



Lesotho Electricity Company (Pty) Ltd

Annual Report

2008/09

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Corporate Vision

To be a world-class electricity supplier

Corporate Mission

The mission of LEC is to generate, transmit, distribute and supply electricity throughout Lesotho, to satisfy customer needs for quality electricity services at competitive and affordable prices.

Corporate Values

- LEC strives to inculcate the culture of trust, team approach to work, integrity and accountability including personal responsibility for delivering against approved plans.
- It commits to decisions and plans of action to transparently serve customers to their satisfaction within the shortest time possible.
- It respects every individual and commits to the highest standards of professionalism, while open to new ideas and determined to offer quality service, so that our relationship with customers can be warm.
- The company declares zero tolerance to corruption.

Corporate Objectives

- Provide safe and quality electricity services
- Improve security of supply
- Attain operational efficiency
- Attain customer satisfaction
- Expand customer base



LEC Board of Directors



Mr. K. Tau

- Chairman of the Board &
Chairman Engineering &
Electrification Sub-Committee



Mr. A.M.E. Macaskill

- Deputy Chairman
of the Board & Chairman
Audit & Finance Committee



Mr. F.M. Hloaele

- Managing Director



Mr. S. Tohlang

- Member



Mrs. M. Klass

- Member



Mr. N. Makoetje

- Member



Mr. M.D. Maqutu

- Corporate Secretary



Chairman's Statement

"The year 2008/09 came with some changes in the composition of the Board of Directors."

Mr. K. Tau
Chairman of the Board & Chairman
- Engineering & Electrification Committee.

The year 2008/09 came with some changes in the composition of the Board of Directors. Three members ended their membership in July 2008, namely: Mr. M. Makhooane, Mr. P. Molapo and Mrs. M. Makuta. They indeed made praiseworthy contributions towards turning around the Company from its brink of collapse when it had to be handed over to a management contract in 2001. They steered the Company to its current stability. On behalf of the Company, I wish to express my gratitude to their selfless efforts in making sure that LEC grows into a company that can meet its customers' needs. They have been replaced by Mrs. M. Klass, and Mr. N. Makoetje who effectively assumed directorship in July 2008.

The Company managed the challenge of power deficit very well by implementing load shedding and avoided the worst situation of complete black out. Electricity supply was rationed to all categories of customers with the exception of the industries throughout the 2008 winter (March-September 08).

LEC continued to rely heavily on 'Muela generation with the maximum output of 80MW, while ESKOM insisted on the reduction of imports by 10% of the 2006/07 total imports. The load shedding that started in March 2008 escalated in severe months of the winter May – July and ended in August 2008. There is no doubt that this impacted negatively on the national economy. LEC managed to secure power supply (30MW) from the Electricidade de Mocambique (EdM). This acquisition alleviated the load shedding challenge. It is hoped that further measures to address power shortage shall be successful in future to ensure non recurrence of load shedding.

It is further gratifying to report that 12,739 connections, a combination of individual and projects connections, was achieved, surpassing the annual target of 8,000 and bringing the total number of customers to 77,000. This can rightly be attributable to the considerate connection policy in projects which enables people to connect with

the lowest minimum deposit and the recovery of the outstanding balance done through surcharge over extended period of time. The financial support extended by the Government of Lesotho is highly recognized and appreciated, as it largely contributed to the increase of customer base through electrification projects that the Government funded.

It is encouraging to report that the rate of vandalism has tremendously dropped from what was previously reported in 2007/08, thanks to the complementary initiatives taken by the Police authorities who, jointly with LEC and other utilities that experienced a similar problem, and other relevant stakeholders such as scrap dealers, put in place measures that helped curb the problem.


Tariff Increase

The Company applied for 35% tariff increase for the year, and the regulator approved 8.7% for large customers and 12% for domestic customers. ESKOM increased tariffs during the financial year by 34.2%, and the impact was M11.9 million short-fall to LEC revenue requirement. Additional application for tariff adjustment was lodged in October to recover the short-fall from November to March, and the approval was granted for recovery in 17 months.

Financial Issues

Cost of Sales increased from 40% to 43% of total revenue. The major reason for the change was the bulk supply tariff increase from ESKOM. The Company generated M71 million cash from its operations compared to M46 million in the previous year. This improved performance is due to both increase in sales and reduction in expenditure. At the end of the financial year the Company held total cash of M79 million. Operating profit after tax at M19.4 million is 21% below previous year's performance.

On behalf of the Board, may I express my gratitude to the Government for its continued support, particularly in electrification projects which has no doubt increased the number of customers and thus making electricity much more accessible to many Basotho.



Mr. K. Tau
Chairman of the Board



Managing Director's Report

"The biggest challenge that we faced in the year was the power shortage and the resultant load shedding that we had to implement."

Mr. F.M. Hloale
Managing Director.

Power Supply

The biggest challenge that we faced in the year was the power shortage and the resultant load shedding that we had to implement. In order to minimize losses to the national economy, load shedding was limited to domestic customers, where it was operationally possible to do so. In certain cases, due to the embedded location of some commercial businesses in residential areas, these could not be spared load shedding. As to be expected, there was a huge public outcry which, in due course, was alleviated by applying extensive communication strategies. All stakeholders, including the Executive and Legislature, were briefed about the problem and possible solutions. Management's effort was rewarded when a contract for importation of 10 MW was signed with Electricity de Mocambique (EdM) to cover the period 01 September 2008 – 31 December 2008. Management succeeded in extending the contract for a further year to cover the 2009 year. It remains a fact that, without the support from Muela Hydro Power Station (MHPS), which was run to its

maximum output for a considerable period of time, the situation could have been much worse. In this regard, I would like to express our gratitude to our sister company, the Lesotho Highlands Development Authority (LHDA), for their invaluable support.

Customer Service

The business maintained focus on achieving corporate objectives, resulting in a performance of 84.69%, for the period under review. While recognizable strides were made towards increasing customer base, delivery of service in the area of service connections was a major concern to some customers as they often awaited service for a longer time than promised. Management has picked this up and efforts to expedite service connections are underway.

Management will undertake business process re-engineering (BPR), in order to improve service delivery

by reducing cycle times and adequately manning the structures. A performance management system (PMS) will also be put in place in the next financial year to help boost performance.

Four (4) new sales agents were engaged in Mafeteng, TY, Mount Moorosi and Maputsoe. The total number of sales agents now stands at 15, spread in seven districts. This has no doubt added appreciated value to service delivery. The intention is to expand the retail network by having sales agents in all ten districts of the country. Sales agents in the remaining three districts: Qacha's Nek, Thaba-Tseka and Mokhotlong will be considered in the next financial year 2009/10. Management is also looking at introducing other modes of retailing electricity like mobile phone based vending, in order to improve service and revamp revenue.

Social Responsibility

For the past 5 years LEC has ploughed back into the community it serves, a variety of donations to the tune of M569,000.00. The Company continued to be committed and extended a helping hand to the needy, particularly the orphans. This is a token of appreciation and it is anticipated that more people who are destitute will benefit in future.

Demand Side Management

Management has made some preparation to install compact fluorescent lighting (CFL) in all households in Lesotho. The project will save 12MW of peak power. An approach was also made by our parent Ministry to the Ministry of Trade and Industry, Co-operatives and Marketing for the introduction of legislation to curb importation of incandescent lighting. The benefit to cost ratio of CFL projects, compared to building new power stations, is very high and confirms the attractiveness of conservation.

System Upgrading/Refurbishment

Given the problematic areas which reportedly

caused outcry from customers due to frequent and prolonged unplanned power outages, a number of pole mounted transformers were upgraded to address the increasing load by customers. Although the main focus was to act proactively, the deteriorated status of the network triggered emergency faults which kept maintenance crews under pressure in trying to restore power. More system improvement projects are yet to be implemented upon the completion of the network assessment project.

Sales

Total energy sales for 2008/09, at 530GWh, increased by 5.4% on the previous year's figure of 502GWh. This corresponds to a revenue of M278 million, which is 17% higher than the previous year. The global recession remains the biggest threat to sales and the textile industry, which contributes 50% of sales.

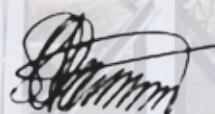
Regulatory Compliance

Regulatory compliance remains a challenge and management will install new IT systems to comply with regulatory reports.

Challenges

The major challenges to be addressed in future are:

- Sourcing adequate power supply to avoid load shedding
- Demand Side Management
- Safety – for both public and staff
- Sourcing funds for network refurbishment
- Expanding the retail network
- Regulatory compliance
- Network maintenance



Mr. F.M. Hloaele
Managing Director



Engineering Division

“The transmission system availability has been consistently above target for the whole reporting period.”

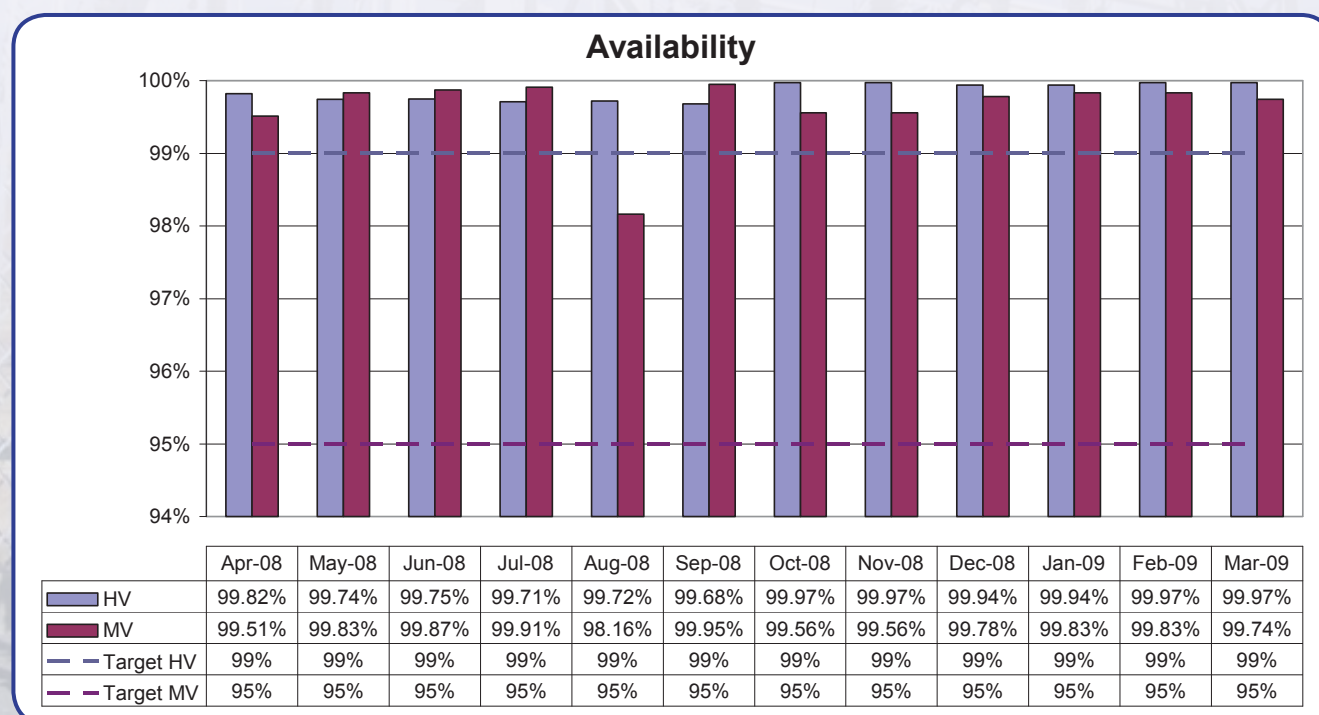
Mr. Mbele Hoohlo
General Manager - Engineering.

A. System Operations and Performance

Performance of the system is measured through availability and quality of supply, and the results for the reporting period are as follows:

• Availability

The monthly system availability for transmission (HV) and distribution (MV) systems, are as indicated in the figure below, and set against the respective corporate target levels.



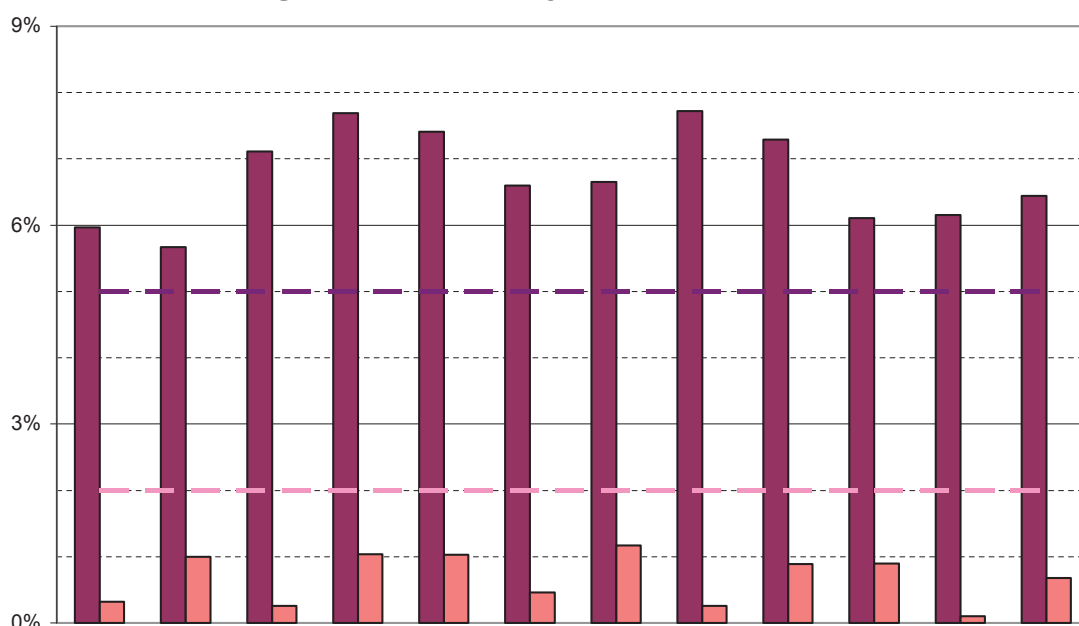
The transmission system availability has been consistently above target for the whole reporting period. The average availability for the year is 99.85% against the target annual average of 99.00%, a significant improvement on previous reporting period (98.74%).

Similarly, the availability of the distribution system is above target, with an annual average of 99.63% against an average target of 95.00% per annum.

• Quality of Supply

The two indicators of the system performance are as indicated below.

Voltage and Frequency Deviation



The maximum transmission voltage deviation (dHV) has been above the target, yielding an average of 6.73%, which is above the corporate and SAPP tolerance target of 5.0%, an increase from the previous period (6.37%). There is an observable upward trend due to the reducing generation operating capacity reserve in the region.

The system performance yielded a frequency deviation average of 0.68% and a maximum of 1.17%, which is well within the target. The frequency deviation has a corporate and regional target of 2.00% band of variance around the

nominal figure of 50.00Hz. However, since the LEC system is interconnected with the ESKOM grid and with a much less generation capacity, it implies that frequency variation is inherently exogenous to LEC and is imported from ESKOM's system.

• Faults

Even though the strategic focus has been to direct the resources towards the proactive maintenance, the state of the network is such that most of the maintenance crews' time was still predominantly on emergency faults restoration work. Faults received priority over

planned maintenance work in order to be responsive to the customers' needs, and due to their number, they occupied most of the crews' time, particularly at distribution level.

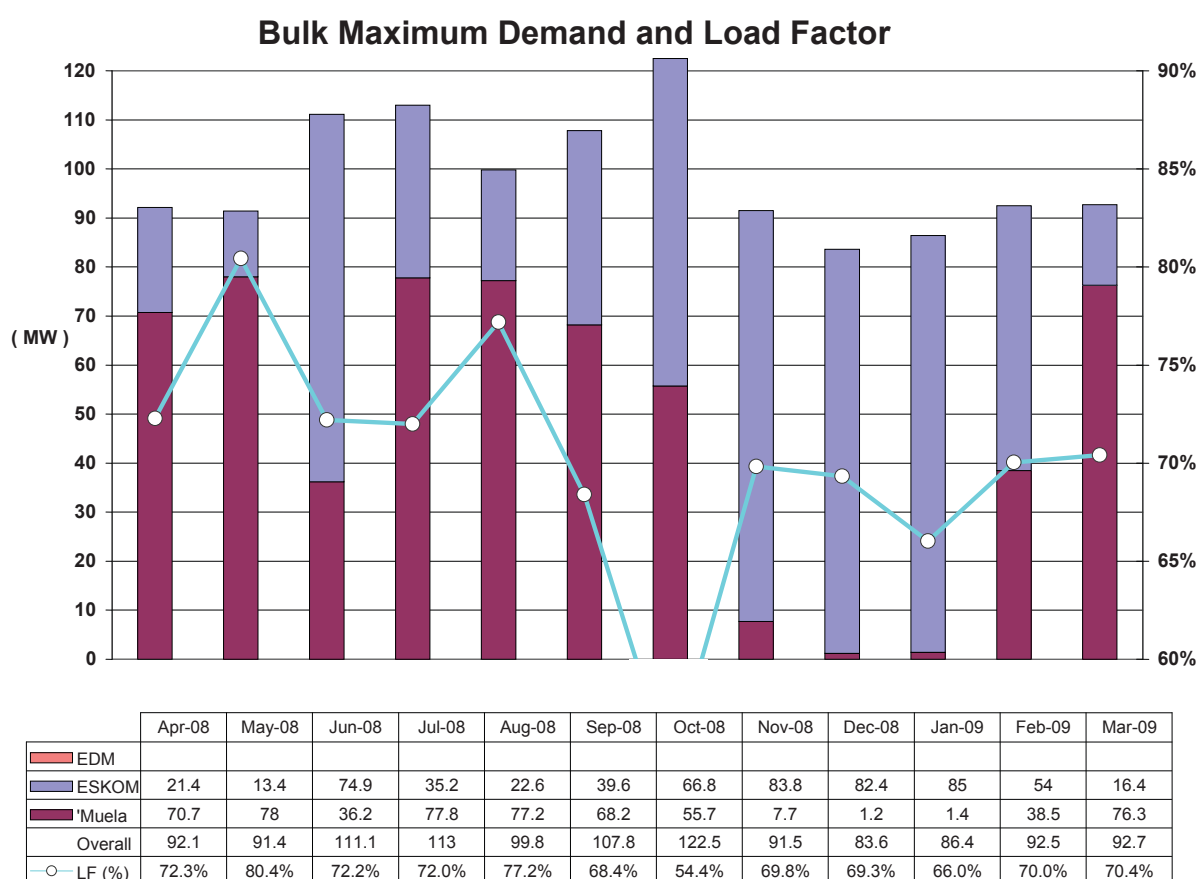
The Network Assessment project has been commissioned to identify and prioritise the critical areas needing urgent attention, to form the refurbishment programme. This will be in tandem with the system improvement projects covering the

system upgrades.

• Bulk Supply

LEC has bilateral bulk supply agreements with LHDA, ESKOM and EdM for its bulk electricity supply.

The monthly bulk supply maximum demand (MD) quantities and corresponding load factor (LF), are presented in the figure below:

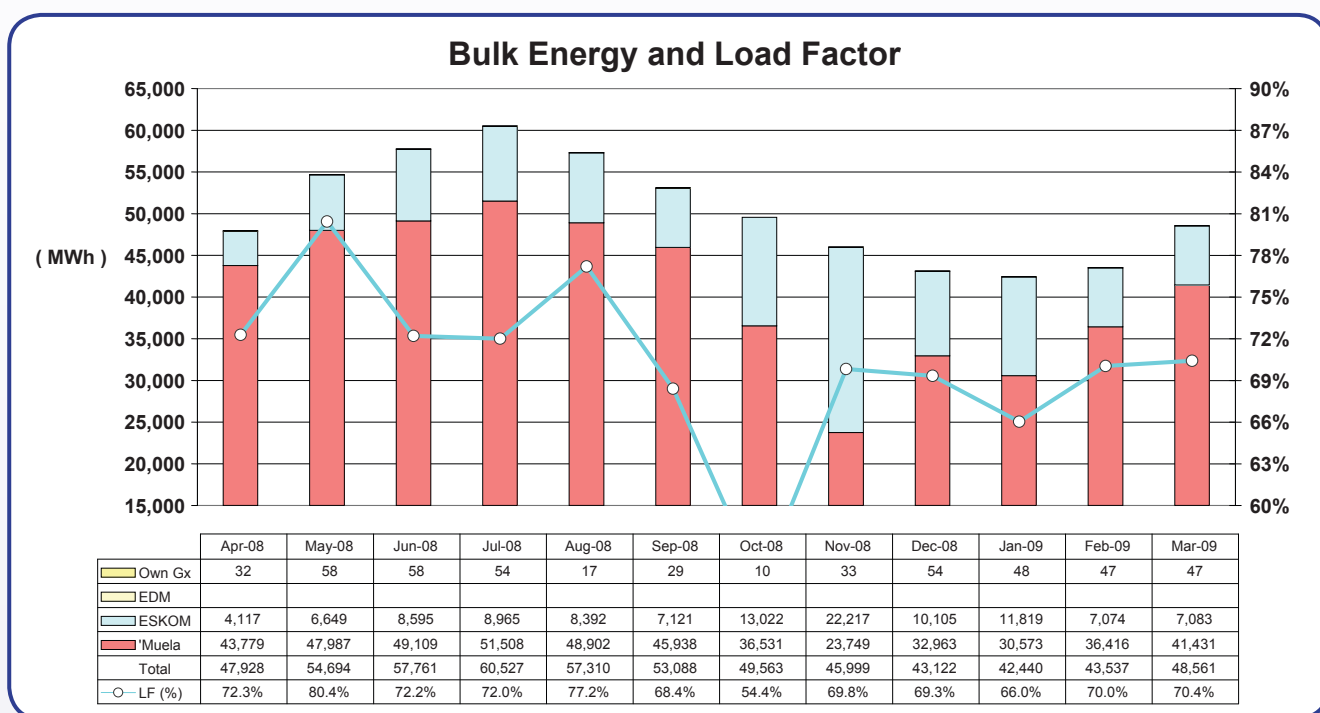


The maximum demand (MD) for the reporting period and the calendar year 2008 is 113.0 MW, a 2.3 MW reduction from the previous year (115.3 MW), a drop of 2.0%. This was due to the load shedding regime which LEC derived from ESKOM's restriction on imports, for both energy and power. This generation capacity constraint is systemic and endemic. It will only be resolved with the increase of capacity in the region (SADC–SAPP) and the earliest foreseeable

reprieve may occur in 2013. The Demand Side Management (DSM) regime is therefore paramount in the interim and also beyond.

The load factor has shown a general decline over the period, but the monthly average has increased to 70.2% compared to 67.0% in the last year. The apparent improvement derives from the load shedding.

The following graph indicates bulk energy and load factor (LF):



Total bulk energy supply breakdown was as follows:

	2007/08	2008/09	
LEC Generation (MWh)	2,455	487	+79%
EDM Supply	0	8,335	N/A
ESKOM Supply (MWh)	54,958	115,159	+109%
'Muela Supply (MWh)	511,630	488,886	-4%
Total (MWh)	569,043	612,871	+7%

This shows an upward trend for the last three years, with totals of 483,360, 541,054 and 569,043 MWh, (8% and 12%, year-on-year) respectively, though with a reduced rate for the reporting period.

System load shedding was implemented in the first six months of the reporting period, with intention to reduce energy imports from ESKOM by 10%, as a last resort to avoid total system shutdown due to the prevailing supply and demand imbalance.

Following the new ESKOM condition of supply to reduce LEC imports by 10% in accordance with the RSA's proposed power conservation program (PCP), LEC opted to secure import energy from Electricidade de Mocambique (EDM) through ESKOM 132kV system since 1st October 2008, in order to cushion the supply imbalance especially during the peak demand periods.

Energy Trend:

- Following the commissioning of the second plant at Letšeng Diamonds Mine in February 2008, the

energy imports increased by 51% on the 88kV intake tie-line.

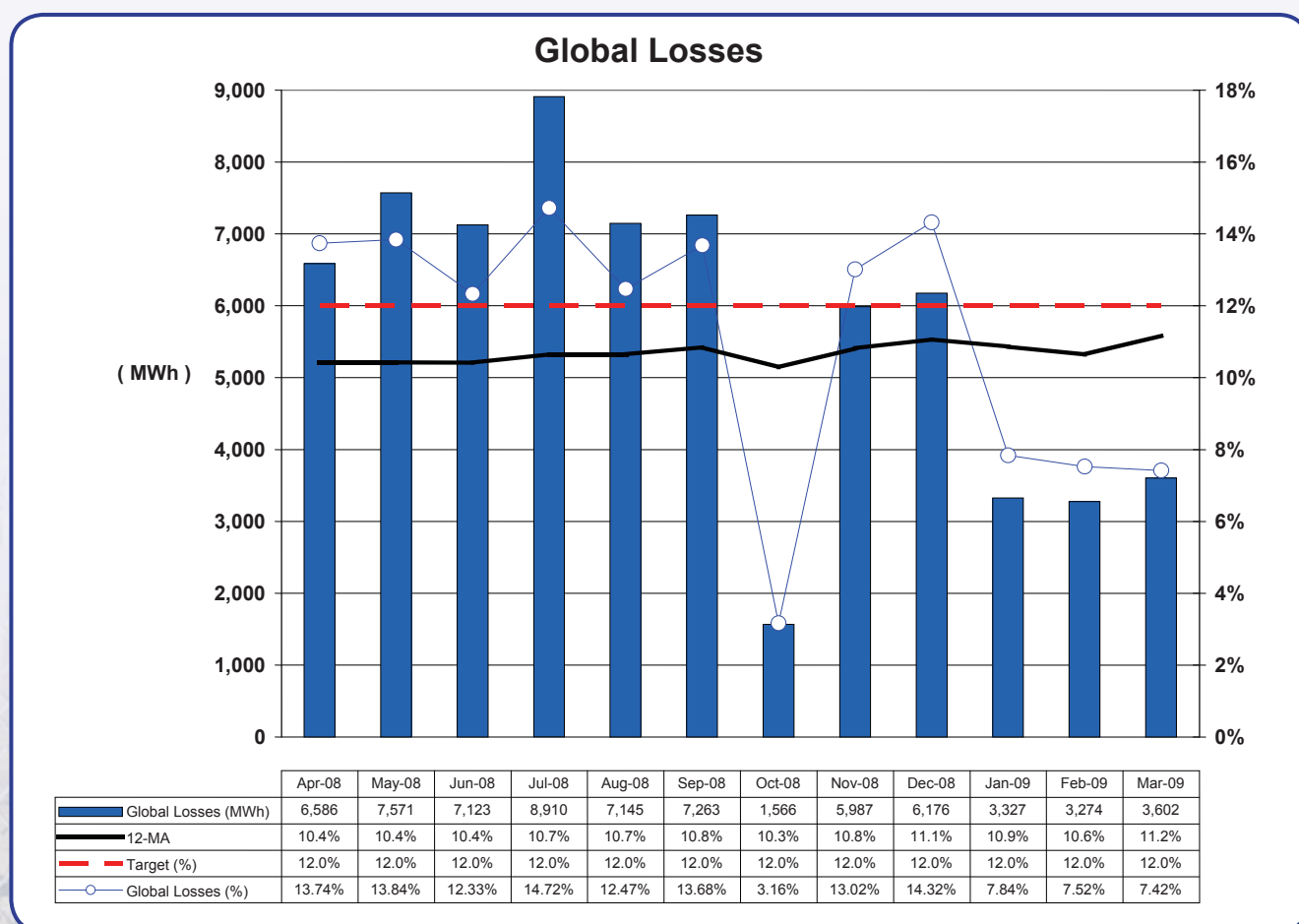
- On the 22kV intake tie-line an increase of 10% was measured.
- The reduction on Muela hydropower generation was due to plant shutdowns to accommodate the planned ten years inspection and service on the electro-mechanical equipment from October 2008 to February 2009.
- On the other hand, the exports to ESKOM were reduced by 52% due to limited Muela generation and increased LEC baseline load.
- The scheduled energy imports from EdM took effect from the 1st October 2008 with intention to make up for the deficit on the 132kV system.

However it should be noted that load shedding was implemented from March 2008 to September 2008, therefore in the reporting period this is not the true baseline load.

There has been an upward trend in the last three years, with totals of 541,054, 569,043 and 612,871 MWh, (5% and 7% year-on-year) respectively.

• Global Losses

The derived system global losses, incorporating both the technical and non- technical losses, are summarised by month as follows:



The figures indicate a declining trend of the global losses by month in the year, with an average of 11.2%, against a target of 12.0%, a slight increase from the previous year (10.2%). This is an indication

that the interventions concerning revenue protection deployed have been effective in reducing the losses and are now stable.

B. System Maintenance Programmes

The following critical equipment experienced breakdowns and are out of service for maintenance in the reporting period.

Transmission System Maintenance

Substations Specialized Maintenance:

- The 15MVA 132/11kV transformer at Mohale substation was returned to service after replacement of HV bushing.
- The 20MVA 132/33kV transformer at Ramarothola substation had a complete winding refurbishment and the commissioning process is currently underway.
- The 10MVA 33/11kV transformer at Botšabelo substation was returned to service after refurbishment on tap-changer.

Overhead Lines Specialized Maintenance:

Following low performance standards on selected lines, it was important to identify the causes of functional failure by carrying out the Hawkeye close-visual inspection. This is a procedure which involves the aerial inspection of overhead lines by a qualified observer seated in a helicopter equipped with gyroscopically stabilized binoculars for detailed examination of each hardware component.

The uncovered challenging failures are largely caused by environmental and electrical factors. In the first instance is the lightning ground flash density in the mountainous regions within a range of 13-14 flashes/km²/annum. The incidents are assumed at an average of about 147 strikes per year on the high altitude sections of the line. Secondly, there are short jumpers on most structures which reduce the Basic Insulators Level rating to 190kV instead of 286kV. Thirdly, because of the rocky terrain, the high footing resistances increase the probability of flashover resulting in insulators and jumpers flash marks on 245 out of 535 towers.

The corrective and redesign measures are currently under in-depth investigation and involve considerations on lengthening of jumpers, adding disc insulator, improving footing resistance and installation of wood poles in certain sections. The objective is to implement suitable strategies that aim to reduce the average number of incidents from 147 to 43 per annum in the coming fiscal year.

In an endeavour to achieve the required preventative maintenance maturity level, an assets assessment process was conducted to verify equipment integrity and functionality. The poor results from this initiative will be followed-up by relevant interventions to improve system availability, equipment reliability and thus increase on rate of return on assets.

Distribution

Distribution System Maintenance

During 2008/2009, there has been a continuing trend towards the improvement in the reliability, in terms of availability of the LEC distribution network throughout all the LEC regions. This is attributed to the concerted effort of implementing maintenance on a preventive maintenance strategy basis.

The "Network Assets Inventory & Evaluation" project that started towards the end of 2008, laid a good foundation for the planning of the network maintenance in 2009/2010.

The various maintenance activities that were done during 2008/2009 included the following, by regions:

Regional Activities

Central Region

- The Central region was split into three areas, with the area teams focussed on the network maintenance. This has introduced improved accountability and will be further strengthened

and developed such that this facilitates improved performance and competitiveness by the areas of the Central region.

- Reporting of the maintenance work by the major network components such as transformers, overhead lines, underground networks and distribution pillar boxes.
- The unplanned maintenance (faults) still takes top priority when such failures occur. The major problem has been and continues to be the pole-mounted circuit breakers that will need to be replaced during 2009/2010, funds allowing.

Northern Region

- The major network improvements that had been identified in Leribe and implemented as project by the Planning & Projects was a 12km MV line from Mahobong to Khanyane, as an alternative source of supply for Hlotse Township.
- Adherence to the proposed maintenance schedules is not achieved due to disruption of other services that have to be offered such as house wiring tests, surveying, and supervision of private contractors doing service connections.

Upgrading of Pole-mounted Transformers and Network Strengthening

The overloading and the resultant voltage drops that adversely impact on the quality of supply provided to the end customers, triggered the need for the upgrading of some pole-mounted transformers:

- Tsikoane: 1x200kVA additional transformers to relieve 16kVA. Completed in January 2009
- Matukeng: 1x200kVA additional transformer to relieve 100kVA. Completed in February 2009
- Tsifa-li-Mali: 1x200kVA additional transformer to relieve 100kVA. Completed in October 2008
- Sebothoane: 1x200kVA replaced 50kVA: Completed March 2009

Southern Region

- In Quthing town, reliability of supply was re-

inforced by separating the town feeder with Mount Moorosi feeder by constructing a 2 km 11kV line from the 33/11kV Quthing (Leloaleng) substation to join the Mount Moorosi feeder.

- In Mafeteng, the business centre area experienced overloading. In order to overcome this problem, a 1km of 11kV line to remove the Motse-mocha village load from business centre feeder was constructed.

Semonkong & Mantšonyane Generation Mini-hydro Power Plants

Semonkong Mini-hydro Power Plant

During 2008/2009, Semonkong experienced one of the worst years in which for some two weeks, there was a total “black-out” after the breakdown of the diesel generator during the third week of July 2008.

The 2008 rainy season came to the rescue as generation was secured by hydro-generation until the dry period in early 2009.

The purchase and the delivery of the permanent Semonkong diesel generator will be finalised at the beginning of the 2009/2010 fiscal year.

Mantšonyane Mini-hydro Power Plant

The Mantšonyane mini-hydro power plant equipment got submerged in water during the November 2006 flooding of the Mantšonyane river.

The African Development Bank (AfDB) financed the engagement of Norplan, the Norwegian and original consultant for the plant construction, to assess the equipment damage.

The Mantšonyane plant repairs and refurbishment are part of the AfDB-funded projects that are to crystallise in 2009/2010.

Outsourcing of the Connections to the Private Contractors

There are improvements concerning the development of the outsourcing of the service connections to the private contractors. These include:

- Acquisition of plant & equipment such as compressors by the contractors, speeds up services to the customers.
- The experience gained has positive impact on the quality of work by the contractors. This is further influenced by the improved supervision of the contractors by the LEC staff.

Vandalism and Theft

Vandalism and theft continue to be of concern due to their sporadic nature. The region that experienced vandalism and theft has been Central and in particular, Maseru. The experience has been on the airdac on the overhead service connections.

Major activity that has helped to curb vandalism and theft has been the active participation of the LEC internal stakeholders with the external stakeholders: (the Police, the local authorities, the chiefs and the scrap dealers). The law has started to take its proper course by having the culprits brought to the courts of law.

Challenges

- The inadequacy of the resources inclusive of crane trucks for the North and South hampered the deliveries of heavy materials such as poles.
- The communities in the south have been struggling to get electricity units after working hours, during the weekends and public holidays. The introduction of "sales agents" at Mafeteng and Mount Moorosi will address this problem.
- The un-availability of the faults reporting centres, for "after hours" and during the public holidays, is still of concern.
- There is an urgent and important need to address

both the specialized training in maintenance and in leadership, for the distribution staff.

Communication System Maintenance

- The two-way maintenance plan was adhered to as planned.
- Major maintenance on the optic fiber cable was undertaken in which 4 km length was replaced on the link between National Control Centre (NCC) and LEC Border substation.
- New optic fiber link was installed between Regional Control Centre (RCC) and LEC Border substation. Through this link, IT services were extended to NCC. Extension of the PABX services from LEC headquarters to NCC building is underway.
- In order to improve a two-way radio communication coverage countrywide, an agreement between LEC and Lesotho National Broadcasting Service (LNBS) is in the process of being signed by the two parties. This agreement will enable LEC to install radio repeaters on the strategic high sites where LNBS has transmitters. It is envisaged that at the completion of this project, radio communication will cover the whole country.

Protection, Communication and Control Systems

Protection Systems

Routine testing and maintenance of protection equipment covered was only 52%. This was attributed to a number of challenges that include:

Communication Systems

Radios

- In order to improve the two-way radio communication coverage in the country, repeaters were installed in August 2008 on the following LNBS sites: Likhoele, Souru and Thaba-Putsoa. The repeater on the latter site

was damaged by lightning in November 2008. Earthing on this site was re-inforced after which the repeater was reinstated.

- Northern region had always been covered by the Qoqolosing repeater except Mokhotlong. Letšeng Diamond Mine (LDM) installed a two-way radio at LEC Butha-Buthe transmission office and Mokhotlong Office from which all the parties; LDM, Butha-Buthe transmission and LEC Mokhotlong offices are able to communicate.

Fiber Optic

- As part of the fibre optic cable roll-out programme, a 10km fibre optic cable was installed between Botšabelo substation and Mazenod Transmission substation to address the long outstanding protection communication problem between these two substations. That also completed the fibre optic ring circuit in all the Transmission substations in Maseru.
- Telephones for NCC and all offices at the NCC buildings have been connected as extensions from the LEC HQ PABX system.

Control Systems (NCC/RCC)

- Voice recorder has been installed in RCC.
- Goemedia® has been installed and is operational in RCC. However, there are some teething problems encountered. The next step is for the field staff to procure and use the GPS units in conjunction with the GIS database at RCC.
- Training on the Goemedia® system is still outstanding.

General Status of the Network Maintenance

The technical network assessment has been commissioned and limited to preliminary condition assessment, inventory taking and valuation, and implemented through a consultancy contract from end of June 2008 for a duration of 10 months. This will at completion formulate the baseline data to be used as a benchmark for monitoring and evaluation of the effectiveness of the maintenance strategies and plans that will be deployed as a result. The information will also be used as a basis for the refurbishment programme, entailing repairs and replacement of dilapidated equipment, and a basis for the review of the planned maintenance plan.

So far, the project has picked the critical areas for the refurbishment programme, identified gaps in the spares strategy and devised the network assets inventory. These will provide fundamental information to form a basis for proper and relevant management decisions.

Projects

• SCADA Project

The SCADA upgrade project commenced by securing the supplier, a process which was completed at the end of the reporting period.

Transmission Projects

Mahlasela was completed; Maputsoe to be completed in July 2009; Metolong: the whole project to be completed in November 2009.



**Off-loading of Maputsoe
132/33kV 20MVA Trans-
former.**

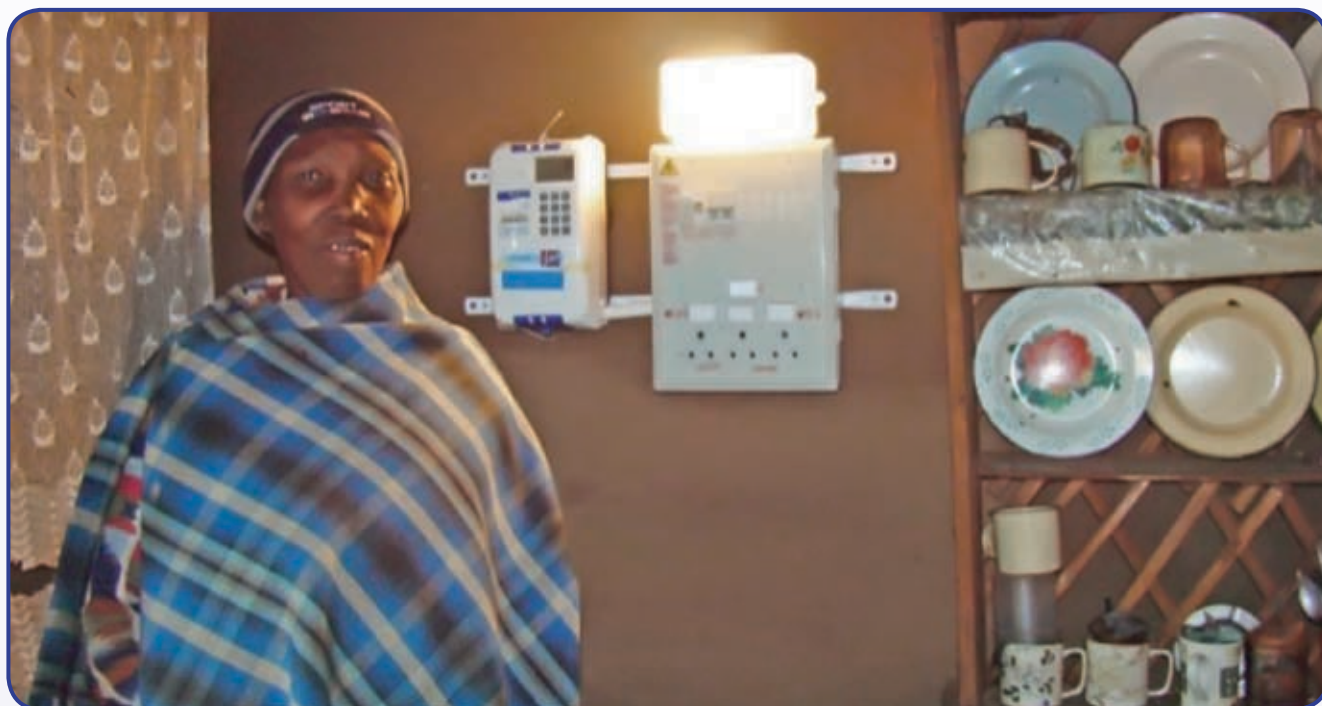
Mahlasela 88/11KV substation.



Metolong civil works.

**An electrified house in the
Machache constituency**





Interior of the above electrified house

System Improvement Projects

The following System Improvement Projects were implemented and the infill of LV network to achieve $\pm 50\text{m}$ to existing households was done: Selakhapane (Mabote), Thoteng (Quthing), Mapholaneng (Mokhotlong) and Tsikoane in Leribe. About 754 households have access to electricity while 131 connections were achieved.

New Connections:

The table below consolidates the connections made in the reporting period.

There have been significant delays in most projects, and the delays relate to the provision of material and lack of equipment on the part of contractors.

Electrification Projects

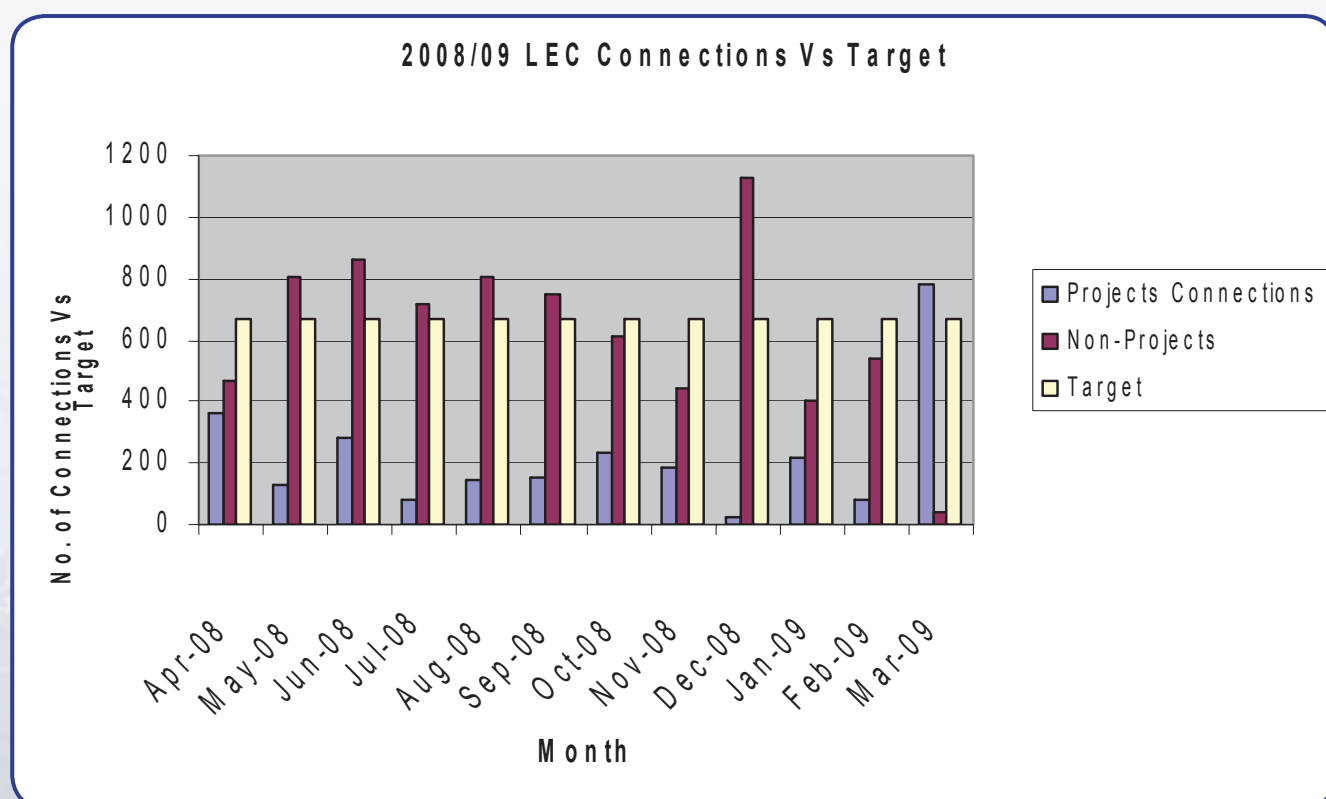
Project	Number of villages covered by the project	Actual No. of Connection [No.]	Take up Rate [%]	Project cost [M]	Average Cost Per Connection [M]
Phase III	3	2,500	43	19,131,438.95	8,724
LEC electrification programme	14	7,521	21	29,259,504.71	18,914
GOL Electrification programme	9	2,718	22	13,321,681.57	22,019
OVERALL	26	12,739	25	64,391,026.68	19,923

The new electricity connections were achieved through a combination of individual applications to LEC and the electrification projects outlined above. The Company continues to engage the local contractors in the implementation of all system improvement and electrification projects.

The performance of the private contractors that implement new service connections has greatly improved and this is attributed to the following:

- The contractors are improving in terms of adherence to the LEC construction standards.
- With the introduction of the supervising teams – Clerks of Works, supervision of the contractors tremendously improved.

The graph below consolidates the connections made in the reporting period, by month and category:



The total number of connections made in this reporting period is 12,739 and exceeds the target of 8,000. One of the reasons is the revision of connection policy that allowed applicants to pay low deposit for connections and pay the balances in low instalments while already using electricity.



Commercial Division

“The high proportion of prepaid sales is a major strength for the business; it enhances cash flow and eliminates a lot of cost associated with credit control. ”

Mr. J. Chifamba
General Manager - Commercial.

REVENUE

Total energy sales for 2008/09, at 530GWh, increased by 5.4% on the previous year's figure of 502GWh. This corresponds to a revenue of M278 million, which is 17% higher than the previous year. The average selling price for the year was M0.53 per kWh which is 13% higher than the previous year. A second tariff application was successfully launched with LEA to cover a second increase in bulk costs from ESKOM. Sales from prepaid customers increased by 6% on

the previous year and account for 44% of total sales while credit sales, on the other hand, grew by 4,7%. The high proportion of prepaid sales is a major strength for the business; it enhances cash flow and eliminates a lot of cost associated with credit control. The growth in prepaid sales is attributed to new connections, marketing effort and the general awareness in the market place of the advantages of electricity over other energy sources.

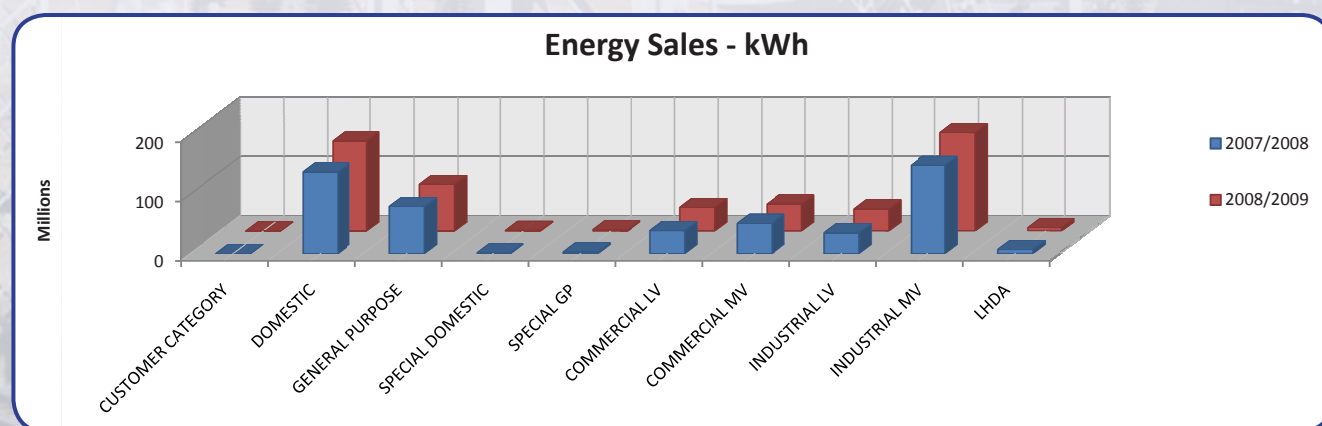


Table 1 shows energy sales figures for 2008/09

Customer Category	Energy Sales [kWh]		
	2007/08	2008/09	% Change
Prepaid Domestic	137,842,526.50	152,043,124.50	10.30
General Purpose	79,524,733.00	78,897,695.79	-0.79
Special Domestic	1,638,167.70	1,407,438.00	-14.08
Special GP	2,689,403.00	2,725,418.63	1.34
LV Industrial	35,270,438.90	37,239,415.15	2.97
LV Commercial	38,960,243.73	40,117,980.32	-11.01
HV Industrial	148,876,148.00	166,128,464.00	5.58
HV Commercial	51,059,717.33	45,439,926.00	11.59
LHDA	7,079,688.00	6,045,255.04	-14.61
Total	502,941,066.16	530,044,717.43	5.39

Table 2 shows sales in Maluti for 2008/09

Customer Category	Sales [M]		
	2007/08	2008/09	% Change
Prepaid Domestic	68,794,234.66	89,667,774.59	30.34
General Purpose	49,042,405.38	51,206,687.97	4.41
Special Domestic	802,702.73	821,941.69	2.40
Special GP	1,809,482.48	1,838,350.92	1.60
LV Industrial	17,700,973.93	21,989,746.19	44.35
LV Commercial	15,820,360.69	22,836,462.12	-0.28
HV Industrial	63,838,499.17	68,718,413.50	24.23
HV Commercial	18,598,891.03	18,545,905.39	7.64
LHDA	2,459,116.56	2,722,365.48	10.71
Total	238,866,666.63	278,347,647.85	16.53

CUSTOMER SERVICES

A total number of 12,739 customers were connected during the year, bringing the total number of customers to 77,000 from the previous year's figure of 66,838. The introduction of a deferred connection fee scheme, which effectively amounts to consumer credit, has helped in boosting the rate of connectivity. This will be boosted further when the proposed amendments to the connection fee policy, which seek to extend further the credit terms, are effected in the New Year. The expansion of credit facilities will, however, need to be complemented by the deployment of extra resources in customer services and credit control. More fundamentally, there will be need for capital injection by the shareholder towards the funding of this credit facility.

Table 3 shows the LEC Customer Base

Customer Category	No. of Customers		
	2007/08	2008/09	% Change
Prepaid Domestic	60,406	70,064	15.99
General Purpose	6,025	6,612	9.74
SP Domestic	14	14	0.00
SP General Purpose	38	38	0.00
LV Industrial	133	137	3.00
LV Commercial	141	142	0.71
HV Industrial	39	39	0.00
HV Commercial	33	33	0.00
LHDA	9	9	0.00
Total	66,838	77,088	15.34

The retail network was enhanced by the addition of four (4) new sales agents in Mafeteng, TY, Mount Moorosi and Maputsoe. More sales agents will be established, as and when the need arises, to complement the growth in customer base and to enhance the quality of retail services.

MARKETING

Demand Side Management (DSM)

In view of the power shortage in the region, marketing effort was directed more at addressing the issues of Demand Side Management through an intense educational program for customers. Fortnightly programs were aired on radio to discuss ways to use electricity efficiently. These programs were highly interactive and the Company got some very incisive feed back from the active participation of customers. In addition, country wide public gatherings were attended where the main focus was to discuss energy efficiency; this was backed up by production of z-fold brochures, showing a typical list of household appliances and the average consumption. Radio, as well as newspaper advertisements were produced and disseminated in each of the different media, covering simple and easy ways to save electricity.

In addition, house to house marketing was carried

out in 14 villages. These are: Thaba-Tseka (Town), Ha Santi (Mahloenyeng), Ha Lebenkele (Mafeteng), Mapholaneng (Mokhotlong), Ha Ponoane (Nazareth), Ha Ratsoleli (Qacha's Nek), Ha Ramotsoane (Nazareth), Mafophela (Nazareth), Ha Nkhasi (Pitseng), Ha Manama (Kolonyama), Mabothele (Butha-Buthe), Thaba Phatsoa (Mahobong), Mount Moorosi (Quthing), Brakfontein (Mohale's Hoek). A total of 3317 households were visited and a comprehensive education programme dispensed to each household. Issues covered included, Demand Side Management as well as safety. A weekly cartoon advertisement on safety was published in the weekly newspapers and a talk radio programme aired quarterly on the four major networks (Moafrika FM, Radio Lesotho, People's Choice Radio as well as Harvest FM).

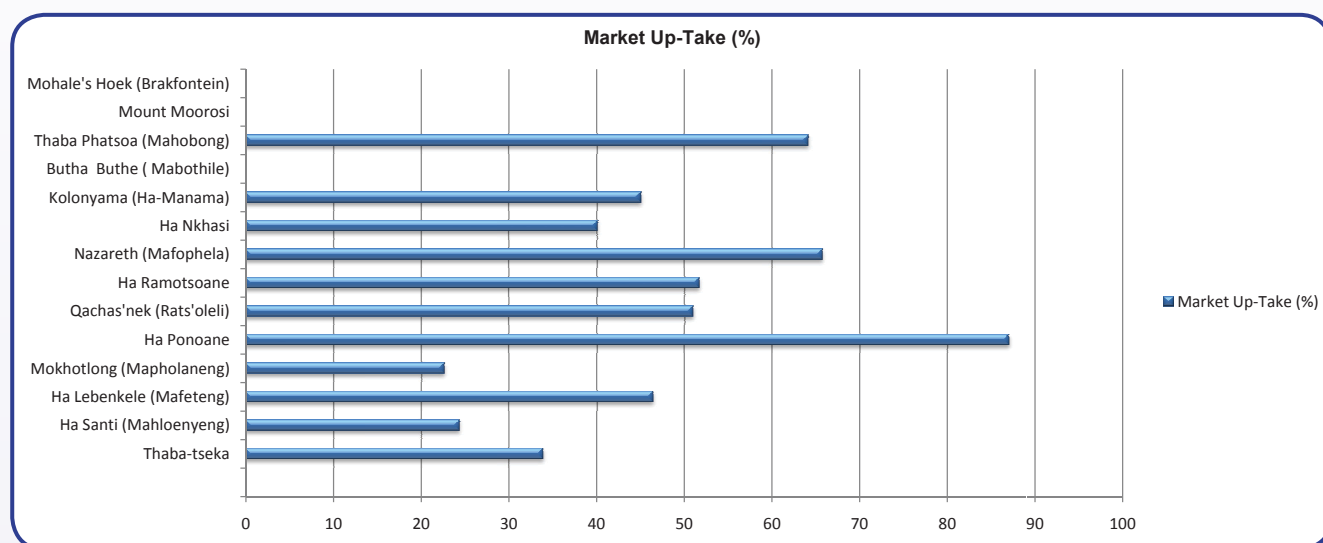
As part of key account management (KAM), all credit customers were advised of their efficiency targets and some companies have started to implement measures to reduce their power and energy consumption.

New connections

On the new connections front, customer visits were quite successful and the result was the achievement of an average market up take (number of households connected to total households) of 57.13%, as shown

in the chart below. This is remarkable and compares very favorably to the previous 25% level of uptake.

Chart 1: Market Uptake by Village



METERING

Billing & Metering Technology

A new billing system is in the process of being procured and will be commissioned in the first half of next year.

A pilot scheme will be run to test automated meter reading (AMR). The successful implementation of the pilot scheme will result in a roll out of the scheme which, upon implementation, will result in increased efficiencies in terms of meter reading and general data acquisition.

There is a possibility of another pilot scheme to test the smart metering technology which, upon implementation, will result in upgrading the current technology of prepaid metering to smart metering. Smart meters provide a much wider functionality for energy management, targeted load shedding, real time intelligence as well as better management of losses.

Losses

System losses for the year were 11.73%, which has slightly increased from 10% in 2007/08.

Credit Control

The Company continues to excel on this front with a collection rate higher than 95%. The department managed to deal with challenges in the textile sector, where some companies were struggling with their bills, following problems with trade financing facilities that hit the sector. The department managed to negotiate payment plans and collection on those accounts is progressing well, with customers honoring their obligations on time. This situation has helped strengthen cash flow. There will be need for more innovation in collection, as the recession starts to bite, to allow companies to restructure their markets and firm up on new financing arrangements.

About 11 000 customers have benefited from the introduction of the deferred connection fee scheme to date. Total credit disbursed to date, since inception of the scheme, is M27 million, of which M15 million has been repaid. The collection of outstanding dues is progressing well, albeit with problems due to non automation of management of these debtors. Defaulting customers are disconnected promptly. The collection will be managed more efficiently when the new billing system is installed.



Corporate Services Division

"The Plan for 2008/09 formed basis for the budget which was then later reviewed in September of the same year along with the plan."

Mr. L. Jimson
General Manager - Corporate Services.

Annual Activity Plan

Annual Activity Plan for 2008/09 financial year was prepared with focus on the issues that were considered to be priorities for the year. These priorities were drawn by management of LEC against the challenges that were alarming given the changing environment within the electricity sector, that of energy crisis which was averted through rationing of power and energy by load shedding. The Plan for 2008/09 formed basis for the budget which was then later reviewed in September of the same year along with the plan.

Project Planning

The department coordinated the development of a project document for a proposed Call Centre at LEC, that was proposed by Customer Service department in an attempt to respond to the rapidly growing customer base, which needs to be attended 24 hours, 365 days.

National Electricity Master Plan (NEMP)

The Company continued to demonstrate its commitment towards the implementation of NEMP which became effective in April 2007. This plan was developed by the Ministry of Natural Resources with a view to clearly stipulate guidelines to be followed, indicate annual number of connections and recommend systems to be put in place while electrifying prioritized areas. In an endeavor to support this initiative, a survey was undertaken in various areas, aimed at assessing willingness of the people to connect electricity, measuring their level of affordability hence developing fully fledged project proposals that would be ready for financing.

Electrification program for 2008/09 was made on the basis of the existing National Electrification Master Plan from which some villages were identified for future electrification should funds be available. Projects monitoring was undertaken in Mabuthile,

Tumahole, Ha Motjoka and Ha Mafophela. The projects that were completed over two years ago were evaluated in order to establish whether they have achieved their initial objective, and those projects were Masitise and Ha 'Mantšebo.

Regulation

Corporate Planning is entrusted with responsibility of coordinating regulatory issues. LEC reports to Lesotho Electricity Authority (LEA) regarding compliance on quality of supply and service standards, and the department collates all the information for submission to LEA.

A regulation awareness session was held for the entire management of LEC to present salient issues regarding regulation and the impact thereof. ESKOM delivered a presentation on the effects of regulation on the Company, from tariff analysis to technical compliance.

Tariff Increase

Subsequent to LEA approval of the 2008/09 tariff adjustment for April implementation, ESKOM (LEC bulk supplier) increased the bulk supply tariff for the same year. Since bulk costs are a pass-through, in November 2008 LEA approved a recovery of M11.9 million short-fall from the ESKOM increase in 17 months instead of five months (November to March 2010), applied for by LEC. In December, preparations for 2009/10 tariff adjustment ensued and the application was submitted to LEA formally in February 2009.

Business Development

The department business advisory function was put to use on a couple of assignments, the proposed Liqhobong/Kaopowerline construction consultations and the special 132kV tariff was designed together with Plantech consultants with the view to introduce

another category of customers, which will largely be mines from the onset. The electricity sector analysis was drafted and incorporated into the National Growth Strategy that was coordinated by the Ministry of Finance and Development Planning. The paper provided an insight into the current situation in the electricity sector, the potential and strategies that will take the sector to greater heights.

Information Regarding Power Crisis in the Country

The load shedding that was implemented during the whole winter of 2008 was quite phenomenal. Repeated apologies for the not too normal supply of electricity posed challenges to the PR department which had to revamp its communication strategies to ensure that customers were made aware of the situation. Weekly radio programs throughout the period were used to instill in people's minds the prevailing situation of power shortage. Public Relations complemented Marketing department's efforts on the Demand Side Management and repeatedly advised customers on how to save energy given the situation.

Public Gatherings

Eighteen (18) public gatherings were held for the beneficiaries of electrification projects in 5 districts, five were held in 4 districts for the communities affected by the construction of transmission lines which traversed their fields, while 9 gatherings were held upon request by members of electricity schemes.

Vandalism

Meetings with Local Government authorities in 7 districts were held during the reporting period making a total of 8 districts visited. Issues related to vandalism and education about electricity safety were thrashed out given the situation that was prevailing regarding energy crisis in the country.

PR was part of the forum organized by the Police which put together all utility companies that share the experience of vandalism. This initiative has had a positive impact and has seen vandalism of LEC equipment subsiding significantly. Enlarged posters which show the extent of damage were printed and are being distributed to public and strategic places such as District Councils' offices.



Public gathering at Ha Ramotsoane, Machache Constituency, addressed by the Hon. Minister of Natural Resources, Mr. Monyane Moleleki

Social Responsibility

The Company continued to be committed and extended a helping hand to the needy, particularly the orphans. This is an appreciation token and it is anticipated that more people who are destitute will benefit in future.

Donations For The Past 5 Years

Year Offered	Number of beneficiaries	Amount M
2004/05	12	59,000.00
2005/06	10	100,000.00
2006/07	8	130,000.00
2007/08	7	140,000.00
2008/09	13	140,000.00
Total	50	569,000.00

Administrative Activities

As the first move towards controlling operating costs for LEC, a new method of managing telephone costs was introduced whereby at Headquarters, managers had exclusive access to mobile phones and were required to control their departments' access to mobile phones and international calls. The tactic has helped to significantly reduce telephone expenses to within budget, while they were consistently above monthly budget to the extent that the annual budget got depleted in four months. Calling Cards were introduced for use by all LEC staff based in the service centers outside Headquarters with different amounts allocated to each staff member according to their job requirements. As a result, telephone costs are under control generally as the bills are gradually being reduced .

Architectural plans for the construction of Thaba-Tseka offices and Mafeteng store were completed in preparation for construction in 2009/10 financial year.

Eight vehicles (5 twin cabs and 3 single cabs), forklift, 5 Crane Trucks were procured, and steel shelves fitted at Main Store in an effort to enhance service delivery to customers.

The LEC business is rapidly growing and new customer service centres are established around the country. This growth is dependent on technology to offer its services, requires high availability and capacity of sophisticated and interconnected global infrastructure and information systems.

The main focus for IT this year was on:

- Automated Quality Processes
- Enhancing Connectivity
- Infrastructure Agility
- High Vending Capacity

Automated Quality Processes

e-Management Xpress System (e-Man)

Since the inception of online vending in 2004, LEC has not been able to provide online registration. This implied that customers could only be able to purchase electricity, in offline mode, from the same office in which they registered, until a manual dump and merge process had been performed. This process would normally take a few days, and only then, could a customer purchase at any office.

In 2008/09, an e-Man system was put in place, which enabled customer registration and purchasing at any LEC office and sales agents to be instantaneous, resulting in true online vending.

The e-Management Xpress system is a thin client application that is easily and quickly installed on a remote computer which has a TCP/IP connection to an Apache web server that hosts the e-Management Xpress application. The system has far lower network bandwidth requirements than Suprima and is suitable for use over slow connections such as dialup, DSL or leased lines, while still operating over LAN connections. It is designed for use across the internet.

Business Process Mapping

By streamlining processes for reliability, ease of use, cost effectiveness, and agility, operational excellence is ensured and maximize business value and reuse attained. Three major processes have been mapped fully, these were; 'Apply To Supply', 'Procure To Pay' and 'Faults To Restore'. The 'Apply To Supply' process, which is the core process, has been enhanced and relevant systems have been installed. Training has also been carried out to streamline it. Continuous improvement is being undertaken to ensure that it:

- Delivers significant business value
- Improves the quality and performance of our supply chain
- Systemic innovation is infused throughout the organization

- Informs management such that decision making is improved

Enhancing Connectivity

Keeping Mobile Employees Connected

In recent years, most employees spend most of their time out of office and take their work home. In 2008/09, IT delivered several solutions to help them stay connected with co-workers and customers when they are away from their offices. The new webmail tool allows travellers with internet connectivity and/or smart mobile phones to manage calendars and receive and sent e-mail from their LEC e-mail addresses. Mobile employees have responded enthusiastically.

Projects Estimator to Service Manager and Training

In mid 2008, one of the largest legacy Projects and Job Costing systems (Projects Estimator) was migrated to an ERP integrated system, Service Manager. The move consolidated more than 20 stand alone points of sale. This was designed with abstracted layers, which enables upgrading components more flexibly and achieve greater interoperability between systems. Time to deploy a job or a project is tremendously reduced as the new system allows an integrated planning process. Data quality issues were reduced, and significant saving was made on integration and software licensing costs.

High Vending Capacity

Vending Capacity was increased by:

- Deploying infrastructure and connecting four new sales agents and providing continued support.
- The number of Suprima licenses in offices where there has been an increase in vending was increased to reduce long queues.
- A new server room was also put in place to ensure that the core infrastructure is able to support the increased vending traffic.

Corporate Functions

Industrial Relations

In order to entrench the culture of industrial peace conducive for productive environment, Managers, Supervisors and Shop Stewards were trained on how to conduct fair and just work discipline. The training has resulted into Management and the Union eventually agreeing to review the Procedural Recognition Agreement, with a view to strengthening the workplace relationship between the Union and Management.

Training and Development of Staff

To address the challenges of ailing network system and the power shortage which requires heightened skills to effectively deal with the said challenges, the Board approved M1.5 million for training and development budget with a clear mandate to address system maintenance and system improvement challenges.

About 60% of this budget was spent on technical training for 105 system operators from Engineering and Commercial. The objective was to equip them with the necessary skills to tackle system improvement initiatives and the load shedding phenomena. The training covered various components of the system; from the actual operations of the system to the observance of safety and rules procedures. The overall impact was that there was more benefit gained because there is noticeable improvement of the performance of the system and decreased occupational accidents.

Some of the technical courses undertaken were as follows:

- System Operation/Switching (ORHVS)
- Project Planning and Funding Expertise
- Demand Side Management
- Tariff Planning and Design

- Termination and Jointing (Cable jointers)
- System Simulation

The rest of the training budget was spent on the non-technical training interventions geared towards improving service excellence to the customers.

For the effective management of operations and resources, managers were exposed to courses such as Management Development Programme (MDP) to strengthen their management competencies.

As part of joining the nation to minimize the impact of HIV and AIDS in the country, a total of 83 peer educators and councilors were trained to assist the Company to educate staff and implement effective strategies in the fight against the disease.

Performance Incentive Bonus

Corporate Performance Targets were set and approved by the Board relating to the period 31 October 2007 to 30 September 2008. These targets were linked to the Corporate Plan to ensure compliance to the set deliverables of the Company.

The targets set were based on the following performance areas:

- New Connections (LEC own funds)
- Quote for connection (within 50m) ready within 10 days
- Quote for connection ready within 1 month where LV line network extensions are required
- Connections made within two months where LV networks are required
- Restoration of forced interruptions (time to restore the supply after forced interruption)
- Planned maintenance implemented
- Account queries

- Credit meter accuracy queries
- Handling of customer/public complaints/enquiries/queries
- Handling of public liability claims
- Overall average cost/kWh sold
- Return on investment
- No stock-out of material at the main store

For the period under review, 84.69% of the targets had been achieved and this resulted in payment of the same rate as bonus of the basic monthly salary to all employees.

Staff Wellness Initiatives

Company launched a comprehensive wellness programme where staff was encouraged to participate in the commemoration of all international health days. External experts were brought in to educate and disseminate information to staff on different themes. These included celebration of World Diabetes and HIV and AIDS days.

Furthermore, the Company introduced and celebrated LEC Sports Day, where all employees came together to compete in different sporting codes, with the objective of illustrating the benefits of active, healthy life styles and building the spirit of oneness amongst staff.

Quality of Service and Supply

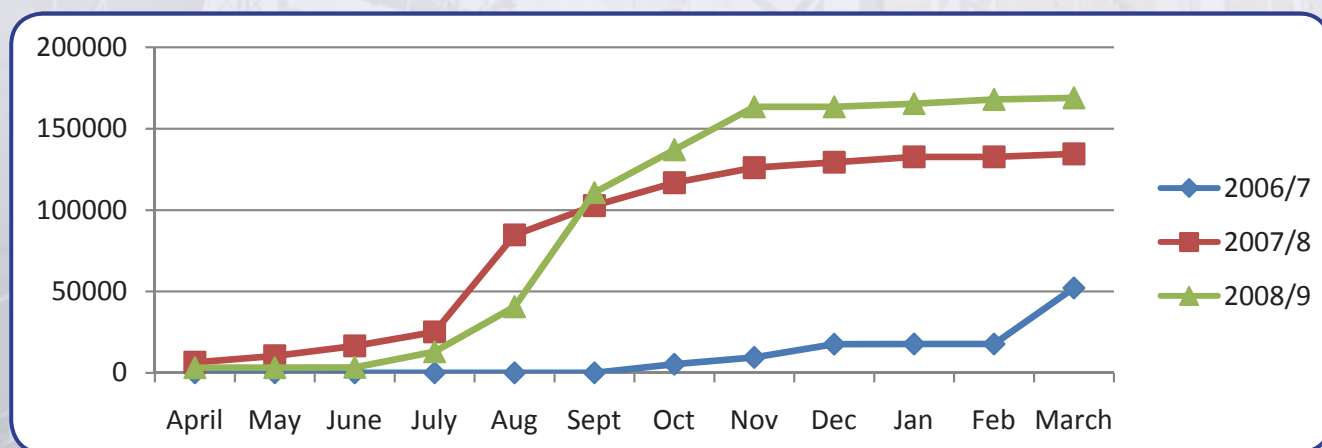
The Company commits itself to providing commendable services and supplying electricity in accordance with internationally accepted quality of supply standards.

Forced Power Interruptions

The Company has standards to ensure prompt restoration of power following forced power interruptions. Compliance with the set standards has been a challenge; hence this provides an opportunity to improve in this area.

Network Vandalism

Metal theft is a growing concern not only in the power industry but across all economic sectors and domestic settings. Incidents of cable theft, transformers and other electrical equipment vandalism have been on the increase over the past years. These incidents do not only affect the quality of service and supply but have enormous financial implications both to the Company and customers. As the graph below shows, costs attributable to vandalism have been increasing exponentially. During financial year 2006/07, material costs were estimated at M 52,000. In 2008/09 the figure increased by over 320% to around M170,000.



The Company in collaboration with other utilities, the Department of Police, Area Chiefs, and local scrap buyers has embarked on campaigns to curb metal theft especially around the Maseru CBD. There are strong indicators that such measures are bearing fruits. During the last two quarters of 2008/09 (October to December 2008 and January to March 2009), incidents of vandalism recorded by the Company decreased remarkably.

Surge Related Public Liability Claims

Over the past few financial years, the volume of public liability claims relating to alleged power surges has increased significantly (110 in 2006/07; 165 in 2007/08; and 203 in 2008/09). However, the majority of claims lodged during 2008/09 were repudiated because their root-causes could not constitute negligence on the part of the Company. These included: Transient surges during switching; other unidentifiable transient surges; lightning spikes; third party incidents on network – e.g. motor

vehicle accidents; vandalism and blown up fuses.

Awareness campaigns for customers to utilize surge protectors on sensitive electrical equipment and appliances and/or insure equipment and premises, were initiated.

Occupational Safety and Health

With regard to workers' safety, the three leading risk factors to the Company are electric shocks, falls from height and motor vehicle accidents.

Environmental Management

Phasing out of PCB contaminated distribution transformers, soil rehabilitation following transformer oil leaks, power line encroachment, soil erosion next to power lines, and minimizing and recycling waste, remain as some of the significant environmental challenges the Company is faced with.





Finance Division

“The Company saw its revenue grow from M250 million in the previous year to M295.7 million during the year.”

Ms. M. Mantsoe
General Manager - Finance.

Financial Overview

- ↑ Revenue up 18.4%
- ↑ Cost of sales up 28%
- ↑ Operating Expenditure up 19%
- ↓ Profit after tax declined 21%

Commentary

Against a background of the most severe electricity supply shortage in the region, coupled with the strongest economic downturn in recent history, the Company has continued to grow its asset base, and in return sustain profitability.

Operating profit after tax at M19.4 million is 21% below previous year's performance, with the operating margin despite tough trading conditions declining only by 6% from 11.6% to 7.1%, due to

increase in revenue and strong focus on expense base.

Revenue increased by 18.4% from increased sales volumes and also increased tariff compared to last year.

Cashflow from operations improved by 54% to M71 million.

Revenue

The Company saw its revenue grow from M250 million in the previous year to M295.7 million during the year. In addition to the 12% tariff hike that the Company received during the year, revenue growth was driven mainly by the following:

- Increased demand from increased customer base than originally anticipated
- delayed roll-out of the CFLs where it had been assumed that this would already be bringing about 10MWh reduction in sales, and

- increased production by Muela

Cost of Sales

Cost of sales stood at M127.0 million against previous year's M99 million. This represented 43% of total revenue compared to 40% in the previous year, with the major difference in the bulk purchases costs. ESKOM increased its tariff by an effective rate of 34% during the year, and the Company on the other hand signed a power sale agreement with EdM at tariffs which are relatively lower than ESKOM's imports but still higher than Muela's.

Operating Costs

Costs were higher at 19% for the year 2008/09 compared to the year 2007/08. M154 million was spent in the operating costs compared to M128 million in the previous year. Staff salaries were adjusted to the market rates and this saw an increase

of 10% in the salary bill. Commission paid to sales agents grew by 35% as the customer base grew. The Company also undertook the asset evaluation and assessment exercise which set it back M3.5 million.

Liquidity

During the period under review, the Company generated cash of M71 million from its operations compared to M46 million in the previous year. Increase in sales and reduction in expenditure made a significant contribution to the increase in cash.

As at the end of the financial year, the Company held total cash of M79 million, of which M50 million was Government funds held towards government funded electrification projects, both in progress and to be implemented in the next financial year.

Financial Ratios

Ratio	2008/09	2007/08
Current Ratio	1.5	1.7
Quick Ratio	1.26	1.3
Debtor Days	69	72
Creditor Days	91	120
Return on Investment	3.51%	4.69%
Debt to Equity ratio	0.26%	0.00%
Cost-to-Income	95.07%	91.05%
Salary / Total cost	45.46%	49.37%

Financial Statements for the year ended 31 March 2009

Report of the Auditor General



Office of the Auditor General P.O. Box 502,
Maseru 100 Lesotho

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF LESOTHO ELECTRICITY COMPANY FOR THE YEAR ENDED 31 MARCH 2009

Mosito and Associates Chartered Accountants, under Section 15(1) of the Audit Act 1973 have audited the accompanying financial statements of Lesotho Electricity Company, which comprise the balance sheet as at 31 March 2009, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 6 to 21.

Director's Responsibility for the Financial Statements

The company's 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

My responsibility is to express an opinion on these financial statements based on the audit. The audit has been conducted in accordance with International Standards on Auditing. Those standards require auditors to 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 judgment, 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

Financial Statements for the year ended 31 March 2009

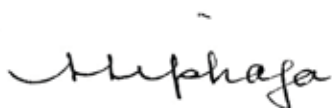
Report of the Auditor General

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 directors, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the company as at 31 March 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act 1967.



Lucy L. Liphafa (Mrs)
Auditor General

1 December 2009



Balance Sheet as at 31 March 2009

	<u>Notes</u>	<u>2009</u>	<u>2008</u>
ASSETS			
Non-current assets		1 264 528 887	698 242 822
Property, plant and equipment	2	1 264 189 315	698 242 822
Deferred taxation	8	339 572	-
Current Assets		177 485 892	147 471 970
Inventories	4	30 363 019	31 977 570
Trade and other receivables	5	55 571 787	49 258 415
Cash and cash equivalents	6	91 551 087	66 235 985
Total assets		1 442 014 779	845 714 792
CAPITAL AND LIABILITIES			
Equity attributable to equity holder of the company		1 304 928 836	740 069 860
Share Capital	7	1 000	1 000
Share Premium	7	599 210 049	599 210 049
Capital Grant		44 339 835	21 889 835
Retained Income		138 370 810	118 968 976
Revaluation Reserve		523 007 142	-
Non-current liabilities		19 905 055	18 355 779
Retirement benefit obligation	3	16 554 778	15 161 727
Long-term loans		3 350 277	-
Deferred Tax	8	-	3 194 052
Current liabilities		117 180 887	87 289 153
Trade and other payables	9	88 075 270	65 463 173
Current portion of long term borrowings		555 188	-
Security deposit		10 473 412	9 907 013
Taxation	13	6 450 092	2 154 085
Bank overdraft	6	11 626 925	9 764 882
Total Equity and Liabilities		1 442 014 779	845 714 792

Income and Expenditure Statement

for the year ended 31 March 2009

	<u>Notes</u>	<u>2009</u> M	<u>2008</u> M
Revenue	10	295 671 624	250 286 078
Cost of sales		(127 023 544)	(99 122 097)
Gross Profit		168 648 080	151 163 981
Other income		6 580 599	6 188 330
Operating expenditure		(153 994 891)	(128 765 545)
Operating profit/(Loss)	11	21 233 788	28 586 767
Investment revenue		4 736 756	3 969 324
Finance Costs		(139 819)	-
Profit/(loss) for the year before taxation		25 830 724	32 556 090
Taxation	13	(6 428 890)	(8 095 969)
Profit/(loss) for the year after taxation		19 401 834	24 460 122

Statement of Changes in Equity

for the year ended 31 March 2009

	<u>Note</u>	Capital	Revaluation Reserve	Retained income	Total Equity
		M	M	M	M
Balance at 31 March 2008		621 100 884	-	118 968 976	740 069 860
<u>Changes in equity for 2009</u>					
Capital injection by GOL.		22 450 000	-	-	22 450 000
Net income/(expenses) recognised directly in equity		22 450 000	-	-	22 450 000
Deferred tax adjustment		-	-	-	-
Revaluation Surplus		-	523 007 142	-	-
Profit for the year		-	-	19 401 833	19 401 833
Total recognised income and expenses for the year		22 450 000	523 007 142	19 401 833	564 858 976
Balance at 31 March 2009		643 550 884	523 007 142	138 370 810	1 304 928 836



Cash Flow Statement

for the year ended 31 March 2009

	<u>Notes</u>	<u>2009</u>	<u>2008</u>
Cash flows from operating Activities		71 563 613	46 038 918
Cash generated from operations	14	77 230 120	46 038 918
Income taxes paid		(5 666 507)	-
Cash flows from investing activities		(74 892 599)	(90 618 441)
Purchase of property, plant and equipment	2	(79 629 355)	(94 587 765)
Interest income		4 736 756	3 969 324
Cash flows from financing activities		26 782 045	22 865 109
Capital raised under restructuring and grants received		22 450 000	21 889 835
Loans assumed by GOL under restructuring		-	-
Net proceeds from loans raised		3 905 465	-
Additional Security Deposit held		566 399	975 274
Repayment of borrowings		(139 819)	-
Increase in cash and cash equivalents		23 453 058	(21 714 414)
Cash and cash equivalents at beginning of the year		56 471 102	78 185 516
Cash and cash equivalents at end of the year	6	79 924 161	56 471 102

Notes to the Financial Statements

at 31 March 2009

1. Accounting Policies

1.0 Presentation of Financial Statements

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the Lesotho Institute of Accountants in accordance with the Accountants Act of 1977. The financial statements have been prepared on the historical cost convention as modified by the revaluation of certain property, plant and equipment and incorporate the principal accounting policies set out below.

These accounting policies are consistent with the previous year.

1.1 Property, plant and equipment

The cost of an item of property, plant and equipment is recognised as an asset when;

- (1) it is probable that future economic benefits associated with the item will flow to the company; and
- (2) the cost of the item can be measured reliably

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequent to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Property, plant and equipment are carried at revalued amount, being the fair value at the date of revaluation less any subsequent

accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to equity in the revaluation reserve. The increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

Any decrease in an asset's carrying amount, as a result of a revaluation, is credited directly to equity in the current period. The decrease is debited directly to equity in the revaluation reserve to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Depreciation is provided on all property, plant and equipment other than freedom land, to write down the cost less residual value, by equal instalments over their useful lives as follows:

Item	Useful Life
Land	Indefinite
Buildings	50 years
Plant And machinery	10-15 years
Furniture and fixtures	5 years
Motor vehicles	5-7 years
IT equipment	3-5 years
Computer software	3-5 years

The depreciation charge for each period is recognised in profit and loss, unless it is

Notes to the Financial Statements

at 31 March 2009

Accounting Policies

Property, plant and equipment (continued)

included in the carrying amount of another asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.2 Financial instruments

Initial recognition

The company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial assets and financial liabilities are recognised on the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are recognised initially at fair value. In the case of financial assets or liabilities not classified as at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument are added to the fair value.

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable,

using trade date accounting.

An asset that is subsequently measured at cost or amortised cost is recognised initially at its fair value on the trade date.

Any change in the fair value of the asset to be received during the period between the trade date and the settlement date is not recognised for assets carried at cost or amortised cost, other than impairment losses.

Assets carried at fair value: the change in fair value shall be recognised in profit or loss or in equity, as appropriate.

Subsequent measure

After initial recognition financial assets are measured as follows:

- (1) loans and receivables and held-to-maturity investments are measured at amortised cost using the effective interest method;
- (2) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost;
- (3) other financial assets, including derivatives, at fair value, without any deduction for transaction costs which may incur on sale or other disposal.

After initial recognition financial liabilities are measured as follows:

- (1) financial liabilities at fair value through profit or loss, including derivatives that are liabilities, are measured at fair value.

Notes to the Financial Statements

at 31 March 2009

Financial instruments

Subsequent measure (continued)

(2) other financial liabilities are measured at amortised cost using the effective interest method.

1.3 Inventories

Inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories comprises all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value are recognised as a reduction in the amount

of inventories recognised as an expense in the period in which the reversal occurs.

1.4 Trade and other receivable

Trade and receivable originated by the enterprise are treated as loans and receivables and are carried at amortised cost.

1.5 Cash and cash equivalents

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to insignificant risk in change in value.

Cash and cash equivalents are measured at fair value.

1.6 Provisions and contingencies

Provisions are recognised when:

- (1) the company has a present obligation as a result of a past event;
- (2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (3) a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate

Notes to the Financial Statements

at 31 March 2009

Accounting Policies

Provisions and contingencies (continued)

asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Provisions shall not be recognised for future operating losses.

If the company has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- (1) the amount that would be recognised as a provision; and
- (2) the amount initially recognised less cumulative amortisation.

Contingent asset and contingent liabilities are not recognised.

1.7 Trade and other payables

Trade and other payables are measured at amortised cost using the effective interest method.

1.8 Deferred tax

Deferred taxation is computed using the comprehensive method. Deferred taxation assets are only recognised when there is no uncertainty concerning the recoverability thereof.

Notes to the Financial Statements

at 31 March 2009

2. Property, plant and equipment

	2009			2008		
	Cost/ Valuation M	Accumulated depreciation M	Carrying Value M	Cost/ Valuation M	Accumulated depreciation M	Carrying Value M
Land	5 310 122	-	5 310 122	-	-	-
Buildings	51 295 518	-	51 295 518	31 516 647	(10 631 270)	20 885 377
Plant and machinery	10 711 028	(4 975 514)	5 735 514	8 625 020	(4 336 736)	4 288 284
Motor vehicles	34 238 089	(24 293 873)	9 944 216	29 743 149	(20 193 557)	9 549 593
Office equipment	7 775 321	(1 200 445)	6 574 876	9 524 631	(4 614 433)	4 910 198
IT equipment	9 822 049	(5 835 972)	3 986 077	16 921 882	(14 755 562)	2 166 320
Generation, Transmission and distribution plant	1 279 070 360	(107 726 538)	1 171 343 822	895 508 345	(353 066 504)	542 441 841
Capital work in progress	9 999 170	-	9 999 170	114 001 210	-	114 001 210
Total	1 408 221 657	(144 032 342)	1 264 189 315	1 105 840 884	(407 598 062)	698 242 822

Notes to the Financial Statements

at 31 March 2009

Reconciliation of property, plant and equipment - 2009

	Opening Balance	Additions	Disposals	Depreciation	Revaluation Reserve	Total
	M	M	M	M	M	M
Land	-	-	-	-	6 645 202.81	6 645 203
Buildings	20 885 377	3 681 680	-	511 337	27 239 797.67	51 295 518
Plant and machinery	4 288 284	2 092 004	-	638 778	(5 996.14)	5 735 514
Motor vehicles	9 549 593	4 494 939	-	4 100 316	-	9 944 216
Office equipment	4 910 198	2 624 641	-	1 026 545	66 581.49	6 574 876
IT equipment	2 166 320	5 802 732	-	2 456 904	(1 526 070.10)	3 986 077
Generation, Transmission and distribution plant	542 441 841	164 935 398	-	27 956 125	490 587 626.19	1 170 008 740
Capital work in progress	114 001 210	(104 002 039)	-	-	-	9 999 171
Total	698 242 822	79 629 355	-	36 690 004	523 007 142	1 264 189 315

Notes to the Financial Statements

at 31 March 2009

Revaluation:

The following classes/categories of assets were revalued on 31 March 2009 by independent valuers as indicated.

Asset Class/Category:

Transmission & Distribution
Land & Buildings
Office Equipment
IT Equipment (excl. Software)

Valuer:

NETgroup South Africa (Pty) Ltd.
Oxbow Land & Property Consultants
Oxbow Land & Property Consultants
Oxbow Land & Property Consultants

Methods and significant assumptions applied were as follows:

(a) Transmission & Distribution

Depreciated replacement cost (DRC) valuation method was applied. This method took the Greenfield cost of the asset and depreciated this value over the useful life of the asset over a straight line up to a salvage value of the asset. The Greenfield value that was used is the value of similar asset of replacement including all current cost of the asset, labour, transport, some contingencies and some overheads where applicable. The depreciated asset value is derived by estimating the current value of the asset at today's prices and technology, adjusted for age and condition.

(b) Land & Buildings

The bases of valuation was the open market value estimated through application of valuation methods and procedures that reflect the nature of the property and the circumstances under which the given property would most likely trade in the open market.

(c) Office Equipment & IT Equipment

The values have been arrived at on the depreciated replacement cost basis (DRC) taking into consideration the present day replacement cost of a brand new asset of the same type, specification, and ready to do the same job at the same place and allowing age, conditional and functional obsolescence.

3. Retirement benefits

3.1 Defined benefit plan

Provisions are made for the estimated liability for annual leave and severance pay as a result of services rendered by qualifying employees up to the balance sheet date as provided for under the Labour code 1993.

Notes to the Financial Statements

at 31 March 2009

Movement for the period

	2009 M	2008 M
Opening balance	15 161 727	13 254 854
Accruing to members	1 355 467	1 940 742
Benefits paid & unused amounts reversed	37 584	(33 868)
	16 554 778	15 161 727

3.2 Defined contribution plan

The company contributes towards a defined contribution provident fund administered by Alliance Insurance Company as of 10 August 2004. An employee is admitted as a member as long as he/she continues to satisfy all conditions of eligibility of membership of the fund.

The company is under no obligation to cover any unfunded benefits.

Total contributions to the scheme	4 308 780	3 996 819
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4. Inventories

	M	M
Finished goods	30 363 019	31 977 570

5. Trade and other receivables

	M	M
Electricity Debtors	27 323 400	17 736 997
Sundry trade debtors	46 311 088	45 424 410
Provision for bad debts	(30 351 474)	(22 128 801)
Net trade debtors	43 283 014	41 032 606
Advance payments and deposits	11 337 895	7 262 115
Other receivables	950 878	963 694
Tax refunds receivable	-	-
	55 571 787	49 258 415

Notes to the Financial Statements

at 31 March 2009

6. Cash and cash equivalents

Cash and cash equivalents are measured at fair value and consist of:

	2009 M	2008 M
Cash on hand	29 300	29 300
Bank balances	16 263 182	8 329 000
Prepaid Ins. Self Insurance Fund	455 846	-
GOL Funds held by LEC for projects	32 728 658	25 095 648
Short-term deposits	42 074 099	32 782 037
Bank overdraft	(11 626 925)	(9 764 882)
	79 924 161	56 471 103
Current assets	91 551 087	66 235 985
Current liabilities	(11 626 925)	(9 764 882)
	79 924 162	56 471 103

The overdraft represents cheques issued but not yet presented for payment as at the balance sheet date, which would otherwise be met by automatic draw downs from call accounts.

7. Equity attributable to equity holder of the company

On 12 December 2006, the corporation was converted into a proprietary limited Company, with the Government of Lesotho holding 100% shareholding as disclosed below:

	2009 M	2008 M
Capital		
1,000 authorised, issued and fully paid shares of par value of M1.00	1 000	1 000
Share Premium	599 210 049	599 210 049
	599 211 049	599 211 049

Notes to the Financial Statements

at 31 March 2009

8. Deferred taxation

	2009 M	2008 M
Capital allowances & other timing differences	339 572	3 194 052
	339 572	3 194 052

9. Trade and other payables

	M	M
Trade payables	40 967 072	46 070 269
Accrued expense	9 720 861	5 740 082
Other payables	37 387 338	13 652 823
	88 075 270	65 463 174

10. Revenue

	M	M
Electricity Sales	262 348 783	228 217 297
Connection fees	33 250 131	21 909 500
Miscellaneous other revenue	72 709	159 281
	295 671 624	250 286 078

11. Operating Profit (Loss)

Operating profit (loss) is stated after

Expenditure

Auditor's remuneration

Audit fee

Prior year under provision

Depreciation

Property, plant and equipment

Provisions

Increase in specific provisions

151 580	143 000
-	-
36 690 004	32 442 719
-	-

12. Directors' Emoluments

	M	M
Emoluments received		
Directors and past directors		
For services as directors	550 011	488 757

Notes to the Financial Statements

at 31 March 2009

13. Taxation	2009 M	2008 M
13.1 Current tax	<u>9 962 514</u>	<u>2 154 085</u>
13.2 Deferred	3 533 624	5 941 884
Deferred tax asset c/f	339 572	(3 194 052)
Deferred tax asset b/f	(3 194 052)	2 747 832
	<u>6 428 890</u>	<u>8 095 969</u>
13.3 Accounting Profit	<u>25 830 724</u>	<u>32 556 090</u>
Tax at 25%	6 457 681	8 139 022
Tax effect of non-deductible expenses	(28 791)	(43 053)
Rate change	-	-
Tax losses recognised	-	-
Tax expense	<u>6 428 890</u>	<u>8 095 969</u>
	%	%
13.4 The normal Lesotho income tax rate	25.0	25.0
Effective rate	<u>24.9</u>	<u>24.9</u>
14. Cash generated from (used in) operations	M	M
Profit (Loss) before taxation	25 830 724	32 556 090
Adjustments for:		
Depreciation and amortisation	36 690 004	32 442 719
Interest received	(4 736 756)	(3 969 324)
Finance costs	139 819	-
Movement in retirement benefit assets and liabilities	1 393 051	1 906 873
Other	-	-
Changes in working capital:		
Inventories	1 614 550	(13 882 702)
Trade and other receivables	(6 313 372)	(14 937 082)
Trade and other payables	<u>22 612 099</u>	<u>11 922 346</u>
	<u>77 230 120</u>	<u>46 038 919</u>

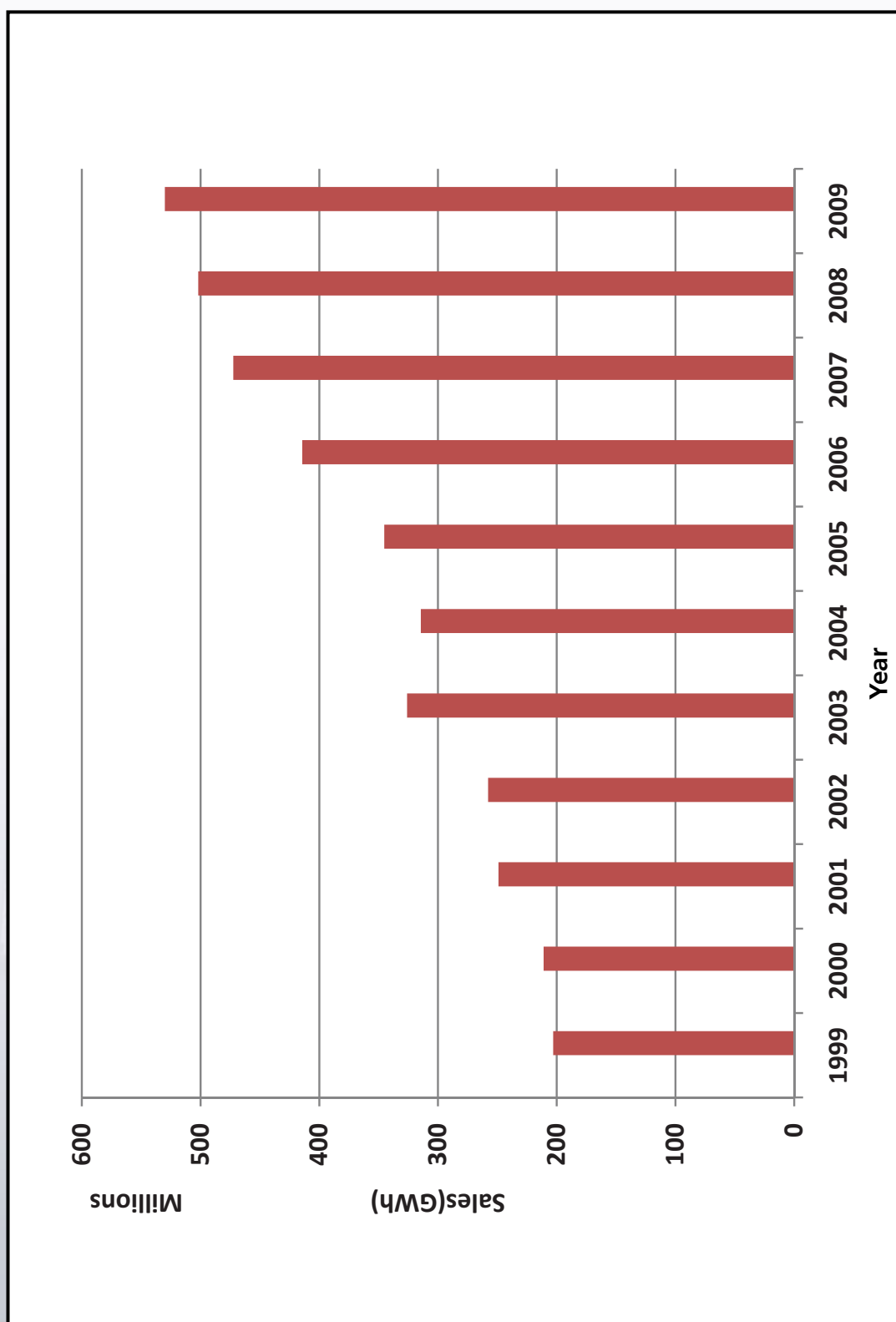
Notes to the Financial Statements

at 31 March 2009

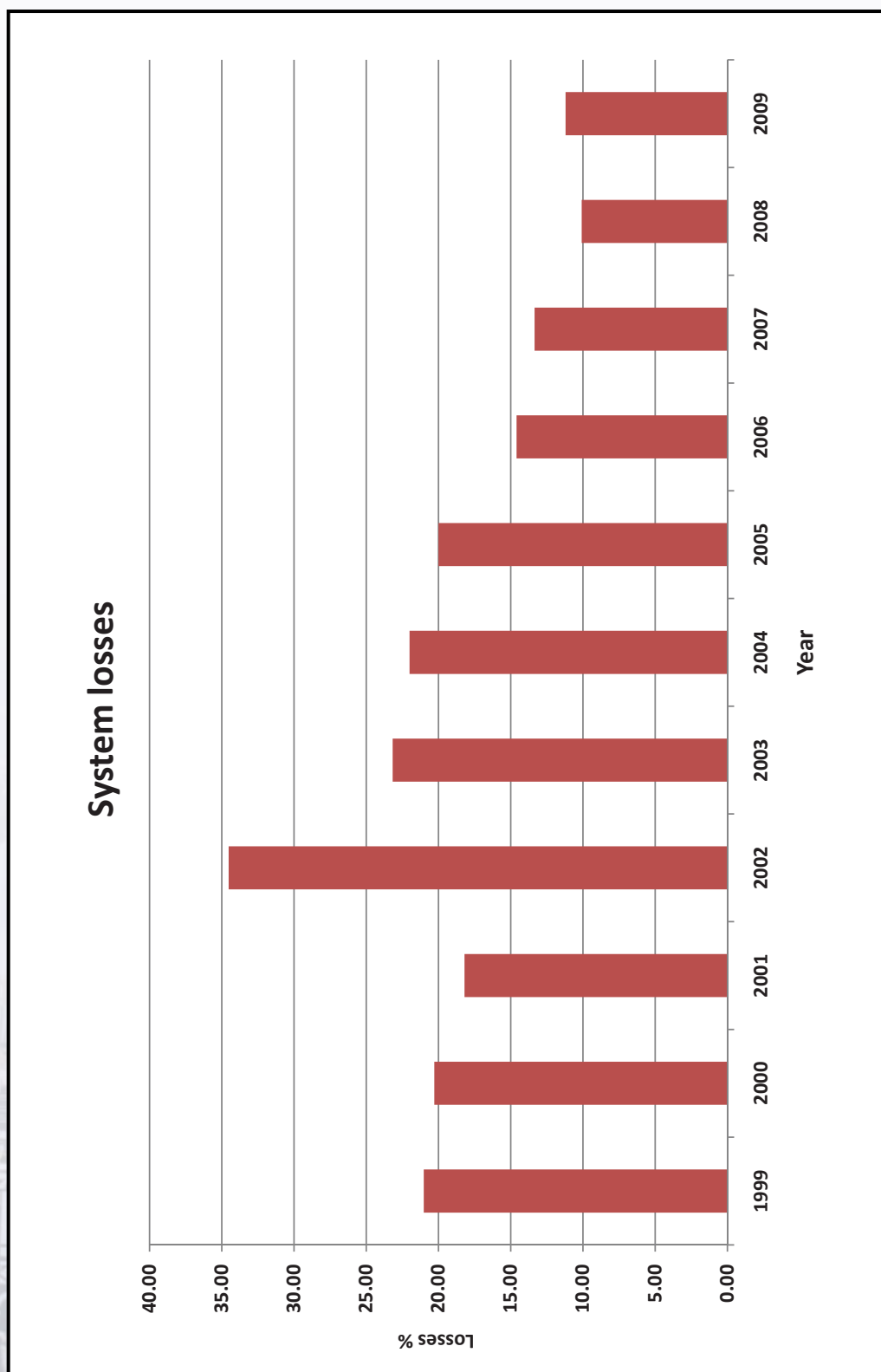
15. Detailed Income Statement

	2009 M	2008 M
Revenue		
Electricity Sales	262 348 783	228 217 297
Connection fees	33 250 131	21 909 500
Miscellaneous other revenue	72 709	159 281
	295 671 624	250 286 078
Cost of sales		
Cost of sales	(127 023 544)	(99 122 097)
Gross profit	168 648 080	151 163 981
Other income		
Capitalised Labour	-	-
Rent of LEC houses	268 095	114 855
Other income	6 312 504	6 073 475
Interest received	4 736 756	3 969 324
	11 317 354	10 157 654
Expenses	(153 994 891)	(128 765 070)
Operating profit (Loss)	25 970 543	32 556 565
Finance costs	(139 819)	-
Profit (Loss) for the year	25 830 724	32 556 565

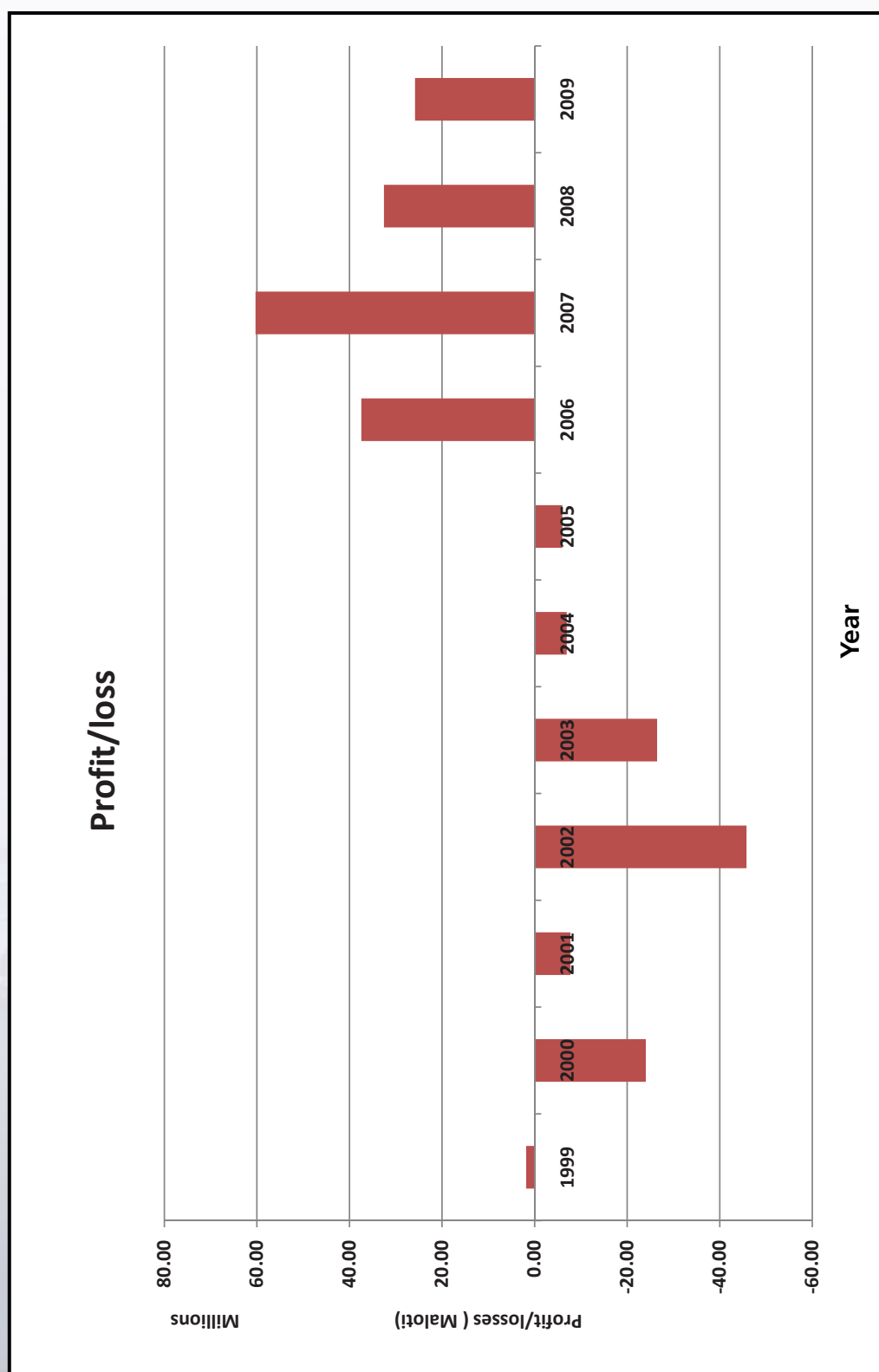
Annexure: LEC Performance



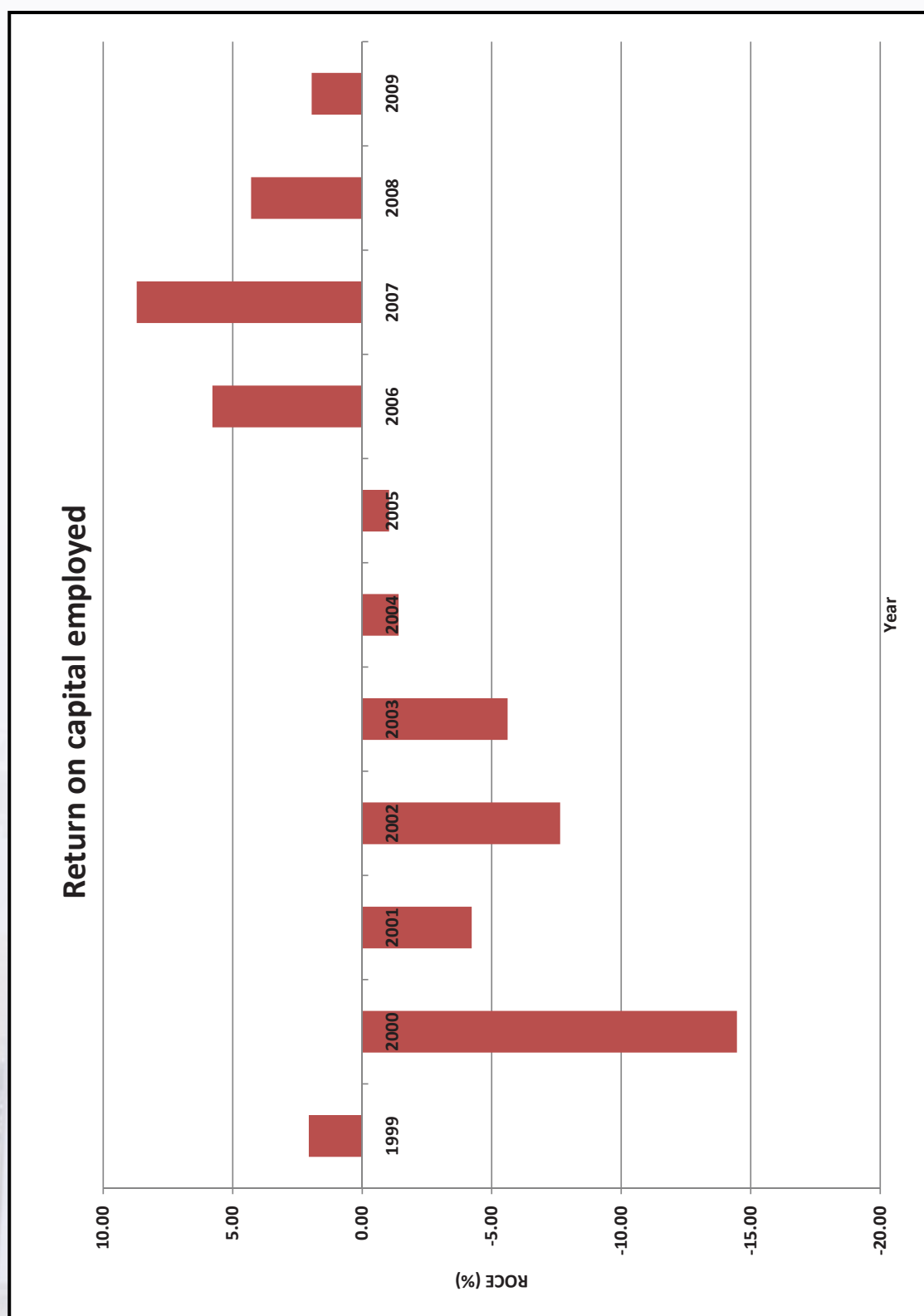
Annexure: LEC Performance



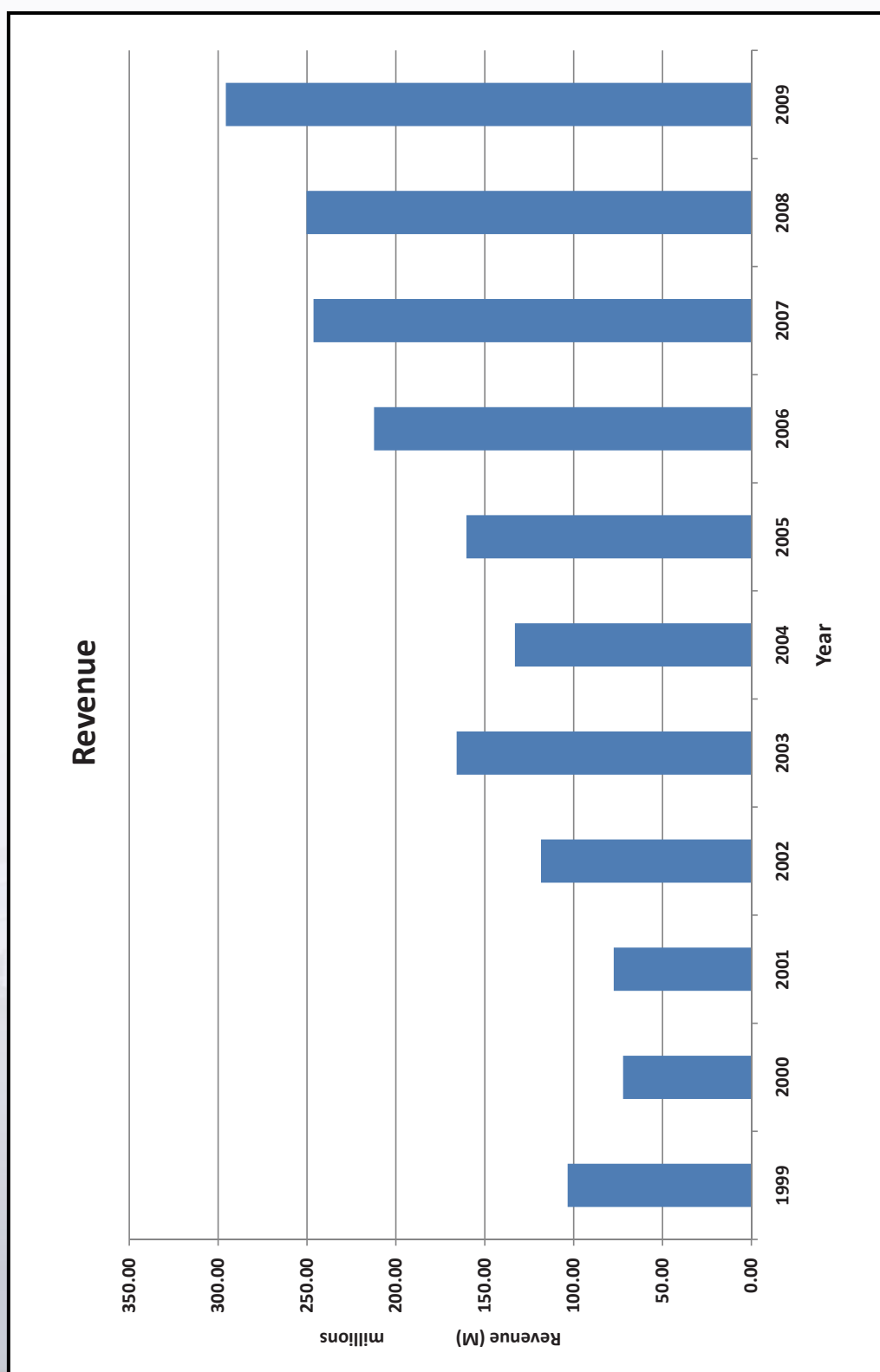
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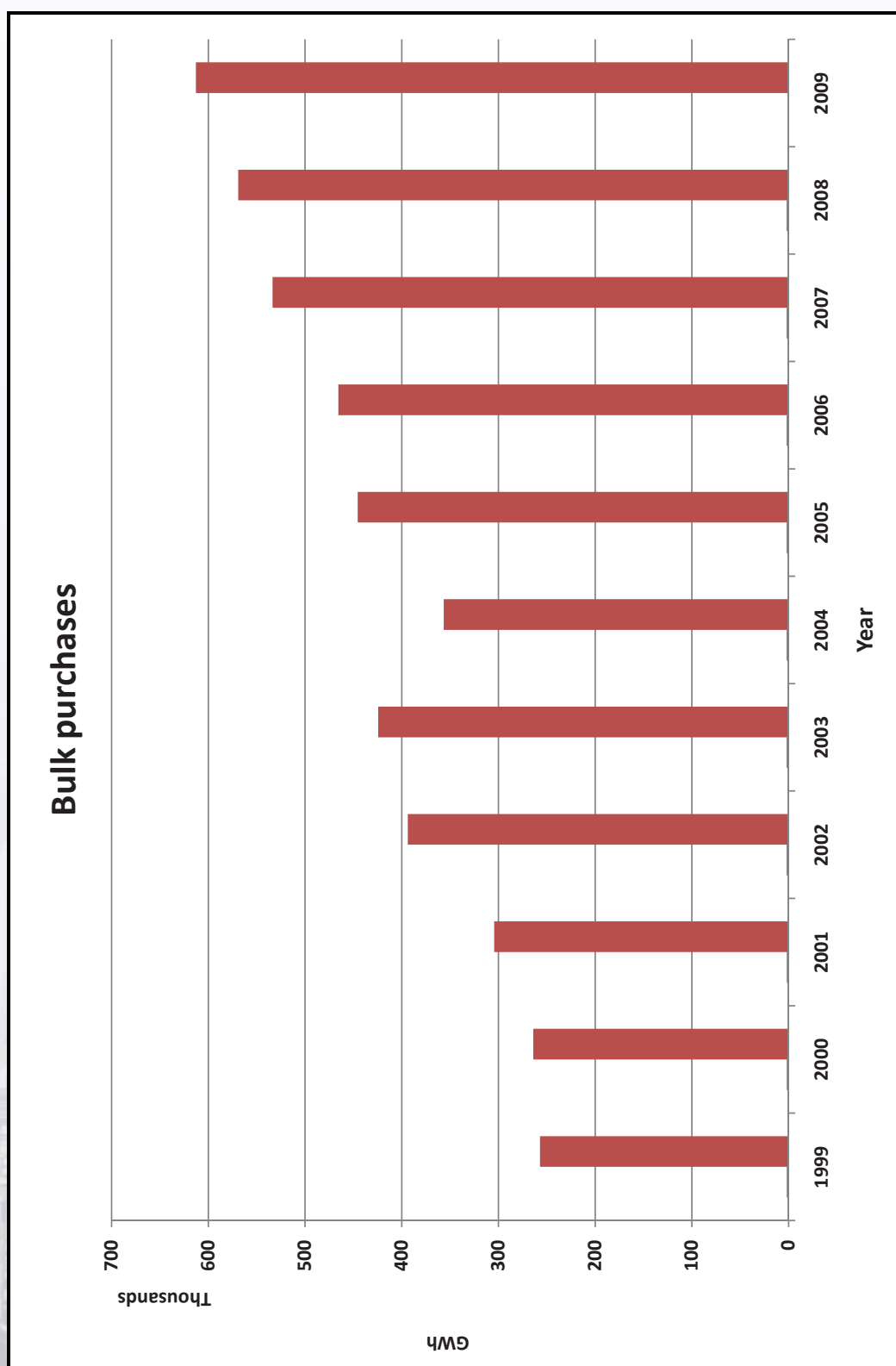
Annexure: LEC Performance



Annexure: LEC Performance



Annexure: LEC Performance



CONTACT DETAILS

PO Box 423, Maseru 100, Lesotho

Website: www.lec.co.ls

Tel: (+266) 2231 2236

Fax: (+266) 2231 0093