



LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY
ANNUAL REPORT 2010/11



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.*

MEMBERS OF THE BOARD



MR TEBOHO NKHAHE

Board Chairman

*MPhil. Environmental Management,
University of Stellenbosch - 2004
BSc. (National University of Lesotho) - 1989
Registered Professional Scientist –
Council for Natural Scientific Professions (RSA)
Member of the Institute of Directors
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MR JOHN JULIAN EAGAR
Deputy Board Chairman
Portfolio: Operations & Maintenance

BSc Civil Engineering,
University of Cape Town, 1966
Registered Professional Engineer
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Portfolio: Human
Resources Management

LLB (National University of
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MR LEON TROMP
Portfolios: Human Resources
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BSc. Eng. (Civil University of Natal, 1978
BEng. (Hons) University of Pretoria, 1985
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MR PETER MAKUTA
Acting Chief Executive
and Ex-officio Member of the Board

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



MR PIET SWART
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PROF LULAMA IDA QALINGE
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BA Social Work - University
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MA Social Work - University of Nebraska
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PhD - University of North West - 1999
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MR TS'IU KHATHIBE
Portfolio: Audit & Risk Management

B.Com Rhodes University, 1998
Postgraduate Diploma



MR RAMOKOATSI MOEA
Portfolio: Sustainable Development
(Stakeholder Representative)

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

CHAIRMANS STATEMENT



*Top: The Engineering Panel of Experts on the Mohale Dam -
Below: Royalty across the nations. The Principal Chief of Likhoele (second from left) welcomes the Principal Chief of Bafokeng (front row in the middle with black jacket) and his entourage from Rustenburg in South Africa, behind him is the Mohale Branch Manager.*



Yet another year has gone by, of successfully operating and maintaining this bi-national Lesotho Highlands Water Project (LHWP) transferring water to the Republic of South Africa, generating electricity for Lesotho and engaging in development activities. A fairly significant challenge in water deliveries was encountered due to an outage caused by faulty equipment in the delivery tunnel. The challenge was overcome by reallocating some 57 MCM of water to the next year. This did not affect the achievement of targets for royalties' revenue but electricity revenue resulted in a shortfall of about 13%. This shortfall will be compensated in the next year when the reallocated 57 MCM of water is delivered.

Good relations with stakeholders are important for the successful attainment of LHDA goals. The Board has noted the stakeholder rating of LHDA that remains satisfactory at 84% score reflecting perceptions of the people affected by the project. To continue to sustain an effective and efficient operations, a quarter of million Maloti was invested in training of staff and additional twenty seven positions were filled. To further improve effectiveness, LHDA started realizing the benefits of an investment in a compensation workflow system to improve service delivery of compensation to the affected households. Delivery on Environmental Action Plans (EAP) was at 69% against plan, and 61% of budget expenditure was spent. The slow implementation on the EAP Programme is a concern and Management will be reviewing a related implementation approach and strategies.

The issue of non-payment of communal compensation to majority Local Legal Entities remains unresolved and a long-

term compensation exit strategy to resolve the issue has not yet been agreed. Protracted negotiations to obtain closure of two contracts in Integrated Catchment Management and Socio Economic and Epidemiological Survey have not yielded results. The challenges are compounded by vacancies at key management positions which have been outstanding for a significant amount of time. In the coming year it is intended that the Project Authorities will ensure that individuals with appropriate skills and expertise are appointed into these key positions.

In order to improve on its corporate governance responsibilities, the Board adopted parts of the King III report on governance that are suitable for operations of the institution such as LHDA. A need to better manage the risks faced by the project lead to the Board's approval of a corporate risk register of twenty five top priority risks. Management is expected to report to Board on regular basis on progress made to mitigate these risks.

In preparation for the implementation of Phase II, LHDA came up with lessons learned from implementation of Phase 1 of the Project. It became clear from the introspection exercise that development of assets forming part of the implementation of the project has to take into account at the planning stage, inputs from institutions that will eventually manage them. The same goes for the communities that are affected by the project, that they should also be involved at the very early stages of selecting scheme options. Strategies and policies work well when they are less complex and depend on less data inputs. These lessons learned will help us to improve our policies and strategies as we go into Phase II of the LHWP.

May I congratulate Management and staff for their continuing efforts to maintain and operate the Project successfully. I also thank the Board members for their support and guidance during my tenure as chairman. May they likewise, give full support to the new chairman and succeed to steer the LHDA to a successful implementation of Phase II of the Project.

Teboho Nkhahle



CHIEF EXECUTIVE'S STATEMENT



It is with great pleasure that I once more reflect on our successes and challenges of the last year. I have to mention from the onset that our performance this year was overall good despite the many challenges we confronted.

An unplanned total 'Muela Hydropower station outage from 1st March 2011 to 23rd April 2011 to repair faulty equipment in the delivery tunnel caused reallocation of some 57 million cubic meters of water to the 2011/12 planning period, resulting in a 7.4% shortfall in deliveries. Nonetheless, corresponding royalties revenue of M 437.3 million exceeded target by 16.9% due to above target inflation on Eskom electricity prices which impact on the variable component of royalties revenue.

The same unplanned 'Muela station outage that affected water delivery operations led to a 9.7% shortfall in electricity generation which consequently reduced electricity revenue by 13%.

Due to the hydrological year which starts in October every year, hydrology and water quality data reported was for the period October 2009 to September 2010 hydrological year. Our hydrological measuring stations uptime is 58% while data completeness from the network was at 74% and both are below target of 80%. However, the complementary meteorological data was 97% for the same indicators.

Data revealed that total Phase 1A system inflows is about 906 MCM which is above the 780 MCM committed for delivery to South Africa. The water was also found to be of good quality and within set standards.

In order to maintain good bio-physical conditions, downstream of our dams, 158.19 MCM was released downstream of Katse Dam and that is 51% more than planned. The corresponding environmental releases for Mohale were 20% below target at 28.93 MCM as a result of restrictions in operating the Low Level outlet valve. Consequently, cumulative deficit from September 2006 to September 2010 is 87.34 MCM. A long term solution is being sought through revision of In-stream Flow Requirement Policy and Procedures.

According to the protocol to the Treaty on Principles and Procedure for the release of water from the Lesotho Highlands Water Project into the Caledon River for use by Lesotho or South Africa, an annual entitlement of 3.75 MCM is reserved in the LHWP scheme for the Caledon River system, to a cu-

mulative maximum of 15 MCM. A total of 6 MCM was released into the Caledon River for purposes of augmenting water supply to Maseru Town during the drought period of August to September 2010.

In recognition of the need to improve effectiveness of our compensation systems, a compensation and complaints workflow management system was commissioned. However, some teething problems were encountered that led to some delays in providing compensation. The immediate benefit of the system was reduction in year on year repeat in providing compensation to individuals who were not qualifying.

Communal compensation to Local Legal Entities (LLEs) remains a challenge to be resolved in the coming year. Virtually, all LLEs did not qualify to be paid compensation due to lack of annual audit reports which would indicate responsible use of compensation funds provided.

The LHDA Treaty requires that at least the livelihoods of affected communities should be maintained at the level of first impact. One way of improving livelihoods is provision of lump sum compensation to facilitate households to engage in income generating opportunities. However, it became difficult during the year to provide compensation since more focus was directed to improving competences in other processes. Consequently, lump sum compensation was prioritized to commence in the following year.

Although no studies have been undertaken to establish the benefits to local communities, artisan yellow fish and trout fishing is very common in the Katse and Mohale reservoirs providing much needed protein. The Katse Fish Farm which started piloting operations from the year 2006 provides jobs for a few locals and contributes to the GDP of the country. Production for the year was at 194 tons which is 52% growth rate from the previous year.

Katse and Mohale Dams together with the 'Muela Hydro Power station continue to attract tourists from all over the world with school children constituting 70% of visitors. Visitors from international countries were 8,000 of which 85% come from South Africa.

In conclusion, we acknowledge the difficult times ahead of us to implement Phase II of the Project and appreciate the trust bestowed to us by the Project Authorities to champion the works. We relish this opportunity by committing ourselves to live our vision and uphold values to ensure success in achieving targets of our new responsibilities.

I thank all who worked hard and contributed to achieving our goals for the year.

Thank you.

Peter Makuta



The Katse Fish Farm has developed into a successful business and has made trout the preferred dish at the Katse Lodge.



CHIEF EXECUTIVE'S DIVISION



The Katse Botanical Garden specialises in propagating indigenous plants and promotes them to Basotho and visitors alike, in accordance with the Environmental Action Plan.

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 is mainly responsible for strategy formulation, acting as a link with the main actors in the external environment and provision of the overall strategic leadership of the organization and ensuring that the LHDA's operations are in line with the mandate and the policies and procedures approved by the Governance structures.

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

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

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

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

The year saw Lesotho host the President of the Republic of South Africa, His Excellency Mr. Jacob Zuma and the eventual signing of the "Declaration of Agreement" document committing both parties on a path of cooperation towards a common goal – implementation of Phase 2. LHDA has been charged with the responsibility of implementing the Phase II works and it is making the necessary preparations.

2. Litigation

During the period under review, there were twenty five cases which were filed in the courts of law against the Lesotho Highlands Development Authority. Of the twenty five cases, the LHDA was able to successfully defend against seven while four were amicably settled out of court. Nonetheless, two cases were not decided in LHDA's favour while the remaining twelve were pending at different stages in the courts of law. This brought LHDA to 69% success rate on litigation issues which is consistent with the target of 70%.

The cases were from different sources. Fourteen of the reported cases related to internal LHDA grievances by staff. Further three cases were to do with compensation and the rest of the eight cases were by other external parties.

3. Identification of LHDA land acquired during Phase 1

Sixty percent (60%) of LHDA's land that was acquired during the implementation of Phase I of the Lesotho Highlands Water Project was identified during a verification exercise. The Identification of the remaining forty percent (40%) is still going on. The idea is to geo-reference the property through surveys and to formally acquire the property by securing appropriate documents from land authorities.

4. Internal Audit

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

Every year, the Audit and Risk Management Committee approves an annual risk-based audit plan. This plan covers all major risks emanating from LHDA's risk management processes. The risk-based audit plan is based on changes in the Authority's risk profile and

control environment to ensure that the audit coverage focuses on areas of high risk. During the reporting period, the scope of Internal Audit was extended to include Fraud Risk Management and investigations.

Furthermore, the LHDA Fraud Risk Management Policy was finalized and is awaiting approval by the Board for it to be implemented. The Fraud Risk Management Policy complements the measures taken in the development of Corporate Risk register. This is a proactive stance in managing fraud related risks.

During the year under review there were no material areas of non-compliance with LHDA's legislative framework, nor was there any non-compliance in relation to the LHDA's obligations under the various loan agreements. Save for minor deficiencies in some business operations, there were no material breaches of controls that were uncovered.

5. Stakeholder Relations

The Organisation held the LHDA Annual Stakeholders' Conference to establish what had been achieved from the 2009 conference and to assess the extent to which LHDA was able to satisfy its stakeholders. In this year's conference, LHDA received a rating of 84% from the external stakeholders' which is lower than 87% rating that LHDA received in 2009.

This main stakeholders' conference was preceded by three (3) mini review conferences which were held at the LHDA Branches at Muela, 'Muela and Katse where the Branches received scores of 83%, 82% and 63% respectively.

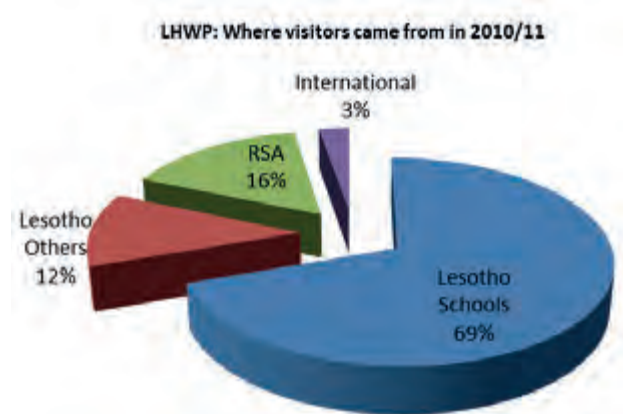
The conferences serve as a platform for feedback from stakeholders on how they perceive LHDA's interventions and service delivery. As a result, LHDA is expected to recognize its shortcomings and develop corrective measures that will improve the overall organization's performance.

Very popular with the tourists, a ride on the banks of the Katse Dam.



6. Visits to the Lesotho Highlands Water Project areas

The spectacular scenery around the LHWP Dams is contributing to the exploitation of ecotourism potential of the country which positively contributes to the Nation Poverty Reduction Strategy. The number of visitors to the LHWP areas is increasing annually. The number of visitors has increased by 5,103 from the previous year to 43,103 in the current reporting period. Most of the visitors were from schools from the country contributing 69% of visitors. The geographic distribution of visitors is as follows:



The Katse Dam Information Centre.



STRATEGIC AND CORPORATE SERVICES DIVISION

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.

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

2. PROGRESS MADE DURING THE REPORTING PERIOD

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

2.1.1. Planning parameters

The 2011 annual water delivery schedule was finalised in December 2010 in line with project covenants and it was later revised in April 2010 to incorporate LEC revised load demand patterns. The planned deliveries for 2011 are 780 MCM which is in line with the assessed yield of the catchments from which the Lesotho Highlands Water Project.

2.1.2. Water Quality

The general water quality status of water stored in the LHWP reservoirs is assessed based on 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 5.1m during the reporting period and this indicates that clarity of water is high. Annual chlorophyll-a concentration averaging 4.3 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. KFA 2: To ensure efficient and cost effective production of electricity for Lesotho.

2.2.1. Bulk Energy Tariffs

Thee 'Muela bulk electricity tariff remains competitive in the region at an average of 12 lisente per kWh. This price is as a result of a moratorium on increases in this price, which has been in force since 2003. Efforts are underway to adjust the price to current price levels.

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

2.3.1. Compensation payments backlog

Due to the implementation of new workflow compensation system in June 2010, a lot of outstanding compensation from 2009 was not paid during the reporting period. Priority was directed on ensuring that other scheduled processes were not interrupted as much as possible. Backlog payments were therefore shifted to the following reporting year.

2.3.2. 2010 Annual compensation

Both annual cash and grain compensation were delivered on time. However, 30% of households did not collect their grain compensation for the year while cash compensation was not received by only 9% of households.

From left to right: Transport of a different kind, - Winter in the Highlands unique in Africa, - Fantastic view from the top of the Mafika lisiu pass, 3,090 meters above sea level and overlooking the Mphosong valley., - A herd boy with the "Sekhankhula", the Lesotho one string guitar.



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

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

2.4.1. C1255 Zonation Plan

The zoning plan was conceived to draw up a plan for Katse and Mohale reservoirs, which will identify optimal zones for tourism, major and minor developments and other community facilities that are likely to develop and to prescribe regulations for development within these zones. Machobane and Associates consultant was engaged to revise an earlier plan by FMA/LVA Joint Venture. The revision was finalised in January 2010 and an implementation plan was work-shopped with relevant stakeholders. The recommended implementation strategy is being pursued with the Ministry of Natural Resources who has been identified as the main sponsor.

2.4.2. C1204 Socio-economic and epidemiology study

The purpose of the study was to make a follow-up assessment of the livelihoods of the communities affected by the project. The study was commissioned in 2005 for fifteen (15) months to August 2006 by the Human Science Research Centre (HSRC). The Consultant submitted the main study report in Jan 2010 for the areas upstream of Katse and Mohale Dams and LHDA has accepted report. However, there are some key findings and recommendations that are outstanding with regard to areas downstream of the two dams before the full benefits of the study can be realized. Although the submission of the remainder of the reports is way behind schedule, the expectation is that the reports will be submitted in due course.

2.4.3. Tourism Development

LHDA constructed thatched chalets at Liphofung (5), Tšehlanyane (4) and Bokong (5) for tourism and hospitality purposes. The chalets at Liphofung and Tšehlanyane were handed over to the Ministry of Tourism, Environment and Culture. In addition, the remodelling and renovations of the Katse Information Centre was carried out as well as the construction of the reception building at the Katse Botanical Garden.

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

2.5.1. Public Health

Although a public health policy to guide LHDA in the post construction phase is under review, the Organisation is continuing to discharge its responsibilities in primary medical and comprehensive health care programmes in the Mohale catchment area. About 800 children were provided with primary medical health services that included vaccination for measles. Additional 550 people were provided with HIV counselling and testing which led to 234 individuals benefiting from antiretroviral (ARV) treatment to prolong their lives.

As part of the promotion of good hygiene and to maintain good quality water in the LHWP reservoirs, comprehensive health care and monitoring was carried out in 28 villages and 25 schools to ensure proper usage of sanitation facilities.

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

2.6.1. In stream Flow Requirements (IFR) releases

During the year, a total of 158.2 MCM was released downstream of the Katse Dam for IFR purposes against the target of 104.5 MCM. The excess releases were as a result of spillage from the dam resulting from excessive rains during the summer period.



STRATEGIC AND CORPORATE SERVICES DIVISION

Releases from Mohale Dam of 28.9 MCM were however below the target of 36.2 MCM due to limitations in dam design that does not allow flood, thus, the increase in cumulative IFR deficit came to 87.34 from September 2006 to September 2010.

2.6.2. Integrated Catchment Management

The aim of the project was to promote dialogue with communities on resource management and long term social and economic development through active community involvement. By the end of the project undertaken by SMEC International, eleven standing committees and two catchment management forums were established to ensure continued sustenance of the programme. The ICM activities were transferred to the Field Operations Branches. The study has recommended that LHDA needs to actively support the institutions established by the project, retain the ICM counter-part staff for smooth continuity of the programme, review catchment plans bi-annually, continue to train and encourage adaptation of ICM approach and undertake socio economic surveys bi-annually.

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

2.7.1. 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.

2.7.2. Information Systems

LHDA's Information and Communication Technology strategy provides for planning, maintaining and supporting corporate wide infrastructure and software. Progress on current initiatives is tabulated below.

Table 1: Project Status Report

Project	Budget/ Contract (M)	YTD Expenditure (M)	Status
Accelerators	300,000.00	303,000.00	All the bandwidth being paid for, now fully utilized; Applications are all working fine now, and Internet is faster and modular.
Workflow	2,550,000.00	2,608,906.12	Process is fully automated. Reports will be used for monitoring.
Library Web publisher	110,000.00	123,492.00	Documents are now accessible from the intranet. The number of documents published on the intranet are as follows: 10660 at Maseru; 8 at Muela; 3 at Katse and 3 at Mohale
Voice Over IP	500,000.00	0.00	It is Working in Muela and HQ, though HQ traffic sometimes experiences cuts due to congestion. More bandwidth for HQ has already been included in 2011/12 budget. A plan is to deploy for site-to-site communication. Mohale and Katse to be implemented on the 14th of Feb and payment shall only be done afterwards.
SAGE Upgrade	802,000.00	715,881.98	New SAGE configuration complete. Need to be diligently deployed into the live environment.
MS Project 2010	268,400.00	230,477.00	Results may be more evident during Phase II implementation.
Document Scanning	700,000.00	241,200.00	None
VIP	0.00	0.00	Situational Analysis complete



2.7.3. Human Resources Management

The LHDA's approved structure has 261 positions, though at present the total head count is 278 employees. This is because of students engaged to meet our social responsibility obligations. There are also individuals that have been engaged in temporary positions that address specific short term needs. The net outflow of staff during the year was 3 staff members. The movement in the year brings the total number of vacancies to 37 up from 24 the previous year end. Table 2 below provides end-of- year establishment.

Table 2 below shows the status of the filled positions by Branches.

Table 2: LHDA Establishment

Branch	Total
Office of the Chief Executive	18
Office of Divisional Manager – Development and Operations	6
Office of Divisional Manager – Strategic and Corporate Services	2
Monitoring and Evaluation Branch	28
Integrated Planning Branch	12
Information System Branch	14
Katse Operations Branch	51
'Muela Operations Branch	45
Mohale Operations Branch	58
Human Resources Branch	7
Finance Branch	37
TOTAL	278

3.0 CONCLUSION

The overall assessment of Environmental Action Plans (EAPs) performance in 2010/11, which has been reported in section 2 above, has been relatively better compared to that of the previous year. A number of programs have managed to attain 70% or more of their planned targets. However, on average, the overall performance on the implementation of EAP programs/projects is 69%. This is consistent with the expected LHDA strategic plan target of 70% for the year. Financial performance is rated 61%. This performance is lower than expected as some of the planned projects have not been implemented during the period under review.

Key objectives of the Environmental Action Plans (EAPs) are;

- To compensate and resettle affected communities such that their standard of living is either maintained or realized above the pre-project levels,
- To maximize opportunities for sustainable, social and economic development in the LHWP area,
- To improve and maintain the health of the work force and communities affected by the LHWP and
- To sustainably manage the biophysical and cultural resources within the LHWP catchments.

The EAP Programme is implemented through Compensation, Resettlement and Development, Public Health and Natural Environment and Heritage Action Plans.

Watersport at the Katse and Mohale Dams is getting popular with the Basotho and Tourists.



DEVELOPMENT AND OPERATIONS DIVISION

1. MANDATE

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

2. PROGRESS MADE DURING THE REPORTING PERIOD

2.1 Water Deliveries and Royalty Revenue

Table 1: Water Deliveries

Year	Planned Deliveries (million m3)	Actual Deliveries (million m3)	% Variance in Deliveries	Royalty Payments (M X million)
				Actual
2008/2009	780	766	-1.8%	325.3
2009/2010	780	783	-1.4%	341.6
2010/2011	780	723	-7.4%	437.2

Actual water deliveries to RSA in 2010/2011 were 723Mm³ (million cubic meters), 7.4% below the planned/agreed deliveries of 780 Mm³ for the year. This is due to the unplanned total 'Muela Hydropower station outage from 1st March 2011 - 23rd April 2011 to repair the faulty delivery tunnel intake hoist system and remove damaged guide vane. The corresponding royalty revenue of M437.3 million was 16.9% higher than the annual forecast of M373.85 million for the year. A total of M3.43 billion in royalty revenue has been paid by RSA since commissioning of the first water deliveries in January 1998 to March 2011, with 8,868 MCM of water having being delivered.

2.2 Electricity Generation and Sales Revenue

Table 2: Electricity Generation

Year	Planned Generation (GWhr)	Actual Generation (GWhr)	% Variance in Generation	Revenue Sales (M X million)	% Export of total annual production	Export Revenue (M X mil)
				Actual		
2008/2009	466	489	4.9%	57.6	0.8%	0.33
2009/2010	492	509	3.4%	63.6	0.4%	0.20
2010/2011	509	460	-9.7%	55.6	1.2%	0.74

Actual electricity generation of 460GWhr was 9.7% below the planned generation of 509GWhr for the year. This is due to the unplanned total 'Muela Hydropower station outage from 1st March 2011 - 23rd April 2011 to repair the faulty delivery tunnel intake hoist system and remove damaged guide vane. 98.8% of the annual generation was sold to Lesotho Electricity Corporation (LEC), while the remaining 1.2% was exported to ESKOM, RSA. M45.1 million in sales revenue was generated from electricity sale to LEC, while M0.74 million was generated from exports to ESKOM. Total cumulative electricity sales revenue since the commissioning of 'Muela hydropower plant in August 1998 to March 2011 is M677.1 million. M7.3 million was generated from exports.

2.3 Unit Indicators

Table-3: 4-Year comparative overview – Unit Cost/Production indicators

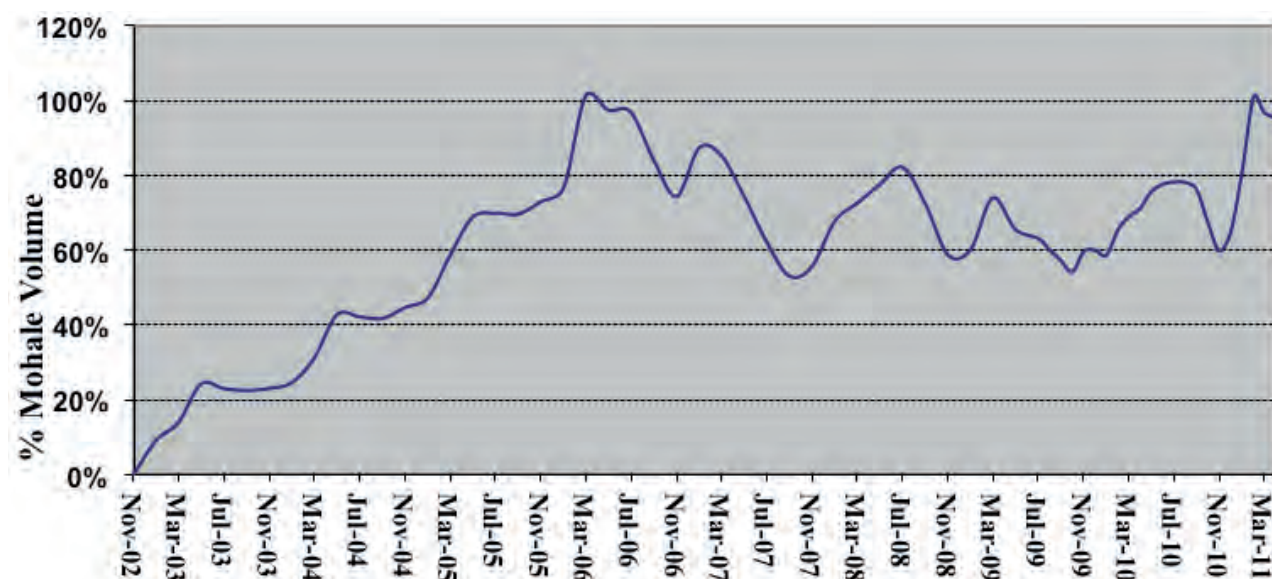
Year	Average Bulk Supply tariff to LEC ((cents/kWhr)	Average Tariff for Sales to ESKOM (cents/kWhr)	Specific Water Consumption related to Electricity Generation (Litres/kWhr)	Average Water Royalties Tariff (c/m ³)
2007/08	12.71 c/kWhr	6.57 c/kWhr	1.57 L/kWhr	36.97 c/m ³
2008/09	11.79 c/kWhr	8.31 c/kWhr	1.56 L/kWhr	42.44 c/m ³
2009/10	11.56 c/kWhr	10.27 c/kWhr	1.54 L/kWhr	43.59 c/m ³
2010/11	12.25 c/kWhr	13.23 c/kWhr	1.57 L/kWhr	59.86 c/m ³

The LHDA average bulk electricity supply tariff to LEC for 2010/11 was 12.25cents/kWhr while electricity export tariff to Eskom South Africa was 13.23cents/kWhr. During the four-year period from 2007/08 to 2010/10 there was an overall decrease in average bulk electricity supply tariff, while there was an increase in the average electricity export tariff to Eskom during the same period. The 2009/10 drop in average bulk tariff was due to increased maximum demand losses occasioned by frequent 'Muela station trips that were induced by faults from LEC network.

The average water royalty tariff to South Africa was 59.86cents/m³, which is higher than the previous three years. Specific water consumption, which is the amount of water needed by 'Muela Hydropower Station to generate one unit (kWhr) of electricity, was at 1.57L/kWhr during the reporting year.

2.4 Mohale Reservoir Management (Reservoir Levels)

Chart 1: Mohale reservoir variations since impoundment in 2002 to 31st March 2011



At the end of March 2011 Mohale reservoir was at 95.2% (2072.82 masl) of its total reservoir capacity. The lowest capacity for the year was 58% (2053.74 masl) on 9th November 2010. The highest capacity for the year was 104.1% (2076.69 masl) on 26th January 2011, during which Mohale Dam was spilling.

Mohale dam spilled once and continuously for a total of 12 days from 23rd January 2011 to 3rd February 2011. Total spilled volume of water is 60.107 MCM. Maximum lake level attained during the spilling was 2076.69 masl.



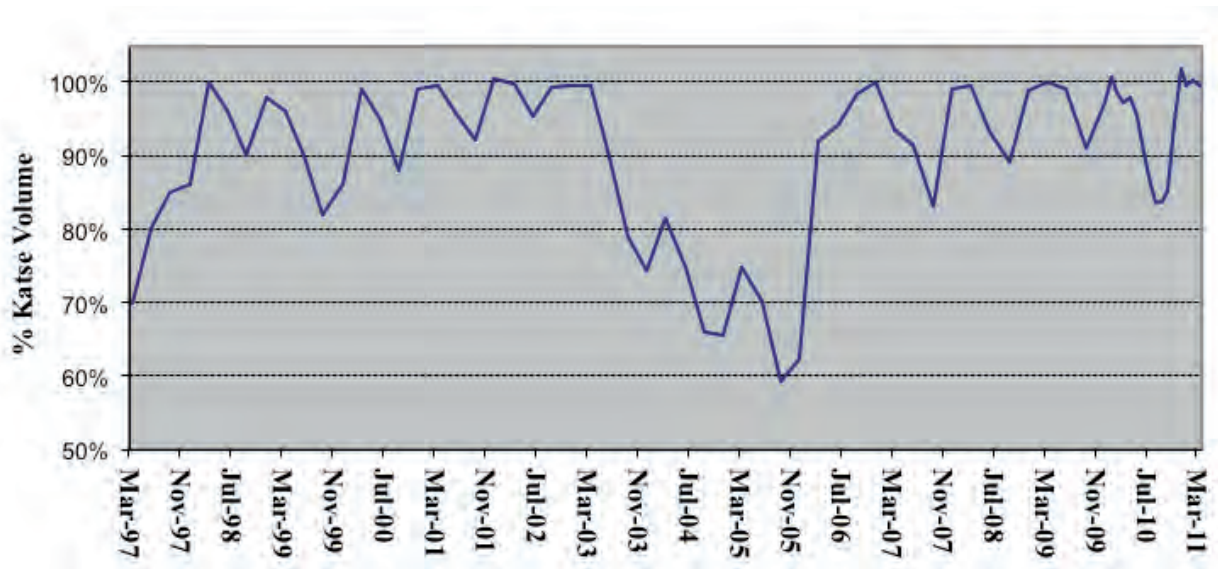
Annual snow, unique in Africa, is a regular contributor to the water supply of the Mohale Dam.

DEVELOPMENT AND OPERATIONS DIVISION

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

2.5 Katse Reservoir Management (Reservoir Levels)

Chart 2: Katse reservoir lake variations from 1st April 1997 to 31st March 2011



At the end of March 2011 Katse reservoir was at 97.5% of its total reservoir capacity, an overall drop of 3.2% from the April 2009 capacity of 100.7%. The lowest capacity for the year was 83.5% (2043.53 masl) on 29th November 2010. The highest capacity for the year was 102.8% (2054.59 masl) on 16th December 2010, during which the dam was spilling.

Katse dam spilled 7 times for a total of 20 days from with the Low Level Outlet (LLO) gates being opened in between to control the spill. Total spilled volume of water is 138.66 MCM. Overall, it can be surmised that the 14-year period of Katse dam spills was characterised by good hydrological conditions.

2.6 General Monitoring of LHWP Dam Structures

Table 5: Dam Safety Instrumentation

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

2.7 Katse Fish Farms (KFF)

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

Table 6 shows production figures since the year 2006/07 to current year. KFF annual fish production and harvesting

Financial Year	Annual Harvest (tons)
2006/07	38 tons
2007/08	53 tons
2008/09	79 tons
2009/10	127 tons
2010/11	194 tons
Total	491 tons

2.8 'Muela Hydropower Plant (MHP) Major Repairs

LHDA implemented mechanical rehabilitation of 'Muela Hydropower Plant Unit 3 generator thrust and turbine runner equipment from 29th September 2010 to 24th December 2010. 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.

2.9 Water Releases from 'Muela into Caledon River

In accordance with the provisions of the Lesotho Highlands Water Project (LHWP) Treaty, LHDA is required to release water from 'Muela reservoir into the Caledon River to augment river flows during dry seasons on request by the Government of Lesotho. During 2010/11 6.1 million cubic meters (MCM) was released into the Caledon River from 'Muela reservoir as per request from Water and Sewerage Company (WASCO).

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

Implementation of KLM WATSAN Project comprises construction of sanitation, refuse disposal facilities and water supply systems for villages in Katse Dam catchment upstream of Katse Dam. Implementation of this Project was resuscitated in December 2010 with the issue of tenders on 2nd December 2010, after being suspended in March 2010. Closing date for tenders was 21st January 2011. Tender evaluation process was on-going at the end of the reporting year.



2.11 Visits To LHWP Installation by Local and International Tourists

Table 7: Statistics of visitors to LHWP sites during 2010/11

LHWP Area	Category of Visitors				Totals # of Visitors	Total Revenue (Maloti)
	Lesotho Schools	Lesotho Tourists	RSA Tourists	International Tourists		
'Muela	15,252	1,188	201	9	16,650	M92,835.00
Katse	10,167	1,798	5,646	509	18,120	M128,315.00
Mohale	4,605	2,110	982	636	8,333	M59,630.00
Totals	30,024	5,096	6,829	1,154	43,103	M280,780.00

During 2010/11 'Muela was the preferred destination by Lesotho schools, Mohale was the preferred destination by Lesotho and international tourists, while Katse was the preferred destination by RSA tourists. This shows the same trend as that in 2009/10. A total of M280,780.00 of revenue was generated from visits to the LHWP installations during 2010/11.

CONCLUSION

The DOD has in general been able to meet the 2010/11 deliverables, notwithstanding the following challenges:

- sustaining the enabling environment for the division;
- managing staff movement due to staff resignations or/and new appointments;
- implementation of PMDS in order to improve performance, and
- continuously meeting tight work schedules, managing cost and resources.

Strategies to address these challenges will be developed for implementation in year 2011/12.

CONTENT AND GENERAL INFORMATION

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

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9.	Detailed Statement of Comprehensive Income	48

DIRECTORS

Mr J Eagar (Chairman)
Mr PR Makuta (Acting Chief Executive)
Prof LI Qalinge
Mrs M Matsoso
Mr MC Morolo (1 March 2011)
Dr MN Mokhothu (1 March 2011)
Chief M Ramokoatsi

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
BANKER:	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



DIRECTORS STATEMENT OF RESPONSIBILITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

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 20.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The Annual Financial Statements set out on pages 21 to 48 were approved by the Board of Directors and signed on behalf of the Board by:



J. EAGAR
CHAIRMAN

DATE 14.12.2011



PR. MAKUTA
ACTING CHIEF EXECUTIVE

DATE 14.12.2011





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 2011**, the statement of comprehensive income and statement of cash flow for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages **21 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 whether the financial statements are free from material misstatement.

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

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

Audit Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Lesotho Highlands Development Authority as of **31 March 2011**, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



MNM Chartered Accountants
Chartered Accountant

20 December 2011

STATEMENT OF ACTIVITIES

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

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.



STATEMENT OF COMPREHENSIVE INCOME

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

	NOTE	2011 M'000	2010 M'000
Revenue		45 699	59 758
Other Income		18 091	18 262
Total Income		63 790	78 020
Foreign Gains/(Losses)		(86 331)	4 510
Construction and Contractor Costs		(15 193)	(12 828)
Depreciation		(306 983)	(307 718)
Resettlement and Compensation Costs		(12 105)	(34 970)
Salaries and Wages		(59 381)	(54 056)
Other Administrative and Operating Expenditure		(32 456)	(65 574)
Operating Loss	2	(448 659)	(392 616)
		7 515	
Finance Income			6 040
Finance Cost		(91 847)	(200 744)
Loss for the year		(532 991)	(587 320)
Allocation of loss as per cost allocation report			
Capital work in progress – 1A Water Transfer		36 342	37 618
Capital work in progress – 2A Water Transfer		278	-
Capital work in progress – 1A Ancillary Development		1 559	10 044
Capital work in progress – 1B Water Transfer		115 267	70 655
Capital work in progress – 1B Ancillary Development		3 109	875
Hydropower accumulated loss		21 203	7 130
Government of South Africa Capital Fund		355 233	460 998
Government of Lesotho Capital Fund		-	-
		532 991	587 320

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

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

	NOTE	2011 M'000	2010 M'000
ASSETS			
Non-Current assets		10 933 228	11 232 559
Completed Works and Capital Work in Progress	3	10 916 045	11 213 379
Investment Property	4	17 183	19 180
Current Assets		182 520	149 163
Contract Advance Payments	5	4	4
Other Receivables and Prepayments	6	8 490	24 224
Cash and Cash Equivalents	7	174 026	124 935
Total Assets		11 115 748	11 381 722
FUNDS AND LIABILITIES			
Funds and Reserves		10 421 596	9 496 362
Capital Funds	8	10 675 965	9 729 528
Accumulated Loss – Hydropower	9	(254 369)	(233 166)
Non-Current Liabilities		539 148	592 733
Loans and Borrowings	10	238 041	298 715
Provisions	11	301 107	294 018
Funds from Capital Market Funds	12	-	-
Current Liabilities		155 004	1 292 627
Contract Payables and Accruals	13	5 144	6 777
Contract Retentions	13	735	575
Funds from Capital Market Funds	12	-	987 925
Provisions	11	26 142	25 385
Other Payables and Accruals	14	55 000	74 660
Current Portion of Loans and Borrowings	10	67 983	197 305
Total Funds and Liabilities		11 115 748	11 381 722



STATEMENT OF CASHFLOW

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

NOTE	2011 M'000	2010 M'000
CASH FLOW FROM OPERATING ACTIVITIES		
	(104 480)	133 328
	(21 203)	(7 130)
	(355 233)	(460 998)
	(376 436)	(468 128)
Add: Depreciation	306 983	307 718
Finance Charges	91 847	200 744
	22 394	40 334
(Increase)/Decrease in Advance Payments	-	29
(Increase)/Decrease in Other Receivables and Prepayments	15 735	(5 019)
Increase/(Decrease) in Provisions	7 846	13 323
Increase/(Decrease) in Contract Payables and Accruals	(1 633)	2 395
Increase/(Decrease) in Retentions	160	(184)
Increase/(Decrease) in Other Payables and Accruals	(19 660)	(378)
Increase/(Decrease) in Current Portion of Loans and Borrowings	(129 322)	82 828
CASH FLOWS FROM INVESTING ACTIVITIES		
	(164 208)	(128 410)
Additions to Assets	(8 056)	(10 498)
Disposal of Assets	403	1 280
Expenditure Transferred to Funds	(156 555)	(119 192)
CASH FLOWS FROM FINANCING ACTIVITIES		
	317 779	(8 575)
Government of Lesotho	(3 908)	3 830
Government of Republic of South Africa	1 462 133	411 262
Increase/(Decrease) in Loans and Borrowings	(60 674)	(240 966)
Finance Charges	(91 847)	(200 744)
Increase/(Decrease) Funds from Capital Market	(987 925)	18 043
	49 091	(3 657)
Cash and Cash Equivalents at the beginning of the period	124 935	128 592
Cash and Cash Equivalents at the end of the period	174 026	124 935



NOTES TO THE FINANCIAL STATEMENTS (continued)

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

1. ACCOUNTING POLICIES

1.1 Basis of Preparation

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

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

Statement of Compliance

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

1.2 Changes in Accounting Policies

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

Standard number	Standard name	Effective date
IFRS 3	Business Combinations	1 July 2009
IAS 27	Consolidated and Separate Financial Statements	1 July 2009
IAS 39	Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items	1 July 2009
IFRIC 17	Distributions of Non-Cash Assets to Owners	1 July 2009
IFRIC 18	Transfers of Assets from Customers	1 July 2009
	Improvements to IFRS (issued in April 2009)	Mostly 1 January 2010
IFRS 2	Amendments to IFRS 2 Share-based payments: Group cash-settled share-based payment transactions	1 January 2010



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

IFRS 3 Business Combinations (Revised)

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results. The changes by IFRS 3 (Revised) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010. The interpretation has no impact on the financial position nor financial performance of the Authority.

IAS 27 Consolidated and Separate Financial Statements (Amended)

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes to IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010. The interpretation has no impact on the financial position nor financial performance of the Authority.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (Amended)

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

1.2 Changes in Accounting Policies (continued)

IFRIC 17 Distributions of Non-Cash Assets to Owners

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either, the financial position or performance of the Authority.

IFRIC 18 Transfers of Assets from Customers

The interpretation provides guidance on how and when an entity should recognise an item of property, plant and equipment received from customers or cash for the acquisition or construction of such items. These assets must then be used to connect the customer to a network or to provide ongoing access to a supply of goods or services, or both. The interpretation has no effect on the financial position or performance of the Authority.

Improvements to IFRS (issued in April 2009)

In April 2009 the Board issued its second 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 amendments did not have any impact on the financial position or performance of the Authority.

IFRS 2 Share-based payments: Authority cash-settled share-based payment transactions (Amended)

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for Authority cash-settled share-based payment transactions. This amendment is effective for financial years beginning on or after 1 January 2010. It did not have an impact on the financial position or performance of the Authority.

1.3 Significant Accounting Judgments and Estimates

Estimation uncertainty

The preparation of the financial statements necessitates the use of estimates, assumptions and judgements. These estimates and assumptions affect the reporting amounts of the assets, liabilities and contingent liabilities at the 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 2011 amounts to M 319 490 000.

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.



NOTES TO THE FINANCIAL STATEMENTS (continued)

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

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.



NOTES TO THE FINANCIAL STATEMENTS (continued)

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

1.4 Summary of Significant Accounting Policies (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 balance sheet date whether a financial asset or group of financial assets is impaired.

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



NOTES TO THE FINANCIAL STATEMENTS (continued)

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

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.

Cash and Cash Equivalents

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

Loans and Borrowings

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

Provisions

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

Foreign Currency Translation

The financial statements are presented in Maloti, which is the Authority's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rate of exchange ruling at the reporting date. All foreign exchange differences are taken to profit or loss. Exchange differences are allocated to the cost of the related activity.

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

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

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

Impairment of Non-Financial Assets

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



NOTES TO THE FINANCIAL STATEMENTS (continued)

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

1.4 Summary of Significant Accounting Policies (continued)

Impairment of Non-Financial Assets (continued)

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

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

Cost Related Payments

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

Funds from Capital Markets

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

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

Contract Retentions

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

Taxation

Current tax

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

Value-added tax

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

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

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

Project Taxes refundable by the Government of the Kingdom of Lesotho

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



NOTES TO THE FINANCIAL STATEMENTS (continued)

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

1.4 Summary of Significant Accounting Policies (continued)

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:

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

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

Entity as Lessee

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

Entity as Lessor

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

Revenue Recognition

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



Sale of goods and electricity

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. Electricity income is recognized when due. The Muela Hydropower plant generates electricity and based on the agreed output a monthly invoice is prepared. During the year a new arrangement was entered into which resulted in income from electricity sales no longer accruing to LHDA but directly to the Government of Lesotho.

Investment Income

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

Royalties

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

Investment Property

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

Pension and Other Post-employment Benefits

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

1.4 Summary of Significant Accounting Policies (continued)

Events after the Reporting Date

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

Comparatives

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

Future Changes in Accounting Policies

Standards issued but not yet effective

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

Standard number	Standard name	Effective date
IAS 32	Amendments to IAS 32 - Classification of rights issues denominated in a foreign currency	1 February 2010
IAS 24	Amendments to IAS 24 - Related party disclosures	1 January 2011
IFRS 9	Financial Instruments Classification and Measurement	1 January 2013
IFRIC 14	Amendments to IFRIC 14 - Prepayments of a minimum funding requirement	1 January 2011
IFRIC 19	Extinguishing financial liabilities with equity instruments	1 July 2010
	Improvements to IFRS (issued in May 2010)	1 July 2010
IFRS1	Amendments to IFRS 1 - Severe Hyperinflation and removal of fixed dates for First-time adopters	1 July 2011
IFRS 7	Financial Instruments: Disclosures – Transfers of financial assets	1 July 2011
IAS 12	Amendments to IAS 12 – Deferred Tax: Recovery of underlying assets	1 January 2012

IAS 32 - Classification of rights issues denominated in a foreign currency (Amended)

The amendment to IAS 32 is effective for annual periods beginning on or after 1 May 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Authority after initial application.

IAS 24 - Related party disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Authority does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

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 as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In October 2010 the IASB issued additions to IFRS 9 Financial Instruments in relation to financial liabilities that an entity has elected to measure at fair value. The amendments also incorporate in IFRS 9 the current derecognition principles of IAS 39. Those improvements have an effective date of 1 January 2013, with earlier application permitted. In subsequent phases, the IASB will address Impairment methodology and hedge accounting. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Authority's financial assets and financial liabilities. The Authority will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

NOTES TO THE FINANCIAL STATEMENTS (continued)

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

1.4 Summary of Significant Accounting Policies (continued)

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Authority.

IFRIC 19 Extinguishing financial liabilities with equity instruments

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Authority.

Improvements to IFRSs (issued in May 2010)

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below, are considered to have a reasonable possible impact on the Authority:

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IFRIC 13 Customer Loyalty Programmes

The Authority, however, expects no impact from the adoption of the amendments on its financial position or performance.

IFRS 1 Severe Hyperinflation and removal of fixed dates for First-time adopters (Amended)

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards was issued in December 2010. The amendments replace references to a fixed transition date with 'the date of transition to IFRSs' and set out the requirements for how an entity resumes presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. The amendments are effective from 1 July 2011, with earlier application permitted. The Authority does not expect any impact on its financial position or performance.

IFRS7 Financial Instruments: Disclosures (Amended)

The amendments improve the disclosure requirements for derecognition of financial assets. Users of financial statements are expected to evaluate the risk exposures relating to transferred financial assets and the effect of the risks on an entity's financial position, particularly those that involve securitisation of financial assets. The Authority, however, expects no impact from the adoption of the amendments on its financial position or performance.

IAS 12 Deferred Tax: Recovery of underlying assets (Amended -Previously ED 2010/11)

The amendment to IAS 12 Income Taxes was issued in December 2010. The amendment provides a practical solution to the problem of determining whether assets measured using the fair value model in IAS 40 Investment Property are recovered through use or through sale. The amendment is effective for annual periods beginning on or after 1 July 2011, with earlier application permitted. The amendment is deemed to have no impact on the financial statements of the Authority.

2. OPERATING LOSS

Operating Loss is stated after :

Expenses

	2011 M000	2010 M000
Auditor's Remuneration	814	713
Construction and Contractor Costs	15 193	12 828
Depreciation	306 983	307 718
Finance Charges	91 847	200 744
Foreign Exchange (Gain)/Loss	86 331	(4 510)
Resettlement and Compensation Costs	12 105	34 970
Staff Costs – Short Term Benefits	59 381	54 056

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



NOTES TO THE FINANCIAL STATEMENTS (continued)

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011



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 2009	718 073	263 862	10 503 011	24 676	11 509 622
Cost	893 077	443 132	13 174 717	37 975	14 548 901
Accumulated Depreciation	(175 004)	(179 270)	(2 222 069)	(13 299)	(2 589 642)
Taxes Refundable by the Government of Lesotho	-	-	(449 637)	-	(449 637)
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)

The useful life of the assets is estimated as follows:

50 25 50 35 -

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 PROPERTY, PLANT AND EQUIPMENT (Continued)

CAPITAL WORK IN PROGRESS

	Hydropower M'000		Ancillary Development M'000		Water Transfer M'000		Operations & Maintenance M'000		Total M'000
	Phase 1A	Phase 1B	Phase 1A	Phase 1B	Phase 1A	Phase 1B	Phase 1A	Phase 2A	
Carrying Value at 31 March 2009	-	-	-	-	-	-	-	150	150
Prior Year Reallocations	-	-	-	-	-	-	-	-	-
Cost Allocation	-	-	10 044	875	37 618	70 655	-	-	119 192
Transferred to Completed Works	-	-	-	-	-	-	-	-	-
Transferred to Capital Funds	-	-	(10 044)	(875)	(37 618)	(70 655)	-	-	(119 192)
Cost	1 335 343	-	635 513	222 278	8 454 606	5 592 772	17 066	-	16 257 578
Total transferred to Completed Works/Capital funds	(1 335 343)	-	(635 513)	(222 278)	(8 055 390)	(5 542 400)	(16 916)	-	(15 80 840)
Taxes Refundable by the Government of Lesotho	-	-	-	-	(399 216)	(50 372)	-	-	(449 588)
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	17 066	278	9 445 008
Total transferred to Completed Works/Capital funds	(1 335 343)	-	(635 513)	(222 278)	(8 055 390)	(115 267)	(16 916)	(278)	(9 045 642)
Work in progress during the year	-	-	-	-	-	-	846	-	846
Taxes Refundable by the Government of Lesotho	-	-	-	-	(399 216)	-	-	-	(399 216)

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 6 751 225.



NOTES TO THE FINANCIAL STATEMENTS (continued)

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

4. INVESTMENT PROPERTY

	Total M'000
Assets at Cost	22 547
Accumulated Depreciation	(1 260)
Net Book Value 31 March 2009	21 287
Prior Year Movements:	
Additions	-
Disposals	-
Depreciation	(2 107)
Reclassifications	-
Assets at Cost	22 547
Accumulated Depreciation	(3 367)
Net Book Value 31 March 2010	19 180
Current Years Movements:	
Additions	-
Disposals	-
Depreciation	(1 997)
Net Book Value 31 March 2011	17 183
Assets at Cost	22 547
Accumulated Depreciation	(5 364)

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

	2011 M'000	2010 M'000
Contract Advance Payments	4	4
Provision for Doubtful Debts	-	-
	4	4



NOTES TO THE FINANCIAL STATEMENTS (continued)

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

	2011 M'000	2010 M'000
6. OTHER RECEIVABLES AND PREPAYMENTS		
Trade Debtors	7 142	20 525
Staff Debtors	6	18
Value Added Taxation	141	15 231
Other Receivables and Prepayments	6 807	12 358
Provision for Doubtful Debts	(5 606)	(23 908)
	8 490	24 224

For terms and conditions relating to related party receivables, refer to Note 19. Trade receivables are non-interest bearing and are generally on 30 day terms. As at 31 March 2011, trade receivables and other receivables at initial value of M 5 606 000 (2010: M23 908 000) were impaired and fully provided for.

At 31 March 2011, the ageing analysis of trade receivables are as follows:

	Total	Neither past due Nor impaired	Past due but not impaired				
			< 30 days	30 – 60 days	60 – 90 days	90 – 120 days	> 120 days
	M'000	M'000	M'000	M'000	M'000	M'000	M'000
2010	18 801	-	9 708	5 905	-	-	3 188
2011	7 142		1 986	(2)	226	242	4 690



7. CASH AND CASH EQUIVALENTS

Cash at Bank	173 939	124 845
Cash on Hand	87	90
	174 026	124 935

Currency Analysis

US Dollar	-	-
Maloti	174 026	124 935
	174 026	124 935

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 M174 026 000 (2010: M124 935 000).

NOTES TO THE FINANCIAL STATEMENTS (continued)

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

8. CAPITAL FUNDS

	Government of Lesotho M'000	Government of South Africa M'000	Total M'000
Balance at 31 March 2009	800 512	9 094 114	9 894 626
Amounts refunded	(58 170)	-	(58 170)
Cost related payments amounts provided			
• Hydropower and Ancillary Development	62 000	-	62 000
• Water Transfer	-	411 262	411 262
Ancillary Development Assets donated to Government of Lesotho	-	-	-
Transfer from Capital Work in Progress	(10 919)	(108 273)	(119 192)
Transfer from Income Statement	-	(460 998)	(460 998)
Balance at 31 March 2010	793 423	8 936 105	9 729 528
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
Ancillary Development Assets donated to Government of Lesotho	-	-	-
Transfer from Capital Work in Progress	(4 668)	(151 887)	(156 555)
Transfer from Income Statement	-	(355 233)	(355 233)
Balance at 31 March 2011	784 847	9 891 118	10 675 965

9. ACCUMULATED LOSS – HYDROPOWER

	2011 M'000	2010 M'000
Income	48 090	65 380
Less: Cost of sales	(69 293)	(72 510)
Operations and maintenance costs	(29 622)	(32 472)
Financing costs	-	-
Depreciation	(39 671)	(40 038)
Net profit / (loss) for the year	(21 203)	(7 130)
Accumulated loss at the beginning of the period	(233 166)	(226 036)
Accumulated loss at the end of the period	(254 369)	(233 166)



NOTES TO THE FINANCIAL STATEMENTS (continued)

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

10. LOANS AND BORROWINGS

	2011 M'000	2010 M'000
Non-Current Portion	238 041	298 715
Current Portion	67 983	197 305
	306 024	496 020
Currency Analysis		
Euro	104 559	147 314
Maloti	-	-
Rand	189 167	330 194
Sterling Pound	-	-
US Dollar	12 298	18 512
	306 024	496 020
Interest Bearing Status		
Interest-bearing	306 024	496 020
Non-interest bearing	-	-
	306 024	496 020
Maturity Profile		
Within One Year	67 983	197 305
Between Two and Five Years	162 222	214 763
More than Five Years	75 819	83 952
	306 024	496 020



10. LOANS AND BORROWINGS (Continued)

		Effective Interest Rate %	2011 M'000	2010 M'000
Trans Caledon Tunnel Authority Debt Service Loans				
<i>Offshore loans</i>				
<i>Institution</i>				
HSBC	Repayable in semi-annual instalments ending July 2012	1.31%	32 861	55 681
Credit Lyonnais	Repayable in semi-annual instalments ending July 2012	5.73%	16 290	27 849
World Bank	Repayable in semi-annual instalments ending May 2013	0.68%	-	12 298
				18 512
European Investment Bank	Repayable in semi-annual instalments ending January 2018	3%	55 407	63 784
European Investment Bank	Repayable in semi-annual instalments ending March 2018	Libor	64 708	73 952
European Investment Bank	Repayable in semi-annual instalments ending September 2018	Libor	42 089	47 700
European Investment Bank	Repayable in annual instalments ending August 2010	12.71%	-	91 995
			306 024	496 020
Common Monetary Area Loans				
DBSA	Repayable in semi-annual instalments ending March 2011	8%	-	16 043
DBSA	Repayable in semi-annual instalments ending March 2011	12%	-	3 324
DBSA	Repayable in semi-annual instalments ending March 2011	11%	-	989
DBSA	Repayable in semi-annual instalments ending March 2016	7%	1 175	1 364
DBSA	Repayable in semi-annual instalments ending March 2011	8%	-	4 541
DBSA	Repayable in semi-annual instalments ending September 2011	12%	1 189	3 371
DBSA	Repayable in semi-annual instalments ending September 2021	12.23%	764	798
DBSA	Repayable in semi-annual instalments ending September 2021	10.92%	2 857	2 998
DBSA	Repayable in semi-annual instalments ending March 2022	10.68%	30 573	33 352
DBSA	Repayable in semi-annual instalments ending March 2022	12.12%	17 490	19 080
DBSA	Repayable in semi-annual instalments ending March 2022	12.96%	2 094	2 177
DBSA	Repayable in semi-annual instalments ending September 2022	Jibar	26 229	28 510
	Total		306 024	496 020
Government of Lesotho Debt Service Loans				
<i>Offshore loans</i>				
<i>Institution</i>				
DBSA	Repayable in semi-annual instalments ending March 2015	13%	13 450	15 882
DBSA	Repayable in semi-annual instalments ending September 2019	13%	2 049	2 176
Government of Lesotho	Muela Re-financing by the Government of Lesotho		(15 499)	(18 058)
	Total		-	-
	Grand Total		306 024	496 020
	Repayable in one year included in short-term debt		(67 983)	(197 305)
			238 041	298 715

NOTES TO THE FINANCIAL STATEMENTS (continued)

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

10. LOANS AND BORROWINGS (Continued)

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

11. PROVISIONS

	Future Compensation M'000	Contract Claims M'000	Severance Pay M'000	Leave Pay M'000	Total M'000
Balance at 31 March 2009	285 227		3 734	1 946	294 767
Additional Provisions made during the year	26 585	-	1 268	132	27 985
Amounts used	-	(3 349)	-	-	(3 349)
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

To ensure a more accurate disclosure an amount of M 31 051 000 (2010: M 30 078 000) was reclassified from Provisions to Other payables and Accruals, this relates to the Compensation accrual outstanding at year end. Comparative figures were adjusted.



	2011 M'000	2010 M'000
Non-Current	301 107	294 018
Current	26 142	25 385
	327 249	319 403

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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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

11. PROVISIONS (continued)

Provision for Contract Claims

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

Provision for Severance Pay

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

Provision for Leave Pay

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

12. FUNDS FROM CAPITAL MARKET

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

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



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Stock	Coupon	Maturity	Registered Nominal 2011 M'000	Registered Nominal 2010 M'000
WS03	13.0%	15 September 2010	-	8 000 000
			-	8 000 000

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

Stock	Cumulative nominal value of LHWP stock issued		Cumulative net proceeds from LHWP stock issued inclusive of capitalised Finance costs	
	2011 M'000	2010 M'000	2011 M'000	2010 M'000
WS03	-	998 000	-	987 925
Total	-	998 000	-	987 925

NOTES TO THE FINANCIAL STATEMENTS (continued)

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

	2011 M'000	2010 M'000
13. CONTRACT PAYABLES AND ACCRUALS		
Contract Creditors	802	1 387
Contract Accruals	4 342	5 390
	5 144	6 777
Contract Retentions	735	575
	5 879	7 352

	2011 M'000	2010 M'000
14. OTHER PAYABLES AND ACCRUALS		
Trade payables	2 525	1 574
Staff payables	2	(23)
Accrued interest on loans	592	8 669
Accrued interest on capital markets	-	6 517
Accrued coupon on capital markets	-	11 929
Other payables –	21 803	14 940
Accruals for future compensation	30 078	31 054
	55 000	74 660

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



15. FORWARD COVER

Foreign currency denominated loans, except those for 'Muela Hydropower Implementation, are subject to forward cover contracts. However, in respect of the foreign currency denominated Hydropower loans, the Government of Lesotho has assumed the repayment obligations, and hence the foreign exchange risks, in exchange for a fixed Maloti obligation by the Authority to the Government. The forward cover contracts were entered into by the Trans Caledon Tunnel Authority. The Lesotho Highlands Development Authority revalue all its offshore loans at the applicable spot rate as at 31 March each year as the risks and rewards of the Forward Cover Contracts do not accrue to the Authority.

16. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

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 64 271 970 (2010: M56 007 863). 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.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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:

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- 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 2011:

	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
2010		
Euro	+10%	14 731
US Dollar	+10%	1 851
Euro	-10%	(14 731)
US Dollar	-10%	(1 851)
2011		
Euro	+10%	10 456
US Dollar	+10%	1 230
Euro	-10%	(10 456)
US Dollar	-10%	(1 230)

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.



NOTES TO THE FINANCIAL STATEMENTS (continued)

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

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

Interest rate sensitivity

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

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



Market Risk

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

Credit Risk

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

Liquidity Risk

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

Capital Management

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

Maturity Profile of Financial Assets and Liabilities

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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.

	<i>Carrying Amount</i>		<i>Fair value</i>	
	<u>2011</u> <u>M'000</u>	<u>2010</u> <u>M'000</u>	<u>2011</u> <u>M'000</u>	<u>2010</u> <u>M'000</u>
Financial Assets				
Project taxes refunded by the Government of Lesotho	-	-	-	-
Contract Advance payments	4	4	4	4
Other receivables and prepayments	8 490	24 224	8 490	24 224
Cash and Cash Equivalents	174 026	124 935	174 026	124 935
Financial Liabilities				
Contract Payables and Accruals	5 144	6 777	5 144	6 777
Contract Retentions	735	575	735	575
Other payables and accruals	122 983	271 965	122 983	271 965
Long Term Liabilities	238 041	298 715	238 041	298 715
Capital Market Liability	-	987 925	-	987 925



18. NUMBER OF EMPLOYEES

According to the payroll system the authority had the following average number of employees during the year ending 31 March 2011: 320 (2010: 292)

NOTES TO THE FINANCIAL STATEMENTS (continued)

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

19. RELATED PARTY TRANSACTIONS

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

	2011 M'000	2010 M'000
Amounts credited to the Statement of Comprehensive Income or fund accounts		
Sales of electricity to LEC	45 092	59 531
Sales of electricity to Eskom	607	228
Cost related payments GOL	61 500	62 000
Cost related payments RSA	1 462	411 262
	133	
Loans to related parties and other accounts receivable		
Account receivable from LEC	-	20 525
Provision for Doubtful Debts from LEC	-	(3 187)
Account receivable from LRA	141	15 231
Provision for Doubtful Debts from LRA	-	(15 231)
Loans from related parties and other accounts payable		
Loans and accounts payable from related parties	2 010	2 171
Compensation to Key Management Personnel		
Short Term Employee Benefits	7 449	7 365
Total Compensation Paid to Key Management personnel	7 449	7 365
Board Fees		
Board and sub committee fees including sitting and travel costs	878	799



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No donations of Property, Plant and Equipment were made to the Government of Lesotho during 2010 and 2011. All related party transactions are at arm's length and such terms are substantiated.

20. OPERATING LEASE DISCLOSURE

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

	2011 M'000	2010 M'000
The following year:	4 646	4 148
Year 2 – Year 6	12 361	17 480
	17 007	21 628

21. 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 which.

NOTES TO THE FINANCIAL STATEMENTS (continued)

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

	NOTE	2011 M'000	2010 M'000
Revenue			
Electricity income		45 699	59 758
Investment income		7 515	6 040
Profit on sale of assets		1 713	1 820
Miscellaneous income		11 598	11 531
Investment property income		4 780	4 911
Total Revenue		71 305	84 060
Expenditure			
Asset donations to GOL	20	-	-
Audit and accounting fees		814	713
Bad debts		2	-
Bank charges		41	39
Board and committee fees: including reimbursements		1 222	1 362
Construction and contractor costs		15 193	12 828
Depreciation		306 983	307 718
Foreign exchange loss/(gain)		86 331	(4 510)
Increase/(Decrease) in future compensation provision		6 704	15 187
Increase/(Decrease) in provision for contract claims		-	-
Insurance		2 720	2 643
Interest and finance expenses		91 847	200 744
Inventory and consumable stores		644	349
Leave pay		756	453
Legal and arbitration fees		2 035	(3 363)
Miscellaneous expenses		11 186	11 943
Motor vehicle expenses		2 632	3 490
Plant spares		942	403
Professional services		2 500	2 852
Provision for doubtful debts		(18 303)	7 418
Public relation costs		972	1 159
Rates, electricity and water		2 638	4 520
Recruitment		99	220
Rental expenses		305	357
Repairs and maintenance		5 005	4 849
Resettlement and compensation costs		12 105	34 970
Safety awareness		8	2
Salaries, wages and allowances		59 381	54 056
Security expense		3 975	3 732
Severance pay		-	1 775
Stationery		579	691
Telephone and communication		1 390	1 750
Training		1 354	1 271
Travel and transportation		2 236	1 759
Total Expenses		604 296	671 380
Loss for the year		532 991	587 320

