



Corporate Governance and Credit Rating Services, Inc.

Corporate Governance Rating Report

AYGAZ

1 July 2014

CONTENTS

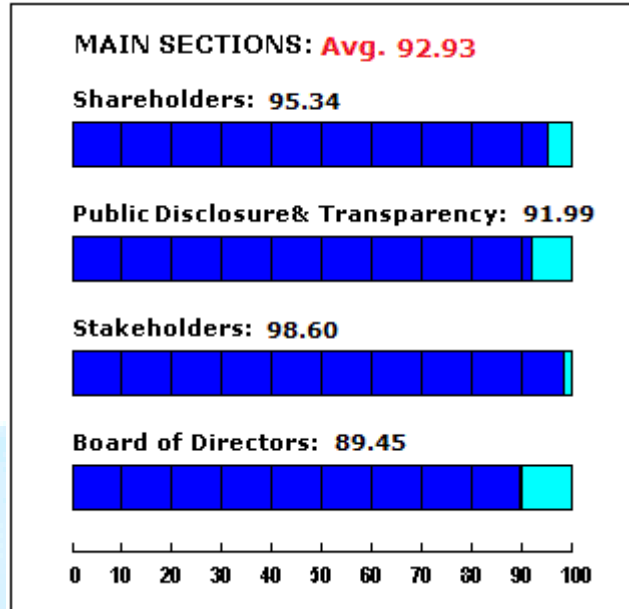
Rating and Executive Summary	3
Rating Methodology	5
Company Overview	6
SECTION 1: SHAREHOLDERS	8
Facilitating the Exercise of Shareholders’ Statutory Rights	8
Shareholders’ Right to Obtain and Evaluate Information	9
Minority Rights	9
General Shareholders’ Meeting	9
Voting Rights	11
Dividend Rights	11
Transfer of Shares	11
SECTION 2: PUBLIC DISCLOSURE AND TRANSPARENCY	12
Corporate Web Site	12
Annual Report.	13
External Audit.	14
SECTION 3: STAKEHOLDERS.	15
Company Policy Regarding Stakeholders	15
Stakeholders’ Participation in the Company Management	16
Company Policy on Human Resources	16
Relations with Customers and Suppliers	17
Ethical Rules & Social Responsibility	17
Sustainability	18
SECTION 4: BOARD OF DIRECTORS.	19
Functions of the Board of Directors	20
Principles of Activity of the Board of Directors	20
Structure of the Board of Directors	20
Conduct of the Meetings of the Board of Directors	21
Committees Established Within the Board of Directors	21
Remuneration of the Board of Directors and Managers With Administrative Responsibility	22
Rating Definitions	24
Disclaimer	25

Rating and Executive Summary

AYGAZ A.Ş.

 **SAHA**
Corporate Governance Rating:

9.29



EXECUTIVE SUMMARY

This report on rating of Aygaz A.Ş.'s (Aygaz) compliance with Corporate Governance Principles is prepared upon conclusions following detailed analysis of the company. Our rating methodology (page 5) is based on the Capital Markets Board's (CMB) "Corporate Governance Principles".

Aygaz is rated with **9.29** as a result of the Corporate Governance study done by SAHA. The company's corporate governance rating is revised as above in consideration with the importance given by Aygaz to corporate governance principles, its willingness to carry out the continuous and dynamic process and improvements which had been initiated in this direction.

Additionally, in accordance with the World Corporate Governance Index (WCGI) published by SAHA on January 30, 2013, Aygaz takes place in Group 1. Details of the World Corporate Governance Index (WCGI) published by SAHA can be accessed at <http://www.saharating.com>.

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

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

On the topic of **Stakeholders**, Aygaz scored **9.86**. Aygaz guarantees the rights of stakeholders in line with the legislation and mutual agreements, and in case of violation, enables an effective and speedy compensation. A written compensation policy is established and disclosed to the public on the company's web site. The company has a written and advanced human resources policy. Code of ethics is publicly available through the company's web site. During the rating period, the company was not held liable by any public authority for any sanctions. The company complies with environmental laws. Corporate Social Responsibility and Sustainability work is satisfactory.

From the perspective of the principles regarding the **Board of Directors**, Aygaz's tally is **8.95**. There is a well communicated company mission and vision. The board of directors fulfills all duties regarding company needs. The board of directors consists of 9 members and 3 of them are independent. A Corporate Governance Committee, an Audit Committee, and an Early Detection of Risks Committee are established within the board of directors. The working principles of the committees are disclosed to the public. Principles of remuneration of board members and senior executives are included on the corporate web site. There is 1 female member on the board of directors. However, there are areas for improvement; internal company regulations do not include the conduct of the board meetings in writing and absence of 25% female board member target and lack of policy towards this goal.

Rating Methodology

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

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

Within the Principles, "comply or explain" approach is valid. The implementation of these Principles is advisory and its application is optional. However, the explanation concerning the implementation status of the Principles, if not detailed reasoning thereof, conflicts arising from inadequate implementation of these Principles, and explanation on whether there is a plan for change in the company's governance practices in future should be mentioned in the

annual report and disclosed to the public.

The Principles consist of four main sections: shareholders, public disclosure and transparency, stakeholders, and board of directors.

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


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

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

Shareholders: **25%**
Public Disclosure and Transparency: **25%**
Stakeholders: **15%**
Board of Directors: **35%**

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

Company Overview

Aygaz A.Ş.	
	CHAIRMAN OF THE BOARD M. Rahmi KOÇ GENERAL MANAGER Yağız EYÜBOĞLU
Headquarters: Büyükdere Cad. Aygaz Han No:145/1 Zincirlikuyu/Şişli/ İstanbul www.aygaz.com.tr	Manager Responsible of Shareholder Relations Assistant General Manager Gökhan TEZEL Tel: (0212) 354 1515 Gokhan.tezel@aygaz.com.tr

Established in 1961, Aygaz operates in all LPG processes, including production, procurement, storage and filling, as well as production and sale of LPG-operated devices. Aygaz is also the first public LPG company in Turkey and continues to provide its services in 81 cities through 3,800 cylinder gas dealers and auto gas stations. The company also owns LPG vessels, and provides transportation service on behalf of other LPG organizations.

Aygaz is one of the largest industrial companies in the Turkish private sector. Its products enter more than 100 thousand homes every day, and approximately one million vehicles run on Aygaz Otogaz.

As of end 2013 Aygaz and its subsidiaries employed a total of 1,427 employees, consisting of 724 white-collar and 703 blue-collar workers.

The company shares are traded under "AYGAZ" code at BIST and Aygaz is a constituent of BIST Istanbul, BIST Chemicals, Petrol, Plastic, BIST Corporate Governance, BIST Industrials, BIST Dividend, BIST Dividend 25, BIST All Shares, BIST National, BIST 100, and BIST 100-30 indices.

40.69% of Aygaz shares are owned by Koç Group. Other major partner Liquid Petroleum Gas Development Company holds 24.52% of shares, and 24.27% is publicly traded.

The capital structure of Aygaz is as follows:

Aygaz A.Ş. Capital Structure		
Name	Share Amt.	Share %
Koç Holding A.Ş.	122,053,514	40.69
Temel Ticaret A.Ş.	15,883,936	5.29
Koç Ailesi	15,705,118	5.24
Liquid Petroleum Gas Dev. Cy.	73,545,660	24.52
Other (free float)	72,811,770	24.27
Total	300,000,000	100.00

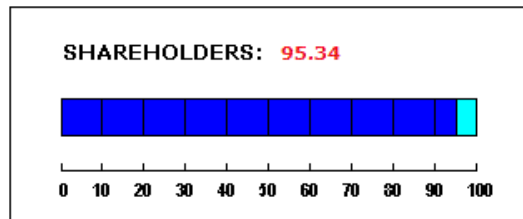
It was decided at the general shareholders' meeting held on 31 March 2014, that a cash dividend to be distributed among the shareholders of the full liability corporations and non-resident institutions which obtained dividends through a permanent establishment or a permanent representative in Turkey. The ratio of this distribution was decided as 58.33333% (net TL 0.5833333 for each TL 1.00 share).

Ratio for other shareholders was gross 0.583333 / net 0.4958333 for each TL 1.00 share.

The Board of Directors of Aygaz is as follows:

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

SECTION 1: SHAREHOLDERS



SYNOPSIS

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

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

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

In terms of minority rights, company has adopted as it is the rate foreseen in the legislation for public companies (5%).

General shareholders' meetings are held in accordance with the legislation and conducted in a manner where shareholders' rights are not violated. Disclosures prior to the general

shareholders' meetings are satisfactory.

In addition, articles of association of the company contain a provision that the general shareholders' meetings are conducted open to public including stakeholders and the media without right to vote.

Company has a clearly defined and consistent dividend policy. It is disclosed to the public in the annual report and on the corporate web site.

There are no restrictions on the transfer of company shares.

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

1.1. Facilitating the Exercise of Shareholders' Statutory Rights:

The company carries out the investor relations obligations through Investor Relations Department.

Employees of this department are active and willing on exercise of corporate governance principles at the company.

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

- a) To ensure that the records relating to the written correspondence with the investors and other information

are kept in a healthy, safe and updated manner.

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

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

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

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

Free float rate of Aygaz is 24.27%.

1.2. Shareholders' Right to Obtain and Evaluate Information:

We have not come across to any complicated processes of the trust management on realization of a special audit.

All kinds of information about the company are provided in a complete, timely, honest, and diligent manner and there is no fine/warning received in this direction.

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

1.3 Minority Rights:

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

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

1.4. General Shareholders' Meeting:

In addition to the methods of invitation in the legislation and in order to ensure attendance of maximum number of shareholders, the invitation to the general shareholders' meeting held on 31 March 2014 is performed through all means of communication available to the company on 5 March 2014 in accordance with the Corporate Governance Principles.

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

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

Commencing from the date of announcement of invitation for the general shareholders' meeting, following documents are made available to all shareholders for examination purposes in convenient locations including the headquarters or branches of the company, and the electronic media;

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

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

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

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

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

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

General shareholders' meetings took place at the company headquarters.

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

In addition, all questions raised during the general shareholders' meeting and responses there of are disclosed to the public on the company's website by the Investor Relations Department.

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

The members of the board of directors related with the issues of a special nature on the agenda, other related personality, authorized persons who are responsible for preparing the financial statements and auditors were

present to give necessary information and to answer questions at the general shareholders' meeting. The absolute majority was reached and this is found to be positive by us.

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

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

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

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

1.5. Voting Rights:

At Aygaz, all shareholders, including those who reside abroad, are given the opportunity to exercise their voting rights conveniently and appropriately and the company avoids applications that make it difficult to exercise voting rights.

There are no voting privileges.

1.6. Dividend Rights:

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

As mentioned on the dividend policy document conviction is reached that a balanced policy is followed between the interests of the shareholders and that of the company.

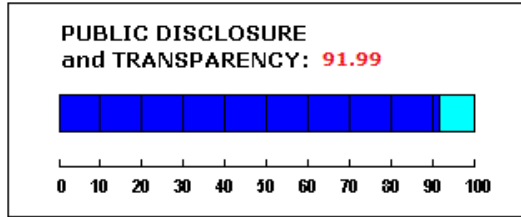
In addition, articles of association of the company contain a provision on advance dividend payment.

1.7. Transfer of Shares:

No difficulties on free transfer of shares are observed.

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

SECTION 2: PUBLIC DISCLOSURE AND TRANSPARENCY



SYNOPSIS

+	Comprehensive web site, actively used for public disclosure, English version exists
+	Annual report complies with the legislation, comprehensive and informative
+	Agreement and studies conducted with external auditors comply with the legislation
-	Benefits provided to board members and senior management is not mentioned on individual basis
-	List of ultimate controlling individual shareholders are not disclosed to the public

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

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

There has been no legal conflict between the company and the selected external audit firm. There has not been a situation where the external auditor avoided to express its opinion and not signed the audit report, nor has reported a qualified opinion during the latest audit period.

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

2.1. Corporate Web Site:

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

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

In this context, information on at least the last five years can be reached on the website.

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

The information contained on the website exists also in English (close to its Turkish content) for the benefit of international investors.

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

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

2.2. Annual Report:

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

- a. period covered by the report, the title of the company, trade

- register number, contact information,
- b. the names and surnames of the chairman, members and executive members involved in the management and supervisory boards during the covered period, their limits of authority, tenure of office (with start and end dates),
- c. the sector in which the entity operates and information on its position in the sector,
- d. qualifications of the production units, capacity utilization rates, general explanations related to sales volume and price, sales conditions and yearly developments, productivity rates and causes of significant changes compared to previous years,
- e. progress on investments, the eligibility status on incentives, and to what extent,
- f. changes and justifications on the articles of association during the period,
- g. Corporate Governance Principles Compliance Report,
- h. information on related party transactions,
- i. other issues not included in the financial statements, but are beneficial for users,
- j. the company's organization, capital and ownership structure and any changes in the related accounting period,
- k. all benefits provided to staff and workers, information on number of personnel, Collective Bargaining Agreement applications,
- l. research and development activities,
- m. dividend distribution policy,
- n. basic ratios on the financial position, profitability and solvency,
- o. the company's financing resources and risk management policies,

- p. information on major events occurred between the closing of the accounting period and the date of the general shareholders' meeting where financial statements are evaluated.

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

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

Benefits provided to board members and senior executives are mentioned collectively, but in terms of Corporate Governance Principles it is essential that this information be given on an individual basis.

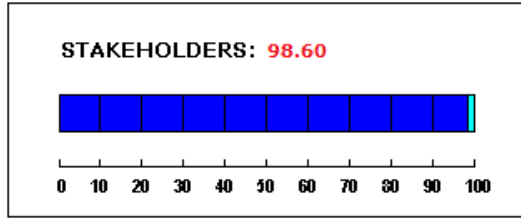
2.3. External Audit:

The external audit of the company is conducted by Güney Bağımsız Denetim ve Serbest Muhasebecilik Mali Müşavirlik A.Ş., a member of Ernst & Young group with a worldwide experience.

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

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

SECTION 3: STAKEHOLDERS



SYNOPSIS

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

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

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

The company has a documented and advanced human resources policy.

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

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

3.1. Company Policy Regarding Stakeholders:

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

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

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

In addition, company holds yearly general meetings either with regional or all dealers. In these meetings, briefings about company activities performed, dealers' requests and suggestions are taken. 5 regional dealer meetings were held in 2013. Mutual information sharing is realized during one to one and group meetings with suppliers.

On the other hand, a wide range of information activities are carried out via the corporate web site, e-newsletters, technical publications, and company magazine "World of Aygaz". To improve communication with the dealers, a Dealer Portal is still used.

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

Company officials declared that the company's purchasing policy is carried out by tender procedure.

3.2. Stakeholders' Participation in the Company Management:

In meetings with stakeholders, participants have the opportunity to voice their requests and recommendations, which are then evaluated by managers. Additionally, it is declared in the compliance report that the individual suggestion system and email pools within the company provide an opportunity for new ideas to be presented, and rewards are given for ideas that are implemented.

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

3.3. Company Policy on Human Resources:

Aygaz has a detailed human resources policy.

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

- Equal opportunity
- Right person for the right job
- Equal pay for equal work

- Achievement based competence
- Prompt recognition
- Increasing productivity by providing continuity of peace at work
- Timely and accurate briefing, presentation of projects and organizations.

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

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

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

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

It has been declared that there have been no complaints from employees about discrimination.

The company officials declared that process of determining employee remuneration and other benefits is focused on productivity.

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

The Collective Bargaining Agreement for the period between 1 September 2012 and 31 December 2014 was signed on 3 June 2013 with the Turkish Metal Union, covering Aygaz Gas Appliance Manufacturing Plant workers. The Collective Bargaining Agreement for the period between 1 January 2013 and 31 December 2014 was signed on 1 July 2013 with the Seafarers' Union of Turkey covering ship workers.

3.4. Relations with Customers and Suppliers:

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

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

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

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

3.5. Ethical Rules & Social Responsibility:

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

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

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

In this context, in September 2010, Aygaz began the "What Will the Weather Be Tomorrow?" project in cooperation with the Regional Environmental Center (REC) and under the auspices of the Ministry of Environment and Forestry.

Aygaz has supported efforts to bring the ancient city of Sagalassos in the foothills of the Taurus Mountains back to light. Following the completion of the Antonine Nymphaeum project in 2010, restoration of the Upper Agora structures surrounding the monumental fountain began in 2011. Restoration is expected to be completed in 2016. In addition, the company supports tumulus excavations at Van Castle since 2010 in conjunction with Ministry of Culture and Tourism and University of Istanbul and at Maydos Kilisetepe since 2012 along with Ministry of Culture and Tourism and Canakkale Onsekiz Mart University.

The company started the "Aygaz Library" project to reach booklovers, art lovers, researchers and the nation's youth.

The project's most recent work "Traces of Ancient Times" was published in 2013. In addition, as part of the History of Ottoman Diplomacy project, documents and supplementary information collected from the Ottoman archives are gathered and published in book form.

In 2013, 100 diabetic children attended the 21st Diabetic Children's Camp in Kocaeli, which is supported by Aygaz since 2004.

The company also maintains its support to projects such as Women's Health Training Program conducted

with the Turkish Family Health and Planning Foundation, Koç University's Sevgi Gönül Theatre Days, and Vehbi Koç Foundation's "Vocational Education: A Crucial Matter for the Nation" Project.

Therewith, Aygaz Search & Rescue Team was formed following the Basic Disaster Training at the end of 2012. Its purpose is to establish a voluntary aid system within and outside the group to take informed emergency action in case of a disaster.

3.6. Sustainability:

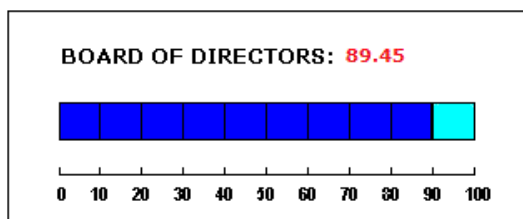
The company has a policy, internal regulations, objectives, initiatives and campaigns on environment, nature, energy saving, recycling and education issues.

The company has prepared a sustainability report for the period 2010-2011 and disclosed to the public through the corporate website.

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

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

SECTION 4: BOARD OF DIRECTORS



SYNOPSIS

+	The board is staffed with effective and highly qualified members
+	Board of directors meeting and decision quorum is defined in the articles of association
+	Each board member is entitled to a single vote
+	3 independent members on the board
+	Audit, Corporate Governance and Early Detection of Risks Committees established
+	Principles of remuneration of board members and senior executives are established and disclosed to the public
=	1 female member on the board
-	Conduct of board meetings not determined in writing in internal regulations
-	No target or policy established for 25% female board membership rate

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

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

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

There is 1 female member on the board of directors.

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

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

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

The chief executive officer / general manager is not on the committees. There are no executive members on the committees.

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

Nevertheless, conduct of board meetings is not determined in writing in internal regulations and neither a target nor a policy is established for 25% female board membership rate.

4.1. Functions of the Board of Directors:

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

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

4.2. Principles of Activity of the Board of Directors:

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

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

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

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

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

The board of directors plays a leading role in maintaining effective communication between the company

and the shareholders and settling any disputes which may arise.

Defects and damages caused by the board members during their duties have been insured with a cost exceeding 25% of the capital of the company. However, no explanation is given to KAP in this regard.

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

4.3. Structure of the Board of Directors:

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

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

There is 1 female member on the board. However, there are no planning envisions for a policy or a timetable to reach the Corporate Governance Principles' advisory target of 25% of the number of board members.

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

The board of directors of the company held 3 meetings and made 19 decisions in the operating period of 2013.

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

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

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

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

In addition, the conduct of board meetings is not determined in writing in internal regulations.

4.5. Committees Established Within the Board of Directors:

A Corporate Governance Committee, an Audit Committee, and an Early Detection of Risks Committee are established from within the board of directors in order to fulfill its duties and responsibilities.

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

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

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

Committee meeting frequency has been found sufficient by us. In 2013 operating period; Corporate Governance Committee held 4 meetings, while The Audit and Early Detection of Risks Committees held 6 meetings each.

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

In line with the new corporate governance principles published on 3 January 2014, Investor Relations Department manager must be a member of the Corporate Governance Committee. It has been declared

during interviews with company officials that Gökhan Tezel be included in the committee as per the decision taken by the BOD. He is the most senior executive who the Investor Relations Department manager is attached to. In addition, KAP is informed of this assignment.

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

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

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

The external audit of the company is conducted by Güney Bağımsız Denetim ve Serbest Muhasebecilik Mali Müşavirlik A.Ş., a member of Ernst & Young group with a worldwide experience. The nomination and election process of the external audit firm, taking into account its

competence and independence, starts with a proposal from the audit committee to the board and ends with the board's choice being presented and approved at the general shareholders' meeting.

Early Detection of Risks Committee carries out its tasks towards early detection of risks which may jeopardize the company's assets, its development and progression, and measures taken to mitigate and manage those risks.

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

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

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

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

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

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

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

There has been no cases where the executives used confidential and non-public company information in favor of themselves or others. There are no executives who accepted a gift or favor directly or indirectly related to the company's affairs, and provided unfair advantage.

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

Company officials declared that there is an insurance policy on compensation for losses incurred by the company and third parties, as a result of not performing the executives' duties duly.

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

Rating Definitions

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

DISCLAIMER

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

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Contacts:

S. Suhan Seçkin

suhan@saharating.com

Ali Perşembe

apersembe@saharating.com

Oğuzhan Güner

oguner@saharating.com