REPORT BY THE REMUNERATION COMMITTEE OF INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A. IN RELATION TO THE DIRECTORS' REMUNERATION POLICY PROPOSAL SUBMITTED UNDER ITEM SIX ON THE AGENDA FOR THE APPROVAL OF THE 2018 ANNUAL SHAREHOLDERS' MEETING

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 Directors' remuneration policy proposal of the Company that is submitted to the binding vote of the General Shareholders' Meeting, according to the provisions of article 529 novodecies of the Spanish Companies Law (*Ley de Sociedades de Capital*).

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

The Committee's composition, competencies and operating rules are regulated by article 31 of the IAG Board of Directors' Regulations. A copy of these Regulations is available on the Company's website.

The Remuneration Committee has the following responsibilities:

(i) To propose to the Board of Directors the system and amount of the annual remuneration for directors, as well as the individual remuneration of the executive directors and the other terms of their contracts.

(ii) 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.

(iii) To report to the Board of Directors on the senior executive remuneration policy and the basic terms of their contracts.

(iv) To report on incentive plans and pension arrangements.

(v) To periodically review the remuneration policy for directors and senior executives, taking into account their suitability and performance and how they reflect and support the Company strategy. When considering the remuneration policy, to review and have regard to the remuneration trends and to employees' pay and conditions in the Group. And also to obtain reliable, up-to-date information about remuneration in other companies. To help fulfil its obligations, the Committee shall have full authority to appoint remuneration consultants and to commission or purchase any reports, surveys or information which it deems necessary.

(vi) To monitor compliance with the Company's remuneration.

(vii) To ensure that the disclosure requirements of the Spanish and the United Kingdom listing rules, any other applicable listing rules, the law or regulation and relevant stock exchanges are fulfilled, including the annual report on directors' remuneration.

(viii) To verify the information on directors' and executives' remuneration contained in the different corporate documents, including the annual report on directors' remuneration.

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

According to article 31 of the Board Regulations, the Committee shall be made up of no less than three and no more than five non-executive directors appointed by the Board, with the dedication, capacity and experience necessary to carry out their function. A majority of the members of the Committee shall be Independent directors.

Dame Marjorie Scardino is Chairman of the Committee. For 2017 all members were considered independent non-executive directors of the Company and none of the members has any personal financial interest, other than as a shareholder, in the matters considered by the Committee.

The Committee appointed Deloitte as its external advisers in September 2016. Deloitte reports directly to the Committee. The fees paid to Deloitte for advice provided to the Committee during 2017 were €49,280, charged on a time and materials basis. Deloitte is a member of the Remuneration Consultants Group and a signatory to the voluntary UK Code of Conduct. As well as advising the Remuneration Committee, other Deloitte teams provided advice in relation to remuneration, pensions, global employment programmes, data governance, internal audit and tax to the Group in 2017. The Committee has reviewed the remuneration advice provided by Deloitte during the year and is comfortable that it has been objective and independent.

The Company obtained high level headline remuneration survey data from a variety of sources. During the year, the CEO of IAG provided regular briefings to the Committee apart from when his own remuneration was being discussed.

2. OVERALL STRATEGY AND LINK TO REMUNERATION

IAG’s aim is to become the world’s leading international airline group. Its strategy to achieve that in an increasingly consolidated industry is to create value and sustainable returns through leadership in core markets and the realisation of cost and revenue synergies across our airlines and aviation related businesses.

That strategy is executed and sustained by consistent and strong financial performance and return on investment in each part of the Group. We have transformed programmes through the use of the IAG Platform at each of our airlines, while leveraging opportunities across the Group.

The central focus of the Committee for the past year has been the triennial review of the Company’s Remuneration Policy. In reviewing the policy, the Committee’s main objective has been ensuring remuneration retains a strong link to the strategy, because it is seen as the way to best performance.

IAG’s executive remuneration framework aims to support the business objectives and the financial targets attached to them through the following two schemes:

The Company’s long-term incentive plan, known as the *performance share plan* (PSP), measures our performance by:

(i) earnings per share (EPS), adjusted for exceptional items, which reflects the profitability of our business and the core elements of value creation for our shareholders. Growing earnings indicates that the Group is on the right path to create value for our shareholders;

(ii) total shareholder return (TSR) to ensure alignment with our shareholders; and

(iii) Return on Invested Capital (RoIC) to assess efficient return on the Group’s asset base.

The *annual incentive plan* has its major focus on strong financial performance, and therefore the primary measure in the plan is the Group’s operating profit before exceptional items. A customer measure, Net Promoter Score, was introduced for the first time at the Group level in 2017, and this will shed the necessary light on what progress is being made to please customers.

The new policy in general is designed to deliver total remuneration that is competitive and with a strong emphasis on “pay for performance”. The Committee will continue to ensure that executive remuneration is aligned with IAG’s business strategy and that the overall reward framework for 2018 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:

Executive directors:

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

- Base salary.
- Annual incentive award.
- Incentive Award Deferral Plan (IADP): it operates with respect to 50% of the annual incentive award and is designed to align the interests of executives with shareholders by providing a portion of the annual incentive in deferred shares.
- Performance Share Plan (PSP): this is a discretionary performance share plan targeted at key senior executives and managers of the Group who directly influence shareholder value and designed to reflect the creation of long-term value within the business based on performance conditions that are measured over a period of at least three financial years.
- Taxable benefits: life insurance, personal travel and, as the case may be, a company car, fuel and private healthcare insurance.
- Pension: contribution to the defined contribution pension plan sponsored by IAG or equivalent salary supplement.

Non-executive directors:

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

- Basic fees.
- Taxable benefits: right to use, up to a certain limit, air tickets of the Group airlines or airlines related to the Group in accordance with the applicable travel scheme.

4. CRITERIA USED TO ESTABLISH THE COMPANY'S REMUNERATION POLICY

The Company's remuneration policy for the executive directors is to provide total remuneration packages which are linked to the business strategy, are competitive, and take into account each individual's performance of their role in the Company's work. The Remuneration 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 IAG directors are set with reference to market positioning. To acknowledge certain key roles at Board level, fees are set separately for the non-executive Chairman. There is also an additional fee paid to the non-executive director for undertaking the role of Senior Independent Director and also to any non-executive director for holding a Committee Chairmanship.

Non-executive director fees will take into account 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 2015 annual Shareholders' Meeting. The Committee has undertaken a thorough review of the policy and its implementation for 2018 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.

After this review, it was concluded that the core elements of the current directors' remuneration policy remain fit for purpose, and no substantial changes to the policy are being proposed. However it is considered that there are some changes and clarifications that are believed appropriate.

The main changes that are being proposed are:

(i) *Performance Measures.* In the annual bonus, the Committee is proposing that the weighting of financial measures (currently IAG operating profit) will be at least 60 per cent and no more than 80 per cent to provide more flexibility than previously when a fixed 66.7 per cent was subject to financial measures. The weighting on role-specific objectives will not exceed 25 per cent (currently 33.3 per cent) and any remaining portion of the bonus will be linked to measurable non-financial measures (e.g. Net Promoter Score).

(ii) *Pension.* Pension contributions for new externally recruited executive directors will be reduced from 25 per cent to 15 per cent of basic salary. This aligns with what is offered to new, externally recruited senior managers.

(iii) *Long-term incentive opportunity.* In line with shareholder feedback previously received, we plan to remove from the policy the additional headroom incorporated into the PSP for exceptional circumstances, which was set at a 300 per cent limit. The maximum PSP opportunity will be capped at 200 per cent of salary, in line with the current opportunity for the CEO of IAG.

(iv) *Shareholding requirements.* Shareholding requirements will be increased to 350 per cent of salary (from 250 per cent of salary) for the CEO of IAG to ensure substantial alignment with shareholders. Shareholding requirement will remain at 200 per cent for other executive directors.

6. MEASURES TO REDUCE THE EXPOSURE TO EXCESSIVE RISKS

A significant portion of the Company's total remuneration package is variable, with emphasis placed on longer-term reward to align closely executive directors' and senior managers' interests with shareholder interests.

At minimum levels, the annual incentive and the PSP pay out zero. At on-target performance, both the annual incentive and the PSP pay out 50 per cent of the maximum opportunity.

The Company has put in place a number of measures to reduce excessive risk-taking. The main actions are as follows:

(i) *Deferral:* Half of the annual incentive plan pay-out is deferred into shares, under the Incentive Award Deferral Plan.

(ii) *Additional holding period in the PSP:* There will be an additional holding period of, at least, two years in the Performance Share Plan. This means that Executives will be required to retain the shares acquired from PSP awards for a minimum of two years following the end of the performance period. This is to strengthen the alignment between Executives and shareholders.

(iii) *Shareholding requirements:* In order to increase alignment with shareholders, executives are required to build up a minimum personal shareholding equal to a set percentage of base salary. The CEO of IAG is required to build up and maintain a shareholding of 350 per cent of basic salary, and other executive directors are required to build up and maintain a shareholding of 200 per cent of basic salary. These requirements will not be reduced during the lifetime of this policy; however the Remuneration Committee may consider increasing the percentages if it is deemed appropriate. Executives will be required to retain the entire 100 per cent of shares (net of tax) which vest from share plans until their respective shareholding requirement is attained.

(iv) *Malus and clawback provisions:* The Board, following the advice of the Committee, has authority under the malus provisions of the Performance Share Plan and the Incentive Award Deferral Plan to reduce or cancel awards before they vest, and authority under the clawback provisions of the Performance Share Plan to recover payments during the additional holding period, if special circumstances exist. These special circumstances include fraud; material breach of any law, regulation or code of practice; misstatement of results; misconduct; failure of risk management; or any other circumstances in which the Board considers it to be in the interests of shareholders for the award to lapse or be adjusted.

For the PSP, clawback provisions apply during the two years' additional holding period. For the IADP, there will be three years from the date of award in which shares can be withheld, i.e. the entire period from the date of the award until vesting. For the cash element of the annual incentive plan, clawback provisions apply for three years from the date of payment. The proportion of an award to be withheld or recovered will be at the discretion of the Board, upon consideration of the Committee, taking into account all relevant matters.

(v) *Underlying financial performance:* This is defined as the overall performance of the Company, which may be considered with reference to a range of measures as the Remuneration Committee considers most appropriate at the time.

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Madrid, May 3, 2018.