



AKSA

Akrilik Kimya Sanayii A.Ş.



AKSA AKRİLİK KİMYA SANAYİİ A.Ş.

**BOARD OF DIRECTORS REPORT
FOR THE PERIOD**

01.01.2013-30.09.2013

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1 JANUARY 2013-30 SEPTEMBER 2013

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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Akса in Brief

Akса 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. Akса 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 DowAkса İleri Kompozit Malzemeler San. Ltd. Şti. , 100% subsidiary of DowAkса Advanced Composites Holdings BV, which is 50% joint venture of Akса, with a capacity of 3,500 tons/year.

Akса 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 September 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

* Erol Lodrik has passed away as of 24 October 2013, as of report date, his replacement has not been decided yet.

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 nine months of 2013 the demand is around 212 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 nine months of 2013 the demand is 559 thousand tons. The ratio of total demand met by domestic production of China is 76% 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 675 million US Dollars in nine months of 2013 (2012: 687 million US Dollars). The exports, was realized as 227 million US Dollars (2012: 249 million US Dollars) and having a portion of 33% (2012:36%) 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 14.88% (in 2012: 12.87%).

IV – PRODUCTION AND CAPACITY

Aksa realised average 97% of capacity utilization rate in the nine months of 2013 (2012 nine months average: 98%). The lower capacity utilization rate due to the fire in first quarter has been compensated by the production planning in second and third quarters.

V – RESEARCH AND DEVELOPMENT ACTIVITIES

Aksa allocated 1.9 million US Dollars to R & D activities in the nine months of 2013 (2012: 3.8 million US Dollars).

VI - INVESTMENTS

Aksa spent 45 million US Dollars in capital expenditure in the nine months of 2013 (2012:29 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 integrated 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%.

5. On 31 October 2013 Board of Directors of the Company decided on the following items considering the need of restructuring and simplification about Ak-Tops Tekstil Sanayi Anonim Şirketi which is 100% subsidiary of the company according to Turkish Commercial Law, clause 390/4:

* The devolve of Aktops on Aksa universally with all its assets and liabilities in accordance with related clauses of Turkish Commercial Law, related clauses of Corporate Tax Law and Capital Market Board and simplified merger rules of CMB is decided. For this purpose merger agreement and other related documents is to be prepared.

* Merger to be done over financial statements of the companies dated 30 September 2013,

* To perform not only the mentioned actions above, but also all necessary operations to finalize the merger; to do all official applications and legal operations including applications with Ministry of Science, Industry and Technology, Ministry of Customs and Trade and Capital Market Board,

6. Joint venture of our company, DowAksa Advanced Composites Holdings B.V.(DowAksa) has signed an agreement in Moscow on 1 November 2013 regarding the investments in Nanotechnology Center of Composites Company for which a public declaration had been made in order to announce the signature of letter of intention on 25 January 2013.

DowAksa Advanced Composites Holdings B.V., RUSNANO and Holding Company Composite (HCC) signed an agreement today that clarifies the terms of future investments in the Nanotechnology Center of Composites, which is a joint project of HCC, and the Fund for Infrastructure and Educational Programs (FIEP, a member of RUSNANO Group). Each party – HCC, DowAksa and FIEP – will ultimately own one third of the total charter capital of the Nanotechnology Center of Composites. When legal agreements are finalized in the next several months, DowAksa will become an equal participant of the Nanotechnology Center of Composites. DowAksa is anticipating to take part in the second round of financing of NCC and invest in NCC Charter Capital the amount of approximately 134 Million Rubles (approximately \$4.3 Million USD) which translates to a 33 1/3 percent share. This anticipated investment is included in the current DowAksa 10 year business plan and is funded by the initial investment by Shareholders.

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VIII - INFORMATION ON THE PERFORMANCE OF THE COMPANY SHARES

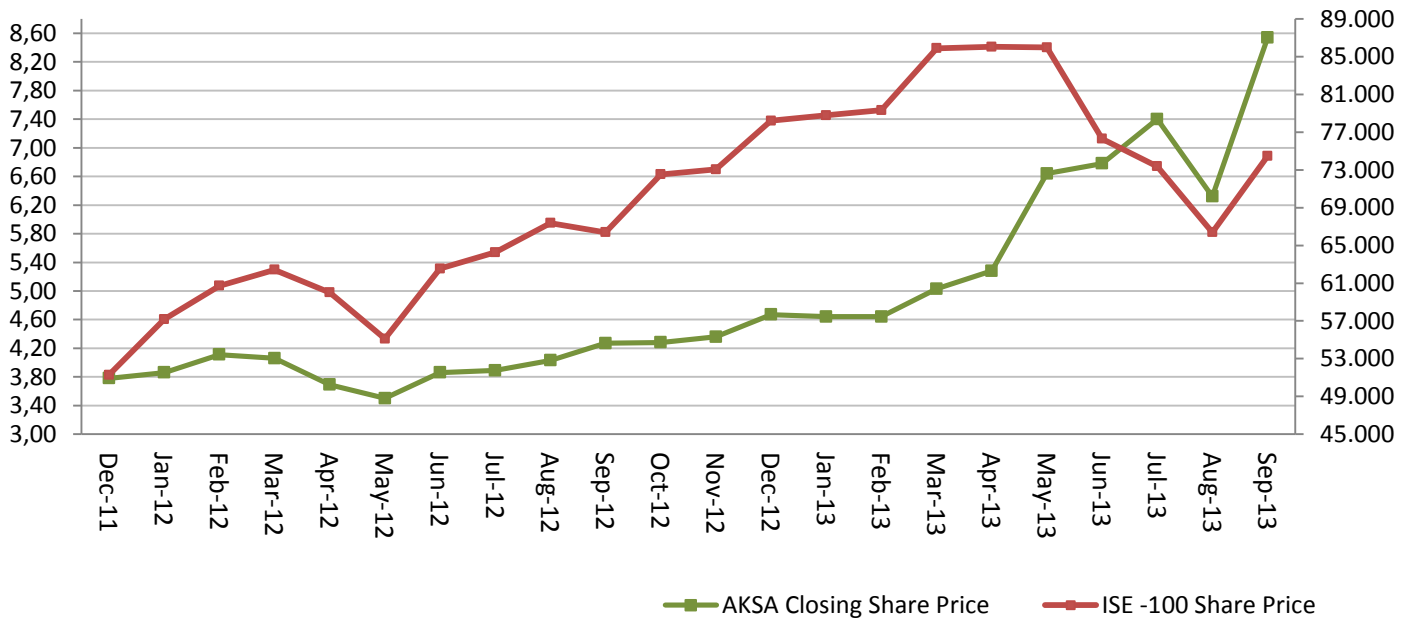
Comparison of AKSA - ISE-100 – ISE Chemistry Performance of the Company Shares:

	Sep'12	Dec'12	Sep'13	Performance	
				Sep '12- Sep '13	Dec '12- Sep '13
ISE 100 (XU100)	66.397	78.208	74.487	12%	-5%
ISE CHEM (XKMYA)	38.994	46.858	42.268	8%	-10%
AKSA	4,27	4,67	8,54	100%	83%

Comparison of AKSA Market Cap:

	Sep'12	Dec '12	Sep'13	Performance	
				Sep '12- Sep '13	Dec '12- Sep '13
Market Cap (mn TL)	790	864	1.580	100%	83%

AKSA - ISE-100 Closing Stock Indicator:



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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 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 70 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.

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.

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XI – KEY FINANCIAL INDICATORS

RATIOS	30 September 2013	30 September 2012
Current Ratio	1,52	1,61
Liquidity Ratio	1,10	1,23
EBITDA Margin	14,88%	12,87%
Net Profit Margin	8,23%	12,28%
Return on Invested Capital (ROIC)	6,77%	9,67%
Return on Equity (ROE)	11,34%	15,50%

CONSOLIDATED PROFIT LOSS	30 September 2013	30 September 2012
STATEMENT SUMMARY (*)	(‘000 USD)	(‘000 USD)
Net Sales	675.118	687.548
Operating Profit	75.948	112.641
EBITDA	100.444	88.515
Net Profit	55.583	84.442

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XI – KEY FINANCIAL INDICATORS (Continued)

	30 September 2013	31 December 2012
CONSOLIDATED BALANCE SHEET SUMMARY (*)	('000 USD)	('000 USD)
Assets	821.396	873.419
Current Assets	371.177	388.342
Cash and Cash Equivalents	50.700	79.363
Trade Receivables	185.877	178.657
Inventories	101.125	92.525
Other Current Assets	33.476	37.797
Non-Current Assets	450.218	485.077
Trade Receivables	0	2.519
Financial Investments	652	744
Investments Accounted For By The Equity Method	117.701	127.758
Property,Plant and Equipment	316.443	346.704
Intangible Assets	5.168	2.704
Goodwill	2.944	3.360
Other Non-Current Assets	7.310	1.287
Liabilities	821.396	873.419
Short Term Liabilities	244.698	240.994
Financial Liabilities	101.029	95.589
Trade Payables	131.810	137.141
Corporate Tax Liability	6.569	3.311
Other Short-term Liabilities	5.290	4.953
Long Term Liabilities	86.473	87.759
Financial Liabilities	74.622	72.437
Derivative Financial Instruments	33	967
Provision for Employment Termination Benefits	8.017	9.063
Deferred Tax Liability	3.603	4.736
Other Long-term Liabilities	198	556
Equity	490.224	544.665

Translation to US Dollars of these consolidated financial statements solely for the presentation purpose and for the translation of balances sheet items 2,0342 TL (31 December 2012: 1,7826) is used as closing foreign exchange rate and for the translation of profit loss statement items 1,8649 (30 September 2012:1,7941) is used as average foreign exchange rate.