

Corporate Governance Principles Compliance Report

SECTION I - Corporate Governance Principles Compliance Declaration

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

Aygaz fully complies with mandatory principles of the Corporate Governance Communiqué 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 difficulties regarding implementation of some principles, the current debate both on domestic and international platforms toward their adoption and some principles failing to align with the existing structure of the market and the company. The company is currently working on the principles that have yet to be fully complied with, and plans to adopt them upon 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 2018 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 2018, the Board of Directors were elected, and in the ensuing process the Board committees, which currently operate 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, related information 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 and all reports and information that must be drafted and disclosed about related parties as mandated by the principles 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 by considering legislative developments and implementations for full compliance with the principles in the upcoming period.

The non-mandatory Corporate Governance Principles, which have yet to be complied with, are listed below. Aygaz has not experienced any conflicts of interest due to not fully complying 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 4.3.9, 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, the company has continuing practices in place for many years about how the Board meetings are conducted however, a written process has not yet been implemented in the organization.
- 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, payments made to Board members and executives with administrative responsibilities are documented at the Ordinary General Assembly and in the notes to the consolidated financial statements and disclosed to the public in line with the general practices.

Aygaz A.Ş. demonstrates 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. Operating in Turkey under license from the Capital Markets Board (CMB) to conduct corporate governance rating activities, Saha Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. updated last year's rating of 9.36 to 9.40 on June 22, 2018. Corporate Governance Rating Score is determined under four main categories weighted by different degrees within the framework of the CMB resolution regarding the issue. The increase in the score were noted in the main topics "Public Disclosure and Transparency" and "Stakeholders". Improvements made in the English content on the corporate website and the fact that the loss, which the Board members may cause to the company for the 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. With its current corporate governance rating, Aygaz 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 by considering regulatory developments and implementations for increasing compliance with the principles in the upcoming period. With the established corporate identity, Aygaz has accelerated the steps taken for this purpose, its management structure and processes have been also been shaped in compliance with these regulations.

“Corporate Governance Compliance Reports” have been prepared and published on the company’s corporate web site (www.aygaz.com.tr) and within annual reports since the General Assembly meeting of 2005. Corporate Governance Compliance Report (URF) and Corporate Governance Information Form (KYBF) prepared according to the new reporting format pursuant to CMB’s resolution no. 2/49 dated 10 January 2019 will be disclosed to the public on the Public Disclosure Platform separately within the period stipulated by CMB. The relevant section will be found on www.kap.org.tr under the company information of Aygaz A.Ş. with the heading ‘Corporate Governance’. Since this is the first year of this regulation, the Corporate Governance Compliance Report, prepared in the format pursuant to Capital Market Board’s resolution no. 2/35 dated January 27, 2014 is presented in the following pages.

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 main responsibilities of Investor Relations Department are:

- To maintain regular relations with shareholders within the scope of the disclosure policy and to ensure updated and reliable access to information about the company,
- To ensure that shareholders’ rights are exercised and to answer shareholders’ inquiries,
- To update communication tools such as corporate website, annual report, investor presentations and earnings releases, etc. in a manner that shareholders have complete and quick access,
- To respond to investors’ information requests via various communication tools such as face-to-face meetings, investor conferences, road shows, teleconferences, telephone, email, fax and statements/announcements to increase company value,
- To provide two-way information flow between shareholders and the company’s senior management and Board of Directors,
- To maintain accurate, reliable and up-to-date shareholder records based on the records of the Central Registry Agency (CRA),
- To implement and monitor Corporate Governance Principles, to ensure that the company operations are carried out in compliance and represent the corporate entity of the company

before the relevant ministries, Capital Markets Board (CMB), Borsa Istanbul (BIST), Istanbul Settlement and Custody Bank Inc. (Takasbank), Central Registry Agency (CRA) and other relevant institutions and organizations, and to provide these institutions with required reports and information,

- To submit necessary disclosures to Borsa Istanbul (BIST) via the Public Disclosure Platform,
- To hold the General Assembly of Shareholders meetings and to keep records of Board of Directors and Committee meetings.

Shareholders generally request information and make inquiries on the profitability, share value, investments, turnover, subsidiaries, and dividend payments of Aygaz as well as the withholding tax on dividends. More than 100 information requests were received in 2018 and replied verbally, electronically and in writing. Furthermore, nearly 100 meetings were held with domestic and foreign corporate investors and brokerage house analysts. Presentations prepared for this purpose are available for all investors on the corporate website.

The report including all of the activities carried out throughout the year was submitted to Corporate Governance Committee and Board of Directors on February 22, 2019.

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. In 2018, the Board of Directors introduced amendments to the Aygaz A.Ş. Disclosure Policy by considering the organizational practices, and also changed the principles regarding disclosure of future guidance. The Board of Directors resolved that future guidance would be announced through investor presentations and/or earnings releases (earnings release reports) and/or quarterly interim reports or material disclosures, when needed, and the policy was published on the corporate website.

All information except those qualifying as trade 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 that certain events not included in the agenda are clarified through a special audit if doing so is necessary for exercising shareholders' rights and the right to obtain information or review has been previously exercised. Shareholders have not put in such request to date. 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 2017 reporting period were reviewed and released was held open to public on March 21, 2018 at the head office of the company in Büyükdere Caddesi, No: 145/1 Zincirlikuyu, Şişli, İstanbul with a shareholder attendance rate of 85 percent. Six Members of the Board of Directors, auditors and senior executives attended the General Assembly meeting. Individual shareholders and members of the press were also present in the meeting. The venue of the General Assembly, 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 2017 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 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 made any requests with regard to the agenda. The questions that 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 2018, information was provided regarding the donations and grants paid in 2017 as a separate agenda item and the donation limit for 2018 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 Board of Directors in some other Koç Group companies including the ones that operate in similar field. In 2018, 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 are registered and announced in Turkish Trade Registry Gazette (TTRG) and made available for 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. There is no provision on the cumulative voting method within the Company's Articles of Association. 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 as follows:

“The company distributes profit in accordance with the provisions of the Turkish Commercial Code, Capital Markets Regulations, Tax Laws and other applicable laws and regulations, and within the scope of the relevant provisions of the company's Articles of Association. In line with Corporate Governance Principles, a balanced and consistent policy is adopted considering the interests of both shareholders and the company.

In principle, to the extent allowed by relevant regulations and financial resources, taking into consideration our long-term company strategies, investment and financing policies, profitability and cash position, and as long as it can be covered by the legally posted profit for the fiscal year, minimum 50% of the distributable profit calculated in accordance with Capital Markets regulations is distributed as cash and/or bonus shares.

Profit distribution is aimed to take place within one month following to the General Assembly Meeting at the latest and the General Assembly decides on such date. The General Assembly itself or if authorized, the Board of Directors may resolve to distribute profit share in installments in line with Capital Markets Regulations.

According to the Articles of Association of the company, the Board of Directors may distribute an advance on profit share if authorized by the General Assembly and in compliance with Capital Markets Regulations.”

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 21, 2018. The company paid in cash a gross total dividend of TL 460 million in 2018.

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 2018, 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 reporting line on our company's 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. Believing that the quality of its products and services begins with its employees, the Human Resources Policy of Aygaz 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 employees who are the best of the industry by combining international norms and macro trends with Human Resources strategies with the aim of becoming a leading and exemplary organization in the business world.

Human Resources Management Principles:

- Prioritizing employee motivation and company loyalty
- Offering individual approach and solutions in HR practices
- Developing flexible HR systems with solutions that can rapidly adapt to changing business conditions
- Training and development planning to provide employees with personal, professional, leadership and foreign language improvement possibilities
- Preparing and monitoring succession plans systematically as part of organizational improvement, and providing development opportunities
- Planning workforce
- Providing fair compensation and rewards
- Informing individuals with feedback on their job performance through target-based performance system
- Hiring and appointing the right people for the right positions

- Honoring employees committed to success with open recognition, and respecting their personal rights when offering criticism
- Planning and promoting social and cultural activities
- Providing timely information and introducing processes

In addition to union representatives in the workplace designated in accordance with the Collective Labor Agreement, Terminal Directors, Regional Directors, Plant Managers and/or Financial Affairs Managers working in all the regions are also responsible for facilitating communication and coordination between employees and the Human Resources Department. No discrimination complaints were filed by the employees.

In the recruitment and placement process at Aygaz, which aims to attract qualified human resources to the company, group interviews are held with participation from all management levels. Case studies, presentations, foreign language tests, numerical/verbal/personality inventories, reference checks are also part of the process.

Aygaz Group has in place a Performance Management System for all employees. As an objective and balanced system, it forms a part of the competent and established corporate culture and has become a best practice. The performance management system aims to communicate the company targets to all employees, measure the success of employees in realizing their goals, and plan their future development by assessing their competencies. Performance is monitored with target cards and assessed according to objective criteria. The purpose of the performance management system is to reward the creation of sustainable values rather than short-term return.

Aygaz allocates significant amount of resources for the personal development of its employees and encouraged them for this purpose. The 360-degree competence assessment system provides the employees with the opportunity to receive feedback from several people in different levels and functions, including their superiors and peers, perform self-assessments and plan their personal development.

As a demonstration of how the company values its employees, Aygaz has been conducting employee satisfaction and loyalty surveys since 1996. With these studies, employees' commitment is evaluated and the study results as well as employees' opinions communicated via various channels are taken into consideration to create action plans.

A Collective Group Labor Agreement has been signed between the Turkish Employers Association of Metal Industries (MESS), the employers union in the metal industries of which the company is a member, and the Turkish Metal Union on January 30, 2018 for the period from September 1, 2017 to August 31, 2019 covering the workers at the Gebze plant. A Collective Labor Agreement was signed on June 15, 2017 with the Turkish Seafarer's Union for the period from January 1, 2017 to December 31, 2018 covering the seafaring employees. This agreement has expired on December 31, 2018, and the negotiations are ongoing at the time of this report's publication. In accordance with the Collective Labor Agreement, no representatives other than designated union

representatives have been assigned within the company to maintain relations with the employees. Relations with the union are carried out by the Human Resources Department.

4.4. Code of Ethics and Social Responsibility

Aygaz has always been an exemplary company with its integrity, reputation, reliability, ethical conduct and its culture of compliance with laws and regulation throughout its over half a century long history. In performing their duties, employees of Aygaz, a Koç Group company, are obligated to comply with the “Koç Group Goals and Principles”.

Committed to the company’s and Koç Group’s ethical principles, Aygaz:

- Respects individuals’ respectability, privacy and employee rights.
- Respects and does not discriminate people’s differences such as race, ethnicity, faith, gender, social class, nationality, age and physical disability.
- Provides all employees with equal opportunity in personal development and career regardless of their origin and faith as part of its employee commitments.
- Enforces mechanisms of work discipline procedures in cases of human rights violations.
- Respects the traditions, culture and history of each and every community in which it operates.
- Respects the union rights of its employees.

Aiming to ensure that ethical values are extended to all employees with the same effectiveness and passed onto the next generations, Aygaz published its “Code of Ethics and Implementation Principles” in written form in 2010. The Board of Directors, upon the proposal of the Corporate Governance Committee, determined Aygaz A.Ş. Code of Ethics and Implementation Principles Policy in 2018, taking into consideration the practices within the organization and Koç Group Code of Ethics and Implementation Principles. This policy has been made available on the corporate website for investors. An Ethics Committee has been established to better evaluate any violations and ensure alignment of practices. The Ethics Committee is composed of the General Manager, Senior Executives, Human Resources Manager and Legal Counsel.

The “Code of Ethics and Implementation Principles” were published as a booklet and sent to all permanent staff, who were then requested to read it and sign the Document of Declaration and Undertaking on the last page to be included in their respective personnel files. Newly recruited personnel are also informed of these principles, and declare and undertake that they would adhere to the Code.

Aygaz has announced its environmental policy principles in the annual report and corporate website. The social responsibility projects in which the company engages as well as the efforts undertaken in this field are further explained in the relevant sections of the Annual Report.

SECTION V – Board of Directors

5.1. Composition and Election of the Board of Directors

The Aygaz Board of Directors is composed of 9 members in total with 1 Chairman, 1 Vice Chairman and 7 members, 3 of which are independent. All Members of the Board of Directors were elected in the General Assembly on March 21, 2018 to serve until the Ordinary General Assembly Meeting to be held to review the financial results for 2018. 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. Picciotto	Non-independent	Board Member and Executive Committee Member	Orfim General Manager and Board Member in various companies
Dr. Bülent Bulurlu	Non-independent	Board Member and Member of Risk Management Committee	Board Member in Koç Holding A.Ş. and 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 Eyüboğlu	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	Kaptanoğlu Denizcilik Tic. A.Ş. Board Member
Kutsan Çelebican	Independent	Board Member, Chairman of Audit Committee and Chairman of Corporate Governance Committee	Koç Holding A.Ş. Independent Board Member
Kemal Ege Cansen	Independent	Board Member and Member of Audit Committee	

The duties of the Chairman and the General Manager are performed by different persons. 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 2018, 3 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 22, 2018 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 2018 operating period no situations that would eliminate independence arose.

Ensuring diversity on the Board of Directors in terms of knowledge, experience and perspective contributes 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 1 female member on the Board of 9 directors.

5.2. Operating Principles of the Board of Directors

The agenda of the Board of Directors is determined according to the company's needs upon evaluation of activities. The General Manager and the Assistant General Manager in charge of finance inform and maintain communication with the Board of Directors. Convening as the company's activities require, the Board of Directors held 3 meetings in 2018 to address strategic issues and 25 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 managers 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 responsibility 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 2018, 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 are 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 has convened 7 times in 2018. The responsibilities of the Audit Committee together with the company management are to execute both internal and external audit 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 2018, independent Board Member Kutsan Çelebican was appointed Chairman of Audit Committee and Kemal Ege Cansen as Committee Member.

Independent board Member Kutsan Çelebican is the Chairman of 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 6 times during 2018.

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. Further, managing 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 2018, independent Board Member Şadan Kaptanoğlu Dikici was appointed Chairwoman and Dr. Bülent Bulgurlu as Member of the Risk Management Committee, which convened 7 times in 2018.

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 the Executive Committee. The Executive Committee convenes as frequently as required by the

activities of the company. In 2018, 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

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 ensuring that the efficiency of risk management systems are reviewed.

Reporting to General Manager and also to Audit Committee when necessary, 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. Detailed information about Risk Management activities is provided in the relevant sections of the Annual Report.

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. The strategic goals of Aygaz are:

To sustain its market leadership in LPG by:

- Investing in the future with the responsibility of being the industry's highly reputable, reliable and consumer-oriented brand,
- Prioritizing high safety standards and product quality,
- Developing innovative products and services with solutions that place innovation and digitalization at the core.

To ensure sustainable growth to move its current position forward by:

- Following and seizing opportunities for mergers, acquisitions and investments at home and abroad,

- Improving efficiency in all processes from sourcing to selling LPG,
- Aiming to create value for all stakeholders.

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 amended considering Corporate Governance Committee's proposal within the context of Capital Markets Board's Corporate Governance Communiqué II-17.1 dated January 3, 2014. The new policy was approved by the Ordinary General Assembly on March 31, 2014. Disclosed to the public through the company's annual report and corporate web site and most recently approved by shareholders at the Ordinary General Assembly on March 21, 2018, this policy is also on the agenda Ordinary General Assembly that will be held on March 20, 2019 to review the 2018 activities to be presented to the shareholders of the company. The total payments 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 strictly 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.