LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

ANNUAL REPORT 2018/2019

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LHDA

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DEVELOPMENT AUTHORITY

Maliba-Mats'o Bridge and Katse Intake Tower

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List of Abbreviations/Acronym

ARC	Audit and Risk 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

Board of Directors

MR. ROBERT MBWANA
Board Chairperson

Operations and Maintenance

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

MRS. NEO PHAKOANA-FOULO
Deputy Board Chairperson

Audit and Risk Management

Certificate in International Auditing (**ACCA, UK**) **2009**
Master of Business Administration (**University of the Free State, SA**) **2008**
Professional Stage, (CA) FCCA, **UK** (**now Fellow Member**) **2006**
International Capital Markets Qualification (**UK**) **2000**
Chartered Accountant (**Lesotho**) **1999**
Diploma in Business Studies (**National University of Lesotho**) **1992**

MR. STEPHEN L. PHAKISI

Socio-Economic Development

International Certificate – Preparedness and Disaster Management (**Cranfield University, UK**) **1997**
Master's Degree in Economics (**University of Alberta, Canada**) **1994 - 1996**
Certificate of Management (**McGill University, Canada**) **1992**
Honors Degree with Honors (Economics and Business) (**University of Dalhousie (Canada**) **1990 – 1994**

MR. PEETE MOLAPO

Stakeholder Representation

Master of Arts in Economics (**University of East Anglia, UK**)**1988**
Post-Graduate Diploma in National Accounts & Economic Statistics (**University of East Anglia, UK**) **1987**
Bachelor of Arts in Economics(**National University of Lesotho**) **1982**

MR. KEKETSO ELIAS CHALATSE

Project Management

Master Degree in Business Administration (**MBA**) (**University of Nicosia**) **February 2017**
Master Degree in Civil Engineering (**Cape-Peninsula University of Technology**) **2003**
Bachelors Degree in Civil Engineering (**Cape-Peninsula University of Technology**) **1998**
National Diploma in Civil Engineering (**Cape-Peninsula University of Technology**) **1997**
Diploma in Christian Ministerial Training Course; His People Bible School (**UCT**) **1996 – 1998**
Diploma in Civil Engineering (**Lerotholi Polytechnic, Lesotho**) **1990 – 2992**

Board of Directors

MR. TEBOHO NKHAHLE

Natural Environment

MPhil. Envitonmental Management (**University of Stellenbosch**) **2004**
BSc. (**National University of Lesotho**) **1989**
Registered Professional Scientist - **Council of Natural Scientific Professionals** (**RSA**)
Member of the African Institute of Directors(**RSA**)

MR. NELSON MONYAMANE

Human Resource Management

MSC Training and Human Resources Management(**Leicester University, UK**) **2006**
Post-Graduate Diploma in human Resources Management (**University of Natal Pietermaritzburg**) **1996**
BA Administration (**National University of Lesotho**) **1995**

MRS. REFILOE TLALI

Chief Executive and Ex-Officio Member of The Board

Certified Member of the South African Institute of Chartered Accountants (**Lesotho Institute of Accounting**) **1989**
Bachelor of Arts Education (**National University of Lesotho**) **1981**
Higher Diploma in Computer Auditing (**University if the Witwatersrand**) **1994**

MR. TENTE TENTE

Divisional Manager- Phase II and Executive Director

Registered Professional Engineer (**ECSA**) **2005**
Construction Management Programme (**Stellenbosch University**) **2005**
Diploma in Advanced Concrete Technology (**Institute of Concrete Technology**) **2002**
MSC Structural Engineering (**Surrey University, UK**) **1996**
B. Eng. (Hons.) Civil Engineering (**Loughborough University**) **1995**

ADVOCATE THENJISWA MATSHIKIZA

Board Secretary

LLB (**National University of Lesotho**) **1994**
BA Law (**National University of Lesotho**) **1992**

Vision

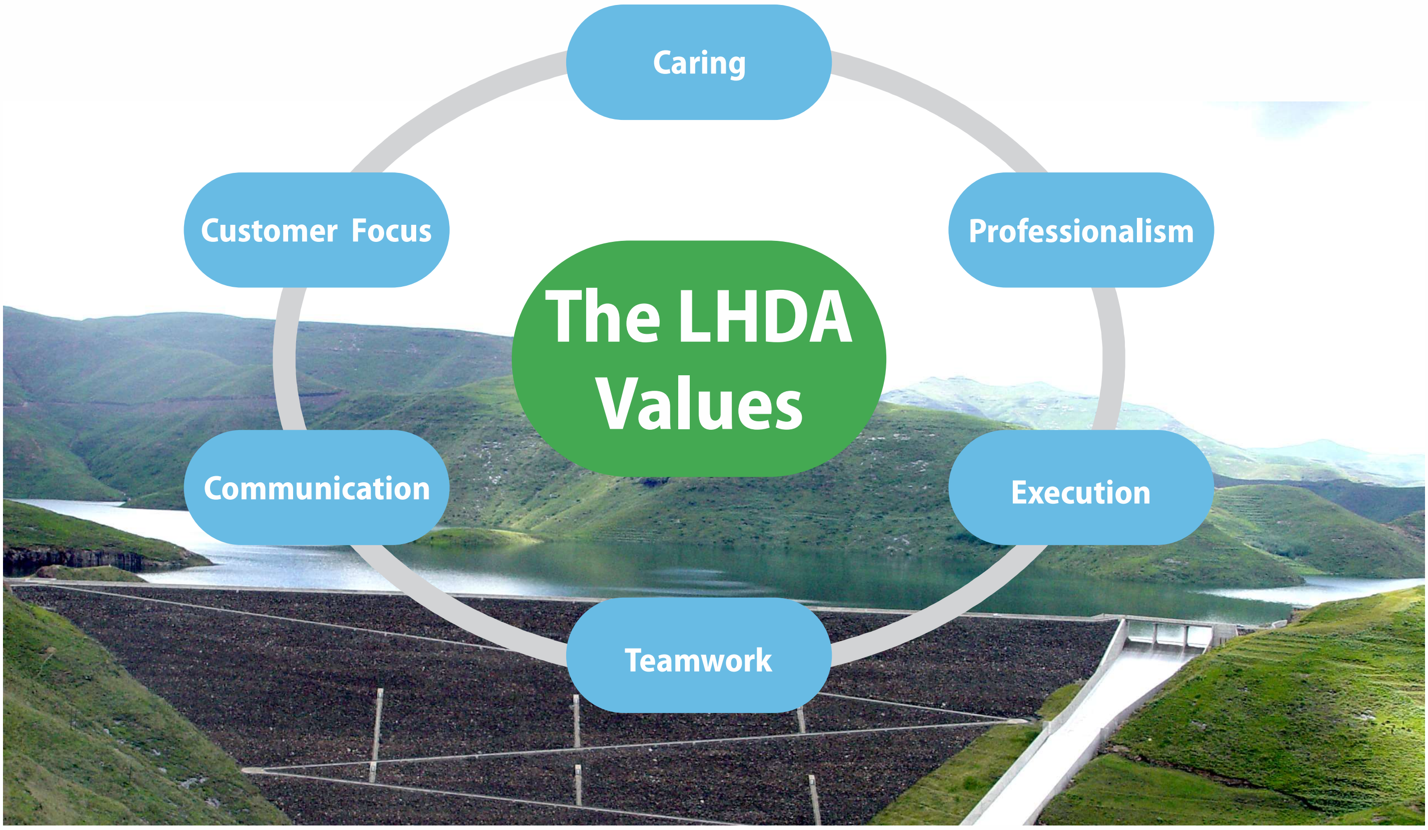
A world class organisation in the development and management of water resources and electricity generation.

Mission

To effectively and efficiently implement the Lesotho Highlands Water Project in accordance with internationally recognised standards, through capable and engaged people.

Values

The LHDA has adopted a 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 other's 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.

Governance Framework

The Lesotho Highlands Water Project was established by the Treaty signed on 24th October 1986 between the Governments of the Kingdom of Lesotho and the Republic of South Africa.

The Treaty also sets out the governance structures required to implement the Lesotho Highlands Water Project on behalf of the Parties.

These structures as depicted below are:

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

Figure 1: Governance Arrangements

The Lesotho Highlands Water Commission

The Lesotho Highlands Water 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, Third Edition of 11th July 2017, and the legal framework provided by the 1986 Treaty and Protocol VI to the Treaty, signed on 04 June 1999.

Board Committees

To assist it in its stewardship role, the Board has established five (5) Sub-Committees as set out in the table below. Each Sub-Committee is chaired by a Member of the Board. The roles and responsibilities of these sub-committees are as tabulated below.

	Audit and Risk Management	Human Resources	Operations and Maintenance	Sustainable Development	Technical
members	**Neo Phakoana-Foulo** *(Chair)* **Linds Yanta** **Gerrit Van Wyk** **Paul Clack** **Moliehi Tsilo Ralitapole** **Seretse Mohlouoa** *(LHWC)* **Piet Swart** *(LHWC)*	**Morathane Monyamane** *(Chair)* **Mzwandile Malishe** **Jonty Tshipa** **Gerard Photo Mofolo** **Mathabo Sebilo** **Leon Tromp** *(LHWC)* **Lerato Makholela** *(LHWC)*	**Robert Mbwana** *(Chair)* **Ngaka Andrias Lesala** **Khathutselo Godgrey Maumela** **Nandha Govender** **Moroke Ntene** *(LHWC)* **Molefi Mokhethi** *(LHWC)* **Leon Tromp** *(LHWC)* **Willie Croucamp**	**Teboho Nkhahle** *(Chair)* **Daphney Ramaphosa** **Makase Nyaphisi** **Taelo Letsela** **Puseletso Matete** **Bernice Khoachele** *(LHWC)*	**Keketso Chalatse** *(Chair)* **Willie Croucamp** **Alistair Glendinning** **Musa Furumele** **Thabang Tsehlo** **Mzamo Lephoma** *(LHWC)* **Moroke Ntene** *(LHWC)* **Leon Tromp** *(LHWC)*
Responsibilities	Advises and assists the Board in fulfilling its oversight responsibilities for financial reporting, information technology, 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 management and 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 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.

Table 1: Board Sub-Committees: Members and Key Responsibilities

Governance Framework

Board and Sub-Committee Meetings

The total number of meetings held by the LHDA Board of Directors and the Sub-committees during the year were as indicated below.

Board	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Total
Sub - Committees													
Audit & Risk Management	✓		✓		✓	✓	✓	✓		✓	✓		8
Sustainable Development	✓		✓		✓	✓		✓				✓	6
Human Resources	✓		✓		✓		✓	✓			✓		6
Operations & Maintenance	✓	✓	✓	✓	✓		✓	✓				✓	8
Technical	✓		✓	✓	✓	✓	✓	✓		✓		✓	9
Total Meetings	5	1	5	2	5	3	4	5		2	2	3	37

Table 2: Meetings Held

Instruments of Corporate Governance

The LHDA has put in place necessary instruments designed to facilitate and inculcate an environment where 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.

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 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 the LHDA's Code of Conduct and formally declared all business interest they have.

Internal Audit Assurance

The Internal Audit function conducted scheduled audits and reviews for the purpose of providing management with independent and objective assurance on the efficiency and effectiveness of operations. The risk-based 2018/19 Internal Audit Operational Plan was submitted and approved by the Audit and Risk Committee in May 2018 and subsequently approved by the LHDA Board. The planned audits were carried out successfully, with few changes where some audits were deferred by LHDA management to the following year to allow for implementation of identified improvement in the control environment.

Implementation of the Combined Assurance Model commenced during the financial year. The planning tools were developed and the revised measurement criteria was set up and approved by ARC and the Board.

LHDA staff during a meeting

Risk Management

The 2018/19 year witnessed the review of the Enterprise Risk Management (ERM) Policy and Framework at the lapse of four (4) years of implementation. The revised Policy and Framework offers the improved comprehensive risk management process that guides, with some level of confidence, identification, classification, measurement and successful monitoring of the institutional risks at all times.

The state of LHDA risk universe has been worsening due to climate change and delays in funding. The climate change effects brought drought that pushed the dam levels to almost sub-optimal state, thereby nearly affecting the water delivery and electricity generation targets. The delays in funding of the 2018/19 budget requirements from GOL also adversely affected operations.

Mechanisms at the 'Muela Hydro-Power Station

Statement By The Chairman Of The Board

MR ROBERT MBWANA
Board Chairperson

I am happy to present the annual report of the Lesotho Highlands Development Authority (LHDA), outlining the progress that has been made in the last financial year.

Major highlights of the year include the appointment of the new LHDA Board which commenced duties on the 1st April 2018. Presiding over the Board of such a complex undertaking as the Lesotho Highlands Water Project is a huge assignment. However, working with people of high integrity in the Project has enabled me to happily and willingly discharge both my fiduciary and oversight duties.

Although Phase II of the Project is behind schedule in terms of timelines proposed in the feasibility report, the developments that were stated in the latter half of 2017 saw several stages of progress for both water transfer and hydropower components.

During the reporting period, the Project entered into the construction period with the start of the appointment of advance infrastructure contracts (geotechnical investigations, roads, bridges, power and telecommunications, project housing, river diversion tunnels) and prequalification of contractors for the Polihali Dam and Polihali Tunnel.

On the Phase II hydropower component, the Kobong pumped storage scheme and conventional options were considered. Indications are that conventional hydropower is the more feasible option to meet Lesotho's energy needs. To this end, the decision was taken to advance the studies on the Senqu River and one at Oxbow to bankable feasibility. These studies are expected to be completed by the 2nd quarter of 2019.

The tenure of office for the Chief Operations Officer ended in June 2018 while the current Chief Executive will also retire in the first quarter of the next financial year. We look forward to the appointment of the substantive holders of these positions to enable a smooth transition of corporate governance in the LHDA, and also give direction and leadership within the organization towards achieving its goals.

Looking at developments within the organization, I am encouraged by the preparations that are taking place for implementation of Phase II of the Project. We can now confidently say that the LHDA is very close to its most exciting venture on the implementation of the construction phase of the Project.

I would like to extend my sincere gratitude to representatives of both governments of Lesotho and South Africa in the Lesotho Highlands Water Commission for their support and guidance.

Let me also thank the Board of Directors for having duly undertaken its oversight function in the major achievements attained due to their successful stewardship in setting the direction and development of policies within the LHDA.

Our heartfelt gratitude also goes to the LHDA Management and staff for the dedication and commitment they showed throughout the reporting period. We look forward to a successful business year ahead.

Yours sincerely

R. Mbwana

Board Chairperson

MRS. REFILOE TLALI
Chief Executive

INTRODUCTION

It is my pleasure to present the annual report for the period 01 April 2018 to 31 March 2019. This reporting period has been marked by yet other exciting and eventful stopover towards the implementation of the Lesotho Highlands Water Project.

Water Delivery and hydropower generation

Quite a lot has been achieved during the reporting period seen against the targeted output or the agreed delivery. Whereas the agreed delivery output for the reporting period was 780 MCM the annual water delivered was 777.7 MCM. This presented water delivery variance of 0.3% below the target for the year.

In terms of hydropower generation, electricity generation of 496.5 GWh was generated against the planned annual target of 500GWh. This presents a variance of 0.7% below the planned target for the year.

Compensation Payments

The 2018/19 Annual Cash Payments (ACP) to the total value of M8,654,257 was committed to pay a total of 1,721 eligible households within the four LHWP areas – 'Muela; Mohale; Katse and Lejone. The average percentage ACP distribution for all the four (4) areas was 97.1% against the annual target of 95%.

Phase II of the Lesotho Highlands Water Project

Phase II like Phase I which was successfully commissioned in 2004, includes further investment in water transfer infrastructure that will supplement water delivery to South Africa and a hydropower component that is a further step towards securing an independent, cost effective power supply for Lesotho.

Phase II's ancillary developments - the construction of roads, bridges, housing, power and telecommunications networks, both support the implementation of the project and benefit Lesotho in the long term. Social, cultural, public health and environmental programmes that will mitigate the impact of Phase II on communities in the Project area also underpining the implementation of Phase II.

The Polihali Dam in the Mokhotlong District and the Polihali Transfer Tunnel along with their appurtenant works, are the main water transfer infrastructure. The hydropower works are still to be finalised by the Government of Lesotho on completion of the further feasibility studies.

Thirty-one contracts which cover a range of disciplines have been awarded during this reporting period. These include engineering design, construction, environment and public health contracts.

Significant progress was made on the water transfer component of Phase II with the award of the first advance infrastructure construction tenders for the Polihali North East Access Road, the 33kv power line and the Polihali diversion tunnels. By the end of the reporting period, a number of other advance infrastructure construction contracts were under procurement.

Draft designs for the Polihali Dam and Polihali Transfer Tunnel were approved and the prequalification of contacts for major works commenced during the fourth quarter. Substantial progress was also made on the Phase II social and environmental programmes. The registration of assets to be affected by the advance infrastructure, a critical component of resettlement planning, was nearing completion by the end of the review period. Compensation offers had been issued to owners of assets in some of the priority Project areas, and the planning of replacement housing and the identification and finalisation of relocation sites was underway.

It should also be noted that further feasibility studies were nearing completion at the end of the reporting period. Conventional hydropower was recommended as the more feasible option to meet Lesotho's energy needs, and the decision was taken to defer the pumped storage scheme envisaged for Phase II given the prevailing economic environment. It was decided to advance the studies for two sites on the Senqu River and one at Oxbow. These studies were expected to be concluded by the second quarter of 2019, after which the Project Authorities are expected to make the final decisions on the hydropower component of Phase II.

Concluding Remarks

I would also like to express my appreciation of hard work and commitment demonstrated by the LHDA staff and management in ensuring that the responsibility of the Project turns into reality. It is also through the support of our stakeholders that the LHDA contributes positively to Lesotho's economic growth. The support and leadership of the Lesotho Highlands Water Commission and the Board of Directors has been very instrumental and is duly appreciated.

Yours sincerely

Refiloe Tlali (Mrs)

The Staff Complement

The LHDA manpower planning ensures that the organization has the right people with the right capabilities. The LHDA tracks its ability to attract and retain its key talent. In the year under review, the LHDA had three hundred and twenty-three positions in the approved structure with a total headcount of two hundred and ninety-five employees, with seventeen new appointments and two internal promotions. The LHDA also employs temporary employees for short-term projects and vacant positions to ensure continuity of business operations. In 2018/2019, our temporary workforce represented 2.8% of our staff complement. There were six resignations and two deaths during the reporting period.

Implementation of training plan – 2018/2019

The overall objective of training is to ensure that LHDA achieves its vision, mission and its key focus areas through skilled and competent employees.

Developing the full potential of all employees is a prerequisite to creating a competitive advantage.

Our people have the opportunity to continually develop themselves through workplace qualifications and shorter, function-specific programmes. Related objectives and targets are detailed in our annual training report.

In 2018, LHDA invested 2.5% of total annual LHDA wage bill on training staff through different learning institutions.

The LHDA Training Plan implementation target for 2018/2019 was 90%, and cumulative implementation of the Plan as at 31 March 2019 was at 74.3%.

LHDA staff during a meeting

Management Development Programmes

Our aim is to have leaders with the right capabilities to inspire people to deliver exceptional performance. One programme in Senior Management development was run, whereby eleven (11) members of the LHDA Management participated in a Senior Management Development Programme that was offered by the University of Stellenbosch.

Young Professional Programme

The LHDA Young Professionals (YPs) Internship programme was approved in 2017, with the aim to provide more than one hundred interns with experiential learning that would support their transition into the working environment. In the period ending 31 March 2019, the LHDA had engaged a total of sixteen Young Professionals, in the fields of Civil and Electrical Engineering, Geology, Architecture, Environmental Sciences and Social Sciences disciplines. The YPs are placed under different Phase II contracts to expose them to the work environment to make them employable in future.

Bursaries

The LHDA signed Memoranda of Understanding (MoUs) with three pilot universities, namely the University of Pretoria (UP), University of the Witwatersrand (WITS) and University of Johannesburg (UJ). Under these MoUs, the LHDA intends to offer bursaries to deserving students studying at those universities in pre-identified disciplines relevant to the LHWP.

Subsequent to the MoUs signing, the LHDA requested the universities to provide lists of eligible students for the award of bursaries, in the fields of Civil Engineering, Geology, Environmental Management and Communication. To date, the LHDA is sponsoring four Basotho and two South African Nationals respectively and they are all studying at the South African Universities.

As at the end of the reporting period, the LHDA was finalising arrangements for the signing of MoUs with NUL and UFS.

Performance Management Development System

The LHDA reinforced its Performance Management system by facilitating a workshop on the revised PMDS Scoring Framework to all LHDA employees during the period under review. The purpose of the workshop was to develop a shared understanding of expectations and application of the PMDS performance measurement, particularly scoring, across the board. In March 2019, a mini-survey was conducted to establish the effectiveness of the revised scoring framework and the results were circulated to Management for information amd addressing the identified gaps.

Employee Reward and Compensation

In order to enhance staff welfare the Group Life Assurance was reviewed to include other health benefits, through a newly engaged service provider. The new scheme came into effect in May 2018.

Project Publicity

The LHDA continued to forge, develop and maintain strong relationships with the external stakeholders employing a myriad of platforms to target specific audiences. During the period under review the media monitoring tools have picked up a rise in conversations about the Project in social media as a larger more diverse social audience starts to speak on the Project as Phase II of the LHWP gathers momentum.

The usual traditional channels for communicating the LHDA's key messages that include radio, television, press releases, feature articles and showcasing of the LHWP through local, regional and international exhibitions were all deployed to good effect.

Project Publicity *(continues)*

In particular, a special session was dedicated to the LHWP at the Africa 2019 Conference and Exhibition held in Windhoek, Namibia in April 2019. The ten papers presented at the conference were well received.

During the reporting period efforts were intensified to enhance the two-way communication with stakeholders as a proactive strategy to secure their buy in and support to the LHWP's programmes. In this respect, presentations were made to Policy makers. In addition, community consultations and engagements were carried out intensively in the Phase II area covering subjects such as labour recruitment procedures, financial literacy and public health issues targeting vulnerable groups such as students in the new construction area of Polihali.

Instream Flow Releases (IFR) Implementation

Water quality monitoring in the LHWP reservoir catchments is undertaken on a quarterly basis. Results of monitoring have indicated that the quality of water in the LHWP dams is characterised by low levels of nutrients which is indicative of low contribution of nutrients from the overall dams' catchments. Compared to previous years, phosphate is reduced and below the guideline limit in Katse dam, whilst phosphate in the Muela dam is above the guideline limit. Nitrate in both dams is reduced and below the guideline limit with chlorophyll-a slightly elevated above the guideline limit in the Katse dam and below the limit in the Muela dam.

IFR site	Pre-dam condition	Predicted condition	Ecological category	Integrated ecostatus	State/class	Actual relative to Prediction
1	2	3 (C)	53.80	D	Largely modified	Worse
2	2	4 (D)	36.69	E	Seriously modified	Worse
3	2	4 (D)	69.89	C	Moderately modified	Better
4	2	3 (C)	51.52	D	Largely modified	Worse
5	2	2 (B)	66.52	C	Moderately modified	Worse
6	2	2 (B)	63.52	C	Moderately modified	Worse
7	2	4 (D)	64.44	C	Moderately modified	Better

Table 3: The assessed actual river condition (October 2017 to September 2018) of every IFR sites relative to the predicted conditions.

Implementation of the LHWP ICM strategy – Phase II

Advances in the implementation of rehabilitation activities in the Polihali sub-catchments have also been made. Notably, brush control activities were undertaken at Ntsupe and Malingoaneng where 28.25Ha was cleared of *Chrysocoma* shrubs. Motseremeli wetland was rehabilitated through the construction of eleven gabions on a gully.

Brush control and gabion construction at Malingoaneng rangeland and Motseremeli wetland

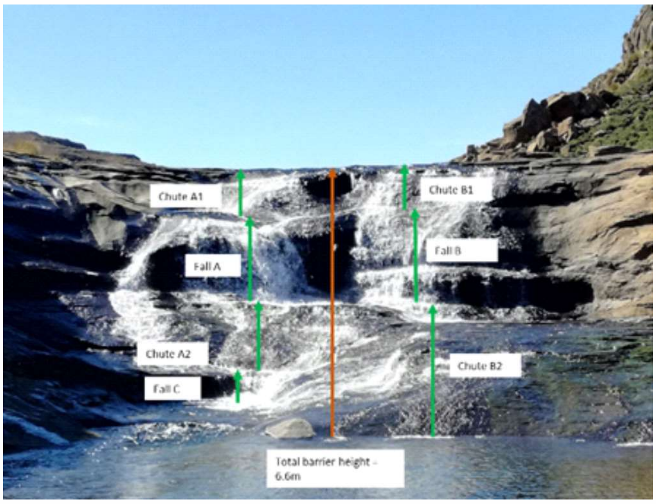
Prior to the rehabilitation process, erosion assessment was done in three Polihali sub-catchments of Makhomalong, Tsilantso and Motseremeli where assessments of deep gullies of more than 5m were observed in Makhomalong. The total estimated weight of soil loss from the surveyed features was 550,104.19Kg, 148,416.52Kg and 3,937.13Kg in Makhomalong, Tsilantso and Motseremeli respectively.

For overall rehabilitation activities in the Polihali catchments, a total of 102 labourers were engaged and a total of M 222,361 paid in wages.

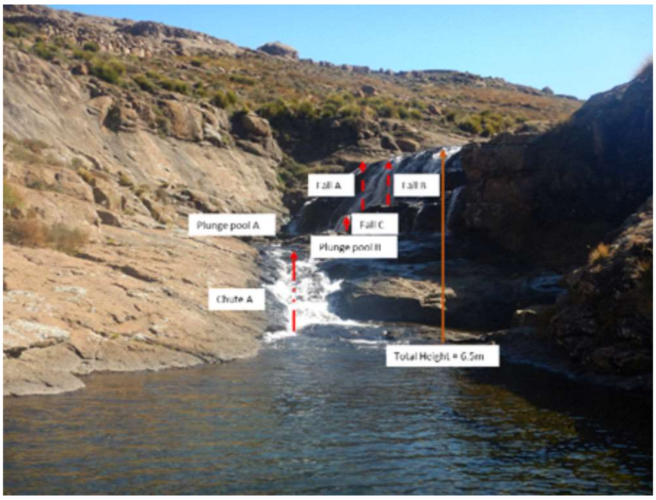
Maloti Minnow conservation

Since 2017, the LHDA has been monitoring Maloti Minnow populations in native and translocated sites. Native population in the Senqunyane, Bokong, Likalaneng and Jorotane (below the Pampiri falls) Rivers are near extinct. Survey in translocated sites recorded 53 and 325 minnow in Jorotane and Maletsunyane Rivers respectively while no minnow was recorded in Makhaleng River. Analyses of abundance and size structure suggest that Jorotane and Maletsunyane translocated populations are well established and healthy.

To avert potential post-impoundment impacts of Polihali Dam on minnow populations, waterfalls in the Senqu and Moremoholo Rivers were assessed for their adequacy to act as natural barriers for predatory fish migration to the uppermost reaches of the rivers. Results showed that the two falls were impassable to large trout and yellowfish even at maximum burst speeds and assuming favourable swimming and leaping conditions. Both Rivers can be considered as sanctuary areas for minnow, free from significant land use impacts and protected by waterfalls from non-native fish.



Senqu falls.



Moremoholo falls.

Minnows caught at 'Maletsunyane

SOCIAL SERVICES & COMPLIANCE MONITORING BRANCH

The Social Services and Compliance Monitoring Branch is mandated to implement the LHDA Compensation Policy and to monitor and evaluate implementation of the social and environmental programs.

Cash Payments and Grain Distribution

The 2018/19 ACP to the total value of M8.654 Million was committed to pay a total of 1,721 eligible households within the four LHWP areas – 'Muela; Mohale; Katse and Lejone. The average of 97.1% against the annual target of 95% on annual cash payments was reported as shown in figure 1 below. Implementation of the change in maize packaging from 70kg into 35kg bags commenced during the 2018/19 grain distribution period.

The decision to change packaging was in compliance to the legislation prohibiting the lifting or carrying of 70kg bags by individual labourers as provided by the Agricultural Proclamation Act No. 3 of 2016. The planned target for grain distribution in 2018/19 was set at 95%, but LHDA achieved 93.5% distribution, which is slightly lower than the annual target and that of the previous Financial Year at 95%. The perfomance in grain distribution is as shown in figure 2 below.

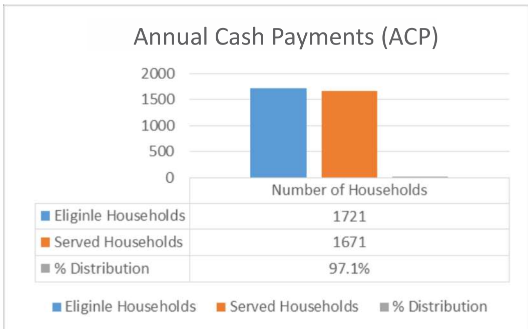


Figure 2: Annual Cash Payments (ACP)

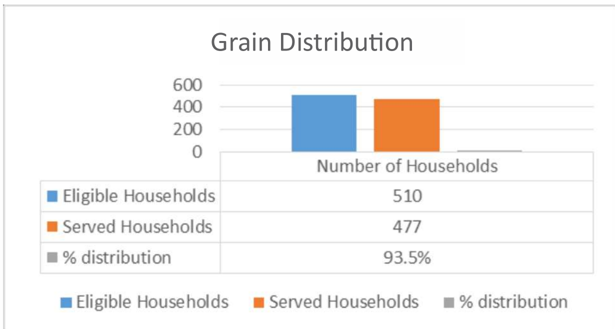


Figure 3: Grain Distribution

Community receives grain compensation

Environmental Action Plan (EAP) Monitoring

LHDA implements the Environmental Action Plan (EAP) which is a set of strategic programs meant to reduce the negative impacts of the Project on the natural environment and the communities directly affected by the Project activities. The key programmes/projects include Compensation, Integrated Catchment Management (ICM), Instream Flow Requirements (IFR), Development programmes and Community Complaints Management. The overall EAP performance in the reporting period is measured at 3.25 out of the total score of 5. This performance is consistent with the overall LHDA performance on the Corporate Plan. Some of the challenges that were encountered include among others, protracted procurement processes of the key environmental and social contracts. Thus, LHDA performance on the EAP projects was relatively unsatisfactory.

GIS and Survey Units

The GIS Unit is responsible for provision of spatial data and information to other LHDA Branches as and when required. The Survey Unit is responsible for provision of topographic and cadastral surveys to internal LHDA stakeholders. A total of 190 maps for Polihali Northern Eastern Access Road (PNEAR) were produced and 85 topographic surveys were undertaken during the reporting period.

Operations and Maintenance of the Physical Structures

The major physical structures constructed in the implementation of the Lesotho Highlands Water Project include the water conveyance system and the hydropower generation plant and appurtenances. These structures and facilities are routinely maintained to ensure that they continue working to design standards.

The major LHWP infrastructures behaved and performed as expected during the reporting period. The Engineering Panel of Experts assessed the performance behavior of Matsoku weir, Katse and 'Muela dams from the 27th August to 2nd September 2018. The assessment confirmed both the dams and weir performance as satisfactory.

The panel further recommended that considering the importance of the structures and their continued satisfactory performance in the future, the number of Dam monitoring instruments should not be decreased. They recommended that the instruments that could be re-instated should be made operational.

Figure 3: Photo of recently installed automatic pendulum recording station

Water Levels in the Reservoirs

Katse Reservoir:

During the reporting period, there has been low rainfall that affected the level of water in the reservoirs continuing from 2015, where there was a severe drought. The level of water in the Katse Reservoir started at 2037.175 masl (73.47%) in April 2018 due to reopening of the Mohale Tunnel and some good rains in both Katse and Mohale Dam catchment areas. This situation was however not prolonged to alleviate the drought condition. At the end of March 2019, the level was 2018.57 masl (34.24%).

Figure 4: Katse Dam April 2011

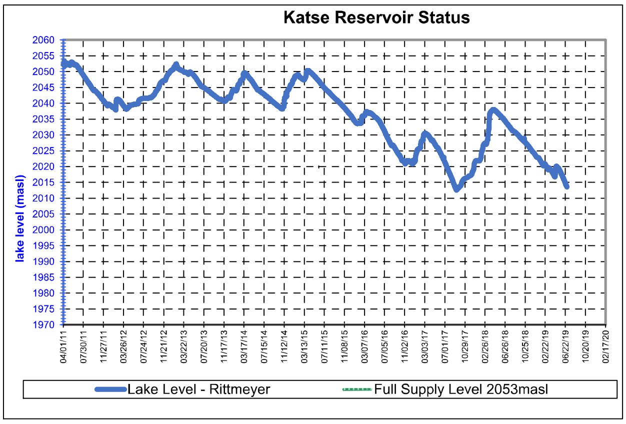


Figure 5: Katse water levels

Mohale Reservoir

Mohale dam level started in April 2018 at elevation 2042.430masl (41.4%) and was at 2031.92 masl (21.77) at the end of March 2019.

Figure 6: Mohale Dam spilling in April 2011

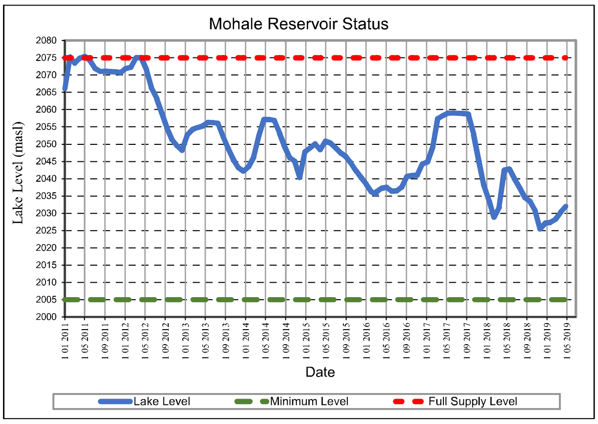


Figure 7: Mohale water levels

Water Deliveries

The actual annual water delivered during the reporting period is 777.7 MCM (million cubic metres) against the agreed delivery of 780.00 MCM, presenting the water delivery variance of 0.3% below the planned target for the year.

The table below shows the water deliveries and royalty revenue to the Lesotho government during the last six years.

Year	Planned Deliveries (million m3)	Actual Deliveries (million m3)	% Variance in Deliveries	Actual Royalties (M million)
2014/2015	780	780.1	+0.01%	735.9
2015/2016	780	779.9	-0.01%	736.9
2016/2017	780	794.005	1.8%	861.8
2017/2018	780	810	3.8%	942.5
2018/2019	780	777.7	-0.3%	937.5

Table 4: Water deliveries and royalty revenue

Electricity Generation

Electricity generation of 496.5 GWh was achieved against the planned target of 500 GWh, a variance of 0.7% below the planned target for the year. Total electricity exports from 'Muela amounted to 0.4% of total production.

Year	Planned Generation (GWhr)	Actual Generation (GWhr)	% Variance in Generation	Actual Value(M million)	% Export of total annual production	Export Value (M million)
2014/2015	502	518.9	+3.4%	54.86	1.21%	0.66
2015/2016	502	530.7	+5.0%	60.6	-	0.8%
2016/2017	500	508	+1.6%	57.29	1.4%	0.8
2017/2018	500	520.1	+4.0%	60.04	0.8%	0.5
2018/2019	500	496.5	-0.7%	56.3	0.4%	0.6

Table 5: Electricity Generation

A total of M56.03 million was recorded as revenue payable by LEC to the Lesotho Government in relation to the Muela electricity supplied to LEC. A total of M0.6 million was realised from electricity exports to Eskom.

Figure 8: Turbines at 'Muela Hydro Power Station

PART E: PHASE II OF THE LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

Background

The Lesotho Highlands Water Project is a successful trans boundary water resource management scheme which benefits the Kingdom of Lesotho and the Republic of South Africa. Phase II, like Phase I which was successfully completed in 2004, includes further investment in water transfer infrastructure that will supplement water delivery to South Africa by 2026, and a hydropower component that is a further step towards securing an independent, cost effective power supply for Lesotho.

Phase II's ancillary developments - the construction of roads, bridges, housing, power and telecommunications networks, both support the implementation of the Project and benefit Lesotho in the long term. Social, cultural, public health and environmental programmes that will mitigate the impact of Phase II on communities in the Project area also underpin the implementation of Phase II.

The Polihali Dam in the Mokhotlong District and the Polihali Transfer Tunnel along with their appurtenant works, are the main water transfer infrastructure. The hydropower works are still to be finalised by the Government of Lesotho on completion of the further feasibility studies.

Procurement progress

There were 31 contracts in force at the end of the financial year, covering a range of disciplines from engineering design and construction, to environmental, social and public health.

Contract	Description	Award Date	Successful bidder
6018	Health Impact Assessment and the Public Health Action Plan	25.06.18	Dr P.J. McPherson
4023	Design, supply and installation of temporary offices and accommodation at Tlokoeng	26.07.18	Senqu-Hiway Joint Venture
6023	SHEQ Auditor Advance Infrastructure	22.08.18	GA Environment (Pty) Ltd.
4012	Construction of the Polihali North East Access Road (PNEAR)	08.10.18	Sinohydro SA/Nthane Brothers Joint Venture
5510	Establishment and Management of Project Labour Recruitment Desk	25.10.18	The Workplace Solutions
4018A	Construction of Advance Infrastructure Civil Works at Polihali and Katse	25.10.18	WBHO/LSP Joint Venture
3020	Professional Services for the Design and Construction Supervision of the Polihali Major Bridges	29.10.18	Aurecon Lesotho
4005B	Construction of 33kV Line from Tlokoeng to Polihali and Relocation of the 33kV Line along the A1	07.02.19	LSP Construction (Pty) Ltd.
4022	Construction of Polihali Diversion Tunnel	25.02.19	SCLC Polihali Diversion Tunnel Joint Venture

Table 6: Contracts Awarded During The Reporting Period

Water transfer

Significant progress was made on the water transfer component of Phase II. This included the award of the first advance infrastructure construction tenders for the Polihali North East Access Road, the 33kv power line and the Polihali diversion tunnels. By the end of the reporting period, a number of other advance infrastructure construction contracts were under procurement.

Draft designs for the Polihali Dam and Polihali Transfer Tunnel were approved and the construction prequalification commenced during the fourth quarter of the reporting period.

Substantial progress was also made on Phase II social and environmental programmes. The registration of assets to be affected by the advance infrastructure, a critical component of resettlement planning, was nearing completion by the end of the review period. Compensation offers had been issued to owners of assets in some of the priority project areas, and the planning of replacement housing and the identification and finalisation of relocation sites was underway.

The rollout of the livelihood restoration demonstration projects commenced with financial literacy education workshops for communities that will be displaced. These workshops are intended to help the communities to manage their compensation payments to support sustainable livelihoods.

The LHDA appointed a Public Health Specialist, Public Health Nurse and a Data Management Officer to conduct a Health Impact Assessment (HIA), the forerunner to the Public Health Action Plan for the impacted populations. These will be developed in close collaboration with the Ministry of Health and local health authorities.

In October 2018, the Lesotho's Ministry of Tourism, Environment and Culture issued LHDA with a Record of Decision granting environmental authorisation to proceed with the Polihali Reservoir and associated infrastructure construction activities

Hydropower

The further feasibility studies were nearing completion at the end of the reporting period. Conventional hydropower was recommended as the more feasible option to meet Lesotho's energy needs, and the decision was taken to defer the pumped storage scheme envisaged for Phase II given the prevailing economic environment. It was decided to advance the studies for two sites on the Senqu River and one at Oxbow. These studies are expected to be concluded by the third quarter of 2019, after which the Project's principals are expected to make the final decisions on the hydropower component of Phase II.

Preference attainment

The following tables illustrate performance against preference targets pertaining to all project costs on contracts awarded to end March 2019.

It should be viewed in the context that there are still infrastructure consultancy contracts to be let and only four construction contracts had been awarded by the end of the reporting period.

	Contracted Targets			Actual Performance		
	Costs assigned to Lesotho Nationals	Costs assigned to RSA Nationals	Costs assigned to others	Costs assigned to Lesotho Nationals	Costs assigned to RSA Nationals	Costs assigned to others
Consultancy Contracts	233 925 950	375 496 128	12 979 005	74 665 450	81 316 826	8 674 813
Construction Contracts	56 328 228	125 900 219	2500 000	23 496 113	14 043 202	691 127
All Advance Infrastructure	290 254 178	501 396 347	15 479 005	98 161 563	95 360 028	9 365 940
All Advance Infrastructure	36,0%	62,1%	1,9%	48,4%	47,0%	4,6%

MAIN WORKS						
	Contracted Targets			Actual Performance		
	Costs assigned to Lesotho Nationals	Costs assigned to RSA Nationals	Costs assigned to others	Costs assigned to Lesotho Nationals	Costs assigned to RSA Nationals	Costs assigned to others
Consultancy Contracts	263 183 339	611 496 662	402 995 295	20 388 323	100 336 664	46 560 807
Construction Contracts	-	-	-	-	-	-
All Main Works	263 183 339	611 496 662	402 995 295	20 388 323	100 336 664	46 560 807
All Main Works	20,6%	47,9%	31,5%	12,2%	60,0%	27,8%

Table 7: Preference Performance

Phase II indicative programme

The tables below provide the indicative programmes for the water transfer and hydropower components as at end March 2019.

	Planned	Forecast	Actual
Ratification	June 2013		May 2013
Impoundment	Nov 2023	Aug 2024	_
Dam completed	Dec 2024	June 2025	_
Tunnel completed	Sept 2025	Feb 2026	_
Water delivery commences	Sept 2025	Feb 2026	_
Project closeout	July 2027	May 2027	_

Table 8: Indicative Water Transfer Component Programme

	Start	Finish
Feasibility study completion		Aug 2019
Hydropower option approval	Sept 2019	Oct 2019
GoL secure funding	Oct 2019	Feb 2020
Procurement	Feb 2020	Dec 2020
Engineering design commences	Dec 2020	Dec 2021
Construction	June 2022	Jan 2025

Table 9: Indicative Hydropower Component Programme

PART F: ANNUAL FINANCIAL STATEMENTS

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

ANNUAL FINANCIAL STATEMENTS

AT 31 MARCH 2019

GENERAL INFORMATION

DIRECTORS	:	Mr. R. Mbwana (Chairperson) Mr. T. Nkhahle Mr. M. Monyamane Mrs. R Tlali (CE) (Term Ended 14/06/2019) Mr. T Tente (DM Phase II) Mrs. N. Phakoana-Foulo (Deputy Chairperson) Mr. S. Phakisi Mr. P. Molapo Mr. K. Chalatse Appointments: Mr. T. Tente CE (a.i.) (15/07/2019)
NATURE OF BUSINESS	:	Implementation, operation and maintenance the Lesotho Highlands Water Project
AUDITORS	:	New Dawn Chartered Accountants
REGISTERED OFFICE	:	Lesotho Highlands Development Authority LHDA Tower Kingsway Rd **MASERU 100** Lesotho
PHYSICAL ADDRESS	:	Lesotho Highlands Development Authority LHDA Tower Kingsway Rd **MASERU 100** Lesotho
BANKERS	:	Standard Lesotho Bank
ATTORNEYS	:	In-house Attorneys Webber Newdigate Attorneys
COMPANY SECRETARY	:	Ms. T. Matshikiza
COUNTRY OF INCORPORATION	:	Lesotho
LEGAL FORM	:	Authority
PRESENTATION CURRENCY	:	Maloti

BOARDS' STATEMENT OF RESPONSIBILITY
At 31 March 2019

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 endeavors to minimize it by ensuring that appropriate infrastructure, controls, systems and ethical behavior 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 2020 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 4 and 5

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The Annual Financial Statements, set out on pages **6 to 51,** were approved by the Board and signed on behalf of the Board by:

Mr R. Mbwana (Pr Eng)	**Mr T. Tente (Pr Eng)**
CHAIRPERSON	**CHIEF EXECUTIVE (a.i.)**
2019-09-27	27/09/19
DATE	**DATE**

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

Independent Auditor's Report to the Members of Lesotho Highlands Development Authority

Opinion

We have audited the financial statements of Lesotho Highlands Development Authority ("the authority") set out on pages 7 to 49, which comprise the statement of financial position as at 31 March 2019, and the statement of comprehensive income, statement of changes in funds and reserves and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Lesotho Highlands Development Authority as at 31 March 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the organisation in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other independence requirements applicable to performing the audit of Lesotho Highlands Development Authority. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing the audit of Lesotho Highlands Development Authority. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the pages 3, 6 and 50 to 51 in the document titled "Lesotho Highlands Development Authority Annual Financial Statements at 31 March 2019", which includes the Board's Statement of Responsibility, Statements of Activities as well as the Detailed Statement of Comprehensive Income. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

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

In preparing the financial statements, the directors are responsible for assessing the organisation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the organisation or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 organisation's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the organisation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the organisation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Pitso

Thuso Pitso
New Dawn Chartered Accountants
Partner
Registered Auditor
30 September 2019

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED 31 MARCH 2019

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
Construction of Polihali dam, concrete-faced rock fill embankment 166m high and crest length of 921m and associated infrastructure . An additional 50-m-high saddle dam will also be built. An estimated 38-km-long with nominal bore 5-m-diameter water transfer tunnel from Polihali to existing Katse dam reservoir will also be built.
Activities for the implementation of Phase II continued during the current financial year.

Hydropower component
The funding for the Hydropower Feasibility study from the World Bank expired in December 2018 and Government of Lesotho is providing funding to complete the study. The bankable feasibility study report is expected to be complete by end of October 2019.

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2019

	NOTE	2019 M'000	2018 M'000
Revenue	19	538 775	612 386
Other Income		30 146	26 097
Total Income		**568 921**	**638 483**
Foreign Exchange Losses		(3 551)	(2 367)
Depreciation	3 & 4	(339 258)	(341 365)
Resettlement and Compensation Costs		(24 544)	(23 804)
Salaries and Wages		(132 798)	(125 296)
Other Administrative and Operating Expenditure		(63 307)	(93 578)
Operating Surplus/ (Deficit)	2.1	**5 463**	**52 073**
Finance Income		6 979	7 435
Finance Cost		(3 023)	(5 024)
Surplus/(Deficit) for the year		**9 419**	**54 484**

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2019

	NOTE	2019 M'000	2018 M'000
ASSETS			
Non-Current Assets		**9 732 469**	**9 496 554**
Completed Works and Capital Work in Progress	3	9 726 408	9 490 142
Investment Property	4	6 061	6 412
Current Assets		**404 075**	**264 371**
Contract Advance Payments	5	75 976	11 307
Trade and Other Receivables and Prepayments	6	170 775	112 868
Cash and Cash Equivalents	7	157 324	140 196
Total Assets		**10 136 544**	**9 760 925**
FUNDS AND LIABILITIES			
Funds and Reserves		**(369 928)**	**(379 347)**
Funds and Reserves		(369 928)	(379 347)
Non-Current Liabilities		**10 201 401**	**9 955 116**
Loans and Borrowings	8	20 126	28 435
Provisions	9	383 024	377 091
Accruals for Compensation	11	65 782	59 448
Deferred Income	12	9 732 469	9 490 142
Current Liabilities		**305 071**	**185 156**
Contract Payables and Accruals	10	205 552	87 953
Contract Retentions	10	7 568	2 096
Provisions	9	37 975	36 966
Trade and Other Payables	11	45 842	47 892
Current Portion of Loans and Borrowings	8	8 134	10 249
Total Funds and Liabilities		**10 136 544**	**9 760 925**

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

STATEMENT OF CHANGES IN FUNDS AND RESERVES

AS AT 31 MARCH 2019

	Total funds and Reserves M'000
Balance at 31 March 2017	**(433 831)**
Surplus/(Deficit) for the year	54 484
Balance at 31 March 2018	**(379 347)**
Surplus/(Deficit) for the year	9 419
Balance at 31 March 2019	**(369 928)**

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 MARCH 2019

		NOTE	2019 M'000	2018 M'000
CASH FLOW FROM OPERATING ACTIVITIES				
Net Cash Inflow/(Outflow) from Operating Activities			**605 321**	**386 331**
Surplus/ (Deficit) before taxation			9 419	54 484
Add:	Depreciation	3 & 4	339 258	341 365
	Finance Charges		3 023	5 024
	(Surplus)/Deficit on the sale of assets		(426)	(56)
			351 274	400 817
(Increase)/Decrease in Advance Payments			(64 669)	(6 812)
(Increase)/Decrease in Other Receivables and Prepayments			(57 907)	(33 411)
Increase/(Decrease) in Provisions			6 941	(2 047)
Increase/(Decrease) in Contract Payables and Accruals			117 599	39 954
Increase/(Decrease) in Retentions			5 472	(1 376)
Increase/(Decrease) in Other Payables and Accruals			4 284	27 807
Increase/(Decrease) in Deferred Income			242 327	(38 601)
CASH FLOWS FROM INVESTING ACTIVITIES				
Net Cash Inflow/(Outflow) from Investing Activities			**(574 746)**	**(302 360)**
Additions to Assets			(577 174)	(304 669)
Proceeds on disposal of Assets			2 428	2 309
CASH FLOWS FROM FINANCING ACTIVITIES				
Net Cash Inflow/(Outflow) from Financing Activities			**(13 447)**	**(34 662)**
Loans and Borrowings Repaid			(10 424)	(29 638)
Finance Charges			(3 023)	(5 024)
Net (Decrease)/Increase in Cash and Cash Equivalents			**17 128**	**49 309**
Cash and Cash Equivalents at the beginning of the period			140 196	90 887
Cash and Cash Equivalents at the end of the period		7	157 324	140 196

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).

Changes to notes disclosures
During the current year certain notes to the financial statements were removed or moved to improve presentation of the annual financial statements. As a result, the cost allocation information has now been moved to note 21, superfluous information within the completed works and work in progress disclosure notes regarding the cost allocation has also been removed. Certain disclosures on Government Grants note 19 were also removed as it was not required for disclosure as per IAS20. Certain comparative figures have also been restated to adjust for rounding off differences

1.2 Standards and interpretations effective and adopted in the current year

In the current year, the Authority has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Amendments to IAS 40: Transfers of Investment Property

The amendment deals specifically with circumstances under which property must be transferred to or from investment property. The amendment now requires that a change in use of property only occurs when the property first meets, or ceases to meet, the definition of investment property and that there is evidence of a change in use. The amendment specifies that a change in management's intentions for use of the property, do not, in isolation, provide evidence of a change in use.

The effective date of the amendment is for years beginning on or after 01 January 2018.

The LHDA has adopted the amendment for the first time in the 2019 annual financial statements.
The impact of the amendment is not material.

IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration

The interpretation applies to circumstances when an entity has either paid or received an amount of consideration in advance and in a foreign currency, resulting in a non-monetary asset or liability being recognised. The specific issue addressed by the interpretation is how to determine the date of the transaction for the purposes of determining the exchange rate to use on the initial recognition of the related asset, expense or income when the non-monetary asset or liability is derecognised. The

1.2 Standards and interpretations effective and adopted in the current year (continued)

interpretation specifies that the date of the transaction, for purposes of determining the exchange rate to apply, is the date on which the entity initially recognises the non-monetary asset or liability.

The effective date of the interpretation is for years beginning on or after 01 January 2018.
The LHDA has adopted the interpretation for the first time in the 2019 annual financial statements.

The impact of the interpretation is not material.

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurements of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the outstanding principal are generally measured at amortised cost at the end of subsequent reporting periods. Debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on outstanding principal, are measured at FVTOCI. All other debt and equity investments are measured at fair value at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of the liability is presented in other comprehensive income, unless the recognition of the effect of the changes of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Under IAS 39, the entire amount of the change in fair value of a financial liability designated as at fair value through profit or loss is presented in profit or loss.

1.2 Standards and interpretations effective and adopted in the current year (continued)

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. It is therefore no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principal of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The effective date of the standard is for years beginning on or after 01 January 2018.
The LHDA has adopted the amendment for the first time in the 2019 annual financial statements, hence the LHDA applied IFRS 9 prospectively, with an initial application date of 1 April 2018. The LHDA has not restated the comparative information, which continues to be reported under IAS 39.

The impact of the amendment is not material. There was no material change in the classification of financial assets or financial liabilities with the transition from IAS 39 to IFRS 9. Furthermore, expected credit losses are deemed to have a limited and non-material impact on the financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction contracts; IAS 18 Revenue; IFRIC 13 Customer Loyalty Programmes; IFRIC 15 Agreements for the construction of Real Estate; IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue - Barter Transactions Involving Advertising Services.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also includes extensive new disclosure requirements.

The effective date of the standard is for years beginning on or after 01 January 2018.
The LHDA has adopted the standard for the first time in the 2019 annual financial statements.

1.2 Standards and interpretations effective and adopted in the current year (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

The LHDA assessed the impact of the standard and derived at the conclusion that the requirements per IFRS 15 won't have a material impact on the annual financial statements as the LHDA does not have revenue that constitutes revenue in accordance with IFRS 15. The revenue disclosed in the financial statements constitutes grant revenue and is accounted from under the requirements of IAS 20.

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 significantly.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting 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 revised 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 2019 amounts to M 401 297 813
(2018: M397 384 817).

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:

Other Income

Included in other income are profits on the sales of assets, rental income from investment properties and lodge income.

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.

The LHDA accounts for depreciation of competed works based on the following periods:

Hydropower civil works	50 years
Hydropower plant	25 years
Water transfer civil works	50 years
Office Furniture & Equipment	6 years
Motor Vehicles	4 years
Computer Equipment and Software	3 years

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.

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:

1.4 Summary of Significant Accounting Policies (continued)

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

(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; and

(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

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.

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 allocation of operating costs and revenues between the parties is subject to ratification by the Parties to the Treaty.

1.4 Summary of Significant Accounting Policies (Continued)

Financial Assets

The Authority classifies its financial assets into loans and other receivables. The classification depends on the purpose for which the financial assets 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 financial assets 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 financial assets are carried at amortised cost, using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income when the financial assets are derecognised or impaired, as well as through the amortisation process.

A financial asset can only be measured at amortised cost if both of the following are satisfied:
a) Business model: the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and;
b) Contractual cash flows: the contractual cash flows under the instrument relate solely to payments of principal and interest

This is applicable for periods after 1 April 2018

Financial Liabilities

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.

Contract Payables and Accruals

Contract payables relates to all contracts that the Authority enters an agreement with and is accounted for separately from other trade payables and accruals. Contract payables are accounted for at the invoice amounts inclusive of Value-Added Taxation.

1.4 Summary of Significant Accounting Policies (Continued)

Financial Liabilities(continued)

Trade and Other Payables

Trade and other payables include those transactions not included as part of Contract Payables and Accruals and these transactions are initially recognised at the invoice amount, which is considered to reflect the fair value of the Trade and Other Payables. Subsequent to initial recognition, trade and other payables are measured at amortised cost.

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.

Impairment of Financial Assets

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

Applicable for periods before 1 April 2018

For loans and other receivables carried at amortised cost, the amount of the impairment loss is measured as the difference between the financial asset's carrying amount and its present value of estimated future 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, had the impairment not been recognised.

Applicable for periods after 1 April 2018

The Authority recognises an allowance for expected credit losses for all debt instruments not held at fair value through profit or loss. Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Authority expects to receive, discounted at an approximation of the original effective interest rate.

Expected credit losses are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, expected credit losses are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL)

1.4 Summary of Significant Accounting Policies (Continued)

Impairment of Financial Assets (continued)

For trade receivables and other receivables due in less than 12 months, the Authority applies the simplified approach in calculating expected credit losses, as permitted by IFRS 9. Therefore, the Authority does not track changes in credit risk, but instead, recognises a loss allowance based on the financial asset's lifetime expected credit loss at each reporting date.

The Authority considers a financial asset in default when contractual payments are 120 days past due. However, in certain cases, the Authority may also consider a financial asset to be in default when internal or external information indicates that the Authority is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Authority. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows and usually occurs when past due for more than one year and not subject to enforcement activity.
At each reporting date, the Authority assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. This is applicable for periods after 1 April 2018

Derecognition of Financial Assets and Liabilities

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

Financial Assets
A financial asset is derecognised when the contractual rights to receive cash flows from the asset have expired

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.

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. This is applicable for periods before 1 April 2018.

1.4 Summary of Significant Accounting Policies (Continued)

Trade and Other Receivables (Continued)

The Authority recognises a loss allowance for expected credit losses on trade and other receivables, excluding VAT and prepayments. The amount of expected credit losses is updated at each reporting date.

The Authority measures the loss allowance for trade and other receivables at an amount equal to lifetime expected credit losses (lifetime ECL), which represents the expected credit losses that will result from all possible default events over the expected life of the receivable. This is applicable for periods after 1 April 2018.

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.

Contract Advance Payments

Payment advances are made to contractors the Authority have agreements with. Based on evaluation by the Authority's management, each advance payment is subject to their own set of terms and conditions. Based on negotiations between the authority and the contractors, these advance payments could be netted of against future payable amounts or are fully repayable by the contractors to the Authority, which then requires the authority to settle the original and full contract amount. The latter option is allowed to assist the contractors with possible cash flow implications.

Provisions

Provisions are recognised when the Authority has a present obligation (legal or constructive) as a result of a past event, and 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.

1.4 Summary of Significant Accounting Policies (Continued)

Foreign Currency Translation

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

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

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

Impairment of Non-Financial Assets

The Authority assesses at each reporting date whether there is an indication that an asset may be impaired. These assessments are carried out by the Authority's internal specialist that work with these assets on a daily basis. 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.

Capital Funds

Cost Related Payments from the Governments of the Kingdom of Lesotho and the Republic of South Africa are recognised as government grants on the date of payment, in terms of the accounting policy on government grants below.

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 allocation of operating costs and revenues between the parties is subject to ratification by the Parties to the Treaty.

1.4 Summary of Significant Accounting Policies (Continued)

Withholding Tax

As per the signed Phase II Agreement, 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.
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 I 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. Rental income is recognised on a straight-line basis over the lease term.

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:

Government Grants
Government grants are recognised where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Authority receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

IAS 20.24 permits two alternative ways of presenting a government grant relating to assets. The Authority has elected to present the grant in the statement of financial position as deferred income, which is recognised in profit or loss on a systematic and rational basis over the useful life of the asset.

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).

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 Statement of comprehensive income 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. Please refer to note 18 for the lease term indicated.

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.

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

The LHDA has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the Authority's accounting periods beginning on or after 01 April 2019 or later periods:

Prepayment Features with Negative Compensation - Amendment to IFRS 9

The amendment to Appendix B of IFRS 9 specifies that for the purpose of applying paragraphs B4.1.11(b) and B4.1.12(b), irrespective of the event or circumstance that causes the early termination of the contract, a party may pay or receive reasonable compensation for that early termination.

The effective date of the amendment is for years beginning on or after 01 January 2019.

It is likely that the amendment will have a material impact on the authority's annual financial statement and the full impact thereof is still being assessed by the LHDA.

Amendments to IAS 23 Borrowing Costs: Annual Improvements

The amendment specifies that when determining the weighted average borrowing rate for purposes of capitalizing borrowing costs, the calculation excludes borrowings which have been made specifically for the purposes of obtaining a qualifying asset, but only until substantially all the activities necessary to prepare the asset for its intended use or sale are complete.

The effective date of the amendment is for years beginning on or after 01 January 2019.

It is unlikely that the amendment will have a material impact on the LHDA's annual financial statements.

1.4 Summary of Significant Accounting Policies (Continued)

Standards and interpretations not yet effective (Continued)

IFRS 16 Leases

IFRS 16 Leases is a new standard which replaces IAS 17 Leases and introduces a single lessee accounting model. The main changes arising from the issue of IFRS 16 which are likely to impact the LHDA are as follows:

Authority as lessee:

- Lessees are required to recognize a right-of-use asset and a lease liability for all leases, except short term leases or
- leases where the underlying asset has a low value, which are expensed on a straight line or other systematic basis.
- The cost of the right-of-use asset includes, where appropriate, the initial amount of the lease liability; lease payments made prior to commencement of the lease less incentives received; initial direct costs of the lessee; and an estimate for any provision for dismantling, restoration and removal related to the underlying asset.
- The lease liability takes into consideration, where appropriate, fixed and variable lease payments; residual value guarantees to be made by the lessee; exercise price of purchase options; and payments of penalties for terminating the lease.
- The right-of-use asset is subsequently measured on the cost model at cost less accumulated depreciation and impairment and adjusted for any re-measurement of the lease liability. However, right-of-use assets are measured at fair value when they meet the definition of investment property and all other investment property is accounted for on the fair value model. If a right-of-use asset relates to a class of property, plant and equipment which is measured on the revaluation model, then that right-of-use asset may be measured on the revaluation model.
- The lease liability is subsequently increased by interest, reduced by lease payments and re-measured for reassessments or modifications.
- Re-measurements of lease liabilities are affected against right-of-use assets, unless the assets have been reduced to nil, in which case further adjustments are recognised in profit or loss.

1.4 Summary of Significant Accounting Policies (Continued)

Standards and interpretations not yet effective (Continued)

- The lease liability is re-measured by discounting revised payments at a revised rate when there is a change in the lease term or a change in the assessment of an option to purchase the underlying asset.
- The lease liability is re-measured by discounting revised lease payments at the original discount rate when there is a change in the amounts expected to be paid in a residual value guarantee or when there is a change in future payments because of a change in index or rate used to determine those payments.
- Certain lease modifications are accounted for as separate leases. When lease modifications which decrease the scope of the lease are not required to be accounted for as separate leases, then the lessee re-measures the lease liability by decreasing the carrying amount of the right of lease asset to reflect the full or partial termination of the lease. Any gain or loss relating to the full or partial termination of the lease is recognised in profit or loss. For all other lease modifications which are not required to be accounted for as separate leases, the lessee re-measures the lease liability by making a corresponding adjustment to the right-of-use asset.
- Right-of-use assets and lease liabilities should be presented separately from other assets and liabilities. If not, then the line item in which they are included must be disclosed. This does not apply to right-of-use assets meeting the definition of investment property which must be presented within investment property. IFRS 16 contains different disclosure requirements compared to IAS 17 leases.

Authority as lessor:

- Accounting for leases by lessors remains similar to the provisions of IAS 17 in that leases are classified as either finance leases or operating leases. Lease classification is reassessed only if there has been a modification.
- A modification is required to be accounted for as a separate lease if it both increases the scope of the lease by adding the right to use one or more underlying assets; and the increase in consideration is commensurate to the stand-alone price of the increase in scope.
- If a finance lease is modified, and the modification would not qualify as a separate lease, but the lease would have been an operating lease if the modification was in effect from inception, then the modification is accounted for as a separate lease. In addition, the carrying amount of the underlying asset shall be measured as the net investment in the lease immediately before the effective date of the modification. IFRS 9 is applied to all other modifications not required to be treated as a separate lease.
- Modifications to operating leases are required to be accounted for as new leases from the effective date of the modification. Changes have also been made to the disclosure requirements of leases in the lessor's financial statements.

1.4 Summary of Significant Accounting Policies (Continued)

Standards and interpretations not yet effective (Continued)

Sale and leaseback transactions:

- In the event of a sale and leaseback transaction, the requirements of IFRS 15 are applied to consider whether a performance obligation is satisfied to determine whether the transfer of the asset is accounted for as the sale of an asset.
- If the transfer meets the requirements to be recognised as a sale, the seller-lessee must measure the new right-of-use asset at the proportion of the previous carrying amount of the asset that relates to the right-of-use retained. The buyer-lessor accounts for the purchase by applying applicable standards and for the lease by applying IFRS 16
- If the fair value of consideration for the sale is not equal to the fair value of the asset, then IFRS 16 requires adjustments to be made to the sale proceeds. When the transfer of the asset is not a sale, then the seller-lessee continues to recognise the transferred asset and recognises a financial liability equal to the transfer proceeds. The buyer-lessor recognises a financial asset equal to the transfer proceeds.

The effective date of the standard is for years beginning on or after 01 January 2019.

It is unlikely that the standard will have a material impact on the LHDA's annual financial statements, however the LHDA is still in the process of fully assessing the impact of IFRS 16 on their operations.

	2019 M'000	2018 M'000

2 .OPERATING SURPLUS/ (DEFICIT)

2.1 Operating Surplus/(Deficit) is stated after:

	2019 M'000	2018 M'000
Expenses		
Auditor's Remuneration	1 390	1 251
Depreciation	339 258	341 365
Foreign Exchange Loss	3 551	2 367
Resettlement and Compensation Costs	24 544	23 804
Staff Costs – Short Term Benefits	132 798	125 296
Rental Expenses	432	604

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

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019

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 2017	**1 333 205**	**709 867**	**2 983 454**	**3 311 760**	**521 606**	**145 853**	**9 005 745**
Cost	2 058 555	1 131 582	4 777 136	5 151 589	1 203 404	321 437	14 643 703
Accumulated Depreciation	(725 350)	(421 715)	(1 793 682)	(1 839 829)	(681 798)	(175 584)	(5 637 958)
Reclassification	-	-	-	-	-	-	-
Additions	-	2 847	-	-	374	12 742	15 963
Depreciation	(53 948)	(26 814)	(92 955)	(99 557)	(47 657)	(20 083)	(341 014)
Disposal/donation of assets	-	(587)	-	-	-	(4 015)	(4 602)
Accumulated Depreciation on disposed assets	-	246	-	-	-	2 103	2 349
Carrying Value at 31 March 2018	**1 279 257**	**685 559**	**2 890 499**	**3 212 203**	**474 323**	**136 600**	**8 678 441**
Cost	2 058 555	1 133 842	4 777 136	5 151 589	1 203 778	330 164	14 655 064
Accumulated Depreciation	(779 298)	(448 283)	(1 886 637)	(1 939 386)	(729 455)	(193 564)	(5 976 623)
Reclassification	-	-	-	-	-	-	-
Additions	-	319	-	-	150	16 758	17 227
Transfer from Work in Progress	-	1 563	-	-	-	-	1 563
Depreciation	(53 950)	(26 884)	(92 957)	(99 559)	(47 359)	(18 198)	(338 907)
Disposal/donation of assets	-	-	-	-	-	(4 414)	(4 414)
Accumulated Depreciation on disposed assets	-	-	-	-	-	2 412	2 412
Carrying Value at 31 March 2019	**1 225 307**	**660 557**	**2 797 542**	**3 112 644**	**427 114**	**133 158**	**8 356 322**
Cost	2 058 555	1 135 724	4 777 136	5 151 589	1 203 928	342 508	14 669 440
Accumulated Depreciation	(833 248)	(475 167)	(1 979 594)	(2 038 945)	(776 814)	(209 350)	(6 313 118)

The cost amount of all fully depreciated property, plant and equipment that is still in use is M 8 837 026.

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 2017	**374**	**12 836**	**14**	**-**	**2 241**	**3 537**	**495 958**	**8 035**	**522 995**
Prior Year reallocations	-	-	-	-	-	-	-	-	-
Cost allocation	-	11 141	-	-	-	-	279 654	-	290 795
Work-in-progress during the year	-	-	-	-	252	557	922	1 288	3 019
Transfer to completed works	-	-	-	-	-	-	-	(5 108)	(5 108)
Carrying Value at 31 March 2018	**374**	**23 977**	**14**	**-**	**2 493**	**4 094**	**776 534**	**4 215**	**811 701**
Prior Year reallocations	-	-	-	-	-	-	(418)	418	-
Cost allocation	-	63 648	-	-	-	-	469 328	-	532 976
Work-in-progress during the year	985	-	-	-	20 195	119	207	5 466	26 972
Transfer to completed works	-	-	-	-	-	-	-	(1 563)	(1 563)
Carrying Value at 31 March 2019	**1 359**	**87 625**	**14**	**-**	**22 688**	**4 213**	**1 245 651**	**8 536**	**1 370 086**

- 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 2018 have been included.

PROPERTY, PLANT AND EQUIPMENT	**2019** **M'000**	**2018** **M'000**
Completed works	8 356 322	8 678 441
Capital Work in progress	1 370 086	811 701
Total completed works and capital work in progress	**9 726 408**	**9 490 142**

4. INVESTMENT PROPERTY

	Total M'000
Net Book Value 31 March 2017	**6 763**
Assets at Cost	22 885
Accumulated Depreciation	(16 122)
Current years Movements:	
Additions/Improvements	-
Disposals	-
Depreciation	(351)
Net Book Value 31 March 2018	**6 412**
Asset at cost	22 885
Accumulated depreciation	(16 473)
Current years Movements:	
Additions/Improvements	-
Disposals	-
Depreciation	(351)
Net Book Value 31 March 2019	**6 061**
Asset at cost	22 885
Accumulated depreciation	(16 824)

Investment Property consists out of Standard (Lesotho) Bank Building and is depreciated over 30 years. Improvements are depreciated over the lease term. Please refer to note 18. The Income capitalization approach was used in determining the market value of the property. The market value was determined as M40 600 000. No indicators of impairment were identified.

5. CONTRACT ADVANCE PAYMENTS

	2019 M'000	2018 M'000
Contract Advance Payments	75 976	11 307
	75 976	**11 307**

	2019 M'000	2018 M'000
6. TRADE AND OTHER RECEIVABLES		
Trade Receivables	53 923	54 307
Staff Receivables	35	55
Lesotho Revenue Authority	63 292	36 854
Other Receivables and Prepayments	66 720	41 127
Provision for Doubtful Debts	(13 195)	(19 475)
	170 775	**112 868**

For terms and conditions relating to related party receivables, refer to Note 17. Trade receivables are non-interest bearing and are generally short term, hence 90 days or less. Expected credit losses are deemed to have a limited and non-material impact on the financial statements.

The Authority considers its trade and other receivables carrying value to be equivalent to their fair value.

Exposure to credit risk
Trade receivables inherently expose the LHDA to credit risk, being the risk that the LHDA will incur financial loss if debtors fail to make payments as they fall due.

Credit risk disclosures
The following sections provide credit risk information for trade and other receivables.

Trade and other receivables past due but not impaired
Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 31 March 2019, M1 007 000 were past due but not impaired.

At 31 March 2019, the ageing analysis of trade receivables are as follows:

			Past due but not impaired			
	Total	**< 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**
2018	54 307	49 528	91	146	691	3 851
2019	53 923	52 672	149	69	26	1 007

Trade and other receivables impaired
As of 31 March 2019, trade and other receivables of M13 195 000 (2018: M19 475 000) were impaired and provided for. The movement in the provision of doubtful debts amounts to movement of M6 280 000 through the statement of comprehensive income.

7. CASH AND CASH EQUIVALENTS

	2019 M'000	2018 M'000
Cash at Bank	157 187	140 059
Cash on Hand	137	137
	157 324	**140 196**
Current Assets	**157 324**	**140 196**

Currency Analysis		
US Dollar (Translated)	21	436
Maloti	157 303	139 760
	157 324	**140 196**

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 157 324 000 (2018: M140 196 000).

	2019 M'000	2018 M'000
8. LOANS AND BORROWINGS		
Non-Current Portion	20 126	28 435
Current Portion	8 134	10 249
	28 260	**38 684**
Currency Analysis		
Rands	28 260	38 684
Euro	-	-
	28 260	**38 684**
Interest Bearing Status		
Interest-bearing	28 260	38 684
Non-interest bearing	-	-
	28 260	**38 684**
Maturity Profile		
Within One Year	8 134	10 249
Between Two and Five Years	20 126	26 907
More than Five Years	-	1 528
	28 260	**38 684**
Maturity Profile – Undiscounted		
Within One Year	10 792	13 709
Between Two and Five Years	22 295	32 216
More than Five Years	-	1 528
	33 087	**47 453**

		Effective Interest Rate%	2019 M’000	2018 M’000
	Trans Caledon Tunnel Authority Debt Service Loans			
Institution	***Offshore loans***			
European Investment Bank	Repayable in semi-annual instalments ending September 2018	5.27%	-	2 806
	Common Monetary Area Loans			
DBSA	Repayable in semi-annual instalments ending September 2021	12.23%	341	430
DBSA	Repayable in semi-annual instalments ending September 2021	10.92%	1 224	1 552
DBSA	Repayable in semi-annual instalments ending March 2022	10.68%	10 246	13 173
DBSA	Repayable in semi-annual instalments ending March 2022	12.12%	5 902	7 588
DBSA	Repayable in semi-annual instalments ending March 2022	12.96%	1 059	1 286
DBSA	Repayable in semi-annual instalments ending September 2022	Jibar + 0.4%	9 488	11 848
	Total		**28 260**	**38 684**

	Government of Lesotho Debt Service Loans	**Effective Interest Rate%**	**2019 M'000**	**2018 M'000**
Institution	***Common Monetary Area Loans***			
DBSA	Repayable in semi-annual instalments ending September 2019	13%	393	740
Government of Lesotho	Muela Re-financing by the Government of Lesotho		(393)	(740)
	Total		**-**	**-**
	Grand Total		**28 260**	**38 684**

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.

Additional disclosure in terms of the Statement of Cash Flow required by IAS 7

The following disclosure is required by IAS 7 and the additional disclosure is intended to assist the stakeholders of the Authority to better understand the changes in the Authority's debt structure.

	2018 M'000	**Cash Flow**	**Non-Cash Changes** Foreign Exchange Movement	**2019 M'000**
Long-Term Borrowings	38 684	(10 424)	-	28 260

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 2017	**396 882**	**1 045**	**9 210**	**3 785**	**5 182**	**416 104**
Additional Provisions made during the year	-	-	10 946	4 681	-	15 627
Amount reversed			(9 210)			
Amounts utilized	(10 351)	-	-	(3 785)	(5 182)	(28 528)
Unwinding of discount and effect of changes in discount rate on provisions	10 854	-	-	-	-	10 854
Carrying Value: 31 March 2018	**397 385**	**1 045**	**10 946**	**4 681**	**-**	**414 057**
Additional Provision made during the year	-		14 119	4 535	-	18 654
Amount reversed	-	-	(10 945)	(4 681)	-	(15 626)
Amounts utilized	(7 784)	-	-	-	-	(7 784)
Unwinding of discount and effect of changes in discount rate on provisions	11 698	-			-	11 698
Carrying Value: 31 March 2019	**401 299**	**1 045**	**14 120**	**4 535**	**-**	**420 999**

	2019 M'000	2018 M'000
9. PROVISIONS (Continued)		
Non-Current	383 024	377 091
Current	37 975	36 966
	420 999	**414 057**

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 Legal Claims

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

Provision for Severance Pay

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

Provision for Leave Pay

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

10. CONTRACT PAYABLES AND ACCRUALS

	2019 M'000	2018 M'000
Contract Payables	85 062	14 861
Contract Accruals	120 490	73 092
	205 552	**87 953**
Contract Retentions	7 568	2 096
	213 120	**90 049**

11. TRADE AND OTHER PAYABLES AND ACCRUALS

	2019 M'000	2018 M'000
Trade payables	9 686	11 284
Accrued interest on loans	-	9
Other payables	36 156	36 599
Accruals for compensation	65 782	59 448
	111 624	**107 340**
Non-Current Accruals for compensation	65 782	59 448
Current	45 842	47 892
	111 624	**107 340**
Maturity Profile		
Within One Year	45 842	47 892
Between Two and Five Years	65 782	59 448
More than Five Years	-	-
	111 624	**107 340**

12. DEFERRED INCOME

	2019 M'000	2018 M'000
Opening Balance	9 490 142	9 528 740
Grants Received*	781 102	573 788
Income Recognised*	(538 775)	(612 386)
Closing Balance	**9 732 469**	**9 490 142**

The authority receives cost-related payments in the form of funding from the Government of the Kingdom of Lesotho and the Government of the Republic of South Africa. These funds are recorded as grants received under IAS 20 Government Grants.

The funding related to assets have been recorded as assets with the corresponding impact on deferred income. The deferred income is realized and released to the Statement of Other Comprehensive Income as the assets are depreciated.

*Comparative information in the note disclosure required by IAS 20 has been restated to reclassify grants received and income recognised to agree to the amounts in Note 19. The restatement has had no impact on the closing balance of deferred income, the prior period Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Funds and Reserves nor the Statement of Cash Flows.

13. 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.

14. 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 33 414 459 (2018: M 26 742 049). 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 973 873 375 (2018: M nil). The following contracts have been approved and contracted: M 3 014 708 222(2018: M1 875 456 837).

15. 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 and trade creditors, 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.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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 2019**:**

	Level 1	Level 2	Level 3	Total Balance
Assets				
Investment Property	-	-	40 600 000	40 600 000
Liabilities	-	-	-	-
Loans and borrowing	-	30 002 471	-	30 002 471

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.
Loans and Borrowings		
The valuation was performed using the discounted cash flow basis.	Interest rate for the loans. Remaining loan period.	The higher the interest rate, the higher the fair value.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Foreign Exchange Rate Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Authority's exposure to the risk of changes in foreign exchange rates relates primarily to contract creditors that are not currently being hedged.

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.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Interest rate sensitivity

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

	Increase/decrease in basis points	Effect on Surplus M'000
2018		
Trans Caledon Tunnel Authority Debt Service Loans		
Offshore Loans	+200	56
Common Monetary Area Loans	+200	237
Trans Caledon Tunnel Authority Debt Service Loans		
Offshore Loans	-200	(56)
Common Monetary Area Loans	-200	(237)
2019		
Trans Caledon Tunnel Authority Debt Service Loans		
Offshore Loans	+200	-
Common Monetary Area Loans	+200	190
Trans Caledon Tunnel Authority Debt Service Loans		
Offshore Loans	-200	-
Common Monetary Area Loans	-200	(190)

15. 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.

For trade receivables which do not contain a significant financing component, the loss allowance is determined as the lifetime expected credit losses of the instruments. For all other trade receivables, IFRS 9 permits the determination of the credit loss allowance by either determining whether there was a significant increase in credit risk since initial recognition or by always making use of lifetime expected credit losses. Management have chosen as an accounting policy, to make use of lifetime expected credit losses. Management does therefore not make the annual assessment of whether the credit risk has increased significantly since initial recognition.

Maximum credit exposure:

	2019	**2018**
	M'000	**M'000**
Trade and other Receivables	40 728	34 832
Cash and Cash Equivalents	157 324	140 196

Staff receivables are monitored on an ongoing basis. In addition, any amounts owing by staff, at their termination date, will be recovered from their last remuneration payment.

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. Please refer to Note 8 for the maturity analysis performed.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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. The capital or monies managed by the LHDA mainly relates to the funding received by the Government of Lesotho and the Republic of South Africa.

Maturity Profile of Financial Assets and Liabilities

Apart from the long-term liabilities and provisions, all the Authority's financial assets and liabilities are expected to mature within a twelve-month period. The maturities of the long-term liabilities are reflected, under Note 8.

Fair Value of Financial Instruments

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***	
	2019 M'000	**2018 M'000**	**2019 M'000**	**2018 M'000**
Financial Liabilities				
Loans and borrowings	28 260	38 686	30 002	39 851

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. Credit risk has been taken into account in the determination of the carrying amounts 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.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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.

16. NUMBER OF EMPLOYEES

According to the payroll system the Authority had the following average number of employees during the year ending 31 March 2019: 344 (2018: 322)

17. 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.

	2019 M'000	2018 M'000
Amounts credited to the Statement of Comprehensive Income or deferred income account		
Cost related payments GOL	81 908	116 101
Cost related payments RSA	699 194	457 687
IDA Grant through GOL	2 862	2 246
Related parties receivable/(payable)		
Receivable from Lesotho Revenue Authority	62 975	36 306
Government of Lesotho	5 963	32 485
Government of South Africa	41 273	-
IDA Grant through GOL	-	15 515
Compensation to Key Management Personnel		
Short Term Employee Benefits	27 530	30 799
Total Compensation Paid to Key Management personnel	27 530	30 799

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

18. 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:

	2019 M'000	2018 M'000
The following year	4 622	6 493
Year 2-5	391	4 602
More than 5 years	-	-
	5 013	**11 095**

Terms of the contract		
Specifications		
	Contract 1	Contract 2
Commencement date:	01 April 2017	01 December 2016
Contract expiry date:	29 February 2020	30 November 2019
Period of lease:	35 months	36 months
Escalation rate per annum:	10% p.a.	9% p.a.
Basic Rental		
Initial monthly rental per contract:	M 7 829	M 474 245

19. Government Grants

The authority's main source of income is government grants which is received from the Government of the Kingdom of Lesotho and the Government of the Republic of South Africa.

Funding Breakdown:	2019 M'000	2018 M'000
Government of the Kingdom of Lesotho	81 908	116 101
Government of the Republic of South Africa	699 194	457 687
	781 102	**573 788**

Revenue Recognised for the period:	2019 M'000	2018 M'000
Funding received relating to loans	10 424	35 600
Funding received relating to operational activities	189 093	233 519
Release of Depreciation	339 258	343 267
	538 775	**612 386**

No unfulfilled conditions or other contingencies in regard to the assistance received from the respective governments are applicable.

20. 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.

21. COST ALLOCATION

	2019 M'000	2018 M'000
Net loss for the year subject to cost allocation		
Total other income for the year	(37 125)	(33 532)
Total expenses for the year	1 099 457	882 229
	1 062 332	**848 697**
Allocation of loss as per cost allocation report		
1A Water Transfer	31 695	35 730
1A Ancillary Development	21 021	20 326
1B Water Transfer	29 581	30 716
1B Ancillary Development	1 798	1 946
Hydropower	99 506	97 065
Government of South Africa Capital Fund	345 755	372 119
	529 356	**557 902**
Costs allocation per government		
Government of Lesotho	22 819	22 272
Government of South Africa	407 031	438 565
Hydropower Accumulated Loss	99 506	97 065
	529 356	**557 902**
Costs transferred to work in progress	**532 976**	**290 795**
Capital work-in-progress – 2 Water transfer	469 328	279 654
Capital work-in-progress – 2 Hydro Power	63 648	11 141
Total as per Cost Allocation Report	**1 062 332**	**848 697**

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 2018.

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019

21.1. Cost allocation and funds per Government

	Note	Capital Fund - Government of Lesotho M'000	Capital Fund - Government of South Africa M'000	Total Capital Funds M'000	Hydropower M'000	Total funds and Reserves M'000
Balance at 31 March 2017		**1 002 770**	**8 876 181**	**9 878 951**	**(784 039)**	**9 094 912**
Cost allocation for the year *	21	(22 272)	(438 565)	(460 837)	(97 065)	(557 902)
Prior year cost allocation ratification		-	(1 405)	(1 405)	1 405	-
Cost related payments – funding		116 101	457 687	573 788	-	573 788
Balance at 31 March 2018		**1 096 599**	**8 893 898**	**9 990 497**	**(879 699)**	**9 110 798**
Cost allocation for the year	21	(22 819)	(407 031)	(429 850)	(99 506)	(529 356)
Prior year cost allocation ratification		-	458	458	(458)	-
Cost related payments – funding		81 908	699 194	781 102	-	781 102
Balance at 31 March 2019		**1 155 688**	**9 186 519**	**10 342 207**	**(979 663)**	**9 362 544**

Note: This note records the funding received and allocates the cost spend for the year for each of the related Governments as per the cost allocation report that is performed on an annual basis.

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

DETAILED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2019

	NOTE	2019 M'000	2018 M'000
Revenue & Other Income			
Grant Revenue		538 775	612 386
Total other income		37 125	33 532
Investment Income		6 979	7 435
Profit on sale of assets		426	56
Miscellaneous income	22	20 305	17 839
IDA Grant revenue		2 862	2 246
Investment Property Income		6 553	5 956
Total Revenue & Other income		**575 900**	**645 918**
Expenditure			
Audit and accounting fees		1 390	1 251
Bank charges		189	128
Board and committee fees including reimbursements		5 749	4 676
Construction and contractor costs		482 299	249 174
Depreciation	3	339 258	341 365
Foreign exchange loss		3 551	2 367
Increase in future compensation provision		10 273	8 684
Insurance		4 049	3 979
Interest and finance expenses		3 023	5 024
Inventory and consumable stores		1 233	1 178
Leave pay		457	1 670
Legal and arbitration fees		2 554	427
Miscellaneous expenses	22	38 387	45 697
Motor vehicle expenses		4 246	3 648
Plant spares		3 206	1 652
Professional services		7 543	11 018
Provision for bad debts		(6 400)	13 441
Public relation costs		5 441	4 372
Rates, electricity and water		6 967	6 745
Rent Provision - Ground		209	120
Recruitment		155	653
Rental expenses		432	604
Repairs and maintenance		2 667	3 475
Resettlement and compensation costs		24 544	23 804
Safety awareness		51	44
Salaries, wages and allowances		132 798	125 296
Security expense		12 515	10 993
Stationery		1 548	1 223
Telephone and communication		3 125	2 837
Training		2 830	2 231
Travel and transportation		5 168	4 453
Total Expenses		**1 099 457**	**882 229**
Deficit for the year		**(523 557)**	**(236 311)**
Amount as per cost allocation transferred to capital work in progress	21	**532 976**	**290 795**
Surplus/(Deficit) for the year as per Statement of Comprehensive Income		**9 419**	**54 484**

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

NOTES TO THE DETAILED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2019

22 MISCELLANEOUS INCOME AND EXPENSES

	2019 M'000	2018 M'000
Miscellaneous income		
Rental Income	3 750	3 536
Lodge Income	13 566	13 043
Other Income	2 989	1 260
Total Revenue	**20 305**	**17 839**

	2019 M'000	2018 M'000
Miscellaneous expense		
LRA Costs	9 383	17 156
LHWC Rental	3 727	3 393
Lodge Expenses	16 791	15 428
Software Licencing	5 796	5 911
Other expense	2 690	3 809
Total Expense	**38 387**	**45 697**

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

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