

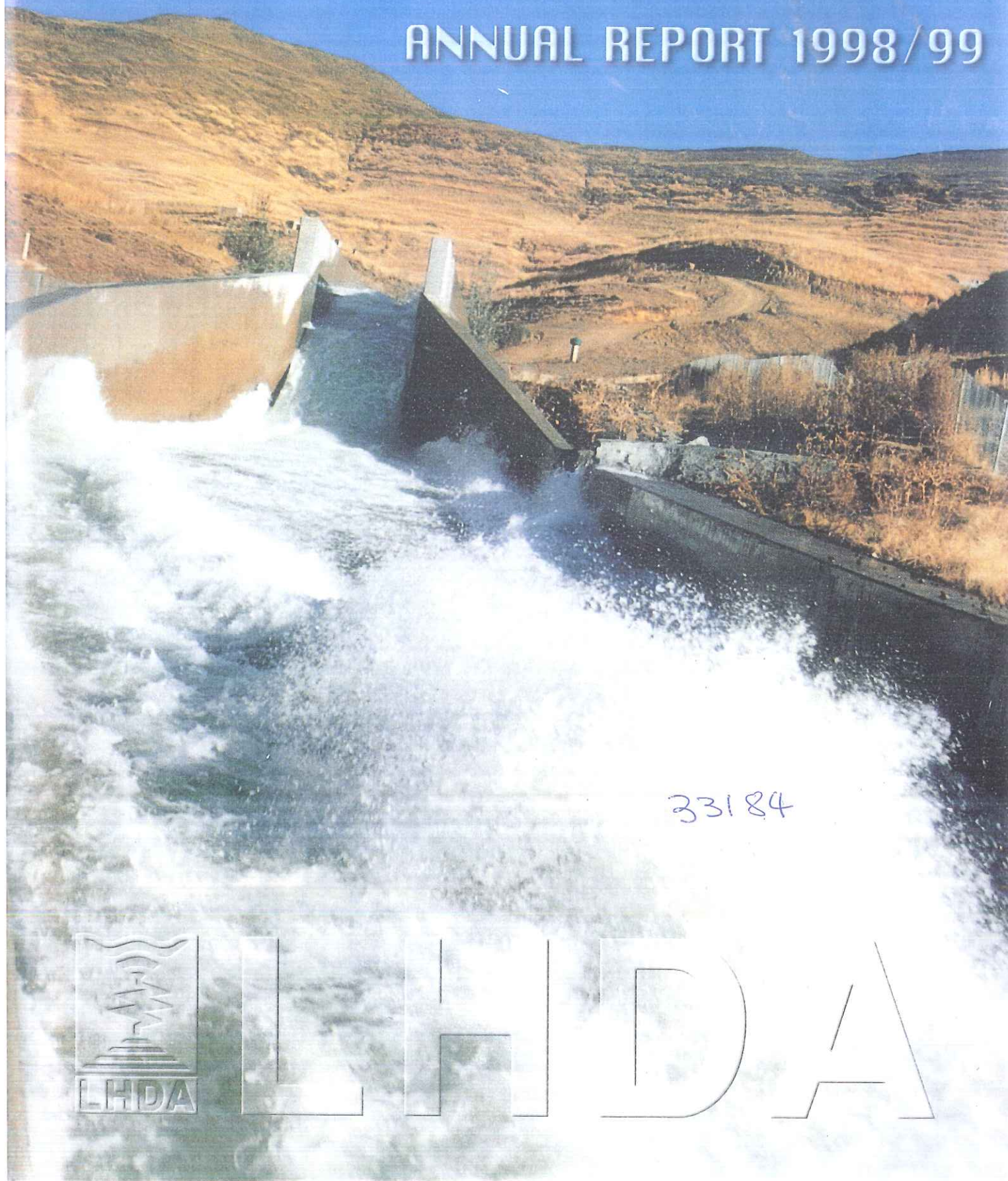


Lesotho



Highlands Development Authority

ANNUAL REPORT 1998/99



33184



LHDA



CONTENTS

LHDA BOARD MEMBERS	2
CORPORATE GOVERNANCE	3
CHAIRPERSON'S STATEMENT	4
CHIEF EXECUTIVE'S STATEMENT	6
INSTITUTIONAL DEVELOPMENT	8
CORPORATE SERVICES GROUP	8
ENGINEERING GROUP	9
HYDRO POWER	9
WATER TRANSFER PHASE 1B	10
OPERATIONS AND MAINTENANCE	11
ENVIRONMENT AND SOCIAL SERVICES	13
PUBLIC HEALTH	15
PROJECT FINANCING	17
FINANCIAL STATEMENTS	18
REPORT OF INDEPENDENT AUDITORS	19
STATEMENT OF ACTIVITIES AND ACCOUNTING POLICIES	20
INCOME STATEMENT	22
BALANCE SHEET	23
STATEMENT OF CHANGES IN FINANCIAL POSITION	24
NOTES TO FINANCIAL STATEMENTS	25

LHDA BOARD MEMBERS

Mrs H M Mhlanga
Chairperson and Principal
Secretary – Ministry of
Natural Resources

Mr J T Metsing
Principal Secretary
– Ministry of Foreign Affairs

Mrs M Rapolaki
Principal Secretary
– Ministry of Planning

Mr M Mohafa
Principal Secretary
– Ministry of Home Affairs

Mrs M Ramakoa
Principal Secretary
– Ministry of Defence

Mr M D Rantekoa
Principal Secretary
– Ministry of Trade
and Industry

Mr C T Thamae
Principal Secretary
– Ministry of Finance

Mr M Marumo
Chief Executive

Mr B Leleka
Principal Secretary
– Ministry of Works

Vacant
– Private Member

AUDIT SUB-COMMITTEE

Mr Ben Pekeche

– Chairman

Mr Setai Ramonaheng

– Member

Mr Matsobane Putsoa

– Member

Mr Tankiso Hlaoli

– Member

Mr Mohlomi Tseppe

– Member

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 two years of operations, and has continued to provide the Board of Directors with valuable input into the review of the Authority's systems of internal control, corporate governance and financial reporting.

The composition of the Committee has continued to include members with a range of different disciplines such as finance, engineering, legal and audit.

During the past year, the Committee has expanded to include the General Manager – Finance and Commercial Services to join the Chief Internal Auditor as invitee members.

INTERNAL AUDIT

As part of good corporate governance, Internal Audit Branch was established in 1991 as an independent and objective appraisal function to examine, evaluate and report on all of the Authority's operations and controls.

Internal Audit has continued to provide the Board of Directors with assurance regarding the quality of the Authority's operations and systems of internal control.

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 and in Personnel Regulations for all other employees.

OPERATING PROCEDURES

Operating procedures encompassing all LHDA operations are in the process of being updated or developed. These will provide essential guidance and standards to all employees in the operation of LHDA's systems.

Chairperson's Statement



Mrs MH Mhlanga – Chairperson

It is indeed a pleasure once again to report on development and progress attained over the review period. I must hasten to add that this is the most significant year – a year that marks the end of the 20th century and at the same time ushers us into the 21st century that will effectively begin in the year 2000.

Things being so significant, as it were, I wish to report that at the LHDA all efforts and preparations have been and are continuing to be made to ensure that all instrumentation, hence all operations that must meet the Y2K standard of performance, are in place. We have introduced SAP R3 computer software. As the legacy systems were not year 2000 compliant it was imperative to design and implement new systems that ensure that it is all systems go with the advent of the new year 2000.

But perhaps for the Basotho nation at large, the reporting period has been even more significant. For the first time in the history of Lesotho, she saw herself also registering as one of the new entrants in the league of countries that generate their own electricity: The White Gold of Lesotho has finally been converted into electrical energy, thus providing hydro-electric power for Lesotho. The Hydropower component of the Lesotho Highlands Water Project (LHWP) is

solely the responsibility of the Government of Lesotho. The official inauguration of this historic event was performed by the Right Honourable, the Prime Minister Mr Pakalitha Mosisili on 22 January, 1999.

The institutional developments that started in the latter half of 1997 saw several stages of progress within the LHDA. At the same time, work has begun on the governance framework for the LHWP. The governance model was approved in 1995. Negotiations were going ahead at the time of reporting on implementation modalities. In a parallel process work has commenced on developing amendments to the LHDA Order.

Of particular importance to note is the dynamic interactive participation of the organisation with the different stakeholders. In February 1999, there was a co-ordination and collaboration workshop held between the LHDA and the National University of Lesotho (NUL).

But of course it is apparent that through the Environmental Action Plan (EAP) offered under the Environmental and Social Services Group (ESSG), Basotho can begin to enjoy the profitable spin-offs of the LHWP. One motivating exercise is the Lesotho Highlands Ecotourism Development Project (LHEDP)

which has the full support of the African Development Bank (ADB). The Bank has recognised the enormous potential for promotion of the Tourism Industry in this country through the LHWP and it is working hard to arouse active interest in this and similar activities with relevant Government Ministries, Local NGO's and the Private Sector.

The main thrust contained in the EAP is to address issues of poverty alleviation and job creation for Basotho, thus ensuring effective sustainability of the LHWP. At the same time the LHDA is trying all it can to communicate with appropriate stakeholders to ensure that assets that have been generated through the Project can be safely and accountably handed over to responsible organisations. In March 1999 we witnessed the handing over of community infrastructures in Butha-Buthe, where the Ministry of Local Government was the honoured recipient on behalf of the local communities of Butha-Buthe district.

The exercise on Instream Flow Requirements (IFR) in determining the most appropriate environmental *cum* compensation flows is in progress with about 70% data collection achieved. The usefulness of data calculation will reveal and set the best scenario for downstream users.

The implementation of the Emergency Preparedness Plan (EPP) that is geared towards safety of downstream communities slowed down consequent to the political situation in September 1998. Tremendous efforts to ensure its implementation in collaboration with the Disaster Management Authority and the Ministry of Communications are well afoot.

Perhaps the most important exercise that awaits the Organisation is the implementation of a Catchment Management Authority (CMA). While the attention of Catchment Management is now mainly focused at the Project scheme there is thought to expand the CMA's activities to sources beyond the project area.

Financing for the project over the review period was an area that was subjected partly to the implementation of new Governance structure. At the time of this reporting, progress was advanced in that area and this would ensure participation by both the World Bank and the European Investment Bank in financing of aspects of Phase 1B.

Looking at developments within the organisation I am encouraged by the preparations that are taking place and I sincerely wish the LHDA Management a successful business year ahead.

Let me also thank the Board of Directors for their part in the major achievements attained in the activities of the LHDA. Without their shrewd enthusiasm, understanding and the guidance they offered it would not have been possible to achieve our objectives.

Their input is greatly appreciated. We hope therefore that their knowledge about the affairs of the Project and the opportunities that are availed within the Project will be communicated and reflected in the national programmes for the objective of poverty alleviation and economic enhancement.

Let us all work harder in the next year and in the years to come. Best regards.



Mr M Marumo – Chief Executive

It is a great pleasure to report on the progress of the LHDA for the 1998/99 financial year.

The period under review marked the 13th year since construction began on the Lesotho Highlands Water Project, and evidence of the project's development is demonstrated by the structures and development programmes that are in place and the completion of Phase 1A major works in March 1999.

Perhaps a major highlight during the reporting period was the official inauguration of the 'Muela Hydro-electric Power Station on 22 January 1999. Lesotho for the first time in her history started generating electricity and became self-sufficient in terms of electrical power supply, thus making a considerable saving on electricity imports from the neighbouring Republic of South Africa.

During the reporting period, we had consultations with both internal and external stakeholders and set our objectives on how we should relate to one another. These objectives will be reviewed in the next consultative forum with our stakeholders.

We set the LHDA in a new direction with a new vision. The turnaround was to go out and implement this vision. I am therefore happy to report that by the end of the year we had drawn a programme of facilitating a vision rollout to all stakeholders.

Within the LHDA, groups formulated their own group charters and agreed their visions and missions, which are aligned to those of the Authority as agreed with our stakeholders. These visions and missions have been cascaded down to branches and sections of the various groups. In the next year, we hope to complete the vision rollout to the rest of staff.

We completed the structural reorganisation of the LHDA and placed suitably qualified staff by July 1998.

Chief Executive's Statement

With that completed, we were able to normalise recruitment and placement of staff. A major recruitment exercise was undertaken to fill vacancies in the new LHDA structure. During this period, approximately 95 new positions were filled. What remains to be done is job grading and remuneration strategy, which are poised to be implemented in the following year.

With regard to the new Governance Model, arrangements to effect it are timely in the sense that its implementation will complete the transformation framework for LHWP and LHDA.

Operations of the LHDA

This was the first full year we had Corporate Services Group whose main task is to provide specialised planning, monitoring and support services to the rest of the LHDA groups. This has proved to be effective since Legal Branch, Human Resources Branch and Information Services Branch managed to play effective and focused roles as opposed to when they were buried under Administration in the old LHDA Structure.

During the same year the new branch of Corporate Planning was established to assist the management to put in place an integrated, organisation-wide corporate planning and performance measurement system. The activities of Corporate Planning Branch are beginning to show achievements.

Some of the areas in which the branch was involved include the coordination of the first Implementation Completion Report (ICR) for Phase 1A of the Project, coordination of the LHDA's Y2K compliance project and assistance to other branches in the preparation of their business plans.

Within the Engineering Group a new branch called Contracts Branch was established with a view to

dealing with high risk areas such as resolution of claims from contractors and consultants, harmonisation of contracts for works and consulting services, and monitoring of contract performance.

Engineering Achievements

Substantial conclusion of all major works in Phase 1A was achieved.

We were able to start work on Phase 1B and the implementation reached its peak towards the end of the reporting period.

Phase 1A was accomplished with guidance from technical assistance. Phase 1B has gravitated into the hands of Basotho who were trained by the LHDA and developed their expertise during the implementation of Phase 1A.

Work on Mohale Dam is progressing in conformance to the initial construction programme. The tunnels have experienced some delays, however, and all attempts to get works back on schedule are being made.

Environment and Social Services

As the Treaty obligations dictate, we continued to ensure that the quality of life of Basotho is sustained through improved access to facilities, improved services and access roads. Pre-construction Stage 1 resettlement for Phase 1B was completed while planning of pre-inundation Stage II resettlement was initiated. We continued to implement the social and environmental mitigation programmes of the LHWP. The implementation of the Environmental Action Plan of Phase 1B is in progress. Direct compensation was delivered in time to the affected communities.

The period under review saw our relations with the communities and other stakeholders improving and we signed a memorandum of understanding with the Lesotho Non-governmental Organisations (NGOs). We also extended a hand to reach out to our stakeholders. We started initiatives of working together with the National University of Lesotho and this culminated in the NUL/LHDA collaboration workshop being held while the Memorandum of Understanding is being finalised and should be in place during the next reporting period.

Following the signing of all the loans procured from offshore and local sources, we embarked upon a process of fulfilling the conditions precedent to effectiveness of the loans. This was successfully accomplished and most of the loans are now effective.

Funding procured from offshore sources amounts to approximately Eight Hundred Million Maloti (M800million), including concessionary funding from

the World Bank and the European Investment Bank. This brings the total funding raised for the capital costs of Phase 1B to approximately Four Billion Maloti (M4billion).

The support from the local banking sector increased with additional facilities being signed with Standard Bank and Nedbank.

Operations and Maintenance

This was yet another important year for the LHWP. We took over project facilities and installations of Phase 1A. The LHDA assumed full responsibility of running these facilities and this was enhanced by a smooth hand-over towards the end of the reporting period.

We are looking for continuity of the good work that has been started. At the same time we recognise that this has been a good year of learning. Following the hand over process our main challenge is to ensure the safety of the facilities and installations. There is a continuous monitoring of safety measures. To this end we have arrangements for internal and external monitoring.

It is, however, worth mentioning that there were challenges encountered for refinancing facilities of 'Muela Hydropower Project where loans borrowed by Lesotho Government and LHDA have to be repaid starting from the next financial year. In order to meet the challenges, arrangements have to be put in place for the commercialisation of 'Muela.

We have met our commitment of delivering water to South Africa according to the agreed annual operation plan. The accrued royalty payments have been processed accordingly.

The implementation of the Emergency Preparedness Plan for evacuation purposes in the unlikely event of floods from the LHWP reservoirs is being revived in close cooperation with the Disaster Management Authorities and the Ministry of Communications.

During the period under review we were engaged in discussions for the possible implementation of a further Phase of the LHWP. The discussions between Parties (Lesotho/RSA), have advanced since February 1998.

The monitoring advocacy and empowerment by NGOs has helped the communities to understand their rights and responsibilities.

In conclusion I am happy to say that we have had a good year and this has been possible through hard work by the LHDA staff, support by the Project Authorities including Government ministries and departments, and financing institutions for the continued disbursements of approved loans.



LHDA staff at a meeting where remuneration strategy was unveiled

Salient features of the 1998/99 financial year

1. INSTITUTIONAL DEVELOPMENT

Following the filling of positions under the new structure and the grading of all positions, work commenced on the development of a new remuneration strategy which was nearing completion by the end of the year. The essence of the strategy is to compare total cost to company for each grade with the local and regional market. This market comparison was completed during the year and the principles of the strategic approach were approved by the Project Authorities.

Coincident with the above, the process of transformation continued throughout LHDA. To encourage alignment across the organisation, an overall LHDA vision was developed with participation of LHDA's Stakeholder's in a two-day conference held in June 1998. Vision workshops were then held at Group and Branch level and branch charters were developed for every branch. These identified actions needed to eliminate branch weaknesses and to formulate performance goals. Performance agreements were being developed for all staff in the organisation in a parallel process.

Proposals for an Employee Support Programme were also developed. This is designed to provide counselling and psychological support services where necessary.

Transformation is, of course, a process, but with the major work now done, LHDA believes it is now well placed to move the process of transformation forward significantly in the coming year.

The Governance framework was also a matter of significant focus during the year following the rigorous discussions between the parties to the Project, the

Kingdom of Lesotho and the Republic of South Africa. Agreement was reached by the Project Authorities and a new protocol to the Treaty was developed (Protocol VI) to reflect this agreement.

Under the new framework, the Joint Permanent Technical Commission (renamed the Lesotho Highlands Water Commission) becomes the ultimate authority for overseeing all aspects of the LHWP, and the LHDA Board becomes accountable to the Commission directly. Manuals for the practical implementation of this structure were well-advanced by year-end and it is envisaged that the protocol will be signed during 1999.

In a parallel process, work has commenced on developing amendments to the LHDA Order and the Treaty.

2. CORPORATE SERVICES GROUP

One of the main focuses of the Corporate Services Group has revolved around the institutional developments outlined above. However, the Group has also been heavily involved in the implementation of seven modules of the SAP R3 computer software. As the legacy systems were not Year 2000 compliant it was imperative to design and implement the new systems within a tight timescale. The new system commenced operating in January 1999.

The Corporate Planning function began the development of corporate-wide planning and monitoring systems. This included the coordination and development

of the quarterly reporting system and the Implementation Completion Report (ICR), following completion of Phase 1A. The Phase 1A Implementation Completion Report, now in its final stages, focuses on successes and failures and takes a critical look at lessons learned to be applied to future phases. Corporate Planning has also been considerably involved in the transformation process, particularly in the dissemination of the corporate vision and objectives to both internal and external Stakeholders.

It has also been a busy year for the Legal Branch with two new protocols to the Treaty being developed. These were Protocol VI, alluded to above, and Protocol V which reflects a compromise reached between the parties to the Treaty on taxation issues. Work also commenced on the development of revisions to the Treaty itself.

3. ENGINEERING GROUP

3.1 Water Transfer Phase 1A

3.1.1 Katse Dam

The works having been completed, the responsibility for the dam wall and its maintenance was transferred to the Operations and Maintenance Branch of LHDA effective from 22 February 1999.

3.1.2 Transfer Tunnel and Delivery Tunnel South

The contract was completed and successfully commissioned in 1997. Water transfer resumed to 'Muela after a short interruption in March 1998. No leaks have been observed from the tunnel in the critical area of 'Muela Ridge.

3.1.3 Disputes and Claims Resolution

• Contract 123 Katse Dam

As of March 1999 there were 25 unresolved cost claims on contract 123 with a total value of M.101,054,714 and three unresolved extension of time claims. Of these claims one was subject to Dispute Review Board (DRB) considerations, three were being processed for amicable settlement and one was referred to arbitration.

3.2 Hydropower

3.2.1 'Muela Dam

The contract was completed in 1997 and a defects liability certificate has been issued. Both the dam and the energy dissipation works below the spillway have been performing satisfactorily.



'Muela Dam

3.2.2 'Muela Power Station

The guard-valve seal was tested and successfully installed in the by-pass facility early in 1999. Minor snagging lists remain to be cleared by the contractor. The Take Over Certificate for the underground power station and associated civil works was issued on June 1, 1998.

3.2.3 'Muela Electrical and Mechanical Works



Control cubicles for power generators at 'Muela

The installation of turbines, generators and other ancillary plant was completed during the period. The Take Over Certificate for the transformers and 132 KV switchgear was issued on December 2 1998 and the Take Over Certificate for the transmission lines and substation bays was also issued in December 1998. Outstanding works like NCC SCADA links are scheduled for completion by June 1999. Preparation and discussion of final certificate is ongoing. Electricity is now generated from all three units and transmitted within Lesotho.

3.2.4 Disputes and Claims Resolution

All disputed claims on 'Muela Dam have been satisfactorily resolved and resolution of outstanding

disputed claims on 'Muela Power Station, civil, electrical and mechanical works are still continuing.

- **Contracts 129a, 129b, 134, 135, 136**
'Muela Dam and ancillary power
generation related contracts

As of March 1999 there were 16 unresolved cost claims on contracts 129a, 129b, 134, 135 and 136, with a total value of M.23,699,299. There were six unresolved time related claims. No disputes had been referred to either the DRB or to arbitration.

3.3 Water Transfer Phase 1B

3.3.1 Mobale Dam

The contract commencement date was March 26 1998. Early construction activities included the establishment of Mobale Village, Boitsireletso Camp and site facilities, and the provision of construction access roads around the damsite. Emphasis during the period under review is on diverting the Senqunyane River through two diversion tunnels. At the end of the reporting period, excavation of the two tunnels has been completed. Work on the upstream cofferdam for river diversion has commenced. Work on the diversion tunnel intakes and Tunnel No.1 – a fully lined tunnel – continued satisfactorily.

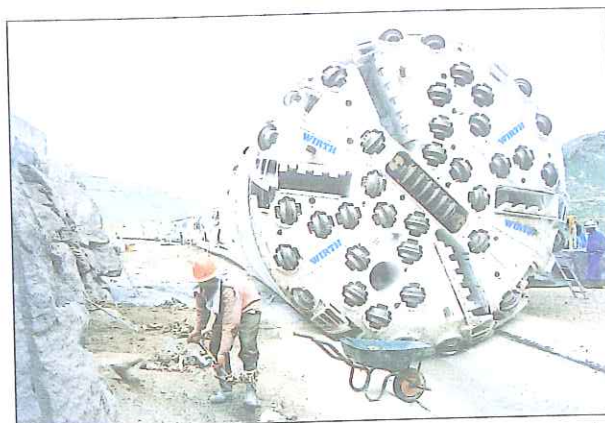
Work on the dam during the period under review included excavation for the plinth and embankment foundations and rockfill placing on the left abutment, and excavation for the lineament in the right abutment. Excavation for the right abutment plinth has also commenced. 400 000 m³ of a total of 8.0 million cubic metres rockfill had been placed at the end of the reporting period.

Other major works in progress during this review period included establishment of Quarry Nos. 1 and 2, erection of the temporary and permanent crushers and concrete plant, and construction of haul roads to the dam.



Mobale Village

3.3.2 Mobale Tunnel



Tunnel boring machine before commencement of work at Mobale Tunnel

The contract commencement date was February 2 1998. At the intake end of the tunnel, drill and blast excavation began in July 1998. It was necessary to coincide completion of the upper intake drive (220 m), intake gateshaft adit (94 m), intake gateshaft (87 m) and the lower intake stub (26 m), with the commencement of tunnelling operations using the tunnel boring machine (TBM). These enabling works were completed mid-April 1999. The TBM was assembled on surface and launched from the lower intake stub on March 11 1999. The TBM tunnelling rate will be slow initially but is set to improve once the enabling works have been passed.

At the outlet end of the tunnel, the second TBM will be launched underground. This requires a substantial amount (1 200 m) of underground excavation by means of drilling and blasting. At the end of the reporting period over 90% of these enabling works have been completed and it is planned to commence assembly of the second TBM, underground, in July 1999.

During the period under review, other major works in progress include establishment of Quarry No. 7 and two tunnel precast segment producing factories.

3.3.3 Matsoku Tunnel and Weir

The contract commencement date was February 2 1998. Initial emphasis was on mobilisation, establishment of site facilities and provision of access roads to the inlet and outlet ends of the tunnel. Excavation at both ends of the tunnel commenced on July 31 1998 and at the end of the reporting period 1050 m of the 5460 m long tunnel and had been excavated. Rock conditions largely matched ground investigation findings.

Work on the Matsoku Weir commenced with systematic excavation of soft ground and unsuitable rock to provide foundations for the weir blocks. Concreting of

the weir blocks commenced in September 1998 and at the end of the reporting period some 30% of the total amount of concrete had already been poured. Rock conditions were as expected apart from the left abutment of the weir, where two highly weathered layers of amygdaloidal basalt were exposed. This necessitated some additional excavation work and changes to the design.

4. OPERATIONS AND MAINTENANCE GROUP

4.1 Operations and Maintenance Branch



'Muela By-Pass outlet

This has been a momentous year for the project. The inauguration of 'Muela Hydroelectric Power Station marked the beginning of a new era in Lesotho. Over and above the sale of water, Lesotho has started to generate her own electricity.

The delivery of water to the Republic of South Africa commenced in January 1998 and continued as scheduled for the remainder of the year. From January until mid August, before the first hydro generation unit was commissioned, the water delivery was accomplished by use of the power station bypass tunnel and channel. Once commissioning of the first unit had been completed, water delivery was achieved by use of this unit. In so doing, a double benefit was realised by LHDA, in that both electricity and water could be sold to the relevant customers. To the end of the reporting period a total of 591.015 million cubic metres of water has been delivered to South Africa.

Subsequent to the first unit being commissioned, the remaining two units were commissioned in October and December of 1998. Since this time LHDA has had the capacity to generate all of Lesotho's electricity requirements. During this time the LHDA O&M staff worked hand in hand with the contractors and consultants to achieve as much technology transfer

as possible. Since the commercial operation of the first unit, the LHDA staff have been responsible for the operation and maintenance of the units, as they became commercially operative.

The decision to implement the SAP Work Management System in the branch increased the workload of a number of staff. The analysis and configuration phases of the Plant Maintenance module of the software was completed very successfully and the implementation phase is now being carried out.

The building of a team and development of an operational and maintenance culture has been ongoing throughout the year and will continue to be developed over the years. The secondment of expatriate staff has accelerated the enhancement of the technical skills of the local staff in diagnosing the performance of the hydro plant from normal operations.

4.2 Operations planning

4.2.1 Water Resources Management

A steering committee has reviewed the document on Water Resources Management Policies and Strategies in consultation with stakeholders. The World Bank has declared the policy document as sound. As a result, the document was presented to the Government of Lesotho for approval and adoption.

LHDA is participating in the Water Resources Development Task Force Team that deals with the National issues on Water Resources Development Projects in Lesotho. The draft terms of reference for the team have been compiled for submission to the Water Resources Development Committee for approval.

4.2.2 Water Delivery and Hydropower Generation



'Muela Reservoir

The annual operation plans for water delivery to the Republic of South Africa (RSA) have been approved.

For the period of April 1998 to March 1999, 591.015 million cubic metres of water have been delivered to RSA and M142 299 120 received by the Government of Lesotho as Royalty payments from the Republic of South Africa.

Progressively since August 1998, LHDA has been generating electricity from the 'Muela hydropower station. The Lesotho Electricity Corporation (LEC) has been invoiced M12 697 157 for the bulk supply of electricity by LHDA.

The Operations Planning Models have been handed over to LHDA officially by Gibb Ltd. Further improvements and modifications to enhance the performance of the models are currently being done jointly.

4.2.3 *Kao Mining Operations Pollution Monitoring*

Pollution of the Katse reservoir by the Kao mining operation is being monitored closely on a routine monthly basis. Two reports on the monitoring of the Kao river system and on the Katse reservoir as it fills from May 1996 – April 1997 have been produced.

The report highlights the status of pollution in the form of highly observable turbidity on the headwaters of the Katse reservoir. This is indicated in the high suspended solids from the slurry caused by the Kao mining operations on the Kao river system, a tributary of the Malibamatso river.

A sediment silt survey has been done as a bench mark for monitoring sediment accumulation in the Katse reservoir. The report indicates that at this stage there appears to be no sign of siltation but the section, particularly at Pelaneng, should be resurveyed in 2000 and in subsequent years to check for sediment deposits. All branch staff participated in the survey as part of technology transfer.

4.2.4 *Field Data Collection, Processing and Analysis Operations*

These operations are being carried out on a routine monthly basis within the hydrometric stations, the Katse reservoir and inflow rivers.

The three databases of flow, water quality and rainfall are being updated monthly where data is available.

4.3 *Dam safety and surveillance*

4.3.1 *Monitoring of Dams*

The monitoring and surveillance of Katse and 'Muela dams for safety is normally done through installed

instrumentation, visual inspection and geodetic surveys.

Of the prescribed instruments that are installed, most are working and the observed trend of displacements and pressures are within expectations. During the year, on the Katse Dam:

- The preformed joint opening has remained below the anticipated maximum of 8mm.
- The trivec results on the right bank downstream of the dam have been showing some plastic displacements around elevation 1900 masl. A relatively big displacement (5mm) observed in March 1999 has warranted further investigations.
- The flooding of the gallery at level O of the dam on 22 February 1999 has led to the operational failure of some clinometers and computer cables that are connected to the main computer at the operations centre. These were sent to the manufacturers and repaired accordingly in order to be made water tight.
- Visual inspections in the galleries, the exposed parts of the dam, and on its appurtenant works, indicate that leaks in the galleries vary directly with the varying lake levels.
- The periodic geodetic measurements showed small global displacements at varying magnitudes into the valley and downstream of the dam.

On 'Muela Dam:

- There is a need to install lights in the extreme ends of the drainage galleries where the rock is exposed because this area is too dark to inspect properly.
- Results are awaited from DWAF for the periodic geodetic measurements done in March 1999.

4.3.2 *Implementation of EPP*

The process of implementing the Emergency Preparedness Plan stalled as a result of the political crisis in the country. Efforts to revive the programme have been initiated by communicating with the Disaster Management Authority and authorities from the affected districts.

4.3.3 *Establishment of Global Positioning System Survey*

The GPS survey stations for the LHWP reservoirs have been established. These were inspected during the first week of March 1999.

4.4 Townsites administration

4.4.1 Taking Over of Assets

The Townsites Administration took over the management and supervision of facilities at Likileng village and Butha-Butha camps on 1 January 1999. The maintenance of the Likileng village and infrastructure facilities (e.g. sewerage treatment works, housing maintenance) has been outsourced to MOSROS Services (Pty) Ltd.

4.4.2 Implementation of Policy Instruments

To enhance the efficiency of running the Likileng village and camps and to apply the standards of performance, the following policy instruments were developed:

- Camp rules and regulations
- House allocation policy
- Assets disposal policy
- Election of village management advisory committee
- Camp maintenance policy

5. ENVIRONMENT & SOCIAL SERVICES GROUP

5.1 Development



Grain compensation underway in the project area

5.1.1 Land Use Planning

Plans are underway to develop land use plans to cover the 133 villages in the 'Muela and Katse catchment areas. These plans are developed through full participation of the communities to find the most profitable and sustainable methods of land utilisation. To date 21 plans have been prepared and agreed and are in process of implementation.

5.1.2 Range Management

To mitigate the impact of inundation of some 3500 hectares of range land and arable land in the Phase 1A areas, livestock, in particular, is seen as one of the most viable activities. Aspects of this programme include increasing fodder production, reducing stock density, improving and relocating livestock improvement centres, designing and establishing range management associations (Katse) and encouraging hand-fed fattening ('Muela).

To date two grazing associations have been formed and one is in process. Each has a livestock improvement centre. Growth in calving weights of 50kg and a 40% increase in successful births have been achieved. Trial use of sorghum for fodder is underway with eight farmers and a 60% reduction in wild fires has been achieved. A pilot study of intensive livestock keeping has commenced.

5.1.3 Tourism Development and Promotion

To develop the potential of the Phase 1A project sites for sustainable economic development requires a good but environmentally compatible tourist infrastructure. Tourism plans are under development with full community participation, together with training and capacity building of the local communities to ensure that the benefits of tourism accrue to those communities.

A standard sub-lease for tourism investment has been developed and is operational. A market segmentation exercise has been undertaken covering, inter alia, future tourism (ecotourism), astronomy, hiking, bird-watching, cultural tours, rock climbing, conferencing facilities and water sports. The contract to construct hiking trails and mountaineering was completed jointly with the Lesotho Tourist Board.

5.1.4 Mountain Horticulture and Field Crops

Intended to facilitate improvements in crop production and the adoption of irrigation on small vegetable and fruit tree plots, it is anticipated that profitable agri-businesses will emerge, thus enhancing food security and income generation.

This involves practical research in production and marketing of potatoes, maize, vegetables and fruits. In particular, it is intended to produce Highland White Dent maize seed in the area. It is also intended to diversify the crops currently grown to include beans, sunflower, lentils and wheat.

To date one hundred orchards have been established for production of apples, pears, peaches, apricots and plums. A green house has been constructed at Ha Poli to introduce seedling production and seed potatoes have been introduced with a production of 12 tons per hectare. With 164 hectares of maize seed planted, yield per hectare has increased to almost 4 tons. Grain yields have also increased. The project has also introduced grain storage facilities and a demonstration storage structure is in the planning stage.

5.1.5 Income Generation

With the intention of enabling households losing arable land to undertake small, appropriate enterprises that provide adequate income, this programme is intended to promote the use by affected individuals of compensation received together with micro financing to generate long term income streams.

An appraisal of the programme was undertaken following the completion of the external service contract set up to manage the Rural Training Centre whose activities were linked to entrepreneur development. A strategic plan was developed which focused on enhancing the database, studying better arrangements for micro finance, close co-ordination with compensation activities, and capacity building of local entrepreneurs. This is now in course of implementation.

5.1.6 Community Forestry

This programme is designed to replace the woodland lost in and around the Katse and 'Muela reservoirs. Specifically the objectives include the development of a nursery with capacity to produce 100 000 seedlings, to replace 12 hectares of wood resources in 26 villages and to promote tree planting in 75 villages.

148 000 trees have been planted including those for compensation, in 45 villages. A nursery has been established at Ha Lejone with a 170 000 seedling capacity and 109 000 seedlings have so far been produced. Thirty-nine village tree committees were set up together with five health and environment clubs. 11.4 hectares of firewood-producing species have been planted in 26 villages and general community awareness campaigns have been run in 104 villages with 2 331 households participating.

5.1.7 Rural Skills Training Project

The Rural Development Centre at Thaba Tseka is a key tool in ensuring that the Phase 1A households affected by the Project develop new skills to diversify their possible sources of income. The centre focuses on training in construction skills, basic engineering skills and skills for home industries. Combined with

this is entrepreneurial development and research into appropriate technologies. In addition the centre provides technical assistance to the Field Operations Branches (FOB's) for training of communities.

During the year 935 individuals received training in fields including masonry, carpentry, hand-knitting, poultry raising, leather works and bread making.

600 trainees were placed in LHWP work activities, and of 29 receiving business skills training, 12 started and continue to operate business activities.

Numeracy and literacy training was given to 280 people and a training needs assessment was carried out for 1635 affected households.

5.1.8 Fisheries

The programme is designed to facilitate the development of commercially viable fisheries including a commercial trout farm, subsistence fishery on the Katse reservoir and to support the Ministry of Agriculture.

During the year legislation was drafted to control fisheries in the Katse Reservoir. Three individuals received tertiary education in fisheries science and research continues respecting the adaptability of various species of fish to the Katse Reservoir. 15 subsistence fishermen have received training to improve their skills and knowledge and plans are underway for a fisheries research station to be set up in the Highlands. The proposed trout hatchery is currently under study.

5.2 Compensation and Resettlement

The Compensation section continued to process compensation claims in accordance with the new compensation policy. The compensation programme for the year was achieved. A new strategy was developed to better coordinate activities with those of the Development Section such that a more integrated approach to compensation, resettlement and income generation is adopted.

The first stage of resettlement for households within the main Phase 1B works areas was completed and almost all replacement houses and other structures were built. The second round of disturbance allowance payments for the first stage resettlers was completed.

The second stage of resettlement for households in the inundation area continues. Site selections for relocation have been finalised for 119 households. In addition, apart from a few access roads, community infrastructure improvements have been completed within the project area.

5.3 Public Health

While the Public Health Headquarters team remained understaffed it is expected that the full complement will be in place early in 1999/2000. In spite of this, progress was made during the year in the following areas.

5.3.1 *Construction and Infrastructure-related Occupational Health and Safety and Industrial Hygiene*

Site inspections were introduced during the year each month and numerous issues were highlighted for improvement. These included improvement in the use of safety registers; better training of safety representatives, the need for improved fire control, improved security and maintenance of electrical installations, improved contractor procedures in respect of protective equipment, ladders, electrical equipment and scaffolding, better storage of hazardous chemicals; increased surveys of noise and dust levels; better documentation of lighting and ventilation surveys; improvement of rescue procedures documentation; and speeding up of medical screening re-examinations for those in high risk areas.

Testing criteria for Sexually Transmitted Diseases including HIV infection were provided to contractors and the need to improve training of the labour force in health and safety matters to reduce the number of accidents was emphasised.

5.3.2 *Primary Health Care in Local Communities*

This programme is principally aimed at reducing morbidity and mortality to local communities through disease prevention, health promotion and provision of health education.

A programme of syndromic management of STD's was initiated in collaboration with the Ministry of Health and Social Welfare at Katse, 'Muela and Lejone by the Public Health Teams. In addition syphilis testing among antenatal clinic mothers and STD patients was carried out as an indicator of STD's within the communities.

Three Counsellors were identified for training in STD's management during 1999/2000 and the programme of distributing condoms continued. To improve information dissemination, billboards were erected on the Northern Access Road and instructional materials were printed. Efforts have been initiated to include a minimum package on health education in the school curriculum.

The project participated in National Immunisation Days (NID's), held on two occasions during the year, through logistical support.

5.3.3 *Improving Nutrition of Vulnerable Groups*

In order to promote reductions in malnutrition, and diseases resulting therefrom, educational sessions were held with the communities on proper nutrition practices.

Communities were also assisted to develop vegetable gardens and to create nutrition groups. Village-based growth monitoring was also introduced as an early detection mechanism.

Practical training was provided to village health workers in four project areas. Participants were provided with weighing scales, height meters, protective clothing and the necessary monitoring stationery.

Micronutrients were provided to vulnerable groups, particularly under fives and ante and post natal mothers. A method of identifying individuals belonging to these groups was developed.

5.3.4 *Medical Care Services*

This programme is intended to reduce the prevalence of injuries and common illnesses and provide treatment and referral for these.

This involves educational training of local communities in the prevention of injuries related to water masses, high voltage power lines and access roads, and in basic life saving skills.

Basic treatment, where minor illnesses do occur, is given by village health workers.

Teachers in the Katse local catchment were given First Aid training and were provided with kits, and local NGO's have submitted proposals for training villagers in life saving skills.

5.3.5 *Water Supply and Sanitation in Affected Communities*

Water supply systems for the 133 villages in Phase 1A and 102 in Phase 1B areas are to be constructed under this programme. This is to include one VIP per household and discussions are underway with the communities regarding provision of labour for construction.

The proposal for Mohale water supply, sanitation and refuse disposal is nearing completion and tendering of the contract is expected early in 1999/2000. Three school sanitation facilities have been completed and other schools are planned to be covered in the coming year in Phase 1B.

5.3.6 *Health Monitoring & Disease Surveillance*

Intended to develop a community-based monitoring programme and to monitor STD's, initial efforts in this programme have concentrated on the training of village health workers in growth monitoring skills and initiating of syphilis testing at Katse. A programme has been developed to extend syphilis testing to the other Field Operations Branches in the coming year. The Katse tests showed that of 412 ante-natal mothers and STD patients 17% of the former tested positive as against 47% of STD patients. This demonstrates a rapid growth in syphilis in the Katse area.

5.3.7 *Emergency Medical Services - Leribe Trauma Unit (LTU)*

The Trauma Unit continued to provide 24 hour emergency medical care and trauma services to both the LHWP workforce and to local communities, together with post-trauma rehabilitation to discharged patients of both the LTU and the Motebang Hospital, to which capacity building and technical assistance was also supplied.

A memorandum of understanding between the Ministry of Health and Social Welfare and LHDA was developed to plan and facilitate the handing over of the LTU to Government at the end of Phase 1B construction.

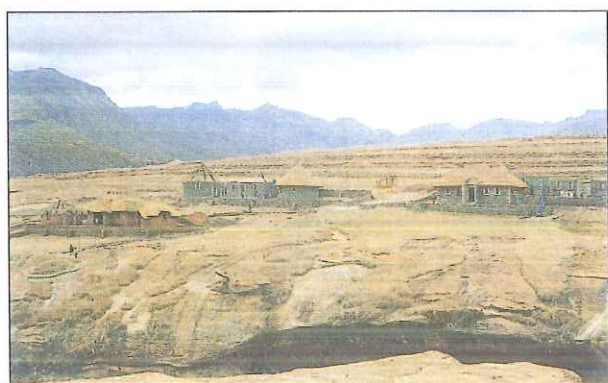
In addition steps were taken to ensure LTU operated on a full cost-recovery basis to ensure its long-term viability.

5.4 *Natural Environment & Heritage*

Designed to mitigate and compensate the most significant environmental impacts of the project and to provide for sustainable and rational utilisation of the renewable resources in the catchment area, the following are the main sub components:

PHASE 1A

5.4.1 *Nature Reserves*



Liphofung Cultural Village with Liphofung cave in the foreground

Five Nature/Cultural Reserves have been identified – a cultural historical site at Liphofung, an Enviro-park at 'Muela, a National Park at Ts'ehlanyane, a Nature Reserve at Bokong, and a Biosphere Reserve between Bokong and Ts'ehlanyane. A core of ecotourism developments is planned in each area.

Bokong is well on the way to completion with, principally, the overnight huts requiring substantial completion.

At Ts'ehlanyane work has progressed well with the day-visitor, picnic and camping sites, and the overnight huts are the principal remaining components.

Likewise considerable progress has been made at Liphofung. However, the work at 'Muela and on the Biosphere has yet to commence. Four Community Conservation Forums have been set up to examine issues relating to participation in all the above developments.

5.4.2 *Biology Conservation*

Site inventories of Spiral Aloe have been undertaken at two sites which are regularly being monitored. Seeds have been collected for propagation and seedlings are being nursed at the nursery set up for the purpose. Both live medicinal plants and seeds have been collected from the wild for the Katse Botanical Garden.

The intention is to expand the Garden concept into the communities for their own control. Some species have been collected for herbarium purposes.

5.4.3 *Katse Botanical Garden*

Work continues on this contract. So far 44 plant species have been collected and 10 kg of seed for 10 plant varieties. 14 species of indigenous shrubs have been planted and 44 plant varieties.

Water reticulation for the garden is almost complete and 4 km of footpath has been laid. The greenhouse has been completed.

5.4.4 *Biology Monitoring*

This contract continues with the annual biology monitoring, Wetland monitoring is set to commence.

5.4.5 *Instream Flow Requirements*

71% of all data has been collected on water quality, hydraulics, hydrology, sociology, biology, fish, public health, animal health, wildlife, geomorphology,

aquatic habitants and economics. Phase 1 of the social survey is complete.

5.4.6 *Environmental Awareness*

This programme continued with can recycling commencing in Lejone, Butha-Buthe and Mohale. Other recycling projects for paper, plastics and glass are due to commence and a landfill site is now operational at Mohale. Several workshops were held with the communities.

Further training of LHDA staff has been undertaken under contract, and publicity material has been produced together with an Environmental Master Programme which provides guiding principles for communication with communities.

5.4.7 *Soil Conservation*

Awareness campaigns, training of the communities, creation of interest groups and land use planning with the people were all undertaken during the year. 3.5 kilometres of diversion furrows were constructed at 'Muela and Lejone. 15000 tree seedlings were planted at 'Muela.

PHASE 1B

5.4.8 *Catchment Management Authority*

Preliminary work has been undertaken with a view to establishing such an authority. The Authority's brief will include biosphere planning, wetland conservation and vegetation monitoring.

5.4.9 *Environmental Resource Conservation*

Tenders have been submitted and are under review for conservation of the Maloti Minnow, the Umbraculate Frog and species conservation.

5.1.10 *Cultural Resource Monitoring*

Surveys have been completed along the Maseru bypass on several occasions after good rains in order to establish fossil remains – four sites were recorded. Plant and animal fossils were exhumed and are awaiting display at the 'Muela information centre.

6. PROJECT FINANCING

6.1 Phase 1B

The best part of the year was spent in pursuance of conditions to effectiveness of the Phase 1B loans.

The export credit facilities became effective in October 1998. The World Bank and EIB loans are yet to become effective.

The reason for the delay in their effectiveness is mainly the need to amend the legislation affecting governance of the Project.

Notwithstanding the late effectiveness of the Phase 1B loans contractors' payments were all met out of CMA Rand commercial facilities.

Additional loan facilities totalling R125 million were signed with the DBSA. This funding was raised in order to fund Mohale Camp and Resettlement and Compensation for affected communities. Capital Market activity continued throughout the year. R100 million bond auctions took place on a monthly basis and LHDA's portion of the proceeds was utilised to reduce the variable interest borrowing from the CMA banks.

6.2 Commercial activities

6.2.1 *Phase 1A - Hydropower*

As the Hydropower station came towards its scheduled completion, it became apparent that supplemental financing was required in order to meet additional costs due to changed scope of work. It became necessary for these costs to be bridged by Government funding pending negotiation of supplemental funding. Arrangements were made to extend the drawdown period for most of the contracts further, in order to provide for some variations and retention.

Discussions aimed at reaching agreement on the level of appropriate tariffs to apply for 'Muela power continued, between LHDA, LEC and Eskom. Proposals were made simultaneously to the Power Sector Committee to facilitate the operation of 'Muela as a business entity. In the meantime the committee is reviewing the proposal and it is expected that decisions will be taken in good time to facilitate financial reporting in the next financial year.

The procurement of forward contracts for 'Muela is one of the issues covered in the proposal made to the Government of Lesotho and the timing depends on the outcome of its decision.

6.3 Phase 1A Water Transfer

Work has been completed under Phase 1A. A few outstanding financial issues relate to such matters as the payment of Export Credit premia.

Financial Statements for the year ended 31 March 1999



CONTENTS

	Page
Directors' Approval.....	18
Report of the Auditors	19
Statement of Activities and Accounting Policies	20, 21
Income Statement	22
Balance Sheet	23
Statement of Changes in Financial Position	24
Notes to the Financial Statements.....	25-40

DIRECTORS' APPROVAL

The financial statements which appear on pages 22 to 40 were approved by the Board of Directors on 22 July 1999 and are signed on its behalf by:

H M Mhlanga
CHAIRMAN

M Marumo
CHIEF EXECUTIVE

Report of the Independent Auditors

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

We have audited the financial statements set out on pages 22 to 40.

Respective responsibilities of directors and auditors

These financial statements are the responsibility of the Authority's Directors. Our responsibility is to report on these financial statements.

Basis of opinion

We conducted our audit in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance that, in all material respects, fair presentation is achieved in the financial statements. The audit included an evaluation of the appropriateness of the accounting policies, and examination, on a test basis, of evidence that supports the amounts included in the financial statements, an assessment of the reasonableness of significant estimates and a consideration of the appropriateness of the overall financial statements presentation. We consider that our audit procedures were appropriate to enable us to express our opinion presented below.

Opinion

To the best of our knowledge and belief and on information supplied to us, the financial statements reflect a true statement of the assets and liabilities of the Authority at 31 March 1999 and the deficit for the year ended on that date.

KPMG
Chartered Accountants (Lesotho)

July 22, 1999

Statement of Activities and Accounting Policies

For the year ended 31 March 1999

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 are:

- (a) A 185 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 15.1km 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 delivery 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.

During the year, operations commenced on the Water Transfer activities, Phase 1A for Water Transfer being substantially complete. The Phase 1A Hydropower Plant was substantially completed on 1 April 1999 although some electricity was supplied to the grid towards the end of the year under review.

The principal physical features of Phase 1B are:-

- (a) The 145m high Mohale Dam.
- (b) A 32km 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.

- (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 Fixed Assets

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, are capitalised and shown as fixed assets on the Balance Sheet of the Authority up to the completion of the works. Thereafter they are treated as revenue expenditure.

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 administration costs of the Authority;
- (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;
- (e) all finance charges (including interest payments, financing and foreign exchange cover charges and other charges) relating to finance raised to fund capital expenditure.

All 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")

Statement of Activities and Accounting Policies *(continued)*

For the year ended 31 March 1999

Ancillary Development costs are transferred to the Capital Fund.

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.

2.2 Depreciation

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

Water Transfer Plant	50 years
Hydropower Plant	20 years
Office Furniture & Equipment	5 years
Motor Vehicles	4 years
Computer Equipment and Software	3 years

2.3 Investments

Investments are stated at Market Value

2.4 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 appropriate, 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 Agreement to the Treaty of 31 August 1992, 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.

2.5 Cost Related Payments

Cost Related Payments from the Government 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, 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 or on such other terms as the parties may agree.

Cost related reimbursement liabilities due by Lesotho under Protocol IV to the Treaty are transferred from the Government of South Africa Capital Fund to the Government of South Africa Fund once the liability has been determined.

Payment of these liabilities by Lesotho results in a transfer from the Government of South Africa Fund to the Government of Lesotho Capital Fund.

2.6 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.

2.7 Other Income

Other Income arising, such as interest earned, exchange gains and miscellaneous income, is credited to the cost of the activity to which it relates.

2.8 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.

Income Statement

For the year ended 31 March 1999

WATER TRANSFER

	1999 M'000	1998 M'000
Deficit for the year	(932 879)	—
This comprises:		
Operating & Maintenance Costs	(12 804)	—
Financing Costs	(765 174)	—
Depreciation	(154 901)	—
	(932 879)	—
And is funded as follows:		
Transfer from Capital Fund	932 879	—

Note: This is the first income statement of the Authority reflecting the commencement of water transfer operations on 1 April 1998.

Balance Sheet at 31 March 1999

	Notes	1999 M'000	1998 M'000
Assets Employed			
FIXED ASSETS	1	10 434 113	9 981 183
INVESTMENT	2	30 917	24 402
PROJECT TAXES REFUNDABLE BY THE GOVERNMENT OF LESOTHO	13	185 600	—
		10 650 630	10 005 585
CURRENT ASSETS			
Advance Payments		204 377	246 561
Other Debtors and Prepayments		178 993	148 036
Cash and Bank		82 938	54 111
		466 308	448 708
CURRENT LIABILITIES			
Contracts Payables and Accruals		279 060	521 397
Retentions		59 426	44 561
Other Payables and Accruals		182 710	164 686
Current Portion of Long Term Liabilities	6	392 855	249 561
Bank overdraft		3 563	29 652
		917 614	1 009 857
NET CURRENT LIABILITIES	9	(451 306)	(561 149)
		10 199 324	9 444 436
Financed by:			
CAPITAL FUND	3	3 262 761	3 022 177
GOVERNMENT OF LESOTHO FUND	4	50 326	52 754
GOVERNMENT OF SOUTH AFRICA FUND	5	1 304	1 304
LONG TERM LIABILITIES	6	3 692 530	3 782 662
FUNDS FROM CAPITAL MARKET	7	3 192 403	2 585 539
		10 199 324	9 444 436

Statement of changes in financial position

For the year ended 31 March 1999

	1999 M'000	1998 M'000
Source of Funds		
Government of Lesotho	61 730	94 430
Government of Republic of South Africa	1 432 680	1 122 257
Net Increase in Long Term Liabilities	—	43 238
Funds from Capital Market	606 864	839 655
Net proceeds from redemption of Zero Coupon Bonds	1 037	809
	<u>2 102 311</u>	<u>2 100 389</u>
Uses of Funds		
Operations & Maintenance expenditure	932 879	—
Less: Depreciation	(154 901)	—
	<u>777 978</u>	<u>—</u>
Decrease in Net Current Liabilities	109 843	467 355
Net Increase in Long-term Liabilities	53 162	—
Less Increase in Current Portion	<u>(143 294)</u>	—
	90 132	—
Expenditure on Fixed Assets	1 124 358	1 633 034
	<u>2 102 311</u>	<u>2 100 389</u>

Notes to the Financial Statements

For the year ended 31 March 1999

	Balance 1.4.98 M'000	Prior Year Reallocation M'000	Movement During the Year M'000	Balance 31.3.99 M'000
1. FIXED ASSETS				
Completed Works				
Water Transfer Plant at cost	-	-	7 930 659	7 930 659
Less: Payment of taxes refundable by the Government of Lesotho	-	(147 731)	(37 869)	(185 600)
	-	(147 731)	7 892 790	7 745 059
Less: Depreciation	-	-	(154 901)	(154 901)
	-	(147 731)	7 737 889	7 590 158
Capital Work in Progress				
Phase 1A				
Hydropower	793 472	118 994	296 739	1 209 205
Ancillary Developments	167 994	28 604	54 643	251 241
Less: Transferred to Capital Fund	-	-	(251 241)	(251 241)
	167 994	28 604	(196 598)	-
Water Transfer	7 922 445	(94 694)	102 908	7 930 659
Less: Completed Works	-	-	(7 930 659)	(7 930 659)
	7 922 445	(94 694)	(7 827 751)	-
Future Compensation	98 800	(98 800)	-	-
TOTAL PHASE 1A	8 982 711	(193 627)	10 279	8 799 363
Phase 1B				
Ancillary Developments	37 176	13 925	26 462	77 563
Less: Transferred to Capital Account	-	-	(77 563)	(77 563)
	37 176	13 925	(51 101)	-
Water Transfer	853 796	139 471	641 483	1 634 750
Future Compensation	107 500	(107 500)	-	-
TOTAL PHASE 1B	998 472	45 896	590 382	1 634 750
TOTAL FIXED ASSETS	9 981 183	(147 731)	600 661	10 434 113

Notes to the Financial Statements *(continued)*

For the year ended 31 March 1999

FIXED ASSETS (continued)

Included in financing of Phase 1A Fixed Assets is M76 697 000 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 Developments and Water Transfer is subject to agreement by the parties to the Treaty. Any adjustments resulting from such agreements are reflected as prior year reallocations.

2. INVESTMENT

The Authority holds zero coupon United States Treasury Bonds, at a market value of US\$5,002,775. The bonds mature between August 1998 and February 2009 at a value of US\$6,536,000.

The bonds were purchased to provide security for a loan, obtained from the European Investment Bank, to finance the 'Muela Hydropower component of the project, per Note 6 (vii).

3. CAPITAL FUND

	Government of Lesotho M'000	Government of South Africa M'000	Total M'000
Balance at April 1 1998	433 008	2 589 169	3 022 177
Cost related payments:			
Hydropower and Ancillary Development	69 587	—	69 587
Water Transfer	—	1 432 680	1 432 680
Less:	502 595	4 021 849	4 524 444
Ancillary Development Costs	(328 804)	—	(328 804)
Transferred to Income Statement	—	(932 879)	(932 879)
Balance at 31 March 1999	<u>173 791</u>	<u>3 088 970</u>	<u>3 262 761</u>

Notes to the Financial Statements *(continued)*

For the year ended 31 March 1999

CAPITAL FUND *(continued)*

Total Water Transfer costs capitalised at 31 March 1999 amount to M10 290 794 000 of which M3 256 675 000 has been paid through contribution to the Capital Fund.

The balance of M7 201 824 000 will be discharged through future cost related payments.

Total capitalised Hydropower and Ancillary Development costs at 31st March 1999 amount to M1 538 009 000 of which M502 595 000 has been paid through contribution to the Capital Fund.

After transferring Ancillary Development costs to the Capital Fund the balance of M1 035 414 000 will be discharged through future cost related payments.

4. GOVERNMENT OF LESOTHO FUND

	1999 M'000	1998 M'000
Balance at beginning of year	52 754	56 807
Amounts provided by Government of Lesotho	71 566	103 902
Net financing income accrued	5 429	6 761
Cost related payment paid to Government of South Africa	—	968
Cost related payment received from Government of South Africa	(9 836)	(10 440)
Cost related payments on Hyropower and Ancillary Developments transferred to Capital Fund	(69 587)	(105 244)
Balance at end of year	<u>50 326</u>	<u>52 754</u>

Notes to the Financial Statements *(continued)*

For the year ended 31 March 1999

GOVERNMENT OF LESOTHO FUND (continued)

This balance comprises:	1999 M'000	1998 M'000
Government of Lesotho contributions	1 980	—
Funding of water transfer costs	26 819	31 037
Concessionary finance income	21 527	21 717
	50 326	52 754

M48 346 000 will be discharged by future cost related payments by the Government of South Africa.

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 1998 M'000	Increase/ (Decrease) during the Year M'000	Balance 31 March 1999 M'000
European Development Fund	188 534	13 145	201 679
European Investment Bank	11 263	(74)	11 189
Government of France	70 723	—	70 723
Government of Lesotho	84 290	37 300	121 590
International Development Association	25 311	—	25 311
Department for International Development, UK	39 239	8 154	47 393
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	45 006	4 590	49 596
Credit National	16 618	8 451	25 069
	485 399	71 566	556 965

The terms and conditions on which these amounts have been provided have not as yet been determined.

Notes to the Financial Statements *(continued)*

For the year ended 31 March 1999

5. GOVERNMENT OF SOUTH AFRICA FUND

	1999 M'000	1998 M'000
Balance at start of year	1 304	2 273
Cost related payments during the year on water transfer paid to :		
– Government of Lesotho	9 836	10 440
– Third Parties	1 422 844	1 112 784
Cost related payment received from Government of Lesotho	–	(968)
Cost related payments on water transfer transferred to Capital Fund	<u>(1 432 680)</u>	<u>(1 123 225)</u>
Balance at end of year	<u>1 304</u>	<u>1 304</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.

6. LONG TERM LIABILITIES

Facilities for which foreign exchange forward cover contracts have been effected

(i) FACILITIES SPECIFIC TO KATSE DAM AND APPURTENANT WORKS, TRANSFER TUNNELS AND DELIVERY TUNNEL SOUTH.	1999 M'000	1998 M'000
--	---------------	---------------

Banque Nationale de Paris

Export Credit Loans

(a) Katse Dam	113 949	119 932
(b) Transfer Tunnels	321 863	377 169
(c) Delivery Tunnel South	66 709	70 686

Notes to the Financial Statements *(continued)*

For the year ended 31 March 1999

LONG TERM LIABILITIES *(continued)*

	1999 M'000	1998 M'000
<u>Facilities for which foreign exchange forward cover contracts have been effected (continued)</u>		
<i>Credit Lyonnais</i>		
Export Credit Loan		
(d) Katse Dam	300 216	328 358
<i>Dresdner Bank AG</i>		
Export Credit Loans		
(e) Katse Dam	97 568	110 055
(f) Transfer Tunnels	253 690	294 927
(g) Delivery Tunnel South	53 609	57 596
<i>ABN Amro Bank NV</i>		
(h) Export Credit Loan	343 987	397 334
The above loan is multi contract and relates to Katse Dam, Transfer Tunnels and Delivery Tunnel South		
<i>Kreditanstalt Fur Wiederaufbau</i>		
Export Credit Loans		
(i) Katse Dam	49 882	56 206
(j) Transfer Tunnels	126 356	150 963
(k) Delivery Tunnel South	27 175	29 189

Notes to the Financial Statements *(continued)*

For the year ended 31 March 1999

LONG TERM LIABILITIES (continued)

	1999 M'000	1998 M'000
<u>Facilities for which foreign exchange forward cover contracts have been effected (continued)</u>		
<i>Commonwealth Development Corporation</i>		
(i) Commercial Loan	112 365	121 355
The above loan is multi contract and relates to Katse Dam, Transfer Tunnels and Delivery Tunnel South		
(ii) FACILITY SPECIFIC TO PROVISION OF COMMUNICATION SYSTEMS TO THE PROJECT		
<i>Commonwealth Development Corporation</i>		
Commercial Loan	8 704	14 507
<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.		
<i>International Bank For Reconstruction & Development</i>		
World Bank Loan	413 239	389 501
	2 289 312	2 517 778
Less provision for unamortised cost of forward cover	303 792	452 109
	1 985 520	2 065 669

Notes to the Financial Statements *(continued)*

For the year ended 31 March 1999

LONG TERM LIABILITIES *(continued)*

	1999 M'000	1998 M'000
<u>Facilities for which foreign exchange forward cover contracts have not been effected including Maloti/Rand facilities</u>		
(iv) FACILITIES FOR PROVISION OF INFRASTRUCTURE AND INSTITUTIONAL SUPPORT		
<i>Development Bank of Southern Africa</i>		
In respect of		
(a) Southern Access Road	18 179	19 419
(b) Northern Access Road		
Northern Portion	129 646	135 907
(c) Katse Bridge	1 909	2 039
(d) Northern Access Road Southern Portion	45 620	48 313
(e) Border Crossing Facilities	7 039	7 312
(f) Infrastructure Management	56	110
(g) North End Access Road	36 693	38 465
(h) Katse Village Engineering Works	22 745	23 567
(i) Communication System	470	691
(j) Butha-Buthe Engineering Supervision	16 113	16 652
(k) Civil Construction Training Needs		
Preparation Costs and Accommodation	501	564
(l) Civil Construction Training Needs –		
Establishment Cost	80	105
(m) Accounting Systems Computerisation	1 574	1 985
(n) Upgrading existing roads	26 175	29 799
(o) RDP Feeder Roads & Reservoir Crossings	8 265	7 716
(p) RDP Feeder Roads & Reservoir Crossings	116 203	86 901
(q) RDP Construction Communities	2 655	2 057
(r) RDP Construction Communities	9 592	–
(s) Phase 1B 132/11 KV Power Supply	44 745	29 239
(t) Mohale Camp	70 027	–

Notes to the Financial Statements *(continued)*

For the year ended 31 March 1999

LONG TERM LIABILITIES (continued)

	1999 M'000	1998 M'000
<u>Facilities for which foreign exchange forward cover contracts have not been effected including Maloti/Rand facilities (continued)</u>		
(v) FACILITIES FOR OVERALL PROJECT IMPLEMENTATION		
(a) CMA IV Facility – Absa/First Corp.	181 411	715 386
(b) CMA V Facility – Rand Merchant Bank	356 375	192 558
(vi) FACILITIES FOR IMPLEMENTATION OF PHASE 1B		
(a) Credit Lyonnais	17 472	–
(b) Midland Bank	39 243	–
(c) Trinkaus and Burkhart	36 346	–
(d) Standard Bank of Lesotho	22 938	–
(e) Nedbank Lesotho	20 320	–
(vii) FACILITIES FOR 'MUELA HYDROPOWER IMPLEMENTATION		
(a) European Investment Bank	34 776	28 179
(b) West Merchant Bank	30 914	16 854
(c) Development Bank of Southern Africa	42 469	35 344
(d) Svenska Handelsbanken	58 839	47 507
(e) Lesotho Bank	122 478	94 430
(f) Government of Lesotho	96 618	65 179
(g) Government of Lesotho (Development Fund)	15 353	15 110

Notes to the Financial Statements *(continued)*

For the year ended 31 March 1999

LONG TERM LIABILITIES *(continued)*

	1999 M'000	1998 M'000
<u>Facilities for which foreign exchange forward cover contracts have not been effected including Maloti/Rand facilities (continued)</u>		
(h) ABN Amro Bank NV	18 280	10 921
(i) Banque Nationale de Paris	64 028	40 288
(j) Dresdner Bank AG	53 263	30 677
(k) Skandinaviska Enskilda Banken	18 179	3 876
(l) Banque Nationale de Paris	19 867	13 104
(m) Nedbank Lesotho	51 332	—
	<u>3 844 308</u>	<u>3 825 923</u>
Less current portion	392 855	249 561
	<u>3 451 453</u>	<u>3 576 362</u>
 Liability for future compensation costs	 241 077	 206 300
	<u>3 692 530</u>	<u>3 782 662</u>

Notes to the Financial Statements *(continued)*

For the year ended 31 March 1999

LONG TERM LIABILITIES (continued)

(i) FACILITIES SPECIFIC TO KATSE DAM AND APPURTENANT WORKS, TRANSFER TUNNELS AND DELIVERY TUNNEL SOUTH. (REFER TO PAGES 29 TO 31)

- (a) Repayable in 20 semi-annual instalments commencing on 31 July 1997, and bearing interest at fixed rates.
- (b) Repayable in 20 semi-annual instalments commencing on 30 January 1998, and bearing interest at fixed rates.
- (c) Repayable in 20 semi-annual instalments commencing on 31 July 1997, and bearing interest at fixed rates.
- (d) Repayable in 20 semi-annual instalments commencing on 31 July 1997, and bearing interest at fixed and varying rates.
- (e) Repayable in 20 semi-annual instalments commencing on 31 July 1997, and bearing interest at a varying rate.
- (f) Repayable in 20 semi-annual instalments commencing on 31 July 1998, and bearing interest at a varying rate.
- (g) Repayable in 20 semi-annual instalments commencing on 1 September 1997, and bearing interest at a varying rate.
- (h) Repayable in 20 semi-annual instalments commencing on 31 July 1997, and bearing interest at a fixed rate.
- (i) Repayable in 20 semi-annual instalments commencing on 1 September 1997 and bearing interest at a fixed rate.
- (j) Repayable in 20 semi-annual instalments commencing on 30 January 1998, and bearing interest at a fixed rate.
- (k) Repayable in 20 semi-annual instalments commencing on 31 July 1998, and bearing interest at a fixed rate.
- (l) Repayable in 28 semi-annual instalments commencing on 30 January 1998 and bearing interest at a varying rate.

Notes to the Financial Statements *(continued)*

For the year ended 31 March 1999

LONG TERM LIABILITIES (continued)

(III) FACILITY SPECIFIC TO PROVISION OF COMMUNICATION SYSTEMS TO THE PROJECT (REFER TO PAGE 31)

Repayable in 8 semi-annual instalments commencing on 31 January 1997 and bearing interest at a fixed rate.

(iii) FACILITY SPECIFIC TO PROVISION OF CONSULTANCY, TRAINING AND PROJECT PREPARATION. (REFER TO PAGE 31)

Repayable in 24 semi-annual and increasing instalments commencing on 1 November 1997 and bearing interest at a varying rate.

(iv) FACILITIES FOR PROVISION OF INFRASTRUCTURE AND INSTITUTIONAL SUPPORT (REFER TO PAGE 32)

- (a) Repayable over 16 years commencing 31 March 1993 and bearing interest at 8% p.a.
- (b) Repayable over 20 years commencing 30 September 1991 and bearing interest at 8% p.a.
- (c) Repayable over 16 years commencing 31 March 1991 and bearing interest at 8% p.a.
- (d) Repayable over 17.5 years commencing 30 September 1992 and bearing interest at 8% p.a.
- (e) Repayable over 19 years commencing 30 September 1992 and bearing interest at 11% p.a.
- (f) Repayable over 17 years commencing 30 September 1993 and bearing interest at 4% p.a.
- (g) Repayable over 18.5 years commencing 31 March 1993 and bearing interest at 8% p.a.
- (h) Repayable over 18 years commencing 30 September 1993 and bearing interest at 12% p.a.
- (i) Repayable over 8 years commencing 30 September 1993 and bearing interest at 4% p.a.
- (j) Repayable over 18 years commencing 31 March 1994 and bearing interest at 12% p.a.
- (k) Repayable over 13 years commencing 31 March 1993 and bearing interest at 8% p.a.
- (l) Repayable over 10 years commencing 31 March 1993 and bearing interest at 4% p.a.
- (m) Repayable over 8 years commencing 31 March 1993 and bearing interest at 4% p.a.
- (n) Repayable over 13 years commencing 31 March 1996 and bearing interest at 6% p.a.
- (o) Repayable over 6 years commencing 30 September 2000 and bearing interest at 7% p.a.
- (p) Repayable over 14 years commencing 31 March 2000 and bearing interest at 14% p.a.
- (q) Repayable over 18.5 years commencing 30 September 1999 and bearing interest at 15% p.a.
- (r) Repayable over 14 years commencing 30 September 2000 and bearing interest at 14% p.a.
- (s) Repayable over 18.5 years commencing 30 September 1999 and bearing interest at 15% p.a.
- (t) Repayable over 14 years commencing 31 March 2000 and bearing interest at 14% p.a.

(v) FACILITIES FOR OVERALL PROJECT IMPLEMENTATION (REFER TO PAGE 33)

- (a) The CMA IV facility will expire on 31 December 2003.
- (b) The CMA V facility will expire on 31 December 2003.

All of the above loans are guaranteed by the Government of South Africa.

Notes to the Financial Statements *(continued)*

For the year ended 31 March 1999

LONG TERM LIABILITIES *(continued)*

(vi) FACILITIES FOR IMPLEMENTATION OF PHASE 1B (REFER TO PAGE 33)

- (a) Repayable in 20 semi-annual instalments commencing six months after the date of taking-over certificate for the whole of the works under Contract LHDA 2007, or 31 January 2003, whichever is the earlier and bearing interest at a rate of 5.73% p.a.
- (b) Repayable in one instalment in December 2003 and bearing interest at a rate of 0.35% above the LIBOR rate.
- (c) Repayable in 20 semi-annual instalments commencing six months after the date of taking over of the whole of the works under Contract LHDA 2007 or 31 January 2003 whichever is earlier and bearing interest at 0.35% above the LIBOR rate.
- (d) Repayable in 10 semi-annual instalments commencing in March 1999 and bearing interest at Lesotho Prime Rate minus 2%.
- (e) Repayable in 10 semi-annual instalments commencing in March 1999 and bearing interest at Lesotho Prime Rate minus 1%.

(vii) FACILITIES FOR 'MUELA HYDROPOWER IMPLEMENTATION (REFER TO PAGE 33 AND 34)

- (a) Repayable over 10 years, commencing 20 August 1999 and bearing interest at 3% p.a. This facility is secured as stated in note 2.
- (b) Repayable in 20 semi-annual instalments commencing 15 December 1997 and bearing interest at 6.85%. This facility is guaranteed by Government of Lesotho.
- (c) Repayable over 17 years commencing 30 September 1998 and bearing interest at 13% p.a. This facility is guaranteed by Government of Lesotho.
- (d) Repayable in 20 semi-annual instalments commencing 15 December 1997, and bearing interest at 8.035% p.a.
- (e) Repayable in full on 16 December 1999 and bearing interest at the lower of Central Bank of Lesotho call rate plus 7% or prime rate. This facility is guaranteed by the Government of Lesotho.
- (f) Repayable in 10 annual instalments commencing 30 June 2004 and bearing interest at 9.8%.
- (g) Repayable to the Government of Lesotho Development Fund. The repayment terms have not yet been determined.
- (h) Repayable in 20 semi-annual instalments commencing on 15 June 1999 and bearing interest at 7.35%.
- (i) Repayable in 20 semi-annual instalments commencing on 22 June 1999 and bearing interest at varying rates.
- (j) Repayable in 20 semi-annual instalments commencing on 30 June 1999 and bearing interest at varying rates.
- (k) Repayment terms have not yet been agreed.
- (l) Repayment terms have not yet been agreed.
- (m) Repayable in 10 semi-annual instalments commencing on 20 May 2000 and bearing interest at 18%.

Certain of these facilities are direct with the Government of Lesotho. However, they are utilised entirely for the project.

Notes to the Financial Statements *(continued)*

For the year ended 31 March 1999

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. During the 1998/99 year this joint capital market funding programme was continued with the TCTA.

No new 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	12.5%	5 000 000	1 December 2005
WS02	12.5%	3 000 000	15 April 2002
WS03	13.0%	8 000 000	15 September 2010
Total		<u>16 000 000</u>	

The nominal values of the stocks issued to date and the proceeds received therefrom are detailed below:

Issued on behalf of LHDA:

Stock	Cumulative Nominal Value of LHWP Stock Issued		Cumulative Net proceeds from LHWP Stock Issued inclusive of Net Capitalised Finance Costs	
	1999 M'000	1998 M'000	1999 M'000	1998 M'000
WS01	1 941 558	741 558	1 775 816	1 577 080
WS02	762 000	462 000	728 234	440 968
WS03	780 000	633 000	703 468	567 491
Total	<u>3 483 558</u>	<u>2 833 558</u>	<u>3 207 518</u>	<u>2 585 539</u>
Less Strategic Portfolio	20 000	—	15 115	—
Total	<u>3 463 558</u>	<u>2 833 558</u>	<u>3 192 403</u>	<u>2 585 539</u>

Notes to the Financial Statements *(continued)*

For the year ended 31 March 1999

7. FUNDS FROM CAPITAL MARKET *(continued)*

STRATEGIC PORTFOLIO

In order to minimise the overall cost of funding through the capital markets, the proceeds from some initial launch issues were used to purchase R153 stock as part of a hedging exercise. At March 31st 1999 the R153 stock is reflected at a cost of M15.2million and a nominal value of M19.3million.

8. FORWARD COVER

All foreign currency denominated loans, except those for 'Muela Hydropower implementation, are the subject of forward cover.

9. CAPITAL COMMITMENTS

Outstanding capital expenditure contracted for at 31 March 1999 amounted to M1,599million. Finance has been secured as at 31 March 1999 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 by them at M175.6million.

The Authority is of the opinion that the results of ongoing discussions and representations are likely to substantially set aside such claims.

There is also a legal claim from a mining company of M1,609million in the courts of Lesotho. The Authority is of the opinion that the chances of this company winning the case are very slim.

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.

Notes to the Financial Statements *(continued)*

For the year ended 31 March 1999

12. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

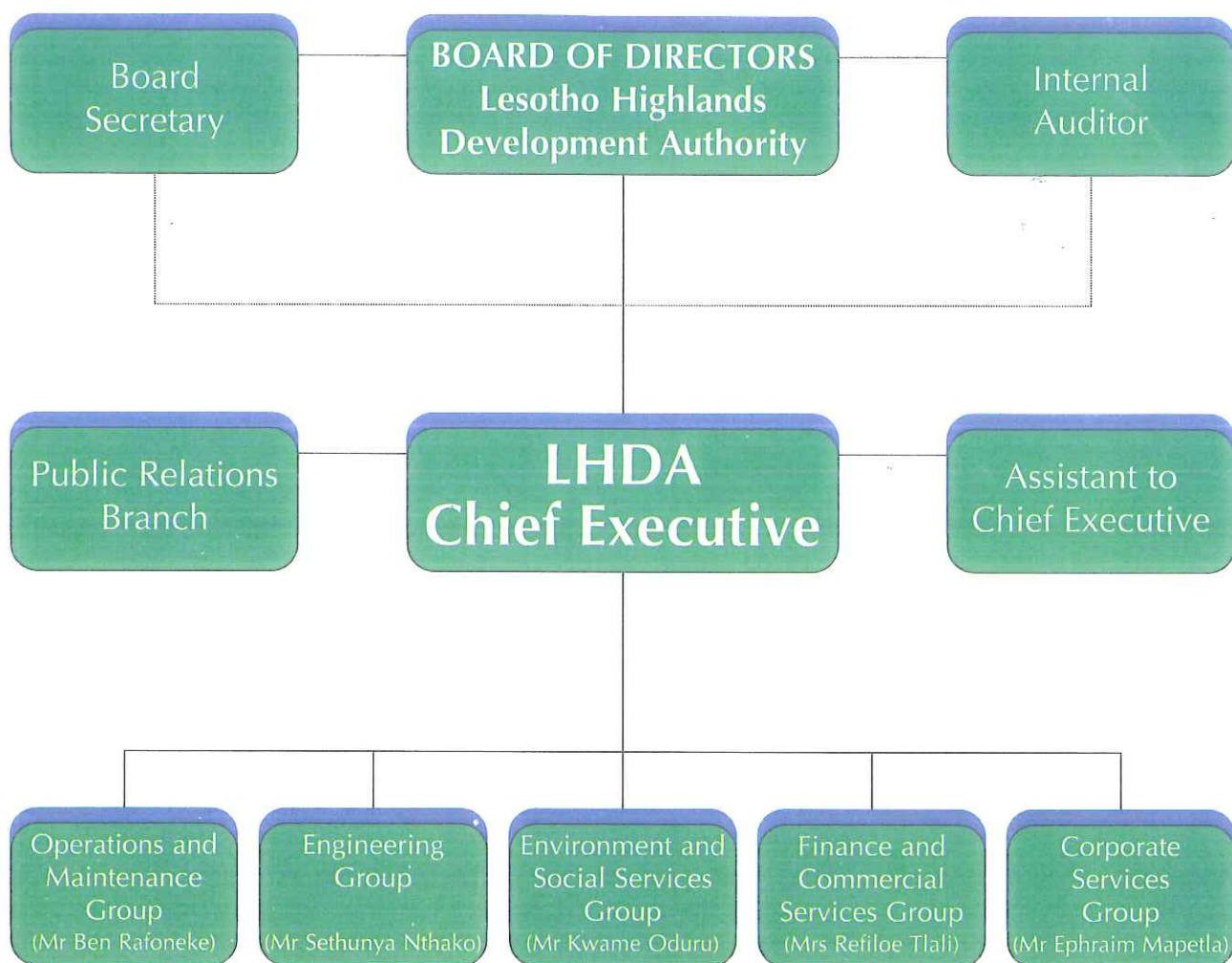
The Year 2000 issue arises because many computerised systems use two digits rather than four to identify a year. Data-sensitive systems may recognise the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the year 2000 issue may be experienced before, on, or after January 01, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

LHDA has commenced using a new system for all its financial transactions which is held out by the supplier to be year 2000 compliant. In addition a working party has been set up to examine LHDA's possible exposure in this connection with a view towards protecting its position.

13. 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 up to March 31, 1999 at rates in excess of those provided for in this protocol and estimated, together with interest thereon, at M185 600 000 are repayable over ten years commencing on April 30 2000 together with interest at 15% per annum.

LHDA ORGANISATIONAL STRUCTURE



Addresses

LHDA

Lesotho Highlands Development Authority
3rd Floor Lesotho Bank Centre
P.O. Box 7332
Maseru 100
Lesotho
Tel: (266) 311 280
Fax: (266) 310 060
E-mail: marum@lesoff.co.za

KPMG

Chartered Accountants (Lesotho)
1st Floor
Maseru Book Centre
P.O. Box 1252
Maseru 100
Tel: (266) 313 929
Fax: (266) 310 254
E-mail: kpmgles@lesoff.co.za



LHDA