LESOTHO HIGHLANDS
DEVELOPMENT AUTHORITY
ANNUAL REPORT
2005 - 2006

1986 - 2006
LHDA
20

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Our Vision

World-class Water Resources Development andf Management Organisation

Our Mission

to effectively and efficiently implement the Lesotho Highlands Water Project in an environmentally and socialyy friendly manner

Board of Directors

Mr John Julian Eagar
Board Chairman

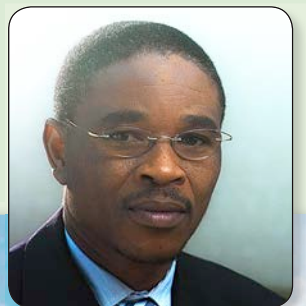
BSc Civil Engineering, University of Cape Town
Registered Professional Engineer
Fellow: Institute of Civil Engineering (SA)

Dr Makoala V. Marake
Portefolio: Natural Enviroment

BSc Agronony Colorado
State University 1985

MSc Soil and Water
University of Nebraska Lincoln 1985

PhD Soil and Water
University of Nebraska Lincoln 1993



Dr Makoala V. Marake
Portefolio: Natural Enviroment

BSc Agronony Colorado
State University 1985

MSc Soil and Water
University of Nebraska Lincoln 1985

PhD Soil and Water
University of Nebraska Lincoln 1993

Mrs 'Mapula' Mamokomo Makara
Portefolio: Legal

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

LLM (Environmental Law),
Unversity of London, 1997

Post-graduate Diploma
in Evironmental Sociology, Wits 2000

Mr Elias Liphaphang Junior Potloane
Chief Executive and Executive Member of the Board

BA Economics - UBLS

MSc Agriculture Econoimics Oklahoma State University
Advanced Execuitive Programme UNISA

Executive Programme UCT

Mrs Makholu Palesa Matete
Portefolio: Socio Economic

BSc, Majored in Biology,
Chemistry and Satististis NUL 1980
State University 1985

MSc Comunity Nutrition
Howard University Washington DC
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Chief Lerotholi Theko
Portefolio: Stakeholder Representation

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

Mr Piet Swart
Portefolio: Natural Enviroment

BSc Agronony Colorado
State University 1985

MSc Soil and Water
University of Nebraska Lincoln 1985

PhD Soil and Water
University of Nebraska Lincoln 1993

Chairman's Statement

It is my pleasure once again to share with you some of the successes and challenges we experienced with the Lesotho Highlands Water Project during the pas financial year.

The activities of the LHDA during this Financial Year had mostly been in line with its Business Plan and consistent with the LHDA's 2003/2004 – 2006/07 Strategic Plan.

The LHDA continued to source, develop and retain adequate, efficient and effective manpower through application of best practices in human resources management. With the restructuring of the organization much time was spent on filling approved positions, which will continue during 2006/1007. Restructuring had become necessary due to the LHDA becoming a maintenance and environmental management agent.

A series of workshops have been held for the LHDA Management, the purpose of which was to increase personnel effectiveness, to engender a culture of improving performance, and the effective management of and utilization of LHDA assets.

With the creation of an enabling environment for the Management team and their subordinates to settle into the new LHDA structure, the transition from the previous structure, with the understanding of new roles and responsibilities, has been met with the adoption of a strategic focus that supported the operational functions for the entire organization. There has also been effective and efficient support for the operation and maintenance of the Lesotho Highlands Water Project (LHWP).

The progress with regard to compensation issues regarding the affected individuals and communities needs improving. There have been delays which can be attributed to the verification exercise ("auditing") of records on various payments as instructed by the LHDA authorities. The payments could only be effected to households whose records had been cleared. The local farmers inability to produce sufficient grain also had an effect on compensation. Anticipating that the local supplies would not meet the required quantities for Compensation, the LHDA made arrangements to supplement the domestic supplies. Grain was procured from the Republic of South Africa (RSA).

Regarding efforts to ensure that the standard of living of the affected communities in the LHWP is improved, viable Environmental Action Plan(EAP) programmes had been put in place. These included Public Health, Natural Environmental and Heritage, Compensation and Resettlement and Development. Under these EAP's seven project frameworks were prioritized for implementation. These were Water and Sanitation (WATSAN), HIV/AIDS, Commercial Fisheries, Commercial Agriculture, Compensation and Resettlement, Eco-tourism, and Integrated Catchments Management. A number of these were successfully implemented while others only to a limited extent.

The LHDA assets that were no longer required for purposes of implementing the LHWP were handed over to various Government of Lesotho (GOL) Departments. The process was done in compliance with the requirements of the Lesotho Highlands Developments Authority Order, 1986. The process was started by calling for the expression of interest after approval had been sought and granted by the Government of Lesotho Cabinet, to potential GOL departments. The final arrangements were done by the preparation and signing of Memorandum of Understandings (MOU). For the transfer of the Nature Reserves, and Ha Lejone Camp, the transfer was made to the Ministry of Tourism, Environment and Culture. For the Thaba-Tseka Rural Development Centre (RDC), and the Katse Mohale Primary Schools to the Ministry of Education and Training the transfer was made to the Ministry of Education and Training. Several Agricultural projects under the Projects Coordination Unit (PCU) were officially handed over to the Ministry of Agriculture and Food Security (MAFS) as per the 2005/2006 plans. The process which regards the Raubex 1 Camp and offices was put into motion.

There has been water spillage of the Mohale Dam as a result of heavy rains in the catchment area. The levels in the reservoir rose rapidly and reached 100% capacity in January 2006. The Mohale Dam spilled in two periods over one and half (1½) months period. About 600mm of rainfall was received by the Mohale Catchment over three (3) months, that is from January 2006 – March 2006. Much effort has been made to limit the damage caused by the water spillage. This was done by opening valves to allow water to flow into the Katse Dam.

Water Delivery and Electricity generation targets were achieved as planned for the year. The adequacy and reliability of generated electricity can be attested to by significant reduction of 40% in forecasted losses for the year.

I am therefore honoured on behalf of the LHDA Board to invite all the LHDA stakeholders and the LHDA staff to take note of LHDA successes and challenges. Together we should strive to achieve the Treaty and Legal obligations the LHDA has been called upon to meet.

Chief Executive's Report

It is yet another moment in time to reflect on our stewardship as guardians of the giant LHWP. As an organisation that aspires to be a world-class, the importance of this document cannot be emphasized. It epitomises one of the hallmarks of world-class service, namely transparency.

The year 2005/06 was one of the most exciting and challenging in the history of LHDA, while simultaneously very enriching in terms of skills and experience acquired through trying and testing new ground.

According to the new LHDA structure, there exist three divisions/ branches viz. Executive Group, whose mandate is to provide strategic leadership and effective management; Strategic and Corporate Services, which is tasked with provision of support services to the line functions; and Development and Operations, which operates and maintains the project's water resources for power generation, and implementation of all LHDA programmes at field level. This introduction is vital as a navigating tool for the reader in contextualising the information below.

One of the formidable tasks of restructuring the LHDA was completed, culminating in a more than 50% reduction in staff compliment, from 500 to around 240. LHDA is yet to cast its net wider is search of candidates for a few top positions left. The restructuring was necessitated by LHDA's new role in which water resources management had superseded the development of infrastructure. This shift in business effectively called for the organisation to accordingly re-align its manpower needs.

Flowing from the new LHDA role, came the corresponding need to draw the five-year strategic plan as well as the business plan, to which I am delighted to report that both have the authorities' blessing as official LHDA working documents.

In terms of the two key deliverables as mandated by the Treaty, namely water transfer and power generation, we exceeded the target for the former by about 2%, while we experienced a 2.5% shortfall for the latter. Of essence is that we registered an increase in water transfer royalty revenue, from M226.1 million in 2004/05 to M251.1 in this reporting year. By the same token, electricity revenue is at M62.6 million, compared to M56.8 million the previous year (2004/06).

The commendable performance in terms of the above two deliverables is owed in part to the generally healthy reservoir levels at the beginning of 2006. By comparison, 2005 was characterised by intense drought that saw the Katse Dam at the record low of about 60% of the total capacity in December.

Notwithstanding, as the forces of nature are bound to impact differently in different places, the favourable rains in early 2006 yielded less favourable results for the Mohale Dam. The reservoir levels rose sharply, more than three-fold to be precise, within a period of about 1.5 months. The developments resulted in dislocation of the concrete face slab on the dam's wall. LHDA has since made everything in its power to bring the deformation under control. Noteworthy is that attention is not only limited to the deformation, but extends to the general monitoring of all the LHWP dam structures.

In pursuit of our commitment to elevate the importance of the social and environmental aspects of the LHWP to equal that of the management of water infrastructure, we broke new ground by commissioning the intangibles study. Cognisant of the fact that resettlement involves much more than the physical movement from one place to another, the study will go a long way in establishing the extent of intangible losses and/or gains for the communities directly affected by the project, and thus accordingly guide LHDA on the appropriate action where there are losses.

As an organization that does not exist in isolation, it is our duty to be seen to be in step with the rest of the globe in the fight against the scourge of HIV/AIDS. Without decisive strategies to contain it, HIV/AIDS has unimaginable potential to bring noble initiatives such as outlined about, to a screeching halt. LHDA therefore, has the HIV/AIDS policy in place. The document serves as a guiding tool on the role of LHDA, both internally and externally, in the battle against the pandemic.

Permit me to end my remarks on a personal level, and express my gratitude and appreciation for the quality three-year period I have spent in the driver's seat of this world-renowned project. I will certainly carry with me memories of a mammoth task of overhauling the engine, while the vehicle was in motion. Through the support of dedicated management and staff, I have got no doubt that we have weathered the storm, and have successfully taken the LHDA plane off the ground, to the cruising level. The onus lies with my successor to cooperate with the remaining team to take this plane to its rightful destination, where millions of Basotho and South Africans are eagerly awaiting its arrival, as it is their beacon of hope for poverty alleviation and a magic wand with which to propel general development.

To this end, I wish the LHWP a prosperous, thriving and flourishing future.

I thank you.

Chief Executive Group

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

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

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

During the year under review, the highlights are as follows:

Legal Services:

Board Meetings and Board Sub-Committee meetings were held as planned. There has been an introduction of the Environmental Sub-Committee. Its mandate being to deal with socioeconomic issues and environment in broad terms. The Board held two meetings on sites, one at 'Muela Hydropower Station (MHS) on the 9th December, 2005 and the other at Katse on the 23rd March 2006. At MHS the Board took a tour and familiarized itself with the plant. Issues which related to the cracking of the dam at Mohale were considered briefly at Katse, and swift decisions were taken which related to the relief of the water in the Katse Dam.

Governance

The Corporate Governance Manual and delegations stipulated therein is being complied with. The Treaty Obligations are observed. The LHWC continues to advice on issues of strategy while the LHDA is concerned with the implementation of operational issues.

Court Cases

There has been a drastic reduction of Labour Cases. There has been a success in the settlement of one corruption case involving the former Chief Executive of the LHDA.

Insurance

Against risk and losses the LHDA has obtained the Director's Liability Insurance Policy.

Public Relations

Communication with stake holders through the media was extended to include other local radio stations such Catholic Radio FM, Moafrika FM, and People's Choice FM. The objective was to ensure that LHDA messages reached a diversified audience. This followed a change in LHDA business from construction and related activities to water resources management. There was a pressing need to give the new LHDA mandate publicity. This was in sharp contrast with the construction period in which messages were predominantly targeted at communities affected by the project.

Due to inadequate human resources, weekly programmes over Radio Lesotho were reduced to "just-in-time" prime time slots. The advantage of the system is that there is increased value for money, in that messages are brief and precise for the audience's better comprehension. They are also broadcast during prime time when listenership ratings are high. The system yielded good results during compensation distribution period. Recipients of compensation responded better to messages advising them of the overall logistics, including necessary documents to enable them collect their share.

The LHWP sites continued to attract visitors from within Lesotho borders, regionally and internationally. Mohale Dam registered the highest number of visitors (?), followed by Katse Dam (?). 'Mmuela receive a total of (?).

Internal Audit

The year under review saw the Unit carrying out several audits and accordingly prescribing remedial measures where found necessary.

Asset Transfer

Since its inception in April 2005, the Unit has managed to transfer or dispose off a number of assets from the LHDA either to recipient Ministries or in accordance with the asset Divestiture Policy as approved by the Project Authorities in 2003.

2. PROGRESS

2.1. The following table presents the list of assets that have been transferred so far. Out of thirty-five assets that were originally on the list of transfer, seven (7) have been officially transferred to GoL through the agreed mechanism of Memorandum of Agreement.

ITEM NO.	ASSET NAME	RECIPIENT MINISTRY	DATE MoA SIGNED
1	Maputsoe and Caledonspoort Border Crossing Facilities	Home Affairs	19th January 06
2	Bokong, Tsehlanyane and Liphoofung Nature Reserves.	Tourism, Environment and Culture.	30th November 05
3	Katse Primary School.	Education & Training	16th March 06
4	Mohale Primary School	Education & Training	16th March 06
5	Lejone Camp	Tourism, Environment and Culture	30 November 05
6	Rural Development Centre	Education & Training	6th December 05
7	Agric Projects	Agriculture and Food Security	Intensive Livestock = October 2005 Irrigated vegetables =16th December 2005 Piggery = March 2006 Bokong/Lejone Range Management =March 2006

2.2 The following g assets have also been disposed off in accordance with Asset Divesture Policy, even though the transactions did not require MoA:

ITEM NO.	ASSET NAME	RECIPIENT MINISTRY/BODY
1	Mohale Commercial Centre	-Court Buildings – Justice -Market stalls – Leased to private individuals
2	Mohale Village (Contractors built houses)	Tourism, Environment and culture on 28th February 2006
3	Boitsireletso Camp	Defence in March 2004
4	Powerline to 'Mamohau	L.E.C.
5	Fisheries Project	Subsistence Project Closed
6	Katse Satellite Village	Demolished and area rehabilitated
7	Mohale Intake site offices	Demolished and area rehabilitated
8	Likileng Village	Retained by LHDA
9	Likalaneng Weir	Retained by LHDA
10	HWV Offices & Workshops at Katse	Retained by LHDA
11	Katse Village	Retained by LHDA
12	Contractor's Camp in Butha-Buthe	Leased to Private individuals.

3.3. Likileng School. Transfer MoA was signed on 17th February 2002 with Likileng Community. Thus, the above picture presents a sixty (60%) percent achievement of asset disposal during the period under review.

3.4. The following assets have been added to transfer list and further increases the number of assets on the transfer list from thirty-five to forty-one (41):

ITEM	ASSET NAME	NAME OF TRASFEREE
1	Mohale Seed Potato Store	Ministry of Agriculture and Food Security
2	Rapokolana Camp	Ministry of Gender, Youth, Sports and Recreation
3	Poli Station	Ministry of Agriculture and Food Security
4	Katse Air Strip	Ministry of Public Works and Transport
5	Ablution Blocks at Pitseng	Ministry of Tourism, Environment and Culture
6	Powerline to Rapokolana	Ministry of Gender, Youth, Sports and Recreation

4. CHALLENGES

1.1 Sustainability. Some of the assets that have already been transferred face the risk of sustainability, e.g. Leribe Trauma Unit. To address this, joint monitoring Committee has been set up.

1.2 Delays. Certain delays in the transfer process are being experienced, e.g. LHWP Roads, Power Transmission Lines, Katse Botanical Garden, Communications assets. Efforts are being made to liaise with all the parties concerned to fast track the process

1.3 Vandalism, deterioration and security. As a result of delays in the transfer process, some assets face the risk of being vandalized or deterioration due to disuse, e.g Mphorosane Camp. The LHDA has maintained minimal security to assets that are awaiting transfer and are not being used.

Strategic and Corporate Service Division

MANDATE

The mandate of the Division is to provide support services to the LHDA's line functions in order to facilitate successful implementation, operation and maintenance of the LHWP;

The Division is composed of the following:

- Divisional Manager
- Integrated Planning
- Monitoring and Evaluation
- Information System
- Human Resources
- Finance

The Divisional Manager's Office fell vacant during the year and was staffed in an acting capacity by managers from within the Branch. The Division nonetheless continued to discharge its mandate as indicated in the branch reports below.

INTEGRATED PLANNING BRANCH

The LHDA strategic plan for 2006/07 to 2011/2012 was approved by the LHDA Board of Directors in September 2005 and submitted to the Lesotho Highlands Water Commission (LHWC) in October 2005 for approval. It was followed by a business plan that was approved by the LHDA Board of Directors in October 2005. This was following the organization wide performance review for 2005/06 business year. This review was communicated to the entire LHDA staff through the Town hall meetings that were held regularly throughout the year by the Chief Executive.

A notable achievement during the reporting period was the approval of the planned 2006/07 Water Delivery, Hydro power Generation and Instream Flow Requirements (IFR) schedule by the LHDA Board of Directors and LHWC. For the calendar year 2006, 768 Million Cubic Metres (MCM) of water was approved for delivery to the Republic of South Africa. The resultant target revenue from water transfer is M245 Million Maloti.

Environmental Action Plan (EAP)

LHDA has implemented various simplified programmes on the basis of the EAP projects that were approved by the Project Authorities on:-

- Ecotourism development
- Integrated Catchment Management
- Commercial Fisheries
- Commercial Agriculture

All commercial Agricultural programmes in Phase 1A and 1B will be handed over to the Ministry of Agriculture and Food Security (MOAFS) and the Ministry of Forestry and Land Reclamation (MOFLR). Only two programmes of Asparagus in 'Muela and Range Management in Katse are still on going and are to be handed over in 2007. The three Programmes Dairy, Range and Forestry remaining in Phase 1B are to be handed over in 2007.

MONITORING AND EVALUATION BRANCH

Several Impact & Programs Monitoring activities aimed at monitoring & evaluation of LHDA performance including that of EAP programs were carried out during the year. All four (4) quarterly reports on the EAP implementation were produced for the LHDA Management. EAP programmes monitored during the year were Eco-tourism, Commercial Fisheries, Commercial Agriculture, Public Health, WATSAN, Integrated Catchment Management and Compensation. LHDA contracts monitored during the year were C1237 – IFR Biophysical Monitoring; C1204 – Socioeconomic & Epidemiology study; C1044 – Integrated Catchment Management and C1244 – The Intangibles Study.

Outside the scheduled biannual World Bank (WB) and Panel of Environmental Experts (POE) supervision missions, Monitoring & Evaluation Branch hosted four (4) WB and POE supervision missions to the Lesotho Highlands Water Project areas (LHWP). These culminated in the development of the World Bank Action Plan, POE and World Bank Social Matrices.

The GIS unit provided support on the LHDA C1204 database management, spatial data entry of 136 households from the Mohale Catchment. The unit also reviewed and advised the LHDA C1044 spatial data (spot images) and provided recommendations on format of data required for the LHDA GIS compatibility. The unit also produced approximately 495 maps that were required within the LHWP areas in 2005/06, for among others compensation, IFR, land use planning, C1204 and HNRRIEP purposes. The survey unit was involved in surveying 65 properties for Stage III resettlement, 10 sites

for Ha Tsolo resettlement, six (6) IFR sites river cross-sections and produced survey diagrams and other related information associated with the abovementioned survey activities.

The Public Health supervised the implementation of HIV/AIDS programs under the WATSAN project as well as supporting prevention activities in the LHWP communities and schools. It also provides support to HIV/AIDS prevention among LHDA staff at the workplace. Public Health team carried out pre-construction community education, pit inspection and education in the use and maintenance of pit latrines under the WATSAN project. The LHDA HIV/AIDS Corporate policy was approved and a management committee established. 4,736 male condoms and 395 female condoms were distributed while various youth peer training materials were reviewed and 20 youths were trained as peer trainers. The MOU for handing over health clinics was approved by Cabinet and forwarded to MOHSW for signature.

The Hydrology section is responsible for, 14 Hydrometric Stations, 3 weirs, 9 Standard and 3 automated Rainfall stations. With the exception of 2 vandalized hydrometric stations, all other stations functioned properly in 2005/06. Thus, collection of metrological and hydrological data went as planned. Construction of the Tsoelike hydrometric station was completed and a number of stations were recalibrated and repaired, including the 3 Automatic Weather Stations at Katse. In 2005/06, a standard rain gauge was installed at Mohale Weir W4. The reservoir releases reports for 2003/04 were completed together with the May and June 2005 reports. The Hydrological Year Classification reports were prepared, completed, approved and posted on the LHWP website.

Water quality monitoring of the LHWP areas continued as planned which involves monthly collection of water samples from 26 stations including at the nine (9) Instream Flow Requirements (IFR) sites. Approximately 5 samples are collected per site. All the collected water samples were sent to Rand Water and ARC in South Africa for testing of nutrients, suspended solids, and full spectrum of chemicals, bacteria, parasites, algae, deferential count and chlorophyll. In-situ profiles were taken from all the in-reservoir stations of Katse and Mohale. Downloading of data at the three (3) IFR super sites from (Sondes) data loggers was done monthly and successfully in 2005/06. Water quality monitoring also involves database updating. In-situ, Chemical and biological databases were updated to January 2006.

C1237 – IFR Biophysical Monitoring – by Southern Waters Consulting
The main objective of this contract was to develop in-house capacity to implement IFR biophysical monitoring. The contract commenced in July 2005 and preliminary data collection for 8 IFR sites started in October 2005. This field trip included both LHDA IFR specialists and the consultant specialists. Specialists report based on Task 2: preliminary data collection and evaluation of in-house capacity was submitted in January 2006.

C1244 – The Intangibles study – by Southern Water Consulting
The key objective of this study was to assess the intangible resource (value) losses and gains. In 2005/06, the Request for Proposals (RFP) was approved and sent out to prospective bidders, and two (2) proposals from two (2) bidders were received. Both technical and financial evaluations were done and negotiations were held with a preferred bidder.

C1204 – Socioeconomic and Epidemiology Study – by HSRC
The key objective of this study was to assess the socioeconomic & epidemiology status of Phase 1 of LHWP affected communities. The draft inception report was submitted in August 2005. Data collectors were recruited and trained for approximately two (2) months on data collection methods and use of the questionnaire. Data collection in Phase 1 B was almost 95% complete and the pre-advanced GPS was completed in March 2006 in Phase 1B.

INFORMATION SYSTEMS BRANCH

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

The branch administered Systems Applications and Products (SAP); Advanced Business Applications Programming (ABAP) programs to enhance and add LHDA required functionality in SAP. The in-house systems development team, developed the employees leave management to calculate correct terminal benefits, implemented

controls within the Telephone Call Management system to monitor and report the use of telephone facilities to curb abuse, provided office applications training to LHDA Staff, developed data capturing interface for contract 1204, (Epidemiological and Socio-economic Study) and face-lifted the website, all of which would otherwise have been done externally at costs.

During the period the noticeable achievement was the installation of a 128Kbps-leased link between head-office and Muela, which has enhanced access to data and effective electronic communication. The branch however still faces the challenge to upgrade the network bandwidth capacity, e-mail/internet systems that have become archaic and implement data connectivity to remote sites that are adversely affecting business operations.

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

Following appointment of the substantive IS Manager in January 2006, the Information Systems Steering Committee (ISSC) managed to sit in February 2006. The ISSC commissioned development of the ICT Strategic Plan to be conducted in the first three months of fiscal year 2006/07 that will strategically determine the medium to long term ICT direction at the LHDA and authorized upgrade of the ICT network infrastructure at the Lesotho Bank Tower Offices from 10Mbps to 100Mbps and 1 Gbps within the Main Data centre.

HUMAN RESOURCES BRANCH

The Branch is tasked with providing the LHDA with modern human resource services appropriate to the current and future needs of LHDA: attraction and retention of the best talent; provision of adequate compensation; development and continuous implementation of a right sizing plan and establishment and maintenance of Human Resource systems and processes.

The envisioning of a total reward strategy and philosophy for the LHDA has been implemented as an attempt to attract and retain the best talented staff. The Benefits and Compensation Section was also engaged in the phasing out of the Pension Fund, after a decision has been made by the LHDA Pension Fund Board of Trustees because of lack of interest in the fund by new LHDA employees.

The Benefits and Compensation Section was engaged in the implementation of the Leave and Attendance system as well as the implementation of the VIP Leave System. An audit has been conducted in order to ensure absolute reliable data on the VIP Leave System.

The Authorities approved the Human Resources Management Manual (HRMM) of 27 new HR policies in the review period. These policies are in the process of being implemented. A key milestone was the approval of the HIV/AIDS Policy and Programme for LHDA staff, ready for implementation in the 2006/2007 financial year.

The restructuring programme (reduction from 500 to 239 staff members) that was part of the total transformation of the LHDA was completed in the reporting period. There are still a few vacancies, because candidates could not be found during the first round of recruitment.

The Performance Management System was streamlined in the reporting period. The application of the refined system is much more acceptable to Management and staff and the response to the new system is also much better.

Training Programme

After the moratorium on training the last couple of years, a Training Plan and Programme, including a Management Development Programme (MDP) were compiled and approved for the 2006/2007 financial year.

FINANCE BRANCH

The LHDA year-end audit for the 2005/6 was completed in November 2006. An unqualified audit opinion was issued on the financial statements. The statements are presented in this report for reference. Part of the reason for the delay was the system hard disk crash that affected transaction data for the months of March to May which had to be recaptured during June to October.

The new LHWP project funding mechanism was agreed to by the governments and successfully implemented and maintained during the year. While cost allocation reports for the year 1999 to 2005 were approved by the LHWC during the period reporting.

An inventory of all movable and immovable fixed assets was taken during the year and details input onto a new fixed asset application system leading to the creation of an electronic Fixed Assets register.

DEVELOPMENT AND OPERATIONS DIVISION (DOD)

The DOD evolved in December 2004 from the restructuring and merging of the two former technical groups of LHDA, the Operations, Maintenance & Engineering, and the Environment and Social Services groups. Under the leadership of one divisional manager and four branch managers, the DOD is mandated to work on all LHWP sites, to operate and maintain the assets while developing and implementing the social and environmental action plans.

Water Deliveries and Royalty Revenue

Actual water deliveries to RSA in 2005/06 were 788 Mm^3 (million cubic meters), 2.1% above the planned/agreed deliveries of 772 Mm^3 for the year. The corresponding royalty revenue of M251.1 million was 6% above the annual forecast of M237 million. The increase in actual royalty outturn has been mainly attributed to the "increased" monthly production prices indices (PPIs) due to the weakening of the currency in the latter half of the reporting year. PPI is an important multiplier in the royalty computation formula.

Table-1: 3-year performance overview – Water Deliveries and Royalty Revenue

Year	Planned Deliveries (million m^3)	Actual Deliveries (million m^3)	% Variance in Deliveries	Royalty Payments (M X million)
2003/2004	695	687	- 1.2%	M207.9
2004/2005	695	693	- 0.3%	M226.1
2005/2006	772	788	+ 2.1%	M251.1

Although actual deliveries were within the agreed target variance of ± 2.5% for the year, the 16 Mm^3 over-deliveries resulted from 21 days of 'Muela hydropower station's flat-out generation between January and February to assist ESKOM in mitigating electricity shortfalls by ESKOM's systems.

A total M1.76 billion in royalty revenue has been paid by RSA since commissioning of first water deliveries in January 1998, to March 2006.

Electricity Generation and Sales Revenue

Annual electricity generation was 2.5% below the forecast for the year. 95.2% of the annual production was sold to the Lesotho Electricity Corporation (LEC), the national distributor, while the remainder, 4.8% constituted exports to ESKOM – RSA. M1.02 million of the electricity revenue was generated from exports.

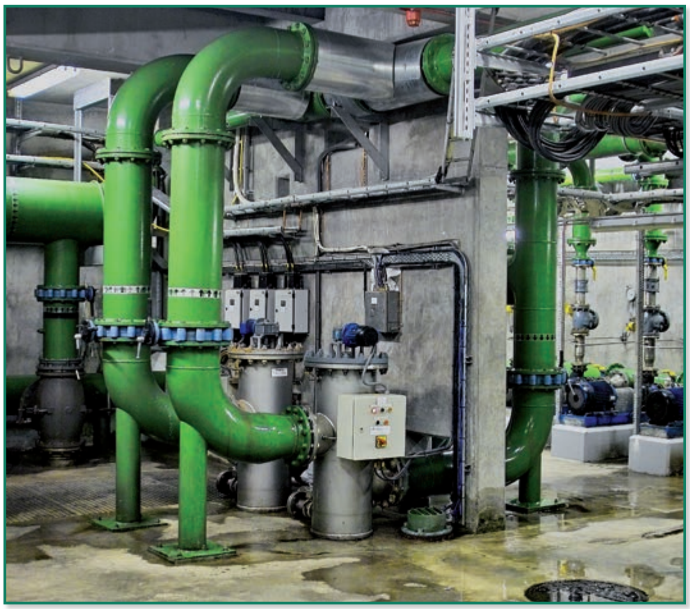
Table-2: 3-year performance overview: Electricity Generation and Sales Revenue

Year	Planned Generation (GWhr)	Actual Generation (GWhr)	% Variance in Production	Total Sales Revenue (M X million)	% Exports of total annual production	Export Revenue (M X mil)
2003/2004	436	429	- 1.7%	M50.4	9.3%	M1.66
2004/2005	424	420	- 0.9%	M56.8	0.6%	M0.42
2005/2006	467	455	- 2.5%	M62.6	4.8%	M1.03

Unlike in previous annual reporting, total electricity sales revenue includes the export component.

Total cumulative electricity sales revenue since 'Muela hydropower plant first came into commercial operation in August 1998, to March 2006 is M376.3 million, M5.2 million of which was generation from exports.

It be noted that export trading with ESKOM –RSA is neither planned nor agreed in advance, the ad-hoc trading takes place on occasions of excess generation after satisfying national demand, especially during the summer months.



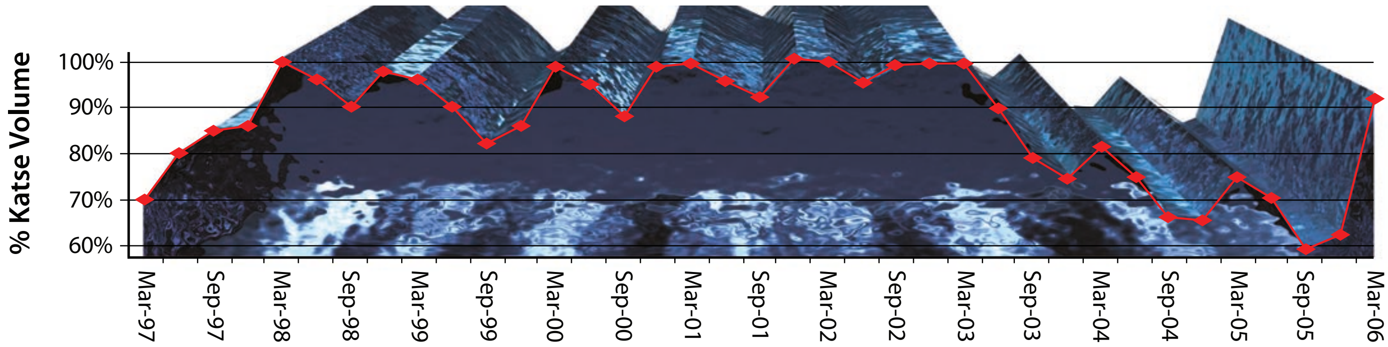
Electricity Maximum Demand (MD) losses for 2005/2006

Improvements in the management of MD losses continued throughout the year. M1.9 million total losses made during the year were 37% below the annual target of M3.0 million for 2005/2006. Changes in employee attitudes, greater focus by employees on pragmatic operational and maintenance strategies have all contributed to the improved performance in MD loss management.

Katse Reservoir Management. (Reservoir Levels)

At the end March 2006, the Katse Reservoir was at 92.1% of the total reservoir capacity, a 30.3% increase from the 31st December 2005 capacity of 61.8%. The heavy rains of the last quarter of the reporting year signaled a break in the drought that started in April 2003. Although the Katse catchment received less rain than the Mohale reservoir catchment during the last quarter of 2005/2006, Katse inflows increased more from 15th February 2006 when the Mohale to Katse tunnel was opened for the first time since impoundment.

Chart-1: 9-year Quarterly Katse Reservoir Variations

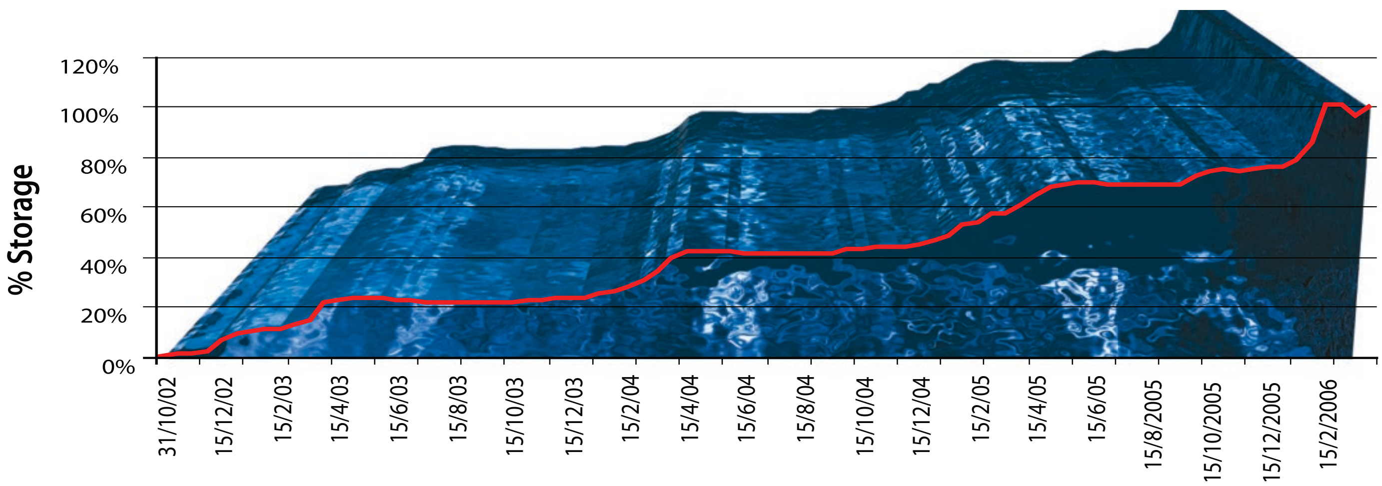


As a result of the rising Katse reservoir levels, the specific water usage for electricity generation (i.e. the amount of water in litres required to produce one unit of electricity – KWhr) improved from 1.93 Litres/KWhr to 1.44 Litres/KWhr.

Mohale Dam Filling (Reservoir Levels)

Developments at Mohale dam during the last quarter of the reporting year that resulted from the rapid filling of the reservoir exposed deficiencies in the monitoring routines on the ground. The reservoir levels rose by 23.5% from 76.5% to 100% over a 44-day period starting 1st January 2006. By the end of the review period, the levels were still beyond 100% capacity, a situation that coincides with the ultimate loading conditions on the dam structure, and spilling of the dam.

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



The Mohale dam spilled twice in February and March 2006. About 600 mm of rainfall was received by the Mohale catchment over the last quarter of 2005/2006. This represents about 72% of total rainfall that was received over a 12-month period Jan – Dec 2005.

Cracking of Mohale Dam concrete face Slab

Since 14 February 2006 when cracking of Mohale Dam concrete face slab was first reported due to the rapid filling of the reservoir, the Lesotho Highlands Water Commission (LHWC) has rendered unconditional support and assistance to LHDA in finding solutions to face slab structural failure as well as to address the increased seepage problem at the Dam as a result of the cracking.

Through LHWC's assistance, one expert who was involved in the Mohale dam design and two members of LHDA panel of engineering experts were invited to Lesotho in early March 2006 to review and assess the Mohale Dam situation and recommend remedial measures. A World Bank dam specialist, Mr. Alessandro Palmieri also visited Mohale Dam on March 8, 2006 for an independent assessment of the problem.

General assessment by the experts on Mohale Dam crack

There's neither an immediate nor medium term safety risk posed by Mohale dam developments. The leakage problem that has increased quite significantly was also assessed not to pose any significant risk to the dam structure. The leakages are being recorded at increased frequency and will be taken into account when determining IFR releases from the dam. Another short-term goal in respect of dam safety is to increase the capacity and competency of dam safety personnel for increased performance deliverables.

Monitoring of Seismic Activity around Reservoirs

Deliverables in this activity for the reporting period were underachieved at about 35% of all programmed monitoring, partly due to LHDA restructuring and the absence of the seismologist. However, none of the disturbances recorded were reservoir induced.

In April 2005, a new seismic monitoring support contract was entered into between LHDA and ISS International Limited of Stellenbosch after terminating the 10-year support partnership with RSA's Council for Geo Science (CGS) due to unsatisfactory level of support provided by CGS.

General Monitoring of LHWP Dam Structures

A 94% data availability factor from all installed monitoring instruments was achieved for the year, 4% more than the 90% annual target. The confidence level target of ? 95% on the accuracy and reliability of installed measuring instruments was also achieved.

Of the 965 specialized monitoring instruments installed at Katse dam, about 5% were non-functional during the year; 10% of the 180 instruments installed at Mohale dam were non-functional. The non-functionality of the instruments will be decisively addressed in 2006/2007 following the statutory 10-year review of the integrity of Katse Dam.

Engineering Projects and Contracts

Contract 2018 – Mohale Feeder Roads and Bridges

The implementation approach adopted for this project, which commenced in July 2000 was a task team made up of LHDA direct staff and local personnel under the management and supervision of RSA based Rolf Berger Project Management.

The total project expenditure on completion in February 2005 was M217 million, 1.6% more than the original project budget of M214 million. Apart from 76 km of 5-meter wide gravel roads constructed, some of the major project components are summarized in Table-3.

Table-3: Mohale Feeder Roads Project Components

Project Component	Technical Description
VEHICULAR BRIDGES	
1. Senqunyane Bridge	Length = 449 m; height = 91m
2. Bokong Bridge	Length = 308 m; height = 69 m
3. Bokoaneng Bridge	Length = 30.4 m; width = 4.2 m
4. Jordane Bridge	Length = 30.4 m; width = 4.2 m
FOOT BRIDGES	
1. Limapong Footbridge	Length = 273 m; height = 60 m
2. Bokong Footbridge	Length = 78 m; width = 2.25 m
3. Raloti Footbridge	Length = 144m; width = 225 m

LHDA attempts during the year to get the final completion report of the project from the project consultant have all been unsuccessful. If further attempts in the next reporting period fail, LHDA will submit its own report to the project authorities to bring the matter to finality.

LHWP Water Supply and Sanitation (WATSAN) Project

Mohale WATSAN & Katse, Lejone and Matsoku (KLM) WATSAN

Mohale WATSAN project was finally completed in December 2005 after unexplained delays, continuous underperformance and unexplained cost overruns by the outsourced project consultant who started implementation in 2000 until he was terminated in August 2004. After terminating the services of the outsourced consultant, the LHDA Special Projects Team was assigned the task of completing the project. Table-4 shows the comparative analysis of the consultant's expenditure versus expenditure by in-house Special Projects Team. At completion, a total M60 million had been spent on Mohale WATSAN.

Table-4: Comparative analysis of outsourced consultant's achievements versus in-house special projects team for Mohale WATSAN

Project Component	46-month achievement by outsourced Consultant		19-months achievement by in-house team	
	Actual Achievement	Actual Cost	Actual Achievement	Actual Cost
1. VIP Latrines	346	Total expenditure by Consultant on all four components over 46-month period = M21 mil	2,199	M19.21 mil
2.Refuse Disposal Pits	628		1,917	M1.75 mil
3. Soak Away Pits	726		1,819	M1.23 mil
4. Water Supply Systems	22		79	M16.87 mil
			Total	M39.06 mil

The Katse, Lejone and Matsoku (KLM) WATSAN

KLM WATSAN on the other hand was originally programmed to be implemented over a 3-year period. It is however likely that the period will be significantly reduced due to favourable access conditions to beneficiary mountain communities.

The M64 million 3-year duration KLM WATSAN project first commenced in April 2005 but was stopped after four weeks due to unresolved budget provision. KLM was resuscitated in January 2006 following the completion of Mohale WATSAN.

Table-5: KLM Statistics & cumulative progress and expenditure [April 2005 to March 2006]

Project Component	TOTAL KLM Targets	Project Target 2005/06	Actual Progress 2005/06	Actual Expenditure 2005/06	Unit Cost of Facility
1. VIP Latrines	6,369	900	1,047	M6,42 mil	M6,130
2. Refuse Pits	6,369	900	0	M0.00	M0.00
3. Soak-Away Pits	6,369	900	1,054	M0.89 mil	M847.28
4. Water Supply Systems	115	0	0	M0.00	M0.00
				M7,31 mil	

Highlands Natural Resources and Rural Income Enhancement Project (HNRRIEP)

The in-house Special Project Team was in February 2005 assigned to start implementing the construction activities of HNRRIEP. The purpose of HNRRIEP being the promotion of eco-tourism through the establishment of eco-tourism facilities and infrastructure in the Lesotho Highlands within and around LHWP areas; as well as to empower highlands communities.

HNRRIEP is co-financed by AfDB and the Government of Lesotho. The project actually started in August 2002 but did not achieve any significant implementation progress under the then Project Management Coordination Unit (PMCU), until in February 2005 when the Special Projects Team was called upon to take-over the construction component. The project suffered a further 9-month delay during 2005/06 due to protracted negotiations between AfDB and the Government about the project's cancellation or continuation. At the end of the reporting period however, resources were being mobilized to restart construction.

Close-out of major LHWP Contracts

During the reporting period however, the following contracts were closed.

Contract LHDA C124/5: Phase 1A Transfer Tunnel North and South by LHPC were closed.

Contract LHDA C126: Phase 1A Delivery Tunnel South by LHPC also closed

Contract LHDA C129A: Phase 1A Power station, civil works, steel lining & Gates by MHPC also closed

Contract 123 – Katse Dam & appurtenant works: Arbitration award of M100.2 million in favour of the contractor was awarded to be contractor during the year thereby paving the way for final contract closure after ten years of arbitration hearings.

Contract 2007 – Mohale Tunnel: Completion of outstanding works

Following the opening of the Mohale tunnel on February 16 2006, a decision was made to further postpone the timing for completion of outstanding Mohale tunnel outlet works, until Mohale dam level has been reduced to a level where the extent of damage to the Mohale dam concrete face slab can be reasonably assessed and repair works/programme realistically designed and estimated.

Contract 2019 – LHWP Phase 1 Construction Power Supply Contract

Contract 2019 with the Lesotho Electricity Corporation (LEC) for the operation and maintenance of LHWP power transmission facilities expired in March 2006 after two six-month extension periods. A decision has been made by LHDA and its authorities not to consider further renewals on the LHWP construction based contract resulting in savings of M2.0 million per annum.

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

Table-6: Annual Statistics (April 2005 – March 2006)

Info Centre	Categories of Visitors				Total # Visitors	Revenue Collected
	Lesotho Schools	Lesotho Tourists	RSA Tourists	International Tourists		
1. 'Muela	8,249	1,265	210	-	9,724	M28,618
2. Katse	7,659	699	3,803	345	12,506	M55,978
3. Mohale	6,074	3,094	638	672	10,609	M35,818
Totals	21,982	5,058	4,651	1,017	32,839	M120,404

Handing-over of Agricultural Projects

During fiscal 2005/06, several agricultural projects under the Projects Coordination Unit (PCU), were officially handed over to the Ministry of Agriculture and Food Security (MAFS) as per 2005/06 plans. The 5-year LHDA initiative is being handed over to MAFS in a phased two-year programme that has carefully been designed to ensure continuing support and guidance from MAFS's through extension services that will henceforth, be directly managed and funded by MAFS. Only projects in the 'Muela and Katse & Lejone areas (Phase 1A areas of LHWP) have been handed over. Hand over of projects in the Mohale (Phase 1B areas) will commence in 2007.

All handing over ceremonies were attended by LHDA Chief Executive, PCU Project Co-ordinator, Responsible LHWP Branch Manager, Area Chiefs, Member(s) of Parliament; District Agricultural Officers, District Extension Officers; Area Farmers; Schools; Communities; and others.

Table-7: LHWP driven Agric Projects handed over in 2005/06 - 'MUELA

Project Category	Resource Centers	Number of villages	Number of Farmers	Total Stock (size measure)	Hand over date(s)
1. Layers	7	27	39	19,550 chickens	26/09/05 - Leribe 30/09/05 - B/Buthe
2. Broilers	7	35	75	29,000 birds	26/09/05 - Leribe 30/09/05 - B/Buthe
3. Dual-purpose	7	23	66	1,830 chickens	26/09/05 - Leribe 30/09/05 - B/Buthe
4. Dairy cows	2	6	48	63 cows	30/09/05 - B/Buthe
5. Piggeries	5	9	19	185 pigs	22/03/06 - B/Buthe
6. Vegetable farms	2	4	89	72.3 hectars	20/12/05 - B/Buthe
7. Fruit Tree farms	1	5	227	20,000 trees	20/12/05 - B/Buthe

Table-8: LHWP driven Agric Projects handed over in 2005/06 - KATSE

Project Category	Resource Centers	Number of villages	Number of Farmers	Total Stock (size measure)	Hand over date(s)
1. Layers	2	10	16	600 chickens	28/09/05 - Ha Lejone
2. Broilers	2	5	20	1,100 birds	28/09/05 - Ha Lejone
3. Dual-purpose	2	17	47 Farmers 1 Coop	499 birds 2,000 birds	28/09/05 - Ha Lejone 1 Cooperative has 400 members
4. Dairy cows	1	5	8	16 cows	16/12/05 - Katse
5. Piggeries	3	4	48	84 pigs	16/12/05 - Katse
6. Vegetable farms	3	20	173	54 Plots or 5.23 hectars	16/12/05 - Katse
7. Fruit Tree farms	3	10	268	3,197 trees	16/12/05 - Katse
8. Field Crops (Maize, potatoes)		8	165	16.8 hectars	16/12/05 - Katse
9. Range management areas RMA 3 & 6	Pelaneng Bokong Malibama-ts'o & Matsoku	17 24	325 1,289	34.5 hectars of grazing areas 54.5 hectars of grazing area	23/03/06 - Ha Lejone RMA3 has 4 improved bulls RMA6 has 6 improved bulls

Handing over of LHWP assets

The transfer of most construction period LHWP assets to Government has been has continued to experience long delays primarily due to lack of capacity by receiving government departments. For example, assets such as roads used by the general public, Ministry of Works has expressed its reluctance to take over their O&M, citing various reasons mainly added budget implications over which LHDA has no control. LHDA principals have continued to be appraised of these developments.

Safety Issues

LHDA converted 'Muela hydropower station into a new safety accreditation with the International Risk Control Africa (IRCA) on the 23rd June 2006', thereby ending the six-year accreditation with the National Occupational Safety Association (NOSA) due to NOSA's problems with continued service delivery. Muela hydropower station 'Muela safety audit was conducted in January 2006 under the new IRCA safety accreditation and 'Muela achieved a rating of 4-Star out of IRCA's possible 5-Star rating. Improved safety programs are under implementation to effectively intervene in identified areas of exposure. 'Muela remains the highest rated company in the SHE program in Lesotho. [SHE = Safety, Health & Environment]

During the year, vehicles driven by DOD staff members were involved in nine (9) accidents with no fatalities. Given that most LHWP sites and projects under DOD management are situated in the mountain areas, safe driving measures continue to be implemented as a priority measure to safeguard the lives of LHDA members and assets.

The 'Muela craft center comprising two rondavels was on the 3rd September 2006 completely destroyed by fire that had been started in nearby field by herd-boys. The total assessed damage including destroyed handicrafts was M120,000.

Four drowning incidents in LHWP reservoirs were reported during the year, three of the incidents were suspected suicides.

Security Issues

Only four minor incidents of specific intrusion in LHWP sites for theft purposes were reported during the year. Efforts are continuing to strengthen the overall security oversight of Katse camp and the surrounding LHWP facilities, through amongst other measures, promotion of stronger partnerships with the local police force to fight crime.

A new LHWP security contract (Contract LHDA 2086) was entered into effect 1st January 2006. Under this contract, the total guard force has been reduced by 47% to 89 personnel compared to the previous contract complement of 189 personnel, resulting in annual cost savings of more than M2.5 million.

Annual Compensation Payments [June 2005 – March 2006]

Table-9: Annual Cash Payments (Payments from July – October 2005)

LHWP Area	ACP H/Hs	Tot. Amount Paid	No. of Audited Records at payment	% Records Audited	Comments
1. Mohale	662	M2.567 mil	305	46.1%	Payment of Arable Land
2. 'Muela	207	M0.362 mil	120	58.0%	
3. Katse	470	M1.000 mil	127	27.0%	
4. Lejone	523	M1.256 mil	322	61.6%	
Sub-Total 1	1,862	M5.187 mil	874	46.9%	
Mohale Area					
(a) Fruit Trees	41	M0.033 mil	41	-	Payment of other annual entitlements
(b) Thickets	43	M0.014 mil	43	-	
(c) Garden Land	76	M0.162 mil	76	-	
Sub-Total 2	160	M0.209 mil	160		
Note: Sub-Total 2 H/Hs are also included in Sub-Total 1 figure.					

Lump Sum Compensation Payments – 2005/2006 status report

Table-10: Lump Sum Applications and Payments for Arable Land Compensation

LHWP Area	Annual (April '05 – Mar '06) Progress	
	Applications Processed	Total Lump Sum Payments
1. Mohale	179	M10.373 mil
2. 'Muela	3	M0.242 mil
3. Katse	9	M0.123 mil
4. Lejone	4	M0.118 mil
Totals	195	M10.856 mil

In addition to Table-10 payments, Table-11 lump sum applications and payments were made in 2005/06 for other annual cash compensation entitlements.

Table-11: 2005/06 Lump Sum Applications and Payments for other ACP entitlements

Compensation Entitlements Mohale Area only	Applications Received & Processed	Tot. Lump Sum Payments	Comments
1. Fuel Tress	19	M0.242	All applications received, verified, processed & paid by 31 March 2006
2. Fruit Trees	10	M0.037	
3. Thickets	1	M0.046	
4. Garden Land	12	M0.452	
Totals	42	M0.777	

Compensation Entitlements Mohale Area only Applications Received & Processed Tot. Lump Sum Payments

Conclusion

In conclusion, the 2005/2006 financial year imposed great challenges to the much reduced DOD staff complement under the new LHDA dispensation. The key challenges for the Division have been: the creation of enabling environment for the new management team and their direct reports; to manage transition from previous structures and settle into the new structures; understanding of new roles and responsibilities without compromising achievement of objectives, goals and targets set out in the 2005/2006 strategic and annual business plans; as well as to engender a culture of performance, cost control and optimization of resources. Overall and despite unsettling circumstances caused by the restructuring process, most key performance deliverables were achieved on target.

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

Country of Incorporation and Domicile: Kingdom of Lesotho

Registered Office: **Lesotho Highlands Development Authority**
Lesotho Bank Tower
Kingsway
MASERU 100
Lesotho

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DIRECTORS' APPROVAL

The financial statements which appear on pages 17 to 40 were approved by the Board of Directors

on and are signed on its behalf by:

J.J. EAGAR
CHAIRMAN

E.L POTLOANE
CHIEF EXECUTIVE

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

We have audited the financial statements of
The Lesotho Highlands Development Authority
set out on pages **3 to 31** for the year ended **March 31, 2006**.
These financial statements are the responsibility of the authority's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes, examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Authority at March 31, 2006, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

____

ERNST & YOUNG

CHARTERED ACCOUNTANTS (LESOTHO)

8 December 2006

1. STATEMENT OF ACTIVITIES

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

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

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

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

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

c) A 72 MW underground Hydropower complex at 'Muela;

d) A 17 km delivery tunnel north from 'Muela to the Mohokare (Caledon) River which forms the border between the Kingdom of Lesotho and the Republic of South Africa. This Tunnel links up through an underground syphon at this location with the South African portion of the transfer tunnel system;

e) Associated infrastructure, including construction of new roads, upgrading and rehabilitation of existing roads, three major road bridges, upgrading of border crossing facilities and new river crossings, camps, communications, power supply, communication systems etc;

f) Associated conservation, environmental and rural development activities.

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

a) The 146m high rockfilled Mohale Dam with concrete face;

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

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

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

e) Associated conservation, environmental and rural development activities.

2. PRINCIPAL ACCOUNTING POLICIES

2.1 Basis of Preparation

The Financial Statements have been prepared on the historical cost basis except for certain assets and liabilities which have been measured at fair value. The financial statements are presented in Maloti and all values are rounded to the nearest thousand (M 000) except where otherwise indicated.

Statement of Compliance

The financial statements are in accordance with International Financial Reporting Standards. This is the first set of financial statements prepared in terms of International Financial Reporting Standards.

2.2 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except that the Authority has adopted those new/revised standards mandatory for financial years beginning on or after 1 January 2005.

The changes in accounting policies result from adoption of the following new or revised standards:

- IAS 36 (revised) Impairment of Assets
- IAS 16 (revised) Property, Plant and Equipment

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

IAS 36 'Impairment of assets'

The revised accounting policy for impairment of assets is described in the "Summary of significant accounting policies".

IAS 16 'Property, Plant and Equipment'

The revised accounting policy for property, plant and equipment is described in the "Summary of significant accounting policies".

2.3 Significant Accounting Judgments and Estimates Estimation uncertainty

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 acquatic ecosystems as well as the social needs of the down stream communities. The Authority will monitor the IFR on a yearly basis and any additional compensation required will be included in the Provision for Compensation as identified.

2.4 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:

a) all costs of investigations, surveys, feasibility studies, engineering studies, preparation of designs, construction, construction supervision, procurement and commissioning;

b) the establishment and net administration costs of the Authority, other than those assigned to operations;

c) the costs of any land or interest in land, and any improvements to such land;

d) the costs of measures taken in order to ensure that members of local communities in Lesotho are not adversely affected by Project related activities, including the cost of providing compensation, and a provision for estimated future compensation;

e) all finance charges and income (including interest payments, financing and foreign exchange cover charges, gains and losses on foreign exchange and other charges) relating to finance raised to fund capital expenditure, up to the date of commencement of operations.

All such costs incurred are apportioned to one or more of the following activities:

i) generation of hydro-electric power in the Kingdom of Lesotho ("Hydropower")

ii) delivery of water to South Africa ("Water Transfer")

iii) ancillary developments in the Kingdom of Lesotho ("Ancillary Developments")

Such apportionment of capital costs is subject to ratification by the Parties to the Treaty.

The ratification of costs between Hydropower, Ancillary Development and Water Transfer is subject to agreement by the parties to the Treaty. Such agreements are reflected as prior year reallocations within work–in-progress and transferred to completed works for the hydropower and water transfer components or capital funds for the ancillary development component.

The Government of the Kingdom of Lesotho is, by way of Cost Related Payments, responsible for the costs of the Hydropower and Ancillary Development Activities.

The Government of the Republic of South Africa is, by way of Cost Related Payments, responsible for the costs of the Water Transfer activities.

Operating and 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.

Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. Provision 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.

Interest-bearing 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 net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Provisions

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

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 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. 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.

Financial Instruments

Financial Assets

At initial recognition, financial assets are classified as either of the following:

1) Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity where the Authority has both the intent and ability to hold to maturity.
2) Loans and receivables originated by the Authority are non-derivative financial assets created by the Authority providing money or services directly to a debtor, other than those that are originated with the intention of sale immediately or in the short-term.
3) Financial instruments held at fair value through profit or loss. This category includes those instruments held for trading or profit making purposes or to sell in the near future.

Financial assets that are not classified as any of the above are classified as available-for-sale.

Financial Liabilities

Financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Measurement

Financial instruments are initially measured at fair value, which includes transaction costs unless it is classified at fair value through profit or loss. All financial instrument purchases and sales are recognised using trade date accounting. Thereafter held at fair value financial instruments and held-to-maturity investments are held at fair value while loans and receivables originated by the entity are held at amortised cost, less any provision for impairment.

Cash and Cash Equivalents

Cash and cash equivalents are carried in the balance sheet at fair value.

Gains and Losses on Subsequent Measurement

Gains and losses arising from a change in the fair value of financial instruments are included in net profit or loss in the period in which the change arises.

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 where:

1) The rights to receive cash flows from the asset have expired; or
2) 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

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.

Interest income

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

Royalties

Royalties arising from the Lesotho Highlands Water Project, including advance royalty payments received as payments through the Southern Africa Customs Union, accrue to the Government of Lesotho and are therefore not reflected in the financial statements of the Authority.

Taxation

Current tax

In accordance with Section 29(1) of the Lesotho Highlands Development Authority Act (No. 23) of 1986, the Authority is exempt from Sales Tax Payable under the Sales Tax Act 1995, tax on any income or profits, transfer duties payable under the Transfer Duty Act 1966, stamp duties payable under the Stamp Duties Act 1972 and any fees payable under the Deeds Registry Act 1967.

Value-added tax

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

- where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of value added tax included.

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

Pension and Other Post-employment Benefits

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

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

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

Cost Related Payments

Cost Related Payments from the Governments of Lesotho and South Africa are recognised and credited to the Capital Funds on the date due for payment. Those arising from payment of financing costs on loans pertaining to completed works, or for Operations and Maintenance are transferred to the Income Statement.

Cost Related Payments become due when the relevant cost falls due for payment; provided that Cost Related Payments may be paid directly to contractors or consultants, or, where cost have been financed by way of loans shall be due for payment at the time such loans become redeemable.

Funds obtained by the Government of Lesotho on concessionary terms for the Water Transfer component are, for the purpose of Cost Related Payments, deemed to be loans at the interest rate and redemption terms applicable to loans of the International Bank for Reconstruction and Development.

Funds from Capital Markets

The LHDA utilises the South African Capital Market purely for the raising of finance for the Lesotho Highlands Water Project and does not trade in bonds once they have been issued.

The finance raised through the Capital Markets is therefore treated as long term funding and accrued interest not serviced through the semi-annual coupon payments is capitalised into the bond account.

Related Party

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the party in making financial and operating decisions. Parties are also considered to be related if they are subjected to common control of common significant influence. Related parties may be individuals or corporate entities.

Comparatives

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

2.5 Adoption of IFRSs During the Year

The Authority has adopted the following revised standards during the year and comparative figures have been amended as required. Adoption of revised standards does not have any effect on the capital fund as at 1 April 2004.

1. IFRS 1 First time adoption of International Financial Reporting Standards
2. IAS 1 Presentation of Financial Statements;
2. IAS 2 Inventories;
3. IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
4. IAS 10 Events after the Balance Sheet Date;
5. IAS 16 Property, plant and equipment
6. IAS 17 Leases;
7. IAS 24 Related Party Disclosures;
8. IAS 32 Financial Instruments: Disclosure and Presentation;
9. IAS 39 Financial Instruments: Recognition and Measurement; and
10. IAS 40 Investment Property.

Adoption of IFRS

The Authority has decided to adopt IFRS and as such the explicit and unreserved statement of compliance has been presented under section 2.1. Previously the Authority reported under International Accounting Standards as adopted by the Lesotho Institute of Accountants, which in essence did not deviate in any manner from International Financial Reporting Standards. The adoption of IFRS does not have any effect on the capital as at 1 April 2004.

IFRSs not yet effective

The Authority has not yet applied the following IFRS's that have been issued but are not yet effective.

IFRS 7 Financial Instruments: Disclosures

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

IFRIC4 Determining whether an arrangement contains a lease

This interpretation is to be applied for annual periods beginning on or after 1 January 2006. The Authority expects that adoption of the interpretation will be applicable to the operations. The extent of the additional requirements has not been ascertained at this stage and depends on the contracts that will be entered into from 1 January 2006.

Income Statement

	Note	M'000	M'000
Interest income		5 819	7 975
Miscellaneous income		1 874	4 704
Electricity income		58 616	53 987
Total Revenue		**66 309**	**66 666**
Expenses			
Depreciation		298 974	287 985
Bad debts		3 425	-
Asset donations to GOL	18	37 239	-
Interest and finance expenses		404 484	491 529
Foreign exchange loss/(gain)		(23 200)	29 625
Inventory and consumable stores		(59)	1 730
Construction and contractor costs		14 302	84 867
Resettlement and compensation costs		20 417	23 561
Increase/(Decrease) in future compensation provision		1 302	(89 117)
Increase/(Decrease) in provision for contract claims		8 700	(12 000)
Salaries, wages and allowances		71 597	93 623
Repairs and maintenance		14 328	25 662
Severance pay		1 135	5 530
Leave pay		4 274	75
Stationery		522	659
Provision for doubtful debts		1 083	614
Travel and transportation		769	1 053
Training		982	1 226
Rental expenses		5 118	6 282
Telephone and communication		3 040	2 988
Legal and arbitration fees		10 445	10 189
Audit and accounting fees		542	39
Bank charges		501	412
Security expense		709	1 461
Entertainment		145	164
Motor vehicle expenses		7 382	7 267
Insurance		1 447	954
Plant spares		101	484
Board and committee fees		727	959
Public relation costs		1 347	3 002
Miscellaneous expenses		147	50
Professional services		1 565	11 311
Recruitment		710	49
Safety awareness		133	159
Rates, electricity and water		3 306	811
Total expenses		**897 639**	**993 203**
Loss for the year		**831 330**	**926 537**

Allocation of loss as per cost allocation report

Income Statement continued

Capital work in progress – 1A water transfer	12 330	23 782
Capital work in progress – 1A Hydropower	1 743	20 430
Capital work in progress – 1A Ancillary development	27 073	19 600
Capital work in progress – 1B water transfer	93 934	131 554
Capital work in progress – 1B Ancillary development	20 790	27 973
Hydropower accumulated loss	31 729	4 058
Government of South Africa capital fund	643 731	699 140
	831 330	**926 537**

Note: The allocation of operating and financing costs between the Hydropower and Water Transfer operating components of the Project where common funding sources have been utilised, is subject to the agreement of the Treaty Parties. The last year that has been agreed to between the parties is 2005.

Balance Sheet

	Notes	2006 M'000	2005 M'000
ASSETS			
Non-current assets			
Completed works and capital work in progress	1	12 414 370	12 810 677
		12 414 370	**12 810 677**
Current Assets			
Project taxes refundable by the Government of Lesotho	2	714	872
Contract Advance payments	3	533	88
Other receivables and prepayments	4	18 721	83 246
Cash and cash equivalents	5	94 671	104 807
		114 639	**189 013**
Total Assets		**12 529 009**	**12 999 690**
FUNDS AND LIABILITIES			
Funds and Reserves			
Capital Funds	6	10 393 137	8 613 028
Accumulated Loss – Hydropower	7	(279 240)	(247 511)
		10 113 897	**8 365 517**
Non - Current Liabilities			
Long Term Liabilities	8	744 243	1 095 411
Provisions	9	230 923	229 621
Funds from Capital Market Funds	10	940 107	938 480
		1 915 273	**2 263 512**
Current Liabilities			
Contract payables and accruals		10 868	8 137
Contract retentions		1 981	2 090
Provisions	9	99 136	117 306
Other payables and accruals	11	104 155	168 005
Current portion of long term liabilities	8	283 699	94 082
Current portion of capital market funds	10	-	1 981 041
Total current liabilities		**499 839**	**2 370 661**
Total funds and Liabilities		**12 529 009**	**12 999 690**

Cash flow Statements

	2006 M'000	2005 M'000
Operating activities		
Hydropower – net loss for the year	(31 729)	(4 058)
Water transfer – deficit for the year	(643 731)	(699 140)
	(675 460)	(703 198)
Add: Depreciation	298 973	287 984
Finance Charges	404 484	491 529
	27 997	76 315
(Increase)/Decrease in advance payments	(445)	15 895
Decrease/(Increase) in other receivables and prepayments	64 525	(27 710)
Project taxes refunded by Government of Lesotho	158	2 896
Decrease/Increase in inventories	-	550
Increase/(Decrease) in contract payables and accruals	2 731	(29 619)
Decrease)/Increase in retentions	(109)	(41 232)
(Decrease)/Increase in other payables and accruals	(80 718)	(169 816)
Increase/(Decrease) in current portion of long term liabilities	189 618	(112 848)
Cash generated by operating activities	**203 757**	**(285 569)**
Investing activities		
Additions to Assets	(311)	(316)
Disposal of Assets	26 996	-
Expenditure on capital works and work in progress	70 648	(175 174)
Expenditure transferred to Funds	(226 518)	(48 165)
Cash utilised by investing activities	**(129 185)**	**(223 655)**
Financing activities		
Government of Lesotho	34 389	32 977
Government of Republic of South Africa	2 615 969	848 294
Increase/(Decrease) in long term liabilities	(351 168)	56 051
Finance Charges	(404 484)	(491 529)
Funds from capital market	(1 979 414)	48 033
Cash flows from financing activities	**(84 708)**	**493 826**
Net (Decrease)/Increase in cash and cash equivalents	(10 136)	(15 398)
Cash and cash equivalents at beginning of year	104 807	120 205
Cash and cash equivalents at end of year	**94 671**	**104 807**

Cash and cash equivalents comprise cash in hand and deposits held with banks

1. 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
Book value at 1 April 2004	**744 435**	**354 443**	**11 820 919**	**3 374**	**12 923 171**
Cost	828 420	443 132	13 016 449	7 995	14 295 996
Accumulated Depreciation	(83 985)	(88 689)	(929 547)	(4 621)	(1 106 842)
Taxes Refundable by the Government of Lesotho	-	-	(265 983)	-	(265 983)
Prior year reallocation	19 598	-	(20 190)	-	(592)
Transfer from Work in Progress	20 430	-	155 336	-	175 766
Additions	-	-	-	316	316
Depreciation	(19 703)	(18 386)	(248 713)	(1 182)	(287 984)
Book value at 31 March 2005	**764 760**	**336 057**	**11 707 352**	**2 508**	**12 810 677**
Cost	868 448	443 132	13 149 608	8 311	14 469 499
Accumulated Depreciation	(103 688)	(107 075)	(1 178 260)	(5 803)	(1 394 826)
Taxes Refundable by the Government of Lesotho	-	-	(263 996)	-	(263 996)
Transfer from Work in Progress	24 629	-	(95 277)	-	(70 648)
Additions	-	-	-	311	311
Depreciation	(17 682)	(18 971)	(261 714)	(607)	(298 974)
Disposal/donation of assets			(31 387)		(31 387)
Accumulated depreciation on disposed assets			4 391		4 391
Book value at 31 March 2006	**771 707**	**317 086**	**11 323 365**	**2 212**	**12 414 370**
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)
The useful life of the assets is estimated as follows:	50 Years	25 Years	50 Years	3-5 Years	

Notes to the Financial Statements continued

CAPITAL WORK IN PROGRESS

	Hydropower M'000		Ancillary Development M'000		Water Transfer M'000		Operations and Maintenance M'000	Total M'000
	Phase 1A	**Phase 1B**	**Phase 1A**	**Phase 1B**	**Phase 1A**	**Phase 1B**		
Book value at 1 April 2004	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Cost	1 271 552	-	442 073	158 459	8 267 662	4 748 787	-	14 888 533
Total transferred to Completed Works/capital funds	(1 271 552)	-	(442 073)	(158 459)	(8 045 438)	(4 705 028)	-	(14 622 550)
Taxes Refundable by the Government of Lesotho	-	-	-	-	(222 224)	(43 759)	-	(265 983)
Prior Year Reallocations	19 598	-	1 073	(481)	(30 084)	9 894	-	-
Cost Allocation	20 430	-	19 600	27 973	23 782	129 567	-	221 352
Transferred to Completed Works	(40 028)	-	-	-	6 302	(141 448)	-	(175 174)
Transferred to Capital Fund	-	-	(20 673)	(27 492)	-	-	-	(48 165)
Taxes refundable by the Government of Lesotho	-	-	-	-	-	1 987	-	1 987
Book value at 31 March 2005	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Cost	1 311 580	-	462 746	185 951	8 261 360	4 888 248	-	15 109 885
Total transferred to Completed Works/capital funds	(1 311 580)	-	(462 746)	(185 951)	(8 039 136)	(4 846 476)	-	(14 845 889)
Taxes Refundable by the Government of Lesotho	-	-	-	-	(222 224)	(41 772)	-	(263 996)
Prior Year Reallocations	24 629	-	42 028	14 573	(129 998)	34 721	14 047	-
Cost Allocation	1 743	-	27 073	20 790	12 330	93 934	22	155 892
Transferred to Completed Works	(24 629)	-	-	-	129 998	(34 721)	-	70 648
Transferred to Capital Funds	(1 743)	-	(69 101)	(35 363)	(12 330)	(93 934)	(14 047)	(226 518)
Book value at 31 March 2006	**-**	**-**	**-**	**-**	**-**	**-**	**22**	**22**
Cost	1 337 952	-	531 847	221 314	8 320 686	5 026 200	14 069	15 452 068
Total transferred to Completed Works/Capital funds	(1 337 952)	-	(531 847)	(221 314)	(7 921 470)	(4 975 132)	(14 047)	(15 001 762)
Taxes Refundable by the Government of Lesotho	-	-	-	-	(399 216)	(51 068)	-	(450 284)

The above allocation of costs between Hydropower, Ancillary Development and Water Transfer is subject to agreement by the parties to the Treaty. Such agreements are reflected as prior year reallocations. Prior year adjustments up to and including 2005 have been included.

Notes to the Financial Statements continued

2. PROJECT TAXES REFUNDABLE BY THE GOVERNMENT OF LESOTHO

Protocol V to the Treaty was signed on June 4, 1999. Under this Protocol, Taxes paid by LHDA and its contractors at rates in excess of those provided for in this Protocol are repayable together with interest at 15% per annum. The total including interest, outstanding at 31 March 2006, is M 0.714 million.

3. CONTRACT ADVANCE PAYMENTS

	2006 M'000	2005 M'000
Contract Advance Payments	2 410	16 343
Provision for Doubtful Debts	(1 877)	(16 255)
	533	**88**

4. OTHER RECEIVABLES AND PREPAYMENTS

	2006 M'000	2005 M'000
Trade Debtors	12 977	25 166
Staff Debtors	150	1 847
Value Added Taxation	6 088	10 761
Other Receivables and Prepayments	31 969	79 439
Provision for Doubtful Debts	(32 463)	(33 967)
	18 721	**83 246**

5. CASH AND CASH EQUIVALENTS

	2006 M'000	2005 M'000
Cash at Bank and in hand	94 671	107 482
Bank overdraft	-	(2 675)
	94 671	**104 807**
Currency Analysis		
US Dollar	7 526	8 649
Maloti	87 145	96 158
	94 671	**104 807**

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 94 671 (2005: M 104 807)

6. CAPITAL FUNDS

	Government of Lesotho M'000	Government of South Africa M'000	Total M'000
Balance at April 1 2004	**768 727**	**7 710 335**	**8 479 062**
Less: Amounts refunded	(55 035)	-	(55 035)
Add: Cost related payments amounts provided			
• Hydropower and Ancillary Development	88 012	-	88 012
• Water Transfer	-	848 294	848 294
Less: Ancillary Development costs	(48 165)	-	(48 165)
Transfer from Income Statement	-	(699 140)	(699 140)
Balance at 31 March 2005	**753 539**	**7 859 489**	**8 613 028**
Less: Amounts refunded	(71 153)	-	(71 153)
Add: Cost related payments amounts provided			
• Hydropower and Ancillary Development	95 299	-	95 299
• Water Transfer	-	2 615 969	2 615 969
Add: Ancillary Development Assets donated to Government of Lesotho	10 243	-	10 243
Less:Transfer from Capital Work in Progress	(115 706)	(110 812)	(226 518)
Transfer from Income Statement	-	(643 731)	(643 731)
Balance at 31 March 2006	**672 222**	**9 720 915**	**10 393 137**

7. ACCUMULATED LOSS - HYDROPOWER

	2006 M'000	2005 M'000
Sale of Electrical power	58 616	53 987
Less: Cost of sales	(90 345)	(58 045)
Operations and maintenance costs	(41 550)	(23 877)
Financing costs	(11 919)	4 332
Depreciation	(36 876)	(38 500)
Net loss for the year	31 729	4 058
Accumulated loss balance at the beginning of the year	247 511	243 453
Accumulated loss balance at the end of the year	**279 240**	**247 511**

8. LONG TERM LIABILITIES

	2006 M'000	2005 M'000
Long Term Debt	744 243	1 095 411
Short Term Debt	283 699	94 082
	1 027 942	**1 189 493**
Currency Analysis		
Euro	236 742	290 646
US Dollar	78 793	101 067
Rand	712 407	797 780
	1 027 942	**1 189 493**
Interest Bearing Status		
Interest-bearing	1 027 942	1 189 493
Non-interest bearing	-	-
	1 027 942	**1 189 493**
Maturity Profile		
Within one year	186 040	1 746
One to two years	-	-
Two to three years	6 809	-
Three to four years	19 518	9 206
Four to five years	192 726	24 247
Over five years	622 849	1 154 294
	1 027 942	**1 189 493**

Notes to the Financial Statements continued

Institution	Trans Caledon Tunnel Authority Debt Service Loans	Effective Interest Rate%	2006 M'000	2005 M'000
	Offshore loans			
HSBC	Repayable in semi-annual installments ending July 2012.	Libor +0.35%	111 901	137 732
Credit Lyonnais	Repayable in semi-annual installments ending July 2012.	5.73%	55 469	67 921
World Bank	Repayable in semi-annual installments ending May 2013.	Libor	78 793	101 067
European Investment Bank	Repayable in semi-annual installments ending January 2018.	3%	69 372	84 993
European Investment Bank	Repayable in semi-annual installments ending March 2018.	Libor	110 928	120 172
European Investment Bank	Repayable in semi-annual installments ending September 2018.	Libor	70 147	75 759
European Investment Bank	Repayable in annual installments ending August 2010.	12.71%	86 860	85 917
	Common Monetary Area Loans			
DBSA	Repayable in semi-annual installments ending March 2011.	8%	68 972	80 029
DBSA	Repayable in semi-annual installments ending March 2011.	12%	13 340	15 238
DBSA	Repayable in semi-annual installments ending March 2011.	11%	4 034	4 626
DBSA	Repayable in semi-annual installments ending March 2016.	7%	2 006	2 147
DBSA	Repayable in semi-annual installments ending September 2008.	8%	6 162	8 333
DBSA	Repayable in semi-annual installments ending September 2009.	8%	647	873
DBSA	Repayable in semi-annual installments ending September 2009.	8%	19 518	24 247
DBSA	Repayable in semi-annual installments ending March 2011.	8%	19 520	22 650
DBSA	Repayable in semi-annual installments ending March 2006.	7%	-	1 746
DBSA	Repayable in semi-annual installments ending September 2011.	12%	9 941	11 191
DBSA	Repayable in semi-annual installments ending September 2021.	12.23%	901	923
DBSA	Repayable in semi-annual installments ending September 2021.	10.92%	3 430	3 523
DBSA	Repayable in semi-annual installments ending March 2022.	10.68%	44 469	47 378
DBSA	Repayable in semi-annual installments ending March 2022.	12.12%	25 439	27 103
DBSA	Repayable in semi-annual installments ending March 2022.	12.96%	2 421	2 473
DBSA	Repayable in semi-annual installments ending September 2022.	jibar	37 632	38 879
ABSA / RMB	Other	Variable	-	18 218
	Total		841 902	983 138

Notes to the Financial Statements continued

Institution	Government of Lesotho Debt Service Loans	Effective Interest Rate%	2006 M'000	2005 M'000
	Offshore loans			
BNP Paribas	Repayable in semi-annual installments ending April 2008.	6.85%	5 401	8 086
BNP Paribas	Repayable in semi-annual installments ending April 2008	8.72%	565	846
ABN Amro	Repayable in semi-annual installments ending December 2008	7.35%	5 945	8 572
Svenska Handels-banken	Repayable in semi-annual installments ending June 2007.	8.035%	13 389	24 568
Dresdner Bank	Repayable in semi-annual installments ending June 2008.	AKA rates	15 905	23 810
West LB	Repayable in semi-annual installments ending June 2007.	6.85%	9 143	16 480
BNP Paribas	Repayable in semi-annual installments ending September 2008.	7.35%	16 315	24 424
BNP Paribas	Repayable in semi-annual installments ending September 2008.	8.17%	2 822	4 225
European Investment Bank	Repayable in semi-annual installments ending February 2009	3.%	11 566	16 344
Government of Lesotho	Risk Capital Loan - No repayments terms have been set.	9.8%	113 414	87 685
	Common Monetary Area Loans			
DBSA	Repayable in semi-annual installments ending March 2009	6%	9 531	12 385
DBSA	Repayable in semi-annual installments ending March 2015	13%	23 044	24 407
DBSA	Repayable in semi-annual installments ending September 2019	13%	2 548	2 623
Government of Lesotho	Government of Lesotho Muela Loan	5%	186 040	186 040
Government of Lesotho	Government of Lesotho Development Fund	Variable	15 352	15 352
Government of Lesotho	Muela Re-financing by the Government of Lesotho		(244 940)	(249 492)
	Total		186 040	206 355
	Grand Total		**1 027 942**	**1 189 493**
	Repayable in one year included in short-term debt		(283 699)	(94 082)
			744 243	**1 095 411**

Certain long term loan facilities which are direct with the Government of Lesotho, and which were utilised to fund the 'Muela Hydro-power Implementation, were shown as long term liabilities prior to December, 1999. As from December 1 1999, the Government of Lesotho has taken over responsibility for these facilities, as well as the investment, which was used as security for the loan

9. PROVISIONS

	Provision for Future Compensation	Provision for Disputed Contract Claims	Provision for Severance Pay	Total
	M'000	**M'000**	**M'000**	**M'000**
Carrying Value: 1 April 2004	**318 738**	**142 800**	**17 213**	**478 751**
Additional Provisions made in the year	**-**	45 000	9 293	54 293
Amounts used	(89 117)	(97 000)	-	(186 117)
Carrying Value: 31 March 2005	**229 621**	**90 800**	**26 506**	**346 927**
Additional Provisions	1 302	8 026	**-**	9 328
Amounts used	-	-	(26 196)	(26 196)
Carrying Value: 31 March 2006	**230 923**	**98 826**	**310**	**330 059**

	2006 M	2005 M
Non-Current	230 923	229 621
Current	99 136	117 306
	330 059	**346 927**

Provision for Future Compensation

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

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

Provision for Disputed Contract Claims

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

Severance Pay

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

10. 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	Registered Nominal 2006 M'000	Registered Nominal 2005 M'000	Maturity
WS01	12.0%	-	5 000 000	1 December 2005
WS03	13.0%	8 000 000	8 000 000	15 September 2010
		8 000 000	**13 000 000**	

The nominal values of the stocks issued to date and the proceeds received there from are as follows:

Issued on behalf of LHDA:

Stock	Cumulative nominal value of LHWP stock issued		Cumulative net proceeds from LHWP stock issued inclusive of capitalized Finance costs	
	2006 M'000	2005 M'000	2006 M'000	2005 M'000
WS01	-	2 006 558	-	1 981 041
WS03	998 000	998 000	940 107	938 480
Total	**998 000**	**3 004 558**	**940 107**	**2 919 521**
Less: Current portion			-	(1 981 041)
			940 107	**938 480**

11. OTHER PAYABLES AND ACCRUALS

	2006 M'000	2005 M'000
Trade Payables	7 910	8 675
Staff Payables	62	522
Accrued Interest on Loans	64 801	56 993
Accrued Coupon on Capital Markets	11 929	91 310
Other payables	19 453	10 505
	104 155	**168 005**

12. FORWARD COVER

Foreign currency denominated loans, except those for 'Muela Hydropower Implementation, are subject to forward cover contracts. However, in respect of the foreign currency denominated Hydropower loans, the Government of Lesotho has assumed the repayment obligations, and hence the foreign exchange risks, in exchange for a fixed Maloti obligation by the Authority to the Government.

The forward cover contracts where entered into by the Trans Caledon Tunnel Authority. The Lesotho Highlands Development Authority revalues all its offshore loans at the applicable spot rate as at 31 March each year as the risks and rewards of the Forward Cover Contracts do no accrue to the Authority.

13. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

Outstanding capital expenditure not contracted for at 31 March 2006 amounted to M28 million in respect of repairs to the Mohale dam and an office building purchase.

The Authority has been notified of the intention by various Contractors to submit claims for additional costs currently estimated at M2,285 million. The claims that are probable have been provided for in the Provision for Disputed Claims. The Authority is of the opinion that the results of ongoing discussions and representations are likely to substantially set aside such further claims.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

General Risk Management Principles

Risk management is of critical importance to the Authority as it understands that changing market conditions make risk unavoidable. Over the years the Authority has sought and implemented a comprehensive risk management process to consistently identify, understand and properly manage risk at all times. Risk policies, limits and control procedures are continuously monitored.

Foreign Exchange Rate Risk

The Authority undertakes certain transactions denominated in foreign currencies which implies that exposure to exchange rate fluctuations arise. All foreign currency denominated loans, except for those for 'Muela Hydropower Implementation; are or have been the subject of forward cover contracts taken out by the Trans Caledon Tunnel Authority on behalf of South Africa which guarantees and is ultimately responsible for repayment of those loans.

In respect of the foreign currency denominated loans for 'Muela Hydropower Implementation the Government of Lesotho has assumed all the foreign exchange risk in exchange for a fixed Maloti obligation by the Authority to the Government.

Interest Rate Risk

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

Interest Rate Risk is the risk of interest rate fluctuations adversely affecting the Authority's debt exposures. It arises from the repricing of the Authority's floating rate debt, as well as from incremental funding or new borrowings, and from the refinancing of existing borrowings.

It is the Authority's policy to manage interest costs through the utilisation of a mix of fixed and variable rate debts as well as through the evaluation of foreign versus local funding. For futher 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 Authorty's cash equivalents are kept at well-established financial institutions, which limits its counter party exposure. The Authority has no significant concentration of credit risk in respect of cash and cash equivalents. The entity is exposed to significant credit risk exposure in terms of receivables due to the extensive period it takes to recover accounts receivable.

Liquidity Risk

Liquidity risk is the risk of the Authority defaulting on its financial obligations as a result of insufficient funding capacity in relation to such obligations. The Authority manages this risk firstly through seeking guarantees from the Governments of Lesotho and South Africa, and secondly through planning and continuing re-planning of long-term project costs and funding requirements.

The Authority ensures that facilities are in place to meet its immediate obligations at all times.

Maturity Profile of Financial Assets and Liabilities

Apart from the long-term liabilities and capital market funds all the Authority's financial assets and liabilities are expected to mature within a twelve-month period. The maturities of the long-term liabilities are reflected , under Note 8.

Fair Value of Financial Instruments

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

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

	Carrying Amount		*Fair value*	
	2006 M'000	**2005 M'000**	**2006 M'000**	**2005 M'000**
Financial Assets				
Project taxes refunded by the Government of Lesotho	714	872	714	872
Contract Advance payments	533	88	533	88
Other receivables and prepayments	18 721	83 246	18 721	83 246
Cash and Cash Equivalents	94 671	104 807	94 671	104 807

	Carrying Amount		*Fair value*	
	2006 M'000	**2005 M'000**	**2006 M'000**	**2005 M'000**
Financial Liabilities				
Contract Payables and Accruals	10 868	8 137	10 868	8 137
Contract Retentions	1 981	2 090	1 981	2 090
Provision for Future Compensation	230 923	229 621	230 923	229 621
Other payables and accruals	104 155	168 005	104 155	168 005
Long Term Liabilities	1 027 942	1 189 493	1 027 942	1 189 493
Capital Market Liability	940 107	2 919 521	940 107	2 919 521

15. LOSS FROM OPERATIONS

Net loss from operations is shown after considering the following:

Expenses	**2006 M'000**	**2005 M'000**
Auditor's Remuneration	542	39
Construction and Contractor Costs	14 302	84 867
Depreciation	298 974	287 985
Finance Charges	404 484	491 529
Foreign Exchange Loss	-	29 625
Resettlement and Compensation Costs	20 417	23 561
Staff Costs		
• Salaries Basic	47 548	58 509
• Severance Pay	1 135	5 530
• Temporary contractingl Labour	10 810	19 295
Income		
Foreign Exchange Gain	23 200	-

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

16. NUMBER OF EMPLOYEES

According to the payroll system the authority had the following number of employees as at the 31 March 2006 : 322 (31 March 2005 : 386)

17. 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.

	2006 M'000	2005 M'000
Amounts credited to the Income Statement or fund accounts		
Sales of electricity to LEC	58 616	53 987
Cost related payments GOL	95 299	88 012
Cost related payments RSA	2 615 969	848 294
Loans to related parties and other accounts receivable		
Account receivable from LEC	12 978	25 165
Provision for Doubtful Debts from LEC	(117)	(117)
Account receivable from LRA	6 088	10 761
Provision for Doubtful Debts from LRA	(6 088)	(4 586)
Loans from related parties and other accounts payable		
Accrued interest on GOL loans	54 533	46 935
Loan payable to GOL	186 040	186 040
Compensation to Key Management Personnel		
Short Term Employee Benefits	8 837	10 028
Termination Benefits	1 829	2 896
Total Compensation Paid to Key Management personnel	**10 666**	**12 924**
Board Fees		
Board and sub committee fees including sitting and travel costs	810	980

The Chairperson is paid M8,006.00 per sitting and other board members are paid M7,548.00 per sitting. For special assignments members are paid an hourly rate of M445.00 as chairperson and M420.00 as other members.

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

	2006 M'000	2005 M'000
Transfer of the Ts"ehlanyane, Bokong and Likileng Nature Reserves and Offices	10 446	-
Transfer of Ha Lejone Camp	2 292	-
Transfer of Caledonspoort and Maputsoe Border Crossing Facilities and Buildings.	6 873	-
Transfer of Leribe Hospital Trauma Unit	3 809	-
Transfer of Mohale School, Clinic & Mortuary	3 891	-
Transfer of New Bus stop, CBD streets and school in Butha Buthe village	8 063	-
Transfer of Katse village school and clinic	1 865	-
	37 239	**-**