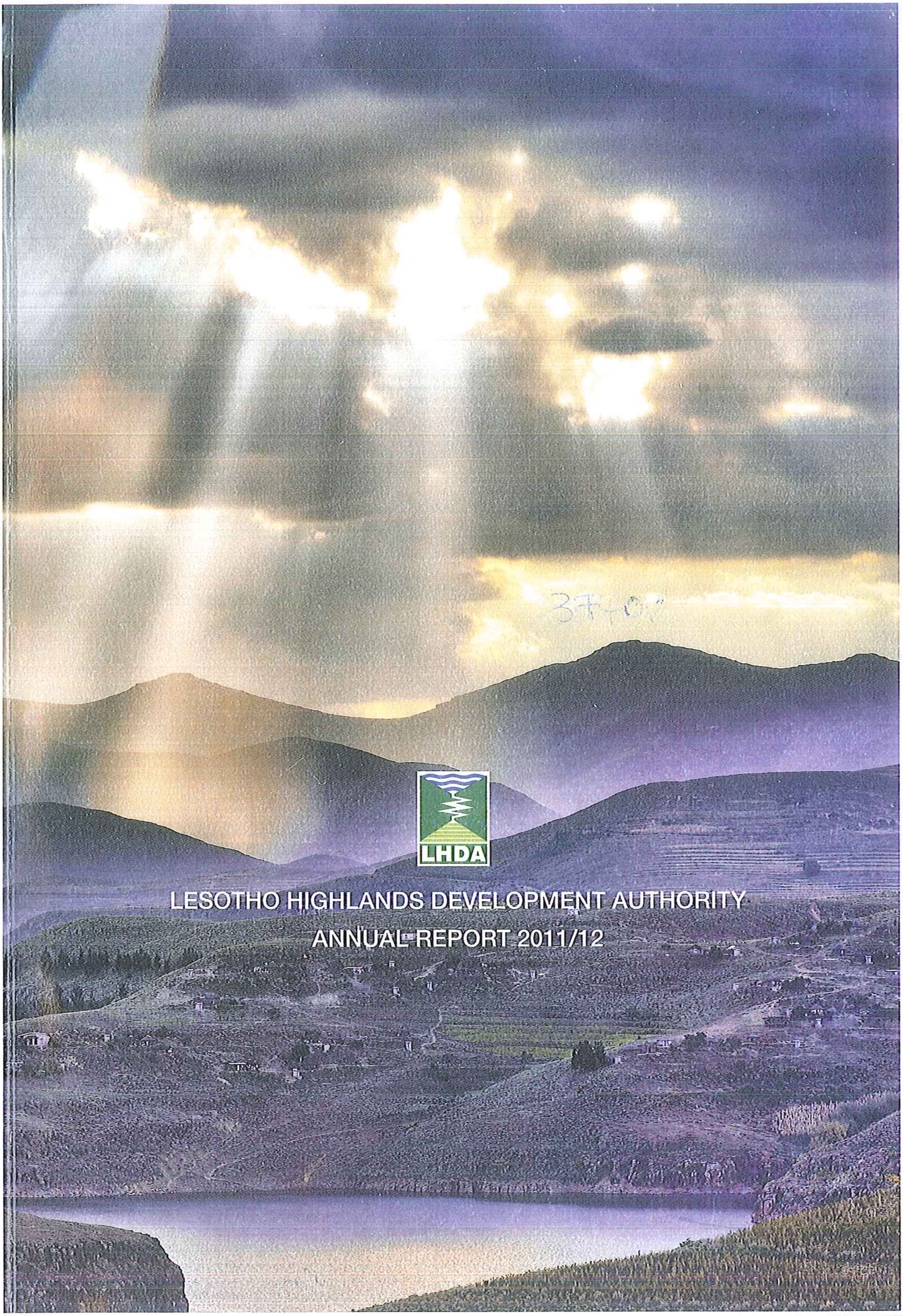

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

ANNUAL REPORT 2011/12

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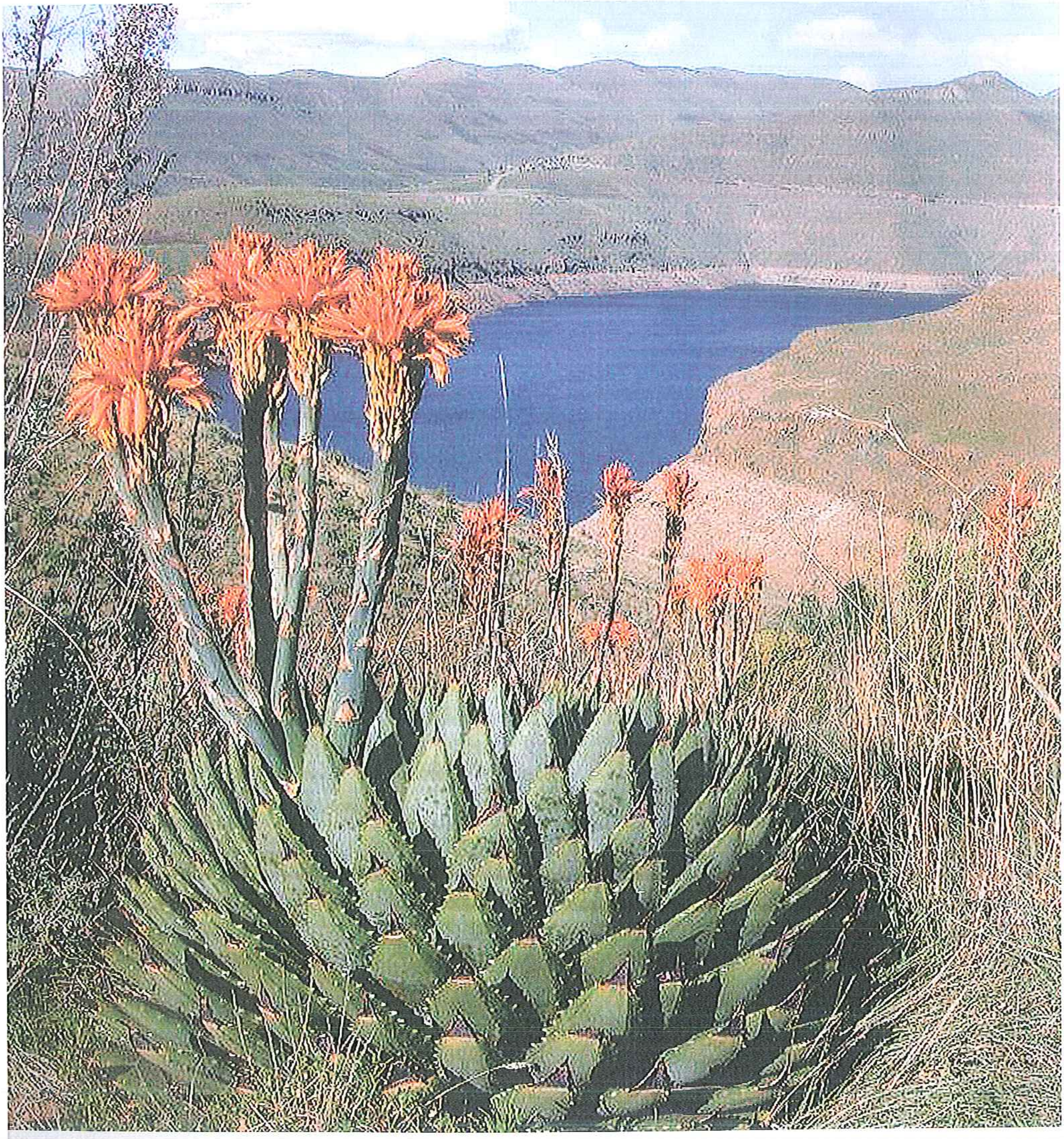

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LHDA

LESOTHO HIGHLANDS
DEVELOPMENT AUTHORITY

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.

MR. JOHN EAGAR
Deputy Board Chairman
Portfolio: Operations and Maintenance

BSc Civil Engineering
(University of Cape Town) 1966
Registered Professional Engineer
Fellow: Institution of Civil Engineering (RSA)

MR. MORAKE CHARLES MOROLO
Portfolio: Audit & Risk Management

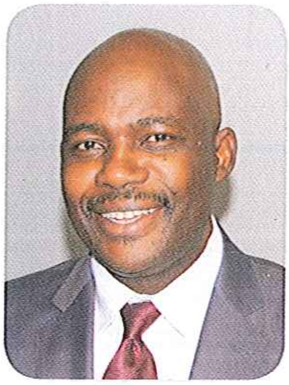
MBA (Milpark Business School) 2010
MSc Financial Economics
(University of London) 2002
Dip Economic Impact Assessment
(University of Norway) 2001
Hons Economics
(Vista University) 1998
BA Economics
(Vista University) 1994

MRS. 'MAMOHALE MATSOSO
Portfolio: Human Resources Management

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

DR. MOTLATSI NICHOLAS MOKHOTHU
Portfolio: Natural Environment

PhD Watershed Hydrology
(University of Arizona) 1996
MSc Hydrogeomorphology
(ITC – Netherlands) 1981
BSc Applied Environmental Science
(National University of Lesotho) 1980



MR. ROBERT MBWANA
Pr. Eng.
Professional Registered Engineer ECSA, 1988
Portfolio: Engineering

BSc Civil Engineering;
University of Malawi (1987)
Diploma Engineering; (Civil)
(University of Malawi) 1984

PROF. LULAMA IDA QALINGE
Portfolio: Socio-Economic Development

PhD (University of North West) 1999
MA Social Work (University of Nebraska at Omaha) 1982
BA Social Work (University of Fort Hare) 1977
Registered Member: Council for Social Service Professions.

ADVOCATE SHAMI KHOLONG
Portfolio: Legal

Masters in Business Leadership (UNISA) 2007
LLB (University of the Witwatersrand) 1994
BA Law (Wits University) 1991

MR. BERENG QHOBELA
Portfolio: Stakeholder Representative

Diploma Litigation and Trial Practice
(Paralegal Institute of Arizona) 1983
Diploma Law Office Management
(Paralegal Institute of Phoenix) 1982

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

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

MR. JOHN EAGAR
Board Chairman

The outgoing year was celebrated to mark the 25th Anniversary of the implementation of the Project. The year also heralded the beginning of tenure to the new Board that I have a privilege to chair. My gratitude to all those who have overcome the challenges of the year and contributed to making it a success.

Since the completion of construction of Phase I of the LHWP, LHDA's activities have been mainly operating and maintaining the water delivery system, providing water to the Republic of South Africa and generating royalty revenue for Lesotho. LHDA has also continued to generate hydroelectric power for use in Lesotho.

The rapid increase in electricity prices in the Republic of South Africa has resulted in above inflation increase in royalty revenue for Lesotho from delivery of water. In the last three years, royalties have increased on average by 27% per year. The average unit price of royalties increased from 44 to 70 lisente per cubic meter during the same period.

Electricity sales have been around 12 lisente per kilowatt-hour from 2003 due to the decision by Government to put a moratorium on inflation adjustments on bulk electricity tariffs to help make electricity affordable to the people of Lesotho and its industry. There is an opportunity to implement cost reflective tariff in future and to also bring it in line with prevailing market and economic conditions.

The LHWP project also has a responsibility to promote economic development within the dams that have been constructed. To this end, two trout producers, Katse Fish Farms and Highlands Trout are operating and producing trout within the Katse Dam.

The second operator, Highlands Trout, commenced production of trout fish farming at Katse Dam during the year and the first harvest will be on sale in the ensuring year. Katse Fish Farm's production for the reporting year was 192 tonnes.It is planned that the full production capacity of Katse Dam, estimated at 3,000 tonnes, will be utilised by the two investors in the near future, thus elevating the projects to an industry level.

The ever changing technological environment presents new challenges and opportunities to improve efficiency of LHDA operations. LHDA has taken advantage of a satellite communication system to link all sites with each other and the head office. The benefits of the system include ease of making telephone calls as well as less expensive satellite infrastructure rentals vis a vis monthly telephone bills.

Lesotho's natural beauty and alpine conditions are unique in Africa. The location of the dams in this environment is fuelling growth of tourism. To maintain the ecotourism in the highlands, the state of the art Katse Information Centre was opened to visitors during the reporting year. In addition, road infrastructure around the dams is being maintained. The major project in this regard was resurfacing of Mohale Access Road. To increase visibility of the Project, improvements were made to the LHDA

INDEPENDENT ASSESSMENT OF THE LHWP PROGRAMMES IS PROVIDED BY THE INTERNATIONAL PANEL OF EXPERTS. A WRAP UP MEETING WITH THE PANEL OF EXPERTS.

pilot website to improve access to information on the Lesotho Highlands Water Commission and Phase II of the Project.

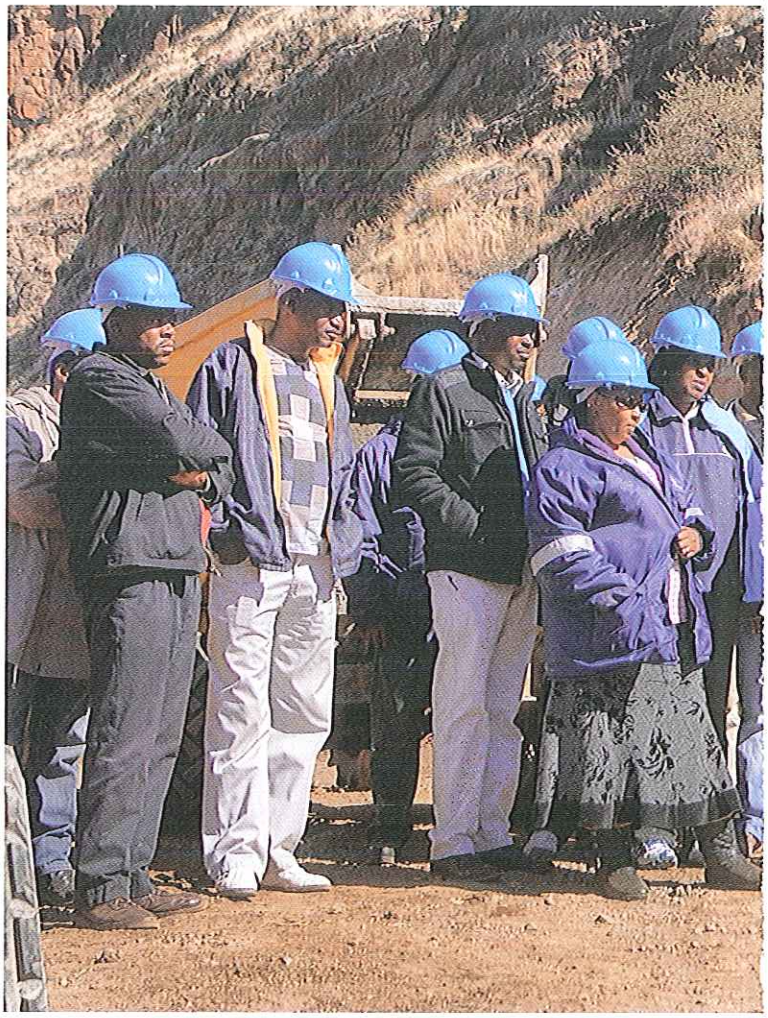
LHDA continues to experience a number of challenges in implementing the Project. The protracted issue of non-disbursement of upstream communal compensation which has been on-going for some time has evolved into a critical area that requires concerted efforts to address. The LHDA is considering to review some of its policies so as to resolve the issue within the next year. Despite these challenges brought about by the relationship between LHDA and the affected communities, LHDA was awarded a rating of 84% during the annual Stakeholders' Workshop.

The Honourable Minister of Water Affairs of the Republic of South Africa, Ms Edna Molewa, and the Honourable Minister of Natural Resources of the Kingdom of Lesotho, Mr Monyane Moleleki, signed an Agreement on the Implementation of Phase II of the Lesotho Highlands Water Project in Maseru on the 11th August, 2011. The event heralded a new direction in the implementation of the Project. To facilitate implementation of Phase II, LHDA was able to secure the declaration of the Polihali Dam Project area as land set aside for public purposes in terms of Land Act of 2010. This development paved the way for LHDA to begin preliminary works in the area. Such works involved engaging consultancy services for the survey of Polihali access roads, power-line and aerial photography of the Polihali catchment.

Pursuant to the implementing the Phase II Agreement, the LHDA Management plans to strengthen implementation of the Fraud Risk Management Policy which among other things promotes good governance. The risk register was developed in the previous year, takes into account the implementation of the Phase II and strategies to manage identifiable risks associated with its implementation. The Board has maintained its oversight role and provided direction to the LHDA Management in implementation of these strategies.

I thank all members of the Board and LHDA team for the dedication they have demonstrated in pursuit of our common vision to be a world-class water resources development and management organisation.

MR. PETER MAKUTA
Acting Chief Executive



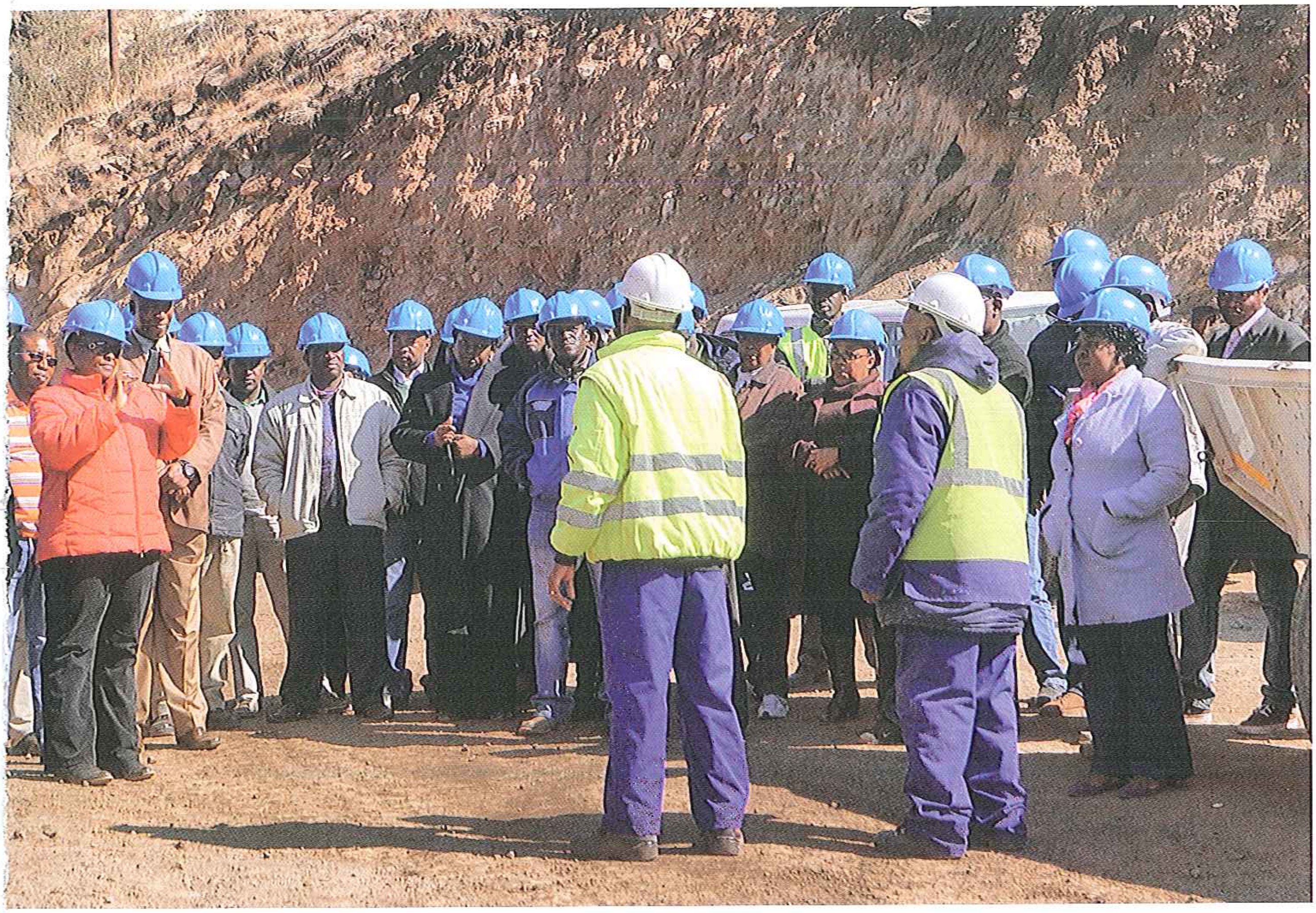
It is once again that time of the year when we have to reflect on the achievements and challenges encountered by LHDA during the reporting period 2011/12. Although much was achieved, there are some challenges that still remain unresolved.

The LHDA continued to maintain its mandate of transferring water to the Republic of South Africa, generate electricity for Lesotho and implement the Treaty stipulated socio-economic developmental activities.

In order to meet the Project's obligation to deliver water to South Africa, an amount of water 876MCM was delivered in the reporting year against the target of 780MCM. This has resulted in the positive variance of 12.3% makeup for the shortfall in the previous year where there was below target deliveries. This delivery attracted royalty revenue of M614.8million which is 26.9% higher than the annual forecast. To date, a total of M4.137 billion in royalty revenue has been received by Lesotho from RSA since commissioning of first water deliveries in January 1998, as a result of having delivered 9,730 MCM of water.

The generation of electricity during the reporting period amounted to 549GWhr; This is 8.3% higher than the target of 507GWhr.

Pursuant to the LHDA mandate of maintaining the standard of living of the communities affected by the LHWP, the Authority embarked on a number of development initiatives. The Katse Fish Farming (KFF) (Pty) Ltd in the Katse reservoir at Ha Lejone produced 192 tons of fish against the target of 300 tons during the reporting period. The cumulative harvest of 683 tons has been realized since commencement of production in May 2006. Another investor in trout fish farming, the Highlands Trout, was given a two year license in October 2011. The two initiatives are providing much needed job opportunities to the local communities.



MOKHOTLONG HEADS OF GOVERNMENT DEPARTMENT ASSESS PROGRESS AS THE CONSTRUCTION OF THE POLIHALI MEASURING WEIR ADVANCES.

LHDA is obliged to compensate the communities for all identifiable losses that are a result of the implementation of the LHWP. Challenges remain in addressing a backlog of payments. However, with the installation of the computerized Compensation Workflow System, LHDA is already realizing some reduction in the number of backlog payments leading to reduced complaints by the beneficiaries of compensation.

However compensation for loss of communal assets remains a big challenge. There are outstanding payments to the Local Legal Entities (LLEs). These payments have been outstanding due to failure on the side of the LLEs to submit all outstanding required documents and audit reports as is required in terms of the Memorandum of Understanding (MoU) signed between the LLEs and the LHDA. However, the LHDA is engaged in delivering a lasting solution to the problem and the solution will be implemented in the coming year.

The eco-tourism initiatives that the LHDA has put in place continue to pay dividends. In the reporting year, LHDA received a total of 34, 864 visitors in the three LHWP areas. However, the full eco-tourism potential is yet to be realized through scaling up activities in arts production, horse riding services and the increased use of the hiking trails. These measures are intended to lengthen the duration of stay of the tourists.

In concluding my statement, I want to acknowledge all the efforts that the Project Authorities and the LHDA staff put into making this year a success for us, despite the challenges that we faced. I am looking forward to opportunities on implementing the initial assignments forming part of the implementation of Phase II of the LHWP.
I thank you all.

LESOTHO ENVOYS ABROAD AND REPRESENTATIVES OF FOREIGN DIPLOMATIC MISSIONS IN LESOTHO VIEWING THE IMPRESSIVE MAN MADE MARVEL OF THE MOHALE DAM.

1. OVERVIEW

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.

The Chief Executive provides the overall strategic leadership of the organization and ensures that the LHDA's operations are in line with the mandate and the policies and procedures approved by the Governance structures. The Chief Executive leads the Executive Team (EXCO) whose main function is to ensure that the entire operations of LHDA are well coordinated and aligned for maximum impact and to ensure synergies across the organisation.

The specialized units in the Office of the Chief Executive deal with Audit, Board Secretariat services, Legal services and Public Relations services.

In terms of standard practice, 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.

2. IDENTIFICATION OF LHDA LAND ACQUIRED

During the reporting period LHDA commissioned a cadastral survey of LHDA properties. This exercise will enable the LHDA to acquire lease titles for all its immoveable properties.

Another important development during the year was the start of preparations for the process of digitally capturing all LHDA properties – including those under compensation. This will enable LHDA to capture the coordinates and other key properties of the assets that are being compensated for and to geo-reference them.

3. STAKEHOLDER'S RELATIONS

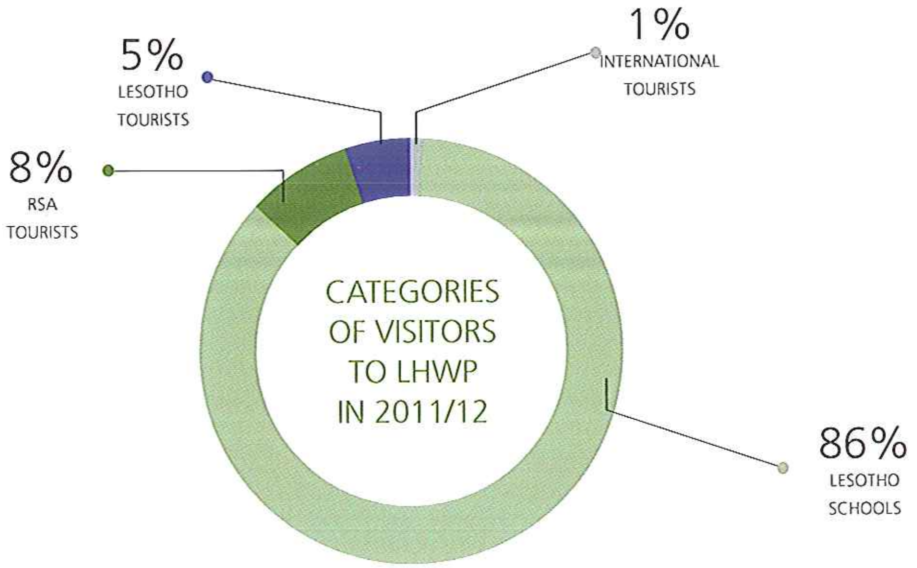
The Annual Stakeholders Conference was held at the Lehakoe Recreational Club in November 2011. The Conference is an annual event that serves as a report back session to LHDA on how stakeholders perceive and rate LHDA's performance in fulfilling its obligations during the year in question.

The main stakeholders' conference was preceded by three (3) mini review conferences which were held at the LHDA Branches at Mohale, Katse and 'Muela where the Branches received performance ratings of 89%, 88% and 70% respectively.

More than eighty (80) delegates attended the main conference. LHDA received a rating of 84% from the external stakeholders. This is the equivalent rating that LHDA received in 2010.

4. VISITS TO THE LESOTHO HIGHLANDS WATER PROJECT AREAS

The spectacular scenery around the LHWP Dams greatly contributes to the ecotourism potential of the country. The Information Centers at Katse, Mohale and 'Muela received a total of Thirty Four Thousand, Nine Hundred and Twenty Eight (34,928) visitors during the reporting period. Most of the visitors (86%) were from schools from within the country. The distribution by category of visitors is as depicted below:



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 DM SCS provides strategic guidance and leadership in addition to having specific oversight for certain activities.

2. PROGRESS MADE DURING THE REPORTING PERIOD

2.1 Water Quality

The general water quality status of water stored in the LHWP reservoirs is mainly assessed through the monitoring of the main Katse reservoir which stores water for eventual delivery to RSA. The assessment indicates that the water remains of high quality. Water transparency indicator measured average secchi depth of 4.4m during the reporting period and this indicates that clarity of water is high. Annual chlorophyll-a concentration averaging 5.7 ug/l clearly indicates that the dam is supporting quite low biomass and thus provides an assurance that the occurrence of eutrophication is very remote.

2.2 Compensation Payments Backlog

Though backlog payments from the previous year were shifted to the year under review as a result of prioritizing other scheduled processes, reducing this backlog has not been successful this year. A number of beneficiaries did not have the relevant documentation which would assist in speeding up the payment process. Other than that, with the installation of the new workflow system, it is anticipated that in the following year this backlog will be addressed.

2.3 Annual Compensation in 2011/12

Both annual cash and grain compensation were successfully delivered. A total of 5,022 bags of maize and 10,790kgs of beans were distributed to households in all areas of the LHWP. 157 households from Mohale area were compensated for fruit trees, fuel trees and garden land. Out of 2,163 households who were eligible for annual cash payment 1,952 managed to receive it.

2.4 Public Health

Routine public health monitoring is on-going at Mohale and Katse. The LHDA developed the Public Health Policy to provide guidelines on the LHDA's public health interventions for communities within the Project catchments. In December 2010, the LHDA Board of Directors . reviewed the policy and recommended it for approval by the Commission.

Key activities that were covered under the Public Health include both Primary Medical and Comprehensive Health Care Programmes in the Mohale Catchment. The Primary medical health care dealt with outreach clinics where out of 798 children who were weighed, 38 were found to be underweight. A total of 462 children were vaccinated for measles. HIV counselling and testing was provided to 549 people of which 74 (13.5%) were found to be positive; A total of 234 people were initiated on ARV therapy. Under comprehensive health care, monitoring of 28 villages and 25 schools was carried out to ensure proper usage of sanitation facilities as part of good hygiene.

2.5 In stream Flow Requirements (IFR) releases

2.5.1 KATSE DAM RELEASES

The annual target flow required from the Katse dam was 90.3 MCM but the volume of 907.42 MCM was released due to spillage. The observed variation was the low level outlets openings which were ranging from 5% to 100% from November 2010 to April 2011. The dam experienced the spill in December 2010, January and April 2011. The newly constructed downstream IFR site 2 Flow Measuring Station is not yet rated so the flows cannot be converted into corresponding discharge measurements. The appropriate rating equation will be developed in the coming year.

2.5.2 MOHALE DAM RELEASES

The flow volume that was forecasted to be released from Mohale dam was 45.0 MCM but instead a higher volume of 672.18 MCM was released to off-set the intervening catchment contribution. The significant variation was due to the discharge through the three valves to allow maximum flow downstream in order to decrease the level so as to minimize spillage. However, the dam still managed to spill through the spillway in January, February, April and May 2011 due to heavy rains. Only 438.45 MCM was recorded at IFR site 7, this could have been through infiltration to meet the base-flow since 2010 was a dry year.

'MUELA CATCHMENT FLOW RELEASES AS OF 2010 – 2011

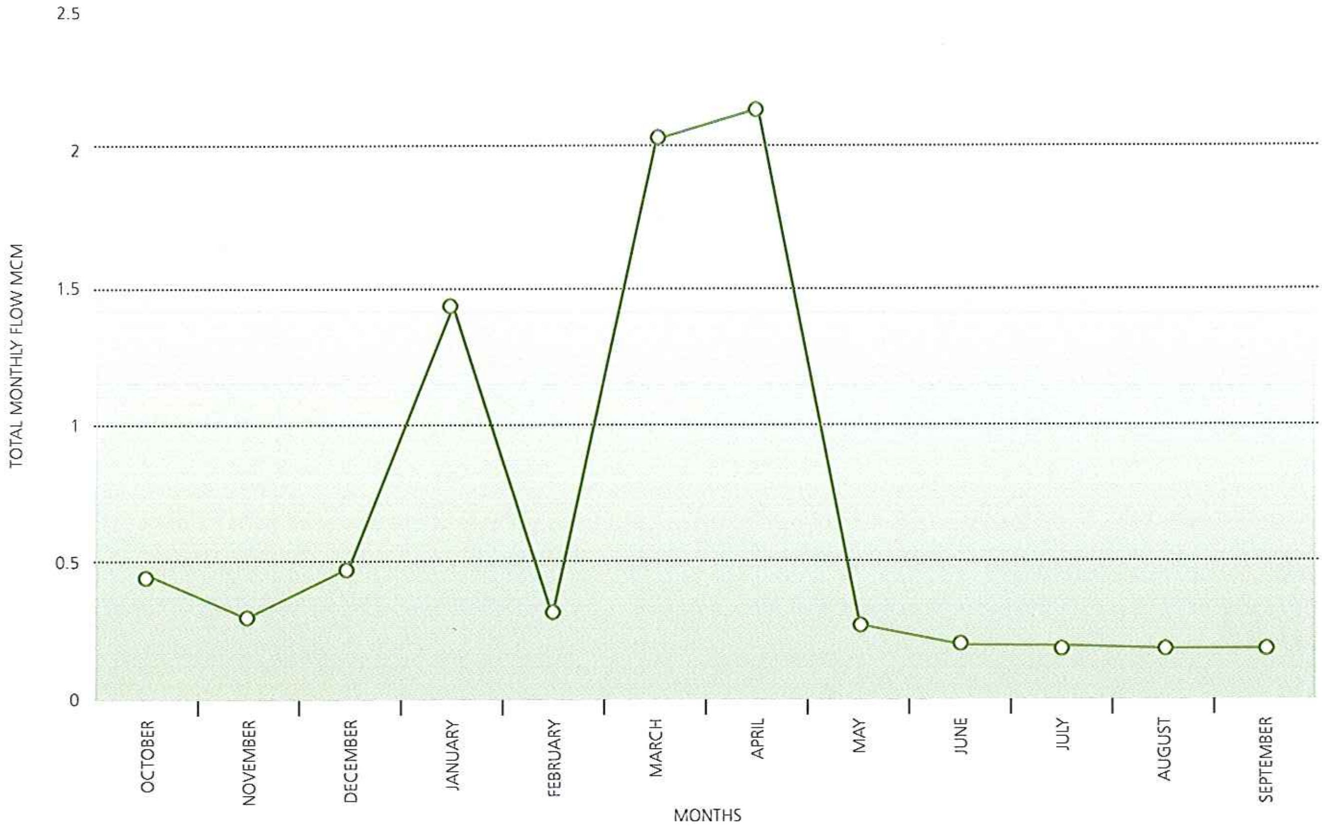


FIGURE 1: FLOW RELEASES FROM 'MUELA DAM DURING HYDROLOGICAL YEAR 2010/2011 AT THE 'MUELA HYDROMETRIC STATION DOWNSTREAM OF THE DAM.

2.5 In stream Flow Requirements (IFR) releases (continued)

2.5.3 MUELA DAM RELEASES

Flow releases downstream of the 'Muela dam are being monitored regularly following completion of the constructed hydrological flow station downstream of the dam. The upstream station has not been functioning properly and the total inflows into the dam were therefore not measured. However, given the known contribution of 'Muela Catchment into the dam, downstream releases were still accurately effected to sustain the river ecology and other social needs.

The total downstream flow volume recorded at Nqoe River at 'Muela downstream was 8.17 MCM. The IFR releases were released according to the schedule as per the confirmation from 'Muela control room. The higher recorded volumes were due to heavy rains that were experienced during the months of January, March and April 2011. All catchments showed a lot of precipitation compared to the previous year.

2.6 Integrated Catchment Management

In November 2010, the ICM project was phased out. One of the four counterparts (Counterpart Project Manager) was transferred to Muela Field Operation Branch to oversee the continuation of ICM activities in the three LHDA sites. The approach adopted was to liaise with Environmental Officers in Katse and Mohale to support and monitor the established structures and engage communities in the environmental management programmes.

The biggest challenge that the LHDA faced is that the standing committees which were established in the eleven community councils and trained on their functions and responsibilities were only functional during the early months of 2011. Later in that year, the councils were dissolved prior to the same year's Community Council Elections. It was expected that the new councils would take power with similar standing committees. This did not take place. The main reason was that most of the Community Council Secretaries were transferred and the new councils established new committees as per Schedule 2 of Local Government Act of 1997.

2.6 Integrated Catchment Management (continued)

In the year 2011/12, a total of three catchment management forum sittings were held, one for Katse/'Muela, the other for part of Katse which was held in Mokhotlong while the last one for Mohale was held in the form of field inspections. The issues discussed included the resuscitation of the forums and the importance of sustainable natural resources management.

2.7 Environmental Policy Implementation:

As part of implementation of Environmental Policy and Environmental Management System, focus was put to monitoring of corporate risks through identifying 25 high priority risks and establishing a Risk Log for regular risk management reporting to the LHDA Board. The Risk Log was given to the Panel of Experts (PoE) to comment on. Their comments would be incorporated in the Corporate Risk Strategy to be developed in the following year.

2.8 Information Systems

The Information Systems Branch is responsible for enabling business processes through the use of technology by planning, developing, maintaining and supporting Information Technology (IT) services. Due to the continuing reliance of businesses on technology, it is imperative that IT Governance is in place so as to enforce controls and behaviours. In 2011/12, emphasis was therefore placed on the following aspects of the business: IT Governance, Business Process Mapping, Phase II Website, and Document Management.

2.8.1 IT GOVERNANCE

During the year a lot of emphasis was placed on institutionalising IT governance practices. In particular focus was placed on establishing a set of validated processes and procedures. A consultant was engaged to develop a governance framework for an IT Branch of LHDA size, based on world-class models namely CoBIT, ITIL and ISO. This framework was used to perform baseline assessments which indicated the current maturity level and therefore resulted in the production of an improvement roadmap for processes that needed to be in place in order to get to the desired maturity level.

2.8.2 BUSINESS PROCESS MAPPING

In order to improve the efficiency of business processes, it is important that such processes are mapped and re-engineered. This is usually done through the use of technology, in most cases, resulting in automated processes replacing manual processes. During the reporting period, all Human Resources Processes were mapped, and Compensation Processes were also improved and re-engineered where relevant.

2.8.3 PHASE II WEBSITE

As part of the preparatory works for Phase II of the LHWP, it was agreed that Phase II related information shall be communicated via a dedicated website, worldwide. On the basis of this, a website was created to communicate information on the following; Engineering, Social, Environmental, Tourism, Financial, Business and Employment Opportunities and Governance. Phase II address: http://www.lhda.org.ls/phaseii/index.htm

2.8.4 DOCUMENT MANAGEMENT

The LHDA Library had in its collection, a total of 48,330 from 2007 when it started, and only about half of those (26, 394) were processed by end of 2010/11. In 2011/12 cataloguers were engaged to assist with the processing. At the end of that year over 17,000 documents were processed, with 9,122 being fully processed and 8,333 being discarded. The remaining number of unprocessed documents was reduced to 4,481. Subsequently, a Records Management Policy was formulated, which provides an overall framework for the effective management of information, records and archives held by the Library, and provides a consistent and corporate approach to managing information in all its formats.

2.9 Human Resources Management

The LHDA approved structure has 263 positions. In this year there was a creation of 2 executive positions, which are; the Chief Operations Officer (COO) under the Chief Executive Branch, and the Division Manager for Phase II (DM-Phase II). Currently a total head count is 219 employees. There are also 37 individuals who have been engaged in temporary positions that address specific short term needs. The labour turnover for the reporting year is 4 officers, which is approximately 2% of the total head count. The vacancy factor this year is 44 positions and is 16.7% of the total approved structure.

With regard to the human resources benefits administration, there was 1 workman's compensation claim and this was paid. There were also 118 terminal benefits paid due to expired contracts.

To improve on the performance of the organisation, the LHDA continues to train its staff through internal and external workshops.

LHDA LIBRARY, AN INTEGRAL PART OF THE ORGANIZATION'S KNOWLEDGE MANAGEMENT PROGRAMME.

The Development and Operations Division 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 programmes.

1. RESERVOIR MANAGEMENT

1.1 Mohale Reservoir Management (Reservoir Levels)

The chart below depicts the reservoir levels over the last ten years

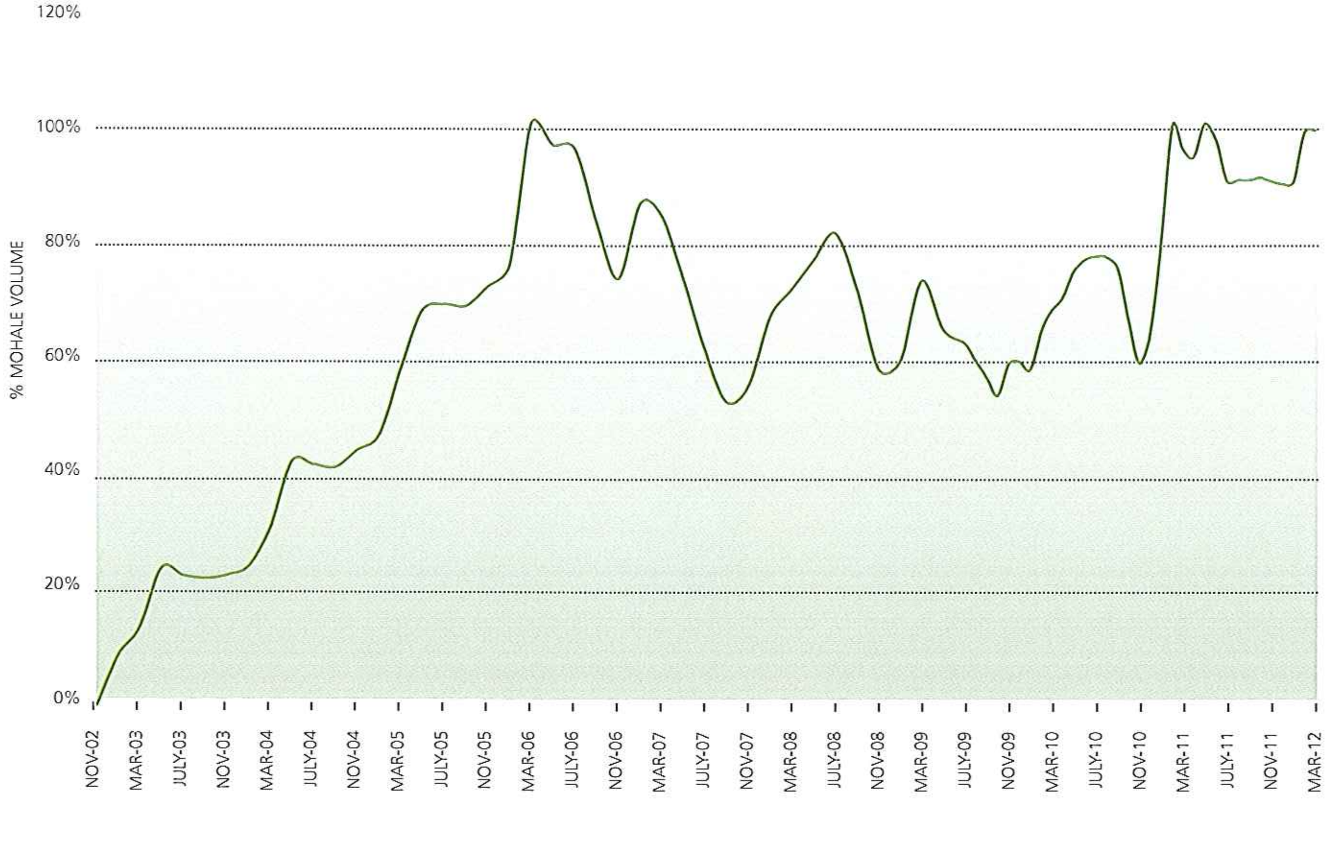


CHART 1: MOHALE RESERVOIR VARIATIONS SINCE IMPOUNDMENT IN 2002 TO 31ST MARCH 2012

At the end of March 2012 Mohale reservoir was at 100.0% (2075.0masl) of its total reservoir capacity, this represented an overall rise of 4.8% from the April 2011 capacity of 95.2%. The lowest capacity for the year was 90.3% (2070.67 masl) on 11th November 2011. The highest capacity for the year was 103.97% (2076.65masl) on 14th May 2011, during which Mohale Dam was spilling.

Mohale dam spilled once and continuously for a total of 35 days from 19th April 2011 to 23rd May 2011. Total spilled volume of water is 96.120 MCM.

Mohale tunnel was closed on 28th December 2009 and has remained closed during the reporting year.

1. RESERVOIR MANAGEMENT (CONTINUED)

1.2 Katse Reservoir Management (Reservoir Levels)

The chart below depicts the reservoir levels over the last fifteen years

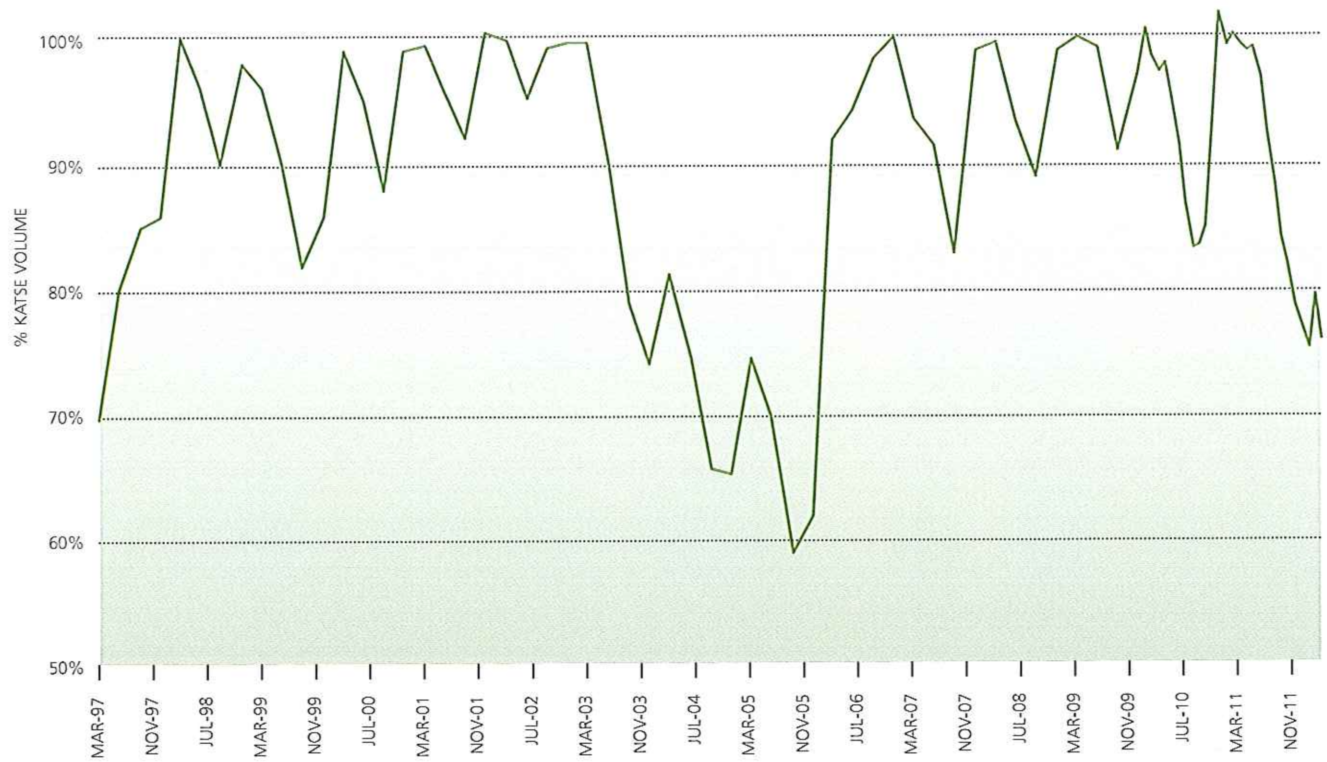


CHART 2: KATSE RESERVOIR LAKE VARIATIONS FROM 1ST APRIL 1997 TO 31ST MARCH 2012

At the end of March 2012 Katse reservoir was at 76.22% (2038.91 masl) of its total reservoir capacity, an overall drop of 21.28% from the April 2011 capacity of 97.5%. Mohale tunnel remained closed during the reporting year, therefore there was no water transfer from Mohale to Katse Dam. The lowest capacity for the year was 74.53% (2037.87 masl) on 10th February 2012. The highest capacity for the year was 100.74 (2053.43 masl) on 7th April 2011, during which the dam was spilling.

Katse dam spilled 2 times for a total of 6 days from 7th – 8th April 11 and 19th – 22nd April 2011 with total spilled volume of water of 11.12 MCM.

3. GENERAL MONITORING OF LHWP DAM STRUCTURES

Various instrumentations are used to monitor the integrity of the three (3) LHWP dams at Katse, Mohale and 'Muela. During the reporting period 81.2% of instruments were in working condition at Katse, while 98.9% were working at 'Muela and 82.2% at Mohale.

TABLE 4: DAM SAFETY INSTRUMENTATION

LHWP Dam	Total Number of Installed Instruments	Number of Instruments not Working	Percentage of Instruments Working
Katse	995	187	81.2%
'Muela	95	1	98.9%
Mohale	180	32	82.2%

4. WATER RELEASES FROM 'MUELA INTO CALEDON RIVER

In accordance with the provisions of the Lesotho Highlands Water Project (LHWP) Treaty, LHDA is required, on request by the Government of Lesotho, to release water from 'Muela reservoir into the Caledon River to augment river flows during dry seasons. There were no water releases into the Caledon River from 'Muela reservoir during 2011/12.

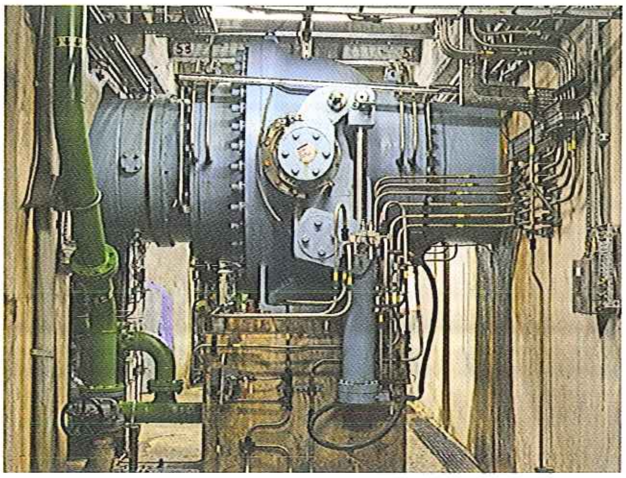
5. 'MUELA HYDROPOWER PLANT (MHP) MAJOR REPAIRS

LHDA implemented a major 3-Year project for the rehabilitation of three (3) generation units of 'Muela Hydropower Plant (MHP) from September 2010 to December 2012. The works comprised repair and replacement of various components including guide vane seals, guide vane lever bushings, guide vane links and closing mechanisms, guide vane bearings, generator bearings, thrust runner and weld repair on the turbine runner. The remaining work, from the previous year, on mechanical rehabilitation of 'Muela Hydropower Plant Unit 3 generator, was completed during the period. Work on Unit 2 started on 25th September 2011 and was completed on the 24th November 2011.

6. ENGINEERING PROJECTS AND CONTRACTS

6.1 LHWP Phase II Preliminary Works

Construction of about 3.2kms of the temporary access road to the site for the construction of Polihali downstream Weir started on 1st September 2011 and was completed on the 2nd November 2011.



TURBINES AS VIEWED FROM THE 'MUELA POWERHOUSE.

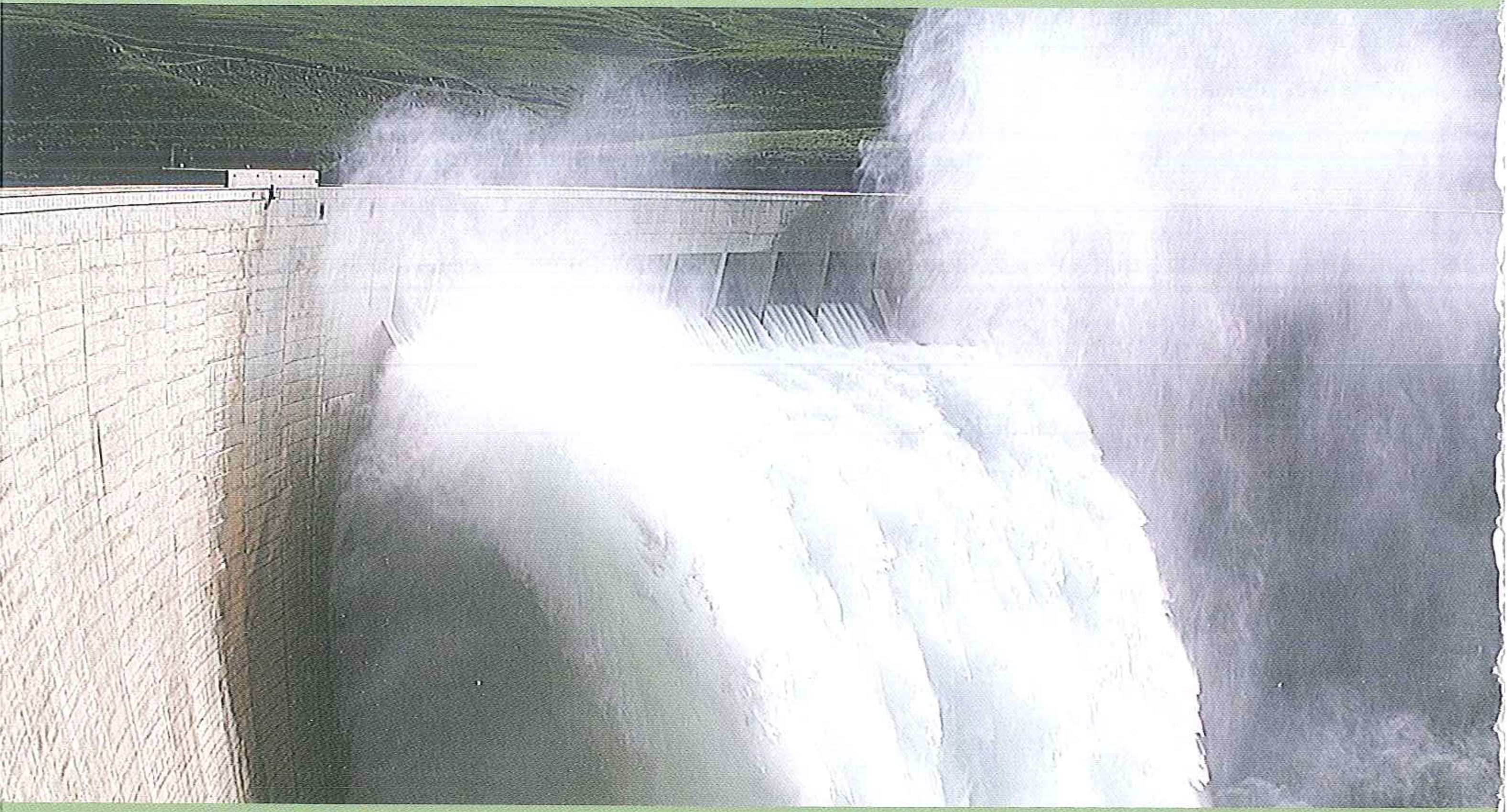
7. CONCLUSION

The Development and Operations Division has in general been able to meet the deliverables for the year.

BLASTING WORKS ALONG THE SENQU RIVER IN PREPARATION FOR THE CONSTRUCTION OF THE 3.8KM LONG ACCESS ROAD TO POLIHALI MEASURING WEIR.

CONTENTS

Annual Financial Statements for the Year Ended 31 March 2012



DIRECTORS	:	Mr. John J Eagar Mrs. Mamohale Matsoso Prof Ida Lulama Qalinge Mr Charles Morolo Mr Robert Mbwana Adv Shami Kholong Dr Motlatsi Mokhothu Mr Bereng Qhobela Mr Peter Makuta
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	:	Mrs P Nkofo (Acting)
COUNTRY OF INCORPORATION	:	Lesotho
LEGAL FORM	:	Authority
PRESENTATION CURRENCY	:	Maloti

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 Authority 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 22 to 48 were approved by the Board of Directors and signed on behalf of the Board by:

J EAGAR
Chairman

DATE

PR MAKUTA
Acting Chief Executive

DATE

MNM Chartered Accountants & INTERNAL AUDITORS

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

Report on the Financial Statements

We have audited the annual financial statements of **The Lesotho Highlands Development Authority**, which comprise the statement of financial position as at **31 March 2012**, and the statement of comprehensive income, the statement of changes in equity and statement of cash flow for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory notes, as set out on pages **22 to 47**

Director's Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 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 2012**, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

MNM CHARTERED ACCOUNTANTS
10 October 2012

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	Notes	2012 M'000	2011 M'000
Revenue		—	45 699
Other Income		21 051	18 091
Total Income		**21 051**	**63 790**
Foreign Gains/(Losses)		(5 228)	(86 331)
Construction and Contractor Costs		(8 166)	(15 193)
Depreciation		(306 340)	(306 983)
Resettlement and Compensation Costs		(10 865)	(12 105)
Salaries and Wages		(57 719)	(59 381)
Other Administrative and Operating Expenditure		(80 414)	(32 456)
Operating Loss	2	**(447 681)**	**(448 659)**
Finance Income		8 330	7 515
Finance Cost		(17 725)	(91 847)
Loss for the year		**(457 076)**	**(532 991)**

Other Comprehensive Income

Allocation of loss as per cost allocation report

	2012 M'000	2011 M'000
Capital work in progress – 1A Water Transfer	27 446	36 342
Capital work in progress – 2A Water Transfer	2 443	278
Capital work in progress – 1A Ancillary Development	5 324	1 559
Capital work in progress – 1B Water Transfer	43 586	115 267
Capital work in progress – 1B Ancillary Development	1 250	3 109
Capital work in progress – 2A Hydropower	2 065	—
Hydropower accumulated loss	76 856	21 203
Government of South Africa Capital Fund	298 106	355 233
	457 076	**532 991**

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

	Notes	2012 M'000	2011 M'000
ASSETS			
Non-Current assets		**10 644 665**	**10 933 228**
Completed Works and Capital Work in Progress	3	10 629 420	10 916 045
Investment Property	4	15 245	17 183
Current Assets		**178 896**	**182 520**
Contract Advance Payments	5	4	4
Trade and Other Receivables and Prepayments	6	9 793	8 490
Cash and Cash Equivalents	7	169 099	174 026
Total Assets		**10 823 561**	**11 115 748**
FUNDS AND LIABILITIES			
Funds and Reserves		**10 163 843**	**10 421 596**
Capital Funds		10 495 068	10 675 965
Accumulated Loss – Hydropower		(331 225)	(254 369)
Non-Current Liabilities		**512 011**	**539 148**
Loans and Borrowings	8	194 541	238 041
Provisions	9	317 470	301 107
Current Liabilities		**147 707**	**155 004**
Contract Payables and Accruals	10	6 210	5 144
Contract Retentions	10	965	735
Provisions	9	19 256	26 142
Trade and Other Payables and Accruals	11	65 569	55 000
Current Portion of Loans and Borrowings	8	55 707	67 983
Total Funds and Liabilities		**10 823 561**	**11 115 748**

	Government of Lesotho M'000	Government of South Africa M'000	Total M'000
CAPITAL FUNDS			
Balance at 31 March 2010	**793 423**	**8 936 105**	**9 729 528**
Amounts refunded	(65 408)	—	(65 408)
Cost related payments amounts provided			
– Hydropower and Ancillary Development	61 500	—	61 500
– Water Transfer	—	1 462 133	1 462 133
Transfer from Capital Work in Progress	(4 668)	(151 887)	(156 555)
Transfer from Statement of Comprehensive Income	—	(355 233)	(355 233)
Balance at 31 March 2011	**784 847**	**9 891 118**	**10 675 965**
Amounts refunded	—	—	—
Cost related payments amounts provided			
– Hydropower and Ancillary Development	52 380	—	52 380
– Water Transfer	—	146 943	146 943
Transfer from Capital Work in Progress	(8 639)	(73 475)	(82 114)
Transfer from Statement of Comprehensive Income	—	(298 106)	(298 106)
Balance at 31 March 2012	**828 588**	**9 666 480**	**10 495 068**

	2012 M'000	2011 M'000
ACCUMULATED LOSS – HYDROPOWER		
Income	7 556	48 090
Less: Cost of sales	(84 412)	(69 293)
Operations and maintenance costs	(45 355)	(29 622)
Financing costs	—	—
Depreciation	(39 057)	(39 671)
Net profit/(loss) for the year	(76 856)	(21 203)
Accumulated loss at the beginning of the period	(254 369)	(233 166)
Accumulated loss at the end of the period	(331 225)	(254 369)

	Notes	2012 M'000	2011 M'000
CASH FLOW FROM OPERATING ACTIVITIES			
Net Cash Inflow/(Outflow) from Operating Activities		**(43 134)**	**(104 480)**
Hydropower – net profit/(loss) for the year		(76 856)	(21 203)
Water transfer – deficit for the year		(298 106)	(355 233)
		(374 962)	(376 436)
Add: Depreciation		306 340	306 983
Finance Charges		17 725	91 847
		(50 897)	22 394
(Increase)/Decrease in Advance Payments		—	—
(Increase)/Decrease in Trade and Other Receivables and Prepayments		(1 303)	15 735
Increase/(Decrease) in Provisions		9 477	7 846
Increase/(Decrease) in Contract Payables and Accruals		1 066	(1 633)
Increase/(Decrease) in Retentions		230	160
Increase/(Decrease) in Trade and Other Payables and Accruals		10 569	(19 660)
Increase/(Decrease) in Current Portion of Loans and Borrowings		(12 276)	(129 322)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net Cash Inflow/(Outflow) from Investing Activities		**(99 891)**	**(164 208)**
Additions to Assets		(18 583)	(8 056)
Proceeds on disposal of Assets		806	403
Expenditure Transferred to Funds		(82 114)	(156 555)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net Cash Inflow/(Outflow) from Financing Activities		**138 098**	**317 779**
Government of Lesotho		52 380	(3 908)
Government of Republic of South Africa		146 943	1 462 133
Increase/(Decrease) in Loans and Borrowings		(43 500)	(60 674)
Finance Charges		(17 725)	(91 847)
Increase/(Decrease) Funds from Capital Market		—	(987 925)
Net (Decrease)/Increase in Cash and Cash Equivalents		**(4 927)**	**49 091**
Cash and Cash Equivalents at the beginning of the period		174 026	124 935
Cash and Cash Equivalents at the end of the period	7	**169 099**	**174 026**

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).

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 for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011:

Standard number	Standard name	Effective date
IAS 24	Related Party Disclosures (amended)	1 January 2011
IFRIC 14	Prepayments of a Minimum Funding Requirement	1 January 2011
Improvements to IFRSs		
IFRS 1	Accounting policy changes in year of adoption; revaluation basis as deemed cost; and use of deemed cost for operations subject to rate regulation.	1 January 2011
IFRS 3	Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS; measurement of non-controlling interests; and un-replaced and voluntarily replaced share-based payment awards.	1 July 2010
IFRS 7	Clarification of disclosures.	1 January 2011
IAS 1	Clarification of statement of changes in equity.	1 January 2011
IAS 27	Transition requirements for amendments arising as a result of IAS 27.	1 July 2010
IAS 34	Significant events and transactions.	1 January 2011
IFRIC 13	Fair value of award credits.	1 January 2011

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

IAS 24 RELATED PARTY TRANSACTIONS (AMENDMENT)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The impact was disclosed in note 16.

IFRIC 14 PREPAYMENTS OF A MINIMUM FUNDING REQUIREMENT (AMENDMENT)

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Authority does not have any defined benefit plans and as such was not impacted by this amendment.

1. ACCOUNTING POLICIES (CONTINUED)

1.2 Changes in Accounting Policies (continued)

IMPROVEMENTS TO IFRSS

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of LHDA

- IFRS 3 Business Combinations: The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets.
  All other components are to be measured at their acquisition date fair value (see Note 5).
- IFRS 7 Financial Instruments – Disclosures: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.
- IAS 1 Presentation of Financial Statements: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of LHDA

- IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
- IFRS 3 Business Combinations (Un-replaced and voluntarily replaced share-based payment awards)
- IAS 27 Consolidated and Separate Financial Statements – Transition requirements for amendments arising as a result of IAS 27.
- IAS 34 Interim Financial Statements – Significant events and transactions.

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of LHDA

- IFRIC 13 Customer Loyalty Programmes (determining the fair value of award credits)

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, on the assumption that payments are made at the beginning of the year. 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.
The carrying amount of compensation at 31 March 2012 amounts to M 330 792 000.

1. ACCOUNTING POLICIES (CONTINUED)

1.3 Significant Accounting Judgments and Estimates (continued)

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.

1.4 Summary of Significant Accounting Policies

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

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

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

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

PROPERTY, PLANT AND EQUIPMENT – WORK-IN-PROGRESS
Costs incurred on the implementation and construction of the Lesotho Highlands Water Project, including costs incurred prior to the establishment of the Authority on 24 October 1986, but excluding the cost of operations, are capitalised and shown as fixed assets work-in-progress. Hydropower and water transfer components are transferred to completed works when the work is completed, whilst ancillary development costs are transferred to the capital fund. After completion such costs capitalized to work-in-progress are transferred to the capital funds.

These costs comprise all attributable costs of bringing the asset or group of assets to working condition for their intended use, and include inter alia:

(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.

1. ACCOUNTING POLICIES (CONTINUED)

1.4 Summary of Significant Accounting Policies (continued)

PROPERTY, PLANT AND EQUIPMENT – WORK-IN-PROGRESS (CONTINUED)

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 reporting 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.

1. ACCOUNTING POLICIES (CONTINUED)

1.4 Summary of Significant Accounting Policies (continued)

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.

OFFSETTING OF FINANCIAL INSTRUMENTS
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.

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.

1. ACCOUNTING POLICIES (CONTINUED)

1.4 Summary of Significant Accounting Policies (continued)

FOREIGN CURRENCY TRANSLATION (CONTINUED)

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.

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.

1. ACCOUNTING POLICIES (CONTINUED)

1.4 Summary of Significant Accounting Policies (continued)

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:

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).

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. During the prior a new arrangement was entered into which resulted is in income from electricity sales no longer accruing to LHDA but directly to the Government of Lesotho.

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.

1. ACCOUNTING POLICIES (CONTINUED)

1.4 Summary of Significant Accounting Policies (continued)

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.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.T he difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

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.

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

Standard number	Standard name	Effective date
IAS 1	Amendments to IAS 1	1 July 2012
IAS 27	Separate Financial Statements	1 January 2013
IFRS 7	Financial Instruments: Disclosures	1 July 2011
IFRS 12	Disclosure of Interest with Other Entities	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013
IFRS 1	Application of IFRS 1 where an entity has previously applied IFRS; and Treatment of borrowing costs capitalised under previous GAAP.	1 January 2013
IAS 1	Clarification of the requirements for comparative information.	1 January 2013
IAS 16	Classification of servicing equipment.	1 January 2013
IAS 34	Clarification of interim financial reporting and segment information for total assets and liabilities.	1 January 2013
IFRS 7	Financial Instruments: Disclosures	1 January 2013
IFRS 9	Financial Instruments	1 January 2013

1. ACCOUNTING POLICIES (CONTINUED)

1.4 Summary of Significant Accounting Policies (continued)

FUTURE CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Standards issued but not yet effective (continued)
IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income
The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Authority's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 27 Separate Financial Statements (as revised in 2011)
As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Authority does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Authority's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Authority's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Authority's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Authority will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 12 Disclosure of Interest with Other Entities
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities.A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Authority is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

2. OPERATING LOSS

	2012 M'000	2011 M'000
Operating Loss is stated after:		
Expenses		
Auditor's Remuneration	858	814
Construction and Contractor Costs	8 166	15 193
Depreciation	306 340	306 983
Finance Charges	17 725	91 847
Foreign Exchange (Gain)/Loss	5 228	86 331
Resettlement and Compensation Costs	10 865	12 105
Staff Costs – Short Term Benefits	57 719	59 381
Investment income	4 800	4 780
Rental expenses	320	305

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 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)
Reclassification					
Cost	—	—	(5 517)	5 517	—
Accumulated depreciation	—	—	10	(10)	—
Transfer from Work in Progress	—	—	—	—	—
Additions	—	—	—	7 210	7 210
Depreciation	(17 849)	(17 714)	(263 204)	(6 220)	(304 987)
Disposal/donation of assets	—	—	—	(2 404)	(2 404)
Accumulated Depreciation on disposed assets	—	—	—	2 001	2 001
CARRYING VALUE AT 31 MARCH 2011	**682 375**	**228 435**	**9 971 096**	**33 143**	**10 915 049**
Cost	893 077	443 132	13 169 200	54 116	14 559 525
Accumulated Depreciation	(210 702)	(214 697)	(2 748 467)	(20 973)	(3 194 839)
Taxes Refundable by the Government of Lesotho	—	—	(449 637)	—	(449 637)
Reclassification					
Cost	(3 968)	—	(7 582)	11 550	—
Accumulated depreciation	3 570	—	(442 901)	(10 319)	(449 650)
Protocol Taxes	—	—	449 637	—	449 637
Transfer from Work in Progress	—	—	164	—	164
Additions	—	—	4 022	7 528	11 550
Depreciation	(17 819)	(17 761)	(263 806)	(5017)	(304 403)
Disposal/donation of assets	—	—	—	(2 178)	(2 178)
Accumulated Depreciation on disposed assets	—	—	—	1 386	1 386
CARRYING VALUE AT 31 MARCH 2012	**664 158**	**210 674**	**9 710 630**	**36 093**	**10 621 555**
Cost	889 109	443 132	13 165 804	71 016	14 569 061
Accumulated Depreciation	(224 951)	(232 458)	(3 455 174)	(34 923)	(3 947 506)
Taxes Refundable by the Government of Lesotho	—	—	—	—	—
The useful life of the assets is estimated as follows:	50	25	50	3 – 5	

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

WORK IN PROGRESS

	Hydropower M'000		Ancillary Development M'000		Water Transfer M'000			Operations & Maintenance M'000	Total M'000
	Phase 1A	Phase 2A	Phase 1A	Phase 1B	Phase 1A	Phase 1B	Phase 2A		
CARRYING VALUE AT 31 MARCH 2010	—	—	—	—	—	—	—	**150**	**150**
Prior Year Reallocations	—	—	—	—	—	—	—	846	846
Cost Allocation	—	—	1 559	3 109	36 342	115 267	278	—	156 555
Transferred to Capital Funds	—	—	(1 559)	(3 109)	(36 342)	(115 267)	(278)	—	(156 555)
CARRYING VALUE AT 31 MARCH 2011	—	—	—	—	—	—	—	**996**	**996**
Cost	1 335 343	—	635 513	222 278	8 454 606	115 267	278	17 066	9 445 008
Total transferred to Completed Works/Capital funds	(1 335 343)	—	(635 513)	(222 278)	(8 055 390)	(115 267)	(278)	(16 916)	(9 045 642)
Work in progress during the year	—	—	—	—	—	—	—	846	846
Taxes Refundable by the Government of Lesotho	—	—	—	—	(399 216)	—	—	—	(399 216)
Cost Allocation	—	2 065	5 324	1 250	27 446	43 586	2 443	—	82 114
Transferred to Capital Funds	—	(2 065)	(5 324)	(1 250)	(27 446)	(43 586)	(2 443)	—	(82 114)
Work in progress during the year	—	6 076	14	270	—	—	—	673	7 033
Transfer to Completed works	—	—	—	—	—	—	—	(164)	(164)
CARRYING VALUE AT 31 MARCH 2012	—	**6 076**	**14**	**270**	—	—	—	**1 505**	**7 865**
Cost	1 335 343	2 065	640 837	223 528	8 482 052	159 123	2 721	17 912	10 863 581
Total transferred to Completed Works/Capital funds	(1 335 343)	(2 065)	(640 837)	(223 528)	(8 482 052)	(159 123)	(2 721)	(17 080)	(10 862 749)
Work in progress during the year	—	6 076	14	270	—	—	—	673	7 033
Taxes Refundable by the Government of Lesotho	—	—	—	—	—	—	—	—	—

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.
The cost amount of assets fully depreciated, but still in use amounts to M 3 174 429.

4. INVESTMENT PROPERTY

	Total M'000
NET BOOK VALUE 31 MARCH 2010	**19 180**
Prior Years Movements:	
Additions	—
Disposals	—
Depreciation	(1 997)
NET BOOK VALUE 31 MARCH 2011	**17 183**
Assets at Cost	22 547
Accumulated Depreciation	(5 364)
Current Years Movements:	
Additions	—
Disposals	—
Depreciation	(1 938)
NET BOOK VALUE 31 MARCH 2012	**15 245**
Assets at Cost	22 547
Accumulated Depreciation	(7 302)

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. No indicators of impairment were identified.

5. CONTRACT ADVANCE PAYMENTS

	2012 M'000	2011 M'000
Contract Advance Payments	4	4
Provision for Doubtful Debts	—	—
	4	**4**

6. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2012 M'000	2011 M'000
Trade Debtors	6 080	7 142
Staff Debtors	22	6
Value Added Taxation	3 669	141
Other Receivables and Prepayments	5 469	6 807
Provision for Doubtful Debts	(5 447)	(5 606)
	9 793	**8 490**

For terms and conditions relating to related party receivables, refer to Note 16.
Trade receivables are non-interest bearing and are generally on 30 day terms.
As at 31 March 2012, trade receivables and other receivables at initial value of M 5 447 000 (2011: M5 606 000) were impaired and fully provided for.

AT 31 MARCH 2012, 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
2011	7 142	—	1 986	(2)	226	242	4 690
2012	6 080	—	(3)	522	404	179	4 978

7. CASH AND CASH EQUIVALENTS

	2012 M'000	2011 M'000
Cash at Bank	169 007	173 939
Cash on Hand	92	87
	169 099	**174 026**

CURRENCY ANALYSIS		
US Dollar	—	—
Maloti	169 099	174 026
	169 099	**174 026**

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 M169 099 000 (2011: M174 026 000).

8. LOANS AND BORROWINGS

	2012 M'000	2011 M'000
Non-Current Portion	194 541	238 041
Current Portion	55 707	67 983
	250 248	**306 024**
CURRENCY ANALYSIS		
Euro	173 269	104 559
Rand	68 619	189 167
US Dollar	8 360	12 298
	250 248	**306 024**
INTEREST BEARING STATUS		
Interest-bearing	250 248	306 024
Non-interest bearing	—	—
	250 248	**306 024**
MATURITY PROFILE		
Within One Year	55 707	67 983
Between Two and Five Years	122 132	162 222
More than Five Years	72 409	75 819
	250 248	**306 024**

8. LOANS AND BORROWINGS (CONTINUED)

		Effective Interest Rate%	2012 M'000	2011 M'000
	TRANS CALEDON TUNNEL AUTHORITY DEBT SERVICE LOANS			
Institution	*Offshore loans*			
HSBC	Repayable in semi-annual instalments ending July 2012	1.78%	11 661	32 861
Credit Lyonnais	Repayable in semi-annual instalments ending July 2012	5.73%	5 781	16 290
World Bank	Repayable in semi-annual instalments ending May 2013	0.94%	8 360	12 298
European Investment Bank	Repayable in semi-annual instalments ending January 2018	3%	51 177	55 407
European Investment Bank	Repayable in semi-annual instalments ending March 2018	Libor	55 464	64 708
European Investment Bank	Repayable in semi-annual instalments ending September 2018	Libor	36 477	42 089
	Common Monetary Area Loans			
DBSA	Repayable in semi-annual instalments ending March 2016	7%	1 112	1 175
DBSA	Repayable in semi-annual instalments ending September 2012	12%	—	1 189
DBSA	Repayable in semi-annual instalments ending September 2021	12.23%	791	764
DBSA	Repayable in semi-annual instalments ending September 2021	10.92%	2 934	2 857
DBSA	Repayable in semi-annual instalments ending March 2022	10.68%	30 746	30 573
DBSA	Repayable in semi-annual instalments ending March 2022	12.12%	17 709	17 490
DBSA	Repayable in semi-annual instalments ending March 2022	12.96%	2 182	2 094
DBSA	Repayable in semi-annual instalments ending September 2022	Jibar	25 854	26 229
	Total		**250 248**	306 024
	GOVERNMENT OF LESOTHO DEBT SERVICE LOANS			
Institution	*Offshore loans*			
	Common Monetary Area Loans			
DBSA	Repayable in semi-annual instalments ending March 2015	13%	12 906	13 450
DBSA	Repayable in semi-annual instalments ending September 2019	13%	2 109	2 049
Government of Lesotho	Muela Re-financing by the Government of Lesotho		(15 015)	(15 499)
	Total		—	—
	Grand Total		**250 248**	**306 024**

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.

9. PROVISIONS

	Future Compensation M'000	Contract Claims M'000	Severance Pay M'000	Leave Pay M'000	Total M'000
Balance at 31 March 2010	**311 812**	**511**	**5 002**	**2 078**	**319 403**
Additional Provisions made during the year	**7 678**	**449**	**4 747**	**2 098**	**14 972**
Amounts used	—	—	(5 002)	(2 124)	(7 126)
Balance at 31 March 2011	**319 490**	**960**	**4 747**	**2 052**	**327 249**
Additional Provisions made during the year	11 302	—	3 565	1 880	16 747
Amounts used	—	(471)	(4 747)	(2 052)	(7 270)
Balance at 31 March 2012	**330 792**	**489**	**3 565**	**1 880**	**336 726**

	2012 M'000	2011 M'000
Non-Current	317 470	301 107
Current	19 256	26 142
	336 726	**327 249**

PROVISION FOR FUTURE COMPENSATION

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

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

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 resolutions 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.

10. CONTRACT PAYABLES AND ACCRUALS

	2012 M'000	2011 M'000
Contract Creditors	832	802
Contract Accruals	5 378	4 342
	6 210	**5 144**
Contract Retentions	965	735
	7 175	**5 879**

11. TRADE AND OTHER PAYABLES AND ACCRUALS

	2012 M'000	2011 M'000
Trade payables	3 106	2 525
Staff payables	3	2
Accrued interest on loans	522	592
Other payables	20 116	21 803
Accruals for future compensation	41 822	30 078
	65 569	**55 000**

No maturity analysis of need be disclosed for the financial liabilities in Note 10 and 11 as all the Authority's financial assets and liabilities are expected to mature within a twelve-month period.

12. FORWARD COVER

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

13. 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 42 413 293 (2011: M64 271 970). A contingent liability may be required for the downstream reaches 7 & 8. The amount is unknown. 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.

For the start up of phase 2, new contracts have been approved and some entered into. The following commitments have been approved and not yet contracted at year end: M160 890 000 (2011: —) The following contracts have been approved and contracted: M 10 900 920 (2011: M—)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

GENERAL RISK MANAGEMENT PRINCIPLES

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

FAIR VALUE ESTIMATION

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been identified as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Techniques which use inputs for the asset or liability that are not based on observable market data (that is unobservable inputs) (level 3)

The following table presents the Authority's financial assets and liabilities that are measured at fair value at 31 March 2012:

	Level 1	Level 2	Level 3	Total Balance
Assets	—	—	—	—
Liabilities	—	—	—	—

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 accepted 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
2011		
Euro	+10%	10 456
US Dollar	+10%	1 230
Euro	-10%	(10 456)
US Dollar	-10%	(1 230)
2012		
Euro	+10%	6 862
US Dollar	+10%	836
Euro	-10%	(6 862)
US Dollar	-10%	(836)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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
2011		
Trans Caledon Tunnel Authority Debt Service Loans		
Offshore Loans	+200	2 197
Common Monetary Area Loans	+200	525
Trans Caledon Tunnel Authority Debt Service Loans		
Offshore Loans	-200	(2 197)
Common Monetary Area Loans	-200	(525)
2012		
Trans Caledon Tunnel Authority Debt Service Loans		
Offshore Loans	+200	1 540
Common Monetary Area Loans	+200	3 465
Trans Caledon Tunnel Authority Debt Service Loans		
Offshore Loans	-200	(1 540)
Common Monetary Area Loans	-200	(3 465)

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.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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 funding 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 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 8.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

	Carrying Amount		Fair value	
	2012 M'000	2011 M'000	2012 M'000	2011 M'000
FINANCIAL ASSETS				
Project taxes refunded by the Government of Lesotho	—	—	—	—
Contract Advance payments	4	4	4	4
Trade and Other receivables and prepayments	9 793	8 490	9 793	8 490
Cash and Cash Equivalents	169 099	174 026	169 099	174 026
FINANCIAL LIABILITIES				
Contract Payables and Accruals	6 210	5 144	6 210	5 144
Contract Retentions	965	735	965	735
Trade and Other payables and accruals	121 276	122 983	121 276	122 983
Long Term Liabilities	194 541	238 041	194 541	238 041

15. NUMBER OF EMPLOYEES

According to the payroll system the authority had the following average number of employees during the year ending 31 March 2012: 267 (2011: 320)

16. 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.

	2012 M'000	2011 M'000
AMOUNTS CREDITED TO THE STATEMENT OF COMPREHENSIVE INCOME OR FUND ACCOUNTS		
Sales of electricity to LEC	—	45 092
Sales of electricity to ESKOM	—	607
Cost related payments GOL	52 380	61 500
Cost related payments RSA	146 943	1 462 133
LOANS TO RELATED PARTIES AND OTHER ACCOUNTS RECEIVABLE		
Account receivable from LRA	—	141
Loans from related parties and other accounts payable		
Loans and accounts payable from related parties	—	2 010
COMPENSATION TO KEY MANAGEMENT PERSONNEL		
Short Term Employee Benefits	9 975	7 449
Total Compensation Paid to Key Management personnel	9 975	7 449
Amount outstanding at year end	222	—
BOARD FEES		
Board and sub committee fees including sitting and travel costs	1 341	878

No donations of Property, Plant and Equipment were made to the Government of Lesotho during 2011 and 2012.

All related party transactions are considered to be at arm's length.

17. 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:

	2012 M'000	2011 M'000
The following year:	777	4 646
Year 2 – Year 5	510	12 361
More than 5 years	—	—
	1 287	**17 007**

18. EVENTS AFTER THE REPORTING PERIOD

No fact or circumstance has taken place during the period from the statement of financial position date to the date of approval of the financial statements.

DETAILED STATEMENT OF COMPREHENSIVE INCOME

Annual Financial Statements for the Year Ended 31 March 2012

	2012 M'000	2011 M'000
REVENUE		
Electricity income	—	45 699
Investment Income	8 330	7 515
Profit on sale of assets	914	1 713
Miscellaneous income	15 337	11 598
Investment property income	4 800	4 780
Total Revenue	**29 381**	**71 305**
EXPENDITURE		
Asset donations to GOL	—	—
Audit and accounting fees	858	814
Bad debts	1 230	2
Bank charges	56	41
Board and committee fees including reimbursements	1 687	1 222
Construction and contractor costs	8 166	15 193
Depreciation	306 340	306 983
Foreign exchange loss/(gain)	5 228	86 331
Increase/(Decrease) in future compensation provision	22 087	6 704
Increase/(Decrease) in provision for contract claims	—	—
Insurance	2 816	2 720
Interest and finance expenses	17 725	91 847
Inventory and consumable stores	517	644
Leave pay	872	756
Legal and arbitration fees	1 852	2 035
Miscellaneous expenses	15 092	11 186
Motor vehicle expenses	2 524	2 632
Plant spares	2 420	942
Professional services	8 208	2 500
Provision for doubtful debts	(158)	(18 303)
Public relation costs	1 443	972
Rates, electricity and water	3 662	2 638
Recruitment	934	99
Rental expenses	320	305
Repairs and maintenance	4 810	5 005
Resettlement and compensation costs	10 865	12 105
Safety awareness	8	8
Salaries, wages and allowances	57 719	59 381
Security expense	4 369	3 975
Severance pay	—	—
Stationery	586	579
Telephone and communication	1 402	1 390
Training	884	1 354
Travel and transportation	1 935	2 236
Total Expenses	**486 457**	**604 296**
Loss for the year	**457 076**	**532 991**

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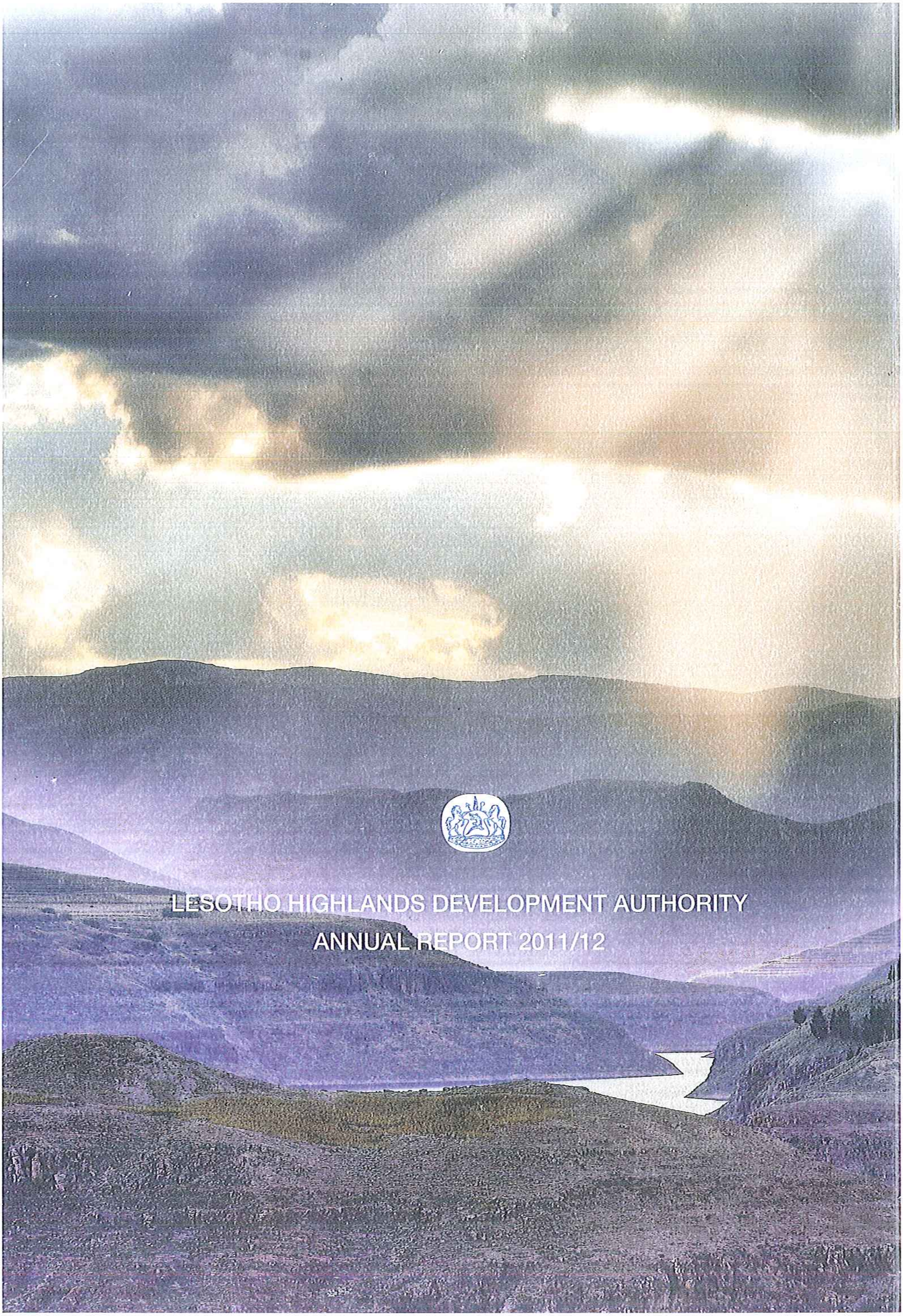
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