



AKSA

Akrilik Kimya Sanayii A.Ş.



AKSA AKRİLİK KİMYA SANAYİİ A.Ş.

**BOARD OF DIRECTORS REPORT
FOR THE PERIOD**

01.01.2013-30.06.2013

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I - COMPANY PROFILE

Company Information

Company Name : Aksa Akrilik Kimya Sanayii A.Ş.
Traded Stock : İstanbul Stock Exchange ("ISE")
Trading Symbol : AKSA
Head Office Address : Miralay Şefik Bey Sok. No: 15 AKHAN
34437 Gümüşsuyu, İstanbul,Türkiye

Production Facility

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Telephone No : (212) 251 45 00
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Aksa in Brief

Aksa Akrilik Kimya Sanayii A.Ş, whose core business is the acrylic-based production of tow, tops and fiber and which belongs to the Akkök Group of Companies, was established in 21 November 1968 with 100% Turkish capital. It started production with the capacity of 5,000 ton/year at the factory in Yalova in 1971. The factory is established on a field of 550 dunam. The Company started exporting in 1977. Aksa has expanded to the production level of 308,000 ton/year over the years without compromising its progress and development policy in production process. In addition to its acrylic fiber capacity AKSA has a co-generation power plant license with 142,5 Mwe capacity and generation of electricity and production of steam is also included in primary operations. The production of carbon fiber continues under DowAksa İleri Kompozit Malzemeler San. Ltd. Şti. , 100% subsidiary of DowAksa Advanced Composites Holdings BV, which is 50% joint venture of Aksa, with a capacity of 3,500 tons/year.

Aksa is the sole acrylic fiber producer of Turkey, and the largest producer of acrylic fibers worldwide under a single roof.

Mission

To become the World's first choice in acrylic based textile and technical fiber production and to be recognized as an efficient, innovative, environmentally friendly, occupational health and safety conscious, partner with customer focused business model.

Vision

In order to ensure sustainable profitability, achieving the highest level of operational excellence through investing in our technology and creation of new end-uses for acrylic fiber.

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I -COMPANY PROFILE (Continued)

Capital and Shareholder Structure

Capital and shareholders structure of the Company as of 30 June 2013 is as follows:

Capital Information

Issued Capital : TL 185.000.000
Registered Capital : TL 425.000.000

Shareholders Structure

| | Share Amount(TL) | Rate (%) |
|------------------------------|---------------------|---------------|
| Akkök Sanayi ve Yatırım A.Ş. | 73.237.497 | 39,59 |
| Emniyet Ticaret A.Ş. | 34.638.843 | 18,72 |
| Other | 77.123.660 | 41,69 |
| Total | 185.000.000 | 100,00 |

The approved and paid-in share capital of the Company consists of 18.500.000.000 shares issued on bearer with a nominal value of Kr1 each.

Board of Directors:

| Name Surname | Title | Start | Time |
|------------------------|--------------------------|------------|---------|
| Mehmet Ali BERKMAN | Chairman | 26.03.2013 | 3 Years |
| Raif Ali DİNÇKÖK | Vice Chairman | 26.03.2013 | 3 Years |
| Ali Raif DİNÇKÖK | Member | 26.03.2013 | 3 Years |
| Nilüfer DİNÇKÖK ÇİFTÇİ | Member | 26.03.2013 | 3 Years |
| Ahmet Cemal DÖRDÜNCÜ | Member | 26.03.2013 | 3 Years |
| Erol LODRİK | Member | 26.03.2013 | 3 Years |
| Mustafa YILMAZ | Member | 26.03.2013 | 3 Years |
| Cengiz TAŞ | Member – General Manager | 26.03.2013 | 3 Years |
| Timur ERK | Independent Member | 26.03.2013 | 3 Years |
| Ant BOZKAYA | Independent Member | 26.03.2013 | 3 Years |

Audit Committee:

| Name Surname | Title | Start |
|--------------|-----------------------------|------------|
| Timur ERK | Chairman of audit committee | 08.05.2013 |
| Ant BOZKAYA | Member | 08.05.2013 |

Corporate Governance Committee:

| Name Surname | Title | Start |
|------------------|--|------------|
| Ant BOZKAYA | Chairman of corporate governance committee | 08.05.2013 |
| Raif Ali DİNÇKÖK | Member | 08.05.2013 |

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I - COMPANY PROFILE (Continued)

Early Detection of Risks Committee:

| Name Surname | Title | Start | Time |
|-----------------|--|------------|---------|
| Ant BOZKAYA | Chairman of early detection of risks committee | 08.05.2013 | 1 Years |
| Raif Ali DİÇKÖK | Member | 08.05.2013 | 1 Years |

Company Management:

| Name Surname | Title |
|--------------------|---|
| Cengiz TAŞ | Board Member and General Manager |
| Eren Ziya DİK | Director of Finance |
| Murat İNCEOĞLU | Director of Factory |
| Aydın Fethi BAYTAN | Director of Purchase and Director of Human Resources and Management Systems |
| Sabri ARCA | Director of Marketing, Selling and New Business Development |
| Sinan UĞURLU | Director of Energy |

II - INDUSTRY OF ACRYLIC FIBER AND CARBON FIBER IN BRIEF

In 2012, global demand for acrylic fiber stood at 2 million tons. Independent research reveals that the global demand for acrylic fiber would be around the same level in the foreseeable future. Acrylic fiber demand in Turkey by the end of 2012 was around 270 thousand tons, in half year of 2013 the demand is around 140 thousand tons. Aksa closed the year 2012 and still operating in 2013 containing its 14% global market share.

The company's product portfolio suitable for use in outdoor in the "Outdoor Fiber", has a strong global market share. Through Aksa's pioneering, Turkey became the second largest acrylic fiber market in the world after China.

Acrylic fiber demand in China in 2012 realised at 807 thousand tons and in half year of 2013 the demand is 409 thousand tons. The ratio of total demand met by domestic production of China is 73% and the remaining demand is met by imports.

The size of the current global market for carbon fiber is estimated at a level of 46,000 tons/year. By 2020, it is expected to show an elevation to 150,000 tons/year for the total market size. This growth is expected to concentrate in the fields of industrial use. The annual total carbon fiber consumption in Turkish market is estimated to be 280 tons in 2012. Aksa began to manufacture carbon fiber in Turkey and during this period, some of companies producing carbon fabric and two companies producing pultrusion were launched. The market is expected to expand in the near future with CNG production and also with companies that will manufacture products like blades for wind turbines.

Acrylonitrile prices were in a rising trend, due to triggering with the rise of oil prices and some supply constraints due to unplanned shut-downs and overhauls at supplier sites and leveled at 1.850-1.900 USD/ton for the year 2012. Expectation for 2013 is to realize a more stable trend and finish the year at the level of 1.700-1.800 USD/ton.

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III – SALES

Aksa turned over 442 million US Dollars in half year of 2013 (2012: 470 million US Dollars). The exports, was realized as 146 million US Dollars (2012: 173 million US Dollars) and having a portion of 33% (2012:37%) in the total revenue. The sales mix that shifted to local market have influence on the operational profitability compared to last year. EBITDA rate has increased to 14.21% (in 2012: 12.21%).

IV – PRODUCTION AND CAPACITY

Aksa realised average 98% of capacity utilization rate in the half year of 2013 (2012 half year average: 98%). The lower capacity utilization rate due to the fire in first quarter has been compensated by the production planning in second quarter.

V – RESEARCH AND DEVELOPMENT ACTIVITIES

Aksa allocated 1.9 million US Dollars to R & D activities in the half year of 2013 (2012: 2.3 million US Dollars).

VI - INVESTMENTS

Aksa spent 30 million US Dollars in capital expenditure in the half year of 2013 (2012:17 million USD Dollars). Investments are mainly related to second phase of energy plant and modernization projects.

VII – DEVELOPMENTS FOR THE YEAR

1. In the General Assembly Meeting dated 26 March 2013, it is decided to reserve 13.463.540 TL as 1st legal reserves and 8.030.000 as 2nd legal reserve per Turkish Commercial Code and the Company's Articles of Association and distribute cash dividends in the amount of 89.550.000 TL to Company Shareholders and remaining profit is allocated as extraordinary reserves. Dividend payments have been completed in 1 April 2013.
2. There have been a fire in our Company's Yalova plant at finished good warehouse as of 27 January 2013 around 8:30 a.m. and the fire is interfered immediately by the technical teams. Firefighters from nearby districts prevented the spread of fire out of the finished goods warehouse. Finished goods warehouse, some machinery and stocks that are located in the warehouse are damaged due to the fire. A draft loss settlement proposal for the damaged products and property has been done. Based on the proposal 5 million USD has been received as advance from the insurance companies. As of today, final survey and compensation files are not prepared, but net book values of the damaged products and property are below the loss settlement proposal.
3. Early Detection of Risks Operations that have been done by Corporate Governance Committee has been separated by establishing a new committee according to CMB's related communiqué. In 2013 Early Detection of Risks Committee is separated from Corporate Governance Committee. Committee performs operations regarding detection of risks about dangers affecting company's existence, development and continuing operations and precautions related with those risks

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VII – DEVELOPMENTS FOR THE YEAR (Continued)

4. Main and only operating activities of Ak-Tops Tekstil Sanayi A.Ş., which is the subsidiary of the Company at the rate of 60%, are manufacturing and dyeing of acrylic fiber. In fact, it has operated as a natural extension of the Company and also, process of production and delivery has an entegrated structure within the Company's facility. Therefore, necessity of restructuring and simplification was considered. USD 26,350,000 was valued as fair value of Ak-Tops according to valuation report dated on 27 June 2013 of İş Yatırım Menkul Değerler A.Ş. which was assigned by related Board of directors minutes. Value of minority shares of Ak-Tops was calculated as USD 10,540,000 based on the valuation report of İş Yatırım Menkul Değerler A.Ş.. This amount was paid to aforementioned shareholders pro-rata of their shares and 800,000 shares (TL 800,000) with a nominal value per TL 1 has acquired on 7 August 2013.

As a result of these transactions, Ak-Tops Tekstil Sanayi A.Ş. is the affiliate of the Company at the rate of 100%.

VIII - INFORMATION ON THE PERFORMANCE OF THE COMPANY SHARES

Comparison of AKSA - ISE-100 – ISE Chemistry Performance of the Company Shares:

| | | | | Performance | |
|------------------|--------|--------|--------|---------------------|---------------------|
| | Jun'12 | Dec'12 | Jun'13 | Jun '12- Jun '13 | Dec '12- Jun '13 |
| ISE 100 (XU100) | 62.543 | 78.208 | 76.295 | 22% | -2% |
| ISE CHEM (XKMYA) | 38.195 | 47.291 | 44.380 | 16% | -5% |
| AKSA | 3,86 | 4,67 | 6,78 | 76% | 45% |

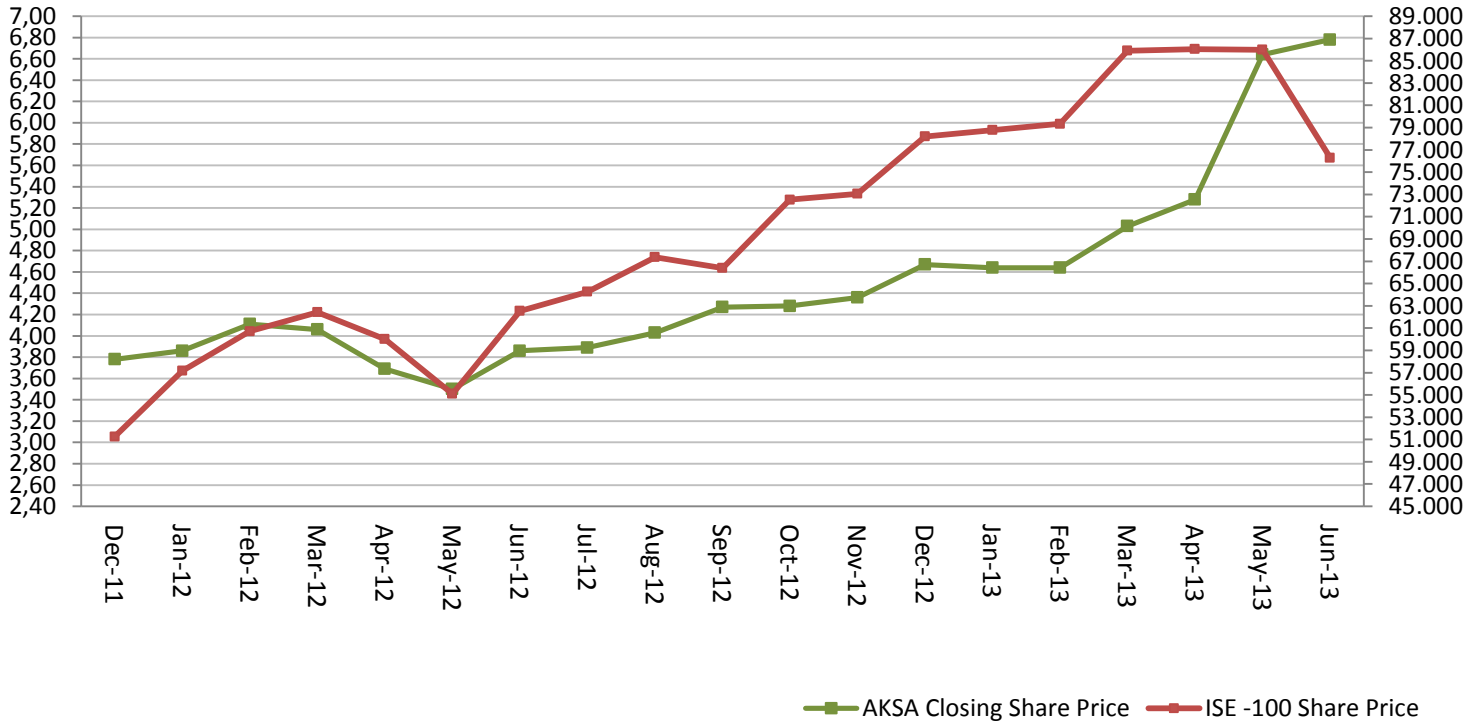
Comparison of AKSA Market Cap:

| | | | | Performance | |
|--------------------|--------|---------|--------|---------------------|---------------------|
| | Jun'12 | Dec '12 | Jun'13 | Jun '12- Jun '13 | Dec '12- Jun '13 |
| Market Cap (mn TL) | 714 | 864 | 1.254 | 76% | 45% |

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VIII - INFORMATION ON THE PERFORMANCE OF THE COMPANY SHARES
(Continued)

AKSA - ISE-100 Closing Stock Indicator:



IX - EXPECTATIONS FOR 2013

Aksa aims to generate net revenue around 900 million US Dollars in 2013. Total capacity utilization rate for the year is expected to be around 90 %-95 % range and planned to have 30% share of exports in total sales. The amount of budgeted capital expenditure for the year 2013 is around 90 million US Dollars.

X - RISK MANAGEMENT

The Company holds a monthly Finance and Risk Management Committee meeting to undertake its risk management more effectively. This Board is headed by the General Manager and the other members include members of the Executive Committee, the Finance Director, Marketing and Selling and New Business Development Director. It is the job of this Board to evaluate the Company's financial performance and assess its commercial and financial risks. In particular, the types of financial instruments to be utilized in the risk management of receivables and risk levels by customers are assessed. The Company's net foreign exchange position is also evaluated to prevent risk arising from fluctuating foreign exchange rates.

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X - RISK MANAGEMENT (Continued)

Early Detection of Risks Operations that have been done by Corporate Governance Committee has been separated by establishing a new committee according to CMB's related communiqué. In 2013 Early Detection of Risks Committee is separated from Corporate Governance Committee. Committee. Committee performs operations regarding detection of risks about dangers affecting company's existence, development and continuing operations and precautions related with those risks.

The Company's "Monitoring of Risk Control Measures" procedure is implemented to ensure that existing risk is only a natural outcome of the technology utilized at Aksa and that this risk is kept under control so as not to cause any danger to employee health and safety, the premises or the environment.

The Company's internal auditing is executed by the Internal Auditing Coordination Department of Akkök Sanayi Yatırım ve Geliştirme A.Ş.. In this context, all processes are analyzed with an eye to increasing operational effectiveness and to determine that the Company's work has been executed in compliance with procedures and regulations. Work is carried out with the departments concerned to enhance risk management and find effective solutions.

XI – KEY FINANCIAL INDICATORS

| RATIOS | 30 June 2013 | 30 June 2012 |
|-----------------------------------|---------------------|---------------------|
| Current Ratio | 1,52 | 1,61 |
| Liquidity Ratio | 1,19 | 1,23 |
| EBITDA Margin | 14,21% | 12,21% |
| Net Profit Margin | 7,96% | 13,59% |
| Return on Invested Capital (ROIC) | 4,11% | 7,26% |
| Return on Equity (ROE) | 7,04% | 11,64% |

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XI – KEY FINANCIAL INDICATORS (Continued)

| | 30 June 2013 | 31 December 2012 |
|--|-------------------|-------------------|
| CONSOLIDATED BALANCE SHEET SUMMARY (*) | ('000 USD) | ('000 USD) |
| Assets | 856.547 | 873.419 |
| Current Assets | 395.787 | 388.342 |
| Cash and Cash Equivalents | 95.664 | 79.363 |
| Trade Receivables | 180.668 | 178.657 |
| Inventories | 85.902 | 92.525 |
| Other Current Assets | 33.552 | 37.797 |
| Non-Current Assets | 460.760 | 485.077 |
| Trade Receivables | 0 | 2.519 |
| Financial Investments | 689 | 744 |
| Investments Accounted For By The Equity Method | 121.320 | 127.758 |
| Property,Plant and Equipment | 328.037 | 346.704 |
| Intangible Assets | 5.284 | 2.704 |
| Goodwill | 3.111 | 3.360 |
| Other Non-Current Assets | 2.318 | 1.287 |
| Liabilities | 856.547 | 873.419 |
| Short Term Liabilities | 259.660 | 240.994 |
| Financial Liabilities | 92.053 | 95.589 |
| Trade Payables | 157.833 | 137.141 |
| Corporate Tax Liability | 5.500 | 3.311 |
| Other Short-term Liabilities | 4.273 | 4.953 |
| Long Term Liabilities | 96.747 | 87.759 |
| Financial Liabilities | 83.968 | 72.437 |
| Derivative Financial Instruments | 562 | 967 |
| Provision for Employment Termination Benefits | 7.915 | 9.063 |
| Deferred Tax Liability | 4.079 | 4.736 |
| Other Long-term Liabilities | 223 | 556 |
| Equity | 500.140 | 544.665 |

Translation to US Dollars of these consolidated financial statements solely for the presentation purpose and for the translation of balances sheet items 1,9248 TL (31 December 2012: 1,7826) is used as closing foreign exchange rate and for the translation of profit loss statement items 1,8086 (30 June 2012:1,7936) is used as average foreign exchange rate.