

Corporate Governance Principles Compliance Report

SECTION I - Corporate Governance Principles Compliance Declaration

Aygaz is aware of the benefit and importance of the Principles of Corporate Governance with regard to the capital market and companies. Compliance with international standards, creating sustainable value for shareholders, funds procurement from foreign markets and to achievement of consistent growth are very important in today's world that is becoming more global each day. Within this context, corporate governance makes a significant contribution to increasing the quality of management, reducing risks and managing them better, and increasing the reliability and image of the company in the financial and capital markets.

Aygaz fully complies with the principles that are compulsory as per the Corporate Governance Communiqué No: II-17.1 and adopted a majority of the non-compulsory principles. Although the company aims to fully comply with the non-compulsory Corporate Governance Principles, full compliance is not yet achieved due to difficulties regarding implementation of some principles, the current debate both on domestic and international platforms towards their adoption, and some principles failing to match up 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 our 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 effort put on the Corporate Governance field in 2016 have been carried out in compliance with the Capital Markets Law which includes the regulations of Capital Markets Board (CMB) regarding corporate governance principles, and the communiqués prepared based on this law. At the Ordinary General Assembly held in 2016, The Board of Directors and Board committees were formed in accordance with the regulations of Corporate Governance Communiqué. The Board committees effectively maintain their activities. A remuneration policy was determined for the Board of Directors and senior managers and submitted to the information of shareholders at the General Assembly. Through the information document prepared for the General Assembly, related information such as privileged shares, voting rights, organizational changes, background information on the nominees for Board membership, remuneration policy for the Board of Directors and senior managers, and all reports and information that must be drafted and disclosed with regard to related parties, disclosure of which is mandatory as per the principles, were submitted for the information of investors three weeks prior to the General Assembly meeting. The company website and annual report were also revised and the necessary changes were made towards full compliance with the principles.

The necessary studies will be carried out by taking the legislative developments and implementations into consideration for full compliance with the principles in the upcoming period.

The principles that are not yet fully complied and included by the Corporate Governance Principles which are non-compulsory as per regulation are mentioned below, and the additional relevant explanations can be found in relevant sections below. Aygaz has not experienced any conflict of interest because of not fully complying with the related principles.

- Regarding the principle no 1.5.2, minority rights are not recognized for shareholders who hold an amount less than one-twentieth of the share capital by the Articles Of Association; general legislative arrangements are adopted in this field.
- Regarding the principle no 4.3.9, a target rate and timetable for the number of female members in the Board of Directors have not been determined yet, and the relevant assessments are underway. Detailed information on this issue is provided in section 5.1.
- Regarding the principle no 4.4.7, as described in section 5.1 below, Board Members are not restricted from taking on any other duty outside the company.
- Regarding the principle no 4.5.5, the committee assignments are realized in the direction of relevant regulations and with the accumulation of knowledge and experiences of the Board Members are taken into consideration. Some Board Members are being assigned for multiple committees which also helps communication on related subjects and increases the collaboration possibilities.
- Regarding the principle no 4.6.5, the payments made to Board Members and executives with administrative responsibility are documented at the Ordinary General Assembly and at notes to the consolidated financial statements and are announced to the public in line with the general implementations.

Aygaz A.Ş. has demonstrated the importance it places on the principles of corporate governance and its determination on implementing these 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 Corporate Governance and Credit Rating Services confirmed the corporate governance rating score of Aygaz on July 1, 2016 as 9.36, which was assigned as the same on July 1, 2015. Among the fields open to improvement, announcement of the company's donation policy, preparing a policy and setting a timetable to reach the target of at least 25% female board membership rate were stated. With its current corporate governance rating, Aygaz has been one of the companies to hold the highest corporate governance scores in Turkey as of its assignment date.

The corporate governance rating score is determined by four main categories weighted to different degrees within the framework of the CMB resolution regarding the issue. The announcement made via Public Disclosure Platform (KAP) about the insurance to protect the company against the possible damages that can arise from Board Members' faults during their activities within the activity report content, as well as the in-house written document prepared for setting written rules for operation principles of the Board of Directors meetings are among the recent improvements Aygaz made, and they have contributed to a significant increase in the scores received, particularly in "Stakeholders" and "Board of Directors" categories.

Necessary work will be done taking regulatory developments and practices into consideration with the aim of increasing the compliance with the principles also in the

upcoming period. While the efforts of Aygaz in this field were accelerated by its Deep-rooted corporate identity, its management structure and processes have been reorganized 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 held in 2005. We hereby present our Corporate Governance Report for your information, which has been prepared this year in accordance with the format set out by the Capital Markets Board Resolution dated January 27, 2014 and no. 2/35.

Corporate Governance Committee

Mansur Özgün	Yağız Eyüboğlu	Ferda Erginoğlu
Committee Chairman	Committee Member	Committee Member

SECTION II – Shareholders

2.1. Investor Relations Unit

At Aygaz, Investor Relations Unit's duties stated by the article 11 of the Corporate Governance Communiqué are approved to be carried out by the Finance Director under the supervision of Assistant General Manager in charge of Finance, Ferda Erginoğlu. The unit is administered by Şebnem Yücel who holds Capital Market Activities Advance Level and Corporate Governance Rating Specialist Licenses, and Selin Sanver. Requests for information may be made to the unit by e-mail at yatirimciiliskileri@aygaz.com.tr or investorrelations@aygaz.com.tr, or by phone at +90 212 354 15 15 / extensions 1510-1659.

The primary responsibilities of Investor Relations Unit are as follows:

- To maintain relations with shareholders in an orderly manner within the scope of the disclosure policy, and to ensure regular and reliable access to information about the company
- To ensure the exercise of shareholders' rights and to answer shareholders' inquiries
- To update the communication tools like corporate website, annual report, investor presentations and earnings releases in a way that shareholders can have complete and rapid access.
- To fulfill the investors' information requests using various communication tools such as face-to-face meetings, investor conferences, road shows, teleconferencing, telephone, e-mail, fax, and statements/announcements in order to increase the value of the company
- To provide a two-way information flow between shareholders and the company's senior management and Board of Directors
- To keep shareholder records accurate, reliable, and up-to-date based on the records of the CRA
- To implement and monitor the Principles of Corporate Governance and ensure that the company operations complies with them, and represent the corporate entity of the company before the relevant ministries, the Capital Markets Board (CMB), the Borsa Istanbul (BIST), the Istanbul Settlement and Custody Bank Inc. (Takasbank), the

Central Registry Agency (CRA) and other relevant institutions and organizations, and provide these institutions with required reports and information.

- To make the necessary disclosures to Borsa Istanbul (BIST) via the Public Disclosure Platform
- To hold the General Assembly of Shareholders meetings, to keep the records of Boards of Directors and Auditors 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 70 requests for information received in 2016 were met verbally, electronically and in writing. In addition to that, an investor's conference was attended abroad and nearly 50 meetings held with domestic and foreign corporate investors and brokerage house analysts. Presentations prepared for this purpose are available to all investors on the company website.

The report including all of the activities carried out throughout the year was submitted to Corporate Governance Committee and Board of Directors on March 6, 2017.

2.2. Exercise of Shareholders' Right to Obtain Information

The "Investor Relations" section on the corporate website is continuously revised in a fashion that enables shareholders to use it more easily and to access more information.

All information except those qualify as trade secret is shared with shareholders, and there is no discrimination among shareholders regarding the exercise of the right to obtain and inspect information. All the inquiries submitted to the Investor Relations Unit other than the ones classified as confidential information and trade secret are responded upon conferring with the highest-ranking official on the relevant issue, on telephone or in writing. As explained under section 3.1 of this report, the company website features all relevant information and explanation that may affect the exercise of shareholders' rights.

While our Articles of Association does not designate any right to request a special auditor as an individual right, as per Article 438 of the Turkish Commercial Code, each shareholder may request the clarification of certain events from the General Assembly, even if it is not included in the agenda, through a special audit provided that doing so is necessary for the exercise of shareholders' rights and the right to obtain information or inspect what was previously exercised. Shareholders have not made 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 for 2015 during the reporting period were discharged, was held open to public, on April 4, 2016 at the headquarters of the company located in İstanbul Şişli, Büyükdere Street, No: 145/1 Zincirlikuyu with a shareholder attendance of 85%. Five members of the Board of Directors, auditors and executive managers attended the general assembly meetings. Individual shareholders and members of the press also showed interest 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).

The 2015 annual report, auditor's report, independent audit report, financial charts and footnotes, dividend distribution proposal of the Board of Directors, General Assembly information document and annexes were submitted shareholders' information both at the company Headquarter and on the company website 21 days prior to the General Assembly meeting. The dividend distribution proposal was announced via Public Disclosure Platform (PDP). Shareholders made no requests with regard to the agenda. Shareholders' questions at the General Assembly were answered by the members of the Board of Directors and senior management.

At the annual Ordinary General Assembly, the Chairman and members of the Board of Directors are authorized to carry out the company businesses personally or on behalf of others and to become partners in such companies and carry out other transactions, as per articles 395 and 396 of the Turkish Commercial Code. Within the framework of this authorization, members of the Board of Directors are not limited in any manner on assuming other duties outside the company.

At the Ordinary General Assembly meeting held in 2016, information was provided regarding the donations and aids given in 2015 within a separate agenda item and the donation limit for 2015 was determined as TL 10,000,000 and no changes made in Company's ongoing donation practices.

Some of the shareholders that hold control over the management, members of the Board of Directors, the executives with managerial responsibilities and their spouses and blood relatives and in laws to second degree carry out managerial duties as members of Board of Directors in some of other Koç Conglomerate companies including the ones that operate in similar area of activity. In 2016, there has been no transaction required to be informed within the scope of article Corporate Governance Communiqué Article No: 1.3.6

The minutes of the General Assembly are registered and announced in Turkish Trade Registry Gazette (TTRG) and made accessible to shareholders both at the company Head Office and on the company website. General Assembly meetings are held open to public including media and stakeholders without right to speak as a regarding provision in this context was added to Articles of Association, Article No: 14.

2.4. Voting Rights and Minority Rights

No privileges are accorded to shareholders' voting rights in the company. There is no shareholding company that has a mutual participation 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 recognized for shareholders who hold an amount less than one-twentieth of the share capital; general regulations in the legislation are adopted in this field.

2.5. Dividend Rights

There are no privileges regarding the sharing of company profits. Dividend distribution is made in accordance with and at the intervals stipulated by the relevant legal legislation. A dividend distribution policy in compliance with Corporate Governance Principles that will take the interests of both the shareholders and the company into

consideration to be determined and declared is the goal. The dividend distribution policy which is currently in effect was revised at the company's Board of Directors meeting on March 5, 2014 and reached its present form as follows:

“The Company distributes profit in accordance with the provisions of the Turkish Commercial Code, the Regulations on Capital Markets, Tax Laws and other related laws and regulations, and within the framework of the pertinent article of the company's Articles of Association. In line with Corporate Governance Principles, a balanced and consistent policy is adopted as regards the interests of both shareholders and the company.

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

The profit is aimed to be distributed at the latest within one month subsequent to the General Assembly Meeting; the date of distribution is decided at the General Meeting. The General Assembly itself, or the Board of Directors in case that it is authorized, may take a decision for the distribution of profits on an installments basis in line with Capital Markets Regulations.

According to the Articles of Association of the company, the Board of Directors may distribute an advance on dividends, provided it has been authorized to do so by the General Assembly and there is compliance with Capital Markets Regulations.”

As per the Principles of Corporate Governance, the Profit Distribution Policy published on the company website and in the annual report was presented to the General Assembly on April 4th, 2016, to ensure that the shareholders possessed this information. The company distributed a gross amount of 315 million TL to shareholders as cash dividend in 2016.

2.6. Transfer of Shares

As stated in Article 8 of the Articles of Association, titled “Transfer of Shares”, only the persons registered in the share book as per the records kept in the Central Registry Agency will be considered and treated as holders of shares or holders of rights of usufruct on shares. The transfer of the publicly traded registered shares of the company shall be governed by and subject to the pertinent regulations of the Capital Markets Board.

SECTION III – Public Disclosure and Transparency

3.1. Corporate Website and Content

Company's corporate website is accessible at www.aygaz.com.tr. It is available in Turkish and English. As explained in detail in the company Disclosure Policy, the Investor Relations section includes main headings such as stock ID, financial reports, material disclosures, partnership structure and subsidiaries, registration information, agendas and minutes of general assembly meetings, list of attendants and meeting

records, proxy vote form, profit distribution policy, distribution policy, information policy, Board of Directors, Corporate Governance, news and announcements, presentations, frequently asked questions, and “contact us” as well as a diverse set of documents and information under these that must be featured on the website as per the Corporate Governance Principles and other legislation. Changes either to this information or to the legislation are reflected on the website simultaneously.

3.2. Annual Report

The company’s Annual Report is prepared in a manner that includes all information stipulated by the Corporate Governance Principle No. 2.2. and its subparagraphs, in sufficient detail to ensure that the public can reach complete and accurate information regarding the company’s activities and in compliance with the 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. Blue-collar workers at the Aygaz Gebze Plant and seamen working on vessels are members of trade unions organized in related line of work. These workers are informed through union representatives. Regional or general dealer meetings are held every year. During the meetings held in 2015, 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.

In the meantime, a comprehensive informing activity is carried out through company’s corporate website, e-bulletins, technical publications, and the company magazine, “Aygaz Dünyası”. Designed in order to improve 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 internet and intranet sites to report any infringements of legislations and ethically inappropriate activities to the Company Management or Internal Audit Department then to be submitted to the Audit Committee.

4.2. Stakeholder Participation in Management

The attenders of the stakeholder meetings find the opportunity to express their requests and suggestions, which are then taken into consideration by the management. Furthermore, the Individual Suggestion System and e-mail pools established within the company provide an opportunity to bring new ideas, and those whose ideas are implemented are rewarded. Suggestions can be submitted through the company’s corporate internet and intranet sites.

4.3. Human Resources Policy

As is for all Koç Conglomerate companies, Aygaz’s human resources policy is also based on the “Our most valuable asset is our human resources” philosophy. Believing that the quality of its products and services begins with its employees, the Human Resources Policy of Aygaz includes the participation, transparency and all the other business processes that grounds on the benefit of all stakeholders.

The Aygaz vision is to be “The most preferred company to work for in Turkey” by keeping the satisfaction and loyalty of its employees who are considered to be a strategic advantage that manages all resources, at the highest possible level through established systems and practices.

Our human resources mission is to support the entire company management and all employees and to establish the human resources systems in coordination with the related departments to maintain the continuity of a creative, dynamic, well-trained, motivated, and productive Aygaz team.

HR Management Principles:

- Make employee motivation and company loyalty a priority
- Provide individual approaches and solutions in HR implementations.
- Develop flexible HR systems with solutions that can rapidly adapt to shifting business conditions
- Organizational planning to provide employees with their individual, professional, leadership, foreign language improvement possibilities
- Prepare redundancy plans systematically in the scope of organizational improvement, monitor them and provide them with possibilities of improvement
- Conduct human resources planning
- Provide fair compensation and rewards
- Provide individuals with feedback on their job performance through target-based performance system
- Hiring and appointing right person for the right position
- Honor employees committed to success with public recognition and respect their personal rights when offering criticism
- Plan and promote social and cultural activities
- Promotion of the processes and informing in a timely and accurate fashion

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

Aygaz Group has a Performance Management System in place for all employees. The performance of white-collar workers is evaluated through objective business objectives in the system, which was established based on the balanced scorecard methodology. For blue-collar workers, the required functional competences to achieve excellent performance have been defined and the evaluation is made through these competences. With regard to recognition and award practices, in addition to the Individual Recommendation System and TPM applications that aim to boost efficiency, the reward categories were redefined and the Blue Star Reward System was put in place in 2012. The Blue Star Reward System aims to instantly recognize and reward high performance and efforts that make a difference.

Aygaz operates in compliance with the principle of informing employees of their job definitions and distribution of work as well as performance and reward criteria. Employee satisfaction and loyalty are measured through the “Employee Loyalty Assessment Questionnaire” realized every year, as a result of which areas that require

improvement are determined and remedial measures are taken. The Collective Labor Agreement between the Turkish Metal Union and our workers at Aygaz Gas Tools Production Facility was signed on December 15, 2014 for the September 1, 2014 - August 31, 2017 period. Meanwhile, the Collective Labor Agreement between the Seafarers' Union of Turkey and our seamen working on vessels was signed on August 3, 2015 for the January 1, 2015 - December 31, 2016 period. Negotiations are underway on the agreement for the new period. No representatives have been assigned within the company to maintain relations with the employees other than the union workplace representative designated in accordance with the Collective Labor Agreement. Relations with the union are maintained by the Human Resources Department.

4.4. Codes of Conduct 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 regulatory rules, throughout its history that exceeds half a century.

In the performance of their duties, employees of Aygaz, which is part of the Koç Group, are obligated to comply with the "Koç Group Goals and Principles."

Committed to Koç Group's ethical principles, Aygaz:

- Respects the respectability, privacy, and personal rights of individuals.
- Respects the differences among individuals such as race, origin, religion, gender, social class, nationality, age, and physical disability, and does not discriminate.
- Provides all of its employees with equal opportunity in personal development and career regardless of their origins and creeds as part of its employee commitments.
- Enforces the mechanisms related to the rules of work discipline in the 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.

With the purpose of ensuring that ethical values are extended to all employees with the same effectiveness and passed onto the next generations, Aygaz put its "Codes of Ethical Conduct and Practice" in a written form.

A Board of Ethical Conduct has been established in order to better assess any infringements and have the implementations carried out in line. The Ethics Board is comprised of the General Manager, the relevant Assistant General Manager, the Human Resources Manager, and the Legal Advisor.

The "Codes of Ethical Conduct and Practice" were made into 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 personal files. Newly recruited personnel are also informed of these principles and declare and undertake that they would adhere to them.

Aygaz announced its environmental policy principles in the annual report and corporate website. The social responsibility projects in which our company takes part 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. The 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 2016, the Board of Directors has one female member.

Name of Board Member	Independence Status	Duties in 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, 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	Orfim General Manager and Board Member in various companies
Dr. Bülent Bulgurlu	Non-independent	Board Member, Member of Executive Committee, 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 and Board Member in Koç Group Companies
Yağız Eyüboğlu	Non-independent	Board Member, Member of Corporate Governance Committee	Koç Holding A.Ş. Energy Group President and Board Member in Koç Group Companies
Ayşe Canan Ediboğlu	Independent	Board Member, Chairwoman of Risk Management Committee	ING Bank Türkiye Board Member
Tunç Uluğ	Independent	Board Member, Chairman of Audit Committee	Arçelik A.Ş. Independent Board Member
Mansur Özgün	Independent	Board Member, Chairman of Corporate Governance Committee, Member of Audit Committee	Tat Konserve A.Ş. Independent Board Member

All members of the Board of Directors were elected in the General Assembly on April 4, 2016 to serve until the Ordinary General Assembly Meeting to be held to discuss the financial results for the year 2016. Backgrounds of the Board members and the General Manager are provided in the annual report.

The chart above provides a summarized information about the non-executive members of the Board in accordance with CMB's Corporate Governance Principles.

The Chairman and General Director duties are carried out by different persons. While Board members are expected to spare the required time for the affairs of the company, there are no limitations imposed on them regarding assuming other duties outside the company. Limitation in that context is not needed particularly due to independent members' significant contributions to Board of Directors with their respective professional and industrial experiences. The background of the member and the duties he/she assumes outside the company are submitted for the information of the shareholders prior to the General Assembly.

In Aygaz, the Corporate Governance Committee carries out the duties of the Nomination Committee. In 2016, the three independent membership nominees were submitted to the Corporate Governance Committee and they all presented their statements of independence to the Corporate Governance Committee. The Corporate

Governance Committee and the Board of Directors evaluated the declarations of nomination and backgrounds of Independent Board Members at their meetings held on March 2, 2016 and March 3, 2016 respectively, and upon determining all meet the criteria specified in Corporate Governance Principles and it was decided that all should be designated as independent member candidates. As of 2016 operating period no situations that would eliminate independence arose.

We believe that having a diverse structure in terms of knowledge, experience and point of view provided for the Board of Directors will positively contribute to operations of the company and increase the efficiency of the Board's works. Within this context, being one of the means of representing diverse points of view in the Board of Directors, Aygaz continues its effort on determining a target rate for female members in the Board. Currently, there is only one female member on the Board of nine directors.

5.2. Operating Principles of the Board of Directors

The agenda of the Board of Directors is determined based on company's needs upon the assessment of its activities. The General Manager and the Assistant Manager in charge of Finance inform and maintain communication with the Board of Directors.

Assembling as the company's activities require, the Board of Directors held three meetings in 2016 in which the strategic points were assessed, and a total of 19 resolutions 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 neither carry out transactions with the company nor take place in any competitive entities. As stated in section 2.3, some of the shareholders that hold control over the management, members of the Board of Directors, the executives with managerial responsibilities and their spouses and blood relatives and in laws to second degree carry out managerial duties as members of Board of Directors in some of other Koç Conglomerate companies including the ones that operate in similar area of activity. Board Members and Senior Executives of the company are covered by "executive responsibility insurance".

Supervising the activities of the company, Board of Directors carries out inspections in regards on situations that may create conflict of interest, and if any, it evaluates the consequences of the conflict and takes necessary decisions in line with the company's best interest. The Board meticulously 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 2016, all the Board Committees have fulfilled the responsibilities and the duties that were expected of them as per Corporate Governance Principles and operating

principles of its 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 submitted to the Board of Directors. The opinion of the Board of Directors in this respect is that the benefit expected of Board Committees' efforts.

The Audit Committee was formed within the statutory period and carries out the duties set out by the Capital Markets Board Communiqué. Within this scope, it 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 partnership. Selection of the independent auditing firm, drafting of independent auditing agreements, initiation of the independent audit process, and efforts of the independent auditing 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 reports to be disclosed to the public complied with the accounting principles followed by the partnership and fully reflected the financial condition of the company after conferring with the responsible managers of the partnership and independent auditors. It was convened six times in 2016. The responsibilities of the Audit Committee together with the company management are to execute both internal and external audit meticulously and ensuring the compliance of records, operation, and reporting with relevant laws, rules and regulations and with principles set out by CMB and IFRS. In 2016, independent Board member Tunç Uluğ was appointed as the Audit Committee Chairman and Mansur Özgün as committee member.

The Chairman duty of the Corporate Governance Committee that was established in order to monitor the compliance of the company with Corporate Governance Principles and to inspect the grounds for the principles yet to be implemented, is carried out by independent Board member Mansur Özgün. Yağız Eyüboğlu was appointed as committee member. As per the article 11 of CMB's Corporate Governance Communiqué (II-17.1), which came into effect on January 3, 2014, Assistant General Manager in charge of Finance was appointed Executive Manager Responsible for Investor Relations Unit and member of the Corporate Governance Committee. Within this scope, Assistant General Manager in charge of Finance, Ferda Erginoğlu carries out the membership duty of the Corporate Governance Committee. The duties of Remuneration and Nomination Committees are assumed by Corporate Governance Committee in the company. Committee was convened four times during 2016.

The Risk Management Committee was established with a view to providing 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 to this end. In 2016, independent Board member Ayşe Canan Ediboğlu was appointed as the Chairwoman and Dr. Bülent Bulgurlu as member of the committee. During 2016, the Risk Management Committee convened seven times.

With the Board resolution dated May 4, 2012, it was decided that the activities of the Investment and Business Development Committee, renamed as the Executive Committee, established on July 15, 2010 with a view to generating ideas and strategies for the company, ensuring coordination among relevant departments, and accordingly, determining the special areas within the company's field of activity and designing and planning of new projects and investments, as well as overseeing the management of adopted strategies and projects, should be expanded in a way to provide the Board of Directors with support in all matters. The Executive Committee convenes as frequently as required by the activities of the company. In 2016, The Committee convened each month, 12 times in total; Mustafa Rahmi Koç was the committee Chairman with Mehmet Ömer Koç, Yıldırım Ali Koç, Alexandre F.J. Picciotto and Dr. Bülent Bulgurlu acting 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 of our Board members have duties in more than one committee. These members help strengthen communication among committees and increase cooperation possibilities.

5.4. Risk Management and Internal Control Mechanism

Internal control system and the healthy operation of the internal audit are under the Board of Director's responsibility, and the related efforts coordinated by the General Manager, overseen by the committees created by the Board of Directors, and necessary information is submitted to the Board of Directors. Thus, the efficiency of the risk management systems can be reviewed.

Responsible to General Director and reporting to Audit Committee when necessary, The Internal Audit Department continues to carry out its efforts to form a more effective internal control structure by analyzing the company processes and reporting to senior management the issues that are considered risky.

In addition, Koç Holding Internal Control Units and an independent auditing firm conducts periodic audits, and outcomes of these audits are reported to Board of Directors. The work of Corporate Risk Management (CRM) is carried out by a team formed with participation of various units under the leadership of Assistant General Manager in charge of Finance, and monitored by the Risk Management Committee. Detailed information about Risk Management efforts 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 are submitted for the information of all stakeholders through various channels. The annual targets that are determined and set out for the company management by the Board of Directors in accordance with these, are generalized in all levels Both the Board of Directors and relevant committees are periodically briefed regarding the realization of the given targets and the developments.

The strategic goals of Aygaz are;

- Maintaining the market leadership in LPG by; maintaining its innovative approach and product differentiation in autogas, improving market penetration by opening new autogas stations and evaluating the growth potential for cylinder gas in rural areas, and

- Improving and strengthening the existing subsidiary portfolio by pursuing opportunities for new acquisitions, mergers, and investments, and making use of high profitability level opportunities in both Turkey and abroad.

5.6. Financial Rights

Our Company's Remuneration Policy for the members of the Board of Directors and Senior Executives, which includes all rights, benefits and wages provided to the members of the Board of Directors and senior executives, was changed considering Corporate Governance Committee's proposal made within the context of Capital Markets Board's Corporate Governance Communiqué No: II-17.1 dated January 3, 2014. The new policy was approved by the Ordinary General Assembly on March 31, 2014, and took effect thereafter.

Disclosed to public through company's annual report and corporate web site, and approved by its stakeholders at the Ordinary General Assembly that was held on April 4, 2016 lastly, this policy is also on the agenda Ordinary General Assembly that will be held on March 29, 2017 to be presented to the shareholders of the company, at which the 2016 activities will be discussed.

The total payments made for the 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 for the members of the Board of Directors and Senior Executives are disclosed to the public through our financial chart footnotes, in parallel with the general practices. There are strictly no transactions that may lead to conflicts of interest such as loaning, extension of credit, provision of guarantees to the benefit of our board members or executives.

At the company's Ordinary General Assembly Meeting on April 4, 2016, a resolution was passed to pay a yearly gross honorarium of TL 300,000 (Three hundred thousand Turkish lira) to each of the members of the Board of Directors. This amount will be paid in equal installments starting from the month following the general assembly.