

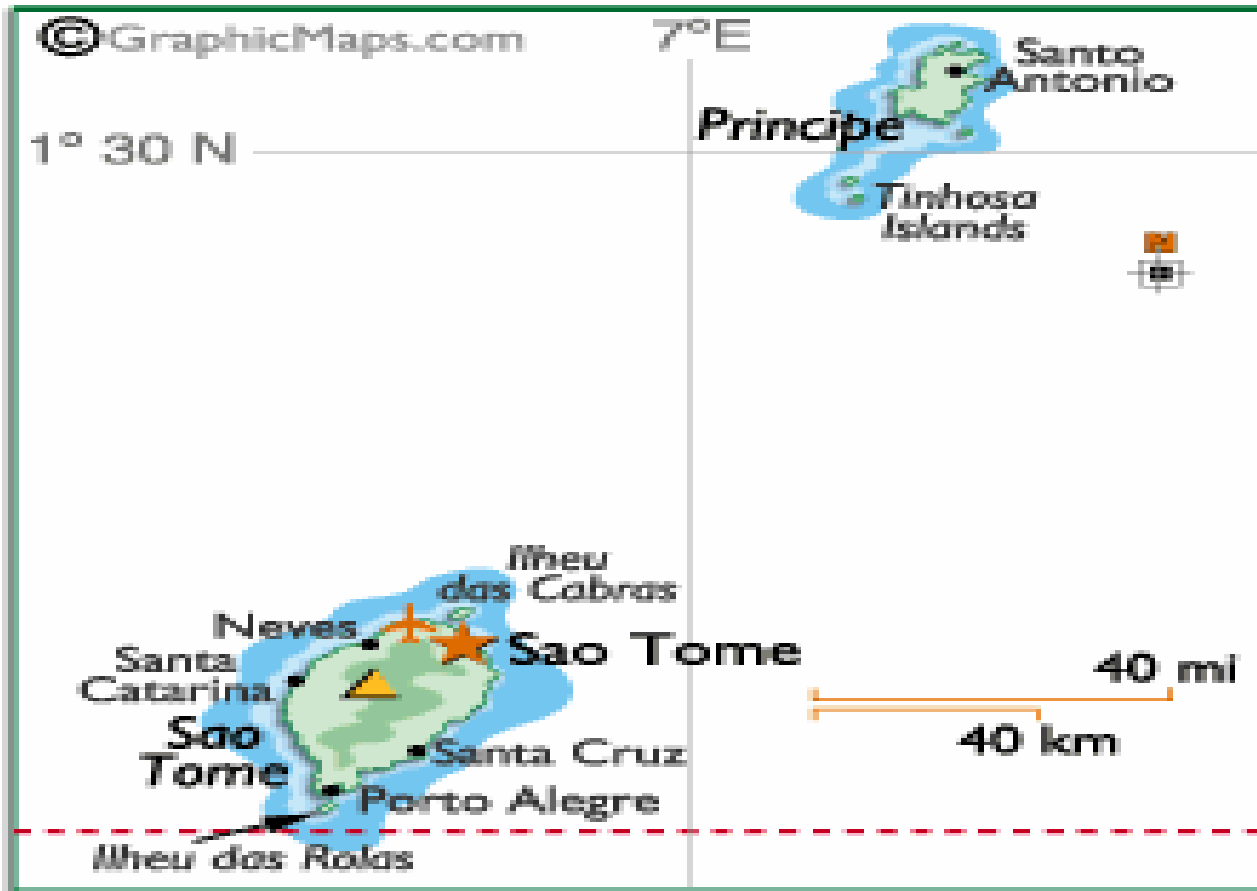






It's Sao Tome & Principe!

The poorest, smallest, least-known independent state you've never heard of!



Where in the world is Sao Tome & Principe?



Look Closely!



~The Odd Couple~



*The Misadventures of a Heavily Indebted Poor
Country & its Transnational Sugar Daddy*

*Veronica Maddocks * Yessy Liang * Stan Valov * Laura Tran * Aran Kim*

Agenda

Background

Joint Development Zone Agreement

How Revenue Should be Spent

Corruption & Transparency

Future Outlook

What Led to Unlikely Partnership of Two Largely Contrasting Parties?

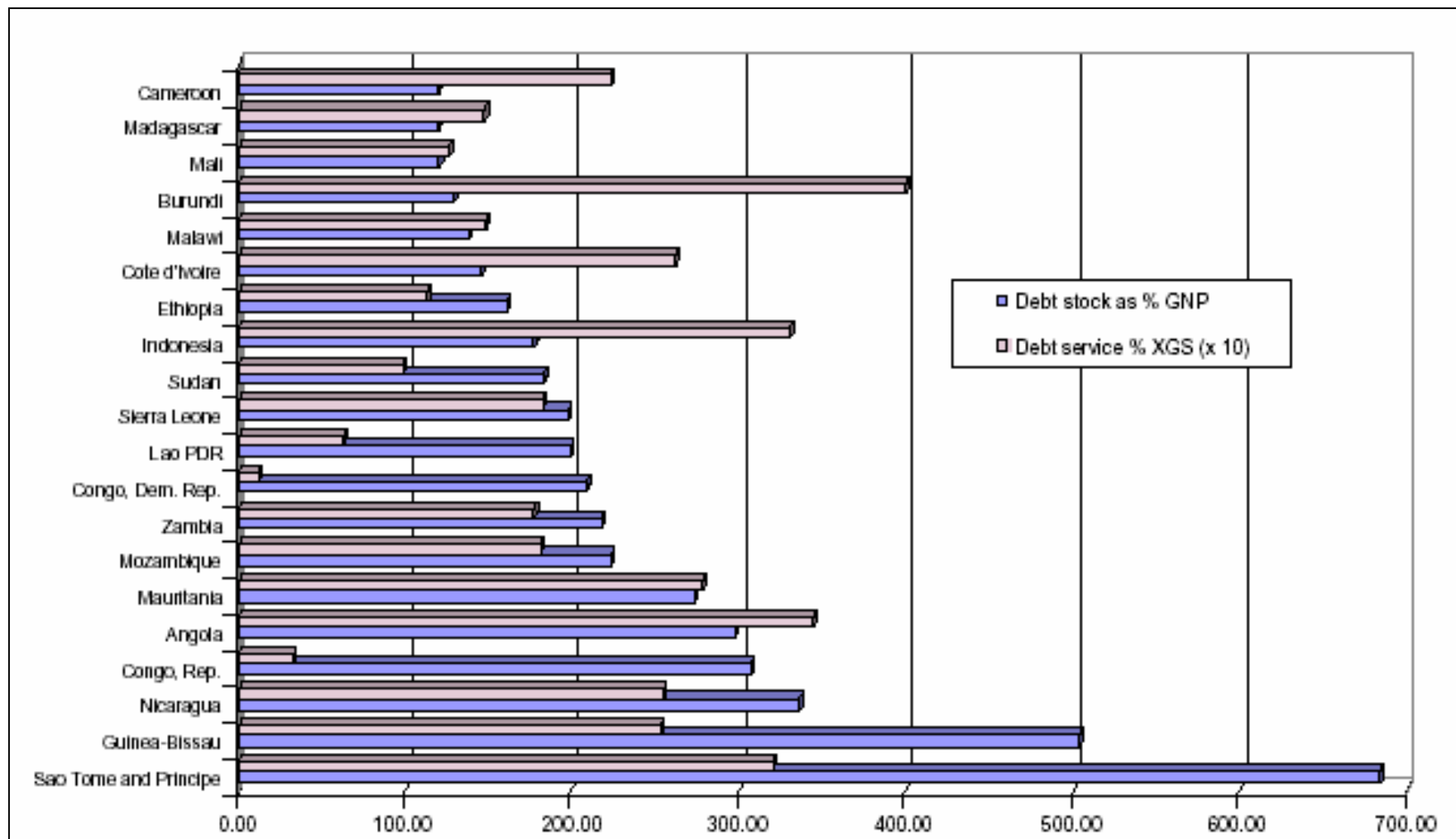
- **Discovery of over 4 billion barrels of oil reserves in STP territorial waters**
- **Oil quality**
- **New oil reserves constantly being discovered in Gulf of Guinea**
- **Countries seeking alternatives to oil in the Middle East**

Background: Sao Tome & Principe

- **Sao Tome & Principe (STP) form one of the world's poorest, smallest, and least-known independent states**
- **Total population of 170,372 in 2002 w/ GNI of US\$280 per capita**
- **Debt-to-Revenue Ratio is very high compared to those of other emerging markets**
- **STP is a Heavily Indebted Poor Country (HIPC)**
- **Undiversified, cocoa-based economy causes economic state to be very volatile**

Debt Stock and Debt Service

(20 Most Severely Indebted Low Income countries)



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Background: ExxonMobil

- **World's largest integrated oil company**
 - Only major international oil company that operates in oil fields using all deepwater production systems available today
 - Invests nearly US\$200 million a year in upstream research
- **The 2nd largest Transnational Corporation ranked by foreign assets in the world**

Table 3. The world's 25 largest TNCs, ranked by foreign assets, 1999
(Billions of dollars and number of employees)

Ranking 1999 by:		Ranked in 1998 by:		Corporation	Country	Industry ^b	Assets		Sales		Employment		TNI ^a
Foreign assets	TNI ^a	Foreign assets	TNI ^a				Foreign	Total	Foreign	Total	Foreign	Total	(Per cent)
1	75	1	75	General Electric	United States	Electronics	141.1	405.2	32.7	111.6	143 000	310 000	36.7
2	22	5	19	ExxonMobil Corporation	United States	Petroleum expl./ref./distr.	99.4	144.5	115.5	160.9	68 000	107 000	68.0
3	43	3	45	Royal Dutch/Shell Group ^c	The Netherlands/United Kingdom	Petroleum expl./ref./distr.	68.7	113.9	53.5	105.4	57 367	99 310	56.3
4	83	2	85	General Motors	United States	Motor vehicles	68.5	274.7	46.5	176.6	162 300	398 000	30.7
5	77	4	76	Ford Motor Company	United States	Motor vehicles	...	273.4	50.1	162.6	191 486	364 550	36.1
6	82	6	60	Toyota Motor Corporation	Japan	Motor vehicles	56.3	154.9	60.0	119.7	13 500	214 631	30.9
7	51	9	59	DaimlerChrysler AG	Germany	Motor vehicles	55.7	175.9	122.4	151.0	225 705	466 938	53.7
8	21	32	27	Total Fina SA	France	Petroleum expl./ref./distr.	...	77.6	31.6	39.6	50 538	74 437	70.3
9	50	7	54	IBM	United States	Computers	44.7	87.5	50.4	87.6	161 612	307 401	53.7
10	18	8	21	BP	United Kingdom	Petroleum expl./ref./distr.	39.3	52.6	57.7	83.5	62 150	80 400	73.7
11	2	10	3	Nestlé S.A.	Switzerland	Food/beverages	33.1	36.8	45.9	46.7	224 954	230 929	95.2
12	45	11	51	Volkswagen Group	Germany	Motor vehicles	...	64.3	47.8	70.6	147 959	306 275	55.7
13	11	-	-	Nippon Mitsubishi Oil Corporation (Nippon Oil Co. Ltd)	Japan	Petroleum expl./ref./distr.	31.5	35.5	28.4	33.9	11 900	15 964	82.4
14	41	19	52	Siemens AG	Germany	Electronics	...	76.6	53.2	72.2	251 000	443 000	56.8
15	90	14	73	Wal-Mart Stores	United States	Retailing	30.2	50.0	19.4	137.6	...	1 140 000	25.8
16	55	-	-	Repsol SA	Spain	Petroleum expl./ref./distr.	29.6	42.1	9.1	26.3	...	29 262	51.6
17	13	17	17	Diageo Plc	United Kingdom	Beverages	28.0	40.4	16.4	19.0	59 852	72 479	79.4
18	59	87	84	Mannesmann AG	Germany	Telecommunications/engineering	...	57.7	11.8	21.8	58 694	130 860	48.9
19	58	13	63	Suez Lyonnaise des Eaux	France	Diversified/utility	...	71.6	9.7	23.5	150 000	220 000	49.1
20	32	23	40	BMW AG	Germany	Motor vehicles	27.1	39.2	26.8	36.7	46 104	114 952	60.9
21	3	15	8	ABB	Switzerland	Electrical equipment	27.0	30.6	23.8	24.4	155 427	161 430	94.1
22	42	20	41	Sony Corporation	Japan	Electronics	...	64.2	43.1	63.1	115 717	189 700	56.7
23	9	34	1	Seagram Company	Canada	Beverages/media	25.6	35.0	12.3	11.8	88.6
24	8	12	7	Unilever	United Kingdom/The Netherlands	Food/beverages	25.3	28.0	38.4	44.0	222 614	246 033	89.3
25	49	-	-	Aventis	France	Pharmaceuticals/chemicals	...	39.0	4.7	19.2	...	92 446	54.0

Joint Development Zone Agreement

“The Prenuptial Agreement”



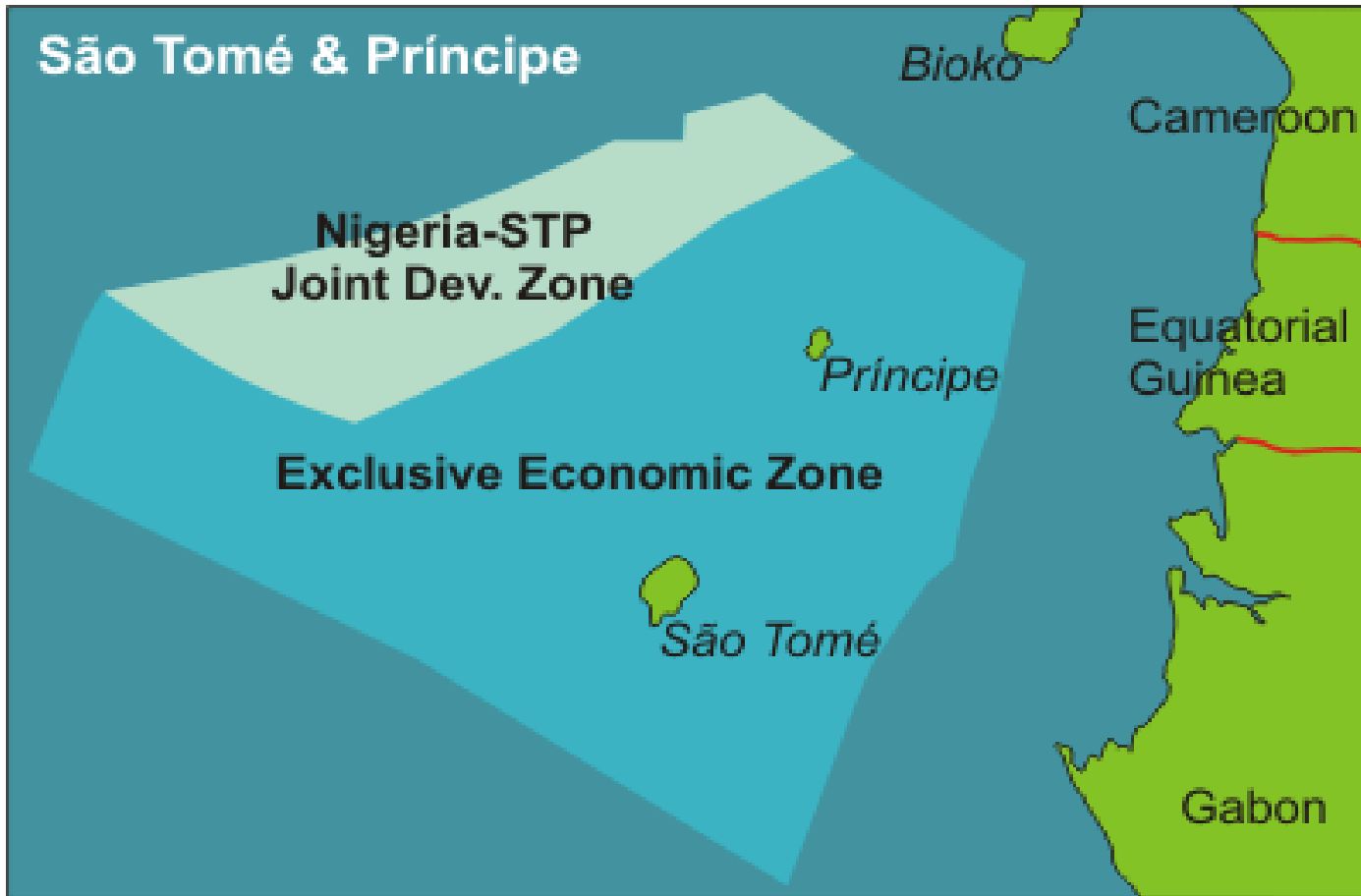
Joint Development Zone (JDZ) Agreement

- **2001 Treaty between STP and Nigeria**
- **Identify areas of overlapping maritime boundaries**
- **Governed by Joint Authority**
- **Last for 40 years; renewable after 30**
- **Zone estimated to hold 1.5 billion barrels of oil**
- **40 – 60 of \$40 billion; Nigeria**
- **Bickering and renegotiations delay start date of oil production**

Renegotiation Timeline

Date	Description
4/1/03	Sao Tome & Principe and Nigeria failed to reach an agreement.
2/16/03	Agreement with Nigeria ended.
2/14/03	Nigeria and Sao Tome resolved dispute over the sharing of oil resources in Gulf of Guinea.
2/13/03	Sao Tome and Nigeria still undergoing negotiations.
2/12/03	President wants to renegotiate contracts signed under his predecessor.
2/12/03	Both countries agreed to resolve issues.
2/12/03	Nigeria cancelled an agreement.
2/5/03	Conflicting information about reserves made it extremely difficult to renegotiate contracts.
11/27/02	Nigeria has been granted extremely preferential powers to choose which blocs of reserve to exploit.
11/19/02	Sao Tome is seeking to renegotiate a revenue- sharing agreement in the JDZ.
11/6/02	Nigeria is maintaining that Sao tome has broken treaty provisions.
11/3/02	Sao Tome & Principe's treaty by previous president are renegotiated by the current President.
10/22/02	Sao Tome trying to force Nigeria to re-negotiate terms.
10/17/02	Sao Tome plans to forge ahead to call bids for oil blocks, which could invalidate the treaty it had with Nigeria.

JDZ Map

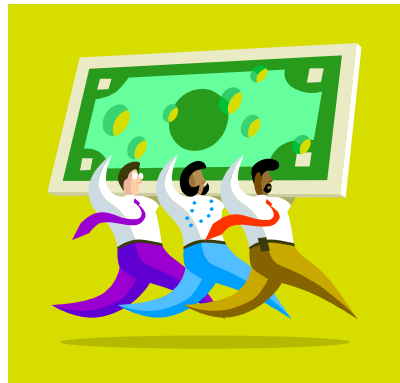


JDZ Implications to Exxon Mobil

- **Uncertainty with contract agreement – issue of future legal credibility**
- **Under a separate agreement with STP, Exxon Mobil given exclusive rights to specific offshore blocks**
- **Production delayed until disputes resolved**
- **Reduced transportation cost**

Oil Revenue Spending Spree

“Separate or Joint Accounts”



Sao Tome: Revenues

- \$40 billion reserves
- Conservative estimate of \$10 a barrel
- Over \$235,000 possible revenue per person

Sao Tome: Sustainable Development

~ECONOMIC DEVELOPMENT~

- **Why?**
 - **Oil is a finite resource**
 - **Pay down foreign debt**
- **Improvements to Infrastructure**
 - **Roads, airports, ports, telecom, etc.**

Sao Tome: Sustainable Development

~ECONOMIC DIVERSIFICATION~

- Dependence on cocoa exchanged for oil
- Develop rich fishing grounds
- Promote tourism
- Expand into manufacturing

EXXON MOBIL WACC

Company Relevants:

Equity:

Shares Outstanding (4/8/03):	\$6,690.00
Price per Share (4/8/03):	\$34.94
Market Capitalization (millions \$):	\$233,748.60
Beta:	0.34

Debt (12/31/02):

Notes and loans payable	\$4,093.00
Long-term debt	\$6,655.00
Deferred credits and other long-term obligations	\$2,511.00
Total Debt (millions \$):	\$13,259.00

Income before income taxes	\$17,510.00
Income taxes	\$6,499.00
Tax Rate:	37.12%

Standard & Poor's Credit Rating: AAA

Computations:

Historical Average Annual Market Return: 10%

Treasury 30-year Yield (4/7/03): 4.92%

30-year Corporate AAA Default Premium: 0.94%

Exxon Mobil 30-year Before Tax Cost of Debt: 5.86%

Capital Asset Pricing Model: 6.65%

WACC: 6.49%

Offshore Lease Risk Adjustment: 2%

Discount Rate for Sao Tome Project: 8.49%

PROJECTED CASH FLOW ANALYSIS

(in 1,000's)

Sao Tome Oil Reserves

Year of Analysis: 2003

Year	2006	2007	2008	2009	2010	2011-2046 *
Barrels Per Day	25,000	42,175	71,149	120,000	140,000.00	140,000.00
Historical Average Price Per Barrel	\$20.56	\$20.56	\$20.56	\$20.56	\$20.56	\$20.56
Pumping Days Per Year	365	365	365	365	365	365
Projected Oil Revenue (per annum):				\$900,44	\$1,050,513.8	\$1,050,513.8
	\$187,591.75	\$316,467.28	\$533,878.61	0.40	0	0
Present Value Of Oil Revenue:	\$146,915.05	\$228,454.07	\$355,246.76	\$552,28	\$593,915.15	\$6,624,443.9
				0.99		5
Discount Rate:	8.49%					

* - The cash flows for these years were projected individually, then discounted back to 2003, and finally summed under this heading for easier readability.

Total Project Investment

	-
Estimated Average Cost of Sao Tome Reserves	\$5,867,076.4
	8

Net Present Value of Sao Tome Project:	\$2,634,179.5
	1

Corruption & Transparency

“Unfaithful... Who’s Cheating on Who?”

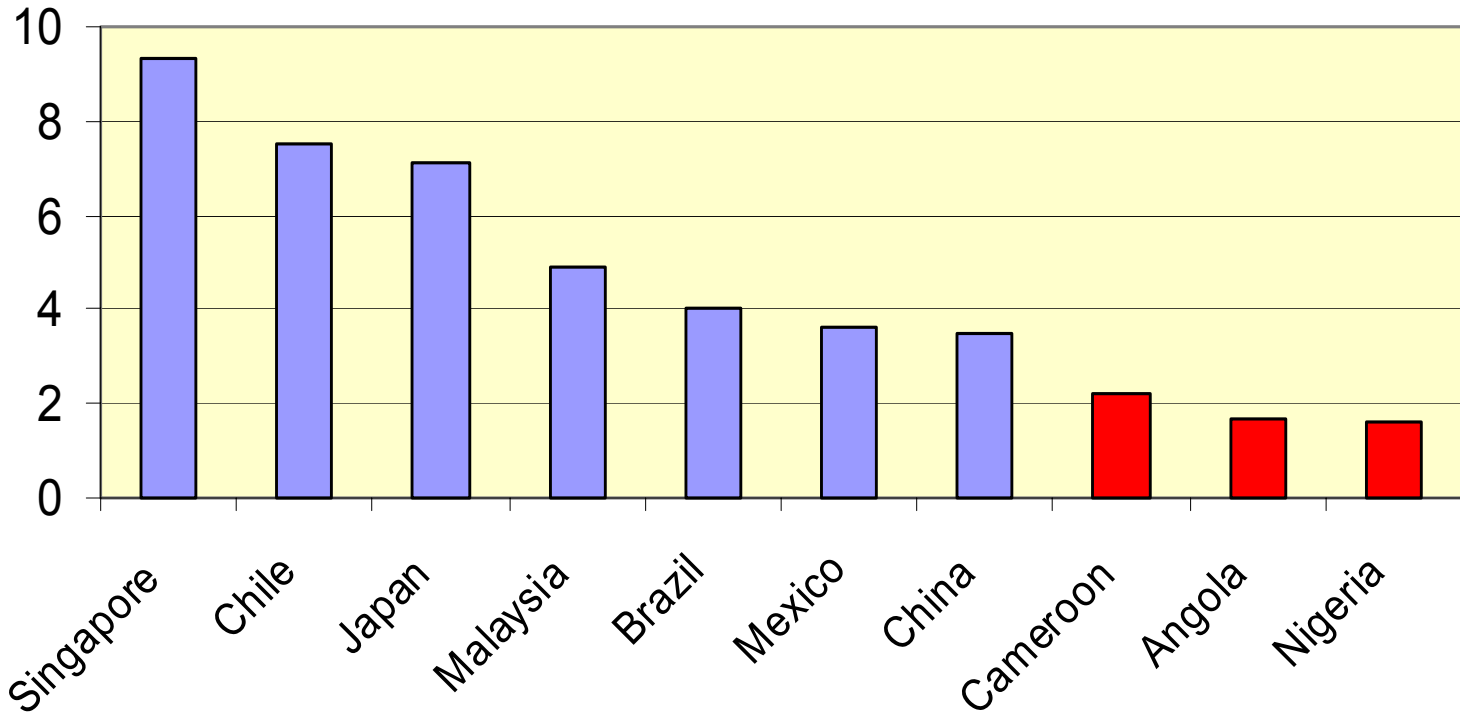


Corruption: Sao Tome & Principe

- **Problem within country**
 - Large scale scandals
 - Low Corruption Perspective Index
- **Concern with use of oil revenues**
 - Commitment to debt reduction
- **Political intentions**
 - STP President must overcome strong structural pulls

Corruption Perspective Index

CPI 2002



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Corruption: Exxon Mobil

- **Bribery**
 - Standard practice in the oil industry
- **Exxon corporate attitude**
 - Noncommittal, nonchalant
- **Accounting loophole**
 - Defeats the principle of full disclosure
 - Firm values and projects may not reflect true costs

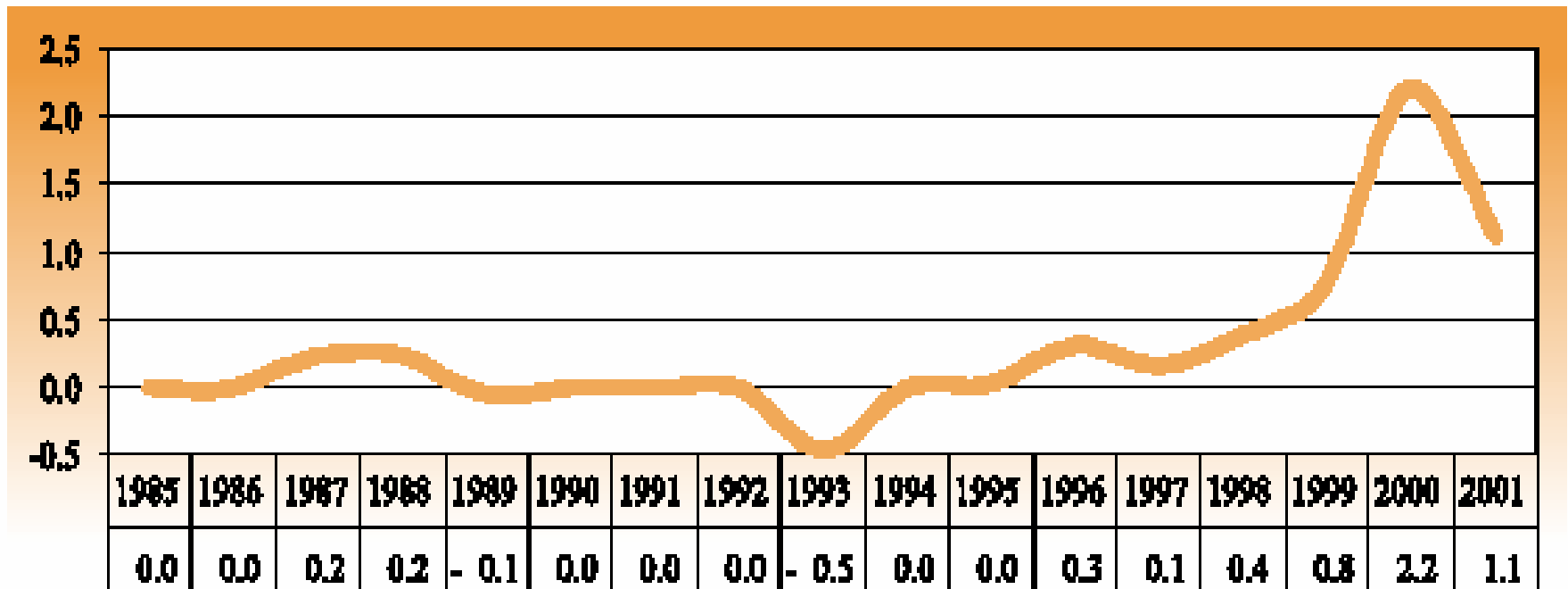
Future Outlook

“Happily Ever After?”

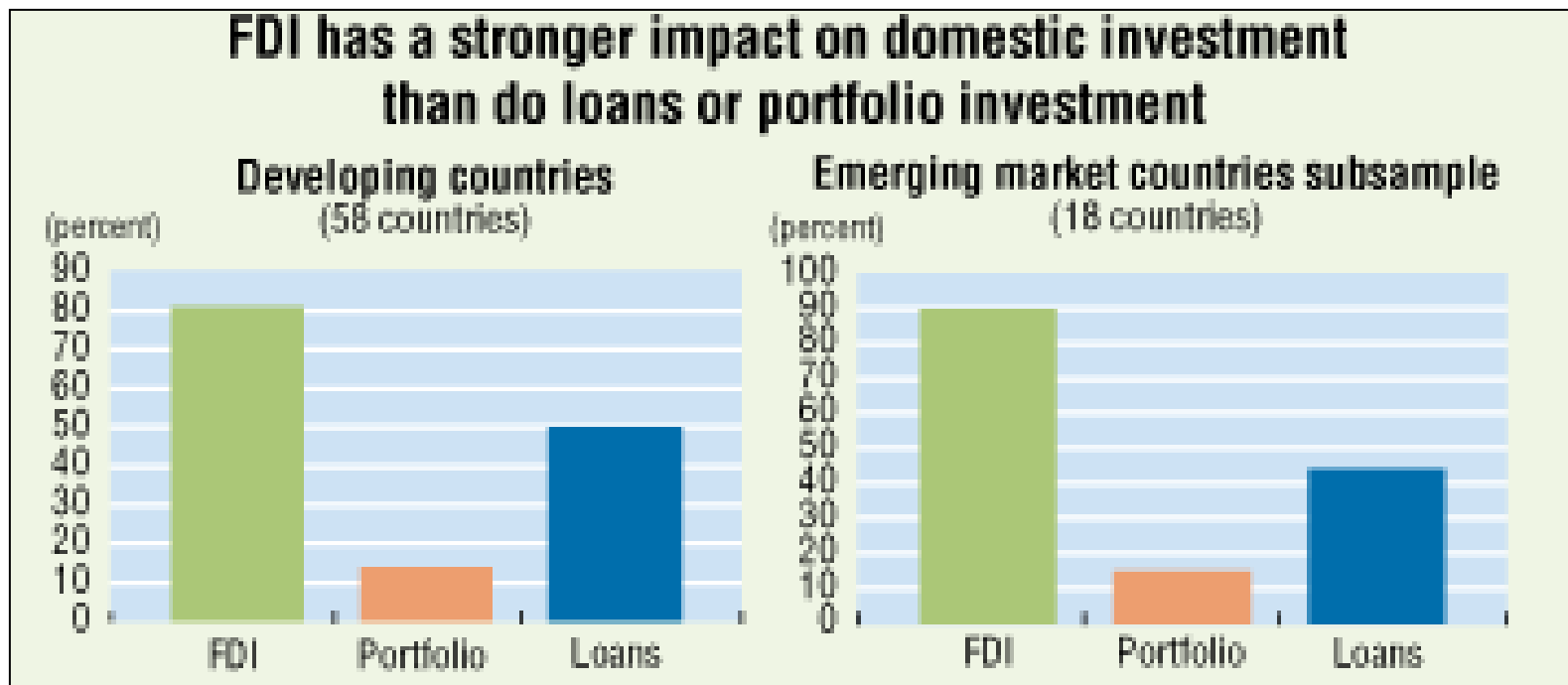


Sao Tome FDI Inflows

FDI inflows, 1985-2001
(Millions of dollars)



FDI packs the most punch!



Why FDI?

- **Transfer of technology**
- **Human capital development**
- **Tax revenues for country**
- **Low liquidity**
- **Promotes transparency**

Caveats to FDI

- **Have to spend \$ to make \$**
- **Ambiguous anticipated benefits:**
 - Job creation
 - Knowledge transfer
 - Local revenue creation
- **FDI reversals**
- **Transfer of control**

Bom-Bom Resort





International Hotels Development Corporation Limited

Investments

- Menu**
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 - Investment strategies
 - Sao Tome e Principe
 - Chamonix Diagrams

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- Maps
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Investment and investors in the Gulf of Guinea

[Triton Energy](#) [Exxon Mobil](#) [Total Fina Elf](#) [Shell](#) [Texaco](#) [Unocal](#) [Agip](#) [BPAmoco](#) [Esso](#) [Fina](#) [Hydro](#) [Petrobras](#)

NEWS

International Hotels Development Corporation Limited is an international company which is currently disposing of some of it's offshore assets. Strategically placed to take advantage of the huge oil industry boom in the area, the company invites interested investors to peruse our West African and South African properties and businesses and to make bids to purchase these assets. Full details and specifications are available to serious investors.

[\[Sao Tome e Principe\]](#)

How to list here

Visit our "Property" and "Business" section, where you can add your property or business to our list to sell or make offers to purchase various assets on display.



Visit
Chamonix
for world class wines

Real Estate Opportunities

USD 2,000,000.00



BID



[more pics](#)

Plot B (15,840 m2 of land concession): VIP Vila with 4 bedrooms, fully furnished with high quality imported furnishing and finishing, central air-conditioning unit, swimming pool, double garage with basement freezer and cold storage facility, fleet of 1 Mercedes 300 GD Jeep and 1 Mercedes 420 SEL Limousine, fully serviced private servant quarters, high grade security fenced compound with private security set in landscaped gardens with electronic irrigation system. Electricity supplied from private power generation plant.

USD 2,000,000.00



BID



[more pics](#)

Plot C (17,050m2 of land concession): VIP Vila with 4 bedrooms, fully furnished with high quality imported furnishing and finishing, central air-conditioning unit, swimming pool, fully serviced private servant quarters, high grade security fenced compound with private security set in landscaped gardens with electronic irrigation system. Electricity supplied from private power generation plant.

Plot E (122,160 m2 of land concession):

USD 3,500,000.00



BID



1. 22,160 m2: 30 bed roomed hotel set in private landscaped gardens, 50 setter restaurant, bar, 50 setter multi-purpose rondavel for conferences/functions, swimming pool, hotel shop, tennis court with private club facility, beauty salon, aquatic marina under reconstruction and set in prime beach facing plot. [Visit The Marlin Beach Website](#)



USD 1,500,000.00



BID

2. 100,000 m2: Urban/Industrial development project. Presently have 2 fully completed town houses. Authorized project to build a further 31 town houses.

ISLAND OF PRÍNCIPE

USD 4,500,000.00



BID

[more pics](#)

BOM-BOM ISLAND RESORT (100,000 m2 OF LAND CONCESSION)

Exclusive deep sea fishing, diving and Eco-tourism resort, holder of various IGFA (INTERNATIONAL GAME FISHING ASSOCIATION) fishing records with 25 high quality fully air-conditioned and serviced chalets, swimming pool, gymnasium/conference center facility, resort shop, 50 setter restaurant, 50 setter fisherman's bar, min casino (black jack) and current licence, fully equipped fleet of deep sea fishing vessels, marina and diving center service by private power generation plant. [Visit The Bom Bom Website](#)

Things to keep in mind...

- **In developing markets:**
 - **Business environment can change on a daily basis**
 - **Traditional financial tools used in valuation may not reflect true values**
 - **Scarcity of data and low transparency**

What we hope you take away from this case...

- While it's easy to evaluate projects and companies solely on revenue and financial statements...
- Be cognizant of social costs



A tropical beach scene with palm trees and a dark sand beach. The image shows a dark sand beach with waves crashing against the shore. Several palm trees are leaning over the beach, and a small island is visible in the distance under a clear blue sky.

*Wish you were here in
Sao Tome!*

The poorest, smallest, and least-known independent state in the world!!!