LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

ANNUAL REPORT 2014/2015

Lesotho Highlands Development Authority

ANNUAL REPORT 2014/2015

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LIST OF ABBREVIATIONS /ACRONYMS

ARC	Audit and Risk Management Committee
ARF	Aquaculture Regulatory Framework
CE	Chief Executive
CFRD	Concrete-Faced Rockfill Dam
COO	Chief Operations Officer
DBSA	Development Bank of Southern Africa
DOA	Delegation of Authority
EIA	Environmental Impact Assessment
EPP	Emergency Preparedness Plan
ERMC	Enterprise Risk Management Committee
ERMF	Enterprise Risk Management Framework
ERMP	Enterprise Risk Management Policy
EXCO	Executive Committee
GoI	Government of Lesotho
GWhr	Gigawatt hour
HPO	High Performance Organisation
IAS	International Accounting Standards
ICT	Information Communications and Technology
IFR	Instream Flow requirements
IFRS	International Financial Reporting Standards
KBG	Katse Botanical Garden
KFA	Key Focus Area
LHDA	Lesotho Highlands Development Authority
LHWC	Lesotho Highlands Water Commission
LHWP	Lesotho Highlands Water Project
LLEs	Local Legal Entities
masl	Metres above sea level
MCM	Million Cubic Metres
MOU	Memorandum of Understanding
Phase I	Phase I of the Lesotho Highlands Water Project
Phase II	Phase II of the Lesotho Highlands Water Project
PMU	Project Management Unit
RSA	Republic of South Africa
SHEQ	Safety Health Environment and Quality
TCTA	Trans-Caledon Tunnel Authority

PART A: GENERAL INFORMATION

VISION, MISSION AND VALUES

Vision

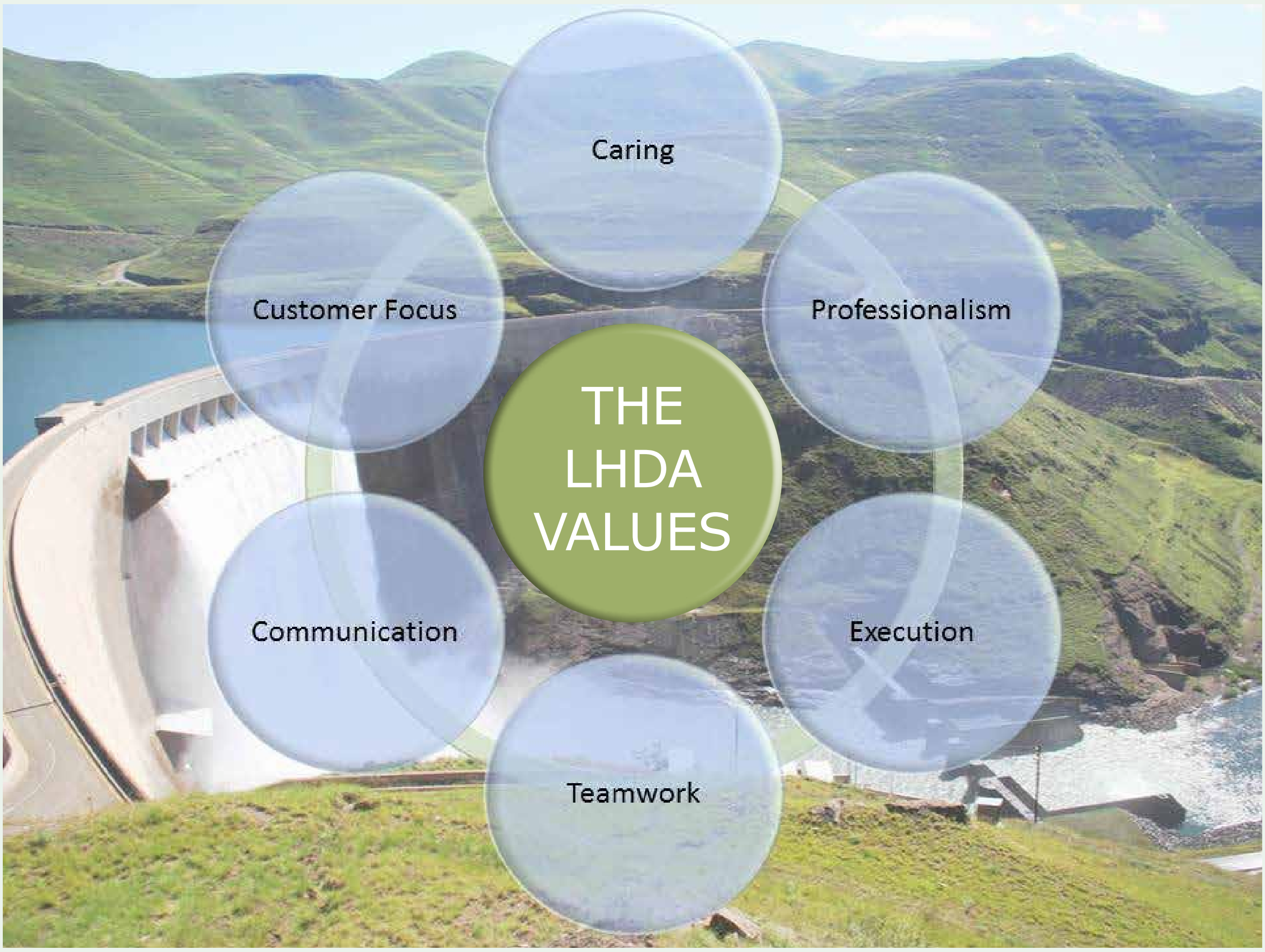
To be a world class Water Resources Development and Management Organisation.

Mission

To efficiently and effectively implement the Lesotho Highlands Water Project in accordance with internationally recognised standards in engineering, social and environmental management.

Values

The LHDA recently adopted a revised set of values to drive the right behaviour within the organisation as illustrated below.



Professionalism	Execution	Teamwork	Communication	Customer Focus	Caring
We discharge our duties with efficiency.	We get things done and have a bias for action.	We value the roles and inputs of others, and draw on each others' strengths and skills.	We share information throughout the organisation, listen effectively, and continuously strive for transparency.	All our actions are directed towards delivering value and meeting our customers' needs	We care about our employees, assets, environment, communities and stakeholders.

The LHDA has a zero tolerance approach to dishonest, corrupt and illegal conduct. This approach is central to the LHWP Anti-Corruption Policy and Code of Conduct.

Under the Whistle Blowing Policy, a hot line has been introduced to enable anyone, internal and external stakeholders, to report concerns about suspected unethical or unlawful behaviour, and any other matter related to organisational integrity.

The LHDA's comprehensive risk management approach covers all operations and risks associated with corrupt and dishonest behaviour.

Ethics management

The LHDA continues to promote ethics within its working environment. In the financial year under review, all staff signed a commitment to uphold the LHDA's code of conduct and formally declared all business interests they have.

BOARD OF DIRECTORS

MR. JOHN EAGAR
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

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)

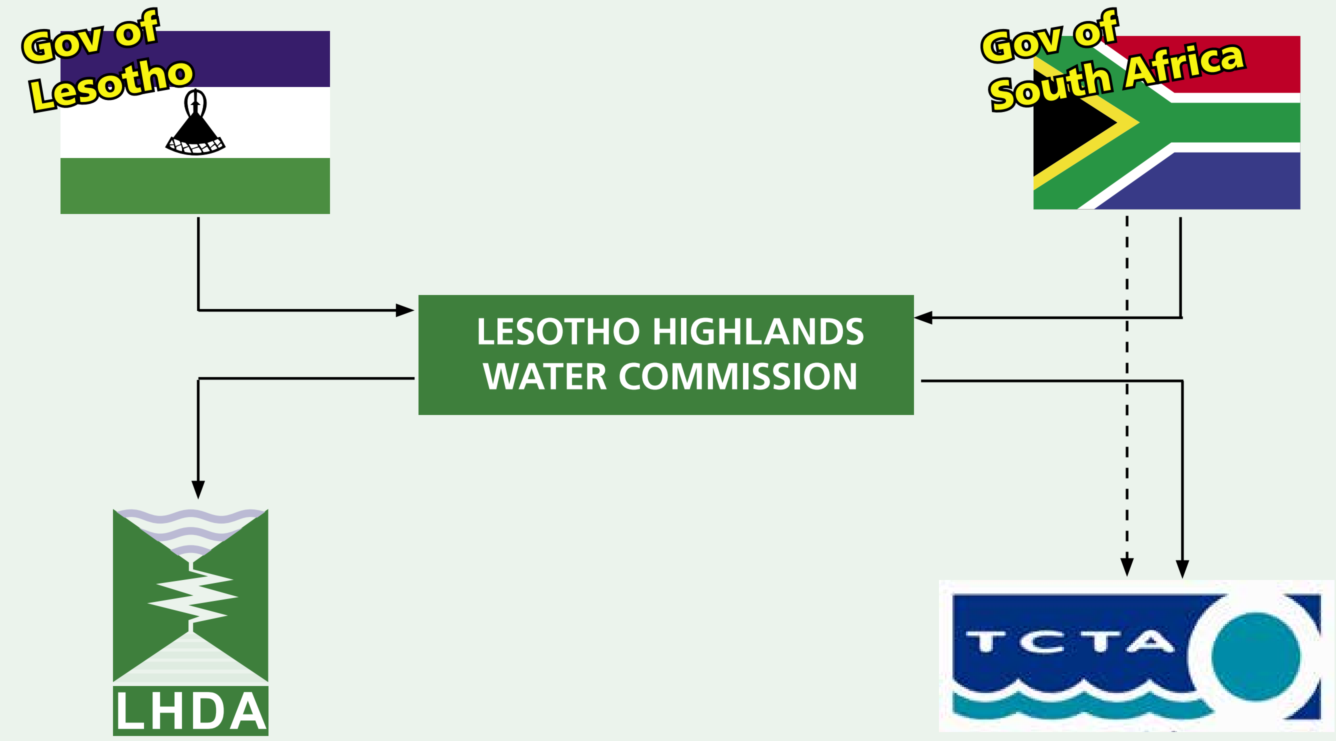
GOVERNANCE FRAMEWORK

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

The Treaty establishes the institutions required to implement the Lesotho Highlands Water Project on behalf of the two Governments. These structures as depicted below are:

- The Lesotho Highlands Water Commission
- The Lesotho Highlands Development Authority
- The Trans-Caledon Tunnel Authority

PROJECT GOVERNANCE STRUCTURE



The Lesotho Highlands Water Commission

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

The Lesotho Highlands Water Commission is charged with the overall responsibility and accountability for the Lesotho Highlands Water Project. It acts on behalf of, and advises, the two Governments. The Commission is also the channel of all Governments' inputs relating to the Lesotho Highlands Water Project.

The LHDA Board of Directors

In terms of Article 3 (41) of Protocol VI to the LHWP Treaty, the Board of Directors of the Lesotho Highlands Development Authority reports to, and is accountable to, the Commission. The Board operates within the structural framework of the Lesotho Highlands Water Project Governance Manual, Second Edition of 24 June 2004, and the legal framework provided by the 1986 Treaty and Protocol VI to the Treaty, signed on 04 June 1999.

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 organisation.

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 have been set up and was specifically established in terms of the 2011 Phase II Agreement signed between the Government of the Kingdom of Lesotho and the Government of the Republic of South Africa. Each sub-committee is chaired by a Member of the Board. The roles and responsibilities of these sub-committees are highlighted below.

Table 1: The Sub-Committees and Responsibilities

	Audit and Risk Management Sub-Committee	Human Resources Sub-Committee	Operations and Maintenance Sub-Committee	Sustainable Development Sub-Committee	Technical Sub-Committee
Members	P. Shale (Chair a.i.)[1] C.J. McLeary P. Streng M. Tsilo-Raditapole P. Swart (LHWC) T. Khathibe (LHWC)	S. Kholong (Chair a.i.)[2] D. Moagi G. Mofolo M. Monyamane L. Tromp (LHWC) L. Sekoboto (LHWC)	J. Eagar (Chair) K. Makasela N. Lesala L. Tromp (LHWC) M. Ntene (LHWC)	L. Qalinge (Chair) F. Molapo B. Qhobela M. Ramasike B. Khoachele (LHWC) K. Libetso (LHWC)	R. Mbwana (Chair) T. Tsehlo W. Croucamp A. Glendinning L. Tromp (LHWC) M. Lephoma (LHWC)
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 organisational 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, programmes and operational performance.	Advises and assists the Board in fulfilling its oversight responsibilities for the sustainability of the Project's social and environmental programmes 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-three (33) Board and Sub-Committee Meetings were held as shown in the table below.

Table 2: Board and Sub-Committee Meetings held between April 2014 and March 2015:

	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Total
Board Meetings	✓		✓		✓✓		✓		✓	✓	✓✓	✓	10
Sub- Committees Meetings													
Audit & Risk Management			✓		✓	✓✓		✓		✓		✓	7
Sustainable Development		✓			✓	✓		✓					4
Human Resources		✓	✓		✓		✓	✓					5
Operations & Maintenance	✓	✓		✓			✓	✓			✓		6
Technical Sub-Committee	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	11
Total Meetings	**3**	**4**	**4**	**2**	**6**	**4**	**4**	**5**	**1**	**3**	**4**	**3**	**33**

[1] Mr Charles Morolo served as Chairman of Audit and Risk Sub-Committee between April 2014 and May 2014

[2] Mrs Mamohale Matsoso served as the Chairperson of the Human Resources Sub-Committee between April 2014 and August 2014

THE CHAIRPERSON'S STATEMENT

It is once more my pleasure and privilege to present to our valued stakeholders this Annual Report. The Report provides a brief overview of the LHDA's performance during the 2014/15 financial year as well as challenges ahead and strategies for going forward.

I am pleased to note that during the 2014/15 reporting period much progress was made. In the previous year, I reported that in February 2014 the World Bank approved the funding to enable LHDA to commission further studies on the proposed electricity generation scheme under Phase II of the LHWP. By the end of March 2015, three months ahead of schedule, the Board had approved the contract to engage a consultant to undertake project management activities and commence the process of procuring a consultant to undertake further feasibility studies.

Another notable achievement during the year was the appointment of an outsourced Internal Audit Firm to strengthen the capacity of the internal audit function. The approval of the Audit Plan in September 2014 and the Audit Charter in March 2015, secured the foundation for effective internal audit services.

I am also pleased to announce that in line with our stated value of stakeholder inclusiveness, we have validated the Phase II Compensation Policy with the relevant stakeholders. This Policy has incorporated the views and comments received during the year-long consultations with the communities that will be affected by the Project, the community leadership and other stakeholders. The consultative process has taken into account the lessons learned under Phase I of the Lesotho Highlands Water Project and we hope that this strategy will minimise the number of complaints during the implementation of the Phase II of the LHWP.

Again this year, as in the previous year, the LHDA was able to reach over 90% of the compensation recipients during the scheduled period. This success is attributed to the now well tested pre-distribution information and engagement processes and the flexibility afforded by internal transport services to deliver the compensation commodities.

During the year, the Board approved many strategic policies which are designed to improve the operations of the organisation. These policies include the Whistle Blowing Policy; the Staff Wellness Policy, the Procurement Policy, the Phase II Compensation Policy and the Enterprise Risk Management (ERM) Policy & Framework elaborated on below.

One of the great initiatives undertaken during the year was to initiate discussions with the Project Authorities on the revision of the Delegation of Authority (DoA) with the aim of streamlining processes to ensure shorter turnaround time regarding decision making. By the end of the reporting period the revised Delegation of Authority was still under discussion with the Commission.

During the year under review, the Board sadly lost the services of three very capable members and the delays in appointing their replacements posed some challenges for the Board. Dr. Motlatsi Mokhothu passed away in May 2014 after a long illness. Dr. Mokhothu was part of a team of members responsible for the environment portfolio. Shortly thereafter the contracts of two other long serving Board members, namely that of Mrs Mamohale Matsoso and Mr. Charles Morolo expired. Mrs Matsoso was the Chairperson of both the Board of

Directors and Chairperson of the Human Resources Sub-Committee while Mr. Morolo was the Chairperson of the Audit and Risk Management Sub-Committee. These valuable members and dear friends will be greatly missed. However, the legacy they leave behind and especially the discipline they brought to the boardroom debates will make up for their physical absence.

I am particularly grateful to Mrs Matsoso from whom I have accepted the baton of the stewardship and chairmanship of the LHDA Board of Directors once more.

The Board continued to enjoy the support of the Commission. The Commission was attentive to the challenges that the Board brought to its attention and sought to resolve these as speedily as possible so that the Project target can be met.

The year's results would not be what they are had it not been for the steadfast pursuit of the agreed target outputs by the Chief Executive, Mrs Refiloe Tlali, and the executive and management team. I wish to express my gratitude to the LHDA staff for its support and loyalty in the past year.

I look forward to another exciting year ahead as the implementation of Phase II of the Lesotho Highlands Water Project gets under way.

Yours sincerely
John J. Eagar Pr. Eng.
Board Chairman

STATEMENT BY THE CHIEF EXECUTIVE

The year under review, ending in March 2015, was the 28th year since the signing of the Treaty that established the Lesotho Highlands Water Project, and the first year after the inauguration of Phase II of the Project. With the project of such magnitude, each year brings breakthroughs and milestones, and inevitably, its share of challenges. I am once again pleased to present the LHDA annual report outlining the progress, some of the achievements and challenges of the 2014/15 financial year.

During the year under review, the LHDA's three year Strategic Plan was formulated and approved by the Project authorities. The plan assisted LHDA in the coordination of efforts and resources towards achieving optimum performance in its mandated core functions of construction and maintenance of teh dams, tunnels and hydropower station. The plan set specific measures for protecting the environment and mitigating negative social impacts. The plan also highlighted the strategic vision of the LHDA of aspiring to become a High Performance Organisation (HPO) by integrating standards for excellence into the governance, management and programme operations.

During the year we conducted an organisational culture and climate survey the results of which are being used to better manage the workplace environment. We also revisited and enhanced the code of conduct and values framework. This is expected to enhance professionalism and allow for a consistent application of high ethical principles across the organisation.

Water Transfer and Power Generation Operations

I am pleased to report that regarding the transfer and delivery of water to South Africa, we met our target during the reporting period. We delivered a total of 780.098 Million Cubic Metres (MCM) of water against the target of 780 MCM. Equally as well, we successfully met our targets in the generation of electricity for Lesotho, generating 520.13GW hours against a set target of 501.0GW hours at the 'Muela Hydropower Station.

Community Development Programmes

As the Treaty dictates, we continued to make progress towards maintaining the welfare of persons and communities immediately affected by the Project. One programme initiated during the period under review, will introduce solar electrification training and know-how to communities in the LHWP area, following the training of six women from Mokhotlong, Katse and Mohale at the Barefoot College in India.

Second Tranche of Compensation for Phase I Downstream Communities

A bio-physical monitoring study of the downstream communities indicated that there was no justification for a second tranche compensation payment due to a general increase in key resources. Consultations on this issue were conducted with affected communities during the reporting period.

Phase II Progress

With the commencement of Phase II of the LHWP imminent, LHDA held three road shows in Lesotho and South Africa to inform potential contractors, consultants and the business community about the start of Phase II and the potential benefits thereof. However, there were delays in approving the Procurement Policy by the Project Authorities and the approval to advertise contracts.

Despite these challenges, I am pleased to advise that during the reporting period, LHDA awarded three (3) professional services contracts. The first was the contract for the reservoir demarcation, which involves surveying and construction of beacons around the Polihali reservoir. The second contract deals with geotechnical investigations to identify the suitability, quality and quantity of construction material at the investigated quarries as well establishing the quality of the rock foundations for the dam and tunnel. The third contract focuses on the upgrade of the Polihali North-East Access Road to a standard that allows for the safe movement of construction vehicles.

LHDA also received confirmation from the World Bank that all conditions required to effect a grant for the Phase II hydropower component of the LHWP have been met. This followed the signing of the Grant Agreement between the Lesotho Government and the World Bank, the Project Agreement between LHDA and the World Bank, and the Subsidiary Agreement between LHDA and the Lesotho Government. The Subsidiary Agreement is where the Government of Lesotho appointed LHDA as the implementing agency of Phase II of the Project, The hydropower studies are financed under the World Bank grant. These achievements are a confirmation that the hydropower component of Phase II of the Project is indeed underway.

In terms of international best practices, projects of the nature and magnitude of the LHWP Phase II require a baseline against which any future changes in the environment (biophysical and social) can be monitored. As reported in the previous annual report, LHDA had already started the following baseline studies:

- Socio-Economic Baseline Study
- Water Quality, Geomorphology and IFR Baseline Study
- Biological, Archaeology and Heritage Baseline Study

I am happy to report that the baseline studies have been completed. The studies will be used as input into the detailed Environmental Impact Assessment.

Other major highlights include the development of the Phase II Procurement Policy, the LHDA Communication Strategy and the LHDA Community Participation Strategy.

In conclusion, I would like to express my gratitude to the two Governments for their continued support of the Project. My gratitude is also extended to LHDA Management and staff who, through their dedication and hard work, have achieved visible results. We have also benefitted from the valuable support and guidance of the Lesotho Highlands Water Commission, the LHDA Board and its sub-committees.

I am confident of the same cooperation in the coming year and have high hopes that the implementation of Phase II of the Lesotho Highlands Water Project will soon be in full swing.

Refiloe Tlali (Mrs)
Chief Executive

PART B: INSTITUTIONAL ISSUES AND CAPACITY BUILDING

Corporate Secretariat

In an effort to solve the long outstanding filling of the position of the Corporate Secretary, Management identified two (2) internal candidates to undergo on the job training in the position.

Internal Audit

The positions of Head Internal Auditor and Internal Auditor were filled during the year. In addition, the appointment of PricewaterhouseCoopers Inc. (PwC) as an outsourced Internal Auditor in August 2014 will strengthen the capacity of the internal candidates to ensure that internal control risks are well mitigated.

The Internal Audit Plan was submitted and approved by the LHDA Board in September 2014. The planned audits were carried out. In particular PWC carried out an audit on the Governance of the LHWP. The results of the audit indicate a need to continue the process of strengthening the governance processes.

Financial Issues

The external audit was completed in June 2015, a record time since the start of the Project. The unqualified audited financial statements (AFS) and management letter points (MLP) were submitted for approval to the joint Audit & Risk Management Sub-Committee and Board in July 2015 and approved.

Cost-allocation processes for the financial year-end March 2014 were finalized and approved by the LHWC in July 2015, and by the end of the reporting period the LHDA was in the process of finalizing the cost-to-funding for their approval. LHDA's March 2015 final cost-allocation was also in the process of being submitted to the LHWC for approval, following which the LHDA would then prepare the Cost to funding for LHWC's approval. The LHDA's cost allocation principles were reviewed to enable the incorporation of Phase II and will be applied to future cost allocations with effect from the financial years ended March 2014.

The new tax dispensation applicable to the LHDA, effective as from 1st June 2013, in terms of the Phase II Agreement, has been implemented and all water transfer related tax refund claims are submitted to the LRA for refunds monthly.

Organisational Culture and Climate Survey

In a quest to become a High Performance Organisation and to strive for excellence, the LHDA contracted an HPO consulting firm to conduct an organisational climate survey. The findings of the survey were presented to management and staff following the conclusion of this survey in October 2014. The survey identified areas that need further attention by both management and staff. At the close of the reporting period, these areas were being addressed with the involvement and full engagement of staff.

Year-end function – Time to relax and have fun

Automated Leave Management System

One of the systems introduced during the year to improve operational efficiencies is a web-based leave management facility, the Employee Self–Service (ESS). This facility allows employees to apply for leave on-line and reduces paperwork. This is in addition to other efficiency enhancing measures already available on the LHDA's intranet. Further office automation facilities are being considered for the future.

Filling of the LHDA Staff Establishment

During the year, management expedited efforts to reduce the vacancy factor that peaked at 69 positions in October 2013 following the approval of the revised organisational structure that listed 300 positions. By the end of the reporting period, the structure was filled at 93.3 %, with only 20 vacancies remaining.

Performance Management and Development System (PMDS) Compliance

The continuing efforts to improve on the implementation of the Performance Management and Development System showed higher levels of compliance from around 40% in the previous three (3) years to a compliance rate of over 98% in the past year.

Year -end function - where awards for excellence in various categories were awarded. This includes the Best Teams living the values and vision;

Remuneration Survey

While the preliminary results of an independent remuneration study conducted during the year indicated that LHDA remuneration is in general aligned with the market, one of the major challenges experienced was the delay in finalizing this study to implement the recommendations for an efficient remuneration system.

Project Publicity

During the reporting period, intensified efforts were maintained to engage various stakeholders and publicise the Project using a variety of channels, including newspapers, trade publications, radio programmes, TV documentaries and press releases. In South Africa the deliberate focus was on the use of the increased coverage in the specialised trade and industry publications. Proactive engagement opportunities were created for consulting with the affected communities and other stakeholders during the road shows and exhibitions held in both Lesotho and South Africa.

Risk Management Framework

In line with best practices, the LHDA, in October 2014, developed the Enterprise Risk Management Policy (ERMP) and the Enterprise Risk Management Framework (ERMF) based on ISO 31000:2009(E) and COSO ERM Integrated Framework Document: 2004 to raise the awareness of, and to provide direction and guidance to, management and employees in the identification and management of risks.

Risk Governance Structure

The LHWP Treaty places the Lesotho Highlands Water Commission as the body with overall responsibility for the Project. The Board of Directors, appointed by

LHWP Officials at the LHWP stall at the Getaway exhibition; Gauteng, South Africa - The Katse Dam picture in the background.

the LHWC, has the responsibility for the governance of risks. The Board delegates the responsibility to design and implement the risk management plan to Management, through the latter's Enterprise Risk Management Committee (ERMC). This committee is chaired by the Chief Operations Officer and its mandate is to develop and oversee LHDA's risk management process. It essentially oversees the identification of risks for all business divisions, reviews significant risk issues, reviews risk methodologies, and builds LHDA-wide risk awareness and alignment.

The Audit and Risk Management Committee (ARC) exercises the oversight responsibility for risk management on a bi-monthly basis. All risk management reports are reviewed by ERMC and submitted to the LHWC through the ARC and the Board.

Approach to Risk Management

A continuous, proactive and systematic way of identifying and managing risks within acceptable risk tolerance levels is in place and embedded in the ERMF processes. The LHDA maintains two (2) sets of risk registers, one for Phase I and the other for Phase II due to the huge difference in materiality values regarding envisaged monetary loss, should a risk be realised. For the purposes of reporting progress on the management of risks, the Board considers how well the top twelve (12) residual risks, on each register, are being managed on a bi-monthly basis.

Risk Appetite

Given the nature of its operations and taking into account the phases in the implementation of the LHWP and the set strategic objectives, the Board set a conservative appetite for risk.

PART C: SOCIAL DEVELOPMENT AND ENVIRONMENT

The LHWP Treaty requires the Parties to take all reasonable measures to ensure that the implementation, operation and maintenance of the Project are compatible with the protection of the existing quality of the environment and, in particular, to pay due regard to the maintenance of the welfare of persons and communities affected by the Project. The LHDA therefore put in place programmes designed to protect the quality of the environment. The report below reflects on some of the programmes implemented during the year in pursuit of this pivotal objective.

Environmental Conservation Programmes

During the reporting period, interventions and conservation activities were implemented at selected degraded areas and wetlands to stabilise such marginal lands, promote vegetal growth and prevent soil erosion. Awareness campaigns were also held to promote stakeholders' participation and improve the awareness of environmental issues within the catchments.

A total of 4256m stone-lines were constructed to protect an area of 32 hectares under Phase I of the Project. A further 247m³ and 26 simple rock structures were constructed to stabilize gullies. Furthermore, wetlands rehabilitation was implemented with the construction of 8m³ gabions, 125m silt traps and by planting grass seed.

Stone lines in the Bokong Wetlands

As part of Integrated Catchment Management (ICM) programme, a total area of 45 hectares of degraded marginal lands was rehabilitated through the construction of gabions, stone lines and diversion furrows.

Land rehabilitation through gabion construction

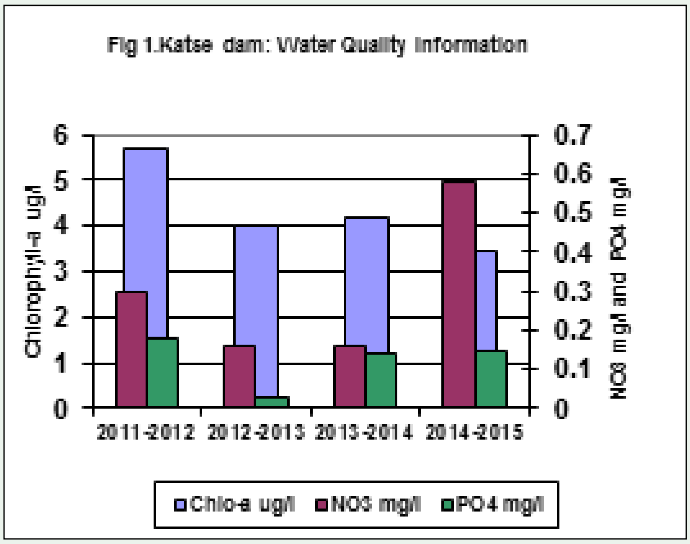
The collection of seeds and propagation of rare and endangered species continued to be implemented and a total of 13 865 seedlings were propagated of which 1 391 were spiral aloe seedlings.

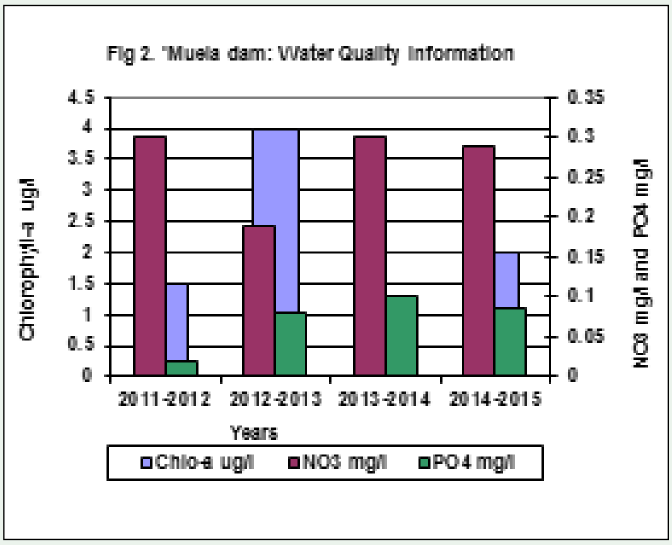
Instream Flow Releases (IFR) Implementation

In order to maintain the ecosystem downstream of the dams, the LHDA maintained the downstream water releases regime in line with the IFR Policy. It is encouraging to note that the ecosystem downstream of the dam walls is within the targeted conditions. This means that the implementation of the IFR Policy is effective.

Water Quality

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





Phase I Compensation

ACP and Grain

Phase I compensation was implemented according to schedule with a total of 1,952 (94.3%) households out of 2,069 scheduled households provided with their annual cash compensation (ACP) in 2014/15. Furthermore, a total of 524 households (87.6%) out of 598 scheduled households were provided with grain compensation (maize & beans).

Compensation Complaints

The LHDA has impacted both individual and communal assets in both Phase IA and Phase 1B of the Project. The majority of the households and communities is already receiving compensation for their losses. However, the LHDA has continued to receive complaints from the affected communities and households regarding some of their assets which they claim have not been compensated satisfactorily. In this regard, the LHDA has initiated a concerted effort aimed at addressing all the outstanding complaints received. A number of these complaints have been found to relate to assets already compensated.


LHDA truck delivering maize and beans to affected households

Community Development Projects

During the year, a total of three (3) community development projects were identified. Two of these involved the electrification of villages in the Phase IA area of the Project and the third involved the construction of a shopping complex. By the end of the reporting period, one electrification project was in progress while the shopping complex project was in the initial stages of project preparation.

Community Infrastructure Policy

In order to mitigate the negative impacts of the LHWP activities on the environment, social aspects and the livelihoods of people living within the Project area in Phase 1B, the LHDA developed the Community Infrastructure Development Policy to help guide the implementation of such developments among the host villages.

This policy ensures that community infrastructural developments are implemented uniformly in a sustainable manner throughout the host villages in the Phase 1B of the Project. The provision of the infrastructure is intended to reduce resettlement impact and/or pressure on the capacity of the host villages.

PART D: MAINTENANCE AND OPERATIONS OF THE PHYSICAL STRUCTURES

Maintenance and Operations of the Physical Structures

The major LHWP physical structures include the water conveyancing system which covers the electro-mechanical and civil structures such as dams, intake structures, tunnels, weirs and the hydropower generation plant and appurtenances. These structures and facilities are routinely maintained to ensure that they continue working to design standards.

Condition based monitoring indicates that the structures are in good working condition. This includes the Mohale Dam where a crack that occurred during impoundment is being repaired.

On-going repair works on the Mohale Dam face slab

A technician working in the control room at the hydropower station

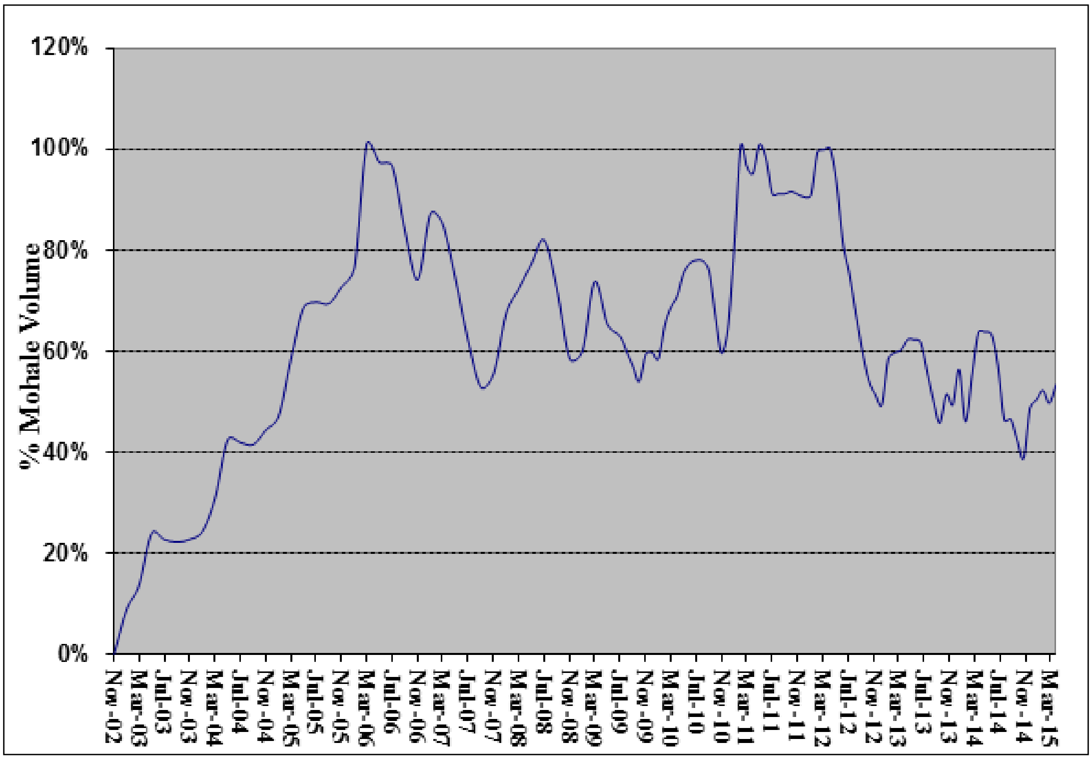
Dam Instrumentation Availability

The LHDA has deployed a wide array of instruments to routinely monitor the behavior of all the Lesotho Highlands Water Project dams. Specialized and purpose built instruments have been installed at Katse, 'Muela and Mohale Dams to monitor the behaviour of the dams and indicate whether or not the readings are within the set engineering parameters. The instruments measure dam displacements, seepage, temperature, strains and stresses, pore pressures and seismic events (activities). Since these instruments were installed in 1997, the LHDA is in the process of installing new instruments that use modern technology.

Water Levels in the Reservoirs

During the reporting period there was a very little rainfall hence the low water levels in the LHWP reservoirs throughout the period. The Mohale tunnel was left open to allow water flows from the Mohale to the Katse Dam and as a consequence, the water level in the Mohale Reservoir reduced from 63.8% (2057.014 masl) in April 2014 to 53.4% (2050.86masl) in March 2015.

Fig 3: Mohale Reservoir variations since impoundment on 21st October 2002 to 31st March 2015

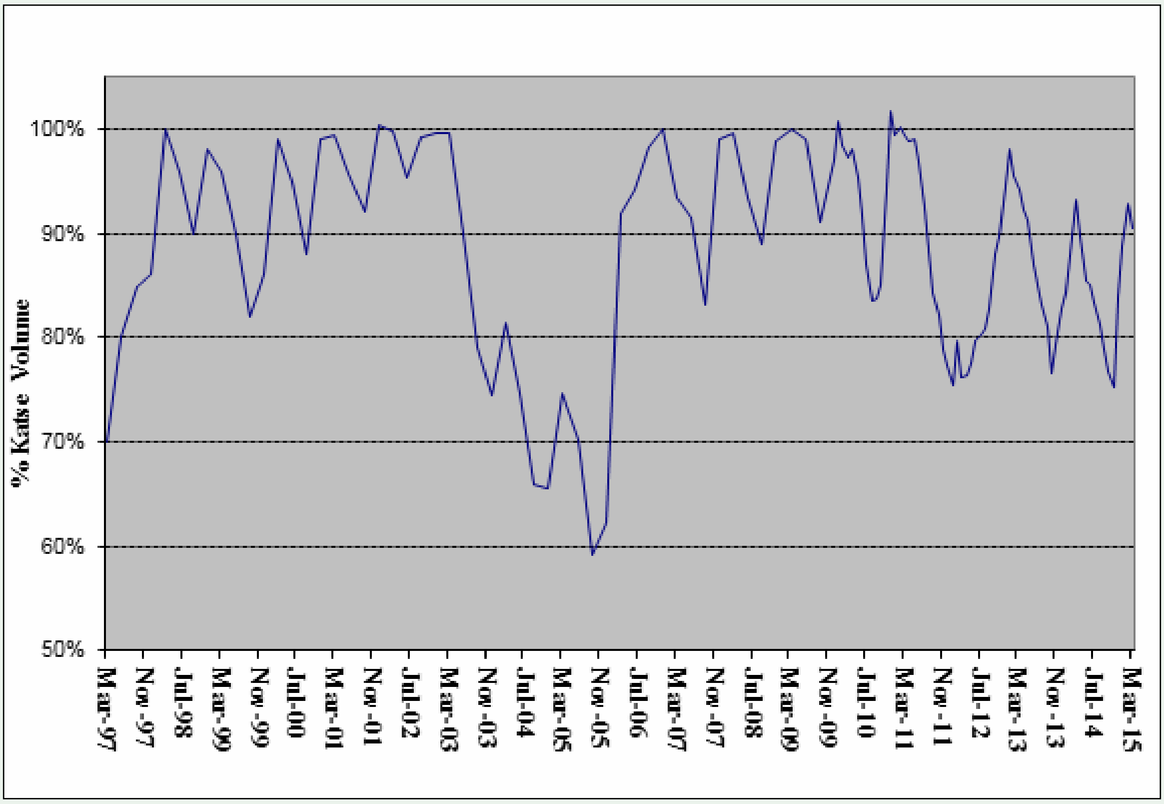


The Mohale tunnel was opened to transfer water from the Mohale reservoir to the Katse reservoir and to enable the repairs of the crack on the face slab of the Mohale Dam.

The Mohale Dam spilling

The Katse Dam spilling

Fig 4: Katse reservoir level variations from 1st April 1997 to 31st March 2015



The Katse reservoir level started at 93.2% (2049.30 masl) in April 2014 and rose to 95.13% (2050.34 masl) in March 2015.

Water Deliveries

The actual annual water delivered during the reporting period is 780.090 MCM (million cubic metres) against the agreed delivery of 780.00 MCM. The water delivery has a variance of 0.01% above the planned target for the year.

The table below shows the water deliveries and royalty revenue earned by the Lesotho government during the last four years.

Table 3: Water Deliveries and Royalties

Year	Planned Deliveries (million m^3)	Actual Deliveries (million m^3)	% 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
2014/2015	780	780.1	**+0.01%**	735.9

Electricity Generation

Electricity generation of 518.9 Gwh was 3.4% higher than the planned generation of 502 Gwh for the reporting period. The additional electricity generation was due to the efficiency of the plant. Total electricity exports from 'Muela amounted to 0.21% of total production.

Table 4: Electricity Generation

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
2014/2015	502	518.9	**+3.4%**	54.86	1.21%	0.66

As the table indicates, a total of M54.86 million was recorded as revenue payable by LEC to the Lesotho Government in relation to the 'Muela electricity supplied to LEC. A total of M0.66 million was generated from electricity exports to Eskom.

Total cumulative electricity sales revenue since the commissioning of 'Muela hydropower plant in August 1998 to March 2015 is M 918 million. This is based on the GOL approved tariff for LEC.

'Muela Hydro Power Station

PART E: PHASE II OF THE LESOTHO HIGHLANDS WATER PROJECT

Project Components

Phase II of the LHWP comprises water transfer and hydropower components and the advance infrastructure and ancillary developments required to support the construction of the main works of the water transfer and hydropower components, and the communities affected by the Project. The main works on Phase II are the Polihali dam, the Polihali-Katse water transfer tunnel and the hydropower station, the site and format of which will be decided following the completion of further feasibility studies.

The advance infrastructure and ancillary developments include geotechnical investigations, dam demarcation, feeder roads and bridges, telecommunications infrastructure, power lines and project housing, amongst others, and environmental, social and public health programmes to mitigate the impact of Phase II on the communities in the project area.

A Project Management Unit (PMU), consisting of a team of dedicated functional experts is tasked with overseeing the delivery of Phase II of the project.

Project Progress

During the period under review, the PMU focused on preparing for the start of the procurement period which began in early 2015 and will continue until the end of 2016. This included preparing the procurement documents, risk management planning, the development of a communications strategy and comprehensive communications plan, issue management preparation and proactive engagement with interested parties via the media, professional bodies, participation in industry events and the Phase II website.

Three road shows were held with interested parties in Maseru and Johannesburg. Both were well attended and provided an opportunity for the LHDA to position the business opportunities presented by Phase II and the procurement process. Follow up meetings were requested by key stakeholders following the road shows.

Participants at the Lesotho road show- May 2014

A similar road show was held in South Africa

Consulting the communities in the Polihali Dam area

As per the approved Community Participation Strategy, the Community Liaison Structures were established and trained about the Project.

Procurement Update

In December 2014, the Commission approved the commencement of the procurement process. The procurement of consultants/professional firms for the advance infrastructure and main works of Phase II began in January 2015. In the period from January to the end of March 2015, Requests for Proposals (RFP) were advertised in local and regional media and on the Lesotho Highlands Water Project Phase II website; pre-bid briefing meetings and site visits for each RFP were hosted; bid evaluations were completed and bid evaluation reports including recommendations on preferred bidders were prepared for submission to the Board and the Lesotho Highlands Water Commission.

By the end of March 2015 Letters of Acceptance had been issued for two contracts:

- Contract 3014 - Professional Services for the Design and Construction Supervision of the Polihali North East Access Road and
- Contract 3015- Professional Services for the Evaluation, Optimisation, and Site Supervision of Geotechnical Investigations.

By the end of the reporting period, the LHDA was in the process of issuing the Letter of Acceptance for Contract 3017 for the Demarcation of Polihali Reservoir.

Kick-off meetings were held with successful bidders to ensure that all were fully briefed on their obligations and the processes required to ensure the successful delivery of Phase II.

Some of the bidders representatives attending a briefing meeting on a Phase II contract

Phase II Indicative Programme

The table below provides a high level overview of the most likely roll out of the Phase II programme.

Table 5 : Indicative Phase II Programme

Project Milestones	Planned	Forecast	Actual
Ratification	June 2013		May 2013
Impoundment	Feb 2021	May 2022	_
Dam Complete	Mar 2022	Jun 2023	_
Tunnel Complete	May 2022	Dec 2023	_
Water Delivery	June 2022	Dec 2023	_
Hydropower Generation			_
Project Closed-out	Dec 2024	Dec 2025	_

PART F: ANNUAL FINANCIAL STATEMENTS

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

ANNUAL FINANCIAL STATEMENTS

AT 31 MARCH 2015

CONTENTS

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

ANNUAL FINANCIAL STATEMENTS

AT 31 MARCH 2015

GENERAL INFORMATION

DIRECTORS	:	Mr J.J. Eagar (Chairperson) Prof L.I. Qalinge Mr R.S. Mbwana Adv. S.T. Kholong Mr B. Qhobela Mrs R. Tlali (Chief Executive) Mr D. Lukhele (Chief Operations Officer) Mr T. Tente (Divisional Manager Phase II) Mr M.C. 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	:	Mrs M. Sebusi (Acting)
COUNTRY OF INCORPORATION	:	Lesotho
LEGAL FORM	:	Authority
PRESENTATION CURRENCY	:	Maloti

BOARDS' STATEMENT OF RESPONSIBILITY
At 31 March 2015

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 Lesotho Highlands Development Authority (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 are 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 provide 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 2016 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 32.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The Annual Financial Statements, set out on pages **33 to 71** ,were approved by the Board and signed on behalf of the Board by:

Mr J.J. Eagar	**Mrs R. Tlali**
CHAIRPERSON	**CHIEF EXECUTIVE**
30/7/15	30/7/15

2nd Floor
Thetsane Office Park
Thetsane Industrial Area
P.O. Box 15 369
Maseru 100, Lesotho
Tel. +266 2231 0798
Email: admin@newdawn.co.ls

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 33 to 71, which comprise the statement of financial position as at 31 March 2015, 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 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 2015, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

New Dawn Chartered Accountants
04 August 2015

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED 31 MARCH 2015

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 72MW underground Hydropower complex at ‘Muela;
(d) A 17km 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 completion thereof within two (2) years.

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2015

	NOTE	2015 M'000	2014 RESTATED M'000
Revenue		-	-
Other Income		24 765	19 522
Total Income		**24 765**	**19 522**
Foreign Gains/(Losses)		(5 983)	(257)
Construction and Contractor Costs		(35 396)	(54 399)
Depreciation		(350 408)	(349 917)
Resettlement and Compensation Costs		(18 581)	(20 210)
Salaries and Wages		(93 610)	(75 138)
Other Administrative and Operating Expenditure		(113 957)	(39 707)
Operating Loss	2.1	**(593 170)**	**(520 106)**
Finance Income		8 538	6 736
Finance Cost		(11 165)	(12 573)
Loss for the year	2.2	**(595 797)**	**(525 943)**

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2015

	NOTE	2015 M'000	2014 M'000
ASSETS			
Non-Current Assets		**9 847 884**	**10 091 862**
Completed Works and Capital Work in Progress	3	9 840 417	10 080 205
Investment Property	4	7 467	11 657
Current Assets		**243 366**	**208 480**
Contract Advance Payments	5	-	3 578
Trade and Other Receivables and Prepayments	6	32 131	40 659
Cash and Cash Equivalents	7	211 235	164 243
Total Assets		**10 091 250**	**10 300 342**
FUNDS AND LIABILITIES			
Funds and Reserves		**9 394 369**	**9 656 669**
Capital Funds		10 031 077	10 168 703
Accumulated Loss – Hydropower		(636 708)	(512 034)
Non-Current Liabilities		**543 281**	**495 219**
Loans and Borrowings	8	100 586	139 791
Provisions	9	401 156	355 428
Accruals for Compensation	11	41 539	-
Current Liabilities		**153 600**	**148 454**
Contract Payables and Accruals	10	27 247	21 817
Contract Retentions	10	1 035	2 578
Bank Overdraft	7	377	862
Provisions	9	65 508	18 443
Trade and Other Payables and Accruals	11	26 129	72 680
Current Portion of Loans and Borrowings	8	33 304	32 074
Total Funds and Liabilities		**10 091 250**	**10 300 342**

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

STATEMENT OF CHANGES IN FUNDS AND RESERVES

AS AT 31 MARCH 2015

	Note	Capital Fund - Government of Lesotho M'000	Capital Fund - Government of South Africa M'000	Total Capital Funds M'000	Accumulated Loss Hydropower M'000	Total funds and Reserves M'000
Balance at 31 March 2013		**858 908**	**9 470 931**	**10 329 839**	**(424 148)**	**9 905 691**
Net Loss for the year	2.2	(9 456)	(428 379)	(437 835)	(88 108)	(525 943)
Prior year cost allocation ratification		61	(283)	(222)	222	-
Cost related payments - funding		57 074	219 847	276 921	-	276 921
Balance at 31 March 2014		**906 587**	**9 262 116**	**10 168 703**	**(512 034)**	**9 656 669**
Net Loss for the year	2.2	(17 809)	(453 147)	(470 956)	(124 841)	(595 797)
Prior year cost allocation ratification		(1 051)	884	(167)	167	-
Cost related payments - funding		49 178	284 319	333 497	-	333 497
Balance at 31 March 2015		**936 905**	**9 094 172**	**10 031 077**	**(636 708)**	**9 394 369**

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 MARCH 2015

	NOTE	2015 M'000	2014 RESTATED M'000
CASH FLOW FROM OPERATING ACTIVITIES			
Net Cash Inflow/(Outflow) from Operating Activities		**(131 458)**	**(146 357)**
Loss before taxation		(595 797)	(525 943)
Add: Depreciation		350 408	349 917
Finance Charges		11 165	12 573
Profit on the sale asset		(1 523)	(321)
Impairment of assets		515	-
		(235 232)	(163 774)
(Increase)/Decrease in Advance Payments		3 578	(3 574)
(Increase)/Decrease in Other Receivables and Prepayments		8 528	(21 007)
Increase/(Decrease) in Provisions		92 793	24 385
Increase/(Decrease) in Contract Payables and Accruals		5 430	11 777
Increase/(Decrease) in Retentions		(1 543)	420
Increase/(Decrease) in Other Payables and Accruals		(5 012)	5 416
CASH FLOWS FROM INVESTING ACTIVITIES			
Net Cash Inflow/(Outflow) from Investing Activities		**(105 421)**	**(84 410)**
Additions to Assets		(108 253)	(85 858)
Proceeds on disposal of Assets		2 832	1 448
CASH FLOWS FROM FINANCING ACTIVITIES			
Net Cash Inflow/(Outflow) from Financing Activities		**284 356**	**238 894**
Government of Lesotho		49 177	57 074
Government of Republic of South Africa		284 319	219 847
Loans and Borrowings Repaid		(37 975)	(25 454)
Finance Charges		(11 165)	(12 573)
Net (Decrease)/Increase in Cash and Cash Equivalents		**47 477**	**8 127**
Cash and Cash Equivalents at the beginning of the period		163 381	155 254
Cash and Cash Equivalents at the end of the period	7	210 858	163 381

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 IFRS 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)**
Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32	Mandatory	December 2011	1 January 2014
IFRIC 21 – Levies	Mandatory	May 2013	1 January 2014

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

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

IAS 32 – Amendments to offsetting financial assets and financial liabilities
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 and 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 a material financial impact on the financial statements.

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 downstream 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 2015 amounts to M 413 723 996 (2014: M 367 750 936).

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 assets' 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;

1.4 Summary of Significant Accounting Policies (Continued)

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

(c) 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; and

(d) 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 when substantially all the activities necessary to prepare the qualifying asset for its intended use are complete.

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.

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

1.4 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 and 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 fair value. 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 rate 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.

Financial Liabilities

Financial liabilities are classified, at initial recognition as loans and borrowings and payables as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Loans and Borrowings

After initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

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's present value of estimated future funding 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.

1.4 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:

a) The rights to receive cash flows from the asset have expired; or

b) 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

c) 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 receivable 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.

1.4 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.

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.

1.4 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. In testing for, and determining the value-in-use of non-financial assets, management is required to rely on the use of estimates about the asset's ability to continue to generate cash flows (in the case of cash-generating assets). For non-cash-generating assets, estimates are made regarding the depreciated replacement cost, restoration cost, or service units of the assets, depending on the nature of the impairment and the availability of information.

1.4 Summary of Significant Accounting Policies (Continued)

Capital Funds

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 of payment.

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.

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.

Cost Related Payments are recognised when the relevant cost has been paid. 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

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.

1.4 Summary of Significant Accounting Policies (Continued)

Taxation (Continued)

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 and Charges
As per the signed Phase II Agreement, Dues and 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.

1.4 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 rate 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 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.

1.4 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 to 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 2014, but Amendments to *Transition Disclosures*, hedge accounting and the impairment of financial assets moved the mandatory effective date for annual periods beginning on or after 1 January 2018. 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.

1.4 Summary of Significant Accounting Policies (Continued)

Standards issued but not yet effective (Continued)

IAS 24 – Related party disclosures – Key management
The amendment clarifies that a management entity – an entity that provides key management personnel services – is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The above is effective for annual periods beginning on or after 1 July 2014. The Adoption of the above will not have a significant impact on the Authority as they do not make use of management entities in general.

IFRS 13 – Fair Value Measurement– Scope of paragraph 52 (portfolio exception)
The amendment clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable). The above is effective for annual periods beginning on or after 1 July 2014 and must be applied prospectively.

IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38
The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The above is effective for annual periods beginning on or after 1 January 2016 and must be applied prospectively. Early application is permitted and must be disclosed.

IAS 1 Disclosure Initiative – Amendments to IAS 1
The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

a) The materiality requirements in IAS 1
b) That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
c) That entities have flexibility as to the order in which they present the notes to financial statements
d) That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and other comprehensive income. The above is effective for annual periods beginning on or after 1 January 2016.

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2015

	2015 M'000	2014 M'000
2 . OPERATING LOSS		
2.1 Operating Loss is stated after :		
Expenses		
Auditor's Remuneration	991	885
Construction and Contractor Costs	35 396	54 399
Depreciation	350 408	349 917
Foreign Exchange (Gain)/Loss	5 983	257
Resettlement and Compensation Costs	18 581	20 210
Staff Costs – Short Term Benefits	93 610	75 138
Investment Property Income	(4 692)	(4 172)
Rental Expenses	371	365

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

2.2 Allocation of loss as per cost allocation report

Capital work-in-progress – 1A Water Transfer	33 595	37 289
Capital work-in-progress – 1A Ancillary Development	17 291	7 758
Capital work-in-progress – 1B Water Transfer	71 149	48 351
Capital work-in-progress – 1B Ancillary Development	518	1 698
Hydropower Accumulated Loss	124 841	88 108
Government of South Africa Capital Fund	348 403	342 739
	595 797	**525 943**
Costs transferred to Funds and Reserves		
Government of Lesotho	17 809	9 456
Government of South Africa	453 147	428 379
Hydropower Accumulated Loss	124 841	88 108
	595 797	**525 943**
Costs transferred to work in progress		
Capital work-in-progress – 2 Water transfer	81 661	56 131
Capital work-in-progress – 2 Hydro Power	127	741
Amount as per detailed Statement of Comprehensive Income	**677 585**	**582 815**

2.2 Allocation of loss as per cost allocation report (continued)

Accumulated loss - Hydropower	2015 M'000	2014 M'000
Income	7 838	6 860
Less: Cost of sales	(132 512)	(94 746)
Operations and maintenance costs	(80 046)	(43 458)
Prior year cost allocation ratification	167	222
Depreciation	(52 633)	(51 510)
Net Profit/(Loss) for the year	(124 674)	(87 886)
Accumulated loss at the beginning of the period	(512 034)	(424 148)
Accumulated loss at the end of the period	**(636 708)**	**(512 034)**

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 2013.

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2015

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 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)
Reclassification	120 280	(49 816)	(70 464)	-	-
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)
Accumulated depreciation					
Additions	132	655	778	14 318	15 883
Transfer from Work in Progress	-	-	-	1 571	1 571
Impairment of assets	-	-	(699)	-	(699)
Accumulated Depreciation on impaired assets	-	-	185	-	185
Depreciation	(40 377)	(7 152)	(292 671)	(6 017)	(346 217)
Disposal/donation of assets	-	-	-	(3 403)	(3 403)
Accumulated Depreciation on disposed assets	-	-	-	2 093	2 093
Carrying Value at 31 March 2015	**686 585**	**129 495**	**8 791 780**	**46 534**	**9 654 394**
Cost	1 226 002	210 494	13 064 538	97 121	**14 598 155**
Accumulated Depreciation	(539 417)	(80 999)	(4 272 758)	(50 587)	(4 943 761)
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 6 664 711.

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2015

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 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)
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)
Additions	94	816	-	-	-	16 544	17 454
Depreciation	(53 884)	(22 281)	(92 935)	(99 559)	(60 079)	(17 479)	(346 217)
Disposal/donation of assets	-	-	-	-	-	(3 403)	(3 403)
Accumulated Depreciation on disposed assets	-	-	-	-	-	2 093	2 093
Impairment of assets	(699)	-	-	-	-	-	(699)
Accumulated depreciation of impaired assets	185	-	-	-	-	-	185
Carrying Value at 31 March 2015	**1 441 138**	**709 495**	**3 168 747**	**3 511 148**	**640 489**	**183 377**	**9 654 394**
Cost	2 058 546	1 077 817	4 776 285	5 151 589	1 203 404	330 514	14 598 155
Accumulated Depreciation	(617 408)	(368 322)	(1 607 538)	(1 640 441)	(562 915)	(147 137)	(4 943 761)
The useful life of the assets is estimated as follows:	50	25-50	25-50	50	50	3-50	

The impairment of bridges and roads was done in accordance with the accounting policy of the Authority. These assets were either damaged or no longer in a working condition which triggered the impairment of these items.

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2015

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 2**	**Phase 1A**	**Phase 1B**	**Phase 1A**	**Phase 1B**	**Phase 2**		
Carrying Value at 31 March 2013	**-**	**15 236**	**14**	**826**	**-**	**-**	**-**	**5 638**	**21 714**
Prior Year Reallocations	-	(9 720)	2 468	(795)	(3 838)	2 239	9 720	(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)	(2647)
Carrying Value at 31 March 2014	**-**	**7 991**	**14**	**-**	**-**	**-**	**81 050**	**6 169**	**95 224**
Prior Year reallocations	-	175	516	360	(694)	2 115	(175)	(2 297)	-
Cost allocation	-	127	17 291	518	33 595	71 149	81 661	-	204 341
Transferred to Capital Funds	-	(175)	(17 807)	(878)	(32 901)	(73 264)	175	2 297	(122 553)
Work-in-progress during the year	374	-	-	-	521	2 369	-	7 318	10 582
Transfer to completed works	-	-	-	-	-	-	-	(1 571)	(1 571)
Carrying Value at 31 March 2015	**374**	**8 118**	**14**	**-**	**521**	**2 369**	**162 711**	**11 916**	**186 023**

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 2013 have been included.

The costs transferred to capital funds are operational costs and are included in the relevant lines in the statement of comprehensive income.

4. INVESTMENT PROPERTY

	Total M'000
Net Book Value 31 March 2013	**13 596**
Assets at Cost	22 848
Accumulated Depreciation	(9 252)
Prior 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)
Current years Movements:	
Additions/Improvements	-
Disposals	-
Depreciation	(4 190)
Net Book Value 31 March 2015	**7 467**
Asset at cost	22 885
Accumulated depreciation	(15 418)

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 was based on a valuation performed by Equity Property Professionals, an accredited independent valuer. The Income capitalization approach was used in determining the market value of the property. The market value was determined as M 41 993 761. We reassessed the prior year's valuation in the current year and found it still to be reasonable. No indicators of impairment were identified.

The increase in the depreciation charge for the 2015 financial year is as a result of the accelerated depreciation recognized on leasehold improvements at the end of the lease term. These improvements were made to the specifications of the lessee and will require significant modifications before it can be used by another lessee or the Authority.

5. CONTRACT ADVANCE PAYMENTS

	2015 M'000	2014 M'000
Contract Advance Payments	-	3 578
Provision for Doubtful Debts	-	-
	-	**3 578**

	2015 M'000	2014 M'000
6. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS		
Trade Receivables	5 569	5 207
Staff Receivables	10	12
Lesotho Revenue Authority		
Previous tax legislation	-	8 992
New tax Legislation	22 602	8 718
Other Receivables and Prepayments	7 848	21 824
Provision for Doubtful Debts	(3 898)	(4 094)
	32 131	**40 659**

For terms and conditions relating to related party receivables, refer to Note 16.
Trade receivables are non-interest bearing and are generally on 30 day terms.
As at 31 March 2015, trade receivables and other receivables at initial value of M 3 898 000 (2014: M 4 094 000) were impaired and fully provided for.

At 31 March 2015, 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**
2014	5 207	-	442	214	151	65	4 335
2015	5 569	-	4 369	224	135	62	779

7. CASH AND CASH EQUIVALENTS

	2015 M'000	2014 M'000
Cash at Bank	210 776	163 299
Cash on Hand	82	82
	210 858	**163 381**
Current Assets	**211 235**	**164 243**
Current Liabilities	**(377)**	**(862)**
Currency Analysis		
Maloti	210 858	163 381
	210 858	**163 381**

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 M 210 858 000 (2014: M 163 381 000).

	2015 M'000	2014 M'000
8. LOANS AND BORROWINGS		
Non-Current Portion	100 586	139 791
Current Portion	33 304	32 074
	133 890	**171 865**
Currency Analysis		
Rands	99 665	121 829
Euro	34 225	50 036
	133 890	**171 865**
Interest Bearing Status		
Interest-bearing	133 890	171 865
Non-interest bearing	-	-
	133 890	**171 865**
Maturity Profile		
Within One Year	33 304	32 074
Between Two and Five Years	84 722	111 681
More than Five Years	15 864	28 110
	133 890	**171 865**
Maturity Profile – Undiscounted		
Within One Year	42 029	42 025
Between Two and Five Years	102 639	153 643
More than Five Years	18 320	33 052
	162 988	**228 720**

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2015

	Trans Caledon Tunnel Authority Debt Service Loans	**Effective Interest Rate%**	**2015 M'000**	**2014 M'000**
Institution	***Offshore loans***			
European Investment Bank	Repayable in semi-annual instalments ending January 2018	3%	34 225	50 036
European Investment Bank	Repayable in semi-annual instalments ending March 2018	Libor	27 732	36 976
European Investment Bank	Repayable in semi-annual instalments ending September 2018	Libor	19 641	25 253
	Common Monetary Area Loans			
DBSA	Repayable in semi-annual instalments ending March 2016	7%	268	518
DBSA	Repayable in semi-annual instalments ending September 2021	12.23%	576	632
DBSA	Repayable in semi-annual instalments ending September 2021	10.92%	2 120	2 335
DBSA	Repayable in semi-annual instalments ending March 2022	10.68%	19 456	22 235
DBSA	Repayable in semi-annual instalments ending March 2022	12.12%	11 130	12 720
DBSA	Repayable in semi-annual instalments ending March 2022	12.96%	1 636	1 773
DBSA	Repayable in semi-annual instalments ending September 2022	Jibar	17 106	19 387
	Total		**133 890**	**171 865**

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2015

	Government of Lesotho Debt Service Loans	Effective Interest Rate%	2015 M'000	2014 M'000
Institution	***Common Monetary Area Loans***			
DBSA	Repayable in semi-annual instalments ending March 2015	13%	-	4 024
DBSA	Repayable in semi-annual instalments ending September 2019	13%	1 349	1 559
Government of Lesotho	Muela Re-financing by the Government of Lesotho		(1 349)	(5 583)
	Total		-	-
	Grand Total		**133 890**	**171 865**

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 2015

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	Ground Rent Provision M'000	Total M'000
Carrying Value: 31 March 2013	**343 630**	**2 437**	**2 116**	**1 303**	-	**349 486**
Additional Provisions made during the year	9 916	616	3 725	1 779	-	16 036
Amounts used	-	(2 437)	(2 116)	(1 303)	-	(5 856)
Unwinding of discount and effect of changes in discount rate on provisions	14 205	-	-	-	-	14 205
Carrying Value: 31 March 2014	**367 751**	**616**	**3 725**	**1 779**	**-**	**373 871**
Additional Provision made during the year	32 520	935	5 575	3 339	43 091	85 460
Amounts used	-	(616)	(3 725)	(1 779)	-	(6 120)
Unwinding of discount and effect of changes in discount rate on provisions	13 453	-	-	-	-	13 453
Carrying Value: 31 March 2015	**413 724**	**935**	**5 575**	**3 339**	**43 091**	**466 664**

	2015 M'000	2014 M'000
9. PROVISIONS (Continued)		
Non-Current	401 156	355 428
Current	65 508	18 443
	466 664	**373 871**

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 are to be 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 downstream 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.

Provision for Ground rent
This provision was created due to the ground rent which is due to the Lesotho Land Administration Authority. LHDA is still in the negotiation process and therefore the timing of the outflow is uncertain.

	2015 M'000	2014 M'000
10. CONTRACT PAYABLES AND ACCRUALS		
Contract Payables	3 737	3 487
Contract Accruals	23 510	18 330
	27 247	**21 817**
Contract Retentions	1 035	2 578
	28 282	**24 395**

11. TRADE AND OTHER PAYABLES AND ACCRUALS

	2015 M'000	2014 M'000
Trade payables	2 528	3 808
Accrued interest on loans	382	515
Other payables	17 289	17 836
Accruals for compensation	47 469	50 521
	67 668	**72 680**
Non-Current Accruals for compensation	41 539	-
Current	26 129	72 680
	67 668	**72 680**
Maturity Profile		
Within One Year	26 129	72 680
Between Two and Five Years	41 539	-
More than Five Years	-	-
	67 668	**72 680**

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 99 067 697 (2014: M 81 934 945). In addition a contingent liability may be required for the downstream reaches 7 & 8 of which the amount is unknown and 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 (2014: M nil). The following contracts have been approved and contracted: M 353 228 287 (2014: M 313 310 572).

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:

a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
b) 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); and
c) 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 2015**:**

	Level 1	Level 2	Level 3	Total Balance
Assets	-	-	-	-
Investment Property	-	-	M 41 993 761	**M 41 993 761**
Liabilities	-	-	-	-

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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.

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 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 M'000**
2014		
Euro	+10%	5 004
Euro	-10%	(5 004)
2015		
Euro	+10%	3 423
Euro	-10%	(3 423)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Interest Rate Risk

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

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

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

Interest rate sensitivity

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

	Increase/decrease in basis points	Effect on profit M'000
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)
2015		
Trans Caledon Tunnel Authority Debt Service Loans		
Offshore Loans	+200	947
Common Monetary Area Loans	+200	342
Trans Caledon Tunnel Authority Debt Service Loans		
Offshore Loans	-200	(947)
Common Monetary Area Loans	-200	(342)

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

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*	
	2015	**2014**	**2015**	**2014**
	M'000	**M'000**	**M'000**	**M'000**
Financial Liabilities				
Non-current Compensation Accruals	41 539	-	55 452	-
Loans and borrowings	133 890	171 865	132 411	170 773

Valuation methods and assumptions

The Authority assessed that trade and other receivables, contract payables and accruals, current trade and other payables, prepayments and cash approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair value of loans from banks and other financial liabilities, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Fair Value estimation

The different levels have been identified as follows:

a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
b) 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); and
c) Techniques which use inputs for the asset or liability that are not based on observable market data (that is unobservable inputs) (level 3)

The fair value of loans from banks and other financial liabilities, as well as other non-current financial liabilities are level 2 valuations.

15. NUMBER OF EMPLOYEES

According to the payroll system the Authority had the following average number of employees during the year ending 31 March 2015: 294 (2014: 271)

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.

	2015 M'000	2014 M'000
Amounts credited to the Statement of Comprehensive Income or fund accounts		
Cost related payments GOL	49 177	57 074
Cost related payments RSA	280 512	219 847
Loans to related parties and other accounts receivable		
Receivable from Lesotho Revenue Authority	22 493	17 710
Ground Rent Provision	43 091	-
Compensation to Key Management Personnel		
Short Term Employee Benefits	21 905	15 330
Total Compensation Paid to Key Management personnel	21 905	15 330

No donations of Property, Plant and Equipment were made to the Government of Lesotho during the 2014 and 2015 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:

	2015 M'000	2014 M'000
The following year	2 998	3 854
Year 2-5	16	-
More than 5 years	-	-
	3 014	**3 854**

17. OPERATING LEASE DISCLOSURE (Continued)

Terms of the contract		
Specifications		
	Contract 1	Contract 2
Commencement date:	01 April 2015	01 April 2015
Contract expiry date:	30 May 2016	31 October 2015
Period of lease:	1 year with a 3 months' notice period	7 months
Escalation rate per annum:	CPI as published by Bureau for June each year	None
Basic Rental		
Initial monthly rental per contract:	M 4 654	M 414 975

18. PRIOR PERIOD RESTATEMENT

As per the cost allocation process of the Authority the Statement of Comprehensive Income previously included both operating costs and costs to be included in work in progress. In the past both these costs were transferred to work-in-progress where the operating costs were released to the capital funds and the remaining costs were left in work-in-progress awaiting capitalisation to completed works. In the current year the work-in-progress costs were excluded from the Statement of Comprehensive Income. There is no effect on the amount recognised in the capital funds as operating loss for the prior year and as such no change in the statement of financial position. The effect of this revised presentation of the statement of comprehensive income is disclosed below:

	M'000
Prior year loss as disclosed previously:	582 815
Transfer to Work-in-Progress	(151 968)
Transferred from Capital Work-in-Progress to Funds	95 096
Net Movement to Capital Funds as shown previously	525 943
Restated Statement of Comprehensive Income	
Prior year loss as disclosed previously:	582 815
Decrease in Construction and Contractor Cost	(972)
Decrease in Other Administrative and Operating Cost	(55 900)
Restated Net Loss transferred to Capital funds and reserves	525 943

19. 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 2015

	NOTE	2015 M'000	2014 M'000
Revenue & Other Income			
Bad debts recovered		-	9
Investment Income		8 538	6 736
Profit on sale of assets		1 523	321
Miscellaneous income		18 550	15 020
Investment Property Income		4 692	4 172
LRA Recovery		5 928	8 992
Total Revenue		**39 231**	**35 250**
Expenditure			
Audit and accounting fees		991	885
Bad debts		124	32
Bank charges		68	69
Board and committee fees including reimbursements		2 864	2 927
Construction and contractor costs		67 587	55 371
Depreciation		350 408	349 917
Impairment		515	-
Foreign exchange loss/(gain)		5 983	257
Increase/(Decrease) in future compensation provision		45 973	29 961
Insurance		3 902	3 538
Interest and finance expenses		11 165	12 573
Inventory and consumable stores		389	701
Leave pay		2 031	791
Legal and arbitration fees		1 766	1 666
Miscellaneous expenses		25 076	25 097
Motor vehicle expenses		3 865	3 171
Plant spares		2 152	2 773
Professional services		7 467	4 356
Public relation costs		2 683	3 249
Rates, electricity and water		3 627	3 503
Ground Rent Provision		43 091	361
Recruitment		238	154
Rental expenses		371	778
Repairs and maintenance		3 171	6 821
Resettlement and compensation costs		18 581	20 210
Safety awareness		19	14
Salaries, wages and allowances		93 610	75 138
Security expense		7 925	4 898
Stationery		784	666
Telephone and communication		2 510	1 655
Training		3 161	2 127
Travel and transportation		4 719	4 406
Total Expenses		**716 816**	**618 065**
Loss for the year subject to cost allocation		**677 585**	**582 815**
Amount as per cost allocation transferred to capital work in progress	2.2	81 788	56 872
Loss for the year as per Statement of Comprehensive Income	2.2	**595 797**	**525 943**