

Corporate Governance Principles Compliance Report

SECTION I - Corporate Governance Principles Compliance Report

Aygaz is aware of the benefits and importance of Corporate Governance Principles in terms of companies and capital markets. Compliance with international standards, creating sustainable shareholder value, securing funding from foreign markets and achieving consistent growth are very important in today's increasingly globalizing world. In this respect, corporate governance also contributes significantly toward improving management quality, mitigating and better managing risks, and enhancing the company's reliability and reputation in financial and capital markets.

Aygaz fully complies with mandatory principles of the Corporate Governance Communiqué No: II-17.1, and has adopted a majority of the non-mandatory principles. Although the company aims to fully comply with the non-mandatory Corporate Governance Principles, full compliance has not yet been achieved due to the difficulties regarding implementation of some principles, the current debate on both domestic and international platforms toward their adoption and some principles failing to align with the existing structure of the market and the company. The principles that have not been implemented yet are being worked on and the plan is to adopt them upon the completion of the administrative, legal and technical infrastructure work that would contribute to the company's effective management. The comprehensive efforts undertaken within the framework of Corporate Governance Principles and the principles that have yet to be adopted under relevant sections and the resulting conflicts of interest, if any, are explained below.

The Corporate Governance practices in 2019 have been carried out in compliance with the Capital Markets Law that includes Capital Markets Board (CMB) regulations on corporate governance principles and the communiqués pursuant to this law. Prior to the general assembly meeting, independent board members were nominated and publicly announced, and general assembly meeting was organized with due process. At the Ordinary General Assembly Meeting in 2019, members of the Board of Directors were elected, and in the ensuing process the Board committees, which currently functions effectively, were formed in accordance with regulations. Remuneration policy was determined for Board members and senior executives, and presented to the shareholders at the general assembly meeting. Through the information document prepared for the General Assembly, information mandated by the principles, such as privileged shares, voting rights, organizational changes, résumés of the nominees for Board membership, remuneration policy for the Board of Directors and senior executives as well as all reports and information that must be drafted and disclosed about related parties were made available for investors three weeks prior to the General Assembly meeting. The corporate website and annual report were also reviewed and necessary changes were made toward full compliance with the principles.

Necessary work will be carried out for full compliance with the principles by considering legislative developments and implementations in the upcoming period.

The non-mandatory Corporate Governance Principles, which have yet to be complied with, are listed below. Aygaz has not been exposed to any conflicts of interest due to lack of full compliance with the said principles.

- Regarding principle 1.5.2, minority rights are not granted for shareholders holding less than one-twentieth of the share capital according to the Articles of Association, and rights are granted pursuant to general legislative provisions.
- Regarding principle 4.2.8, even though the company has in place an “executive liability insurance,” the coverage is below the specified amount.
- Regarding principle 4.3.9, a target ratio and time have not yet been determined for the number of female members in the Board of Directors, and relevant assessment on this topic is currently ongoing. Detailed information on this topic is provided in section 5.1.
- Regarding principle 4.4.5, Board meetings take place based on customary practices of many years; however, a written internal procedure has not yet been implemented within the organization.
- Regarding principle 4.4.7, no limitation is imposed on the Board members with respect to other responsibilities outside the company as explained in article 5.1 below.
- Regarding principle 4.5.5, members are assigned to the Board committees in accordance with applicable regulations, considering the expertise and experience of the individuals. Some Board members are assigned to multiple committees, supporting communication among different committees on related matters and increasing collaboration possibilities.
- Regarding principle 4.6.1, a specific performance appraisal on Board level has not been conducted.
- Regarding principle 4.6.5, remunerations of Board members and executives with administrative responsibilities are presented at the Ordinary General Assembly, documented in the notes to the consolidated financial statements and disclosed to the public in line with general practices.

Aygaz A.Ş. demonstrates its emphasis on the importance of complying with corporate governance principles and its commitment to implementing them as a continuous and dynamic process by receiving Corporate Governance Rating scores and remaining in the Corporate Governance Index. Saha Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş., operating under license from the Capital Markets Board (CMB) to conduct corporate governance rating activities in Turkey, updated last year's rating of 9.40 to 9.42 on June 21, 2019. Corporate Governance Rating Score is determined under four main categories weighted by different degrees within the framework of the CMB resolution on the matter. Improvements in the main topics "Public Disclosure and Transparency" and "Shareholders" have contributed to the increase in the rating score. Enhancements made in the English content of the corporate website and the fact that the loss, which the Board members may cause to the company for failings during their performance of duties, is covered by insurance was included in the

annual report and disclosed to the public on the Public Disclosure Platform (PDP) were evaluated as positive developments. On the other hand, creating and disclosing a donation policy, setting a target ratio, which should be at least 25%, and time for female members on the Board, and defining a policy to attain these targets were pointed out as development areas for the Company's corporate governance practices. Aygaz, with its current corporate governance rating, has been one of the companies to hold the highest corporate governance scores in Turkey as of the rating date.

Necessary work will be carried out for further compliance with the principles in the upcoming period by considering regulatory developments and implementations. The established corporate identity of Aygaz has brought momentum to the steps taken for this purpose, and its management structure and processes have been shaped in compliance with these regulatory guidelines.

Since the General Assembly meeting of 2005, "Corporate Governance Compliance Reports" are prepared and published on the company's corporate web site (www.aygaz.com.tr) and within annual reports. The 2019 Corporate Governance Compliance Report (URF) and Corporate Governance Information Form (KYBF), prepared in accordance with CMB's resolution no. 2/49 dated January 10, 2019 and approved by Aygaz A.Ş. Board of Directors, are presented in the "Corporate Governance" section (pages 75-87) of the annual report, and the related documents can also be found in the corporate governance page of Aygaz A.Ş. on the Public Disclosure Platform (www.kap.org.tr).

Corporate Governance Committee

Kutsan Çelebican
Committee Chairman

Yağız Eyüboğlu
Committee Member

Ferda Erginoğlu
Committee Member

SECTION II - Shareholders

2.1. Investor Relations Department

At Aygaz, Investor Relations Department's duties set out by article 11 of the Corporate Governance Communiqué are carried out by the Finance Manager under the supervision of Ferda Erginoğlu, Assistant General Manager - Finance. The department consisting of Şebnem Yücel and Selin Sanver, with Capital Market Activities Advance Level and Corporate Governance Rating Specialist Licenses can be reached by email at yatirimciiliskileri@aygaz.com.tr or investorrelations@aygaz.com.tr or by phone at +90 212 354 15 15 / extensions 1510-1659 for information requests.

The report including all of the activities carried out throughout the year was submitted to Corporate Governance Committee and Board of Directors on February 17, 2020.

2.2. Exercise of Shareholders' Right to Obtain Information

The "Investor Relations" section on the corporate website is continuously updated to offer shareholders easier usability and access to more information.

All information except those qualifying as commercial secrets are shared with shareholders and no discrimination is made among shareholders regarding the exercise of the right to obtain and review information. All the inquiries submitted to the Investor Relations Department other than the ones classified as confidential information and trade secrets are replied verbally by phone or in writing after conferring with the highest ranking official on the relevant issue. As explained under section 3.1 of this report, the corporate website provides all relevant information and explanations that may affect the exercise of shareholders' rights.

Even though the Articles of Association do not contain any provision for an individual to have the right to request a special auditor, pursuant to Article 438 of the Turkish Commercial Code every shareholder may request the General Assembly to clarify certain events – even if they are not included in the agenda – by way of a special audit, if doing so is necessary for exercising shareholders' rights, provided that the right to obtain information or review has been previously exercised. To date, shareholders have not put in such a request. Furthermore, the company's operations are periodically audited by an Independent Auditor appointed by the General Assembly.

2.3. General Assembly Meetings

The Ordinary General Assembly meeting, where the activities of the 2018 reporting period were reviewed and released was held open to public on March 20, 2019 at the head office of the company in Büyükdere Caddesi, No: 145/1 Zincirlikuyu, Şişli, Istanbul with a shareholder attendance rate of 86 percent. Six Members of the Board of Directors, as well as auditors and senior executives have attended the General Assembly meeting. Individual shareholders and members of the press were also present in the meeting. The venue of the General Assembly meeting, its agenda and a sample power of attorney were announced to the public 21 days prior to the meeting via Turkish Trade Registry Gazette (TTRG) and material disclosures made via the Public Disclosure Platform (PDP). These details can be accessed by searching for Disclosures on PDP, or selecting the year in the relevant section on the corporate website at: <https://www.aygaz.com.tr/yatirimci-iliskileri/ozel-durum-aciklamalari>.

The 2018 annual report, auditor's report, independent audit report, financial statements and notes, profit distribution proposal of the Board of Directors, General Assembly Information Document and annexes were made available for the shareholders to review at the company head office and on the corporate website 21 days prior to the General Assembly meeting. The profit distribution proposal was announced via the Public Disclosure Platform (PDP). Shareholders have not submitted any requests with regard to the agenda. The questions that the shareholders directed during the General Assembly were answered by members of the Board of Directors and senior management.

The annual Ordinary General Assemblies authorize Chairman and members of the Board of Directors to conduct businesses in the same field as the company personally or on behalf of others and to become partners of such companies and carry out other transactions pursuant to articles 395 and 396 of the Turkish Commercial Code. Within the framework of this authority, Board Members are allowed to take on other duties outside the company without any limitations.

At the ordinary general assembly meeting in 2019, information was provided regarding the donations and grants paid in 2018 as a separate agenda item and the donation limit for 2019 was set at 0.2% (two thousandth) of the previous year's revenues while no changes were made to the company's existing donation practices.

Some shareholders with management control, members of the Board of Directors, executives with administrative responsibilities, their spouses and blood relatives to the second degree and in laws carry out administrative duties as members of the Board of Directors in some other Koç Group companies including the ones that operate in similar fields. In 2019, there has been no transaction that required disclosure pursuant to Article 1.3.6 of the Corporate Governance Communiqué.

The minutes of the General Assembly meeting are registered and announced in Turkish Trade Registry Gazette (TTRG) and made available for the shareholders to review both at the company Head Office and on the corporate website. General Assembly meetings are held open to public including media and stakeholders without the right to speak and this provision is stipulated in Article 14 of the Articles of Association.

2.4. Voting Rights and Minority Rights

Privileged voting rights are not granted to shareholders of the company. There is no other company with reciprocal shareholding with Aygaz. Minority rights are represented at the General Assembly directly or by proxy. The Company's Articles of Association contain no provision on the cumulative voting method. Minority rights are not granted for shareholders holding less than one-twentieth of the share capital according to the Articles of Association and rights are granted pursuant to general legislative provisions.

2.5. Dividend Rights

There are no privileges regarding the sharing of company profits. Profit distribution is made in accordance with and at the intervals stipulated by applicable legislation. The aim is to set out and announce a profit distribution policy considering the interests of both the shareholders and the company in compliance with Corporate Governance Principles. The profit distribution policy currently in effect was revised at the company's Board of Directors meeting on March 5, 2014 and took its present form.

Pursuant to Corporate Governance Principles, Profit Distribution Policy published on the corporate website and in the annual report was presented to shareholders at the General Assembly meeting on March 20, 2019. The company paid in cash a gross total dividend of TL 386 million in 2019.

2.6. Transfer of Shares

Article 8 of the Articles of Association, titled ‘Transfer of Shares’ stipulates that only the individuals registered in the share book conforming with the records of the Central Registry Agency will be considered and treated as holders of shares or holders of rights of usufruct on shares. Transfer of the company’s publicly traded registered shares are governed by and subject to the applicable regulations of the Capital Markets Board.

SECTION III – Public Disclosure and Transparency

3.1. Corporate Website and Content

The company’s corporate website www.aygaz.com.tr is available in Turkish and English. As explained in detail in the company’s Disclosure Policy, the Investor Relations section includes main headings such as stock information, financial statements, material disclosures, shareholding structure and subsidiaries, trade registry information, general assembly meeting agendas and minutes, list of attendants and meeting records, proxy vote form, profit distribution policy, information policy, Board of Directors, corporate governance, news and announcements, presentations, frequently asked questions and ‘contact us’ as well as numerous sets of documents and information under these that must be featured on the website pursuant to Corporate Governance Principles and other legislation. Changes to such information or the legislation are reflected on the website simultaneously.

3.2. Annual Report

The company’s Annual Report is prepared in a manner to include all information stipulated by the Corporate Governance Principle 2.2 and its subparagraphs in sufficient detail to ensure that the public can access complete and accurate information regarding the company’s activities and in compliance with relevant legislation.

SECTION IV - Stakeholders

4.1. Informing Stakeholders

Company stakeholders are informed regularly on matters that concern them. Company employees are informed at internal communication meetings. Field employees at the Aygaz Gebze Plant and seamen working on vessels are members of trade unions organized in related lines of work. These workers are informed through union representatives. Regional or general dealer meetings are held every year. During the meetings in 2019, dealers were informed about the company’s activities, and their requests and suggestions were received. Individual and group meetings are held with the suppliers where a mutual exchange of information takes place.

On the other hand, comprehensive communication activities are also carried out through the company’s corporate website, newsletters, technical publications and

the company magazine, “Aygaz Dünyası”. Designed to strengthen communication with dealers, the Dealer Portal also continues to be used effectively.

Stakeholders can use the links and call the phone line provided on the corporate website and intranet to report any infringements of legislations and ethically inappropriate activities to the Company Management or Internal Audit Department to be duly submitted to the Audit Committee.

4.2. Stakeholder Participation in Management

In the stakeholder meetings, attendees find the opportunity to express their requests and suggestions, which are then taken into consideration by the management. Furthermore, the Individual Suggestion System and email pools established within the company provide an opportunity to submit new ideas, and owners of the implemented ideas are rewarded. Suggestions can be submitted through the company’s corporate website and intranet.

4.3. Human Resources Policy

The human resources (HR) policy of Aygaz, carried out in line with the Koç Group employer brand approach, is also based on the “Our most valuable asset is our human resources” philosophy of our founder Vehbi Koç. Aygaz believes that the quality of its products and services begins with its employees, and the company’s human resources management includes participation, transparency and all other business processes that consider the benefit of all stakeholders.

The Aygaz vision for human resources is to provide its employees the opportunity to develop, foster an environment of cooperation and solidarity, ensure employee engagement in line with the goals of the Koç Group and effectively manage efficiency.

The human resources mission of Aygaz is to build a workforce of creative, qualified and highly motivated best-in-industry employees that can integrate international norms and macro trends with Human Resources strategies and support the company on its path to becoming an exemplary organization in the business world.

SECTION V – Board of Directors

5.1. Composition and Election of the Board of Directors

The Aygaz Board of Directors is composed of nine members in total with one Chairman, one Vice Chairman and seven members, three of which are independent. As of 2019, the Board has one female member. All Members of the Board of Directors were elected in the General Assembly meeting on March 20, 2019 to serve until the Ordinary General Assembly Meeting to be held to review the financial results for 2019. Résumés of the Board Members and the General Manager are included in the annual report.

The table below provides brief information about the non-executive members of the Board in accordance with CMB's Corporate Governance Principles.

Board Member Name Surname	Independence Status	Duties on the Board and Committees	Duties Outside the Company
Rahmi M. Koç	Non-independent	Chairman of the Board and Executive Committee	Koç Holding A.Ş. Honorary President and Board Member in Koç Group Companies
Ömer M. Koç	Non-independent	Vice Chairman of the Board and Member of Executive Committee	Chairman of the Board of Directors in Koç Holding A.Ş. and Board Member in Koç Group Companies
Alexandre F. J. Piciotto	Non-independent	Board Member and Executive Committee Member	Orlim General Manager and Board Member in various companies
Dr. Bülent Bulgurlu	Non-independent	Board Member and Member of Risk Management Committee	Board Member in Koç Group Companies
Levent Çakıroğlu	Non-independent	Board Member	Koç Holding A.Ş. CEO, Board Member in Koç Holding A.Ş. and Koç Group Companies
Yağız Eyliboğlu	Non-independent	Board Member and Member of Corporate Governance Committee	Koç Holding A.Ş. Energy Group President and Board Member in Koç Group Companies
Dr. Şadan Kaptanoğlu Dikici	Independent	Board Member, Chairwoman of Risk Management Committee and Member of Audit Committee	Kaptanoğlu Denizcilik Tic. A.Ş. Board Member
Kutsan Çelebician	Independent	Board Member, Chairman of Audit Committee and Chairman of Corporate Governance Committee	Yapı Kredi Koray Gayrimenkul Yatırım Ortaklığı A.Ş. Independent Board Member
Kemal Ege Cansen	Independent	Board Member	

The duties of the Chairman and the General Manager are performed by different individuals. While Board Members are expected to dedicate the time required for the affairs of the company, there are no limitations imposed on them about assuming other duties outside the company. Limitation in this context is not needed particularly due to independent members' significant contributions to Board of Directors with their respective professional and industrial experiences. The résumés of the members and the duties they assume outside the company are presented to the shareholders prior to General Assembly.

At Aygaz, Corporate Governance Committee carries out the duties of the Nomination Committee. In 2019, three independent candidates were nominated and they all submitted their statements of independence to the Corporate Governance Committee. The Corporate Governance Committee and the Board of Directors evaluated the declarations and résumés of Independent Board Members during their respective meetings on January 16, 2019 and determined that all met the criteria specified in Corporate Governance Principles, and it was decided that all should be nominated as independent member candidates. As of 2019 operating period, no situations that would eliminate independence arose.

Ensuring diversity on the Board of Directors in terms of knowledge, experience and perspective is believed to contribute positively to operations of the company and increases the efficiency of the Board's activities. In this context, having female members is a means of achieving representation on the Board of Directors, and Aygaz continues to work on determining a target ratio for female members on the Board. Currently, there is one female member on the Board composed of nine directors.

5.2. Operating Principles of the Board of Directors

The agenda of the Board of Directors meetings is determined according to the company's needs upon evaluation of activities. The General Manager and the Assistant General Manager, Finance inform and maintain communication with the Board of Directors. Convening as the company's activities require, the Board of

Directors held three physical meetings in 2019 to address strategic issues and 29 resolutions in total were passed including those that fall under the scope of paragraph 4 of Article 390 of the Turkish Commercial Code.

Board Members have no weighted voting privileges and/or negative veto power. During the reporting term, all resolutions were passed unanimously. Other than the powers vested in the General Assembly by the Turkish Commercial Code, the Board of Directors is authorized to make decisions related to the affairs of the company. Powers and responsibilities of Board Members and executives are regulated by the circular of signature drafted according to the relevant provisions of the company's Articles of Association.

Board Members do not carry out transactions with the company or take part in any competitor entities. As stated in section 2.3, some shareholders with management control, Members of the Board of Directors, executives with administrative responsibilities, their spouses and blood relatives to the second degree and in laws serve as Members of Board of Directors in some other Koç Group companies including the ones that operate in a similar field. Board Members and Senior Executives of the company are covered by "executive liability insurance".

In overseeing the activities of the company, the Board of Directors assesses the possibility of conflict of interest and if any, considers the consequences of such conflict and makes necessary decisions to act in the company's best interest. The Board diligently follows related party transactions considering compliance with regulations as well as assessing possible misconduct risks.

5.3. Number, Composition and Independence of Committees within the Board

In 2019, all the Board Committees have fulfilled the responsibilities and duties that were expected of them pursuant to Corporate Governance Principles and operating principles of their own and convened in accordance with their work plans. The results of the meetings held throughout the year and information about the works of the committees were presented to the Board of Directors. The opinion of the Board of Directors in this respect is that the benefits expected of Board Committees' efforts have been obtained.

The Audit Committee, which has been formed within the statutory period, performs the duties set out by the Capital Markets Board Communiqué. The committee audits and supervises the company's accounting system, disclosure of financial information to the public, independent audit and the functioning and efficiency of the internal control mechanism of the group. Selection of the independent audit firm, drafting independent audit agreements, starting the independent audit process and works of the independent audit firm at all stages are carried out under the supervision of the Audit Committee. The Audit Committee convenes at least four times a year and more frequently when required as it must report in writing, along with its own assessments, to the Board of Directors on whether the annual and interim financial statements to be

disclosed to the public comply with the accounting principles followed by the group and fully reflected the financial position of the company after conferring with the responsible executives of the group and independent auditors. The committee convened nine times in 2019. The responsibilities of the Audit Committee together with the company management are to execute both internal and external audits with due diligence and to ensure the compliance of records, operations and reporting with applicable laws, rules and regulations and with principles set out by CMB and IFRS. In 2019, independent Board Member Kutsan Çelebican was appointed Chairman of Audit Committee and Dr. Şadan Kaptanoğlu Dikici as Committee Member.

Independent board member Kutsan Çelebican heads the Corporate Governance Committee established to monitor compliance of the company with Corporate Governance Principles and inspect the grounds for the principles yet to be implemented. Yağız Eyüboğlu was appointed Committee Member. Pursuant to article 11 of CMB's Corporate Governance Communiqué (II-17.1), which entered into effect on January 3, 2014, Assistant General Manager, Finance was appointed Senior Executive Responsible for Investor Relations Department and Member of the Corporate Governance Committee. Accordingly, Ferda Erginoğlu, Assistant General Manager, Finance, serves as Member of the Corporate Governance Committee. The duties of Remuneration and Nomination Committees are assumed by the Corporate Governance Committee, which convened five times during 2019.

The Risk Management Committee was established to provide the Board of Directors with suggestions and recommendations regarding the identification, assessment and calculation of the impact and likelihood of all strategic, operational, financial and miscellaneous risks that may affect the company. Furthermore, ensuring management of the Company in accordance with the corporate risk-taking profile, reporting and taking into consideration the decision making mechanisms of such risks as well as the creation and integration of effective internal control systems are also among the committee's purposes. In 2019, independent Board Member Dr. Şadan Kaptanoğlu Dikici was appointed as the Chairwoman and Dr. Bülent Bulgurlu as Member of the Risk Management Committee, which convened seven times in 2019.

The Board of Directors resolved on May 4, 2012 that the activities of the Investment and Business Development Committee, established on July 15, 2010 to generate ideas and strategies for the company, ensure coordination among relevant departments and accordingly determine the special areas within the company's field of operation, design and plan new projects and investments, as well as oversee the management of adopted strategies and projects, should be expanded in a way to provide the Board of Directors with support in all matters, and renamed it the Executive Committee. The Executive Committee convenes as frequently as required by the activities of the company. In 2019, the Committee convened once a month, 12 times in total; Mustafa Rahmi Koç was the Chairman of the Committee with Mehmet Ömer Koç, Yıldırım Ali Koç, Alexandre F.J. Picciotto and Caroline Nicole Koç serving as Members.

As a principle, Board Members do not have duties simultaneously in various committees. However, due to the structure of our Board of Directors, some Board Members have duties in more than one committee. These members help facilitate communication among committees and increase cooperation possibilities.

5.4. Risk Management and Internal Control Mechanism

Ensuring healthy functioning of the internal control system and internal audit is the responsibility of the Board of Directors and the efforts are coordinated by the General Manager, overseen by the committees created by the Board of Directors, and necessary information is presented to the Board of Directors, thus making it possible for the efficiency of risk management systems to be reviewed.

Reporting to General Manager and also to Audit Committee when needed, the Internal Audit Department continues to work toward establishing a more effective internal control structure by analyzing company processes and reporting to senior management the issues that are considered risky.

Furthermore, an independent audit firm conducts periodic audits, and results of these audits are reported to the Board of Directors. Corporate Risk Management (CRM) is carried out by a team formed with participation of various departments under the leadership of Assistant General Manager, Finance and monitored by the Risk Management Committee.

5.5. The Company's Strategic Goals

Along with the company's vision and mission, its strategic goals have also been determined and presented to all stakeholders through various channels. The annual targets that are determined and set out for the management of the company by the Board of Directors in accordance with these are communicated across all levels. Both the Board of Directors and relevant committees are periodically briefed regarding the realization of the given targets and developments.

5.6. Financial Benefits

The company's Remuneration Policy for the Members of the Board of Directors and Senior Executives, which includes all rights, benefits and wages provided for Members of the Board of Directors and senior executives, was approved at the Ordinary General Assembly Meeting on March 31, 2014. Disclosed to the public through the company's annual report and corporate web site and most recently approved by the shareholders at the Ordinary General Assembly on March 20, 2019, this policy is also on the agenda of the Ordinary General Assembly Meeting that will be held on March 10, 2020 to review the 2019 activities to be presented to the shareholders of the company. The total payment made to Members of the Board of Directors and Senior Executives within the framework of the Remuneration Policy is assessed by the Corporate Governance Committee and the Board of Directors every year. The total payments made to the Members of the Board of Directors and Senior Executives are disclosed to the public through financial statement notes in accordance with general practices. There are no transactions that may lead to conflicts of interest such as loans, utilization of credit and provision of guarantees for the benefit of our Board Members or Executives.