

**REPORT BY THE REMUNERATION COMMITTEE OF INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A. IN RELATION TO THE PROPOSED NEW DIRECTORS' REMUNERATION POLICY TO BE SUBMITTED TO THE 2024 ANNUAL SHAREHOLDERS' MEETING**

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The Remuneration Committee (the "**Committee**") of the Board of Directors of International Consolidated Airlines Group, S.A. ("**IAG**" or the "**Company**") has issued this report in relation to the proposal of the new Directors' Remuneration Policy of the Company that will be submitted to the binding vote of the 2024 Annual Shareholders' Meeting of the Company, according to the provisions of article 529 novodecies of the Spanish Companies Act (*Ley de Sociedades de Capital*).

**1. THE COMMITTEE AND THE PROCESS FOR DETERMINING THE REMUNERATION POLICY**

**1.1 The Committee**

The Committee's composition, competencies and operating rules are regulated by article 32 of the IAG Board of Directors' Regulations and the Regulations of the Remuneration Committee. A copy of these Regulations is available on the Company's website.

The Committee has the following responsibilities:

- (i) To propose to the Board of Directors the remuneration policies for directors and senior executives as well as the regular review and update thereof.
- (ii) To propose to the Board of Directors the amount of the annual remuneration for directors pursuant to the provisions of the Corporate Bylaws and in accordance with the Company's remuneration policy.
- (iii) To propose to the Board of Directors the individual remuneration of executive directors and the remaining basic terms of their contracts, including any potential compensation or severance which may be payable to them in the event of removal, pursuant to the Company's remuneration policy.
- (iv) To review the design of all share incentive plans for approval by the Board of Directors and, where required, by shareholders. For any such plans, determine each year the individual awards for executive directors and senior executives and the performance and targets to be used.
- (v) To regularly review the remuneration policy for directors and senior executives, verifying that it is consistent with the particular circumstances of the Company and that it is in line with its strategy and market conditions, and consider whether it contributes to the sustainable creation of value and an adequate risk management and control.

- (vi) To report to the Board on the remuneration for the Company's senior executives, as well as the main terms of their contracts, in particular their total individual remuneration package (including bonuses, incentive payments and share options or share awards).
- (vii) To report to the Board of Directors on the contractual terms on termination for the senior executives, including executive directors, and to ensure that any payments made are fair to the individual and the Company, that failure is not rewarded and the duty to mitigate loss is fully recognised.
- (viii) To review workforce remuneration and related policies and the alignment of incentives and rewards with culture.
- (ix) To verify each year that the remuneration policies of the directors and of the senior executives are properly applied, that no payments are made that are not provided for therein, whether circumstances have occurred justifying the application of the malus or claw-back clauses provided for in the contracts of the senior executives, and propose any appropriate measures to recover the amounts that might apply.
- (x) To give due regard to the provisions of applicable good governance codes, the law or regulation and requirements imposed by any stock exchange on which the Company's securities are listed when determining any compensation packages and arrangements.
- (xi) To ensure that the disclosure requirements of the Spanish and the United Kingdom listing rules and any other applicable listing rules, laws or regulations are fulfilled, including those that relate to the annual report on directors' remuneration.
- (xii) To review and submit to the Board of Directors for approval the annual report on directors' remuneration and to review the information on the remuneration of directors and senior executives provided in corporate documents, the notes to the annual accounts and the interim financial statements of the Company.
- (xiii) To ensure that any conflicts of interest do not jeopardise the independence of the external advice provided to the Committee.

Beyond executive directors, the Committee oversees the general application of the remuneration policy for the IAG Management Committee (and also remuneration matters of senior managers generally across the Group).

According to article 32 of the Board Regulations and article 4 of the Regulations of the Committee, it shall be made up of no less than three non-executive directors appointed by the Board, with the dedication, capacity and experience necessary to carry out their function.

Ms. Heather Ann McSharry is the Chair of the Committee. For 2023, all members were considered independent non-executive directors of the Company.

## **1.2 The Directors' Remuneration Policy**

The current Directors' Remuneration Policy, approved in 2021 and partially amended in 2022, was developed at a time where the Group was significantly impacted by the biggest crisis the aviation sector has ever faced.

A key challenge for the Committee at that time was to ensure the remuneration framework remained effective in attracting, and crucially, retaining the executive talent necessary to drive recovery of the business. In this context, and mindful of the challenge in setting long term performance targets, the Committee determined that the right approach for the Company was to introduce a restricted share plan, which would also allow our management team to focus on overcoming the crisis, while making the right decisions to ensure the long-term sustainability of the business.

The Committee has undertaken a thorough review of the Company's existing Remuneration Policy during the year, considering the Group's strategic priorities, the macroeconomic environment, alternative remuneration frameworks and the effectiveness of the current Policy; and concluded that the existing Directors' Remuneration Policy continues to provide the most appropriate framework for aligning executive and shareholder interests at this current time.

As the Company returns to strong sustainable performance, the Committee believes there will be a time when it is appropriate to incentivise the Company's Chief Executive and his team to deliver IAG's long-term financial and sustainability ambitions through robust long-term incentive targets. It is therefore the Committee's intention to keep the long-term incentive model under review to ensure that it continues to remain effective.

At this regard, while it is proposed to retain the current Directors' Remuneration Policy structure and framework, the Committee is recommending some minor amendments to the Policy to ensure that the Company remains competitive over the short-term.

The Company has consulted with its major shareholders and main proxy advisory bodies in relation to the proposed new Policy. No concerns were raised with the Policy proposal, and the Committee received valuable questions and feedback which will help shape the Committee's future discussions.

The Committee will continue to review the economic and business context and consider any changes that might be appropriate to the Directors' Remuneration Policy in the coming years. The Company will consult with major shareholders and the main proxy advisory bodies (and seek approvals as required) in the next three years, to the extent that changes were to be proposed.

The Committee appointed Deloitte as its external advisers in September 2016. Deloitte reports directly to the Committee and has considered and advised the Committee in relation to this proposal providing an external and professional perspective. Detailed information regarding Deloitte's role, including fees paid during 2023, are included as part of the 2023 Directors' Remuneration Report. In addition to Deloitte providing the Committee with market updates on pay themes, the Committee also received market data and insights from other specialist consultants such as Aon, PwC and Willis Towers Watson in 2023.

## **2. STRATEGY AND LINK TO REMUNERATION**

IAG's aim is to become the world's leading airline group. Its strategy is to actively participate in the consolidation of the airline industry to create a multi-brand portfolio of leading airline businesses, each focused on addressing specific customer markets and geographies, while driving revenue and cost synergies through commercial cooperation, scale effects and leverage of the broader Group platform.

Execution of this strategy, coupled with disciplined capital allocation, will allow IAG to deliver superior value and sustainable financial returns to its shareholders.

In reviewing the Directors' Remuneration Policy, the Committee's main objective is to ensure that remuneration at IAG is aligned with, and drives delivery of, the Company's business and strategic priorities, because that is the best way to drive short-term and long-term performance.

The Committee recognises the need to ensure that there is alignment between performance and pay outcomes, such that the management team receives fair outcomes under the incentive plans only where this can be supported by Company and individual performance and wider stakeholder experience.

The new Policy in general is designed to deliver total remuneration that is competitive being a significant portion of the Company's total remuneration package variable, with emphasis placed on longer-term reward to align closely executive directors' and senior managers' interests with shareholder interests. To this end, the Committee will continue to ensure that executive remuneration is aligned with IAG's business strategy and that the overall reward framework for 2023 and beyond is in the best interests of the Company's shareholders.

## **3. MAIN ASPECTS OF THE DIRECTORS' REMUNERATION POLICY**

The main aspects of the Director's Remuneration Policy of IAG are as follows:

### **3.1 Executive directors**

The main elements of the remuneration packages for executive directors are as follows:

- Base salary.
- Benefits: include, but are not limited to, life insurance, personal travel and, where applicable, a company car, fuel, and private health insurance, as well as, where appropriate, relocation, international assignment costs and tax advisory services.

In addition, in accordance with the proposed new Directors' Remuneration Policy, if a broad-based employee share plan is implemented, executive directors will be able to participate on the same basis as other employees.

- Pension: contribution to the defined contribution pension plan sponsored by IAG or equivalent salary supplement.
- Annual incentive award: The maximum opportunity in the incentive plan is 200 per cent of salary.

50% of the annual incentive award is deferred into shares. However, if the executive director has met the shareholding guidelines (350% of salary for the IAG CEO), only 20% of the annual incentive award is deferred into shares. This is designed to align the interests of executives with shareholders by providing a portion of the annual incentive in shares in the form of a bonus deferral award.

- Restricted Share Plan (RSP): The RSP is a discretionary plan targeted at key senior executives and managers of the Group who directly influence shareholder value and designed to incentivise long-term shareholder value creation and retention of such key senior executives and managers. No performance measures are associated with the awards, but vesting will be contingent on the satisfaction of a discretionary performance underpin.

### **3.2 Non-executive directors**

The main elements of remuneration for non-executive directors are as follows:

- Basic fees.
- Benefits: right to use, up to a certain limit approved by the Shareholders' Meeting, air tickets of the Group airlines or airlines related to the Group, in accordance with the terms and conditions established, from time to time, in the Personal Travel Policy for IAG Non-executive Directors.

## **4. CRITERIA USED TO ESTABLISH THE DIRECTOR'S REMUNERATION POLICY**

The remuneration policy for the executive directors is to provide total remuneration packages which are linked to the business strategy, are competitive and consider each individual's performance of their role in the Company's work. The Committee is updated on pay and conditions of the employees within the Group and takes this into account when considering the executive directors' remuneration.

Fees for non-executive directors are set with reference to market positioning. To acknowledge key roles at Board level, fees are set separately for the Chairman, the Senior Independent Director and the chairs of the different Board committees. Non-executive director fees will consider external market conditions to ensure it is possible to attract and retain the necessary talent.

## **5. NEW FEATURES OF THE PROPOSED REMUNERATION POLICY FOR EXECUTIVE DIRECTORS**

The current Directors' Remuneration Policy has been in place for the last three years, having been approved at the 2021 annual Shareholders' Meeting and partially amended at the 2022 annual Shareholders' Meeting. The Committee has undertaken a thorough review of the Policy and its implementation for 2024 onwards to ensure it is appropriate in the light of the feedback already received from shareholders and proxy advisers, as well as considering best practices and market trends.

While it is proposed to retain the current Directors' Remuneration Policy structure and framework, the Committee is proposing some minor Policy amendments to ensure that IAG remains competitive over the short-term, as outlined below:

- (i) Approach to annual bonus deferral: under the 2021 Remuneration Policy, any annual bonus earned is paid 50% in cash, with 50% deferred into shares for three years. This deferral has been an important way of increasing personal shareholdings and satisfying the Group's minimum shareholding requirements of 350% of salary for the CEO.

Recognising that the Company's control mechanism for ensuring alignment with shareholder interests is the minimum shareholding requirement itself, and that the minimum shareholding requirement can be fully met without the reliance on annual bonus deferral, under the 2024 Remuneration Policy the Committee is proposing that the bonus deferral is rebalanced from 50% to 20% of any annual bonus earned deferred into shares, subject to the executive meeting their minimum shareholding requirement. The remaining 80% of the annual bonus earned will be paid in cash. The deferral rate will remain at 50% until the minimum shareholding requirement is met.

- (ii) If a broad-based employee share plan is implemented, executive directors will be able to participate on the same basis as other employees.

The new Policy, as shown on the following pages, despite the fact that will be kept under review by the Committee, is intended to take effect from the date of its approval by the IAG Shareholders' Meeting and for the following three years (i.e., 2025, 2026 and 2027).

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27 February 2024.