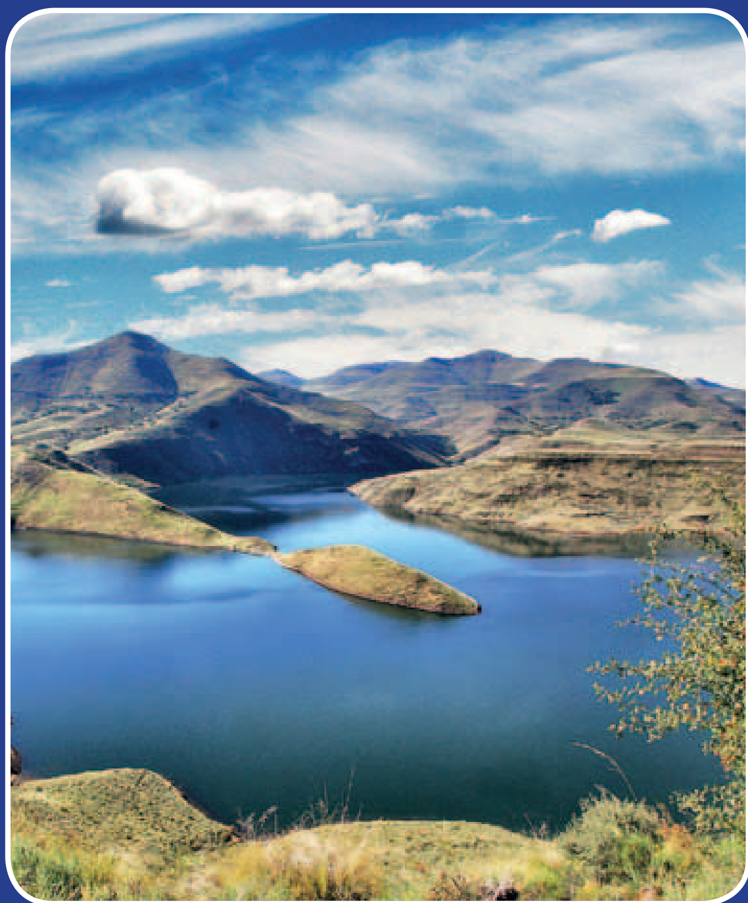
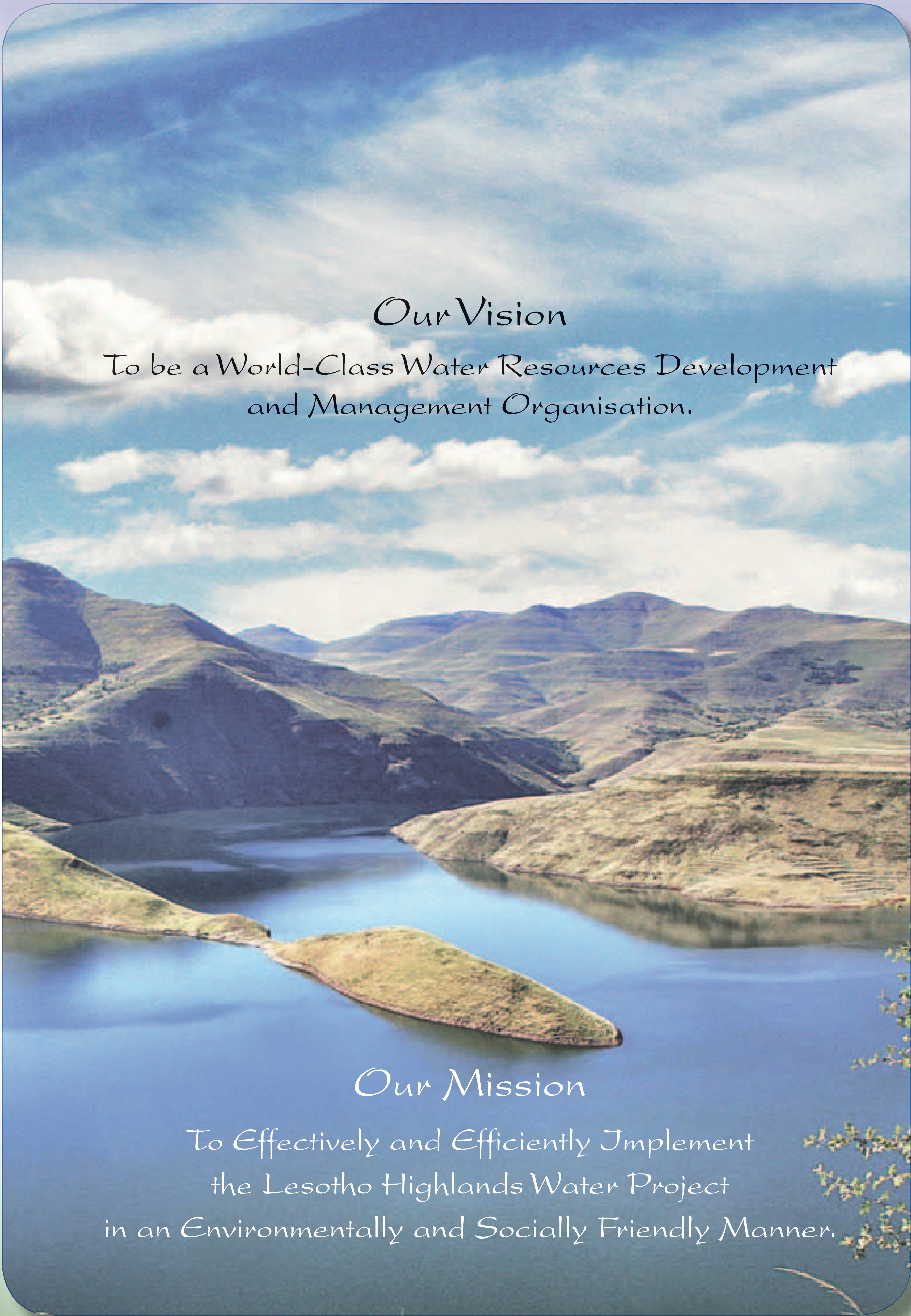
LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY
ANNUAL REPORT 2009/10



LHDA



Our Vision

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

Our Mission

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

BOARD OF DIRECTORS

MR TEBOHO NKHAHLE
Board Chairman
Portfolio: Sustainable Development

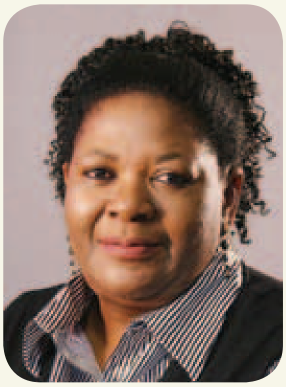
MR PETER MAKUTA
Acting Chief Executive
and Ex-officio Member of the Board

MR JOHN JULIAN EAGAR
Deputy Board Chairman
Portfolio: Operations & Maintenance

MRS 'MAMOHALE MATSOSO
Portfolio: Human
Resources Management

MR ANTON LOUIS GIANI
Portfolio: Audit & Risk Management

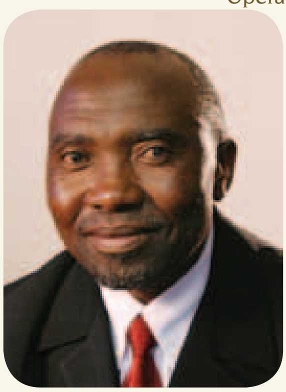
MR PIET SWART
Portfolio: Audit & Risk Management



PROF LULAMA IDA QALINGE
Portfolio: Sustainable Development

MR LEON TROMP
Portfolios: Human Resources Management
Operations & Maintenance

MR TS'IU KHATHIBE
Portfolio: Audit & Risk Management



MR RAMOKOATSI MOEA
Portfolio: Sustainable Development
(Stakeholder Representative)

BOARD OF DIRECTORS

MR TEBOHO NKHAHLE
Board Chairman
Portfolio: Sustainable Development

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

MR PETER MAKUTA
Acting Chief Executive and Ex-officio Member of the Board

BSc. (Maths and Physics) National University of Lesotho, 1980
B. Eng (Elect.) Carleton University Canada, 1991
Diploma (Power Engineering and Management) Sweden 1992

MR JOHN JULIAN EAGAR
Deputy Board Chairman
Portfolio: Operations & Maintenance

BSc Civil Engineering,
University of Cape Town, 1966
Registered Professional Engineer
Fellow: Institute of
Civil Engineering (SA)

MRS 'MAMOHALE MATSOSO
Portfolio: Human Resources Management

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

MR ANTON LOUIS GIANI
Portfolio: Audit & Risk Management

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

MR PIET SWART
Portfolio: Audit & Risk Management

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

PROF LULAMA IDA QALINGE
Portfolio: Sustainable Development

BA Social Work - University of Fort Hare 1977
MA Social Work - University of Nebraska at Omaha,1982
PhD - University of North West - 1999
Registered Member - Council for Social Service Professions

MR LEON TROMP
Portfolios: Human Resources Management /Operations & Maintenance

BSc. Eng. (Civil University of Natal, 1978
BEng. (Hons) University of Pretoria, 1985
MEng. (Civil) University of Pretoria, 1988

MR TS'IU KHATHIBE
Portfolio: Audit & Risk Management

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

MR RAMOKOATSI MOEA
Portfolio: Sustainable Development (Stakeholder Representative)

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

MR TEBOHO NKHAHLE
Board Chairman

It is once more my pleasure and privilege to reflect on the past year and share with you some of our achievements, the challenges we met and more importantly how we turned those challenges into opportunities for improvement in the future.

As one of the measures of the relevance and quality of services offered by the LHDA, the annual stakeholders' conferences provide useful feedback. They provide a measure of, in particular, how the affected communities perceive and experience the services provided by LHDA. This helps the LHDA to improve on its shortcomings.

The 2009 stakeholders' rating of 87.2% is the highest ever achieved by LHDA. This is indicative of a mature dialogue between LHDA and the stakeholders, as well as the achievement of relative success by LHDA in the advancement of the cause of community participation in projects that affect them.

It was also gratifying to note that some of the cooperatives established under the Project obtained the Best Cooperative National Award while a Youth Centre at Katse obtained an award in recognition of its valued contribution in the fight against HIV/AIDS, soil erosion prevention, as well as conservation of the natural environment.

The Board also noted the challenges that the Project still has to address. For example the communities voiced great concern about water and sanitation works that were suspended in certain villages. Other complaints included the perceived inadequacies in the training programmes on income generation for the affected communities and the slow resolution of the compensation complaints. This feedback will form part of the Board's agenda in the coming year.

Foremost in the mind of the Board has been the recognition of the need to ensure that there is not only compliance but that there is prudent control of LHDA operations to ensure sustainability and that there are effective governance structures and processes in place.

In this regard, I am therefore happy to report that two years into operation, this Board introduced for the first time in the history of the LHDA, a Board Charter in line with internationally acceptable principles and practices of good corporate governance. The Charter enjoins the LHDA Board members, in their individual and collective capacity to not only ensure that there are adequate processes and systems in place to identify and effectively comply with all relevant legislation, applicable standards and codes of practice, but also to ensure LHDA's conformance to industry norms and standards, as well as international best practices in all its endeavors;

In terms of the Board Charter, one of the strategic objectives of the Board is to provide leadership by guiding Management to identify key risks and develop proactive strategies to measure and limit the business downside potential while at the same time maximizing the business upside potential. The Board is further required to optimize the value drivers with a view to ensuring that all phases of the LHWP achieve not only a net social benefit but also a net economic effect.

It is therefore pleasing to report that the LHDA continued not only to play a significant role in the upliftment of the livelihoods of the affected communities, but it also contributed to the economic growth as evidenced by the net flow of Royalty revenue and the export earnings from the sale of electricity. As reflected in the submission by Management below, while the royalty revenue of M342.6 million was 2.3% below the annual forecast of M350 million for the year, to-date a total of close to M3 billion in royalty revenue has been received by Lesotho since commissioning of first water deliveries in January 1998.

I am also particularly happy to report on yet another first time creation of a process or system to help in the governance of the LHDA operations. It was during the year under review that for the first time in the history of the Project, a comprehensive Corporate Risk Register was adopted and put into use. The existence of the Corporate Risk Register creates a capability in the LHDA of a very deliberate and structured approach to identifying, assessing and controlling risks that are likely to emerge during the day-to-day operations of the Project. The Risk Register is designed to support better decision-making through an intimate understanding of the risks inherent in the operations, their likely impact and how they can be better managed. The Risk Registers have been developed covering six themes i.e. Financial, Operational, Reputational, Human Capital, Environmental and Social.

Yet another strategic initiative that we undertook during the year was to start a process that would ultimately culminate into an LHDA wide integrated performance reporting system that pulls together the

The Katse Dam a boating paradise.

various reporting tools and provides a holistic picture of the value that is being added through the on-going operations.
This is particularly important given that the financial crisis that hit the World in 2009 focused the attention of governments around the world and other public institutions on the absolute imperative of ensuring that public funds are utilized in a manner that provides good value for money.
In this regard, during the year the Board approved that Management engage an external audit firm, firstly to assess and document the current state of LHDA's various performance reporting systems and secondly, to assist LHDA to address any weaknesses therein and make recommendations and develop a road map for upgrading its performance reporting to an integrated reporting framework that provides a holistic picture of the value that is being added through the on-going operations. It is expected that once the system has been running for two to three years, it will be subjected to an objective and independent verification by an external audit firm.
As reflected in the submissions by Management below, Water Delivery and Electricity Generation varied slightly from what was planned for the year. The slight over delivery of water is an area that Management must work on in the coming year to ensure that the actual deliveries are as planned so that the royalty revenue can be optimized.
As I reported previously, LHDA continued to deliver sound financial performance, it operated within budget, delivered on its social commitments and effectively sustained technical performance, while taking due care to sensitively manage stakeholder relationships.
For many years now there has been what one can call "great expectations" regarding the timing of the implementation of Phase 2 of the LHWP. The heightened expectations are very legitimate when one considers the great impact that Phase 1 had on the economy of Lesotho, both at the micro-economic level and at the broader macroeconomic impact levels. Just to recap, a macroeconomic impact study carried out in 2004 concluded that "Overall Gross Domestic Product (GDP) growth rose from 3.0 percent per annum in the pre-Project period, to 5.5 percent per annum during the Phase IA construction period (1988-1997). The commencement of Phase IB in 1994 could not counter the contraction effects of a completed Phase IA, but nevertheless supported GDP growth by close to 1 percentage point since 1995."
Source Conningarth Economists, RSA; 2004

As part of preparations for the next big Phase of this massive Project, we took time to reflect on the experiences of the past and draw Lessons Learned from the implementation of Phase 1 of LHWP and map the way for Phase II.
A workshop was held on 18th May 2010 which was attended by the Board, Management, the Lesotho Highlands Water Commission and the Panel of Experts on Social and Environmental issues. The outcome of that workshop was a comprehensive document that will hopefully be of great benefit for the various stakeholders as they implement Phase 2 of the Lesotho Highlands Water Project.
One of the lessons learned was that in the past, due to delayed planning, the required social and environmental baseline studies were conducted after the construction had already started. To counteract this, LHDA was tasked with the identification of a list of studies to be adopted as baselines in Phase 2 before the start of construction. I am happy to report that such a list, outlining all the key Environmental and Social baseline studies for Phase 2 was subsequently produced and approved by the Board in December 2010. As we move forward, we will be implementing the rest of the recommendations that came out of the "Lessons Learned" workshop, such as early involvement of the affected communities so that there is buy-in.
In conclusion, I wish to register the Board's appreciation to the support and guidance given by the representative of both governments of Lesotho and South Africa on this Project. It is our fervent hope that we can continue to improve and strengthen those relations. Our heartfelt gratitude also goes to the LHDA Executive and Management as without their strong commitment to the goals and vision of this Project, none of what has been reflected above as achievements would have been possible.

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

Yours Sincerely,

Teboho Nkhahle
Chairman of the Board

It gives me great pleasure to once again take this opportunity to reflect on our successes and challenges in the past year. As a learning organization we take particular note of the challenges and seek to exploit the opportunities for growth that these challenges often bring with them.

MR PETER MAKUTA
Acting Chief Executive and
Ex-officio Member of the Board

Water delivery and power generation targets met.

Water delivery and power generation targets were achieved as planned. The water delivery of just over 783 MCM was within 0.5% variance allowed for. Our records reflect a royalty revenue figure of M342 million as against the planned revenue of M350 million.

Against the planned 94% availability of generation plant, I am happy to report that we exceeded that target when the plant was available all the time. This is one of the reasons why we were able to generate 508 Gwhr against the planned target of 495 Ghrs.

Safety and environmental standards maintained.

One of our priorities during the year was to ensure the safety and integrity of the LHWP water retaining structures (i.e. Dams, Tunnels and Weirs) and to ensure that the installed instruments perform to design performance standards. I am happy to report that our annual review of the operations has indicated that our installed instruments remained intact and smoothly operating as measured by the 100% availability. We also continued to maintain our 3star IRCA SHE Rating thus providing assurance regarding our record on safety, health and environmental standards.

The Mohale Dam.

By November 2009, the Mohale Dam crack repair works were completed to Elevation 2058 masl. The repairs covered a 17 meter long section of the crack that was not covered with water. As we have previously indicated the international Panel of Experts for Engineering have reiterated that water leakage from the crack is within allowable limits and that the integrity of the Dam itself was never compromised. Not withstanding, efforts are on-going to repair as much of the crack as possible in order to better control the amount of water that is retained in the reservoir. The limiting factor on the repair works is how much water can be drawn out of the Mohale Dam to reveal the crack. This is done by transferring the water from the Mohale Dam into the Katse Dam and the available buffer in the Katse Dam itself.

Work that is still behind and should receive attention in the coming year is the issue of resuscitation of the Katse telemetered seismic network following extensive damage to some stations during a lightning strike.

Initiatives to enhance the standard of living- Aquaculture Project.

The LHWP has developed two major reservoirs at Katse and Mohale as part of Phase 1 of the Project. It was recognized from the outset that the reservoirs could be used for aquaculture activities from which the people of Lesotho could benefit by way of employment and food security. Such an industry would also enable the Government of Lesotho to achieve some diversification in the economy, thereby strengthening its resilience to external factors.

To this effect in 2005, LHDA awarded a contract to a consortium of local and South African investors which operated under the banner of Katse Fish Farming or KFF to pilot test the viability of large scale fish farming in the Katse reservoir. Performance targets set for KFF included a target production of 300 tonnes of trout fish per annum, community ownership and participation and water quality preservation. In terms of the contract with KFF, there is going to be a thorough review of the achievements before consideration can be given to expand or extend the project. This review will also come at an opportune time when there are also other potential investors who have expressed interest in aquaculture development opportunities using our reservoirs. Some of the exciting features that are incorporated in any further investments is that to qualify , such investments will have to ensure that the bulk of the value adding activities are carried out locally. In addition, there must be demonstrable benefaction of the local communities. This we believe will contribute to an improvement in the livelihoods of communities around the project areas. Another condition that LHDA has placed is that the projects must operate according to international standards to ensure food safety and limit environmental impact.

Empirical research elsewhere has demonstrated that more than 60% of the cost of farming the fish is made up of the cost of feed. Therefore the farming sector both in Lesotho and South Africa also stands to benefit hugely from the competitive supplies of the input that will be used to manufacture feed for the fish.

ISO accreditation sought.

In the quest to ensure the optimal operation of LHWP facilities in a safe and secure manner, the LHDA has embarked on a long and ambitious road to eventually receive accreditation under ISO 14001; Preparations have began in earnest. The work has started by developing an Environmental Policy Statement and Developing a Corporate Risk Register. The LHDA leadership is fully committed to the vision and has the backing and encouragement of the Board of Directors. To ensure sustainability and buy-in, as much of the preliminary work is being done in-house and where skills shortages are experienced, external training will be provided.

Compensation payments continue, but complaint levels remain high.

Our Treaty obligation is to timeously and accurately compensate affected households and communities for all identifiable losses. While we can now safely state that we are effectively discharging this mandate as attested to by the Community liaison structures themselves, a worrying development is the increasing number of complaints related to compensation that has allegedly not been paid. This is worrying because in some cases we have been able to establish that most of these complaints have long been dealt with and that they are simply being repackaged and recycled in the hope that they will somehow be successful. We have continued to fine tune our complaints management system which helps track the complaints and continue to engage the community members individually and also through their community representative structures. The plans for the future are to install a computerized compensation workflow system to replace the current manual and standalone systems at individual Branch offices. It is hoped that this will improve turnaround time and also help to quickly eliminate invalid complaints.

Another big challenge that we continue to face is our inability to pay communal compensation to some Local Legal Entities (LLEs) due to the fact that some of these LLEs fail to submit all outstanding documents and audit reports as per the conditions in the Memorandum of Understanding they have signed with LHDA.

A continuing challenge remains of coming up with strategies and programmes that will help maximize opportunities for sustainable social and economic development in the LHWP area. This is an ongoing challenge. The results are mixed. A challenge that will have to be addressed is the fact that LHDA no longer has the capacity, in terms of staff and facilities, to monitor these undertakings once the funds have been disbursed. A wide range of undertakings were funded during the year; They cover hammer mills and a leisure boat, some poultry projects, rental flat projects and tourism projects.

Contributions towards eco-tourism development.

We continue to make an input into national and regional efforts to maximize opportunities for sustainable social and economic development in the LHWP areas through Eco-tourism development; To this effect a total of 5 Chalets at Liphofung were completed and handed over to the Lesotho Government, Ministry of Tourism, Environment and Culture in June 2009, while the 4 chalets at Tsehlanyane were handed over in August 2009, to be operated and used in the promotion of tourism. At the end of the reporting period, the Bokong Chalets were 80% complete at project termination on 31st December 2009. The chalets are yet to be transferred to MTEC.

The Katse Information Centre was completed in November 2009 while the Katse Botanical Gardens Reception Building was 85% complete at project termination on 31 December 2009.

Water and sanitation programmes have not fared well.

One area where we have not fared well is in the area of completing the long outstanding water and sanitation works in the Katse catchment area. Against the planned target of 88 potable water supply systems being operational by March 2010, only 2 such systems were completed by the end of the reporting period, while only 65 VIP latrines were constructed against a backlog of 1,612 facilities (VIP latrines, refuse and waste water disposal facilities). The slow progress was partly caused by a changed method of implementation which in turn was occasioned by insufficient funding from government. Valuable lessons have been learned and should be put to good use in future programmes. The biggest risk that remains is the unhappiness of the Katse Catchment communities. We will have to work to improve their attitudes and perceptions so that we continue to get co-operation in other equally critical interfaces with the communities.

The relationships with the stakeholders remain buoyant.

During the annual stakeholders conference held in November 2009, LHDA was given an overall performance score of 87.2%. This is the highest performance rating score since 2004, when 87% was achieved. This may be an indication that persistent efforts at communicating, engaging with and delivering services, with timely explanations where delays are encountered, may be beginning to pay off.

I wish to conclude this brief overview by acknowledging the crucial support and cordial working relations with the Project Authorities. The results would not have been what we now have on the ground had it not been for the dedication of my Executive team and the staff who gave it their best. As a well noted example of a successful trans boundary water resources management initiative, the LHWP continues to offer the best hope for meeting the national socio-economic needs of both Lesotho and South Africa.

To this end we look forward to a prosperous, thriving and flourishing future.

The Chief Executive Division is made up of the Office of the Chief Executive and three other specialized units, namely the Corporate Secretariat/Legal Services, Public Relations and Internal Audit.

Key among the functions of the Chief Executive are the strategy formulation, provision of a link with the main actors in the external environment and provision of the overall strategic leadership of the organization and ensuring that the LHDA's operations are in line with the mandate, policies and procedures approved by the Governance structures.

The Chief Executive is also the leader of an Executive Team that comprises the two Divisional Managers. The Executive Team's (EXCO) main function is to ensure that the entire operations of LHDA are well coordinated and aligned for maximum impact and that there is no duplication of effort or activities that do not add value.

The Chief Executive provides leadership and guidance to the specialized units dealing with issues of Corporate Governance, Board Secretariat services, Legal Services and Public Relations to ensure achievements in the following areas;

- Ensuring good governance and prudent risk management services (Chief Executive & Internal Audit);
- Providing efficient secretariat support services to the Board and its sub-committees (Corporate Secretariat);
- Ensuring effective management of internal and external stakeholder relationships, and safeguarding the image of the LHDA (Public Relations Unit);

As per good corporate governance, the Internal Audit function is completely independent and reports directly to the Audit and Risk Management Committee of the Board; However since this function is housed in the Division that reports to the Chief Executive, for day-to-day non-audit issues, the Audit team therefore administratively reports to the Chief Executive.

The year under review was an exciting period in the history of LHDA; Expectations were high not only within LHDA but also within the country as the negotiating teams of the two governments were working hard to get to the end of a timetable that would see the finalization of the negotiations on Phase 2 of the Lesotho Highlands Water Project. Therefore great efforts were being made internally to get the organization ready to take on increased responsibilities. In brief, this meant clearing any backlogs and fine tuning systems and processes. In this regard therefore, we are pleased to highlight the following milestones under the Executive Division.

Development of a Legal Register

One major initiative that was started during the year is the development of a Legal Register. This involves identifying all the national and international legislation that is directly applicable to our operations. The outcome of this exercise will be the development of a tool that will enable LHDA to assess its level of compliance and ensure that in those areas where we may not be compliant, measures are implemented to ensure ongoing compliance. This will also help us to carry out regular compliance evaluation against these regulations. In future it will also be important to monitor and keep an eye not only on legislation that indirectly affects our operations but also any legislation that may be coming in future. This vigilance will help us remain compliant and help sustain our competitive advantage.

Litigation

LHDA vs. Peggy Thakeli (M2.4 million)

In the history of this Project there have sadly been occasions where some people have been motivated by greed and then committed crime. One such case is that of a former employee of LHDA who was charged on five counts of fraud against LHDA involving M2.4 million. This fraud was perpetrated in 2004 but was detected by our ever vigilant routine transactions vetting systems and procedures though the case took four years in courts of law.
After a marathon trial, the culprit was convicted on all five counts and sentenced to eight years imprisonment. She appealed against both the conviction and sentence and her appeal was dismissed. The experience has helped Management to revisit its current electronic payment processing systems and helped us build strong defenses. This should bode well for the future.
Regarding the financial institution that was also defrauded, LHDA opted for an out of court settlement that enabled LHDA to recover M 1.2 million.

Corporate Risks Register

LHDA Board of Directors, its Sub-Committees and Management held a successful internal working session on the assessment of corporate risk exposure to LHDA. The objective was to identify, classify, and evaluate risk and more important, help define the risk appetite. The exercise was a good opportunity for the various levels in the corporate governance structures to meaningfully map out the risk environment and more importantly, to develop a common vision on how to deal with the various types of risk. As we move into Phase 2 of the Project, we are better prepared to base ourselves on lessons learned in the current Phase and Risk Management strategies that are being developed. The development of a Risks Register is being carried out simultaneously with the development of the Key Performance Indicators. The two processes will form the key components of a "dash board" with measures against which both the Management and the Board of Directors will easily be able to track organizational performance.

Insurance

LHDA Self Insurance Strategy

It was in 2002 when the organization adopted a strategy of self insurance in relation to certain assets. This was reached after a careful assessment of the historical performance of our insurance portfolio and the claims history. The exercise informed Management that it was more cost effective to self insure assets such as the vehicle fleet. Looking back, this strategy has to date proven to be effective and efficient in that the high cost of insurance premiums has been lowered tremendously. The self insured assets have been cost effectively maintained without the need for expensive insurance cover. This has further bolstered the position of the LHWP as a low cost alternative source of water supply for South Africa.

Internal Audit

LHDA's Internal Audit function continued to provide the valuable independent appraisal of the appropriateness, adequacy and effectiveness of the LHDA's systems, internal controls and accounting records. It was in the course of carrying out its mandate that the Internal Audit identified some corrective actions and recommended improvements to such controls and processes. The findings were reported to both Management and the Board of Directors through the Audit and Risk Management Committee.

Every year the Audit and Risk Management Committee approves an annual risk-based audit plan, which covers all major risks emanating from LHDA's risk management processes. This is based on changes in the Authority's risk profile and control environment to ensure that the audit coverage is focused on areas of high risk. During the reporting period, the scope of Internal Audit was extended to Fraud Risk Management and investigations.

During the reporting period, the LHDA Fraud Risk Management Policy was successfully finalized and was at the end of the period awaiting approval by the Board for it to be implemented. The Fraud Risk Management Policy complements the measures taken in the development of the Corporate Risk register. This is a proactive stance in managing fraud related risks.
During the year under review there were no material areas of non-compliance with LHDA's legislative framework, nor was there any non-compliance in relation to the LHDA's obligations under the various loan agreements. Save for minor deficiencies in some business operations, there were no material breaches of controls that were uncovered.

Tourists enjoy a boat ride in the Katse reservoir.

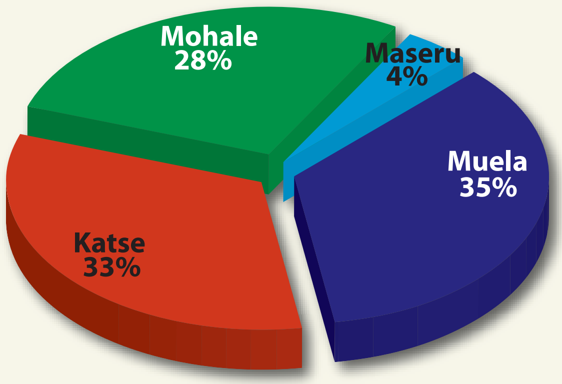
Public Relations

During the period under review, the Public Relations Unit held the 2009 LHDA External Stakeholders Conference to examine stakeholders' perceptions regarding levels of service. The LHDA received a performance rating of 87.2% as per the External Stakeholders assessment. The rating score was three percent (3%) higher than the previous year's rating of 84%.

In pursuit of the national objective of increasing tourism visitations in Lesotho, the bulk of the advertising budget was allocated to marketing the Lesotho Highlands Water Project (LHWP) in various regional publications and through participation at local and regional exhibitions, to broaden awareness of the project to the wider audience and to attract new tourists to the Lesotho Highlands Water Project (LHWP) areas. These resulted in increased tourism arrival rate of 37,685 as compared to 31,617 in 2008.

The LHWP sites continued to attract visitors from within Lesotho borders, regionally and internationally. Overall, during the reporting period, a total of about 38,000 people visited the sites. The statistics for the four Information Centres were as follows:

LHWP : Where the Visitors Went in 2009/10



Muela	=	13,148
Katse	=	12,543
Mohale	=	10,590
Maseru	=	1,404

1. MANDATE

The overall goal of the Strategic and Corporate Services Division is to provide effective support services to the line functions. The division develops strategies, systems, standards and frameworks within which the line functions implement their various programmes. The mandate of the Division covers strategic water resources planning, environmental and social planning, monitoring and evaluation, information services, finance and human resources management.

In order to carry out the above mandate, the Division is divided into five functional areas namely: Integrated Planning, Monitoring and Evaluation, Information Systems, Finance, and Human Resources. The office of the Divisional Manager - Strategic and Corporate Services provides strategic guidance and leadership in addition to having specific oversight for certain activities.

The Division has responsibilities in seven of the twelve Key Focus Areas (KFA) of LHDA as per Strategic Plan for 2008/09 –2013/14

2. PROGRESS MADE DURING THE REPORTING PERIOD

2.1. KFA 1: To ensure the optimal transfer and delivery of high quality water to RSA

2.1.1. Planned vs Projected Deliveries

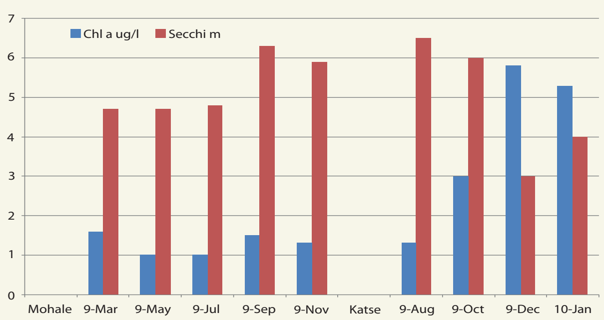
The 2010 Water Delivery schedule was finalised in December 2009 in line with project covenants. The planned deliveries for 2010 are 780 MCM which is in line with the assessed yield of the catchment from which the Lesotho Highlands Water Project draws its water.

2.1.2. Water Quality

The assessment of the three reservoirs indicate that the water in LHWP reservoirs remains of high quality based on the results of monitoring as presented in the charts below. The required points are within the required ranges despite the effect of the seasonal change that is evident in the data reported. The reported values are also well below conventional alarm levels, indicating the near pristine nature of Lesotho's highland water.

Attention is drawn to the fact that Reservoir monitoring is done on a monthly alternative basis to reduce costs.

Chart 1 : Secchi and Chlorophyll-a levels – Mar 09 to Jan 10



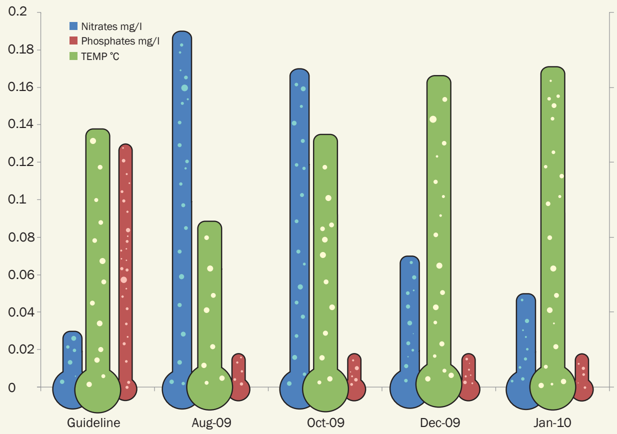
Mohale Reservoir

The high secchi (clarity indicator) depths (4.7 – 6.3) with chlorophyll-a concentration ranging from 1 - 1.6 ug/l indicates that the system is supportive of a very low level of biomass crop growth.

Katse Reservoir

Similarly, the high secchi depth ranging from 3.0m to 6.5m with "low" chlorophyll-a concentration that varied between 1 - 5.8 ug/l, indicates that the system supports low biomass crop. The change in the December to January period is as a result of increased run-off and inflow caused by the on-set of the rainy season.

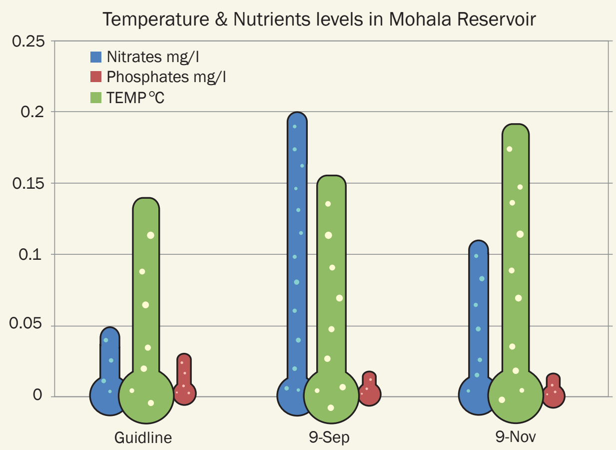
Chart 2: Katse Profile and Nutrient levels



Note: Temperature (oC) is read from secondary axis

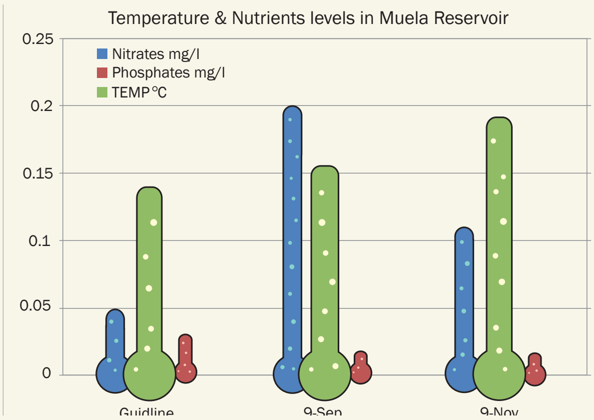
Temperature increase is expected given that the recorded months are peak summer months.
There was a significant increase in the level of nitrates which was observed since June 2009 and that is still under investigation.
All other variables exhibited limited variation and were within the long term ranges.

Chart 4: Mohale Profile and Nutrient Levels



Mohale temperatures suggested that the reservoir was warming up as expected Nitrates are higher than the observed long term values as in Katse and this pose a challenge to determine the underlying course.

Chart 5: Muela Reservoir Profile and Nutrient levels



Nitrate levels in Muela are showing similar behaviour to that of Katse with levels higher than the median value.

2.1.3. Challenges

Item	Issue	Mitigation
1	The 780 MCM target limits the ability of LHDA to maximise hydro power generation	LHDA is reviewing the hydrological assumptions to establish what maximum could be "safely" delivered without compromising long term reliability. Agreement will still be required from TCTA for any increases.
2	Inadequate resources to carry out the full monitoring regime	The reserve challenges are currently adressed by LHDA
3	Impact of Climate Change	There has been no noticeable impact of the changes in whether patterns on the reliability of the LHWP to meet agreed water demand from South Africa.

2.2. KFA 2: To ensure efficient and cost effective production of electricity for Lesotho.

2.2.1. Bulk Energy Tariffs

The tariff for electricity delivered to the national distributor, Lesotho Energy Company LEC, is still the most competitive in the region at an average of 12 Lisente per kWh. This price is as a result of a moratorium on increases in this price, which has been in force since 2003. The moratorium was put in place as a means to lessen the burden on LEC which at the time was going through some financial stress. Efforts are being made to have the moratorium lifted so that the full provisions of the Power Sales Agreement with regard to price adjustments can be effected.

2.2.2. Peak Generation versus Lesotho load

Generation by LHDA was able to meet 88% of the energy and 55% of the demand capacity required by Lesotho. The latter points to challenges with the synchronisation of the generation at Muela (under LHDA) and the size and profile of the country's needs arising mainly from restrictions imposed by the monthly water delivery commitments. To reduce this, the scheduling interval has been reduced to a monthly interval and daily peak periods aligned. This should significantly reduce the amount of 'unbilled' capacity that LHDA currently encounters. These arrangements will come into effect in 2010.

2.3. KFA 5: To compensate the affected individuals and communities for identifiable direct losses due to LHWP.

2.3.1. Compensation payments backlog

The majority of outstanding compensation payments were made during the report period. A key component of these was the payment of the first tranche of communal compensation to communities downstream of the Mohale Dam that had been outstanding since 2003/4. A total of M17 million was approved for payment to 32 Local Legal Entities (LLEs).

2.3.2. 2009 Annual ACP Payments

This year the annual cash payments to affected communities were made well within the deadline of June 2009. All beneficiaries received their dues for property that they have lost to the project. A decision has been made to computerise the whole payment process to further enhance internal control and efficiency. A total of M2 million will be spent over the next two years to 2011 in a workflow management tool called Flowcentric©.

2.3.3. 2009 Annual Maize and Beans (Grain) Compensation

The period's grain compensation was faced with several unique challenges that affected the attainment of the target of August for the completion of these "payments". Initially there were challenges in the procurement of maize as the wet weather extended the drying period, thus affecting the ability of local farmers to meet the quality standards required by LHDA. Secondly LHDA introduced tighter beneficiary identification protocols in order to ensure that only the rightful beneficiaries received the grain. As a result there were over 62 tonnes of maize and 1 ton of beans that could not be collected. The affected households will be paid cash for these missed collections, as soon as they can provide the required documents.

2.4. KFA 6: To ensure that the standard of living of people affected by LHWP is either maintained or raised above pre-project levels.

Under this KFA, the Division is responsible for the development of integrated plans, policies, procedures and programmes that maximize opportunities for sustainable development in the LHWP area. The division uses a number of consultants to develop the interventions under this KFA. Below is the status of each of the key contracts under implementation.

2.4.1. C1255 Zonation Plan

The revised plan was finalized in January 2010 by the Consultant, Machobane Associates. The LHDA POE on Environment recommended the appointment of an experienced consultant to spearhead the development of the concessioning process. The TORs for the consultant have been drawn up and are under consideration within the LHDA procurement process.

2.4.2. C1204 Socio-economic and epidemiology study

The Consultant, HSRC, has submitted their final version of the main upstream report. Out of twelve (12) expected reports, LHDA has accepted the said report and has distributed it to stakeholders. The study was meant to establish the extent to which the project has impacted affected communities. The study results indicate that the project has not negatively impacted the living standards of affected communities as a result of compensation payments.

2.4.3. Tourism Development

The LHWC has requested, and LHDA has submitted, draft terms of reference for a consultant who will develop the LHDA tourism strategy. This is aimed at increasing tourism traffic to project areas to provide communities with an income generation opportunity.

2.5. KFA 7: To improve the health of the communities affected by the LHWP.

2.5.1. Public Health

The project has contributed through direct investment in hospitals and other care infrastructure to the sustenance of good public health in project areas. These facilities have been transferred to the management of line ministries within the Government of Lesotho. At present LHDA is reviewing its further involvement and as a result LHDA is working on a revised Public Health Policy which reflects LHDA's new role as a strategic partner to Government in the provision of public health services.

2.6. KFA 8: To sustainably manage the biophysical environment within the LHWP area.

2.6.1. In stream Flow Requirements (IFR) releases

The total IFR releases at Katse for the year ending March 2010 were 289 MCM. This is against a target of 93.3 MCM. The huge variance is mainly as a result of spillage from the dam owing to excessive rains and the estimated projection of the hydrological year classification (HYC) which is based on a prediction of the rainfall of forthcoming quarters. These predictions are usually different from the actual level of precipitation.

View from the Orion Lodge over the Katse Dam.

2.4.4. Orion Lodge Management

LHDA owns two lodges located at its Katse and Mohale Dam sites. These lodges have been contracted out to Orion, a leading hotel chain management company. During the year under review, Orion has managed to transform service delivery to the extent that LHDA is receiving positive reviews from tourists.

Feedback from visitors that use the lodges indicate that there has been significant improvement in the quality of services and food at the lodges. In addition LHDA is investing in an upgrade of the infrastructure. For example by the end of April 2010, all rooms at the Mohale lodge had TV sets installed.

At Mohale the situation was very different in that there was an increase in the IFR deficit by 7.9 MCM representing the difference between the planned and actual releases during the year. This deficit is mainly as a result of the limitations in dam design that does not allow regular flood releases to accommodate the predicted HYC mentioned above.

2.6.2. Integrated Catchment Management

The role of the Consultant, SMEC, comes to an end in May 2010. As at March 2010, Tasks 1, Establishment of Catchment Management Institutions and Task 2, Resource Inventory are near completion. The contract will end on the stated date and any works thereafter will be at the consultant's cost.

2.7. KFA 9: To provide cost effective and efficient support services

2.7.1. Environmental Policy Implementation:

Risk Registers have been developed covering six themes i.e. Financial, Operational, Reputational, Human Capital, Environmental and Social. The registers are under discussion by the Board and will be issued to form the basis of risk management in LHDA.

2.7.2. Information Systems

The Information Systems Branch is charged with the responsibility to plan, develop, maintain and support the LHDA's corporate wide Information and Communications Technology (ICT) resources.
The table below indicates progress made on some of the key initiatives launched during the reporting period.

Table 1: Project Status Report

Project	Expenditure to date	Budget/ Contract	Expenditure as percent of budget	Status
Satellite-based Wide Area Network	R1,241,127	R1,395,217	88.9%	100% complete & operational Last Mile Connectivity still a problem
Disaster Recovery site (DRS)	R 848,190	R 560,789	151,2%	99% complete being tested ahead of commissioning and hand-over
Workflow	R 1,817,292	R 2,000,000	90.9%	Development complete. Final User testing due May. Go live date is June 2010

2.7.3. Complaints Management

An electronic database of all complaints is now maintained by LHDA. The register includes all complaints since 1st January 1980. The table below provides the status to date and forms the baseline for reporting on this key area of responsibility.

The statistics suggest that the level of complaints is increasing. This could be as a result of the Ombudsman creating awareness of people's rights and activities of NGOs.

Table 2: Status of Compensation Complaints.

Branch	Affected by LHWP but not compensated	Compensated but not satisfied	Affected but not identified during construction phase	Non-acceptance of the policy by those affected by LHWP	Total
Mohale	239	62	100	16	417
Muela	30	2	16	1	49
Katse	940	378	432	12	1,762
Total	1,209	442	548	29	2,228

2.7.4. Large Scale Salmonid (Trout) Farming

The LHDA has granted an investment group conditional rights to engage in large scale salmonid farming in the Katse reservoir. These rights are conditional on the investors meeting certain license conditions and environmental benchmarks. The project targets to produce 3,000 tonnes of trout per annum.
The existing pilot operation under Katse Fish Farms (KFF) has also been allowed to proceed with the investigation to expand their operations. Similarly approval to proceed will depend on whether they can meet the above stated conditions.

2.7.5. Human Resources Management

The LHDA approved structure has 261 positions, though at present the total head count is 282 employees. This is because of students engaged to meet our social responsibility obligations. There are also individuals that have been engaged in temporary positions that address specific short term needs. The company recorded a very low staff turnover percentage of 1.59% in the 2009/10 year.

Table 3: LHDA Establishment

Branch	Total
Office of the Chief Executive	15
Office of Divisional Manager – Development and Operations	7
Office of Divisional Manager – Strategic and Corporate Services	3
Monitoring and Evaluation Branch	12
Integrated Planning Branch	13
Information System Branch	12
Katse Operations Branch	49
'Muela Operations Branch	50
Mohale Operations Branch	47
Human Resources Branch	8
Finance Branch	45
TOTAL	261

The movement in the year brings the total (cumulative) number of vacancies to 24 down from 28 in the previous year.

1. MANDATE

The Development and Operations Division under the leadership of one Divisional manager and four Branch managers ('Muela, Katse, Mohale and Special Projects), DOD is mandated to work on all project sites, to operate and maintain the LWHP assets while developing and implementing the social and environmental action plans.

2.PROGRESS MADE DURING THE REPORTING PERIOD

2.1 Water Deliveries and Royalty Revenue

Table 1: Water Deliveries

Year	Planned Deliveries (million m^3)	Actual Deliveries (million m^3)	% Variance in Deliveries	Royalty Payments (M X million)
				Actual
2007/2008	780	821	5.2%	301.5
2008/2009	780	766	-1.8%	325.3
2009/2010	780	791	-1.4%	341.6

Actual water deliveries to RSA in 2009/2010 were 791Mm^3 (million cubic meters), 1.4% below the planned/agreed deliveries of 780 Mm^3 for the year. The corresponding royalty revenue of M341.6 million was 4.0% below the annual forecast of M356 million for the year.

A total of M2.99 billion has been paid by RSA since commissioning of water deliveries in January 1998 to March 2010.

2.2 Electricity Generation and Sales Revenue

Table 2: Electricity Generation

Year	Planned Generation (GWhr)	Actual Generation (GWhr)	% Variance in Generation	Revenue Sales (M X million) Actual	% Export of total annual production	Export Revenue (M X mil)
2007/2008	466	520	11.6%	65.5	0.8%	0.55
2008/2009	466	489	4.9%	57.6	0.8%	0.33
2008/2009	466	509	3.4%	63.6	0.4%	0.20

Actual electricity generation of 509GWhr was 3.4% above the planned generation of 466GWhr for the year. 99.6% of the annual generation was sold to Lesotho Electricity Corporation (LEC), while the remaining 0.4% was exported to ESKOM, RSA. M63.6 million in sales revenue was generated from electricity sales to LEC, while M0.20 million was generated from exports to ESKOM.

Total cumulative electricity sales revenue since the commissioning of 'Muela hydropower plant in August 1998, to March 2010 is M621.5 million, of which a total of M6.5 million was generated from exports.

Table-3: 4-Year Comparative Overview – Unit Cost/Production Indicators

Year	Average Bulk Supply tariff to LEC (cents/KWhr)	Average Tariff for Sales to ESKOM (cents/KWhr)	Specific Water Consumption related to Electricity Generation (Litres/KWhr)	Average Water Royalties Tariff (c/m³)
2006/07	13.25 c/KWhr	5.96 c/KWhr	1.58 L/kWhr	35.47 c/m³
2007/08	12.71 c/KWhr	6.57 c/KWhr	1.57 L/kWhr	36.97 c/m³
2008/09	11.79 c/KWhr	8.31 c/KWhr	1.56 L/kWhr	42.44 c/m³
2009/10	11.56 c/KWhr	10.27 c/KWhr	1.54 L/kWhr	43.59 c/m³

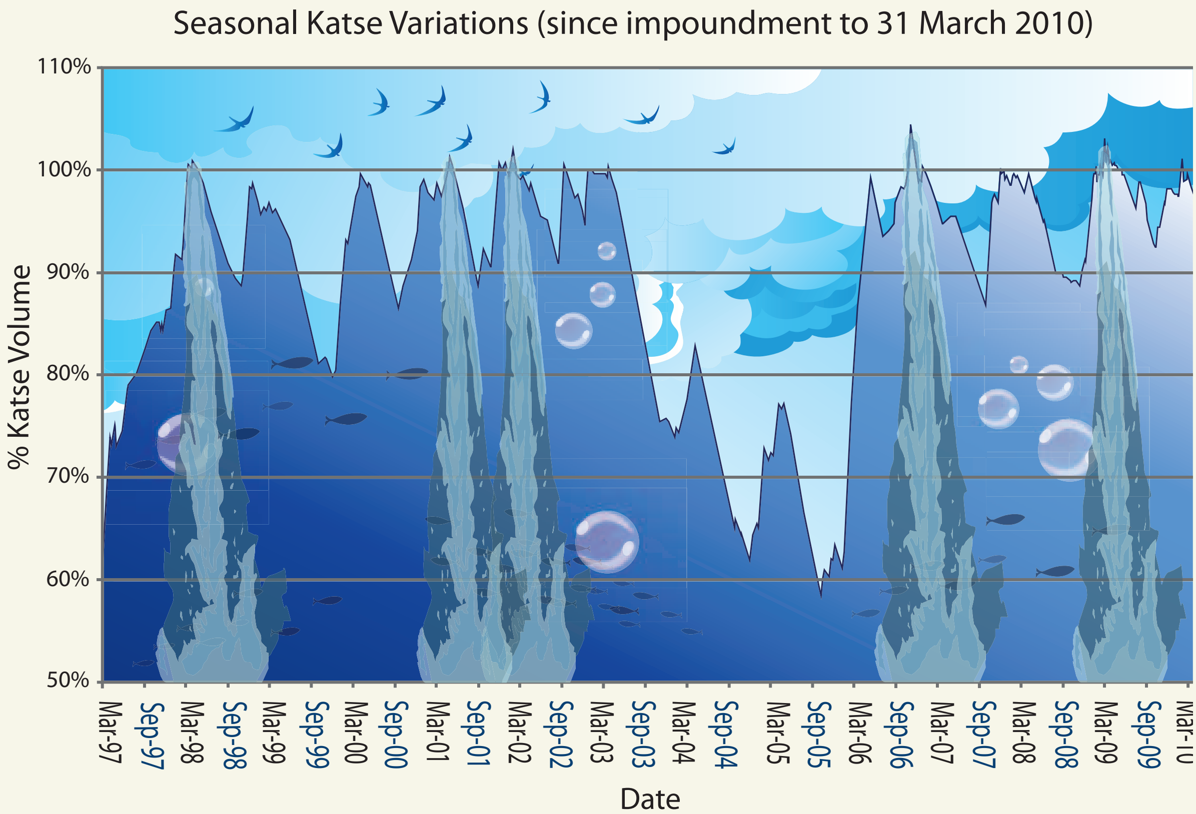
The LHDA average bulk electricity supply tariff to LEC for 2007/08 was 11.56 cents/kWhr while electricity export tariff to

Eskom South Africa was 10.27 cents/kWhr. During the four-year period from 2006/07 to 2009/10 there was an overall decrease in average bulk electricity supply tariff, while there was an increase in the average electricity export tariff to Eskom during the same period. The 2009/10 drop in average bulk tariff was due to increased maximum demand losses occasioned by frequent 'Muela station trips that were induced by faults in the network.

The average water royalty tariff to South Africa was 43.59 cents/m3, which is higher than the previous three years. Specific water consumption, the amount of water needed by 'Muela Hydropower Station to generate one unit (kWhr) of electricity, was at 1.54L/kWhr during the reporting year.

2.3 Katse Reservoir Management (Reservoir Levels)

Chart 2: Katse Reservoir Lake Variations from 1st April 1997 to 31st March 2010



At the end of March 2010 Katse reservoir was at 97.5% of its total reservoir capacity, an overall drop of 3.2% from the April 2009 capacity of 100.7%. The lowest capacity for the year was 92.5% from 7th – 12th October 2009.

During the period under review Katse Dam spilled 2 times for a total of 7 days and a total spilled volume of 41.81Mm3 with the maximum reservoir level of 2053.67masl. Overall, Katse Dam spilled 19 times for a total of 269 days and a total spilled volume of 957 Mm3 since first coming into commercial operation in March 1997. Overall, it can be surmised that the 13-year period of Katse dam spills was characteristic of good hydrological conditions.

2.4 General Monitoring of LHWP Dam Structures

Table 5: Dam Safety Instrumentation

LHWP Dam	Total Number of Installed Instruments	Number of Instruments not Working	Percentage of Instruments Working
Katse	995	35	95.6%
'Muela	95	1	99.0%
Mohale	180	34	81.1%

2.5 Katse Fish Farms (KFF)

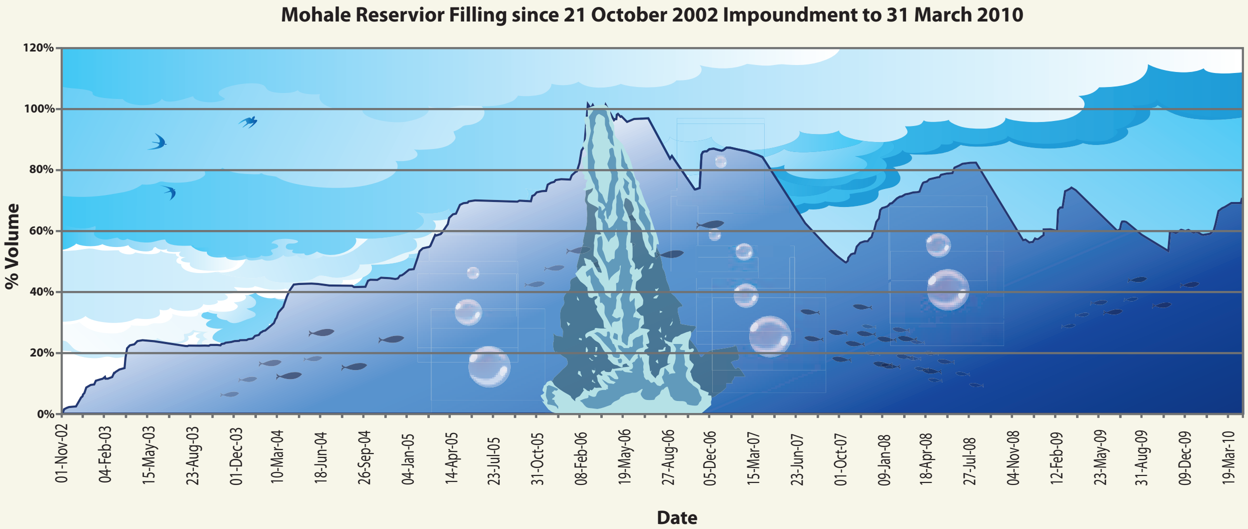
Katse Fish Farms (KFF) (Pty) Ltd is a Lesotho registered company implementing cage rainbow trout farming in the Katse reservoir at Ha Lejone under a 5-year pilot aquaculture business venture project in agreement with LHDA (Agreement signed on 22nd July 2005). At maximum production KFF will produce 300 tons of fish per annum. KFF started operations with the first batch of 37,930 fish arriving on 5th May 2006.

Table 6. KFF annual fish production and harvesting

Financial Year	Quantity of Fish at Year End (30g to above 1kg)	Annual Harvest
2006/07	211,820	38 tons
2007/08	192,938	53 tons
2008/09	229.166	79 tons
2009/10		127 tons
Total	170 tons	

2.6 Mohale Reservoir Management (Reservoir Levels)

Chart 1: Mohale reservoir variations since impoundment in 2002 to 31st March 2010



At the end of March 2010 Mohale reservoir was at 70% of its total reservoir capacity, the same level in April 2009. The lowest capacity for the year was 53% on 11th October 2009. The drop from 70% at the beginning of 2009/10 to 53% was due to the dry winter – spring period during 2009/10. The rise from 53% to 70% at the end of 2009/10 was due to increased rains during the summer – autumn period of 2009/10.

Mohale tunnel was opened on 28th July 2008 and was closed on 28th December 2009.

2.7 Deformation of Mohale Dam Concrete Face Slab

LHDA engaged a contractor for the repair of a compressive crack that occurred in the middle of Mohale Dam face slab in February 2006, following heavy rains that started in January 2006. The repair works, which involved repair of the face slab, concrete repairs of the parapet wall, construction of right abutment stairs and boat access and slipway, were implemented from 23rd March 2009 to November 2009.

2.8 Frequency Modulation (FM) Radio Broadcast Coverage for Emergency Preparedness Plan

LHDA in collaboration with Lesotho National Broadcasting Services (LNBS) under the Ministry of Science, Communications and Technology engaged a contractor for the construction of 4 new FM radio broadcast stations of Ha Sootho, Lebelonyane, Ha Katse and Thaba Phatsoa, and the upgrading of 2 existing stations of Thaba Tseka and Semongkong. The purpose of the works is the augmentation of LNBS FM radio coverage to all LHWP areas upstream and downstream of LHWP reservoirs. Works commenced on 26th February 2008 and continued into 2009/10 reporting year at the total contract price of M7,189,846. By 31st March 2009 the following stations were completed and were handed over to LHDA/ LNBS; Ha Katse, Thaba Tseka and Ha Sootho.

2.9 Katse Botanical Garden

Katse Botanical Garden (KBG) is intended for the protection, conservation and propagation of endemic plant species in the LHWP areas. Construction of KBG Resource and Study Centre (that comprises a reception area, an office, coffee shop, classroom, seating area and ablutions) started in June 2007. Construction commenced in June 2009 (after suspension in December 2008 due to lack of funding), with progress being at 80% completion on expiry of the African Development Bank (AfDB) project loan.

2.10 Water Releases from 'Muela into Caledon River

The Caledon river forms the border between Lesotho and South Africa from the North East to the South West and is sometimes recharged with water from the Muela reservoir especially during the dry seasons.

In accordance with the provisions of the Lesotho Highlands Water Project (LHWP) Treaty LHDA is required to release water from 'Muela reservoir into the Caledon River to augment river flows during dry seasons on request by the Government of Lesotho. During 2007/08 2.7 million cubic meters (MCM) was released into the Caledon River from 'Muela reservoir.

2.11 Engineering Projects and Contracts

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

KLM WATSAN on the other hand was originally programmed to be implemented over a 3-year period. However due to short funding and rapidly increasing inflation rates the project was suspended on 30 April 2008.
The project was resuscitated under the supervision of LHWC on 01 August 2008, and was further suspended the on 30 June 2009. At project suspension by LHDA and LHWC, physical progress achieved is as outlined in Table 7 below.

Table 7: KLM WATSAN statistics and cumulative progress and expenditure

Project Component	Total KLM Targets	Cumulative Progress to June 2009	Cumulative % Progress to June 2009	Cumulative Expenditure to June 2009
1. VIP Latrine	6,369	4,822	76%	M38,707,817
2. Refuse Pits	6,369	0	0%	M0
3. Soak-away Pits	6,369	4,868	176%	M 2,263,691
4. Water Supply Systems	115	15	13%	M 5,286,718
Project Overheads				M19,802,066
Grand Total			M66,060,292	

2.11.2 Highlands Natural Resources and Rural Income Enhancement Project (HNRRIEP)

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

Five (5) chalets at Liphofung and four chalets at Tsehlanyane were handed over to the Government of Lesotho (Ministry of Tourism, Environment and Culture) on 13th June 2009 and 4th August 2009, respectively. Construction of the remaining five (5) chalets at Bokong was 85% complete when the AfDB loan expired on the 31st December 2009. Construction work has since been stopped.

Construction of Katse Information Centre was completed in November 2009 while Butha Buthe Information Centre was 15% complete on expiry of AfDB loan.

2.11.3 Close-out of Major LHWP Contracts

The intention to commence the arbitration process has been issued for LHDA Contract 1055: Mohale Water Supply and Sanitation Programme, which should be close-out in 2010.

2.12 Visits to LHWP Installations by Local and International Tourists

Table 8: Statistics of visitors to LHWP sites during 2009/2010

Area	Category of Visitors				
	Lesotho Schools	Lesotho Tourists	RSA Tourists	International Tourists	Totals No. of Visitors
'Muela	7,929	810	2,476	274	11,489
Katse	6,760	820	3,919	26	11,525
Mohale	3,253	1,810	507	612	6,182
Totals	17,940	3,440	6,902	912	29,196

During 2009/2010 'Muela was the preferred destination by Lesotho schools. Mohale was the preferred destination by Lesotho and international tourists, while Katse was the preferred destination by RSA tourists, the same trend as 2008/09. Total revenue of M185,000 was generated from visits to the LHWP installations during 2009/2010.

CONCLUSION

The DOD has in general been able to meet the 2009/2010 deliverables, notwithstanding the challenges of: sustaining the enabling environment for the division; managing staff movement due to staff resignations or/and new appointments; implementation of PMDS in order to improve performance, and continuously meeting tight work schedules, managing costs and resources.

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

ANNUAL FINANCIAL STATEMENTS
AT 31 MARCH 2010

CONTENTS

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

ANNUAL FINANCIAL STATEMENTS

AT 31 MARCH 2010

DIRECTORS:

Mr T Nkhahle (Chairman)

Mr PR Makuta (Acting Chief Executive)

Mr J Eagar

Prof LI Qalinge

Mrs M Matsoso

Chief M Ramokoatsi

Mr T Khathibe

Mr P Swart

Mr L Tromp

Mr A Giani

NATURE OF BUSINESS:	Implementation, operation and maintenance of the Lesotho Highlands Water Project
AUDITORS:	MNM Chartered Accountants
REGISTERED OFFICE:	Lesotho Highlands Development Authority Lesotho Bank Tower Kingsway Rd MASERU 100 Lesotho
PHYSICAL ADDRESS	Lesotho Highlands Development Authority Lesotho Bank Tower Kingsway Rd MASERU 100 Lesotho
BANKERS	Standard Lesotho Bank
ATTORNEYS	In-house Attorneys Webber Newdigate Attorneys Phafane Chambers
COMPANY SECRETARY	Mr M Phakoe (Acting)
COUNTRY OF INCORPORATION	Lesotho
LEGAL FORM:	Authority
PRESENTATION CURRENCY:	Maloti

MNM
Chartered Accountants
& INTERNAL AUDITORS

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF THE LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

Report on the Financial Statements
We have audited the annual financial statements of **The Lesotho Highlands Development Authority**, which comprise of the statement of financial position as at 31 March 2010, statement of comprehensive income, the statement of changes in equity and statement of cash flow for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 20 **to 48**.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with *International Standards on Auditing*. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Audit Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Lesotho Highlands Development Authority as of **31 March 2010**, and of the financial performance and its cash flows for the year then ended in accordance with *International Financial Reporting Standards.*

MNM CHARTERED ACCOUNTANTS
CHARTERED ACCOUNTANTS
14 December 2010

Kingsway Mall, Block D, Level 4, Office No. 412
P.O. Box 11322, Maseru 100; Tel/Fax: (+266) 2232 5897; Direct line: (+266) 2832 0083; Email: monyake@mnm.co.ls

DIRECTORS' STATEMENT OF RESPONSIBILITY
At 31 March 2010

The Board is responsible for the preparation, integrity and fair presentation of the annual financial statements of Lesotho Highlands Development Authority.

The Board consider that in preparing the financial statements they have used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, and that all International Financial Reporting Standards that they consider to be applicable have been followed. The Board is satisfied that the information contained in the financial statements fairly presents the results of operations for the year and the financial position of the company at the year-end.

Lesotho Highlands Development Authority operates in a well-established control environment, which is well documented and regularly reviewed. This incorporates risk management and internal control procedures, which are designed to provide reasonable, but not absolute, assurance that assets are safeguarded and the risks facing business are being controlled.

The going concern basis has been adopted in preparing the annual financial statements. The Board has no reason to believe that the entity will not be a going concern in the foreseeable future based on forecast and available cash resources.

The entity's external auditors, audited the financial statements, and their report is presented on page 21.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The Annual Financial Statements set out on pages 24 - 48 were approved by the Board of Directors and signed on behalf of the Board by:

T. NKHAHLE
CHAIRMAN

09/12/2010

PR. MAKUTA
ACTING CHIEF EXECUTIVE

09/12/2010

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 185m high double curvature concrete arch Katse 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 22 km delivery tunnel north from 'Muela to the Mohokare (Caledon) River which forms the border between the Kingdom of Lesotho and the Republic of South Africa. This Tunnel links up through an underground siphon at this location with the South African portion of the transfer tunnel system;

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

(f) Associated conservation, environmental and rural development activities.

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

(a) The 145m high rock filled Mohale Dam with concrete face;

(b) A 32km transfer tunnel from the Mohale intake to the Katse Reservoir;

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

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

(e) Associated conservation, environmental and rural development activities.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED MARCH 2010

	NOTE	2010 M'000	2009 M'000
Revenue		59 758	55 219
Other Income		18 262	20 278
Total Income		78 020	75 497
Foreign Gains/(Losses)		4 510	(8 108)
Construction and Contractor Costs		(12 828)	(11 689)
Depreciation		(307 718)	(305 290)
Resettlement and Compensation Costs		(34 970)	(9 999)
Salaries and Wages		(54 056)	(57 265)
Other Administrative and Operating Expenditure		(65 574)	(112 701)
Operating Loss	2	(392 616)	(429 555)
Finance Income		6 040	10 217
Finance Cost		(200 744)	(148 621)
Loss for the year		(587 320)	(567 959)

Allocation of loss as per cost allocation report

Capital work in progress – 1A Water Transfer	37 618	42 084
Capital work in progress – 1A Hydropower	-	-
Capital work in progress – 1A Ancillary Development	10 044	17 076
Capital work in progress – 1B Water Transfer	70 655	115 839
Capital work in progress – 1B Ancillary Development	875	1 661
Hydropower accumulated loss	7 130	(54 004)
Government of South Africa Capital Fund	460 998	439 031
Government of Lesotho Capital Fund	-	6 272
	587 320	567 959

Note: The allocation of operating and financing costs between the Hydropower and Water Transfer operating components of the Project where common funding sources have been utilised, is subject to the agreement of the Treaty Parties. The last year that has been agreed to between the parties is 2006.

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED MARCH 2010

	NOTE	2010 M'000	2009 M'000
ASSETS			
Non-Current assets		11 232 559	11 531 059
Completed Works and Capital Work in Progress	3	11 213 379	11 509 772
Investment Property	4	19 180	21 287
Current Assets		149 163	147 830
Contract Advance Payments	5	4	33
Other Receivables and Prepayments	6	24 224	19 205
Cash and Cash Equivalents	7	124 935	128 592
Total Assets		11 381 722	11 678 889
FUNDS AND LIABILITIES			
Funds and Reserves		9 496 362	9 668 590
Capital Funds	8	9 729 528	9 894 626
Accumulated Loss – Hydropower	9	(233 166)	(226 036)
Non-Current Liabilities		592 733	1 783 182
Loans and Borrowings	10	298 715	539 681
Provisions	11	294 018	273 619
Funds from Capital Market Funds	12	-	969 882
Current Liabilities		1 292 627	227 117
Contract Payables and Accruals	13	6 777	4 382
Contract Retentions	13	575	759
Funds from Capital Market Funds	12	987 925	-
Provisions	11	56 439	63 515
Other Payables and Accruals	14	43 606	43 984
Current Portion of Loans and Borrowings	10	197 305	114 477
Total Funds and Liabilities		11 381 722	11 678 889

STATEMENT OF CASHFLOW

FOR THE YEAR ENDED MARCH 2010

	NOTE	2010 M'000	2009 M'000
CASH FLOW FROM OPERATING ACTIVITIES			
Net Cash Inflow/(Outflow) from Operating Activities		133 328	(147 155)
Hydropower – net profit/(loss) for the year		(7 130)	54 004
Water transfer – deficit for the year		(460 998)	(439 031)
		(468 128)	(385 027)
Add: Depreciation		307 718	305 290
Finance Charges		200 744	148 621
		40 334	68 884
(Increase)/Decrease in Advance Payments		29	785
(Increase)/Decrease in Other Receivables and Prepayments		(5 019)	23 222
Project Taxes Refunded by Government of Lesotho		-	-
Increase/(Decrease) in Provisions		13 323	45 816
Increase/(Decrease) in Contract Payables and Accruals		2 395	(2 517)
Increase/(Decrease) in Retentions		(184)	725
Increase/(Decrease) in Other Payables and Accruals		(378)	(69 721)
Increase/(Decrease) in Current Portion of Loans and Borrowings		82 828	(214 349)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net Cash Inflow/(Outflow) from Investing Activities		(128 410)	(191 805)
Additions to Assets		(10 498)	(21 417)
Disposal of Assets		1 280	6 272
Expenditure on Capital Works and Work in Progress		-	-
Expenditure Transferred to Funds		(119 192)	(176 660)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net Cash Inflow/(Outflow) from Financing Activities		(8 575)	354 711
Government of Lesotho		3 830	199 833
Government of Republic of South Africa		411 262	367 429
Increase/(Decrease) in Loans and Borrowings		(240 966)	(78 835)
Finance Charges		(200 744)	(148 621)
Increase/(Decrease) Funds from Capital Market		18 043	14 905
Net (Decrease)/Increase in Cash and Cash Equivalents		(3 657)	15 751
Cash and Cash Equivalents at the beginning of the period		128 592	112 841
Cash and Cash Equivalents at the end of the period	7	124 935	128 592

1. ACCOUNTING POLICIES

1.1 Basis of Preparation

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

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

Statement of Compliance

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

1.2 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except as follows:

The entity has adopted the following new and amended IFRS and IFRIC interpretations as of 1 July 2009:
- IFRS 2 *Share-based Payment: Vesting Conditions and Cancellations effective* 1 January 2009
- IFRS 3 *Business Combinations (Revised) and* IAS 27 *Consolidated and Separate Financial Statements (Amended) effective* 1 July 2009 *including consequential amendments to* IFRS 7, IAS 2, IAS 28, IAS 31 *and* IAS 39
- IFRS 7 *Financial Instruments: Disclosures* effective 1 January 2009
- IFRS 8 *Operating Segments* effective 1 January 2009
- IAS 1 *Presentation of Financial Statements* effective 1 January 2009
- IAS 23 *Borrowing Costs (Revised)* effective 1 January 2009
- IAS 32 *Financial Instruments: Presentation and* IAS 1 *Puttable Financial Instruments and Obligations Arising on Liquidation effective* 1 January 2009
- IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items effective* 1 July 2009
- IFRIC 9 *Remeasurement of Embedded Derivatives and* IAS 39 *Financial Instruments: Recognition and Measurement effective for periods ending on or after* 30 June 2009
- IFRIC 17 *Distributions of Non-cash Assets to Owners*
- IFRIC 18 *Transfers of Assets from Customers effective* 1 July 2009

The impact of the adoption of the new standards or interpretations is described below:

IFRS 2 *Share-based Payment*

The IASB issued an amendment to IFRS 2 which clarifies the definition of vesting conditions and prescribes the treatment for an award that is cancelled. The entity adopted this amendment as of 1 March 2009. It did not have an impact on the financial position or performance of the entity as it has not made any share based payments. The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The entity adopted this amendment as of 1 March 2009. It did not have an impact on the financial position or performance of the entity as it has not made any share based payments.

IFRS 3 *Business Combinations (Revised) and* IAS 27 *Consolidated and Separate Financial Statements (Amended) effective* 1 July 2009 *including consequential amendments to* IFRS 7, IAS 2, IAS 28, IAS 31 *and* IAS 39.

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended). IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results. IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. This amendment is not expected to have any impact on the entity since no new business combinations are anticipated in the near future.

IFRS 7 *Financial Instruments: Disclosures*

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The entity does not have any material financial instruments measured at fair value. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 17.

IFRS 8 *Operating Segments*

IFRS 8 replaced IAS 14 Segment Reporting upon its effective date. The entity is not required to adopt IFRS 8 and hence they have not.

IAS 1 - *Presentation of Financial Statements*

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The entity has elected to present one statement.

IAS 23 *Borrowing Costs* (*Revised*)

The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The entity does not currently have 'qualifying assets' as contemplated in this standard and the new standard therefore has no effect on the entity.

IAS 32 *Financial Instruments: Presentation and* IAS 1*Puttable Financial Instruments and Obligations Arising on Liquidation*

The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfil a number of specified criteria. The adoption of these amendments did not have any impact on the financial position or the performance of the entity as the entity does not have puttable financial instruments.

IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items effective* 1 *July* 2009

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The entity has concluded that the amendment will have no impact on the financial position or performance of the entity, as the entity has not entered into any such hedges.

IFRIC 9 *Reassessment of Embedded Derivatives and* IAS 39 *Financial Instruments: Recognition and Measurement*

This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 (AC133) now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss. The entity does not have any derivatives and this adoption will therefore have no impact on the financial position or performance of the entity.

IFRIC 17 *Distributions of Non-cash Assets to Owners*

This interpretation is effective for annual periods beginning on or after 1 July 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognise a liability, how to measure it and the associated assets, and when to derecognise the asset and liability. The entity does not expect IFRIC 17 to have an impact on the annual financial statements.

IFRIC 18 *Transfers of Assets from Customers effective* 1 *July* 2009

This interpretation is not expected to have any impact on the entity as customers are not likely to transfer assets other than cash and cash equivalents to the entity.

1.3 Significant Accounting Judgments and Estimates

Estimation uncertainty

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

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

Provision for Future Compensation

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

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

Classification between Property, Plant and Equipment and Investment Property

Management classifies property which is held for either capital appreciation or to earn rentals as Investment Property. All other property and non-current assets are classified as Property, Plant and Equipment. The estimated useful lives and residual values of Investment Property and Property, Plant and Equipment are considered to be immaterial.

1.4 Summary of Significant Accountong 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, unless capitalisation had already ceased in which case such reallocations are transferred to the respective capital funds.

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

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

Property, Plant and Equipment - Operating & Maintenance Expenditure

The costs of operating and maintaining the completed works including depreciation and financing costs are divided between Hydropower and Water Transfer activities on the basis of an agreement between Lesotho and South Africa dated February 2002. Such cost allocations are transferred to the hydropower reserves or to the Government of South Africa Capital Fund. Likewise revenues arising as a result of operations or cost related payments in support of operations are credited to the respective hydropower or water transfer activities. Such allocation of operating costs is subject to ratification by the Parties to the Treaty.

Financial Assets

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

Loans & Other Receivables

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

Fair Value

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

Impairment of Financial Assets

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

For assets carried at cost, if there is objective evidence that an impairment loss on an unquoted investment that is not carried at fair value, because its fair value cannot be reliably measured, has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset.

Derecognition of Financial Assets and Liabilities

Financial Liabilities

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

Financial Assets

A financial asset is derecognised when:

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

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

Trade and Other Receivables

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

Trade and other receivables are derecognised when the derecognition criteria for financial assets, as described in note 1.4, has been met.

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

Cash and Cash Equivalents

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

Loans and Borrowings

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

Provisions

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

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 reporting date. All foreign exchange differences are taken to profit or loss. Exchange differences are allocated to the cost of the related activity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Under the terms of the Treaty covering the project and the Ancillary Agreements to the Treaty of 31st August 1992 and 30th December 1999, the Government of the Republic of South Africa is obligated to effect debt service payments on all loans guaranteed by it.

The forward cover contracts have been affected by the Government of the Republic of South Africa.

Impairment of Non-Financial Assets

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

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

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

Cost Related Payments

Cost Related Payments from the Governments of the Kingdom of Lesotho and the Republic of South Africa are recognised and credited to the Capital Funds on the date due for payment.

Cost Related Payments become due when the relevant cost falls due for payment; provided that Cost Related Payments may be paid directly to contractors or consultants, or, where cost have been financed by way of loans shall be due for payment at the time such loans become redeemable.Funds obtained by the Government of Lesotho on concessionary terms for the Water Transfer component are, for the purpose of Cost Related Payments, deemed to be loans at the interest rate and redemption terms applicable to loans of the International Bank for Reconstruction and Development.

Funds from Capital Markets

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

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

Contract Retentions

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

Taxation

Current tax

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

Value-added tax

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

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

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

Project Taxes refundable by the Government of the Kingdom of Lesotho

Protocol V to the Treaty was signed on June 4, 1999. Under the Protocol, taxes paid by LHDA and its contractors at rates in excess of those provided for in this Protocol, are repayable together with interest at 15% per annum by the Government of the Kingdom of Lesotho.

Leases

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

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

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

Entity as Lessee

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

Entity as Lessor

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

Revenue Recognition

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

Sale of goods and electricity

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

Investment Income

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

Royalties

Royalties arising from the Lesotho Highlands Water Project, including 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.

Investment Property

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

Pension and Other Post-employment Benefits

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

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

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

Events after the Reporting Date

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

Comparatives

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

Future Changes in Accounting Policies

Standards issued but not yet effective

The Entity has not applied the following accounting statements and interpretations that have been issued but are not yet effective. These will be applied by the Entity when they become effective.

IFRS 2 *Amendments to* IFRS 2 *Shared-based payments- Group cash settled share-based payment arrangements*.

This amendment is required for years commencing on or after 1 January 2010 but is not expected to be relevant to the activities of the Entity.

IFRS 9 *Financial Instruments*

This new standard is required for years commencing on or after 1 January 2013. The impact of this standard is currently being determined.

IAS 24 *Related party disclosures*

This amended standard is required for years commencing on or after 1 January 2011 but is not expected to have a material impact on the Entity.

IAS 32 *Amendments to* IAS 32 *Financial Instruments: Presentation – Classification of rights issues*

This amendment is required for years commencing on or after 1 February 2010 but is not relevant to the activities of the Entity.

IFRIC 14 *Amendments for prepayments of a minimum funding requirement*

This amended interpretation is required for years commencing on or after I January 2011 but is not expected to be relevant to the activities of the Entity.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

This interpretation is required for years commencing on or after 1 July 2010 but is not expected to be relevant to the activities of the Entity.

Improvements to IFRS (*May* 2010)

These annual improvements are required mostly for years commencing on or after 1 January 2011 and are not expected to be relevant to the activities of the Entity.

2. OPERATING LOSS

	2010 M'000	2009 M'000
Operating Loss is stated after Expenses		
Auditor's Remuneration	713	741
Construction and Contractor Costs	12 828	11 689
Depreciation	307 718	305 290
Finance Charges	200 744	148 621
Foreign Exchange (Gain)/Loss	(4 510)	8 108
Resettlement and Compensation Costs	34 970	9 999
Staff Costs – Short Term Benefits	54 056	57 265

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

3 PROPERTY, PLANT AND EQUIPMENT

COMPLETED WORKS

	Hydropower Civil Works M'000	Hydropower Plant M'000	Water Transfer Civil Works M'000	Vehicles & Equipment M'000	Total M'000
Carrying Value at 31 March 2008	735 935	281 587	10 771 879	17 655	11 807 056
Cost	893 077	443 132	13 180 769	25 940	14 542 918
Accumulated Depreciation	(157 142)	(161 545)	(1 959 253)	(8 285)	(2 286 225)
Taxes Refundable by the Government of Lesotho	-	-	(449 637)	-	(449 637)
Transfer from Work in Progress	-	-	-	-	-
Additions	-	-	930	12 345	13 275
Depreciation	(17 862)	(17 725)	(263 524)	(5 324)	(304 435)
Disposal/donation of assets	-	-	(6 982)	(310)	(7 292)
Accumulated depreciation on disposed assets	-	-	708	310	1 018
Carrying Value at 31 March 2009	718 073	263 862	10 503 011	24 676	11 509 622
Cost	893 077	443 132	13 174 717	37 975	14 548 901
Accumulated Depreciation	(175 004)	(179 270)	(2 222 069)	(13 299)	(2 589 642)
Taxes Refundable by the Government of Lesotho	-	-	(449 637)	-	(449 637)
Transfer from Work in Progress	-	-	-	-	-
Additions	-	-	-	10 498	10 498
Depreciation	(17 849)	(17 713)	(263 204)	(6 845)	(305 611)
Disposal/donation of assets	-	-	-	(4 680)	(4 680)
Accumulated Depreciation on disposed assets	-	-	-	3 400	3 400
Carrying Value at 31 March 2010	700 224	246 149	10 239 807	27 049	11 213 229
Cost	893 077	443 132	13 174 717	43 793	14 554 719
Accumulated Depreciation	(192 853)	(196 983)	(2 485 273)	(16 744)	(2 891 853)
Taxes Refundable by the Government of Lesotho	-	-	(449 637)	-	(449 637)
The useful life of the assets is estimated as follows:	50	25	50	3-5	

CAPITAL WORK IN PROGRESS

	Hydropower M'000		Ancillary Development M'000		Water Transfer M'000		Operations & Maintenance M'000	Total M'000
	Phase 1A	Phase 1B	Phase 1A	Phase 1B	Phase 1A	Phase 1B		
Cost	1 335 343	-	608 393	219 742	8 374 904	5 406 278	17 066	15 961 726
Total transferred to Completed Works/Capital funds	(1 335 343)	-	(608 393)	(219 742)	(7 975 688)	(5 355 906)	(16 916)	(15 511 988)
Taxes Refundable by the Government of Lesotho	-	-	-	-	(399 216)	(50 372)	-	(449 588)
Carrying Value at 31 March 2008	-	-	-	-	-	-	150	150
Prior Year Reallocations	-	-	-	-	-	-	-	-
Cost Allocation	-	-	17 076	1 661	42 084	115 839	-	176 660
Transferred to Completed Works	-	-	-	-	-	-	-	-
Transferred to Capital Funds	-	-	(17 076)	(1 661)	(42 084)	(115 839)	-	(176 660)
Cost	1 335 343	-	625 469	221 403	8 416 988	5 522 117	17 066	16 138 386
Total transferred to Completed Works/Capital funds	(1 335 343)	-	(625 469)	(221 403)	(8 017 772)	(5 471 745)	(16 916)	(15 688 648)
Taxes Refundable by the Government of Lesotho	-	-	-	-	(399 216)	(50 372)	-	(449 588)
Carrying Value at 31 March 2009	-	-	-	-	-	-	150	150
Prior Year Reallocations	-	-	-	-	-	-	-	-
Cost Allocation	-	-	10 044	875	37 618	70 655	-	119 192
Transferred to Completed Works	-	-	-	-	-	-	-	-
Transferred to Capital Funds	-	-	(10 044)	(875)	(37 618)	(70 655)	-	(119 192)
Cost	1 335 343	-	635 513	222 278	8 454 606	5 592 772	17 066	16 257 578
Total transferred to Completed Works/Capital funds	(1 335 343)	-	(635 513)	(222 278)	(8 055 390)	(5 542 400)	(16 916)	(15 807 840)
Taxes Refundable by the Government of Lesotho	-	-	-	-	(399 216)	(50 372)	-	(449 588)
Carrying Value at 31 March 2010	-	-	-	-	-	-	150	150

The above allocation of costs between Hydropower, Ancillary Development and Water Transfer is subject to agreement by the parties to the Treaty. Such agreements are reflected as prior year reallocations. Prior year adjustments up to and including 2006 have been included.

4. INVESTMENT PROPERTY

		Total
Net Book Value 31 March 2008	14 000	14 000
Assets at Cost	14 405	14 405
Accumulated Depreciation	(405)	(405)
Current year Movements:		
Additions	8 142	8 142
Disposals	-	-
Depreciation	(855)	(855)
Reclassifications	-	-
Assets at Cost	22 547	22 547
Accumulated Depreciation	(1 260)	(1 260)
Net Book Value 31 March 2009		
Current Year Movements:	21 287	21 287
Additions	-	-
Disposals	-	-
Depreciation	(2 107)	(2 107)
Reclassifications	-	-
Assets at Cost	22 547	22 547
Accumulated Depreciation	(3 367)	(3 367)
Net Book Value 31 March 2010	19 180	19 180

Investment Property consists out of Standard (Lesotho) Bank Building and is depreciated over 30 years. Improvements are depreciated over the lease term of 7.5 years. The current market value of this Investment Property is still in line with its original cost price. This is due to the fact that the property was purchased 15 months prior to the current financial year-end and due to the economic circumstances; the value of the property would not have increased. No indicators of impairment were identified.

5. CONTRACT ADVANCE PAYMENTS

	2010 M'000	2009 M'000
Contract Advance Payments	4	33
Provision for Doubtful Debts	-	-
	4	33

	2010 M'000	2009 M'000
6. OTHER RECEIVABLES AND PREPAYMENTS		
Trade Debtors	20 525	18 801
Staff Debtors	18	11
Value Added Taxation	15 231	11 874
Other Receivables and Prepayments	12 358	5 008
Provision for Doubtful Debts	(23 908)	(16 489)
	24 224	19 205

For terms and conditions relating to related party receivables, refer to Note 19.
Trade receivables are non-interest bearing and are generally on 30 day terms.
As at 31 March 2010, trade receivables and other receivables at initial value of M23 908 (2009: M16 489) were impaired and fully provided for.

At 31 March 2010, the ageing analysis of trade receivables are as follows:

			Past due but not impaired				
	Total	Neither past due Nor impaired	< 30 days	30 – 60 days	60 – 90 days	90 – 120 days	> 120 days
	M'000	M'000	M'000	M'000	M'000	M'000	M'000
2010	20 525	-	4 527	4 625	4 214	3 870	3 289
2009	18 801	-	9 708	5 905	-	-	3 188

7. CASH AND CASH EQUIVALENTS

Cash at Bank	124 845	128 506
Cash on Hand	90	86
	124 935	128 592

Currency Analysis

US Dollar	-	-
Maloti	124 935	128 592
	124 935	128 592

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 M124 935 000 (2009: M128 592 000).

8. CAPITAL FUNDS

	Government of Lesotho M'000	Government of South Africa M'000	Total M'000
Balance at 31 March 2008	619 416	9 323 640	9 943 056
Amounts refunded	(59 542)	-	(59 542)
Cost related payments amounts provided			
Hydropower and Ancillary Development	265 647	-	265 647
Water Transfer	-	367 429	367 429
Ancillary Development Assets donated to Government of Lesotho	(6 272)	-	(6 272)
Transfer from Capital Work in Progress	(18 737)	(157 924)	(176 661)
Transfer from Income Statement	-	(439 031)	(439 031)
Balance at 31 March 2009	800 512	9 094 114	9 894 626
Amounts refunded	(58 170)	-	(58 170)
Cost related payments amounts provided			
Hydropower and Ancillary Development	62 000	-	62 000
Water Transfer	-	411 262	411 262
Ancillary Development Assets donated to Government of Lesotho	-	-	-
Transfer from Capital Work in Progress	(10 919)	(108 273)	(119 192)
Transfer from Income Statement	-	(460 998)	(460 998)
Balance at 31 March 2010	793 423	8 936 105	9 729 528

9. ACCUMULATED LOSS – HYDROPOWER

	2010 M'000	2009 M'000
Income	65 380	57 303
Less: Cost of sales	(72 510)	(3 299)
Operations and maintenance costs	(32 472)	(38 341)
Financing costs	-	72 831
Depreciation	(40 038)	(37 789)
Net profit / (loss) for the year	(7 130)	54 004
Accumulated loss at the beginning of the period	(226 036)	(280 040)
Accumulated loss at the end of the period	(233 166)	(226 036)

10. LOANS AND BORROWINGS

	2010 M'000	2009 M'000
Non-Current Portion	298 715	539 681
Current Portion	197 305	114 477
	496 020	654 158
Currency Analysis		
Euro	147 314	244 207
Maloti	-	-
Rand	330 194	378 532
Sterling Pound	-	-
US Dollar	18 512	31 419
	496 020	654 158
Interest Bearing Status		
Interest-bearing	496 020	654 158
Non-interest bearing	-	-
	496 020	654 158
Maturity Profile		
Within One Year	197 305	114 477
Between Two and Five Years	214 763	377 836
More than Five Years	83 952	161 845
	496 020	654 158

Trans Caledon Tunnel Authority Debt Service Loans

Institution		Effective Interest Rate%	2010 M'000	2009 M'000
	Offshore loans			
HSBC	Repayable in semi-annual instalments ending July 2012	1.31%	55 681	101 895
Credit Lyonnais	Repayable in semi-annual instalments ending July 2012	5.73%	27 849	50 518
World Bank	Repayable in semi-annual instalments ending May 2013	0.68%	18 512	31 419
European Investment Bank	Repayable in semi-annual instalments ending January 2018	3%	63 784	91 794
European Investment Bank	Repayable in semi-annual instalments ending March 2018	Libor	73 952	83 196
European Investment Bank	Repayable in semi-annual instalments ending September 2018	Libor	47 700	53 312
European Investment Bank	Repayable in annual instalments ending August 2010	12.71%	91 995	90 473
	Common Monetary Area Loans			
DBSA	Repayable in semi-annual instalments ending March 2011	8%	16 043	30 876
DBSA	Repayable in semi-annual instalments ending March 2011	12%	3 324	6 283
DBSA	Repayable in semi-annual instalments ending March 2011	11%	989	1 877
DBSA	Repayable in semi-annual instalments ending March 2016	7%	1 364	1 542
DBSA	Repayable in semi-annual instalments ending September 2008	8%	-	-
DBSA	Repayable in semi-annual instalments ending September 2009	8%	-	-
DBSA	Repayable in semi-annual instalments ending September 2009	8%	-	3 127
DBSA	Repayable in semi-annual instalments ending March 2011	8%	4 541	8 739
DBSA	Repayable in semi-annual instalments ending September 2011	12%	3 371	5 312
DBSA	Repayable in semi-annual instalments ending September 2021	12.23%	798	829
DBSA	Repayable in semi-annual instalments ending September 2021	10.92%	2 998	3 124
DBSA	Repayable in semi-annual instalments ending March 2022	10.68%	33 352	36 132
DBSA	Repayable in semi-annual instalments ending March 2022	12.12%	19 080	20 670
DBSA	Repayable in semi-annual instalments ending March 2022	12.96%	2 177	2 250
DBSA	Repayable in semi-annual instalments ending September 2022	Jibar	28 510	30 790
	Total		496 020	654 158

	Government of Lesotho Debt Service Loans	Effective Interest Rate%	2010 M'000	2009 M'000
Institution	*Offshore loans*			
	Common Monetary Area Loans			
DBSA	Repayable in semi-annual instalments ending March 2009	6%	-	1 759
DBSA	Repayable in semi-annual instalments ending March 2015	13%	15 882	20 237
DBSA	Repayable in semi-annual instalments ending September 2019	13%	2 176	2 490
Government of Lesotho	Muela Re-financing by the Government of Lesotho		(18 058)	(24 486)
	Total		-	-
	Grand Total		496 020	654 158
	Repayable in one year included in short-term debt		(197 305)	(114 477)
			298 715	539 681

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

11. PROVISIONS	Future Compensation M'000	Contract Claims M'000	Severance Pay M'000	Leave Pay M'000	Total M'000
Balance at 31 March 2008	283 607	2 709	3 256	1 746	291 318
Additional Provisions made during the year					
Amounts used	43 987	1 151	478	200	45 816
	-	-	-	-	-
Balance at 31 March 2009	327 594	3 860	3 734	1 946	337 134
Additional Provisions made during the year					
Amounts used	15 272	-	1 268	132	16 672
	-	(3 349)	-	-	(3 349)
Balance at 31 March 2010	342 866	511	5 002	2 078	350 457

	2010 M'000	2009 M'000
Non-Current	294 018	273 619
Current	56 439	63 515
	350 457	337 134

Provision for Future Compensation

The provision for future compensation was created due to the Lesotho Highlands Development Authority requiring land in the selecteddevelopment 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.

The Instream Flow Requirements (IFR), which is a term to describe the water available downstream which impacts on the aquatic ecosystems as well as the social needs of the down stream communities. The Authority will monitor the IFR on yearly basis for the initial period of ten years before deciding on the amount of compensation for the remaining forty years which will be included in the Provision for Compensation as identified.

Management assumption relating to the calculation of the provision for future compensation: Rangeland compensation is paid per village which consists of numerous beneficiaries and not all of them have the same loss date. As a detailed list of beneficiaries at year-end and the dates of their acquisition could not be provided, the assumption of the average loss date per village as per the LHWC will be used as the loss date for the calculation of the future compensation provision.

Provision for Contract Claims

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

Provision for Severance Pay

The provision is created in line with current legislation i.e. two weeks remuneration for each completed year of service. There is uncertainty as to the timing of the severance pay outflow.

Provision for Leave Pay

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

12. FUNDS FROM CAPITAL MARKET

The Authority initiated the issue of Capital Market bonds in 1993 "in association" with the Trans Caledon Tunnel Authority (TCTA), and guaranteed by the Government of South Africa. The TCTA, as the registered issuer, issues bonds on the LHDA's instructions on behalf of the Authority, the proceeds of which are utilised by LHDA to repay other borrowing obligations. The bonds are redeemable by TCTA.

No new "joint" capital market issues were registered during the current year. The stock currently registered therefore remains as follows:

Stock	Coupon	Maturity	Registered Nominal	Registered Nominal
			2010 M'000	2009 M'000
WS03	13.0%	15 September 2010	8 000 000	8 000 000
			8 000 000	8 000 000

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

Stock	Cumulative nominal value of LHWP stock issued		Cumulative net proceeds from LHWP stock issued inclusive of capitalized Finance costs	
	2010 M'000	2009 M'000	2010 M'000	2009 M'000
WS03	998 000	998 000	987 925	969 882
Total	998 000	998 000	987 925	969 882

	2010 M'000	2009 M'000
13. CONTRACT PAYABLES AND ACCRUALS		
Contract Creditors	1 387	802
Contract Accruals	5 390	3 580
	6 777	4 382
Contract Retentions	575	759
	7 352	5 141

	2010 M'000	2009 M'000
14. OTHER PAYABLES AND ACCRUALS		
Trade payables	1 574	1 363
Staff payables	(23)	3 607
Accrued interest on loans	8 669	9 317
Accrued interest on capital markets	6 517	6 396
Accrued coupon on capital markets	11 929	11 930
Other payables	14 940	11 371
	43 606	43 984

No maturity analysis of need be disclosed for the financial liabilities in Note 13 and 14 as all the Authority's financial assets and liabilities are expected to mature within a twelve-month period.

15. FORWARD COVER

Foreign currency denominated loans, except those for 'Muela Hydropower Implementation, are subject to forward cover contracts. However, in respect of the foreign currency denominated Hydropower loans, the Government of Lesotho has assumed the repayment obligations, and hence the foreign exchange risks, in exchange for a fixed Maloti obligation by the Authority to the Government. The forward cover contracts where entered into by the Trans Caledon Tunnel Authority. The Lesotho Highlands Development Authority revalue all its offshore loans at the applicable spot rate as at 31 March each year as the risks and rewards of the Forward Cover Contracts do no accrue to the Authority.

16. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The Authority has been notified of the intention by various Contractors and employees to submit claims. The claims that are probable have been provided for in the Provision for Claims. The claims which are disputed and which do not appear to be probable amount to M 56 007 863 (2009: M5 223 837). A contingent liability may be required for the downstream reaches 7 & 8. The amount is unknown. The balance for 40 years will be paid subject to verification of losses in 10 years from. The 2013 Present Value amounts shown will be subject to escalation (by inflation rate and by 8% discount rate) up to the payment date. Subject, however, to adjustments following from the verification process. These should be disclosed as a contingent liability, as the amount and the timing of the payment are so uncertain that a provision cannot be recognised.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

General Risk Management Principles

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

Foreign Exchange Rate Risk

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

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

The following table demonstrates the sensitivity to a reasonable possible change in the Euro, Pound and US$ exchange rates, with all other variables held constant, of the Authority's profit (due to changes in the fair value of monetary assets and liabilities).

	Change in exchange rate	Effect on profit before tax M'000
2010		
Euro	+10%	14 731
US Dollar	+10%	1 851
2010		
Euro	-10%	(14 731)
US Dollar	-10%	(1 851)
2009		
Euro	+10%	24 421
US Dollar	+10%	3 142
2009		
Euro	-10%	(24 421)
US Dollar	-10%	(3 142)

Interest Rate Risk

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

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

It is the Authority's policy to manage interest costs through the utilisation of a mix of fixed and variable rate debts as well as through the evaluation of foreign versus local funding. For further details on long term loans refer to Note 8 of the Annual Financial Statements.

Interest Rate Sensitivity

The following table demonstrates the sensitivity to a possible change in interest rates, with all other variables held constant, of the Authority's profit (through the impact on the floating rate borrowings). There is a material impact on the Authority's equity.

	Increase/decrease in basis points	Effect on profit before tax M'000
2010		
Trans Caledon Tunnel Authority Debt Service Loans		
Offshore Loans	+200	3 926
Common Monetary Area Loans	+200	570
Trans Caledon Tunnel Authority Debt Service Loans		
Offshore Loans	-200	(3 926)
Common Monetary Area Loans	-200	(570)
2009		
Trans Caledon Tunnel Authority Debt Service Loans		
Offshore Loans	+200	5 396
Common Monetary Area Loans	+200	616
Trans Caledon Tunnel Authority Debt Service Loans		
Offshore Loans	-200	(5 396)
Common Monetary Area Loans	-200	(616)

Market Risk

Market risk is the risk that the value of a financial instrument will fluctuate with changing market prices whether caused by factors specific to the instrument or to general external market changes. The Authority has no financial instruments which are affected by changing market prices.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge its obligations thereby causing the other party to suffer financial loss. The Authority's cash equivalents are kept at well-established financial institutions which limits its counter party exposure. The Authority has no significant concentration of credit risk in respect of cash and cash equivalents. The entity is exposed to significant credit risk exposure in terms of receivables due to the extensive period it takes to recover accounts receivable.

Liquidity Risk

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

Capital Management

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

Maturity Profile of Financial Assets and Liabilities

Apart from the long-term liabilities, capital market funds and provisions, all the Authority's financial assets and liabilities are expected to mature within a twelve-month period. The maturities of the long-term liabilities are reflected, under Note 10.

Fair Value of Financial Instruments

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

Capital Management

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

Maturity Profile of Financial Assets and Liabilities

Apart from the long-term liabilities, capital market funds and provisions, all the Authority's financial assets and liabilities are expected to mature within a twelve-month period. The maturities of the long-term liabilities are reflected, under Note 10.

Fair Value of Financial Instruments

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

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

	Carrying Amount		*Fair value*	
	2010 M'000	2009 M'000	2010 M'000	2009 M'000
Financial Assets				
Project taxes refunded by the Government of Lesotho	-	-	-	-
Contract Advance payments	4	33	4	33
Other receivables and prepayments	24 224	19 205	24 224	19 205
Cash and Cash Equivalents	124 935	128 592	124 935	128 592
Financial Liabilities				
Contract Payables and Accruals	6 777	4 382	6 777	4 382
Contract Retentions	575	759	575	759
Other payables and accruals	240 911	158 461	240 911	158 461
Long Term Liabilities	298 715	539 681	298 715	539 681
Capital Market Liability	987 925	969 882	987 925	969 882

18. NUMBER OF EMPLOYEES

According to the payroll system the authority had the following number of employees as at the 31 March 2010: 292 (2009: 276)

19. RELATED PARTY TRANSACTIONS

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

	2010 M'000	2009 M'000
Amounts credited to the Statement of Comprehensive Income or fund accounts		
Sales of electricity to LEC	59 531	54 911
Sales of electricity to ESKOM	228	328
Cost related payments GOL	62 000	265 647
Cost related payments RSA	411 262	367 429
Loans to related parties and other accounts receivable		
Account receivable from LEC	20 525	18 801
Provision for Doubtful Debts from LEC	(3 187)	(3 187)
Account receivable from LRA	15 231	11 874
Provision for Doubtful Debts from LRA	(15 231)	(11 874)
Loans from related parties and other accounts payable		
Accrued interest on GOL loans	-	67 568
Compensation to Key Management Personnel		
Short Term Employee Benefits	7 365	7 755
Total Compensation Paid to Key Management personnel	7 365	7 755
Board Fees		
Board and sub committee fees including sitting and travel costs	799	1 221

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

	2010 M'000	2009 M'000
Transfer of Mphorosone Camp	-	6 272
	-	6 272

All related party transactions are at arm's length and such terms are substantiated.

20 OPERATING LEASE DISCLOSURE

The Standard Bank Tower Building is leased out under an operating lease.
According to rental agreements the following rental income will be received in the mentioned periods:

	2010 M'000
The following year:	756
Year 2 – Year 6	452
	1 208

DETAILED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED MARCH 2010

	NOTE	2010 M'000	2009 M'000
Revenue			
Electricity income		59 758	55 219
Investment Income		6 040	10 217
Profit on sale of assets		1 820	268
Miscellaneous income		11 531	16 470
Investment property income		4 911	3 808
Total Revenue		84 060	85 982
Expenditure			
Asset donations to GOL	20	-	6 272
Audit and accounting fees		713	741
Bad debts		-	8 102
Bank charges		39	76
Board and committee fees		1 362	1 221
Construction and contractor costs		12 828	11 689
Depreciation		307 718	305 290
Entertainment		-	-
Foreign exchange loss/(gain)		(4 510)	8 108
Increase/(Decrease) in future compensation provision		15 187	43 987
Increase/(Decrease) in provision for contract claims		-	-
Insurance		2 643	2 362
Interest and finance expenses		200 744	148 621
Inventory and consumable stores		349	378
Leave pay		453	600
Legal and arbitration fees		(3 363)	5 167
Miscellaneous expenses		11 943	9 503
Motor vehicle expenses		3 490	7 295
Plant spares		403	563
Professional services		2 852	3 117
Provision for doubtful debts		7 418	1 976
Public relation costs		1 159	1 253
Rates, electricity and water		4 520	3 504
Recruitment		220	88
Rental expenses		357	383
Repairs and maintenance		4 849	5 312
Resettlement and compensation costs		34 970	9 999
Safety awareness		2	35
Salaries, wages and allowances		54 056	57 265
Security expense		3 732	3 775
Severance pay		1 775	1 918
Stationery		691	690
Telephone and communication		1 750	1 635
Training		1 271	1 243
Travel and transportation		1 759	1 773
Total Expenses		671 380	653 941
Loss for the year		587 320	567 959

Lesotho Highlands Development Authority (LHDA)

3rd Floor LHDA Tower Building
Kingsway Road
P.O. Box 7332
Maseru 100
Lesotho

Tel: (+266) 22 246 000
Fax: (+266) 22 310 665

Email: lhwp@lhda.org.ls
Website: www.lhwp.org.ls

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY
ANNUAL REPORT 2009/10

LHDA