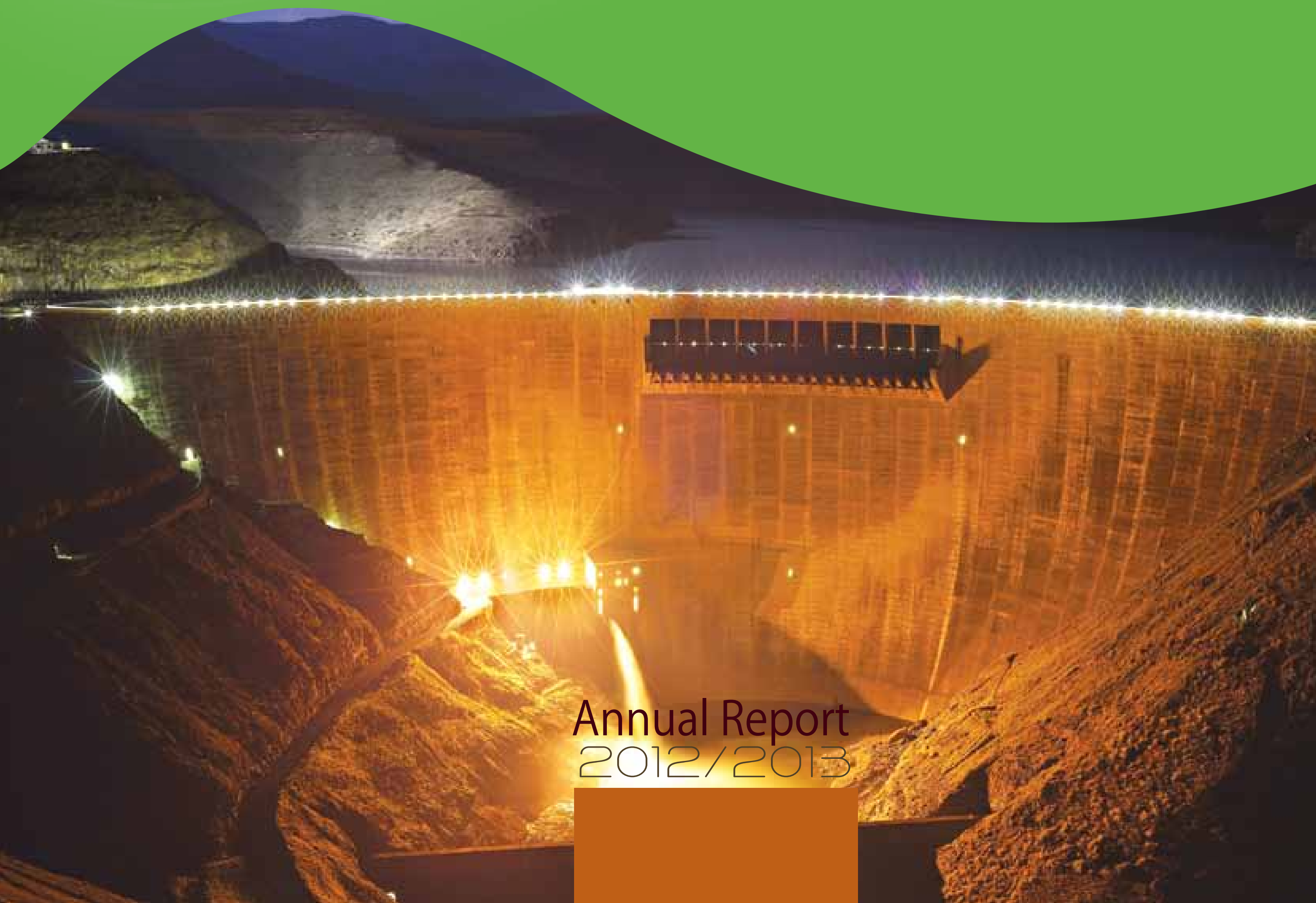
Lesotho Highlands Development Authority

LHDA



Annual Report
2012/2013

Vision

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

Mission

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

Board of Directors

MRS. 'MAMOHALE MATSOSO

Board Chairperson

Portfolio: Human Resources Management

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

MRS. Refiloe Tlali

Chief Executive

Portfolio:

Bachelor of Arts Education (National University of Lesotho) 1981
Chartered Accountant (Centre for Accounting Studies) 1989
Higher Diploma in Computer Auditing(University of the Witwatersrand) 1994

MR. JOHN EAGER

Deputy Board Chairman

Portfolio: Operations and Maintenance

BSc Civil Engineering
(University of Cape Town) 1966
Registered Professional Engineer
Fellow: Institute of Civil Engineering (RSA)
Institute of Municipal Engineering of Southern Africa

MR. ROBERT MBWANA

Portfolio: Engineering

BSc Civil Engineering
University of Malawi (1987)
Diploma Civil Engineering
(Polytechnic University of Malawi) 1984
Registered Professional Engineer
(ECSA) 1998

Board of Directors

PROF. LULAMA IDA QALINGE

Portfolio: Socio-Economic Development

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

MR. MORAKE CHARLES MOROLO

Portfolio: Audit & Risk Management

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

DR. MOTLATSI NICHOLAS MOKHOTHU

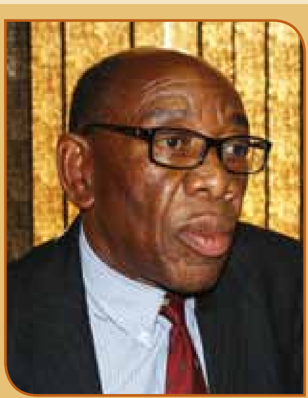
Portfolio: Natural Environment

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

ADVOCATE SHAMI KHOLONG

Portfolio: Legal

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



Mr. BERENG QHOBELA

Portfolio: Stakeholder Representative

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

Statement by
The Chairman of the Board

Mrs. 'Mamohale Matsoso
Board Chairperson

It is with great pleasure to reflect not only on the achievements but also on the challenges encountered during the past financial year. As I begin my term of office as the new Chairperson of the Board of Directors of the Lesotho Highlands Development Authority (LHDA), I am aware of a daunting task ahead of me: to maintain the high standard of my esteemed predecessor Mr. John Eagar who so ably steered this ship for many years. I must acknowledge that the handover was a very smooth one as we had been working together for many years in the Board. I am greatly indebted to my predecessor for his willingness to share his secrets of getting the Board to work at its optimum.

An issue that occupied a very high priority in the Board's calendar during the reporting period was the ratification of Phase II Agreement of the LHWP following the signing of the Agreement in August 2011. The Board spend considerable time analyzing the risks resulting from the delay and the possible mitigation measures. The Board also accordingly engaged the principals, the Lesotho Highlands Water Commission on this matter. While the matter was beyond the influence of the Board but never the less the Board took the view that it is its fiduciary responsibility to flag risks where they threaten the attainment of the strategic goals. With hind sight this was a good decision. I am pleased to report that in December 2012 the South African Government ratified the Phase II Agreement.

With the imminent commencement of Phase II of the Lesotho Highlands Water Project, the LHDA found it necessary to re-align the Organizational Structure to better meet the requirements of the new phase of the Project.

During the first quarter of the financial year, the Board appointed new members of the three Board Sub-Committees. These are namely, the Human Resources Sub-Committee; the Operations and Maintanance Sub-Committee and the Sustainable Development Sub-Committee. By the end of the reporting period we were close to appointing new members in the Audit and Risk Management Sub-Committee and the Technical Sub-Committee that is dedicated to advise and assist the Board with regard to technical, engineering, environmental and social matters relating to the implementation of Phase II.

I am equally pleased to report that it was also during this year that we made significant progress when we appointed four out of the five top positions in the organization and thus filling in those critical vacancies. The Chief Executive now has an almost complete complement of Executives and this places the LHDA on a sure footing for taking it to the next level.

Statement by
The Chairman of the Board

During the reporting period, the Board undertook a critical review of the organizational structure vis-à-vis the unfolding imperatives. This review was also necessitated by the creation of two new positions, namely the position of the Divisional Manager for Social Development and Environment and that of Polihali Field Operations Branch Manager. The Board accordingly submitted recommendations to the Lesotho Highlands Water Commission (LHWC) which were approved for implementation. By the end of the reporting period, staff consultations were on-going and seemed to be running smoothly as none of the staff was adversely affected by the changes.

The procurement process of the Project Management Unit, which will oversee and manage implementation of Phase II, was concluded in November 2012. However the contract was not awarded pending ratification of Phase II Agreement by the Government of Lesotho.

The Board has reviewed submissions regarding the ongoing comprehensive community consultations that are preparing Phase II communities for the start of Phase II of the LHWP. Other submissions covered the establishment of the Polihali Field Operations Branch and the award of contracts for consultancies on baseline studies. All these are very essential developments and mark the beginning of the implementation of Phase II Preparatory Works.

It is most gratifying to note the great improvements made regarding the handling of the disbursement of compensation for the Project affected communities. The annual cash compensation payments (ACP) and the distribution of grain compensation were all effected within the agreed time frame and thus in compliance with the requirements of the Treaty and the LHDA Order.

I wish to express my sincere and heartfelt gratitude to all my fellow Board Members, the Commission, the staff and leadership of the LHDA and indeed all the key stakeholders through whose collaboration and support we have been able to achieve the year's objectives. This cooperation and commitment augurs well for the effort required for a successful implementation of Phase II of the LHWP.

Thank You

Statement by The Chief Executive

Mrs. Refiloe Tlali
Chief Executive

It is once more great pleasure to present the outcome of the outgoing year's efforts. The organization continued to implement the water transfer, the electricity generation and the social and environmental components successfully. The Report also highlights the challenges encountered during the year and how these were addressed.

Regarding positive developments I am happy to report that during the year, we made considerable progress in filling up the vacancies at the Executive management of the organization. The new Chief Executive was appointed in May 2012 while the Chief Operations Officer came on Board in January 2013; The new Divisional Manager for Development and Operations Division was appointed in March 2013 while the Divisional Manager for Phase II joined the LHDA in April 2013. This development in turn placed the organization in a better position to deliver on its mandate.

After the end of tenure of the previous Sub-Committees, the Management, through its Board Secretarial function, assisted the Board in the process of making new appointments in three of the five Sub-Committees of the Board of Directors. These new appointments were made during the first three months of the year.

Organizational Structure Review

In addition to the strengthening of the Executive Team, another important institution building measure was the refinement of the organizational structure to take into account not only the changes at the top but also to align the structure and make it ready to implement the Phase II of the Project. In addition to the realignments, new positions were created. These include the position of the Branch Manager for the Phase II area and the creation of a position of the Divisional Manager responsible for social development and environmental programmes.

Preparations for Phase II of the LHWP

Following the signing of the Phase II Agreement in August 2011, the government of the Republic of South Africa ratified the Agreement in December 2012. By the end of the reporting period the Government of the Kingdom of Lesotho had not yet ratified the Agreement.

By the end of the reporting period, the appointment of a consultancy unit dedicated to the implementation of Phase II of the Lesotho Highlands Water Project was not yet made. The appointment was awaiting the ratification of the Phase II Agreement by the Government of Lesotho. In the meantime, an interim Project Management Unit continued with the oversight over the Advance Phase II activities such as community consultations, conduct of baseline studies and the construction of a river flow measuring weir in the Senqu River downstream of the future location of the dam wall. Information gathered from these advance activities will inform the design of the implementation measures.

Water and Electricity Generation

The Lesotho Highlands Development Authority continued to deliver water to the Republic of South Africa and to generate electricity for the Kingdom on Lesotho in spite of

Statement by The Chief Executive

the considerable amount of drought and the reduction of water levels in the LHWP dams. Invoiced water deliveries to the Republic of South Africa and corresponding royalty revenue are covered in the Report under Development and Operations. Equally the details on the amount of electricity generated and corresponding revenue are covered in the same Report.

Environment and Social Issues

Progress report produced during the year indicated that the EAP programmes, on average attained 70% of their targets. As indicated in the Report below, one major challenge encountered involves the payment of communal assets compensation to the cooperatives that were established to receive the funds on behalf of the affected communities. Progress was delayed by the non-compliance of some of the cooperatives to the terms of the Memorandum of Understanding. Disagreements over this issue resulted in one cooperative instituting a court case against LHDA in August 2012 petitioning the courts that LHDA pays them the amounts withheld due to non-compliance. By the end of the reporting period this case had not been argued in the courts of Law.

Concluding Remarks

The period in question has been marked by great changes within the LHDA and a greater commitment by the LHDA employees, management and staff.

We have also benefitted from the highly valued support and guidance of the Lesotho Highlands Water Commission, the LHDA Board of Directors and its Sub-Committees, various ministries of the Lesotho Government, Our sister Organization the TCTA, the financing institutions, the affected communities and other cooperating partners.

I am counting on the same level of cooperation in the coming year as we look forward to the implementation of Phase II of the Lesotho Highlands Water Project.

The Chief Executive Division

Overview

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

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

In terms of standard practice, the internal audit function is completely independent and reports directly to the Audit and Risk Management Committee of the Board; However since this function is housed in the Division that reports to the Chief Executive, for day to day non-audit issues, the audit team therefore administratively reports to the Chief Executive.

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, Risk Management, Corporate Governance processes 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.

The purpose, authority and responsibility of the Internal Audit function are formally defined in an Internal Audit Charter that was approved by the Audit and Risk Committee. The Audit and Risk Committee annually approves the one-year risk-based audit plan, which covers all major risks emanating from LHDA's Risk Management processes. This is based on changes in the authority's risk profile and control environment to ensure that the audit coverage is focused on areas of high risk.

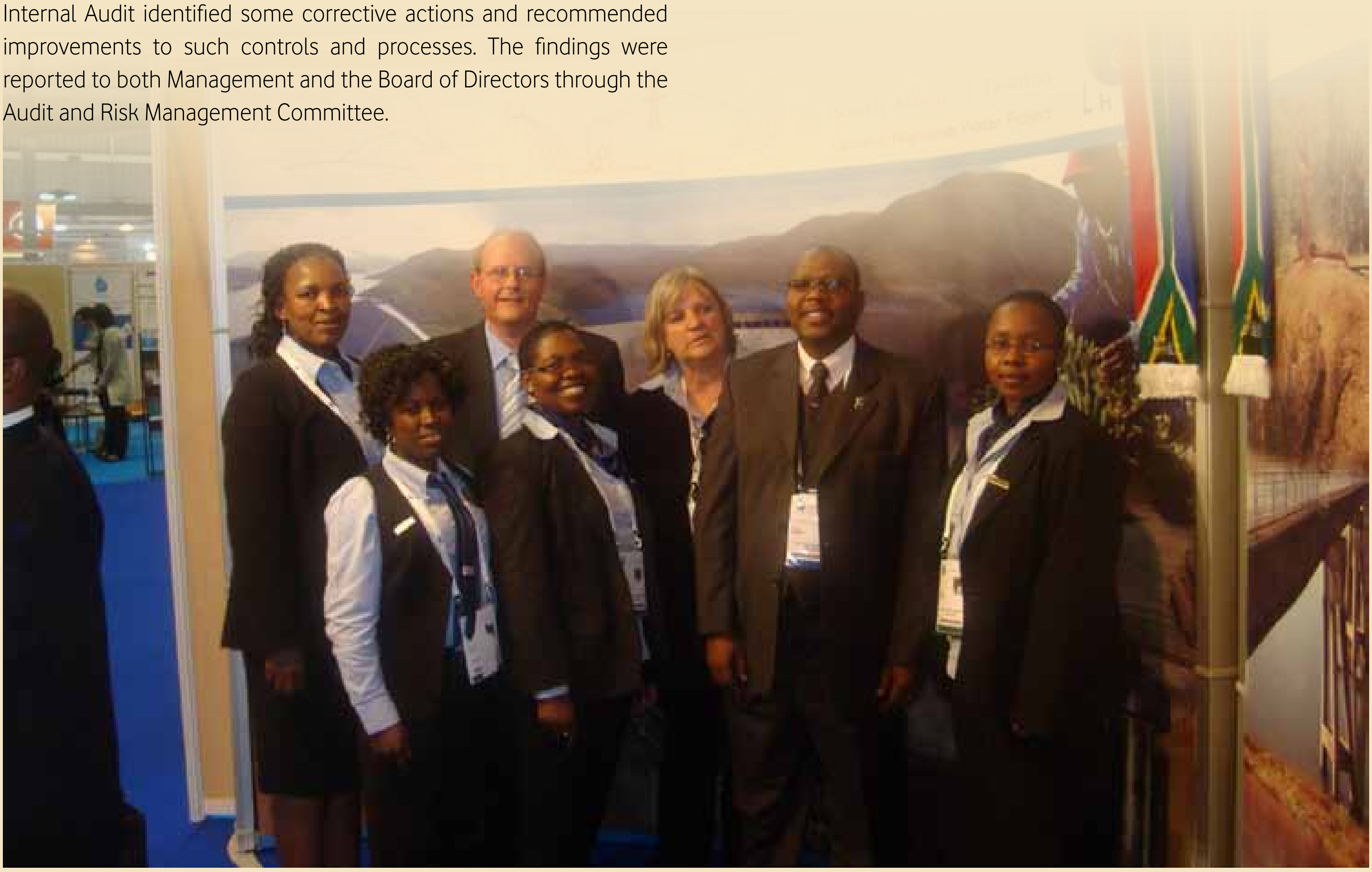
Nothing has come to the attention of the Board to indicate that any material breach of controls has occurred during the year under review.

Public Relations

During the reporting period, efforts were undertaken to ensure effective communication with stakeholders through fortnightly radio programmes with Radio Lesotho.

Phase II Community Consultations

Consultations were undertaken with the communities in Mokhotlong that will be affected by Phase II of the LHWP to prepare them for the start of the construction activities in the area. The consultations, entailed meetings with the office of the District Administrator, Principal Chiefs of Mokhotlong and Batlokoa, Heads of government departments and local Councils and workshops for community leaders. Further consultations were held through public gatherings with the local communities in some designated villages at Mokhotlong and Malingoaneng.



LHWP Marketing

The Public Relations Unit continued to market the Lesotho Highlands Water Project (LHWP) at local, regional and international exhibitions to inform the stakeholders about the Project. The increase in visits by tourists to the Project site is a welcome feedback.

1. Monitoring & Evaluation:

Corporate Performance: - The implementation of Strategic Plan for 2012/13 was guided by fourteen Key Focus Areas (KFAs) and each had set on indicators that were used to assess the corporate performance. On the overall LHDA corporate performance was somehow below (54.4%) the set corporate strategic target of 75%.

Environmental Action Plan (EAP) Performance: - The LHDA is continuing to implement the EAP as the strategy to mitigate adverse environmental and social impacts that occurred as a result of the construction of the LHWP and to enhance means of community livelihoods. Several programs that include Integrated Catchment Management, compensation delivery to affected individuals, environmental conservation and awareness were successfully implemented. The other programs that still remain a challenge involve payment of communal compensation given the non-conformance to MOU and processing of lump sum for individual enterprises.

Table 1: Compensation Payment between 2011/12 and 2012/13

Compensation Type	Total Number of House-holds	31st March '13 ('000 Maloti)	31st March '12 ('000 Maloti)	% increase
Arable land > 10002meters	2,058	8,431	8,154	3.39
Other	677	6,179	2,886	114.06
TOTAL	**2,742**	**23,366**	**11,040**	**111.64**

2. Water Delivery and Royalties

In accordance with the Treaty requirements, the 2013 water delivery schedule was finalised and approved in December 2012 in line with the Project Covenants. A total volume of 730 million M^3 was delivered to RSA as compared to annual target of 780 million M^3 and that resulted in generating M630.7 million in royalties to Lesotho. The observed deviation from target of M637.1 million arose as a result of the outage that demanded reallocation of scheduled delivery for October to November to the preceding months that attracted lower CPI inflation.

3. Geographical Information System (GIS) and Survey Services:

Spatial Data: - GIS is employed as both the tool for mapping and integration of database operations. In terms of spatial data relating to the EAP and the Projects, 84 properties were surveyed and the associated spatial information in the form of maps were produced. Out of these 84 surveyed properties, sixty (60) were related to community complaints under Phase 1, while the other 24 were addressing issues of compensation at Polihali under Phase II of the LHWP.

Cadastral Survey of LHDA immoveable Properties: - LHDA is required to hold lease entitlements for all its land parcels within Lesotho as it implements the Project and this would ease the planned transfer of these assets to relevant host Ministries. In 2012/13, LHDA completed cadastral surveys of fourteen (14) properties at Mohale (14 sites) and six (6) properties in Botha-Bothe as part of LHDA Contract 1253. The associated survey files and diagrams were submitted to the office of Land Administration Authority (LAA) for review and issuance of leases to the LHDA.

4. LHWP Water Resources

Quantity: - LHDA is mandated to monitor both the quantity and the quality of water within the LHWP catchments and within the reservoirs. Based on the hydrological year, (October to September) the LHWP experienced a relatively drier year in 2012. The key catchments of Katse and Mohale recorded mean annual precipitation of 894.28mm and 765.9mm respectively compared to the long term annual mean of 979.3mm and 953.3mm. This translated into an inflow of 920.72 MCM into Katse Dam providing an assurance of system yield of 780 MCM

In-stream Flow Requirements (IFR)

In line with the IFR Policy that governs the releases of water from the LHDA structures to maintain functional ecosystems services a total volume of 53.41 MCM against a target of 83.70 MCM was released from Katse. It is evident that less water had been released to serve the riverine owing to no compliance to while 38.54 MCM were measured downstream of Mohale Dam against the target of 38.84 MCM.

Water Quality: - The quality of water was measured from both inflow rivers and within the dams, covering a host of parameters, that include nitrates, phosphates, suspended solids and chlorophyll – a. During the 2012/13 year, the chlorophyll – a at 4.0 ug/l and nutrients at less than 1 mg/l put LHWP reservoirs under an oligotrophic category and this is further supported by low level of measured nutrients, suspended solids and high secchi measurements. These parameters are below the LHDA guidelines indicating that. , the quality of water in the LHWP reservoirs is good. See graphical presentation below.

Development and Operations Division

The Development and Operations Division under the leadership of one Divisional Manager and four Branch Managers ('Muela, Katse, Mohale and Special Projects), DOD is mandated to operate and maintain the LWHP Phase 1 assets while developing and implementing the social and environmental action plans.

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
2010/2011	780	723	-7.4%	437.2
2011/2012	780	876	+12.3%	614.7
2012/2013	780	730	-6.4%	630.7

Actual water deliveries to RSA in 2012/2013 were 730Million M^3, 6.4% below the planned/agreed deliveries of 780Million M^3 for the year due to the planned 'Muela transfer tunnel outage from 30th September to 30th November 2012. The corresponding royalty revenue was M603.7 million.

A total of M4.043 billion in royalty revenue has been paid by RSA since commissioning of first water deliveries in January 1998, to March 2013, with 10,460 MCM of water having being delivered.

Electricity Generation and Sales Revenue

Table 2: Electricity Generation

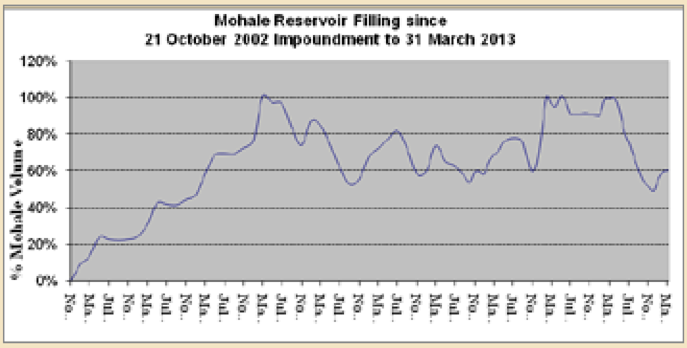
Year	Planned Gen-eration (GWhr)	Actual Genera-tion (GWhr)	% Vari-ance in Genera-tion	Revenue Sales (M X million) Actual	% Export of total annual produc-tion	Export Revenue (M X mil)
2010/2011	509	460	-9.7%	55.6	1.2%	0.74
2011/2012	507	549	+8.3%	54.9	8.3%	7.75
2012/2013	490	461	-6.0%	50.1	3.0%	2.71

Actual electricity generation of 461GWhr was 6.0% below the planned generation of 490GWhr for the year due to the planned 'Muela transfer tunnel outage from 30th September to 30th November 2013.1.2% of electricity was exported to ESKOM, RSA. M50.1 million in sales revenue was generated from electricity sale to LEC, while M2.71million was generated from exports to ESKOM.

Total cumulative electricity sales revenue since the commissioning of 'Muela hydropower plant in August 1998 to March 2013 is M782.06million.

Mohale Reservoir Management (Reservoir Levels)

Chart 1: Mohale reservoir variations since impoundment in 2002 to 31st March 2013



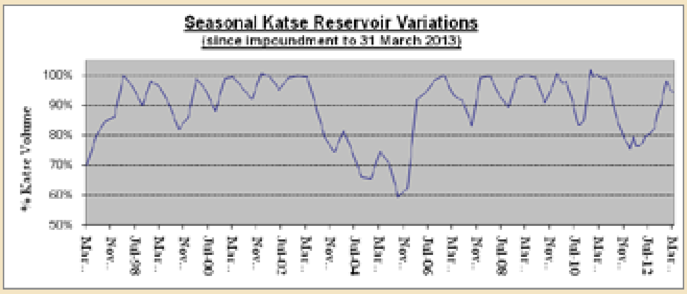
At the end of March 2013 Mohale reservoir was at 60.3% (2055.15masl) of its total reservoir capacity. The lowest capacity for the year was 49.4% (2048.15masl) on 4th December 2012. The highest capacity for the year was 100.2% (2075.10masl) on 2nd – 3rd April 2012.

Mohale dam spilled once and continuously for a total of 10 days from 1st to 10th April 2012. Total spilled volume of water is 60.107 MCM. Maximum lake level attained during the spilling was 2075.10masl.

Mohale tunnel was opened from10th April 2012 to 23rd January 2013.

Katse Reservoir Management (Reservoir Levels)

Chart 2: Katse reservoir lake variations from 1st April 1997 to 31st March 2013



At the end of March 2013 Katse reservoir was at 94.24% (2049.86 masl) of its total reservoir capacity. The lowest capacity for the year was 76.06% (2038.12masl)on 1st April 2012. The highest capacity for the year was 98.91% (2052.45masl) on 16th December 2010, during which the dam was spilling.

No spilling was experienced at Katse during 2012/13.

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. LHDA released 1.11 MCM of water into the Caledon River from 18th to 22nd June 2012.

ENGINEERING PROJECTS AND CONTRACTS

Construction of Mapeleng Water Supply System

Construction of Mapeleng water supply system at Katse was implemented from 1st November 2012 to 22nd March 2013.

'Muela Hydropower Plant (MHP) Major Repairs

The 3-year project for the rehabilitation of three (3) 'Muela Hydropower Plant (MHP) from September 2010 to December 2012 was completed with works on rehabilitation of the last Generator unit (Unit 1) being completed on 28th November 2012.

'Muela Transfer Tunnel Outage and Inspection

The 1st 'Muela Transfer tunnel inspection since commissioning was conducted from 30th September to 30th November 2012. During this period there was neither transfer of water to RSA or generation of electricity for Lesotho.

In terms of Article 5 of the LHWP Treaty, the Project shall be implemented by way of any or all phases described in Annexure I or such additional phases as may be required ultimately to deliver 70m3. This Article makes provision for any of the future phases to be modified by agreements between the Parties.

Before agreement could be reached on the development of further phases of the LHWP, certain key issues needed to be resolved between the parties and the main features of the further phases needed to be defined. The Parties agreed to jointly undertake feasibility study of the options for further phases to acquire and to collate information necessary for decision making. Based on the outcome of a two staged feasibility study, the Parties agreed to go ahead with Phase II of the LHWP subject to an acceptable agreement being concluded.

The new agreement (Phase II Agreement) deals specifically with Phase II. The 1986 Treaty still remains valid as it deals with various aspects that are not covered in the Phase II Agreement. Hence, the two documents need to be read together. The Phase II Agreement was signed by the two Parties in August 2011. However, it did not automatically enter into force once signed. The reason for this was that the constitutional requirements for entry into force needed to be complied with first.

Project Components

The major works that are expected to be carried out under Phase II are:

- A163.5m high Concrete-Faced Rockfill Dam (CFRD) at Polihali on the Senqu River
- A 49.5m high saddle Embankment Dam
- Polihali Intake Tower that is 70m high and 8.0m diameter, free standing
- A 38.2km long and 5.2m diameter tunnel connecting Polihali and Katse Reservoir.
- Advance Infrastructure – access roads, feeder roads, management and labour camps, telecommunications systems, construction power system.
- Environmental studies and mitigation measures including In-stream Flow Requirements matters and baseline studies – the full extent to be agreed when relevant studies have been undertaken.
- Compensation and livelihoods restoration programmes, mitigation measures, resettlement requirements and baseline studies together with public relations and awareness campaigns.

The following works will also be carried out under Phase II when the relevant studies have been concluded.

- A100m high dam at Kobong
- A1200MW pump storage hydropower scheme connecting Katse and Kobong reservoirs.

Project Management

Article 6 (2) (a) of the Phase II Agreement makes provision for the LHDA to establish, as part of its institutional arrangements, a Project Management Unit (PMU) to oversee and manage the implementation of Phase II. The procurement process of the PMU commenced in 2011 immediately after the Phase II Agreement was signed. Twenty companies responded to the invitation for Expression of Interest and in November 2011 a short list of six entities was approved by the LHWC.

The Request for Proposal (RFP) was issued to the shortlisted companies in December 2011. The closing date for the tenders was 30 January 2012. The evaluation process was concluded in August 2012 and the negotiations with the preferred tenderer were concluded in November 2012. However, the contract was not awarded pending ratification and approval of the evaluation report by the LHWC.

Phase II Preparatory Works

Construction of Polihali Gauging Weir

The feasibility report had recommended the immediate construction of a gauging station downstream of the proposed site for the Polihali Dam to verify the site specific hydrological data and the yield of the system. Following on open tender process, the construction contract was awarded to Lesotho Steel Products (LSP). Construction of the weir was expected to commence in May 2012, but was delayed due to the requirement to construct an access road down the steep river banks to the weir site.

As a result of this delay, the start date for the construction of the weir coincided with the start of the rainy season in 2012/13. In November 2012, the construction activities were suspended due to the natural flow conditions in the river which were making it practically impossible work in the river section. Construction activities are expected to resume in April 2013.

Environmental Baseline Studies

In order to mitigate further delays and to fast track the implementation programme, the LHDA procured (through open tender processes) service providers to undertake the critical environmental baseline studies. The results of these studies will provide useful input into the Environmental Impact Assessment (EIA) processes for various components of the project. The status is summarized in the table below:

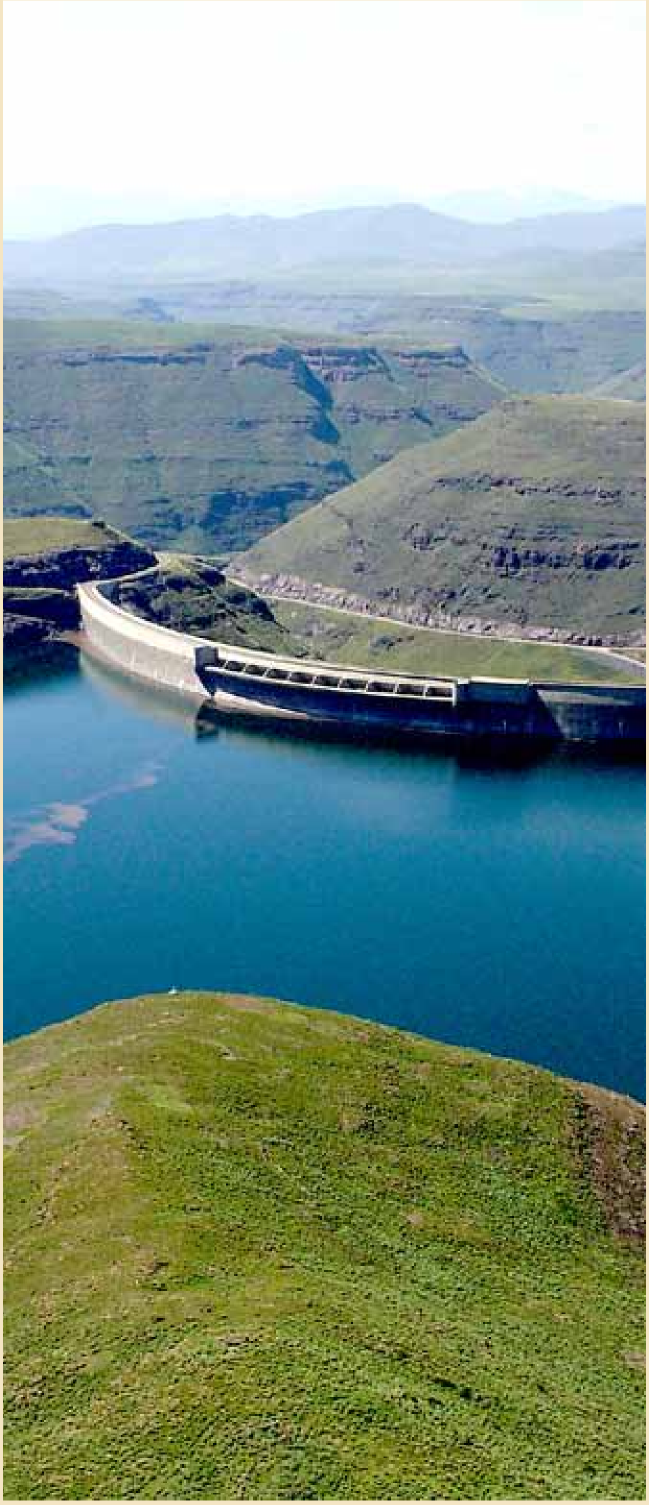
Table 1: Baseline Studies

Contract No	Title	Service Provider	Start Date	Expected Duration
6000	Socio-Economic Baseline Study	CES&NHA	509	3.4%
6001	In-stream Flow Requirements (IFR) Baseline Study	INR& GROW	460	-9.7%
6002	Biological & Archaeological (Heritage) Baseline Study	CES&NHA	549	+8.3%

Note: CES&NHA: Coastal Environmental Services (RSA) in association with NonyanaHoohlo& Associates (Lesotho)
INR& GROW: Institution of Natural Resources in association with Mokhotlong NGO known as GROW

Indicative Phase II Programme

Item	Description	Date
1	Government Sign Phase II Agreement	Aug '11
2	Specialist studies - Environment & Social	Jan '13 - Dec'14
3	Establish Project Management Unit	Sept '13
4	Issue Tenders - Consultancy Services	
4.1	Environmental Impact Assessment	From Mar '14
4.2	Advanced Infrastructure	From Mar '14
	Main Works	From Jun '14
5	Issue Tenders - Construction	
5.1	Advanced Infrastructure	From Jan '15
5.2	Feeder Roads	From Jan '16
5.3	Main Works	From Jun '16
6	Construction	
6.1	Advanced Infrastructure	Sept '15 - Jun '17
6.2	Feeder Roads	Jan '17 - Dec '19
6.3	Main Works	Jan '17 - Dec '22
7	Implementation of Environmental Programmes	Jan '15 - Dec '23
8	Start Impoundment to 2000 masl	Sept '20
9	Water Delivery	Apr '22
10	Pump Storage - Implementation	Mar '14 - Dec 22



Contents

General Information

DIRECTORS	:	Mrs M. Matsoso (Chairperson) Mr J.J Eagar Prof LI Qalinge Mr C. Morolo Mr R.S Mbwana Adv. S.T Kholong Dr M.N Mokhothu Mr B. Qhobela Mrs R. Tlali (Ex-Officio)
NATURE OF BUSINESS	:	Implementation, operation and maintenance of the Lesotho Highlands Water Project
AUDITORS	:	MNM Chartered Accountants
REGISTERED OFFICE	:	Lesotho Highlands Development Authority Lesotho Bank Tower Kingsway Rd MASERU 100 Lesotho
PHYSICAL ADDRESS	:	Lesotho Highlands Development Authority Lesotho Bank Tower Kingsway Rd MASERU 100 Lesotho
BANKERS	:	Standard Lesotho Bank
ATTORNEYS	:	In-house Attorneys Webber Newdigate Attorneys
COMPANY SECRETARY	:	Mr. M Phakoe (Acting)
COUNTRY OF INCORPORATION	:	Lesotho
LEGAL FORM	:	Authority
PRESENTATION CURRENCY	:	Maloti

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

The Board considers 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, funding agreements and available cash resources.

The entity's external auditors, have audited the financial statements, and their report is presented on page 4.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The Annual Financial Statements set out on pages 17 to 46 were approved by the Board of Directors and signed on behalf of the Board by:

Mrs M Matsoso	Mrs Refiloe Tlali
CHAIRPERSON	CHIEF EXECUTIVE
14/10/2013	14/10/2013
DATE	DATE

Chartered Accountants
& INTERNAL AUDITORS

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

We have audited the financial statements of **Lesotho Highlands Development Authority** set out on pages 5 to 41, which comprise the statement of financial position as at **31 March 2013**, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statement

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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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, we consider internal control relevant to the preparation and 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 internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the **Lesotho Highlands Development Authority** as at **31 March, 2013**, its financial performance and its cash flows for the year then ended in accordance with *International Financial Reporting Standards.*

MNM CHARTERED ACCOUNTANTS

LESOTHO
6th November 2013

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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

For the year ended 31 March 2013

	NOTE	2013 M'000	2012 M'000
Revenue		-	-
Other Income		19 233	21 051
Total Income		**19 233**	**21 051**
Foreign Gains/(Losses)		(2 906)	(5 228)
Construction and Contractor Costs		(20 534)	(8 166)
Depreciation		(308 267)	(306 340)
Resettlement and Compensation Costs		(27 830)	(10 865)
Salaries and Wages		(63 180)	(57 719)
Other Administrative and Operating Expenditure		(81 429)	(80 414)
Operating Loss	**2**	**(484 913)**	**(447 681)**
Finance Income		7 044	8 330
Finance Cost		(14 530)	(17 725)
Loss for the year		**(492 399)**	**(457 076)**
Other Comprehensive Income		-	-
Allocation of loss as per cost allocation report			
Capital work in progress – 1A Water Transfer		39 129	27 446
Capital work in progress – 2A Water Transfer		14 883	2 443
Capital work in progress – 1A Ancillary Development		5 481	5 324
Capital work in progress – 1B Water Transfer		38 032	43 586
Capital work in progress – 1B Ancillary Development		1 032	1 250
Capital work in progress – 2A Hydropower		-	2 065
Hydropower accumulated loss		85 674	76 856
Government of South Africa Capital Fund		308 168	298 106
		492 399	**457 076**

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 2010.

Statement of Financial Position

As at 31 March 2013

	NOTE	2013 M'000	2012 M'000
ASSETS			
Non-Current assets		**10 357 048**	**10 644 665**
Completed Works and Capital Work in Progress	3	10 343 452	10 629 420
Investment Property	4	13 596	15 245
Current Assets		**175 151**	**178 896**
Contract Advance Payments	5	4	4
Trade and Other Receivables and Prepayments	6	19 652	9 793
Cash and Cash Equivalents	7	155 495	169 099
Total Assets		**10 532 199**	**10 823 561**
FUNDS AND LIABILITIES			
Funds and Reserves		**9 905 691**	**10 163 843**
Capital Funds		10 329 839	10 495 068
Accumulated Loss – Hydropower		(424 148)	(331 225)
Non-Current Liabilities		**495 733**	**512 011**
Loans and Borrowings	8	163 933	194 541
Provisions	9	331 800	317 470
Current Liabilities		**130 775**	**147 707**
Contract Payables and Accruals	10	10 040	6 210
Contract Retentions	10	2 158	965
Provisions	9	17 686	19 256
Bank Overdraft	7	241	-
Trade and Other Payables and Accruals	11	67 264	65 569
Current Portion of Loans and Borrowings	8	33 386	55 707
Total Funds and Liabilities		**10 532 199**	**10 823 561**

CAPITAL FUNDS

	Government of Lesotho M'000	Government of South Africa M'000	Total M'000
Balance at 31 March 2011	**784 847**	**9 891 118**	**10 675 965**
Amounts refunded	-	-	-
Cost related payments amounts provided			
· Hydropower and Ancillary Development	52 380	-	52 380
· Water Transfer	-	146 943	146 943
Transfer from Capital Work in Progress	(8 639)	(73 475)	(82 114)
Transfer from Income Statement	-	(298 106)	(298 106)
Balance at 31 March 2012	**828 588**	**9 666 480**	**10 495 068**
Amounts refunded			
Prior year cost allocation ratification	(14 649)	21 898	7 249
Cost related payments amounts provided			
· Hydropower and Ancillary Development	51 482	-	51 482
· Water Transfer	-	182 765	182 765
Transfer from Capital Work in Progress	(6 513)	(92 044)	(98 557)
Transfer from Income Statement	-	(308 168)	(308 168)
Balance at 31 March 2013	**858 908**	**9 470 931**	**10 329 839**

ACCUMULATED LOSS – HYDROPOWER

	2013 M'000	2012 M'000
Income	6 261	7 556
Less: Cost of sales	(99 184)	(84 412)
Operations and maintenance costs	(51 624)	(45 355)
Prior year cost allocation ratification	(7 249)	-
Depreciation	(40 311)	(39 057)
Net profit / (loss) for the year	(92 923)	(76 856)
Accumulated loss at the beginning of the period	(331 225)	(254 369)
Accumulated loss at the end of the period	**(424 148)**	**(331 225)**

Statement of Cashflow

for the Year ended 31 March 2013

	NOTE	2013 M'000	2012 M'000
CASH FLOW FROM OPERATING ACTIVITIES			
Net Cash Inflow/(Outflow) from Operating Activities		**(83 747)**	**(43 134)**
Hydropower – deficit for the year		(85 674)	(76 856)
Water transfer – deficit for the year		(308 168)	(298 106)
		(393 842)	(374 962)
Add: Depreciation		308 267	306 340
Finance Charges		14 530	17 725
		(71 045)	(50 897)
(Increase)/Decrease in Advance Payments		-	-
(Increase)/Decrease in Other Receivables and Prepayments		(9 859)	(1 303)
Increase/(Decrease) in Provisions		12 760	9 477
Increase/(Decrease) in Contract Payables and Accruals		3 830	1 066
Increase/(Decrease) in Retentions		1 193	230
Increase/(Decrease) in Other Payables and Accruals		1 695	10 569
Increase/(Decrease) in Current Portion of Loans and Borrowings		(22 321)	(12 276)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net Cash Inflow/(Outflow) from Investing Activities		**(119 207)**	**(99 891)**
Additions to Assets		(20 650)	(18 583)
Proceeds on disposal of Assets		-	806
Expenditure Transferred to Funds		(98 557)	(82 114)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net Cash Inflow/(Outflow) from Financing Activities		**189 109**	**138 098**
Government of Lesotho		51 482	52 380
Government of Republic of South Africa		182 765	146 943
Increase/(Decrease) in Loans and Borrowings		(30 608)	(43 500)
Finance Charges		(14 530)	(17 725)
Net (Decrease)/Increase in Cash and Cash Equivalents		**(13 845)**	**(4 927)**
Cash and Cash Equivalents at the beginning of the period		169 099	174 026
Cash and Cash Equivalents at the end of the period	**7**	**155 254**	**169 099**

1. ACCOUNTING POLICIES

1.1 Basis of Preparation

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

Statement of Compliance

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

1.2 Changes in Accounting Policies

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

The authority has adopted the following new and amended IRFS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial statements of the authority.

- IFRS 7 Transfer of financial assets (Amendment)
- IAS 12 Deferred tax: Recovery of underlying assets
- IFRS 1 Severe hyperinflation and removal of fixed dates for first-time adopters

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

IFRS 7 Financial Instruments: Transfer of financial assets.

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As Lesotho Highlands Development Authority is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Authority.

1.2. Changes in Accounting Policies and Disclosures (Continued)

IAS 12 Income Taxes - Recovery of Underlying Assets

The amendment clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis of the assets. This amendment does not have an impact on Lesotho Highlands Development Authority's financial position, performance or its disclosures.

IFRS 1 - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

When an entity's date of transition to IFRS is on or after the functional currency normalisation date, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date, at fair value on the date of transition to IFRS. This fair value may be used as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position. However, this exemption may only be applied to assets and liabilities that were subject to severe hyperinflation. This amendment did not have an impact on Lesotho Highlands Development Authority's financial position, performance or its disclosures.

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.

1.3 Significant Accounting Judgments and Estimates (Continued)

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 2013 amounts to M343 630 000.

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.

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.

1. ACCOUNTING POLICIES (Continued)

1.4 Summary of Significant Accounting Policies (Continued)

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 and operations component, unless capitalisation had already ceased in which case such reallocations are transferred to the respective capital funds.

The Government of the Kingdom of Lesotho is, by way of Cost Related Payments, responsible for the costs of the Hydropower and Ancillary Development Activities. The Government of the Republic of South Africa is, by way of Cost Related Payments, responsible for the costs of the Water Transfer activities.

Property, Plant and Equipment - Operating & Maintenance Expenditure

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

1. ACCOUNTING POLICIES (Continued)

1.4 Summary of Significant Accounting Policies (Continued)

Financial Assets

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

Loans & Other Receivables

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

Fair Value

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

Impairment of Financial Assets

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

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

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

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

Derecognition of Financial Assets and Liabilities

Financial Liabilities

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

1. ACCOUNTING POLICIES (Continued)
1.4 Summary of Significant Accounting Policies (Continued)
Derecognition of Financial Assets and Liabilities (Continued)

Financial Assets
A financial asset is derecognised when:

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

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

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

Trade and other receivables are derecognised when the derecognition criteria for financial assets, as described in note 1.4, has been met. Provision for doubtful debt is made when there is objective evidence that the Authority will not be able to collect the debts. Bad debts are written off when identified and approved by the Lesotho Highlands Development Authority Board of Directors.

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

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

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

1. ACCOUNTING POLICIES (Continued)
1.4 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

1. ACCOUNTING POLICIES (Continued)
1.4 Summary of Significant Accounting Policies (Continued)

Cost Related Payments

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

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

Contract Retentions

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

Taxation

Current tax

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

Value-added tax

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

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

Project Taxes refundable by the Government of the Kingdom of Lesotho

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

Leases

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

a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
c) There is a change in the determination of whether fulfilment is dependent on a specified asset; or
d) There is a substantial change to the asset where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for a), c) or d) and at the date of renewal or extension period scenario b).

1. ACCOUNTING POLICIES (Continued)
1.4 Summary of Significant Accounting Policies (Continued)
Taxation (Continued)

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

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

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

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

Sale of goods and electricity
Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. The Muela Hydropower plant generates electricity and based on the agreed output a monthly invoice is prepared. During the 2011 year a new arrangement was entered into which resulted is in income from electricity sales no longer accruing to LHDA but directly to the Government of Lesotho.

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

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

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.
Investment Property consists out of Standard (Lesotho) Bank Building and is depreciated over 30 years. Improvements are depreciated over the lease term of 7.5 years.

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

1. ACCOUNTING POLICIES (Continued)

1.4 Summary of Significant Accounting Policies (Continued)

Pension and Other Post-employment Benefits *(Continued)*

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

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

Events after the Reporting Date

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

Comparatives

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

Future Changes in Accounting Policies

Standards issued but not yet effective

New and revised International Financial Reporting Standards and Interpretations issued but not yet effective.

The following Standards, amendments to Standards and Interpretations, effective in future accounting periods have not been adopted in these financial statements:

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but *Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 should not have a material effect on the financial assets and liabilities of Lesotho Highlands Development Authority.

IFRS 10 (AC147) Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS *27 Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 *Consolidation — Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27.It is expected that the standard should have no significant effect on Lesotho Highlands Development Authority. This standard becomes effective for annual periods beginning on or after 1 January 2013.

1. ACCOUNTING POLICIES (Continued)

1.4 Summary of Significant Accounting Policies (Continued)

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities — Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard is not expected to have a significant effect on Lesotho Highlands Development Authority. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but has no impact on Lesotho Highlands Development Authority's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of this new standard is not expected to have a significant effect on Lesotho Highlands Development Authority. This standard becomes effective for annual periods beginning on or after 1 January 2013.

2. OPERATING LOSS

	2013 M'000	2012 M'000
Operating Loss is stated after :		
Expenses		
Auditor's Remuneration	839	858
Construction and Contractor Costs	20 534	8 166
Depreciation	308 267	306 340
Finance Charges	14 530	17 725
Foreign Exchange (Gain)/Loss	2 906	5 228
Resettlement and Compensation Costs	27 830	10 865
Staff Costs – Short Term Benefits	63 180	57 719
Investment property income	(4 158)	(4 800)
Rental expenses	334	320

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

	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 2011	**682 375**	**228 435**	**9 971 096**	**33 143**	**10 915 049**
Cost	893 077	443 132	13 169 200	54 116	14 559 525
Accumulated Depreciation	(210 702)	(214 697)	(2 748 467)	(20 973)	(3 194 839)
Taxes Refundable by the Government of Lesotho	-	-	(449 637)		(449 637)
Reclassification					
Cost	(3 968)	-	(7 582)	11 550	-
Accumulated depreciation	3 570	-	(442 901)	(10 319)	(449 650)
Protocol Taxes	-	-	449 637	-	449 637
Transfer from Work in Progress	-	-	164	-	164
Additions	-	-	4 022	7 528	11 550
Depreciation	(17 819)	(17 761)	(263 806)	(5 017)	(304 403)
Disposal/donation of assets	-	-	-	(2 178)	(2 178)
Accumulated Depreciation on disposed assets	-	-	-	1 386	1 386
Carrying Value at 31 March 2012	**664 158**	**210 674**	**9 710 630**	**36 093**	**10 621 555**
Cost	889 109	443 132	13 165 804	71 016	14 569 061
Accumulated Depreciation	(224 951)	(232 458)	(3 455 174)	(34 923)	(3 947 506)
Taxes Refundable by the Government of Lesotho					
Additions	543	-	387	5 570	6 500
Depreciation	(17 777)	(17 714)	(263 136)	(7 690)	(306 317)
Disposal/donation of assets	-	-	-	-	-
Accumulated Depreciation on disposed assets	-	-	-	-	-
Carrying Value at 31 March 2013	**646 924**	**192 960**	**9 447 881**	**33 973**	**10 321 738**
Cost	889 652	443 132	13 166 191	76 586	14 575 547
Accumulated Depreciation	(242 728)	(250 172)	(3 718 310)	(42 613)	(4 253 809)
Taxes Refundable by the Government of Lesotho	-	-	-	-	-
The useful life of the assets is estimated as follows:	50	25	50	3-5	

3. PROPERTY, PLANT AND EQUIPMENT WORK IN PROGRESS

	Hydropower M'000		Ancillary Development M'000		Water Transfer M'000			Operations & Maintenance M'000	Total M'000
	Phase 1A	**Phase 2A**	**Phase 1A**	Phase 1B	Phase 1A	Phase 1B	Phase 2A		
Carrying Value at 31 March 2011	-	-	-	-	-	-	-	**996**	**996**
Cost	1 335 343	-	637 072	225 387	8 490 948	5 708 039	278	17 066	16 414 133
Total transferred to Completed Works/Capital funds	(1 335 343)	-	(637 072)	(225 387)	(8 091 732)	(5 708 039)	(278)	(16 916)	(16 014 767)
Work in progress during the year								846	846
Taxes Refundable by the Government of Lesotho	-	-	-	-	(399 216)	-	-	-	(399 216)
Cost Allocation	-	2 065	5 324	1 250	27 446	43 586	2 443	-	82 114
Transferred to Capital Funds	-	(2 065)	(5 324)	(1 250)	(27 446)	(43 586)	(2 443)	-	(82 114)
Work in progress during the year	-	6 076	14	270	-	-	-	673	7 033
Transfer to Completed works	-	-	-	-	-	-	-	(164)	(164)
Carrying Value at 31 March 2012	-	**6 076**	**14**	**270**	-	-	-	**1 505**	**7 865**
Cost	1 335 343	8 141	642 410	226 907	8 518 394	5 751 625	2 721	18 585	16 504 126
Total transferred to Completed Works/Capital funds	(1 335 343)	(2 065)	(642 396)	(226 637)	(8 518 394)	(5 751 625)	(2 721)	(17 080)	(16 496 261)
Prior Year Reallocations	(878)	-	15 021	506	(4 599)	(9 466)	-	(584)	-
Cost Allocation	-	-	5 481	1 032	39 129	38 032	14 883	-	98 557
Transferred to Capital Funds	878	-	(20 502)	(1 538)	(34 530)	(28 566)	(14 883)	584	(98 557)
Work in progress during the year	-	9 160	-	943	-	-	-	4 133	14 236
Transfer to Completed works	-	-	-	(387)	-	-	-	-	(387)
Carrying Value at 31 March 2013	-	**15 236**	**14**	**826**	-	-	-	**5 638**	**21 714**
Cost	1 334 465	17 301	662 912	229 388	8 552 924	5 780 191	17 604	22 134	16 616 919
Total transferred to Completed Works/Capital funds	(1 334 465)	(2 065)	(662 898)	(228 562)	(8 552 924)	(5 780 191)	(17 604)	(16 496)	(16 595 205)

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 2010 have been included.

4. INVESTMENT PROPERTY

	Total M'000
Net Book Value 31 March 2011	**17 183**
Assets at Cost	22 547
Accumulated Depreciation	(5 364)
Prior years Movements:	
Additions/Improvements	-
Disposals	-
Depreciation	(1 938)
Net Book Value 31 March 2012	**15 245**
Assets at Cost	22 547
Accumulated Depreciation	(7 302)
Current years Movements:	
Additions/Improvements	301
Disposals	-
Depreciation	(1 950)
Net Book Value 31 March 2013	**13 596**
Assets at Cost	22 848
Accumulated Depreciation	(9 252)

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

	2013 M'000	2012 M'000
Contract Advance Payments	4	4
Provision for Doubtful Debts	-	-
	4	**4**

6. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2013 M'000	2012 M'000
Trade Debtors	6 746	7 312
Staff Debtors	16	22
Value Added Taxation	8 821	3 669
Other Receivables and Prepayments	8 661	4 237
Provision for Doubtful Debts	(4 592)	(5 447)
	19 652	**9 793**

For terms and conditions relating to related party receivables, refer to Note 18.
Trade receivables are non-interest bearing and are generally on 30 day terms.
As at 31 March 2013, trade receivables and other receivables at initial value of M 4 592 000 (2012: M 5 447 000) were impaired and fully provided for:

At 31 March 2013, the ageing analysis of trade receivables are as follows:

			Past due but not impaired				
	Total	**Neither past due Nor impaired**	**< 30 days**	**30 – 60 days**	**60 – 90 days**	**90 – 120 days**	**> 120 days**
	M'000	M'000	M'000	M'000	M'000	M'000	M'000
2012	7 312	-	(3)	522	404	179	6 210
2013	6 746	-	228	132	232	60	6 094

7. CASH AND CASH EQUIVALENTS

	2013 M'000	2012 M'000
Cash at Bank	155 159	169 007
Cash on Hand	95	92
	155 254	**169 099**
Current Assets	**155 495**	**169 099**
Current Liabilities	**(241)**	**-**
Currency Analysis		
US Dollar	-	-
Maloti	155 254	169 099
	155 254	**169 099**

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 M155 254 000 (2012: M169 099 000).

8. LOANS AND BORROWINGS

	2013 M'000	2012 M'000
Non-Current Portion	163 933	194 541
Current Portion	33 386	55 707
	197 319	**250 248**
Currency Analysis		
Rands	143 931	173 269
Maloti	-	-
Euro	50 029	68 619
Sterling Pound	-	-
US Dollar	3 359	8 360
	197 319	**250 248**
Interest Bearing Status		
Interest-bearing	197 319	250 248
Non-interest bearing	-	-
	197 319	**250 248**
Maturity Profile		
Within One Year	33 386	55 707
Between Two and Five Years	133 404	122 132
More than Five Years	30 529	72 409
	197 319	**250 248**

	Trans Caledon Tunnel Authority Debt Service Loans	Effective Interest Rate%	2013 M'000	2012 M'000
Institution	**Offshore loans**			
HSBC	Repayable in semi-annual instalments ending July 2012	1.78%	-	11 661
Credit Lyonnais	Repayable in semi-annual instalments ending July 2012	5.73%	-	5 781
World Bank	Repayable in semi-annual instalments ending May 2013	0.78%	3 359	8 360
European Investment Bank	Repayable in semi-annual instalments ending January 2018	3%	50 029	51 177
European Investment Bank	Repayable in semi-annual instalments ending March 2018	Libor	46 220	55 464
European Investment Bank	Repayable in semi-annual instalments ending September 2018	Libor	30 865	36 477
	Common Monetary Area Loans			
DBSA	Repayable in semi-annual instalments ending March 2016	7%	752	1 112
DBSA	Repayable in semi-annual instalments ending September 2021	12.23%	681	791
DBSA	Repayable in semi-annual instalments ending September 2021	10.92%	2 528	2 934
DBSA	Repayable in semi-annual instalments ending March 2022	10.68%	25 014	30 746
DBSA	Repayable in semi-annual instalments ending March 2022	12.12%	14 310	17 709
DBSA	Repayable in semi-annual instalments ending March 2022	12.96%	1 894	2 182
DBSA	Repayable in semi-annual instalments ending September 2022	Jibar	21 667	25 854
	Total		**197 319**	**250 248**

	Government of Lesotho Debt Service Loans	Effective Interest Rate%	2013 M'000	2012 M'000
Institution	**Offshore loans**			
	Common Monetary Area Loans			
DBSA	Repayable in semi-annual instalments ending March 2015	13%	9 780	12 906
DBSA	Repayable in semi-annual instalments ending September 2019	13%	1 946	2 109
Government of Lesotho	Muela Re-financing by the Government of Lesotho		(11 726)	(15 015)
	Total		**-**	**-**
	Grand Total		**197 319**	**250 248**

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

9. PROVISIONS

	Provision for Future Compensation M'000	Provision for Legal Claims M'000	Provision for Severance Pay M'000	Provision for Leave Pay M'000	Total M'000
Carrying Value: 31 March 2011	**319 490**	**960**	**4 747**	**2 052**	**327 249**
Additional Provisions made during the year	11 302	-	3 565	1 880	16 747
Amounts used	-	(471)	(4 747)	(2 052)	(7 270)
Carrying Value: 31 March 2012	**330 792**	**489**	**3 565**	**1 880**	**336 726**
Additional Provisions made during the year	12 838	2 437	2 116	1 303	18 694
Amounts used	-	(489)	(3 565)	(1 880)	(5 934)
Carrying Value: 31 March 2013	**343 630**	**2 437**	**2 116**	**1 303**	**349 486**

	2013 M'000	2012 M'000
Non-Current	331 800	317 470
Current	17 686	19 256
	349 486	**336 726**

Provision for Future Compensation

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

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

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

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

Provision for Contract Claims

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

Provision for Severance Pay

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

Provision for Leave Pay

The provision for leave pay is 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.

10. CONTRACT PAYABLES AND ACCRUALS

	2013 M'000	2012 M'000
Contract Creditors	802	832
Contract Accruals	9 238	5 378
	10 040	**6 210**
Contract Retentions	2 158	965
	12 198	**7 175**

11. TRADE AND OTHER PAYABLES AND ACCRUALS

	2013 M'000	2012 M'000
Trade payables	1 713	3 106
Staff payables	-	3
Accrued interest on loans	371	522
Other payables	20 701	20 116
Accruals for future compensation	44 479	41 822
	67 264	**65 569**

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

12. FORWARD COVER

Foreign currency denominated loans, except those for 'Muela Hydropower Implementation, are subject to forward cover contracts. However, in respect of the foreign currency denominated Hydropower loans, the Government of Lesotho has assumed the repayment obligations, and hence the foreign exchange risks, in exchange for a fixed Maloti obligation by the Authority to the Government. The forward cover contracts 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 no accrue to the Authority.

13. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The Authority has been notified of the intention by various Contractors and employees to submit claims. The claims that are probable have been provided for in the Provision for Claims. The claims which are disputed, subject to ongoing litigation and which do not appear to be probable amount to M 39 850 272 (2012: M 42 413 293). A contingent liability may be required for the downstream reaches 7 & 8. The amount is unknown. These should be disclosed as a contingent liability, as the amount and the timing of the payment are so uncertain that a provision cannot be recognised.

For the start up of phase 2, new contracts have been approved and some entered into. The following commitments have been approved and not yet contracted for by year end: M 0 (2012: M160 890 000) The following contracts have been approved and contracted: M 28 564 101 (2012: M 10 900 920)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

General Risk Management Principles

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

Fair Value estimation

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

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

The following table presents the Authority's financial assets and liabilities that are measured at fair value at 31 March 2013:

	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
2012		
Euro	+10%	6 862
US Dollar	+10%	836
Euro	-10%	(6 862)
US Dollar	-10%	(836)
2013		
Euro	+10%	5 003
US Dollar	+10%	336
Euro	-10%	(5 003)
US Dollar	-10%	(336)

Interest Rate Risk

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

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

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

Interest rate sensitivity

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

	Increase / decrease in basis points	Effect on profit before tax M'000
2012		
Trans Caledon Tunnel Authority		
Debt Service Loans		
Offshore Loans	+200	1 540
Common Monetary Area Loans	+200	3 465
Trans Caledon Tunnel Authority		
Debt Service Loans		
Offshore Loans	-200	(1 540)
Common Monetary Area Loans	-200	(3 465)
2013		
Trans Caledon Tunnel Authority		
Debt Service Loans		
Offshore Loans	+200	1 068
Common Monetary Area Loans	+200	2 879
Trans Caledon Tunnel Authority		
Debt Service Loans		
Offshore Loans	-200	(1 068)
Common Monetary Area Loans	-200	(2 879)

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 8.

Fair Value of Financial Instruments

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

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

	Carrying Amount		*Fair value*	
	2013 M'000	**2012 M'000**	**2013 M'000**	**2012 M'000**
Financial Assets				
Contract Advance payments	4	4	4	4
Other receivables and prepayments	19 652	9 793	19 652	9 793
Cash and Cash Equivalents	155 214	169 099	155 214	169 099
Financial Liabilities				
Contract Payables and Accruals	10 040	6 210	10 040	6 210
Contract Retentions	2 158	965	2 158	965
Other payables and accruals	100 891	121 276	100 891	121 276
Long Term Liabilities	163 933	194 541	163 933	194 541

15. NUMBER OF EMPLOYEES

According to the payroll system the authority had the following average number of employees during the year ending 31 March 2013: 249 (2012: 267)

16. RELATED PARTY TRANSACTIONS

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

	2013 M'000	2012 M'000
Amounts credited to the Statement of Comprehensive Income or fund accounts		
Cost related payments GOL	51 482	52 380
Cost related payments RSA	182 765	146 943
Loans to related parties and other accounts receivable		
VAT receivable from LRA	8 821	3 669
Compensation to Key Management Personnel		
Short Term Employee Benefits	10 513	9 975
Total Compensation Paid to Key Management personnel	10 513	9 975
Amount outstanding at year end	144	222

No donations of Property, Plant and Equipment were made to the Government of Lesotho during the 2012 and 2013 financial years. All related party transactions are deemed to be at arm's length.

17. OPERATING LEASE DISCLOSURE

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

	2013 M'000	2012 M'000
The following year:	508	777
Year 2 – Year 5	-	510
More than 5 years	-	-
	508	**1 287**

18. EVENTS AFTER THE REPORTING PERIOD

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

Detailed Statement of Comprehensive Income

for the Year ended March 2013

	Notes	2013 M'000	2012 M'000
Revenue			
Bad debts recovered		7	-
Investment Income		7 044	8 330
Profit on sale of assets		30	914
Miscellaneous income		15 038	15 337
Investment property income		4 158	4 800
Total Revenue		**26 277**	**29 381**
Expenditure			
Asset donations to GOL		-	-
Audit and accounting fees		839	858
Bad debts		8	1 230
Bank charges		53	56
Board and committee fees including reimbursements		2 826	1 687
Construction and contractor costs		20 534	8 166
Depreciation		308 267	306 340
Foreign exchange loss/(gain)		2 906	5 228
Increase/(Decrease) in future compensation provision		15 548	22 087
Increase/(Decrease) in provision for contract claims		-	-
Insurance		3 258	2 816
Interest and finance expenses		14 530	17 725
Inventory and consumable stores		918	517
Leave pay		789	872
Legal and arbitration fees		4 264	1 852
Miscellaneous expenses		14 425	15 092
Motor vehicle expenses		2 994	2 524
Plant spares		1 055	2 420
Professional services		12 154	8 208
Provision for doubtful debts		-	(158)
Public relation costs		1 721	1 443
Rates, electricity and water		3 771	3 662
Recruitment		200	934
Rental expenses		334	320
Repairs and maintenance		5 533	4 810
Resettlement and compensation costs		27 830	10 865
Safety awareness		19	8
Salaries, wages and allowances		63 180	57 719
Security expense		4 707	4 369
Severance pay		-	-
Stationery		607	586
Telephone and communication		1 540	1 402
Training		1 188	884
Travel and transportation		2 678	1 935
Total Expenses		**518 676**	**486 457**
Loss for the year		**492 399**	**457 076**

Lesotho Highlands
Development Authority

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