

## **BOARD REPORT ON CAPITAL REDUCTION OF AKFEN HOLDİNG A.Ş.**

### **A. REPORT FRAMEWORK**

This report was prepared in accordance with the Article 19/11.c of the Share Communiqué VII-128.1 dated 22/06/2013 and numbered 28685 and Article 473 of the Turkish Commercial Code.

### **B. SHARES SUBJECT TO CAPITAL REDUCTION**

Our Company Akfen Holding A.Ş. (“Company” or “Our Company”) has made share buybacks within a “Share Buyback Program”, which was approved by the Extraordinary General Assembly on 12 September 2011 and prolonged for a period of 18 months by the General Assembly on 28 May 2013 and revised at the Extraordinary General Assembly on 24 October 2013. The program was launched based on the grounds that the share price of our Company, which started to trade on Borsa Istanbul A.Ş. (“BİAŞ”) on 14 May 2010, has declined significantly below its IPO price due to the global economic fluctuations and the instability in Turkey’s geopolitical region, also due to the fact that the price on the stock exchange was not reflecting the performance of our Company’s operations so that considering existing market conditions price fluctuations could be reduced through buying back our shares trading on the stock exchange when deemed necessary.

Following the purchase of 2,250,000 shares of our Company on 10.04.2014, the total amount of the shares acquired by our Company within the Share Buyback Program has reached 22,107,901. Together with the share purchases of our wholly owned subsidiary Akfen Insaat Turizm ve Ticaret A.Ş. (“Akfen Construction”) amounting to 6,992,099 shares during the period of 27 November 2012 – 11 November 2013, the total amount of the acquired Akfen Holding A.Ş. shares has reached 29,100,000.

Akfen Construction holds a 2.75% stake of the Company, which was not acquired within the Share Buyback Program, the number of these shares amounted to 3,994,903 prior to the Company’s IPO, the amount of these shares rose to 7,989,806 after the bonus share issue dated 10.04.2013.

14,981,905 of our Company’s shares (5.148% of the Company paid-in capital), 6,992,099 coming from the share buyback and 7,989,806 coming from the period prior to the IPO, held by our wholly owned subsidiary Akfen Construction were transferred to our Company on 11.08.2014, off-exchange using the 11.08.2014 closing price of TL4.85 based on the writing of the Capital Markets Board dated 25.07.2014 and numbered 7702.

Following this transaction, our Company’s Akfen Holding stake has risen to 12.746% (37,089,806 shares) and from these shares a total of 29,100,000 are planned to be cancelled via a capital reduction.

## **C. BOARD DECISION WITH REGARDS TO THE CAPITAL REDUCTION**

Our Company's board has made the following decisions at the meeting on 14 October 2014:

*"Company's Board has gathered at the Company Headquarters and made the following decision:*

- 1. Based on the Board decision dated 13.08.2014 and numbered 2014/18 it was decided to change the 6th Article (on "Capital") of our Company's Articles of Association in accordance with the Turkish Commercial Code and the Capital Markets Law and this decision is to be revised as stated below,*
- 2. Within the scope of the provisions of the Turkish Commercial Code and the Capital Markets Law;*
  - A. Based on the facts stated below;*
    - i. As our Company's shares are trading below their IPO value, based on the authorisation at the Extraordinary General Assembly on 24.10.2013, following the purchase of 2,250,000 of our Company's shares on 10.04.2014, the total amount of the shares acquired by our Company within the Share Buyback Program has reached 22.107.901 shares,*
    - ii. Together with the shares purchased of our wholly owned subsidiary Akfen İnşaat Turizm ve Ticaret A.Ş. ("Akfen Construction") during the period 27 November 2012 - 11 November 2013 amounting to 6,992,099 a total of 29,100,000 shares of our Company were purchased,*
    - iii. Based on the writing of the Capital Markets Board (CMB) dated 25.07.2014 14,981,905 shares of our Company were transferred to our Company,*
    - iv. If these shares were sold by our Company this would lead to a plenty of our Company's shares in the market, our shares could be facing heavy price movements and fluctuations, this could mean that our Company's shares would be valued below their real value, and this could hurt our investors,*

*it was decided, in accordance with the writing of the CBM dated 25.07.2014, shares that were acquired within the scope of the related legislation, and are viable for cancellation will be cancelled, so that our paid-in capital, which amounts to TL291,000,000, will be reduced by TL29,100,00 to TL261,900,000; thus our Company can make use of the 10% limit for the share buyback in accordance with the share buyback legislation and so we are able to make further share buybacks in our Company's shares.*

- B. Since the permission of the CMB for our Company's registered capital ceiling of TL1,000,000,000 will be ending in 2014 and our Company is continuing with its investments, it was decided to prolong the validity period of the Registered Capital Ceiling for a period of 5 years, from 2014 until 2019,*
- 3. Based on the reasoning stated above, it was decided unanimously by the attendees of the meeting, to revise the 6th Article (on "Capital") of our Company's Articles of Association and to submit the attached draft revision to the Articles of Association to CMB and Customs and Commerce Ministry for their opinion and their approval and following these approvals the subject to be submitted to the first general assembly for their approval."*

The revision in the Articles of Association, incorporates the decline of our previous paid-in capital of TL291,000,000 by TL29,100,00 to TL261,900,000 through cancellation of the shares held by our Company.

**D. THE REASONING OF THE COMPANY TO CANCEL ITS OWN SHARES IT IS HOLDING AND WHY THESE SHARES ARE CANCELLED PRIOR TO THE HOLDING PERIOD OF 3 YEARS VIA A CAPITAL REDUCTION**

The reasons of our Company to execute the capital reduction prior to the 3 year holding period are; to be able to hold the 10% limit open for share buybacks, in line with the related legislation, to bring stability to the share price and to be able to submit new potential share buyback programs to the approval of the general assembly.

At the “Share buyback program”, which was approved by the Company’s Extraordinary General Assembly on 12 September 2011, prolonged for a period of 18 months at the Ordinary General Assembly on 28 May 2013 and revised at the Extraordinary General Assembly on 24 October 2013, it was decided that the Company’s shares would be bought back up to the permitted limit, and the portion above this level would be sold within six months.

Even though our Company’s shares were sold at TL12.5 at the IPO in 2010, they trade at a much lower level than the IPO price level both based on TL and US\$ (USD/TL rate was TL1.56 on 7 May 2010 at the IPO, whereas it is TL2.27 today). Even though there were many positive developments since the IPO, as mentioned above, its real value could not be reflected at BİAŞ, where the shares trade. Reports by brokerage company research analysts that cover our Company, frequently mention facts like completed investments, rising revenue and profitability, while determining target prices that are above the trading share price on the BİAŞ, in other words they recognize that the current share price is not reflecting the Company’s real value. Our Company’s relative share price performance, when compared to ISE-100 index shows that it has underperformed the index by 48% in TL and US\$ terms.

The capital reduction, through cancellation of our Company’s shares that our Company is holding, is foreseen in order to be able to hold the 10% limit, determined by the related legislation for share buyback, free for use of Company’s needs.

Prior to the legislation the CMB took a resolution, allowing the companies to publish their share buyback programs and giving the permission to make share buybacks and this was made public. Based on the fact that share buybacks are a necessity for companies, following this resolution the legislation was completed both in CMB laws and Turkish Commercial Code.

In the case that our Company cannot do the planned capital reduction, our Company cannot launch a new buyback program due to the legislation of the Turkish Commercial Code and the CMB, thus will not be able to make use of the CMB regulations with regards to the share buybacks, and due to the plenty of shares it will be open for significant price movements and fluctuations, and within this context won’t be competitive with regards to other companies and won’t be able to protect its shareholders.

**E. BENEFITS TO THE SHAREHOLDERS ARISING FROM THE CAPITAL REDUCTION THROUGH CANCELLATION OF THE COMPANY SHARES THAT THE COMPANY IS HOLDING**

We believe that the investment in our own Company is one of the most profitable investment alternatives. Buying back our shares will raise the return of our shareholders. It is of crucial importance to protect our shareholders that our Company's shares reflect the real value. The possibility that the shares bought back by our Company would be sold on the BİAŞ would create a significant share abundance, as a result new investors without seeing what would happen to this share abundance would postpone their buying decisions on the BİAŞ, this would again raise the selling demand on the BİAŞ, leading to new price declines or hindering the wanted price increases, also resulting in the valuation or sale of an asset held by our Company, which should have a higher value, at a valuation below its real value.

As of today, we believe that our Company's share price is too low. The completed share buyback program is actually proof of this for investors. The cancellation of the shares will be a sign for all investors that at the current levels we are not thinking of selling. This will be regarded as an important and valuable stance with regards to transparency and accountability by all investors and market players.

Some participations and subsidiaries of our Company are still in their growth phase and hence their income contribution is limited. Also, the limited dividend income from our participation and subsidiaries to our Company limits our dividend distributions to our shareholders. Through cancellation of the shares that we have acquired within the share buyback program we will be, in some way, distributing dividend to our shareholders. We believe that this is important for investors and all market players.

The mentioned capital reduction will not lead to a decline in our Company's assets.

**F. ELEMENTS OF THE CAPITAL REDUCTION THROUGH CANCELLATION OF THE COMPANY'S OWN SHARES THAT THE COMPANY HOLDS**

**F.1. The Opinion that we have requested from the CMB on the Capital Reduction Procedures and Method**

With our writing dated 21.04.2014 we requested from the CMB their opinions on the following subjects;

In case the shares that our Company has acquired through the "Share Buyback Program" are cancelled through capital reduction method;

- Whether it is possible, to transfer the shares of our Company's wholly owned subsidiary Akfen İnşaat Turizm ve Ticaret A.Ş.; (i) 6,992,099 shares acquired within the Share Buyback Program and (ii) 7,989,806 shares it held, outside the Share Buyback Program, coming from times prior to our Company's IPO on 14 May 2010; prior to the share cancellation for capital reduction method that does not require any funds outflow and if the transfer is possible with which method the transaction should be made,
- Which of the methods on capital reduction without funds outflow described in the 19<sup>th</sup> Article of the Share Communique will be used when shares will be cancelled that have been acquired within a share buyback program,

- Whether this capital reduction transaction would be counted as an important transaction.

## **F.2. CMB's Opinion on Capital Reduction Procedures and Method**

CMB notified our Company with the writing dated 25.07.2014 and numbered 7702 that our requests were reviewed at the meeting on 24.07.2014 and numbered 23/759 about their below stated opinion;

1. For capital reductions done in accordance with the Board's "Share Buyback Communique" numbered II-22.1. Article 19 clause 9, which states that "shares that are bought back will be cancelled in accordance with the capital reduction methods that don't require funds outflow" only provisions in the clauses 6, 9, 10 and 11 of Article 19 of the "Share Communique" should be followed,
2.
  - a. Shares held by our wholly owned subsidiary Akfen Construction could be transferred to our Company provided that our Company does not incur any losses,
  - b. Our Company can hold the shares (10% portion) that were acquired in accordance with clause 1 of Article 19 of the Communique numbered II-22.1 permanently or can cancel them any time on condition that conditions of clauses 1 and 3 of Article 9 of the same Communique, are abided by,
  - c. When shares that were acquired in accordance with clause 9 of Article 19 of the "Share Buyback Communique" numbered II-22.1, are cancelled using the method of the capital reduction that does not require funds outflow such a transaction would not be counted as an important transaction with regards to the capital markets legislation.

## **F.3. The related Regulations of the "Share Buyback Communique"**

Provision on the sale and the cancellation of the shares that were bought back are in the Article 19 of the "Share Buyback Communique" II-22.1 that was published on the Official Gazette dated 03.1.2014 and numbered 28871.

## **F.4. Capital Reductions that do not require Funds Outflow**

CMB's Resolution I-SPK.22.1 (dated 24.07.2014 and numbered 23/759) states, which clauses of the Share Buyback Communique will be followed at capital reduction, and is as stated below.

CMB's Resolution; "For capital reductions done in accordance with the Board's "Share Buyback Communique" numbered II-22.1. Article 19 clause 9, which states that "shares that are bought back will be cancelled in accordance with the capital reduction methods that don't require funds outflow" it was decided that only provisions in the clauses 6, 9, 10 and 11 of Article 19 of the "Share Communique" should be followed."

## **F.5. Related Provisions of the Share Communique**

Clauses 6, 9, 10 and 11 of Article 19 of the "Share Communique" numbered VII-128.1, which was published on the Official Gazette dated 22/6/2013 and numbered 28685 will be followed at capital reductions through cancellation of shares.

## **F.6. Related Provisions of the Turkish Commercial Code**

Regulations on capital reduction of corporations are in the Article 473 et. seq. of the Turkish Commercial Code. According to the CMB regulations clause 2 of the Article 473 and Articles 474 and 475 of the Turkish Commercial Code are not applied at capital reductions through cancellation of shares.

## **G. RESULT**

As members of the Board we declare that the reduction in our Company's paid-in capital of TL29,100,000 from the previous TL291,000,000 to TL261,900,000 and that the related capital reduction is beneficial for our Company and its shareholders as stated in this report and that the above information is correct and this report will be submitted to the approval of the General Assembly at the first General Assembly.

Sincerely,

**AKFEN HOLDİNG A.Ş.  
BOARD OF DIRECTORS**