

*We have pleasure
in presenting the
Lesotho Highlands Development Authority
Annual Report
2002/2003*

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 Audit Committee has completed six years in operations. It is an independent sub-committee of the main board without executive powers, comprising five non-executive members. No changes were made to its membership or responsibilities during the reporting period.

INTERNAL AUDIT

Reporting to the audit committee, internal audit provides assurance regarding the quality of operations and risk management. It has continued to maintain its proficiency by adhering to the *standards for the professional practice of internal auditing*, as promulgated by the Institute of Internal Auditors.

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.

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The LHDA Board of Directors



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



Mrs M Mphutlane
*Principal Secretary – Ministry
of Finance*



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

** Members resigned from the Board of Directors and their positions and other vacant positions were filled in by Mr T. Nyeoe as Chairman and the following as members – Mr H. Ntene, Mr L. Molapo, Mr C. Mwakalumbwa and Mrs S. Mohapi. This was the interim board pending the appointment of the new LHDA Board of Directors.*



Mrs S Seeiso
Board Secretary

CHAIRPERSON'S STATEMENT



Mr JT Metsing – Chairperson

The year under review has indeed been a good one generally for the Authority. It saw the achievement of important milestones on the implementation of the Project.

On the Construction side, the Mohale Dam progressed well and without difficulty to virtual completion in December, 2002. The Mohale Tunnel, unlike the previous years when construction had proceeded slowly and with difficulty, went smoothly. It was indeed a great pleasure and relief when it holed through in June 2002. In a like manner, the community compensation and resettlement programmes proceeded satisfactorily.

The Authority was privileged to play host to the UN Secretary General, His Excellency Mr Kofi Annan, when he attended and officiated at Lesotho commemorations of the year of the Mountain in Mohale. This provided a unique opportunity for the project to receive international publicity. Later in the year, in October 2002, the World Bank Vice- President for Africa Region, Mr. Calisto Madavo, also visited both Phases 1A and 1B of the Project. His confirmation that the Project was a major success gave us a welcome assurance and encouragement that indeed our efforts were worthwhile.

The success of the year has regrettably meant that we get closer to the completion of Phase 1B of the Project. With the delayed implementation of Phase II, this means less activity/ work for the LHDA which in turn must mean its rightsizing to reflect the reduced nature of activities. With this prospect, the next financial year 2003/2004 will be a sad time for some of our staff who must face the prospect of losing jobs as construction nears completion.

Several of our members of the Board resigned from their positions. I thank them most heartily for having served the Board and sharing with us their wisdom and experiences. I welcome their replacements and look forward to a fruitful and happy collaboration.



CHIEF EXECUTIVE'S STATEMENT

Mr E R Mapetla – Chief Executive a.i.

Once again it is a pleasure for me to present the annual report of the Lesotho Highlands Development Authority, outlining the progress that has been made in the last Financial Year. The twelve months ending 31st March 2003 have been yet another eventful voyage we undertook with all our stakeholders, therefore this report is an account of some of the highlights of that period.

Major highlights of the year include the virtual completion of the Mohale Dam and the break through of the Mohale tunnel in June 2002. These two achievements were indeed very welcome given the delays and difficulties experienced in the completion of the tunnel. While not unusual or unexpected in projects of this size and magnitude, the delay had raised anxieties.

Impoundment of the Mohale Dam also started in September 2002. There continued to be the need, however, to progress various other pre-impoundment issues before full impoundment could be initiated.

The main challenges that we faced at this current reporting is the ability of all of us to adapt to changing scenario as we draw Phase One to a close and prepare for the rightsizing of the organisation.

Major work done on the Five Year Strategic Plan is currently being refined after extensive discussion and is almost ready for implementation. It deals with line-of-sight relationships between high level goal and individual performance agreements, measured using the Balanced Scorecard approach, to evaluate the LHDA level of professionalism in the areas of quality and service as perceived by the external shareholders.

Major contracts have been concluded with the remedial work on the 'Muela Turbine cheek plates. The Mohale Intake works were completed below the full supply level. Mohale Outlet Building works are completed. The Gate Shaft, the Control Buildings, the Concrete Works and Linings are well under way. Matsoku Diversion works responsibility has been taken over by LHDA Operations and Maintenance Group for its daily operations.

Safety: The new NOSA (SHE) system has been implemented showing significant improvements in safety.

Community Compensation and Development

Significant strides have been made in compensation delivery, resettlement and development of local farming enterprises notably commercial agriculture. The development of small micro and medium enterprises training of people in various skills, development of feeder roads and bridges have all been of great benefit to the community. We have welcomed the involvement of the office of the Ombudsman in community complaints about our organisation as it delivered the compensation and resettlement. This will help us respond better to our mandate.

Financial

All of our financiers are satisfied with the state of development and the manner in which all transactions are being conducted with an emphasis on transparency.

Sales of Water to the Republic of South Africa have been less than forecast, but this was due partly to problems experienced with the delays in the completion of the Mohale Tunnel, as well as the difficulties experienced with the 'Muela Turbine cheek plates. These problems I am pleased to say have been overcome.

Electricity Exports are showing an upturn of almost 45% in the GW hrs which translates into a healthy 26% increase in revenue received. Sales of electricity to the Lesotho Electrical Corporation were steady.

In conclusion, I wish to extend my sincere gratitude to the Board who have given us such competent guidance in matters covering a wide diversity of interests and impacting on the lives of a large section of our community. We thank those three members of the Board who have had to resign their positions, their contribution has been invaluable and we wish them well in their future endeavours. We are happy to welcome their replacements to whom we look forward to their support.

We look forward to the appointment of the New Board of Directors and the substantive holder of the position of Chief Executive. We hope this will be implemented in the next financial year. This will enable a smooth transition of corporate governance in the Lesotho Highlands Development Authority, and also give direction and leadership within the organisation towards achieving its goals.

Finally I wish to extend my sincere gratitude to my colleagues in the Lesotho Highlands Development Authority for their dedication and commitment they showed as the implementation of the project progressed. We are also grateful to the Project Authorities for their invaluable support and guidance, the various ministries and departments of the Government of Lesotho, the Department of Water Affairs and Forestry (RSA), our partners TCTA in RSA, the financing institutions and other partners.

We look forward to tackling challenges that lie ahead and we are very optimistic that we have the necessary support of everybody.

SALIENT FEATURES OF THE LESOTHO HIGHLANDS WATER PROJECT FOR THE YEAR 2002/2003

1. CORPORATE SERVICES GROUP

Main Areas of Focus

The core business of the Corporate Services Group remains that of “provision of an integrated and co-ordinated range of specialist support skills and advisory services to the “front-line functions”. Specifically the Group provides specialist support services to LHDA in the areas of,

- Co-ordination and development of corporate wide business processes such as corporate wide planning, corporate wide monitoring and management,
- Provision of appropriate technical infrastructure for all LHDA applications and provision and maintenance of the relevant operations and applications to support LHDA business operations,
- Human Resource Services
- Provision of a wide range of proactive legal advisory services for the protection of LHDA's rights and interests and management of LHDA's exposure to risk.

Key Challenges

The key challenges for the Group during the period under review were to assist the organisation in adapting to the changing phases of the project while ensuring that the performance of the organisation is not adversely affected. Critical success factors remain the existence and maintenance of a strong corporate culture and a working environment that engenders performance delivery and “service par excellence”, together with building and maintenance of world-class competencies and the ability to change focus in line with changing phases of the project.

The initiation of the impoundment of Mohale Dam in November 2002, marked the beginning of the count down to the end of Phase 1 of the LHWP. As the organisation moves to the administrative close out stages and with still no firm decisions made with regard to further phases, the Management has begun the progressive process of judiciously managing the capacity that is in excess of the work requirements. The technical assistance contract which is to be procured to assist in the strengthening of Human resource issues is expected to play a significant part in the management of the transition.



LHDA Board of Directors on tour of Phase 1B of the LHWP as part of their induction. They were accompanied by the Chief Delegates of the Lesotho Highlands Commission and the LHDA Executive

The outgoing year in respect of which this report is prepared is therefore to be viewed within the context described above. The report provides a high level summary of the main areas of focus during the year.

ACHIEVEMENTS BY FUNCTIONAL AREAS

Corporate Planning and Performance Monitoring

The draft LHDA Five-Year Strategic Plan (2003/04 to 2007/08) was crafted and presented both internally and to the Project Authorities in March 2003. As the year drew to a close the draft was being refined to take into account the comments received.

During the year under review, Corporate Planning Branch introduced a number of enhancements to strengthen the corporate wide planning and performance processes. A key highlight was the introduction of "*The Framework for Preparation of Business Plans*". LHDA Management approved this in August 2002. This framework was subsequently extensively work-shopped with all the LHDA managers. It utilises the cascading approach and creates a line-of-sight relationship between high-level Goals and individual Performance Agreements. It requires separate Business Plans from the Branches/Cost Centres within each Business Unit. Another feature is the numbering system using cost centre numbers that relate the business plans to the budgets and to individual tasks in Performance Agreements. The Framework also facilitates computerisation, which will be instrumental in streamlining and improving the management of the Performance Management System.

The Corporate Planning (CP) Branch also continued to closely monitor corporate performance on a monthly basis. In this respect, the reviews by the supervision missions fielded by the project financiers and the Panel of Experts

added further value to the process.

Using the Balanced Scorecard approach that was adopted by the June 1998 stakeholders' conference, the Corporate Planning Branch, working very closely with other LHDA Branches, facilitated the review of the performance of LHDA during the year. A key element of that Balanced Score Card is the "*external stakeholder satisfaction perspective*", which evaluates LHDA using measurement areas spread over fifteen (15) evaluation areas. These areas include perception of quality of service, image of LHDA, level of staff professionalism, the extent to which LHDA is perceived to be duly consulting with affected parties etc. As an indication of improved level of service delivery, the October 2002 Stakeholder Conference awarded LHDA the highest ever score of 80%; this compares favourably against the previous year's rating of 73% and the low score of 40% obtained initially in June 1998.

Management Information Services

During the year, LHDA installed a more reliable leased line between the network at the LHDA offices within the Post Office Building and the LHDA main network at Lesotho Bank Tower, and phased out the dial-up connection. This facility allows improved access to email/Internet, SAP system and any other information at headquarters by Public Relations, Operations Planning, Operations & Maintenance and Internal Audit Branches respectively.

The Information Systems Branch reviewed its disaster recovery strategy and determined that reliable systems will need to be put in place at the Cabanas and Lesotho Bank offices, where the majority of users reside. To this end two identical data servers, which will be located at each site, have been procured. Data from each server will be mirrored on the other server thereby providing the required level of reliability. This strategy will be fully implemented in the first quarter of the next financial year.

The Information Systems Branch continued to conduct monthly end-user training in some of the desktop applications in use at LHDA. These included basic networking concepts, MS Office and e-mail training.

During the period under review, the new computer system for automating the LHDA Business Planning and Monitoring processes was under development. This system will also assist in the automation of creation and monitoring of the budgets and training plans for LHDA.

The system for administering the compensation payment for affected communities that had been developed several years ago went live in June 2002. This system has improved controls and addresses most queries raised by the 1998 audit. All transactions for compensating affected communities are now carried out in the new system. Further enhancements are planned for the coming year.

Just in time for the World Summit on Sustainable Development (WSSD) held in Johannesburg in August – September 2002, and Instream Flow Requirements (IFR) Disclosure, the LHWP website was redesigned and the content updated. LHDA's Internet Service Provider hosts this site but plans are underway to host the website internally. This will make it easier to update content more frequently.

Human Resources Development and Capacity Building

One of the biggest challenges that faced the Human Resources Branch during the reporting period was the twin challenge of both facilitating a smooth, fair and procedurally correct process of separating with staff whose positions have become redundant while at the same time developing and implementing a retention plan that prevents the loss of critical skills that will be required for the steady state Operations and Management mode that the organisation is moving into.

The continuing delays in getting the Organisation and Manpower (O&M) study off the ground has made the process even more challenging. As the year closed in March 2003, intensive efforts were being made to progress the issue of the O&M study.

In tandem with the rightsizing exercise, the biggest challenge remains that of developing and maintaining both a responsive manpower plan and a practical succession plan. In this respect, an important initiative undertaken towards the end of the reporting period was the internal study of the existing and future job requirements. This will be a valuable input into the Organisation and Manpower (O&M) study. The Organisation and Manpower study, to be driven by the Lesotho Highlands Water Commission and the LHDA Board, will, inter alia, identify LHDA's core activities beyond the phase of construction of the LHWP's physical structures.

During the period under review, LHDA initiated the procurement of an external technical assistance contract to support the Human Resources Branch. As the year drew to a close, all the logistics had been completed with the contract due to commence in April 2003. The deliverables under this contract include advice on the LHDA restructuring; review and recommendations regarding the following – the Human Resources Branch structure, capacity building and technology transfer to local staff, the remuneration system, the Performance Management System, the training policy and other key HR policies, procedures and systems.

Legal Services

During the year the Legal Services Branch worked very closely with the Engineering Group on the issues surrounding the claims under the Mohale Tunnel Contract. The Branch prepared and presented the Employer's case on water claims to the Dispute Review Board and completed the terms of reference for the two TBM experts who are required to provide independent opinion to LHDA in connection with that contract.

The Branch was also instrumental in driving the process of developing the new LHDA Insurance Strategy. A financially balanced insurance portfolio, that includes self-insurance for some LHDA assets, is now in place.

Towards the end of the reporting period, the affected communities took their complaints before the Ombudsman. The Branch has therefore followed the hearings very closely and provided the necessary legal advice to management. As the year closed, there were outstanding legal issues which still had to be followed up by the Ombudsman.

2. ENGINEERING GROUP

GENERAL

The main activities which engaged the Group during the reporting period were:

Phase 1A

The remedial works on the 'Muela Turbine cheek plates and stabilisation of Katse Dam downstream right abutment.

Phase 1B

The break-through of Mohale Tunnel excavation on the 20th of June 2002 (after a delay of 18 months), substantial completion of Mohale Dam construction, the commencement of reservoir impounding on the 1st of November 2002 and the agreement of the Draft Final Account for the Matsoku Diversion.

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 mainly by difficulties with the generator shaft alignment in Unit 1. The alignment and other problems were resolved and the Unit was brought back into commercial operation some nine months later than originally scheduled. With experience gained from the repairs to the first unit, remedial works on the other two units went much faster and the last unit was completed and commissioned in January 2003, all three Units are now operational.

A superficial rock slip occurred on the right bank downstream of Katse Dam as a result of water



Mohale Dam – upstream view

spray from the November 2001 spill activating movement along a stress relief joint. Remedial works to stabilise the cut excavation face on the downstream right abutment of Katse Dam were completed in October 2002. LHDA is now carrying out the additional remedial works in-house to protect the exposed rock slope from further instability by means of a thin concrete layer.

Phase 1B Major Contracts

Contract LHDA 2007 - Mohale Tunnel

The break-through of Mohale Tunnel excavation occurred on the 20th of June 2002 and marked a major achievement following a delay of almost one year in this milestone.

The Intake drive TBM finished its allocated distance in February 2002 and was dismantled before the Outlet machine achieved its break-through. The scrap metal was later sold to merchants in RSA. The Outlet TBM was dismantled within a period of three months and transported away from site for possible use on other tunnelling projects.

The remaining grouting, concreting and cleaning works in the tunnel is progressing well.

Mohale Intake

The completion of Intake works below Full Supply Level (FSL) was achieved on the 26th September 2002 (which was 6 days behind working programme WPO3 but ahead of Mohale Dam Impounding, originally scheduled for 1st October, but subsequently delayed until 1st of November 2002).

Cavity grouting at the Lower Intake was completed on the 20th March 2003. Final cleaning and demolition of the concrete plug will take place after installation of the gates in the tunnel.

All 1st stage concrete at the Gate Shaft/Tunnel Intersection was completed on the 26th March 2003.

Mohale Outlet

All building works are complete for the Gate Shaft and Control Building.

The shotcrete lining to Adit/tunnel intersection, the tippler cavern and outlet tunnel is complete, and the concrete lining is progressing well on the remaining in-situ lining for the waterway with six out of a total of nine pours having been completed.

View from downstream. The dam is the highest concrete faced rockfill dam in Africa at the height of 145 metres. 7.5 million cubic metres of crushed rock were used to construct the embankment.

The reservoir is almost 1000 cubic metres with a top water level of 2075 metres above sea level. The spillway, concrete lined channel has an ogee crest and a flipbucket to accommodate maximum flood discharges.



All concrete works in the tunnel are expected to be complete by the middle of September 2003, and the commissioning of the tunnel is currently scheduled to begin in October 2003, with completion of the whole works scheduled for the 26th of January 2004.

Contract LHDA 2008 – Matsoku Diversion

The Matsoku Diversion works defects liability period ended in October 2002, but due to unsatisfactory performance of the scour gate and other mechanical components, the defects period for these specific items was extended for another year. LHDA's O&M group has taken over the daily operation of this facility.

Agreement was reached between LHDA and the Matsoku works contractor on resolving outstanding contractual problems and a final account for the contract was agreed. This contract is expected to be closed out with the issue of the Defects Liability Certificate in October 2003.

The Mphorosane Clinic was shutdown at the end of 2001 whereas the Ha Lejone Clinic operated until September 2002, when it was handed over to the Ministry of Health and Social Welfare of Lesotho.

Proposals were received from potential investors for the disposal of Lejone and Mphorosane camps, but evaluation showed that proposers did not fully satisfy the requirements. Alternative options for disposing of these camps are under review.

Contract LHDA 2009 – Mohale Dam

A major achievement for the Mohale Dam was the commencement of impounding which occurred on the 1st of November 2002.

The construction of the Mohale Dam and complementary structures such as the spillway and compensation intake are complete.

Most of the work related to the tunnels is complete and the construction of plug to tunnel No.2 was

completed in January 2003. All hydro-mechanical equipment has been installed in the low-level outlet valve chamber, with some repair for minor damages in the outlet valves in the process of execution. Contact grouting of plug No.2 and remaining grouting of plug No.1 are continuing.

The connection of the 11 kV feeder line to the works is complete, but the permanent power supply is outstanding.

All instrumentation has been installed and the Contractor handed over the monitoring activity to MCG and LHDA in November 2002.

All the downstream roads including the one passing the spillway are complete.

Weirs W4 located downstream of diversion tunnels and W5 located in the left bank creek downstream of the spillway, are under construction.

On the 5th of June 2002, a Supplementary Agreement No.3 was signed with Mohale Tunnel Contractor stating that the remaining works on Mohale Dam would be transferred to Contract LHDA 2007. These works are currently being completed by the Mohale Tunnel Contractor (under the supervision of MCG) and are scheduled to be complete towards the end of May 2003.

Police Facilities

LHDA's role in this case was to facilitate the design and construction of the required police facilities at Pitseng and 'Muela. Contract 2031A for the construction of Police facilities at 'Muela was awarded to Sigma Construction towards the end of November 2001 while LHDA Contract 2031B for the construction of Police facilities at Pitseng was awarded to M & C Construction (Pty) Ltd towards the end of November 2001. The construction of the above facilities was completed at the end of June 2002 and handed over to the Lesotho police services in August and September respectively.

The Project Management Service for the construction of the above services was performed by P.Z.C joint Venture under LHDA Contract 1203.

Power and Telecommunications

Construction Power

Contract LHDA 2019 (Phase 1B Construction Power operation and maintenance) was signed in August 2002 with Lesotho Electricity Corporation (LEC). The contract is to run until LEC is privatised or up to 31st March 2005, whichever is sooner.

The Phase 1B draft Tariff Agreement between LHDA and LEC has been abandoned due to the scaling down of Phase 1B major works. LEC has however acknowledged the results and methodology adopted in the statistical metering Project which was the basis for the draft tariff agreement.

Telecommunications

Agreement has been reached with Telecom Lesotho (Pty) Ltd. (TL) regarding the take over of the LHWP network for operation and maintenance purposes only. This is to be effective from 1st April 2003. Discussions are ongoing regarding a Service Level Agreement (SLA) as well as means of cost recovery by LHDA for costs incurred prior to TL take-over.

Negotiations on the sale of the said assets to Telecom Lesotho will commence in mid April 2003.

CONTRACTS BRANCH

Claims

Phase 1A Contracts

The tribunal hearing for the Katse Dam arbitration was held in London U.K. in September 2001. The tribunal award has been issued in the contractor's favour and LHDA are disputing the tribunal's method of calculating the overall payment, i.e. an award of M18.5 million actually becomes a payment of M95 million.

A judgement has been made in favour of the LHDA with respect to the calculation of the overall payment, but this has been appealed against by the Contractor. The date for finalising this arbitration is presently unknown.

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

PHASE 1B CONTRACTS

Contract LHDA 2007 – Mohale tunnel

The Contractor's claim 20 for unforeseeable ground conditions (Changed Rock Conditions) has kept the Contracts Branch very heavily involved during this review period.

On the 22nd June 2001 the Contractor asked for an Engineer's decision under Clause 67. The decision was due on 14th September 2001 but was postponed by mutual agreement until 16th October 2001. Both parties expressed their dissatisfaction with the Engineer's Decision – by the Employer insofar as the Engineer's acceptance that the unforeseeable conditions qualified for Special Condition 12.2 and by the Contractor insofar as the quantum awarded was insufficient. Both parties filed arbitration notification of intention to go to arbitration.

A Disputes Review Board (DRB) hearing took place in June 2002 and recommendations on the Contractor's entitlement on merit and quantum were published in September and November 2002 respectively. Generally the DRB agreed with the Engineer.

Both Parties issued notices of dissatisfaction with the DRB recommendations on the 14th January 2003. This initiated the Amicable Settlement Process whereby actual arbitration cannot be commenced for 56 days during which period it is incumbent upon the Parties to try and reach an amicable settlement of their dispute.

The Contractor has agreed to a request by LHDA to extend the amicable settlement period by a further 84 days, up to 3rd June 2003, and the amicable settlement process is proceeding.

Water and Fissure Grouting Claims (Ten Claims)

A group of ten claims related to water ingress and fissure grouting to the tunnel was heard by the DRB in February 2003, and their recommendation is due in 7th April 2003.

Contract LHDA 2008 – Matsoku Diversion Works

The DRB hearing on Claim 14 (Employment Policy) and Claim 24 (Shotcrete finish) took place in January 2002 and recommendations were published within 56 days as required by the Contract. The LHDA was not satisfied with the recommendations made by DRB and issued the required notice of dissatisfaction, which led to the initiation of Amicable Settlement Process. A settlement agreement was successfully negotiated and concluded with the Contractor in October 2002.

The Draft Final Account is expected to be submitted after the end of the reporting period

because the Defects Liability period was extended.

Contract LHDA 2009

LHDA received the Contractor's Draft Final Account in March 2003. The Engineer has reported that all significant claims have been agreed with the Contractor.

The Final Contract Amount, taking into account Supplementary Agreement No. 3 (C2007), is expected to be significantly less than estimated at the time of Contract Award.

3. OPERATIONS AND MAINTENANCE GROUP

The 2002/2003 financial year presented a lot of challenges to the O&M Group. Although there has been an expected upturn in the Group's work load due to the addition of Phase 1B operational responsibility, the number of staff in the Group has actually been reduced through work rationalisation and natural wastage.

The Matsoku Weir and Tunnel component of Phase 1B was officially commissioned in October 2001 and taken over operationally by the Group. Under



*Phase 1B
The Matsoku Diversion Weir*

the supervision of the Engineering Group, the Defects Liability Period of the consultant's contract has been extended by 12 months to 3rd October 2003 to enable the erratic performance of the scour gate to be rectified.

Despite this problem, the weir has been operated in accordance with the operations and maintenance requirements at its design yield of 2.2 m³/5

The 17-month long 'Muela Cheek Plate Repair Programme was successfully completed on January 27 2003 with the recommissioning of Unit-2 of the Station. The work was completed more than 5 months longer than originally scheduled. None of the units has shown any sign of failure since restarting commercial operation. The cheek plate repair work led to 'Muela operating with only two of three units available throughout the repair period, a situation that posed problems to production planning at 'Muela.

In addition to the 18 month single unit outage at 'Muela, there was a planned month-long (February 2003) 'Muela station shutdown for inspections of the delivery tunnel system, in accordance with the

stipulations of the O&M manuals for the water conveyance system. A total of 16.4km of both lined and unlined sections of the water delivery tunnel on the Lesotho side, were inspected for integrity. Apart from some minor defects, the tunnel system was generally found to be in excellent condition after 5-years of continuous operation.

Despite the operational restrictions at 'Muela, the focus of the Group remained on enhancing productivity, increasing efficiency and effectiveness throughout the year. The performance objectives set for the Group were largely achieved despite the restricted station operating regime that had to be adopted.

In 2002/2003, 585 million cubic metres of water was used to produce 78 GWhrs of electricity. Four year comparison on the specific water consumption related to electricity generation: indicator is shown in Table 1.

The indicator at the 'Muela base load station is 28% higher than the average specific consumption for ESKOM's peaking stations. The indicator is being closely monitored in the short-term with the full availability of the three 'Muela Units with the purpose of more realistically benchmarking 'Muela, with similar utilities that have comparable generation.

Water deliveries and royalty revenue

There was a 4.9% shortfall in water deliveries to RSA in 2002/03 which is solely attributed to the February 2003 station shutdown for tunnel inspections. The water delivery deficit will be phased judiciously over subsequent operational months to make up for the annual shortfall.

Since commissioning of the water delivery infrastructure in January 1998, to March 2003, 2,840 million cubic meters of water (equivalent to 11/2 times the full volume capacity of Katse Reservoir) were delivered to the RSA, and the government of Lesotho has received a total sum of M1.064 billion in payment for royalties. (Table 2)

Table 1: Specific Water Consumption/Electricity generation

Operational Year	Specific water consumption Litres/kWhr generated
1999/2000	1.40
2000/2001	1.54
2001/2002	1.57
2002/2003	1.55

Table 2: 4-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
2002/2003	615	585	(4.9%)	M205.91

While Table 2 amounts reflect the water royalties received, it came to light in March 2003 that the water royalties computation model used to produce water bills for water supplied had erroneously overcharged RSA for monthly deliveries made since May 2001, resulting in a cumulative overcharge of M23.3 million over the period (M9.9 million in 2001/02 and M13.4 million in 2002/03 respectively). The Parties to the LHWP Treaty have agreed that payment will be made to repay RSA in full during 2003/04.

A new royalty invoicing model, ROWSIS V4.3 has been implemented and effective from April 1 2003, and as with the earlier model, has been updated and agreed jointly by the Parties to the Treaty.

Electricity Generation & Revenue

For fiscal year 2002/2003, 'Muela electricity production schedule was prepared on the basis of availability of only two (of three) 'Muela Units for 9 months of the year. The cheek plate remedial works however, lasted more than 10 months of the year.

Actual generation for the year was 378 GWhrs of which 90.6% was sold to LEC, while the remaining 9.4% constituted exports to ESKOM-RSA. The 2.8% decrease in actual production than planned was mainly due to the February 2003 outage for delivery tunnel inspections.

While the value of the sales to LEC for the year could have been 38.4% higher (at M59.84 million) than the actual Table 3 figure, a directive was given by the Government of Lesotho during the year, to cap the GDP Deflator (tariff multiplier) at the year-1999 level and to continue billing LEC at pre-1999 tariff rates. The situation is to continue until a new long-term power sales tariff has been agreed upon.

The implementation of a new tariff for power trading between LHDA and LEC which was originally scheduled for October 1st 2002, was delayed primarily due to the restructuring process taking place at LEC. By the end of March 2003, a joint tariff proposal (by LEC and LHDA task force)

had been presented to the respective Boards of both organisations. The new longer term tariff is now planned to be finalised and become effective in the first half of the following operational year. (Table 3)

The capacity utilisation of the available generating system (2 X 24 MW nominal rated turbines) was at its highest during the year, at 58MW average, 97% of its maximum rating. Throughout the year, there was sufficient water in the Katse Reservoir to run the units at maximum output. The station's peak output of 78.5MW was achieved in August 2002 during the 1-week recommissioning period of Unit-3 before repair work started on the last of 'Muela units, Unit-2.

Electricity Exports

Export trading in the case of 'Muela is neither planned nor agreed in advance. The ad-hoc trading takes place on occasions when 'Muela output exceeds LEC demand or during supply transitional periods when 'Muela comes on stream after an outage. (Table 4)

Table 3: 4-year performance overview: Electricity Generation & Sales Revenue

Financial Year	T. Planned Generation (GWhrs)	T. 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%
2002/2003	389	377.93	(2.8%)	M43.25	78.5	9.4%

Note: Sales to LEC exclude export revenue. 1999 tariff levels, no inflationary adjustments

Table 4: Export Trading 2-year overview

Year	Export Energy (GWhrs)	Export Revenue
2001/2002	23.22	M0.734 million
2002/2003	35.32	M1.305 million

Table 5: 2-year comparison of M.D. Losses

Year	Target (M X million)	Actual (M X million)	Variance A/T%
2001/2002	≤ 6.0	6.72	12.0%
2002/2003	≤ 4.0	4.22	5.5%

Maximum Demand Losses

There was a significant improvement in the management of the Maximum Demand (M.D. component of the tariff), despite availability of only two units year round. (Table 5)

The 2002/03 cumulative loss excludes the February 2003 outage of zero generation at 'Muela. The major contributing factor to the losses was a number of station trips caused by a number of factors resulting in several unplanned system failures. The overall plant availability remained reasonably high despite a restricted application of condition based maintenance strategy due to cheek plate repair works.

Rehabilitation of access roads to LHWP sites/facilities

The contract involved rehabilitation of site roads that are used exclusively by LHDA personnel to

access the LHWP facilities. Sections of the roads used by the general public were not considered. A local contractor Matete Construction was awarded the contract for almost a quarter of the M2.0 million budget amount to rehabilitate the Ngoajane, 'Muela Surge Shaft and the 'Muela By-pass roads. The work was completed in December 2002 after 5 months.

Safety

The Group's record on safety has seen significant improvements over the period. Greater emphasis was placed on the implementation of risk control strategies and interventions through the LHDA Safety office and other national agencies. A near fatal assault case involving three of the Group employees took place in September 2002 at Ha Sekhohola village in the Thaba-Tseka district, near one of the hydrology stations operated by the Group. The employees who were on routine field activities were seriously attacked by a group of villagers who mistook them for thieves and their vehicle was badly damaged with stones. Awareness campaigns and public education were intensified, aimed at ensuring non-recurrence of such incidents. Campaigns were conducted in conjunction with national law enforcement agencies.



Roads network provide modern transportation in the Highlands of Lesotho in Phase 1B

On safety of the general public (communities residing along LHWP reservoirs), the number of drowning related fatalities have reduced significantly over the previous two years, but an unfortunate boat accident occurred in Katse Dam in July 2002 in which three people lost their lives. A boat carrying seven people, two of them NGO trained boat operators, capsized due to passenger fright that upset the boat balance. Four passengers including one operator were saved while the other three drowned. The privately owned boat did not have sufficient safety equipment on board when the accident occurred.

Regulations for boating (as well as other water activities) in the LHWP reservoirs were developed in-house during the year and by March 2003, and the draft regulations were submitted to the authorities for approval, before implementation. The regulations are intended to provide clear guidelines that will ensure protection of aquatic environment, security and safety of all water users.

Greater emphasis has been placed on the promotion and implementation of the "Emergency Preparedness Programme" (EPP). Education and safety awareness campaigns including diver training courses have been offered by the Environmental & Social Services Group. Partnerships have been established and are continuing to be developed with NGOs and national security agencies to cooperate during emergency, safety and rescue management operations.

Security

The LHWP security master plan was approved by Government during the year and by the end of the reporting period, the plan implementation programme was under preparation. In addition to recommending security measures to be implemented at individual project sites, the plan also addresses safety and rescue operational issues in and around the project reservoirs, as well as requirements to upgrade communication systems and links to develop a network that offers

good transmission performance over adverse terrain such as the Lesotho Highlands.

The overall project security remains a top priority to the Group. There are 49 sites under the Group's responsibility spread in the Highland and covering an area of 2,500 km². Security is outsourced and a local security company is responsible of Levels 3 to 5 security: (specific intrusion (low risk), curiosity intrusion and safety), while levels 2 and 3 security: (sabotage and specific intrusion (high risk)) are covered by national security agencies. No security breach incident on any site under the custodianship of the contractor was reported during the year.

As part of the Group's on-going efficiency improvements, revisions were made on the security outsourcing strategy that were aimed at reducing the overall cost of project security. The security guard numbers were reduced from 163 in April 2002 to 128 in March 2003, resulting in an annual saving of 9% on the outsourced contract amount. This was achieved despite the addition of several Phase 1B sites that were handed over by the project contractors, to be secured by the Group.

The establishment of an in-house security unit comprising several security personnel has also been put on hold while the effectiveness of outsourcing all project security requirements is being tested. Savings of M1.7 million were realised in 2002/03 because of this decision.

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.

'Muela Hydropower Plant Reliability

In general, performance indicators in the areas of overall production and productivity were close to target for year and overall plant reliability compared

favourably to industry standards despite availability of only two of three 'Muela units during the period.

The station reliability (operating hours between planned & unplanned maintenance stops) was 85%, 10% lower than the target for the year. A number of unplanned outages during the year were due to teething problems encountered after the long outage (a long stand-still) of the machines due to turbine cheek plate repair works. Apart from the repair work, both hydropower and water transfer infrastructure experienced a marginal decrease in maintenance costs (for spares) compared to the previous year.

The 540KW Katse Mini-Hydro Performance

The mini-hydro power plant is located in gallery K (123 metres below the spillway level) of the Katse Dam. The plant consists of a horizontal Francis turbine and an 800 KVA synchronous generator as the main components, together with associated equipment.

Since commissioning in August 2000, the plant has been run in an isolated mode from the Lesotho Electricity Corporation (LEC) grid, as the main power source to the Katse Dam electricity requirements. During the period under review, 1.4 GWhrs of electric energy were produced by the plant at an average power output of 220KV, 40% below the station's nominal capacity rating. Work on connecting the mini-hydro to the grid started in December 2002 by configuring the plant to operate

in parallel with the grid and as standby in the event of grid failure. Because of the difference in protection settings of the mini-hydro to those of the grid, and to avoid power interruptions to Phase 1B works, the grid connection was delayed until the TBM works at Mohale tunnel outlet were substantially complete. By the end of the reporting period, work in connecting the mini-hydro to the grid was substantially advanced and scheduled to be commissioned in July 2003. When connected, the mini-hydro will be operated continuously at an average 500 kW power output.

O&M Branch Safety Issues

There were no work related fatalities at the Branch during the year, and indeed, since LHWP Phase 1A came into commercial operation. Only four vehicle accidents were reported with almost zero disabling frequency rate (DIFR). The overall industrial safety accident rate per 1,000,000 man-hours was 0.75 for the year.

The NOSA (National Occupational Safety Association) audits could not be conducted in 2001/2002 due to the cheek plate repair works. The audit was finally held in January 2003 and carried out within the requirements of the old NOSA (Safety and Health) 5-Star system and the new NOSA SHE (Safety, Health and Environment) integrated system. The audit results show a significant year-on-year improvement in safety. (Table 6)

Operations Planning Branch

The Operations Planning Branch is responsible for the water quality, hydrological and meteorological aspects of the LHWP, as well as delivering the Instream Flow Requirements (IFR). 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 9 rainfall stations (for meteorological information such as rainfall, temperature, humidity etc.) the data availability

Table 6

Safety Rating Criteria	Highest NOSA rating	2000/2001 MHP rating	2002/2003 MHP rating	Comments
Old NOSA System	5-Star	4-Star	5-Star	Overall 2002/03 Score = 92%
New NOSA SHE System	5-Star	N/A	4-Star	Overall 2002/03 Score = 87%

factor has been 72% and 98% respectively during the year. The data availability factor of 95% could not be achieved on hydromet stations due to heavy continuous rains that prevented access to some stations, and unavailability of some stations due to vandalism and equipment breakdowns. LHDA has joined forces with other Government departments with similar susceptible facilities, to combat vandalism through various means including education campaigns.

The data availability report for 2002/2003 is scheduled to be published in December 2003.

92% of the target 1,900 water quality samples were collected during the year and sent to external laboratories for analysis. Results of the analysis indicate the quality of water in all reservoirs has remained very high and within the Treaty specified limits, in accordance with the RSA and Lesotho water quality standards.

The sediment survey report on the 'Muela Reservoir for 2002/2003 was issued in April 2003. Previous reports concluded that the Katse reservoir was receiving insignificant silt deposition, and it was therefore, decided not to carry out surveys in the reservoir at annual intervals. Mohale reservoir on the other hand, was excluded in the annual survey because of the late dam impoundment and low water levels. The survey results at 'Muela indicate that 5 – 7% of the reservoir capacity is filled with sediment. Sedimentation in the reservoir will continue to be monitored annually. Meanwhile, efforts are on-going to implement erosion protection measures in the catchment.

Low Level Outlet (LLO) tests. The testing of water quality on water released from the Katse Dam low level outlets started in September 2002 and by the end of the reporting period, three tests had been conducted. Following the completion of the one test due to be carried out, all of the test results will be addressed to determine if the impact of such releases is likely to be beneficial or detrimental to the downstream environment. However, preliminary

results indicate that that the water quality is acceptable for healthy downstream ecological existence. However, investigations are continuing on the impact of low water temperature that is being released from the LLO.

Flow releases downstream of LHWP structures. Following the approval of the In-stream Flow Requirements (IFR) policy in December 2003 and its subsequent implementation, cumulative water releases downstream of LHWP dam structures at the end of March 2003 were: (see Table 7).

65% (or 245.4 mm³) of the total annual outflows at Katse were released through the Katse Low Level Outlets (LLO) to avoid spillway spill, while 17% (or 63.3 mm³) of the total outflows represented the actual spilled water during the 6-month period September 2002 to March 2003. The LLOs have been used as a control measure to manage imminent spills with the aim to reduce any undesirable impacts to downstream communities.

Prior to Mohale Dam impoundment in October 2002, the flow in the river was unobstructed. Releases from the Dam only started in November 2002 and in the 5 months to March 2003, 21.51 Mm³ (or 67.4% of agreed annual releases) had been released downstream.

Dam Safety & Surveillance Section

The Dam Safety Team is responsible for monitoring the behaviour of all LHWP Dams (through instrumentation), and all safety aspects associated

Table 7: LHWP Downstream flow releases (2002/2003)

LHWP Structure	IFR Policy target	Actual Releases	Comments (on 2002/2003 releases)
Katse Dam	66.9	375.88	461% more than target
Mohale Dam	31.9	25.42	From Nov '02 to Mar '03
Matsoku Weir	34.4	49.70	44.5% above target
'Muela Dam	4.0	5.14	28.5% above target

with the operations of the dams. There are over 1,250 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.). 965 of these instruments are installed at Katse, 132 at 'Muela and 180 at Mohale Dam. 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 remain high at 95% (98% in 2001/02). Almost 98% and >95% of all instrumentation installed at 'Muela and Katse Dams respectively, were available during the performance review period. Both structures

Chart 1: 6-year Quarterly Katse Reservoir Variations

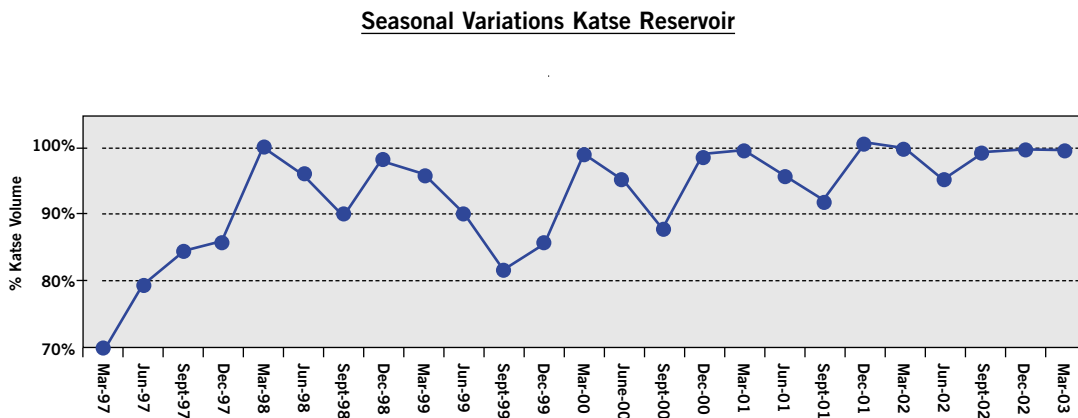
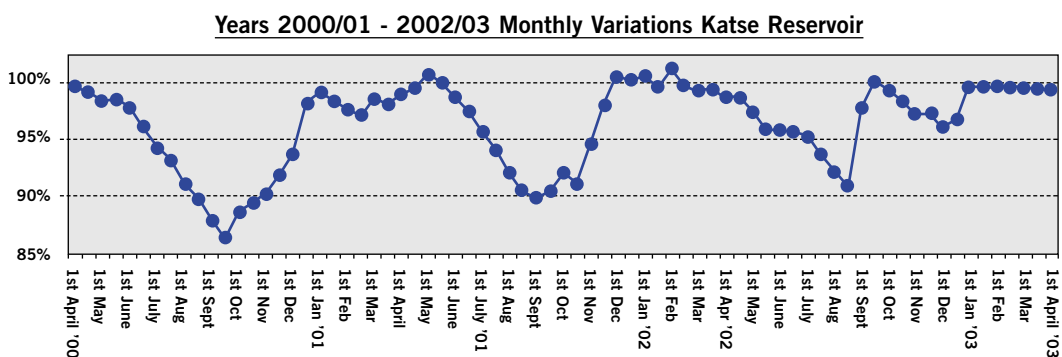


Chart 2: 3-year Monthly Reservoir Variations



The capacity of Katse Reservoir has consistently been above 91% capacity during the year

continued to perform optimally even under test conditions that coincided with dam spilling. Except for the erosion repair work at Katse dam right bank in August 2002, no structural cracks, displacements or deteriorations that warranted concern were observed at both dams.

Between the last Katse Dam spill on September 7 2002 (which lasted for 9 days), and March 2003, the reservoir received above average recharge flows due to heavy rains during that 6 month period, September – March 2003. Subsequent spills were averted in a controlled way by using the dam's Low Level Outlets for more water releases to avoid spillway spills.

Charts 1 and 2 show that the annual stored volume of the Katse reservoir varies 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 helps to offset the relative increases in winter discharges that are necessary to generate more power to meet the peak winter demands.

The implementation of Emergency Preparedness

Programmes (EPP) in the LHWP project sites progressed as planned during the period under review. Education/Awareness campaigns were carried out along the Senqunyane River downstream of Mohale Dam. Four centres were covered with each centre covering several villages. Only two centres in the Mohale's Hoek could not be covered due to heavy rains and have been included in the programmes of the following year.

A high level EPP coordination workshop involving senior government officials, commanders of national security agencies, the Disaster Management Authority (DMA) and LHDA executive members was held with the aim of developing strong partnerships and agree on pragmatic implementation strategies for an effective EPP programme to be in place. The purpose of the workshop was to review and agree policies and procedures that will govern the successful implementation of EPP with the full participation of grass-root stakeholders.

Townsites Administration Section

Townsites Administration is responsible for the management of villages or camps that accommodate the Group's operations personnel



Recreation centre with a lot of facilities to ensure that staff have access to sporting facilities

and other LHDA employees whose duties require their stay in the field. This responsibility extends to the operations and maintenance of potable water supply systems and sewerage systems (which include collection, treatment and disposal of effluent). The Section's programmes and projects for 2002/2003 were all achieved as planned.

Continued emphasis has been placed on transforming Townsites Section into a commercially oriented entity. The management of LHDA's Likileng lodge at the Butha-Butha townsites was outsourced to FEDICS Catering Company in November 2001, on a 3-year renewable contract. The benefit to LHDA has been the phasing out of the monthly fee to manage the lodge.

Sub-metering of individual units at the Butha-Buthe townsites commenced in September 2002. By December 2002 electricity pre-payment meters were installed at all individual houses/units at the townsites. Savings of up to 60% on the monthly townsites electricity budget have been realised due to direct payment of sub metered accounts. Utilities budgets of facilities of a communal nature such as street lighting, recreational facilities, water and sewerage treatment plants etc, have however, remained the responsibility of the Section.

In its ongoing effort to reduce maintenance costs, the Group introduced rental rates for LHDA field based employees at LHDA townsites (Likileng village, Mohale village and Katse village). Proposals have been submitted to the authorities, recommending rates to be charged to LHDA employees. The rates are due for implementation in the first quarter of 2003/2004.

A decision was made by LHDA executive in March 2001 to rent out vacant houses at Butha-Buthe townsites to private individuals. Actual townsites rental income in 2002/03 was M650,000, 9.6% below the forecast for the year which was based on maximum occupancy of all vacancies throughout the year. With the introduction of rental charges for its employees, the Group expects to generate enough income to cover all townsites running costs.

In pursuance of its strategic priority of outsourcing all non-core activities to bring about efficiencies and cost-effectiveness, all townsites maintenance services continued to be outsourced. The outsourcing strategy was further reviewed and services rationalised according to their complexities in order to increase efficiency. (Table 8)

The Leribe camp and its appurtenances were handed-over to Government of Lesotho in March



Mohale Advanced Infrastructure – view of housing units for LHDA staff, contractor maintaining the camp and medical staff on site

Table 8: Services provided under the maintenance contract

Ref	Main Task	Description
1	Maintenance of Housing: Electrical & Plumbing works	Communal sewerage reticulation systems; camp's and office's water reticulation systems; street lighting; electrical short-circuits; in-coming electricity mains including Kiosks and distribution boxes; etc.
2	O&M of water treatment plants, sewerage treatment plant, water distribution systems	Sewerage services involves: collection, treatment and disposal while maintaining the national effluent disposal standards; maintenance of raw water sources; treatment to water to healthy existence standards; storage in distribution tanks before feeding into reticulation systems.
3	General camps maintenance services	Maintenance of roads and drainage, refuse removal and disposal, maintenance of swimming pools, garden services in camp and office sites, and general upkeep of premises.

2003 resulting in a 23% negotiated reduction on the fixed monthly townsites maintenance fee of M103,000.

Safety and security of tenants at LHDA townsites. A number of safety exposures have been identified for LHDA townsites tenants and safety enhancement strategies and interventions have continued to be implemented. The positive effect of these interventions however, was marred by two separate drowning incidents in townsites swimming pools. The first drowning incident involving a 2-year old boy took place at the Likileng lower camp swimming pool in December 2002. It was an unfortunate case of a child wandering away from his minders. The second incident occurred in March 2003 and involved a 9-year of girl who was swimming unattended, in the swimming pool of the Likileng main camp.

4. ENVIRONMENT & SOCIAL SERVICES GROUP (ESSG)

Compensation

The compensation policy of 1997 was amended with some refinements being made to items that were found to be unclear during execution, such as minimum threshold and garden land compensation. Refinements were approved, translated into Sesotho, implemented and publicly disclosed (including posting them onto the WEB sites).

Compensation delivery activities in the fiscal year 2002/03 included the annual compensation in the form of cash (ACP) and grain (Annual in-kind) to 2,509 Phase 1A households and 600 Phase 1B households. A total of 14,274 70kg bags of maize and 30,905 1kg packets of beans were distributed to 1,513 Phase 1A and 100 Phase 1B households. For cash, payments amounting to M3,133,608 were made to 995 Phase 1A and 500 Phase 1B households. For households lump-sum investments, 11 Phase 1B investment plans were submitted for processing, out of which 9 were for rental units and 2 for other ventures. Out of 9 rental units investment plans, 7 were already under construction at the end of the reporting period. Rental units in Maseru are deemed to be viable and therefore have low risk compared to other types of ventures.

For garden land compensation, 85 Stage 1 and 40 Stage 2 householders were paid for garden land in excess of 300 square metres by December 2002. A further payment of M226,873.34 was made at the end of March 2003 to 153 Stage 2 householders with garden land less than 300 square metres, including those without any. Payment processing for Stage 1 householders is underway, and is expected to be completed in the first month of the new financial year. Furthermore, payment of M143,672 was made to 74 Stage 2 householders for kraals and other structures. Regarding 'minimum threshold' compensation, M645,374.88 was paid out to 52 Stage 1 households, while 81

Stage 2 households received cash amounting to M222,301.40. For lost arable land pieces of less than 1000 square metres in size, M327,187 was paid out to 97 householders, while for lost trees, M939,000 was paid out to 264 householders.

For lost communal assets compensation, progress towards payment through cooperatives formation saw more co-operatives being formed, registered and co-operative bank accounts opened across all the affected areas. 'Muela had all its four cooperatives paid their due compensation worth M959,200, while Katse Local Catchment (KLC) had 17 of its 23 cooperatives paid due compensation worth M4,270,825. Five out of the remaining six KLC cooperatives had opened bank accounts, with the last one raising required funds to open a bank account. Payment processing for the five cooperatives was underway and expected to be completed during the first quarter of the new financial year. Mohale (1B) had three of its 16 cooperatives open bank accounts and two received due compensation worth M375,574. Others were in various stages of the registration process.

The payments made included backlog payments of the previous years up to the financial year 2002/2003. Training of cooperatives in investment plan preparation in order to invest the funds was ongoing in 'Muela and KLC at the end of the reporting period.

Resettlement

Mohale Stage 2 Resettlement programme implementation met its target of resettling 103 households critical to the Mohale reservoir impoundment well before October 2002. Of the revised total of 222 Stage 2 resettling householders, the figure as of 31 March 2003 stood at 216 as 4 household heads had died and their dependents were absorbed by resettled relatives, and two had opted for cash in lieu of housing since they already have residential properties in host areas. Of the non critical 113 households, 78 have been resettled, with housing for 15 more under construction for completion by

end of May 2003, while housing for the remaining 19 households is yet to start for a target completion date of October 2003. Two schools and two churches were also on the critical path, with one church completed while two schools were under construction. The second church would be started with the above-mentioned 19 houses.

Development Programmes

As an exit strategy on the agricultural sector, LHDA signed the Memorandum of Understanding with the Ministry of Agriculture establishing the Project Coordination Unit, through which a phased-out exit will be effected. While the Unit office was established towards the end of 2001/02 fiscal year, the process of staff recruitment was implemented during the reporting period.

Food Security Enhancement

Under food security in Phase 1B area, and with respect to maize production in the reporting period, 160 hectares of land was prepared by 400 farmers as planned (resettle/host share-cropping), and 500 x 10kg bags of maize seed was procured and delivered to those farmers for planting. Planting and weeding were completed as planned. In Phase 1A, 80 farmers planted maize on 63 hectares of land as planned, out of which 10 hectares was badly affected by frost and hail.

For wheat production, 50% of 319 hectares as targeted had been harvested in Phase 1B at the end of the reporting period. In Phase 1A area, 23 farmers planted 20 hectares of wheat against a target of 50 hectares, and harvesting was in progress during this reporting period. Peas was planted by 30 farmers on 30 hectare land in Phase 1B area, while in 1A area, 18 farmers (against a target of 15) planted 15 hectares land, with harvesting started before the end of the reporting period. For beans production, 80 Phase 1B farmers planted 35 hectare (as planned), and 100kg/ha had been harvested (against the target of 600 kg/ha). Meanwhile in Phase 1A area, 18 farmers planted 18 hectares of beans against a

target of 15 by 15 farmers. Harvesting was in progress at the end of the reporting period.

Commercial Agriculture

On the commercial sector, 56 Phase 1B farmers planted 28 hectares of Highlands Maize seed as planned. With regard to seed potato production, 200 Phase 1B farmers planted 26.6 hectares against the target of 22 ha, while in Phase 1A 40 farmers planted seed on 30 hectare land against the target of 80 hectares producing seed on 60 hectare land. Harvesting of potatoes was ongoing in Phase 1B area.

On the cabbage production side in Phase 1B area, 130,000 cabbage and other vegetables seedlings were procured and distributed to 400 farmers for planting on 12 hectares of land as planned. In Phase 1A area, 10,000 seedlings were planted by 15 KLC farmers on 8 hectare land against a target of 5 ha, and another 10,000 seedlings were planted by 'Muela farmers on 10 ha land as planned. At KLC, 25,000 heads of cabbages

germinated well and were expected to be ready for winter sale.

For fruit trees, one community orchard of 1.1 hectares was established by 30 KLC farmers, while in 1B area, 21 farmers procured 3,661 trees (target = 10,000 tree capacity for each orchard) for their 2 orchards. Furthermore, 300 trees were distributed to 98 farmers for planting. In Phase 1A area, 500 rootstocks were procured and distributed to farmers in one 'Muela village, while KLC farmers procured and planted 2,035 trees.

As for high value cash crops production, at 'Muela 60,000 asparagus seedlings had been planted on 3 hectares of land. In Phase 1B area, 100,000 cloves of garlic were planted on 2 hectares of land by 24 farmers, with the expected yield of over 500,000 cloves (target was 2 ha covered with 320,000 cloves of garlic planted by 30 farmers). The target was the same for both Phases 1A and 1B. In Phase 1A area, five farmers harvested 60,000 cloves of garlic at an average weight of 8kg/pkt.



School children pose for a photo near a new classroom. The LHWP contributes to improved education facilities in the Project affected areas. INO Primary School at Ha Mosotho in the Machache area within Phase 1B has benefited from the programme

On the Extensive Livestock Production programme in Phase 1B area, one Range Management Areas (RMA) committee was formed, and one grazing management plan was produced as planned. Furthermore, one field was acquired for planting fodder. The target was to have 5 ha of fodder produced by 10 farmers in 10 villages. In Phase 1A area, three farmers from three villages were identified for planting fodder (target – 10 farmers from 10 villages identified for planting fodder). There were no auctions held during the reporting period; the target was to have 600 kg live weight at auction. Only two cattle shows were held for culling and selection purposes, and another one for 21 off-springs of 3 different types of cows. In addition, at a new shearing shed at KLC, 4,456 sheep belonging to 81 farmers were sheared, producing 78 bales of wool weighing 12,224kg (target was one shearing shed operational).

On the Intensive Livestock Production programme, and with respect to dual-purpose poultry, 2000

chickens were procured by 50 'Muela farmers, while 13 KLC farmers procured 145 chickens (target was 1000 chickens produced by 100 farmers in KIC and 'Muela).

For layers, Phase 1B farmers procured 100 layers against a target of four groups with 500 layers @ 125 chickens/group, while 21 'Muela farmers in Phase 1A procured 10,500 birds, with some 4,400 dozens of eggs produced and sold against the target of: 30 farmers @ 100 chickens/farmer/year production: 108,500 dozens/year. At KLC, 650 birds were procured by five farmers, 10 farmers @ 100 chickens per farmer per year. Egg production; 18,000 dozen egg per year. On the broiler production side in Phase 1B area, 13,242 birds were procured by farmers since April 2002. At 'Muela, 18,100 broilers were stocked by 176 farmers, while at KLC 35 farmers procured 7,000 birds 'Muela = 100 farmers @ 400 chickens per farmer per year. KIC = 30 farmers @ 8,000 chickens per farmer per year.

Katse Dam – the main storage of water for the Katse Reservoir could play a vital role in the fisheries in the development project.



Small Micro and Medium Enterprises (SMMEs)

On the capacity building aspect, 277 people were trained on various skills in the Phase 1B area. The target was to train 14 groups of people, while in Phase 1A, 40 KLC participants received training in garment manufacturing, pottery and ceramics against a target of 80 people, cooperative members. In Phase 1A we have 27 cooperatives and in Phase 1B 16 cooperatives. From both Phase 1A and Phase 1B areas participants were trained in cooperative management and record keeping. Further training is ongoing for these members to enable utilisation of communal compensation funds deposited in their cooperative accounts. On the eco-tourism side, Lejone crafts are now sold at Katse Information centre. As for SMMEs development, nine groups (against the target of 15) exist in 1B area: potter = 1, grass works = 3, skin tanning = 1, carpentry = 4. Other enterprises are: guiding tour enterprises for 'Muela and for Katse, 5 candle making and other crafts ventures, and garment manufacturing.

Highlands Natural Resources & Rural Enhancement Project (ADB funded)

For ADB supported eco-tourism project, progress saw the recruitment of Eco-tourism Specialist who started work in February 2003.

Expressions of interest for design and supervision of 'Muela Enviro Park were received and evaluated. Request for Proposals were sent out, site visits undertaken, tenders received and evaluations were in progress at the end of the reporting period. Scope of Services for supervision and review of Katse Information Centre had been approved by the ADB and submitted to LHWC for approval. Expressions of interest for design and supervision of Katse Botanical Garden were received, technical evaluations and shortlisting completed and approved by both the ADB and LHWC.

Fisheries Development Project

Proposed Scope of Services for the second Phase

of the Fisheries Development project was approved by the LHWC. This included the need for a Project Manager who has experience in commercialisation since that has become the requirement. To that effect, expression of interest were requested of aquaculture (commercial trout) companies in South Africa (Cape Town and Mpumalanga), and evaluations of submissions received were in progress at the end of reporting period. In other areas monitoring fish stock activities continued, with the indication that fish stock numbers are increasing after some decline between 1998 and 2001. With Kao mine polluting activities halted, fish stocks are increasing in the Kao river. A total of 91 Fishing Permits were issued during the reporting year, valued at some M1370.00.

Community Forestry

CARE Lesotho has been awarded the contract to carry out the second phase of forestry project. Implementation has started, and an implementation method statement that explained the model to be employed given the outcome of resource assessment has been received for review and approval. The reports on resource assessment on the ground have been received.

Public Health Programme

With regard to Public health monitoring in both Phase 1A & B, a Biostatistician consultant to analyse data and train staff was engaged. As a result, the following reports were produced by the Consultant: Growth Monitoring, HIV/AIDS KAP Study and Morbidity Outpatient Data Analysis. All the above reports have been reviewed and the comments sent to the Consultant for the final reports production. Training of Public Health Section staff in data analysis and report writing by the Biostatistician has been completed. The Public Health Specialist is also in place and is continuing with his work under the supervision of Public Health Section Head. The Public Health expert panel member has also been appointed and his first assignment was to evaluate Leribe Trauma Unit (LTU) before handing it over to the MOHSW. A draft report on the evaluation of LTU was being

circulated for comment at the end of the reporting period.

With respect to LHWP health facilities to be transferred to the Ministry of Health and Social welfare (MOHSW), consultations and site visits were undertaken with the MOHSW regarding the future of LHWP facilities and staff. The Government of Lesotho took over Leribe Trauma Unit at the end of March 2003. A draft Memorandum of Understanding (MOU) and a letter requesting approval from LHWC to hand over to MOHSW some of the assets that were not included in the original LTU MOU was under preparation at the end of the reporting period. With regard to Phase 1A Public Health, staff at LTU also ended their services with the LHDA at the end of March 2003. Furthermore, the MOHSW took over Lejone clinic as of September 2002 upon demobilisation of the MRI Contractor.

Meanwhile, Public Health activities in Phase 1B continued according to plan. These include amongst others Occupational Health and Industrial Hygiene and Safety programme, Health Monitoring and Disease Surveillance, designing, procurement and distribution of IEC materials, procurement and distribution of condoms as well as immunisation of the 'under-fives'.

As for Phase 1A Water and Sanitation programme (WATSAN), scope of services is still being prepared along the Phase 1B lines for the outstanding works. Construction of 39 outstanding VIP latrines at Katse Local Catchment (KLC) has been completed by the Public Health Team.

Furthermore, LHDA internal HIV/AIDS policy has been approved. LHDA Public Health Section will continue to provide counselling services to the affected staff. In addition, a concept paper on HIV/AIDS has been finalised by Public Health Section to be submitted to Lesotho Aids Programme Coordinating Authority (LAPCA) for World Bank funding.

Natural Environment and Heritage Programmes

Maloti Minnow

Maloti Minnow policy and action plan were produced and approved, and the Bio-diversity Trust Fund proposal was also approved. The Maloti Minnow relocation proposal was also effected as follows: Maletsunyane River received 600 fish, Makhalleng 300, Jorotane 300, and Quthing 400. Monitoring of translocated fish will start in the second year of translocation. A proposal requesting the LHWC's approval of implementation of the Panel of Experts report number 34 recommendations on the conservation of Maluti Minnow has been submitted. Furthermore, a proposal to engage an Expert to drive the establishment of the Biodiversity Trust was being drafted at the end of the reporting period.

Rescue of Flora and Fauna

Samples of Flora were rescued well ahead of impoundment time of November 2002, with plants going to Katse Botanical Garden, National University of Lesotho (NUL) and to other established nurseries. The fauna aspect was not executed as impoundment rate was expected to be slow enough to allow fauna to migrate naturally to safer places.

Reservoir Induced Seismicity

Reservoir Induced Seismicity programme milestone of policy development, information dissemination and public awareness as well as Emergency Preparedness Plan (EPP) preparation were attained at the time of impoundment. Monitoring is now ongoing.

Instream Flow Requirements

Instream Flow Requirements programme was the one that delayed the initial impoundment by close to three weeks; and that resulted in a three phased process as follows: the first phase allowed for normal releases downstream and restricted impoundment to a certain height level until December 2002. By then the second phase,

depending on IFR policy approval would enable releases to be halved until March 2003 when the last phase would come in. The last phase depended on IFR procedures, mitigation plans approval, and the remaining pre-impoundment conditions set by the World Bank having been approved. By the end of March 2003, IFR policy had been approved by LHWC on 13 December 2002 and was posted to various websites for public information on the 22nd January 2003, hence the second phase was activated. As of March 31st 2003, IFR and other minor pre-impoundment conditions had not been fully met, hence the final phase of impoundment stayed on hold.

For other Natural Environment and Heritage (NEH) programmes, some are implemented separately in terms of Phases 1A and 1B, while others are jointly implemented. Integrated Catchment Management (Contract 1044 – ICM) is one such joint programme, whose progress saw “request for proposals” sent to bidders, bids received, evaluations completed and the evaluation report

submitted to the LHWC for approval during the reporting period.

With respect to On-site Environmental Resource Conservation, progress regarding Nature Reserves management saw reserves management continuing under LHDA until April 2003 when the ADB funded eco-tourism project under LHDA would take over. Ongoing negotiations with Lesotho Government to take over the Reserves resulted in a decision that LHDA continue through ADB funds to manage the Reserves for two more years. Furthermore, visitors continued to be received in the 3 Nature Reserves, with bookings indicating an increase in the number of visitors. Community enterprises such as curios, horse riding etc. were also ongoing at the 3 Nature Reserves.

With respect to Zoning of Katse and Mohale Reservoirs (Contract 674), final reports were received from the Consultant.

Monitoring of construction activities has seen work



Poultry farming – farmers pose for a photo with their instructor Ms Senate Molapo second from left.

site inspections carried out for bridges, Mohale Inlet Tunnel and Mohale Feeder Roads work areas.

With respect to the Katse Botanical Garden activities, a draft collection plan was produced, and 1.795 kg seed was collected from 29 genera of 32 species. Furthermore, 300 plants of one genera were collected, and 40 genera 55 species were also collected. On the production side, 764 seedlings were transplanted from 21 species of 21 genera. As for the Garden's infrastructure, one compost pit, one fumigation house, one traditional hut, one blind man's garden and toilet facilities were almost complete and functional. Propagation of medicinal plants programme in Phase 1B (Contract 1054) saw the establishment of 5 community nurseries.

Community Infrastructure

Feeder Roads and Bridges

Feeder Roads and Bridges construction also met critical milestones of being passable by

impoundment time, thus removing the need for boats as interim measure. Currently the passable access pioneering is 100% complete with bulk blast at 97%, cut-to-spoil at 95%, side drains at 48%, road-bed at 39%, layer works at 19% and drainage at 60%. Critical bridges of Senqunyane, Bokong and Limapong were substantially complete and have since been completed. Other two footbridges at the tail-end of the reservoir and two vehicular ones are in progress and are due to be completed in June 2004. These were not critical for impoundment.

Water Supply

Besides the critical path feeder roads project, the Community Infrastructure deals with water supply to Phase 1B host and resettled communities in the highlands. For the Lowlands water supply, Plenty Lesotho is designing and constructing water supplies at the villages of Mosuoe, Seoehlana, Sekete, Makhalleng etc. Construction of Makhalanyaane water supply reticulation and new reservoir has been completed with installation of

Environmental Action Plan – Bokong vehicular bridges with a crest length of 309 metres and the height of 67.7 metres from the river bed. The bridge is located upstream of Mohale Dam and provides access to the communities of Ha Montsi, Ha Nyakane, Ha Mokhathi and Ha Motoko villages on either side of the reservoir



tank and tap system in progress. Meanwhile, water supply system designs for Ha Mosuo and Ha Sekete have been submitted to the LHWC for approval. Borehole drilling at Ha Sekete has commenced. Replacement pump was installed at Ha Ratau and the system is now operational. Mosalla water system is also operational. Furthermore, an order for drilling services at Ha Maja has been issued to Batsoeneng Drilling to commence work.

For Mohale Water Supply and Sanitation Programme (Contract 1055), provision of water and sanitation facilities in 4 fast track villages was progressing as follows at the end of the reporting period: Mahooaneng spring catchment was 67% complete while silt boxes were 50%, pipeline, storage tanks as well as stand pipes were 100% complete. Latrines construction at Mahooaneng was at 35% completion stage.

In Koporale pre-construction activities had started and latrines construction was at 26% completion stage. At Letsatseng, spring catchment, silt boxes, pipeline, storage tank, water points and stand pipes were 100% complete while stone wall was at 52%. Latrines construction was at 81% completion stage. Ha Tsiu spring catchment was 76% complete, silt boxes at 50%, pipeline at 80%, storage tanks and stand pipes at 60% and 70% respectively. Latrines and refuse pits construction were at 81% and 50% respectively. In addition, on the job training of 47 local latrine builders was also proceeding at the four above mentioned villages.

Monitoring and Information

Monitoring and Information programmes had the GIS and Land Survey Section continuing to generate and distribute information to different LHDA users as and when required.

Activities undertaken under GIS Data Management included systematic archiving of project databases, documents, spatial data and various other data sets into central database, attending to more than

30 requests for maps, charts, diagrams and data, mapping sites of seismic activity, producing route maps to Nature Reserves as well as mapping of Stage 3 arable land losses, range management areas and water quality monitoring sites. Cadastral and Topographic Survey services undertaken included: surveying of Stage 2 remaining properties, water supply route, cross section profiles of six IFR stations.

A number of resettlement sites were surveyed and pegged at Ha Ntsi, Mohale, Sekete and Khubetsoana and an assessment of status of titles of LHDA sites in all project areas was also carried out.

With regard to Socio-economic studies (Contract 669), the final reports (volumes 1-4 & data base) of the second round of Socio-economic Surveys and Participatory Monitoring and Evaluation Study were received from the Consultant, the final corrections were made. The LHDA and the Consultant met and agreed on residual contractual matters, and the synthesis report was being prepared internally during the reporting period.

The proposed Scope of Services for Socio Economic Census and Epidemiology Survey (Contract 1204) was prepared and the Request for Proposals document sent to the LHWC for approval before going for bidding.

With respect to Planning Coordination and Information Dissemination unit, the production of 2002/03 ESSG annual and audit reports was in progress at the end of the reporting period. First, second, third and fourth quarterly reports and the associated board information papers for the period, as well as the 2002/03 ESSG Annual Workplans were produced.

ESSG draft Business Plan for 2003/04 had been produced for budgeting purposes and refinements based on LHWC queries were being addressed at the end of the reporting period.

Grain compensation being delivered



5. FINANCE AND COMMERCIAL SERVICES GROUP

Project Financing

The World Bank (IBRD) and Development Bank of South Africa (DBSA)

The IBRD and DBSA continue to support LHDA in terms of funding, Technical Supervision and Advice. During the reporting period, drawdowns totalling USD2.9 million were made out of the Phase 1B LHDA-IBRD loan and R38.8 million was drawn out of the DBSA loan, thus reaching full utilisation of the R120 million DBSA loan facility.

African Development Fund (ADF) and African Development Bank (ADB)

All structures necessary to get the ADF/ADB funded Lesotho Highlands Natural Resources and Rural Income Enhancement Project have been

put in place. Drawdowns needed to fund the hard core elements of the project are expected to commence during the course of the coming financial year.

European Investment Bank (EIB)

During the reporting period, LHDA and EIB (in close collaboration with the Parties to the Treaty and the Project Authorities) vigorously pursued initiatives to ensure full utilisation of the Euro 27.5 million which remained unspent (as a result of the 37% depreciation of the Rand during the course of the past financial year) on the 54 million LHDA-EIB "Matsoku" Finance Contracts. These efforts saw the conclusions of various amendments to the Finance Contracts, enabling utilisation of the residual funds to re-finance the local (CMA) cost component of the Mohale Dam. Actual disbursement of the Euro 27.5 million will take place during the course of the coming financial year.

Other funding

If the strive to minimise project financing costs and risks, and following detailed analysis conducted jointly by LHDA and TCTA during the course of the past financial year, all foreign currency loans concluded in 1991 for funding the Phase 1A Water Transfer works were re-financed from cheaper and more flexible funding from the RSA Money and Capital Markets. The prepayment of these loans has been accounted for as cost related payments as provided for in the Treaty. Cash payments totalling 927 million Rand were also made by TCTA on behalf of LHDA as the WS02 bond matured in April 2002.

Long term “commercial” sustainability for LHDA Hydropower Operations (LHDA HP)

During the course of the reporting period, LHDA worked jointly with the Lesotho Electricity Cooperation (LEC), to come up with the principles to be adopted in the design of bulk supply tariffs to replace those that are in current 1993 LHDA-LEC long term Power Sales Agreement (PSA). The proposed principles, which in general are aimed at achieving long term “commercial” sustainability for LHDA HP, have received the blessing of the Project Authorities and will be presented to the Government of Lesotho (GOL) for approval early in the coming financial year.



Bokong visitors centre near the Lepaqa Falls at Bokong Nature Reserve

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2003



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DIRECTORS' APPROVAL

The financial statements which appear on pages 38 to 54 were approved by the Board of Directors on August 28, 2003 and are signed on its behalf by:

M Marake
CHAIRMAN

EL Potloane
CHIEF EXECUTIVE

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 38 to 54 for the year ended March 31, 2003. 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 statements of international 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.

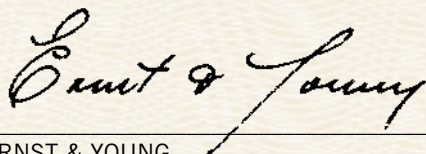
An audit includes:

- 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, 2003 and the results of its operations and cash flows for the year then ended in accordance with statements of international accounting practice.



ERNST & YOUNG
CHARTERED ACCOUNTANTS (LESOTHO)

August 28, 2003

STATEMENT OF ACTIVITIES AND ACCOUNTING POLICIES

For the year ended 31 March 2003

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 fourth 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 concessionary 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.

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 2003

	2003 M'000	2002 M'000
HYDROPOWER		
Sales of Electrical Power	44 556	45 812
Less: Cost of Sales	(76 635)	(70 853)
Net loss for the year	<u>(32 079)</u>	<u>(25 041)</u>
Cost of Sales comprises:		
Operations and Maintenance Costs	(19 739)	(17 806)
Financing Costs	(22 198)	(18 378)
Depreciation	(34 698)	(34 669)
	<u>76 635</u>	<u>(70 853)</u>
Deficit – at 31 March 2002	171 788	146 747
Loss for the year	32 079	25 041
Deficit – at 31 March 2003	<u>203 867</u>	<u>171 788</u>

WATER TRANSFER

Deficit for the year	<u>(456 539)</u>	<u>(940 130)</u>
This comprises:		
Operating and Maintenance Costs	(20 761)	(24 230)
Financing Costs	(279 934)	(760 444)
Depreciation	(155 844)	(155 456)
	<u>(456 539)</u>	<u>(940 130)</u>
And is funded as follows:		
Transfer from Capital Fund	<u>456 539</u>	<u>940 130</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 2003

	Notes	2003 M'000	2002 M'000
ASSETS			
Non-current assets			
Completed works and capital work in progress	1	12 660 067	12 126 353
		12 660 067	12 126 353
Current assets			
Project taxes refundable by the Government of Lesotho	2	3 441	5 034
Inventories		5 277	4 603
Advance payments		15 357	38 617
Other receivables and prepayments		67 471	62 282
Cash and cash equivalents		89 728	139 268
		181 274	249 804
Total assets		12 841 341	12 376 157
FUNDS AND LIABILITIES			
Funds and long term liabilities			
Capital fund	3	8 094 671	4 366 096
Government of Lesotho Fund	4	105 671	95 402
Government of Republic of South Africa Fund	5	24 793	23 180
Long Term Liabilities	6	1 352 068	1 338 061
Funds from Capital Market	7	2 835 234	2 804 604
Deficit – Hydropower		(203 867)	(171 788)
Total funds and long term liabilities		12 208 570	8 455 555
Current Liabilities			
Contract payables and accruals	10	180 755	173 157
Retentions		47 592	75 494
Other payable and accruals		202 526	225 323
Current portion of long term liabilities	6	201 898	2 467 064
Current portion of Capital Market Funds	7	–	979 564
Total current liabilities		632 771	3 920 602
Total funds and liabilities		12 841 341	12 376 157

CASH FLOW STATEMENT

For the year ended 31 March 2003

	2003 M'000	2002 M'000
Operating activities		
Hydropower – net loss for the year	(32 079)	(25 041)
Water transfer – deficit for the year	(456 539)	(940 130)
	<u>(488 618)</u>	<u>(965 171)</u>
Less: Depreciation	190 542	190 125
	<u>(298 076)</u>	<u>(775 046)</u>
Decrease in advance payments	23 260	44 159
Decrease in other receivables and prepayments	(5 189)	61 301
Project taxes refunded by Government of Lesotho	7 314	18 933
Increase in inventories	(674)	(802)
Increase/(Decrease) in contract Payables and accruals	7 598	(57 392)
(Decrease)/Increase in retentions	(27 902)	(1 570)
Increase in other payables and accruals	(22 799)	(15 855)
Increase/(Decrease) in current portion of long term liabilities	(2 239 096)	1 934 420
Cash generated by operating activities	<u>(2 555 564)</u>	<u>1 208 148</u>
Investing activities		
Expenditure on capital works and work-in-progress	(725 061)	(794 418)
Expenditure on ancillary development	(46 233)	(47 238)
Cash utilised by investing activities	<u>(771 294)</u>	<u>(841 656)</u>
Financing activities		
Government of Lesotho	12 341	(21 709)
Government of Republic of South Africa	4 225 974	889 310
Decrease in long term liabilities	(12 063)	(1 297 247)
Funds from capital market	(948 934)	93 973
Cash flows from financing activities	<u>3 277 318</u>	<u>(335 673)</u>
Net increases in cash and cash equivalents	(49 540)	30 819
Cash and cash equivalents at beginning of year	139 268	108 449
Cash and cash equivalents at end of year	<u>89 728</u>	<u>139 268</u>
Cash and cash equivalents comprise cash in hand, and deposits held with banks		

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

1. COMPLETED WORKS AND CAPITAL WORK IN PROGRESS

	Balance 1.4.02 M'000	Prior Year Reallocation M'000	Movement During the Year M'000	Balance 31.3.03 M'000
Completed Works				
Hydropower Civil Works at cost	814 509	–	14 089	828 598
Less: Accumulated Depreciation	(48 835)	–	(16 291)	(65 126)
	<u>765 674</u>	<u>–</u>	<u>(2 202)</u>	<u>763 472</u>
Hydropower Plant – at cost	443 132	–	–	443 132
Less: Accumulated Depreciation	(52 541)	–	(17 754)	(70 295)
	<u>390 591</u>	<u>–</u>	<u>(17 754)</u>	<u>372 837</u>
Net Book Value – Hydropower	<u>1 156 265</u>	<u>–</u>	<u>(19 956)</u>	<u>1 136 309</u>
Water Transfer Civil Works at cost	8 112 088	–	93 698	8 205 786
Less: Taxes refundable by the Government of Lesotho	(222 196)	–	(28)	(222 224)
	<u>7 889 892</u>	<u>–</u>	<u>93 670</u>	<u>7 983 562</u>
Less: Accumulated Depreciation	(619 483)	–	(154 691)	(774 174)
Net Book Value – Water Transfer	<u>7 270 409</u>	<u>–</u>	<u>(61 021)</u>	<u>7 209 388</u>
Total Net Book Value – Completed Works	<u>8 426 674</u>	<u>–</u>	<u>(80 977)</u>	<u>8 345 697</u>
Vehicles and equipment at Cost	5 334	–	2 088	7 422
Less: Accumulated Depreciation	(2 312)	–	(1 806)	(4 118)
	<u>3 022</u>	<u>–</u>	<u>282</u>	<u>3 304</u>
Capital Work in Progress				
Phase 1A				
Hydropower	1 257 641	346	13 743	1 271 730
Less: Completed Works	(1 257 641)	–	(14 089)	(1 271 730)
	<u>–</u>	<u>346</u>	<u>(346)</u>	<u>–</u>
Ancillary Development	380 976	3 261	30 984	415 221
Less: Transferred to Capital Fund	(380 976)	–	(34 245)	(415 221)
	<u>–</u>	<u>3 261</u>	<u>(3 261)</u>	<u>–</u>
Water Transfer	8 112 088	(3 581)	97 279	8 205 786
Less: Completed works	(8 112 088)	–	(93 698)	(8 205 786)
	<u>–</u>	<u>(3 581)</u>	<u>3 581</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2003

COMPLETED WORKS AND CAPITAL WORKS IN PROGRESS (Continued)

	Balance 1.4.02 M'000	Prior Year Reallocation M'000	Movement During the Year M'000	Balance 31.3.03 M'000
Phase 1B				
Ancillary Development	129 159	–	15 249	144 408
Less: Transferred to Capital Fund	(129 159)	–	(15 249)	(144 408)
	–	–	–	–
Water Transfer	3 730 938	(26)	620 127	4 351 039
Less: Tax refundable by the Government of Lesotho	(34 281)	–	(5 692)	(39 973)
	3 696 657	(26)	614 435	4 311 066
Total Capital work in progress	3 696 657	–	614 409	4 311 066
GRAND TOTAL FIXED ASSETS	12 126 353	–	533 714	12 660 067

Included in financing of Phase 1A Fixed Assets is M90 099 000 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 2003 were M258.799 million. The total including interest, outstanding at 31 March 2003, is M3.441 million.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2003

3. CAPITAL FUND

	Government of Lesotho M'000	Government of South Africa M'000	Total M'000
Balance at 1 April 2002	694 594	3 671 502	4 366 096
<i>Less:</i> Amounts refunded	(39 409)	–	(39 409)
Cost related payments:			
Hydropower and Ancillary Development	38 745	–	38 745
Water Transfer	–	4 235 272	4 235 272
	<u>693 930</u>	<u>7 906 774</u>	<u>8 600 704</u>
<i>Less:</i>			
Ancillary Development costs	(49 494)	–	(49 494)
Transferred to Income Statement	–	(456 539)	(456 539)
Balance at 31 March 2003	<u>644 436</u>	<u>7 450 235</u>	<u>8 094 671</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
<i>Less:</i> 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 2003 amount to M15 627 498 000 of which M11 558 000 000 has been paid by way of cost related payments.

The balance of M4 069 498 000 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 2003 amount to M1 984 900 000 of which M1 193 980 000 has been paid by way of cost related payments.

The balance of M790 920 000 will be discharged through future cost related payments or will be met from power income.

Financing costs amounted to M444 375 000 net of interest income of M4 490 073. The amount of financing costs capitalised amounted to M142 243 000, with the balance of M302 132 000, charged to the income statement. Thus 32% 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 2003

4. GOVERNMENT OF LESOTHO FUND

	2003 M'000	2002 M'000
Balance at beginning of year	95 402	84 818
Amounts provided by Government of Lesotho	51 570	105 915
Net financing income accrued	8 175	5 084
Cost related payment received from Government of South Africa	(10 911)	(12 070)
Cost related payments on Hydropower and Ancillary Developments transferred to Capital Fund	(38 745)	(88 345)
Balance at end of year	105 671	95 402
This Balance comprises:		
Government of Lesotho Contributions	78 464	65 459
Funding of water transfer costs	24 702	29 304
Concessionary finance income	2 505	639
	27 207	29 943
	105 671	95 402

M27 207 000 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 2003

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 2002 M'000	Increase during the Year M'000	Balance 31 March 2003 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	782 924	51 750	834 674
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
	1 246 413	51 750	1 298 163

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2003

5. GOVERNMENT OF SOUTH AFRICA FUND

	2003 M'000	2002 M'000
Balance at start of year	23 180	10 735
Cost related payments during the year on water transfer paid to:		
– Government of Lesotho	10 911	12 070
– Third Parties	4 225 974	877 240
Cost related payments on water transfer transferred to Capital Fund	(4 235 272)	(876 865)
Balance at end of year	<u>24 793</u>	<u>23 180</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 2003

6. LONG TERM LIABILITIES

	2003 M'000	2002 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
(ii) Facilities for implementation of Phase 1B	385 350	476 454
<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	166 480	364 173
	551 830	2 970 602
Less: Provision for unamortised cost of forward cover	–	113 418
	551 830	2 857 184

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2003

LONG TERM LIABILITIES (Continued)

	2003 M'000	2002 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	228 297	237 928
(v) Facilities for overall project implementation	43 339	54 232
(vi) Facilities for implementation of Phase 1B	101 231	97 761
(vii) Facilities for 'Muela Hydropower implementation	190 732	274 121
(viii) Eurobond	84 338	83 679
	<u>1 199 767</u>	<u>3 604 905</u>
Less: Hydropower Loan obligations assumed by the Government of Lesotho	190 732	274 121
	<u>1 009 035</u>	<u>3 330 784</u>
(ix) LOAN FROM THE GOVERNMENT OF LESOTHO FOR 'MUELA HYDROPOWER IMPLEMENTATION	185 548	188 427
	<u>1 194 583</u>	<u>3 519 211</u>
Less: Current portion	201 898	2 467 064
	<u>992 685</u>	<u>1 052 147</u>
Liability for future compensation costs	359 383	285 914
	<u>1 352 068</u>	<u>1 338 061</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2003

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
WS03	13.0%	8 000 000	15 September 2010
Total		<u>13 000 000</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	
	2003 M'000	2002 M'000	2003 M'000	2002 M'000
WS01	2 006 558	2 006 558	1 917 561	1 892 415
WS02	–	927 000	–	979 564
WS03	998 000	998 000	917 673	912 189
Total	<u>3 004 558</u>	<u>3 931 558</u>	<u>2 835 234</u>	<u>3 784 168</u>
Less: Current portion (WS02)			–	979 564
			<u>2 835 234</u>	<u>2 804 604</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2003

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 2003 amounted to M65 million. Finance has been secured as at 31 March 2003 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 currently estimated at M697.8 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 2003 was M504 387 (2002 – M450 300).

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2003

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 2003, where forward cover arrangements were not in place.

	2003	2002
Australian Dollars	4.4815	6.1055
Canadian Dollars	5.4303	7.1993
Euros	8.6387	10.0280
Pounds Sterling	12.5703	16.3530
Japanese Yen	0.0669	0.0864
Swedish Kroner	.9357	1.1092
US Dollars	7.9700	11.4700

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 in 2002 (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. These loans were repaid by January 2003.

	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 03	123969	144172	238331	46162	255639	386310	1194583
31 Mar 02	54232	225813	279423	2412832	247208	299703	3519211

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 2003

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 2003 amounted to M493.2 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



Mrs S Seeiso
Corporate Secretary



Mr M Fako
Chief Internal Auditor



Mr T Moeketsi
Public Relations Manager



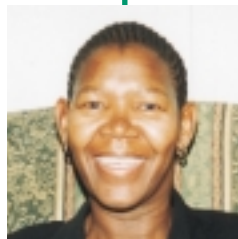
Mr R Mapetla
Acting Chief Executive Officer



Mr C Putsoane
Assistant to Chief Executive



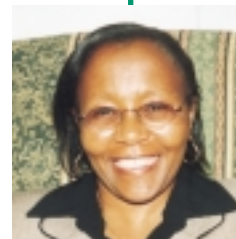
Mr S Nthako
General Manager: Engineering Group



Ms R Lehohla
Acting General Manager: Corporate Services Group



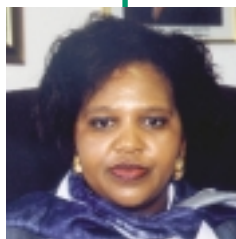
Mr M Lepele
General Manager: Environment and Social Services Group



Mrs R Tlali
General Manager: Finance and Commercial Services Group



Mr B Rafoneke
General Manager: Operations and Maintenance Group



Mrs M Mothepu
Deputy General Manager: Environment and Social Services Group

The new Board was appointed in April 2003 and the Chief Executive in August 2003

