

Corporate Governance Rating Report



AYGAZ

22 June 2017

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Rating and Executive Summary

AYGAZ A.Ş.

 **SAHA**
Corporate Governance Rating:

9.36



MAIN SECTIONS: Avg. 93.64

Shareholders: 95.34



Public Disclosure & Transparency: 92.01



Stakeholders: 98.79



Board of Directors: 91.38



0 10 20 30 40 50 60 70 80 90 100

EXECUTIVE SUMMARY

Corporate Governance Rating for Aygaz A.Ş. is reconfirmed as **9.36** as the previous setting of 9.36 dated July 1st 2016. Our rating methodology (page 5) is based on the Capital Markets Board's (CMB) "Corporate Governance Principles".

Aygaz A.Ş.'s corporate governance rating is confirmed as above in consideration with the importance given by Aygaz to corporate governance principles, its willingness to carry out the compliance process continuously and dynamically and improvements which had been initiated in this direction.

Furthermore, SAHA publishes (annually) the World Corporate Governance Index (WCGI) which ranks countries in terms of their level of compliance with corporate governance principles as well as their germane institutions, rules, codes, and regulations together with international standards and indices which evaluate countries in a vast array of areas such as transparency, corruption, ease of doing business, etc.. Aygaz is analyzed as a Turkish company and Turkey takes place at the top classification of the WCGI which is Group 1. Details of the World Corporate Governance Index (WCGI) published by SAHA can be accessed at <http://www.saharating.com>.

Aygaz is rated with **9.53** under the **Shareholders** heading. Exercise of shareholders' rights complies with the legislation, articles of association and other internal rules and regulations, and measures have been taken to ensure the exercise of these rights. Aygaz carries out the investor relations obligations through Investor Relations Department. There are no voting privileges. All procedures prior to the general shareholders' meeting as well as the conduct of the meeting comply with the legislation, rules and regulations. There is a publicly disclosed dividend policy of the Company. There are no restrictions on transfer of shares. On the other hand, there are areas for improvement like adoption as it is, of the rate of minority rights in the Company's articles of association as prescribed for public joint stock companies (%5) and absence of a donations policy.

Aygaz attained **9.20** under the **Public Disclosure and Transparency** chapter. The Company has a comprehensive web site. Public announcements are made via all communications channels and are in accordance with the Capital Markets Board (CMB) and Borsa Istanbul (BIST) rules and regulations. Annual report complies with the legislation, comprehensive and informative. The agreement and work conducted with the external auditor also complies with the legislation. Nevertheless, non-disclosure to the public the Company's shareholding structure; the names, amount and rate of the shares held by the Company's ultimate controlling individual shareholders over 5% as identified after being released from indirect or cross shareholding relationships between co-owners along with the privileges they hold and again non-disclosure of the benefits provided to board members and senior management individually are areas in need of further refinement.

On the topic of **Stakeholders**, Aygaz scored **9.88**. Aygaz guarantees the rights of stakeholders in line with the legislation and mutual agreements, and in case of violation, enables an effective and speedy compensation. A written compensation policy is established and disclosed to the public on the Company's web site. The Company has a written and advanced human resources policy. Code of ethics is publicly available through the Company's web site. During the rating period, the Company was not held liable by any public authority for any sanctions. The Company complies with environmental laws. Corporate Social Responsibility and Sustainability work is satisfactory.

From the perspective of the principles regarding the **Board of Directors**, Aygaz's tally is **9.14**. There is a well communicated Company mission and vision. The board of directors fulfills all duties regarding Company needs. The board of directors consists of 9 members and 3 of them are independent. A Corporate Governance Committee, an Audit Committee, and an Early Detection of Risks Committee are established within the board of directors. The working principles of the committees are disclosed to the public. Principles of remuneration of board members and senior executives are included on the corporate web site. There is 1 female member on the board of directors. Conduct of the board meetings is documented in internal Company regulations. However, inexistence of 25% female board member target and lack of policy towards this goal is an area for improvement under this chapter.

Rating Methodology

SAHA's methodology for rating the degree of compliance with the Principles of Corporate Governance is based upon the CMB's "Corporate Governance Principles" released on January 2014.

The CMB based these principles on the leading work of The World Bank, The Organization of Economic Cooperation and Development (OECD), and the Global Corporate Governance Forum (GCGF) which has been established in cooperation with the representatives of the preceding two organizations and private sector. Experts and representatives from the CMB, Borsa Istanbul and the Turkish Corporate Governance Forum have participated in the committee that was established by the CMB for this purpose. Additionally; many qualified academicians, private sector representatives as well as various professional organizations and NGOs have stated their views and opinions, which were added to the Principles after taking into account country specific issues. Accordingly, these Principles have been established as a product of contributions from all high-level bodies.

Certain applications of the Principles are based on "comply or explain" approach and others are mandatory. However, the explanation concerning the implementation status of the Principles, if not detailed reasoning thereof, conflicts arising from inadequate implementation of these Principles, and explanation on whether there is a plan for change in the Company's governance practices in

future should be mentioned in the annual report and disclosed to public. The Principles consist of four main sections: shareholders, public disclosure and transparency, stakeholders, and the board of directors.

Based on these Principles, the SAHA Corporate Governance Rating methodology features around 330 sub-criteria. During the rating process, each criterion is evaluated on the basis of information provided by the Company officials and disclosed publicly. Some of these criteria can be evaluated by a simple YES/NO answer; others require more detailed analysis and examination.

SAHA assigns ratings between 1 (weakest) and 10 (strongest). In order to obtain a rating of 10, a company should be in full and perfect compliance with the Principles (see Rating Definitions, p.24).

To determine the total rating score for each main section parallel to the CMB's Corporate Governance Principles, SAHA allocates the following weights:

Shareholders: **25%**

Public Disclosure and Transparency: **25%**

Stakeholders: **15%**

Board of Directors: **35%**

To determine the final overall rating, SAHA utilizes its proprietary methodology which consists of sub-section weightings and weightings for the criteria there under. A separate rating is assigned to each one of the main sections as well.

Company Overview

AYGAZ A.Ş.	
	CHAIRMAN OF THE BOARD M. Rahmi KOÇ GENERAL MANAGER Gökhan TEZEL
Headquarters: Büyükdere Cad. Aygaz Han No:145/1 Zincirlikuyu/Şişli/ İstanbul www.aygaz.com.tr	Manager Responsible of Shareholder Relations Deputy General Manager of Financial Affairs Ferda ERGİNOĞLU Tel: (0212) 3541515 ferda.erginoglu@aygaz.com.tr

Founded in 1961, Aygaz began operating under the name of Gazsan Likit Gaz Tic. ve San. A.Ş. and the title amended as Aygaz Anonim Şirketi in 1963. The Company operates in all LPG processes, including production, procurement, storage and filling, as well as production and sale of LPG-operated devices. Aygaz is also the first public LPG Company in Turkey and continues to provide its services in 81 provinces through nearly 2,200 cylinder gas dealers and 1,750 auto gas stations. The Company also owns LPG vessels and owns Turkey's largest LPG road fleet. Aygaz is one of Turkey's largest industrial enterprises in the private sector with a wide distribution network. The Company has distributed dividend of TL 315 million in 2016 and TL 450 million in 2017.

Company shares are traded under "AYGAZ" code at Borsa İstanbul Outright Purchases and Sales (among Qualified Investors) and BIST Stars markets and Aygaz is a constituent of BIST CORPORATE GOVERNANCE / BIST 100 / BIST 100-30 / BIST STAR / BIST CHEM. PETROL, PLASTIC / BIST DIVIDEND / BIST DIVIDEND 25 / BIST İSTANBUL / BIST INDUSTRIALS and BIST ALL SHARES indices.

Annual number of employees is given below:

Number of Employees			
2013	2014	2015	2016
1,427	1,382	1,394	1,348

The capital structure of Aygaz is as follows:

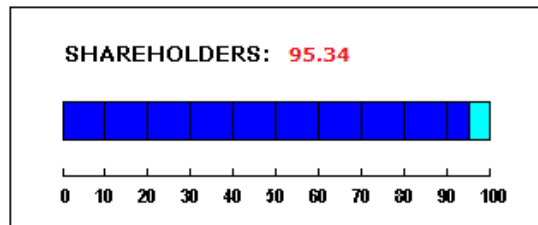
Aygaz A.Ş. Capital Structure		
Shareholder	Share Amt. (TL)	Share %
Koç Holding A.Ş.	122,053,514	40.68
Liquid Petroleum Gas Dev. Cy.	73,545,660	24.52
Temel Ticaret ve Yatırım A.Ş.	17,324,091	5.77
Other	87,076,735	29.03
Total	300,000,000	100.00

The Board of Directors of Aygaz is as follows:

Aygaz A.Ş. Board of Directors		
Name	Title	Executive / Independent
Mustafa Rahmi Koç	Chairman	Non-executive
Mehmet Ömer Koç	Vice-chairman	Non-executive
Alexandre François J. Picciotto	Member	Non-executive
Dr. Bülent Bulgurlu	Member / Early Detection of Risks Committee Member	Non-executive
Levent Çakıroğlu	Member	Non-executive
Yağız Eyüboğlu	Member / Corporate Governance Committee Member	Non-executive
Ayşe Canan Ediboğlu	Member / Early Detection of Risks Committee Chairwoman	Independent Member
Mansur Özgün	Member / Corporate Governance Committee Chairman / Audit Committee Member	Independent Member
Tunç Uluğ	Member / Audit Committee Chairman	Independent Member

At the Ordinary General Shareholders' Meeting held on March 29, 2017 shareholders were presented for the approval of a gross fee of TL 324,000 per annum to each one of the board members, and the proposal was approved by majority vote. The term of office of the members of the board of directors is determined to be until the Ordinary General Shareholders' Meeting at which the year 2017 will be evaluated.

SECTION 1: SHAREHOLDERS



SYNOPSIS

+	Equal treatment of shareholders
+	Unrestricted shareholder rights to review and receive information
+	General shareholders' meetings are conducted in compliance with the legislation
+	No voting privileges
+	Preparation and disclosure prior to general shareholders' meetings are satisfactory
+	Dividend policy exists and disclosed to the public
+	No restrictions on share transfers
=	Minority rights are not recognized for shareholders who possess an amount less than one-twentieth of the share capital
-	No donation policy

In order to facilitate the exercise of shareholders' rights an "Investor Relations Department" has been established and working actively.

There is no any upper limit on the shareholders' right to vote and each share is entitled to one vote.

In terms of minority rights, Company has adopted as it is the rate foreseen in the legislation for public companies (5%). General shareholders' meetings are held in accordance with the legislation and conducted in a manner where shareholders' rights are not violated.

Disclosures prior to the general shareholders' meetings are satisfactory. In addition, articles of association of the Company contain a provision that the general shareholders' meetings are conducted open to public including stakeholders and the media without right to vote. Company has a clearly defined and consistent dividend policy. It is disclosed to the public in the annual report and on the corporate web site. There are no restrictions on the transfer of Company shares.

On the other hand, the fact that there is no defined policy on donations and grants is an area in need of further improvement.

1.1. Facilitating the Exercise of Shareholders' Statutory Rights:

The Company carries out the investor relations obligations through Investor Relations Department. Employees of this department are active and willing on exercise of corporate governance principles at the Company.

Along with the members of the partnership the Investor Relations Department plays an active role in protecting and facilitating shareholders' rights and in particular the right to obtain and review information, and its duties are as follows;

- To ensure that the records relating to the written correspondence with the investors and other information are kept in a healthy, safe and updated manner.
- To respond to the queries of the shareholders requesting

written information on the Company.

- c) To ensure the general assembly meeting is held in compliance with the applicable legislation, articles of association and other Company by-laws.
- d) To prepare the documents that might be used by shareholders in the general shareholders' meeting.
- e) To supervise the fulfillment of the obligations arising from capital markets legislation including all corporate governance and public disclosure matters.

1.2. Shareholders' Right to Obtain and Evaluate Information:

There is no evidence of any hindering process or application regarding the appointment of a special auditor at the request of shareholders. All kinds of information about the Company are provided in a complete, timely, honest, and diligent manner and there is no fine/warning received in this direction.

The Company has constituted a disclosure policy and submitted to shareholders at the general shareholders' meeting held on April 3, 2013 and disclosed it to the public.

1.3 Minority Rights:

Maximum care is given to the usage of minority rights. However, minority rights are not recognized for shareholders who hold an amount less than one-twentieth of the share capital and the Company has adopted as it is the rate foreseen in the legislation for publicly traded companies.

No evidence is found on any conflict of interest between block shareholders and that of the Company.

Investor Relations Department submits a report to the board of directors at least once a year on its conducted activities.

Information and explanations that may affect use of shareholders' rights are available and up to date on the corporate investor relations web site.

Company Finance Manager Mrs. Şebnem Yücel is holder of Capital Market Activities Advanced Level License and Corporate Governance Rating Specialist License as stated in the Corporate Governance Principles Communiqué.

As of December 31, 2016, free float rate of Aygaz is 24.27%.

1.4. General Shareholders' Meeting:

In addition to the methods of invitation in the legislation and in order to ensure attendance of maximum number of shareholders, the invitation to the general shareholders' meeting held on March 29, 2017 is performed through all means of communication available to the Company on March 1st 2017 in accordance with the Corporate Governance Principles.

All announcements prior to the general shareholders' meeting included information such as the date and time of the meeting; without any ambiguity exact location of the meeting; agenda items of the meeting; the body inviting to the general shareholders' meeting; and the exact location where annual report, financial statements and other meeting documents can be examined.

Besides, the Company has prepared a descriptive disclosure document on agenda items.

Commencing from the date of announcement of invitation for the general shareholders' meeting,

following documents are made available to all shareholders for examination purposes in convenient locations including the headquarters or branches of the Company, and the electronic media;

- a. the annual report
- b. financial statements and reports
- c. all other related documents pertaining to the agenda items
- d. dividend distribution proposal

Following issues were informed to the shareholders via the corporate web site;

a. Total number of shares and voting rights reflecting the Company's shareholding structure as of the date of disclosure, number of shares and voting rights reflecting the privileged share group within the Company capital, and the nature of the privileges,

b. grounds for dismissal and replacement of board members, candidates' backgrounds and tasks carried out in the last decade, the nature and significance level of the relationship of the Company and related parties, whether it has the quality of independence and information on similar issues.

Agenda items were put under a separate heading and expressed clearly in a manner not to result in any misinterpretations. Expressions like "other" and "various" were not used. Information submitted to the shareholders prior to the conduct of the general shareholders' meeting was related to the agenda items.

Chairman of the meeting made preparations for the execution of the general assembly and obtained necessary information in line with the Turkish Commercial Code, the Law and legislation.

General shareholders' meetings took place at the Company headquarters.

Items on the agenda were conveyed in detail and in a clear and understandable way by the chairman of the meeting and shareholders were given equal opportunity to voice their opinions and ask questions. The chairman made sure that each question is answered directly at the meeting provided that they do not constitute a trade secret.

Agenda of the general shareholders' meeting included the proposal for the permission to be granted to shareholders who have control of the management, members of the board of directors, managers with administrative responsibility, their spouses and up to second degree blood relatives to execute transactions and compete with the Company and/or its affiliates, to make a commercial business transaction for himself or on behalf of others or to join to another company dealing with the same type of commercial business as a partner with unlimited responsibility. Shareholders are informed that there has been no such process in this direction.

The members of the board of directors related with the issues of a special nature on the agenda, other related personality, authorized persons who are responsible for preparing the financial statements and auditors were present to give necessary information and to answer questions at the general shareholders' meeting. The absolute majority was reached and this is found to be positive by us.

In addition, shareholders are informed, with a separate agenda item, on all donations effectuated during the period and the amount of benefits and beneficiaries at this meeting.

However, there is no policy on donations and grants to be effectuated.

There are no provisions in the articles of association that impede transfer of shares.

There is a provision in the articles of association on conduct of the general shareholders' meetings open to public including stakeholders and media without right of voting.

General shareholders' meeting is attended by the representative of the external auditor.

1.5. Voting Rights:

At Aygaz, all shareholders, including those who reside abroad, are given the opportunity to exercise their voting rights conveniently and appropriately and the Company avoids applications that make it difficult to exercise voting rights. There are no voting privileges.

1.6. Dividend Rights:

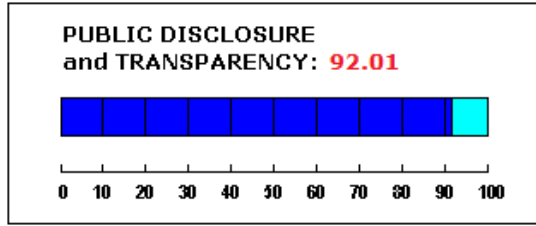
The dividend policy of Aygaz is clearly defined. It is submitted to the shareholders' approval at the general shareholders' meeting and disclosed to the public on the Company's web site. The Company's dividend distribution policy contains minimum information clear enough for investors to predict any future dividend distribution procedures and principles.

A balanced policy is followed between the interests of the shareholders and those of the Company. In addition, articles of association of the Company contain a provision on advance dividend.

1.7. Transfer of Shares:

No difficulties on free transfer of shares are observed.

SECTION 2: PUBLIC DISCLOSURE AND TRANSPARENCY



SYNOPSIS

+	Comprehensive web site, actively used for public disclosure
+	Annual report complies with the legislation, comprehensive and informative
+	Important events and developments disclosed in accordance with the legislation
+	English version of the web site for international investors
+	Remuneration policy established and disclosed to public on the corporate web site
+	Dividend distribution policy disclosed to public via corporate web site
=	Benefits provided to board members and senior executives are not mentioned on individual basis in the annual report
-	List of ultimate controlling individual shareholders are not disclosed to the public

Company's web site is comprehensive and user friendly. The site is also prepared in English for the benefit of international investors.

Public announcements are made in accordance with the CMB and BIST rules and regulations. The annual report prepared is comprehensive and complies with the legislation.

There has been no legal conflict between the Company and the external audit firm. There has not

been a situation during the reporting period where the external auditor avoided to express its opinion and not signed the audit report, nor has reported a qualified opinion.

Whereas non-disclosure of ultimate controlling individual shareholders to the public, and absence of benefits provided to board members and senior management individually in the annual report stands out as issues to be developed.

2.1. Corporate Web Site:

Company's website (www.aygaz.com.tr) is actively used for disclosure purposes and the information contained herein is continuously updated.

Along with the information required to be disclosed pursuant to the legislation, the Company's website includes; trade register information, information about latest shareholder and management structure, the date and the number of the trade registry gazette on which the changes are published along with the final version of the Company's articles of association, publicly disclosed material information, annual reports, periodical financial statements, prospectuses and circulars and other public disclosure documents, agendas of the general shareholders' meetings and list of participants and minutes of the general shareholders' meeting, form for proxy voting at the general shareholders' meeting, disclosure policy, dividend distribution policy, ethical rules of the Company,

frequently asked questions including requests for information, questions and notices, and responses thereof. In this context, information on at least the last five years can be reached on the web site.

With the exception of material disclosures and footnotes, in accordance with the Capital Markets legislation, the company also discloses financial statements on PDP (Public Disclosure Platform) and simultaneously in English.

The information contained on the web site exists also in English for the benefit of international investors and is similar to the Turkish content.

The Company's web site also includes; investor presentations, working principles of the committees, important board decisions under the heading of disclosures, the vision/mission of the Company established by the board, information on capital increases and dividend payments, disclosure area, general shareholders' meeting internal guidelines, CSR (corporate social responsibility) reports, information on senior management, financial data, main ratio analysis, timetable on events/developments which considers investments, web site privacy / security policy and the human resources policy.

However, the Company's shareholding structure; the names, amount and rate of the shares held by the Company's ultimate controlling individual shareholders over 5% as identified after being released from indirect or cross shareholding relationships between co-owners is not disclosed to the public along with the privileges they hold.

2.2. Annual Report:

Annual report is prepared in detail by the board of directors to provide public access to complete and accurate information on the Company and it covers information such as;

- a. period covered by the report, the title of the Company, trade register number, contact information,
- b. the names and surnames of the chairman, members and executive members involved in the management and supervisory boards during the covered period, their limits of authority, tenure of office (with start and end dates),
- c. the sector in which the Company operates and information on its position in the sector,
- d. qualifications of the production units, general explanations related to sales volume and price, sales conditions and yearly developments, productivity rates and causes of significant changes compared to previous years,
- e. progress on investments, the eligibility status on incentives, and to what extent,
- f. changes and justifications on the articles of association during the period,
- g. Corporate Governance Principles Compliance Report,
- h. information on related party transactions,
- i. other issues not included in the financial statements, but are beneficial for users,
- j. the Company's organization, capital and ownership structure and any changes in the related accounting period,
- k. all benefits provided to staff and workers, information on number of personnel, Collective

- Bargaining Agreement applications,
- l. research and development activities,
 - m. dividend distribution policy,
 - n. basic ratios on the financial position, profitability and solvency,
 - o. the Company's financing resources and risk management policies,
 - p. information on major events occurred between the closing of the accounting period and the date of the general shareholders' meeting where financial statements are evaluated.

In addition to the matters specified in the legislation following issues also took place in the annual report;

- a. external duties of board members and executives, their declarations of independence,
- b. members of the committees within the board, assessment of their working principles,
- c. number of board meetings held during the year,
- d. major court cases against the Company and possible consequences,
- e. information on conflict of interest between the Company and investment counseling and rating agencies, measures taken to prevent such conflicts,
- f. information on cross shareholding in excess of 5% of the capital,
- g. benefits and vocational training of employees, and other Company activities that give rise to social and environmental results,
- h. rating results.

Benefits provided to board members and senior executives are mentioned collectively, but best application of Corporate Governance Principles

dictate that this information is given on an individual basis.

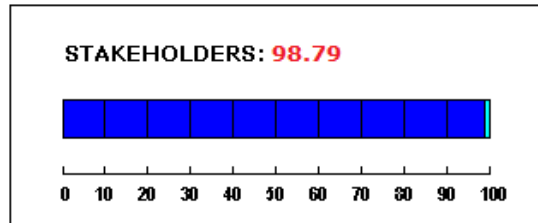
2.3. External Audit:

The external audit of the company is conducted by Başaran Nas Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., a member of PricewaterhouseCoopers (PwC) group with a worldwide experience.

There has not been a situation where the external auditor avoided to express its opinion and not signed the audit report, nor has reported a qualified opinion. It has been declared by the Company officials that there has been no legal conflict between the Company and the external audit firm.

Independent audit firm and their audit staff did not provide consulting services for a price or free of charge during the audit period. Neither a consulting company in which the external audit firm is in a dominant position either directly or indirectly in management or capital provided any consulting services during the same period.

SECTION 3: STAKEHOLDERS



SYNOPSIS

+	Stakeholders are compensated in case of a violation of their rights which are protected by the legislation and mutual agreements
+	Efficient Human Resources policy
+	Strict quality standards for goods and services
+	Code of ethics disclosed to the public
+	An employee compensation policy exists and disclosed to the public on the web site
+	The Company complies with environmental laws. Corporate Social Responsibility and Sustainability efforts are at superior levels

The Company has high level corporate governance applications and recognizes the rights of stakeholders established by law or through any other mutual agreement.

Aygaz has developed models for stakeholders, particularly employees to participate in management without impeding the operations of the Company.

The Company has a documented and advanced human resources policy.

Ethical rules are disclosed to the public through the Company's web site.

The Company did not encounter any enforcement by the public authorities during the course of last 1 year.

3.1. Company Policy Regarding Stakeholders:

We have not witnessed a significant or repetitive situation in which the rights of stakeholders established by law or any other mutual agreement are violated. The Company's corporate governance practices are in top level and Aygaz recognizes the rights of stakeholders established by law or through any other mutual agreement.

A compensation policy for the employees of the Company is constituted and disclosed to the public on the corporate web site.

The web site of the Company (www.aygaz.com.tr) is actively used to provide adequate information on policies and procedures towards the protection of stakeholders' rights.

In addition, Aygaz holds yearly general meetings either with regional or all dealers. In these meetings, briefings about Company activities are performed and dealers' requests and suggestions are evaluated. Mutual information sharing is realized during one to one and group meetings with suppliers.

On the other hand, a wide range of information activities are carried out via the corporate web site, e-newsletters, technical publications, and the Company periodical, "World of Aygaz". A Dealer Portal is continued to be used to improve communication with the dealers

The corporate governance structure of the Company ensures that its stakeholders, including its employees and representatives, report their concerns to the management concerning any illegal or unethical transactions. It is declared in the compliance report that notice/complaint lines are available over the corporate web site and intranet, and these channels can be used to notify the internal audit department.

Company officials declared that Aygaz's purchasing policy is carried out by a tender procedure.

3.2. Stakeholders' Participation in the Company Management:

In meetings with stakeholders, participants have the opportunity to voice their requests and recommendations, which are then evaluated by managers. Additionally, it is declared in the Corporate Compliance Report that the individual suggestion system and e-mail pools within the Company provide an opportunity for new ideas to be presented, and rewards are given for ideas that are implemented.

Processes in question are designated both in HR Awards Procedure and attached Individual Suggestion System Instructions and TPM Rewarding Instructions in writing.

3.3. Company Policy on Human Resources:

Aygaz has a detailed human resources policy.

The Company's human resources management is based on transparency, participation and business processes for the benefits of all stakeholders;

- Equal opportunity

- Right person for the right job
- Equal pay for equal work
- Achievement based competence
- Prompt recognition
- Increasing productivity by providing continuity of peace at work
- Timely and accurate briefing, presentation of projects and organizations.

In cases which management reshuffle could cause disruptions, succession planning for determination of new manager appointments is in place.

All rights provided to employees are exercised fairly, training programs and policies are put in place to enhance employees' knowledge, skills and manners.

Informational meetings are conducted with employees to exchange views on subjects such as the Company's financial status, remuneration, career opportunities, education, and health. Employees' satisfaction and loyalty is measured by the "Employee Engagement Assessment Survey". Required areas are identified and remedial measures are taken.

Decisions and developments concerning employees are reported either to them or to their representatives and their views evaluated. With the exception of trade union representatives determined in accordance with the Collective Bargaining Agreement, HR staff members of all regions are responsible for providing communication between employees and HR Management.

It has been declared in the annual report that there have been no complaints from employees about discrimination.

The Company officials declared that process of determining employee

remuneration and other benefits is focused on productivity.

It has been declared that measures are taken against race, religion, language and gender discrimination among employees and protection against any physical, spiritual and emotional ill-treatment within the Company, and a finding in the opposite direction is not encountered.

The Collective Bargaining Agreement for the period between September 1st 2014 and August 31, 2017 was signed on December 15, 2014 with the Turkish Metal Union, covering Aygaz Gas Appliance Manufacturing Plant workers. The Collective Bargaining Agreement for the period between January 1st 2017 and December 31, 2017 was signed on June 15, 2017 with the Seafarers' Union of Turkey covering ship workers.

3.4. Relations with Customers and Suppliers:

We have come to conclusion that the Company has taken measure to ensure customer satisfaction on sales and marketing of its goods and services.

Care is taken on the confidentiality of all trade secret data and information on customers and suppliers.

We have witnessed no evidence on non-market pricing of goods and services that the company offers.

In addition, the Aygaz Hotline, 444 4 999, offers 24/7 call center service.

3.5. Ethical Rules & Social Responsibility:

The Company has prepared a set of code of ethics and disclosed it to the public on its web site.

The Company has not been subject to any significant sanctions during the course of last year by the public administrations.

Aygaz keeps good relations with non-governmental organizations and public social institutions.

In 2010 Aygaz began the "What Will the Weather Be Tomorrow?" project in cooperation with the Regional Environmental Center (REC) and under the auspices of the Ministry of Environment and Forestry. Throughout 2010 and 2011, as part of this project, the Sky Truck visited 32 cities with a mobile planetarium and the Magical Globe, a three dimensional simulation device displaying the earth's movements. Approximately 10 thousand people attended the educational program in the Sky Truck.

In addition, completely destroyed Antonine Nymphaeum was restored with Aygaz's contributions and the waterfall was again reactivated, highlighting the original fountain function of the monumental structure. Following the completion of the project, restoration of the Upper Agora, the heart of ancient city life, has begun. The restoration of the agora ground level will be handled in 2017. In conjunction with the Ministry of Culture and Tourism and Istanbul University, Aygaz has supported mound excavations at Van Castle since 2010.

Aygaz has also been supporting the art of theater for many years. Since 2004, Aygaz has co-sponsored the Istanbul Theater Festival organized by the Istanbul Foundation for Culture and Arts (IFCA) and has maintained this support as a sponsor of the 20th Istanbul Theater Festival, which brings various plays to the Turkish audience in 2016.

The Company initiated the "Aygaz Library" project in 1996 to reach booklovers, art lovers, researchers and the nation's youth.

Furthermore, Aygaz has supported the Diabetic Children Camp since 2004 with a total of 1,900 children hosted since its establishment.

Aygaz, in cooperation with the Turkish Family Health and Planning Foundation, has been working for many years to raise awareness among pregnant women and mothers about issues concerning their health and the health of their babies with an aim to help improve their quality of life while reducing infant and mother mortality.

In 2016 Aygaz continued to work under the "For My Country" umbrella project covering the entire Koç Group, called "For My Country I Support Gender Equality". Within this scope, training has been given on awareness of gender equality to employees voluntarily participating through Knowledge Mill Seminars organized together with the Mother Child Education Foundation. Trainings are completed with full participation as of October and have also been added to the orientation program. Company also signed the Women's Empowerment Principles, which was established under the UN Global Compact and the UN Gender Equality and Women's Empowerment Unit. Aygaz thus participated in an international movement to strengthen women in society, business and economic life.

3.6. Sustainability:

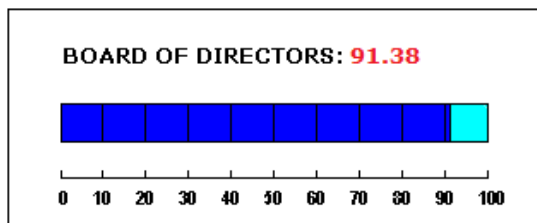
The Company has a policy, internal regulations, objectives, initiatives and campaigns on environment, nature, energy saving, recycling and education issues.

Aygaz has prepared a sustainability report for the period 2014-2015 and disclosed to the public through the corporate web site.

The Company holds national/international quality/health standard certificates and also a member of domestic/international organizations which carry studies in this area.

In addition, Aygaz measures carbon emissions, publicly announces the results and takes action to reduce carbon emissions within the targets set.

SECTION 4: BOARD OF DIRECTORS



SYNOPSIS

+	The board is staffed with effective and highly qualified members
+	Board of directors meeting and decision quorum is defined in the articles of association
+	The conduct of the board of directors meetings is defined in internal regulations
+	Each board member is entitled to a single vote
+	3 independent members on the board
+	Audit, Corporate Governance and Early Detection of Risks Committees established
+	Principles of remuneration of board members and senior executives are established and disclosed to the public
=	1 female member on the board
-	No target or policy established for 25% female board membership rate

The board of directors has defined the vision and mission of the Company and is overseeing that Company activities are managed in compliance with the legislation, articles of association, internal procedures and established policies.

Distribution of tasks between the members of the board of directors is described in the annual report.

The Company's board of directors is composed of 9 members and 3 of them are independent members. All members are non-executive. Capital Markets Board (CMB) criteria are complied with in determining independent candidates. Independent candidates for the board of directors have each signed a declaration of independence within the framework of the legislation, articles of association, and the CMB criteria.

There is 1 female member on the board of directors.

A Corporate Governance Committee, an Audit Committee, and an Early Detection of Risks Committees are established from within the board of directors. The working procedures of the committees are disclosed to the public.

We have come to a conclusion that all three committees are working effectively.

All members of the Audit Committee and the chairmen of other committees are elected among the independent board members.

The chief executive officer/general manager and the chairman of the board are not on the committees.

The conduct of the board of directors meetings is defined in internal regulations.

Principles of remuneration of board members and senior executives are included on the corporate web site.

Nevertheless, neither a target, nor a policy is established for a 25% female board membership rate.

4.1. Functions of the Board of Directors:

Strategic decisions of the board of directors aim to manage Aygaz's risk, growth, and return balance at an appropriate level and conduct a rational and cautious risk management approach with a view to the long-term interests of the Company. The board administers and represents the Company within these parameters.

The board of directors has defined the Company's strategic goals and identified the needs in human and financial resources, and controls management's performance.

4.2. Principles of Activity of the Board of Directors:

We have come to a conviction that the board of directors performs its activities in a transparent, accountable, fair and responsible manner.

Distribution of tasks between the members of the board of directors is explained in the annual report.

The board of directors established various internal control systems which are inclusive of risk management, information systems, and processes by also taking into consideration the views of the committees.

The presence, functioning, and effectiveness of internal controls and internal audit are explained in the annual report.

Chairman of the board and chief executive officer/general manager's executive powers are clearly separated.

The board of directors plays a leading role in maintaining effective communication between the Company and the shareholders and settling any disputes which may arise.

Defects and damages that may be caused by the board members during the execution of their duties have been insured with a fee exceeding 25% of the capital of the Company and this matter is disclosed on PDP via the annual report.

Analyzing the Company's organization, it is seen that there is no person at Aygaz who has unlimited authority to make decisions alone and this is considered as positive by us.

4.3. Structure of the Board of Directors:

The Company's board of directors is composed of 9 members and all of them are non-executive. Among the non-executive board members there are 3 independent members who have the ability to execute their duties without being influenced under any circumstances.

The Corporate Governance Committee has prepared a report on the candidates proposed by the board and shareholders, by taking into consideration of whether or not the candidate meets the independency criteria, and submitted this assessment as a report to the board for its approval. CMB criteria are complied with in determining independent candidates. Independent candidates for the board of directors have each signed a declaration of independence within the framework of the legislation, articles of association, and the CMB criteria.

There is 1 female member on the board. However, it has been declared that there is no defined internal policy and a timetable to reach the Corporate

Governance Principles' advisory target of minimum 25% female membership rate on the board of directors.

4.4. Conduct of the Meetings of the Board of Directors:

The board of directors of the Company held 3 meetings in the operating period of 2016 and passed 19 resolutions.

Chairman of the board of directors sets the agenda for board meetings in consultation with other members and the chief executive officer/general manager.

Information on the agenda items of the board of directors is made available to the members in sufficient time prior to the meeting date by a coordinated flow of information. Each member of the board has a right to one vote.

The meeting and decision quorums have been included in the articles of association of the Company. In addition, board meetings can also be held in a remote access system.

There are no limitations introduced for the members taking on additional duties outside the Company. However, only the independent members carry on external duties. The external duties and grounds of the board members are presented to the general shareholders' meeting where their nomination is discussed, with a distinction between intra-group and out-group activities.

The conduct of board meetings is documented in internal regulations.

4.5. Committees Established Within the Board of Directors:

A Corporate Governance Committee, an Audit Committee, and an Early Detection of Risks Committees are

established from within the board of directors in order to fulfill its duties and responsibilities.

Functions of the committees, their working principles, and its members are designated by the board of directors and disclosed to the public on the Company' web site.

All members of the Audit Committee and the chairman of the Corporate Governance and early Detection of Risks Committees are elected among the independent board members. The chief executive officer/general manager and the chairman of the board of directors are not on the committees. Care has been taken that a non-independent board member cannot be on more than one committee.

All necessary resource and support needed to fulfill the tasks of the committees are provided by the board of directors.

Committee meeting frequency has been found sufficient by us. Since our previous rating report (July 1st 2016); Corporate Governance Committee held 4 meetings, while The Audit Committee held 5 and Early Detection of Risks Committees held 6 meetings.

The Corporate Governance Committee is established in order to determine whether or not corporate governance principles are being fully implemented by the Company, if implementation of some of the principles are not possible, the reason thereof, and assess any conflict of interests arising as a result of imperfect implementation of these principles, and present remedial advices to the board of directors. In addition, it oversees the work of the investor relations unit. The Investor Relations Department manager is also on the Corporate Governance Committee.

Audit Committee supervises the operation and efficiency of the Company's accounting system, public disclosure, external audit and internal audit systems, reviews complaints that are received by the Company regarding Company accounting, internal and external independent audit systems, within the framework of the principle of confidentiality and finalizes them, immediately notifies the board in writing on findings related to their duties and responsibilities and the related assessment and recommendations, following taking the opinion of responsible managers of the Company and the external auditor notifies the board in writing on whether the annual and interim statements disclosed to the public is in accordance with the Company's accounting principles, true and accurate.

In addition, audit committee members possess the qualifications mentioned in the communiqué.

The annual report contains information on working principles of the audit committee and number of written notices given to the board of directors during the fiscal year. However, meeting resolutions are not included in the annual report.

The external audit of the Company is conducted by Başaran Nas Bağımsız Denetim ve Serbest Muhasebecilik Mali Müşavirlik A.Ş. since 2017.

The nomination and election process of the external audit firm, taking into account its competence and independence, starts with a proposal from the audit committee to the board and ends with the board's choice being presented and approved at the general shareholders' meeting.

Early Detection of Risks Committee carries out its tasks towards early detection of risks which may

jeopardize the Company's assets, its development and progression, and measures taken to mitigate and manage those risks.

The tasks of Nomination and Remuneration Committees are performed by the Corporate Governance Committee. In this context the corporate governance committee works on determination of independent candidates and the remuneration policy.

4.6. Remuneration of the Board of Directors and Senior Management:

The principles of remuneration of board members and senior executives has been documented in writing and submitted to the shareholders as a separate item in the general shareholders' meeting.

A remuneration policy prepared for this purpose can be found on Company's web site. Stock options or performance based payments are not included in the remuneration package of the independent board members.

The Company does not lend any funds or extend any credits to a member of the board or to senior executives, or grant any personal loans through a third party, or extend any guarantees.

We have come to conclusion that the executives have the required professional qualifications in order to perform the assigned duties.

The executives comply with the legislation, articles of association, and in-house regulations and policies in fulfilling their duties.

There has been no cases where the executives used confidential and non-public Company information in favor of themselves or others. There are no executives who accepted a gift or favor directly or indirectly related to

the Company's affairs, and provided unfair advantage.

Remuneration of the executives is based on market conditions and determined according to their qualifications, and proportional to their contributions to the performance of the Company.

Company officials declared that any potential losses incurred by the Company and third parties as a result of misconduct by executives is insured.

Orientation process for newly appointed managers is determined in writing in the Company's staff regulations.

Rating Definitions

Rating	Definition
9 - 10	The company performs very good in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified and actively managed all significant corporate governance risks through comprehensive internal controls and management systems. The company's performance is considered to represent best practice, and it had almost no deficiencies in any of the areas rated. Deserved to be included in the BIST Corporate Governance Index on the highest level.
7 - 8	The company performs good in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified all its material corporate governance risks and is actively managing the majority of them through internal controls and management systems. During the rating process, minor deficiencies were found in one or two of the areas rated. Deserved to be included in the BIST Corporate Governance Index.
6	The company performs fair in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified the majority of its material corporate governance risks and is beginning to actively manage them. Deserved to be included in the BIST Corporate Governance Index and management accountability is considered in accordance with national standards but may be lagging behind international best practice. During the ratings process, minor deficiencies were identified in more than two of the areas rated.
4 - 5	The company performs weakly as a result of poor corporate governance policies and practices. The company has, to varying degrees, identified its minimum obligations but does not demonstrate an effective, integrated system of controls for managing related risks. Assurance mechanisms are weak. The rating has identified significant deficiencies in a number (but not the majority) of areas rated.
<4	The company performs very weakly and its corporate governance policies and practices are overall very poor. The company shows limited awareness of corporate governance risks, and internal controls are almost non-existent. Significant deficiencies are apparent in the majority of areas rated and have led to significant material loss and investor concern.

DISCLAIMER

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This report, conducted by SAHA A.Ş. analysts and based on their best intentions, knowledge base and experience, is the product of an in depth study of the available information which is believed to be correct as of this date. It is a final opinion about the degree of sensitivity of a bank to its shareholders' and stakeholders' rights, its commitment to public disclosure and transparency, and conduct and credibility of its board of directors.

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