, was $23.4 million. According to the Colombian Civil Aviation Administration, *Unidad Especial Administrativa de Aeronáutica Civil*, in 2005 AeroRepública was the second-largest domestic carrier in Colombia in terms of number of passengers carried, providing service among 12 cities in Colombia and Panama City with a point-to-point route network.

We began to consolidate AeroRepública s results of operations in our consolidated financial statements beginning April 22, 2005. For the year ended December 31, 2005 and the three months ended March 31, 2006 and for future periods, we are reporting AeroRepública s operations as a separate segment in our financial statements and the related notes. See Note 5 to our unaudited financial statements and Note 14 to our audited financial statements included elsewhere in this prospectus for segment data for AeroRepública for the three months ended March 31, 2006 and the year ended December 31, 2005. As a result of this acquisition and our consolidation of AeroRepública s results as of April 22, 2005, our financial information at and for the year ended December 31, 2005 and for the three months ended March 31, 2006 is not comparable to the information at and for the year ended December 31, 2004 and for the three months ended March 31, 2005, respectively.

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) grew by approximately 5.5% in 2004 and 1.9% in 2003, while the region s per capita gross domestic product is estimated to have risen by approximately 4% in 2004. According to data from the International Monetary Fund, in the sub-regions we serve gross domestic product rose in 2005 (in real terms) by approximately 4.2% in the Mercosur countries, 6.3% in the Andean region, 3.8% in Central America and 5.9% in the Caribbean, with each region continuing to build on gains made during 2004 of approximately 6.0% in the Mercosur countries, 7.8% in the Andean region, 3.9% in Central America and 2.3% in the Caribbean. As is often the case, the regional economic performance was closely tied to developments in the international economy. World economic activity increased in 2005, resulting in estimated global GDP growth of approximately 4.8% (versus 4.0% in 2004). In recent years, the Panamanian economy has closely tracked the Latin American economy as a whole, and in 2005 the Panamanian economy grew in real terms by approximately 5.5% (versus 7.6% in 2004), according to the International Monetary Fund s estimates. Inflation in Panama rose approximately 2.9% in 2005 (versus 0.5% in 2004). Additionally, the Colombian economy has experienced relatively stable growth. According to the International Monetary Fund estimates, the Colombian gross domestic product grew by approximately 3.9% in 2003, 4.8% in 2004 and by 5.1% in 2005, with inflation (as indicated by the consumer price index) rising by approximately 7.1% in 2003, 5.9% in 2004 and 5.0% in 2005.

Revenues

We derive our revenues primarily from passenger transportation which represents approximately 93% of our revenues, with approximately 7% derived from cargo and other revenues.

We recognize passenger revenue when transportation is provided and when unused tickets expire. 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.

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. We believe that 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.

	Year Ended December 31,			**Three Months Ended March 31,**	
	2003	**2004**	**2005**	**2005**	**2006**
Copa Segment					
Capacity (in available seat miles, in millions)	3,225.9	3,639.4	4,409.1	1,018.1	1,216.3
Load factor	68.0%	70.0%	73.4%	72.3%	77.6%
Yield (in cents)	14.22	14.31	14.41	14.28	15.01
AeroRepública Segment(1)					
Capacity (in available seat miles, in millions)			950.0		398.7
Load factor			62.0%		53.1%
Yield (in cents)(2)			16.61		18.32

(1) Since April 22, 2005.

(2) AeroRepública has not historically distinguished between revenue passengers and non-revenue passengers. While we are implementing systems at AeroRepública to record that information, revenue passenger information and other statistics derived from revenue passenger data for the year ended December 31, 2005 and the three months ended March 31, 2006 has been derived from estimates that we believe to be materially accurate.

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 2005, as a result of the location of its hub, Copa purchased approximately 50% of its aircraft fuel in Panama, where it was able to obtain better prices due to volume discounts. Copa has over eleven 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 2002 to 2005, the 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 116.8% from $26.15 per barrel to $56.70 per barrel. On March 31, 2006, the price was $66.63 per barrel. Historically, we have not hedged a significant portion of our fuel costs. We entered into hedging agreements with respect to approximately 12% of Copa s fuel needs for 2005 and 13% for 2006 and approximately 5% of Copa s projected fuel needs for the first five months of 2007. Additionally, because our derivatives have historically not qualified as hedges for financial reporting purposes in accordance with Statement of Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities*, changes in the fair value of our derivative contracts are recorded currently, rather than in the period in which the hedged fuel is consumed, and recorded as a component of Other, net within non-operating income (expense) in our statement of operations. We may enter into additional hedging agreements in the future. Although AeroRepública does not currently have a hedging policy, we may implement one in the future.

Aircraft Fuel Data

	2001	2002	2003	2004	2005	Three Months Ended March 31, 2006
Copa Segment						
Average price per gallon of jet fuel into plane (excluding hedge) (in U.S. dollars)	$ 0.95	$ 0.86	$ 1.01	$ 1.32	$ 1.87	$ 1.96
Gallons consumed (in thousands)	46,669	44,788	48,444	50,833	58,924	16,368
Available seat miles (in millions)	2,920	2,847	3,226	3,639	4,409	1,216
Gallons per ASM (in hundredths)	1.60	1.57	1.50	1.40	1.34	1.35
AeroRepública Segment(1)						
Average price per gallon of jet fuel into plane (excluding hedge) (in U.S. dollars)					$ 2.12	$ 2.08
Gallons consumed (in thousands)					17,887	7,080
Available seat miles (in millions)					950	399
Gallons per ASM (in hundredths)					1.88	1.78

(1) Since April 22, 2005.

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.

Commissions. 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 9% depending on the country. The weighted average rate for these commissions during 2005 was 4.9%. During the last few years we have reduced our commission expense per available seat mile as a result of an industry-wide trend of paying lower commissions to travel agencies and by increasing the proportion of our sales made through direct channels. We expect this trend to continue as more of our customers become accustomed to purchasing through our call center 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.

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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. Maintenance and repair expenses, including overhaul of aircraft components, are charged to operating expenses as incurred. With an average age of only 3.6 years as of May 31, 2006, our Copa fleet requires a low level of maintenance compared to the older fleets of some of our competitors. We also currently incur lower maintenance expenses on our Boeing and Embraer aircraft because a significant number of our aircraft parts remain under multi-year warranties. As the age of our fleet increases and when our warranties expire, our maintenance expenses will increase. We only conduct line maintenance internally and outsource 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 737-700s with lower thrust thus putting less strain on the engines.

All maintenance for AeroRepública s DC-9s and line maintenance for the MD-80s is performed by AeroRepública s in-house maintenance staff. Heavy maintenance for the MD-80s is performed by FAA-certified third-party aviation maintenance companies.

Aircraft rent. Our aircraft rental expenses are generally fixed by the terms of our operating lease agreements. Currently, six of Copa s operating leases have fixed rates which are not subject to fluctuations in interest rates and the seventh is tied to LIBOR. All of AeroRepública s operating leases have fixed rates which are not subject to fluctuations in interest rates. Our aircraft rent expense also includes rental payments related to our wet-leasing of freighter aircraft to supplement our cargo operations.

Reservations and sales expenses. Our reservations and sales expenses arise primarily from payments to global distribution systems, such as Amadeus and Sabre, that 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.

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

Taxes

We are subject to income tax in Panama based on the principle of territoriality. Beginning in 2004, we adopted an alternate method of calculating tax in Panama. Based on Article 121 of Executive Decree 170 of 1993, as amended in 1996, income for international transportation companies is calculated based on a territoriality method that determines gross revenues earned in Panama by applying the percentage of miles flown within the Panamanian territory against total revenues. Under this method, loss carry forwards cannot be applied to offset tax liability. Prior to 2004, our Panamanian taxable income was estimated using revenues from passengers originating in or destined for Panama which typically resulted in losses for purposes of Panamanian corporate income tax. Dividends from our Panamanian subsidiaries, including Copa, are separately subject to a ten percent tax if such dividends can be shown to be derived from Panamanian income that has not been otherwise taxed.

We are also subject to local tax regulations in each of the 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 tax 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 35% 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. It is possible that we may become subject to tax in jurisdictions in which, for prior years, we had not been subject to tax and that, in the future, we may become subject to increased taxes in the countries to which we fly.

AeroRepública s taxes are based on Colombian income tax legislation which calculates tax based on the higher of the ordinary and presumptive income. Ordinary income is defined as the company s operating results under Colombian GAAP, and presumptive income is defined as 6% of net assets under Colombian GAAP.

We paid taxes totaling approximately $2.4 million in 2003, $4.3 million in 2004 and $7.4 million in 2005.

Internal Controls

In connection with the preparation of our financial statements under U.S. GAAP as of and for the year ended December 31, 2005, we and our auditors identified a material weakness (as defined under standards established by the Public Company Accounting Oversight Board) in our internal control over financial reporting. Specifically, we found that we did not have appropriate expertise in U.S. GAAP accounting and reporting among our financial and accounting staff to prepare our periodic financial statements without needing to make material corrective adjustments and footnote revisions when those statements are audited or reviewed. This ineffective control over the application of U.S. GAAP in relation to our business could result in a material misstatement to the annual or interim financial statements that would not be prevented or detected. In light of this material weakness, in preparing the financial statements in connection with our initial public offering, we performed additional analyses and other post-closing procedures in the course of preparing our financial statements and related footnotes in accordance with U.S. GAAP so that management would be able to come to the conclusion that those financial statements fairly presented, in all material respects, our financial condition, results of operations and cash flows as of and for the periods presented.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, beginning with our Annual Report on Form 20-F for the fiscal year ending December 31, 2006, we will be required to furnish a report by our management on our internal control over financial reporting. This report will contain, among other matters, an assessment of the effectiveness of our internal controls over financial reporting as of the end of the fiscal year, including a statement as to whether or not our internal controls over financial reporting are effective. We have contracted an additional accounting manager with experience in preparing financial statements under U.S. GAAP, we have engaged an internationally recognized accounting firm to assist us in developing our procedures to comply with the requirements of Section 404, and our management and audit committee are developing other plans to prepare for our compliance with the requirements of Section 404 and to correct the weakness identified above. We expect that these plans may include hiring additional personnel with appropriate levels of U.S. GAAP experience and accounting expertise, requiring further education and training in U.S. GAAP for our existing personnel and engaging outside resources to assist in the design and implementation of procedures for the testing of our internal controls. We will incur incremental costs as a result of these efforts, including increased auditing and legal fees, the magnitude of which we are not able to estimate at this time.

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements in conformity with U.S. GAAP 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.

Critical accounting policies and estimates 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.

Revenue recognition. 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 in the Air traffic liability line on our consolidated balance sheet. Tickets whose fares have expired and/or are more than one year old are recognized as passenger revenue.

Cargo and mail services revenue are recognized when we provide the shipping services and thereby complete the earning process. 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.

Frequent flyer program. We participate in Continental s frequent flyer program OnePass, through which our passengers receive all the benefits and privileges offered by the OnePass program. Continental is responsible for the administration of the OnePass program. Under the terms of our frequent flyer agreement with Continental, OnePass members receive OnePass frequent flyer mileage credits for travel on Copa and AeroRepública, and we pay Continental a per mile rate for each mileage credit granted by Continental, at which point we have no further obligation. The amounts due to Continental under this agreement are expensed by us as the mileage credits are earned.

Impairment of long-lived assets. We record impairment losses on long-lived assets used in operations, consisting principally of property and equipment, when events or changes in circumstances indicate, in management s judgment, that the assets might be impaired and that the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. Our cash flow estimates are based on historical results adjusted to reflect our best estimate of future market and operating conditions. The net carrying value of non-recoverable assets is reduced to fair value if it is lower than carrying value. Our estimates of fair value represent our best estimate based on industry trends and reference to market rates and transactions and are subject to change. We recognized impairment losses on our Boeing 737-200 aircraft of $3.6 million during the year ended December 31, 2003.

Goodwill and indefinite-lived purchased intangible assets. We review goodwill and purchased intangible assets with indefinite lives, all of which relate to our acquisition of AeroRepública, for impairment annually and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable in accordance with Statement of Financial Accounting Standard No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142). The provisions of SFAS No. 142 require that a two-step impairment test be performed on goodwill. In the first step, we compare the fair value of the AeroRepública reporting unit to its carrying value. If the fair value of the AeroRepública reporting unit exceeds the carrying value of its net assets, goodwill is not impaired and we are not required to perform further testing. If the carrying value of the net assets of the AeroRepública reporting unit exceeds its fair value, then we must perform the second step of the impairment test in order to determine the implied fair value of the AeroRepública reporting unit s goodwill. If the carrying value of the goodwill exceeds its implied fair value, then we record an impairment loss equal to the difference. SFAS No. 142 also requires that the fair value of the purchased intangible assets with indefinite lives be estimated and compared to the carrying value. We recognize an impairment loss when the estimated fair value of the intangible asset is less than the carrying value. Determining the fair value of a reporting unit or an indefinite-lived purchased intangible asset is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions, and determination of appropriate market comparables. We base our fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates.

Derivative instruments used for aircraft fuel. In the past, we have periodically entered into crude oil call options, jet fuel zero cost collars, and jet fuel swap contracts to provide 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 we are not competitively disadvantaged in the event of a substantial decrease in the price of jet fuel. These derivatives have historically not qualified as hedges for financial reporting purposes in accordance with Statement of Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities.* Accordingly, changes in the fair value of such derivative contracts, which amounted to $0.2 million in 2005, ($0.9) million in 2004 and $0.2 million in 2003, were recorded as a component of Other, net within Other non-operating income (expense) . The fair value of hedge contracts amounted to $0.3 million at December 31, 2005 and $0.2 million at December 31, 2004, and was recorded in the Other current assets line of our consolidated balance sheet.

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Maintenance and repair costs. Maintenance and repair costs for owned and leased flight equipment, including the overhaul of aircraft components, are charged to operating expenses as incurred. Engine overhaul costs covered by power-by-the-hour arrangements are paid and expensed as incurred, on the basis of hours flown per contract. Under the terms of our power-by-the-hour agreements, we pay a set dollar amount per engine hour flown on a monthly basis and the third-party vendor assumes the obligation to repair the engines at no additional cost to us, subject to certain specified exclusion

Additionally, although our aircraft lease agreements specifically provide that we, as lessee, are responsible for maintenance of the leased aircraft, we do, under certain of our existing lease agreements, pay maintenance reserves to aircraft and engine lessors that are to be applied towards the cost of future maintenance events. These reserves are calculated based on a performance measure, such as flight hours, and are specifically to be used to reimburse third-party providers that furnish services in connection with maintenance of our leased aircraft. If there are sufficient funds on deposit to pay the invoices submitted, they are paid. However, if amounts on deposit are insufficient to cover the invoices, we must cover the shortfall because, as noted above, we are legally responsible for maintaining the lease aircraft. Under four of our existing aircraft lease agreements, if there are excess amounts on deposit at the expiration of the lease, the lessor is entitled to retain any excess amounts. The maintenance reserves paid under our lease agreements do not transfer either the obligation to maintain the aircraft or the cost risk associated with the maintenance activities to the aircraft lessor. In addition, we maintain the right to select any third-party maintenance provider. Therefore, we record these amounts as prepaid maintenance within Other Assets on our balance sheet and then recognize maintenance expense when the underlying maintenance is performed, in accordance with our maintenance accounting policy. Any excess amounts retained by the lessor upon the expiration of the lease, which are not expected to be material, would be recognized as additional aircraft rental expense at that time.

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Results of Operation

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:

	Year Ended December 31,			Three Months Ended March 31,	
	2003	2004	2005(1)	2005(2)	2006
Operating revenues:					
Passenger revenue	91.2%	91.2%	92.9%	92.5%	94.1%
Cargo, mail and other	8.8%	8.8%	7.1%	7.5%	5.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Operating expenses:					
Aircraft fuel	(14.2)%	(15.6)%	(24.5)%	(18.8)%	(24.6)%
Salaries and benefits	(13.2)%	(12.9)%	(11.5)%	(11.8)%	(10.1)%
Passenger servicing	(10.8)%	(9.8)%	(8.3)%	(9.2)%	(7.6)%
Commissions	(8.1)%	(7.3)%	(7.4)%	(6.6)%	(6.8)%
Reservation and sales	(5.3)%	(5.5)%	(4.8)%	(5.0)%	(4.3)%
Maintenance, materials and repairs	(6.0)%	(4.9)%	(5.3)%	(4.1)%	(5.4)%
Depreciation	(4.1)%	(4.8)%	(3.3)%	(4.2)%	(2.8)%
Flight operations	(4.7)%	(4.5)%	(4.1)%	(4.4)%	(4.0)%
Aircraft rentals	(4.9)%	(3.6)%	(4.5)%	(4.1)%	(4.6)%
Landing fees and other rentals	(3.1)%	(3.0)%	(2.9)%	(2.9)%	(2.9)%
Other	(7.6)%	(7.3)%	(5.4)%	(6.0)%	(5.0)%
Fleet impairment charges	(1.0)%	0.0%	0.0%	0.0%	0.0%
Total	(82.9)%	(79.4)%	(82.1)%	(77.1)%	(78.2)%
Operating income	17.1%	20.6%	17.9%	22.9%	21.8%
Non-operating income (expenses):					
Interest expense	(3.4)%	(4.1)%	(3.6)%	(4.0)%	(3.3)%
Interest capitalized	0.6%	0.2%	0.2%	0.1%	0.3%
Interest income	0.3%	0.4%	0.6%	0.6%	0.7%
Other, net	0.7%	1.5%	0.1%	1.9%	(0.5)%
Total	(1.8)%	(2.0)%	(2.7)%	(1.3)%	(2.8)%
Income/(loss) before income taxes	15.3%	18.6%	15.2%	21.5%	19.0%
Income taxes	(1.1)%	(1.4)%	(1.6)%	(1.7)%	(2.1)%
Net income	14.2%	17.1%	13.6%	19.9%	16.8%

(1) Includes results from our AeroRepública segment for the period from April 22, 2005 to December 31, 2005.
(2) Does not include results from AeroRepública as it was acquired on April 22, 2005.

Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005

Operating revenue

Consolidated revenue for the three months ended March 31, 2006 totaled $191.7 million, a 68.8% increase over operating revenue of $113.6 million in the same period in 2005, mainly due to the consolidation of

$40.2 million of operating revenues from AeroRepública and a 33.4% increase in Copa Airlines operating revenues.

Copa segment operating revenue

Copa Airlines operating revenues for the three months ended March 31, 2006 totaled $151.6 million, a 33.4% increase over operating revenues of $113.6 million in the same period in 2005. This increase was primarily due to a 34.6% increase in passenger revenue.

Passenger revenue. For the three months ended March 31, 2006, passenger revenue totaled $141.6 million, a 34.6% increase over passenger revenue of $105.1 million in the same period in 2005. This increase resulted primarily from the addition of capacity (ASMs increased 19.5% during the three months ended March 31, 2006 compared to the same period in 2005), higher overall load factor (load factor increased from 72.3% during the three months ended March 31, 2005 to 77.6% during the three months ended March 31, 2006), and a 5.1% increase in passenger yield during the three months ended March 31, 2006 compared to the same period in 2005.

Cargo, mail and other. Cargo, mail and other totaled $10.0 million in the three months ended March 31, 2006, an 18.5% increase over cargo, mail and other of $8.5 million in the three months ended March 31, 2005. This increase was primarily the result of higher cargo rates.

AeroRepública segment operating revenue

During the three months ended March 31, 2006, AeroRepública generated operating revenues of $40.2 million.

Operating expenses

For the three months ended March 31, 2006, growth in Copa Airlines operations, higher fuel prices, and the consolidation of $39.5 million of operating expenses from AeroRepública resulted in consolidated operating expenses totaling $150.0 million, a 71.1% increase over operating expenses of $87.6 million for the three months ended March 31, 2005. Excluding the consolidation of AeroRepública, operating expenses increased $23.0 million or 26.2% compared to the three months ended March 31, 2005.

For the three months ended March 31, 2006 our operating expenses per available seat mile excluding aircraft fuel was 6.37 cents, a 2.2% decrease over operating expenses per available seat mile excluding aircraft fuel of 6.51 cents in the three months ended March 31, 2005. Aircraft fuel per available seat mile was 2.92 cents for the three months ended March 31, 2006, compared to 2.10 cents for the three months ended March 31, 2005. For the three months ended March 31, 2006, our total operating expenses per available seat mile was 9.29 cents, a 7.9% increase over operating expenses per available seat mile of 8.61 cents in the three months ended March 31, 2005.

The following are the major variances on a consolidated basis:

Aircraft fuel. For the three months ended March 31, 2006, aircraft fuel totaled $47.1 million, a 120.8% increase over aircraft fuel of $21.3 million in the three months ended March 31, 2005. This was primarily a result of a 28.0% increase in average fuel costs, higher fuel consumption as a result of increased capacity and the consolidation of $14.6 million of AeroRepública s aircraft fuel expenses.

Salaries and benefits. For the three months ended March 31, 2006, salaries and benefits totaled $19.4 million, a 45.3% increase over salaries and benefits of $13.4 million in the three months ended March 31, 2005. This increase was primarily a result of an overall increase in operating headcount due to the increased capacity of Copa Airlines and our consolidation of $4.0 million of AeroRepública s salaries and benefit expenses.

Passenger servicing. For the three months ended March 31, 2006, passenger servicing totaled $14.6 million, a 40.3% increase over passenger servicing of $10.4 in the three months ended March 31, 2005. This increase was primarily a result of an increase in Copa Airlines capacity, an increase in on-board passengers and our consolidation of $2.7 million of AeroRepública s passenger servicing expenses.

Commissions. For the three months ended March 31, 2006, commissions totaled $13.1 million, a 75.1% increase over commissions of $7.5 million in the three months ended March 31, 2005. This increase was primarily a result of higher passenger revenue in Copa Airlines and our consolidation of $3.9 million of AeroRepública s commission expenses.

Maintenance, material and repairs. For the three months ended March 31, 2006, maintenance, material and repairs totaled $10.3 million, a 118.2% increase over maintenance, material and repairs of $4.7 million in the three months ended March 31, 2005. This increase was primarily a result of an increase in Copa Airlines capacity and the consolidation of $4.6 million of AeroRepública s maintenance expenses.

Aircraft rentals. For the three months ended March 31, 2006, aircraft rentals totaled $8.9 million, an 89.4% increase over aircraft rentals of $4.7 million in the three months ended March 31, 2005. This increase was primarily a result of two additional leased Boeing 737-Next Generation aircraft at Copa Airlines and the consolidation of $3.0 million of AeroRepública s leasing expenses.

The remaining operating expenses totaled $36.5 million in the three months ended March 31, 2006, an increase of $10.9 million over $25.6 million in the three months ended March 31, 2005 of which $6.6 million resulted from our consolidation of AeroRepública.

Copa segment operating expenses

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

	Three Months Ended March 31,		Percent
	2005	2006	Change
	(in cents)		
Operating Expenses per ASM:			
Salaries and benefits	1.31	1.27	(3.4)%
Passenger servicing	1.02	0.99	(3.7)%
Commissions	0.73	0.75	2.5%
Reservation and sales	0.56	0.56	(1.0)%
Maintenance, materials and repairs	0.46	0.47	1.1%
Depreciation	0.47	0.43	(7.7)%
Flight operations	0.49	0.53	8.1%
Aircraft rentals	0.46	0.48	4.8%
Landing fees and other rentals	0.33	0.35	5.5%
Other	0.67	0.60	(9.8)%
Total operating expenses per ASM before aircraft fuel	6.51	6.43	(1.3)%
Aircraft fuel	2.10	2.67	27.4%
Total operating expenses per ASM	8.61	9.09	5.6%

Copa Airlines operating expenses per available seat mile increased 5.6% to 9.09 cents in the three months ended March 31, 2006, compared to the three months ended March 31, 2005. Excluding fuel, operating expenses per available seat mile decreased 1.3% from 6.51 cents in the three months ended March 31, 2005 to 6.43 in the three months ended March 31, 2006.

Aircraft fuel. For the three months ended March 31, 2006 aircraft fuel totaled $32.5 million, a 52.2% increase over aircraft fuel expense of $21.3 million in the same period in 2005. This increase was primarily a result of a 27.7% increase in the average price per gallon of jet fuel ($1.95 in the three months ended March 31, 2006 compared to $1.52 in the three months ended March 31, 2005) and the consumption of 18.9% more fuel due to a 19.5% increase in capacity. Aircraft fuel per available seat mile increased approximately 27.4% primarily due to the 27.7% increase in average fuel cost per gallon during this three-month period.

Salaries and benefits. For the three months ended March 31, 2006, salaries and benefits totaled $15.4 million, a 15.4% increase over salaries and benefits of $13.4 million in the same period in 2005. This increase was primarily a result of an overall increase in headcount at period end in the three months ended March 31, 2006 versus the same period end in the three months ended March 31, 2005, mainly to cover increased operations. Salaries and benefits per available seat mile decreased by 3.4%.

Passenger servicing. Passenger servicing totaled $12.0 million for the three months ended March 31, 2006, a 15.1% increase over passenger servicing of $10.4 million in the three months ended March 31, 2005. This increase was primarily a result of Copa Airlines 19.5% increase in capacity and 25.1% increase in on-board passengers. Passenger servicing per available seat mile decreased by 3.7% as a result of fixed costs being spread over a higher number of available seat miles.

Commissions. Commissions totaled $9.2 million for the three months ended March 31, 2006, a 22.5% increase over commissions of $7.5 million in the three months ended March 31, 2005. This increase was primarily a result of a 34.6% increase in passenger revenue, partially offset by lower average commissions rate. Commissions per available seat mile increased by 2.5%.

Maintenance, materials and repairs. Maintenance, materials and repairs totaled $5.7 million in the three months ended March 31, 2006, a 20.7% increase over maintenance, materials and repairs of $4.7 million in the three months ended March 31, 2005. This increase was primarily a result of a 20.6% increase in block hours. Maintenance, materials and repair per available seat mile increased by 1.1%.

Reservations and sales. Reservations and sales totaled $6.8 million, an 18.2% increase over reservation and sales of $5.7 million in the three months ended March 31, 2005. This increase was primarily a result of a 34.6% increase in passenger revenue and a 2.5% increase in average rates related to global distribution systems. Reservations and sales expenses per available seat mile decreased by 1.0%.

Aircraft rentals. Aircraft rentals totaled $5.9 million in the three months ended March 31, 2006, a 25.2% increase over aircraft rentals of $4.7 million in the three months ended March 31, 2005. This increase was a result of the addition of two leased Boeing 737-Next Generation aircraft with delivery months of February 2005 and May 2005. Aircraft rentals per available seat mile increased 4.8% as a result of the higher average lease rate of the two aircraft received.

Depreciation. Depreciation totaled $5.2 million in the three months ended March 31, 2006, a 10.3% increase over depreciation of $4.7 million in the three months ended March 31, 2005. This increase was primarily related to depreciation of two new Embraer 190 aircraft acquired in the fourth quarter of 2005. Depreciation per available seat mile decreased by 7.7%.

Flight operations, *landing fees and other rentals.* Combined, flight operations, landing fees and other rentals increased from $8.3 million in the three months ended March 31, 2005 to $10.6 million in the same period in the three months ended March 31, 2006, primarily a result of Copa Airlines 19.5% increase in capacity.

Other. Other expenses totaled $7.4 million in the three months ended March 31, 2006, a 7.8% increase over other expenses of $6.8 million in the three months ended March 31, 2005. Other expenses per available seat mile decreased by 9.8% as a result of administrative expenses growing slower than capacity.

AeroRepública segment operating expenses

During the three months ended March 31, 2006, AeroRepública generated operating expenses of $39.5 million.

Non-operating income (expense)

Consolidated non-operating expenses totaled \$5.4 million in the three months ended March 31, 2006, an increase of \$3.9 million over non-operating expenses of \$1.5 million in the three months ended March 31, 2005, primarily attributable to higher interest expenses and lower other non-operating income.

Copa segment non-operating income (expense)

Interest expense. Interest expenses totaled \$5.7 million in the three months ended March 31, 2006, a 24.6% increase over interest expense of \$4.6 million in the three months ended March 31, 2005, resulting from a higher average debt balance carried and higher average interest rates. The average effective interest rates for Copa

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Airlines debt also increased by 0.65% from 4.42% during the three months ended March 31, 2005 to 5.07% during the the three months ended March 31, 2006. At the end of the three months ended March 31, 2006 approximately 64% of Copa Airlines outstanding debt was fixed at an average effective rate of 4.46%

Other, net. Other, net income totaled $0.1 million in the three months ended March 31, 2006 versus other, net income of $2.2 million in the three months ended March 31, 2005.

AeroRepública segment non-operating income (expense)

During the three months ended March 31, 2006, AeroRepública generated non-operating expenses of $1.5 million.

Year 2005 Compared to Year 2004

Our consolidated net income 2005 totaled $83.0 million, a 21.0% increase over net income of $68.6 million in 2004. We had consolidated operating income of $109.2 million in 2005, a 32.6% increase over operating income of $82.3 million in 2004. Our consolidated operating margin in 2005 was 17.9%, a decrease of 2.7 percentage points over an operating margin of 20.6% in 2004, primarily as a result of higher fuel prices and our consolidation of AeroRepública s results from its acquisition on April 22, 2005.

Operating revenue

Our consolidated revenue totaled $608.6 million in 2005, a 52.2% increase over operating revenue of $399.8 million in 2004 due to increases in our Copa segment s passenger and cargo revenues, and the consolidation of $103.0 million in operating revenues from our AeroRepública segment.

Copa segment operating revenue

Copa s operating revenue totaled $505.7 million in 2005, a 26.5% increase over operating revenue of $399.8 million in 2004 due to increases in both passenger and cargo revenues.

Passenger revenue. Passenger revenue totaled $466.1 million in 2005, a 27.8% increase over passenger revenue of $364.6 million in 2004. This increase resulted primarily from the addition of capacity (ASMs increased by 21.2% in 2005 as compared to 2004) that resulted from an increase in departures and, to a lesser extent, longer average stage length and the addition of larger aircraft. Revenues also increased due to our higher overall load factor (load factor increased from 70.1% in 2004 to 73.4% in 2005) during the period and the simultaneous increase in passenger yield, which rose by 0.8% to 14.41 cents in 2005.

Cargo, mail and other. Cargo, mail and other totaled $39.6 million in 2005, a 12.4% increase over cargo, mail and other of $35.2 million in 2004. This increase was primarily the result of higher cargo revenue resulting from an increase in belly space capacity available, and to a lesser extent higher other operating revenue from excess baggage fees.

AeroRepública segment operating revenue

Since April 22, 2005, the date on which we began consolidating AeroRepública s results, AeroRepública generated operating revenues of $103.0 million.

Operating expenses

Our consolidated operating expenses totaled $499.4 million in 2005, a 57.3% increase over operating expenses of $317.5 million in 2004 that was primarily attributable to the growth of our operations, higher fuel costs, and the consolidation of $96.8 million in operating expenses from our AeroRepública segment.

In 2005, our operating expenses per available seat mile excluding aircraft fuel was 6.52 cents, a 6.9% decrease over operating expenses per available seat mile excluding aircraft fuel of 7.01 cents in 2004. Aircraft fuel per available seat mile was 2.78 cents in 2005, compared to 1.72 cents in 2004. In 2005 our total operating expenses per available seat mile was 9.30 cents, a 6.6% increase over operating expenses per available seat mile of 8.72 cents in 2004.

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

Aircraft fuel. Aircraft fuel totaled $149.3 million in 2005, a 138.7% increase over aircraft fuel of $62.5 million in 2004. This increase was primarily a result of higher fuel costs, higher fuel consumption, and the consolidation of $38.4 million in AeroRepública s aircraft fuel expenses.

Salaries and benefits. Salaries and benefits totaled $69.7 million in 2005, a 34.9% increase over salaries and benefits of $51.7 million in 2004. This increase was primarily a result of an overall increase in headcount and the consolidation of $11.0 million in AeroRepública salaries and benefits expenses.

Passenger servicing. Passenger servicing totaled $50.6 million in 2005, a 29.1% increase over passenger servicing of $39.2 million in 2004. This increase was primarily a result of an increase in Copa s capacity, an increase in Copa s on-board passengers, and the consolidation of $5.5 million in AeroRepública passenger servicing expenses.

Commissions. Commissions totaled $45.1 million in 2005, a 55.1% increase over commissions of $29.1 million in 2004. This increase was primarily a result of higher passenger revenue and the consolidation of $9.5 million in AeroRepública commission expenses.

The remaining operating expenses totaled $184.7 million in 2005, an increase of $49.7 million in 2004, of which $32.4 million corresponded to the consolidation of AeroRepública.

Copa segment operating expenses

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

	Year Ended December 31,		Percent Change
	2004	2005	
	(in cents)		
Operating Expenses per ASM:			
Salaries and benefits	1.42	1.33	(6.2)%
Passenger servicing	1.08	1.02	(4.9)%
Commissions	0.80	0.81	1.0%
Reservation and sales	0.61	0.57	(5.6)%
Maintenance, materials and repairs	0.54	0.48	(10.8)%
Depreciation	0.53	0.44	(17.6)%
Flight operations	0.49	0.50	1.0%
Aircraft rentals	0.40	0.50	26.2%
Landing fees and other rentals	0.33	0.34	0.9%
Other	0.81	0.62	(22.4)%
Total operating expenses per ASM before aircraft fuel	7.01	6.62	(5.5)%
Aircraft fuel	1.72	2.51	46.3%

Total operating expenses per ASM	8.72	9.13	4.7%

Aircraft fuel. Aircraft fuel totaled $110.9 million in 2005, a 77.3% increase over aircraft fuel of $62.5 million in 2004. This increase was primarily a result of a 54.0% increase in the average price per gallon of jet fuel ($1.84 in 2005 compared to $1.19 in 2004 and the consumption of 15.9% more fuel due to a 10.8% increase in departures and an increase in average stage length. These increases were partially offset by our newer, more fuel-efficient aircraft. Aircraft fuel per available seat mile increased by approximately 46.3% due to the increase in average fuel cost per gallon.

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Salaries and benefits. Salaries and benefits totaled $58.8 million in 2005, a 13.7% increase over salaries and benefits of $51.7 million in 2004. This increase was primarily a result of an overall increase of 12.5% in headcount at period end in 2005 versus the same period end in 2004, mainly to cover increased operations. Salaries and benefits per available seat mile decreased by 6.2%.

Passenger servicing. Passenger servicing totaled $45.2 million in 2005, a 15.2% increase over passenger servicing of $39.2 million in 2004. This increase was primarily a result of Copa s 21.2% increase in capacity and an increase of 20.2% in on-board passengers. Passenger servicing per available seat mile decreased by 4.9% as a result of fixed costs being spread over a higher number of available seat miles.

Commissions. Commissions totaled $35.6 million in 2005, a 22.3% increase over commissions of $29.1 million in 2004. This increase was primarily a result of higher passenger revenue. Commissions per available seat mile increased by 1.0%.

Reservations and sales. Reservations and sales totaled $25.3 million in 2005, a 14.4% increase over reservations and sales of $22.1 million in 2004. This increase was primarily a result of a 31.3% increase in charges related to global distribution systems resulting from a 20.1% increase in on-board passengers and a 9.5% increase in average rates. Reservations and sales expenses per available seat mile decreased by 5.6%.

Maintenance, materials and repairs. Maintenance, materials and repairs totaled $21.3 million in 2005, a 8.1% increase over maintenance, materials and repairs of $19.7 million in 2004. This decrease was a result of lower overhaul related costs and lower average maintenance costs due to the replacement of the older Boeing 737-200s. Maintenance, materials and repair per available seat mile decreased by 10.8% primarily as a result of the lower cost associated with the newer Boeing 737-Next Generation fleet.

Depreciation. Depreciation totaled $19.2 million in 2005, a negligible decrease over depreciation of $19.3 million in 2004, as the higher depreciation attributable to our acquisition of two new Embraer 190 aircraft in 2005 was partially offset by lower depreciation expenses related to non-aircraft related assets. Depreciation per available seat mile decreased by 17.6%.

Aircraft rentals. Aircraft rentals totaled $22.1 million in 2005, a 53.0% increase over aircraft rentals of $14.4 million in 2004. This increase was a result of three additional leased Boeing 737-Next Generation aircraft in December 2004, February 2005 and May 2005. Aircraft rentals per available seat mile increased by 26.2% as a result of the higher average lease rate of the three aircraft received.

Flight operations and *landing fees and other rentals.* Combined, flight operations and landing fees and other rentals increased from $30.1 million in 2004 to $36.8 million in 2005, primarily as a result of Copa s 21.2% increase in capacity.

Other. Other expenses totaled $27.5 million in 2005, a 6.0% decrease over other expenses of $29.3 million in 2004. This increase was primarily a result of a 17.0% increase in OnePass frequent flyer miles earned by customers during the period, as well as other miscellaneous administrative expenses such as software licenses and legal expenses. Other expenses per available seat mile decreased by 22.4% as result of administrative expenses growing slower than capacity.

AeroRepública segment operating expenses

Since April 22, 2005, the date on which we began consolidating AeroRepública s results, AeroRepública generated operating expenses of $96.8 million.

Non-operating income (expense)

Our consolidated non-operating expenses totaled $16.6 million in 2005, a 106.0% increase over non-operating expenses of $8.0 million in 2004 that was primarily attributable to the consolidation of $3.3 million in non-operating expenses from our AeroRepública segment and higher expenses related to our initial public offering in 2005.

Copa segment non-operating income (expense)

Non-operating expense totaled $13.2 million in 2005, a 64.5% increase over non-operating expense of $8.0 million in 2004, attributable primarily to higher interest expense partially offset by higher interest income and lower other non-operating income.

Interest expense. Interest expense totaled $19.4 million in 2005, a 17.8% increase over interest expense of $16.5 million in 2004, primarily resulting from higher interest rates. The average effective interest rates on our debt also increased by 29 basis points from 4.21% during 2004 to 4.50% during 2005. At period s end, approximately 65% of our outstanding debt was fixed at an average effective rate of 4.46%.

Interest capitalized. Interest capitalized totaled $1.1 million in 2005, a 13.1% increase over interest capitalized of $1.0 million in 2004, resulting from higher average interest rates on debt relating to pre-delivery payments on aircraft.

Interest income. Interest income totaled $3.4 million in 2005, a 137.2% increase over interest income of $1.4 million in 2004. This increase was mainly a result of our higher average cash balance over the year and higher interest rates during the period.

Other, net. Other, net income totaled $1.7 million in 2005, a 71.4% decrease over other, net income of $6.1 million in 2004. This decrease was primarily the result of approximately $3.7 million in expenses related to our initial public offering in 2005.

Year 2004 Compared to Year 2003

Our net income for 2004 was $68.6 million, a 41.4% increase over net income of $48.5 million in 2003. We had operating income of $82.3 million in 2004, a 41.2% increase over operating income of $58.3 million in 2003. Our operating margin in 2004 was 20.6%, an increase of 3.5 percentage points over an operating margin of 17.1% in 2003.

Operating revenue

Our operating revenue totaled $399.8 million in 2004, a 17.0% increase over operating revenue of $341.8 million in 2003 due to increases in both passenger and cargo revenues.

Passenger revenue. Passenger revenue totaled $364.6 million in 2004, a 17.0% increase over passenger revenue of $311.7 million in 2003. This increase resulted primarily from the addition of capacity (ASMs increased by 12.8% in 2004 as compared to 2003) that resulted from an increase in departures and, to a lesser extent, an increase in average departures per aircraft, higher average stage length and the addition of larger aircraft. Revenues also increased due to our higher overall load factor (load factor increased from 68.0% in 2003 to 70.0% in 2004) during the period and the simultaneous increase in passenger yield, which rose by 0.7% to 14.31 cents in 2004. A general increase in passenger demand for air travel in 2004, in part as a result of growing Latin American and U.S. economies, allowed us to increase both capacity and load factor without affecting yields.

Cargo, mail and other. Cargo, mail and other totaled $35.2 million in 2004, a 17.0% increase over cargo, mail and other of $30.1 million in 2003. This increase was primarily the result of higher cargo revenue primarily resulting from an increase in belly space capacity available as we replaced four Boeing 737-200s with larger Boeing 737-Next Generation aircraft during 2004, plus the full year effect of four Boeing 737-Next Generation aircraft received in the second half of 2003. There was also a general increase in demand for courier services in the region during 2004.

Operating expenses

Operating expenses totaled $317.5 million in 2004, a 12.0% increase over operating expenses of $283.5 million in 2003. The increase in operating expenses was primarily attributable to a 12.0% increase in capacity, an increase in the average cost of jet fuel and an increase in salaries and benefits expenses. The breakdown of operating expenses per available seat mile is as follows:

	Year Ended December 31, 2003	2004	Percent Change
	(in cents)		
Operating expenses per ASM:			
Salaries and benefits	1.40	1.42	1.3%
Passenger servicing	1.14	1.08	(5.7)%
Commissions	0.86	0.80	(6.9)%
Reservation and sales	0.56	0.61	8.8%
Depreciation	0.44	0.53	21.7%
Maintenance, materials and repairs	0.63	0.54	(14.0)%
Flight operations	0.50	0.49	(0.7)%
Aircraft rentals	0.52	0.40	(23.3)%
Landing fees and other rentals	0.33	0.33	2.1%
Other	0.81	0.81	0.0%
Total operating expenses per ASM before aircraft fuel and fleet impairment charges	7.17	7.01	(2.3)%
Aircraft fuel	1.50	1.72	14.3%
Total operating expenses per ASM before fleet impairment charges	8.68	8.72	0.5%
Fleet impairment charges	0.11	0.00	N/A
Total operating expenses per ASM	8.79	8.72	(0.7)%

Aircraft fuel. Aircraft fuel totaled $62.5 million in 2004, a 28.9% increase over aircraft fuel of $48.5 million in 2003. This increase was primarily a result of a 22.7% increase in the average price per gallon of jet fuel ($1.19 in 2004 compared to $0.97 in 2003) and the consumption of 4.9% more fuel due to a 6.7% increase in departures. These increases were partially offset by our newer, more fuel-efficient aircraft. Aircraft fuel per available seat mile increased by approximately 14.3% due to the increase in average fuel cost per gallon.

Salaries and benefits. Salaries and benefits totaled $51.7 million in 2004, a 14.2% increase over salaries and benefits of $45.3 million in 2003. This increase was primarily a result of the full year effect of employees hired throughout 2003, higher performance bonuses paid as a result of our improved operating results and an overall increase of 4.3% in full-time equivalent employees at period end from 2003 to 2004, mainly to cover increased operations. Salaries and benefits per available seat mile increased by 1.3%.

Passenger servicing. Passenger servicing totaled $39.2 million in 2004, a 6.4% increase over passenger servicing of $36.9 million in 2003. This increase was primarily a result of our 12.8% increase in capacity and an increase of 15.0% in on-board passengers. Passenger servicing per available seat mile decreased by 5.7% as a result of fixed costs being spread over a higher number of available seat miles.

Commissions. Commissions totaled $29.1 million in 2004, a 5.0% increase over commissions of $27.7 million in 2003. This increase was primarily a result of higher passenger revenue, partially offset by lower average commissions. Commissions per available seat mile decreased by approximately 6.9% due to lower average commissions and more direct sales.

Reservations and sales. Reservations and sales totaled $22.1 million in 2004, a 22.8% increase over reservations and sales of $18.0 million in 2003. This increase was a result of a 15.0% increase in on-board passengers, a 5.7% increase in average rates charged by global distribution systems and the cost of terminating our relationship with a General Sales Agent in Puerto Rico. Reservations and sales expenses per available seat mile increased by 8.8%.

Depreciation. Depreciation totaled $19.3 million in 2004, a 37.3% increase over depreciation of $14.0 million in 2003. This increase was primarily due three new Boeing 737-Next Generation aircraft acquired in 2004 and

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the full year effect of four Boeing 737-Next Generation aircraft acquired in 2003. Depreciation per available seat mile increased by 21.7%.

Maintenance, materials and repairs. Maintenance, materials and repairs totaled $19.7 million in 2004, a 3.0% decrease over maintenance, materials and repairs of $20.4 million in 2003. This decreased was a result of the replacement of four Boeing 737-200 aircraft with newer Boeing 737-Next Generation and the full year effect of disposing of two Boeing 737-200 aircraft in 2003, partially offset by beginning of the airframe overhaul schedule for the first four of our Boeing 737-Next Generation aircraft. Maintenance, materials and repair per available seat mile decreased by 14.0%.

Aircraft rentals. Aircraft rentals totaled $14.4 million in 2004, a 13.4% decrease over aircraft rentals cost of $16.7 million in 2003. This decrease resulted from new aircraft leases with better rates as we experienced the effect of four lease contracts we renegotiated in 2003. Aircraft rentals per available seat mile decreased by 23.3% due to higher capacity and the lower lease rates.

Flight operations and landing fees and other rentals. As a group, flight operations and landing fees and other rentals increased from $26.5 million in 2003 to $30.1 million in 2004, or 13.3%, primarily as a result of our 12.8% increase in capacity.

Other. Other expenses totaled $29.3 million in 2004, a 12.8% increase over other expenses of $26.0 million in 2003. This increase was primarily due to technology initiatives related to improving our telecommunications capabilities, non-recurring expenses related to our evaluation of a potential acquisition that we chose not to pursue and a 9.0% increase in publicity and promotion resulting from higher OnePass frequent flyer miles earned by customers. Other expenses per available seat mile remained unchanged.

Non-operating income (expense)

Non-operating expense totaled $8.0 million in 2004, a 30.4% increase over non-operating expense of $6.2 million in 2003, attributable primarily to greater interest expense partially offset by higher interest income and other non-operating income.

Interest expense. Interest expense totaled $16.5 million in 2004, a 42.0% increase over interest expense of $11.6 million in 2003, resulting from a higher amount of debt related to a greater number of owned aircraft. The average effective interest rates on our debt also increased by 57 basis points from 3.64% during 2003 to 4.21% during 2004. At the end of 2004, we had approximately 77% of our outstanding debt fixed at an effective rate of 4.47%.

Interest capitalized. Interest capitalized totaled $1.0 million in 2004, a 52.1% decrease over interest capitalized of $2.0 million in 2003, resulting from lower average debt relating to pre-delivery payments on aircraft.

Interest income. Interest income totaled $1.4 million in 2004, a 60.4% increase over interest income of $0.9 million in 2003. This increase was mainly a result of our higher average cash balance over the year and higher prevailing interest rates during 2004.

Other, net. Other, net income totaled $6.1 million in 2004, a 137.4% increase over other, net income of $2.6 million in 2003. This increase was the result of non-recurring adjustments and a gain of $1.1 million resulting from the sale of two Boeing 737-200 aircraft, partially offset by a decrease in the market value of fuel hedge instruments of $0.9 million.

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Quarterly Results of Operations

The following table sets forth, for each of our last five quarters, selected data from our statement of income as well as other financial data and operating statistics. The information for each of these quarters is unaudited and has been prepared on the same basis as the audited financial statements appearing elsewhere in this prospectus.

	Three Months Ended				
	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005	March 31, 2006
	(in thousands of dollars, except share and per share data and operating data)				
INCOME STATEMENT DATA					
Operating revenue	$ 113,608	$ 137,374	$ 177,947	$ 179,645	$ 191,726
Operating expenses	87,631	117,083	141,874	152,834	149,963
Depreciation	4,739	4,996	5,109	5,013	5,417
Interest expense	4,557	5,152	6,046	5,874	6,278
Interest capitalized	143	201	313	432	508
Interest income	687	673	940	1,284	1,262
Net income before tax	24,446	17,986	31,172	18,987	36,346
Net income	22,560	15,111	27,675	17,653	32,280
OTHER FINANCIAL DATA					
EBITDA[1]	32,912	27,260	41,074	28,158	46,271
Aircraft rentals	4,678	7,236	7,437	8,280	8,861
Operating margin	22.9%	14.8%	20.3%	14.9%	21.8
Weighted average shares used in computing net income per share[2]	42,812,500	42,812,500	42,812,500	42,812,500	42,812,500
Net income (loss) per share[2]	$ 0.53	$ 0.35	$ 0.65	$ 0.41	$ 0.75
OPERATING DATA					
Revenue passenger miles	736	875	1,131	1,088	1,155
Available seat miles	1,018	1,266	1,535	1,549	1,615
Load factor	72.3%	69.1%	73.7%	70.2%	71.5%
Break-even load factor	52.1%	58.1%	58.4%	60.9%	55.7%
Yield	14.28	14.49	14.73	15.30	15.61
Passenger revenue per ASM	10.33	10.02	10.86	10.75	11.17
Operating revenue per ASM	11.16	10.85	11.60	11.59	11.87
Operating expenses per ASM	8.61	9.25	9.25	9.86	9.29
SEGMENT FINANCIAL DATA					
Copa:					

Operating revenue	113,608	115,955	137,690	138,402	151,602
Operating expenses	87,631	96,260	106,941	111,852	110,613
Depreciation	4,739	4,770	4,833	4,900	5,227
Aircraft rentals	4,678	5,831	5,882	5,705	5,858
Interest expense	4,557	4,691	4,940	5,236	5,678
Interest capitalized	143	201	313	432	508
Interest income	687	656	851	1,182	1,148
Net income before tax	24,446	18,360	27,823	19,116	37,032
AeroRepública (since April 22, 2005):					
Operating revenue		21,419	40,257	41,300	40,246
Operating expenses		20,823	34,933	41,083	39,472
Depreciation		226	276	113	190
Aircraft rentals		1,405	1,555	2,575	3,003
Interest expense		461	1,106	638	600
Interest capitalized					
Interest income		17	89	102	114
Net income (loss) before tax		(374)	3,349	(130)	(686)

(1) 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 airlines. However, EBITDA should not be

considered in isolation, as a substitute for net income prepared in accordance with U.S. GAAP 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:

	Three Months Ended				
	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005	March 31, 2006
	(in thousands of dollars)				
Net income (loss)	$ 22,560	$ 15,111	$ 27,675	$ 17,653	$ 32,280
Interest expense	4,557	5,152	6,046	5,874	6,278
Income taxes	1,886	2,875	3,497	1,334	4,066
Depreciation	4,739	4,996	5,109	5,013	5,417
Subtotal	33,742	28,134	42,327	29,874	48,041
Interest capitalized	(143)	(201)	(313)	(432)	(508)
Interest income	(687)	(673)	(940)	(1,284)	(1,262)
EBITDA	32,912	27,260	41,074	28,158	46,271

(2) All share and per share amounts have been retroactively restated to reflect the current capital structure described under Description of Capital Stock and in the notes to our consolidated financial statements.

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 bonds privately placed with commercial banks. Our accounts receivable at December 31, 2005 increased by $21.8 million compared with December 31, 2004, primarily as a result of the consolidation of $15.3 million of AeroRepública s receivables and growth in operating revenues.

Our cash, cash equivalents and short-term investments at December 31, 2005 remained near the prior year s level at $114.5 million. Our cash, cash equivalents and short-term investments increased to $114.8 million at March 31, 2006. At March 31, 2006 we had available credit lines totaling $38.5 million under which there were no amounts outstanding.

Operating Activities

We rely primarily on cash flows from operations to provide working capital for current and future operations. For the first three months of 2006, cash flow from operating activities totaled $21.1 million. Cash flows from operating activities totaled $119.1 million in 2005, $98.1 million in 2004, and $73.5 million in 2003. The increase in operating cash flows over these periods was primarily due to the growth of our business.

Investing Activities

During the first three months of 2006, capital expenditures were $4.4 million and were primarily related to the acquisition of aircraft components. During 2005, capital expenditures were $63.3 million, which consisted primarily of expenditures related to our purchase of two Embraer 190 aircraft. During 2004, capital expenditures were $65.8 million, which consisted primarily of expenditures related to our purchase of three Boeing 737-Next Generation aircraft. During 2003, capital expenditures were $112.2 million, which consisted primarily of expenditures related to our purchase of four Boeing 737-Next Generation aircraft and one CFM 56-7B spare engine.

Financing Activities

Financing activities during the first three months of 2006 consisted primarily of the issuance of $4.9 million in commercial debt by AeroRepública, primarily related to the refinancing of existing liabilities, and the repayment of $11.6 million in long-term debt.

Financing activities during 2005 consisted of $68.4 million, primarily to the financing of two Embraer 190 aircraft, $27.5 million related to the financing of aircraft pre-delivery payments through privately-placed bonds, the repayment of $46.9 million in long-term debt and $10.1 million in dividends declared and paid.

Financing activities during 2004 consisted primarily of financing for three Boeing 737-Next Generation aircraft for $101.2 million ($35.7 million of the proceeds of which were used to redeem privately-placed bonds used for pre-delivery payments related to those aircraft), the financing for aircraft pre-delivery payments with $6.4 million of privately-placed bonds, the repayment of $32.1 million in long-term debt and $10.0 million in dividends declared and paid.

Financing activities during 2003 consisted primarily of financing for four Boeing 737-Next Generation aircraft and a spare engine for $140.7 million ($35.2 million of the proceeds of which were used to redeem privately-placed bonds used for pre-delivery payments related to those aircraft), the financing for aircraft pre-delivery payments with $21.7 million of privately-placed bonds and the repayment of $22.0 million in long-term debt.

We have generally been able to arrange medium-term financing for pre-delivery payments through loans with commercial banks through a private issuance of bonds. Although we believe that financing on similar terms should be available for our future aircraft pre-delivery payments, we may not be able to secure such financing on terms attractive to us.

We have financed the acquisition of fifteen Boeing 737-Next Generation aircraft and three spare engines 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-Imguarantee facilities typically offer an option to fix the applicable interest rate. We have exercised this option with respect to $285.8 million as of March 31, 2006 at an average weighted interest rate of 4.46%. The remaining $43.5 million bears interest at an average weighted interest of LIBOR plus 0.03%. At March 31, 2006, the total amount outstanding under our Ex-Im-supported financings totaled $329.3 million.

We effectively extend the maturity 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 net debt to capitalization ratio and minimum net worth. To comply with the first ratio, our EBITDA plus aircraft rent expense, or EBITDAR, for the prior year must be at least 2.5 times our fixed charge expenses (including interest, commission, fees, discounts and other finance payments) for that year. To comply with the second ratio, our tangible net worth shall be at least five times our long-term obligations. Third, our tangible net worth must be at least $50 million. As of March 31, 2006, we complied with all required covenants. We also pay a commitment fee on the unutilized portion of our SOAR loans.

We also typically finance approximately 10% of the purchase price of our Boeing aircraft through commercial loans which totaled $62.2 million as of March 31, 2006. 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 1.9 times our finance charge expenses (including interest, commission, fees, discounts and other finance payments) for the first year of the agreement and 2.0 times our finance charge expenses for the remainder of the agreement. The second covenant limits our net borrowings to 92% of our capitalization during the first two years, 90% during the next two years and 85% during the last six years of the agreement. The third covenant requires our tangible net worth to be at least $30 million for the first two years, $70 million for the next three years and $120 million for the last four years of the agreement. The last covenant requires us to maintain a minimum of $30 million in available cash (including cash equivalents and committed credit facilities) for the first five years and $50 million for the last five years of the agreement. As of March 31, 2006 we complied with all required covenants.

Our Embraer aircraft purchases are not eligible for Ex-Im guaranteed financing. We arranged financing for the six Embraer aircraft to be delivered through the end of 2006, having obtained a commitment for senior term loan facilities in the amount of approximately $134 million from PK AirFinance US, Inc., an affiliate of General Electric. The loans have a term of twelve years.

Upon our acquisition of AeroRepública, we arranged a commercial credit facility in the amount of $15.0 million, primarily to refinance existing liabilities and to provide AeroRepública with working capital. This facility was divided in two tranches of $5.0 million and $10.0 million with maturities of three and five years, respectively. This facility is secured by credit card receivables. The facility required AeroRepública to maintain certain financial covenants such as a financial debt to EBITDAR ratio of less than 4.5. AeroRepública is currently in negotiations with lenders to restructure the existing two tranche facility into a one tranche facility with more favorable terms in the amount of approximately $15 million which will be backed by a guarantee from Copa Holdings, S.A. The new facility under negotiation will include revised covenants which under the current facility are not being met by AeroRepública as of December 31, 2005. AeroRepública received a waiver from the lending institution through July 2006.

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

We have placed firm orders with The Boeing Company for eight Boeing 737-Next Generation aircraft and we have purchase rights for an additional nine Boeing 737-Next Generation aircraft. We have also placed firm orders with Embraer for 18 Embraer 190 aircraft and we have options to purchase an additional 35 Embraer 190 aircraft. The schedule for delivery of our firm orders is as follows: ten in 2006, eight in 2007, six in 2008 and two in 2009. We meet our pre-delivery deposit requirements for our Boeing 737-Next Generation aircraft by paying cash, or by using medium-term borrowing facilities and/or vendor financing for deposits required 24 to 6 months prior to delivery. Pre-delivery deposits for our Embraer 190 aircraft are required 18, 12 and 6 months prior to delivery. We fund these deposits with our own cash.

Contractual Obligations

Our non-cancelable contractual obligations at March 31, 2006 included the following:

	At March 31, 2006						
	Total	Rest of 2006	2007	2008	2009	2010	Thereafter
	(in thousands of dollars)						
Aircraft and engine purchase commitments	$ 769,001	$ 233,588	$ 286,473	$ 171,961	$ 41,948	$	$
Aircraft operating leases	134,989	24,834	31,941	28,791	22,483	12,600	14,340
Other operating leases	20,322	2,670	2,674	2,448	2,365	2,356	7,809
	564,751	75,901	56,259	54,132	50,550	47,211	280,698

Short-term debt and long-term debt[(1)]							
Total	$ 1,489,063	$ 336,993	$ 377,347	$ 257,332	$ 117,346	$ 62,167	$ 302,847

(1) Includes actual interest and estimated interest for floating-rate debt based on December 31, 2005 rates.

Most contract leases include renewal options. Non-aircraft related leases have renewable terms of one year, and their respective amounts included in the table below have been estimated through 2010, but we cannot estimate amounts with respect to those leases for later years. Our leases do not include residual value guarantees.

Off-Balance Sheet Arrangements

None of our operating lease obligations are reflected on our balance sheet and we have no other off-balance sheet 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.

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.

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 option contracts, zero cost collars and swap agreements. Market risk is estimated as a hypothetical 10% increase in the December 31, 2005 cost per gallon of fuel. Based on projected 2006 fuel consumption, such an increase would result in an increase to aircraft fuel expense of approximately $17.6 million in 2006, not taking into account our derivative contracts. We currently have hedged approximately 13% of Copa s projected 2006 fuel requirements and 5% of Copa s projected fuel consumption from January 1, 2007 to May 31, 2007. All existing hedge contracts settle by May 2007. We may enter into additional hedging agreements in the future to reduce volatility in 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 2006 than they did during 2005, our interest expense would increase by approximately $0.6 million and the fair value of our debt would decrease by approximately $5.8 million. If interest rates average 10% less in 2006 than they did in 2005, our interest income from cash equivalents would decrease by approximately $0.4 million and the fair value of our debt would increase by approximately $6.1 million. These amounts are determined by considering the impact of the hypothetical interest rates on our variable-rate debt and cash equivalent balances at December 31, 2005.

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 42% 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 6% of our operating revenues in 2005, except for the Colombian Peso which represented 24%. Generally, our exposure to most of these foreign currencies is limited to the period of up to two weeks between the completion of a sale and the repatriation to Panama in dollars.

2005 Revenues and Expenses Breakdown by Currency

	Revenue	Expense
Argentinian Peso	4.3%	2.5%
Brazilian Real	5.9%	3.0%
Colombian Peso	24.3%	12.6%
Costa Rican Colon	3.7%	1.8%
Mexican Peso	4.2%	2.0%
U.S. Dollar	42.2%	71.9%
Venezuelan Bolivar	3.9%	1.7%
Other[1]	11.6%	4.5%

(1) Chilean Peso, Dominican Peso, Guatemalan Quetzal, Jamaican Dollar, Honduran Lempira, Haitian Gourde.

As a result of the acquisition of AeroRepública in April 2005, we have an increased exposure to the Colombian Peso than that noted in the table above. AeroRepública s revenues from April 22, 2005 to December 31, 2005 represent 16.9% of total consolidated revenues.

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Outlook: Remainder of 2006

We seek to expand our Copa Airlines operation by adding frequencies and new routes with the addition of six new aircraft to our fleet, including two Boeing-737 Next Generation and four Embraer 190 aircraft. New routes for 2006 include Maracaibo, Venezuela; Montevideo, Uruguay; San Pedro Sula, Honduras; Port of Spain, Trinidad and Tobago; Manaus, Brazil; and Santiago, Dominican Republic. For the remainder of 2006, 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 to apply our know-how to improve the operations at AeroRepública. As part of our plan to modernize AeroRepública s fleet, we currently expect to take delivery of four Embraer aircraft in late 2006. We seek to make further improvements at AeroRepública, including a continued focus on on-time performance, a renovation of aircraft interiors, further integration of Copa s and AeroRepública s network through codesharing agreements and improvement of overall efficiency.

We expect jet fuel prices will continue to be high in 2006 and expect to continue evaluating fuel hedging programs to help protect us against short-term movements in crude oil prices. We also expect interest rates to increase during the rest of 2006 which would increase the amount of interest expense related to the 38% of our debt that bears interest at floating rates.

We expect our consolidated capacity to increase by approximately 21% in the last seven months of 2006 compared to our consolidated capacity at May 31, 2006, primarily as a result of six new aircraft scheduled to be received by Copa in the last seven months of 2006.

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BUSINESS

Overview

We are a leading Latin American provider of airline passenger and cargo service through our two principal operating subsidiaries, Copa and AeroRepública. Copa operates from its strategically located position in the Republic of Panama, and AeroRepública provides service primarily within Colombia. Our fleet currently consists of 22 Boeing 737-Next Generation aircraft, two Embraer 190 aircraft, 11 MD-80 aircraft and two DC-9 aircraft (one of which is currently retired). We currently have firm orders for eight Boeing 737-Next Generation and 18 Embraer 190s, and purchase rights and options for up to nine additional Boeing 737-Next Generation and 35 additional Embraer 190s.

Copa was established in 1947 and currently offers approximately 92 daily scheduled flights among 30 destinations in 20 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 codeshare arrangements with Continental 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 operates a modern fleet of 22 Boeing 737-Next Generation aircraft and two Embraer 190 aircraft with an average age of approximately 3.6 years as of May 31, 2006. To meet its growing capacity requirements, Copa has firm commitments to accept delivery of 21 additional aircraft through 2009 and has purchase rights and options that, if exercised, would allow it to accept delivery of up to 24 additional aircraft through 2009. Copa s firm orders are for eight additional Boeing 737-Next Generation aircraft and 13 additional Embraer 190s, and its purchase rights and options are for up to nine Boeing 737-Next Generation aircraft and up to 15 Embraer 190s.

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 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 Continental have enhanced its brand in Latin America, and that the relationship with Continental 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 Continental are in effect until 2015.

During the second quarter of 2005, we purchased AeroRepública, a Colombian air carrier that was the second-largest domestic carrier in Colombia in terms of number of passengers carried in 2005, providing predominantly point-to-point service among 12 cities in Colombia and to Copa s Panama City hub. AeroRepública currently operates a fleet of eleven leased MD-80s and two owned DC-9s (one of which is currently retired). As part of its fleet modernization and expansion plan, AeroRepública has firm commitments to accept delivery of five Embraer 190 aircraft through 2007 and purchase rights and options to purchase up to 20 additional Embraer 190 aircraft through 2011.

Since January 2001, we have grown significantly and have established a track record of consistent profitability, recording five consecutive years of increasing earnings. Our total operating revenues have increased from $290.4 million in 2001 to $608.6 million in 2005, while our net income has increased from $14.8 million to $83.0 million over the same period. Our operating margins also improved from 8.6% in 2001 to 17.9% in 2005.

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 industry.

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 was 8.72 cents in 2004 and 9.30 cents in 2005. Our operating cost per available seat mile excluding costs for fuel and fleet impairment charges was 7.50 cents in 2001, 7.59 cents in 2002, 7.17 cents in 2003, 7.01 cents in 2004, 6.52 cents in 2005 and 6.37 cents for the three months ended March 31, 2006. See Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations for a reconciliation of our operating cost per available seat mile when excluding costs for fuel and fleet impairment charges to our operating cost per available seat mile. We believe that our cost per available seat mile reflects our modern fleet, efficient operations and the competitive cost of labor in Panama.

Copa operates a modern fleet. Copa completed the replacement of all of its Boeing 737-200 aircraft in the first quarter of 2005 with Boeing 737-Next Generation aircraft equipped with winglets and other modern cost-saving and safety features. Copa also recently accepted delivery of its first two Embraer 190 aircraft. Over the next four years, Copa intends to enhance its modern fleet through the addition of at least eight additional Boeing 737-Next Generation aircraft and 13 new Embraer 190s. We believe that Copa s modern fleet contributes to its on-time performance and high completion factor (percentage of scheduled flights not cancelled). We expect our Boeing 737-700s and 737-800s and our new Embraer 190s to offer substantial operational cost savings over the replaced aircraft in terms of fuel efficiency and maintenance costs. AeroRepública is currently implementing a fleet modernization and expansion plan with firm commitments on five new Embraer 190s and options for an additional 20 Embraer 190 aircraft.

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 three months ended March 31, 2006, Copa Airline s statistic for on-time performance was 92.3%, completion factor was 99.7% and baggage handling was 1.2 mishandled bags per 1000 passengers. Our goal is to apply our expertise in these areas to improve AeroRepública s service statistics to comparable levels. Our focus on customer service has helped to build passenger loyalty. We believe that our brand has also been enhanced through our relationship with Continental, including our joint marketing of the OnePass loyalty program in Latin America, the similarity of our aircraft livery and aircraft interiors and our participation in Continental s President s Club lounge program.

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 at Copa has individual objectives based on corporate goals that serve as a basis for measuring performance. When corporate operational and financial targets are met, employees at Copa are eligible to receive bonuses according to our profit sharing program. See Business 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. Copa s goal-oriented culture and incentive programs have contributed to a motivated work force that is focused on satisfying customers, achieving efficiencies and growing profitability. We seek to create a similar culture at AeroRepública.

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. With the addition of Embraer 190 aircraft and growth in overall capacity, we expect to have more flexibility in scheduling our flights for our customers convenience.

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.

Introduce service with new Embraer 190 aircraft. We believe that the addition of the Embraer 190 aircraft allows us to provide efficient service to new destinations in underserved markets. In addition, we believe that the Embraer 190s enhance our ability to efficiently match our capacity to demand, allowing us to improve service frequencies to currently served markets and to redeploy our higher capacity aircraft to serve routes with greater demand.

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 frequent flyer program, upgrades and access to President s Club lounges.

Capitalize on opportunities at AeroRepública. We are seeking to enhance AeroRepública s market share and profitability through a variety of initiatives, including modernizing its fleet, integrating its route network with Copa s and improving overall efficiency. We also seek to increase customer loyalty by making further operational improvements at AeroRepública, such as on-time performance which improved from 70.4% during the six months ended December 31, 2005 to 81.9% during the three months ended March 31, 2006, and in March 2006, we implemented the OnePass frequent flyer program at AeroRepública.

History

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 was terminated by mutual consent. In May 1998, CIASA sold a 49% stake in Copa Holdings to Continental and entered into an extensive alliance agreement with Continental providing for code-sharing, joint marketing, technical ex-changes and other cooperative initiatives between the airlines.

Since 1998, we have grown and modernized our fleet while improving customer service and reliability. In 1999, we received our first Boeing 737-700s and in 2003 we received our first Boeing 737-800s. In the first quarter of 2005, we completed our fleet renovation program and discontinued use of our last Boeing 737-200s. Since 1998, Copa has expanded from 24 destinations in 18 countries to 30 destinations in 20 countries. We plan to continue our expansion in the future, and we plan to almost double our fleet over the next five years.

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AeroRepública

We acquired 85.6% of AeroRepública on April 22, 2005 and another 14.2% in a series of transactions ending in March 2006. We carried out the acquisition by purchasing substantially all of the equity ownership interest in AeroRepública from its several former shareholders for an aggregate purchase price of approximately $23.4 million, including acquisition costs. According to the Colombian Civil Aviation Administration, *Unidad Especial Administrative de Aeronáutica Civil*, AeroRepública is the second largest passenger air carrier in Colombia, with a market share of approximately 25% of the domestic traffic in Colombia in 2005 and approximately 1,238 employees.

Our goal is to achieve growth at AeroRepública through a combination of increasing Colombian domestic passenger traffic volume and increasing market share, particularly in the business travelers segment. We believe that Copa s operational coordination with AeroRepública 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.

Since our acquisition, AeroRepública s on-time performance has improved from 70.4% during the period from the date of our acquisition to December 31, 2005 to 81.9% during the three months ended March 31, 2006. We have centralized certain administrative functions common to Copa and AeroRepública, including information technology, corporate planning and internal audits. We have also implemented e-ticketing at AeroRepública, and AeroRepública now participates in the OnePass frequent flyer loyalty program. Looking ahead, we seek to continue aircraft interior renovations in our AeroRepública aircraft and complete our fleet renovation program.

We believe that AeroRepública s revenues were approximately $87 million for 2003 and approximately $118 million for 2004. We also believe that during those years AeroRepública operated with very low net operating margins and experienced a net loss in 2003. However, in the course of our due diligence investigations in connection with the purchase, we and our external accounting advisors discovered certain inconsistencies in AeroRepública s accounting and internal controls that caused us to believe that its published financial statements as prepared under Colombian GAAP may not have accurately reflected its results of operations for the years covered. Since we acquired AeroRepública, we have retained an internationally recognized accounting firm to assist us in the maintenance of accounting records, perform additional analyses and post-closing procedures necessary for the preparation of AeroRepública s financial statements and provide other assistance in areas in which AeroRepública had insufficient internal resources. Additionally, our accounting personnel have been directly involved in the preparation and review of AeroRepública s financial information consolidated into our financial statements subsequent to the acquisition. As a result, we believe the financial information of AeroRepública that is consolidated into our financial statements has been prepared in accordance with U.S. GAAP and that our interim financial statements for the periods subsequent to our acquisition of AeroRepública are materially correct. Our management and audit committee have developed plans for the remediation of the deficiencies in AeroRepública s internal controls. These plans include additional oversight by our accounting personnel, further education and training in U.S. GAAP for AeroRepública s existing personnel and engaging outside resources to assist in the design and implementation of additional internal controls. We expect to continue to carry out these plans during the next year in connection with our initial assessment of our internal control over financial reporting as of December 31, 2006, as required by Section 404 of the Sarbanes-Oxley Act of 2002. The consolidation of AeroRepública into our results of operations has substantially increased our revenues and decreased our operating margins and is likely to do so for the foreseeable future.

Industry

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

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According to data from the International Air Transport Association, or IATA, Latin America comprised approximately 8.2% of worldwide passengers flown in 2005, or 105 million passengers. A significant percentage of this traffic consisted of passengers flying between the United States and Latin America.

The Central American aviation market is dominated by international traffic. According to data from IATA, international traffic represented more than 69.2% of passengers carried and 84.4% of passenger miles flown in Central America in 2005. International passenger traffic is concentrated between North America and Central America. This segment represented 73.3% of international passengers flown in Central America in 2005, compared to 18.1% for passengers flown between Central America and South America and 8.6% for passengers flown between Central American countries. Total passengers flown on international flights in Central America grew by 26.0% in 2005, and load factors on international flights to and from Central America were 72.8% on average.

Domestic traffic, or flights within Central American countries, represented approximately 30.8% of passengers carried and 15.6% of passenger miles flown in 2005. Average load factors on domestic flights within Central America were 66.6% in 2005. The chart below details passenger traffic in 2005.

2005 IATA Traffic Results

	Passengers Carried (Thousands)	**Change (%)**	**Passenger Miles (Millions)**	**Change (%)**	**ASMs (Million)**	**Change (%)**	**Load Factor**
International Scheduled Service							
North America Central America	18,922	4.1%	27,855	1.2%	37,718	(2.1)%	73.9%
North America South America	19,377	10.4%	37,171	11.4%	51,486	6.6%	72.2%
Central America South America	4,666	17.2%	8,951	28.2%	12,601	26.1%	71.0%
Within Central America	2,214	(5.6)%	1,090	(16.9)%	1,712	(27.4)%	63.6%
Within South America	8,595	21.8%	10,862	12.3%	14,771	7.2%	73.5%
Domestic Scheduled Service							
Central America	11,487	(4.4)%	6,992	(3.7)%	16,900	(7.7)%	66.6%
South America	40,183	19.7%	20,657	18.4%	48,010	13.9%	69.2%

Panama serves as a hub for connecting passenger traffic between major North American, South American, Caribbean and Central American markets. Accordingly, passenger traffic to and from Panama is significantly influenced by economic growth in surrounding regions. Major passenger traffic markets in North America, South America and Central America experienced growth in their GDP in 2005 on both an absolute and per capita basis. Real GDP in our two most important markets also grew in 2004, increasing by 7.6% in Panama and 4.0% in Colombia in 2004. In 2005, real GDP increased by 5.5% in Panama and by 5.1% in Colombia, according to the International Monetary Fund s estimates.