



Chairman's Message

The year saw a culmination of the successes of previous years in spite of the numerous challenges encountered over the twelve months. It was indeed a year of major achievements that reaped significant gains resulting in unprecedented net profits at the end of the year and enhancing an already remarkable international reputation.

At the year end, the net profits totalled US\$162 million, an increase of 27% over the net profits achieved in 2005. This profit figure represents a 102% return on the paid-up capital of the company.

During 2006 GPIC produced a total of 1,481,896 tonnes of Ammonia, Methanol and Urea at a consistently high level of efficiency and reliability. Exports to the various world markets totalled 1,112,751 tonnes. A total of 353,545 tonnes of Ammonia was utilised internally to produce Urea.

The company maintained its standards of excellence in production, operations and maintenance, environmental care, training and Bahrainisation. In addition, GPIC won the Chemical Industry Sector Award from the Royal Society for the Prevention of Accidents (RoSPA), UK for the third year running and was also highly commended for Environmental Excellence by the Institution of Chemical Engineering, UK. In addition, GPIC also won the Rafeeg Al Hariri Award for Operational Excellence in the Arab World. The company's environmental efforts were aptly recognised by winning the Arab League's Global Award for Best Environmental Management in the Private Sector. The strong support and wise directives of the Kingdom's leadership significantly contributed to realising these achievements. It boosted our reliability in operations and had a positive impact on the society and environment. We would like to express our thanks and appreciation to His Majesty King Hamad bin Isa Al Khalifa, King of the Kingdom of Bahrain, HH Shaikh Khalifa bin Salman Al Khalifa, Prime Minister and HH Shaikh Salman bin Hamad Al Khalifa, Crown Prince and Commander-in-Chief of the Bahrain Defence Force for their continuous support and guidance.

I would also like to express our sincere thanks and appreciation to the shareholders for their confidence and firm belief in the importance of pan-Gulf cooperation. I sincerely appreciate the efforts of my fellow members of the Board of Directors for their continuous support for the growth and progress of this world-class company.

When considering GPIC's achievements, it is imperative to thank the company's executive management for their vision, diligent planning and consistent application of the company's policies. I would therefore like to thank all GPIC's employees for their co-operation and sincerity in carrying out their duties in a positive team spirit that is the foundation of these achievements. Their contribution enabled the company to become one of the leading petrochemical organisations in the world.

Isa bin Ali Al Khalifa Chairman



H.E. Shaikh Isa bin Ali Al Khalifa Chairman

Board of Directors



Mr. Nasser Ahmed Al Sayyari Deputy Chairman



Dr. Mohammed A. Rahman Al-Terkait

Managing Director



Mr. Ahmed A. Rahman Al-Sayed
Board Member



Mr. Yusuf Hamad Alateeqi Board Member



Mr. Anwar Saeed bin Salama Board Member



Dr. Ahmed Ali Al Sharyan Board Member



Mr. Mohammed bin Ali Alyemni Board Member



Mr. A. Aziz Mohammed Alrawaf Board Member

Board of Directors' Report to the Shareholders

For the year ended 31 December 2006



The Board of Directors of your Company is pleased to present the 27th Annual Report, which highlights the achievements of the company during 2006, covering financial, technical, managerial and marketing activities.

During the year, the company continued to focus on maintaining the highest standards of health, safety and reliability. As a result, GPIC achieved a new combined record of 8,473,155 accident-free working hours for the employees of the company and the contractors working on site.

The company also continued to implement its plans for operations, maintenance, marketing and human resource development without affecting the continuous safety and reliability of the plants. This was made possible as a result of efficient operations, implementation of preventative and predictive maintenance programmes and the in-house manufacture of spare parts. All these efforts contributed to a record net profit, the highest in the company's history, totalling US\$162 million at the year end.

During 2006 GPIC produced a total of 1,481,896 tonnes of Ammonia, Methanol and Urea out of which 1,112,751 tonnes were exported on board 87 carriers. A total of 353,545 tonnes of Ammonia was utilised internally to produce Urea. The cumulative production total over the life of the complex reached 22,222,222 tonnes on 16 December 2006.

The year 2006 also witnessed other important achievements by the company locally, regionally and internationally. The most significant achievements

were winning the Chemical Industry Sector Award from the Royal Society for the Prevention of Accidents (RoSPA), UK, for the third year running and receiving a higly commended rating for Environmental Excellence from the Institution of Chemical Engineering, UK.

In addition, GPIC also won the Rafeeq Al Hariri Award for Operational Excellence in the Arab World. The company's environmental efforts were aptly recognised by winning the Arab League's Global Award for Best Environmental Management in the Private Sector.

GPIC also contributed internationally by launching the International Dilmun Award for Environmental Management in co-operation with the Royal Society for the Prevention of Accidents (RoSPA), UK.

The company continued to maintain and improve its quality and environmental management systems in accordance with ISO 9001 and ISO 14001 certification respectively. The company was also given certification to the ISO 27001 standard for its Information Technology Security Management System.

During the year the average monthly manpower level in GPIC stood at 478 employees in addition to 44 trainees. The company continued its programmes for the development of human resources. At the end of the year a total of 374 graduates have now been trained in GPIC, including 66 engineers. The percentage of Bahrainis in the company was in excess of 81% on 31 December 2006.

As part of the company's contribution to the community, the environmental awareness programme for schools

Board of Directors' Report to the Shareholders

(contd.)

continued for the fifth successive year. GPIC also launched the third series of the Ministry of Education-GPIC Environmental Research Programme following the success it enjoyed in the last two academic years.

The company's outstanding records of achievements and success received positive reaction in the international petrochemical and fertiliser sectors, attracting many prominent visitors from different countries and industries.

Moreover, GPIC hopes to be provided with sufficient quantities of natural gas at a competitive price to meet the requirements of the company's future expansion projects. However, in case of unavailability of gas in the Kingdom of Bahrain, GPIC will look into investment opportunities outside the country.

The Board of Directors would like to take this opportunity to express its sincere thanks and gratitude to His Majesty King Hamad bin Isa Al Khalifa, King of the Kingdom of Bahrain, HH Shaikh Khalifa bin Salman Al Khalifa, Prime Minister and HH Shaikh Salman bin Hamad Al Khalifa, Crown Prince and Commander-in-Chief of the Bahrain Defence Force for their continuous support of the company.



The Board of Directors also expresses its thanks and appreciation to the company's shareholders, namely the Government of the Kingdom of Bahrain, Saudi Basic Industries Corporation (SABIC) of the Kingdom of Saudi Arabia and Petrochemical Industries Company (PIC) of the State of Kuwait for their continuous support of the company.

Finally, the Board of Directors also expresses its sincere thanks and appreciation to the company's management and all the employees for their sincere efforts, which made these achievements possible.



Executive Management

Standing from left to right

Mr. Yasser A. Rahim Mohamed Safety & Security Manager

Mr. Fadhel Malalla Al Ansari Maintenance Manager

Mr. Adel Ahmed A. Malik Finance Manager

Mr. Fawzi Ahmed Al Jaber Administration Manager Mr. Yusuf Ebrahim Fakhroo Marketing & Planning Manager

Mr. Adnan A. Razaq Al Mahmood Information Techhology Manager

Mr. Zuhair A. Aziz Tawfiqi Public Relations Manager

Mr. Ahmed Abdulla Nuruddin Technical Services Manager Sitting from left to right

Mr. Yousif Abdulla Yousif Plants Operation Manager

Mr. Abdul Rahman A. Hussain Jawahery General Manager

Mr. Eduard Horn

Deputy General Manager for
Technical Affairs



Production Performance

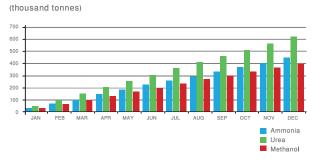
The year 2006 was one of many achievements for the GPIC Plants Operation Department. All plants were operated in a reliable, safe and efficient manner whilst maintaining the specified standards in terms of quality for all products. The department made a substantial contribution to GPIC winning RoSPA's Chemical Industry Sector Award.

The annual production of Ammonia, Methanol, Urea and saleable products was as follows:

Ammonia	450619
Methanol	406595
Urea	624682
Total cumulative production	1481896
Ammonia consumed for Urea production	353545
Total saleable production	1128351 (tonnes)

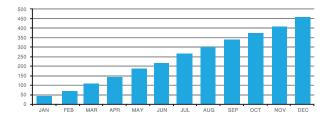
All the budgetary targets for production and export were achieved well within time. The total combined production (Ammonia + Urea + Methanol) for the year was 6% above the budget.

Cumulative Production 2006



On 16 December 2006 the cumulative production of Ammonia, Urea and Methanol since commencement of operations in 1985 reached a total of 22.222 million tonnes. This is a reflection of the dedication and loyalty of the workforce over the life of the complex.

Cumulative Ammonia Production 2006 (thousand tonnes)



The Ammonia plant completed 593 days of continuous daily production by the end of December 2006. The cumulative Ammonia production since 1985 exceeded 8.64 million tonnes by end December 2006.

The Ammonia plant achieved 102.9% capacity utilisation and a utilisation factor of 103.3% for 2006. The on-stream factor was 99.6% for the year.



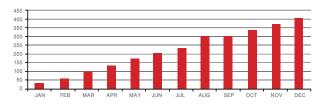
Cumulative Urea Production 2006 (thousand tonnes)



The cumulative Urea production since 1998 exceeded 4.99 million tonnes by end December 2006.

The Urea plant achieved 100.7% capacity utilisation and a utilisation factor of 101.7% for 2006. The onstream factor was 99.0% for the year.

Cumulative Methanol Production 2006 (thousand tonnes)

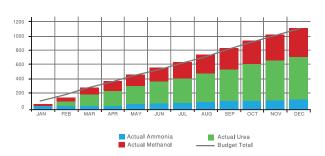


The cumulative Methanol production since 1985 exceeded 8.65 million tonnes by end December 2006. The Methanol plant achieved 103.1% capacity

utilisation and a utilisation factor of 104.1% for 2006. The on-stream factor was 99% for the year.

The Wharf Services and Utilities Sections gave solid uninterrupted support throughout the year.

Cumulative Sales, Ammonia, Methanol & Urea 2006 (thousand tonnes)



Throughout the year Ammonia, Methanol and Granular Urea were produced for the premium markets in the world. Every care was taken to maintain product quality at all levels, meeting or exceeding customers' requirements. A total of 1.11 million tonnes of product was exported safely during 2006.



Safety, Health and Environment

In 2006, GPIC continued to enhance and strengthen its Safety, Health and Environmental (SHE) management systems. These efforts culminated in winning the Chemical Industry Sector Award for the third consecutive year from the Royal Society for the Prevention of Accidents (RoSPA) and the launching of the International Dilmun Environment Award as part of RoSPA's awards scheme. This award bears testimony to the importance GPIC gives to Safety, Health and Environmental Care.

Furthermore, 2006 was utilised to review the company's existing systems and procedures. The aim was to ensure that all pertinent Safety, Health and Environmental systems were updated and reissued before the end of 2006, so that they are fully incorporated in plans for the 2007 Turnaround. GPIC also trained and qualified a large number of the workforce in Behavioural Based Safety with the aim to fully implement this system during 2007.

The following is a listing of the signification SHE achievements during 2006:

- GPIC launched the International Dilmun Environmental Award as part of RoSPA's Sector Awards.
- GPIC achieved 5,393,236 person-hours of work or 1685 continuous work days without a lost time accident. Similarly, contractors working for GPIC achieved 3,079,919 person-hours of work or 1223 continuous work days without a lost time accident. The total combined

safe working hours totalled 8,473,155. This outstanding record was achieved through the encouragement of employees, contractors and visitors to report unsafe conditions and to take pro-active remedial action, thus preventing accidents. Also, carrying out 29 SHE audits throughout 2006 ensured that all work areas were controlled in such a way that they remained safe.

- GPIC revised and reissued its Permit to Work and Emergency procedures.
- GPIC carried out a company-wide ergonomic survey by engaging the National Occupational Health and Safety (OHSO) Centre and the Canadian Industrial Accident Prevention Association (IAPA).
- GPIC carried out a company-wide security risk assessment by engaging Risk Management International (RMI) from Ireland.
- GPIC engaged RoSPA to train and qualify 288 employees in Behavioural Based Safety and its implementation.
- 7. GPIC hosted Mrs. Nina Wrightson OBE, the chairlady of the Board of Trustees of the British Safety Council and chairlady of RoSPA's Occupational Health and Safety Committee and Awards Judging Panel. She visited the complex on 30/11/2006 to present the 2006 Chemical Industry Sector Award to GPIC.



- 8. GPIC trained and qualified 60 first aiders in 2006, bringing the total number of qualified first aiders in the company to 325.
- GPIC won the Arab League's Environment Award.
- The SHE Family Evening held during Ramadan was attended by more than 1200 employees and their families.
- A successful SHE Week (26 to 30 November) was held in which all employees participated enthusiastically.
- 12. Three new firefighters have started their training.
- 13. Three new security officers are undergoing training.

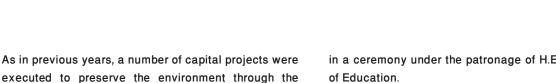
The company reaffirmed its compliance to local and international environmental laws and regulations and was successfully requalified for ISO 14001 certification.



Safety, Health and **Environment**

and recycling of materials.

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The Herbal Garden inaugurated in 2005 by His Highness Shaikh Abdulla bin Hamad Al Khalifa, Governor of the Southern Governorate and Chairman of the Public Commission for the Protection of Marine Resources. Environment and Wildlife, was extended and a number of trees were planted elsewhere in the complex.

reduction of waste and pollutants, reuse of resources

As part of its annual contribution to replenish the national fish stock in the territorial waters of the Kingdom and enhance ecology, a further 30,000 sea bream were released into the sea. The fish farm has been restocked with 15,000 sea bream fingerlings and for the first time 15,000 grouper fingerlings.

Publicising environmental awareness amongst future generations progressed as planned. Our engineers presented a record 35 environmental lectures in both public and private schools. The total number of students benefiting from this programme has thus risen to more than 8000 from 94 schools since launching the programme in 1998. A further 806 students visited the complex to witness our environmental projects. This is in addition to senior officials from inside and outside the Kingdom visiting the complex.

For the second consecutive year, the company sponsored the Ministry of Education/GPIC Environmental Research programme. Twenty five schools presented 83 research projects out of which 20 projects were selected and financed. Winning students were rewarded

in a ceremony under the patronage of H.E the Minister

The second edition of 'GPIC Sustainable Development and Care for the Environment', published later in the year, reaffirmed the leading role GPIC plays in protecting the environment. Depicting the environmental programmes and projects executed by the company over the years, the book sends a clear message to other industrial organisations to play a constructive role in aid of the environment.

These efforts led to winning the Kingdom of Saudi Arabia Award for Environmental Management and later achieving a Highly Commended categorisation in the ABB Engineering Services Environmental Awards, organised by the Institution of Chemical Engineering, UK.







Technical Services

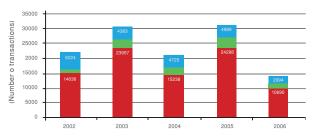
Materials

During 2006, Warehouse and Stock Control Section received 1,322 consignments valued at over BD6.96 million and issued 14,312 items from stock at a value exceeding BD2.85 million.

The service level of the warehouse was maintained at around 99% for plant related items throughout 2006.

A major project cataloguing 38,000 warehouse stock items was completed utilising in-house resources during 2006.

Warehousing Activities



Purchasing received 1,367 requisitions, issued 1,095 inquiries and placed 912 orders valued at BD13.967 million. Of those around 41% were placed on local suppliers and contractors.

Purchasing also processed a record number of 57 capital projects valued at more than BD8 million. This included the ERP project.

A study was conducted by a consultant that covered all the activities of inventory management and warehousing. Several recommendations are presently being implemented to increase productivity, service levels and to optimise the inventory.

During 2006, various internal and external audits were performed which ensured full compliance with the standard systems and procedures in place.





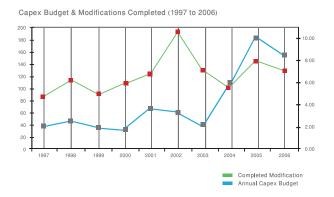


Engineering

The Engineering Section processed BD8.5 million's worth of Capital Investment Projects during 2006. Around 70% of this amount was spent on replacement of major equipment in the plants. Some of these major items are under procurement and are planned for replacement during the 2007 Turnaround; examples are the Secondary Reformer for the Ammonia Plant, heating coils in the convection bank of the Ammonia and Methanol reformers and a Burner Management System for the package boilers.

Also during 2006, 126 plant modifications costing BD 450,000 were engineered and processed. Of these 21 modifications were identified as having process implications and hence were submitted to detailed Process Hazard Assessments (PHA) studies to ensure their safety and integrity after implementation.

The energy consumption and efficiency of the process plants were continuously monitored throughout the year.



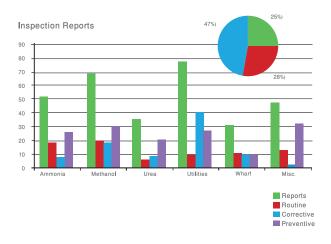
Technical Services

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Inspection

The second Ammonia storage tank was inspected in 2006 after more than 20 years of continuous service. The rope access inspection technique was successfully used to avoid having to completely scaffold the tank internally. No significant defects were found.

Following the development of the pipework inspection software in 2005, over 30 "high criticality" piping loops were inspected during the year.



To support the strategic site planning initiative, the Inspection Section developed a 10 year inspection plan, identifying shutdown inspection requirements and equipment potentially requiring replacement.

During 2006, the Risk Based Inspection (RBI) team completed its assessment of the Methanol plant and continued with the Ammonia and Urea plants. As a direct result of these studies, 29 inspection related actions have been introduced to enhance the safety and reliability of the plants.

The capabilities of the Inspection Section were enhanced by the procurement of a state of the art digital radiography system. This system uses computerised technology to eliminate the time consuming film development stage required by the conventional radiography process.

A new ultrasonic crawler will allow wall thickness mapping to be conducted in difficult to access areas such as storage tanks, columns and pipework.

Inspection Engineers in the section attended various specialised training courses, including IRIS heat exchanger tube inspection and API pressure vessel and pipework inspection courses.



Laboratory

During 2006, the laboratory satisfactorily completed all routine samples, special analyses and product certification activities.

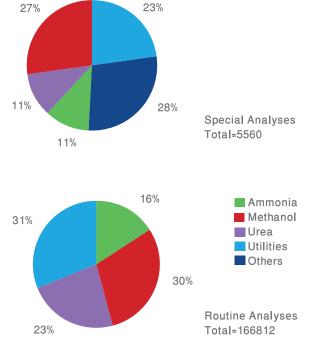
The sampling schedule was optimised, resulting in the laboratory taking approximately 45,600 routine samples, on which it carried out over 166,800 routine analyses. In addition, over 5,500 special analyses were carried out on over 1,500 special samples.

In 2006, laboratory personnel underwent a systematic training and development programme. This included an in-house General Analytical Training Course, crosstraining for shift analysts, visits to other laboratories and attendance at various seminars and exhibitions.

A Competency Based Training programme was also initiated to further enhance the capabilities of Bahraini staff. Bahrainisation level in the laboratory is currently more than 88%.

The laboratory monitored the effluent water and gases from the complex, which were once again well within the applicable Bahrain environmental standards. Independent audits by BSI, LRQA and DNV confirmed

the laboratory's continued compliance with the requirement of the ISO 9001, ISO 14001 and OHSAS 18001 standards.





Maintenance

After winning the Rafiq Al-Hariri Maintenance Award and the Department of the Year Award in GPIC for 2005, the Maintenance Department faced a challenge to remain at the top during 2006. Additional efforts were therefore made to maintain and improve the procedures and practices of the Maintenance Department overall.

1171 (13%) 8110 (87%)

Shutdown work orders

Routine work orders

Total work orders received

33%

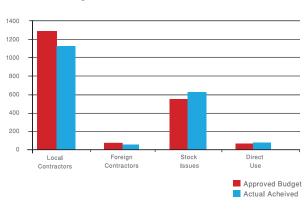
Local contractors
Foreign contractors
Stock issues
Direct use

Maintenance budget catagories

The Department's Key Performance Indicators [KPIs] were closely monitored every month and corrective actions were taken to address variations.

During the year, 9281 Corrective and Preventive Work Orders were managed within the approved budget.

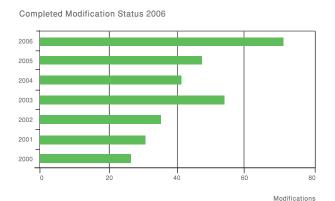
Maintenance Budget Status 2006

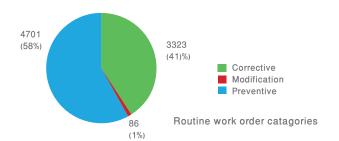


The Maintenance Department also executed a large number of capital expenditure modification projects during the year. The following gives a breakdown of activities:

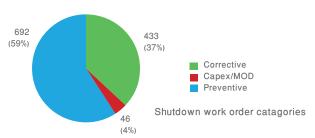
- 86 Modifications3323 Corrective Maintenance Work Orders
- 4701 Preventive Maintenance Work Orders







Preparations and planning activities reached a peak by the year end in preparation for the major November 2007 Turnaround in accordance with GPIC's long term maintenance planning.



Maintenance personnel also analysed and reviewed the process flow charts that will be utilised in the new ERP Project, as well as the current Software Database (cataloguing warehouse stock items, approved suppliers' database, etc.) in preparation for the implementation of the new operating system.

Maintenance

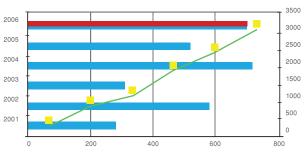
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In addition, a Maintenance team was formed to consult with other concerned personnel to prepare the preliminary scope and duration for each of the forthcoming six turnarounds, from 2007 to 2017 (Rolling 10 Year Turnaround Plan). This exercise established a solid basis for an effective decision support system, which will help in streamlining the following activities:

- Equipment replacement schedules for each turnaround.
- Effective planning for the periodic overhauling of items covered under the Preventive Maintenance Schedule.
- Optimisation of the workload and plant outage duration for each turnaround.
- Provision of uninterrupted production by eliminating potential problems during turnarounds.

The in-house spare parts manufacturing programme continued to reap benefits for the company by saving US\$ 540,000 in 2006. The total cumulative savings have reached US\$ 3.0 million since embarking on this programme six years ago.

Spare Parts Manufacturing (Savings)



US \$ Thousands

Following the introduction of the computerised Preventive Maintenance (PM) management system 10 years ago, this system was comprehensively reviewed and the necessary actions were taken to improve and streamline the PM programme for the complex.

Training and development for personnel continued to be a priority for the Maintenance Department, with most employees attending courses throughout the year. The training rate achieved was 43.4 hours per employee for the year which is 24% higher that in 2005.

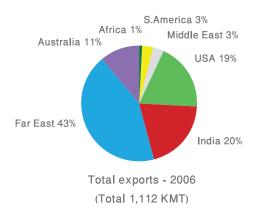






Marketing

The combined total sales of Ammonia, Methanol and Urea came to 1,112,751 tonnes for 2006. This total was made up of 103,039 tonnes of Ammonia, 408,477 tonnes of Methanol and 600,711 tonnes of Granular Urea, while 524 tonnes of Urea were sold in the local market. These volumes were safely and timeously exported without incurring demurrage charges and without a single customer complaint.

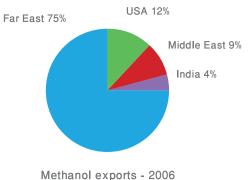


During 2006, GPIC increased its exports to India to 221,000 tonnes representing 20% of total exports.

The cumulative export tonnage over the life of the company totalled 19.4 million, comprising 5.8 million tonnes of Ammonia, 8.8 million tonnes of Methanol and 5 million tonnes of Urea.

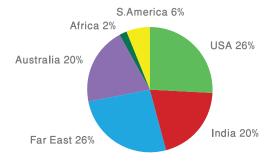
These figures reflect the excellent coordination and cooperation between the GPIC Marketing Department and the company's marketers, PIC, Kuwait for Ammonia and Granular Urea and SABIC, Saudi Arabia for Methanol. This coordination has led to optimum returns to GPIC from these sales.



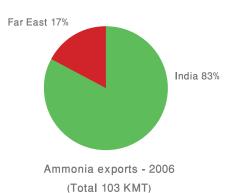


Methanol exports - 2006 (Total 408 KMT)





Urea exports - 2006 (Total 601 KMT)



Annual Report 2006



Training and Development

Training and development of the company's Bahraini nationals represent a major priority for GPIC's management.

The company's training policy aims to achieve a progressive integration of Bahraini nationals into its workforce through the implementation of a well-structured and systematic training and career development scheme. This scheme comprises an effective on-the-job training programme, as well as providing development courses in GPIC's Training Centre, locally or abroad.

The average manpower during 2006 was 478 plus 44 trainees. The cumulative number of trainees who have completed their training since inception stands at 374. From this number, 176 were appointed in the Plants Operation, 39 in the Technical Services, 63 in the Maintenance, 30 in the Safety & Security Department and 66 are Engineers.

By the end of 2006 the overall Bahrainisation level achieved was 81.0%.

In addition to the training programmes for the newly recruited graduates, 15 candidates for supervisory

positions are undergoing career development training programmes. Of these 2 have been appointed in senior positions.

During 2006 the Training Centre held or arranged 247 courses covering different areas for 1576 employees, this is in addition to the awareness programmes conducted for Health, Safety, Environment and Quality. There were also a number of lectures by specialists on topical subjects aimed at the broader education of the workforce.





Social and Sports Events



Inter-departmental Sports Tournament at GPIC

GPIC Summer Programme



(General Employees' Meeting (GEM



GPIC's Annual Desert Camp

Ramadan Ladies' Night



Ministry of Education/ GPIC Environmental Research Scheme

GPIC celebrates its 27th Anniversary



GPIC Family Day



GPIC Fishing Competition

GPIC Volleyball Team wins the Industrial Volleyball League and Cup

Annual Report 2006



H.E Shaikh Isa bin Ali Al Khalifa

Community Service

In accordance with the directives of H.E. Shaikh Isa bin Ali Al Khalifa, Advisor to His Highness the Prime Minister for Industrial and Oil Affairs and GPIC Chairman, and as part of the Company's policy of supporting the Bahraini community through local, charitable and professional societies, GPIC's management provided support and



Endurance Championship

Bahrain Athletics Association

Bahrain Cancer Society



Bahrain Snooker Association

Ma'ameer Charity Fund

Bahrain Society for Child Development



Sitra Club

Orphans' Sponsorship Committee

Nuwaidrat Charity Fund

assistance to a large number of societies in the Kingdom. A number of these have been selected for publication in this report as examples of donations given during 2006.



Middle East Industrial Security Conference

inJaz Bahrain

Al Hekma Society for the Retired



Hope Institute for Special Education

Mohamed bin Khalifa Al Khalifa Cardiac Centre

Al Noor Charity Welfare



Bahrain Mobility International Centre

Hidd Rehabilitation Centre for Special Needs

Bahrain Management Society