

## **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") has made 14,819,314 share buybacks within a "Share Buyback Program", which was approved by the Extraordinary General Assembly on 15 January 2015. 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 this transaction, our Company's Akfen Holding stake has risen to 5.6584% (14,819,314 shares) and from these shares a total of 14,819,314 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 17 November 2015:

1. *It was decided to change the 6<sup>th</sup> Article (on "Capital") of our Company's Articles of Association in accordance with the Turkish Commercial Code and the Capital Markets Law as stated below,*
2. *Within the scope of the provisions of the Turkish Commercial Code and the Capital Markets Law;*
  - *the price of our Company's shares have long been trading above the maximum buying limit of TL8 and to have enough demand and supply on the market in order to determine the share price,*
  - *with the capital reduction, value of the shares of the existing shareholders will be raised since investors in our Company will be buying shares from the stock exchange instead of buying the bought back shares,*
  - *so that our investors will benefit more from the potential dividend distribution in the coming years,*
  - *and also the capital reduction is the transaction offering the highest return for the shareholders,*

*it was decided, 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 amounted previously to TL261,900,000, will be reduced by TL14,819,314 to TL247,080,686;*

3. *Based on the reasoning stated above, it was decided unanimously by the attendees of the meeting, to revise the 6<sup>th</sup> 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 TL261,900,000 by TL14,819,314 to TL247,080,686 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**

- With the share buyback program started in 2010 the aim was to prevent the volatility in the share price, which could be caused by even limited supply since the share price was trading at a very high discount and there was not enough demand. In a way, the imbalance at demand side was balanced by the share buyback program and it was initially prevented that our investors would be hurt and as a result with the rise in the share price the return of our investors was also raised. The share price since end July has been above our upper buying limit of TL8, during this period on both buy and sell side there was enough volume at our shares. Hence, we believe that it will be healthy for the investors that the share price is determined rationally in the market, and with the capital reduction the supply plenty that could occur if the shares bought back would trade in the market will be prevented.
- With the capital reduction, bought back shares will be cancelled, and the value of the shares of the existing shareholders will be raised since new investors in our Company will be buying shares from the stock exchange instead of buying the bought back shares. Additionally, since the bought back shares held by the Company will not be subject to a sale on the market, there will be a more secure environment for new investors and those already holding the shares will be faced with more new buyers.
- With the capital reduction the same amount will be distributed among less shares and this will lead to higher dividend for the investor's same amount of shares due to the decline in the number of shares even though there is no change in the amount of the dividend to be distributed.
- We believe that the current value of our Company's shares is still below its real value. Even though the discount has declined as compared to the days when we started the Share Buyback program we believe the right to decide what the real value of Akfen Holding is should lie by the investors, who are the owners of our Company. Moreover, since due to the capital reduction our investors will own more shares, the value and return of the shares held by our investors will increase in line with the correction in the price of the shares on Borsa Istanbul A.Ş.

In this context due to;

1. the price of our Company's shares have long been trading above the maximum buying limit of TL8 and to have enough demand and supply on the market in order to determine the share price,
2. with the capital reduction, value of the shares of the existing shareholders will be raised since investors in our Company will be buying shares from the stock exchange instead of buying the bought back shares,
3. so that our investors will benefit more from the potential dividend distribution in the coming years,
4. and also the capital reduction is the transaction offering the highest return for the shareholders.

Hence, it was deemed more appropriate for our Company and our shareholders to cancel shares that our Company has acquired within the Share Buyback program and to reduce our paid-in capital instead of holding these shares or selling them on the BİAŞ.

**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. CMB's resolution on the Capital Reduction Procedures and Method**

CMB resolution SPK.22.1 (dated 24.07.2014 and numbered 23/759); Resolution for capital reductions done in accordance with the Board's "Share Buyback Communique" numbered II-22.1. Article 19 clause 9 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 VII-128.1" should be followed.

### **F.2. Related Provisions in the "Share Buyback Communique"**

Clause 19 of the "Share Buyback Communique II-22.1.", which was published on the Official Gazette dated 03.01.2014 and numbered 28871, contains provisions related to the disposal and redemption of shares bought back.

### **F.3. Capital Reduction that don't require any Funds Outflow**

CMB's resolution I-SPK.22.1 (dated 24.07.2014 and numbered 23/759) is related to the ruling of which clauses of the Share Buyback Communique will be used at the capital reduction.

### **F.4. Related Provisions of the Share Communique**

Article 19, clauses 6, 9, 10 and 11 of the Share Communique VII-128.1, which was published on the Official Gazette dated 22.06.2013 and numbered 28685, will be applied at the capital reduction via redemption of shares.

### **F.5. 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, that don't require any funds outflow, through cancellation of shares.

## **G. AS A RESULT**

As members of the Board we declare that the reduction in our Company's paid-in capital by TL14,819,314 from the previous TL261,900,000 to TL247,080,686 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**