

UPRAVA

INTERNATIONAL FINANCE CORPORATION
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TO: Mr. Janez Bohoric, President &
Mr. Franc Balanc, Vice President - Finance
Sava Kranj
Kranj, Slovenia.

FAX NO.: 9-011-386-64-222 808

Dear Mr. Bohoric & Mr. Balanc,

1. A successful and happy New Year to you and your colleagues.
2. I hope that, as discussed, you and the rest of the Board members found time over the Christmas holiday to each prepare your own draft "counter offer letter" to Goodyear. Time is extremely short and, according to the timetable agreed between Sava and Goodyear in Fulda, Sava is expected to deliver its written counter offer to Goodyear by Friday, February 7, 1997 and be prepared to commence negotiations in Akron the following week. That is five (5) weeks from now.
3. As discussed before the Christmas vacation, I should be grateful if you and the other Board Members would kindly sit down together to agree a single draft counter offer letter. Given the timeframe, I should be grateful if you would kindly telefax me a copy of this first draft by cob. Thursday, January 9th., so that I may send you my comments early the following week.
4. While you have been enjoying the Christmas vacation, I have continued to review the Goodyear business plan numbers for both the Tyre and Engineered Products joint ventures and Sava's own "status quo" expectations. However, before I can proceed any further I need the following input from yourselves:

Financial Statements: Please provide copies of the Income Statement and Balance Sheets for the following enterprises/business units for the periods ended May 31, 1996 and December 31, 1996:

Sava Kranj (Consolidated), Sava Semperit, Forma, Utility Plant, V-Belts, Air Springs and Artificial Leather.

Capital Expenditure: Please provide a list, with capitalized cost, of all equipment purchased by the Sava Semperit operation between June 1, 1996 and December 31, 1996. The total value of these purchases should correspond to the gross value of acquisitions, as shown in the Balance Sheet - i.e. the total should represent the difference between the May 1996 and December 1996 Gross Fixed Assets as shown in the Balance Sheet.

Sava Krani Cost of Capital: A lot of work has been done developing business plans (by Goodyear and Sava) for the prospective joint ventures and (by Sava alone) for the Status Quo operations. However, in order to arrive at a meaningful present value (NPV) of the future earnings streams it is necessary that we determine a realistic "cost of capital". Goodyear will have its own cost of capital which may or may not be the same as Sava's. I would emphasize that there is no definitive "cost of capital". It can be different from country to country, industry to industry, company to company and from project to project. However, Sava needs to develop a reasonably clear understanding of its own cost of capital to (a) prepare its counter offer and (b) be able to negotiate convincingly with Goodyear. In order to start to understand what this may be, please provide answers to the following questions:

- **Government Bond Yields:** In the Bank of Slovenia Monthly Bulletin (September 1996) yields on "Govt. 2 & Govt. 1" bonds were quoted as 4.3% and 1.9% p.a. over DEM clause. Are these the Slovene equivalent of US Treasury Bills? What is the "DEM clause" and exactly how does it work? What are the present Govt.2 & Govt. 1. yields?
- **Annualized Inflation Rate:** What is the present annualized inflation rate? In September it appeared to be c.7% p.a.
- **Interbank Money Market Rates:** What are the prevailing rates - real and nominal and how does the FOREX Clause affect the rate?
- **Commercial Bank Interest Rates:** In September 1996 the average rates were quoted as:

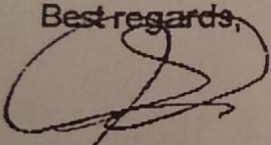
	Real	Nominal
90 day Deposit	4.8%	11.4%
One Year Plus Deposit	7.1%	13.9%
Short Term Borrowings	11.6%	18.6%
Long Term Borrowings	12.6%	19.7%

- Please advise the current rates and exactly the basis for computing nominal V's real rates.
- Also, please advise the exact rates presently being received by Sava on deposits and paid by Sava on its short term debt and long term debt. Please make clear whether the rate paid is "real" or "nominal". If nominal, please show the conversion to arrive at a "real" equivalent.
- **Threshold Cost of Capital:** Does Sava presently employ any guideline rates of return which a project must meet before it receives approval? If so, please advise rates and whether they are pre or post tax. If there is more than one rate, please advise the

criteria for each rate. Is there any "minimum" rate of return that an investment must achieve before Sava management will approve the transaction?

- Shareholder Expectations: We need to urgently sound some of the major shareholders to determine what their "rate of return" expectations are for (a) Sava and (b) investments in general. Please try to ascertain whether they have any guidelines, and how they evaluate and price relative risk.
 - Market Capitalization: What is the present market capitalization of Sava Kranj?
 - It is very important that we understand all the above rates very clearly. However, the single most important rate of return is that expected by the shareholders - because they will need to give their blessing to the counter offer made to Goodyear, and we can only finalize that counter offer once we understand the rate of return expected by the shareholders.
5. I should be grateful if you would kindly telefax me the answers to the above questions by cob Wednesday, January 15th.

Best regards,



John Clarke