

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

ANNUAL REPORT
2007 - 2008



Front Cover:

Main Picture: *A spectacular close-up of the spilling Katse Dam.*

Left Inset: *Their Majesties' convoy heads to the Katse Village for a deserved rest after a fulfilling tour of the dam.*

Right Inset: *Their Majesties King Letsie III, King Mswati III and spouses admire the stunning beauty of the Lesotho Highlands Water Project (LHWP)*

Back Cover:

Main Picture: *Fabulous snow-capped mountains add to the uniqueness of LHWP as a tourist destination of choice.*

Left Inset: *The Royal Treat; LHWP could not have been graced by a better visit.*

Right Inset: *The Ha Seoehlana "Mokhibo" group from Moleale snatched the winning trophy during the annual Katse Cultural Festival.*

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY (LHDA)

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Our Vision

*To be a World-Class Water Resources Development
and Management Organisation.*

Our Mission

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

LHDA BOARD MEMBERS



Mr TEBOHO NKHALHE

Board Chairman

MPhil. Environmental Management,
University of Stellenbosch - 2004
BSc. (National University of Lesotho) - 1989
Registered Professional Scientist –
Council for Natural Scientific Professions (RSA)
Member of the Institute of Directors
in Southern Africa (IoDsa)



MR MASILO PHAKOE

**Acting Chief Executive
and Ex-officio Member of the Board**

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



MR JOHN JULIAN EAGAR

Deputy Board Chairman

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



MR ANTON LOUIS GIANI

Portfolio: Audit & Risk Management

B.Com - US (1990)
HonsB(B&A) - USB (2003)
MBA – USB (2004)
Certified Director - IoD SA(2008)
Fellow of the IoD SA
Council Member - IoD SA



MRS 'MAMOHALE MATSOSO

**Portfolio: Human
Resources Management**

LLB (National University of
Lesotho) 1992
BA Law (National University
of Lesotho) 1991



MR RAMOKOATSI MOEA

**Portfolio: Stakeholder
Representation**

Mr Moea brings with him a wealth of
experience, having worked directly
with LHDA in different capacities,
representing the affected communities.
These include community area liaison
and cooperatives committees.



MR PIET SWART

Portfolio: Audit & Risk Management

CA.SA B.Compt. UOVS, 1991
B.Compt. (Hons) UNISA, 1993



MR TS'IU KHATHIBE

Portfolio: Audit & Risk Management

B.Com Rhodes University, 1998
Postgraduate Diploma
(Criminal Justice & Forensic Auditing)
University of Johannesburg, 2005



PROF LULAMA IDA QALINGE

**Portfolio: Socio-Economic
Development**

BA Hons, Social work
University of Fort Hare
BA, Social Work UNISA
MA Social Work -
University of Nebraska at Omaha, USA
PhD - University of North West
Registered Professional Scientist –
Council for Natural Scientific
Professions (RSA)



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 TEBOHO NKHAHELE
Board Chairman

It gives me great pleasure as a new Chairman of the Board to present this report, which includes a brief overview of performance during the 2007/08 financial year, as well as challenges ahead and strategies going forward.

It is worth noting from the outset that the reporting period should be seen against a backdrop of global and regional economic downturn and other negative developments such as global food shortages and an accelerated increase in global oil prices, which resulted in an increase in food prices and LHDA's operating costs. There have also been a number of natural and artificial hardships, both regionally and within the project areas, such as the power crisis, inflationary pressures, prolonged droughts, the spread of HIV/AIDS and the Katse tragedy where almost the entire football team perished in a single truck accident. These adversities have, in one way or the other, influenced our performance, as LHDA does not operate in isolation from the rest of the country and the region.

Nonetheless, LHDA had a sound financial performance, operated within budget, delivered on its social commitments and effectively sustained technical performance, while taking due care to sensitively manage stakeholder relationships.

Cumulative revenue from the sale of raw water from the LHWP rose to M2,33-billion, compared with M2,02-billion in the previous year. The increase in revenue came as a result of a 4,8% increase in the bulk water tariff from M1,40/m³ in 2007 to M1,47/m³ and a 2,01% increase in water volume transferred. Electricity production rose to 520 GWhr, representing 11.6% above the planned generation of 466 GWhr for the year.

No significant operational incidents were encountered at any of the major facilities during the review period.

Notwithstanding overall improvement in delivery of compensation grants to individuals and communities affected by the project, this remained an area of major concern. A comprehensive audit of the compensation files was undertaken by an independent audit firm and the results highlighted considerable challenges facing LHDA in its endeavors to effectively and cost-efficiently expedite the compensation process. Many files failed the stringent test of compliance due partly to the complex process of transfer of entitlements and succession within the recipient families.

Recognizing the need to ensure compliance, sustainability and prudent control of LHDA operations, effective governance structures and processes, in line with internationally acceptable principles and practices of good corporate governance, were put in place. During this period, the Environmental Subcommittee was reconstituted to include broad spectrum of sustainability issues, hence its new name of Sustainable Development Subcommittee. It is mandated to provide effective oversight on, inter alia, health, safety, socio-economic risks, rural development and the promotion of sustainable livelihoods amongst project communities.

The Finance Subcommittee was changed to Audit and Risk Subcommittee to align it to best practices. A new Operations and Maintenance Subcommittee was also formed to focus on operations oversight.

Inspired by the appointment of new members and an injection of fresh ideas, vibrancy and renewed enthusiasm, the Board enhanced its ability to provide strategic direction, wise leadership, effective oversight and prudent control of the organization, by exposing its members to a high level training by the Institute of Directors in South Africa.

Various internal control functions were also enhanced. These include the appointment of the Internal Auditor, the finalization and implementation of LHDA's performance management system, the adoption of a succession policy, and the approval of the

Corporate Environmental Policy. Various policies including Phase III Resettlement Policy and Fraud Risk Management Policy will soon be finalized. During the review period, water was released into the Caledon as a drought relief measure. Several options for augmentation of power supply as a strategic intervention to mitigate current power shortages are also receiving attention, as well as a strategic response to persistent drought and declining agricultural production.

Pursuant to the Treaty obligations, there were several social and environmental programmes undertaken. These include Water & Sanitation (WATSAN), Highlands Natural Resources and Rural Income Enhancement Project (HNRIEP), and the Integrated Catchment Management (ICM). Furthermore, in line with its strategy to transfer non-core functions without relinquishing its Treaty obligations, LHDA completed negotiations to transfer the Katse Botanical Garden into the capable hands of the National University of Lesotho (NUL) with the Ministry of Tourism, Environment and Culture (MTEC) providing high-level oversight, while LHDA retains the community participation programmes.

On the tourism front, strategies are currently being implemented to enhance the status of our dams and nature reserves as tourist hotspots and we have increased our efforts to attract local, regional and international tourists to the LHWP facilities in conjunction with the Lesotho tourist Development Tourism Development Corporation (LTDC) and the MTEC. We have also identified a need to improve our communication and public relations strategies in order to engage more effectively with the general public.

In conclusion, I wish to register LHDA's interest in the on-going processes towards the immensely anticipated implementation of Phase 2 of the Lesotho Highlands Water Project (LHWP). To this end, we remain anxiously awaiting finalization of feasibility studies and a decision on implementation mechanisms.

I thank you and wish you a critical and enjoyable reading of this important LHDA statutory document.

REMARKS BY THE ACTING CHIEF EXECUTIVE

It is with great pleasure that we present yet another account of how, in the outgoing year ended March 2008, we traversed the hills and valleys of these spectacular highlands as we implement the Project.

At this point in the life of the Project, a positive trajectory of events has been established and the task now is to continue to build on it and sustain the momentum. The key challenge will always be around the need to keep our eyes on the ball to ensure that the Treaty obligations are met. In this context, continued assurance of long term reliability of high quality water supply to South Africa and reliable supply of cost effective electricity for Lesotho's needs, as well as effective implementation of the social and environmental programmes remain top priority.

For a better sense of direction and control, LHDA's 5-year rolling strategic plan categorises the operations into Key Focus Areas (KFAs) and the annual business plan provides further details and targets in respect of these KFAs. I am therefore pleased to report that during the period under review, we came close to meeting all of the targets we set out to achieve in our



MR MASILO PHAKOE

Acting Chief Executive and
Ex-officio Member of the Board

annual business plan.

While we were well within targets in respect of the water delivery and power generation, challenges still remained on the social and environmental areas. This was mainly due to their inherent complexities and the now well acknowledged dynamic interplay of forces therein.

One of the fundamentals in our line of business is the ability to maintain the water retaining and delivery structures in good physical

and working condition. During the period under review, consultations with experts continued on how best to fix the earlier reported leakage at the Mohale Dam wall. It is worth reiterating that the advice we were given is that firstly, the leakage was well within the expected behavior of similar dams around the globe and secondly, that the integrity of the Dam had never been compromised.

I am also pleased to report that the Katse Dam received a clean bill of health after an extensive review by a visiting Panel of Engineering Experts. Management have already started implementing some of the recommendations of the Experts.

While the deadline for payments of the annual cash compensation to the affected communities by the end of June was not met, the distribution of the grain and pulses was however completed in time, thanks to early planning and well managed logistics. The delays in respect of the annual cash compensation was mainly due to the implementation of the tightened precautionary measures we introduced in line with the banking requirements to combat fraud. From



Preparations are advanced for a permanent repair of the crack at the Mohale Dam wall, as discussed under Acting CE's remarks, above.



Katse Fish Farm is set to realize its dream to be a world-class producer of economically and environmentally sustainable rainbow trout cage system in the Katse Reservoir.

REMARKS BY THE ACTING CHIEF EXECUTIVE

our perspective these measures also helped in ensuring that only the legitimate beneficiaries got due and payable compensation.

One of the priorities on the environmental issues is to ensure the sustainable management of the catchments, which are one of the main sources of the water supply. During the year, good progress was made in documenting the condition and quality of the resources (soils, vegetation, etc.) and the development of conservation and range management plans. However, the events of the year brought to the fore immense difficulties of putting in place the necessary institutional structures- catchment management committees- to manage these catchments on the ground. The key challenge that remained was to secure the input and support of the various stakeholders. We will therefore continue to engage all the relevant stakeholders in the coming year, with the aim of arriving at a collaborative and win-win solution to the issue of establishment of and effective operation of these catchment management committees in a sustainable manner.

We recognize the fact that the key to attaining our corporate goals depends largely on how decisively we win the fight against the HIV/AIDS pandemic. Therefore, effective implementation of our HIV/AIDS policy, in line with the national framework, continued to receive priority attention.

Once more, my heartfelt appreciation and acknowledgement of the immense support and cooperation from several quarters. My colleagues in the Executive Team really "put their shoulder to the wheel". The invaluable support, value adding, and direction pointing inputs from the LHWP governance structures helped keep us on track. The Board was equally supportive, albeit stringent in the course of their oversight function as they ensured high performance standards required by the Lesotho Highlands Water Commission (LHWC).

We also acknowledge inputs by various other external stakeholders both in the civil society and our cooperating development partners such as the Panel of Experts (Social

and Engineering Panels). They not only provided constructive critiques from their different vantage points, but they also strengthened us with their useful advice.

Flowing from the above account of the 2007/08 events, it is therefore with a sense of privilege and pride to be of service and help contribute to the attainment of the aspirations of both the Lesotho and South African governments through this project.

I hope that the report as presented here will answer to the information needs of the various stakeholders who are keenly watching progress on this Project.

I thank you.



Call it "last mile" connectivity. Various modes of transport are engaged to ensure compensation packages reach their final destinations - households.



Plans for expansion of the 'Muela Hydropower Station gain momentum. Consultants from Sweden receive briefing from Lesotho Highlands Water Commission (LHWC) and LHDA.

CHIEF EXECUTIVE DIVISION

The Chief Executive Division is made up of the Chief Executive and three other units, namely Corporate Secretary/Legal, Public Relations, and Internal Audit. The mandate of the office is to provide strategic leadership and effective management 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 (Corporate Secretary/Legal); and
- Safeguarding the image of LHDA through inter alia, ensuring effective management of internal and external stakeholder relationships (Public Relations Unit).

CORPORATE SECRETARY / LEGAL UNIT

The following cases were handled in the Unit:

1. LHDA VS LAHMEYER INTERNATIONAL GMBLT

The case was eventually settled out of court. The settlement was signed by the representatives of Lahmeyer

MacDonald Consortium. The LHDA had sued Lahmeyer for corrupting the LHWC GOL Delegates by paying them certain bribes in return for LHWP construction contracts. The effect of the settlement was that LHDA undertook to process certain outstanding invoices including LHDA Contract NO. 1024.

2. HOCHTIEF AKTIENGESELLSCHAFT & OTHERS VS LHDA

The case was settled out of court in full and final settlement of any money and all claims which parties could have had against each other. LHDA paid Hochtief M1,742,665 (One Million Seven Hundred and Forty-Two Thousand, Six Hundred and Sixty-Five Maloti). In the Settlement Agreement, LHDA agreed in addition to liability for the amount of M953,143.00. for the performance of certain works relating to the repair of the de-watering pump.

3. LHDA BOARD TRAINING

The LHDA Board members sharpened their skills through a training programme entitled "Practical Approach to Implementing Corporate Governance, Increasing Board Effectiveness and Adding Value, and Directors Role in Risk and Strategy", offered by the Institute of Directors in Southern Africa

(IOD). The training was divided into three parts, namely Being a Director, Increasing Board Effectiveness and Adding Value, as well as The Director's Role in Risk Management and Strategy.

4. LHDA BOARD SITE VISIT

The Board members took a familiarization tour of the Project areas. The tour began at 'Muela, where they visited the Hydropower Station, 'Muela Information Centre, 'Muela Dam and various cooperatives in the area. Thereafter they proceeded to Likileng village where they visited Bottom Camp. From Likileng they went to Katse where their visit coincided with water spillage at Katse Dam. Along the way, they had a stop-over at the Bokong View Point to admire the scenic beauty, before proceeding to Bokong Nature Reserve. They also visited Katse Fish Farm (KFF) at Ha Lejone, a pilot cage fish project in the Katse reservoir.

PUBLIC RELATIONS UNIT

CORPORATE COMMUNICATION STRATEGY

The reporting year saw the Public Relations Unit kick-starting the process of formulating a corporate communication strategy for LHDA. The Authority had been operating without



The Durban Indaba is a hub of activity; Exhibitions range from tourism related goods and services to smiling faces in traditional attire.



LHDA staff occasionally enjoy a moment of respite to reflect on achievements and challenges.

CHIEF EXECUTIVE DIVISION

a formal communication strategy, and this shortcoming had, over the years, resulted in lack of direction in handling key communication issues, namely promotion of LHWP image and enhancement of stakeholder relations. The first draft was completed and subjected to a review by management.

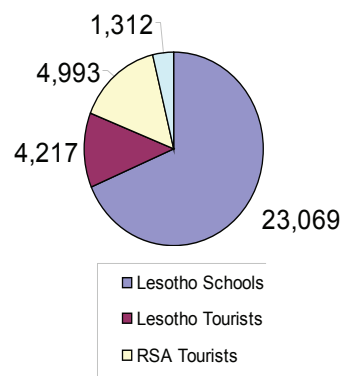
TOURISM DEVELOPMENT

As part of its environmental action plan, LHDA is charged with the responsibility to develop tourism potential within and around the Project areas. During the previous year, LHDA undertook a conscious and deliberate strategy to target tourists from South Africa. This after the statistical records from LHDA Visitors Centres showed over time that most of the visitors at the Project areas came from South Africa. LHDA therefore decided to market the Project more aggressively in South Africa, with the understanding that focus must be on markets where LHDA was likely to earn returns in the short to medium terms.

The strategy included regular advertising in RSA tourism publications, as well as active participation in the annual Indaba, South Africa's premier travel exhibition. As evident in the pie-chart below, the strategy has yielded a steady increase of 1.4% in the number

of RSA tourists, from 4,725 in 2006/07 to 4,993 in 2007/08. By the same token, this year RSA tourists accounted for 14.9%, compared to only 13.5% last year. A significant increase in the number of RSA tourists visiting the Project is expected next year when the strategy is intensified. (See a detailed visitors account in the three LHWP sites on page 15, table 8)

Statistics of visitors to the LHWP sites according to various categories.



The major challenge remains for LHDA to develop a tourism product within LHWP that widens tourists' scope of experience to include, inter alia, economic activities, amenities, recreational facilities, etc.

INTERNAL AUDIT

Internal Audit has adopted formal terms of reference as outlined in the approved 2006 Internal Audit Charter. The function has regulated all its affairs and discharged its responsibilities in compliance with provision contained within the Charter.

During the reporting year the Internal Audit function, mandated by the Audit and Risk Management Committee, continued to provide an objective and independent assurance on internal controls, compliance with legal and regulatory provisions, risk management and governance. The function further continued to collaborate with other providers of assurance to identify and address issues of common concern, as well as to avert duplication of efforts.

In conclusion, two assurances and seven special assignments were undertaken.

Noteworthy is that the function had capacity constraints and the Board is taking measures to address the problem. Moreover, appropriate technology was procured to augment the current resources. Steps were also taken to be proactive in managing fraud related risks through policy development.



Acting Chief Executive - Mr Masilo Phakoe, Katse Information Officer - Mrs 'Mabasia Ntoi, Katse Field Operations Branch Manager - Mr. Mathealira Lerotholi and Senior Public Relations Officer - Mr Motlatsi Nkhasi discuss logistics during their Majesties' visit to Katse.



History in the making: LHWP delegation at the Durban Indaba 2007 pose for a photo with visitors to the stall.



STRATEGIC AND CORPORATE SERVICES DIVISION



Mr Njekwa Mumbuna
Divisional Manager

Preamble

The Division's mandate is to facilitate attainment of the LHDA's mission to deliver high quality water and generate electricity for Lesotho in an environmentally and socially friendly manner. In this regard, the Division supervises the implementation of some programmes intended to mitigate the impacts of the Lesotho Highlands Water Project (LHWP) on communities and the biophysical environment. The Division also provides strategic support services to the operations division and Chief Executive's office.

The year to 31st March 2008 was characterized with attempts to further strengthen the implementation capacity of the Division and of LHDA as a whole. Several initiatives were

implemented with emphasis placed on developing tools for effective monitoring of performance to enable effective decision making by Management, the Board and the Lesotho Highlands Water Commission (LHWC).

Emphasis was also placed on ensuring that programmed activities are properly and effectively carried out with due regard to the intended outcomes. To this end, the Division received valuable support and guidance from Project authorities to the extent that most programmes were successfully implemented.

Water Deliveries

The delivery schedule that determines how much water is to be delivered in the next calendar year (2008) was negotiated with Project authorities and advised to the operation division on 13th December 2007. The target was to deliver 780 million cubic metres (MCM) of water. This level of deliveries does not compromise the LHWP's ability to meet the long term demand for water by South Africa from existing installed capacity at the 98% confidence level.

The amount of banked water that was available for Lesotho as at the 31st of March 2008 was 15 MCM. This after meeting requests for

augmentation of the flows in the Caledon river for local consumption of 2.71 MCM.

Electricity Generation

Similarly the generation plan for the year (2008) was developed and advised to the 'Muela Hydropower Station operators in January 2008. This slight delay was due to the need for clarity on plant availability as a result of planned outages.

Water Quality

The assessment of water quality is based on monitoring activities which cover testing of water samples drawn from a variety of points upstream and downstream of dam structures and the reservoir waters. The Katse reservoir is the key water body in as far as meeting our commitment to deliver high quality water delivery to South Africa is concerned.

Water quality remained high throughout the period, as indicated by the results of sampling activities in February 2008. Of concern however was an elevated level of faecal contamination in the Liphofung River, one of the smaller rivers flowing into the Katse



Casual labourers cash in on compensation distribution spin-offs at the main store in Maputsoe, Leribe.

STRATEGIC AND CORPORATE SERVICES DIVISION

reservoir. The impact on reservoir waters is negligible but there is a “noticeable risk of illness” to the community using this river.

The Katse reservoir profile of in-situ parameters indicates significant variation in temperature and dissolved oxygen levels. On page 10 is the profile of the reservoir in February 2008.

Mohale Dam was last sampled in July 2007. The temperature profile is also indicated on page 10.

Compensation

AREA	HH	Cheques	Value (M)	Grain (70kg)	Pulses (1kg)	Value (M)
Muela	252	277	553,928.70	1,189	2,574	230,599.00
Katse	488	587	1,210,875.96	2,764	5,983	536,050.00
Lejone	608	752	1,736,753.67	4,664	10,099	904,588.00
Mohale	576	897	2,303,754.27	465	1,007	90,213.00
TOTAL	1924	2513	5,805,312.60	9,082	19,663	1,761,450.00

The LHWP Treaty requires LHDA to compensate communities affected by the LHWP for direct losses. This is done by means of annual cash or grain payments to households qualifying thereof. These payments are made in June and August each year for cash and grain respectively. The cash payments for 2007/08

continued beyond the June target date, because of late receipt of the April 2008 Lesotho Consumer Price Index (CPI), which is used to escalate the annual payments. In addition, changes in payment procedures intended to reduce the risk of fraud and erroneous payments were not properly implemented leading to delays in execution of payments. The organization also faced transport and other resource constraints. Nonetheless, a total compensation worth M7.5 million was paid out as cash or grain. The table below summarises the break down of

these payments. During the year, LHDA also took measures to address the issues that led to the qualification of the financial statements for the financial year 2006/07. An independent team of external consultants was engaged to verify the existence, completeness and accuracy of compensation records.

This team commenced work in February and is due to complete the same in June 2008.

Sustainable Development

In addition to compensation, LHDA is required by the LHWP Treaty to enable communities maintain a standard of living not inferior to that obtaining prior to first disturbance. The SCS Division has direct oversight for certain key programmes aimed at up lifting the standard of living by providing opportunities for income generation through community based projects.

One of the key initiatives is the creation of economic activity zones in and around the reservoirs. There is an existing Zonation plan which is currently under review. It is expected that this revision will be completed and the zones created in 2008/09.

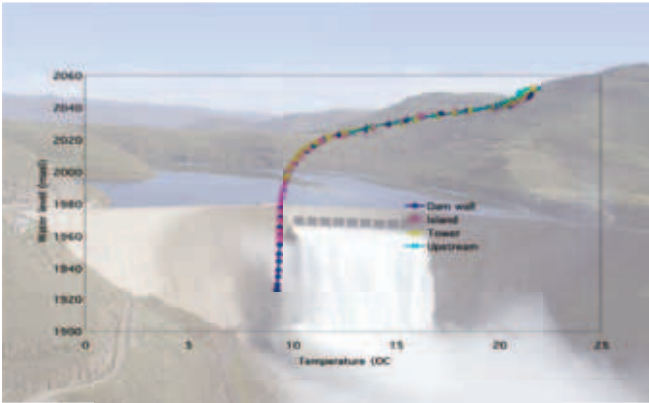
The year saw the attainment of key milestones under the LHDA financed Agricultural projects. These projects were intended to enable affected communities to start viable agricultural activities. Activities included formation of grazing associations, purchase of breeding stock and animal



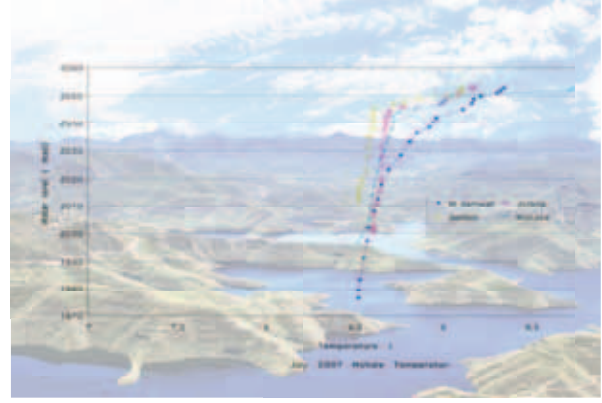
Sugar beans, renowned for their high nutritional value, form part of the compensation package.



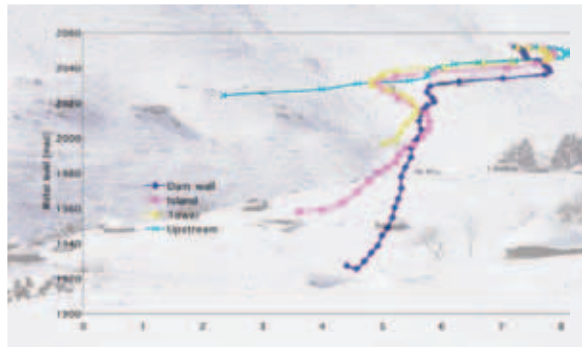
As highlighted under Chief Executive's remarks, Compensation Officer - Mr Lebohlang Makoee, verifies identity of a compensation recipient at Pitseng.



Top Figure 1.
Katse reservoir temperature profiles
as observed in February 2008



Top Figure 1.
Katse reservoir temperature profiles
as observed in February 2008



Left Figure 3.
Mohale reservoir temperature profiles
as observed in February 2007

dipping facilities. All projects were successfully concluded and handed over to the communities by 31st March 2008, as planned.

Biophysical environment

The overarching responsibility of LHDA is to ensure that the biophysical environment is maintained and where possible improved. This objective places great responsibility on LHDA to put in place impact mitigation programmes.

The LHDA's flag-ship in this area is the Integrated Catchment Management (ICM) programme. The objective is to capacitate affected communities and put in place institutional arrangements to ensure sustainable resource use. By the end of the reporting period a number of tasks had been completed, including development of the resource inventory and the Integrated Catchment Management Plan for the 'Muela pilot area.

The consultant for the biophysical and epidemiology study presented the draft final report for comment by LHDA in February 2008. Whereas LHDA as the client has requested some amendments to the report, the findings of the consultant indicate that LHDA has so far fulfilled its mandate to mitigate impacts of the LHWP on affected communities and the natural environment based on compensation payments.

In-stream Flow Requirements

LHDA commissioned an independent audit of its implementation of In-stream Flow Requirements (IFR) over the five years ended September 2007. The LHDA's level of compliance was evaluated at 60%, indicating satisfactory implementation of this world class river management strategy.

The deficit in so far as release of water downstream of the dam structures is concerned, stands at 96 MCM at Mohale as indicated by the table right. There is no deficit at Katse or at Muela.



Basotho maidens in Swazi traditional gear welcome His Majesty King Mswati III at Katse with a clear message; Lesotho is home outside his home.

STRATEGIC AND CORPORATE SERVICES DIVISION

Table: Deficit Recouping at Mophale

The LHDA HIV/AIDS policy was approved during the year and its

Date	Target IFRs	Actual IFRs	Variance	Total
W/B Agreed	52.68		52.68	52.68
Oct 05- Sept 06	89.1	97.86	-8.76	43.92
Oct 06 –Sept 07	100.59	89.35	11.24	55.16
Oct 07 – Mar 08	77.75	36.82	40.93	96.09
TOTALS	320.12	224.03	96.09	

Human Resources

The transformation process which called for recruitment of staff in the new structure was officially declared closed in December 2007. The total staff complement as at March 2008, stood at 226 (compared to 235 in March 2007) with a total of 13 positions vacant as a result of resignations. An evaluation of the effectiveness of the new structure is being prepared for consideration by Project authorities.

The staff turnover rate of 4% continues to be of concern. An independent salary survey has been commissioned to assess the effectiveness of LHDA's remuneration package as a retention tool. The results are under consideration by the Board of Directors.

implementation has begun. So far HIV/AIDS management structures that include a management committee and peer educators have been established and staff is being sensitised. The next steps include anonymous testing to establish a base-line, and provision of training of general staff and LHWP communities.

The LHDA sees performance management as a strategic issue and has implemented an automated performance management system to assist in management of the process. Greater effort from the LHDA management is required to ensure that performance management is effective. Part of this effort has so far included taking the LHDA management through a management development programme to enhance their management skills.

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.

LHDA hosted the annual inter-power games during the year under review. The participants 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 share ideas for improvement of hydropower services within the affected countries. Similar games are to be held in Botswana in the next financial year.

Financial Management

The LHDA met all international finance agreement commitments that fell due during the year. The approval of the cost allocation report still lags behind pending agreement between the two governments on the allocation criteria.

The LHDA has begun addressing the long outstanding issue of the age of the transport fleet. 10 new vehicles were bought during the year to replace the worst of the existing fleet, while all scrapped vehicles have been earmarked for disposal.

During the year, work commenced on replacement of the outdated SAP version that the LHDA was using as its financial system. The system had not been kept up to date and the cost of "catching" up was prohibitive.



Katse Fish Farm, now ready for the post-pilot expansion, already boasts in excess of 100 tons worth of high quality trout harvest annually.



DEVELOPMENT AND OPERATIONS DIVISION (DOD)



Mr Peter Makuta
Divisional Manager

The DOD evolved in 2004 from the restructuring and merging of two former groups of LHDA, the Operation, Maintenance & Engineering, and the Environment and Social Services groups. Under the leadership of one Divisional manager and four Branch managers ('Muela, Katse, Mohale and Special Projects), DOD is mandated to work on all Project sites, to

operate and maintain the LWHP assets, while developing and implementing the social and environmental action plans.

Water Deliveries and Royalty Revenue

Table 1: Water Deliveries

Year	Planned Deliveries (million m ³)	Actual Deliveries (million m ³)	% Variance in Deliveries	Royalty Payments (M X million)
				Actual
2005/2006	772	788	2.1%	251.1
2006/2007	770	761	-1.2%	266.0
2007/2008	780	821	5.2%	301.5

Actual water deliveries to RSA in 2007/2008 were 821 Mm³ (million cubic meters), 5.2% above the planned/agreed deliveries of 780 Mm³ for the year. The corresponding royalty revenue of M301.5 million was 6.0% above the annual forecast of M284.3 million for the year.

Actual water deliveries are over the agreed target variance of $\pm 2.5\%$ due to 40 Mm³ over-delivery that resulted from increased generation between October 2007 and March 2008 to assist Eskom in mitigating electricity shortfalls by Eskom's generation.

A total of M2, 33 billion in royalty revenue has been paid by RSA since commissioning of first water deliveries in January 1998, to March 2008.

Electricity Generation and Sales Revenue

Table 2: Electricity Generation

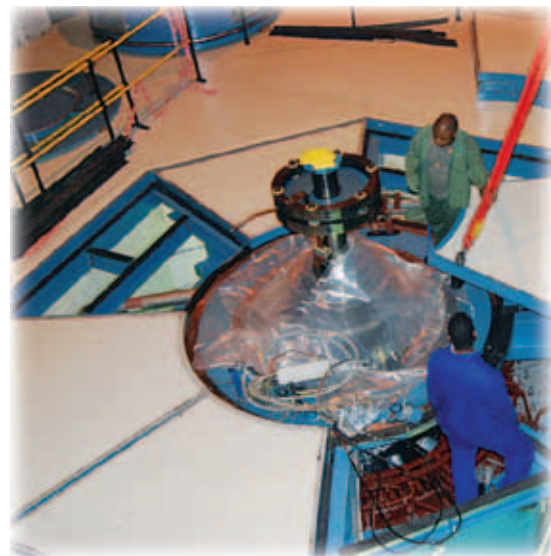
Year	Planned Generation (GWhr)	Actual Generation (GWhr)	% Variance in Generation	Revenue Sales (M X million)	% Export of total annual production	Export Revenue (M X mil)
				Actual		
2005/2006	467	455	-2.6%	62.6	4.8%	1.03
2006/2007	488	483	-1.1%	63.6	0.4%	0.23
2007/2008	466	520	11.6%	65.5	0.8%	0.55

Actual electricity generation of 520 GWhr was 11.6% above the planned generation of 466 GWhr for the year. 99.2% of the annual generation was sold to Lesotho Electricity Corporation (LEC), while the remaining 0.8% was exported to Eskom, RSA. M0.55 of the M65.5 million of sales revenue was generated from exports.

Total cumulative electricity sales revenue since the commissioning of 'Muela hydropower plant in August 1998, to March 2008 is M500 million, of which M5.99 million was generated from exports.



Legendary for its sparkle, the LHWP water is still as clean as gold at the Ash River out-fall, as it joins the natural river system towards the Vaal Dam.



The three turbines at the 'Muela Hydropower Station will each be dismantled as the station undergoes a 10-year major maintenance inspection next year.



DEVELOPMENT AND OPERATIONS DIVISION (DOD)

Mohale Reservoir Management (Reservoir Levels)

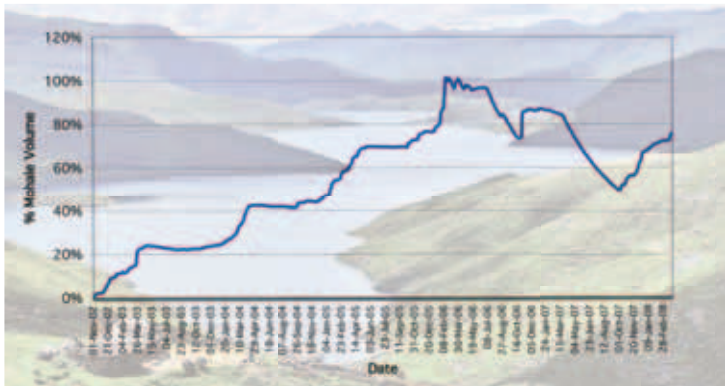


Chart 1: Mohale reservoir lake level variations since impoundment in 2002

FY 2006/07

At the end of March 2007, Mohale reservoir was at 82% of its total reservoir capacity, an overall drop of 18% from the 2nd April 2006 capacity of 100%. The lowest capacity for the year was 74% during 19th – 21st October 2006. This was characterized by a 23% drop in 50 days due to low rainfall during June – October 2006 period. This was followed by a rapid rise of 12% in 10 days from 1st – 11th November 2006 that was due to higher rainfall at Katse during October 2006 to February 2007 period, and the closure of Mohale tunnel on 26th October 2006. Mohale tunnel had remained opened from 23rd March 2006.

FY 2007/08

At the end of March 2008, Mohale reservoir was at 76% of its total reservoir capacity, an overall drop of 65% from the April 2006 capacity of 82%. The lowest capacity for the year was 44% from 1st – 2nd October 2007. The drop from 76% at the start of the FY to 44% at the beginning of October 2007 was due to the drought spell that occurred during the May to late September 2007 period. The rise from 44% to 76% at the end of March 2008 was due to increased rains from late September 2007 to February 2008.

Katse Reservoir Management (Reservoir Levels)

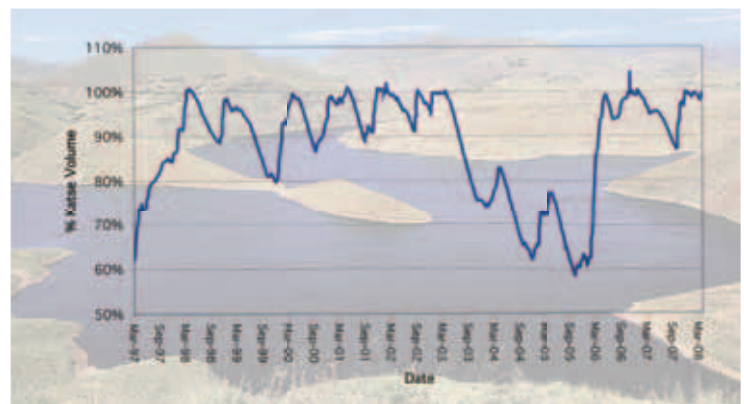


Chart 2: Katse reservoir lake variations from 1st April 1997 to 31st March 2008



In line with Treaty obligations on the standard of living of the affected communities, the Mohale area boasts a network of high quality feeder roads and bridges that facilitate easy transport around the dam.

The Mohale Dam is home to unique man-made islands whose pristine beauty embraces ecological tourism (ecotourism).

DEVELOPMENT AND OPERATIONS DIVISION (DOD)

FY 2006/07

At the end of March 2007 Katse reservoir was at 95% of its total reservoir capacity, an overall rise of 2% from the April 2006 capacity of 93%. The highest capacity for the year was 105% on 11th November 2006 that resulted from the November 2006 flood.

Mohale Tunnel remained opened from 23rd March to 26th October 2006.

FY 2007/08

At the end of March 2008, Mohale reservoir was at 100% of its total reservoir capacity, an overall rise of 5% from the April 2007 capacity of 95%. The lowest capacity for the year was 87% on 2nd October 2007. There was a significant rise of 13% over two months (2nd October – 2nd December 2007).

General Monitoring of LHWP Dam Structures

The 10-Year Katse Dam Review was successfully conducted from 27th August to 1st September 2007 by the Engineering Panel of Experts (POE).

The POE judgment was that the visual observations and field measurements indicated that Katse Dam is performing very well in terms of small leakage, lower uplift pressures and smaller measured displacements than predicated in the design.

The POE has further made recommendations on addressing the non-functioning 5% of the 965 specialised and other monitoring instruments on the dam.

10% of the 180 monitoring instruments installed at Mohale Dam remained non-functional during the 2007/08 financial year.

Monitoring of Seismic Activity around LHWP Reservoirs

Deliverables in this activity remained under-achieved because of the faulty seismic network at both Katse and Mohale, mainly due to lightning strikes on the equipment. Efforts are underway to repair the faulty equipment and install lightning protection.

2007/08 Compensation

Under compensation, LHDA paid M2, 428, 942.75 in 2007/08 to 112 households affected by the Project as lump sum payments. M 6, 839, 862.99 was paid to 2, 182 households as annual cash payment. 9, 083 x 70kg bags of maize and 19, 647 x 1kg packets of beans were paid to 1, 016 household as in-kind compensation, with a total value of M1, 715, 326.57 inclusive of transport costs.

Table 3: Lump Sum Payments: Arable land Only

LHWP Area	Type of Payment	# of HHs	Type of Loss	Total Paid (M)	
1	Katse	Lump Sum	1	Arable land	60,668.00
2	Lejone	Lump Sum	2	Arable land	145,898.08
3	Muela	Lump Sum	14	Arable land	489,572.06
4	Mohale	Lump Sum	27	Arable land	1,381,555.32
Totals			44		2,077,693.46

Table 4: Lump Sum Payments: Other Types of Losses

LHWP Area	Type of Payment	# of HHs	Type of Loss	Total Paid (M)	
1	Mohale	Once Off	13	Arable land	40,845.54
2	Mohale	Lump Sum	14	Garden land	215,484.10
3	Mohale	Lump Sum	18	Garden land prep.	8,241.10
4	Mohale	Lump Sum	4	Fruit trees	23,849.55
5	Mohale	Lump Sum	9	House repairs	35,038.68
6	Mohale	Lump Sum	3	Rondavel repairs	10,628.13
7	Mohale	Lump Sum	3	Outbuildings	14,989.72
8	Mohale	Lump Sum	4	Kraals	2,172.47
Totals			68		351,249.29

Table 5: Annual Cash Payments: Arable land Only

LHWP Area	Type of Payment	# of HHs	Type of Loss	Total Paid (M)	
1	Katse	ACP	476	Arable land	
2	Lejone	ACP	604	Arable land	
3	Muela	ACP	250	Arable land	600,855.86
4	Mohale	ACP	566	Arable land	
Totals			1,896		

Deformation of Mohale dam Concrete Face Slab

LHDA through the assistance of LHWC was engaged in negotiations with a consultant for the supervision of the repair of the face slab and augmentation of seepage water flow measuring Weir 2. A contractor from RSA was sourced to implement the repair of the face slab and augmentation of Weir 2.

DEVELOPMENT AND OPERATIONS DIVISION (DOD)

ENGINEERING PROJECTS AND CONTRACTS

The Katse, Lejone and Matsoku Water Supply and Sanitation Project (KLM WATSAN)

KLM WATSAN was originally programmed to be implemented over a 3-year period. However, due to short funding and rapidly increasing inflation rates, the project was suspended on 30th April 2008. Physical construction on the project ceased on the 15th February 2008 when building materials ran out on site, due to lack of funds.

Table 7.: KLM WATSAN statistics and cumulative progress and expenditure

Project Component	Total KLM Targets	Project Targets 2007/8	Actual Progress 2007/8	Actual Expenditure 2007/8	Unit Cost of Facility
1. VIP Latrine	6,369	1,800	1,586	18,347,230.55	M11,568.24
2. Refuse Pits	6,369	1,800	0	0.00	M0.00
3. Soak-away Pits	6,369	1,800	1,825	1,033,783.81	M566.46
4. Water Supply Systems	115	45	13	5,173,384.40	M397,952.65

HIGHLANDS NATURAL RESOURCES AND RURAL INCOME ENHANCEMENT PROJECT (HNRRIEP)

The purpose of HNRRIEP project is to promote eco-tourism through the establishment of appropriate facilities and infrastructure in the highlands of Lesotho, within and around LHWP areas, as well as to empower highlands communities. In February 2005 the Special Projects Team was assigned to start implementation of the construction components of HNRRIEP.

HNRRIEP is co-financed by African Development Bank (AfDB) and the Government of Lesotho. Progress on the project has greatly been hampered by delayed disbursements from AfDB that have resulted in construction component being suspended twice. The AfDB loan will expire in December 2008 without all the project components having been implemented due to late and insufficient disbursements.

During 2007/08, construction of 14 chalets was ongoing. However the project was suspended in September 2007

due to lack of funds and will only be resuscitated in 2008/09.

Close-out of Major LHWP Contracts

During the reporting period, the following contracts were closed out:

Contract LHDA No. 51: Supervision of Muela Hydropower Station by LMC

Contract LHDA No. 1024: Mohale Tunnel Consultancy Services by LHTP

Visits to LHWP Installations by Local and International Tourists

Table 8: Statistics of visitors to LHWP sites during 2007/08

Area	Category of Visitors				Totals # of Visitors	Total Revenue (Maloti)
	Lesotho Schools	Lesotho Tourists	RSA Tourists	International Tourists		
Muela	12,066	978	168	8	13,220	72,845
Katse	6,700	930	4,219	477	12,326	93,136
Mohale	4,303	2,309	606	827	8,045	56,846
Totals	23,069	4,217	4,993	1,312	33,591	222,827

During 2007/08, Muela was the preferred destination by Lesotho schools. Mohale was the preferred destination by Lesotho and international tourists, while Katse was the preferred destination by RSA tourists. A total of M222, 827.00 worth of revenue was generated from visits to the LHWP installations during 2007/2008.

CONCLUSION

The DOD has in general been able to meet the 2007/08 deliverables, notwithstanding challenges that include sustaining the enabling environment for the Division, managing staff movement due to staff resignations and/or new appointments, and implementation of Performance Management Development System (PMDS), as fully discussed under Human Resources on Page 11.

REPORT ON THE FINANACIAL STATEMENTS

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

ANNUAL FINANCIAL STATEMENTS

AT 31 MARCH 2008

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APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The Annual Financial Statements set out on pages 20 to 41 were approved by the Board of Directors and signed on behalf of the Board by:

T. NKHAHLE
CHAIRMAN



DATE 21.01.09

M. PHAKOE
ACTING CHIEF EXECUTIVE



DATE 21.01.09

GENERAL INFORMATION

GENERAL INFORMATION

DIRECTORS	Mr T Nkhahle (Chairman) Mr J Eagar(Deputy Chairman) Mr M Phakoe (Acting Chief Executive) Prof LI Qalinge Mrs M Matsoso Chief M Ramokoatsi Mr T Khathibe Mr P Swart Mr L Tromp Mr A Giani
NATURE OF BUSINESS	Implementation, operation and maintenance of 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	Authority



REPORT ON THE ANNUAL FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF THE LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

Report on the Financial Statements

We have audited the annual financial statements of The Lesotho Highlands Development Authority, which comprise the balance sheet as at 31 March 2008, 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 20 - 41

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

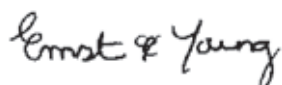
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether 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.

Audit Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Lesotho Highlands Development Authority as of 31 March 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



ERNST & YOUNG
CHARTERED ACCOUNTANTS (LESOTHO)

MASERU
31 January 2009

STATEMENT OF ACTIVITIES

STATEMENT OF ACTIVITIES

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

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

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

A 182m high double curvature concrete arch dam on the Malibamatšo River at Katse;

A 45km transfer tunnel north from the Katse reservoir to the Hydropower complex at 'Muela;

A 72 MW underground Hydropower complex at 'Muela;

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;

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;

Associated conservation, environmental and rural development activities.

The principal physical features of Phase 1B, which is now complete, are:

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

A 30km transfer tunnel from the Mohale intake to the Katse Reservoir;

The Matsoku Weir and a 6km diversion tunnel from the weir to the Katse Reservoir;

Associated infrastructure, including construction of new roads, upgrading and rehabilitation of existing roads, camps, communications and power supplies;

Associated conservation, environmental and rural development activities.



INCOME STATEMENT

INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2008

	NOTE	2008 M'000	2007 M'000
REVENUE		62 975	60 787
Other Income		17 725	3 092
Total Income		<u>80 700</u>	<u>63 879</u>
Foreign Gains/(Losses)		(100 058)	(82 701)
Construction and Contractor Costs		(18 153)	(22 030)
Depreciation		(303 067)	(300 997)
Resettlement and Compensation Costs		(7 462)	(19 450)
Salaries and Wages		(61 364)	(60 506)
Other Administrative and Operating Expenditure		(86 612)	(80 393)
Operating Loss	2	<u>(496 016)</u>	<u>(502 198)</u>
Finance Income		7 972	6 658
Finance Cost		(210 973)	(220 000)
Loss for the year		<u>(699 017)</u>	<u>(715 540)</u>

Allocation of loss as per cost allocation report

Capital work in progress – 1A Water Transfer	12 603	26 478
Capital work in progress – 1A Hydropower	877	(793)
Capital work in progress – 1A Ancillary Development	28 345	41 845
Capital work in progress – 1B Water Transfer	214 920	181 054
Capital work in progress – 1B Ancillary Development	2 714	2 183
Hydropower accumulated loss	(7 804)	8 604
Government of South Africa Capital Fund	428 399	452 594
Government of Lesotho Capital Fund	18 963	3 575
	<u>699 017</u>	<u>715 540</u>

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 2006.

BALANCE SHEET

BALANCE SHEET AS AT 31 MARCH 2008

	NOTE	2008 M'000	2007 M'000
ASSETS			
Non-Current assets		11 821 206	12 111 462
Completed Works and Capital Work in Progress	3	11 807 206	12 111 462
Investment Property	4	14 000	-
Current Assets		156 084	138 454
Project Taxes Refundable by the Government of Lesotho		-	181
Contract Advance Payments	5	818	-
Other Receivables and Prepayments	6	42 425	29 351
Cash and Cash Equivalents	7	112 841	108 922
Total Assets		11 977 290	12 249 916
FUNDS AND LIABILITIES			
Funds and Reserves		9 663 016	9 903 930
Capital Funds	8	9 943 056	10 191 774
Accumulated Loss – Hydropower	9	(280 040)	(287 844)
Non-Current Liabilities		1 832 695	1 853 589
Loans and Borrowings	10	620 104	681 499
Provisions	11	257 614	228 468
Funds from Capital Market Funds	12	954 977	943 622
Current Liabilities		481 579	492 397
Contract Payables and Accruals	13	6 899	11 735
Contract Retentions	13	34	55
Provisions	11	33 704	25 791
Other Payables and Accruals	14	113 705	113 171
Current Portion of Loans and Borrowings	10	327 237	341 645
Total Funds and Liabilities		11 977 290	12 249 916

CASHFLOW STATEMENT

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2008

	NOTE	<u>2008</u> <u>M'000</u>	<u>2007</u> <u>M'000</u>
CASH FLOW FROM OPERATING ACTIVITIES			
Net Cash Inflow / (Outflow) from Operating Activities		98 062	34 137
Hydropower – net profit/(loss) for the year		7 804	(8 604)
Water transfer – deficit for the year		(428 399)	(452 594)
		(420 595)	(461 198)
Add: Depreciation		303 067	300 997
Finance Charges		210 973	220 000
		93 445	59 799
(Increase)/Decrease in Advance Payments		(818)	533
(Increase)/Decrease in Other Receivables and Prepayments		(13 074)	(10 630)
Project Taxes Refunded by Government of Lesotho		181	533
Increase/(Decrease) in Contract Payables and Accruals		(4 836)	867
Increase/(Decrease) in Retentions		(21)	(1 926)
Increase/(Decrease) in Other Payables and Accruals		37 593	(72 985)
Increase/(Decrease) in Current Portion of Loans and Borrowings		(14 408)	57 946
CASH FLOWS FROM INVESTING ACTIVITIES			
Net Cash Inflow / (Outflow) from Investing Activities		(272 269)	(248 856)
Additions to Assets		(31 773)	(1 527)
Disposal of Assets		18 963	3 588
Expenditure on Capital Works and Work in Progress		-	(150)
Expenditure Transferred to Funds		(259 459)	(250 767)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net Cash Inflow/(Outflow) from Financing Activities		178 126	228 970
Government of Lesotho		(7 423)	27 970
Government of Republic of South Africa		446 563	474 028
Increase/(Decrease) in Loans and Borrowings		(61 395)	(62 744)
Finance Charges		(210 973)	(220 000)
Increase/(Decrease) Funds from Capital Market		11 354	9 716
		3 919	14 251
Net (Decrease)/Increase in Cash and Cash Equivalents		3 919	14 251
Cash and Cash Equivalents at the beginning of the period		108 922	94 671
Cash and Cash Equivalents at the end of the period	7	112 841	108 922

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2008

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 as follows:

The Authority has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Authority. They did however give rise to additional disclosures, including in some cases, revisions to accounting policies.

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Amendment - Presentation of Financial Statements
- IFRIC 8 Scope of IFRS 2

• IFRIC 9 Reassessment of Embedded Derivatives
• IFRIC 10 Interim Financial Reporting and Impairment
The company has also early adopted the following IFRS and IFRIC interpretations. Adoption of these standards and interpretations did not have any effect on the financial performance or position of the Company. They did however give rise to additional disclosures, including revisions to accounting policies.

- IFRS 8 Operating Segments
- IFRIC 11/IFRS 2 - Group and Treasury Share Transactions

The principal effects of these changes are as follows:

IFRS 7 Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Authority's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

IAS 1 Presentation of Financial Statements

This amendment requires the Authority to make new disclosures to enable users of the financial statements to evaluate the Authority's objectives, policies and processes for managing capital. These new disclosures are shown in Note 17.

IFRIC 8 Scope of IFRS 2

This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value, the interpretation had no impact on the financial position or performance of the Authority.

IFRIC 9 Reassessment of Embedded Derivatives

IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Authority has no embedded derivative requiring separation from the host contract, the interpretation had no impact on the financial position or performance of the Authority.

IFRIC 10 Interim Financial Reporting and Impairment

The Authority adopted IFRIC Interpretation 10, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Authority had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Authority.

IFRS 8 Operating Segments

This standard requires disclosure of information about the Authority's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Authority. The changes had no impact on the financial position or performance of the company.

IFRIC 11 IFRS 2 - Group and Treasury Share Transactions

The Authority has elected to adopt IFRIC Interpretation 11, insofar as it applies to consolidated financial statements. This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. The changes had no impact on the financial position or performance of the Authority.

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 judge-

NOTES TO THE FINANCIAL STATEMENTS

ment 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 downstream 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.

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:

- all costs of investigations, surveys, feasibility studies, engineering studies, preparation of designs, construction, construction supervision, procurement and commissioning;
- the establishment and net administration costs of the Authority, other than those assigned to operations;
- the costs of any land or interest in land, and any improvements to such land;
- 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;
- 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:

- generation of hydro-electric power in the Kingdom of Lesotho ("Hydropower")
- delivery of water to South Africa ("Water Transfer")
- 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, unless capitalisation had already ceased in which case such reallocations are transferred to the respective capital funds.

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.

NOTES TO THE FINANCIAL STATEMENTS

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 Authority 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 its 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 Authority 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 Authority 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 Authority 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 Authority'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 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.

NOTES TO THE FINANCIAL STATEMENTS

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.

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.

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 Authority 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 withholds 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.

NOTES TO THE FINANCIAL STATEMENTS

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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 Authority 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 advanced 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.

Investment Property

The land and buildings that are held for earning rentals and capital appreciation are classified as investment property. Investment property is carried at cost less accumulated depreciation on the straight line method and impairment losses.

Pension and Other Post-employment Benefits

The Authority contributes towards a defined contribution plan. A defined contribution plan is a pension plan under which the Authority 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.

The Authority 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.

Comparatives

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

Future Changes in Accounting Policies

Standards issued but not yet effective

IAS 23 Borrowing Costs

A revised IAS 23 Borrowing costs was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Company

NOTES TO THE FINANCIAL STATEMENTS

IAS 23 Borrowing Costs (continued)

will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

IFRIC 12 Service Concession Arrangements

IFRIC Interpretation 12 was issued in November 2006 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the company is an operator and hence this Interpretation will have no impact on the Company.

IFRIC 13 Customer Loyalty Programmes

IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled.

The Company expects that this interpretation will have no impact on the financial statements as no such schemes currently exist.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC Interpretation 14 was issued in July 2007 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. The company expects that this Interpretation will have no impact on the financial position or performance as the company does not have any defined benefit plans.

2008
M'000

2007
M'000

2. OPERATING LOSS

Operating Loss is stated after :

Expenses

Auditor's Remuneration	804	695
Construction and Contractor Costs	18 153	22 030
Depreciation	303 067	300 997
Finance Charges	210 973	220 000
Foreign Exchange Loss	100 058	82 701
Resettlement and Compensation Costs	7 462	19 450
Staff Costs – Short Term Benefits	61 364	60 506

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	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
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)
Carrying Value at 31 March 2007	753 845	299 361	11 055 641	2 465	12 111 312
Transfer from Work in Progress	-	-	-	-	-
Additions	-	-	-	17 368	17 368
Depreciation	(17 910)	(17 774)	(264 800)	(2 178)	(302 662)
Disposal/donation of assets	-	-	(23 557)	(1 564)	(25 121)
Accumulated depreciation on disposed assets	-	-	4 595	1 564	6 159
Carrying Value at 31 March 2008	735 935	281 587	10 771 879	17 655	11 807 056
Cost	893 077	443 132	13 180 769	25 940	14 542 918
Accumulated Depreciation	(157 142)	(161 545)	(1 959 253)	(8 285)	(2 286 225)
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

3. PROPERTY, PLANT AND EQUIPMENT (continued)

CAPITAL WORK IN PROGRESS

	Hydropower M'000		Ancillary Development M'000		Water Transfer M'000		Operations & Maintenance M'000	Total M'000
	Phase 1A	Phase 1B	Phase 1A	Phase 1B	Phase 1A	Phase 1B		
	Cost	1 337 952	-	531 847	221 314	8 320 686	5 026 200	14 069
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)
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)
Carrying Value at 31 March 2007	-	-	-	-	-	-	150	150
Prior Year Reallocations	(2 693)	-	6 356	(6 469)	15 137	(15 200)	2 869	-
Cost Allocation	877	-	28 345	2 714	12 603	920	-	259 459
Transferred to Completed Works	-	-	-	-	-	-	-	-
Transferred to Capital Funds	1 816	-	(34 701)	3 755	(27 740)	(199 720)	(2 869)	(259 459)
Cost	1 335 343	-	608 393	219 742	8 374 904	5 406 278	17 066	15 961 726
Total transferred to Completed Works/Capital funds	(1 335 343)	-	(608 393)	(219 742)	(7 975 688)	(5 355 906)	(16 916)	(15 511 988)
Taxes Refundable by the Government of Lesotho	-	-	-	-	(399 216)	(50 372)	-	(449 588)
Carrying Value at 31 March 2008	-	-	-	-	-	-	150	150

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 2006 have been included.

NOTES TO THE FINANCIAL STATEMENTS

4. INVESTMENT PROPERTY	<u>M'000</u>	<u>Total M'000</u>
Net Book Value 31 March 2007	-	-
Current year Movements:		
Cost	-	-
- Additions	-	-
- Disposals	-	-
Accumulated Depreciation	-	-
- Depreciation	(405)	(405)
Reclassifications	14 405	14 405
	<hr/>	<hr/>
Assets at Cost	14 405	14 405
Accumulated Depreciation	(405)	(405)
Net Book Value 31 March 2008	<u>14 000</u>	<u>14 000</u>

Investment Property consists out of Standard (Lesotho) Bank Building and is depreciated over 30 years.

	<u>2008 M'000</u>	<u>2007 M'000</u>
5. CONTRACT ADVANCE PAYMENTS		
Contract Advance Payments	818	1 500
Provision for Doubtful Debts	-	(1 500)
	<hr/>	<hr/>
	818	-
	<hr/>	<hr/>

6. OTHER RECEIVABLES AND PREPAYMENTS

Trade Debtors	23 339	28 897
Staff Debtors	18	140
Value Added Taxation	10 038	8 628
Other Receivables and Prepayments	23 543	31 366
Provision for Doubtful Debts	(14 513)	(39 680)
	<hr/>	<hr/>
	42 425	29 351
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

7. CASH AND CASH EQUIVALENTS

	<u>2008</u> <u>M'000</u>	<u>2007</u> <u>M'000</u>
Cash at Bank	112 760	108 835
Cash on Hand	81	87
	<u>112 841</u>	<u>108 922</u>
Currency Analysis		
US Dollar	20	8 184
Maloti	112 821	100 738
	<u>112 841</u>	<u>108 922</u>

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 M 112 841 000 (2007: M108 922 000)

8. CAPITAL FUNDS

	Government of Lesotho M'000	Government of South Africa M'000	Total M'000
Balance at 31 March 2006	<u>672 222</u>	<u>9 720 915</u>	<u>10 393 137</u>
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	<u>656 957</u>	<u>9 534 817</u>	<u>10 191 774</u>
Amounts refunded	(69 460)	-	(69 460)
Cost related payments amounts provided			
• Hydropower and Ancillary Development	81 000	-	81 000
• Water Transfer	-	446 563	446 563
Ancillary Development Assets donated to Government of Lesotho	(18 963)	-	(18 963)
Transfer from Capital Work in Progress	(30 118)	(229 341)	(259 459)
Transfer from Income Statement	-	(428 399)	(428 399)
Balance at 31 March 2008	<u>619 416</u>	<u>9 323 640</u>	<u>9 943 056</u>

NOTES TO THE FINANCIAL STATEMENTS

	<u>2008</u> <u>M'000</u>	<u>2007</u> <u>M'000</u>
9. ACCUMULATED LOSS – HYDROPOWER		
Income	62 269	60 787
Less: Cost of sales	(54 465)	(69 391)
Operations and maintenance costs	(12 659)	(23 137)
Financing costs	(6 122)	(10 037)
Depreciation	(35 684)	(36 217)
Net profit / (loss) for the year	7 804	(8 604)
Accumulated loss at the beginning of the period	(287 844)	(279 240)
Accumulated loss at the end of the period	<u>(280 040)</u>	<u>(287 844)</u>

10. LOANS AND BORROWINGS

Non-Current Portion	620 104	681 499
Current Portion	327 237	341 645
	<u>947 341</u>	<u>1 023 144</u>

Currency Analysis

Euro	232 450	203 623
Maloti	186 040	186 040
Rand	429 184	507 596
Sterling Pound	65 192	60 043
US Dollar	34 475	65 842
	<u>947 341</u>	<u>1 023 144</u>

Interest Bearing Status

Interest-bearing	947 341	1 023 144
Non-interest bearing	-	-
	<u>947 341</u>	<u>1 023 144</u>

Maturity Profile

Within One Year	327 237	341 645
Between Two and Five Years	425 884	372 412
More than Five Years	194 220	309 087
	<u>947 341</u>	<u>1 023 144</u>

NOTES TO THE FINANCIAL STATEMENTS

10. LOANS AND BORROWINGS (continued)

		Effective Interest Rate%	<u>2008</u> <u>M'000</u>	<u>2007</u> <u>M'000</u>
Trans Caledon Tunnel Authority Debt Service Loans				
Institution	Offshore loans			
HSBC	Repayable in semi-annual instalments ending July 2012	Libor +0.35%	131 513	121 125
Credit Lyonnais	Repayable in semi-annual instalments ending July 2012	5.73%	65 192	60 043
World Bank	Repayable in semi-annual instalments ending May 2013	Libor	34 474	65 842
European Investment Bank	Repayable in semi-annual instalments ending January 2018	3%	100 937	82 498
European Investment Bank	Repayable in semi-annual instalments ending March 2018	Libor	92 440	101 684
European Investment Bank	Repayable in semi-annual instalments ending September 2018	Libor	58 924	64 536
European Investment Bank	Repayable in annual instalments ending August 2010	12.71%	89 122	87 924
Common Monetary Area Loans				
DBSA	Repayable in semi-annual instalments ending March 2011	8%	44 589	65 759
DBSA	Repayable in semi-annual instalments ending March 2011	12%	8 916	13 068
DBSA	Repayable in semi-annual instalments ending March 2011	11%	2 675	3 926
DBSA	Repayable in semi-annual instalments ending March 2016	7%	1 708	2 003
DBSA	Repayable in semi-annual instalments ending September 2008	8%	1 331	5 226
DBSA	Repayable in semi-annual instalments ending September 2009	8%	140	549
DBSA	Repayable in semi-annual instalments ending September 2009	8%	9 027	17 730
DBSA	Repayable in semi-annual instalments ending March 2011	8%	12 620	18 611
DBSA	Repayable in semi-annual instalments ending September 2011	12%	7 040	9 835
DBSA	Repayable in semi-annual instalments ending September 2021	12.23%	857	946
DBSA	Repayable in semi-annual instalments ending September 2021	10.92%	3 238	3 571
DBSA	Repayable in semi-annual instalments ending March 2022	10.68%	38 911	45 377
DBSA	Repayable in semi-annual instalments ending March 2022	12.12%	22 260	26 136
DBSA	Repayable in semi-annual instalments ending March 2022	12.96%	2 315	2 552
DBSA	Repayable in semi-annual instalments ending September 2022	Jibar	33 071	38 163
	Total		<u>761 300</u>	<u>837 104</u>

NOTES TO THE FINANCIAL STATEMENTS

10. LOANS AND BORROWINGS (continued)

		Effective Interest Rate%	<u>2008</u> <u>M'000</u>	<u>2007</u> <u>M'000</u>
Government of Lesotho Debt Service Loans				
Institution	Offshore loans			
BNP Paribas	Repayable in semi-annual instalments ending April 2008	6.85%	1 834	4 145
BNP Paribas	Repayable in semi-annual instalments ending April 2008	8.72%	192	434
ABN Amro	Repayable in semi-annual instalments ending December 2008	7.35%	2 945	5 192
Svenska Handelsbanken	Repayable in semi-annual instalments ending June 2007	8.035%	-	5 749
Dresdner Bank	Repayable in semi-annual instalments ending June 2008	AKA rates	5 400	12 207
West LB	Repayable in semi-annual instalments ending June 2007	6.85%	-	3 990
BNP Paribas	Repayable in semi-annual instalments ending September 2008	7.35%	5 539	12 522
BNP Paribas	Repayable in semi-annual instalments ending September 2008	8.17%	958	2 166
European Investment Bank	Repayable in semi-annual instalments ending February 2009	3%	5 180	9 133
Common Monetary Area Loans				
DBSA	Repayable in semi-annual instalments ending March 2009	6%	3 367	6 540
DBSA	Repayable in semi-annual instalments ending March 2015	13%	19 917	21 575
DBSA	Repayable in semi-annual instalments ending September 2019	13%	2 386	2 472
Government of Lesotho	Government of Lesotho Muela Loan	5%	186 041	186 040
Government of Lesotho	Government of Lesotho Development Fund	Variable	14 807	14 807
Government of Lesotho	Muela Re-financing by the Government of Lesotho		(62 525)	(100 932)
Total			186 041	186 040
Grand Total			947 341	1 023 144
Repayable in one year included in short-term debt			(327 237)	(341 645)
			620 104	681 499

Certain long term loan facilities which are direct with the Government of Lesotho, and which were utilised to fund the 'Muela Hydropower Implementation, were shown as long term liabilities prior to December, 1999. As from 1 December 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.

NOTES TO THE FINANCIAL STATEMENTS

11. PROVISIONS

	Future Compensation M'000	Contract Claims M'000	Severance Pay M'000	Leave Pay M'000	Total M'000
Balance at 01 April 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
Additional Provisions made during the year	40 745	-	1 987	-	42 732
Amounts used	-	(5 321)	-	(352)	(5 673)
Balance at 31 March 2008	283 607	2 709	3 256	1 746	291 318

	<u>2008</u> M'000	<u>2007</u> M'000
Non-Current	257 614	228 468
Current	33 704	25 791
	<u>291 318</u>	<u>254 259</u>

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 Contract Claims

The provision was created due to litigation claims instituted against the Lesotho Highlands Development Authority. 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.

Provision for Leave Pay

The provision for leave pay is based 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

NOTES TO THE FINANCIAL STATEMENTS

12. 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:

Stock	Coupon	Maturity	Registered	Registered
			Nominal	Nominal
			<u>2008</u>	<u>2007</u>
			M'000	M'000
WS03	13.0%	15 September 2010	8 000 000	8 000 000
			<u>8 000 000</u>	<u>8 000 000</u>

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

Stock	Cumulative nominal value of LHWP stock issued		Cumulative net proceeds from LHWP stock issued inclusive of capitalized finance costs	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	M'000	M'000	M'000	M'000
WS03	998 000	998 000	954 977	943 622
Total	<u>998 000</u>	<u>998 000</u>	<u>954 977</u>	<u>943 622</u>

13. CONTRACT PAYABLES AND ACCRUALS

Contract Creditors	1 054	7 591
Contract Accruals	5 845	4 144
	<u>6 899</u>	<u>11 735</u>
Contract Retentions	34	55
	<u>6 933</u>	<u>11 790</u>

14. OTHER PAYABLES AND ACCRUALS

Trade payables	2 988	4 411
Staff payables	106	135
Accrued interest on loans	78 077	72 267
Accrued interest on capital markets	6 292	6 266
Accrued coupon on capital markets	11 930	11 929
Other payables	14 312	18 163
	<u>113 705</u>	<u>113 171</u>

NOTES TO THE FINANCIAL STATEMENTS

15. 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 were 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 not accrue to the Authority.

16. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

Outstanding capital expenditure not contracted for at 31 March 2008 amounted to M Nil million (2007 : M20 million in respect of the purchase of the Lesotho Bank Towers).

The Authority has been notified of the intention by various Contractors and employees to submit claims. The claims that are probable have been provided for in the Provision for Claims.

17. 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 reprising 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 counterparty 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.

NOTES TO THE FINANCIAL STATEMENTS

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Capital Management

The primary objective of the Authority's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise stakeholder value.

Maturity Profile of Financial Assets and Liabilities

Apart from the long-term liabilities, capital market funds and provisions, 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 10.

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.

	Carrying Amount		Fair value	
	<u>2008</u> <u>M'000</u>	<u>2007</u> <u>M'000</u>	<u>2008</u> <u>M'000</u>	<u>2007</u> <u>M'000</u>
Financial Assets				
Project taxes refunded by the Government of Lesotho	-	181	-	181
Contract Advance payments	818	-	818	-
Other receivables and prepayments	42 425	29 351	42 425	29 351
Cash and Cash Equivalents	112 841	108 922	112 841	108 922
Financial Liabilities				
Contract Payables and Accruals	6 899	11 735	6 899	11 735
Contract Retentions	34	55	34	55
Provision for Future Compensation	291 318	242 862	291 318	242 862
Other payables and accruals	442 531	466 213	442 531	466 213
Long Term Liabilities	618 515	681 499	618 515	681 499
Capital Market Liability	954 977	943 622	954 977	943 622

18. NUMBER OF EMPLOYEES

According to the payroll system the authority had the following number of employees as at the 31 March 2008: 292 (2007 : 322)

19. 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.

	<u>2008</u> <u>M'000</u>	<u>2007</u> <u>M'000</u>
Amounts credited to the Income Statement or fund accounts		
Sales of electricity to LEC	62 424	60 555
Cost related payments GOL	81 000	78 099
Cost related payments RSA	446 563	474 028
Loans to related parties and other accounts receivable		
Account receivable from LEC	23 339	28 286
Provision for Doubtful Debts from LEC	(3 187)	(117)
Account receivable from LRA	10 038	8 628
Provision for Doubtful Debts from LRA	(10 038)	(8 628)

NOTES TO THE FINANCIAL STATEMENTS

19. RELATED PARTY TRANSACTIONS (continued)	<u>2008</u> <u>M'000</u>	<u>2007</u> <u>M'000</u>
<i>Loans from related parties and other accounts payable</i>		
Accrued interest on GOL loans	67 568	61 446
Loan payable to GOL	186 041	186 046
 <i>Compensation to Key Management Personnel</i>		
Short Term Employee Benefits	9 184	7 241
Termination Benefits	-	-
Total Compensation Paid to Key Management personnel	9 184	7 241
 <i>Board Fees</i>		
Board and sub committee fees including sitting and travel costs	1 586	864

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

	<u>2008</u> <u>M'000</u>	<u>2007</u> <u>M'000</u>
Transfer of Site 1 and Site 2	-	2 195
Transfer of Mohale Potato Store	-	1 380
Transfer of Mphorosone Camp	18 963	-
	<u>18 963</u>	<u>3 575</u>

NOTES TO THE FINANCIAL STATEMENTS

DETAILED INCOME STATEMENT

For the year ended 31 March 2008

	NOTE	<u>2008</u> <u>M'000</u>	<u>2007</u> <u>M'000</u>
Revenue			
Electricity income		62 975	60 787
Investment Income		7 972	6 658
Profit on sale of assets		12 990	-
Miscellaneous income		2 279	3 092
Investment property income		2 456	-
Total Revenue		<u>88 672</u>	<u>70 537</u>
Expenditure			
Asset donations to COL	20	18 963	3 575
Audit and accounting fees		804	695
Bad debts		-	1 500
Bank charges		64	243
Board and committee fees		1 586	720
Construction and contractor costs		18 153	22 030
Depreciation		303 067	300 997
Entertainment		-	102
Foreign exchange loss/(gain)		100 058	82 701
Increase/(Decrease) in future compensation provision		40 745	11 938
Increase/(Decrease) in provision for contract claims		-	(1 255)
Insurance		1 498	1 896
Interest and finance expenses		210 973	220 000
Inventory and consumable stores		371	559
Leave pay		348	2 463
Legal and arbitration fees		(16 561)	16 071
Miscellaneous expenses		2 849	542
Motor vehicle expenses		6 647	6 504
Plant spares		55	257
Professional services		2 543	498
Provision for doubtful debts		2 429	5 255
Public relation costs		771	2 006
Rates, electricity and water		3 209	2 586
Recruitment		95	364
Rental expenses		1 578	5 065
Repairs and maintenance		11 002	12 568
Resettlement and compensation costs		7 462	19 450
Safety awareness		-	44
Salaries, wages and allowances		61 364	60 506
Security expense		856	214
Severance pay		2 178	1 287
Stationery		671	380
Telephone and communication		1 982	2 438
Training		1 160	1 347
Travel and transportation		769	531
Total Expenses		<u>787 689</u>	<u>786 077</u>
Loss for the year		<u>699 017</u>	<u>715 540</u>

NOTES TO THE FINANCIAL STATEMENTS

DETAILED INCOME STATEMENT

For the year ended 31 March 2008

	NOTE	<u>2008</u> <u>M'000</u>	<u>2007</u> <u>M'000</u>
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LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

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