LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

ANNUAL REPORT 2013/2014

Lesotho Highlands Development Authority

ANNUAL REPORT 2013/2014

CONTENTS

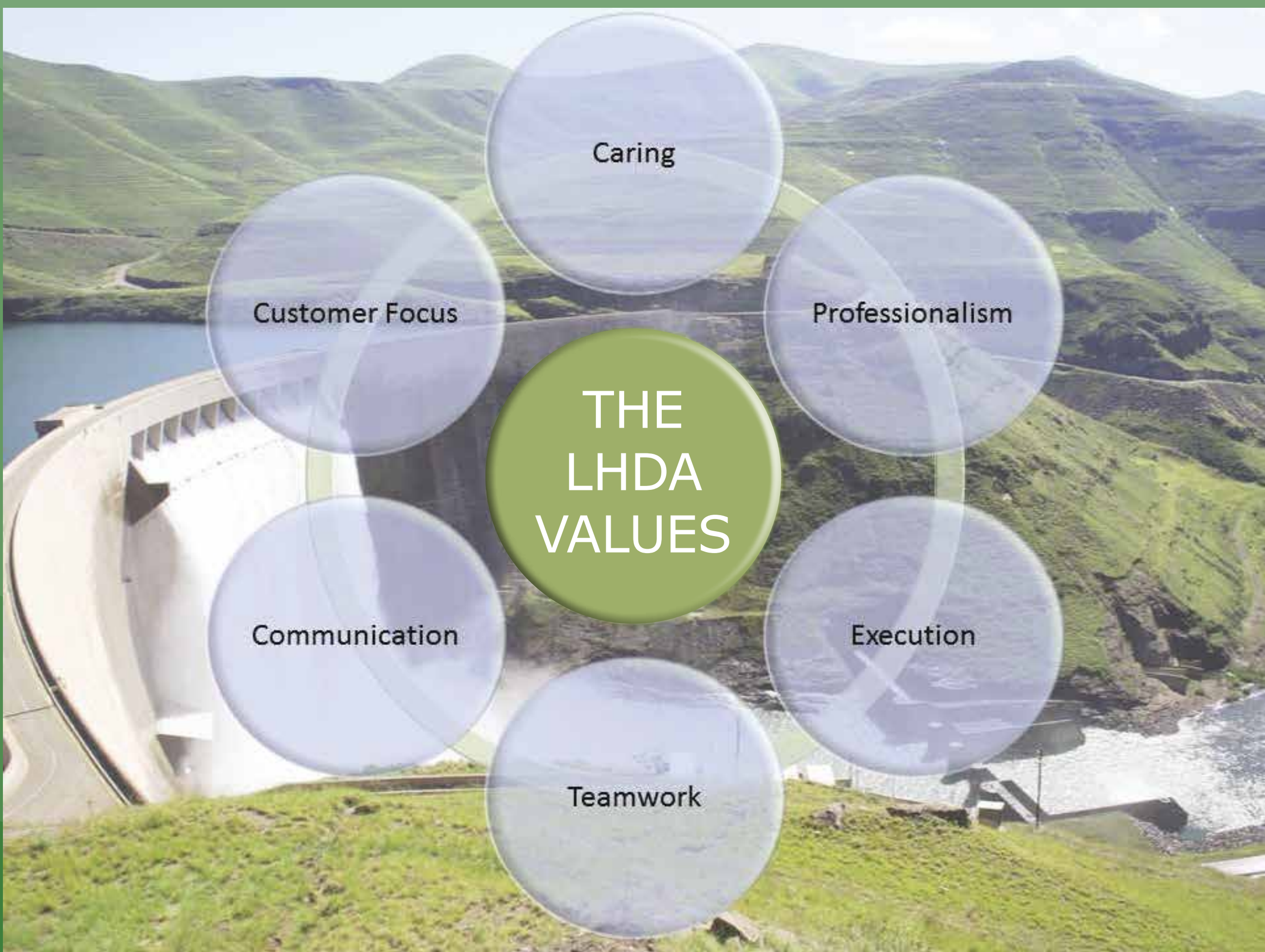
Vision

To be a world class water resources development and management organization.

Mission

To effectively and efficiently implement the Lesotho Highlands Water Project in an environmentally and socially friendly manner.

Values



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

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

BSc Civil Engineering

(University of Cape Town) 1966

Registered Professional Engineer

Fellow: Institution of Civil Engineering (RSA)

Institution of Municipal Engineering of Southern Africa

ADVOCATE SHAMI KHOLONG
Portfolio: Legal

Masters in Business Leadership (UNISA) 2007

LLB (University of the Witwatersrand) 1994

BA Law (Wits University) 1991

MR. ROBERT MBWANA
Portfolio: Engineering

Registered Professional Engineer (ECSA) 1998

BSc Civil Engineering

University of Malawi (1987)

Diploma Civil Engineering

(Polytechnic University of Malawi) 1984

DR. MOTLATSI MOKHOTHU
Portfolio: Natural Environment

PhD Watershed Hydrology (University of Arizona) 1996

MSc Hydrogeomorphology (ITC – Netherlands) 1981

BSc Applied Environmental Science

(National University of Lesotho)

1980

MR. MORAKE 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

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. BERENG QHOBELA
Portfolio: Stakeholder Representative

Diploma Litigation and Trial Practice (Paralegal Institute of Arizona) 1983

Diploma Law Office Management (Paralegal Institute of Phoenix) 1982

MRS. REFILOE TLALI
Portfolio: Chief Executive and Ex-Officio Member of The Board

Certified Member of the South African Institute of Directors

Chartered Accountant (Lesotho Institute of Accountants) 1989

Bachelor of Arts Education (National University of Lesotho) 1981

Higher Diploma in Computer Auditing (University of the Witwatersrand) 1994.

MR. M.C. BOTHA
Portfolio: Chief Finance Officer and Executive Director

B. Com Accounting (University of Pretoria, 1978)

MR. D.M. LUKHELE
Portfolio: Chief Operations Officer and Executive Director

Certificate in Fundamentals of Banking and Risk Management (UNISA, 2012)

MBA (Harriot Watt, 2007)

M.Eng. (Civil, PennState University, 1994)

Post Graduate Diploma Hydrology (University of Ireland, 1988)

BSC (UNISWA, 1985)

MR. T. TENTE (Pr.Eng)
Portfolio: Divisional Manager- Phase II and Executive Director

Construction Management Programme (Stellenbosch University, 2005)

Diploma in Advanced Concrete Technology (Institution of Concrete Technology, 2002)

MSC Structural Engineering (Surrey University, UK, 1996)

B.Eng. (Hons) Civil Engineering (Loughborough University, 1995)

PROJECT GOVERNANCE FRAMEWORK

The Lesotho Highlands Water Project was established by the 1986 Treaty signed between the Government of the Kingdom of Lesotho and the Government of the Republic of South Africa, referred to as the Parties in the Treaty.

The Treaty also sets out the governance structures required to implement the Lesotho Highlands Water Project on behalf of the Parties. These structures as depicted below are:

1. The Lesotho Highlands Water Commission (LHWC)
2. The Lesotho Highlands Development Authority (LHDA)
3. The Trans-Caledon Tunnel Authority (TCTA)

Fig 1: Project Governance

The Lesotho Highlands Water Commission

The Lesotho Highlands Water Commission (LHWC) is composed of two delegations, one from each Party.

The Treaty as amended by Protocol VI states that the Lesotho Highlands Water Commission is overall responsible and accountable for the Lesotho Highlands Water Project. It acts on behalf of and advises the two Governments. The Commission is also the channel of all government inputs relating to the Lesotho Highlands Water Project.

The LHDA Board of Directors

In terms of Article 3 (41) of the Protocol VI to the LHWP Treaty, the LHDA Board of Directors reports to and is accountable to the Commission. The Board operates within the legal framework provided by the LHDA Order of 1986 as amended, the 1986 LHWP Treaty and Protocol VI to the Treaty, signed on the 4th of June 1999. Its operations are regulated in terms of the LHWP Governance Manual, Second Edition of 24 June 2004.

The Board appoints the Chief Executive who is responsible for overall strategic leadership of the Authority and ensures that the LHDA's operations are in line with the mandate, the policies and procedures approved by the Governance structures.

CORPORATE GOVERNANCE

The LHDA has put in place necessary instruments designed to facilitate and inculcate an environment where good corporate governance and integrity can thrive. These include Board and Committee Charters, Code of Conduct, the LHWP Anti-Corruption Policy and a set of corporate values and principles that underpin the day-to-day activities of the organization.

Board Committees

To assist it in its stewardship role, the Board has established five (5) Sub-Committees as set out below. The Technical Sub-committee is the most recent to be set up and was specifically established in terms of the 2011 Phase II Agreement signed between the Government of Lesotho and the Government of the Republic of South Africa. Each Sub-Committee is chaired by a Member of the Board.

	Audit and Risk Management Sub-Committee	Human Resources Sub-Committee	Operations and Maintenance Sub-Committee	Sustainable Development Sub-Committee	Technical Sub-Committee
Members	Charles Morolo (Chair) Craig John McLeary Pesha Shale Paul Streng Moliehi Raditapole	Mamohale Matsoso (Chair) Daniel Moagi Gerard Mofolo Morathane Monyamane	John Eagar (Chair) Koalepe Makasela Ngaka Lesala	Lulama Qalinge (Chair) Benedict Mateka Motlatsi Mokhothu Francis Molapo Bereng Qhobela Mookho Ramasike	Robert Mbwana (Chair) Thabang Tsehlo William Croucamp Alistar Glendinning

	Audit and Risk Management Sub-Committee	Human Resources Sub-Committee	Operations and Maintenance Sub-Committee	Sustainable Development Sub-Committee	Technical Sub-Committee
Responsibilities	Advises and assists the Board in fulfilling its oversight responsibilities for financial reporting, external audit, internal audit, internal financial controls, corporate risk management and sound corporate governance.	Advises and assists the Board with regard to the organizational structure and human resources issues including talent management, attraction, retention, remuneration policies and strategies, succession planning and overall human resource development.	Advises and assists the Board in fulfilling its oversight responsibilities for the Project's Operations and Maintenance strategies, programs and operational performance.	Advises and assists the Board in fulfilling its oversight responsibilities for sustainability of the Project's social and environmental programs and projects.	Advises and assists the Board with regard to technical, engineering, environmental and social matters relating to the implementation of Phase II of the Lesotho Highlands Water Project.

Board and Sub-Committee Meetings

Regular bi-monthly Board and Sub-Committee Meetings were held during the reporting period. During the year, a total of thirty-six (36) Board and Sub-Committee Meetings were held as shown in the table below.

Table 1: Board and Sub-Committee Meetings held between April 2013 and March 2014:

Board and Sub Committee Meetings Convened : April 2013 –March 2014													
	Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Total
Board Meetings			✓	✓		✓✓	✓✓		✓	✓		✓	9
Sub- Committees Meetings													
Audit & Risk Management				✓		✓		✓		✓	✓	✓	6
Sustainable Development			✓			✓		✓✓			✓		5
Human Resources	✓			✓		✓	✓	✓		✓			6
Operations & Maintenance	✓		✓		✓			✓			✓		5
Technical Sub-Committee	✓					✓		✓			✓	✓	5
Total Meetings	**3**	**0**	**3**	**3**	**1**	**6**	**3**	**6**	**1**	**3**	**4**	**3**	**36**

CHAIRPERSON'S STATEMENT

It is once more my great pleasure and privilege to present this Annual Report, which includes a brief overview of performance during the 2013/14 financial year, as well as challenges ahead and strategies going forward.

It is worth noting from the outset that, though after a considerable delay which has adversely impacted on the timelines, the ratification of the Phase II Agreement in May 2013 signified a very important milestone in our Project Implementation Calendar.

The ratification of the Agreement enabled the appointment of the Project Management Unit (PMU) to oversee and manage the implementation of Phase II of the Lesotho Highlands Water Project. We are very pleased with the progress that the PMU had made by the end of the financial year.

In February 2014 the World Bank approved funding to enable the LHDA to commission further studies on the proposed Kobong Pump Storage scheme. These funds would be provided under a much broader programme of support to the Lesotho Water Sector that the Government of Lesotho was discussing with the World Bank. By the end of the reporting period both the Government of Lesotho and the LHDA were in the process of fulfilling the conditions precedent to the signing of the necessary Financing Agreements.

Article 14 of the Phase II Agreement provides how taxes relating to the Project should be levied once the Phase II Agreement comes into force. The LHWC, LHDA and the LRA have had several meetings to discuss the processes and procedures to be followed in complying with this Article. By the end of the reporting period, the discussions were on-going.

A critical matter that the Board would like to reflect on relates to the approval of the Procurement Policy which would enable the placement of advertisements for advance infrastructure consultancy contracts. By the end of the reporting period in March 2014, consultations were still on-going with the Parties and the Policy had not yet been approved.

As a measure to mitigate some of the project delays, the LHDA submitted to the LHWC a proposal on a revised Delegation of Authority (DoA). A clear delegation will help to streamline the procedures and processes of planning and implementation. By the end of the reporting period this matter remained unresolved as the LHWC was also consulting the Parties on the appropriate levels of delegation.

Recognizing the need to ensure compliance, sustainability and prudent control of LHDA operations, the Board continued to fine tune the governance structures and processes, in line with internationally acceptable principles and practices of good corporate governance. During the reporting period, the Terms of Reference of the Sub-Committees of the Board were revised. As stated in the Governance Section above, an important addition was the Technical Sub-Committee of the Board. This

Sub-Committee is established in terms of the Phase II Agreement with the purpose of advising and assisting the Board with regard to technical, engineering, environmental and social matters relating to the implementation of Phase II.

It has been a challenging and exciting year. I am deeply indebted to my colleagues in the Board for their very active and robust engagement in the debates on issues of Policy and Strategy.

I would also like to thank our Principals, the Lesotho Highlands Water Commission for their visionary leadership and unwavering support for the Project and for timely attending to the escalated risks associated with delays in ratification of the Phase II Agreement.

None of the achievements reflected in this report would be possible without efforts of the LHDA Management and Staff. I am therefore equally indebted to the CE and her team for their commitment and dedication to make the Project implementation successful. I look forward to another even more exiting year ahead as we fast track the implementation of Phase II and at the same time raising the bar of performance on the Phase I implementation.

I thank you and wish you an enjoyable reading.
Sincerely,

'Mamohale Matsoso (Mrs.)
Chairperson of the Board

STATEMENT BY THE CHIEF EXECUTIVE

I am pleased to present this annual report of the Lesotho Highlands Development Authority for the period 01 April 2013 to 31 March 2014. The past twelve months have been yet another truly exciting and eventful journey in the implementation of the Lesotho Highlands Water Project.

Water Delivery and Power Generation

Water delivery and power generation targets were met within acceptable limits for the benefit of both the economies of Lesotho and South Africa. More details are covered below in the relevant sections of this Report.

Compensation Payments

Compensation for individually owned assets went better than in the previous year thanks to timely communication with the recipients and the effective working of the computerised payments system.

A major challenge encountered during the reporting period relates to conflicting claims in relation to the compensation for communally owned assets. A local cooperative instituted legal proceedings requesting the Courts of Law to compel LHDA to release the compensation funds which LHDA had withheld due to failure by that cooperative to abide by the terms and conditions of the signed Memorandum of Understanding (MoU). In relation to the same compensation payments, individuals in the community submitted claims demanding that compensation for the communally owned assets should be paid to them as individuals and not paid to the cooperative. In a separate and yet related development, the Lesotho's Ministry of Local Government also submitted it's claim that these communal assets compensation funds ought to be paid to the Local Authorities (local government structures) so that the latter can administer and implement projects on behalf of the communities. On receiving these conflicting claims, the LHDA sought legal counsel and was advised that it should institute the Lesotho High Court Rule 51 proceedings under which the courts would be requested to determine the rightful beneficiary to the contested community funds. At the end of the financial year, judgment had not yet been passed on this critical issue.

Phase II of the Lesotho Highlands Water Project

In line with the decision by the Parties to have a Unit specially focused on Phase II issues, the LHDA appointed the Phase II Project Management Unit (PMU).

The PMU's mandate is to prepare and issue design and construction tender documents for both the advance infrastructure and the main works of the Phase II components. The PMU will also manage other aspects of the Project that include Engineering, Environment, Social Development, Public Relations, Public Health and Contracts Administration.

While we continue to implement Phase II of the Project and in the body of this report below reflect on some of our achievements, we are also closely monitoring operations to ensure that livelihoods programmes implemented under the Project as a whole are sustainable.

Aware of this challenging and important task ahead, the LHDA initiated further Pre-Planning and Preparation for the implementation of Phase II of the LHWP. This included commissioning baseline studies that will inform LHDA about the pre-project existing conditions. These studies are in the areas of water quality and flow, geomorphology, the socio-economic conditions, fauna and flora, archaeology and public health. The data collected from these baseline studies will serve as a reference against which future changes can be monitored and negative impacts, if any, mitigated.

During the reporting period, we also rolled out an extensive public consultation programme. This was a critical step in engaging with and preparing the communities for start of Phase II of the Project.

Towards the end of the reporting period, the LHDA initiated consultations with the community leaders, the affected communities and the public at large on the much eagerly awaited Draft Compensation Policy for Phase II. The draft Policy was also translated into Sesotho language and placed on the LHDA website for a wider reach. The final Policy document will take into account the various submissions also bearing in mind the practical limitations and boundaries imposed by statutory instruments.

The construction of the Polihali Measuring Weir downstream of the Polihali Dam site was completed in October 2013, despite challenging conditions on the ground. The completion of the weir marked a very important milestone in the history of the Project as it will provide site-specific hydrological data and other information required for assessing the yield of the system.

As we reported in the previous year, the Government of South Africa had already ratified the Phase II Agreement in December, 2012. Ratification of the Agreement by the Government of Lesotho in May 2013 followed and this paved way for the launch of Phase II of the Project.

The reporting period ended on a high note with the launching of Phase II of the Project. This auspicious occasion was officiated by His Majesty King Letsie III and the President of the Republic of South Africa His Excellency President Jacob Zuma at Tlokoeng in the Mokhotlong District in Lesotho on the 27th March 2014.

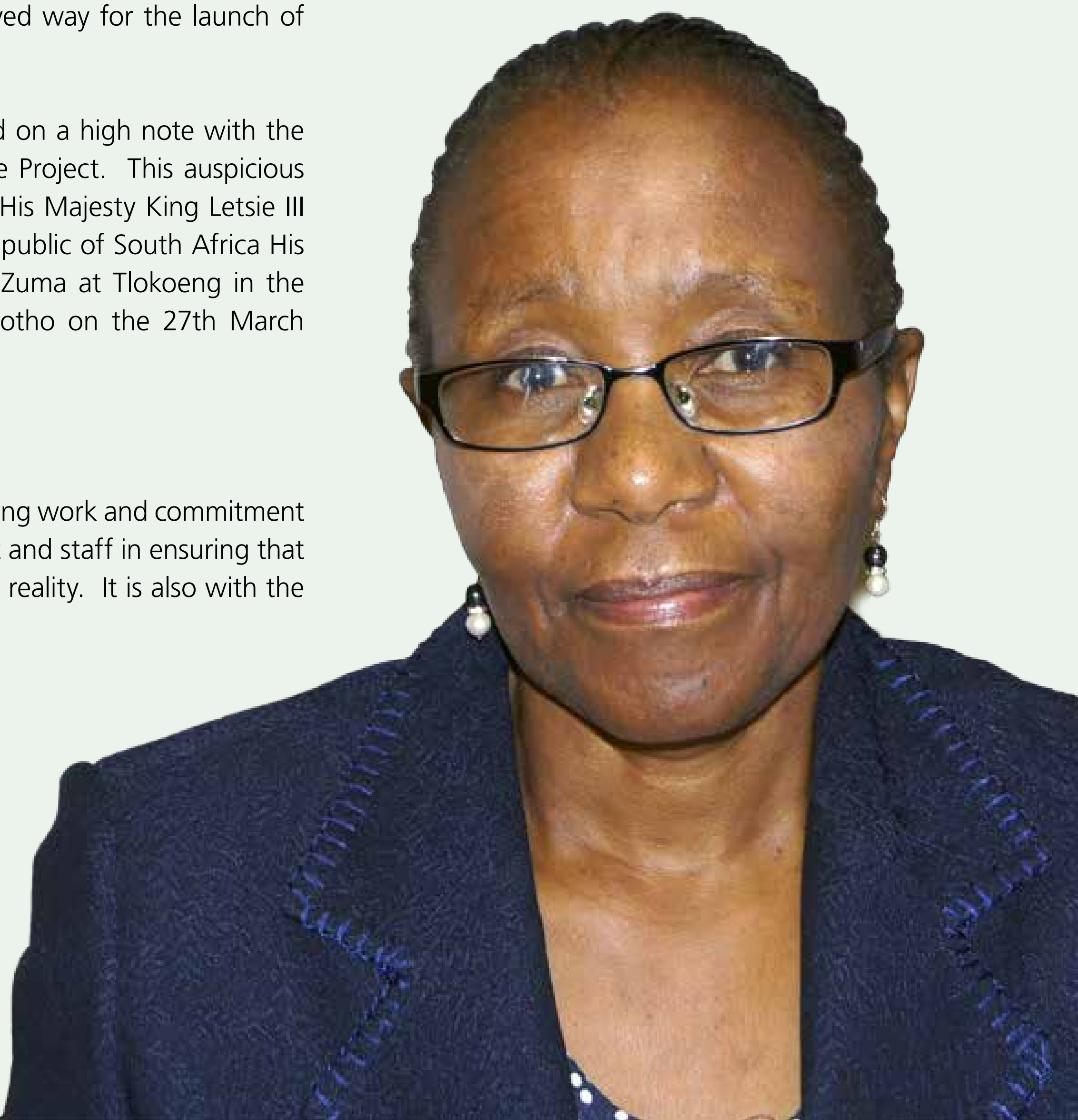
Concluding Remarks

I greatly appreciate the sterling work and commitment shown by our Management and staff in ensuring that our mandate translates into reality. It is also with the support of partners and the communities in the LHWP areas that we are able to move forward in our efforts to contribute to the economic growth in Lesotho. The support of the Project Authorities (The Commission and the LHDA Board) was as in the previous years, of tremendous value and benefit. I am greatly indebted to their support and leadership.

Bolstered by the enhanced institutional capacity, on-going approvals regarding critical Phase II components, the energized and invigorated workplace environment and the achievements we have had so far, I eagerly look forward to meeting head-on the challenges lying ahead and grabbing the opportunities in our journey as we implement the Lesotho Highlands Water Project in fulfilment of the dream and ideals of the Parties.

Thank you.

Refiloe Tlali (Mrs.)
Chief Executive



INSTITUTIONAL ISSUES AND CAPACITY BUILDING

Institutional Issues

It is pleasing to note that the rigorous and carefully structured executive search in the market place began to bear fruit during the reporting period. Following the appointment of the Chief Operations Officer (COO) towards the end of the last reporting period, the LHDA completed the appointment of the three other critical positions in the Executive management positions. These are the appointment of the Divisional Manager for Phase II in April 2013, the appointment of the Divisional Manager for Social Development and Environmental Issues in August 2013. In equal breath the LHDA successfully secured the services of a substantive Divisional Manager for Development and Operations in March 2014.

With these key appointments, the organization was placed in a better position to adequately attend to both the strategic and the operational issues in the implementation of the various engineering, social and environmental components of the LHWP as well as the institution and capacity building initiatives.

Refinement of the Organisational Structure

In line with the changing business requirements, the Project Authorities approved recommendations to further refine and realign the organisational structure. This necessitated the creation of a new Division focused on the implementation of Phase II of the Lesotho Highlands water Project and a realigning and resourcing of a Division to focus on social and environmental issues.

A total of thirty six (36) new positions were created. This saw the expansion of the structure from a previous two hundred and sixty four (264) positions to three hundred (300). The implementation of this refined structure commenced in October 2013.

Strategic Direction and Performance Management Issues

In December 2013, the Commission approved the LHDA Strategic Plan (2014-2017). This risk based document sets the framework and strategic direction for all the strategic and operational initiatives of the organization over the next three years.

To make the Vision of LHDA become a reality, the office of the Chief Operations Officer rolled out a comprehensive programme internally referred to as the High Performance Organizations (HPO) initiative. A number of sessions were held with both Management and staff to get the buy-in and build internal teams that are highly focused on their goals and working daily to achieve superior business results.

Organisation wide Performance Management and Development System (PMDS) workshops were held for staff to ensure that the system is fully embedded including the values associated with and supportive of the high performance culture.

During the various internal meetings all employees expressed their desire and commitment to exceed the expectations of both internal and external stakeholders.

As part of the drive towards HPO, Human Resources and ICT systems will be enhanced to meet the requirements of a high performance workforce.

Publicity about the Project

During the reporting period, the organization heightened its efforts to inform the public about the Project in general, the achievements, challenges, and prospects for the future. The phone-in radio programmes provided a useful two-way dialogue with the listenership and helped create a more informed perspective of the issues. These programmes turned out to be very instrumental in managing the negative perceptions of the anti-Project lobbying that was developing in the country.

Exhibitions

An additional strategy to enhance the visibility and profile of the Project included participation in local, regional and international exhibitions showcasing the Lesotho Highlands Water Project. Locally, the LHDA took part in the Annual Morija Arts and Cultural Festival. Regionally, the Project exhibited at the Getaway Show held in Randburg and at the Cherry Festival held in Ficksburg. On the international front, the Project was showcased at the World Water Week Forum held in Stockholm, Sweden and at the African Fair exhibition during the Fifth Tokyo International Conference on African Development (TICAD V), held in Yokohama, Japan in June 2013.

Stakeholder Relations Management

During the reporting period, LHDA proactively sought audience with and was able to make tailored presentations to the Lesotho's Parliamentary Portfolio Committee on Natural Resources. This Committee of Law Makers provides oversight over several areas including the LHWP. Following a presentation to the Parliamentarians, a successful tour of the LHWP Project sites was organized. The invited local media covered the tour and provided independent third party endorsement on some of the achievements of the Project. These efforts were very instrumental in forging a better understanding of the context in which the Project is operating. On conclusion of the tour of the sites, the Members of Parliament expressed their appreciation of the issues that the Project is dealing with.

Official Launch of Phase II of the LHWP

One of the major highlights of the reporting period was the official Launch of Phase II of the LHWP by His Majesty King Letsie III and His Excellency President Jacob Zuma in March 2014 at the site of Polihali dam. The occasion was also attended by the Lesotho's Prime Minister, the Right Honourable Dr. Thomas Motsoahae Thabane, Members of the Lesotho Parliament, Ministers responsible for water affairs in Lesotho and South Africa, other cabinet Ministers from both countries, other water development and management parastatals, members of the diplomatic corps and senior government officials.

Heads of State at the Launch of LHWP Phase II

SOCIAL DEVELOPMENT AND ENVIRONMENT

Configuration to Better Address Social and Environmental Issues

Consequent to the strategic decision to separate functions that relate to the environment and social issues from those that are related to the Operations and Maintenance, a new division, Social Development and Environment (SDE) was established in August 2013. In order to meet its mandate to effectively implement and manage environment and social programs, the Division is supported by three (3) distinct Branches, namely: *Environment Branch* that focuses on environmental conservation and biodiversity management; *Social Services* and *Compliance Branch* whose mandate is to ensure efficient discharge and management of compensation obligations and to ensure compliance in the implementation of social and environmental programs; and the Resettlement and Development Branch responsible for promoting the development of sustainable projects for the improvement of community livelihoods, particularly those affecting resettlement.

Conservation and Rehabilitation

Catchment management programs that involved the construction of conservation and erosion control structures in the form of gabions, stone lines, re-grassing and resting of marginal lands were implemented within the drainage basins of the three (3) reservoirs of Katse, Mohale and 'Muela. Efforts were also focused on the rehabilitation of wetlands employing various techniques. The Katse Botanical Garden (KBG) continues to undertake collection of rare and endangered plant species and collection of seeds for preservation and propagation. The garden continues to provide the needed support to the four (4) outreach gardens at ha Mahloane, Qholaqhoe, Makhoareng and Baroane.

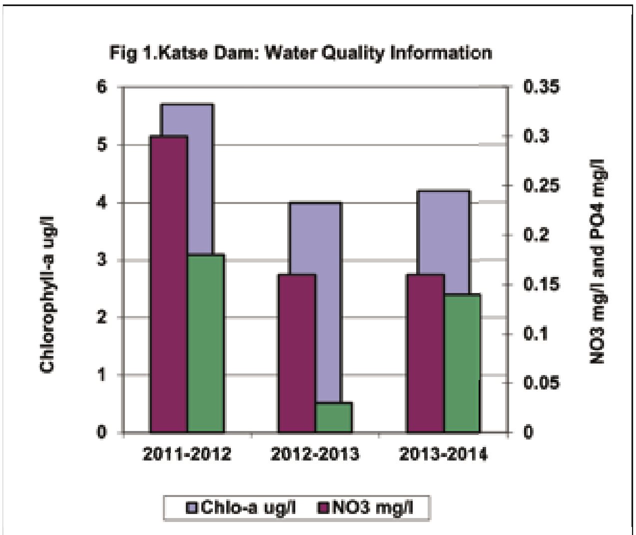
Constructed gabions structures to stabilize the eroding wetlands

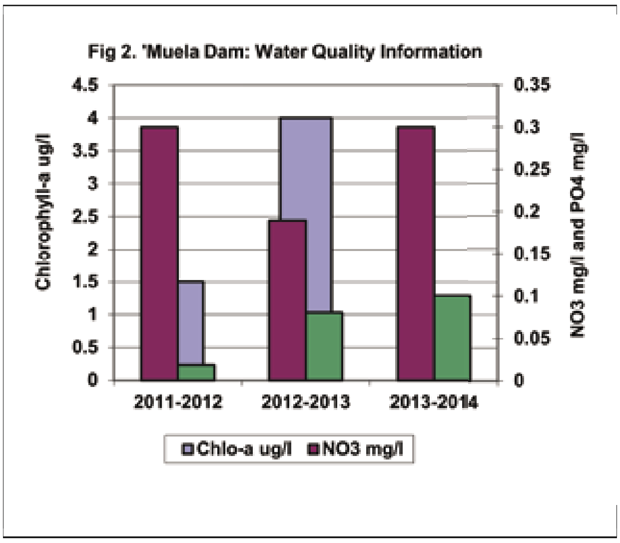
Aquaculture farming

The LHDA has developed and put into operation the Aquaculture Regulatory Framework (ARF) to provide guidance on best management of aquaculture operations in the project reservoirs. This was put into effect in April 2013 and has since been used to inform the two (2) performance assessment audits conducted at each of the two (2) existing aquaculture farms. The combined total production from the two (2) operations as of end March 2014 was 720 tons against the target of 900 tons.

Water Resources

Water quality assessment of the monitoring data collected from project reservoirs and their inflow rivers shows that the systems are maintaining water of an appreciable quality as shown in Figures 1 and 2. It should be noted that nutrients (NO3 & PO4) are read from the secondary axis.





Katse Fish Farms

Scheduled IFR flow regimes were also maintained on the downstream of Katse and 'Muela dams with releases of 78.96MCM and 55.3MCM against targets of 80.9MCM and 32.3MCM respectively. Mohale met its target despite the restricted use of Low Level outlet gates for release of floods. This is because of combination of factors; exceptionally good rains received in February 2014 that contributed significant runoff and on-going seepage from the dam. Hydrological network stations that provide information flow patterns in the project area were successfully maintained and only 1 out of 19 stations has been temporarily retired pending completion of construction of a bridge on the Senqu River.

Compensation Disbursement

Timely payment and distribution of compensation to deserving individuals in the form of cash and grain during this reporting period, achieved an overall score of 96% of the target compared to previous year's performance of 91%. (see Table 2 below). The remaining percentage of undisbursed compensation payments relates to those cases where there was no valid form of identification and/or the rightful recipient had passed away. The high level of success is attributed to the introduction of the automated compensation payments processing system (the flow centric), good messaging and timely procurement of commodities from local farmers.

LHDA disburses compensation to affected communities

Table 2: Compensation Disbursements

Area	Annual Cash Payment			Grain Distribution					
	Eligible HHs	HHs served	% served	Eligible HHs	Target		Actual		
					Maize (70 kg)	Beans (Kg)	Maize	beans	%
Katse	1,211	1,131	93	498	4,730	10,205	4,558	9,859	96
Muela	316	316	100	54	442	958	435	944	98
Mohale	545	517	95	55	398	870	397	861	99
Total	**2,072**	**1,964**	**96**	**607**	**5,570**	**12,033**	**5,390**	**11,664**	**97**

Community Development programs

Advisory services and monitoring support were offered to communities that have invested their communal assets compensation money into different livelihoods initiatives that include, amongst others, poultry, piggery, and boat transport. There were also development projects that involved the construction of a footbridge at Ramohope which is virtually complete and sanitation project (VIP latrines) at Letlapeng, where 42 out of 100 units have been completed. Four other communities at Sebaretlane, Maseanokeng and Ha Luka were involved in solar electrification project. Due to on-going litigation where certain communities have taken LHDA to court to force payment of perceived entitlements, no communal compensation payments were effected to any of the communities pending the courts determination.

Contracts

Some of the contracts that were planned and managed during the reporting period include the following.

Contract no. 1273: To monitor impacts of the LHWP on the flora and fauna within Phase 1 catchments of the LHWP.

Contract 1292: To collect complementary data and apply decision rules to determine the need for or against 2nd tranche payment downstream of the LHWP structures.

Contract 1304: To determine the impacts of the LHWP on the standard of living of the communities affected by the Project.

Contract 1253: To provide cadastral and topographic survey services to the LHDA as and when required.

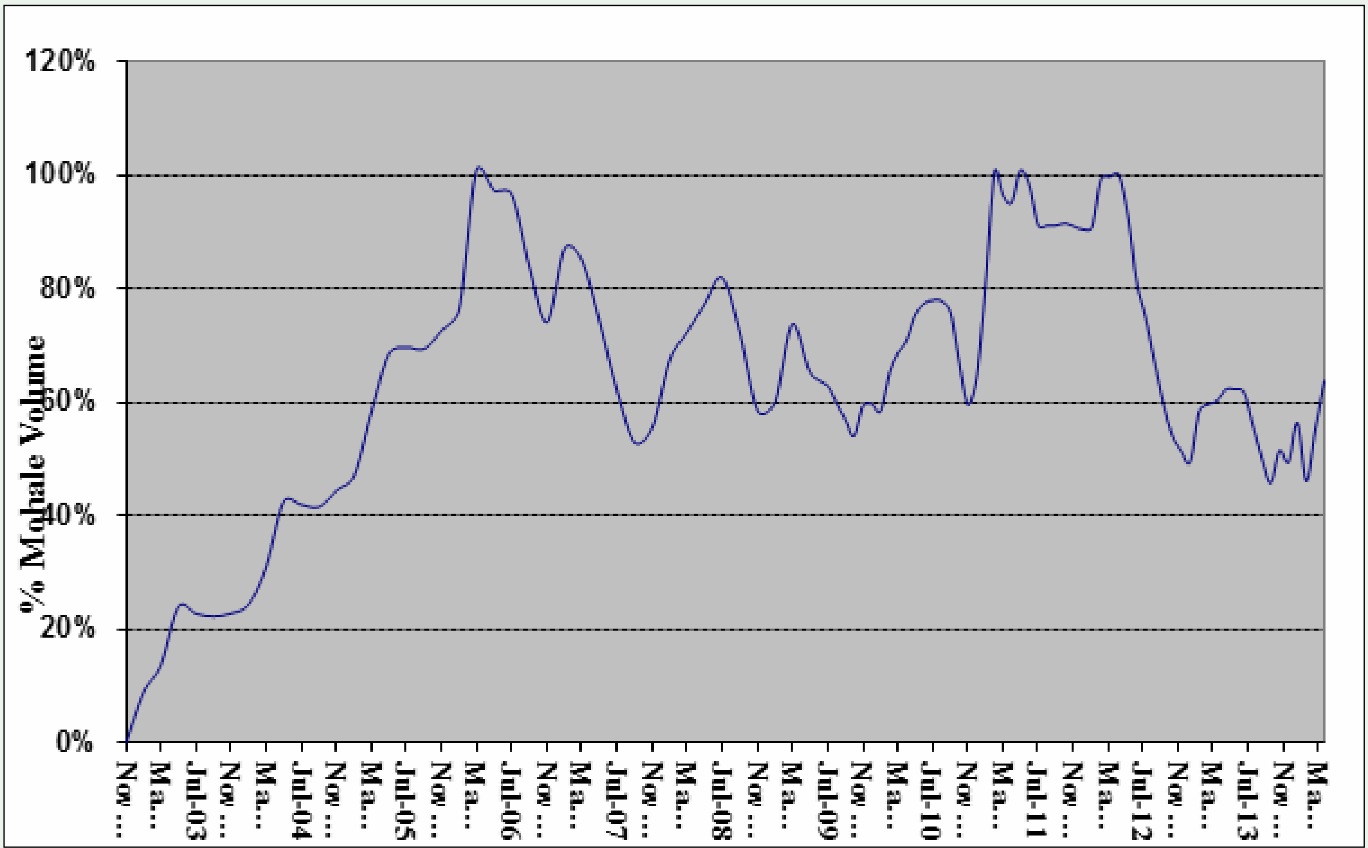
Contract 1295: To establish a dedicated unit to oversee management of biodiversity within the LHWP catchments.

MAINTENANCE AND OPERATIONS OF THE PHYSICAL STRUCTURES

Water Levels in the Reservoirs

During the reporting period there was no substantial rainfall throughout the country hence the low water levels in the LHWP reservoirs throughout the period. The Mohale reservoir level saw a reduction from 62.3% (2056.25 masl) in April 2013 to a level of 45.8% (2045.7 masl) in September 2013, the lowest it has dropped to since impoundment and ended at 63.8% (2057.14 masl) by end March 2014.

Fig 3: Mohale Reservoir variations since impoundment in 2002 to 31st March 2014



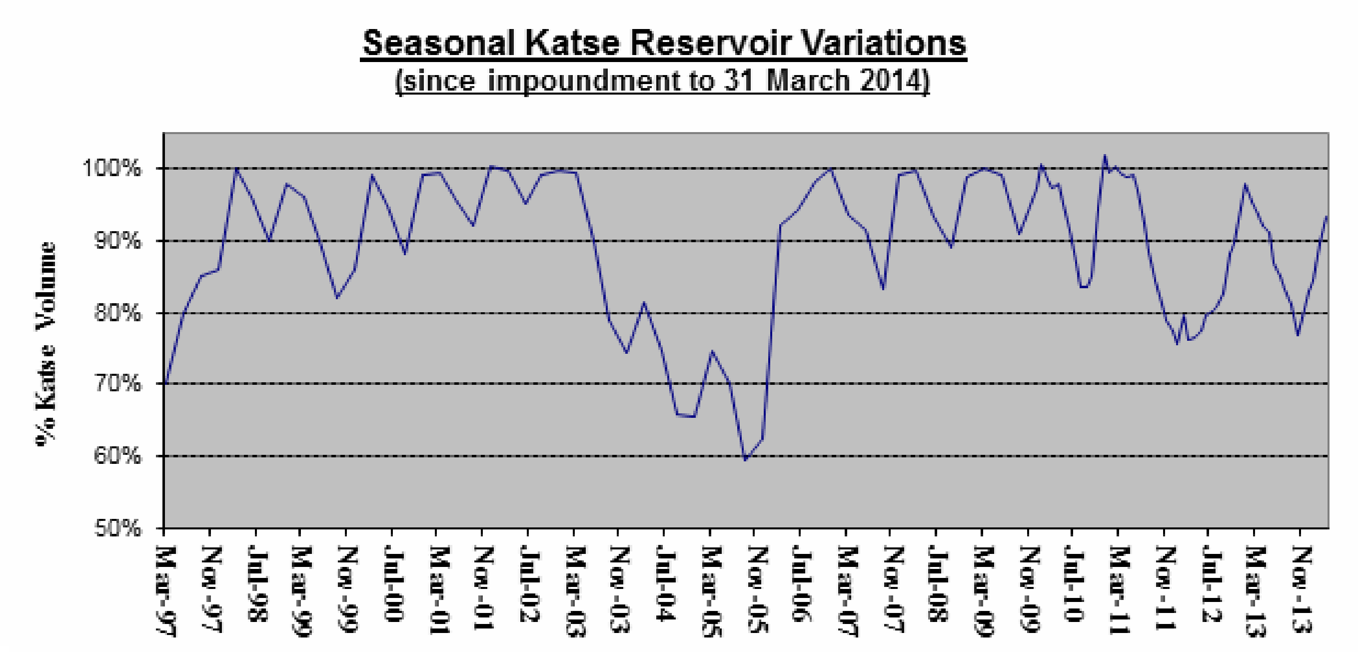
Mohale tunnel was opened to deliver water to Katse reservoir from July 2013 to January 2014 to lower the Mohale reservoir level and creation of volume space for summer rainfall.

Katse reservoir started at 94.24% (2049.86 masl) in April 2013 and reduced to 76.65% (2040.28 masl) in October 2013 and increased to a maximum of 93.36% (2049.30 masl) by the end of the reporting period.

The aerial view of the Mohale Dam

Katse Dam overspilling - View from the right bank

Fig 4: Katse reservoir level variations from 1st April 1997 to 31st March 2013



Despite the LHWP catchment recording very little rainfall in the reporting period, the LHDA managed to deliver water and produce electricity according to the approved schedule. The corresponding royalties and electricity sales amounts are as indicated below.

Water Deliveries and Electricity Generation

As an implementing agency on behalf of the Lesotho Government, LHDA neither receives any revenue from water delivered to South Africa nor revenue from the electricity delivered to the Lesotho Electricity Company. The revenue accruing from such operations is paid directly to Government and recorded in the books of the Lesotho Government. The table below provides a three-year historic performance record.

Water Deliveries

Water deliveries to South Africa in Financial Year 2013/2014 were 783 Million m^3. This was 0.38% above the planned/agreed deliveries of 780 Million m^3. The stringent control of the water deliveries to South Africa are effected on calendar year basis. Details are shown in the table 4 below.

The corresponding royalty revenue accruing to the Lesotho Government in Financial Year 2013/2014 was M733.9 million.

Table 4: Water Deliveries and Royalties

Year	Planned Deliveries (million m3)	Actual Deliveries (million m3)	% Variance in Deliveries	Actual Royalties (M million)
2011/2012	780	876	**+12.3%**	614.7
2012/2013	780	730	**-6.4%**	630.7
2013/2014	780	783	**+0.38%**	733.9

Since commissioning of first water deliveries in January 1998 to the end of March 2014, the total royalties accruing to the Lesotho Government is recorded at M5.4 billion. The corresponding volume of total water delivered to South Africa is 11.243 billion M^3.

Electricity Generation

Electricity generation of 517 GWhr was 3.0% higher than the planned generation of 502 GWhr for the reporting period. The additional electricity generation was effected in order to alleviate shortfalls in Lesotho's electricity imports. Total electricity exports from 'Muela to Eskom (South Africa) amounted to 0.3% of total production.

Table 5: Electricity Generation and Value

Year	Planned Generation (GWhr)	Actual Generation (GWhr)	% Variance in Generation	Actual Value (M million)	% Export of total annual production	Export Value (M million)
2011/2012	507	549	**+8.3%**	54.9	8.3%	7.75
2012/2013	490	461	**-6.0%**	50.1	3.0%	2.71
2013/2014	502	517	**+3.0%**	56.7	0.3%	0.36

As the table indicates, a total of M56.7 million was recorded as revenue payable by LEC to the Lesotho Government in relation to the Muela electricity supplied to LEC. A total of M0.36 million was generated from electricity exports to Eskom.

Total cumulative value of electricity generated since the commissioning of 'Muela hydropower plant in August 1998 to March 2014 is M856.84 million.

Water Releases from 'Muela into the 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 5.71 MCM of water into the Caledon River from 24th September to 19th October 2013.

Major Engineering Projects and Contracts Executed

'Muela Hydropower Plant (MHP) Major Repairs

The 3-year project for the rehabilitation of three (3) 'Muela Hydropower Plant (MHP) turbines 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. The end of defects liability period checks were undertaken in December 2013.

2012 'Muela Transfer Tunnel Outage and Inspection Remedial Works

Following the outage and inspection in 2012, there were a number of remedial works recommended to be undertaken. One of the works was the installation of the 'Muela Dam debris control system. The system was procured and installed successfully in the reporting period. Other works such as replacement of the 'Muela Station bypass guard valve require long procurement lead time and are planned for the next tunnel inspection outage.

PHASE II OF THE LESOTHO HIGHLANDS WATER PROJECT

Background

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

The Phase II Agreement was signed by the two Parties in August 2011. However, it did not automatically enter into force once signed as the constitutional requirements for entry into force had to first be complied with in each country. The Government of the South Africa ratified the Agreement in November 2012 and the Government of Lesotho did the same in May 2013.

Project Components

The LHWP Phase II has two components whose details are shown in the table below. The components are namely:

1. The Water Transfer Component
2. The Hydro-Electricity Generation Component.

Table 6: Major Components of Phase II of the LHWP

Water Transfer Component	Hydro-Electricity Generation Component
163.5 m high Concrete-Faced Rockfill Dam (CFRD)	100 m high dam at Kobong
70m high Intake Tower	1,200 MW Pump Storage
38 km long & 5 m diameter Tunnel	
Activities Common to Both Components	
Access roads, Feeder roads, Project housing/camps, Telecommunications and Construction power system	
Environmental & Social studies and mitigation measures	
Resettlement, Compensation and livelihoods restoration programmes	
Public Health Programmes	
Public Relations and awareness campaigns	

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. In July 2013, LHDA appointed CDM International Inc. as the PMU for Phase II. By the end of March 2014, the PMU had already established, submitted the Inception Report and had commenced the development of the Terms of References for professional services contracts.

The Water Transfer Component

The implementation of the Water Transfer Components is already in progress as indicated below.

Phase II Preparatory Works

Construction of Polihali Gauging Weir

The construction of a gauging station downstream of Polihali Dam site by Lesotho Steel Products (LSP) Pty Ltd was completed on 17 October 2014 when the supervising consultant AECOM issued a Taking Over Certificate. The weir has been operational since then and the recorded flows will provide site specific hydrological data and other information required for assessing the yield of the system.

The Polihali Measuring Weir

Environmental Baseline Studies

In order to mitigate further delays and to fast track the implementation programme, the LHDA enlisted (through open tender processes) service providers to undertake the critical environmental baseline studies. The results of these studies will provide a useful input into the Environmental Impact Assessment (EIA) processes for various components of the Project.

The status of the Baseline Studies as at 31 March 2014 is reflected below; summarized in the table below:

Table 7: The Status of Baseline Studies as at 31 March 2014

Contract Number	Title	Service Provider	Start Date	Progress
6000	Socio-Economic Baseline Study (20 months)	CES & NHA	28 Jan 13	**70%**
6001	In-stream Flow Requirements (IFR) Baseline Study (19 months)	INR & GROW	28 Jan 13	**74%**
6002	Biological & Archaeological (Heritage) Baseline Study (14 months)	CES	28 Jan 13	**99%**
6008	Public Health Baseline Study (17 Months)	NHA	10 Feb 14	**15%**

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

The Hydropower Generation Component

By the end of the reporting period negotiations for a grant Financing Agreement with the World Bank to undertake further feasibility studies on the proposed Kobong Pump Storage scheme were at an advanced stage. The implementation of the Kobong Hydropower Generation Component is subject to the outcome of these studies.

Indicative Phase II Programme

The table below provides a high level overview of the most likely roll out of the Phase II programme. This indicates that the completion of the water and hydropower generation component is scheduled for completion in 2023. At the time of reporting, this date is dependent on necessary approvals for key decisions being given in time by the Parties to the Treaty.

Table 8: Indicative Phase II Programme

Item	Description	Date
1	Government Sign Phase II Agreement	Aug '11
2	Specialist studies - Environment & Social	Jan '13 – Aug'15
3	Establish Project Management Unit	Jul '13 - Sept '13
4	Issue Tenders – Consultancy Services	
4.1	Environmental Impact Assessment	From Aug '14
4.2	Advanced Infrastructure	From Aug '14
4.3	Main Works	From Aug '14
5	Issue Tenders - Construction	
5.1	Advanced Infrastructure	From Mar '15
5.2	Feeder Roads	From Jan '17
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	Mar '17 – Dec '22
7	Implementation of Environmental Programmes	From Jan '15
8	Start Impoundment to 2000 masl	During 2021/22
9	Water Delivery	During 2022/23
10	Hydro-Power - Implementation	July '16 – Dec 22

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

ANNUAL FINANCIAL STATEMENTS

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LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

ANNUAL FINANCIAL STATEMENTS

AT 31 MARCH 2014

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 (Chief Executive) Mr D Lukhele (Chief Operations Officer) Mr T Tente (Divisional Manager Phase II) Mr MC Botha (Chief Financial Officer)
NATURE OF BUSINESS	:	Implementation, operation and maintenance of the Lesotho Highlands Water Project
AUDITORS	:	New Dawn 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	:	Ms T Matshikiza (Acting)
COUNTRY OF INCORPORATION	:	Lesotho
LEGAL FORM	:	Authority
PRESENTATION CURRENCY	:	Maloti

BOARDS' STATEMENT OF RESPONSIBILITY
At 31 March 2014

The Board is required to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the authority as at the end of the financial year and the results of its operations and cash flow for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The Board acknowledge that they ultimately responsible for the system of internal financial control established by the Authority and place considerable importance on maintaining a strong control environment. To enable the Board to meet these responsibilities, the Board sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Authority and all employees are required to maintain the highest ethical standards in ensuring the Authority's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Authority is on identifying, assessing, managing and monitoring all known forms of risk across the Authority. While operating risk cannot be fully eliminated, the Authority endeavours to minimize it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Board is of the opinion, based on the information and explanations given by management, that the systems of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal control can provide only reasonable assurance, and not absolute assurance against material misstatement or loss.

The Board has reviewed the Authority's cash flow forecast for the year to 31 March 2015 and, in the light of this review and the current financial position, they are satisfied that the Authority has or has access to adequate resources to continue in operational existence in the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the Authority's annual financial statements. The annual financial statements have been examined by the Authority's external auditors and their report is presented on page 31.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The Annual Financial Statements set out on pages **32 to 70** were approved by the Board and signed on behalf of the Board by:

Mr J.J Eagar

CHAIRPERSON

25/9/14

DATE

Mrs Refiloe Tlali

CHIEF EXECUTIVE

25/9/14

DATE

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NEW DAWN CHARTERED ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

Report on the financial statements

We have audited the financial statements of Lesotho Highlands Development Authority, as set out on pages 32 to 70, which comprise the statement of financial position as at 31 March 2014, 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 Statements

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

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 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, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of **Lesotho Highlands Development Authority** as at 31 March 2014, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

New Dawn Chartered Accountants
9 October 2014

Partners: T. Pitso CA (L), CIRM (UK), L. Pekane CA (L)
NEW DAWN CHARTERED ACCOUNTANTS

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED 31 MARCH 2014

1. STATEMENT OF ACTIVITIES

The Authority is entrusted with the responsibility for the implementation, operation and maintenance of the Lesotho Highlands Water Project (LHWP) as defined in the Treaty on the Lesotho Highlands Water Project signed by the Government of the Kingdom of Lesotho (GOL) and the Government of the Republic of South Africa (RSA) 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.

Phase II of LHWP

Water Transfer component
Activities for the implementation of Phase II started during the previous financial year.

Hydropower component
World Bank funding for the completion of the feasibility study of the Hydropower component is being finalized, with a view to the finalization thereof within two (2) years.

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2014

	NOTE	2014 M'000	2013 M'000
Revenue		-	-
Other Income		19 522	19 233
Total Income		**19 522**	**19 233**
Foreign Gains/(Losses)		(257)	(2 906)
Construction and Contractor Costs		(55 371)	(20 534)
Depreciation		(349 917)	(308 267)
Resettlement and Compensation Costs		(20 210)	(27 830)
Salaries and Wages		(75 138)	(63 180)
Other Administrative and Operating Expenditure		(95 607)	(81 429)
Operating Loss	2	**(596 500)**	**(504 146)**
Finance Income		6 736	7 044
Finance Cost		(12 573)	(14 530)
Loss for the year		**(582 815)**	**(492 399)**
Allocation of loss as per cost allocation report			
Capital work in progress – 1A Water Transfer		37 289	39 129
Capital work in progress – 2A Water Transfer		56 131	14 883
Capital work in progress – 1A Ancillary Development		7 758	5 481
Capital work in progress – 1B Water Transfer		48 351	38 032
Capital work in progress – 1B Ancillary Development		1 698	1 032
Capital work in progress – 2A Hydropower		741	-
Hydropower accumulated loss		88 108	85 674
Government of South Africa Capital Fund		342 739	308 168
		582 815	**492 399**

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 2012.

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2014

	NOTE	2014 M'000	2013 M'000
ASSETS			
Non-Current assets		**10 091 862**	**10 357 048**
Completed Works and Capital Work in Progress	3	10 080 205	10 343 452
Investment Property	4	11 657	13 596
Current Assets		**208 480**	**175 151**
Contract Advance Payments	5	3 578	4
Trade and Other Receivables and Prepayments	6	40 659	19 652
Cash and Cash Equivalents	7	164 243	155 495
Total Assets		**10 300 342**	**10 532 199**
FUNDS AND LIABILITIES			
Funds and Reserves		**9 656 669**	**9 905 691**
Capital Funds		10 168 703	10 329 839
Accumulated Loss – Hydropower		(512 034)	(424 148)
Non-Current Liabilities		**495 219**	**495 733**
Loans and Borrowings	8	139 791	163 933
Provisions	9	355 428	331 800
Current Liabilities		**148 454**	**130 775**
Contract Payables and Accruals	10	21 817	10 040
Contract Retentions	10	2 578	2 158
Provisions	9	18 443	17 686
Bank Overdraft	7	862	241
Trade and Other Payables and Accruals	11	72 680	67 264
Current Portion of Loans and Borrowings	8	32 074	33 386
Total Funds and Liabilities		**10 300 342**	**10 532 199**

STATEMENT OF CHANGES IN FUNDS AND RESERVES

AS AT 31 MARCH 2014

CAPITAL FUNDS

	Government of Lesotho M'000	Government of South Africa M'000	Total M'000
Balance at 31 March 2012	**828 588**	**9 666 480**	**10 495 068**
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**
Prior year cost allocation ratification	61	(283)	(222)
Cost related payments amounts provided			
• Hydropower and Ancillary Development	57 074	-	57 074
• Water Transfer	-	219 847	219 847
Transfer from Capital Work in Progress	(9 456)	(85 640)	(95 096)
Transfer from Income Statement	-	(342 739)	(342 739)
Balance at 31 March 2014	**906 587**	**9 262 116**	**10 168 703**

ACCUMULATED LOSS – HYDROPOWER

	2014 M'000	2013 M'000
Income	6 860	6 261
Less: Cost of sales	(94 746)	(99 184)
Operations and maintenance costs	(43 458)	(51 624)
Prior year cost allocation ratification	222	(7 249)
Depreciation	(51 510)	(40 311)
Net profit / (loss) for the year	(87 886)	(92 923)
Accumulated loss at the beginning of the period	(424 148)	(331 225)
Accumulated loss at the end of the period	**(512 034)**	**(424 148)**

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 MARCH 2014

	NOTE	2014 M'000	2013 M'000
CASH FLOW FROM OPERATING ACTIVITIES			
Net Cash Inflow/(Outflow) from Operating Activities		**(52 252)**	**(83 747)**
Hydropower – deficit for the year		(88 108)	(85 674)
Water transfer – deficit for the year		(342 739)	(308 168)
		(430 847)	(393 842)
Add: Depreciation		349 917	308 267
Finance Charges		12 573	14 530
		(68 357)	(71 045)
(Increase)/Decrease in Advance Payments		(3 574)	-
(Increase)/Decrease in Other Receivables and Prepayments		(21 007)	(9 859)
Increase/(Decrease) in Provisions		24 385	12 760
Increase/(Decrease) in Contract Payables and Accruals		11 777	3 830
Increase/(Decrease) in Retentions		420	1 193
Increase/(Decrease) in Other Payables and Accruals		5 416	1 695
Increase/(Decrease) in Current Portion of Loans and Borrowings		(1 312)	(22 321)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net Cash Inflow/(Outflow) from Investing Activities		**(179 827)**	**(119 207)**
Additions to Assets		(85 858)	(20 650)
Proceeds on disposal of Assets		1 127	-
Expenditure Transferred to Funds		(95 096)	(98 557)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net Cash Inflow/(Outflow) from Financing Activities		**240 206**	**189 109**
Government of Lesotho		57 074	51 482
Government of Republic of South Africa		219 847	182 765
Increase/(Decrease) in Loans and Borrowings		(24 142)	(30 608)
Finance Charges		(12 573)	(14 530)
Net (Decrease)/Increase in Cash and Cash Equivalents		**8 127**	**(13 845)**
Cash and Cash Equivalents at the beginning of the period		155 254	169 099
Cash and Cash Equivalents at the end of the period	**7**	**163 381**	**155 254**

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 Adoption of new and amended Accounting Policies and Disclosures

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.

Title	**Status**	**Issue date of original standard**	**Effective date (annual periods beginning on or after)**
Amendments to IFRS 7 - Disclosures - Offsetting Financial Assets and Financial Liabilities	May early adopt	December 2011	1 January 2013
IFRS 13 - Fair Value Measurement	May early adopt	May 2011	1 January 2013
Annual Improvements to IFRSs 2009-2011 Cycle	May early adopt	May 2012	1 January 2013

1.2. Adoption of new and amended Accounting Policies and Disclosures (Continued)

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

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7
Amendments require entities to disclose gross amounts subject to rights of set-off, amounts set off in accordance with the accounting standards followed, and the related net credit exposure. This information will help investors understand the extent to which an entity has set off in its balance sheet and the effects of rights of set-off on the entity's rights and obligations.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance for determining the fair value of assets and liabilities. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets.

Improvements to International Financial Reporting Standards Key requirements
The IASB's annual improvements process deals with non-urgent, but necessary, clarifications and amendments to IFRS.
2009-2011 cycle (issued in May 2012)
The amendments are applicable to annual periods beginning on or after 1 January 2013. Earlier application is permitted and must be disclosed. The amendments are applied retrospectively, in accordance with the requirements of IAS 8 for changes in accounting policy.

1.2. Adoption of new and amended Accounting Policies and Disclosures (Continued)

IAS 1 Presentation of Financial Statements	**Clarification of the requirements for comparative information** The amendment clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. The opening statement of financial position (known as 'the third balance sheet') must be presented when an entity changes its accounting policies (making retrospective restatements or reclassifications) and those changes have a material effect on the statement of financial position.
IAS 16 Property, Plant and Equipment	**Classification of servicing equipment** • The amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 34 Interim Financial Reporting	**Interim financial reporting and segment information for total assets and liabilities** • The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 Operating Segments. • Total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual financial statements for that reportable segment.

1.3. Significant Accounting Judgments and Estimates

Estimation uncertainty

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

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

Provision for Future Compensation

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

The Instream Flow Requirements (IFR), 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 2014 amounts to M 367 750 936.

1.3 Significant Accounting Judgments and Estimates (Continued)

Classification between Property, Plant and Equipment and Investment Property
Management classifies property which is held for either capital appreciation or to earn rentals as Investment Property. All other property and non-current assets are classified as Property, Plant and Equipment.

1.4 Summary of Significant Accounting Policies

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

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

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

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

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

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

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

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

1. ACCOUNTING POLICIES (Continued)

1.4 Summary of Significant Accounting Policies (Continued)

Property, Plant and Equipment – Work-in-Progress (Continued)

(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.

1. ACCOUNTING POLICIES (Continued)

1.4 Summary of Significant Accounting Policies (Continued)

Impairment of Financial Assets (Continued)

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

Derecognition of Financial Assets and Liabilities

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

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

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

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

1. ACCOUNTING POLICIES (Continued)

1.4 Summary of Significant Accounting Policies (Continued)

Trade and Other Receivables (Continued)

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

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

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

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

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

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

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

1. ACCOUNTING POLICIES (Continued)

1.4 Summary of Significant Accounting Policies (Continued)

Foreign Currency Translation (Continued)

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

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

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

Impairment of Non-Financial Assets

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

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

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

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 withholds 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
Income tax

As per the signed Phase II agreement, income taxes levied by Lesotho and paid by the LHDA and its Contracting Parties relating to the implementation, operations and maintenance of that part of the LHDA operations relating to the delivery of water to South Africa, shall be refunded by Lesotho to South Africa through the LHDA as a cost reduction of such water transfer costs. Lesotho shall be entitled to retain a 30% administration fee on all amounts to be refunded to South Africa.

1. ACCOUNTING POLICIES (Continued)

1.4 Summary of Significant Accounting Policies (Continued)

Taxation (Continued)
Value-added tax
As per the signed Phase II agreement, VAT levied by Lesotho and paid by the LHDA on activities relating to the implementation, operations and maintenance of that part of the Project relating to the delivery of water to South Africa, shall be refunded by Lesotho to South Africa, through the LHDA, as a cost reduction of such water delivery costs.

Dues & Charges

As per the signed Phase II agreement, Dues & Charges levied by Lesotho and paid by the LHDA on activities relating to the implementation, operations and maintenance of that part of the Project relating to the delivery of water to South Africa, shall be refunded by Lesotho to South Africa, through the LHDA, as a cost reduction of such water delivery costs.

The relevant taxation provisions of the Phase II agreement shall apply to both Phase 1 and II.

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

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

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

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

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

1. ACCOUNTING POLICIES (Continued)

1.4 Summary of Significant Accounting Policies (Continued)

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
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 is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Authority's financial assets, but will not have an impact on classification and measurements of the Authority's financial liabilities. The Authority will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

1. ACCOUNTING POLICIES (Continued)

1.4 Summary of Significant Accounting Policies (Continued)

Standards issued but not yet effective (Continued)

IAS 32 Offsetting Financial Assets and Financial
The amendments to IAS 32 clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems, which apply gross settlement mechanisms that are not simultaneous. The amendments clarify that rights of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract, including the reporting entity itself. The amendments also clarify that rights of set-off must not be contingent on a future event. The IAS 32 offsetting criteria require the reporting entity to intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The amendments clarify that only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables an payables in a single settlement process or cycle would be, in effect, equivalent to net settlement and, therefore, meet the net settlement criterion. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Authority.

IFRIC 21 Levies
IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Authority does not expect that IFRIC 21 will have material financial impact in future financial statements.

	2014 M'000	2013 M'000
2. OPERATING LOSS		
Operating Loss is stated after :		
Expenses		
Auditor's Remuneration	885	839
Construction and Contractor Costs	55 371	20 534
Depreciation	349 917	308 267
Finance Charges	12 573	14 530
Foreign Exchange (Gain)/Loss	257	2 906
Resettlement and Compensation Costs	20 210	27 830
Staff Costs – Short Term Benefits	75 138	63 180
Investment property income	(4 172)	(4 158)
Rental expenses	365	334

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

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2014

3. PROPERTY, PLANT AND EQUIPMENT
COMPLETED WORKS – By Allocation

	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 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	14 575 561
Accumulated Depreciation	(242 728)	(250 172)	(3 718 310)	(42 613)	(4 253 823)
Taxes Refundable by the Government of Lesotho	-	-	-	-	-
Reclassification	120 280	(49 816)	(70 464)	-	-
Cost	336 218	(233 293)	(102 925)	-	-
Accumulated depreciation	(215 938)	183 477	32 461	-	-
Additions	-	-	-	9 702	9 702
Transfer from Work in Progress	-	-	1 193	1 454	2 647
Depreciation	(40 374)	(7 152)	(294 423)	(5 992)	(347 941)
Disposal/donation of assets	-	-	-	(3 107)	(3 107)
Accumulated Depreciation on disposed assets	-	-	-	1 942	1 942
Carrying Value at 31 March 2014	**726 830**	**135 992**	**9 084 187**	**37 972**	**9 984 981**
Cost	1 225 870	209 839	13 064 459	84 635	14 584 803
Accumulated Depreciation	(499 040)	(73 847)	(3 980 272)	(46 663)	(4 599 822)
Taxes Refundable by the Government of Lesotho	-	-	-	-	-
The useful life of the assets is estimated as follows:	50	25	50	3-5	

The gross carrying amount of all fully depreciated property, plant and equipment that is still in use is M 2 354 772.

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2014

3. PROPERTY, PLANT AND EQUIPMENT

COMPLETED WORKS – By type

	Civils – Bridges & Roads M'000	Civils – Buildings and other structures M'000	Civils – Dams/Adits/Galleries/Shafts/OUtlets M'000	Civils – Tunnels M'000	Civils - Other M'000	Plant & Sundry Other M'000	Total M'000
Carrying Value at 31 March 2012	**1 589 500**	**775 515**	**3 448 514**	**3 811 540**	**783 990**	**212 496**	**10 621 555**
Cost	2 058 764	1 075 846	4 776 285	5 151 589	1 202 861	303 716	14 569 061
Accumulated Depreciation	(469 264)	(300 331)	(1 327 771)	(1 340 049)	(418 871)	(91 220)	(3 947 506)
Taxes Refundable by the Government of Lesotho	-	-	-	-	-	-	-
Additions	387	-	-	-	543	5570	6 500
Depreciation	(40 483)	(19 649)	(93 898)	(101 276)	(23 658)	(27 353)	(306 317)
Disposal/donation of assets	-	-	-	-	-	-	-
Accumulated Depreciation on disposed assets	-	-	-	-	-	-	-
Carrying Value at 31 March 2013	**1 549 404**	**755 866**	**3 354 616**	**3 710 264**	**760 875**	**190 713**	**10 321 738**
Cost	2 059 151	1 075 846	4 776 285	5 151 589	1 203 404	309 286	14 575 561
Accumulated Depreciation	(509 747)	(319 980)	(1 421 669)	(1 441 325)	(442 529)	(118 573)	(4 253 823)
Taxes Refundable by the Government of Lesotho	-	-	-	-	-	-	-
Additions	-	1 155	-	-	-	11 194	12 349
Depreciation	(53 962)	(26 061)	(92 934)	(99 557)	(60 307)	(15 120)	(347 941)
Disposal/donation of assets	-	-	-	-	-	(3 107)	(3 107)
Accumulated Depreciation on disposed assets	-	-	-	-	-	1942	1 942
Carrying Value at 31 March 2014	**1 495 442**	**730 960**	**3 261 682**	**3 610 707**	**700 568**	**185 622**	**9 984 981**
Cost	2 059 151	1 077 001	4 776 285	5 151 589	1 203 404	317 373	14 584 803
Accumulated Depreciation	(563 709)	(346 041)	(1 514 603)	(1 540 882)	(502 836)	(131 751)	(4 599 822)
Taxes Refundable by the Government of Lesotho	-	-	-	-	-	-	-
The useful life of the assets is estimated as follows:	50	25-50	25-50	50	50	3-50	

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2014

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 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)
Reallocations	-	(7 986)	-	-	-	-	7 986	-	-
Prior Year Reallocations	-	(1 734)	2 468	(795)	(3 838)	2 239	1 734	(74)	-
Cost allocation	-	741	7 758	1 698	37 289	48 351	56 131	-	151 968
Transferred to Capital Funds	-	1 734	(10 226)	(903)	(33 451)	(50 590)	(1 734)	74	(95 096)
Work in progress during the year	-	-	-	-	-	-	16 933	2 352	19 285
Transfer to completed works	-	-	-	(826)	-	-	-	(1 821)	(2 647)
Carrying Value at 31 March 2014	**-**	**7 991**	**14**	**-**	**-**	**-**	**81 050**	**6 196**	**95 224**
Cost	1 334 465	8 322	673 138	230 291	8 586 375	5 830 781	100 388	24 412	16 788 172
Total transferred to Completed Works/Capital funds	(1 334 465)	(331)	(673 124)	(230 291)	(8 586 375)	(5 830 781)	(19 338)	(18 243)	(16 692 948)

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 2012 have been included.

4. INVESTMENT PROPERTY

	Total M'000
Net Book Value 31 March 2012	**15 245**
Assets at Cost	22 547
Accumulated Depreciation	(7 302)
Prior 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)
Current years Movements:	
Additions/Improvements	37
Disposals	-
Depreciation	(1 976)
Net Book Value 31 March 2014	**11 657**
Assets at Cost	22 885
Accumulated Depreciation	(11 228)

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. As at 31 March 2014, the fair value of the property is based on a valuation performed by Equity Property Professionals, an accredited independent valuer. The Income capitalization approach was used in the determining the market value of the property. The market value was determined as M41 993 761. No indicators of impairment were identified.

5. CONTRACT ADVANCE PAYMENTS

	2014 M'000	2013 M'000
Contract Advance Payments	3 578	4
Provision for Doubtful Debts	-	-
	3 578	**4**

6. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2014 M'000	2013 M'000
Trade Receivables	5 207	6 746
Staff Receivables	12	16
Lesotho Revenue Authority		
Previous Tax legislation	8 992	8 821
New tax legislation – article 14	8 718	-
Other Receivables and Prepayments	21 824	8 661
Provision for Doubtful Debts	(4 094)	(4 592)
	40 659	**19 652**

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 2014, trade receivables and other receivables at initial value of M 4 094 000 (2013: M 4 592 000) were impaired and fully provided

At 31 March 2014, 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**
2013	6 746	-	228	132	232	60	6 094
2014	5 207	-	442	214	151	65	4 335

7. CASH AND CASH EQUIVALENTS

	2014 M'000	2013 M'000
Cash at Bank	163 299	155 159
Cash on Hand	82	95
	163 381	**155 254**
Current Assets	**164 243**	**155 495**
Current Liabilities	**(862)**	**(241)**
Currency Analysis		
US Dollar	-	-
Maloti	**163 381**	**155 254**
	163 381	**155 254**

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 M163 381 000 (2013: M155 254 000).

8. LOANS AND BORROWINGS

	2014 M'000	2013 M'000
Non-Current Portion	139 791	163 933
Current Portion	32 074	33 386
	171 865	**197 319**
Currency Analysis		
Rands	121 829	143 931
Maloti	-	-
Euro	50 036	50 029
Sterling Pound	-	-
US Dollar	-	3 359
	171 865	**197 319**
Interest Bearing Status		
Interest-bearing	171 865	197 319
Non-interest bearing	-	-
	171 865	**197 319**
Maturity Profile		
Within One Year	32 074	33 386
Between Two and Five Years	111 681	133 404
More than Five Years	28 110	30 529
	171 865	**197 319**

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2014

	Trans Caledon Tunnel Authority Debt Service Loans	**Effective Interest Rate%**	**2014 M'000**	**2013 M'000**
Institution	***Offshore loans***			
World Bank	Repayable in semi-annual instalments ending May 2013	0.78%	-	3 359
European Investment Bank	Repayable in semi-annual instalments ending January 2018	3%	50 036	50 029
European Investment Bank	Repayable in semi-annual instalments ending March 2018	Libor	36 976	46 220
European Investment Bank	Repayable in semi-annual instalments ending September 2018	Libor	25 253	30 865
	Common Monetary Area Loans			
DBSA	Repayable in semi-annual instalments ending March 2016	7%	518	752
DBSA	Repayable in semi-annual instalments ending September 2021	12.23%	632	681
DBSA	Repayable in semi-annual instalments ending September 2021	10.92%	2 335	2 528
DBSA	Repayable in semi-annual instalments ending March 2022	10.68%	22 235	25 014
DBSA	Repayable in semi-annual instalments ending March 2022	12.12%	12 720	14 310
DBSA	Repayable in semi-annual instalments ending March 2022	12.96%	1 773	1 894
DBSA	Repayable in semi-annual instalments ending September 2022	Jibar	19 387	21 667
	Total		**171 865**	**197 319**

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2014

Institution	Government of Lesotho Debt Service Loans	Effective Interest Rate%	2014 M'000	2013 M'000
	Offshore loans			
	Common Monetary Area Loans			
DBSA	Repayable in semi-annual instalments ending March 2015	13%	4 024	9 780
DBSA	Repayable in semi-annual instalments ending September 2019	13%	1 559	1 946
Government of Lesotho	Muela Re-financing by the Government of Lesotho		(5 583)	(11 726)
	Total		-	-
	Grand Total		**171 865**	**197 319**

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.

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2014

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 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**
Additional Provisions made during the year	24 121	616	3 725	1 779	30 241
Amounts used	-	(2 437)	(2 116)	(1 303)	(5 856)
Carrying Value: 31 March 2014	**367 751**	**616**	**3 725**	**1 779**	**373 871**

	2014 M'000	2013 M'000
9. PROVISIONS (Continued)		
Non-Current	355 428	331 800
Current	18 443	17 686
	373 871	**349 486**

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), 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.

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

	2014 M'000	2013 M'000
Contract Payables	3 487	802
Contract Accruals	18 330	9 238
	21 817	**10 040**
Contract Retentions	2 578	2 158
	24 395	**12 198**

11. TRADE AND OTHER PAYABLES AND ACCRUALS

	2014 M'000	2013 M'000
Trade payables	3 808	1 713
Staff payables	-	-
Accrued interest on loans	515	371
Other payables	17 836	20 701
Accruals for future compensation	50 521	44 479
	72 680	**67 264**

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 81 934 945 (2013: M 39 850 272). 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 (2013: M nil) The following contracts have been approved and contracted: M 313 310 572 (2013: M28 564 101)

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 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 assets for which fair value is disclosed at 31 March 2014**:**

	Level 1	Level 2	Level 3	Total Balance
Assets	-	-	-	-
Investment Property	-	-	M41 993 761	**M41 993 761**
Liabilities	-	-	-	-

There have been no transfers between levels for recurring fair value measurements during the year.

Items and valuation approach	Key unobservable inputs	Relationship between unobservable inputs to fair value
Investment Property		
The valuation was performed using the income capitalisation methodology. The methodology used is based on the capitalisation of potential net income generated by the property.	Expected vacancy rate. Rental growth rate. Capitalisation rate.	The higher the capitalisation rate and expected vacancy rate, the lower the fair value. The higher the rental growth rate, the higher the fair value.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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
2013		
Euro	+10%	5 003
US Dollar	+10%	336
Euro	-10%	(5 003)
US Dollar	-10%	(336)
2014		
Euro	+10%	5 004
US Dollar	+10%	-
Euro	-10%	(5 004)
US Dollar	-10%	-

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.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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
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)
2014		
Trans Caledon Tunnel Authority Debt Service Loans		
Offshore Loans	+200	1 001
Common Monetary Area Loans	+200	388
Trans Caledon Tunnel Authority Debt Service Loans		
Offshore Loans	-200	(1 001)
Common Monetary Area Loans	-200	(388)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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 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.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Fair Value of Financial Instruments

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

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

	Carrying Amount		*Fair value*	
	2014	**2013**	**2014**	**2013**
	M'000	**M'000**	**M'000**	**M'000**
Financial Assets				
Contract Advance payments	3 578	4	3 578	4
Other receivables and prepayments	40 659	19 652	40 659	19 652
Cash and Cash Equivalents	163 381	155 214	163 381	155 214
Financial Liabilities				
Contract Payables and Accruals	21 817	10 040	21 817	10 040
Contract Retentions	2 578	2 158	2 578	2 158
Other payables and accruals	104 754	100 891	104 754	100 891
Long Term Liabilities	139 791	163 933	139 791	163 933

15. NUMBER OF EMPLOYEES

According to the payroll system the Authority had the following average number of employees during the year ending 31 March 2014: 271 (2013: 249)

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.

	2014 M'000	2013 M'000
Amounts credited to the Statement of Comprehensive Income or fund accounts		
Cost related payments GOL	57 074	51 482
Cost related payments RSA	219 847	182 765
Loans to related parties and other accounts receivable		
Receivable from LRA	17 710	8 821
Compensation to Key Management Personnel		
Short Term Employee Benefits	15 330	10 513
Total Compensation Paid to Key Management personnel	15 330	10 513
Amount outstanding at year end	-	144

No donations of Property, Plant and Equipment were made to the Government of Lesotho during the 2013 and 2014 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:

	2014 M'000	2013 M'000
The following year:	3 854	508
Year 2 – Year 5	-	-
More than 5 years	-	-
	3 854	**508**

Terms of the contract		
Specifications		
	Contract 1	Contract 2
Commencement date:	01 June 2014	01 October 2007
Contract expiry date:	30 May 2015	31 March 2015
Period of lease:	1 year with a 3 months' notice period	7.5 years
Escalation rate per annum:	CPI as published by Bureau for June each year	10% per year
Basic Rental		
Initial monthly rental per contract:	M 4 654	M 172 050

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.

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

DETAILED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2014

	NOTE	2014 M'000	2013 M'000
Revenue & Other Income			
Bad debts recovered		9	7
Investment Income		6 736	7 044
Profit on sale of assets		321	30
Miscellaneous income		15 020	15 038
Investment property income		4 172	4 158
LRA Recovery		8 992	-
Total Revenue		**35 250**	**26 277**
Expenditure			
Audit and accounting fees		885	839
Bad debts		32	8
Bank charges		69	53
Board and committee fees including reimbursements		2 927	2 826
Construction and contractor costs		55 371	20 534
Depreciation		349 917	308 267
Foreign exchange loss/(gain)		257	2 906
Increase/(Decrease) in future compensation provision		29 961	15 548
Insurance		3 538	3 258
Interest and finance expenses		12 573	14 530
Inventory and consumable stores		701	918
Leave pay		791	789
Legal and arbitration fees		1 666	4 264
Miscellaneous expenses		25 097	14 425
Motor vehicle expenses		3 171	2 994
Plant spares		2 773	1 055
Professional services		4 356	12 154
Public relation costs		3 249	1 721
Rates, electricity and water		3 864	3 771
Recruitment		154	200
Rental expenses		778	334
Repairs and maintenance		6 821	5 533
Resettlement and compensation costs		20 210	27 830
Safety awareness		14	19
Salaries, wages and allowances		75 138	63 180
Security expense		4 898	4 707
Stationery		666	607
Telephone and communication		1 655	1 540
Training		2 127	1 188
Travel and transportation		4 406	2 678
Total Expenses		**618 065**	**518 676**
Loss for the year		**582 815**	**492 399**