LHDA

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

ANNUAL REPORT 2015/2016

Lesotho Highlands Development Authority

ANNUAL REPORT 2015/2016

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LIST OF ABBREVIATIONS /ACRONYMS

ARC	Audit and Risk Management Committee
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. JOHN EAGAR
Board Chairman
Portfolio: Operations and Maintenance

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

ADVOCATE SHAMI KHOLONG
Portfolio: Legal

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

MR. ROBERT MBWANA
Portfolio: Engineering

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

PROF. LULAMA IDA QALINGE
Portfolio: Socio-Economic Development

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

MR. BERENG QHOBELA
Portfolio: Stakeholder Representative

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

Diploma Law Office Management (Paralegal Institute of Phoenix) 1982

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

Certified Member of the South African Institute of Directors

Chartered Accountant (Lesotho Institute of Accountants) 1989

Bachelor of Arts Education (National University of Lesotho) 1981

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

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

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

MBA (Harriot Watt, 2007)

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

Post Graduate Diploma Hydrology (University of Ireland, 1988)

BSC (UNISWA, 1985)

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

B. Com Accounting (University of Pretoria, 1978)

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

Construction Management Programme (Stellenbosch University, 2005)

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

MSC Structural Engineering (Surrey University, UK, 1996)

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

ADVOCATE THENJISWA MATSHIKIZA
Senior Legal Officer/ Corporate Secretary

BA Law, LLB (NUL)

VISION MISSION AND VALUES

Vision

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

Mission

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

Values

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

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

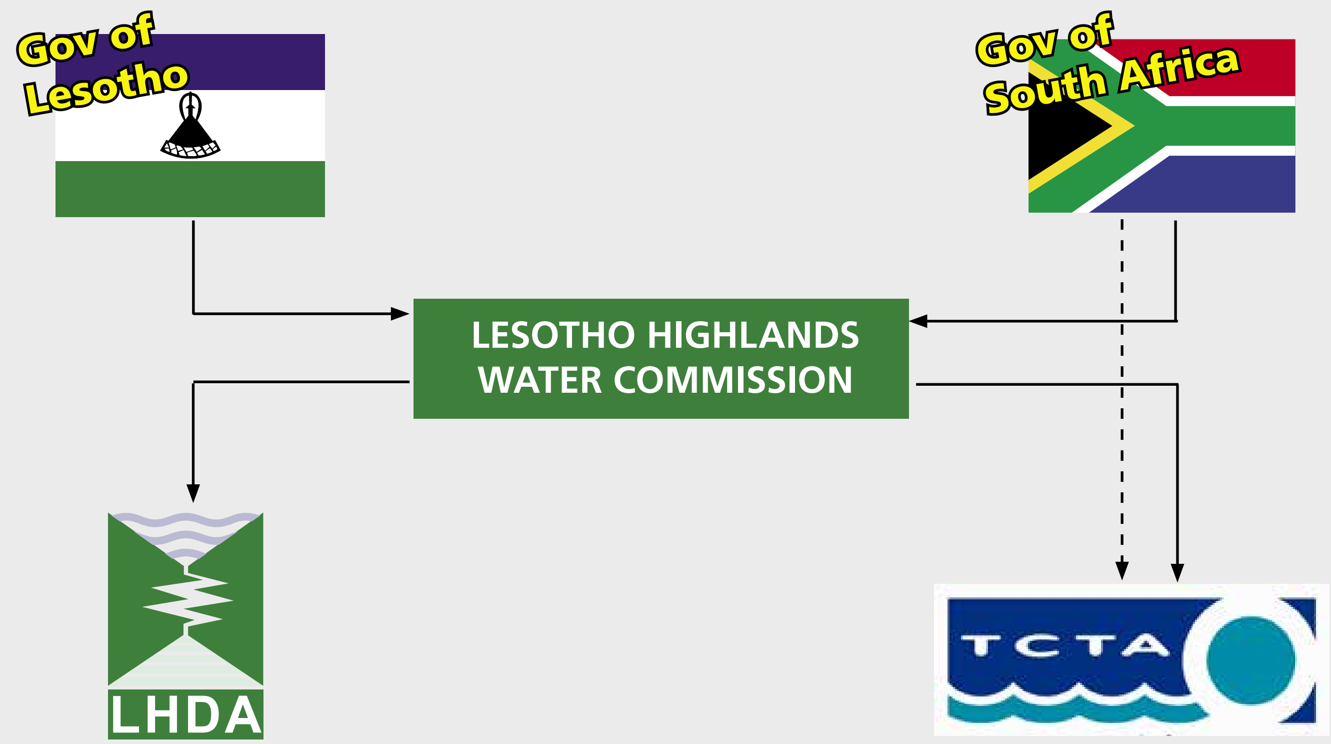
GOVERNANCE FRAMEWORK

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

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

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

PROJECT GOVERNANCE STRUCTURE



The Lesotho Highlands Water Commission
The Lesotho Highlands Water Commission 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 Government's inputs relating to the Lesotho Highlands Water Project.

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

Board Committees

To assist it in its stewardship role, the Board has established five (5) Sub-Committees as set out below. Each Sub-Committee is chaired by a Member of the Board. The roles and responsibilities of these sub-committees are the table below. Three portfolios of non-executive directors remained unfilled until the end of the reporting period. The position of the Corporate Secretary also remained vacant.

Board Development

The Board members attended a training seminar on Corporate Governance in July 2015.

Table 1: Board Sub-Committees: Members and key responsibilities

	Audit and Risk Management Sub-Committee	Human Resources Sub-Committee	Operations and Maintenance Sub-Committee	Sustainable Development Sub-Committee	Technical Sub-Committee
Members	P. Shale (Chair) C.J. McLeary P. Streng M. Tsilo-Raditapole P. Swart (LHWC) T. Khathibe (LHWC)	S. Kholong (Chair) D. Moagi G. Mofolo M. Monyamane L. Tromp (LHWC) L. Sekoboto (LHWC)	J. Eagar (Chair) K. Makasela N. Lesala L. Tromp (LHWC) M. Ntene (LHWC)	L. Qalinge (Chair) F. Molapo B. Qhobela M. Ramasike B. Khoachele (LHWC) K. Libetso (LHWC)	R. Mbwana (Chair) T. Tsehlo W. Croucamp A. Glendinning L. Tromp (LHWC) M. Lephoma (LHWC)
Responsibilities	Advises and assists the Board in fulfilling its oversight responsibilities for financial reporting, external audit, internal audit, internal financial controls, corporate risk management and sound corporate governance.	Advises and assists the Board with regard to the organisational structure and human resources issues including talent management, attraction, retention, remuneration policies and strategies, succession planning and overall human resource development.	Advises and assists the Board in fulfilling its oversight responsibilities for the Project's Operations and Maintenance strategies, programmes and operational performance.	Advises and assists the Board in fulfilling its oversight responsibilities for sustainability of the Project's social and environmental programmes and projects.	Advises and assists the Board with regard to technical, engineering, environmental and social matters relating to the implementation of Phase II of the Lesotho Highlands Water Project.

Board and Sub-Committee Meetings

LHDA Board of Directors held thirteen (13) Meetings as shown in table 2. During this period, seventy-one (71) matters were submitted for approval of which sixty-one (61) were approved by the Board.

The Board Sub-Committees, in particular Phase II Sub-Committee held monthly meetings.

Table 2: Board and Sub-Committee Meetings held between April 2015 and March 2016:

	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Total
Board	✓	✓	✓ ✓	✓	✓		✓ ✓	✓	✓	✓	✓	✓	**13**
Sub- Committees													
Audit & Risk Management	✓		✓		✓	✓	✓	✓		✓	✓		**8**
Sustainable Development	✓		✓		✓	✓		✓				✓	**6**
Human Resources	✓		✓		✓		✓	✓			✓		**6**
Operations & Maintenance	✓	✓	✓	✓	✓		✓	✓				✓	**8**
Technical Sub Committee	✓		✓ ✓	✓	✓	✓	✓	✓		✓		✓	**10**
Total Number of Meetings	**6**	**2**	**8**	**3**	**6**	**3**	**6**	**6**	**1**	**3**	**3**	**4**	38

Instruments of Corporate Governance

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

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

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

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

Ethics management

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

Internal Audit Assurance

At the Commencement of Phase II of the LHWP, the LHDA sourced the services of an international firm of auditors, Price Water House Coopers (PWC) for the provision of internal audit services to the Project. The need to have a strong internal audit function is brought about by the complexities of implementing a project of the size of the LHWP that involves expenditure in billions of Maloti.

A risk based 2015/16 Internal Audit Operational Plan was submitted and recommended for Board approval by the Audit and Risk Committee in June 2015 and subsequently approved by the LHDA Board. The planned audits were carried out successfully, with few changes, where some audits were deferred to the following financial year, to align with evolving business requirements.

For all audits, the reports with findings were issued and discussed with relevant managers to implement and take corrective measures. LHDA Management has maintained its commitment to implement audit recommendations so as to continue to strengthen the control environment and governance of the LHWP.

Risk Management Framework

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

In December 2015, the ERMF, was revised to accommodate the operational nature of the LHDA business. The review exercise resulted in the adjustment of the organization's risk appetite.

Risk Governance Structure

The LHWP Treaty places the Lesotho Highlands Water Commission as the body with overall responsibility for the Project. The Board of Directors, appointed by the LHWC, has the responsibility for the governance of risks. The Board delegates the responsibility to design and implement the ERM Process to Management, through the latter's Enterprise Risk Management Committee (ERMC). This Committee is chaired by the Chief Operations Officer and it is mandated to develop and oversee LHDA's risk management process. It essentially oversees the identification of risks for all business divisions, reviews significant risk issues, reviews risk methodologies, and builds the LHDA-wide risk awareness and alignment.

The ARC exercises the oversight responsibility of risk management on a bi-monthly basis. All risk management reports are reviewed by ERMC and submitted to the LHWC through the ARC and the Board.

THE CHAIRPERSON'S STATEMENT

It is once more my great pleasure to present the annual report for the year ending in March 2016.

The Lesotho Highlands Water Project is being implemented within a relatively fixed mandate and therefore the key focus has been to improve operational efficiencies while also ensuring that the organizational resources and capacities are maintained to ensure smooth operations.

Following completion of Phase I in 2004, the LHDA has been running in an Operations and Maintenance mode focusing on ensuring that the ongoing operations run smoothly and the assets and facilities and other resources are maintained in an optimal manner. However from the beginning 2013, the nature of operations has begun to reflect the early stages of the new phase we are entering into viz. Phase II of the Lesotho Highlands Water Project.

Over the last twelve months, considerable progress was registered in relation to the implementation of Phase II and this includes the awarding of five advance infrastructure contracts. Implementation of Phase II of the LHWP is being carried out through the services of a Project Management Unit which is working hand in hand with LHDA staff, especially the staff that are based in Polihali. A Technical sub-committee of the Board, established as a requirement under the Phase II Agreement between the Government of Lesotho and the Government of the Republic of South Africa, supports the Board in overseeing the activities under Phase II. The programme of implementation of Phase II is very tight and it has had to be revised a few times to take into account unforeseen circumstances. It is now expected that the earliest date for the impoundment of the Polihali Dam will be in 2023.

During the 2014/15 financial year, LHDA appointed an outsourced firm of Auditors, Price Waterhouse Coopers, to provide internal audit services. The firm is also expected to build LHDA's internal audit capacity through training and mentoring of two LHDA internal Audit employees. In the past financial year substantial value was realized from the recommendations made in internal audit reports. Among the audits that were carried out was a governance audit. As an outcome of the recommendations of that audit, a number of measures were put in place to address governance. The LHDA Board of Directors reviewed its Charter to include the principles that had been identified by the audit. Furthermore, a code of conduct for the Board and for the LHDA employees was developed and adopted; a human resources delegation of authority that takes into account the new organisational structure was approved by the Project Authorities; The performance assessments for the Board and for the sub-committees of the Board were carried out as planned.

The effect of the drought that plagued the SADC region did not exclude Lesotho and the entire Lesotho Highlands Water Project. This resulted in severe water shortages for Lesotho and South Africa. In response to a request from South Africa to mitigate the effects of this drought, periodic water releases were made from the Katse dam, for the relief of residents of Aliwal North. On the Lesotho side, the Project received a request to release water from the ’Muela Dam from the Tšehlanyane Adit as a measure to relief the drought stricken lowland towns of Lesotho.

The Board continued to enjoy the support and robust discussions on strategy with the Lesotho Highlands Water Commission. These have made the job of the Board very productive and helped steer the organization in the right direction.

The Board has also always continued to count on the sterling support and cooperation by the LHDA Chief Executive, Mrs. Refiloe Tlali and the very talented team of managers and staff she leads.

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

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

STATEMENT BY THE CHIEF EXECUTIVE

I am happy to report on the progress achieved by the Lesotho Highlands Development Authority (LHDA) during the period under review.

During the 2015/16 financial year, the LHDA focused on maximizing performance deliverables. Satisfactory results were obtained through the optimal application of resources towards the realization of targeted organizational performance outputs.

Internal reviews indicate that performance over the past two years, was in line with the planned deliverables as stated in the 2014 to 2017 Strategic Plan. A compliance rate of 98% in the Performance Management and Development Systems (PMDS) was recorded against lower rates in the past years.
Regarding staff issues, I am pleased to highlight that during the reporting period, the terms of employment for the eligible staff below managerial positions was changed from fixed term contracts to a permanent status. This change in employment conditions was well received by staff and has fostered a sense of job security for staff. By the end of the reporting period, a total of 272 out of 311 establishment positions had been filled, translating into 87.5%.

Water Transfer and Hydropower Generation
We continued to meet the statutory obligations to transfer high quality water to South Africa and generate electricity for Lesotho, to the agreed annual targets. This was achieved despite the considerable amount of drought that was experienced in the region which resulted in reduction of water levels in the LHWP reservoirs. During the period under review, the total water transferred was almost on target at 0.01% below the approved delivery target of 780 million cubic meters (MCM).

Regarding power generation, 530.7 Gwh of electricity was generated against the planned generation of 502 Gwh for the reporting period. This was 5.0% higher than the planned generation for the reporting period.

Compensation
The Treaty dictates timely compensation for all affected households. During the reporting year, a total of 93.4% of the beneficiaries were given their compensation as compared to previous year performance of 91%.

While we have successfully discharged this mandate during the year under review, there are still challenges regarding the verification of the authenticity of a number of complaints, the majority of which date many years ago.

Livelihood Restoration Programmes
During the period under review, a solar electrification project was piloted as one of the livelihood projects

that could contribute towards improvement of the quality of lives of the affected households in the project area. The installation of the solar equipment continued in the four selected villages from Phase I and Phase II of the Project. The pilot project will cover a total of 400 households.

Environmental Conservation Programmes

The LHDA accords high priority to the conservation of the natural environment. During the reporting year, good progress was made through interventions aimed at conservation and rehabilitation of the wetlands, which are one of the main sources of the water supply. However, one of the key challenges that remains in this regard is to sustain the level of interest by all the relevant stakeholders to achieve the goal of a community driven and owned management of catchments in a sustainable manner.

Progress on Phase II of the Project

During the period under review, the Project focused largely on the procurement of consultants for the design of the Phase II advance infrastructure and the main works (the dam and tunnel) of the water transfer component of the project. The advance infrastructure, which comprises roads, bridges, telecommunications, geotechnical investigations and project housing, precedes the construction of the main works.

Towards the end of the year, five contracts had already been awarded. These are reported in details in the body of the annual report. These relate to the demarcating the area that will be inundated by the Polihali Reservoir, the design of one of the early access roads, the professional services for the supervision of geotechnical investigations; the professional services for the design and eventual supervision of the project housing & associated infrastructure. The fifth contract was awarded to the contractor for the geotechnical investigations for the Polihali Dam and Polihali Transfer Tunnel.

At the end of the Financial Year, procurement of a consultant who will carry out further studies for the Phase II hydropower component was at an advanced stage. The studies include a market study, a legal framework study, geotechnical investigations and an options study. It is expected that the consultant will be in place in the second quarter of the next Financial Year.

Stakeholder engagement

LHDA places a great deal of emphasis and invests significant amount of time in engaging its stakeholders to understand their views and areas of interest. Taking lessons learnt from the implementation of Phase I of the Project, various consultations took place with a broad spectrum of stakeholders on critical issues such as livelihoods restoration programme, the development of the Phase II Compensation Policy and establishment and training of the community liaison structures. The feedback has been very helpful and has informed the manner in which these issues are being addressed.

As we end the current reporting period, we look forward to another interesting year ahead. The year 2016 is a special year in the history of the Project as it marks the 30th Anniversary of successful implementation of the LHWP as a good example in regional cooperation.

Conclusion

I wish to thank the Lesotho Highlands Water Commission for their continued leadership and oversight. As the term of the current Board of Directors comes to an end, it is also opportune for the Management to look back and give recognition to the sterling stewardship role the Board has provided over the years. The solid foundation they have laid in the form of strategies and policy framework will act as a good springboard as the Project surges forward. I would further like to extend my appreciation to my management team and all the staff for their dedication and hard work in pursuit of our organizational goals and objectives of becoming a high performance organization.

Yours sincerely

Refiloe Tlali (Mrs)

Chief Executive

PART B: INSTITUTIONAL ISSUES AND CAPACITY BUILDING

Corporate Performance

The reporting period is the second year of implementation of the 3-year Strategic Plan (2014-17), geared to transform the LHDA into a High Performance Organization (HPO). Internal reviews indicate that the organisation has been performing satisfactorily for the past two (2) years of the Strategic Plan, performing at above average with scores of 327 points out of a possible maximum of 500 points in the first year and 335 points in the second year, as per the LHDA Performance Management and Development System (PMDS).

Performance Management and Development System (PMDS) Compliance

The continuing efforts to improve on the implementation of the Performance Management and Development System showed higher levels of compliance from the very low levels in the previous years to a compliance rate of over 98% during the reporting period.

Legal issues

The gazetting of the LHWP scheme in June 2015 marked an important passage of legal instruments for the facilitation of the implementation of the Project.

During the year, one cooperative namely the Khabang Lejone MPC was paid approximately M280,000.00 in December 2015 following a court ruling that LHDA should pay a third of the outstanding disbursements of communal assets compensation to enable this cooperative to meet the audit requirements in terms of the MoU signed with the LHDA. Subsequently, other 15 cooperatives in the Phase IA area also submitted applications to LHDA that a similar treatment be extended to them as well. By the end of the reporting period, LHDA was awaiting the legal opinion on this development.

Financial issues

The external audit was completed in mid-June 2016, a record time for a second consecutive year since the start of the Project as last year's audit was also completed by the end of June. LHDA successfully migrated from the old Financial Accounting System (SAGE line 500) in October 2015 to the latest system SAGE X3. The unqualified audited financial statements (AFS) and management letter points (MLP) were finalised in July 2016.

The Draft Budgets for 2016/2017 for the two funding countries (GOL and RSA) was submitted in October 2015 as required. The Final LHDA 2016/2017 budget was approved by LHDA Board on the 29th February 2016.

Cost-allocation processes for the financial year-end March 2015 were finalized and approved by the LHWC in February 2016, and by the end of the reporting period the LHDA was in the process of finalizing the cost-to-funding for their approval

LHDA still continues to invoice LRA monthly as per the Phase II Agreement tax dispensation, effective as from 1st June 2013. LRA on receipt of invoices from LHDA do monthly audit of LHDA and pay the water transfer related tax refund claims monthly.

Variation of Terms of Employment:

During the reporting period, the LHWC approved the Board recommended variation of terms of employment from fixed-term contract to permanent terms for staff below the level of Managers. This was implemented during the third quarter following individual consultations to that effect. The change was favourably received by 98% of the eligible staff.

Organizational Culture and Climate Survey Gaps

During 2014/15 year, the LHDA undertook a Culture and Climate Survey for the organization. The table below indicates some of the initiatives that management undertook in addressing the gaps that had been identified during the survey.

Table 3: Culture and Climate Gaps and Management Actions

Gap Identified	Action taken to address the gap
Employee Recognition	Recognition system was developed; The deserving employees were given awards during the end of the year ceremony
Use of fixed-term contracts and related job insecurity	All staff below Manager level were offered permanent positions
Pay and Benefits	A proposal on pay and benefits was submitted to the Project Authorities for approval.
Workplace Environment	Training on First Aid, as well as on Health and Safety in the Workplace was facilitated.
Inadequate Communication	Scheduled staff quarterly meetings provided a forum for communication and to address issues of interest. The organisational internal newsletter also provides a regular space for staff issues.

Filling of the LHDA staff establishment

By the end of the reporting period, the filling of the organisational structure was at 87.5% filled, with 272 of 311 establishment positions filled. This represents a drop from previous level due to retirements, dismissals and a total of 17 positions in the professional category on hold whilst other means are being considered, as well as creation of new positions.

Project Publicity

In line with the communications strategy, LHDA continued in its intensified efforts to engage with its various stakeholder groups. The usual traditional channels to communicate its key messages included radio, television, media updates/press releases, feature articles and showcasing of the LHWP through local regional and international exhibitions.

Messages focussed on issues that were of high interest to the audience such as the developments under Phase II; The other topic that dominated the media towards the second half of the year was the drought conditions induced by the El Nino phenomenon. Several media interviews were held and updates provided on what the implications of the drought were on both the short term and the long term water delivery programme.

The Treaty provision for LHWP's contribution to domestic drought relief efforts were invoked by the Parties and these were also publicised over local radio stations. The public responses showed the need to further educate the public.

Information Communications Technology (ICT)

The IT Governance Framework was developed and submitted to the Audit and Risk Committee of the Board. As a measure to deploy optimal ICT systems to support efficient business operations, the Compensation Management Dashboard was successfully implemented in SharePoint. In addition, the functional specifications of the automation of the compensation system for Phase II of the LHWP was completed. The system will be able to go live within six months of the approval of the Phase II Compensation Policy. During the period under review, the ICT services availability level was at 94.00% while the availability of network resources was maintained at an average of 99.74%.

The major initiatives and projects undertaken during the reporting period were the Upgrading of SAGE line 500 to X3 for the Finance Division, which went live with no major challenges, and the indexing of more than 3.7 million pages of documents for ease of access from the system. The latter will continue into the new year.

PART C: SOCIAL DEVELOPMENT AND ENVIRONMENT

COMPENSATION DISBURSEMENT

Annual cash and Grain payments

There was a marked improvement in the timely payment and distribution of cash and grain compensation to eligible individuals during this reporting period. An average of 93.4% of the target beneficiaries were reached compared to previous year performance of 91% compensation of the scheduled recipients (Table 4). The 6.6% of the households failed to receive compensation mainly due to failure to produce valid identification. This year's success is due to the effective use of the automated compensation processing system (the flow centric), good mobilization of the affected households and timely procurement of commodities from local farmers.

LHDA truck during distribution of grain to the households

Table 4: Annual Distribution Report- 2015

Area	Annual Cash Payment			Grain Distribution					
	Eligible hhs	HHs Served	% Served	Eligible hhs	Target		Actual		
					Maize (70 kg)	Beans (kg)	Maize	Beans	%
Katse	545	511	93.8	206	1,566	3,386	1,423	3,076	90.9
Lejone	675	650	96.3	300	3,026	6,543	2,753	5,954	91.0
Mohale	503	482	95.8	53	383	836	369	806	96.4
'Muela	299	280	93.6	35	268	582	258	561	96.4
Total	**2, 022**	**1, 923**	**95.1**	**594**	**5, 243**	**11, 347**	**4, 803**	**10, 397**	**91.6**

Backlog Payments

During the year under review, the payment of backlog to reduce the LHDA accruals improved substantially in comparison with the previous years. A total of 150 households were paid arrears compared to the eighty-one (81) paid in the previous years. This increase is attributed to the continuous sensitisation and the positive response of affected households by timely submitting their change of beneficiary documents as soon as the need arises.

Lump Sum Payments

During the reporting period, applications for lump sum payments increased exponentially as a result of the on-going consultation processes to encourage alternative investment options as part of the new Five-year Compensation Disbursement Strategy. A total of 190 households were paid lump sum compared to 79 households in the previous year.

COMPLIANCE MONITORING OF SOCIAL AND ENVIRONMENT PROGRAMMES

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 2015/16 achieved a score of 80% and this is consistent with the Strategic Plan target. This performance is an improvement on the 70% that was attained in the previous year. The challenges that were encountered during the year include among others, the delays in procurement of the key environmental and social contracts.

Compensation Complaints

The LHDA has initiated a concerted effort and focus to address all the outstanding community complaints received. A number of these complaints have been found invalid. The biggest challenge that LHDA faces with the resolution of these complaints is that a majority of them date as far back as 1994 and it is not easy to locate documents to verify such complaints.

Community Development Projects

The roll-out of the new communal assets compensation disbursement strategy has successfully been implemented at Katse and Mohale. Most of the affected communities have identified household electrification projects as their preferred development project. Other communities have opted for access roads. Communities that have identified projects have been linked with relevant institutions and government Departments to assist with the implementation of such projects. Compared to three projects in the previous year, during the current year, a total of eight (8) community development projects were identified for implementation.

By the end of the reporting period, 2 electrification projects were in progress. The first was phase II of the Bokong electrification project which will serve 7 of the 11 villages covering 618 households and the second was the project for the electrification of 235 households in 5 villages in the Mohale area. The shopping complex project which is implemented by Thabana Mahlanya Association, and one of the electrification projects at Ha Ramohope were in the initial stages of project preparation.

Community Infrastructure Development Strategy

The Community Infrastructure Development Strategy was developed to help guide the implementation of development projects among the host villages with a view to enhancing the livelihoods of both the resettlees and the host communities.

Two affected communities of Ha Koporeke and Ha Tšiu benefitted through the construction of a woolshed at Khamolane using funds under the strategy. The woolshed was completed in December 2015 and formally handed over to the Ministry of Agriculture and Food Security in February 2016. Other communities that are eligible are being assisted to identify projects to implement in their localities.

Livelihoods Improvement Programmes

In line with its Treaty obligations the LHWP is mandated to implement projects aimed at maintaining the livelihoods of the people impacted by the project to the level equal to or better than obtaining before implementation of the project. A households solar electrification Project was identified as one of the livelihood projects that could contribute significantly towards the improvement of the quality of life of affected households in the project area. In this regards a pilot solar electrification project was initiated in partnership with the Republic of India through the Barefoot College of Tilonia, covering a total of 400 households in four (4) villages of Moeaneng, 'Meta (both in Phase II area) and Sepinare and Sankong in Phase I of the Project. . The installation of the solar equipment was still on-going by the end of the reporting period and expected to be completed in May 2016. The project also constructed warehouses/ storage facilities in all the project sites for safe keeping of the solar electrification equipment during implementation. These warehouse facilities will subsequently be used as community development centres after the completion of connection of solar equipment to individual households.

Environmental Conservation Programmes

The conservation and rehabilitation programme continued in the reporting period. A total of 13,867.2m stone-lines, 270 gabions and 180 simple rock structures were constructed in the Phase I Project area, to rehabilitate gullies, marginal lands and wetlands. A furthermore 15,415 trees were planted, and this included 5149 fruit trees in 'Muela.

A gully in the Mohloathomo wetland showing cracks that fall off during heavy rains.

Gabion structure constructed on the Mohloathomo wetland damming back the water to allow soil settlement.

The collection of seeds and propagation of rare and endangered species continued to be implemented at the Katse Botanical Garden and over 35,000 seedlings were propagated. A total of 30 spiral aloe seedlings were reintroduced at one of the colonies in Nk'hunyane with the involvement of herders who help in conservation of the species.

Spiral aloe colony at Nk'hunyane that is monitored by the KBG with assistance of herders.

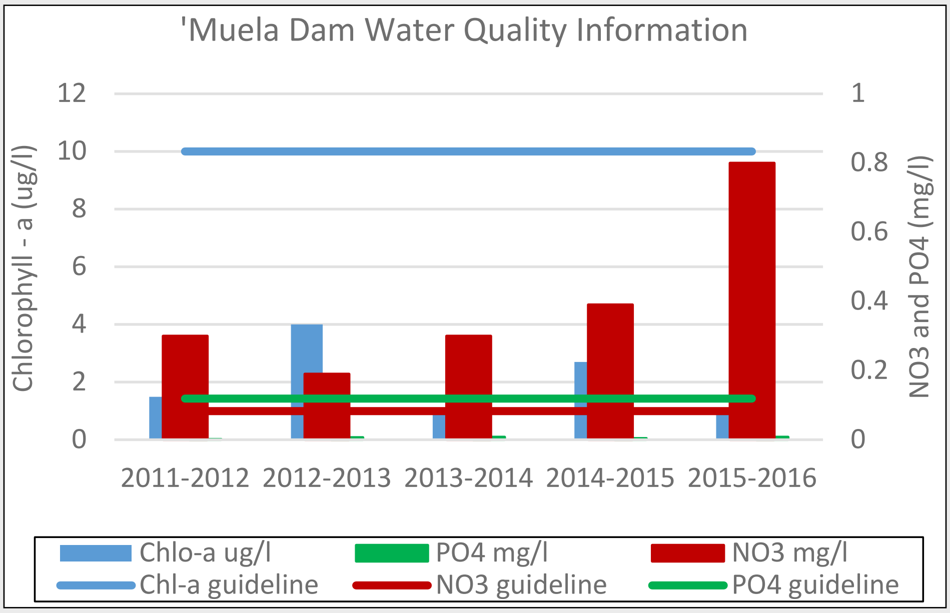
Instream Flow Releases (IFR) Implementation

As per the IFR Policy and Procedures, LHDA maintains the flow of rivers downstream of the dams at specified level by managing the releases from the LHWP structures. LHDA also undertakes biophysical monitoring in accordance with the IFR policy and procedures and the results of this monitoring indicate healthy riverine ecosystems that are within the predicted river conditions below the LHWP structures.

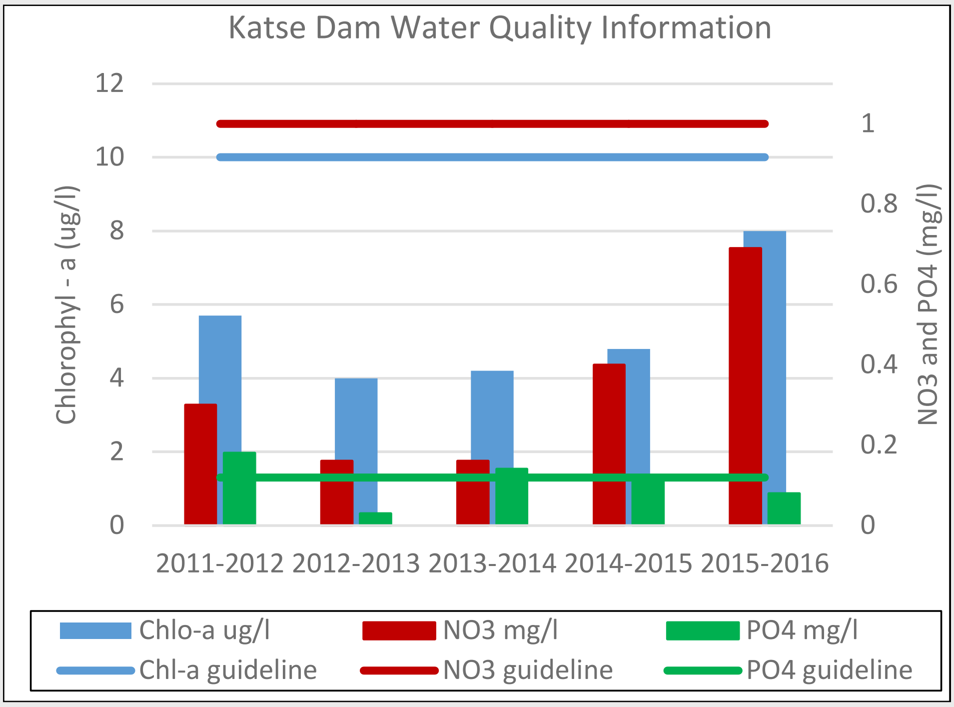
Water Quality

The results of water quality monitoring of the reservoirs and their inflow rivers indicates that the catchments are sustaining water of good quality. However, reports also indicate that the levels of nitrate are progressively increasing. The increase in the levels of nitrate are attributed to mining activities within the Malibamatšo catchment and other anthropogenic activities being undertaken within the dams' catchments. In response to these developments, the LHDA has resolved to increase the monitoring scope to include all the rivers draining into the immediate mine catchment areas. Additionally, the Department of Environment has established a mining industry forum that focuses on the implementation of the environmental management plans of the mines with the aim of developing a monitoring strategy for Malibamatšo River catchment.

Graph 1: Water quality chart



Graph 2: Water quality chart



PART D: MAINTENANCE AND OPERATIONS OF THE PHYSICAL STRUCTURES

Maintenance and Operations of the Physical Structures

The major physical structures constructed in the implementation of the Lesotho Highlands Water Project include a water conveyancing system and a hydropower generation plant and appurtenances. The former covers electro-mechanical and civil structures such as dams, intake structures, tunnels and weirs. These structures and facilities are routinely maintained to ensure that they continue working to design standards.

As reported previously, condition based monitoring indicates that the structures are in good working condition. This includes the behaviour of the Mohale Dam that is currently being repaired for a crack and associated leakages that occurred during the impoundment stage.

An Engineering Panel of Experts undertook a ten-year performance review of the Mohale dam in August 2015 and they confirmed that the dam is behaving as expected.

The LHDA also engaged external experts to assess the risk posed by the accummulation of sediment at Matsoku weir and 'Muela dam. They recommended that short- and long-term remedial works be undertaken for 'Muela dam as the continued accumulation poses a risk to the operations of the hydropower and water transfer activities.

Dam Instrumentation Availability

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

Water Levels in the Reservoirs

The reporting period coincided with severe drought conditions induced by the El Nino phenomenom that affected large parts of the region; consequently, the Lesotho Highlands Water Project reservoirs were severely drawn down. The Mohale tunnel was left open to allow water flows from the Mohale Dam to the Katse Dam and as a consequence, the water level in the Mohale Reservoir reduced from 53.5% (2050.88masl) in April 2015 to 35.0% (2037.260 masl) in March 2016.

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

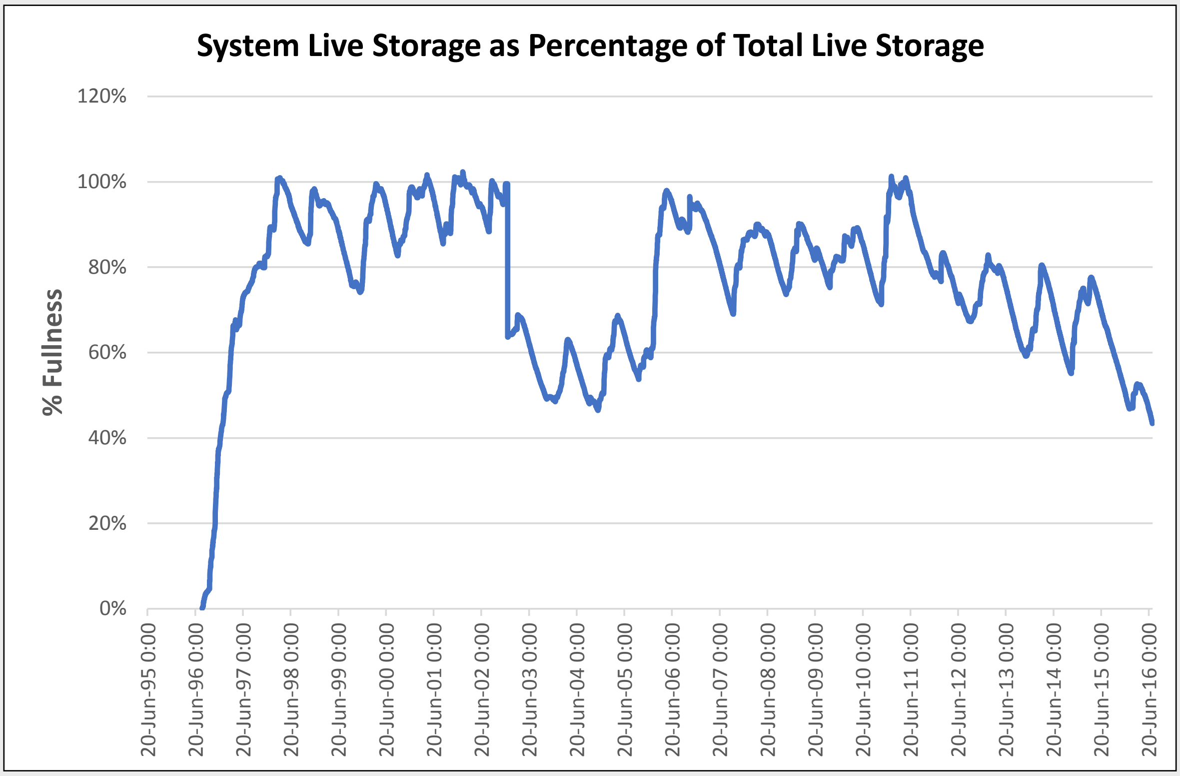

Katse Dam spilling


Mohale Dam spilling

The Katse reservoir level started at 95.13% (2050.36 masl) in April 2015 and reduced to 65.55 % (2036.98 masl) in March 2016 .

The total storage of the entire system indicates a downwards trend which began in May 2011

Graph 3: System Live Storage



Water Deliveries

The actual annual water delivered during the reporting period is 779.965 MCM (million cubic metres) against the target delivery for the year of 780 MCM, representing a variance of 0.01%, despite the drought conditions. The table below shows the water deliveries and associated royalty revenue to the Lesotho government during the last four years.

Table 5: Water Deliveries and Royalties

Year	Planned Deliveries (million m^3)	Actual Deliveries (million m^3)	% Variance in Deliveries	Actual Royalties (M million)
2012/2013	780	730	-6.4%	630.7
2013/2014	780	783	+0.38%	733.9
2014/2015	780	780.1	+0.01%	735.9
2015/2016	780	779.9	-0.01%	736.9

Electricity Generation

Electricity generation of 530.7 Gwh was 5.0% higher than the planned generation of 502 Gwh for the reporting period. The additional electricity generation was due to the efficiency of the plant. Total electricity exports from 'Muela amounted to 0.8% of total production.

Table 6: Electricity Generation

Year	Planned Generation (Gwhr)	Actual Generation (Gwhr)	% Variance in Generation	Actual Value (M million)	% Export of total annual production
2012/13	490	461	-6.0%	50.1	3.0%
2013/14	502	517	+3.0%	56.7	0.3%
2014/15	502	518.9	+3.4%	54.86	1.21%
2015/16	502	530.7	+5.0%	60.6	0.8%

As the table indicates, a total of M60.6 million was recorded as revenue payable by LEC to the Lesotho Government in relation to the Muela electricity supplied to LEC.

Muela Hydropower

PART E: PHASE II OF THE LESOTHO HIGHLANDS WATER PROJECT

PROJECT COMPONENTS

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

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

A Project Management Unit (PMU), consisting of a team of dedicated functional experts is responsible for the day-to-day management of Phase II of the project and operates as an extension of the LHDA.

PROJECT PROGRESS

During the period under review, the main activity was on advertising and evaluation of bids for a number of advance infrastructure consultancy services in the engineering, environment and social fields. Over and above the procurement processes, some of the activities included finalisation of the Phase II Compensation Policy following extensive consultation with relevant stakeholders, on-going awareness campaign and updates about progress to the affected communities, project management and contract administration of the awarded contracts.

The following contracts were on-going during reporting period and progress as at March 2016 was as follows:

- Contract 6008 – Public Health Baseline Study: The consultant Nonyana Hoohlo and Associates (NHA) completed the study and submitted the Baseline Report to LHDA for Approval.
- Contract 3009 - Professional Services for the Planning, Design and Construction Supervision of the Housing and Associated Infrastructure; The master plan was being drawn.
- Contract 3017 – Professional Services for the Demarcation of Polihali Reservoir: The Maleke Ntšihlele Putsoa Joint Venture started and completed the construction of beacons to demarcate the highest possible water mark.
- Contract 3014 - Professional Services for the Design and Construction Supervision of the Polihali North East Access Road: SMEC-FMA Joint Venture completed the preliminary design and undertook an option analysis study that led to the change of the road standard from gravel to tarred road.

- Contract 3015- Professional Services for the Evaluation, Optimisation, and Site Supervision of Geotechnical Investigations: Jeffares & Green Pty (Ltd) assisted during the evaluation and award of the Geotechnical Investigations works contract.
- Contract 4016- Geotechnical Investigation Works for the Polihali Dam and Polihali-Katse Transfer Tunnel: The contractor (Diabor) prepared and submitted the documents required for approval before he could commence with activities on site. These included but were not limited to the proposed work methods, health and safety plans, procedures for interacting with the communities, relevant guarantees and insurances.

Consultations with the communities in Phase II area

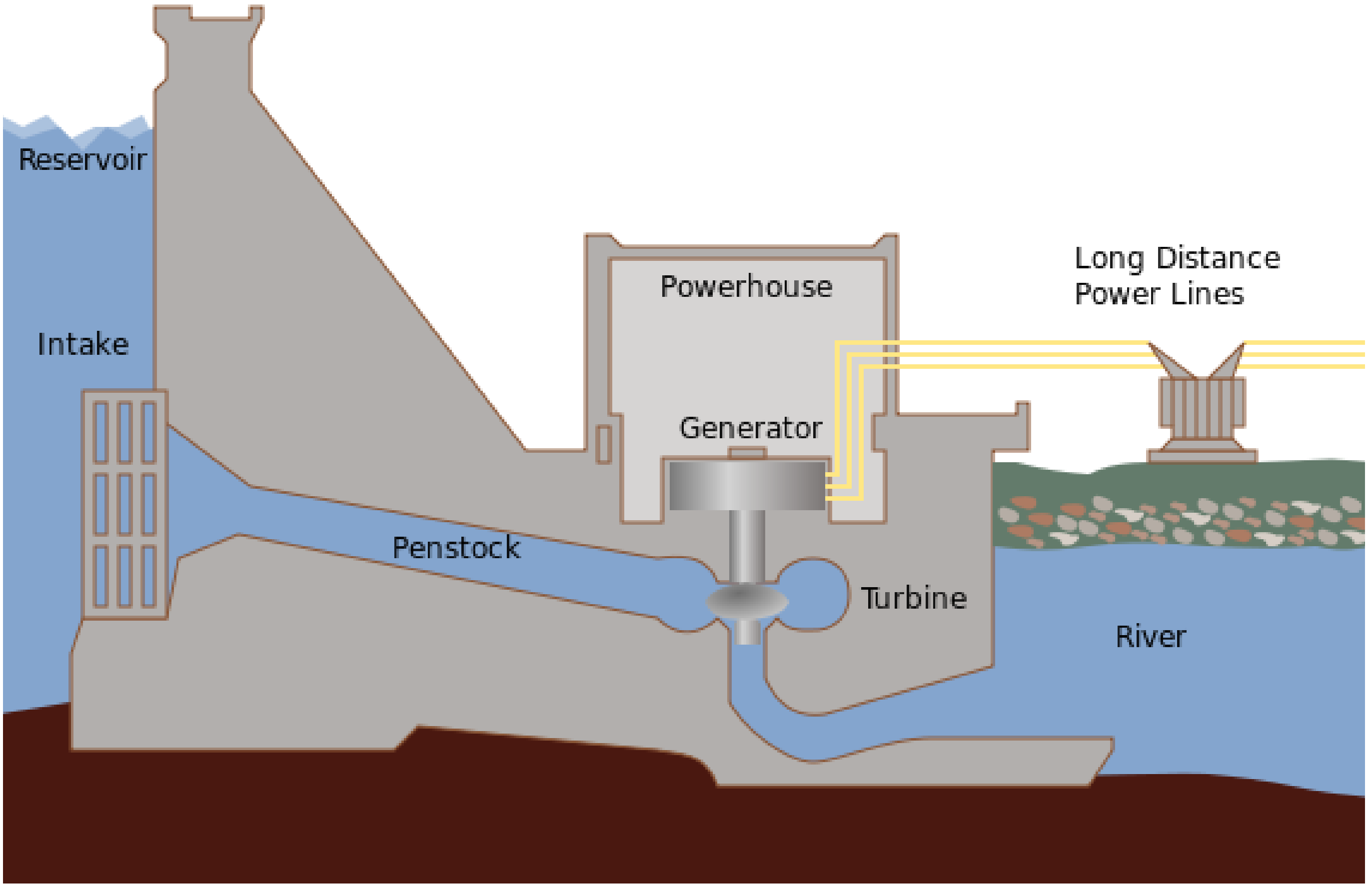
Procurement Update - Water Transfer Component

The following contracts were awarded during the reporting period:

- Contract 3009 - Professional Services for the Planning, Design and Construction Supervision of the Housing and Associated Infrastructure.
- Contract 3014 - Professional Services for the Design and Construction Supervision of the Polihali North East Access Road.
- Contract 3015- Professional Services for the Evaluation, Optimisation, and Site Supervision of Geotechnical Investigations.
- Contract 3017 – Professionals Services for Demarcation of the Polihali Reservoir.
- Contract 4016- Geotechnical Investigations for the Polihali Dam and the Transfer Tunnel.
- Procurement Update - Hydropower Transfer Component

Contract 3010: Professional Services for the Phase II Hydropower Feasibility: Further Studies. A Request for Expression of Interest was issued and a shortlist of 6 entities was recommended and approved. The shortlisted companies were requested to submit bids and by the end of the reporting period, the evaluation of the bids was complete.

Schematic of hydropower plant



Procurement Update – Performance Against Targets as at 31 March 2016

Table 7: Lesotho Highlands Water Project: Performance Against Targets for Evaluated Bids

		Preference Targets as Contracted		Actual Performance as Invoiced	
Contract	Bidder	% of Total Fees to Lesotho Nationals	% of Total Fees to RSA Nationals	% of Total Fees to Lesotho Nationals	% of Total Fees to RSA Nationals
3009: Project Housing	Polihali Infrastructure Consultants	52.9%	47.1%	49.8%	46.3%
3014: PNEAR	SMEC/FMA JOINT VENTURE	52.3%	47.7%	32.8%	67.2%
3017: Reservoir Demarcation	Maleka, Ntsihlele & Putsoa JV	100.0%	0.0%	100.0%	0.0%
TOTAL ADVANCE INFRASTRUCTURE (Preferred Bidders)				**58.1%**	**40.4%**
3015: Geotechnical Engineer		24.7%	53.8%	31.5%	63.1%
TOTAL LHWP (Preferred Bidders)				**54.1%**	**43.8%**

Phase II Indicative Programme

The table below provides a high level overview of the Phase II programme.

Table 8: Indicative Programme for the Water Transfer Component

Project Milestones						
		Planned		Forecast		Actual
Ratification		June 2013				May 2013
Impoundment		Feb 2021		Mar 2023		_
Dam Complete		Mar 2022		Apr 2024		_
Tunnel Complete		May 2022		Nov 2024		_
Water Delivery		June 2022		Nov 2024		_
Project Closed-out		Dec 2024		Dec 2026		_

There was a delay to this component due to the repeat of the prequalification Process. At the end of the reporting period the Project Team was working on further mitigating measures and strategies

Table 9: Indicative Programme for the Hydropower Component Further Feasibility

Project Milestones						
		Planned		Forecast		Actual
Funding Approval by World Bank		June 2014				June 2014
Mobilisation – Project Management Consultant		March 2015				June 2015_
Approval of Shortlist of Feasibility Consultants		Sept. 2015				Sept 2015
Feasibility Study Commence		July 2016		August 2016		_
Feasibility Study complete		March 2017		March 2017		_
Design commence		Jan 2018		Jan 2018		_
Construction Start		June 2020		June 2020		_
Commissioning		Dec 2024		Dec 2024		
Project Close out		Dec 2026		Dec 2026		

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

ANNUAL FINANCIAL STATEMENTS

AT 31 MARCH 2016

C O N T E N T S

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LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

ANNUAL FINANCIAL STATEMENTS

AT 31 MARCH 2016

GENERAL INFORMATION

DIRECTORS	:	Mr J.J. Eagar (Chairperson) Prof L.I. Qalinge Mr R.S. Mbwana Adv. S.T. Kholong Mr B. Qhobela Mr M. Monyamane (appointed on the 01st Oct 2016) Mr T. Nkhahle (appointed on the 01st Oct 2016) Mrs R. Tlali (Chief Executive) Mr D. Lukhele (Chief Operations Officer) Mr T. Tente (Divisional Manager Phase II) Mr M.C. Botha (Chief Financial Officer)
NATURE OF BUSINESS	:	Implementation, operation and maintenance of the Lesotho Highlands Water Project
AUDITORS	:	New Dawn Chartered Accountants
REGISTERED OFFICE	:	Lesotho Highlands Development Authority Lesotho Bank Tower Kingsway Rd **MASERU 100** Lesotho
PHYSICAL ADDRESS	:	Lesotho Highlands Development Authority Lesotho Bank Tower Kingsway Rd **MASERU 100** Lesotho
BANKERS	:	Standard Lesotho Bank
ATTORNEYS	:	In-house Attorneys Webber Newdigate Attorneys
COMPANY SECRETARY	:	Advocate Thenjiswa Matshikisa (Acting)
COUNTRY OF INCORPORATION	:	Lesotho
LEGAL FORM	:	Authority
PRESENTATION CURRENCY	:	Maloti

BOARDS' STATEMENT OF RESPONSIBILITY
At 31 March 2016

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

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

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

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

The Board has reviewed the Authority's cash flow forecast for the year to 31 March 2017 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.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The Annual Financial Statements, set out on pages **5 to 43,** were approved by the Board and signed on behalf of the Board by:

Eagar	
Mr J.J. Eagar	**Mrs R. Tlali**
CHAIRPERSON	**CHIEF EXECUTIVE**
4 November 2016	4 November 2016
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

NEW DAWN CHARTERED ACCOUNTANTS

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

Report on the financial statements

We have audited the financial statements of Lesotho Highlands Development Authority, as set out on pages 5 to 42, which comprise the statement of financial position as at 31 March 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of **Lesotho Highlands Development Authority** as at 31 March 2016, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

New Dawn Chartered Accountants
07 November 2016

1. STATEMENT OF ACTIVITIES

The Authority is entrusted with the responsibility for the implementation, operation and maintenance of the Lesotho Highlands Water Project (LHWP) as defined in the Treaty on the Lesotho Highlands Water Project signed by the Government of the Kingdom of Lesotho (GOL) and the Government of the Republic of South Africa (RSA) on 24 October 1986.

The Authority is also conferred with general functions in relation to water resources, electricity, education and training of its employees, monitoring activities and land transactions.

The principal physical features of Phase 1A, now complete, are:

(a) A 182m high double curvature concrete arch dam on the Malibamatšo River at Katse;
(b) A 45km transfer tunnel north from the Katse reservoir to the Hydropower complex at ‘Muela;
(c) A 72MW underground Hydropower complex at ‘Muela;
(d) A 17km delivery tunnel north from ‘Muela to the Mohokare (Caledon) River which forms the border between the Kingdom of Lesotho and the Republic of South Africa. This Tunnel links up through an underground siphon at this location with the South African portion of the transfer tunnel system;
(e) Associated infrastructure, including construction of new roads, upgrading and rehabilitation of existing roads, three major road bridges, upgrading of border crossing facilities and new river crossings, camps, communications, power supply, communication systems etc;
(f) Associated conservation, environmental and rural development activities.

The principal physical features of Phase 1B, which is now complete, are:

(a) The 146m high rock filled Mohale Dam with concrete face;
(b) A 30km transfer tunnel from the Mohale intake to the Katse Reservoir;
(c) The Matsoku Weir and a 6km diversion tunnel from the weir to the Katse Reservoir;
(d) Associated infrastructure, including construction of new roads, upgrading and rehabilitation of existing roads, camps, communications and power supplies;
(e) Associated conservation, environmental and rural development activities.

Phase II of LHWP:

Water Transfer component
Activities for the implementation of Phase II continued during the current financial year.

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

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2016

	NOTE	2016	2015
		M'000	M'000
Revenue		-	-
Other Income		28 988	24 765
Total Income		**28 988**	**24 765**
Foreign Gains/(Losses)		(16 647)	(5 983)
Depreciation		(349 550)	(350 408)
Resettlement and Compensation Costs		(46 412)	(18 581)
Salaries and Wages		(104 252)	(93 610)
Other Administrative and Operating Expenditure		(48 697)	(149 353)
Operating Loss	2.1	**(536 570)**	**(593 170)**
Finance Income		9 711	8 538
Finance Cost		(9 338)	(11 165)
Loss for the year	2.2	**(536 197)**	**(595 797)**

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2016

	NOTE	2016 M'000	2015 M'000
ASSETS			
Non-Current Assets		**9 667 918**	**9 847 884**
Completed Works and Capital Work in Progress	3	9 660 803	9 840 417
Investment Property	4	7 115	7 467
Current Assets		**296 090**	**243 366**
Contract Advance Payments	5	8 548	-
Trade and Other Receivables and Prepayments	6	28 456	32 131
Cash and Cash Equivalents	7	259 086	211 235
Total Assets		**9 964 008**	**10 091 250**
FUNDS AND LIABILITIES			
Funds and Reserves		**9 273 512**	**9 394 369**
Capital Funds		10 014 569	10 031 077
Accumulated Loss – Hydropower		(741 057)	(636 708)
Non-Current Liabilities		**493 127**	**543 281**
Loans and Borrowings	8	70 562	100 586
Provisions	9	382 107	401 156
Accruals for Compensation	11	40 458	41 539
Current Liabilities		**197 369**	**153 600**
Contract Payables and Accruals	10	40 968	27 247
Contract Retentions	10	2 365	1 035
Bank Overdraft	7	1 435	377
Provisions	9	79 198	65 508
Trade and Other Payables and Accruals	11	36 709	26 129
Current Portion of Loans and Borrowings	8	36 694	33 304
Total Funds and Liabilities		**9 964 008**	**10 091 250**

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

STATEMENT OF CHANGES IN FUNDS AND RESERVES

AS AT 31 MARCH 2016

	Note	Capital Fund - Government of Lesotho M'000	Capital Fund - Government of South Africa M'000	Total Capital Funds M'000	Accumulated Loss Hydropower M'000	Total funds and Reserves M'000
Balance at 31 March 2014		**906 587**	**9 262 116**	**10 168 703**	**(512 034)**	**9 656 669**
Net Loss for the year	2.2	(17 809)	(453 147)	(470 956)	(124 841)	(595 797)
Prior year cost allocation ratification		(1 051)	884	(167)	167	-
Cost related payments - funding		49 178	284 319	333 497	-	333 497
Balance at 31 March 2015		**936 905**	**9 094 172**	**10 031 077**	**(636 708)**	**9 394 369**
Net Loss for the year	2.2	(22 799)	(411 433)	(434 232)	(101 965)	(536 197)
Prior year cost allocation ratification		(3 929)	1 545	2 384	(2 384)	-
Cost related payments - funding		55 906	359 434	415 340	-	415 340
Balance at 31 March 2016		**966 083**	**9 043 718**	**10 014 569**	**(741 057)**	**9 273 512**

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 MARCH 2016

		NOTE	2016 M'000	2015 M'000
CASH FLOW FROM OPERATING ACTIVITIES				
Net Cash Inflow/(Outflow) from Operating Activities			**(163 576)**	**(131 458)**
Loss before taxation			(536 197)	(595 797)
Add:	Depreciation		349 550	350 408
	Finance Charges		9 338	11 165
	Profit on the sale asset		(585)	(1 523)
	Impairment of assets		0	515
			(177 894)	(235 232)
(Increase)/Decrease in Advance Payments			(8 548)	3 578
(Increase)/Decrease in Other Receivables and Prepayments			3 675	8 528
Increase/(Decrease) in Provisions			(5 359)	92 793
Increase/(Decrease) in Contract Payables and Accruals			13 721	5 430
Increase/(Decrease) in Retentions			1 330	(1 543)
Increase/(Decrease) in Other Payables and Accruals			9 499	(5 012)
CASH FLOWS FROM INVESTING ACTIVITIES				
Net Cash Inflow/(Outflow) from Investing Activities			**(168 999)**	**(105 421)**
Additions to Assets			(171 699)	(108 253)
Proceeds on disposal of Assets			2 700	2 832
CASH FLOWS FROM FINANCING ACTIVITIES				
Net Cash Inflow/(Outflow) from Financing Activities			**379 368**	**284 356**
Government of Lesotho			55 906	49 177
Government of Republic of South Africa			359 434	284 319
Loans and Borrowings Repaid			(26 634)	(37 975)
Finance Charges			(9 338)	(11 165)
Net (Decrease)/Increase in Cash and Cash Equivalents			**46 793**	**47 477**
Cash and Cash Equivalents at the beginning of the period			210 858	163 381
Cash and Cash Equivalents at the end of the period		7	257 651	210 858

1. ACCOUNTING POLICIES

1.1 Basis of Preparation

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

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

1.2 Adoption of new and amended Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year.

1.3 Significant Accounting Judgments and Estimates

Estimation uncertainty

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

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

Provision for Future Compensation

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

The Instream Flow Requirements (IFR), is a term to describe the water available downstream which impacts on the aquatic ecosystems as well as the social needs of the downstream communities. The Authority will monitor the IFR on a yearly basis and any additional compensation required will be included in the Provision for Compensation as identified. The carrying amount of compensation at 31 March 2016 amounts to M 394 093 902 (2015: M 413 723 996).

Classification between Property, Plant and Equipment and Investment Property

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

1.4 Summary of Significant Accounting Policies

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

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

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

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

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

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

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

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

1.4 Summary of Significant Accounting Policies (Continued)

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

(c) the costs of measures taken in order to ensure that members of local communities in Lesotho are not adversely affected by Project related activities, including the cost of providing compensation, and a provision for estimated future compensation; and

(d) all finance charges and income (including interest payments, financing and foreign exchange cover charges, gains and losses on foreign exchange and other charges) relating to finance raised to fund capital expenditure, up to the date when substantially all the activities necessary to prepare the qualifying asset for its intended use are complete.

All such costs incurred are apportioned to one or more of the following activities:

(i) generation of hydro-electric power in the Kingdom of Lesotho (“Hydropower”);
(ii) delivery of water to South Africa (“Water Transfer”);
(iii) ancillary developments in the Kingdom of Lesotho (“Ancillary Developments”).

Such apportionment of capital costs is subject to ratification by the Parties to the Treaty. The ratification of costs between Hydropower, Ancillary Development and Water Transfer is subject to agreement by the parties to the Treaty. Such agreements are reflected as prior year reallocations within work-in-progress and transferred to completed works for the Hydropower and Water Transfer components or capital funds for the Ancillary Development and operations component, unless capitalisation had already ceased in which case such reallocations are transferred to the respective capital funds.

The Government of the Kingdom of Lesotho is, by way of Cost Related Payments, responsible for the costs of the Hydropower and Ancillary Development Activities.

The Government of the Republic of South Africa is, by way of Cost Related Payments, responsible for the costs of the Water Transfer Activities.

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

1.4 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

For loans and other receivables carried at amortised cost, the amount of the impairment loss is measured as the difference between the financial asset's carrying amount and it's present value of estimated future funding discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by the impairment loss and the loss is recorded in the statement of comprehensive income.

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

1.4 Summary of Significant Accounting Policies (Continued)

Impairment of Financial Assets (Continued)

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

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

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

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

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

1.4 Summary of Significant Accounting Policies (Continued)

Trade and Other Receivables (Continued)

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

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

Offsetting of Financial Instruments

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

Cash and Cash Equivalents

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

Provisions

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

Foreign Currency Translation

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

1.4 Summary of Significant Accounting Policies (Continued)

Foreign Currency Translation (Continued)

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

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

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

Impairment of Non-Financial Assets

The Authority assesses at each reporting date whether there is an indication that an asset may be impaired. In testing for, and determining the value-in-use of non-financial assets, management is required to rely on the use of estimates about the asset's ability to continue to generate cash flows (in the case of cash-generating assets). For non-cash-generating assets, estimates are made regarding the depreciated replacement cost, restoration cost, or service units of the assets, depending on the nature of the impairment and the availability of information.

1.4 Summary of Significant Accounting Policies (Continued)

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

The Government of the Kingdom of Lesotho is, by way of Cost Related Payments, responsible for the costs of the Hydropower and Ancillary Development Activities.

The Government of the Republic of South Africa is, by way of Cost Related Payments, responsible for the costs of the Water Transfer Activities.

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

Cost Related Payments are recognised when the relevant cost has been paid. Funds obtained by the Government of Lesotho on concessionary terms for the Water Transfer component are, for the purpose of Cost Related Payments, deemed to be loans at the interest rate and redemption terms applicable to loans of the International Bank for Reconstruction and Development.

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

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

1.4 Summary of Significant Accounting Policies (Continued)

Taxation (Continued)

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

Dues and Charges

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

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

Leases

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

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

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

Entity as Lessee

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

Entity as Lessor

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

1.4 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

1.4 Summary of Significant Accounting Policies (Continued)

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

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

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

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

Future Changes in Accounting Policies

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

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

IFRS 9 - Financial Instruments
IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2014, but Amendments to *Transition Disclosures*, hedge accounting and the impairment of financial assets moved the mandatory effective date for annual periods beginning on or after 1 January 2018. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Authority's financial assets, but will not have an impact on classification and measurements of the Authority's financial liabilities. The Authority will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

1.4 Summary of Significant Accounting Policies (Continued)

Standards issued but not yet effective (Continued)

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

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

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

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

	2016 M'000	2015 M'000

2. OPERATING LOSS
2.1 Operating Loss is stated after :

	2016 M'000	2015 M'000
Expenses		
Auditor's Remuneration	1 088	991
Depreciation	349 550	350 408
Foreign Exchange (Gain)/Loss	16 647	5 983
Resettlement and Compensation Costs	46 412	18 581
Staff Costs – Short Term Benefits	104 252	93 610
Investment Property Income	(5 523)	(4 692)
Rental Expenses	422	371

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

2.2 Allocation of loss as per cost allocation report

	2016 M'000	2015 M'000
Capital work-in-progress – 1A Water Transfer	38 792	33 595
Capital work-in-progress – 1A Ancillary Development	22 354	17 291
Capital work-in-progress – 1B Water Transfer	22 270	71 149
Capital work-in-progress – 1B Ancillary Development	445	518
Hydropower Accumulated Loss	101 965	124 841
Government of South Africa Capital Fund	350 371	348 403
	536 197	**595 797**
Costs transferred to Funds and Reserves		
Government of Lesotho	22 799	17 809
Government of South Africa	411 433	453 147
Hydropower Accumulated Loss	101 965	124 841
	536 197	**595 797**
Costs transferred to work in progress		
Capital work-in-progress – 2 Water transfer	136 568	81 661
Capital work-in-progress – 2 Hydro Power	343	127
Amount as per detailed Statement of Comprehensive Income	**673 108**	**677 585**

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

Accumulated loss - Hydropower	**2016 M'000**	**2015 M'000**
Income	7 510	7 838
Less: Cost of sales	(111 859)	(132 512)
Operations and maintenance costs	(57 159)	(80 046)
Prior year cost allocation ratification	(2 384)	167
Depreciation	(52 316)	(52 633)
Net Profit/(Loss) for the year	(104 349)	(124 674)
Accumulated loss at the beginning of the period	(636 708)	(512 034)
Accumulated loss at the end of the period	**(741 057)**	**(636 708)**

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 2015.

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

3. PROPERTY, PLANT AND EQUIPMENT

COMPLETED WORKS – By Allocation

	Hydropower Civil Works M'000	Hydropower Plant M'000	Water Transfer Civil Works M'000	Vehicles & Equipment M'000	Total M'000
Carrying Value at 31 March 2014	**726 830**	**135 992**	**9 084 187**	**37 972**	**9 984 981**
Cost	1 225 870	209 839	13 064 459	84 635	14 584 803
Accumulated Depreciation	(499 040)	(73 847)	(3 980 272)	(46 663)	(4 599 822)
Reclassification	-	-	-	-	-
Additions	132	655	778	14 318	15 883
Transfer from Work in Progress	-	-	-	1 571	1 571
Impairment of assets	-	-	(699)	-	(699)
Accumulated Depreciation on impaired assets	-	-	185	-	185
Depreciation	(40 374)	(7 152)	(294 423)	(5 992)	(347 941)
Disposal/donation of assets	-	-	-	(3 403)	(3 403)
Accumulated Depreciation on disposed assets	-	-	-	2 093	12 093
Carrying Value at 31 March 2015	**686 585**	**129 495**	**8 791 780**	**46 534**	**9 654 394**
Cost	1 226 002	210 494	13 064 538	97 121	**14 598 155**
Accumulated Depreciation	(539 417)	(80 999)	(4 272 758)	(50 587)	(4 943 761)
Additions	-	1998	3205	20 026	25 229
Transfer from Work in Progress	-	-	1987	4006	5 993
Impairment of assets	-	-	-	-	-
Accumulated Depreciation on impaired assets	-	-	-	-	-
Depreciation	(40 494)	(7 266)	(292 678)	(8 760)	(349 198)
Disposal/donation of assets	-	-	-	(5 262)	(5 262)
Accumulated Depreciation on disposed assets	-	-	-	3 147	3 147
Carrying Value at 31 March 2016	**646 091**	**124 227**	**8 504 294**	**59 691**	**9 334 303**
Cost	1 226 002	212 492	13 069 730	115 891	**14 624 115**
Accumulated Depreciation	(579 911)	(88 265)	(4 565 436)	(56 200)	(5 289 812)
The useful life of the assets is estimated as follows:	50	25	50	3-5	

The gross carrying amount of all fully depreciated property, plant and equipment that is still in use is M 5 740 754

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

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 2014	**1 495 442**	**730 960**	**3 261 682**	**3 610 707**	**700 568**	**185 622**	**9 984 981**
Cost	2 059 151	1 077 001	4 776 285	5 151 589	1 203 404	317 373	14 584 803
Accumulated Depreciation	(563 709)	(346 041)	(1 514 603)	(1 540 882)	(502 836)	(131 751)	(4 599 822)
Additions	94	816	-	-	-	16 544	17 454
Depreciation	(53 884)	(22 281)	(92 935)	(99 559)	(60 079)	(17 479)	(346 217)
Disposal/donation of assets	-	-	-	-	-	(3 403)	(3 403)
Accumulated Depreciation on disposed assets	-	-	-	-	-	2 093	2 093
Impairment of assets	(699)	-	-	-	-	-	(699)
Accumulated depreciation of impaired assets	185	-	-	-	-	-	185
Carrying Value at 31 March 2015	**1 441 138**	**709 495**	**3 168 747**	**3 511 148**	**640 489**	**183 377**	**9 654 394**
Cost	2 058 546	1 077 817	4 776 285	5 151 589	1 203 404	330 514	14 598 155
Accumulated Depreciation	(617 408)	(368 322)	(1 607 538)	(1 640 441)	(562 915)	(147 137)	(4 943 761)
Additions	-	4 347	851	-	-	26 024	31 222
Depreciation	(53 995)	(26 035)	(93 191)	(99 833)	(59 533)	(16 611)	(349 198)
Disposal/donation of assets	-	-	-	-	-	(5 262)	(5 262)
Accumulated Depreciation on disposed assets	-	-	-	-	-	3 147	3 147
Impairment of assets	-	-	-	-	-	-	-
Accumulated depreciation of impaired assets	-	-	-	-	-	-	-
Carrying Value at 31 March 2016	**1 387 143**	**687 807**	**3 076 407**	**3 411 315**	**580 956**	**190 675**	**9 334 303**
Cost	2 058 546	1 082 164	4 777 136	5 151 589	1 203 404	351 276	14 624 115
Accumulated Depreciation	(671 403)	(394 357)	(1 700 729)	(1 740 274)	(622 448)	(160 601)	5 289 812
The useful life of the assets is estimated as follows:	50	25-50	25-50	50	50	3-50	

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

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

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 2014	**-**	**7 991**	**14**	**-**	**-**	**-**	**81 050**	**6 169**	**95 224**
Prior Year Reallocations	-	175	516	360	(694)	2 115	(175)	(2 297)	-
Cost Allocation	-	127	17 291	518	33 595	71 149	81 661	-	204 341
Transferred to Capital Funds	-	(175)	(17 807)	(878)	(32 901)	(73 264)	175	2 297	(122 553)
Work-in-progress during the year	-	-	-	-	521	2 369	-	7 318	10 582
Transfer to Completed works	-	-	-	-	-	-	-	(1 571)	(1 571)
Carrying Value at 31 March 2015	**374**	**8 118**	**14**	**-**	**521**	**2 369**	**162 711**	**11 916**	**186 023**
Prior Year reallocations	-	-	(812)	(27)	(1 769)	(3 300)	12 200	(6 292)	-
Cost allocation	-	343	22 354	445	38 792	22 270	136 568	-	220 772
Transferred to Capital Funds	-	-	(21 542)	(418)	(37 023)	(18 970)	(12 200)	6 292	(83 861)
Work-in-progress during the year	1 028	-	-	-	518	1 209	-	6 804	9 559
Transfer to completed works	-	-	-	-	-	(1 987)	-	(4 006)	-5 993
Carrying Value at 31 March 2016	**1 402**	**8 461**	**14**	**-**	**1 039**	**1 591**	**299 279**	**14 714**	**326 500**

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 2016 have been included.

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

4. INVESTMENT PROPERTY

	Total M'000
Net Book Value 31 March 2014	**11 657**
Assets at Cost	22 885
Accumulated Depreciation	(11 228)
Prior years Movements:	
Additions/Improvements	-
Disposals	-
Depreciation	(4 190)
Net Book Value 31 March 2015	**7 467**
Assets at Cost	22 885
Accumulated Depreciation	(15 418)
Current years Movements:	
Additions/Improvements	-
Disposals	-
Depreciation	(352)
Net Book Value 31 March 2016	**7 115**
Asset at cost	22 885
Accumulated depreciation	(15 770)

Investment Property consists out of Standard (Lesotho) Bank Building and is depreciated over 30 years. Improvements are depreciated over the lease term of 7.5 years. As at 31 March 2014, the fair value of the property was based on a valuation performed by Equity Property Professionals, an accredited independent valuer. The Income capitalization approach was used in determining the market value of the property. The market value was determined as M 41 993 761. The prior year's valuation is still deemed to be reasonable. No indicators of impairment were identified.

5. CONTRACT ADVANCE PAYMENTS

	2016 M'000	2015 M'000
Contract Advance Payments	8 548	-
	8 548	**-**

	2016 M'000	2015 M'000
6. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS		
Trade Receivables	11 876	5 569
Staff Receivables	50	10
Lesotho Revenue Authority		
• New tax Legislation	14 164	22 602
Other Receivables and Prepayments	7 216	7 848
Provision for Doubtful Debts	(4 850)	(3 898)
	28 456	**32 131**

For terms and conditions relating to related party receivables, refer to Note 16.
Trade receivables are non-interest bearing and are generally on 30 day terms.
As at 31 March 2016, trade receivables and other receivables at initial value of M 4 850 000 (2015: M 3 898 000) were impaired and fully provided for.

At 31 March 2016, the ageing analysis of trade receivables are as follows:

			Past due but not impaired				
	Total	**Neither past due Nor impaired**	**< 30 days**	**30 – 60 days**	**60 – 90 days**	**90 – 120 days**	**> 120 days**
	M'000	**M'000**	**M'000**	**M'000**	**M'000**	**M'000**	**M'000**
2015	5 569	-	4 369	224	135	62	779
2016	11 876	-	2 735	306	1906	198	6731

7. CASH AND CASH EQUIVALENTS

	2016 M'000	2015 M'000
Cash at Bank	257 569	210 776
Cash on Hand	82	82
	257 651	**210 858**
Current Assets	**259 086**	**211 235**
Current Liabilities	**(1 435)**	**(377)**
Currency Analysis		
Maloti	256 833	210 858
US Dollar	818	-
	257 651	**210 858**

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 257 651 000 (2015: M 210 858 000).

8. LOANS AND BORROWINGS

	2016 M'000	2015 M'000
Non-Current Portion	70 562	100 586
Current Portion	36 694	33 304
	107 256	**133 890**
Currency Analysis		
Rands	77 435	99 665
Euro	29 821	34 225
	107 256	**133 890**
Interest Bearing Status		
Interest-bearing	107 256	133 890
Non-interest bearing	-	-
	107 256	**133 890**
Maturity Profile		
Within One Year	36 694	33 304
Between Two and Five Years	62 159	84 722
More than Five Years	8 403	15 864
	107 256	**133 890**
Maturity Profile – Undiscounted		
Within One Year	44 041	42 029
Between Two and Five Years	75 009	102 639
More than Five Years	9 233	18 320
	128 283	**162 988**

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

	Trans Caledon Tunnel Authority Debt Service Loans	**Effective Interest Rate%**	**2016 M'000**	**2015 M'000**
Institution	***Offshore loans***			
European Investment Bank	Repayable in semi-annual instalments ending January 2018	3%	29 821	34 225
European Investment Bank	Repayable in semi-annual instalments ending March 2018	4.96%	18 488	27 732
European Investment Bank	Repayable in semi-annual instalments ending September 2018	5.27%	14 030	19 641
	Common Monetary Area Loans			
DBSA	Repayable in semi-annual instalments ending March 2016	7%	0	268
DBSA	Repayable in semi-annual instalments ending September 2021	12.23%	514	576
DBSA	Repayable in semi-annual instalments ending September 2021	10.92%	1 882	2 120
DBSA	Repayable in semi-annual instalments ending March 2022	10.68%	16 676	19 456
DBSA	Repayable in semi-annual instalments ending March 2022	12.12%	9 540	11 130
DBSA	Repayable in semi-annual instalments ending March 2022	12.96%	1 481	1 636
DBSA	Repayable in semi-annual instalments ending September 2022	Jibar	14 825	17 106
	Total		**107 257**	**133 890**

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

	Government of Lesotho Debt Service Loans	**Effective Interest Rate%**	**2016 M'000**	**2015 M'000**
Institution	***Common Monetary Area Loans***			
DBSA	Repayable in semi-annual instalments ending March 2015	13%	-	-
DBSA	Repayable in semi-annual instalments ending September 2019	13%	1 112	1 349
Government of Lesotho	Muela Re-financing by the Government of Lesotho		(1 112)	(1 349)
	Total		-	-
	Grand Total		**107 257**	**133 890**

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

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

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 2014	**367 751**	**616**	**3 725**	**1 779**	**-**	**373 871**
Additional Provisions made during the year	32 520	935	5 575	3 339	43 091	85 460
Amounts used	-	(616)	(3 725)	(1 779)	-	(6 120)
Unwinding of discount and effect of changes in discount rate on provisions	13 453	-	-	-	-	13 453
Carrying Value: 31 March 2015	**413 724**	**935**	**5 575**	**3 339**	**43 091**	**466 664**
Additional Provision made during the year	-	-	6 104	3 502	56 670	66 276
Amounts used	(18 209)	-	(5 574)	(3 339)	(43 091)	(70 213)
Unwinding of discount and effect of changes in discount rate on provisions	(1 422)	-	-	-	-	(1 422)
Carrying Value: 31 March 2016	**394 093**	**935**	**6 105**	**3 502**	**56 670**	**461 305**

	2016 M'000	2015 M'000
9. PROVISIONS (Continued)		
Non-Current	382 107	401 156
Current	79 198	65 508
	461 305	**466 664**

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.

Provision for Ground rent

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

10. CONTRACT PAYABLES AND ACCRUALS

	2016 M'000	2015 M'000
Contract Payables	802	3 737
Contract Accruals	40 166	23 510
	40 968	**27 247**
Contract Retentions	2 365	1 035
	43 333	**28 282**

11. TRADE AND OTHER PAYABLES AND ACCRUALS

	2016 M'000	2015 M'000
Trade payables	5 793	2 528
Accrued interest on loans	303	382
Other payables	21 210	17 289
Accruals for compensation	49 861	47 469
	77 167	**67 668**
Non-Current Accruals for compensation	40 458	41 539
Current	36 709	26 129
	77 167	**67 668**
Maturity Profile		
Within One Year	36 709	26 129
Between Two and Five Years	40 458	41 539
More than Five Years	-	-
	77 167	**67 668**

12. FORWARD COVER

Foreign currency denominated loans, except those for 'Muela Hydropower Implementation, are subject to forward cover contracts. However, in respect of the foreign currency denominated Hydropower loans, the Government of Lesotho has assumed the repayment obligations, and hence the foreign exchange risks, in exchange for a fixed Maloti obligation by the Authority to the Government. The forward cover contracts were entered into by the Trans Caledon Tunnel Authority. The Lesotho Highlands Development Authority revalue all its offshore loans at the applicable spot rate as at 31 March each year as the risks and rewards of the Forward Cover Contracts do no accrue to the Authority.

13. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The Authority has been notified of the intention by various Contractors and employees to submit claims. The claims that are probable have been provided for in the Provision for Claims. The claims which are disputed, subject to ongoing litigation and which do not appear to be probable amount to M 23 942 518 (2015: M 99 067 697). In addition a contingent liability may be required for the downstream reaches 7 & 8 of which the amount is unknown and the amount and the timing of the payment are so uncertain that a provision cannot be recognised.

For the start-up of phase 2, new contracts have been approved and some entered into. The following commitments have been approved and not yet contracted for by year end: M 0 (2015: M nil). The following contracts have been approved and contracted: M 403 416 698 (2015: M 353 228 287).

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

Fair Value Estimation
The different levels have been identified as follows:

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

The following table presents the Authority's assets for which fair value is disclosed at 31 March 2016**:**

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

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

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

Foreign Exchange Rate Risk
The Authority undertakes certain transactions denominated in foreign currencies which implies that exposure to exchange rate fluctuations arise. All foreign currency denominated loans, except for those for 'Muela Hydropower Implementation, are or have been the subject of forward cover contracts taken out by the Trans Caledon Tunnel Authority on behalf of South Africa which guarantees and is ultimately responsible for repayment of those loans.

In respect of the foreign currency denominated loans for 'Muela Hydropower Implementation the Government of Lesotho has accepted all the foreign exchange risk in exchange for a fixed Maloti obligation by the Authority to the Government.

The following table demonstrates the sensitivity to a reasonable possible change in the Euro exchange rates, with all other variables held constant, of the Authority's profit (due to changes in the fair value of monetary assets and liabilities).

	Change in exchange rate	**Effect on profit M'000**
2015		
Euro	+10%	3 423
Euro	-10%	(3 423)
2016		
Euro	+10%	2 982
Euro	-10%	(2 982)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Interest Rate Risk

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

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

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

Interest rate sensitivity

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

	Increase/decrease in basis points	**Effect on profit M'000**
2015		
Trans Caledon Tunnel Authority Debt Service Loans		
Offshore Loans	+200	947
Common Monetary Area Loans	+200	342
Trans Caledon Tunnel Authority Debt Service Loans		
Offshore Loans	-200	(947)
Common Monetary Area Loans	-200	(342)
2016		
Trans Caledon Tunnel Authority Debt Service Loans		
Offshore Loans	+200	650
Common Monetary Area Loans	+200	297
Trans Caledon Tunnel Authority Debt Service Loans		
Offshore Loans	-200	(650)
Common Monetary Area Loans	-200	(297)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

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

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

The Authority ensures that facilities are in place to meet its immediate obligations at all times.

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

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

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Fair Value of Financial Instruments

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

	Carrying Amount		*Fair value*	
	2016 M'000	2015 M'000	2016 M'000	2015 M'000
Financial Liabilities				
Non-current Compensation Accruals	40 458	41 539	47 812	55 452
Loans and borrowings	107 256	133 890	105 165	132 411

Valuation methods and assumptions

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

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

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

Fair Value estimation

The different levels have been identified as follows:

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

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

15. NUMBER OF EMPLOYEES

According to the payroll system the Authority had the following average number of employees during the year ending 31 March 2016: 308 (2015: 294)

16. RELATED PARTY TRANSACTIONS

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

	2016 M'000	2015 M'000
Amounts credited to the Statement of Comprehensive Income or fund accounts		
Cost related payments GOL	55 906	49 178
Cost related payments RSA	359 434	284 319
Related parties receivable/(payable)		
Receivable from Lesotho Revenue Authority	17 386	22 493
Ground Rent Provision	(56 670)	(43 091)
Compensation to Key Management Personnel		
Short Term Employee Benefits	24 386	21 905
Total Compensation Paid to Key Management personnel	24 386	21 905

No donations of Property, Plant and Equipment were made to the Government of Lesotho during the 2015 and 2016 financial years.

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

17. OPERATING LEASE DISCLOSURE

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

	2016 M'000	2015 M'000
The following year	432	2 998
Year 2-5	-	16
More than 5 years	-	-
	432	**3 014**

17. OPERATING LEASE DISCLOSURE (Continued)

Terms of the contract		
Specifications		
	Contract 1	Contract 2
Commencement date:	01 April 2015	01 April 2015
Contract expiry date:	30 May 2016	31 October 2015
Period of lease:	12 months	6 months
Escalation rate per annum:	CPI as published by Bureau for June each year	None
Basic Rental		
Initial monthly rental per contract:	M 4 654	M 414 975

18. EVENTS AFTER THE REPORTING PERIOD

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

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

DETAILED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2016

	NOTE	2016 M'000	2015 M'000
Revenue & Other Income			
Investment Income		9 711	8 538
Profit on sale of assets		585	1 523
Miscellaneous income		20 588	18 550
IDA Grant revenue		2 293	-
Investment Property Income		5 522	4 692
LRA Recovery		-	5 928
Total Revenue		**38 699**	**39 231**
Expenditure			
Audit and accounting fees		1 088	991
Bad debts		-	124
Bank charges		77	68
Board and committee fees including reimbursements		3 553	2 864
Construction and contractor costs		99 953	67 587
Depreciation		349 550	350 408
Impairment		-	515
Foreign exchange loss/(gain)		16 647	5 983
Increase/(Decrease) in future compensation provision		(17 065)	45 973
Insurance		3 849	3 902
Interest and finance expenses		9 338	11 165
Inventory and consumable stores		1 135	389
Leave pay		1 186	2 031
Legal and arbitration fees		968	1 766
Miscellaneous expenses		28 445	25 076
Motor vehicle expenses		3 545	3 865
Plant spares		1 148	2 152
Professional services		8 681	7 467
Public relation costs		3 475	2 683
Rates, electricity and water		5 415	3 627
Ground Rent Provision		13 717	43 091
Recruitment		109	238
Rental expenses		442	371
Repairs and maintenance		2 948	3 171
Resettlement and compensation costs		46 412	18 581
Safety awareness		71	19
Salaries, wages and allowances		104 252	93 610
Security expense		10 087	7 925
Stationery		1 062	784
Telephone and communication		2 652	2 510
Training		5 046	3 161
Travel and transportation		4 021	4 719
Total Expenses		**711 807**	**716 816**
Loss for the year subject to cost allocation		**673 108**	**677 585**
Amount as per cost allocation transferred to capital work in progress	2.2	136 911	81 788
Loss for the year as per Statement of Comprehensive Income	2.2	**536 197**	**595 797**