Lesotho Highlands Development Authority

Annual Report 2016/17

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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

PART A: GENERAL INFORMATION

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

MR TEBOHO NKHAHLE
Portfolio: ??????????
MPhil. Environmental Management,
University of Stellenbosch - 2004
BSc. (National University of Lesotho) - 1989
Registered Professional Scientist –
Council for Natural Scientific Professions (RSA)
Member of the African Institute of Directors (SA)

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

MR. NELSON MONYAMANE
Portfolio:

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. DOCTOR 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. 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 (NUL) 1992, LLB (NUL) 1994

Vision Mission and Values

Vision

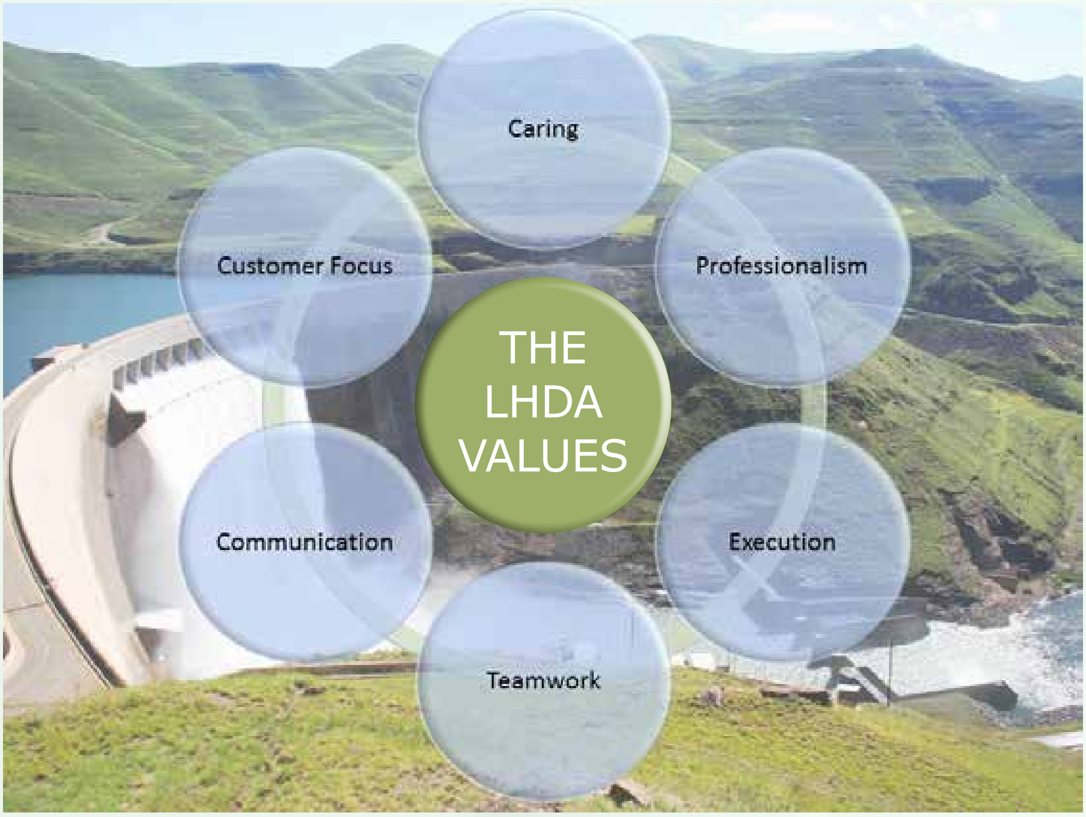
To be a world class Water Resources Development and Management Organisation.

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 has adopted a set of values to drive the right behaviour within the organisation as illustrated below.



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

Governance Framework

The Lesotho Highlands Water Project was established by the 1986 Treaty signed on 24th October 1986 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 Parties. These structures as depicted below are:

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

PROJECT GOVERNANCE STRUCTURE

Lesotho Highlands Water Commission

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

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

The LHDA Board of Directors

In terms of Article 3 (41) of Protocol VI to the LHWP Treaty, the Board of Directors of the Lesotho Highlands Development Authority reports to, and is accountable to, the Commission. The Board operates within the structural framework of the Lesotho Highlands Water Project Governance Manual, Third Edition of 11th July 2017, and the legal framework provided by the 1986 Treaty and Protocol VI to the Treaty, signed on 04 June 1999.

Board Committees

To assist it in its stewardship role, the Board has established five (5) Sub-Committees as set out in Table 1 below. Each Sub-Committee is chaired by a Member of the Board. The roles and responsibilities of these sub-committees are as tabulated below.

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	Pesha Shale (Chair) Craig John McLeary Paul Streng Moliehi Tsilo-Raditapole Piet Swart (LHWC) Tsiu Khathibe (LHWC)	Shami Kholong (Chair) Daniel Moagi Gerard Mofolo Morathane Monyamane Leon Tromp (LHWC) Lucy Sekoboto (LHWC)	John Eagar (Chair) Koalepe Makasela Ngaka Lesala Leon Tromp (LHWC) Moroke Ntene (LHWC)	Lulama Qalinge(Chair) Francis Molapo Bereng Qhobela Mookho Ramasike Bernice Khoachele (LHWC) Kolo Libetso (LHWC)	Robert Mbwana(Chair) Thabang Tsehlo William Croucamp Alistar Glendinning Leon Tromp (LHWC) Mzamo Lephoma (LHWC)
Responsibilities	Advises and assists the Board in fulfilling its oversight responsibilities for financial reporting, information technology, external audit, internal audit, internal financial controls, corporate risk management and sound corporate governance.	Advises and assists the Board with regard to the organisational structure and human resources issues including talent management, attraction, retention, remuneration policies and strategies, succession planning and overall human resource management and development.	Advises and assists the Board in fulfilling its oversight responsibilities for the Project's Operations and Maintenance strategies, programmes and operational performance.	Advises and assists the Board in fulfilling its oversight responsibilities for sustainability of the Project's social and environmental programmes and projects.	Advises and assists the Board with regard to technical, engineering, environmental and social matters relating to the implementation of Phase II of the Lesotho Highlands Water Project.

Board and Sub-Committee Meetings

The total number of meetings held between the LHDA Board of Directors and the Sub-committees during the year were eighteen (18).

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

The Internal Audit function conducted scheduled audits and reviews for the purpose of providing management with independent and objective assurance on the efficiency and effectiveness of operations. The risk–based 2016/17 Internal Audit Operational Plan was submitted and approved by the Audit and Risk Committee in May 2016 and subsequently approved by the LHDA Board. The planned audits were carried out successfully, with few changes where some audits were deferred by LHDA management to the following year to allow for implementation of identified improvement in the control environment.

Some of the areas reviewed or audited during the year include the following:

- *Governance process:* This covered the review or updating of the Internal Audit Policy, Internal Audit Charter (February 2016), as well as the ARC Charter February 2016). This also covered the providing of guidance on the development of the compliance register checklist.
- *Risk Management:* This focussed on Enterprise Risk Management Processes and the final audit report was issued in October 2016. The findings revealed effective controls in risk monitoring and housekeeping issues in areas like risk identification, assessment, response and reporting. Overall it was considered that the Risk Management Process is maturing.

Risk Management

The implementation of the Enterprise Risk Management Process got the first audit in 2016/17 since its implementation, that necessitated the review of the Enterprise Risk Management Framework and introduction of new reporting tools. The introduction of new reporting tools positively influenced the level of appreciation of risk management, resulting with Managers leading the risk identification and assessment in their respective divisions.

The Chairperson's Statement

I am pleased to present to you the Lesotho Highlands Development Authority Report for the Financial Year 2016/17.

The year 2016 was a special year in the history of the LHDA as it marked the 30th anniversary of the signing of the Lesotho Highlands Water Project Treaty between the government of the Kingdom of Lesotho and the Republic of South Africa; a documented example of a successful bilateral cooperation and partnership between the countries sharing a water course.

The achievements of the first phase comprised the successful completion of construction of the Katse Dam, the Mohale Dam, interconnecting tunnels and the 'Muela hydro–electric plant. Furthermore, infrastructure such as access roads, bridges, power lines, accommodation amenities and health care facilities were also constructed.

The Board gratefully acknowledges that the LHDA's good performance during the implementation of Phase I of the Project was due to concerted efforts of its personnel with the continued input of its external stakeholders. However, we should not lose sight of the fact that many challenges still lie ahead of the LHDA in ensuring effective delivery on the remaining aspects of the Environmental Action Plan in the Phase I of the Project. Implementation of Phase II has also taken on a good momentum.

The LHDA through the Project Management Unit, is accelerating the Project implementation to ensure that the deadline of delivering water to South Africa and completing the construction of the hydropower generation facility by 2025 is met.

As the LHDA embarks on this journey, the Board will continue to ensure continuous vigilance in all areas of governance, including the oversight responsibility to ensure delivery on the core functions of the Project which are water delivery, hydropower generation and the implementation of the Environmental Action Plan. Equally important is to ensure that the LHDA facilitates livelihood restoration and improvement programmes that would result in an ecosystem where the communities affected by the Project will carry on their lives in a sustainable manner.

With regard to Phase II of the Project, I am happy to highlight that during the reporting period; a milestone was achieved in advancing the hydropower component when the World Bank approved a grant for further feasibility studies on the hydropower component of Phase II of the Project. Initial studies had identified the Kobong Pumped Storage Scheme or a similar scheme as a possible facility to be constructed for generation of hydropower. However, the proposed 1,200MW scheme at Kobong, although technically feasible, required that further studies be undertaken to come up with a bankable project option that could be taken to implementation. These further feasibility studies are currently on–going with a target completion date of March 2018.

On behalf of the Board, I would like to thank the LHDA Management and staff who served the organization with passion and dedication not only during this financial year but during the thirty years of the existence of the Project. Without their efforts and contributions, Phase I of the LHWP could not have been successfully completed. The enthusiastic support, cooperation and commitment augurs well for the effort required in the remaining years to bring Phase II of the Project to a successful completion. The efforts of everybody who contributed and continues to do so in carrying out this complex project are acknowledged with gratitude.

I cannot end without specially acknowledging the support and the guidance that we have continued to receive from the Lesotho Highlands Water Commission as well as the authorities in the two Governments of the Kingdom of Lesotho and the Republic of South Africa and from many of our partners.

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 reporting period, the LHDA focused on procurement of consultancy contracts for Phase II while at the same time pursuing the realization of targeted organizational performance outputs on the on–going operations.

Water Transfer and Hydropower Generation

As in the previous years, the LHDA continued to meet the statutory obligations to transfer high quality water to South Africa and generate electricity for Lesotho, to the agreed annual targets. The results reflected in this report indicate variance were within the set limits.

Compensation

The approval of the Phase II Compensation Policy and the accompanying compensation rates made the LHDA's task of engagement with stakeholders and in particular the affected communities an easier task. Towards the end of the year, a critical workshop was held with the Members of parliament who represent the communities in the Phase II area. The interactions and resultant commitments by the legislators and community leaders have set the scene for enhanced cooperation in the succeeding years.

Livelihood Restoration Programmes

The installation of the solar equipment covering a total of 415 households in the four selected villages from Phase I and Phase II of the Project was completed during the period under review. The project is now under the monitoring and evaluation phase which will run for the next two (2) years to determine its sustainability.

Environmental Conservation Programmes

The LHDA continued to engage with relevant stakeholders and intensified the environmental awareness programme. Regrettably the land use management and enforcement of laws remain a big challenge. As a consequence, the land degradation continues to pose a threat to the LHWP dams as siltation. This issue has been escalated to the Project Authorities to intervene, while alternative strategies are being explored.

Progress on Phase II of the Project

During the period under review, significant progress was made in 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 where a total of ten (10) contracts were awarded related to water transfer. The details are covered further on in the report.

On hydropower I am pleased to report that the further feasibility studies commenced in October 2016. This means that by the end of next reporting period, the LHDA will be in a position to know which hydropower option is viable for implementation.

As noted by the Chairman of the Board, 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. This milestone was commemorated from January of 2016 through various publicity events and engagement with stakeholders, concluding with a celebration function which gathered together the LHDA family and its key stakeholders. This provided an opportunity to reflect and recommit to the journey ahead.

Conclusion

I wish to acknowledge the continued support and cooperation we continue to receive from both the Board and the Lesotho Highlands Water Commission. I also particularly note with appreciation the dedication and focus exhibited by the management team and the staff of the Organization during the year.

Yours sincerely

Refiloe Tlali (Mrs)
Chief Executive

PART B: INSTITUTIONAL ISSUES AND CAPACITY BUILDING

Corporate Performance

The LHDA is currently using a three (3) year planning horizon. The reporting period coincided with the end of the 2014 – 2017 Strategic Plan in which the key strategic initiative was to be a High Performance Organisation. An internal review indicates that there were a number of objectives achieved in this journey.

Legal issues

One of major achievements during the reporting period was the gazetting of LHWP Compensation Regulations in February 2017 since compensation of the affected households is one of the major components of the project.

Deregistration of Katse and Bokong Selected Development Areas was another notable development. This will enable the affected communities of Bokong and Katse to register their leases as their unused land which was covered under SDA has now been returned to them

The LHDA reached an amicable settlement with the Land Administration Authority (LAA) on the arrears over ground rent for the Katse area lease bringing to an end a matter that had been under discussion for many years.

With the Organization embarking on implementation of Phase II, the Legal Unit was actively involved in major Phase II Contract negotiations and ensuring that subsequent contract documents adequately cover LHDA's interests.

Financial issues

The External Audit field work was completed in mid–June 2017, a record time for the third consecutive year since the start of the Project. The audited Financial statements were presented to the Board in October 2017.

The draft funding responsibilities for the two Parties to the Project (GOL & RSA) were submitted in October 2016 as required. In February 2017, the Board considered the LHDA's final 2017/2018 budget and recommended it to the Commission for approval. The Commission approved the budget in March 2017.

Cost–allocation processes for the financial year–end March 2016 was approved by the LHWC in May 2016, and by the end of the reporting period the cost–to–funding for 2015 was still being finalised by PWC.

Staff Performance Management and Rewards System

During the year under review (Financial Year 2016/17), the LHDA implemented an integrated and expanded pay scale. This is aimed at improving the LHDA's reward framework and its Employer Value Propositions (EVP), to thereby attract and retain talent. A Performance–based bonus framework was approved for implementation and this enabled the LHDA to achieve a line of sight between Performance and Reward and to entrench a performance–based culture and ethos. During this year the PMDS calendar compliance was maintained at expected levels and the analysis of results demonstrates continuous improvement of individual performance levels across the organisation.

Part of the LHDA team dressed as learners during the " Back to school" function

Climate and Culture

By the end of the year, the LHDA has achieved in excess of 70% closure of gaps identified during the climate and culture survey. Further initiatives to entrench the desired culture have been implemented through value–based recruitment and regular Management–staff engagements. The LHDA has maintained historically unprecedented levels of employee industrial relations satisfaction due to this and other related initiatives.

Project Publicity

In line with the revised communications strategy, the adoption of a combination of proactive and response approach paid off with noticeable dividends. The proactive media engagements that included holding media interviews and media briefings and coupled with holding regular conversations with the key stakeholder groups resulted in increased publicity about the Project and appreciation of the contributions that the Project is making. A media monitoring and analysis report for the period indicated that the overall tone of the media was evenly spread between the positive, negative and a balanced tone.

Cutting the cake as part of the 30th anniversary celebrations

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

Information Communications Technology (ICT)

Mobile Acquisition of Compensation Assets

During the reporting period, the LHDA deployed a mobile system for registration of affected community and household assets that are to be compensated. The purpose of this process is to leverage on technology to address some of the historical challenges associated with management of compensation for affected households. This process focuses on timely and accurate collection of data on affected assets, beneficiary and geographical area information. This system provides for a tightly controlled and fraud–proof real–time registration of compensation assets and all related attributes, accurate beneficiary information and surveyed geographical areas, whilst providing feedback in the shortest time possible in an objective manner which is evidenced by all stakeholders.

Capturing information in this way also ensures that in years to come, LHDA will be able to address any subsequent complaints which may emanate post implementation of the Phase II of the Project. Lack of critical information for Phase I compensation assets has been one of the major constraints in resolving complaints. Several other processes related to Phase II compensation and resettlement were also mapped.

Infrastructure Availability

ICT Infrastructure availability for the period was 95.48% and 95.85% respectively for servers and networks, enabling business operations to continue at optimum level.

PART C: SOCIAL DEVELOPMENT AND ENVIRONMENT

Environmental Conservation and Rehabilitation Programme

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

Phase 1 Compensation:

Grain Procurement and Distribution

Historically LHDA has been procuring Maize and Beans from Basotho farmers as first priority and then procuring the remainder

Mr. Makhotla Ts'oaeli of Ha Mohalanyane receives annual cash payment

from RSA as the Basotho farmers have not always been able to meet 100% demand by LHDA of these grains. However, in 2015/2016 LHDA was able to procure 100% of Maize from Basotho farmers alone. This also resulted in timely distribution to affected communities by LHDA. In 2016/17 most (73%) of the grain had to be procured from RSA due to drought. The grain was distributed to the recipients by 31st August 2016.

Annual Cash Payments

LHDA also pays affected communities in the form of Cash as compensation. In 2016/2017 the cash payments were made by 30th June 2016 which was the first time cash payments were completed before the end of June.

Community development projects

Upstream Communal Compensation Community Projects

Based on lessons learnt, the LHDA recommends that communal compensation for lost rangeland and other natural resources be used for implementation of infrastructure type of development projects, for those villages upstream of the water retaining structures. In 2016/2017 the village of Ha Mohale (Likalaneng) and Phase 1 of the Bokong (Katse) electrification projects were completed covering 256 and 190 households, respectively. The Ha Ramohope village (also at Likalaneng) and Ha Nkokana village (at Katse) electrification projects were also initiated covering 304 and 997, households respectively. The Phase 2 of the Bokong Electrification was also initiated in 2016/17 covering a total of 636 households making an overall total of 826 households connected to electricity at Bokong.

Sanitation project at Hlabathe

(IFR) Policy of 2003. Through these funds, the communities are expected to implement sustainable development projects under the guidance of their Local Legal Entities (LLEs). At Katse, the community of Ha Matsumunyane implemented a stock dip tank that is expected to benefit at least 76 households. At Mohale, the community of Ha Hlabathe implemented a sanitation project covering all the 221 households in the village. Ha Khotso village provided solar panels to 152 households while the Ha Salemone and Ha Makopoi villages constructed access roads measuring 8km and 7 km covering 4 and 7 villages respectively. The other villages are still being assisted to identify development projects commensurate with funds available to them.

Consultations with the other eligible villages for communal compensation are on-going to identify and select preferred and suitable projects by the communities. So far the projects identified include access roads, water and sanitation and electrification projects. The LHDA together with the affected communities are engaging the implementing partners that include the Department of Rural Water Supply (DRWS), Lesotho Electricity Company (LEC), Ministry of Local Government and the Roads Directorate on the modalities for implementation of identified projects.

Downstream Communal Compensation Projects

In order to mitigate resource loss downstream of the water retaining structures, the LHDA provided communal compensation for communities downstream of the Matsoku, Katse and Mohale water retaining structures in terms of the Instream Flow Requirements

Livelihoods Improvement: Solar Electrification Pilot Project

The supply of 415 households with solar electrification in four (4) pilot villages of ‘Meta and Moeaneng (Polihali area) and Sankong (Mohale area) and Sepinare was successfully completed in May 2016. This solar electrification project is being piloted in collaboration with the Government of the Republic of India through the Barefoot College of Tilonia as one of the livelihood improvement projects for households affected by the Project. The project also constructed warehouses/storage facilities in all the project sites to house the solar electrification equipment during implementation. These facilities are now being used as community development centres for various development initiatives by the relevant communities. The project is now in a monitoring and evaluation phase to determine its sustainability for a period of 24 months.

Her Majesty the Queen at a welcome function for “solar ladies

Residual Resettlement issues

A total of 800 (24%) of 3,281 complaints emanating from construction in Phase I of the LHWP have been resolved. These complaints include those that were reported directly to the offices of the LHDA and also through the Office of the Ombudsman. A settlement proposal for 892 (27%) for which supporting verification documents could not be obtained has been approved by the Project Authorities to enable resolution of such cases.

The LHDA started construction of two (2) new houses at Ha Mpharoane in Butha–Buthe in November 2016 in replacement of two (2) houses that were affected by the road to Ngoajane Adit in 1991. The construction of another two (2) houses at Ha Lebiletsa in Maseru (Mohale Dam area) was started in April 2016 to replace houses that were deemed as badly located as a result of construction of feeder roads around Mohale Dam. All the resettlement cases are implemented according to the LHDA Compensation Policy of 1997. The fencing of some sites and provision of rain equipment (gutters and downpipes) was approved for relocated houses at Mapeleng in the Katse area and work is ongoing to complete this component.

LHDA implemented several environmental awareness programmes directed at different stakeholders and resource users as a preventive measure. Rehabilitation initiatives were also implemented within the LHWP catchments. These include construction of gabions, rock structures and stone lines to rehabilitate degraded lands as well as planting of trees and reseeding and revegetating degraded lands.

Despite these achievements, land use management and enforcement of laws remain a big challenge and land degradation continues to pose a threat to the LHWP dams as siltation has become a reality especially in the ’Muela dam and the Matsoku weir.

Mr. Motsomi's home affected by access road

New house for Mr. Motsomi

Instream Flow Releases (IFR) Implementation

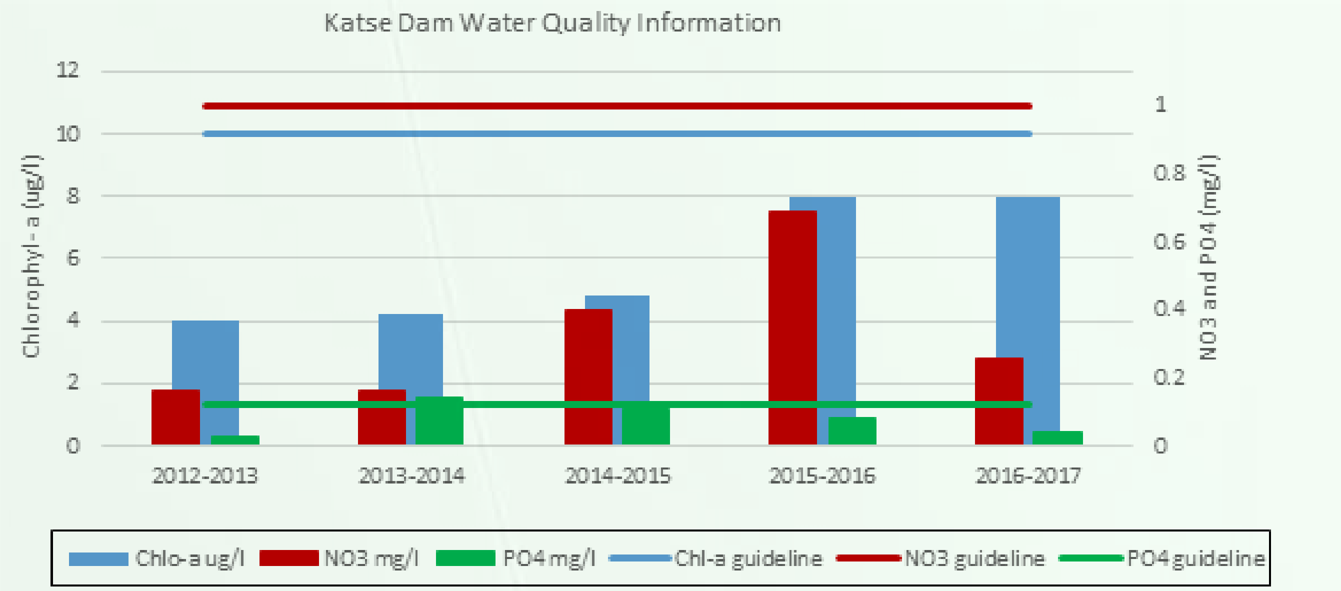
The flow releases were implemented in accordance with the provisions of the revised IFR Policy and Procedures. This revised version provides for mimicking of natural inflows of the Dam in order to improve on the ecological conditions. The results of biophysical monitoring indicate that the river condition at the reaches proximal to dams are in line with the predicted conditions.

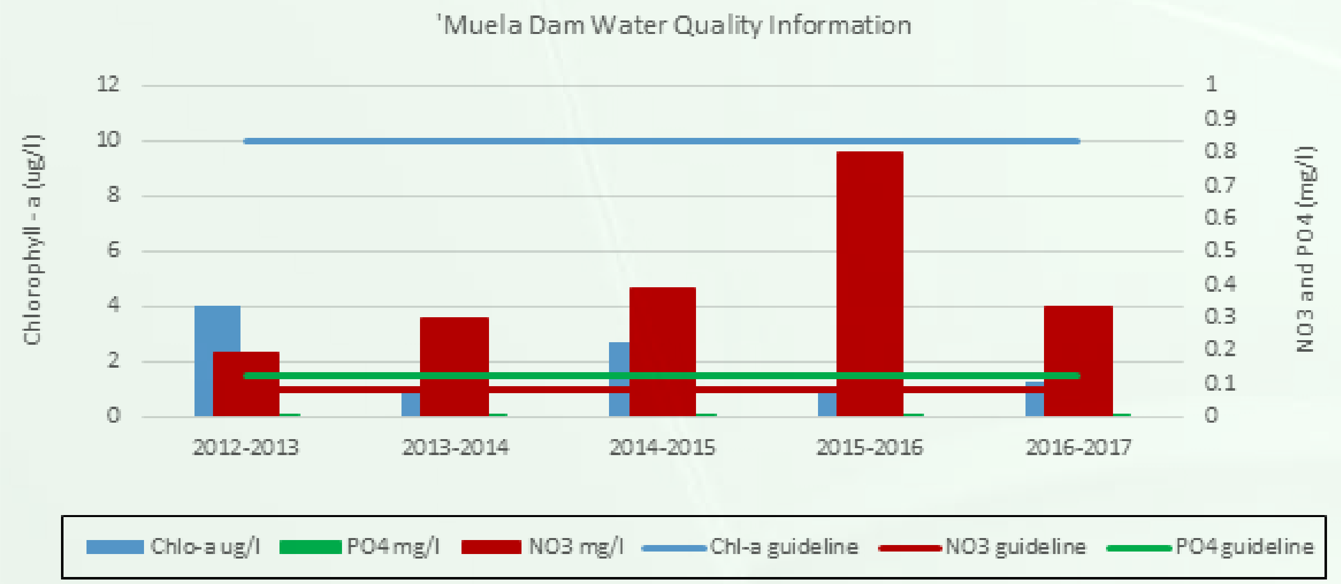
IFR Release downstream of Mohale Dam

Water Quality

Water quality monitoring in the LHWP reservoirs and their inflow rivers is undertaken on a quarterly basis. The results indicate an improvement in the concentration of nutrients (nitrate and phosphate) between 2015/16 and 2016/17 although the concentration of chlorophyll remains a concern. The current level of chlorophyll–a, is indicative of nutrient enrichment especially at the upstream area of Katse reservoir.

The upstream area of the Katse dam receives inflows that have the cumulative nutrients input from mining operations carried out upstream of Malibamatso River. This situation calls for the LHDA to reinforce efforts and involvement of the Authorities in Lesotho and companies carrying out mining operations in the Malibamatso catchment to address the situation.





The deterioration of water quality in the Malibamatšo catchment as a result of the use of explosives in mining operations, abstraction of water and the destruction of the wetlands by mining in the Malibamatšo catchment constitute a risk. This risk threatens the ability of the LHDA to meet its mandate of transferring water of an agreed quality and quantity to the Republic of South Africa. Engagements with all key stakeholders have been intensified to mitigate against this risk.

LHDA personnel checks water quality in the dam

PART D: MAINTENANCE AND OPERATIONS OF THE PHYSICAL STRUCTURES

Maintenance and Operations of the Physical Structures

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

Dam Instrumentation Availability

The LHDA has deployed specialized and purpose built array of instruments to routinely monitor the behavior of all the Lesotho Highlands Water Project dams. The instruments give near real time behavior information of the Katse, 'Muela and Mohale Dams. The information is used to ascertain that the dams are performing within the expected engineering parameters. The instruments measure dam displacements, seepage, temperature, strains and stresses, pore pressures and seismic events (activities). Since these instruments were installed as early as the first pouring of the concrete foundation of the dams, the LHDA continually replaces old and no longer supported instruments with newer and modern technology. To this end the LHDA upgraded a number of these instruments and the current availability of instruments stands as the following, Katse at 97.8% and Mohale at 99.3%.

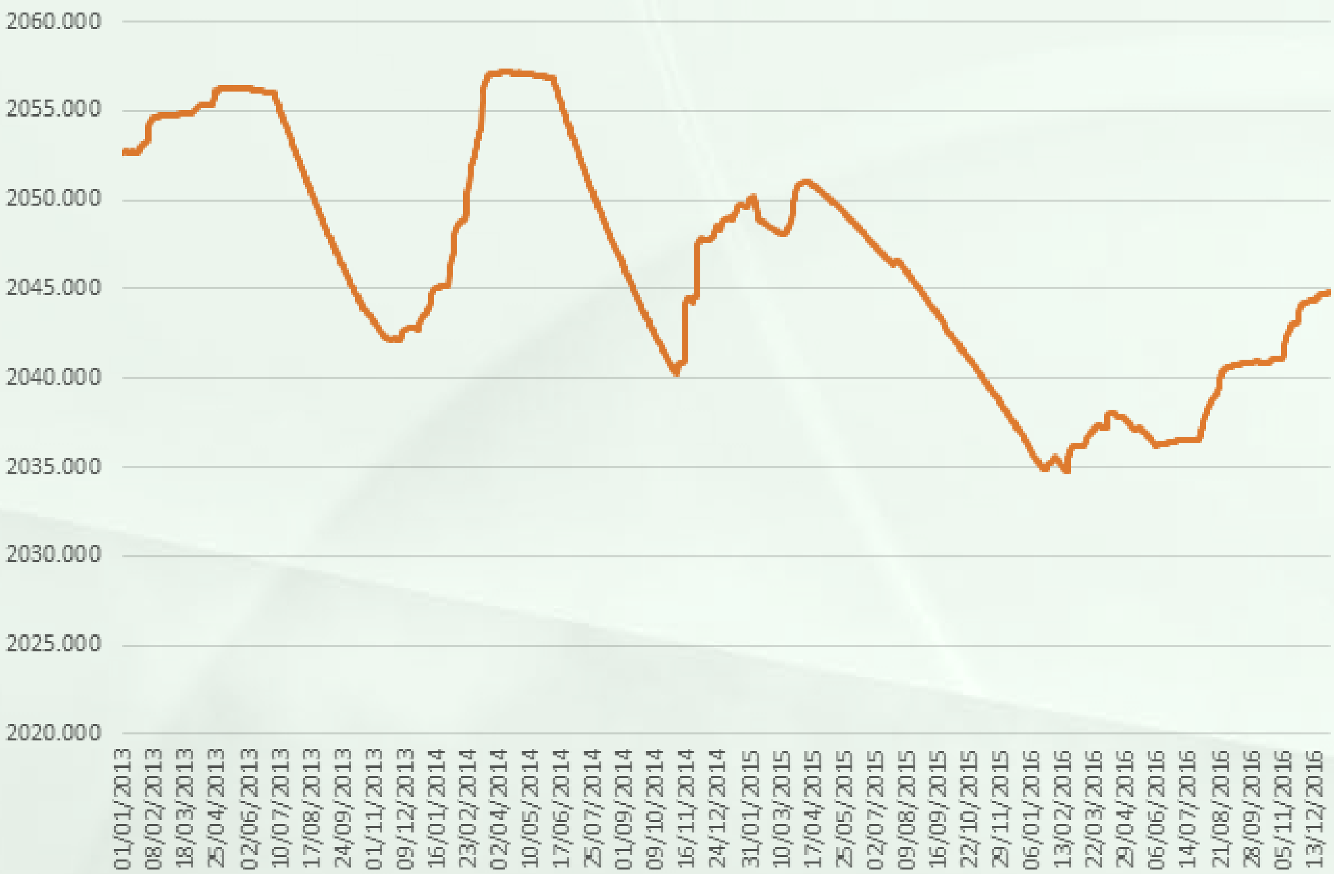
On-going repair works on the Mohale Dam face slab

Valve floor of the 'Muela hydropower station

Water Levels in the Reservoirs

For the majority of the reporting period, the Mohale tunnel was closed and dewatered to allow inspection and maintenance. As a consequence, the water level in the Mohale Reservoir increased from 63.8% (2057.014 masl) in April 2016 to 65.8% (2058.250masl) in March 2017.

Fig 3: The Mohale reservoir variations from 1st Jan 2013 to 31st Dec 2016



The Mohale Dam spilling

The Katse Dam low level release of compensation water

Fig 4: The Katse reservoir level variations from 1st Jan 2013 to 31st Dec 2016

Due to the closure of Mohale dam, the Katse reservoir level started at 73.17% (2036.40 masl) in April 2016 and decreased to 62.46%% (2029.40 masl) in March 2017.

Water Deliveries

The actual annual water delivered during the reporting period is 780.171 MCM (million cubic metres) against the planned target of 780 MCM, constituting a variance of 0.04%.

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

Table 3: Water Deliveries and Royalties

Year	Planned Deliveries (million m3)	Actual Deliveries (million m3)	% Variance in Deliveries	Actual Royalties (M million)
2013	780.357	781.443	**+0.14%**	713.8
2014	779.765	780.099	**+0.03%**	698.2
2015	780.094	779.965	**+0.02%**	778.2
2016	780.171	779.890	**+0.04%**	837.3

Electricity Generation

Electricity generation of 507.7 Gwh was 1.5% higher than the planned generation of 500.1 Gwh for the reporting period. The additional electricity generation was due to higher efficiency of the plant.

Table 4: Electricity Generation

Year	Planned Generation (Gwhr)	Actual Generation (Gwhr)	% Variance in Generation	Actual Value(M million)	% Export of total annual production	Export Value (M million)
2013	501.7	515.3	**+2.8**	55.8	0.4%	0.5
2014	499.6	520.1	**+4.1**	60.8	0.5%	0.6
2015	506.8	532.2	**+5.0**	60.8	0.8%	1.1
2016	500.1	507.7	**+1.5**	56.5	0.5%	0.7

As the table indicates, a total of M56.5 million was recorded as revenue payable by LEC to the Lesotho Government in relation to the Muela electricity supplied to LEC. A total of M0.7 million was generated from electricity exports to Eskom.

Turbine at Muela Hydropower Station

PART E: PHASE II OF THE LESOTHO HIGHLANDS WATER PROJECT

Background

Similar to Phase I of the LHWP, the Phase II comprises a water transfer component to augment the delivery of water to South Africa by 2025 and a hydropower component which will increase the electricity generation capacity in Lesotho. In addition, the project includes infrastructure such as roads, bridges, housing, power and telecommunications networks that support the construction of the main works (and benefit Lesotho in the long term), and environmental, social and public health programmes that will mitigate the impacts of Phase II on communities in the Project area and on the environment.

The main water transfer works are the Polihali Dam and Polihali Tunnel and their respective appurtenant structures.

The form of the hydropower component will be determined following the completion of the further feasibility studies currently in progress.

Procurement has been the main focus for the period under review.

Procurement progress

Contracts awarded during the period under review include the following:

Professional Services – Design and Construction Supervision Contracts

Contract	Description	Award date	Successful bidder
3008	Professional Services for the Design and Construction Supervision of Bulk Power Supply and Telecommunications	19.08.2016	Plantech SM Joint Venture
3022	Professional Services for the Design and Construction Supervision of the Polihali Dam Diversion Tunnels	05.09.2016	Metsi a Senqu–Khubelu Consultants Joint Venture
3004	Professional Services for the Design and Construction Supervision of the Polihali Western Access Road	10.10.2016	AECOM SA (Pty) Ltd in collaboration with AECOM Lesotho (Pty) Ltd and RWB Consulting Engineers

Professional Services – Hydropower Further Feasibility Studies

Contract	Description	Award date	Successful bidder
3010	Professional Services for Phase II Hydropower; Further Feasibility Studies	17.10.2016	EDF/GIBB/Multiconsult Joint Venture

Professionals Services – Health & Safety, Environment and Social Contracts

Contract	Description	Award date	Successful bidder
6014	Professional Services for the Environmental and Social Impact Assessment (ESIA) for Polihali Dam and Reservoir, Eastern Transfer Tunnel and Project Housing	22.06.2016	Environmental Resources Management Southern Africa and Sechaba Consultants Joint Venture
6015	Professional Services for Resettlement Planning and Implementation: Polihali Dam Establishment and Reservoir Area	23.08.16	LIMA Thaha Joint Venture
6004	Professional Services for the Environmental and Social Impact Assessment (ESIA) for the Polihali Western Access Corridor	08.09.2016	Environmental Resources Management Southern Africa and Sechaba Consultants JV
6010	Professional Services for the Development of a Phase II Safety, Health, Environment and Quality (SHEQ)Management Framework	09.09.2016	Rori Management Consultancy
6006	Professional Services for Resettlement Planning and Implementation: Polihali Western Access Corridor	13.12.2016	Makhetha Development Consultants (Pty) Ltd
6017	Resettlement Planning and Implementation: Western Facilities	N/A	Will be done in-house by LHDA

Project progress

Water Transfer

Significant progress has been made on the planning and design of the advance infrastructures of the water transfer component of Phase II during the period under review and the procurement of contractors is expected to commence in early 2018.

During the period under review the procurement of the consultants to undertake the design and construction supervision of the Polihali Dam and Transfer Tunnel commenced. The bid submission dates were December 2016 and January 2017 respectively and evaluation is in progress. The award announcements are expected to be made in mid–2017.

The LHDA has continued to engage with stakeholders and in particular with communities which will be affected by the construction of Phase II, on the development of the Phase II Compensation Policy, the compensation rates and labour recruitment.

The Compensation Policy, developed in consultation with local communities and other stakeholders, was approved by the Lesotho Highlands Water Commission in August 2016. The accompanying Phase II Compensation Regulations and Rates, gazetted in February 2017, heralded the start of an extensive community engagement programme in March 2017 to share the policy and rates with local communities.

Hydropower

The hydropower further feasibility studies commenced in October 2016. They will review the economic viability of the Kobong Pumped Storage Scheme, options for conventional hydropower generation in the Phase II area, the potential for the modification of, or additions to the existing Phase I hydropower infrastructure, and the potential of green–fields sites. The most viable option will be taken to full bankable feasibility study level.

The further feasibility studies are expected to be completed by March 2018.

Phase II Indicative Programme

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

Table 5: Indicative Programme for the Water Transfer Component

Project Milestones			
	Planned	**Forecast**	**Actual**
Ratification	June 2013		May 2013
Impoundment	Feb 2021	Nov 2023	–
Dam Complete	Mar 2022	Dec 2024	–
Tunnel Complete	May 2022	Oct 2025	–
Water Delivery	June 2022	Oct 2025	–
Project Closed–out	Dec 2024	Jan 2027	–

Table 6: 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	Oct 2016
Feasibility Study complete	March 2017	Jan 2018	_
Design commence	Jan 2018	Jan 2019	_
Construction Start	June 2020	Jan 2021	_
Commissioning	Dec 2024	Oct 2025	
Project Close out	Dec 2026	Dec 2026	

Polihali Dam site in the Phase II of the LHWP

Lesotho Highlands Development Authority

Annual Financial Statements
at 31 March 2017

PART F: ANNUAL FINANCIAL STATEMENTS

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

ANNUAL FINANCIAL STATEMENTS

AT 31 MARCH 2017

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LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

ANNUAL FINANCIAL STATEMENTS

AT 31 MARCH 2017

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 Mr T. Nkhahle Mrs R. Tlali (Chief Executive) Mr D. Lukhele (Chief Operations Officer) Mr T. Tente (Divisional Manager Phase II)
NATURE OF BUSINESS	:	Implementation, operation and maintenance of the Lesotho Highlands Water Project
AUDITORS	:	New Dawn Chartered Accountants
REGISTERED OFFICE	:	Lesotho Highlands Development Authority Lesotho Bank Tower Kingsway Rd **MASERU 100** Lesotho
PHYSICAL ADDRESS	:	Lesotho Highlands Development Authority Lesotho Bank Tower Kingsway Rd **MASERU 100** Lesotho
BANKERS	:	Standard Lesotho Bank
ATTORNEYS	:	In-house Attorneys Webber Newdigate Attorneys
COMPANY SECRETARY	:	Ms Thenjiswa Matshikiza
COUNTRY OF INCORPORATION	:	Lesotho
LEGAL FORM	:	Authority
PRESENTATION CURRENCY	:	Maloti

BOARDS' STATEMENT OF RESPONSIBILITY
At 31 March 2017

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 2018 and, in the light of this review and the current financial position, they are satisfied that the Authority 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 **6 to 47,** were approved by the Board and signed on behalf of the Board by:

Eagar	
Mr J.J. Eagar	**Mrs R. Tlali**
CHAIRPERSON	**CHIEF EXECUTIVE**
2 November 2017	02/11/2017
DATE	**DATE**

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Email: admin@newdawn.co.ls

NEW DAWN CHARTERED ACCOUNTANTS

To the Shareholders of Lesotho Highlands Development Authority

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of *Lesotho Highlands Development Authority* out on pages 6 to 46 which comprise the statement of financial position as at 31 March 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of *Lesotho Highlands Development Authority* as at 31 March 2017, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Other Information

The directors are responsible for the other information. The other information comprises Board's Statement of Responsibility. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

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

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

Those charged with governance are responsible for overseeing the Authority's financial reporting processes.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

New Dawn Chartered Accountants
Thuso Pitso

13 November 2017

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED 31 MARCH 2017

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
The further feasibility studies of the Hydropower component have commenced, 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 2017

	NOTE	2017 M'000	2016 restated M'000
Revenue		465 966	595 114
Other Income		81 413	28 988
Total Income		**547 379**	**624 102**
Foreign Losses		(15 381)	(16 647)
Depreciation		(353 109)	(349 550)
Resettlement and Compensation Costs		(42 046)	(46 412)
Salaries and Wages		(117 032)	(104 252)
Other Administrative and Operating Expenditure		(66 417)	(48 697)
Operating Profit/ (Loss)	2.1	**(46 606)**	**58 544**
Finance Income		7 523	9 711
Finance Cost		(7 457)	(9 338)
Profit/(Loss) for the year		**(46 540)**	**58 917**

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2017

	NOTE	2017 M'000	2016 M'000 Restated	2015 M'000 Restated
ASSETS				
Non-Current Assets		**9 535 503**	**9 667 918**	**9 847 884**
Completed Works and Capital Work in Progress	3	9 528 740	9 660 803	9 840 417
Investment Property	4	6 763	7 115	7 467
Current Assets		**179 798**	**296 090**	**243 366**
Contract Advance Payments	5	4 495	8 548	-
Trade and Other Receivables and Prepayments	6	79 457	28 456	32 131
Cash and Cash Equivalents	7	95 846	259 086	211 235
Total Assets		**9 715 301**	**9 964 008**	**10 091 250**
FUNDS AND LIABILITIES				
Funds and Reserves		**(433 831)**	**(387 291)**	**(446 048)**
Capital Funds		(433 831)	(387 291)	(446 048)
Non-Current Liabilities		**9 995 117**	**10 153 930**	**10 383 698**
Loans and Borrowings	8	30 531	70 562	100 586
Provisions	9	384 652	382 107	401 156
Accruals for Compensation	11	51 191	40 458	41 539
Deferred Income		9 528 743	9 660 803	9 840 417
Current Liabilities		**154 015**	**197 369**	**153 600**
Contract Payables and Accruals	10	47 999	40 968	27 247
Contract Retentions	10	3 472	2 365	1 035
Bank Overdraft	7	4 959	1 435	377
Provisions	9	31 452	79 198	65 508
Trade and Other Payables and Accruals	11	28 342	36 709	26 129
Current Portion of Loans and Borrowings	8	37 791	36 694	33 304
Total Funds and Liabilities		**9 715 301**	**9 964 008**	**10 091 250**

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

STATEMENT OF CHANGES IN FUNDS AND RESERVES

AS AT 31 MARCH 2017

	NOTE	Total funds and Reserves M'000
Balance at 31 March 2014		**9 656 669**
Prior period error	19	(10 080 203)
Restated balance at 31 March 2014		**(423 534)**
Net Loss for the year		(22 514)
Balance at 31 March 2015		**(446 048)**
Net Profit for the year		58 917
Dues & Charges		(160)
		(387 291)
Balance at 31 March 2016		
Net Loss for the year		(46 540)
Balance at 31 March 2017		**(433 831)**

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 MARCH 2017

	NOTE	2017 M'000	2016 M'000
CASH FLOW FROM OPERATING ACTIVITIES			
Net Cash Inflow/(Outflow) from Operating Activities		**100 845**	**251 924**
Profit/ (Loss) before taxation		(46 540)	58 917
Add: Depreciation		353 109	349 550
Finance Charges		7 457	9 338
Profit on the sale of asset		178	(585)
Impairment of assets		349	-
		314 553	417 220
(Increase)/Decrease in Advance Payments		4 053	(8 548)
(Increase)/Decrease in Other Receivables and Prepayments		(51 001)	3 675
Increase/(Decrease) in Provisions		(45 201)	(5 359)
Increase/(Decrease) in Contract Payables and Accruals		7 031	13 721
Increase/(Decrease) in Retentions		1 107	1 330
Increase/(Decrease) in Other Payables and Accruals		2 364	9 499
Increase/(Decrease) in Deferred Income		(132 061)	(179 614)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net Cash Inflow/(Outflow) from Investing Activities		**(221 219)**	**(168 999)**
Additions to Assets		(222 538)	(171 699)
Proceeds on disposal of Assets		1 319	2 700
CASH FLOWS FROM FINANCING ACTIVITIES			
Net Cash Inflow/(Outflow) from Financing Activities		**(46 391)**	**(36 132)**
Loans and Borrowings Repaid		(38 934)	(26 634)
Funds – Dues & Charges		-	(160)
Finance Charges		(7 457)	(9 338)
Net (Decrease)/Increase in Cash and Cash Equivalents		**(166 765)**	**46 793**
Cash and Cash Equivalents at the beginning of the period		257 651	210 858
Cash and Cash Equivalents at the end of the period	7	90 887	257 651

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

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 2017 amounts to M 396 881 695
(2016: M 394 093 902).

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 its present value of estimated future funding discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by the impairment loss and the loss is recorded in the statement of comprehensive income.

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

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 effected 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 as government grants on the date of payment, in terms of the accounting policy on government grants below.

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

The costs of operating and maintaining the completed works including depreciation and financing costs are divided between Hydropower and Water Transfer Activities on the basis of an Agreement between Lesotho and South Africa dated February 2002. Such allocation of operating costs and revenues between the parties is subject to ratification by the Parties to the Treaty.

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 South Africa where South Africa can raise concessionary finance from the same source. International Bank for Reconstruction and Development rates shall be the upper limit.

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.
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.

1.4 Summary of Significant Accounting Policies (Continued)

Taxation (Continued)

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:

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

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

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

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

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.

1.4 Summary of Significant Accounting Policies (Continued)

Investment Property (Continued)

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.

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.

1.4 Summary of Significant Accounting Policies (Continued)

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 15 Revenue from Contracts with Customers

IFRS 15 is more prescriptive than the current IFRS requirements for revenue recognition and provides more application guidance. The disclosure requirements are also more extensive. The standard will affect entities across all industries. Adoption will be a significant undertaking for most entities with potential changes to their current accounting, systems and processes. Therefore, a successful implementation will require an assessment of and a plan for managing the change. Effective for annual periods beginning on or after 1 January 2018, the authority does not believe that these amendments would have a material impact on the financial statements of the Authority.

1.4 Summary of Significant Accounting Policies (Continued)

Standards issued but not yet effective (Continued)

IFRS 9 - Financial Instruments

The application of IFRS 9 may change the measurement and presentation of many financial instruments, depending on their contractual cash flows and the business model under which they are held. The impairment requirements will generally result in earlier recognition of credit losses. The new hedging model may lead to more economic hedging strategies meeting the requirements for hedge accounting. It will be important for entities to monitor the discussions of the IFRS Transition

Resource Group for Impairment of Financial Instruments (ITG) Effective for annual periods beginning on or after 1 January 2018. The authority does not believe that these amendments would have a material impact on the financial statements of the Authority.

IAS 40 Investment Property

Transfers of Investment Property: Clarification of the requirements on transfers to, or from, investment property. This amendment to the standard is effective for financial periods beginning on or after 1 January 2018. The authority does not believe that these amendments would have a material impact on the financial statements of the Authority.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

This interpretation addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency. This interpretation is effective for financial periods beginning on or after 1 January 2018. The authority does not believe that these amendments would have a material impact on the financial statements of the Authority

IFRS 16 Leases

The lease expense recognition pattern for lessees will generally be accelerated as compared to today. Key balance sheet metrics such as leverage and finance ratios, debt covenants and income statement metrics, such as earnings before interest, taxes, depreciation and amortisation (EBITDA), could be impacted. Also, the cash flow statement for lessees could be affected as payments for the principal portion of the lease liability will be presented within financing activities. Lessor accounting will result in little change compared to today’s lessor accounting. The standard requires lessees and lessors to make more extensive disclosures than under IAS 17. Given the significant accounting implications, lessees will have to carefully consider the contracts they enter into to identify any that are, or contain, leases. This evaluation will also be important for lessors to determine which contracts (or portions of contracts) are subject to the new revenue recognition standard. Effective for annual periods beginning on or after 1 January 2019. The authority does not believe that these amendments would have a material impact on the financial statements of the Authority.

	2017 M'000	2016 M'000

2. OPERATING LOSS

2.1 Operating Loss is stated after :

	2017 M'000	2016 M'000
Expenses		
Auditor's Remuneration	1 248	1 088
Depreciation	353 109	349 550
Foreign Exchange Loss	15 381	16 647
Resettlement and Compensation Costs	42 046	46 412
Staff Costs – Short Term Benefits	117 032	104 252
Rental Expenses	493	422

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

	2017 M'000	2016 M'000
Capital work-in-progress – 1A Water Transfer	47 812	38 792
Capital work-in-progress – 1A Ancillary Development	24 685	22 354
Capital work-in-progress – 1B Water Transfer	34 017	22 270
Capital work-in-progress – 1B Ancillary Development	1 608	445
Hydropower Accumulated Loss	47 654	101 965
Government of South Africa Capital Fund	356 681	350 371
	512 457	**536 197**
Costs transferred to Funds and Reserves		
Government of Lesotho	26 293	22 799
Government of South Africa	438 510	411 433
Hydropower Accumulated Loss	47 654	101 965
	512 457	**536 197**
Costs transferred to work in progress		
Capital work-in-progress – 2 Water transfer	196 679	136 568
Capital work-in-progress – 2 Hydro Power	4 375	343
Amount as per detailed Statement of Comprehensive Income	**713 511**	**673 108**

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

Accumulated loss - Hydropower	2017 M'000	2016 M'000
Income	8 146	7 510
Less: Cost of sales	(55 896)	(107 091)
Operations and maintenance costs	(1 365)	(54 775)
Prior year cost allocation ratification	(96)	2 384
Depreciation	(54 435)	(52 316)
Net Profit/(Loss) for the year	(47 750)	(99 581)
Accumulated loss at the beginning of the period	(736 289)	(636 708)
Accumulated loss at the end of the period	**(784 039)**	**(736 289)**

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 2017

2.3. Cost allocation and funds per Government

	Note	Capital Fund - Government of Lesotho M'000	Capital Fund - Government of South Africa M'000	Total Capital Funds M'000	Accumulated Loss Hydropower M'000	Total funds and Reserves M'000
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**	**10 009 801**	**(736 289)**	**9 273 512**
Net Loss for the year	2.2	(26 293)	(438 510)	(464 803)	(47 654)	(512 457)
Prior year cost allocation ratification		359	(263)	96	(96)	-
Cost related payments - funding		62 621	271 236	333 857	-	333 857
Balance at 31 March 2017		**1 002 770**	**8 876 181**	**9 878 951**	**(784 039)**	**9 094 912**

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

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 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)
Reclassification	-	-	-	-	-
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)
Additions	-	1 133	237	14 045	15 415
Transfer from Work in Progress	-	1 028	-	9 600	10 628
Impairment of assets	-	-	-	-	-
Accumulated Depreciation on impaired assets	-	-	-	-	-
Depreciation	(40 374)	(7 346)	(291 958)	(13 082)	(352 760)
Disposal/donation of assets	-	-	-	(6 455)	(6 455)
Accumulated Depreciation on disposed assets	-	-	-	4 614	4 614
Carrying Value at 31 March 2017	**605 717**	**119 042**	**8 212 573**	**68 413**	**9 005 745**
Cost	1 226 002	214 653	13 069 967	133 081	**14 643 703**
Accumulated Depreciation	(620 285)	(95 611)	(4 857 394)	(64 668)	(5 637 958)
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 15 628 499.

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

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 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)
Reclassification	9	39 580	-	-	-	(39 589)	-
Additions	-	9 838	-	-	-	16 205	26 043
Depreciation	(53 947)	(27 358)	(92 953)	(99 555)	(59 350)	(19 597)	(352 760)
Disposal/donation of assets	-	-	-	-	-	(6 455)	(6 455)
Accumulated Depreciation on disposed assets	-	-	-	-	-	4 614	4 614
Impairment of assets	-	-	-	-	-	-	-
Accumulated depreciation of impaired assets	-	-	-	-	-	-	-
Carrying Value at 31 March 2017	**1 333 205**	**709 867**	**2 983 454**	**3 311 760**	**521 606**	**145 853**	**9 005 745/**
Cost	2 058 555	1 131 582	4 777 136	5 151 589	1 203 404	321 437	14 643 703
Accumulated Depreciation	(725 350)	(421 715)	(1 793 682)	(1 839 829)	(681 798)	(175 584)	(5 637 958)
The useful life of the assets is estimated as follows:	50	25-50	25-50	50	50	3-50	

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

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 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 Deferred Income	-	-	(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**
Prior Year reallocations	-	-	(134)	(226)	(5 245)	5 130	(75)	550	-
Cost allocation	-	4 375	24 685	1 609	47 812	34 018	196 679	-	309 178
Transferred to Capital Funds	-	-	(24 551)	(1 383)	(42 567)	(39 148)	75	(550)	(108 124)
Work-in-progress during the year	-	-	-	-	1 202	1 946	-	2 921	6 069
Transfer to completed works	(1 028)	-	-	-	-	-	-	(9 600)	(10 628)
Carrying Value at 31 March 2017	**374**	**12 836**	**14**	**-**	**2 241**	**3 537**	**495 958**	**8 035**	**522 995**

- 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.
- 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.

4. INVESTMENT PROPERTY

	Total M'000
Net Book Value 31 March 2015	**7 467**
Assets at Cost	22 885
Accumulated Depreciation	(15 418)
Prior years Movements:	
Additions/Improvements	-
Disposals	-
Depreciation	(352)
Net Book Value 31 March 2016	**7 115**
Assets at Cost	22 885
Accumulated Depreciation	(15 770)
Current years Movements:	
Additions/Improvements	-
Disposals	-
Depreciation	(352)
Net Book Value 31 March 2017	**6 763**
Asset at cost	22 885
Accumulated depreciation	(16 122)

Investment Property consists out of Standard (Lesotho) Bank Building and is depreciated over 30 years. Improvements are depreciated over the lease term of 7.5 years. The Income capitalization approach was used in determining the market value of the property. The market value was determined as M 41 067 928. No indicators of impairment were identified.

5. CONTRACT ADVANCE PAYMENTS

	2017 M'000	2016 M'000
Contract Advance Payments	4 495	8 548
	4 495	**8 548**

	2017 M'000	2016 M'000
6. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS		
Trade Receivables	61 599	11 876
Staff Receivables	12	50
Lesotho Revenue Authority		
• New tax Legislation	17 265	14 164
Other Receivables and Prepayments	6 615	7 216
Provision for Doubtful Debts	(6 034)	(4 850)
	79 457	**28 456**

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 2017, trade receivables and other receivables at initial value of M 6 034 000 (2016: M 4 850 000) were impaired and fully provided for.
The Authority considers its trade and other receivables and prepayments carrying value to be equivalent to their fair value.

At 31 March 2017, 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
2016	11 876	-	2 735	306	1 906	198	6 731
2017	61 599	-	55 858	4 759	210	1	771

7. CASH AND CASH EQUIVALENTS

	2017 M'000	2016 M'000
Cash at Bank	90 800	257 569
Cash on Hand	87	82
	90 887	**257 651**
Current Assets	**95 846**	**259 086**
Current Liabilities	**(4 959)**	**(1 435)**
Currency Analysis		
Maloti	89 409	256 833
US Dollar	1 478	818
	90 887	**257 651**

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 90 887 000 (2016: M 257 651 000).

8. LOANS AND BORROWINGS

	2017 M'000	2016 M'000
Non-Current Portion	30 531	70 562
Current Portion	37 791	36 694
	68 322	**107 256**
Currency Analysis		
Rands	55 417	77 435
Euro	12 905	29 821
	68 322	**107 256**
Interest Bearing Status		
Interest-bearing	68 322	107 256
Non-interest bearing	-	-
	68 322	**107 256**
Maturity Profile		
Within One Year	37 791	36 694
Between Two and Five Years	29 391	62 159
More than Five Years	1 140	8 403
	68 322	**107 256**
Maturity Profile – Undiscounted		
Within One Year	44 511	44 041
Between Two and Five Years	21 291	75 009
More than Five Years	3 362	9 233
	69 164	**128 283**

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

	Trans Caledon Tunnel Authority Debt Service Loans	**Effective Interest Rate%**	**2017 M'000**	**2016 M'000**
Institution	***Offshore loans***			
European Investment Bank	Repayable in semi-annual instalments ending January 2018	3%	12 905	29 821
European Investment Bank	Repayable in semi-annual instalments ending March 2018	4.96%	9 244	18 488
European Investment Bank	Repayable in semi-annual instalments ending September 2018	5.27%	8 418	14 030
	Common Monetary Area Loans			
DBSA	Repayable in semi-annual instalments ending September 2021	12.23%	444	514
DBSA	Repayable in semi-annual instalments ending September 2021	10.92%	1 616	1 882
DBSA	Repayable in semi-annual instalments ending March 2022	10.68%	13 897	16 676
DBSA	Repayable in semi-annual instalments ending March 2022	12.12%	7 950	9 540
DBSA	Repayable in semi-annual instalments ending March 2022	12.96%	1 304	1 481
DBSA	Repayable in semi-annual instalments ending September 2022	Jibar + 0.4%	12 544	14 825
	Total		**68 322**	**107 257**

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

	Government of Lesotho Debt Service Loans	**Effective Interest Rate%**	**2017 M'000**	**2016 M'000**
Institution	***Common Monetary Area Loans***			
DBSA	Repayable in semi-annual instalments ending September 2019	13%	842	1 112
Government of Lesotho	Muela Re-financing by the Government of Lesotho		(842)	(1 112)
	Total		-	-
	Grand Total		**68 322**	**107 257**

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 2017

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 2015	**413 724**	**935**	**5 575**	**3 339**	**43 091**	**466 664**
	-	-	6 104	3 502	56 670	66 276
Additional Provisions made during the year						
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**
Additional Provision made during the year	-	110	9 210	3 785	5 182	18 287
Amounts used	(19 147)	-	(6 105)	(3 502)	(56 670)	(85 424)
Unwinding of discount and effect of changes in discount rate on provisions	21 936	-	-	-	-	21 936
Carrying Value: 31 March 2017	**396 882**	**1 045**	**9 210**	**3 785**	**5 182**	**416 104**

	2017 M'000	2016 M'000
9. PROVISIONS (Continued)		
Non-Current	384 652	382 107
Current	31 452	79 198
	416 104	**461 305**

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.

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

	2017 M'000	2016 M'000
10. CONTRACT PAYABLES AND ACCRUALS		
Contract Payables	802	802
Contract Accruals	47 197	40 166
	47 999	**40 968**
Contract Retentions	3 472	2 365
	51 471	**43 333**

11. TRADE AND OTHER PAYABLES AND ACCRUALS

	2017 M'000	2016 M'000
Trade payables	5 662	5 793
Accrued interest on loans	149	303
Other payables	22 531	21 210
Accruals for compensation	51 191	49 861
	79 533	**77 167**
Non-Current Accruals for compensation	51 191	40 458
Current	28 342	36 709
	79 533	**77 167**
Maturity Profile		
Within One Year	28 342	36 709
Between Two and Five Years	51 191	40 458
More than Five Years	-	-
	79 533	**77 167**

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 26 282 335 (2016: M 23 942 518). 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 (2016: M nil). The following contracts have been approved and contracted: M 661 872 513 (2016: M 403 416 698).

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 2017**:**

	Level 1	**Level 2**	**Level 3**	**Total Balance**
Assets	-	-	-	-
Investment Property	-	-	M 41 067 928	**M 41 067 928**
Liabilities	-	-	-	-
Loans and borrowing	-	M 68 639 055	-	**M 68 639 055**

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

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
2016		
Euro	+10%	2 982
Euro	-10%	(2 982)
2017		
Euro	+10%	1 290
Euro	-10%	(1 290)

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
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)
2017		
Trans Caledon Tunnel Authority Debt Service Loans		
Offshore Loans	+200	353
Common Monetary Area Loans	+200	251
Trans Caledon Tunnel Authority Debt Service Loans		
Offshore Loans	-200	(353)
Common Monetary Area Loans	-200	(251)

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*	
	2017 M'000	2016 M'000	2017 M'000	2016 M'000
Financial Liabilities				
Loans and borrowings	68 321	107 256	68 639	105 165

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 2017: 323 (2016: 308)

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.

	2017 M'000	2016 M'000
Amounts credited to the Statement of Comprehensive Income or fund accounts		
Cost related payments GOL	62 621	55 906
Cost related payments RSA	271 236	359 434
IDA Grant	3 831	2 293
Related parties receivable/(payable)		
Receivable from Lesotho Revenue Authority	24 879	17 386
Ground Rent Provision	(5 182)	(56 670)
Government of Lesotho	687	-
Government of South Africa	38 036	-
IDA Grant	(1 478)	(806)
Compensation to Key Management Personnel		
Short Term Employee Benefits	26 198	24 386
Total Compensation Paid to Key Management personnel	26 198	24 386

No donations of Property, Plant and Equipment were made to the Government of Lesotho during the 2016 and 2017 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:

	2017 M'000	2016 M'000
The following year	5 862	432
Year 2-5	10 897	-
More than 5 years	-	-
	16 759	**432**

17. OPERATING LEASE DISCLOSURE (Continued)

Terms of the contract		
Specifications		
	Contract 1	Contract 2
Commencement date:	01 June 2007	01 December 2016
Contract expiry date:	30 May 2010	30 November 2019
Renewal Clause	Sub-lease shall be automatically extended on the same terms and conditions for further term of 12 months (unless either party give Months written notice to the contrary).	
Period of lease:	36 months	36 months
Escalation rate per annum:	CPI as published by Bureau for June each year	9% p.a.
Basic Rental		
Initial monthly rental per contract:	M7,829.39	M 474 245

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

19. PRIOR PERIOD ERROR

In the past all cost-related payments received from the Government of the Kingdom of Lesotho and the Government of the Republic of South Africa were disclosed as funds received through the statement of changes in funds and reserves. This treatment has been reassessed, which has resulted in a retrospective change in the financial statements, to record these funds as grants received under IAS 20 *Government Grants*.

Grants related to assets have been recorded as assets with a corresponding impact on deferred income. The deferred income is released to the statement of comprehensive income as the assets are depreciated. Grants related to income are recognised in the statement of comprehensive income.

The impact of these changes is as follows:

		2017 M '000	2016 M '000	2015 M '000
Statement of financial Position				
Decrease in Funds		333 906	415 501	10 413 700
Increase in Deferred Income		132 060	179 614	(9 840 417)
Statement of Comprehensive Income				
Increase in Grants Received		(465 966)	(595 115)	(573 283)

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

DETAILED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2017

	NOTE	2017 M'000	2016 M'000
Revenue & Other Income			
Grant Revenue		465 966	595 114
Bad debts		12	-
Ground Rent Provision		46 305	-
Investment Income		7 523	9 711
Profit on sale of assets		-	585
Miscellaneous income		25 916	20 588
IDA Grant revenue		3 381	2 293
Investment Property Income		5 799	5 522
LRA Recovery		-	-
Total Revenue		**554 902**	**633 813**
Expenditure			
Audit and accounting fees		1 248	1 088
Bank charges		74	77
Board and committee fees including reimbursements		1 715	3 553
Construction and contractor costs		168 667	99 953
Depreciation		353 109	349 550
Foreign exchange loss/(gain)		15 381	16 647
Impairment		349	-
Increase/(Decrease) in future compensation provision		4 156	(17 065)
Insurance		3 881	3 849
Interest and finance expenses		7 457	9 338
Inventory and consumable stores		2 140	1 135
Leave pay		651	1 186
Legal and arbitration fees		637	968
Miscellaneous expenses		34 885	28 445
Motor vehicle expenses		3 132	3 545
Plant spares		2 352	1 148
Professional services		7 954	8 681
Profit on sale of asset		178	-
Public relation costs		3 777	3 475
Rates, electricity and water		6 212	5 415
Ground Rent Provision		-	13 717
Recruitment		53	109
Rental expenses		493	442
Repairs and maintenance		4 036	2 948
Resettlement and compensation costs		42 046	46 412
Safety awareness		11	71
Salaries, wages and allowances		117 032	104 252
Security expense		10 765	10 087
Stationery		1 030	1 062
Telephone and communication		3 079	2 652
Training		1 731	5 046
Travel and transportation		4 265	4 021
Total Expenses		**802 496**	**711 807**
Loss for the year subject to cost allocation		**(247 594)**	**(77 994)**
Amount as per cost allocation transferred to capital work in progress	2.2	201 054	136 911
Profit/(Loss) for the year as per Statement of Comprehensive Income		**(46 540)**	**58 917**