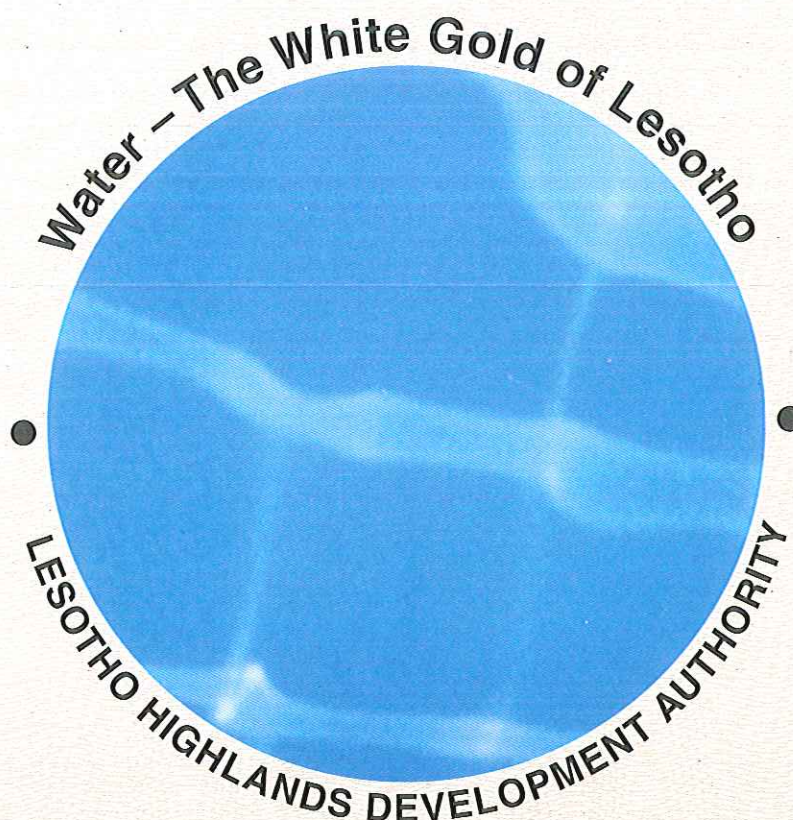
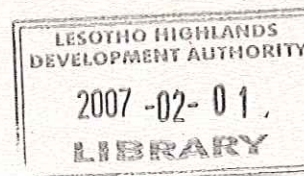


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The LHDA Board of Directors



Mrs M Mphutlane
Principal Secretary – Ministry of Finance



Mr J T Metsing
*Chairman and Principal Secretary,
Ministry of Home Affairs*



Mrs M Ramakoae
Principal Secretary – Ministry of Communications



Mr M D Rantekoa
Principal Secretary – Ministry of Industry, Trade & Marketing



Mr B Leleka
Principal Secretary – Ministry of Natural Resources



Mr M Mohafa
Principal Secretary – Ministry of Defence



Mr R Mapetla
Acting Chief Executive Officer

The Audit Sub-Committee

Mr Ben Pekeche – *Chairman*
Mr Setai Ramonaheng – *Member*
Mr Tankiso Hlaoli – *Member*
Mr Matsobane Putsoa – *Member*
Mr Mohlomi Tseppe – *Member*



Mrs S Seeiso
Board Secretary

MISSION STATEMENT

The Lesotho Highlands Development Authority, in providing its customers with quality services, will efficiently and effectively implement and manage on a sustainable basis the Lesotho Highlands Water Project, in accordance with the Treaty and the Order, to the benefit of the people, the environment and the economy of Lesotho.

CORPORATE GOVERNANCE

The Board of Lesotho Highlands Development Authority subscribes to the values of good corporate governance. In so doing, the Board and the management recognise the need to conduct the enterprise with integrity in line with the provisions of paragraph 17 of Article 7 of the Treaty which states that "The LHDA shall carry out its functions in accordance with Internationally Recognised Standards of managerial and technical competence..."

AUDIT COMMITTEE

The Authority enjoys the existence of the Audit Committee. This board sub-committee has continued to monitor the effectiveness of internal control systems, corporate governance, risk management and financial reporting.

INTERNAL AUDIT

As part of good governance LHDA has an effective internal audit function in place. Internal audit has continued to be part of the authority's risk management process.

CORPORATE CODE OF CONDUCT

The LHDA is committed to the highest standards of ethical behaviour, and the Authority's Code of Conduct gives clear guidance on the expected behaviour of all employees. The code is contained in a Code of Conduct for directors, senior management and in Personnel Regulations for all other employees.

OPERATING PROCEDURES

Operating procedures encompassing all LHDA operations have been developed. These provide essential guidance and standards to all employees in the operation of LHDA's systems and processes.

CHAIRPERSON'S STATEMENT

The outgoing year has been full of challenges and opportunities. As the year drew to a close we got nearer to some of the key milestone dates as far as the physical works are concerned viz. completion of the tunnel excavation and impoundment of the Mohale Dam. Our greatest challenge continues and remains how to, meaningfully and sustainably, transform the lives of the affected communities.

The report below captures these and many other challenges facing the Project.

Governance and Institutional Issues

The search for the LHDA Chief Executive continued in earnest during the year. Also critical to Governance, consultations continued regarding the appointment of the LHDA Board in accordance with the provisions of Protocol VI of the LHWP Treaty.

The full implementation of the New Governance Model is slowly taking place and it is my fervent hope that in the next reporting period the model will be fully implemented including the approval and sign-off of the outstanding policies and procedures that are aligned to the new Governance Model.

The new office of the Corporate Secretariat that was established during the second half of the previous year continued to coordinate the activities of the Board, and played a major role in enhancing the effectiveness of the LHDA Board. Already this office has facilitated a number of highly targeted sessions on matters relating to good corporate governance and this will be expanded in the succeeding years.

Results from operations

The construction of the major physical works continued to progress well despite challenging conditions in the underground. The commissioning of the Matsoku Tunnel and Weir works on October 2001 marked a very important milestone. As of that date, the floodwaters in the Matsoku River have started to be diverted to the Katse Reservoir.

While by the end of the reporting period i.e. March 2002, the Mohale Dam was substantially complete and ready for impoundment, this impoundment was however being held back by the delayed progress on the tunnel excava-



Mr J T Metsing – Chairperson

tion. I am happy to report that in a difficult year, the intake TBM finished its drive in February 2002 after having excavated a total of just under 15 kms of tunnel, the outlet TBM continued to complete the tunnel excavation and the prognosis was that the breakthrough would occur around the month of June 2002.

I also want to note that the continued withholding of payments to Phase 1A contractors allegedly implicated in the bribery case made it impossible to closeout a number of long-completed contracts.

Regarding the discharge of the Treaty obligations in respect of the people affected by the Project, I am happy to report that these issues have been reasonably well handled though we could have, in some cases, done better. A source of concern of late had been the delayed payments of the communal assets compensation following the suspension of the fodder deliveries about three years ago.

As the year drew to a close, concrete and specific steps were being taken to resolve this issue. I am hopeful that in the next reporting period this will no longer be an issue. A continuing challenge though has always been to find the solution to the slowly growing dependency on the compensation payouts. The challenge is to find sustainable long-term development alternatives that will meaningfully improve the livelihoods of the affected communities.

We are now at the tail end of Phase 1 of the Project and the next challenge is to develop and implement a strategy for managing the transition to a rightsized organisation. This is always a very challenging operation that requires careful planning including taking a holistic view of issues and a carefully orchestrated implementation. The Board has therefore continued to provide the LHDA management the necessary support and strategic guidance. One of the options that was being considered was the commissioning of an Organisation and Manpower (O & M) Study to inform the Project Authorities on how best to handle the rightsizing without compromising the strategic objectives of the Project.

The financial performance of the LHDA for the year reflects well on the capabilities of the LHDA management. One of the main premises on which the Project is

based is on low cost, and efficiencies, that eventually translate into a good financial performance.

Once more, it is my duty and pleasure to commend my colleagues on the Board for giving out their best and I am looking forward to even more determination in the year ahead.

I cannot end without specially acknowledging the support we have continued to receive from the Authorities in the two governments of Lesotho and South Africa and from many of our partners.

The former Chief Executive of LHDA, Mr Makase Marumo passed away early in the year after a long illness. This was a great loss to the Board. Fortunately, we have been able to carry on smoothly as part of the succession planning system in place, one of his many legacies to the Authority.

CHIEF EXECUTIVE'S STATEMENT

It is once more my duty and pleasure to present to Project Authorities and stakeholders the highlights on the progress made by the Lesotho Highlands Water Project with respect to its mandate. Like all previous reports, the current one outlines the progress made in the twelve preceding months and will cover the twelve months period ending 31st March 2002.

Corporate Governance and Institutional Issues

The July 2001 stakeholders conference has once more demonstrated its usefulness. While the stakeholders continue to give good ratings for corporate performance across the fifteen metrics, the message has clearly come across that we need to improve on such areas as quick response to issues raised. In the forthcoming year therefore, considerable management time and effort will be placed on enhancing our response capabilities and ensuring stakeholders' satisfaction.

One of the major strategic initiatives started during the year was the preparations for the Organisation and Manpower (O & M) study. The key outcome of this study would be to inform the Project Authorities and management on how best to configure the LHDA in the short to medium term. This is particularly so as the end of Phase 1 of the Project is nearing completion and the likelihood of an immediate successor phase is very remote.

However as the year drew to a close, this critical study had not yet taken off. Outstanding was the resolution of key issues such as the scope of the study and the need to agree on how best to demarcate the duties between internal and external study teams as a means of ensuring credibility and objectivity of the findings.

Water Transfer and Power Generation Operations

During the period under review the total water transferred to South Africa was over 580 million m³. This brings the cumulative deliveries to date to 2 269 million m³ (1 685 million m³ in 2000/01). The royalty revenue generated amounted to M183 million (M158 million in 2000/01).

Just as reported in the previous year, there is no major cause for concern regarding the quality and reliability of supply of the water. The sediment survey report on the Katse and 'Muela Reservoirs was released in March 2002 and showed that the Katse Reservoir was receiving insignificant silt deposition while 'Muela Reservoir continues to be closely monitored.

Regarding power generation, the total electricity generated for the year was just over 370 GWhrs. The bulk of this (95%) was sold to the local distributor, LEC for a total of approximately M45 million.

Progress on major physical works

Some of the key milestone dates include the commissioning of the Matsoku Tunnel and Weir works, the completion of the Mohale Tunnel excavation and impoundment of the Mohale Dam.



Mr E R Mapetla – Chief Executive a.i.

The Mohale Dam and Mohale Tunnel are likely to be commissioned a year later than provided for in the original construction contracts, but since Katse inflows have been well above average in recent years, Treaty supply requirements can be maintained.

Matsoku Diversion

I am happy to report that one of the major achievements during the period under review was the commissioning of the Matsoku Tunnel and Weir works in October 2001. Thus the flood waters in the Matsoku River have started to be diverted to the Katse Reservoir. It is worth noting that dry commissioning had already been successfully carried out in January of the same year.

Mohale Tunnel

The intake Tunnel Boring Machine (TBM) finished its drive in February 2002 (four months later than the December 2000 working programme) having excavated a total of just under 15 kms of tunnel. By March of the same year the Outlet TBM had covered roughly the same distance, leaving about 1,5 kms of tunnel to be excavated and thus complete the excavation of the Mohale Tunnel. The prognosis was that the Tunnel breakthrough would take place at the earliest in late May/early June 2002. In my previous report I had highlighted that the Mohale Tunnel excavation was behind schedule.

Mohale Dam

By the end of the reporting period i.e. March 2002, the Mohale Dam was substantially complete and ready for impoundment. The impoundment was however being held back by the delayed progress on the tunnel excavation. Taking the need to minimise costs, an agreement was reached that the Mohale Dam Contractor would demobilise in June 2002. In parallel,

LHDA and the Mohale Tunnel Contractor (MTC) reached an agreement on a work procedure whereby impounding could start in early October 2002 at no extra cost to LHDA. Under that agreement, MTC would take over, expedite and complete all the remaining works associated with impounding from the Dam Contractor to secure impounding in October 2002.

Contractual Claims and Litigations

One of the major setbacks during the year includes the outcome of the Katse Dam arbitration which went in favour of the contractor, the award being given in September 2001. LHDA has since lodged a legal challenge to the manner in which the tribunal had converted the M18,9 million award to other currencies. A hearing has finally been scheduled for October 2002.

The continued withholding of payments to Phase 1A contractors allegedly implicated in the bribery case made it impossible to close-out a number of long-completed contracts.

The Contractor's Claim for the changed condition of rock from that specified for Mohale Tunnel Contract is not yet resolved. The Engineer's decision delivered in November 2001 while it effectively rejected all the Contractors contentions, it also rejected the LHDA's argument that the rock encountered was foreseeable. By the end of the reporting period, LHDA was gearing itself up for the hearing on this matter which was scheduled to begin in June 2002.

Environment and Social Issues

Compensation and Resettlement of affected households

It is one of the main provisions in the Treaty that LHDA will provide for adequate and timely compensation to those individuals who have been directly affected by the Project and also recompense them through adequate resettlement provisions.

Compensation

I am happy to report that during the reporting period about 3000 households received their compensation in the form of either grain or cash. The split of choices was roughly 60/40 percent between grain and cash respectively. In terms of quantities, slightly under 1 160 metric tonnes of grain and pulses were distributed to over 1 800 households. Reflecting the choices made by affected households, almost all the grain (97%) was maize, the local staple food. Regarding cash compensation, just over M2,8 million was disbursed to over 1 160 households. Other forms of compensation are detailed in the report below. It is however worth pointing out that for the first time there was some progress on the long outstanding issue of disbursement of the communal assets compensation.

Phase 1B Resettlement

The resettlement of the affected households has initially

been programmed in two main stages viz. Stage 1 – pre construction stage and stage 2 – pre impoundment stage. With the complete physical resettlement of the 99 households under stage 1, work has continued to complete other remaining aspects such as related compensation and remedial works on the defects to the structures. The main focus of the resettlement programme during the period under review was the resettlement of affected households under stage 2. As at the end of the reporting period a total of 111 households had been physically resettled while structures for the remaining 57 households were at various stages of construction.

Development Programmes

As a means of sustaining the livelihood of the affected people, the Project has initiated a development programme that covers both agricultural and non-agricultural interventions.

The detailed report attached shows that slightly over 700 hectares was planted to various crops including maize, wheat, beans, peas, seed potato, asparagus and paprika. As a highlight, in terms of livestock statistics, just about 150 farmers procured and reared just under 180 000 broilers of which they sold close to 60% of the stock. One of the objectives of the Project is to wean the affected people away from dependency on compensation and hence pilot projects in development of entrepreneurship skills are considered paramount. During the year potential entrepreneurs were identified and assisted in various ventures using the locally available raw materials. Training was also provided in various areas including cooperatives management and bee keeping.

Financing Issues

I am happy to report that the Project continued to receive good support from the financiers including, the World Bank, EIB, DBSA and the ADB. By the end of the reporting period the conditions precedent to drawdown under the ADF and ADB funding had been met.

One of the major highlights includes the approval by the Project Authorities of the methodology for apportioning the Operations and Maintenance costs between the Hydropower and the Water Transfer components of the Project. This marked a significant milestone in the commercialisation programme for Hydropower.

Concluding Remarks

It is with a sad note that I have to report the untimely passing away of the former Chief Executive Mr Makase Marumo. He passed away on the 26th of July 2001. Mr Marumo will surely be greatly missed by all who knew him both on a personal and an official basis.

On the positive side, and as an assurance to the Project Authorities and Partners alike, the Project operations have continued to run smoothly thanks to the capable leadership team he left behind and the robust management systems in place.

SALIENT FEATURES OF THE LESOTHO HIGHLANDS WATER PROJECT FOR THE YEAR 2001/2002



Phase 1A:- Katse Dam – The main storage of water for power generation at 'Muela and delivery to RSA.

INSTITUTIONAL DEVELOPMENT

Given the impending completion of construction activities, and the uncertainty of Phase II of the project, considerable focus was placed on planning for the inevitable decline in activity which the Authority faces. Several Branches submitted structural revisions to the project Authorities and further structural reviews are underway.

The expected changes and consequent reduction in staff numbers necessitated a review of the separation policy, and considerable dialogue with government, particularly with respect to ensuring the maintenance of many of the benefits arising from the project.

In parallel, the issue of the transfer or sale of certain of LHDA's assets to relevant arms of government, other parastatals or former parastatals, and the private sector, gained high priority.

These issues will remain a major focus of activity in the ensuing year.

CORPORATE SERVICES GROUP

Main Areas of Focus

The success of any organisation is predicated on, amongst others, the effective use of its people, effective processes and products and or services that are seen as adding value by the

customers and stakeholders. The Corporate Services Group therefore plays a critical central support services role in relation to the people, processes and products/services issues. The key areas of focus include facilitating the development of the Authority's human resources for effective service delivery, co-ordination and development of corporate-wide business

processes such as corporate wide planning, corporate-wide performance monitoring and management and corporate-wide information/knowledge management and proactive legal services. Another critical role of the Group is to co-ordinate the process of change management and ensuring alignment of employees objectives with the long term corporate goals.

Key Challenges

The key challenges for the Group have always been and will undoubtedly continue to include the ability to adapt to the changing phases of the project while maintaining focus on the long-term vision. Success requires maintenance of a strong corporate culture and a working environment that engenders performance delivery and service par excellence, building and maintenance of world class competencies and ability to reconfigure focus in line with changing phases of the project.

In terms of the lifecycle of the project, we are at the final stages of construction of major physical works. This will then be followed by close-out stages of the agreed first phase of the project. There are no clear indications about further phases and therefore management has decided, for planning purposes, to assume that there will be a very long delay before any subsequent phase, if and when it does come on stream.

The outgoing year in respect of which this report is prepared is therefore to be seen within the context as described above. The report provides a high level summary of the main areas of focus during the year. For continuity and proper perspective, the outgoing years' achievements are compared to the initiatives that were reported in the preceding year.

Achievements By Functional Areas

Corporate Planning and Performance Monitoring

During the months of November and December 2001, the Corporate Planning Branch's annual business activities were reviewed. A detailed work-plan was drawn and on that basis the Branch facilitated a strategic goal-setting retreat for both senior and middle management of the Authority in February 2002. Subsequent to the strategic retreat, work continued in refinement of the short to medium term vision and intermediate goals.

The plan is to release a five year strategic plan by the end of July 2002. Planning activities also included the determination of high level annual corporate objectives and strategies which will in turn be translated into Group Business Plans and Branch Work plans for the year 2003/04.

As in the previous years, the Authority will be reinforcing the planning process by holding a general staff meeting at which the theme would be business plans reviews and change management. These and other complementary measures are intended to translate vision and strategy into action on the ground and also ensure that each of the business units and individuals in them have a clear visualisation of the

big picture and how each can meaningfully contribute to the corporate strategic goals.

On the corporate performance review side, the Authority continued to closely monitor performance on a monthly basis. In this respect, the joint reviews by the supervision missions fielded by the financiers added further value to the process. Perhaps as an indication for more intensified efforts, the performance barometer as reflected by the rating of the external stakeholders on the balanced score card showed a decline from the previous years' rating of 80% to 75%, but nonetheless still much better compared to the low rating of 40% given in June 1998. These ratings are based on measures across fifteen metrics.

Management has taken this decline in rating as a positive and constructive feedback from the stakeholders, especially given certain known strained relations with LHDA. LHDA intends to double efforts to improve performance, especially in those areas under its control.

It will be recalled that most of the areas for criticism came under the social and environmental arena and some of these required the intervention of authorities outside LHDA. Towards the end of the reporting period, there were positive signs that some of the long-standing resettlement and compensation issues would see further progress.

Management Information Services

The year under review was a relatively smooth and quiet one as far as the Information Technology (IT) and Information Systems (IS) activities were concerned. An important capacity building initiative was initiated during the year when the IT staff were trained in building networks. This work was contracted out. The success of the training was evidenced when the staff applied their newly acquired skills to build a mini network at one of the outlying project sites in the Butha-Butha Town sites. Furthermore, during the year, there were new services introduced and network coverage was expanded.

The offices of the Lesotho delegates to the Lesotho Highlands Water Commission and that of the Commission Secretariat were connected to the LHDA network to enable them to access e-mail and Internet facilities. Furthermore, the users at the three office sites located at the Post Office building, Victoria Offices and 'Muela, were provided with e-mail services.

At 'Muela, a terminal server was installed to enhance processing power for personal computers, which otherwise would have had to be replaced. These personal computers now use memory and processors on the server to perform resource-intensive tasks such as opening large images. As part of a co-ordinated campaign on maintenance of security of the network, the Authority introduced a centrally administered approach to curb the infection and spread of computer viruses. Under this approach, latest anti-virus updates are downloaded to a server which in turn updates all computers on the network. The server also runs virus scans and generates virus monitoring reports.

On the business applications side, as part of the drive to promote e-business, during the year under review work was started to build an Intranet through which staff can easily access electronic information and documents. These would include reports in the public domain, corporate policies and procedures, forms of various kinds etc. Work was also initiated in developing a property management system to be used by the Town Sites Office.

During the reporting period, it was decided to defer the question of upgrading the SAP system. This has had the knock-on effect of also deferring implementation of the Human Resources module, in place of the current combination of manual systems and spreadsheets.

That SAP has not yet been upgraded means that a certain amount of support is more limited. However, LHDA has a support contract with AST, South Africa, and it is satisfied that the system is operating adequately.

Training continued to be a major focus in order to empower LHDA computer users and ensure that they get the best out of deployed technologies. More than 100 users were trained in, amongst other, network basics, e-mail usage and office applications.

Human Resources Development and Capacity Building

Routine tasks of identifying training needs in collaboration with the LHDA Branches and implementing such training continued during the year. Significant progress was also made to customise and simplify the Cost To Company (CTC) remuneration strategy and to align all the benefits with the CTC strategy.

On the human resources management side, work continued in the development of the 2001/2002 training plan and assessment of options and recommendations of a long-term medical aid provider. Work continued on developing manpower plans, refinements to the structure of the Human Resource Branch and the updating, revision and issuing of new performance contracts.

On a sad note, the Authority lost its Chief Executive, the late Mr Makase Marumo who passed away on the 26th July 2001. The late Chief Executive will be remembered for his humane qualities, his patience and above all his visionary and transformational leadership qualities. The staff will miss him for his very intense and deep passion about the LHDA cultural transformation and new LHDA beliefs and principles which he personally lived and not just talked about. He has, however, left behind a very capable team and this has been demonstrated by the continued smooth operations.

The search for a new Chief Executive started during the year and by the end of the reporting period no appointment had been made.

Legal Services

Swissborough vs LHDA

In the longest civil case in the legal history of Lesotho, this matter was finally concluded when, on 28 April 1999, the Court of Appeal dismissed Swissborough's appeal after the High Court found for the LHDA that the allocation of mining sites to Swissborough at Rampai was null and void *ab initio*, in that procedures precedent to such allocation were not fully complied with.

Throughout the period of this report, LHDA lawyers have been engaged in taxing the various cost orders granted to the LHDA at various stages of this case. This exercise has been carried over beyond the reporting period.

LHDA vs Mr Sole (Former LHDA Chief Executive)

This is also one of the longest civil cases in the legal history of Lesotho, second only to the Swissborough case. After various interlocutory applications and appeals, the matter was finally close to a decision by the Court of Appeal at the end of the reporting period.

Arbitration between Highlands Water Venture (HWV) and LHDA – Contract No. LHDA 123

In this Arbitration the Tribunal was required to hear and decide on disputes concerning seven claims made by the Contractor, against the LHDA under Contract No. LHDA 123, for the Construction of the Katse Dam and Appurtenant works.

The Tribunal was also required to hear and decide on the Counterclaim brought by LHDA. The total value of the seven Claims by HWV was M100 000 000. The value of the counterclaim was to be assessed and ranged between M20 000 000 and M60 000 000.

The Arbitral Tribunal found for HWV and valued, in Maloti, a total amount of approximately M19 million as payable to HWV by LHDA. However, this has been converted in the award at historical exchange rates into various currencies, which would result in a much higher payout on LHDA's part. LHDA is therefore challenging this aspect of the award.

ENGINEERING GROUP

General

The main activities which engaged the group during the reporting period were the resolution of outstanding matters from Phase 1A contracts and the mitigation of delays to Phase 1 B key milestone dates (impoundment of the Mohale dam and completion of the tunnel excavation), due to the slower rates being achieved on the Mohale tunnel contract.

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A major achievement was the commissioning of the Matsoku Tunnel and Weir works in October 2001.

Construction Branch

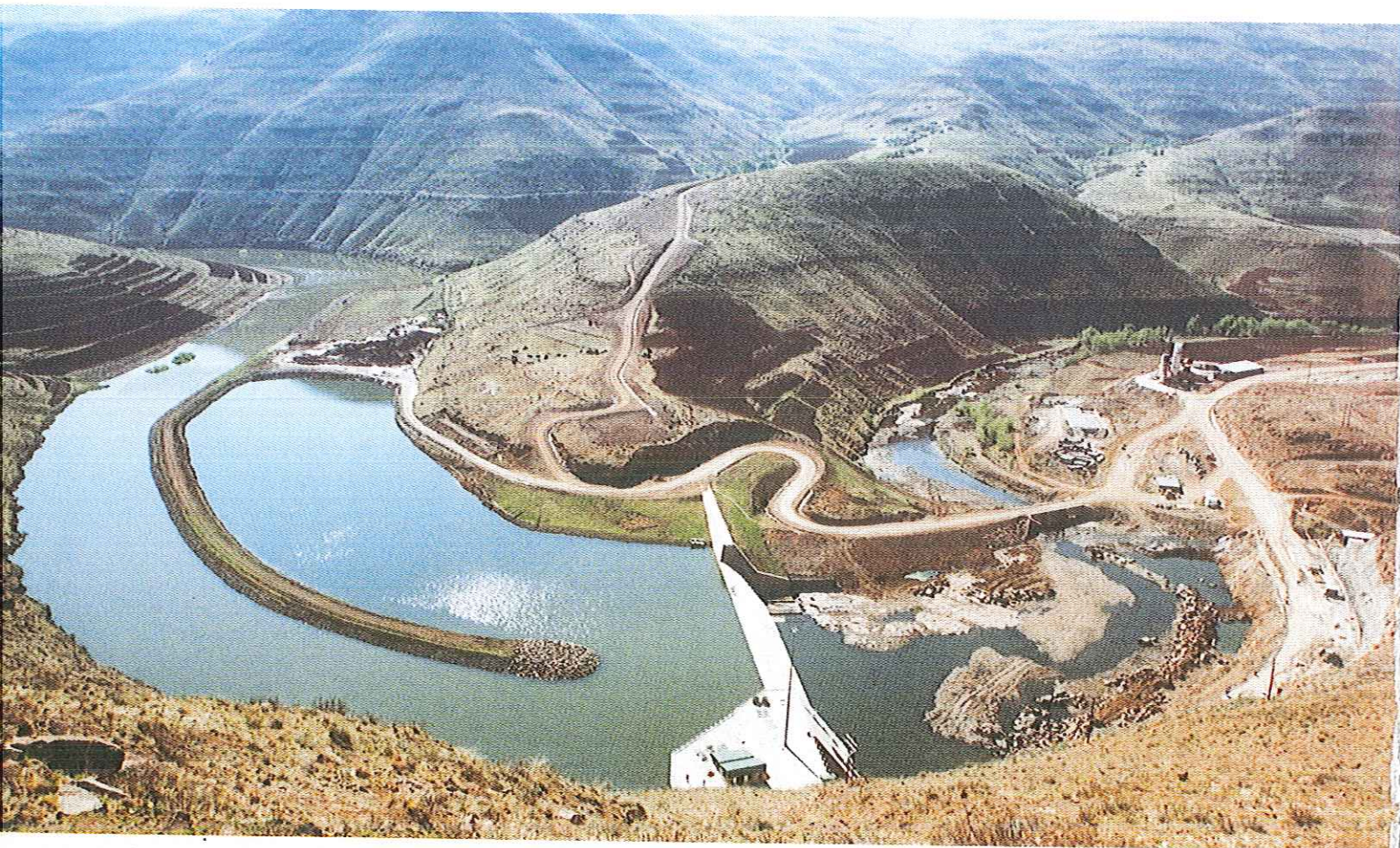
Phase 1A Major Contracts

The remedial works to the 'Muela Turbine cheek plates (undertaken as a new Contract No. 2050), originally planned to be complete during the 2001/2002 Financial Year were delayed by difficulties with the generator shaft alignment in Unit 1. The alignment problem has now been resolved and the unit is being re-commissioned. Once Unit 1 is operational, the cheek plate remedial works on Unit 2 and 3 will be effected.

The additional drainage and Trivec holes to improve the stability of the downstream right bank of Katse Dam were completed. A superficial rock slip occurred on the downstream right bank as a result of water spray from the November 2001 spill activating movement along a stress relief joint. Remedial works are in progress to stabilise the cut excavation face on the downstream



1. Phase 1B:- Mohale Dam – August 2002: Downstream view with the complete concrete-lined spillway on the right.
2. Phase 1B:- Mohale Tunnel – Intake Site. Construction of 4m internal diameter "cut and cover" upstream transition stub at the lower intake.



Phase 1B:- Bird's-eye view of the Matsoku Diversion Weir on the Matsoku River.

right abutment of Katse Dam, rigging up the rock slip and anchoring the area within the spillway spray zone.

Phase 1B Major Contracts

Contract LHDA 2007 – Mohale Tunnel

The Intake TBM finished its operations in February 2002, having excavated 14.6kms of tunnel. It is presently being dismantled and taken out of the tunnel. At the end of March 2002 the Outlet TBM had excavated 14.5kms of tunnel. Progress in the second-half of this reporting period improved on both drives as a result of reduced water inflows and better motivated work crews.

There is 1.5 km of tunnel remaining to be excavated and it is projected that the breakthrough will take place in June 2002.

The Engineer's decision on Claim No. 20 was delivered in November 2001. Both LHDA and the Contractor were not satisfied with the decision and notified intent to pursue the matter to arbitration.

Contract LHDA 2008 – Matsoku Diversion

The Matsoku Diversion works were officially commissioned during a ceremony attended by the relevant ministers from

Lesotho and the Republic of South Africa, on 26 October 2001. A Taking Over Certificate was issued on 4 October 2001 and the Defects Liability Period will run for a calendar year from that date. Hand-over to LHDA's O&M Group is under way.

Since October 2001, the flood waters in the Matsoku River have been diverted to Katse reservoir.

Several small problems were identified during commissioning and these will be dealt with in April 2002.

The Mphorosane Clinic was shut down at the end of 2001 whereas the Ha Lejone Clinic is to run until September 2002.

Very little progress has been made on the disposal of Ha Lejone Camp despite advertisements in the press. Interest was expressed by a small number of individuals, but so far none by "corporate" organisations.

Contract LHDA 2009 - Mohale Dam

As at the end of March 2002 the Dam was substantially complete and ready for impounding. Impounding was however delayed by the need to complete Mohale Tunnel Intake Works below the full supply level. The LHDA has now come to an agreement with the Mohale Tunnel Contractor whereby impounding is now planned for October 2002. At the same time



Phase 1B:- Mohale Dam – August 2002. Completed upstream concrete faced dam with sloping intake and compensation structures on the left.



Phase 1B:- The Matsoku Diversion Weir spilling after heavy rains in October 2001.

the LHDA is making final arrangements for the Mohale Tunnel Contractor to take over and to complete all the remaining works associated with impounding at the Dam when the Dam Contractor demobilises.

Police Facilities

LHDA Contract 2031A for the construction of Police facilities at 'Muela was awarded to Sigma Construction and LHDA Contract 2031B for the construction of Police facilities at Pitseng was awarded to M & C Construction (Pty) Ltd, both during November 2001. The construction of the above facilities is on schedule to be complete in the next reporting period. The construction of other Police facilities at Ha Khabo, Mantsonyane and Ha Ohale will be done later on when more funds are available from the Lesotho Government budget.

The Project Management Service for the construction of the above services is performed by PZC joint Venture under LHDA Contract 1203.

It is to be noted that LHDA's role in these works is only that of a project director to facilitate the successful implementation of these works.

PLANNING AND DESIGN BRANCH

Power and Telecommunications

Construction Power

Phase 1B Infrastructure was handed over to the Lesotho Electricity Corporation (LEC) in mid-August 2001. The Operation and Maintenance Agreement contract document (Contract LHDA 2019) has not yet been signed due to the inevitable modifications of the draft contract document, as a result of the recent restructuring of LEC.

The Phase 1B draft Tariff Agreement between LHDA and LEC is still not yet signed as the new LEC Management Task Force is not in agreement with the principle adopted in the statistical metering project (responsible for the determination of tariff levels). Negotiations are ongoing on this issue.

Telecommunications

The Operations and Maintenance Agreement between LHDA and Telecom Lesotho (Pty) Ltd (TL) – formerly Lesotho Tele-communications Corporation – has not been signed as the contract document had to be re-negotiated with the new management.

From the preliminary meetings between the management of the two organisations, TL had expressed the wish for purchasing the Phase 1A and 1B LHWP networks from the LHDA, once agreement could be reached on the value of the equipment.

LHDA is preparing a short Request for Proposal (RFP) for the appointment of an independent Assessor for the

LHWP telecommunication network, which shall form the basis for negotiations between TL and LHDA. A tentative target date for finalising negotiations with TL is September 2002, in the next reporting period.

CONTRACTS BRANCH

Claims

Phase 1A Contracts

The continued withholding of payments to Phase 1A contractors alleged to be implicated in the bribery case made it impossible to close-out a number of long-completed contracts. Work continued on the arbitration of Contract 123 which is discussed earlier under Legal Services (Page 10).

Phase 1B Contracts

The Contractor's Claim for the changed condition of rock from that specified for the Mohale Tunnel Contract kept the Contracts Branch very heavily involved. This matter is also discussed earlier (Page 12).

The first Dispute Review Board (DRB) hearing on Phase 1B was held in January 2002, covering two disputes on the Matsoku Tunnel and Weir contract. The recommendations of the Board were expected to be available in April 2002.

OPERATIONS AND MAINTENANCE GROUP

In its fourth year of operation, the focus of the O&M Group has remained unchanged. It is to enhance productivity, increase efficiency and effectiveness in the discharge of its mandate. In line with Government's initiative to restructure the power sector, the Group started in parallel, the process of transforming its operations to be more viable, self-sustaining and commercially oriented. The process has now been assisted by the completion of the cost allocation exercise between Hydropower and Water transfer, the report of which was issued in February 2002.

The short-term power sales tariff (interim tariff to September 2002) to LEC was successfully concluded and approved by Government during the year. The review of the 1993 Power Sales Agreement (PSA) with LEC will continue in the following reporting period with a view to agree a longer term bulk supply tariff that will be competitive within a liberalised regional electricity market.

Water deliveries and royalty revenue

A total 584 million m³ of water was delivered to RSA. The volume represent a 2% increase from the previous year's deliveries and 1.2% less than planned deliveries for the year. The corresponding royalty revenue generated amounted to M183 million, 10% more than the forecast for the year.

The increase in actual revenue generated to forecast has been due to rises in the monthly Production Price Index (PPI) as a result of 42% Rand depreciation in 2001. PPI is factored as one of the monthly variables in the formula used to compute monthly royalties.

Table 1: 3-year performance overview: Water Deliveries & Royalty Revenue

Financial Year	Planned Deliveries (million m ³)	Actual Deliveries (million m ³)	% Variance in Deliveries	Royalty Payments (million Maloti)
1999/2000	538	540	0.4%	M146.93
2000/2001	573	574	0.2%	M158.05
2001/2002	591	584	(1.2%)	M182.95

Electricity Generation & Revenue

Total electricity generated at 'Muela for the year was 373 GWhrs, of which 351 GWhrs was sold to LEC, and about 5.6% constituted exports to ESKOM-RSA. Total sales to LEC totalled M44.76 million, about 8% short of the forecast for the year.

The reconciliation of export figures with ESKOM had not been completed for the period ending March 2002. The delays have primarily been due to the new billing arrangement for export trading in which a tripartite agreement between LHDA, LEC and ESKOM was reached for LHDA to bill ESKOM directly for exported electricity.

Table 2: 3-year performance overview: Electricity Generation & Sales Revenue

Financial Year	T. Planned Generation (GWhrs)	Tot. Actual Production (GWhrs)	% Variance in Production	Electricity Sales to LEC (Mxmillion)	'Muela Peak Output (MW)	% Exports of Total Production
1999/2000	369	386.44	4.7%	M41.68	83.0	16.8%
2000/2001	387	371.57	(4.0%)	M44.13	78.1	3.4%
2001/2002	391	372.95	(4.6%)	M44.76	77.7	5.6%

Note: Sales to LEC exclude export revenue.

The power generated at 'Muela has accounted for >85% of all energy purchased by the Lesotho Electricity Corporation (LEC), the national electricity distributor.

'Muela Cheek Plate Repair Programme

Following the discovery of excessive erosion and corrosion on the cheek plate of 'Muela turbines in November 2000, repair and conditioning work on all three units started in September 2001. Repair works have been carried out such that only one unit is out at a given time. The damage to the cheek plates was due to the fact that they were not protected by Stainless Steel.

The work was originally scheduled to last six months at an initial total cost of M2.8 million, based on the then prevailing exchange rate of £1 = M12. However, during the re-assembly of

Unit 1, a misalignment between the generator shaft and the intermediate shaft was discovered and assessed to be a defect during the station erection.

Repairs and corrective work on the unit was successfully completed in March 2002, and work on the cheek plates of the remaining two units started soon after, at a revised cost estimate of M5.2 million for an additional time of five months. The work has been led by the Engineering Group since it falls within the construction contract stipulation, and the necessary support was provided by the O&M Group. For the seven months period starting in September 2001, the 'Muela Hydropower Plant only had two units available at all times, thereby forcing the routine/planned maintenance on the other units to be rescheduled.

April 2001 month-long 'Muela Hydropower Station Shutdown

For the second time in three years, TCTA (LHDA's sister company in RSA) requested a 31-day interruption in water deliveries to enable erosion repair work to take place at the delivery tunnel outlet (Ash River outfall). A similar month long shutdown was requested in October 2000 by TCTA, to facilitate the construction of critical in-channel structures at the outfall. The power station was shut down for the period, an occasion that presented an opportunity for the O&M staff to undertake carefully planned preventive maintenance works at the station.

In order to meet water delivery shortfalls from the April outage, the station was run near its peak in the subsequent months, resulting in some energy exports whenever output exceeded the national load.

'Muela Hydropower Plant Reliability

Overall, the Group's business performance for the year has compared very favourably with industry standards. Although the station performance in terms of energy production (excluding the April 2001 shutdown) was on target, the overall reliability was slightly compromised by the prolonged outage of one of the Units. At 95% availability the station reliability was 3% below the target for the year. Despite the conditioning work on Unit-1 turbine cheek plates, the security of supply and overall system availability remained high. To compensate for the unavailability of Unit-1, the remaining two units were successfully run at maximum output without any apparent distress.

Safety

The Group's safety record has remained very high. One significant milestone reached has been the achievement of zero disabling injury incidence rate (DIIR) for the year. On safety of the general public (communities residing along LHWP reservoirs), the number of drowning related deaths have also reduced significantly compared to previous years. The Group's implementation of an "Emergency Preparedness Programme" (EPP), and education and safety awareness

campaigns including diver training courses that have been offered by the Environmental and Social Services Group, have contributed to this reduction.

Operations & Maintenance Branch

The O&M Branch is responsible for the operation and maintenance of both the water transfer and hydropower generating facilities, including safety aspects of personnel, systems, equipment and structures.

In general, performance indicators in the areas of plant performance, production, productivity and human resources were all close to target for the year, despite one unit being out for most of the time. Apart from the repair work on the turbine cheek plates, both hydropower and water transfer infrastructure experienced a marginal decrease in maintenance costs compared to the previous year.

Since the handing over of the 540 kW Katse Mini-Hydro Power Plant in August 2000, the plant has been operated as an isolated generating station to supply the Katse Dam power requirements, which average 200kW. The plant is scheduled to be connected to LEC grid by 2003. When connected, the mini-hydro power plant can be continuously operated at an average 500 kW power output.

The safety record of the 'Muela Station has remained at 4-Star (out of a possible 5-Star rating) that was achieved during the August 2000 NOSA audit. Because of the work with the 'Muela cheek plates repairs, it had not been possible to conduct a pre-audit exercise at the stations until 17 to 18 March 2002 when NOSA officials performed a safety pre-audit as a prelude to a full audit scheduled for the next reporting period.

Operations Planning Branch

The Operations Planning Branch is responsible for downstream water releases from Project dams, water quality, hydrological and meteorological aspects of the LHWP. The Branch prepares operational plans to optimise both generation and water transfer activities, and monitors water quality and pollution issues in LHWP reservoirs and their inflow rivers.

Of the 14 hydrometric stations (for water level measurements) and nine rainfall stations (for meteorological information such as rainfall, temperature humidity etc.) the data availability factor has been 76% and 96% respectively. The target of 98% data availability could not be achieved due to heavy continuous rains that prevented access to some stations, and unavailability of some stations due to vandalism, equipment breakdowns etc. During extreme winter conditions, some rain gauges have been susceptible to ice damage.

93% of the target 1 895 water quality samples were collected and sent to three laboratories in RSA for testing of different parameters. At the end of the reporting period, results of only 68.5% of samples had been received. Analysis of water samples continues to fall far below the target due to reliance on external laboratories for tests. Test results are normally received

two to three months after delivery. Because of the delays, LHDA has initiated partnership with the Chemistry Department of the National University of Lesotho (NUL) under the existing co-operation agreement with the University. By the end of the reporting period a water analysis proposal from NUL was being reviewed by LHDA.

The monitoring of pollution in the reservoirs has not revealed any cause for concern. Water quality has consistently met the agreed standards. The physical, chemical and biological parameters measured at 32 water quality sampling sites (including 10 IFR sites) have all complied with the standards. An annual water quality report for 2000/2001 was issued in September 2001. The report for 2001/2002 will be issued around June/July 2002.

The sediment survey report on the Katse and 'Muela Reservoirs for 2001/2002 was issued in March 2002 due to a one month delay in completing the survey work due to heavy rains. The report reaffirms previous findings that Katse Reservoir is receiving insignificant silt deposition, whilst 'Muela shows a high siltation rate.

Discharges of water downstream of Project dams have been consistently above the minimum Treaty specified minimum releases of 0.50 m³/sec for Katse Dam, and 1.5m³/sec for 'Muela Dam. An annual report on releases downstream of the Katse and 'Muela Dams was issued in March 2002.

Dam Safety & Surveillance Section

The Dam Safety Team is responsible for monitoring the behaviour of all dams (through instrumentation), and all safety aspects associated with the operations of the dams. There are over 1000 specialised instruments installed at both the Katse and 'Muela dams. The instruments measure dam displacements, seepage, temperatures, strains and stresses, pore pressures, seismic events, etc. More than 90% of these instruments are installed at Katse alone. The Section is also responsible for the development and implementation of an Emergency Preparedness Plan (EPP) and an early warning system for communities residing downstream of the dams.

All monitoring routines of the Katse and 'Muela dams were achieved as planned. The Confidence Index on accuracy of installed instruments remains high at >98%. Almost 100% and >98% of all instrumentation installed at 'Muela and Katse dams respectively, were available during the period. Both structures continued to perform optimally even under the ultimate test conditions that coincided with either dam spilling. No structural cracks, displacements or deteriorations that warranted concern were observed.

Katse Reservoir has retained above 93% of its 1 950 million m³ total volume capacity throughout the review period, due to unusually heavy rains from October 2001 to February 2002. The dam spilled a total 325 million m³ of water from 24 November 2001 to 27 February 2002. Table 3 highlights the history of Katse Dam spills since impoundment.

Chart 1: 5-year Quarterly Katse Reservoir Variations

Seasonal Katse Reservoir Variations

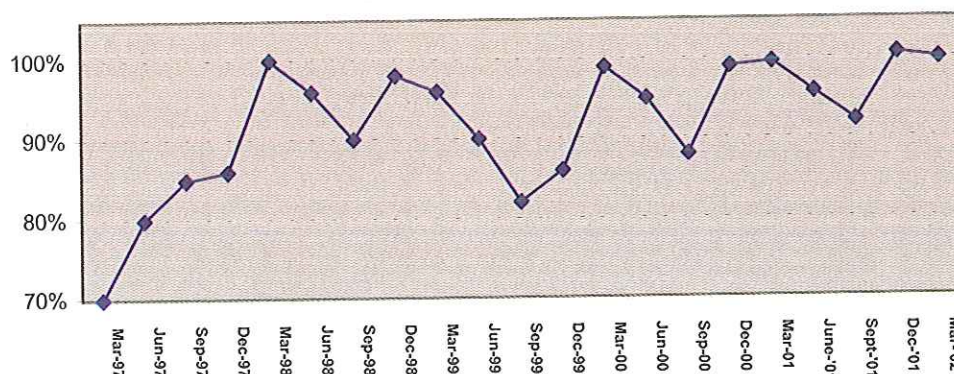


Table 3: History of Katse Dam Spills

Ref	Year of spill	Dates of spilling	# of days continuous spilling	Volumes of water spilled per period (million m ³)
1	1998	10 March - 20 April	41 days	116
2	2001	18 April - 18 May	31 days	140
3	2001	24 Nov. 2001 - 10 Jan. 2002	48 days	170
4	2002	26 January - 27 February	32 days	155
Totals (less compensation water)			152 days	581

The annual capacity of the Katse Reservoir has varied in a sinusoidal fashion according to seasonal climatic conditions (see Chart 1). The reservoir peaks during rainy summer and autumn seasons, and gets recharged slightly in the winter season from the melting snow in the mountains. This winter recharge gives a balance (decelerates the rate of reservoir discharge) to the relative increases in winter deliveries that are necessary to generate more power to meet the peak winter demands.

The implementation of Emergency Preparedness Programmes (EPP) in the Highlands progressed as planned except for delays experienced in installing warning signboards along the downstream rivers, due to inclement conditions. EPP awareness campaigns were concluded in all districts affected by LHWP, and partnerships were established with rural clinics, police stations, schools etc. Good progress was made with the implementation of the EPP in all districts affected by the LHWP to co-operate as part of the EPP's early warning system. In addition, reasonable progress was achieved with the EPP Radio Broadcast Element (Project to install radio masts in the Lesotho Highlands that will ensure that communities are easily reached by radio) during the year. Feasibility studies that identified suitable radio transmitters for erection and their appropriate locations for wider radio coverage were finalised. The project will be implemented during the 2002/2003 financial year.

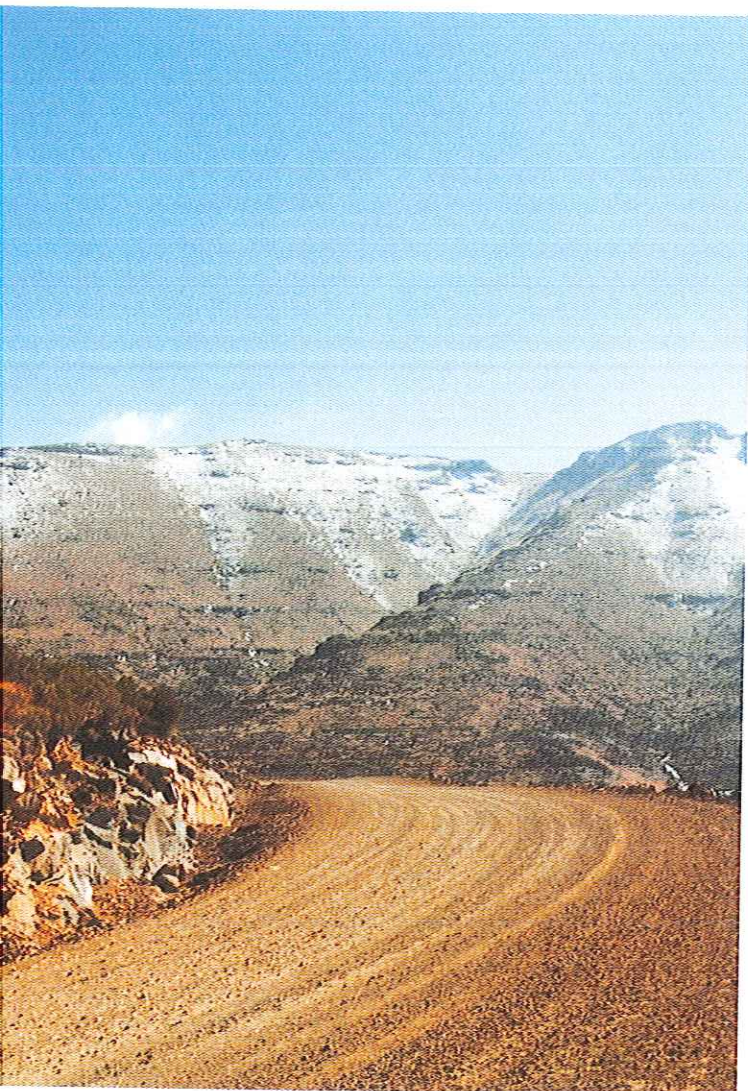
ENVIRONMENT AND SOCIAL SERVICES GROUP (ESSG)

Natural Environment and Heritage Plan

Natural Environment and Heritage (NEH) Plan is implemented in both Phases 1A and 1B separately or jointly. Integrated Catchment Management (Contract 1044) progressed as a joint programme which saw the approval of "scope of services" by the LHWC. Requests for proposals were being prepared at the end of the reporting period. The Environmental Awareness programme, which deals with the mobilisation of students to partake in developmental activities, saw the poultry farming training undertaken by seven interested schools in Phase 1A, and five in Phase 1B. Furthermore, six youth clubs were identified for establishment in Phase 1A (Lejone: four, Katse: one and 'Muela: one). In addition, eight refuse facilities were constructed in Phase 1A (Katse: four and 'Muela: four).

The Katse and Mohale Reservoirs Zoning Development programme (Contract 674) saw the study draft final report produced and commented upon in order to produce final reports. The Nature Reserves programme (Contract 604) is virtually complete with all three Phase 1A nature reserves (Ts'ehlanyane, Bokong and Liphofung) established and operational. The Land Rehabilitation programme saw eight conservation structures erected along the Mohale Outlet road while 18 structures were erected at Katse. Furthermore the programme planted 1 000 trees below Katse Dam wall and a further 10 500 trees at various locations in 'Muela. Rescue of Flora and Fauna from the Mohale reservoir area (Contract 1077) is another programme that saw flora collection completed as scheduled, with the fauna part to be implemented during the dam impoundment.

Monitoring of the construction activities programme has seen nine monthly inspection reports for bridges, Mohale Dam, Mohale Inlet Tunnel and Mohale Feeder roads as well as three audit reports for the Inlet Tunnel, dam and bridges produced. The propagation of Medicinal Plants programme



Phase 1B:- Feeder Roads around Mohale Reservoir. Ongoing construction of feeder roads will improve transportation along the future Mohale Reservoir.

in Phase 1B (Contract 1054) saw the establishment of six community nurseries. For Phase 1A, seven community gardens were established at Katse and 'Muela (Katse: five and 'Muela: two). The Biology programme activities at Katse Botanical Garden had 8.1 kg seed of 84 genera for 86 species collected and planted, while 47 plant genera for 62 plant species were only collected. Seedlings produced numbered 13768.

Regarding the conservation of the Maluti Minnow in Phase 1B, preliminary design of artificial Minnow holding barriers had been completed and the draft preliminary design report submitted to the Project Authorities for approval towards the end of the reporting period. For the Instream Flow Requirements programme (IFR Contracts 648 and 678), progress saw the separation of Phase 1 impacts for future phases, and the approval of a downstream community consultation strategy.

The consultation process preparations had started towards the end of the reporting period. Furthermore, an IFR Technical Assistant was being engaged to help prepare the policy. As for impoundment impacts including seismicity awareness, the first draft policy document was produced and circulated for comment at the end of the reporting period.

Compensation

Compensation programme activities in the fiscal year 2001/02 included the delivery of Annual Compensation in the form of cash and grain to 2700 Phase 1A households and 300 Phase 1B households. A total of 16051 of 70-kg-bags of maize and 35444 of 1-kg-packets of beans were distributed to 1786 Phase 1A and 50 Phase 1B households. For cash, payments amounting to M2818 217.34 were made to 914 Phase 1A and 250 Phase 1B households.

For lump-sum compensation, payments of sums of less than M10000.00 per household were made to 21 householders (14 in 1A and seven in 1B). As for individually owned assets compensation, seven such qualifying households in 1B received their payments. For Communal Assets Compensation, progress saw the training of 43 Phases 1A and 1B communities to form legal entities that would receive communal compensation and then utilise the funds on developmental projects. The legal incorporation process for ready communities had been completed for four communities at 'Muela, with one community having already received a certificate and being ready to receive payment.

Resettlement (Phase 1B)

With respect to Stage 2 resettlement, 111 households had been resettled by the end of the reporting period, and a further 15 were in the process of being moved. Preparations were underway to resettle 42 more households. Concerning relocation of graves: 183 graves belonging to 52 households were relocated.

Community Participation and Social Work

Community sensitisation and mobilisation continued in both Phases 1A and 1B. With respect to 1B, 55 meetings were held with community structures on development issues, including four workshops. Furthermore, 56 visits were paid to resettlee households concerning possible viable development projects. Individual counseling sessions for resettlees numbered 105 in 11 host communities. As for complaints resolution: of the 21 received, 10 were verified while 11 were resolved.

Community Infrastructure

The Community Infrastructure Branch deals with design and construction supervision of ESSG programmes. Current activities focus on the areas of resettlement, feeder roads and bridges as well as water supply and sanitation provision. With respect to Stage 2 housing units construction, 111 units were completed and occupied, while 57 were under construction. Preparations were underway to start construction of two



schools and a further 58 housing units for a cumulative total of 226 Stage 2 resettles. For Feeder Roads in Phase 1B, earthworks completion was 95%, bulk-blast 70%, while drainage was 25%. Bridges construction continued with five out of eight Senqunyane bridge piers completed. Other bridges (Bokong & Limapong) construction work was ongoing, with three out of six piers for Bokong bridge completed.

With regard to the Mohale Water Supply and Sanitation (Contract 1055), fast-tracked programme designs had been completed and the budget for zones 1 and 2 had been approved for construction. Designs for sanitation and refuse disposal systems were undergoing the approval process before implementation. Concerning Contract 2045, two water supply systems had been completed at Ha Makotoko and Nazareth.

Public Health Plan

Activities under the Occupational Health and Industrial Hygiene and Safety programme continued through regular health and safety inspections as well as construction progress review meetings. Under Health Monitoring and Disease Surveillance,



1. Phase 1B:- Environmental Action Plan (EAP). Resettlement houses at Ha-Seohlana in the foothills. Fourteen households from Limapong and Ha Seotsa villages were resettled here to give way to impoundment of Mohale Reservoir.

2. Phase 1B:- Environmental Action Plan (EAP). Resettlement houses at Ha-Makhalanyane in the lowlands where a total of eight households were resettled from Takatso, Nthakhane and Limapong villages.

activities in Phase 1A included syphilis and HIV testing of 82 blood samples at Katse, and treatment of 659 STD cases at Lejone, as well as provision of anti-natal care service to 913 mothers. As for the nutritional status of under-fives, 31 growth monitoring visits were conducted at Katse where 379 under-fives were weighed. In Phase 1B, 3577 under-fives were registered, out of which 2827 were regularly monitored by 120 trained community health workers.

Designing of Education Education Communication (IEC) materials was completed, as well as procurement and distribution through the Filled Operations Branches (FOBs). In Phase 1B, 10 bill-boards, 4589 posters, 203 booklets, 344 T-shirts as well as 5278 pamphlets were distributed to the public. In Phase 1A, 434 posters, 104 booklets, 733 pamphlets, 12 coffee mugs, 38 calendars, 70 T-shirts and 64 HIV/AIDS red ribbons were distributed at Katse Local Catchment (KLC). At 'Muela in 1A, 757 posters, 74 booklets, 678 pamphlets, 12

coffee mugs, 112 T-shirts and 50 HIV/AIDS red ribbons were distributed. A total of 769 160 male and 9 171 female condoms were distributed in Phase 1A alone. In Phase 1B, 58 315 male and 4 889 female condoms were distributed to the public. Further activities in 1A included the establishment of 10 nutrition groups in 'Muela, training of 27 youth peer educators on HIV/AIDS at Katse, training of 26 mothers on nutrition at Katse, as well as the establishment of 94 community-based distributors of contraceptives.

In Phase 1B, training of 25 teacher counsellors, 40 peer educators, 15 first aiders, 30 home-based care givers, and 20 distributors of contraceptives was undertaken. Immunisation of the under-fives was also carried out in both Phases 1A and 1B, with 4 433 in 1A and 976 in 1B.

With respect to the Water Supply and Sanitation programme activities, 170 VIP latrines were constructed at 'Muela in Phase 1A, and user education was also given to 170 households. Regarding Water Quality Surveillance activities, 47 water samples from 22 villages and 10 schools were analysed at Katse. The Leribe Trauma Unit (LTU) continued to discharge its functions of emergency care where 600 patients were treated during the period under review. The debt recovery at the LTU stood at 68% at the end of reporting period.

Development Programmes

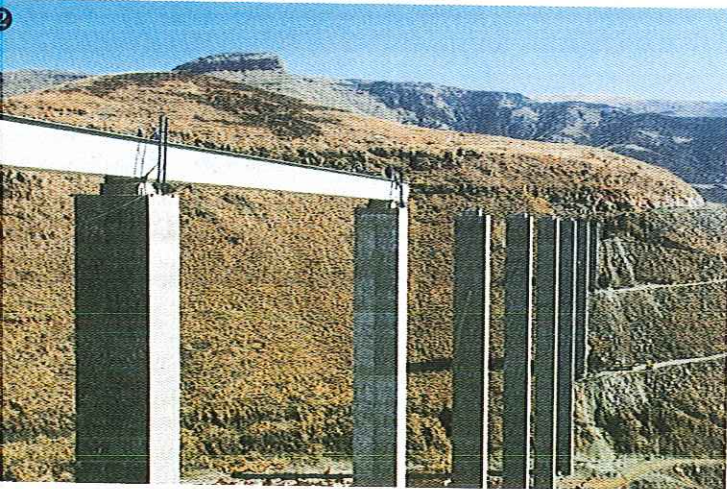
Agricultural Production

In Phase 1B of the agricultural development programme, 600 subsistence farmers planted maize on 320 hectares of land, while 56 commercial farmers planted maize on 28 hectares of land. Regarding wheat production, 50 farmers planted 30 hectares. For peas production, 30 farmers planted 30 hectares of land, while 87 planted beans. For seed potato production, 156 farmers participated and planted 24 hectares of land.

In Phase 1A of the programme, 80 farmers planted maize on 83 hectares, while 20 farmers planted 16.55 hectares of wheat. For beans, 20 farmers planted 19 hectares, while 15 farmers planted 13 hectares of peas. For potato production, 154 farmers planted 138 hectares of land. Asparagus was planted by 33 farmers on 15 hectares, while paprika and garlic were planted on 14.7 hectares. The planning for a seed potato store at Mohale is well advanced.

With respect to the Extensive Livestock Production programme activities, meetings were held with farmers to encourage them to start Range Management Areas (RMAs) in the Phase 1B area. Meanwhile in Phase 1A where two RMAs are operational, four dip tanks were rehabilitated at Lejone. A shearing-shed construction was nearing completion, and the establishment of four breeding camps was in progress. Only 20 farmers had planted fodder on four hectares of land. In an effort to reduce the stocking rate, one auction was held, and the average live weight was 550 kg. Two hectares of marginal land around seven cattle posts got re-seeded.

Activities under the Livestock Production programme included dairy farming where four farmers at 'Muela owned two cows



1. Phase 1B:- Feeder Roads and Bridges – July 2002. The Bokong River Bridge. All six piers of the incrementally launched vehicular bridge completed.

2. Phase 1B:- Feeder Roads and Bridges. Construction of main vehicular bridge on the Senqunyane River. Incremental launching of the bridge deck in progress.



Phase 1B:- (EAP). Seed potato store at Mohale for virus-free potato seeds produced in the highlands of Lesotho.

each, while at Katse 10 farmers contributed M7 500 towards procuring a cow each. Twenty farmers at Lejone and 21 at 'Muela received training on poultry management. Concerning egg production in Phase 1A, 3 687 dozens of eggs were produced and sold out at Katse, while at 'Muela 15 833 dozens of eggs were produced and sold out.

For dual-purpose poultry, 25 farmers at 'Muela procured 500 birds, 16 farmers at Katse procured 150, while 57 at Lejone procured 1 265 birds. For broiler production, 100 farmers at 'Muela procured 62 600 broiler chicks and sold 43 340. Lejone in turn procured 5 100 while Katse procured 870 by eight farmers. On the poultry aspect in Phase 1B, 10 505 broilers were procured by 40 farmers who then sold 2 800 chickens to Mochachos' outlets and Molengoane Lodge.

Small Micro and Medium Enterprises (SMMEs)

Ten SMMEs based at Koporale, Tau and Mohale were engaged in coffin making, five in AIDS bracelets, 15 in clay pots and

seven in brooms and grass mats making. Training in woodwork was given to 19 people. Other individuals were trained in various skills such as carpentry, tapestry, bead-making, piggery production, cookery and latrine construction. In Phase 1A, 62 people at KLC received training in art and craft skills, while at 'Muela 500 received training in co-operatives management and book-keeping, with a further 68 trained in bee keeping.

ADB Eco-Tourism Project

A meeting was held with the ADB Country Portfolio Mission where the project was technically launched. The general procurement notice has been published in the United Nations Business edition of 16 March 2002 and in the local newspapers. Expressions of interest in relation to specific project components were already being received at the end of the reporting period.

Fisheries Project (Contract 625A)

Fisheries programme (Contract 625) operated by JLB Smith and based at Lejone saw the training of 11 fishermen of which

eight qualified as recreational fishing guides. Following the end of JLB Smith's contract, a proposal for the Second Phase (continuation, using an in-house team) of the programme had been approved in principle. Preparations were underway for submission of the in-house management structure as required by the Project Authorities.

Community Forestry

With respect to afforestation activities in Phase 1A, trees had to-date been planted on 96 hectares of land. Twenty hectares of demonstration plots had also been planted with trees. The Community Forestry Project contract came to an end in December 2001. Approval has been given to sign a nine months Variation Order with CARE that changes emphasis from community to agro forestry. Technical financial proposals were awaited from CARE at the end of the reporting period.

Monitoring and Information

Monitoring and Information programmes are meant to support others with information management, monitoring and evaluation, as well as planning co-ordination and information dissemination services. Activities under GIS Data Management included the production of the slope and aspect maps as requested, continuous backup of the ARMS database, finalisation of ESSG meta-database report and responding to various information and services requests. Such requests included printing of Katse and Mohale Catchment maps, revision of the vegetation species map and an ortho-map of Matsoku and Katse for the fisheries project.

Land Use and Land Cover Monitoring is another programme undertaken, whose progress included receipt of Contract 181 outputs (aerial photography). Digital orthophotos have been delivered. Two-thirds of the Mohale catchment has been interpreted and compiled onto a map. With respect to the Cadastral and Topographic Survey, services undertaken included: surveying of fields and resettlement sites; survey of breeding camps at Lepaaoa and Ha-Lejone; detailed survey of the HWV office and SARTT site, as well as a detailed survey of rock at Katse, and one field at Ha-Lejone.

The third and final report of the second round of Socio-economic Surveys and Participatory Monitoring and Evaluation study (Contract 669) was received from the consultant. Scope of Services for the follow-up Socio-Economic Census (Contract 1204) was still with the LHWC for approval before going to bidders.

As for Programme Implementation Monitoring and Evaluation, the final performance report for 2000/01 has been produced. The first quarter report for the period 2001/02 has also been produced, while the second and third quarterly reports were nearing completion at the end of the reporting period. The scope of Services for Effectiveness Monitoring system has not been approved by the LHWC, and has to be revised.

On the planning coordination and information dissemination side, the 2000/01 ESSG annual and audit reports were pro-

duced. First, second, third and fourth quarterly reports and the associated board information papers for the period 2001/02, as well as the 2001/02 ESSG annual workplans were produced. The ESSG draft Annual Workplan for 2002/03 has also been produced as part of a business plan for budgeting purposes.

PROJECT FINANCING

IBRD

The World Bank continues to support LHDA both in terms of funding and technical supervision and advice. During the reporting period, drawdowns totalling US \$3.5 million were made out of the Phase 1B loan. However, as a result of some cost savings on the technical assistance budget, US \$9 million of the US \$45 million loan was cancelled in December 2001 to save on commitment fees among others.

EIB

11 Million Euro (equivalent to R94 million) was drawn from the EIB Phase 1B loan during this period. The drawdown resulted in a M13 million concessionary back-flow from RSA to Lesotho in terms of the provisions of the Treaty and the LHDA-EIB and EIB-TCTA undertakings agreements. This amount will be used to fund GOL costs under the LHDA Environmental Action Plans (EAP). Efforts are already afoot to fully utilise Euro 27.5 million, which remains unspent on the loan (as a result of the 37% depreciation of the Rand during the reporting period) so as to gain the maximum benefit of the concessionary benefit offered by the EIB to the southern African region under this loan.

DBSA

The DBSA also continues to support the LHDA both in terms of funding and technical supervision and advice, mainly on infrastructure projects. Drawdowns under the RDIP loan commenced in May 2001 and M80 million was drawn from the loan during the reporting period.

Funding from the RSA Capital Markets

As the LHWP debt obtained to fund Phase 1A of the project matures, RSA capital markets are used as a reliable long-term, Rand-based, fixed-rate/inflation linked re-financing source. To this end, the LHDA counterpart in RSA (TCTA) has launched two more longer-dated bonds, namely WS04 and WS05. Cash payments totalling R927 million will be made by the LHDA as the WS02 bond matures in April 2002.

African Development Fund and African Development Bank

In principle, all conditions precedent to drawdown under the ADF and ADB funding have been met. Drawdowns under this funding, which comprises of a loan and grant both totalling US \$5.24 million (equivalent to M75 million), are therefore expected to commence early in the coming financial year. The purpose of this funding is to finance the Lesotho Highlands

Natural Resources and Rural Income Enhancement projects which encompass Natural Resource Management and Biodiversity Conservation, Eco-Tourism Development and Rural Enterprise Development.

'Muela Hydropower Project

During the reporting period, the project authorities approved a methodology for apportioning Operations and Maintenance costs between the Hydropower and Water Transfer components of the project. With this approval, and the issuance of the Final Report on the EU funded 'Muela Options Study, it is expected that the financial terms of the loan between GOL and LHDA, which forms the corner-stone for the financial restructuring of MHP, will be finalised during the course of the coming financial year.

Restructuring Project Debt

In the strive to minimise project financing costs and risks, the LHDA, jointly with TCTA, have completed an analysis

which details the costs/benefits of continuing with the various foreign currency loans concluded in 1991 for funding the Phase 1A Water Transfer works. Because of the unexpected depreciation of the South African Rand during the reporting period, the analysis has indicated that the best financial option is to prepay the loans.

Apart from eliminating LHDA foreign exchange exposure relating to these loans, the prepayment will also naturally eliminate the annual fees which are paid to a Trustee who administers debt service by RSA to the various banks on a pari-passu basis. In consequence, all Phase 1A Water Transfer foreign debt will be repaid in 2002/03.

The Government of Lesotho (GOL) has also pre-paid the Standard Bank of Lesotho a commercial loan obtained for funding the GOL cost responsibility of the Maseru By-pass. This transaction was concluded as part of GOL's continuing program to minimise non-concessional funding in the Public Debt Portfolio.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2002



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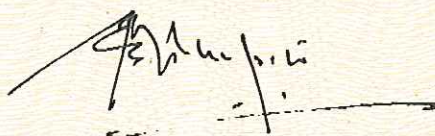
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DIRECTORS' APPROVAL

The financial statements which appear on pages 26 to 42 were approved by the Board of Directors on 5 September 2002 and are signed on its behalf by:



JT Metsing
CHAIRMAN



ER Mapetla
CHIEF EXECUTIVE a.i.

REPORT OF THE INDEPENDENT AUDITORS

To the members of the Board of the Lesotho Highlands Development Authority

We have audited the annual financial statements set out on pages 26 to 42 for the year ended March 31, 2002. These Financial Statements are the responsibility of the Authority's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with Generally Accepted Auditing Standards. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of any material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

In our opinion, the financial statements fairly present, in all material respects, the financial position of the Authority at 31 March, 2002 and the results of its operations and cash flows for the year then ended in accordance with internationally accepted accounting practice.

ERNST & YOUNG
CHARTERED ACCOUNTANTS (LESOTHO)

September 5, 2002

STATEMENT OF ACTIVITIES AND ACCOUNTING POLICIES

For the year ended 31 March 2002

1. STATEMENT OF ACTIVITIES

The Authority is entrusted with the responsibility for the implementation, operation and maintenance of the Lesotho Highlands Water Project as defined in the Treaty on the Lesotho Highlands Water Project signed by the Government of the Kingdom of Lesotho and the Government of the Republic of South Africa on 24 October 1986.

The Authority is also conferred with general functions in relation to Water Resources, electricity, education and training of its employees, monitoring activities and land transactions.

The principal physical features of Phase 1A, now complete, are :

- (a) A 182 metre high concrete arch dam on the Malibamats'o River at Katse.
- (b) A 45km transfer tunnel north from the Katse reservoir to the Hydropower complex at 'Muela.
- (c) A 72 MW underground Hydropower complex at 'Muela.
- (d) A 17km delivery tunnel north from 'Muela to the Mohokare (Caledon) River which forms the border between the Kingdom of Lesotho and the Republic of South Africa. This tunnel links up through an underground syphon at this location with the South African portion of the transfer tunnel system.
- (e) Associated infrastructure, including construction of new roads, upgrading and rehabilitation of existing roads, three major road bridges, upgrading of border crossing facilities and new river crossings, camps, communications, power supply, communication systems etc.
- (f) Associated conservation, environmental and rural development activities.

The year saw the third full year of operations for both Hydropower and Water Transfer activities.

The principal physical features of Phase 1B which is expected to be completed during 2002/2003 are:-

- (a) The 146m high Mohale Dam.
- (b) A 30km transfer tunnel from the Mohale intake to the Katse Reservoir.
- (c) The Matsoku Weir and a 6km diversion tunnel from the weir to the Katse Reservoir. This was substantially completed in 2001/2002 with only minor works remaining.
- (d) Associated infrastructure, including construction of new roads, upgrading and rehabilitation of existing roads, camps, communications and power supplies.
- (e) Associated conservation, environmental and rural development activities.

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements are prepared on the historical cost basis and incorporate the following principal accounting policies :

2.1 Completed Works

Capital work-in-progress is transferred to Completed Works upon completion of the works and thereafter subject to depreciation. Financing costs are no longer capitalised once the works are complete.

2.2 Capital work-in-Progress

Costs incurred on the implementation of the Lesotho Highlands Water Project, including costs incurred prior to the establishment of the Authority on 24 October 1986, but excluding the cost of operations, are capitalised and shown as fixed assets on the Balance Sheet of the Authority. These are transferred to completed works when the work is completed.

These costs comprise all attributable costs of bringing the asset or group of assets to working condition for their intended use, and include inter alia:

- (a) All costs of investigations, surveys, feasibility studies, Engineering studies, preparation of designs, construction, construction supervision, procurement and commissioning;
- (b) the establishment and net administration costs of the Authority, other than those assigned to operations;
- (c) the costs of any land or interest in land, and any improvements to such lands;
- (d) the costs of measures taken in order to ensure that members of local communities in Lesotho are not adversely affected by Project related activities, including the cost of providing compensation, and a provision for estimated future compensation;
- (e) all finance charges and income (including interest payments, financing and foreign exchange cover charges, gains and losses on foreign exchange and other charges) relating to finance raised to fund capital expenditure, up to the date of commencement of operations.

All such costs incurred are apportioned to one or more of the following activities:

- (i) generation of hydro-electric power in the Kingdom of Lesotho ("Hydropower")
- (ii) delivery of water to South Africa ("Water Transfer")
- (iii) ancillary developments in the Kingdom of Lesotho ("Ancillary Developments")

Such apportionment of capital costs is subject to ratification by the Parties to the Treaty.

The Government of the Kingdom of Lesotho is, by way of Cost Related Payments, responsible for the costs of the Hydropower and Ancillary Development Activities.

The Government of the Republic of South Africa is, by way of Cost Related Payments, responsible for the costs of the Water Transfer activities.

2.3 Operations and Maintenance

Costs of operating and maintaining the completed works including depreciation and financing costs are divided between Hydropower and Water Transfer activities on

the basis of an agreement between Lesotho and South Africa dated February 2002. These costs are charged to two separate income statements. Likewise revenues arising as a result of operations or cost related payments in support of operations are credited to the respective income statement. Such allocation of operating costs is subject to ratification by the Parties to the Treaty.

2.4 Depreciation

Depreciation is provided on a straight line basis over the estimated useful life of the assets as follows:

Civil Works	50 years
Plant	25 years
Office Furniture & Equipment	6 years
Motor Vehicles	4 years
Computer Equipment and Software	3 years

2.5 Investments

Investments are stated at Market Value

2.6 Foreign Currencies

Assets and liabilities in foreign currencies are translated to Maloti at rates of exchange ruling at the end of the Financial Year, or, where applicable, at forward cover rates.

Transactions in foreign currencies are translated to Maloti at rates of exchange ruling at the date of the transaction; or where applicable, at forward cover rates.

Premiums on forward exchange contracts are amortised over the period of the contract.

Under the terms of the Treaty covering the project and the Ancillary Agreements to the Treaty of 31st August 1992 and 30th December 1999, the Government of the Republic of South Africa is obligated to effect debt service payments on all loans guaranteed by it.

The forward cover contracts have been effected by the Government of the Republic of South Africa.

Exchange differences are allocated to the cost of the related activity.

2.7 Cost Related Payments

Cost Related Payments from the Governments of Lesotho and South Africa are recognised and credited to the Capital Fund on the date due for payment. Those arising from payment of financing costs on loans pertaining to completed works, or for Operations and Maintenance are transferred to the Income Statement.

Cost Related Payments become due when the relevant cost falls due for payment; provided that Cost Related Payments may be paid directly to Contractors or consultants, or, where costs have been financed by way of loans shall be due for payment at the time such loans become redeemable.

Funds obtained by the Government of Lesotho on con-

cessionary terms for the Water Transfer component are, for the purpose of Cost Related Payments, deemed to be loans at the interest rate and redemption terms applicable to loans of the International Bank for Reconstruction and Development

2.8 Royalties

Royalties arising from the Lesotho Highlands Water Project, including advance royalty payments received as payments through the Southern Africa Customs Union, accrue to the Government of Lesotho and are therefore not reflected in the financial statements of the Authority.

2.9 Other Income

Other income arising other than from operations, such as interest earned, exchange gains and miscellaneous income, is credited to the cost of the activity to which it relates. Income from Sales of electrical power or derived from other operating activities is credited to the income statement.

2.10 Funds from Capital Markets

The LHDA utilises the South African Capital Market purely for the raising of finance for the Lesotho Highlands Water Project and does not trade in bonds once they have been issued.

The finance raised through the Capital Markets is therefore treated as long term funding and accrued interest not serviced through the semi-annual coupon payments is capitalised into the bond account.

2.11 Provisions

Provisions are recognised when the Authority has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and an estimate can be made of the amount required to settle the obligation. Where the effect of discounting to present value is material, provisions are adjusted to reflect the time value of money.

2.12 Financial Instruments

Measurements

Financial Instruments are initially measured at cost. Thereafter, these instruments are measured as set out below:

Receivables

Receivables are carried at cost. Unrealised receivables, other than those in respect of operations are written back against implementation costs. Those in respect of operations are written off to the respective income statement.

Cash and cash equivalents

Cash and cash equivalents, comprised of cash-on-hand and bank accounts, are measured at fair value.

2.13 Inventories

Inventories are measured at the lower of cost, using the average cost formulae, or net realisable value.

INCOME STATEMENTS

For the year ended 31 March 2002

HYDROPOWER

	2002 M'000	2001 M'000
Sales of Electrical Power	45 812	44 114
Less: Cost of Sales	(70 853)	(75 474)
Net loss for the year	<u>(25 041)</u>	<u>(31 360)</u>
Cost of Sales comprises:		
Operations and Maintenance Costs	(17 806)	(19 001)
Financing Costs	(18 378)	(22 384)
Depreciation	(34 669)	(34 089)
	<u>(70 853)</u>	<u>(75 474)</u>
Deficit – at 31 March 2001	146 747	115 387
Loss for the year	25 041	31 360
Deficit – at 31 March 2002	<u>171 788</u>	<u>146 747</u>

WATER TRANSFER

Deficit for the year	<u>(940 130)</u>	<u>(891 405)</u>
This comprises:		
Operating and Maintenance Costs	(24 230)	(18 462)
Financing Costs	(760 444)	(718 448)
Depreciation	(155 456)	(154 495)
	<u>(940 130)</u>	<u>(891 405)</u>
And is funded as follows:		
Transfer from Capital Fund	<u>940 130</u>	<u>891 405</u>

Note: The allocation of Financing Costs between the capital and the Hydropower and Water Transfer operating components of the Project where common funding sources have been utilised is subject to the agreement of the Treaty Parties.

BALANCE SHEET AT 31 MARCH 2002

	Notes	2002 M'000	2001 M'000
ASSETS			
Non-current assets			
Completed works and capital work in progress	1	12 126 353	11 538 034
		<u>12 126 353</u>	<u>11 538 034</u>
Current assets			
Project taxes refundable by the Government of Lesotho	2	5 034	15 123
Inventories		4 603	3 801
Advance payments		38 617	82 776
Other receivables and prepayments		62 282	123 583
Cash and cash equivalents		139 268	108 449
		<u>249 804</u>	<u>333 732</u>
Total assets		<u><u>12 376 157</u></u>	<u><u>11 871 766</u></u>
FUNDS AND LIABILITIES			
Funds and long term liabilities			
Capital fund	3	4 366 096	4 516 022
Government of Lesotho Fund	4	95 402	84 818
Government of Republic of South Africa Fund	5	23 180	10 735
Long Term Liabilities	6	1 338 061	2 635 308
Funds from Capital Market	7	2 804 604	3 690 195
Deficit – Hydropower		(171 788)	(146 747)
Total funds and long term liabilities		<u><u>8 455 555</u></u>	<u><u>10 790 331</u></u>
Current Liabilities			
Contract payables and accruals	10	173 157	230 549
Retentions		75 494	77 064
Other payable and accruals		225 323	241 178
Current portion of long term liabilities	6	2 467 064	532 644
Current portion of Capital Market Funds	7	979 564	–
Total current liabilities		<u><u>3 920 602</u></u>	<u><u>1 081 435</u></u>
Total funds and liabilities		<u><u>12 376 157</u></u>	<u><u>11 871 766</u></u>



CASH FLOW STATEMENT

For the year ended 31 March 2002

	2002 M'000	2001 M'000
Operating activities		
Hydropower – net loss for the year	(25 041)	(31 360)
Water transfer – deficit for the year	(940 130)	(891 405)
	(965 171)	(922 765)
Less: Depreciation	190 125	188 584
	(775 046)	(734 181)
Decrease in advance payments	44 159	60 183
Decrease in other receivables and prepayments	61 301	22 550
Project taxes refunded by Government of Lesotho	18 933	232 551
Increase in inventories	(802)	(311)
Increase/(Decrease) in contract Payables and accruals	(57 392)	90 065
(Decrease)/Increase in retentions	(1 570)	(4 372)
Increase in other payables and accruals	(15 855)	51 099
Increase/(Decrease) in current portion of long term liabilities	1 934 420	290 528
Cash generated by operating activities	1 208 148	8 112
Investing activities		
Expenditure on capital works and work-in-progress	(794 418)	(828 496)
Expenditure on ancillary development	(47 238)	(61 338)
Cash utilised by investing activities	(841 656)	(889 834)
Financing activities		
Government of Lesotho	(21 709)	99 793
Government of Republic of South Africa	889 310	1 136 147
Decrease in long term liabilities	(1 297 247)	(425 686)
Funds from capital market	93 973	85 952
Cash flows from financing activities	(335 673)	896 206
Net increases in cash and cash equivalents	30 819	14 484
Cash and cash equivalents at beginning of year	108 449	93 965
Cash and cash equivalents at end of year	139 268	108 449
Cash and cash equivalents comprise cash in hand, and deposits held with banks		

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2002

1. COMPLETED WORKS AND CAPITAL WORK IN PROGRESS

	Balance 1.4.01 M'000	Prior Year Reallocation M'000	Movement During the Year M'000	Balance 31.3.02 M'000
Completed Works				
Hydropower Civil Works at cost	816 242	—	(1 733)	814 509
Less: Accumulated Depreciation	(32 542)	—	(16 293)	(48 835)
	783 700	—	(18 026)	765 674
Hydropower Plant – at cost	435 404	—	7 728	443 132
Less: Accumulated Depreciation	(34 786)	—	(17 755)	(52 541)
	400 618	—	(10 027)	390 591
Net Book Value – Hydropower	1 184 318	—	(28 053)	1 156 265
Water Transfer Civil Works at cost	8 086 884	—	25 204	8 112 088
Less: Taxes refundable by the Government of Lesotho	(222 844)	—	648	(222 196)
	7 864 040	—	25 852	7 889 892
Less: Accumulated Depreciation	(464 795)	—	(154 688)	(619 483)
Net Book Value – Water Transfer	7 399 245	—	(128 836)	7 270 409
Total Net Book Value – Completed Works	8 583 563	—	(156 889)	8 426 674
Vehicles and equipment at Cost	3 264	—	2 070	5 334
Less: Accumulated Depreciation	(922)	—	(1 390)	(2 312)
	2 342	—	680	3 022
Capital Work in Progress				
Phase 1A				
Hydropower	1 251 646	(2 087)	8 082	1 257 641
Less: Completed Works	(1 251 646)	—	(5 995)	(1 257 641)
	—	(2 087)	2 087	—
Ancillary Development	344 633	8 962	27 381	380 976
Less: Transferred to Capital Fund	(344 633)	—	(36 343)	(380 976)
	—	8 962	(8 962)	—
Water Transfer	8 086 884	798	24 406	8 112 088
Less: Completed works	(8 086 884)	—	(25 204)	(8 112 088)
	—	798	(798)	—

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2002

COMPLETED WORKS AND CAPITAL WORKS IN PROGRESS (Continued)

	Balance 1.4.01 M'000	Prior Year Reallocation M'000	Movement During the Year M'000	Balance 31.3.02 M'000
Phase 1B				
Ancillary Development	106 050	3 252	19 857	129 159
Less: Transferred to Capital Fund	(106 050)	—	(23 109)	(129 159)
	—	3 252	(3 252)	—
Water Transfer	2 976 959	(10 925)	764 904	3 730 938
Less: Tax refundable by the Government of Lesotho	(24 830)	—	(9 451)	(34 281)
	2 952 129	(10 925)	755 453	3 696 657
Total Capital work in progress	2 952 129	—	744 528	3 696 657
GRAND TOTAL FIXED ASSETS	11 538 034	—	588 319	12 126 353

Included in financing of Phase 1A Fixed Assets is M81 924 000 representing the finance costs attributable to funds obtained on concessionary terms of the Water Transfer Component, deemed to be loans with interest rates and redemption terms applicable to loans of the International Bank for Reconstruction and Development.

The above allocation of costs between Hydropower, Ancillary Development and Water Transfer is subject to agreement by the parties to the Treaty. Such agreements are reflected as prior year reallocations.

2. PROJECT TAXES REFUNDABLE BY THE GOVERNMENT OF LESOTHO

Protocol V to the Treaty was signed on June 4, 1999. Under this Protocol, Taxes paid by LHDA and its contractors at rates in excess of those provided for in this Protocol are repayable together with interest at 15% per annum. The total refunds made, including interest, up to 31 March 2002 were M251.485 million. The total including interest, outstanding at 31 March 2002, is M5.034 million.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2002

3. CAPITAL FUND

	Government of Lesotho M'000	Government of South Africa M'000	Total M'000
Balance at 1 April 2001	781 255	3 734 767	4 516 022
Less: Amounts refunded	(115 554)	—	(115 554)
Cost related payments:			
Hydropower and Ancillary Development	88 345	—	88 345
Water Transfer	—	876 865	876 865
	<u>754 046</u>	<u>4 611 632</u>	<u>5 365 678</u>
Less:			
Ancillary Development costs	(59 452)	—	(59 452)
Transferred to Income Statement	—	(940 130)	(940 130)
Balance at 31 March 2002	<u>694 594</u>	<u>3 671 502</u>	<u>4 366 096</u>

Certain long term loan facilities which are direct with the Government of Lesotho, and which were utilised to fund the 'Muela Hydropower Implementation, were shown as long term liabilities prior to December, 1999. As from December 1 1999, the Government of Lesotho has taken over responsibility for these facilities, as well as the investment which was used as security for a loan.

	M'000
Loans taken over	220 855
Less: investment security	<u>29 136</u>
	<u>191 719</u>

Total Water Transfer costs capitalised or incurred in support of operations (excluding depreciation) at 31 March 2002 amount to M14 618 696 000 of which M7 322 728 000 has been paid by way of cost related payments.

The balance of M7 295 968 000 will be discharged through future cost related payments.

Total Hydropower costs capitalised or incurred in support of operations (excluding depreciation) and Ancillary Development costs at 31 March 2002 amount to M1 926 786 000 of which M1 204 729 000 has been paid by way of cost related payments.

The balance of M722 057 000 will be discharged through future cost related payments or will be met from power income.

Financing costs amounted to M998,992,000, net of interest income of M7 542 000. The amount of financing costs capitalised amounted to M220 170 000, with the balance of M778 822 000, charged to the income statement. Thus 22% of financing costs were capitalised. Amounts capitalised were in respect of loan facilities for Phase 1B, which is still under construction, and for Ancillary Development which is financed through the Capital Fund.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2002

4. GOVERNMENT OF LESOTHO FUND

	2002 M'000	2001 M'000
Balance at beginning of year	84 818	100 050
Amounts provided by Government of Lesotho	105 915	110 352
Net financing income accrued	5 084	4 439
Cost related payment received from Government of South Africa	(12 070)	(10 559)
Cost related payments on Hydropower and Ancillary Developments transferred to Capital Fund	(88 345)	(119 464)
Balance at end of year	<u>95 402</u>	<u>84 818</u>
This Balance comprises:		
Government of Lesotho Contributions	<u>65 459</u>	<u>47 889</u>
Funding of water transfer costs	<u>29 304</u>	<u>36 209</u>
Concessionary finance income	<u>639</u>	<u>720</u>
	<u>29 943</u>	<u>36 929</u>
	<u>95 402</u>	<u>84 818</u>

M29 943 000 will be discharged by future cost related payments by the Government of South Africa.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2002

GOVERNMENT OF LESOTHO FUND (Continued)

The total amount provided by the Government of Lesotho during the period is analysed by original source as follows:

Analysis of funds provided by the Government of Lesotho

	Balance 1 April 2001 M'000	Increase during the Year M'000	Balance 31 March 2002 M'000
European Development Fund	217 715	—	217 715
European Investment Bank	11 189	—	11 189
Government of France	70 723	—	70 723
Government of Lesotho	677 009	105 915	782 924
International Development Association	25 311	—	25 311
Department for International Development	50 089	—	50 089
United Nations Development Programme	2 664	—	2 664
U S A I D	612	—	612
Centre for International Migration	764	—	764
Government of Ireland	375	—	375
Svenska Handelsbanken	57 833	—	57 833
Credit Nationale	26 214	—	26 214
	<u>1 140 498</u>	<u>105 915</u>	<u>1 246 413</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2002

5. GOVERNMENT OF SOUTH AFRICA FUND

	2002 M'000	2001 M'000
Balance at start of year	10 735	1 304
Cost related payments during the year on water transfer paid to:		
– Government of Lesotho	12 070	10 559
– Third Parties	877 240	1 125 588
Cost related payments on water transfer transferred to Capital Fund	(876 865)	(1 126 716)
Balance at end of year	<u>23 180</u>	<u>10 735</u>

This balance comprises funds contributed for Hydropower and Ancillary Developments and will be discharged by future cost related payments by the Government of Lesotho.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2002

6. LONG TERM LIABILITIES

	2002 M'000	2001 M'000
<u>Facilities for which foreign exchange forward cover contracts have been effected</u>		
(i) Facilities specific to Katse Dam and appurtenant works, Transfer Tunnels and Delivery Tunnel South	2 129 975	1 415 266
(ii) Facilities for implementation of Phase 1B	476 454	294 762
<u>Facility for which contracts for partial foreign exchange forward cover have been effected</u>		
(iii) Facility specific to provision of Consultancy, Training and Project preparation	364 173	455 665
	2 970 602	2 165 693
Less: Provision for unamortised cost of forward cover	113 418	179 272
	<u>2 857 184</u>	<u>1 986 421</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2002

LONG TERM LIABILITIES (Continued)

	2002 M'000	2001 M'000
<u>Facilities for which foreign exchange forward cover contracts have not been effected</u>		
(iv) Facilities for provision of Infrastructure and Institutional Support	237 928	522 037
(v) Facilities for overall project implementation	54 232	97 354
(vi) Facilities for implementation of Phase 1B	97 761	32 468
(vii) Facilities for 'Muela Hydropower implementation	274 121	225 339
(viii) Eurobond	83 679	89 724
	<u>3 604 905</u>	<u>2 953 343</u>
Less: Hydropower Loan obligations assumed by the Government of Lesotho	274 121	225 339
	<u>3 330 784</u>	<u>2 728 004</u>
(ix) LOAN FROM THE GOVERNMENT OF LESOTHO FOR 'MUELA HYDROPOWER IMPLEMENTATION	188 427	185 952
	<u>3 519 211</u>	<u>2 913 956</u>
Less: Current portion	2 467 064	532 644
	<u>1 052 147</u>	<u>2 381 312</u>
Liability for future compensation costs	285 914	253 996
	<u>1 338 061</u>	<u>2 635 308</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2002

7. FUNDS FROM CAPITAL MARKET

The authority initiated the issue of Capital Market bonds in 1993 "in association" with the Trans Caledon Tunnel Authority (TCTA), and guaranteed by the Government of South Africa. The TCTA, as the Registered issuer, issues bonds on LHDA's instructions on behalf of the Authority, the proceeds of which are utilised by LHDA to repay other borrowing obligations. The bonds are redeemable by TCTA.

No new "joint" capital market issues were registered during the current year. The stocks currently registered therefore remain as follows :

Stock	Coupon	Registered Nominal M'000	Maturity
WS01	12.0%	5 000 000	1 December 2005
WS02	12.5%	3 000 000	15 April 2002
WS03	13.0%	8 000 000	15 September 2010
Total		<u>16 000 000</u>	

The nominal values of the stocks issued to date and the proceeds received therefrom are as follows:

Issued on behalf of LHDA :

Stock	Cumulative Nominal Value of LHWP Stock Issued		Cumulative Net proceeds from LHWP Stock Issued inclusive of Capitalised Finance Costs	
	2002 M'000	2001 M'000	2002 M'000	2001 M'000
WS01	2 006 558	2 006 558	1 892 415	1 870 521
WS02	927 000	927 000	979 564	912 126
WS03	998 000	998 000	912 189	907 548
Total	<u>3 931 558</u>	<u>3 931 558</u>	<u>3 784 168</u>	<u>3 690 195</u>
Less: Current portion (WS02)			979 564	—
			<u>2 804 604</u>	<u>3 690 195</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2002

8. FORWARD COVER

All foreign currency denominated loans, except those for 'Muela Hydropower Implementation, are the subject of forward cover contracts. However, in respect of the foreign currency denominated Hydropower loans, the Government of Lesotho has assumed the repayment obligations, and hence the foreign exchange risks, in exchange for a fixed Maloti obligation by the Authority to the Government.

9. CAPITAL COMMITMENTS

Outstanding capital expenditure contracted for at 31 March 2002 amounted to M363 million. Finance has been secured as at 31 March 2002 to meet all of these commitments, including current liabilities.

10. CONTINGENT LIABILITIES

The Authority has been notified of the intention by various Contractors to submit claims for additional costs. Provision has been made in the financial statements for these claims to the extent that these are considered to have a realistic prospect of success. Due to the commercial sensitivity of these amounts, they are not separately disclosed on the Balance Sheet.

Further claims in excess of those amounts are currently estimated at M473.96 million. The Authority is of the opinion that the results of ongoing discussions and representations are likely to substantially set aside such further claims.

11. TAXATION

In accordance with Section 29(1) of the Lesotho Highlands Development Authority Act (No. 23) of 1986, the Authority is exempt from Sales Tax Payable under the Sales Tax Act 1995, tax on any income or profits, transfer duties payable under the Transfer Duty Act 1966, stamp duties payable under the Stamp Duties Act 1972 and any fees payable under the Deeds Registry Act 1967.

12. AUDIT FEES

The audit fee for the year ended 31 March 2002 was M450 300 (2001 – M595 000).

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

General Risk Management Principles

Risk management is of critical importance to the Authority as it understands that changing market conditions make risk unavoidable. Over the years the Authority has sought and implemented a comprehensive risk management process to consistently identify, understand and properly manage risk at all times. Risk policies, limits and control procedures are continuously monitored.

Foreign Exchange Rate Risk

The Authority undertakes certain transactions denominated in foreign currencies which means that exposure to exchange rate fluctuations arise. All foreign currency denominated loans, except for those for 'Muela Hydropower Implementation; are or have been the subject of forward cover contracts taken out by the Trans Caledon Tunnel Authority on behalf of South Africa which guarantees and is ultimately responsible for repayment of those loans.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2002

In respect of the foreign currency denominated loans for "Muela Hydropower Implementation" the Government of Lesotho has assumed all the foreign exchange risk in exchange for a fixed Maloti obligation by the Authority to the Government.

Currency of Financial Statements

The Authority's financial statements are expressed in Maloti. The following closing rates were utilised to translate financial instruments subject to foreign exchange movements at 31 March 2002, where forward cover arrangements were not in place.

	2002	2001
Australian Dollars	6.1055	3.9599
Canadian Dollars	7.1993	5.1308
Euros	10.0280	7.1089
Pounds Sterling	16.3530	11.5167
Japanese Yen	0.0864	0.0648
Swedish Kroner	1.1092	0.7774
US Dollars	11.4700	8.0700

Interest Rate Risk

Interest rate risk is the risk of interest rate fluctuations adversely affecting the Authority's debt exposures. It arises from the repricing of the Authority's floating rate debt, as well as from incremental funding or new borrowings, and from the refinancing of existing borrowings.

It is the Authority's policy to manage interest costs through the utilisation of a mix of fixed and variable rate debts as well as through the evaluation of foreign versus local funding.

The interest rate repricing profile is as shown below. The high level of current fixed rate debt (0-1 year) reflects the application of risk management principles to the foreign debt against the background of a declining Maloti/Rand and the differentials in interest rates. In applying these principles it has been concluded that certain foreign loans should be fully repaid in 2002/3 through cost related payments by South Africa.

	Floating			Fixed			Total
	0-1 yr	1-5 yrs	> 5 yrs	0-1 yr	1-5 yrs	> 5 yrs	
	M000's	M000's	M000's	M000's	M000's	M000's	M000's
31 Mar 02	54232	225813	279423	2412832	247208	299703	3519211
31 Mar 01	97324	196651	317452	435320	1762309	104900	2913956

Market Risk

Market risk is the risk that the value of a financial instrument will fluctuate with changing market prices whether caused by factors specific to the instrument or to general external market changes. The Authority has no financial instruments which are affected by changing market prices.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2002

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge its obligations thereby causing the other party to suffer financial loss.

The Authority only deals with reputable counter parties with higher credit standing and, apart from continuously monitoring this risk, seeks guarantees in respect of its major receivables and holds only a small amount of its financial assets in the form of cash and bank accounts. Credit limits are set for each counterparty not covered by guarantee. The Authority is not exposed to major concentrations of credit risk given the counter balance of bank guarantees.

Liquidity Risk

Liquidity risk is the risk of the Authority defaulting on its financial obligations as a result of insufficient funding capacity in relation to such obligations. The Authority manages this risk firstly through seeking guarantees from the Governments of Lesotho and South Africa, and secondly through planning and continuing re-planning of long-term project costs and funding requirements.

The Authority ensures that facilities are in place to meet its immediate obligations at all times.

Available borrowing facilities not utilised at 31 March 2002 amounted to M845.4 million.

Maturity Profile of Financial Assets and Liabilities

Apart from the long-term liabilities and capital market funds all the Authority's financial assets and liabilities are expected to mature within a twelve month period. The maturities of the long-term liabilities are reflected above, under "Interest Rate Risk".

Fair Value of Financial Instruments

The Authority considers all its financial assets' and liabilities' carrying value to be equivalent to their fair value.

LHDA Organisational Structure

Board of Directors

