LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY ANNUAL REPORT 2006/7

OUR MISSION

To Effectively and Efficiently Implement the Lesotho Highlands Water Project in an Environmentally and Socially Friendly Manner.

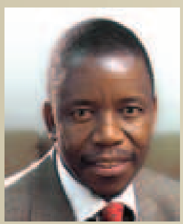
LHDA BOARD MEMBERS

MR JOHN JULIAN EAGAR
Board Chairman

BSc Civil Engineering, University of Cape Town
Registered Professional Engineer
Fellow: Institute of Civil Engineering (SA)

MR MASILO PHAKOE
Acting Chief Executive and Ex-officio Member of the Board

BA Econ (NUL), 1981
MBA, Michael Smurfit Graduate School of Business, University College Dublin (UCD); Ireland, 1994



DR MAKOALA V. MARAKE
Portofolio: Natural Environment

BSc Agronomy, Colorado State University 1985

MSc Soil and Water University of Nebraska Lincoln 1985

PhD Soil and Water University of Nebraska Lincoln 1993

MRS 'MAKHOLU PALESA MATETE
Portfolio: Socio Economic

BSc, Majored in Biology, Chemistry and Statistics NUL 1980

MSc Community Nutrition Howard University Washington DC 1986

MR. TS'IU KHATHIBE
Portfolio: Finance & Risk

B.Com
Rhodes University, 1998

Postgraduate Diploma (Criminal Justice & Forensic Auditing)

University of Johannesburg, 2005

MR PIET SWART
Portfolio: Finance & Risk

CA.SA
B.Compt.
UOVS, 1991

B.Compt. (Hons)
UNISA, 1993

CHIEF LEROTHOLI THEKO
Portfolio: Stakeholder Representation

Chief Lerotholi was appointed as a member of the LHDA Board with special responsibility for the portfolio of Stakeholder Representation. He brought with him a wealth of experience in local administration, having served as acting chief of Thaba Bosiu.

MRS 'MAPULA 'MAMOKHOMO MAKARA
Portfolio: Legal

LLB NUL 1980
(after joined course with University of Edinburgh, Scotland in International Law)

LLM (Environmental Law), Unversity of London, 1997

Post-graduate Diploma in Evironmental Sociology, Wits 2000

MR LEON TROMP
Portfolios: Human Resource, Engineering

BSc. Eng. (Civil)
University of Natal, 1978

BEng. (Hons)
University of Pretoria, 1985

MEng. (Civil)
University of Pretoria, 1988

STATEMENT BY THE CHAIRMAN OF THE BOARD

MR JOHN JULIAN EAGAR
Board Chairman

I once again express a pleasure in sharing with you the LHDA successes and challenges that were experienced in the implementation of the Lesotho Highlands Water Project (LHWP) during the past financial year.

The office tenure of the LHDA Board that was appointed in April 2003 effectively came to an end in December 2006. The LHDA authorities appointed new non-executive members in January 2007. The Board with new Board members continued to give direction and leadership to the LHDA.

The activities of LHDA during the reporting period have been in accordance with its business plan and consistent with the LHDA's rolling five year strategic plan. The Board continued to effectively discharge its oversight role, approving policies to ensure that LHDA operated within the Treaty and its Protocols, statutory mandate, and policy prescripts.

Some programmes that constituted the Environmental Action Plan (EAP) were implemented. These include Eco-Tourism, Commercial Fishing, and Commercial Agriculture.

During the draught period the LHDA released water from the 'Muela Dam outlets into the Caledon River to augment very low flows in the Caledon River that were threatening security of water supply to Maseru.

During the reporting period Annual electricity generation was sold to the Lesotho Electricity Corporate (LEC), the national distributor. The remainder of the generated electricity was exported to Eskom.

Annual Cash Compensation and In-kind Compensation Payments were effected to the affected communities in the LHWP areas.

The payments were meant to secure sustainability needs of the communities for the lands and fields taken for the implementation of the LHWP.

Delegates were unanimous; With the theme "African Mountains as Water Towers", the 5th International African Mountains Conference hosted in Lesotho in 2000 could not have been held at a more appropriate venue.

REMARKS BY THE ACTING CHIEF EXCECUTIVE

The outgoing year began and ended on a high note, notwithstanding the several challenges we encountered along the way.

Noteworthy from the outset, is that the year saw the tail end of the process of transformation with the final stages of filling in some of the senior most positions in the new structure. The management would later make a decision during the year to systematically document and take stock of the way the process was undertaken with the aim of drawing lessons thereof. By the end of the reporting period that in-house review was yet to be completed.

On the same front, we lost four of the senior officials in the organisation. The former Chief Executive left at the expiry of his contract in July 2006. Two managers who had been acting while efforts were being made to find substantive position holders, did eventually leave to take up offers elsewhere. It was also with deep shock and sorrow that we lost one of our valuable members of the management team who met an untimely death while undergoing a routine operation at hospital. These staff movements, naturally, had a knock on effect and somewhat strained our capacity to deliver on some key areas.

The new matrix structure consists of three divisions namely, Executive Division, whose mandate is to provide strategic leadership and effective management, in line with the broad policy framework of the Board; Strategic and Corporate Services, which is tasked with provision of support services to the line functions; and the Development and Operations Division, which operates and maintains the project's water resources infrastructure for water delivery, power generation, and implementation of all LHDA programmes at field level.

This structure is intended to foster an integration of strategic environmental and social functions with related water resources functions, facilitate the mainstreaming of a social and environmental responsibility ethic in the organisation, and

MR MASILO PHAKOE

Acting Chief Executive and
Ex-officio Member of the Board

promote synergies and possible sharing of capacity. The key challenge during the year, was therefore to put this structure to test, though this was constrained by less than full staff complement especially at the top positions.

In line with the five year rolling Strategic Plan, management continued to prioritise and address the critical issues in the 2006/07 Business Plan. While the performance targets in respect of water delivery and power generation were met, some challenges still remain with social and environmental programmes, as will be evident in the reports by the Divisions below.

It is important to note that one of the main challenges that lies ahead includes implementing the recommendations of not only the studies that were commissioned and/or were concluded during the year, but also the recommendations of our strategic partners who have continued to provide a much welcome third party independent review, viz. the World Bank and the Panels of Experts on both the Engineering and the Social and Environmental areas.

Following closely on the second highest performance rating of 86% by the October 2006 Annual Stakeholders' Conference, the Project was rewarded with the Green Award by the Word Bank in November 2006 in recognition of the leadership and commitment in promotion of environmental sustainability and integrating environment into the development agenda.

The last World Bank Implementation Review Mission visited the Lesotho Highlands Water Project (LHWP) from 16th to 26th October 2006. In its aide memoire, the Mission noted that despite a few areas that have not progressed as fast, in general there has been satisfactory progress. The Project was therefore awarded a rating of "moderately satisfactory".

Of significance is that the Project has delivered on its mandate to bring development opportunities to the Highland communities through, inter alia, infrastructure programs that have improved access and reduced travel times. For the first time the Mission acknowledged that the people affected by the Project have a standard of living not inferior to that obtaining at the time of first disturbance. Thus the Project is, by international standards, regarded as meeting its Treaty obligations.

Given the high profile of the LHWP and lessons learned during its implementation, the Bank went further and prepared its own "Intensive Learning" Implementation Completion Report (ICR) which was published in June 2007.

The achievements reflected above are to be seen against the background of a heavily loaded agenda as the individual Division's Reports below will indicate. While we appreciate the accolades we received, we are equally cautious not to be complacent, but to double up efforts and ensure delivery is sustained at satisfactory levels.

In last year's report, we had indicated that the sudden rise in the reservoir levels resulted in dislocation of the concrete face slab on the Mohale Dam's wall. We accordingly invited the designers of the dam to undertake an inspection of the crack. These experts assured us that dams of this nature have a tendency to develop unexpected structural behaviour. They specifically concluded that the cracking of the

In its fight against dependency syndrome, LHDA encourages members of the affected communities who opt for lumpsum compensation to embark upon long term income generating projects such as hammermills.

concrete face of Mohale Dam poses no major risk to the structure, but that repairs are needed to reduce leakage.

During the year, work continued on drawing up remedial work designs calculated at fixing the problem in the course of the dry season. However, given that this target was missed, we instead resolved to undertake short-term repairs until the next dry season.

As we look forward to another year with its own challenges , especially those related to sustainable development, it is also time to look back and give due recognition to the spirit of support and direction that was selflessly provided by both the Board and the Lesotho Highlands Water Commission (LHWC). The relentless efforts by my fellow workers in the management team and their staff during the year are very much appreciated. If it was not for their buy-in into the LHDA's corporate values of teamwork, achievement-oriented, stakeholder focus and commitment, much of what we record as achievements in this report would not have been possible.

The quest for achieving even higher goals and meeting the serious challenges in the social and economic agenda of the two nations that are co-owners of this great Project continues. In pursuit of this, I can only offer here the dedication and commitment of my management team. We are indeed confident that we will be equal to the task based on our collective experience in successfully navigating through unchattered waters.

I thank you.

CHIEF EXECUTIVE DIVISION

The Chief Executive Division is made up of the Chief Executive and four other units, namely Legal Services, Public Relations, Internal Audit, and Asset transfer.

The mandate of the office is to provide strategic leadership and effective management, inter alia, by:

- Providing strategic direction for sound change management practices in the restructuring and transformation of the LHDA (Chief Executive);
- Ensuring good governance and prudent risk management services (Chief Executive & Internal Audit);
- Providing efficient support services to the Board and its subcommittees (Legal Services Unit);
- Ensuring effective management of internal and external stakeholder relationships, and safeguarding the image of the LHDA (Public Relations Unit); and
- Ensuring effective transfer of assets to government ministries and other recipients (Asset Transfer Unit).

LEGAL SERVICES:

The following cases involving multinational companies were dealt with in the Legal Unit:

A: Impregielo SPA:

The case was settled in September 2006. The company had been sued for bribing the LHDA Chief Executive, it being alleged that the then Chief Executive of the LHDA awarded construction contracts in return for a fee for personal gain. Impregielo SPA was sued for M16.0m. The amount was paid in full to the LHDA. The company had earlier been found guilty in a criminal case in the High Court of Lesotho.

B: LAHMEYER INTERNATIONAL

The company had been sued for paying bribes to the GOL – Lesotho Highlands Water Commission Delegates. The cases filed by the LHDA had been enrolled in the High Court of Lesotho for hearing. The case was due to proceed in September 2007.

C: HOCHTIEF

The company was involved in the construction of a camp during the construction of the Phase 1B at Mohale. The amount that was being claimed was M3.0m for alleged breach of Contract No. LHDA 2007 by the LHDA. The LHDA filed a defence against Hochtief and the case was due to be given a date of bearing in the Lesotho High Court.

D: GROUP 5

The LHDA had been sued for breach of contract. The LHDA was alleged to have failed to discharge certain contractual obligations under the contract. The amount the LHDA was sued for breach of contract was alleged to be M2.0m. The LHDA filed a defence in this matter, and the case was due to be given a date upon which the case was to be heard in the Lesotho High Court.

E: ABSA CASE

The criminal investigations with regard to the fraud that was allegedly committed against the LHDA was conducted by the Director of Public Prosecutions (DDPR). The LHDA Legal Unit officials assisted in the probing of the fraud. Hand writing and voice experts were consulted in Johannesburg and Pretoria respectively.

PUBLIC RELATIONS

LHDA held the annual external stakeholders conference that serves as a report back forum in which LHDA shares with participants achievements on its obligations, including progress report on how it has addressed issues raised during the previous conference. Moreover, the conference serves as a forum for receiving feedback from stakeholders, especially the affected communities on how they perceive and experience the services provided by LHDA, in order to enable the organization to improve where found short.
The 2006 score of 86% - only one point below the highest ever achieved by LHDA, and 14 points higher than 2005, was indicative of a mature dialogue between LHDA and the stakeholders, was generally construed as relative success by LHDA in the advancement of the cause of community participation in projects that affect them.

The Public Relations Unit continued to use both electronic and print media targeting both internal and external stakeholders to inform them on the progress of the LHWP. LHDA secured paid prime time slots on Radio Lesotho (the only local radio station with nationwide coverage) to broadcast brief and strategic messages calculated at informing and educating, as well as shaping perceptions by the affected communities about the LHWP. Information on the latest developments within the LHWP was also disseminated via various print media houses, and LHDA website.

The LHWP sites continued to attract visitors from within Lesotho borders, regionally and internationally. Overall, during the reporting period, a total of 350 visitors were recorded.

More information on revenue collected,. as well as profile of visitors, is captured on page 16 of this document.

INTERNAL AUDIT

The Internal Audit continued to provide an objective and independent assurance on Internal Controls, Risk Management and Governance. The unit also provided leadership on internal investigations, and revised the Internal Audit Charter. The aim was to re-affirm Internal Audit's commitment to aligning it's work to the best practices, as defined in the Institute of Internal Auditors, under the subject of Standards for the Professional Practice of Internal Auditing.

ASSET TRANSFER

1.0. During 2006/07 financial year, asset transfer process continued at a faster

CHIEF EXECUTIVE DIVISION

pace than in the previous year. A total of nine (9) infrastructure assets were transferred to Government of Lesotho (GOL) recipient Ministries. The assets that were transferred are as follows:

i. Ts'ehlanyane, Bokong and Likileng Nature Reserves and Offices.
ii. Ha Lejone Camp
iii. Caledonspoort and Maputsoe Border Crossing Facilities and Buildings
iv. Leribe Hospital Trauma Unit
v. Mohale School, Clinic and Mortuary
vi. New Bus stop, CBD streets and school in Butha-Buthe village
vii. Katse Village school and clinic
viii. Site 1 and Site 2
ix. Mohale Potato Store

2.0 Overall, there was a seventy six (76%) per cent achievement of assets disposal during the period under review.

3.0 CHALLENGES

3.1 Delays in responding to required action by certain Ministries continues to be the major problem.

3.2 Transferred assets are not well-maintained, e.g. Lejone Camp, Mohale Camp, Katse Air Strip, etc. With respect to LHWP Roads, it was not clear whether they were being transferred or not. This resulted in poor maintenance practices, notably during removal of snow.

3.3 The future of some assets was not certain, e.g. Powerlines, Telecommunications assets, etc. As a result, these assets were still within LHDA responsibility. This constituted financial strain on the side of LHDA, as it had to maintain such assets.

Erected at the cliff edge in a breathtaking environmentally friendly manner, the Bokong Visitor's Centre is one of Lesotho's best tourist attractions.

STRATEGIC AND CORPORATE SERVICES DIVISION

Mr. Njekwa Mumbuna
Divisional Manager

1. OVERVIEW

The year ended 31st March 2007 was characterised by efforts to stabilise the business, but at the same time begin the implementation of interventions intended to complete the transformation from a construction oriented organisation to an operations and maintenance one. The Strategic and Corporate Services Division (SCS) given its mandate, was at the fore-front of implementation of some of these initiatives. The division continued to lend effective support to the implementation of programmes and projects by the Development and Operations Division.

There were mixed results from the division's activities during the year. The division was able to meet its mandate in such key areas as operations planning and environmental management. In other areas, however, the results were affected by the initial design of the intervention itself, while, capacity constraints limited the effectiveness of implementation of some initiatives. Below are the results of the operations of each branch during the year under review.

2. MONITORING AND EVALUATION (M&E) BRANCH

During the year the branch issued all quarterly reports to LHDA Management and the Board on the progress on programmes that constitute the Environmental Action Plan (EAP). The EAP covers seven prioritised areas namely Eco-Tourism, Commercial Fishing, Commercial Agriculture, Public Health (HIV/AIDS), Water and Sanitation, Catchment Management and Compensation.

The branch completed key studies and was engaged in the following activities during the year:

C1204 – Socioeconomic and Epidemiology Study

This 15-month study was awarded in June 2005 to Human Science Research Council (HSRC) with a targeted completion date of August 2006. In spite of the two extensions formally requested by the HSRC (from August 2006 to Dec 2006 and from January 2006 to April 2007) the study has still not been completed. In 2006/07 data collection and data entry for Phase 1 were completed for the upstream and downstream. A preliminary report on the findings of the study for Phase 1B was completed and findings presented to LHDA.

C1237 – IFR Biophysical Monitoring

This contract was awarded to Southern Waters Consulting (RSA) and the main objective was to develop in-house capacity to implement IFR biophysical monitoring. The contract commenced in July 2005 and data collection for 8 IFR sites was completed in October 2006. The Consultant presented study findings to LHDA in November 2006. The study was completed in February 2007 after submission of final reports. The

One of the sources of the Lesotho Highlands Water Project is the annual snow-fall. No wonder the Katse Dam water is exceptionally clean.

recommendations in terms of the monitoring programme have since been implemented, and have led to an improvement in LHDA's biophysical monitoring.

C1244 – The Intangibles study

The study was awarded to Southern Waters Consulting (RSA) to be carried out in six months. The key objective of this study was to assess the intangible resource (value) losses and gains that communities have suffered (benefited) as a result of implementation of the LHWP. This would in turn inform LHDA about the need for intervention in terms of compensation. In 2006/07 the consultant started and completed data collection and analysis. A presentation of the key findings was made to LHDA in October 2006.This study was completed in November 2006 with submission of the final report by the consultant. The consultant's findings were that there was insufficient evidence to support conclusions on losses suffered, as a result compensation for intangible loss could not be paid. Monitoring would be continued by LHDA and the decision revisited in future.

C1250 – The IFR Audit Consultancy

The Instream Flow Requirements (IFR) audit was awarded to the Institute of Natural Resources (INR) in December 2006 and was duly completed by March 2007. The objective was to audit LHDA's implementation of the IFR Policy and Procedures. The audit was in accordance with IFR policy requirement that an audit be conducted once every five years.

This provision in the LHDA IFR policy represents best practice approach to environmental flow management. One of the key findings of the audit was that the IFR Policy & Procedures as designed are too complicated to implement, and a recommendation for simplification was accordingly made.

Overall, LHDA was found to be 60% compliant with its policy and procedures.

World Bank Loan – Implementation Completion Report

The World Bank loan closed in December 2006 and as part of the loan closure process, an Implementation Completion Report (ICR) was prepared by the World Bank and LHDA. The report's conclusion of the project's results when benchmarked against the targets in the initial project appraisal document (PAD), is that LHDA performance is "Moderately Satisfactory". The report is available on the World Bank website.

Support Service – GIS & Survey Services

The Geographic Information Systems (GIS) Unit provided support services to the LHDA C1204 (see above) database management, spatial data entry for 136 households from Mohale catchment and 186 households from Katse and 'Muela Catchments. The unit also produced several maps that were required within the LHWP areas in 2006/07 for Resettlement, Compensation, IFR, WATSAN, C1204 and HNRRIEP purposes. The Survey Unit surveyed seven (7) properties for Phase 1B Stage II Resettlement households (Raboshabane Communities), nineteen (19) fields at Liphofung and Ts'ehlanyane for compensation and six (6) IFR sites river cross-sections and produced survey diagrams associated with the abovementioned survey activities. The benchmarks for cross-sections at IFR Sites 2, 3 and 6 were remarked and tied to the National Grid.

Hydrology

This unit is responsible for 16 Hydrometric Stations, 3 Weirs, 9 Standard and 3 Automated Rainfall Stations. With the exception of 3 vandalized and one (1) silted up hydrometric stations, all other stations functioned properly in 2006/07. Collection of meteorological and hydrological data went as planned. New hydrological stations at IFR Sites 2 and 4 were constructed and completed, but heavy floods in November 2006 washed away the IFR 2 station. Plans are underway to revive this station. Data sets for all hydro-meteorological stations were functional and were updated to February 2007, giving data availability of 88% for the hydrology and 95% for meteorology against the 90% target.

Downstream annual flow releases report for hydrological year 2004/05 was prepared, completed and posted on the LHWP website together with its Hydrological Year Classification reports. The draft 2005/06 reservoir annual flow releases report was prepared and discussed with the January-February 2007 World Bank Mission.

Water Quality

Water quality monitoring of the LHWP areas continued as planned. This involves monthly collection of water samples from 31 stations including at the seven (7) Instream Flow Requirements (IFR) sites in Katse, Mohale and 'Muela. Approximately 1035 samples out of the planned 1572 samples were collected from all the sites (the number of collected samples for each catchment is shown in Table 1 below). All the collected water samples were sent to Rand Water and ARC in South Africa for testing of key nutrients, suspended solids, bacteria, parasites, algae and chlorophyll, etc.

WATER SAMPLES COLLECTED IN THE RESERVOIRS

Reservoir	Sample target	Collected Samples	% Achieved
Katse Dam	636	511	80.3%
Mohale Dam	636	309	48.6%
'Muela Dam	300	175	58.0%
Total	**1572**	**1035**	**62.3%**

Both Katse and Mohale Dams stratified in summer and mixed in winter, especially in July as shown in Figures 1 & 2 below.

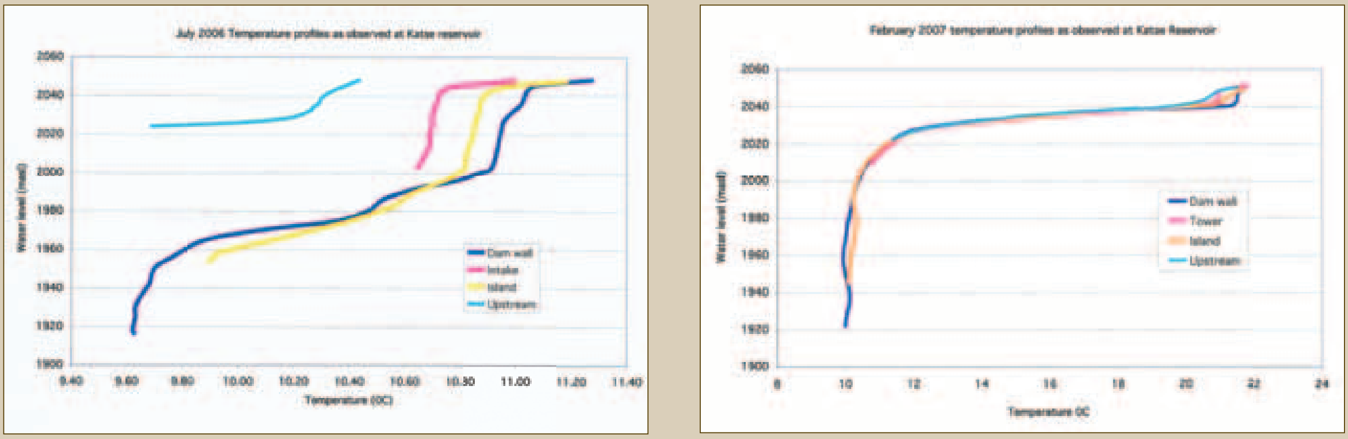


FIGURE 1. Katse Dam (a) stratification in summer & (b) mixing in winter

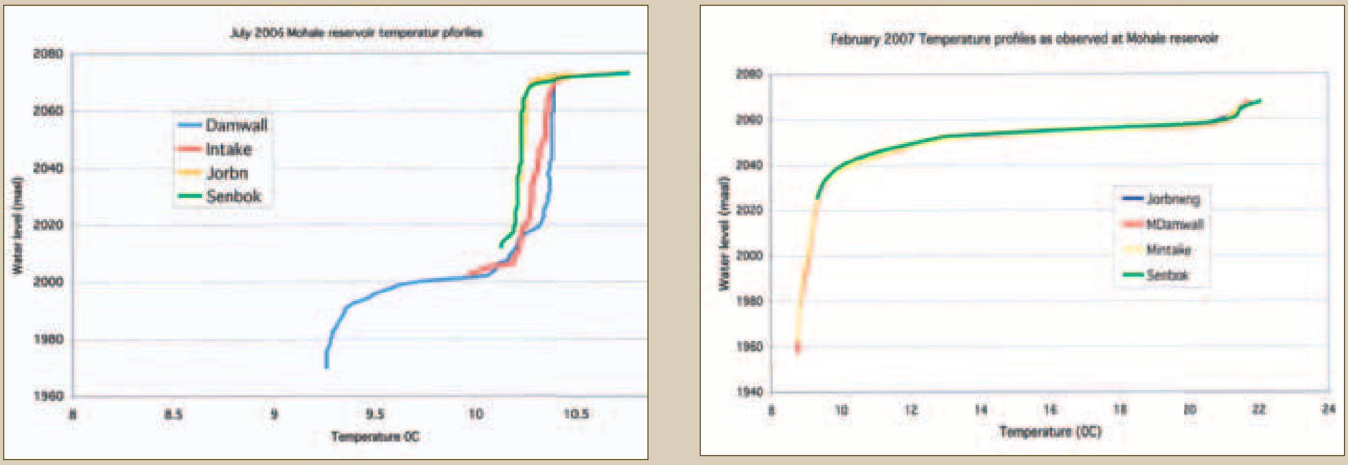


FIGURE 2. Mohale Dam (de)stratification in summer & (c) mixing in winter

In-situ profiles were taken from all reservoir sampling sites as planned. Downloading of data at the three (3) IFR super sites from data loggers (Sondes) was done for the first seven months only, because the November 2006 floods had washed away the data loggers. Water quality database in respect of in-situ, chemical and biological databases were updated to February 2007.

3. INTEGRATED PLANNING BRANCH

LHDA Strategic and Business Planning

The LHDA Strategic Plan for 2007/08 to 2011/12 and the Business Plan for 2007/08 were approved by the Board of Directors in September and October 2006 respectively. The Lesotho Highlands Water Commission (LHWC) subsequently approved the Strategic Plan in January 2007. The Business Plan was implemented and monitored on monthly routine basis through progress reporting, while the strategic plan was reviewed on half-yearly basis. The review of performance indicated that LHDA achieved its obligations concerning its core mandate of water delivery and hydropower generation. Challenges remain in terms of meeting environmental and developmental goals.

Mandate

The branch is responsible for strategic business and operations planning. The branch is also the custodian of the compensation policy and development of catchment management initiatives.

Compensation of Individuals and Communities for Identified Losses

The annual compensation payment schedule for 2006/07 was implemented as planned. The payment of all compensation commodities to affected communities for 2006/07 has been achieved, even though the updating of the compensation database and files delayed the process.

Integrated Catchment Management (ICM) Contract LHDA 1044

The ICM is intended to deal with issues of rehabilitation, conservation of the environment, and improvement of the livelihoods of communities within five pilot LHWP areas (3 Katse, 1 'Muela, 1 Mohale). The main feature of the initiative is to ensure sustainability post LHDA involvement. This is to be achieved through creation of Catchment Management Committees run by the communities and local government structures. By the end of the year, the preferred structures had been identified and were being finalised, while training and demonstration around sustainable grazing and farming practices had been conducted.

Water Resources Planning

The water delivery target in the year was set at 780 million cubic metres (MCM). This was based on the installed capacity of the dams and the assessed long term yield of the catchments.

Commercial Agriculture

All Commercial Agricultural programmes in Phase 1A and 1B at Katse, 'Muela and Mohale Catchments have been officially handed over to the Ministry of Agriculture and Food Security (MOAFS) and the Ministry of Forestry and Land Reclamation (MOFLR) on the basis of existing Memorandum of Understanding (MOU) through the Project Coordination Unit (PCU). Only three programmes in Phase 1A, asparagus and vegetable seedling nursery both in 'Muela, and Range Management in Katse are still to be handed over in 2007. Animal Husbandry and Range Management is the only remaining commercial agricultural project in Phase 1B.

Eco-Tourism Development

Technical support service from the planning perspective on all eco-tourism development within the LHWP areas has been provided to various programmes. For example, operations and management of guest houses at Katse and Mohale including the information centres at Katse and Mohale, have enjoyed the said support service.

Bio-diversity Preservation

LHDA has embarked on the implementation of the Maloti Minnow programme and monitoring of fish species in the LHWP reservoirs and rivers under the Lesotho Biodiversity Trust (LBT).

4. HUMAN RESOURCES BRANCH

The Human Resources Branch is mandated to provide LHDA with the human resources to meet LHDA`s current and future needs. The Branch is also tasked with the responsibility to review and implement best practices in Human Resources management. The Branch discharged this function in line with the organisation's Human Resources Management Manual (HRMM), as amended.

HIV/AIDS intervention

The HIV/AIDS Committee was approved in terms of the LHDA HIV/AIDS Policy, and Peer Educators were nominated and trained with a view to increasing knowledge on HIV/AIDS among LHDA employees. This is done through the distribution of information, education and care materials, facilitation of training of other employees on HIV/AIDS, workshops in all LHDA duty stations, and exchange programmes with HIV/AIDS Information and Services Organizations. Peer Educators have been conducting awareness campaigns throughout all LHDA branches, as well as introducing the HIV/AIDS Policy to staff.

Training and Development

LHDA operates a training budget that is 2% of the salary bill of the orgainsation. The utilisation of this budget is based on an annual Training Plan approved by Management. During the year under review, one of the major successes of the plan was the commencement of the Management Development Programme (MDP), aimed at equipping the newly appointed management team (following transformation/right sizing) with the management and leadership skills to effectively manage LHDA.

Performance Management

Progress towards implementation of an effective Performance Management Development System (PMDS) continued to be made during the year. Full implementation has been affected by difficulty in filling vacant positions remaining from the restructuring process. However, during the year the number of vacancies dropped to 235 out of 239 positions. With this result, LHDA considers that the transformation process is now complete and attention can be fully paid to performance management.

Reward and Compensation

The activities around the closure of the LHDA Pension Fund intensified during the year. All members of the Fund have been paid out their pension during the year under review. However, there are still few queries, which are being attended to.

Employee Relations

LHDA recognises the importance of good employer/employee relations and seeks to achieve synergy between employee aspirations and corporate goals. A decision was made during the year to upgrade staff uniforms with the aim of improving and promoting LHDA overall image. The uniform is also expected to have a motivating effect on the employees, hence improved productivity.

At ease! During official events, LHDA management and staff mingle to cultivate a culture of unity.

The Union of Lesotho Highlands Employees (ULEHE) was re-registered during the year under review with the main purpose of ensuring harmonious employee-employer relations with the Authority. It is hoped that the Union will work jointly with the Management to ensure that LHDA's objectives are achieved. A Recognition Agreement between the Union and the Management is in the process of being finalised.

LHDA hosted the annual inter power games during the year under review. Participating in these games were the Botswana Power Corporation (BPC), Lesotho Electricity Corporation (LEC), and Swaziland Electricity Board (SEB). The aim of the games is to reinforce good relations between the participating companies and to serve as platform for sharing of ideas towardsr improvement of hydropower services among the concerned countries. Similar games will be held in Botswana in the next financial year.

5.INFORMATION SYSTEMS BRANCH

The Information Systems Branch is charged with the responsibility to plan, develop, maintain and support LHDA corporate wide Information and Communications Technology (ICT) resources and effective custodianship, management and control of the LHWP documents.

Systems Development

The section was instrumental in enhancing the functionality of the organisation Enterprise Resource Planning (ERP) system, from Systems Applications and Products (SAP). Key outputs include the upgrade of the in-house developed employees leave management module to calculate correct terminal benefits at the close of the old structure in December 2005.

The Telephone Call Management system was upgraded to monitor and report the use of telephone facilities to curb abuse. Further activities included provision of office applications training to LHDA Staff, development of data capturing interface for Contract 1204 (Socio-economic and Epidemiological Study) and face-lift of the LHDA website, all of which could have been done externally at cost.

Systems Support and Networks

The most visible achievement in this area was the installation of a 128Kbps-leased link between head-office and 'Muela, which has enhanced access to data and effective electronic communication. There is however, the challenge to upgrade the network bandwidth capacity and e-mail/Internet systems that have become archaic, and implement data connectivity to remote sites that are adversely affecting business operations.

Documents Management

The period under review, saw major improvements and utilization of the Library resources. The entire 6th floor, 569 Square meters worth of space, was allocated to the Library. 79 additional steel shelves were installed, 2300 new documents were acquired, 5636 electronic bibliographic audited data was captured, 7608 archival materials were sorted, 330 Library users were served, while 700 and 793 documents were respectively donated and loaned out to the Lesotho National Library.

Information Systems Management

Following appointment of the substantive IS Manager in January 2006, the Information Systems Steering Committee (ISSC) has managed to sit to deliberate on key issues. Through their leadership, tremendous improvements have been made with regard to LHDA ICT infrastructure.

6.FINANCE BRANCH

The LHDA year-end audit for 2006/07 was completed in October 2007. A qualified audit opinion was issued with regard to the "completeness, existence and valuation of the provision for future compensation" amounting to M242,862,000. Except for the effect of such adjustments, if any, the financial statements were found to fairly present the financial position. The statements are presented in this report for reference.Various construction and engineering contractual disputes were resolved during the financial year, resulting in a drastic reduction in the number of disputed contracts.

LHDA is in the process of purchasing the Lesotho Bank Tower buildings from Standard Lesotho Bank, and a capital commitment to the value of the purchase price amounting to M20.0m has been recorded.

The new LHWP project funding mechanism was agreed to by the two governments and successfully implemented and maintained during the year. Cost allocation reports for the year 1999 to 2005 were approved by the LHWC during the period under reporting, whilst 2006 has been completed but not yet approved.

The recapturing of three months of data lost and the normalization of financial records, following the disk crash in May 2006, was completed in November 2006. The tender and evaluation process for replacement of the present SAP financial system has been completed. Implementation will take place during the next financial year.

Right: The Lesotho Highlands Water Project has won international accolades for, inter alia, striving to blend the communities' traditional life with civilization ushered in by the project.

DEVELOPMENT AND OPERATIONS DIVISION

Mr Peter Makuta
Divisional Manager

2006/2007 Annual Report

The DOD mission is to effectively and efficiently operate, maintain and sustain the LHWP water resources, power generation facilities and related assets, while mitigating the impact of LHWP on affected communities and the environment. Under the leadership of one divisional manager and four branch managers, the DOD is mandated to work on all LHWP sites at Muela, Katse, Mohale as well as in other highland and lowland areas.

1.0 Water Deliveries to RSA and Royalty Revenue

YEAR	PLANNED DELIVERIES (MILLION M³)	ACTUAL DELIVERIES (MILLION M³)	% VARIANCE IN DELIVERIES	ROYALTY PAYMENTS (MX MILLION)
2003/2004	695	687	- 1.2%	M207.9
2004/2005	695	693	- 0.3%	M226.1
2005/2006	772	788	+ 2.1%	M251.1
2006/2007	780	761	- 2.4 %	M264.3

TABLE1: 4-year performance overview – Water Deliveries & Royalty Revenue

1.1 Katse Reservoir Management. (Reservoir Levels)

During the period under review, Katse dam spilled four (4) times for a total 19 days and total spilled volumes of 128.6 Mm^3. The longest spill at the end of October 2006 lasted 6 days. The highest loading on the dam since impoundment was reached when the reservoir levels rose to 2055.45 m.a.s.l., which is 3.45 m above the spillway. Spillway discharge at this peak was 1010 m^3/sec, about a quarter of the maximum spill design

SPILLING DATES	# OF SPILL DAYS	MAX. LAKE LEVEL	VOLUMES SPILLED (MM³)
23/10/2006 – 26/10/2006	4	2053.05 masl	0.59
01/11/2006 – 06/11/2006	6	2055.45 masl	118.33
20/11/2006 – 22/11/2006	3	2053.11 masl	1.05
25/12/2006 – 31/12/2006	6	2053.26 masl	8.60
	19		**128.58 Mm³**

TABLE 2: Katse Dam spilling dates during the reporting quarter Oct – Dec 2006

The third quarter of the review year in particular, received above average recharge flows due to heavy floods and melting snow. The floods have been classified as 1 in 50 years return floods. The rainfall had been continuing at average levels until the 31st October 2006 when heavy torrential rainfalls occurred, not only in the Katse catchment but indeed, throughout the country. These torrential rains resulted in heavy floods that caused a lot of destruction to infrastructure, properties and the environment.

1.2 November 2006 Floods

Katse Dam Spilling in November 2006

Extensive damage was caused to a number of small bridges and loss of livestock was experienced in the Katse, Mohale and Matsoku catchments, both upstream and downstream. Initial assessment of upstream livestock losses in the Kate and Mohale catchments were in the hundreds for cattle, sheep and goats. Some houses were destroyed and a newly built LHDA hydrometric station at IFR Site 2 was completely swept away downstream of Katse dam at the confluence of Malibamats'o and Khohlonts'o rivers.

Gallery M flooded to height > 2m

Some of the Katse dam galleries (Pictures 2 and 3) were completely flooded, thereby inundating a number of installed dam safety instruments, communication and electrical cables, junction boxes, etc. A number of fish cages at the Katse Fish Farm were destroyed and more than 15,000 female trout escaped into the Katse reservoirs.

Flooded Electrical Cables

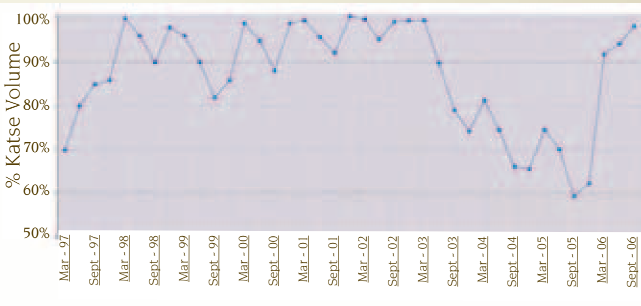


CHART-1: 9-year Quarterly Katse Reservoir Variations

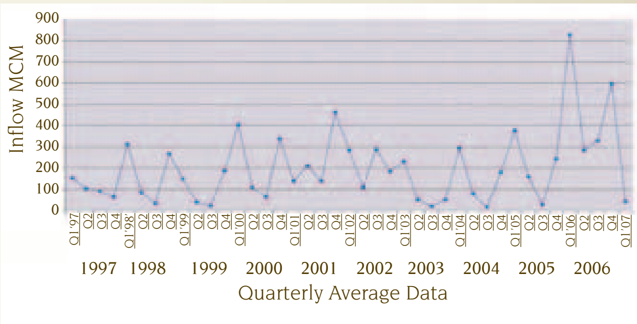


CHART-2: Inflows into Katse Reservoir since impoundment

1.3 Mohale Reservoir Management(Reservoir Levels

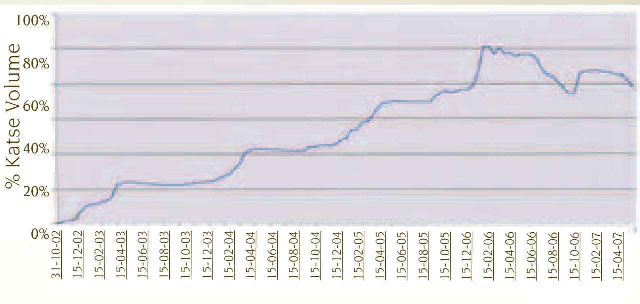


CHART-3: Mohale Dam Filling (since October 2002 impoundment date)

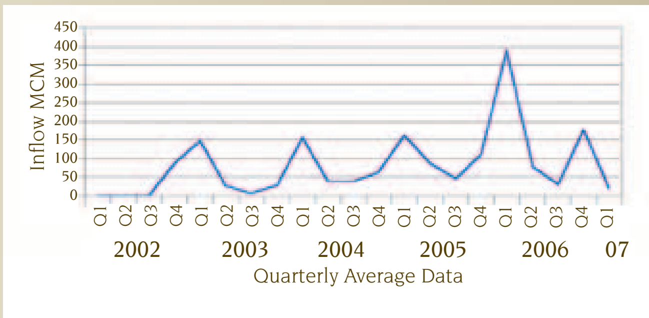


CHART-4: Inflows into Mohale Reservoir since impoundment

1.2 'Muela Dam Releases into the Caledon River

During March 2007, LHDA was requested by Government to release water from 'Muela dam's low level outlets into the Caledon River to augment very low flows in the Caledon River that were threatening security of water supply to Maseru. The total volumes released were restricted to 1.5 MCM.

1.2 Emergency Closure of the water Delivery Tunnel to RSA

The delivery tunnel system from 'Muela Hydropower Station to Ash River outfall in Clarens was closed twice during the year while the 'Muela hydropower plant was kept on line.

- The first closure took place on 15th January 2007 as an emergency operation requested by TCTA to enable the removal of debris comprising huge logs that were blocking the gated outlets on the South African side of the tunnel system. The debris emanated from Lesotho. The available buffer storage at 'Muela reservoir was used to maintain generation during the operation.

- The second emergency closure although jointly planned and agreed with the RSA authorities on the 30th March 2007, actually took place from 1st to 2nd April 2007. The closure followed a request by South African rescue services to shut down tunnel flows to allow the conducting of search operations for a baby who had been thrown into the Bethlehem dam by his father. The body was found and the story became headline news in RSA.

TABLE-3: 4-year performance overview: Electricity Generation and Sales Revenue

YEAR	PLANNED GENERATION (GWHR)	ACTUAL GENERATION (GWHR)	% VARIANCE IN PRODUCTION	TOTAL LEC SALES REVENUE (M X MILLION & VAT INCLUSIVE)	% EXPORTS OF TOTAL ANNUAL PRODUCTION	EXPORT REVENUE (M X MIL)
2003/2004	436	429	- 1.7 %	M50.4	9.3 %	M1.66
2004/2005	424	420	- 0.9 %	M56.8	0.6 %	M0.42
2005/2006	467	455	- 2.5 %	M58.6	4.8 %	M1.03
2006/2007	485	483	- 0.4 %	M60.8	0.8 %	M0.23

2.0 Electricity Generation and Sales Revenue

Annual electricity generation was 0.4% below the forecast for the year. 99.6% of the annual production was sold to the Lesotho Electricity Corporation (LEC), the national distributor, while the remainder, 0.4% constituted exports to ESKOM – RSA. M1.02 million of the electricity revenue was generated from exports. See Table -3 (above) for a 4 year comparison of generation performance.

Total cumulative electricity sales revenue since 'Muela hydropower plant first came into commercial operation in August 1998, to March 2007 is M439.8 million, while electricity exports accounted for only M5.46 million over the same period.

2.1 New generation licence for 'Muela Hydropower Station

'Muela hydropower station was issued a generation licence on 19th December 2006. The new licensing dispensation comes after the Lesotho Electricity Authority (LEA) Amendment Act of 2006 and the remaining sections of the LEA Act pf 2002 came into operation on 1st December 2006. A note should be made that the 500 KW Katse mini-hydropower plant does not qualify for licensing based on the minimum stipulated generation output of 2 MW, for a generation facility to be licensed.

3.0 Unit Indicators

TABLE-4: 4-year comparative overview - Unit Cost/Production indicators

YEAR	AVERAGE BULK SUPPLY TARIFF TO LEC (CENTS/KWHR)	AVERAGE TARIFF FOR SALES TO ESKOM (CENTS/KWHR)	SPECIFIC WATER CONSUMPTION RELATED TO ELECTRICITY GENERATION (LITRES/KWHR)	AVERAGE WATER ROYALTIES TARIFF (CENTS/M³)
2003/2004	12.95 c/KWhr	4.15 c/KWhr	1.60 L/kWhr	29.9 c/m³
2004/2005	13.60 c/KWhr	3.65 c/KWhr	1.65 L/kWhr	32.5 c/m³
2005/2006	14.45 c/KWhr	4.71 c/KWhr	1.73 L/kWhr	31.9 c/m³
2006/2007	13.25 c/KWhr	5.96 c/KWhr	1.58 L/kWhr	34.7 c/m³

Specific Water Consumption (SPC) ratio is the amount of water needed by 'Muela Hydropower Station to generate one unit (KWhr) of electricity. SPC increases when the Katse reservoir draws down, and decreases when the reservoir levels rise.

4.0 Visitors to LHWP Information Centres ('Muela, Katse & Mohale)

Local and foreign visitors to LHWP sites totaled 35,000 during the year and a total M208,000 was collected in tour fees. About 2.8% of the visitors were international tourists, 13.5% were South African tourists, and the rest local visitors. School pupils from primary to tertiary institutions accounted for 70% of all visitors during the year.

5.0 Annual Cash Compensation & In-Kind Compensation (IKC) Payments

These are compensation payments that are made annually for a period of 50 years for arable lands that have been affected by the LHWP. The number of cash compensation recipients may change from year to year when some households opt to change their compensation choices to either lump sum (once-off) payments or moving from grain to cash compensation, or vise versa.

TABLE-5: 2-year comparative analysis of annual compensation per LHWP site

LHWP AREA	2005/2006 COMPENSATION PAYMENTS		2006/2007 COMPENSATION PAYMENTS	
	No. of Households	Cash Compensation (M X million)	No. of Households	Cash Compensation (M X million)
1.'Muela	201	0.39	200	0.43
2.Katse	993	2.36	1,076	2.81
3.Mohale	680	2.64	961	3.47
Totals	**1,874**	**5.39**	**2,237**	**6.71**

When compensated, some households who have lost many fields to the project opt for a combination of cash and in-kind compensation (IKC). As evidenced in Tables 5 & 6, the freedom of choice between the two forms of compensation, results in the number of households (under each form of compensation) changing annually.

TABLE-6: 2-year comparative analysis of annual IKC by LHWP site (IKC = Grain and Pulses)

LHWP AREA	2005/2006 IKC PAYMENTS			2006/2007 COMPENSATION PAYMENTS		
	No. of Households	Maize 70kg bags	Beans 1kg pkts	No. of Households	Maize 70kg bags	Beans 1kg pkts
1.'Muela	285	2,145	4,645	277	2,065	4,471
2.Katse	916	8,958	19,371	814	7,726	16,710
3.Mohale	88	703	1,527	70	526	1,147
Totals	**1,289**	**11,806**	**25,553**	**1,161**	**10,317**	**22,328**

3.0 Lump Sum Payments for Arable Land Compensation

TABLE-7: 2-year (2005/06 & 2006/07) overview of lump sum applications and payments

LHWP AREA	05/06 APPLICATIONS PROCESSED	TOTAL 2005/06 LUMP SUM PAYMENTS (M X MILLION)	06/07 APPLICATIONS PROCESSED	TOTAL 2006/07 LUMP SUM PAYMENTS (M X MILLION)
1.'Muela	3	M0.242 mil	50	M1.679 mil
2.Katse	13	M0.241 mil	20	M0.880 mil
3.Mohale	179	M10.373 mil	183	M4.901 mil
Totals	**195**	**M10.856 mil**	**253**	**M7.460 mil**

The number of lump sum payments during the 2006/07 financial year, represents about 75% of all lump sum applications received during the year.

7.0 Likileng Townsites Rental Income

Likileng Townsites in the Butha-Buthe district is so far the only LHWP village/camp that rents out vacant houses to private individuals. Rental income collected during the year was M781,000 at an average monthly occupancy rate of 104 units, a 4% increase over the forecast for the year Eight more rental units became available in April 2006 after Nature Reserve's staff vacated several houses when the responsibility for Nature Reserves was officially taken over by the Ministry of Tourism, Environment and Culture (MTEC) following Nature Reserves February 2006 official transfer to the Government.

8.0 Katse Fish Farm (KFF)

Commercial operations at the Katse Fish Farm (KFF) started at the beginning of the reporting period with the first batch of the Rainbow Trout arriving in May 2006, weighing 5-6 grams each. A total 25 tons of fish were harvested during the year. By the 31st March 2007, 68 tons of fish was available at the farm and 40 tons of fish was ready for harvest. All fish harvested is exported to South Africa. A heavy snowstorm that occurred in the Katse catchment in August 2006, broke one fish cage of the KFF resulting in total losses of 12,000 Rainbow Trouts which escaped into the Katse reservoir.

9.0 KLM WATSAN Project

The Katse, Lejone and Matsoku Water and Sanitation Project (KLM WATSAN) commenced early 2006 following the completion of Mohale WATSAN in the Mohale dam catchment. The total expenditure for the 2006/7 financial year for the KLM WATSAN project at the end of March 2007 was approximately 91% of the annual budget of M24.7 million. Please refer to Table-8 below. The full force construction of water supply systems within KLM was postponed to FY 2007/2008 on Government's instruction of January 2007, to redirect the budget for water supply systems to sanitation facilities, following the depletion of the allocated budget for the sanitation component in November 2006.

TABLE 8:

PROJECT COMPONENT	TOTAL PROJECT TARGETS	2006/07 TARGETS	2006/07 ACTUAL ACHIEVEMENT	CUMULATIVE PROGRESS SINCE JAN 2006
1.Water Supply Systems	115	21	0	0
2.Sanitation Facilities	6,369	1,800	2,124	3,171
3.Refust Disposal Pits	6,369	1,350	0	0
4.Soak-Away Pits	6,369	1,800	1,924	2,978

The review period experienced very high inflation rates that resulted in significant increases in the prices of various project materials and supplies for KLM WATSAN. For example, steel products increased by 35%, the price of building cement also rose by more than 30% thereby rendering the price of other cement products such as concrete block very high. Fuel prices also increased by more than 30% over the period.

REPORT ON THE FINANCIAL STATEMENTS

CONTENTS

The Annual Financial Statements set out on pages 21 to 43 were approved by the Board of Directors and signed on behalf of the Board by:

JOHN EAGAR: CHAIRMAN

31 January 2008
DATE

MASILO PHAKOE: ACTING CHIEF EXECUTIVE

31 January 2008
DATE

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

GENERAL INFORMATION

DIRECTORS
MR J.EAGAR (CHAIRMAN)
DR MV MARAKE (DEPUTY CHAIRMAN)
MRS M.MATETE
MR T KHATHIBE
MR P SWART
CHIEF L.THEKO
MRS M.MAKARA
MR L TROMP

Nature Of Business:	Maintaining the Lesotho Highlands Water Project
Auditors:	Ernst & Young
Registered Office:	Lesotho Highlands Development Authority Lesotho Bank Tower Kingsway Rd, MASERU 100 Lesotho
Physical Address:	Lesotho Highlands Development Authority Lesotho Bank Tower Kingsway Rd, MASERU 100 Lesotho
Bankers:	Standard Lesotho Bank
Attorneys:	In-house attorneys Webber Newdigate Attorneys Phafane Chambers
Company Secretary:	Adv S Mathe
Country Of Incorporation:	Lesotho
Legal Form:	Public

REPORT ON THE FINANCIAL STATEMENTS

Independent auditors' report to the board of the lesotho highlands development authority

We have audited the annual financial statements of The Lesotho Highlands Development Authority, which comprise the balance sheet as at 31 March 2007, the income statement, the statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 5 to 36.

Director's Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Except as discussed in the qualification paragraph, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Qualification

We were unable to determine the completeness, existence and valuation of the provision for future compensation amounting to M242 862 000. The authority's records did not permit the application of adequate alternative auditing procedures regarding this provision. Consequently, we did not obtain all the information and explanations we considered necessary to satisfy ourselves as to the completeness, existence and valuation of the Provision for Future Compensation

Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the completeness, existence and valuation of the Provision for Future Compensation, the financial statements present fairly, in all material respects, the financial position of the Lesotho Highlands Development Authority as of 31 March 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

ERNST & YOUNG
CHARTERED ACCOUNTANTS (LESOTHO)

MASERU
31 January 2008

STATEMENT OF ACTVITIES

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 182m high double curvature concrete arch dam on the Malibamatšo 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 17 km 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 siphon 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 principal physical features of Phase 1B, which is now complete, are: -

(a) The 146m high rock filled Mohale Dam with concrete face;

(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;

(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.

INCOME STATEMENT

	NOTE	2007 M'000	2006 M'000
Revenue		60 787	58 616
Other Income		3 092	1 874
Total Income		**63 879**	**60 490**
Foreign Gains/(Losses)		(82 701)	23 200
Construction and Contractor Costs		(22 030)	(14 302)
Depreciation		(300 997)	(298 974)
Resettlement and Compensation Costs		(19 450)	(20 417)
Salaries and Wages		(60 506)	(71 597)
Other Administrative and Operating Expenditure		(80 393)	(111 065)
Operating Loss	2	**(502 198)**	**(432 665)**
Finance Income		6 658	5 819
Finance Cost		(220 000)	(404 484)
Loss for the year		**(715 540)**	**(831 330)**

Allocation of loss as per cost allocation report

Capital work in progress – 1A Water Transfer	26 478	12 330
Capital work in progress – 1A Hydropower	(793)	1 743
Capital work in progress – 1A Ancillary Development	41 845	27 073
Capital work in progress – 1B Water Transfer	181 054	93 934
Capital work in progress – 1B Ancillary Development	2 183	20 790
Hydropower accumulated loss	8 604	31 729
Government of South Africa Capital Fund	452 594	643 731
Government of Lesotho Capital Fund	3 575	
	715 540	**831 330**

Note: The allocation of operating and financing costs between 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. The last year that has been agreed to between the parties is 2005.

BALANCE SHEET

	NOTE	2007 M'000	2006 M'000
Assets			
Non-current assets		**12 111 462**	**12 414 370**
Completed Works and Capital Work in Progress	3	12 111 462	12 414 370
Current Assets		**138 454**	**114 639**
Project Taxes Refundable by the Government of Lesotho		181	714
Contract Advance Payments	4	-	533
Other Receivables and Prepayments	5	29 351	18 721
Cash and Cash Equivalents	6	108 922	94 671
Total Assets		**12 249 916**	**12 529 009**
Funds and liabilities			
Funds and Reserves		**9 903 930**	**10 113 897**
Capital Funds	7	10 191 774	10 393 137
Accumulated Loss – Hydropower	8	(287 844)	(279 240)
Non - Current Liabilities		**1 853 589**	**1 895 452**
Loans and Borrowings	9	681 499	744 243
Provisions	10	228 468	217 303
Funds from Capital Market Funds	11	943 622	933 906
Current Liabilities		**492 397**	**519 660**
Contract Payables and Accruals	12	11 735	10 868
Contract Retentions	12	55	1 981
Provisions	10	25 791	112 756
Other Payables and Accruals	13	113 171	110 356
Current Portion of Loans and Borrowings	9	341 645	283 699
Total Funds and Liabilities		**12 249 916**	**12 529 009**

CASH FLOW STATEMENT

	NOTE	2007 M'000	2006 M'000
Cash flow from operating activities			
Net Cash Inflow/(Outflow) from Operating Activities		**34 137**	**203 757**
Hydropower – net loss for the year		(8 604)	(31 729)
Water transfer – deficit for the year		(452 594)	(643 731)
		(461 198)	(675 460)
Add: Depreciation		300 997	298 973
Finance Charges		220 000	404 484
		59 799	27 997
(Increase)/Decrease in Advance Payments		533	(445)
(Increase)/Decrease in Other Receivables and Prepayments		(10 630)	64 525
Project Taxes Refunded by Government of Lesotho		533	158
Increase/(Decrease) in Contract Payables and Accruals		867	2 731
Increase/(Decrease) in Retentions		(1 926)	(109)
Increase/(Decrease) in Other Payables and Accruals		(72 985)	(80 718)
Increase/(Decrease) in Current Portion of Loans and Borrowings		57 946	189 618
Cash flows from investing activities			
Net Cash Inflow/(Outflow) from Investing Activities		**(248 856)**	**(129 185)**
Additions to Assets		(1 527)	(311)
Disposal of Assets		3 588	26 996
Expenditure on Capital Works and Work in Progress		(150)	70 648
Expenditure Transferred to Funds		(250 767)	(226 518)
Cash flows from financing activities			
Net Cash Inflow/(Outflow) from Financing Activities		**228 970**	**(84 708)**
Government of Lesotho		27 970	34 389
Government of Republic of South Africa		474 028	2 615 969
Increase/(Decrease) in Loans and Borrowings		(62 744)	(351 168)
Finance Charges		(220 000)	(404 484)
Funds from Capital Market		9 716	(1 979 414)
Net (Decrease)/Increase in Cash and Cash Equivalents		**14 251**	**(10 136)**
Cash and Cash Equivalents at 1 April	6	94 671	104 807
Cash and Cash Equivalents at 31 March	6	**108 922**	**94 671**

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

1.1 Basis of Preparation

The Financial Statements have been prepared on the historical cost basis except for those financial instruments that have been measured at fair value. The financial statements are presented in Maloti (M) and all values are rounded to the nearest thousand (M'000) except where otherwise indicated. The company presents its balance sheet based on expectations regarding recovery or settlement within twelve months after the balance sheet date (current) and more than twelve months (non-current).

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis. Income and expenses will not be offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the company.

Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

1.2 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except that the Authority has adopted those new/revised standards mandatory for financial years beginning on or after 1 January 2006.

The changes in accounting policies result from adoption of the following new or revised standards:
IAS 36 (revised) Impairment of Assets
IAS 16 (revised) Property, Plant and Equipment

The principal effects of these changes in policies are discussed below.

IAS 36 'Impairment of assets'
The revised accounting policy for impairment of assets is described in the "Summary of significant accounting policies".
IAS 16 'Property, Plant and Equipment'
The revised accounting policy for property, plant and equipment is described in the "Summary of significant accounting policies".

1.3 Significant Accounting Judgments and Estimates

Estimation uncertainty

The preparation of the financial statements necessitates the use of estimates, assumptions and judgements. These estimates and assumptions affect the reporting amounts of the assets, liabilities and contingent liabilities at the balance sheet date as well as affecting the reported income and expenses for the year. Although estimates are based on management's best knowledge and judgement of current facts as at the balance sheet date, the actual outcome may differ from these estimates, possibly significantly.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Provision for Future Compensation

The Provision is based on the estimated net present value of a lump sum payment due to the beneficiaries and established local legal entities affected by the Project. The Lump Sum Payment due is reliant on the loss size, remaining payments due to the beneficiary, the Lesotho Consumer Price Index and a discount rate of 4.5% as required by the Compensation Policy of 1997, as refined in October 2002. The Provision is also dependant on the additional number of Local Legal entities formed during the year.

The Instream Flow Requirements (IFR), which is a term to describe the water available downstream which impacts on the aquatic ecosystems as well as the social needs of the down stream communities. The Authority will monitor the IFR on a yearly basis and any additional compensation required will be included in the Provision for Compensation as identified.

1.4 Summary of Significant Accounting Policies

The financial statements incorporate the following principal accounting policies, which have been consistently applied in all material respects:

Property, Plant and Equipment - completed works

Property, Plant and equipment - completed works is stated at cost as transferred from capital work-in-progress upon completion, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of such plant and equipment when that cost is incurred if the recognition criteria are met. Depreciation is calculated on a straight-line basis over the useful life of the assets. The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the year the asset is derecognised.

The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year-end. When each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

NOTES TO THE FINANCIAL STATEMENTS

Property, Plant and Equipment - Work-in-Progress

Costs incurred on the implementation and construction 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 work-in-progress. Hydropower and water transfer components are transferred to completed works when the work is completed, whilst ancillary development costs are transferred to the capital fund. After completion such costs capitalized to work-in-progress are transferred to the capital funds.

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 land;
(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 ratification 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 within work–in-progress and transferred to completed works for the hydropower and water transfer components or capital funds for the ancillary development component.

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.

Property, Plant and Equipment - Operating & Maintenance Expenditure

The 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. Such cost allocations are transferred to the hydropower reserves or to the Government of South Africa Capital Fund. Likewise revenues arising as a result of operations or cost related payments in support of operations are credited to the respective hydropower or water transfer activities. Such allocation of operating costs is subject to ratification by the Parties to the Treaty.

Financial Assets

The company classifies its investments into loans and other receivables. The classification depends on the purpose for which the investments were acquired or originated.

Loans & Other Receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortised cost, using the effective interest method. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Fair Value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

Impairment of Financial Assets

The Company assess at each balance sheet date whether a financial asset or group of financial assets is impaired.

For loans and other receivables carried at amortised cost, the amount of the impairment loss is measured as the difference between the financial asset's carrying amount and it is present value of estimated future cash flows (excluding future expected credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by the impairment loss and the loss is recorded in the income statement

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.
For assets carried at cost, if there is objective evidence that an impairment loss on an unquoted investment that is not carried at fair value, because its fair value cannot be reliably measured, has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset.

Derecognition of Financial Assets and Liabilities

Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Financial Assets

A financial asset is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- The Company has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from the asset and has neither transferred nor retained all the risk and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset.

Trade and Other Receivables

Trade and Other Receivables are recognised when due and measured on initial recognition at the fair value of the consideration paid plus incremental cost. Subsequently insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of trade and other receivables are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement.
Trade and other receivables are derecognised when the derecognition criteria for financial assets, as described in note 1.4, has been met.

Provision for doubtful debt is made when there is objective evidence that the Authority will not be able to collect the debts. Bad debts are written off when identified and approved by the Lesotho Highlands Development Authority Board of Directors.

Cash and Cash Equivalents

Cash and short-term deposits in the balance sheet comprise cash at banks and in hand and short-term deposits. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Loans and Borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Provisions

Provisions are recognised when the Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the effect of discounting to present value is material, provisions are adjusted to reflect the time value of money. The expense relating to the provision is presented in the income statement.

Foreign Currency Translation

The financial statements are presented in Maloti, which is the Authority's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rate of exchange ruling at the balance sheet date. All foreign exchange differences are taken to profit or loss. Exchange differences are allocated to the cost of the related activity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

NOTES TO THE FINANCIAL STATEMENTS

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 affected by the Government of the Republic of South Africa.

Impairment of Non-Financial Assets

The Authority assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Authority makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other fair values indicators. Impairment losses of continuing operations are recognised in the profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Cost Related Payments

Cost Related Payments from the Governments of the Kingdom of Lesotho and the Republic of South Africa are recognised and credited to the Capital Funds 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 cost 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.

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.

Contract Retentions

The Authority withhold a portion of payments relating to progress billings, until satisfaction of conditions specified in the contracts for payment of such amounts or until defects have been rectified.

Taxation

Current tax

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.

Value-added tax

Revenues, expenses and assets are recognised net of the amount of value-added tax except:

- where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable and

- receivables and payables that are stated with the amount of value added tax included.

The net amount of value-added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Project Taxes refundable by the Government of the Kingdom of Lesotho

Protocol V to the Treaty was signed on June 4, 1999. Under the 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 by the Government of the Kingdom of Lesotho.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
(c) There is a change in the determination of whether fulfilment is dependent on a specified asset; or
(d) There is a substantial change to the asset

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for a), c) or d) and at the date of renewal or extension period scenario b).

Entity as Lessee

Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

Entity as Lessor

Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Authority and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods and electricity

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. Electricity income is recognized when due. The Muela Hydropower plant generates electricity and based on the agreed output a monthly invoice is prepared.

Investment Income

Revenue is recognised as interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

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.

Pension and Other Post-employment Benefits

LHDA contributes towards a defined contribution plan. A defined contribution plan is a pension plan under which LHDA pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

LHDA pays contributions to an externally administered pension insurance plan on a mandatory, contractual or voluntary basis. Once the contributions have been paid, LHDA has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and as such are included in staff costs.

Contributions to defined contribution pension plans are recognized in the income statement.

Events after the Balance Sheet Date

The financial statements are adjusted to reflect events that occurred between the balance sheet date and the date when the financial statements are authorised for issue, provided they give evidence of conditions that existed at the balance sheet date. Events that are indicative of conditions that arose after the balance sheet date are disclosed, but do not result in adjustments of the financial statements themselves.

NOTES TO THE FINANCIAL STATEMENTS

Comparatives

Where necessary, comparative figures have been adjusted to take effect of changes in presentation in the current year.

IFRS not yet effective

The Authority has not yet applied the following accounting standards that have been issued but are not yet effective.

IFRS 7 *Financial Instruments: Disclosures*

This standard is to be applied for annual periods beginning on or after 1 January 2007. The Authority expects that adoption of the standard will result in additional disclosure in the financial statements in the period of initial application. The extent of the additional disclosure has not been ascertained at this stage.

2. OPERATIONS LOSS

	2007 M'000	2006 M'000
Expenses		
Auditor's Remuneration	695	542
Construction and Contractor Costs	22 030	14 302
Depreciation	300 997	298 974
Finance Charges	220 000	404 484
Foreign Exchange Loss	82 701	-
Resettlement and Compensation Costs	19 450	20 417
Staff Costs		
• Salaries Basic	40 725	47 548
• Severance Pay	1 287	1 135
• Temporary contracting Labour	9 815	10 810
Income		
Foreign Exchange Gain	-	23 200

The above costs were subjected to the cost allocation process between the Government of Lesotho and the Government of South Africa.

NOTES TO THE FINANCIAL STATEMENTS

3. PROPERTY, PLANT AND EQUIPMENT

Completed works

	Hydropower Civil Works M'000	Hydropower Plant M'000	Water Transfer Civil Works M'000	Vehicles & Equipment M'000	Total M'000
Cost	868 448	443 132	13 149 608	8 311	14 469 499
Accumulated Depreciation	(103 688)	(107 075)	(1 178 260)	(5 803)	(1 394 826)
Taxes Refundable by the Government of Lesotho	-	-	(263 996)	-	(263 996)
Carrying Value at 1 April 2005	**764 760**	**336 057**	**11 707 352**	**2 508**	**12 810 677**
Transfer from Work in Progress	24 629	-	(95 277)	-	(70 648)
Additions	-	-	-	311	311
Depreciation	(17 682)	(18 971)	(261 714)	(607)	(298 974)
Disposal/donation of assets			(31 387)		(31 387)
Accumulated depreciation on disposed assets			4 391		4 391
Cost	893 077	443 132	13 208 585	8 622	14 553 416
Accumulated Depreciation	(121 370)	(126 046)	(1 435 583)	(6 410)	(1 689 409)
Taxes Refundable by the Government of Lesotho	-	-	(449 637)	-	(449 637)
Carrying Value at 31 March 2006	**771 707**	**317 086**	**11 323 365**	**2 212**	**12 414 370**
Transfer from Work in Progress	-	-	-	-	-
Additions	-	-	-	1 527	1 527
Depreciation	(17 862)	(17 725)	(264 149)	(1 261)	(300 997)
Disposal/donation of assets	-	-	(4 259)	(13)	(4 272)
Accumulated depreciation on disposed assets	-	-	684	-	684
Carrying Value at 31 March 2007	**753 845**	**299 361**	**11 055 641**	**2 465**	**12 111 312**
Cost	893 077	443 132	13 204 326	10 136	14 550 671
Accumulated Depreciation	(139 232)	(143 771)	(1 699 048)	(7 671)	(1 989 722)
Taxes Refundable by the Government of Lesotho	-	-	(449 637)	-	(449 637)

The useful life of the assets is estimated as follows:	50 Years	25 Years	50 Years	3-5 Years

NOTES TO THE FINANCIAL STATEMENTS

Capital work in progress

	Hydropowe M'000		Ancillary Development M'000		Water Transfer M'000		Operations & Maintenance M'000	Total M'000
	Phase IA	Phase IB	Phase IA	Phase IB	Phase IA	Phase IB		
Cost	1 311 580	-	462 746	185 951	8 261 360	4 888 248	-	15 109 885
Total transferred to Completed Works/ capital funds	(1 311 580)	-	(462 746)	(185 951)	(8 039 136)	(4 846 476)	-	(14 845 889)
Taxes Refundable by the Government of Lesotho	-	-	-	-	(222 224)	(41 772)	-	(263 996)
Carrying Value at 1 April 2005	-	-	-	-	-	-	-	-
Prior Year Reallocations	24 629	-	42 028	14 573	(129 998)	34 721	14 047	-
Cost Allocation	1 743	-	27 073	20 790	12 330	93 934	22	155 892
Transferred to Completed Works	(24 629)	-	-	-	129 998	(34 721)	-	70 648
Transferred to Capital Fund	(1 743)	-	(69 101)	(35 363)	(12 330)	(93 934)	(14 047)	(226 518)
Cost	1 337 952	-	531 847	221 314	8 320 686	5 026 200	14 069	15 452 068
Total transferred to Completed Works/ capital funds	(1 337 952)	-	(531 847)	(221 314)	(7 921 470)	(4 975 132)	(14 047)	(15 001 762)
Taxes Refundable by the Government of Lesotho	-	-	-	-	(399 216)	(51 068)	-	(450 284)
Carrying Value at 31 March 2006	-	-	-	-	-	-	22	22
Prior Year Reallocations	-	-	-	-	-	-	-	-
Cost Allocation	(793)	-	41 845	2 183	26 478	181 054	-	250 767
Transferred to Completed Works	-	-	-	-	-	-	128	128
Transferred to Capital Funds	793	-	(41 845)	(2 183)	(26 478)	(181 054)	-	(250 767)
Carrying Value at 31 March 2007	-	-	-	-	-	-	**150**	**150**
Cost	1 337 159	-	573 692	223 497	8 347 164	5 206 558	14 197	15 702 267
Total transferred to Completed Works/ Capital funds	(1 337 159)	-	(573 692)	(223 497)	(7 947 948)	(5 156 186)	(14 047)	(15 252 529)
Taxes Refundable by the Government of Lesotho	-	-	-	-	(399 216)	(50 372)	-	(449 588)

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. Prior year adjustments up to and including 2005 have been included.

	2007 M'000	2006 M'000

NOTES TO THE FINANCIAL STATEMENTS

4. CONTRACT ADVANCE PAYMENTS

Contract Advance Payments	1 500	2 410
Provision for Doubtful Debts	(1 500)	(1 877)
	-	**533**

5. OTHER RECEIVABLES AND PREPAYMENTS

Trade Debtors	28 897	12 977
Staff Debtors	140	150
Value Added Taxation	8 628	6 088
Other Receivables and Prepayments	31 366	31 969
Provision for Doubtful Debts	(39 680)	(32 463)
	29 351	**18 721**

6. CASH AND CASH EQUIVALENTS

Cash at Bank	108 835	94 570
Cash on Hand	87	101
	108 922	**94 671**
Currency Analysis		
US Dollar	8 184	7 526
Maloti	100 738	87 145
	108 922	**94 671**

Cash at the bank and in hand earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Authority. The fair value of cash and cash equivalents is M108 922(2006: M94 671)

7. CAPITAL FUNDS

	Government of Lesotho M'000	Government of South Africa M'000	Total M'000
Balance at April 1 2005	**753 539**	**7 859 489**	**8 613 028**
Amounts refunded	(71 153)	-	(71 153)
Cost related payments amounts provided			
• Hydropower and Ancillary Development	95 299	-	95 299
• Water Transfer	-	2 615 969	2 615 969
Ancillary Development Assets donated to Government of Lesotho	10 243	-	10 243
Transfer from Capital Work in Progress	(115 706)	(110 812)	(226 518)
Transfer from Income Statement	-	(643 731)	(643 731)
Balance at 31 March 2006	**672 222**	**9 720 915**	**10 393 137**
Amounts refunded	(46 554)	-	(46 554)
Cost related payments amounts provided			
• Hydropower and Ancillary Development	78 099	-	78 099
• Water Transfer		474 028	474 028
Ancillary Development Assets donated to Government of Lesotho	(3 575)	-	(3 575)
Transfer from Capital Work in Progress	(43 235)	(207 532)	(250 767)
Transfer from Income Statement	-	(452 594)	(452 594)
Balance at 31 March 2007	**656 957**	**9 534 817**	**10 191 774**

8. ACCUMULATED LOSS – HYDROPOWER

	2007 M'000	2006 M'000
Sale of Electrical power	60 787	58 616
Less: Cost of sales	(69 391)	(90 345)
Operations and maintenance costs	(23 137)	(41 550)
Financing costs	(10 037)	(11 919)
Depreciation	(36 217)	(36 876)
Net loss for the year	(8 604)	(31 729)
Accumulated loss balance at the beginning of the year	(279 240)	(247 511)
Accumulated loss balance at the end of the year	(287 844)	(279 240)

9. LOANS AND BORROWINGS

	2007 M'000	2006 M'000
Non-Current Portion	681 499	744 243
Current Portion	341 645	283 699
	1 023 144	**1 027 942**
Currency Analysis		
Euro	203 623	181 273
Maloti	186 040	186 040
Rand	507 596	526 367
Sterling Pound	60 043	55 469
US Dollar	65 842	78 793
	1 023 144	**1 027 942**
Interest Bearing Status		
Interest-bearing	1 023 144	1 027 942
Non-interest Bearing	-	-
	1 023 144	**1 027 942**
Maturity Profile		
Within One Year	341 645	283 699
Between Two and Five Years	372 412	388 058
More than Five Years	309 087	356 185
	1 023 144	**1 027 942**

NOTES TO THE FINANCIAL STATEMENTS

Trans Caledon Tunnel Authority Debt Service Loans

Institution		Effective Interest Rate%	2007 M'000	2006 M'000
	Offshore loans			
HSBC	Repayable in semi-annual instalments ending July 2012	Libor+0.35%	121 125	111 901
Credit Lyonnais	Repayable in semi-annual instalments ending July 2012	5.73%	60 043	55 469
World Bank	Repayable in semi-annual instalments ending May 2013	Libor	65 842	78 793
European Investment Bank	Repayable in semi-annual instalments ending January 2018	3%	82 498	69 372
European Investment Bank	Repayable in semi-annual instalments ending March 2018	Libor	101 684	110 928
European Investment Bank	Repayable in semi-annual instalments ending September 2018	Libor	64 536	70 147
European Investment Bank	Repayable in annual instalments ending August 2010	12.71%	87 924	86 860
	Common Monetary Area Loans			
DBSA	Repayable in semi-annual instalments ending March 2011	8%	65 759	68 972
DBSA	Repayable in semi-annual instalments ending March 2011	12%	13 068	13 340
DBSA	Repayable in semi-annual instalments ending March 2011	11%	3 926	4 034
DBSA	Repayable in semi-annual instalments ending March 2016	7%	2 003	2 006
DBSA	Repayable in semi-annual instalments ending September 2008	8%	5 226	6 162
DBSA	Repayable in semi-annual instalments ending September 2009	8%	549	647
DBSA	Repayable in semi-annual instalments ending September 2009	8%	17 730	19 518
DBSA	Repayable in semi-annual instalments ending March 2011	8%	18 611	19 520
DBSA	Repayable in semi-annual instalments ending September 2011	12%	9 835	9 941
DBSA	Repayable in semi-annual instalments ending September 2021	12.23%	946	901
DBSA	Repayable in semi-annual instalments ending September 2021	10.92%	3 571	3 430
DBSA	Repayable in semi-annual instalments ending March 2022	10.68%	45 377	44 469
DBSA	Repayable in semi-annual instalments ending March 2022	12.12%	26 136	25 439
DBSA	Repayable in semi-annual instalments ending March 2022	12.96%	2 552	2 421
DBSA	Repayable in semi-annual instalments ending September 2022	jibar	38 163	37 632
	Total		**837 104**	**841 902**

NOTES TO THE FINANCIAL STATEMENTS

Government of Lesotho Debt Service Loans

Institution		Effective Interest Rate%	2007 M'000	2006 M'000
	Offshore loans			
BNP Paribas	Repayable in semi-annual instalments ending April 2008	6.85%	4 145	5 401
BNP Paribas	Repayable in semi-annual instalments ending April 2008	8.72%	434	565
ABN Amro	Repayable in semi-annual instalments ending December 2008	7.35%	5 192	5 945
Svenska Handelsbanken	Repayable in semi-annual instalments ending June 2007	8.035%	5 749	13 389
Dresdner Bank	Repayable in semi-annual instalments ending June 2008	AKA rates	12 207	15 905
West LB	Repayable in semi-annual instalments ending June 2007	6.85%	3 990	9 143
BNP Paribas	Repayable in semi-annual instalments ending September 2008	7.35%	12 522	16 315
BNP Paribas	Repayable in semi-annual instalments ending September 2008	8.17%	2 166	2 822
European Investment Bank	Repayable in semi-annual instalments ending February 2009	3%	9 133	11 566
Government of Lesotho	Risk Capital Loan - No repayments terms have been set	9.8%	-	113 414
	Common Monetary Area Loans			
DBSA	Repayable in semi-annual instalments ending March 2009	6%	6 540	9 531
DBSA	Repayable in semi-annual instalments ending March 2015	13%	21 575	23 044
DBSA	Repayable in semi-annual instalments ending September 2019	13%	2 472	2 548
Government of Lesotho	Government of Lesotho Muela Loan	5%	186 040	186 040
Government of Lesotho	Government of Lesotho Development Fund	Variable	14 807	15 352
Government of Lesotho	Muela Re-financing by the Government of Lesotho		(100 932)	(244 940)
	Total		186 040	186 040
	Grand Total		**1 023 144**	**1 027 942**
	Repayable in one year included in short-term debt		(341 645)	(283 699)
			681 499	**744 243**

Certain long term loan facilities which are direct with the Government of Lesotho, and which were utilised to fund the 'Muela Hydro-power 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 the loan

10. PROVISIONS

	Future Compensation M'000	Disputed Contract Claims M'000	Severance Pay M'000	Leave Pay M'000	Total M'000
Balance at 01 April 2005	229 621	90 800	26 506	-	346 927
Additional Provisions made during the year	1 302	8 026	-	-	9 328
Amounts used	-	-	(26 196)	-	(26 196)
Balance at 31 March 2006	**230 923**	**98 826**	**310**	-	**330 059**
Additional Provisions made during the year	11 939	8 030	959	2 098	23 026
Amounts used	-	(98 826)	-	-	(98 826)
Balance at 31 March 2007	**242 862**	**8 030**	**1 269**	**2 098**	**254 259**

	2007 M'000	2006 M'000

10. PROVISIONS (Continued)

	2007 M'000	2006 M'000
Non-Current	228 468	217 303
Current	25 791	112 756
	254 259	**330 059**

Provision for Future Compensation

The provision for future compensation was created due to the Lesotho Highlands Development Authority requiring land in the selected development area. The persons directly or indirectly affected by the Project were identified and compensated in terms of the Compensation Policy of July 1997, as refined in October 2002.

The provision is based on the estimated net present value of a lump sum payment to all beneficiaries and established local legal entities discounted at 4.5%. The Provision is variable based on yearly changes in the Consumer Price Index and the additional Local Legal entities formed during the year.

Provision for Disputed Contract Claims

The provision was created due to litigation claims instituted against the Lesotho Highlands Development Authority for disputed construction contracts. The provision is recognized when the legal department determines that an outflow of economic benefits is probable and a reliable estimate of the obligation can be established.

Provision for Severance Pay

The provision is created in line with current legislation i.e. two weeks remuneration for each completed year of service. There is uncertainty as to the timing of the severance pay outflow. The reduction in the provision in severance pay is due to the fact that all the employees of the Lesotho Highlands Development Authority were retrenched and were paid out their separation benefits accordingly.

Provision for Leave Pay

The provision for leave pay is bases on the outstanding leave days per employee and his/her basic salary at balance sheet date. The outstanding leave days per employee are restricted to 18 days

11. 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 stock currently registered therefore remains as follows:

NOTES TO THE FINANCIAL STATEMENTS

Stock	Coupon	Maturity	Registered Nominal 2007 M'000	Registered Nominal 2006 M'000
WS03	13.0%	15 September 2010	8 000 000	8 000 000
			8 000 000	**8 000 000**

The nominal values of the stocks issued to date and the proceeds received there from 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 capitalized Finance costs	
	2007	**2006**	**2007**	**2006**
	M'000	M'000	M'000	M'000
WS03	998 000	998 000	943 622	933 906
Total	**998 000**	**998 000**	**943 622**	**933 906**

12. CONTRACT PAYABLES AND ACCRUALS

Contract Creditors	7 646	7 321
Contract Accruals	4 144	5 528
	11 790	**12 849**
Contract Retentions	(55)	(1 981)
	11 735	**10 868**

13. OTHER PAYABLES AND ACCRUALS

	2007 M	**2006** M
Trade payables	4 411	7 910
Staff payables	135	62
Accrued interest on loans	72 267	64 802
Accrued interest on capital markets	6 266	6 200
Accrued coupon on capital markets	11 929	11 929
Other payables	18 163	19 453
	113 171	**110 356**

14. FORWARD COVER

Foreign currency denominated loans, except those for 'Muela Hydropower Implementation, are subject to 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.
The forward cover contracts where entered into by the Trans Caledon Tunnel Authority. The Lesotho Highlands Development Authority revalue all its offshore loans at the applicable spot rate as at 31 March each year as the risks and rewards of the Forward Cover Contracts do no accrue to the Authority.

15. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

Outstanding capital expenditure not contracted for at 31 March 2007 amounted to M20 million in respect of the purchase of the Lesotho Bank Towers. The transaction will be concluded within the next 12 months following the balance sheet date.
The Authority has been notified of the intention by various Contractors to submit claims for additional costs estimated at M8 million. The claims that are probable have been provided for in the Provision for Disputed Claims. The Authority is of the opinion that the results of ongoing discussions and representations are likely to substantially set aside such further claims.

NOTES TO THE FINANCIAL STATEMENTS

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Authority's principal financial instruments comprise of loans and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Authority's operations. The Authority has various other financial instruments such as trade debtors, trade creditors and provision for future compensation, which arise directly from its operations.

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, implies 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.

Interest Rate Risk

The Authority's exposure to market risk for changes in interest rates relates primarily to the Authority's long-term debt obligations.

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. For further details on long term loans refer to Note 8 of the Annual Financial Statements.

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.

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's cash equivalents are kept at well-established financial institutions which limits its counter party exposure. The Authority has no significant concentration of credit risk in respect of cash and cash equivalents. The entity is exposed to significant credit risk exposure in terms of receivables due to the extensive period it takes to recover accounts receivable.

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.

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, under Note 8.

Fair Value of Financial Instruments

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

Set out below is a comparison by category of carrying amounts and fair values of all of the Authority's financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

	Carrying Amount		Fair value	
	2007 M'000	2006 M'000	2007 M'000	2006 M'000
Financial Assets				
Project taxes refunded by the Government of Lesotho	181	714	181	714
Contract Advance payments	-	533	-	533
Other receivables and prepayments	29 351	18 721	29 351	18 721
Cash and Cash Equivalents	108 922	94 671	108 922	94 671
Financial Liabilities				
Contract Payables and Accruals	11 735	10 868	11 735	10 868
Contract Retentions	55	1 981	55	1 981
Provision for Future Compensation	242 862	230 923	242 862	230 923
Other payables and accruals	466 213	493 193	466 213	493 193
Long Term Liabilities	681 499	744 250	681 499	744 250
Capital Market Liability	943 622	933 906	943 622	933 906

17. NUMBER OF EMPLOYEES

According to the payroll system the authority had the following number of employees as at the 31 March 2007: 322 (31 March 2006: 386)

18. RELATED PARTY TRANSACTIONS

Identified related parties include the parties to the treaty namely the government of the Republic of South Africa (RSA) and the government of the Kingdom of Lesotho (GOL). The Lesotho Electricity Corporation (LEC) and the Lesotho Revenue Authority are also deemed related parties as they are subjected to common control by the government of the Kingdom of Lesotho.

	2007 M'000	2006 M'000
Amounts credited to the Income Statement or fund accounts		
Sales of electricity to LEC	60 555	58 616
Cost related payments GOL	78 099	95 299
Cost related payments RSA	474 028	2 615 969
Loans to related parties and other accounts receivable		
Account receivable from LEC	28 286	12 978
Provision for Doubtful Debts from LEC	(117)	(117)
Account receivable from LRA	8 628	6 088
Provision for Doubtful Debts from LRA	(8 628)	(6 088)
Loans from related parties and other accounts payable		
Accrued interest on GOL loans	61 446	54 533
Loan payable to GOL	186 046	186 040
Compensation to Key Management Personnel		
Short Term Employee Benefits	7 241	8 837

Termination Benefits	-	1 829
Total Compensation Paid to Key Management personnel	7 241	10 666

Board Fees

Board and sub committee fees including sitting and travel costs	864	810

The following donations of Property, Plant and Equipment were made to the Government of Lesotho.

Transfer of the Ts'ehlanyane, Bokong and Likileng Nature Reserves and Offices		10 446
Transfer of Ha Lejone Camp	-	2 292
Transfer of Caledonspoort and Maputsoe Border Crossing Facilities and Buildings.	-	6 873
Transfer of Leribe Hospital Trauma Unit	-	3 809
Transfer of Mohale School, Clinic & Mortuary	-	3 891
Transfer of New Bus stop, CBD streets and school in Butha Buthe village		8 063
Transfer of Katse village school and clinic	-	1 865
Transfer of Site 1 and Site 2	2 195	-
Transfer of Mohale Potato Store	1 380	-
	3 575	**37 239**

NOTES TO THE FINANCIAL STATEMENTS

	NOTE	2007 M'000	2006 M'000
Electricity income		60 787	58 616
Investment Income		6 658	5 819
Miscellaneous income		3 092	1 874
Total Revenue		**70 537**	**66 309**
Asset donations to GOL	19	3 575	37 239
Audit and accounting fees		695	542
Bad debts		1 500	3 425
Bank charges		243	501
Board and committee fees		720	727
Construction and contractor costs		22 030	14 302
Depreciation		300 997	298 974
Entertainment		102	145
Foreign exchange loss/(gain)		82 701	(23 200)
Increase/(Decrease) in future compensation provision		11 938	1 302
Increase/(Decrease) in provision for contract claims		(1 255)	8 700
Insurance		1 896	1 447
Interest and finance expenses		220 000	404 484
Inventory and consumable stores		559	(59)
Leave pay		2 463	4 274
Legal and arbitration fees		16 071	10 445
Miscellaneous expenses		542	147
Motor vehicle expenses		6 504	7 382
Plant spares		257	101
Professional services		498	1 565
Provision for doubtful debts		5 255	1 083
Public relation costs		2 006	1 347
Rates, electricity and water		2 586	3 306
Recruitment		364	710
Rental expenses		5 065	5 118
Repairs and maintenance		12 568	14 328
Resettlement and compensation costs		19 450	20 417
Safety awareness		44	133
Salaries, wages and allowances		60 506	71 597
Security expense		214	709
Severance pay		1 287	1 135
Stationery		380	522
Telephone and communication		2 438	3 040
Training		1 347	982
Travel and transportation		531	769
Total expenses		**786 077**	**897 639**
Loss for the year		**715 540**	**831 330**

NOTES