



Gulf Petrochemical Industries Co. (BSC)



Annual Report 2003

CHAIRMAN'S MESSAGE



CONTENTS

Chairman's Message	3
Board of Directors	4
Board of Directors' Report	5
Executive Management	6-7
Production Performance	8
Safety & Accident Prevention	9
Technical Services	10-11
Maintenance	12
Marketing	13
Training & Development	14
Social & Sports Events	15
Environmental Achievements	16
Auditors' Report	17-32



2003 was a year of achievements as the Company witnessed many outstanding accomplishments. The company received the Chemical Industry Safety

Trophy 2003 for the safest managed petrochemical plant in the world from the Royal Society for Prevention of Accidents (RoSPA) U.K. This prestigious award is the culmination of the many other excellent awards received from RoSPA over the past 10 years. GPIC also received His Highness Shaikh Mohamed bin Rashid Al Maktoom's Arab Management Award for the Best Arab Enterprise.

At the year end the total combined cumulative production of all three products, Ammonia, Urea and Methanol stood at 1.3 million metric tonnes.

Exports of Ammonia, Urea and Methanol totaled more than 1 million metric tonnes which were shipped on board 6 Ammonia tankers, 17 Urea tankers and 38 Methanol tankers.

During 2003 the Company's net profits were US\$ 66 million which easily exceeded the budgeted figure of US\$48 million, thanks to the continuous efforts to streamline expenditure, reduced production costs and at the same time increase productivity. Improved international price levels also contributed to achieving these healthy profits.

We are also proud of the company's continued commitment to train and develop Bahrainis, while giving the required attention to safety, occupational health and protection of the environment.

These outstanding achievements and the company's continuous success and growth were made possible with the support and encouragement of His Majesty King Hamad bin Isa Al Khalifa, King of the Kingdom of Bahrain, His Highness Shaikh Khalifa bin Salman Al Khalifa, Prime Minister and His Highness Shaikh Salman bin Hamad Al Khalifa, Crown Prince and Commander-in-Chief of the Bahrain Defence Force.

I wish to express my sincere thanks and appreciation to the government and private organizations in the Kingdom of Bahrain, Saudi Basic Industries Corporation (SABIC) of Saudi Arabia and to Petrochemical Industries Corporation in the State of Kuwait for their continuous support and contribution to the success of GPIC.

In this context, I would also like to sincerely thank the executive management and all the employees for their outstanding performance and team spirit which made the company's achievements possible and who will no doubt continue to make further contributions in the future.



Isa bin Ali Al Khalifa
Chairman

BOARD of DIRECTORS

BOARD of DIRECTORS REPORT

to the Shareholders

for the year ended on 31 December, 2003



H.E. Shaikh Isa bin Ali Al Khalifa
Chairman



Mr. Mohammed A. Rahman Al-Terkait
Deputy Chairman



Mr. Nasser Ahmed Al-Sayyari
Managing Director



Mr. Anwar Saeed Salama
Board Member



Mr. Ahmed A. Rahman Al-Sayed
Board Member



Mr. Attallah Awad Al Mutairi
Board Member



Mr. Rasheed Ghonaim Al Motairi
Board Member



Dr. Ahmed Ali Al Sharyan
Board Member



Mr. Ali Al Ayed
Board Member

Dear Company Shareholders,

The Board of Directors is pleased to present its twenty fourth Annual Report showing the outstanding achievements of the company during 2003 in technical, financial and management areas.

2003 was a year of remarkable achievements during which significant results were made. During the year, GPIC won HH Shaikh Mohamed bin Rashid Al Maktoom's Arab Management Award for Best Arab Enterprise. In addition, the Company received the Chemical Industry Safety Trophy 2003 for the safest managed petrochemical plant in the world from the Royal Society for the Prevention of Accidents (RoSPA). This prestigious award is considered as the culmination of all the significant safety awards received by the company over the last 10 years.

Production in the Ammonia, Urea and Methanol plants continued at the highest standards of quality and efficiency while maintaining excellent levels of safety, health and environmental management. The largest ever maintenance shutdown of the plants in the company's history was completed during June and July. This outstanding performance was made possible thanks to the continuous efforts of the operations and maintenance staff and their team spirit, in addition to the adoption of predictive and preventative maintenance systems.

By the end of the year, the total output of Ammonia, Methanol and Urea was approximately one million tonnes.

During 2003 exports of Ammonia, Methanol and Urea totalled over 1 million tonnes. This quantity was exported by 6 Ammonia tankers, 17 Urea tankers and 38 Methanol tankers.

The management continued its cost rationalization efforts by reducing expenditure and production costs whilst boosting productivity. These efforts have contributed to achieving net profits of US\$66 million.

The company continued to exercise maximum safety, occupational health and environmental measures during the year. These measures resulted in achieving two million employee hours without a lost time accident. This equals 590 working days for GPIC employees. The contractors achieved 236 thousand working hours which equals 127 working days.

The total number of working hours achieved with no lost time accident reached 2.3 million hours.

By the end of 2003 the monthly manpower level during the year was 476 employees in addition to 53 trainees. By the end of the year 342 graduates had completed their training, including 162 in Operations, 38 in Technical Services, 59 in Maintenance, 30 in Safety and Security and 53 Engineers. The Bahrainization level in the company was 79 percent by the end of the year.

The company's Training Centre continued to successfully offer a number of training programmes to meet the company's requirements. This was in addition to organizing annual educational safety, health and environment programmes for all the employees.

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

The Board of Directors also wishes to express its sincere thanks and appreciation to Their Excellencies the Minister of Oil in the Kingdom of Bahrain, the Minister of Energy in the State of Kuwait and the Minister of Industry and Electricity in Saudi Arabia for their support to the company and for their valuable guidance.

The Board of Directors wishes to express its thanks to all the government and private organizations in the Kingdom of Bahrain, to Saudi Basic Industries Corporation (SABIC) of Saudi Arabia and to Petrochemical Industries Company in the State of Kuwait for their invaluable support and co-operation with the company.

Finally, the Board of Directors wishes to thank the company's management and staff for their sincere efforts and loyalty which greatly contributed to making the company's achievements possible.

EXECUTIVE MANAGEMENT



From left to right

- **Mr. Fadhel Malalla Al Ansari**
Plants Operation Coordinator
- Mr. Yasser Abdulrahman Abdulla**
Finance Manager
- Mr. Yusuf Ebrahim Fakhroo**
Marketing and Planning Manager
- Mr. Yousif Abdulla Yousif**
Technical Services Manager
- Mr. Eduard Horn**
Deputy General Manager
for Technical Affairs
- Dr. Mustafa Al Sayed**
General Manager
- Mr. A. Rahman A. Hussain Jawahery**
Plants Operation Manager
- Mr. Fawzi Ahmed Al Jaber**
Administration Manager
- Mr. Ahmed Abdulla Nuruddin**
Maintenance Manager
- Mr. Zuhair Abdulaziz Tawfiqi**
Public Relations Manager
- Mr. Adnan A. Razaq Al Mahmood**
Information Technology Manager
- Mr. Christopher Blain**
Safety and Security Manager



PRODUCTION PERFORMANCE

The year 2003 was a landmark year of many important achievements for the GPIC Plant Operations Department. All plants were operated in a reliable, safe and efficient manner whilst maintaining the specified standards in terms of quality for all products.

It is worthwhile noting that the Ammonia plant completed 545 days of continuous production by the end of June 2003. It is also commendable that the plant achieved a utilization factor of 99%.

The Methanol plant completed 931 days of continuous production by June end. The Methanol synthesis catalyst completed 2.67 million tonnes production by the end of June 2003. This justifies the original careful and judicious choice of catalyst and reflects the diligence of the plant operating personnel. The plant achieved 101% utilization factor and the cumulative Methanol production since 1985 exceeded 7.47 million tonnes during December 2003.

The Urea plant achieved an annual production of 566,984 tonnes, higher than budget by 0.16 %. The plant completed 941 days of continuous production by the end of June 2003 and achieved 100% utilization factor.

It must be noted that the continuous production run of the Ammonia plant for 545 days, the Methanol plant for 931 days and the Urea plant for 941 days, are achievements of the highest standards and exhibit exceptional leadership and dedicated teamwork.

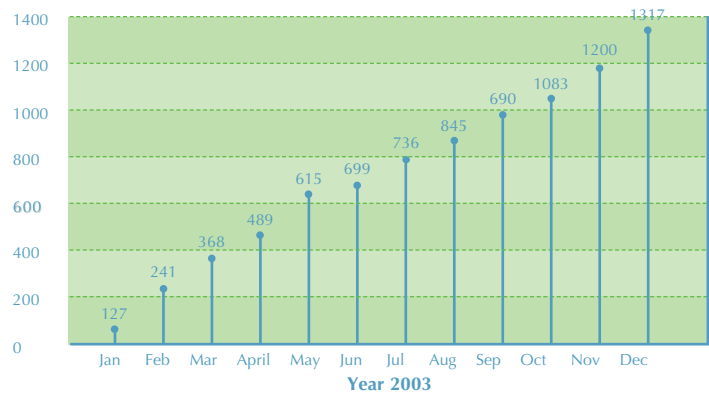
The performance of the GPIC plants was recognized in international benchmarking studies carried out by the International Fertilizer Association (IFA). GPIC was rated as the best in most of the categories in a group of 66 companies with respect to emission control and environmental care.

During 2003, a single bulk Urea shipment of 44,000 tonnes was loaded safely and efficiently, a reflection of excellent teamwork and coordination by the Wharf Services Section. An amount of US\$25,942.71 earned for loading MV Star Capella inside her laycan was also an achievement which would not have been possible without the dedication and hard work of this section.

Ammonia	379,523 Tonnes
Methanol	370,008 Tonnes
Urea	566,984 Tonnes
Total cumulative production	1,316,515 Tonnes
Ammonia consumed for Urea production	319,772 Tonnes
Total Saleable Production	996,743 Tonnes

The annual production of Ammonia, Methanol, Urea and Saleable Products.

The (Urea) plant completed 941 days of continuous production by the end of June 2003 and achieved 100% utilization factor.



SAFETY & ACCIDENT PREVENTION

The year 2003 was exceptional in terms of excellence and outstanding performance as GPIC continued to improve its integrated safety, health and environment systems. It was a year that witnessed GPIC's largest ever Complex turnaround during June and July, where safety and accident prevention were the main thrusts behind executing the turnaround efficiently and safely.

This excellent performance was crowned by receiving the Chemical Industry Safety Trophy in December from the British Royal Society for the Prevention of Accidents (RoSPA). A particular highlight was the submission of the trophy to His Highness the Prime Minister of the Kingdom of Bahrain by Lord Faulkner, the President of RoSPA.

By the end of 2003, GPIC successfully accumulated more than 2 million hours or 590 continuous work days without lost time accident (LTA).

Other significant achievements in safety and accident prevention include:

- 1 Successfully organizing and conducting a Complex emergency drill and site evacuation exercise in March and issuing a comprehensive follow-up report which included numerous enhancement actions, all of which were fully implemented.
- 1 As part of the Sitra Wharf Mutual Aid organizing Committee, GPIC organized and participated in the first ever combined emergency exercise in the Sitra Wharf Area in September.
- 1 The execution of the Complex Turnaround without suffering a single LTA.
- 1 organizing and participating in a specialized fire and emergency response training course in height and confined space rescue by a training specialist from New Zealand.
- 1 Successfully completing the implementation of the Process Safety Management (PSM) System and finalizing necessary requirements for the OHSAS 18000 standard. Full accreditation is expected by June 2004.
- 1 Successfully organizing the Company's Annual Safety, Health

and Environment Week under the slogan: "Together Let's Fight Obesity". GPIC employees and contractor personnel actively participated in the week's events and competitions. The event was preceded by the GPIC Family Safety Evening.

By the end of 2003, GPIC successfully accumulated more than 2 million hours or 590 continuous work days without lost time accident (LTA).





Inspection

During the June shutdown, a total of 321 items of equipment were inspected, which included 75 statutory items and 29 heat exchangers subjected to eddy current inspection. In addition, 231 PSV's, and 115 NRV's were checked.

Other major activities during the shutdown included a thorough inspection of the underground seawater piping system and modification of the tray supports in the urea reactor.

The pilot RBI study of areas 18 and 19 of the methanol plant was completed. Of the 47 items of equipment assessed, the inspection intervals for 25 items could be safely doubled. Additional NDT data was required for 21 items and previously unconsidered damage mechanisms were identified for 10 items.

A computerized system has been developed to manage inspection of statutory equipment at GPIC.

The first thorough inspection of the 16" natural gas supply line was completed using a combination of visual, ultrasonic and torsional guided wave inspection. No problems were found.

A thorough underwater examination of the support piles for the urea gallery and the ammonia and methanol export lines was conducted. Only relatively minor paint repairs were required, mainly in the splash zone area.

All GPIC inspectors have been requalified to ASNT level 2 in Dye penetrant and Magnetic particle inspection.

One inspector attended a radiographic interpretation course in 2003 and 2 inspectors passed the API examinations to be qualified API 653 tank inspectors.

A new analyzer, capable of detecting carbon, was purchased to improve the site PMI (positive materials identification) program and spare parts manufacture.

Laboratory

During 2003, the laboratory took nearly 49,000 routine samples, on which it carried out over 170,000 routine analysis. In addition over 6,600 special analysis were carried out on 2,100 special samples.

In 2003, the laboratory issued seven final product certificates for ammonia, thirty-seven certificates for methanol and thirty-one for urea. It also monitored the effluent water and gases from the complex, which were once again within the applicable Bahrain Environmental Standards. Independent audits by BSI and Lloyds Register confirmed the laboratory's continued compliance with the requirements of the ISO 9001 and ISO 14001 standards.

All GPIC inspectors have been requalified to ASNT level 2 in Dye penetrant and Magnetic particle inspection.



Engineering

During the year 2003, 126 plant modifications were designed and processed for improving the plant reliability, safety and environment and Process Hazard Assessment (PHA) studies were carried out for these modifications.

To enhance the reliability, safety and environment of the complex, Capital Projects costing BD.1.9 Million were processed during 2003. Some of the major projects implemented during 2003 were upgrading of the Control System of Gas Turbine Generator, installation of a Cathodic protection system for the sea water intake structure, upgrading of the Shutdown system for Ammonia, Methanol and Utility Plants and modernization of the Electrical Control Desk and Control System for the Emergency Diesel Generator.

The energy consumption and efficiency of the plants and energy intensive equipment were continuously monitored.

During the year 2003, 126 plant modifications were designed and processed for improving the plant reliability.



Materials

During 2003, Stock Control and Warehouse received 1,781 consignments and issued 23,957 items from stock. Purchasing received 1,320 requisitions, issued 995 inquiries and placed 1,018 orders.

The service level of the warehouse averaged 99.7%. A saving of approximately 7.75% was made during TechnoCommercial negotiation with suppliers. All the quality documents were updated and released.

The Warehouse stock inventory value was effectively controlled within the specified target. As a matter of Materials Optimization, 114 electrical transformers were standardized, a complete review was carried out on all non-moving stock items. The documentation for return transactions has been automated through the Amsoft System. A new storage Area 12 was built and commissioned for flammable chemicals. The Chemical Warehouse was modified to safeguard spillage control and also to store all chemicals according to compatibility.



A saving of approximately 7.75% was made during TechnoCommercial discussion with suppliers.

2003 was a major complex turnaround year coming after more than 31 months of continuous operation (Ammonia 934 days, Urea 937 days & Methanol 944 days). This turnaround had extra ordinary challenges for Maintenance personnel with the start of the turnaround being brought forward to the hot summer months and the mammoth tasks of rearranging resources and programs. In spite of that the T/A was successfully achieved on time, within cost and above all with no major safety related incident.

The Bahrainization of the Maintenance Department has reached a level of 75% and for the first time in the Technical Division, the four Maintenance Superintendent positions were all Bahrainized.



On the continuous improvement front the Maintenance Department participated in the international benchmarking study conducted by Solomon Brothers, enhanced its scaffolding safety by implementing a Scafftag System and the Critical Joints Making System was introduced to enhance the integrity of mechanical equipment joints. Furthermore Root Cause Failure Analysis methodology was initiated during the year.

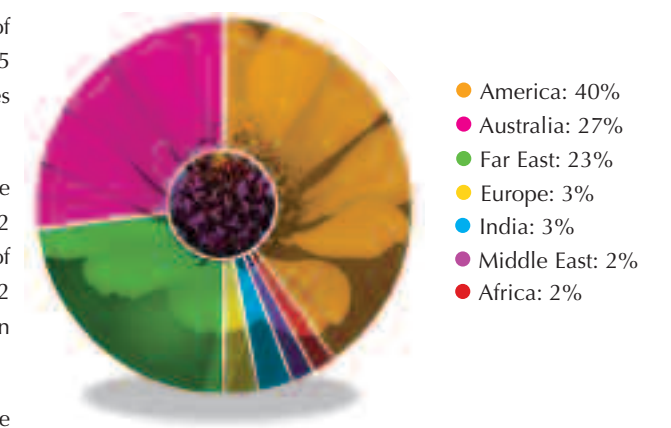
2003 was a major complex turnaround year coming after more than 31 months of continuous operation.



During 2003, the Company's sales of Ammonia, Methanol and Urea totalled 1,021,941 metric tonnes exceeding the plan by 0.1%. Sales include the export of 69,998 metric tonnes of Ammonia, 360,154 metric tonnes of Methanol and 591,645 metric tonnes of Granular Urea, an additional 145 metric tonnes of Urea was sold in the local market.

Total exports of all products to international markets since the start of production in 1985 amount to approximately 16.2 million metric tonnes including 5.5 million metric tonnes of Ammonia, 7.5 million metric tonnes of Methanol and 3.2 million metric tonnes of Urea since the start of production on 7th January 1998 .

These figures reflect sound planning and coordination by the Company's Marketing & Planning Department with marketing partners and others to achieve the best returns from these exports.



During 2003, the Company's sales of Ammonia, Methanol and Urea totalled 1,021,941 metric tonnes exceeding the plan by 0.1%.





TRAINING & DEVELOPMENT

The average monthly manpower during 2003 was 476 plus 53 trainees. The cumulative number of trainees who completed their training at the end of the year was 342. 162 were appointed in the Operations, 38 in the Technical Services, 59 in Maintenance, 30 in Safety & Security and 53 Engineers.



By the end of the year Bahrainization level exceeded 79%.

During the year the Training Centre continued to hold safety awareness programs for all employees.

The cumulative number of trainees who completed their training at the end of the year was 342.



ENVIRONMENTAL ACHIEVEMENTS

The year 2003 achieved another round of dedicated environmental work, including a number of events and achievements.

- 1 Monitoring of all gaseous emissions and liquid effluents continued. Full compliance to all relevant environmental standards in Bahrain was achieved.
- 1 The tree donation campaign continued and employees donated trees whole-heartedly. About 350 trees were donated in 2003.
- 1 The Environment Management System is followed all over the complex and audited internally on a regular basis. Two assessments were done by external auditors from Lloyds Register and they were successfully completed.
- 1 The first National Environment Day was celebrated enthusiastically on 8th February, in the presence of the Secretary General of the Public Commission for the Protection of Marine Resources, Environment and Wild Life.
- 1 Safety, Health and Environment (SHE) Week was celebrated from 21st to 24th December 2003.
- 1 As part of the company's policy to promote environmental care, GPIC participated in a number of environmental conferences inside and outside Bahrain.
- 1 In an effort to enhance the Bird Sanctuary, GPIC planted 2,000 mangrove saplings. This has helped to make the surroundings more attractive for birds and marine life.
- 1 The first ever hatching of a Western Reef Heron on Bahrain's main island was recorded on the GPIC Bird Sanctuary in June 2003.
- 1 As part of various Environmental Schemes and Projects, the 'Herbal and Medicinal Garden' area development was initiated.
- 1 GPIC School Environmental Lecture Programme continued. Lectures on environmental topics were given to about 20 schools.
- 1 The fish farm continued to thrive. A water cascade and other modifications were implemented to increase the period of fish

captivity in the fish farm. The fish is monitored regularly and the project is definitely a success. More than 30,000 Sea Bream(Subaiti) fish were thriving in the fish farm, more than half of them were released to the sea to enrich the fish stock.





Social & Sports Events

الأحداث الإجتماعية والرياضية



H.E. Shaikh Isa bin Ali Al Khalifa, Minister of Oil and GPIC Chairman lay foundation stone of GPIC Social Club

سعادة وزير النفط رئيس مجلس إدارة الشركة الشيخ عيسى بن علي آل خليفة يضع حجر الأساس لنادي الشركة



GPIC celebrates Safety, Health & Environmental week.

الشركة تحتفل بأسبوع السلامة والصحة والبيئة.



Opening of GPIC Family Folk Festival

مهرجان البترول عائلتي الشعبي العائلي



GPIC Family Evening

البترول كيماءويات تحتفل بيوم السلامة العائلي



Ibn Khuldoon School visits GPIC

مطلة ومطالبات مدرسة ابن خلدون يزورون الشركة



Charity Plate in GPIC

الطبق الخيري الصحي في البترول كيماءويات



Annual Charity Fishing Competition

المسابقة السنوية لصيد السمك



GPIC winners of Volleyball Championship

فريق البترول كيماءويات للكرة الطائرة بطل دوري الشركات



GPIC's annual Desert camp

مخيم الشركة الترفيهي السنوي



GPIC's Internal Soccer Tournament

الدورة الداخلية لكرة القدم في الشركة