

NO 1234

MONTHLY REPORT

May 2020

WATER SUPPLY AND SANITATION ADRIATIC COAST III

Water Supply and Sanitation Adriatic Coast III commenced by signing loan agreement with KfW on 07 December 2007. In this stage the Project was predominantly focused on wastewater sector and aimed at upgrade and extension of sewage systems in Herceg Novi, Tivat, Kotor and Bar. This stage envisaged construction of the WWTPs in Herceg Novi and Bar with sea outfalls, rehabilitation and replacement of the current sewerage systems, as well as construction of new parts of the system. A smaller part of the Project was related to the water supply upgrade through rehabilitation of current, and construction of new parts of the water supply systems.

Implementation of Phase III commenced in March 2008 and the estimated project value is Euro 89 million. Implementation of Phase III commenced with project preparation, and drawing up design and tender documentation by the consultancy JV DAHLEM/Pecher from FR Germany.

| Tivat | |
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| Contract No TV-RB-02 -2010 | Construction of: <ul style="list-style-type: none"> - 17,6 km of sewage network - 14,6 km of water supply network - 6 large and 6 small pumping stations |
| Expected result | Systematic upgrade of the water supply and sanitation system and improvement of environmental conditions in the Bay of Tivat |
| Contract value | €9,491 million |
| Contract start date and end date | 14 December 2011 - 31 December 2014 |
| Employer | The Municipality of Tivat and PE "Water and Sewerage" Tivat |
| Funding sources | Municipal budget - €3,955 million KfW loan - € 5,379 million KfW grant - €155.750 |
| Role of Vodacom | Project Executing Agency (PEA) |
| Contractor | Ludwig Pfeiffer, FR Germany |
| Engineer | Dahlem FR Germany |
| PROGRESS | |
| <p>In April, On 18/05/2020 the Employer (ViK Tivat and the Municipality of Tivat) and the Contractor signed a payment agreement according to the decision of the DAB (of 20/05/2019). The agreement states that the Employer will pay the amount defined by the DAB decision, together with interests in four installments, as of 30 August 2020. (Due to non-settlement of invoices, the Contractor invoiced interest in the amount of EUR 34,475.07, as of 30 April 2020). The precondition for signing the mentioned agreement was the settlement of Invoice no. 20, and this has been fulfilled by the Employer. After the Employer settles all the Contractor's receivables, it is expected that a Performance Certificate will be issued.</p> | |

| Herceg Novi | |
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| Contract No HN -YB-2010 | Construction of the WWTP for 65.300 PE |
| Expected result | Systematic upgrade of the sanitation system and improvement of environmental conditions in the Bay of Kotor |
| Contract value | €9,020 million |
| Contract start date and end date | 24 June 2012 - 12 June 2017 |
| Employer | The Municipality of Herceg Novi and the company "Drustvo za izgradnju vodovodne i kanalizacione infrastrukture u opštini Herceg Novi" |
| Funding sources | Municipal budget - €1,366million GoM contribution - € 1,349 million KfW loan - € 6,304 million |
| Role of Vodacom | Project Executing Agency (PEA) |
| Contractor | JV MASS/Gintas (contract terminated on 21/11/2018) |
| Engineer | Dahlem FR Germany |
| <p>HN-YB-2010 ACTIVITIES / PROGRESS</p> <p>The contract with Mass-Gintas was officialy terminated on 21/11/2018. A total of Eur 1,767,569.97 was charged based on encashment of performance and retention guarantees. The Employer intends to use funds from encashed guarantees to have the remaining works completed by different contractors. There are two contracts concluded for the time being by direct award, under the conditions of FIDIC Green Book. One of the contracts is concluded with CMC group, and the other one with Biogest International. Tender for the remaining works to be executed under the conditions of Pink FIDIC book with elements of Yellow FIDIC book is being prepared as well as one more tender under the conditions of FIDIC Green Book for SCADA system. The Employer is still independently operating the plant.</p> <p>CLAIMS</p> <p>In its letter of 28/01/2019 the Engineer has rejected a claim filed by the Contractor. The reason for this , as stated by the Engineer are missing "Notices of Claim" filed within 28 days as stipuated by Article 20.1 of the Contract. This letter was delivered to the Contractor via courier service on 08/02/2019. Mass-Gintas has confirmed the receipt of the letter from the Engineer and expressed its position that it is not "acceptable" , and asked the Engineer to nominate DAB member in accordance with Article 20.2 of the Contract. The Engineer noted in its report that DAB is to be nominated by FIDIC President if there is no agreement reached between the contracting parties regarding this matter.</p> <p>GUARANTEES:</p> <ul style="list-style-type: none"> • Advance payment Guarantee – repaid advance payment, no guarantee • Performance Guarantee - valid until 10/12/2018 – this guarantee has been encashed • Retention Money Security – valid until 10/12/2018 – this guarantee has been encashed <p>PAYMENTS</p> <p>There were no payments during this reporting period. The total amount paid (including advance payment with VAT): 9,955,055.22€ KfW's loan (Phase III) 2,863,000.00 €</p> | |

KfW's loan (Phase IV) 3,441,000.00 €
Municipal contribution 711,664.36€
Municipal contribution (VAT) 1,589,462.59€
GoM's grant: 1,349,928.28 €

GB1-HN-2019

Herceg Novi Contract No 1 under FIDIC GB with CMC Group DOO Herceg Novi

BASIC DATA

Initial Accepted Contract Amount (VAT exclusive): Euro 128.620.00

Initial Accepted Contract Amount (VAT inclusive): Euro 155.630.20

Amended Accepted Contract Amount with Addenda excluding VAT: € 154,011.00

Amended Accepted Contract Amount with Addenda including VAT: € 186,353.31

Contract signing date: 09/04/2019

Commencement date: 16/04/2019

Time for Completion:

- For positions C1.21A, C1.22, C1.23, C1.24, C1.25A, C1.25B, and C1.26 – 09 July 2019
- For positions C1.21B 09 August 2019

Taking-over Date: 09/08/2019

DNP: 365 days

ACTIVITIES

Nothing to record.

PROGRESS

Nothing to record.

CLAIMS

Nothing to record.

PAYMENTS

Following the return of the retention in the amount of € 7,093.98 in August 2020 the total net amount paid will be € 141,879.50.

VARIATIONS

Nothing to record.

GB3-HN-2019

Herceg Novi GB Contract No 2 with Biogest International GmbH

BASIC DATA

Initial Accepted Contract Amount excluding VAT: € 86,484.00

Initial Accepted Contract Amount including VAT: € 104,645.64

Amended Accepted Contract Amount with Addenda excluding VAT: To be defined by Addendum 2 which has been prepared but not yet signed.

Contract Signature Date 14/05/2019

Commencement Date: 26/06/2019

Initial Time for Completion: 85 days
Revised Time for Completion (addendum to be signed): 127 days
Initial Contract Completion Date: 19/09/2019
Revised Contract Completion Date (addendum to be signed): 31/10/2019

ACTIVITIES

Nothing to record.

PROGRES

Nothing to record.

CLAIMS

Nothing to record.

PAYMENTS

On 26th November 2019 the Contractor submitted the final payment certificate in the amount of Euro 26,112.38. On 27 November 2019 the Employer's Representative certified a total of € 100,144.94. The certified amount for payment includes the total retention amount, because the Contractor has submitted the Retention Guarantee. Amended accepted contract amount, following the certification of the final payment is subject of Addendum No 2 which has not been signed. The payment has not been made during the current reporting period.

VARIATIONS

Nothing to record.

OTHER

The Consultant's supervision services ceased on 30 November 2019

Herceg Novi

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|---|--|
| Contract No HN-RB-01-2010 | Construction of: <ul style="list-style-type: none"> - 35,3 km of water and sewage network - 11 pumping stations and a sea outfall |
| Expected result | Systematic upgrade of the water supply and sanitation system and improvement of environmental conditions in the Bay of Kotor |
| Contract value | €18,522 million |
| Revised Accepted Contract Amount up to and including Addendum No 7 | €21,392 million |
| Contract start date and end date | 25 August 2012 - 17 February 2015 |
| Employer | The Municipality of Herceg Novi and the company "Društvo za izgradnju vodovodne i kanalizacione infrastrukture u opštini Herceg Novi" |
| Funding sources | Municipal budget - €0,926 million GoM contribution - € 2,923 million KfW loan - € 17,387 million |

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|------------------------|---------------------------------------|
| | KfW grant - €0,155 million |
| Role of Vodacom | Project Executing Agency (PEA) |
| Contractor | Celtikcioglu, Turkey |
| Engineer | Dahlem FR Germany |

ACTIVITIES

On 26/04/2020 the Engineer and the Contractor inspected progress on outstanding work and defects' remedy. For ease of reference the following is based upon the list provided in the last report and progress is indicated by striking through resolved items.

- o The Employer/Municipality insist the pending 25 CCTV inspections to be performed and submitted by the Contractor and that the problem in front of Hotel Dolphin shall be prioritized.
- ~~o The remaining 3 items under keyword # 11 are minor and the Engineer may clear said NCNs.~~
- o The remaining 2 items under keyword # 4 refer to very deep manholes. It was agreed to address this during the technical inspection and if after connecting the secondary network no operational problems occur this with a reasonable price deduction may be acceptable.
- ~~o Under keyword # 6, 30 NCNs are still open. In addition, 6 more were found after taking over, i.e. C 250 installed. These 6 covers are located outside the roads. If the Contractor will proof by calculation that C 250 suffices those can be cleared.~~
- o From the DNP mid-term mission report the following is to be resolved as priority by the Contractor.
the following is to be resolved as priority by the Contractor.

PS Bijela Shipyard

- Pumps 1 and 3 to be investigated
- Gate valve to P2 to be replaced (aeration can be improved by means of air-masters)
- Fence corrosion (Contractor to provide primer and coating material)
- ATS door corrosion (Contractor to provide primer and coating material)
 - **PS Bijela West**
 - Pump 3 to be investigated
 - Leakage at gate valve P2 to be repaired
 - **PS Kumbor**
 - Pumps 2 and 3 to be investigated
 - **PS Kumbor North**
 - Pump 3 to be investigated
 - **PS Zmijice**
 - Pumps 2 and 4 to be investigated

On 15.05.2020 the Engineer announced to the Employer the DNP End Term Mission and the Employer on 20.05.2020 confirmed to commence on 25.05.2020. On 20.05.2020 the Engineer provided the Employer the itinerary of the mission and on the same day invited the Contractor to participate. The mission started on 25.05.2020 with the pumping stations and their inspection was completed on 26.05.2020. The DNP End Term Mission Report for the pumping stations was issued by the Engineer to the Parties on 29.05.2020. The Contractor was requested to complete the pending items before 24.06.2020 comprising of replacement of two valves, handing over of cover screws and primer with coating and the completion of the as-built and maintenance design. The DNP End Term Mission for the networks took place on 27. and 28.05.2020 and the report was issued to the Parties on 02.06.2020. The Contractor was

requested to complete the pending items before 24.06.2020 comprising of manhole cleaning, repair of surface damages, installation of hand wheels to valves, repair of 2 deformed manholes, repair of damaged manhole covers, repair of section HN 3320 to HN 3300 and completion of water network disinfection.

PROGRES

The progress of Sub-Clause 11.1 remedy work and outstanding work from Taking-Over for both the riviera and priority work improved. The DNP end-term mission in the pumping stations showed no new defects while for the networks some defects had been found.

GUARANTEES:

- Payment security- expires on 11/07/2020; for employees it expires on 25/06/2020.
- Performance Guarantee - valid until 03/09/2020.

VO

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CLAIMS

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PAYMENTS

Payments Executed to Date including Advance Payment (up to and including IPC No 26):

GoM: 2.923.000,00€

KfW's grant 155,750.00€

KfW' s loan (Phase III) 5.876.981,23€

KfW' s loan (Phase IV) 6.083.105,39€

KfW' s loan (Phase V2) 5.028.301,88€

Municipal contribution 399.590,34€

Municipal contribution (VAT) 3.593.427,19€

Total amount including VAT: 24.060.156,01€

| Bar | |
|---------------------------------|--|
| Contract NoBR-RB-01-2010 | Construction of: <ul style="list-style-type: none"> - 5,8 km of water supply network, and - 19.2 km of faecal sewage network - 1km of stormwater sewage network - 1 pumping stations with the construction of new sea outfall "Sutomore" - 1 reservoir "Susanj 2" - Additional measures: "New Project Concept in Bar" - Construction of the water supply system for settlements Polje, Zaljevo, St. Ivan and Mala Volujica, and construction of the sewage PS Volujica with pressure pipeline. |
| Expected result | Systematic upgrade of the water supply and sanitation system and improvement of environmental conditions |
| Contract value | €11,191.128 million |

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|---|---|
| Contract start date and end date | 26 February 2016 – 26 February 2018 “New Project Concept in Bar” 02/09/2018 to 26/10/2019 |
| Employer | The Municipality of Bar and ViK Bar |
| Funding sources | Municipal budget - €0,875 million KfW loan - € 10,177 million KfW grant - €0,155 million |
| Role of Vodacom | Project Executing Agency (PEA) |
| Contractor | MPP Jedinstvo, Serbia |
| Engineer | Dahlem FR Germany |
| <p>ACTIVITIES</p> <p>Main Contract Works</p> <p>Main Contract Works</p> <ul style="list-style-type: none"> • The draft Final Statement was agreed between Contractor and Engineer and the Contractor on 19.05.2020 submitted the Letter of Discharge. The Final Payment Certificate will become due on 16.06.2020 and the final Contract Price will be EUR 8,248,339.14. • The Susanj 2 reservoir right chamber leakage repair was completed and the leakage test was successful. The test report was submitted on 07.05.2020. Because of Covid 19 restrictions the left chamber repair is still postponed. • The spare gabions from reservoir Susanj 2 are ready to be handed over to the Employer. <p>Section 1 – Pipe to Sveti Ivan</p> <ul style="list-style-type: none"> • The DNP started on 27 August 2019. Up to the end of the report period no defects were notified. The DNP end term mission will be due in August 2020. <p>Section 2.1 - PS Volujica</p> <ul style="list-style-type: none"> • Concrete work continued with the outer walls • Workshop drawings for handrails were submitted and approved • Workshop drawings for checker plates were submitted • Delivery of frequency converter cabinets <p>Delivery of 10 kV switchgear block</p> <p>Section 2.2 – Zaljevo Water Supply</p> <ul style="list-style-type: none"> • The DNP started on 27 August 2019. Up to the end of the report period defects notice # 75 was issued. Due to Covid 19 work and travel restrictions the remedy work did not start. During the report period no further defects appeared. • The DNP end term mission will be due in August 2020 <p>PROGRESS</p> <p>Section 2.1 – PS Volujica</p> <p>Progress fell further behind schedule and by the end of the report period the estimate completion date is 19.11.2020. Hence, delay increased from previously 106 days to now 167 days. The Contractor gave notice to claim due to Force Majeure and will try to be excused from delay damages which will start counting from 06.06.2020.</p> <p>Section 2.2 – DNP in progress.</p> <p>VO</p> <p>Variation Order # 18.3 – Design Stari Bar/Polje – the Employer agreed to the design on 06.05.2020</p> | |

and the Engineer issued approval to the Contractor on 08.05.2020.

Variation Order # 19.1 – Design to extend the water supply pipe coming from Zaljevo Reservoir along the Magistrala – submitted, reviewed and provided to the Employer for technical review. No further information received recorded during the report period.

Variation Order # 20 – PS Volujica pressure main and water hammer design was instructed on 25.02.2020. The Employer did not issue the urban certificate yet and the port authorities did not agree on the alternative pressure main routes presented on 09.07.2018 and insist on using the existing pipe route as per the urban master plan. Information was received that the Volujica hill stabilisation shall be completed in 2022 which is considered a precondition for replacing the old pressure pipe.

Variation Order # 21 - fibre optic cable connections instructed on 11.03.2020 – is pending due to Covid 19 related work and travel restrictions.

ADDENDA

Addendum # 11, the Parties' agreement concerning Employer's claims # 2, 3 and 4 and Contractor's quantum claim # 5 was drafted and provided to Vodacom but then revised into an agreement. The agreement was signed on 10.04.2020.

CLAIMS

On 18.04.2020 the Engineer gave notice of Force Majeure to the Contractor requesting the latter to notify this event to the insurer. The same date the Contractor responded with disagreement to the Force Majeure notice in a rather confusing way.

On 29.04.2020 the Engineer provided to the Contractor the contractual background and correctness of the Force Majeure notice in detail requesting the Contractor again to notify the insurer. On 02.05.2020 the Contractor stated that the Employer may directly give notice to the insurer since the insurance is in the joint names of the Parties. On 08.05.2020 the Engineer wrote to the Employer advising to notify the insurer. This issue was followed up during the meeting between Vodacom and the Engineer on 11.05.2020 and on 20.05.2020 Vodacom issued to the Engineer the draft letter to the insurer. The Engineer reviewed, revised and submitted the revision to Vodacom on 20.05.2020. This matter was subject to a meeting at the Municipality on 03.06.2020 and thereafter on 05.06.2020 the Employer issued the notice to the insurer with the wording agreed between Vodacom and the Engineer.

The Contractor's notice of Force Majeure reference to Sub-Clause 19.2 [Notice of Force Majeure] and notice to claim # 10 under Sub-Clause 20.1 [Contractor's Claims] are still standing and no further submission from the Contractor took place.

GUARANTEES:

- Payment Guarantee - valid until 16/12/2019.
- Advance payment Guarantee – valid until 14/08/2020.
- Performance Guarantee - valid until 24/01/2022.

PAYMENTS:

The Engineer certified IPC # 21 on 13 March 2020 in the amount of € 228,444.50. Payment due date is 02 May 2020, and the Contractor confirmed the payment on 07 May 2020.

Payments executed to date up to the Statement at Completion for the min contracts :

KfW Grant € 155,750.00

KfW loan (Phase III) € 9,221,060.14

Municipalities own contribution € 643,819.13

Municipalities own contribution (VAT) € 135,906.82

Total amount (incl. VAT): €10,156,536.08

Bar

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|---|---|
| Project description | Construction of the WWTP: |
| Expected result | Systematic upgrade of the water supply and sanitation system and improvement of environmental conditions |
| Contract value | cca. €12,00 million |
| Employer | The Municipality of Bar and PE "Water and Sewerage" Bar |
| Funding sources | KfW loan - € 10,0 million (of which € 1,0 million is a grant channeled by MF) MF grant within Phase V2 - €2,0 million |
| Role of Vodacom | Project Executing Agency (PEA) (Project Management) |
| Implementation Consultant, Phase III | |

Since the Municipality of Bar had previously decided to postpone all activities related to the construction of WWTP on Volujica (68,600 PE, about Euro 12.4 million) due to land ownership problems and some conceptual dilemmas, a new project stage commenced in April that involves the creation of "the location study for the construction of the WWTP in the Municipality of Bar". KfW has secured a grant provided by the German Government for the development of this document, and we expect this Study to assist the Municipality in making the final decision on the continuation of investment activities regarding the WWTP.

Upon finalization of the tender document, because of the lack of time it was envisaged to implement a direct award procurement procedure, by inviting currently engaged consultants (Dahlem, Fichtner, GWK) to provide their bids. There were two bids submitted on this tender (from Dahlem and Fichtner). Upon Completion of bid evaluation procedure, the contract was signed with Fichtner as successful bidder.

Presentation of the Draft Final Report of the Location Study for WWTP Bar was held in the Municipality of Bar on 09/05/2019. Decentralized system, that has proved to be the most profitable option, envisages the construction of five WWTPs:

1. Bar WWTP (52.000 PE),
2. Sutomore WWTP (21,000 PE),
3. Veliki Pijesak WWTP (7,000 PE),
4. Canj WWTP (3,500 PE),
5. Busat WWTP (3.000 PE).

After this presentation there was a brief meeting with Mayor of Bar and KfW representatives, and the possible investment priorities were marked, which implementation is envisaged under Phase V:

1. WWTP in Sutomore (for which location is given in the Study).
2. Water and sewerage network in the settlement Dobra Voda.

With regard to the aforementioned, on 14/06/2019 Vodacom sent a request for a meeting which was supposed to define the next steps and priorities regarding further investment measures for water supply and sanitation in the Municipality of Bar.

On 25/07/2019 there was a meeting in the Municipality of Bar where certain problems with spatial and planning documentation, the current loan indebtedness of the Municipality of Bar, and the

position of the Municipality regarding further steps for Phase V have been postponed to the meeting to be held in the MoSDT.

On 2/08/2019 there was a meeting in the MoSDT at which it was agreed that the Municipality of Bar needs time for stating their position. Given that the Municipality has still not stated its position it was indicated at the meeting between KfW and the GoM that the funds allocated for Bar should be reallocated to other Municipalities.

Given that the final decision on this matter has still not been made on 20/11/2019 Vodacom organized a meeting in the MoSDT on which it was concluded that a meeting should be organized with the Municipality of Bar (and other Municipalities) regarding the structure, amount of funds and method of distribution.

PHASE IV

Water Supply and Sanitation Adriatic Coast IV encompasses construction of a joint WWTP for Kotor and Tivat for 72 000 PE.

| Kotor & Tivat | |
|---|---|
| Description | Construction of a Joint WWTP for Kotor & Tivat for 72.000 PE |
| Expected result | Systematic upgrade of the water supply and sanitation system and improvement of environmental conditions |
| Contract value | €10,266 million |
| Contract start date and end date | 23 January 2015 - 20 June 2016 |
| Employer | PE "Water and Sewerage" Tivat and Kotor |
| Funding sources | KfW loan Euro 10,193.00 million Municipality's contribution Euro 0,162 mil |
| Role of Vodacom | Project Executing Agency (PEA) (Project Management) |
| Engineer | GKW, FR Germany |
| Employer | WTE, FR Germany |

PROGRESS:

In May, due to mitigation of National Coordination Body for Communicable Diseases (NKT) measures due to the COVID-19 virus epidemic, the training of staff at the WWTP continued. As the contract with the Contractor ends on 30/05/2020, the Executive Director of PPOV Tv-Ko Radoje Vucevic, sent a letter regarding the extension of the contract with the Contractor on 25 May 2020, because not all the conditions were met for PPOV Tv-Ko to take over the management of the plant. In addition, in the mentioned letter, Mr. Vucevic emphasizes that the training of staff has not been completed, and that it should continue after 30/05/2020. A response from the Contractor is expected in early June. On 14/05/2020 the Consultant submitted a monthly invoice no. 140, which refers to the operation and maintenance of the plant from 01/04/2020 to 30/04/2020 in accordance with Addendum No 4.



WWTP for KO &TV

PHASE V (Component 1)

Water Supply and Sanitation Adriatic Coast V (Component 1) is aimed at improving water supply and sanitation system in Ulcinj, implementation of immediate investment measures in Kotor, Tivat, and Herceg Novi, and construction of the sludge solar drying plants for Kotor, Tivat, and Herceg Novi.

Ulcinj- Investment project

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|------------------------|--|
| Description | Stage I of the upgrade of water supply and sanitation infrastructure in Ulcinj: <ul style="list-style-type: none"> - Selection of the Implementation Consultant - Supply of installation material |
| Expected result | Systematic upgrade of the water supply and sanitation system and improvement of environmental conditions |
| Contract Value | cca. € 20 million |
| Duration | 2012 |
| Funding Sources | KfW loan from Phase V, municipal budget of Ulcinj |
| Role of Vodacom | Project Management and Partner to the Consultant |

PROGRESS

1. Inception stage - Implementation Consultant in Ulcinj

Upon the completion of the tender procedure, a contract with the Consultant Hydrophil from Vienna was signed on 3 August 2016 in Ulcinj. The contract start date is 1st of September 2016.

The project is envisaged to be implemented in 3 stages. The first and second stage of about 18 months imply preparation of the detail design for reconstruction and extension of water supply and sewerage infrastructure and implementation of the tender procedure for the engagement of the Contractor. The 2 year long third stage refers to the supervision of the construction works.

As for the water supply system the detail design will include rehabilitation of karst springs and pumping stations, reservoirs and break pressure chambers, construction of reservoirs Djerane,

Brajsa, installation of measuring points and SCADA system, construction of new pipelines with a focus on the main and distribution network of Donji Stoj. Smaller amount of funds will be committed to the wastewater system, for the rehabilitation of sea outfall Djerane, and faecal and storm water sewers downtown Ulcinj.

The Secretariat for the Protection of Property worked on drafting an amendment to the Request for transfer of disposal rights and easement rights for real estate owned by the State.

On 19/05/2020, there was opening of the technical part of the bids (Envelope No. 2) of bidders who passed the post-qualification.

By the end of May, the Auditor processed 28 project measures that were done according to the Decisions on the construction of local facilities of General Interest (all measures) and UT conditions. In agreement with the Designer, the project documentation was printed for 17 measures for which the responsible reviewer submitted its positive opinion.

Verification and submission of the said documentation and reviewer's reports to the Employer will be performed after mitigation of Government measures resulting from COVID-19, given that it is difficult for Consultants to come and stay in Montenegro (quarantine upon entry and restriction of movement within Montenegro).

PROBLEMS

The independent auditor, Ms. Pfeiffer, engaged by KfW in order to determine fulfillment of project milestones has provided her final report on 3 December 2019 with the following conclusion: "The Milestone 3 is fulfilled regarding operation cost coverage of at least 80% and expenditure for maintenance of 5 EUR/connection. Staff cost have been reduced significantly, but number of staff still above 100. Municipal payments to Vodacom are outstanding."

The number of employees in ViK Ulcinj is still more than 120 (122 employees), although the Management Board of ViK Ulcinj adopted their systematization of job positions for 107 employees (whereby the conditions for reduction of No of employees aheve been achieved) it is certain that without a significant support from the Municipality the condition for reduction of No of employees will not be fulfilled.

From the Programme perspective, the number of employees remains the only project milestone which has not been reached in terms of acquiring necessary conditions for the continuation of the investment programme in Ulcinj. In addition, ViK Ulcinj has been faced with an additional problem: the lack of qualified employees, especially in the technical sector, which brings into question the ability of ViK to monitor and implement future investments in a high quality manner.

The applications to determine the public interest in the plots within the Project for construction of water supply and sewerage infrastructure, and to transfer of the right of disposal of real estate owned by Montenegro for the purposes of the Project, sent by the Municipality to the Ministry of Finance, have been returned by the Ministry to be adjusted. It is likely that the above-mentioned will result in further delay in the process of preparation of construction permits and notification of building works.

A total amount of €373,628.50 (based on the calculation done by Vodacom grounded on the appraisal of the Committee of the Real Estate Administration of Montenegro) would be needed for expropriation of real estate (complete and partial) owned by natural persons. These funds have still not been provided by the Municipality. A new application for support in providing the funds needs to be sent.

To remind, the EIA Study for this project is valid until 17/07/2020. According to the current situation, it will be necessary to prepare an updated EIA Study in accordance with the current Law, for which the Municipality will have to allocate additional funds, and which preparation and final approval will take several months.

PLANS FOR UPCOMING PERIOD:

Due to the situation and the problems caused by the COVID-19 in Montenegro and at a global level, it

is difficult to plan a larger scope of activities for the next month. The following are the activities that can realistically be implemented in June 2020:

- During May, the Municipality should submit amended Requests for transfer of the right of disposal and easement of real estate owned by Montenegro, for the needs of the Project;
- The responsible reviewer should submit draft Reports for the remaining project measures;
- The designer should submit printed versions of revised detailed designs for project measures made according to the Decisions on construction of local facilities of general interest as well as printed versions of detailed designs for project measures of refurbishment;
- The responsible reviewer should submit printed versions of the Report for project measures made according to the Decisions on the construction of local facilities of general interest.

Kotor, Tivat, Herceg Novi

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|---------------------------------------|---|
| Description | Implementation of urgent investment measures for Tivat, Kotor and Herceg Novi |
| Expected result | Implementation of urgent investment measures in water supply and sanitation system and improvement of environmental conditions |
| Value | Tivat - Contract with Jedinstvo - €2,320 million; Kotor - Contract with Jedinstvo €0,887 million; |
| Commencement date and end date | Tivat - 15/01/2018, 456 calendar days, including interruption during the tourist season from 01/06 to 01/09 Kotor - 5/02/2018, 243 calendar days, including interruption during the tourist season from 15/06 to 01/09 |
| Employer | ViK Tivat and ViK Kotor |
| Funding Sources | Tivat - KfW loan Phase IV in the amount of € 174,171 and Phase V2 in the amount of €2,146,076.97 Kotor - KfW loan Phase IV in the amount of € 615,900 and the own contribution of the Municipality of Kotor in the amount of €271,621.43 |
| Role of Vodacom | Project Executing Agency (Project Management) |
| Consultant | Fichtner (Germany) |
| Contractor | MPP Jedinstvo (Serbia) |

GUARANTEES LOT 2-Kotor:

- Payment Guarantee - valid through RPN period
- Advance payment Guarantee - repaid.
- Performance Guarantee - valid until 14/05/2020

PAYMENTS LOT 2-Kotor:

Payments made to date:

Total paid amount including VAT (including also advance payment): €887.832,78;
KfW's loan (Phase IV) €615.900.00;

Municipal contribution (excluding VAT) €228,913.00.;

Municipal contribution (including VAT) €43,019.72.

The works in Kotor came to a close and the taking over certificate has been issued (07/06/2019). It is indicated in the certificate that the works have been taken over and put into operation on 17/04/2019. After the expiration of the DNP (17 April 2020), on 29 April 2020 the Consultant issued a certificate of a job well done. After submitting the Performance Certificate, the Contractor is expected to issue a draft Final Payment Certificate, as well as the statement of termination of obligations, in order to complete the contract phase V-1 Lot 2 Kotor.

GUARANTEES LOT 1 - Tivat :

- Payment Guarantee - for works that are in the RPN period, the insurance policy is valid, for works contracted by Addendum No 2, the policy is valid until 1 July 2020.
- Advance payment Guarantee - valid until 27/06/2020
- Performance Guarantee - valid until 27/06/2020

PAYMENTS LOT 1- Tivat:

Payments made until the IPC No 6:

KfW's loan (Phase IV) €174,171.33

KfW's loan (Phase V2) €1,527,783.66

Total paid amount (including advance payment): €1,701,581.13:

Municipal contribution (VAT) 0 €

In May, the NKT recommendations were in force due to the situation with the Covid-19, and the works for both settlements in the Municipality of Tivat were suspended. It is expected that after the opening of the borders between Montenegro and Serbia, the Contractor will bring their workers and that the works will continue in both settlements. The contract with the Contractor for the execution of works in the settlements of Gornji Kalimanj and Gornje Seljanovo expires on 30 June 2020 and it is expected to sign the Addendum for the extension of the time frame for the completion of works in these two settlements.

Kotor, Tivat, Herceg Novi

| | |
|------------------------|--|
| Description | Construction of Sludge Solar Drying Plants for Kotor, Tivat and Herceg Novi |
| Funding sources | KfW grant for project preparation KfW loan for investments |
| Consultant | Consultant for project preparation - Dahlem |

PROGRESS

The implementation of the SSDF has been postponed for the time being due to lack of cost-effectiveness caused by smaller quantities of sludge produced at the WWTP as compared to the anticipated ones.

PHASE V (Component 2)

Water Supply and Sanitation Adriatic Coast V (Component 2) is aimed at systematic upgrade of the water supply and sanitation system and improvement of environmental protection conditions in Kotor, Tivat, and Herceg Novi.

| Kotor, Tivat, Herceg Novi | |
|---|---|
| Description | Water Supply and Sanitation Adriatic Coast |
| Expected result | Systematic upgrade of the water supply and sanitation system and improvement of environmental conditions |
| Project Description | Implementation of long-term investment measures for TV, KO, HN Development of Feasibility Study |
| Role of Vodacom | PEA-Project Management |
| Consultant | Consultant for Feasibility Study, Fichtner (Germany) |
| Start date | July 2014 |
| PROGRESS | |
| Implementation of long-term investment measures for TV, KO, HN | |
| <p>All 3 Municipalities have adopted Municipal Assembly's decisions to take the loan. The Municipality of Tivat decided to take Euro 11 million loan, the Municipality of Kotor Euro 5.8 million, while the Municipality of Herceg Novi made decision to take Euro 10 million from Phase V2 loan. The on-lending agreement with the MF for the funds of Phase V2 have been signed by the municipalities. The international PQ procedure for the selection of the Implementation Consultant for Phase V-2 – Tivat, Kotor and Herceg Novi is finalized. The Implementation Consultant will be in charge for development of detailed designs, the tender documents and implementation of the international tender procedure for the selection of contractors (under FIDIC Pink Book) and supervision over the construction.</p> <p>The Municipality of Kotor, in cooperation with Vodacom, the Ministry of Sustainable Development and Tourism and the German Development Bank KfW, nominated the project "Water Supply and Sewerage on the Adriatic Coast - Bay of Kotor" for grant funds under the third and fourth calls for proposals of the Western Balkans Investment Framework (WBIF). The total investment value of the project is Euro 9.8 million. Under the third and fourth calls for investment grants of the Western Balkans Investment Framework, the WBIF Steering Committee approved a total grant value of € 8.96 million. The Municipality of Kotor is obliged to provide its own contribution in the amount of 10% of the total value of this investment project measure.</p> <p>The project for improvement and extension of the water supply and sewerage network in Risan and Perast (including the transmission system to the settlement Muo) has been extracted from the ToR for the Consultant for the implementation of Phase V2 - Long-term measures. Several Addenda to the Contract on the provision of consulting services, ie on the preparation of ToR for the subject matter investment measures, have been concluded with the Consultant Fichtner Water & Transportation GmbH.</p> <p>Addendum No 4 envisages the development of the detailed design for rehabilitation, improvement and extension of the water supply and sewerage network in Risan and Perast (also, the settlements of Stoliv, Prcanj and Muo are included as an optional item), and as an optional measure of the given Addenda the development task and improvement of the water supply system on the section Muo-</p> | |

Prcanj-Stoliv.

Addendum No 6 envisages the development of the detailed design for the improvement of the water supply system on the section Muo-Prcanj-Stoliv, as well as the preparation of the Environmental Impact Assessment Study, which includes selected measures for the development of major projects within the services from Addendum No 4 and Addendum No 6.

At the very beginning of the preparation of project documentation which are the subject of Addendum No 4 and No 6, The Employer (Municipality and ViK Kotor) decided to divide the project documentation into 8 project packages (detailed designs), in order to enable phased financing and execution of the Project in the following period.

The Consultant (Fichtner) submitted drafts of all design volumes. Regarding the review of the detailed designs, which are the subject of Addendum No 4 and Addendum No 6, the reviewer (Sun Invest) submitted preliminary audit reports for all design volumes. The preparation of the final versions of the detailed designs, which are the subject of Addendum No 4 and Addendum No 6 is in progress.

The tender procedure for the selection of the Consultant for the implementation of Phase V2 commenced in third quarter of 2019. The Tender Evaluation Committee (composed of representatives of all three Municipalities, Vodacom and KfW's tender agent) evaluated all the submitted technical and financial bids in the fourth quarter of 2019. The first ranked bidder is the company Dorch(Germany). After harmonizing the draft Agreement, Vodacom and the Implementation Consultant will sign the Consulting contract. By the signing this Contract, conditions will be created for the beginning of implementation of Phase V2.

Kotor, Tivat, Herceg Novi

| | |
|-----------------------------------|--|
| Description of the project | Accompanying Measures: "Sustainable Operation of WWTPs" |
| Project aim | The long-run proper management of the WWTPs |
| Value | 2 mil. € |
| Start date | August 2015 |
| Funding sources | KW's grant |
| Role of Vodacom | PEA |

Upon the initiative of Vodacom, KfW has engaged an expert to make an appraisal of the specific needs and basic information for Accompanying measures for the sustainable operation of WWTPs in the coastal region of Montenegro, being financed under the German Financial Cooperation with Montenegro, through KfW.

Accompanying measures financed from KfW grant consist of three components:

1. Implementation of the training program for the staff for the O&M of the WWTP and sewerage systems.
2. Support by international experts provided to Municipalities, ViKs, Ministry and Vodacom in connection with urgent aspects related to the sustainable operation of the WWTP, of which the most recognized problem is disposal of the sludge, and defining the operation model for WWTP Tivat/Kotor.
3. Supporting the establishment of the Service for regulated communal activities as a

new sector within the Regulatory Agency for electrical energy, and establishment of the proper tariff methodology.

With regard to solving sludge disposal issue from WWTP Tivat/Kotor, the best and the most cost-effective option for WWTP Tivat / Kotor proposed by the Consultant is the construction of SSDF with recultivation of old landfills, dumpsite Lovanja (at the territory of Kotor and Tivat) and closed sanitary landfill Lovanja (territory of Kotor) with the use of sludge and soil.

In order to define following activities regarding the strategy for disposal of sludge, design measure recultivation/rehabilitation of dumpsites by using sludge from WWTP Tivat/Kotor is included as Optional item within the ToR for the Implementation Consultant for Phase V2-Long-term measures. Having held a detailed consideration of all relevant facts, representatives of Tivat and Kotor agreed that project measures for recultivation/rehabilitation of dumpsites and construction of the SSDF should not be considered solution for sludge disposal from WWTP Tivat/Kotor at the location of dumpsite Sinjarevo (Lovanja 1). They believe that alternative long-term solutions need to be found which would be environmentally acceptable and cost-effective for both Municipalities. Therefore, implementation of subject design measures should be excluded from the ToR for V2.

Municipalities have sent a joint letter to the MoSDT with their final position on recultivation/rehabilitation of dumpsites. In addition, they initiated in this letter the necessity of having an urgent meeting with representatives of the MoSDT in order to find a long term solution for WWTP Tivat / Kotor sludge disposal as soon as possible.

Vodacom's activities on capacity development of water utilities

Bar, Herceg Novi, Kotor, Tivat, Ulcinj

| Description | Capacity development of water and sewage utilities |
|--|--|
| <p>PROGRESS</p> <p>1. Benchmarking</p> <p>In May Vodacom was collecting financial statements and gross balance sheets of ViK's for 2019 to start reviewing data used to calculate the key performance indicators of the ViK's business to produce the Annual Benchmarking Report for 2019.</p> <p>Monthly report for April 2020 has been produced and submitted to the MoSDT, Municipalities, ViKs, and benchmarking coordinators for the further use.</p> | |