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From the desk of John Clarke

February 10, 1997

To: Janez Bohoric, President - Sava Kranj
Frank Balanc, Vice President, Finance - Sava Kranj

Cc: Dave Leffler, Goodyear

Subject: Goodyear/Sava Business Plan

The accompanying attachment contains four (4) workbooks: **JEC-GY3.XLS, INC-8.WK3, PRICE-8.WK3** and **SAG-7.WK3.**

JEC-GY3.XLS - This is an EXCEL 5 workbook and contains my summary/rework of the Goodyear business plans developed for the Tyre Joint Venture and the Engineered Product Joint Venture. In the case of the Tyre Joint Venture I have reviewed in detail the Goodyear model and essentially re-input the model, reducing/simplified the number of individual worksheets so as to more readily follow the structure of the model. In the case of the Engineered Product business plan, I have prepared a Summary Operating Statement which is linked to and draws on Goodyear Engineered Products model. As such, the other three (3) workbooks included in this attachment (INC-8.WK3, PRICE-8.WK3 & SAG-7.WK3) must be copied into the same directory so that they support the JEC-GY2.XLS model. These last three files are the Goodyear Engineered Products model and are Lotus files. To review the model I strongly suggest that you view it in EXCEL 5.

Treatment of Working Capital and Inventories: The first and most important assumption is that I have restated the Goodyear business plan to reflect the NET WORKING CAPITAL to be wholly debt financed (as is presently the situation). The calculations for the cost of working capital finance is shown at the foot of the Operating Statements. The resulting cash flows and discounted NPV therefore reflects the unleveraged cash flows/NPV of the FIXED FACTORY ASSETS. The starting NPV of the 100% of the Tyre joint venture business plan (at a 21% discount rate) is US$56.2 million. **This figure represents the NPV of the fixed factory assets only and does <u>not</u> include inventories which were carried in the May 1996 books at c.US$33 million**. The new joint venture would be expected to purchase the inventories from the existing Sava Semperit joint venture at cost or market value, whichever is the lower.

From this "base" restatement of the Goodyear business plan I have made the following amendments:

(a) reduce the Sava 1996 Estimate for utility charges from US$9,582,000 to US$8,049,000 as per Mr. Percic telefax dated December 19, 1996 (see highlighted in RED in the 100 KG Cost worksheet),

(b) elimination of the US$1,350,000 license fee charge in the Goodyear cost of sales (see highlighted in RED in the 100 KG Cost worksheet),

(c) computed and applied an effective tax rate (rather than a flat 25% as used in Goodyear business plan), based on the prevailing tax code as supplied by Mr. Balance in E-Mail of November 21, 1996.

As a result of these amendments the unleveraged value of 100% of the Tyre Joint Venture, at a 21% discount rate, increases from US$56.2 million, discussed above, to US$73 7 million.

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I have approached the valuation of the Engineered Products joint venture in a similar fashion to the Tyre joint venture. That is to say, I assume the net working capital requirements to be 100% debt financed and I have restated the tax liability to reflect the effective tax rather than a flat 25%. The only other adjustment made to the Goodyear EP business plan is to reduce the license fee by 10% of the air spring revenue to reflect the reduction in price expectations.

These amendments are reflected in the JEC-GY3.xls file.

The JEC-GY3.XLS file contains the following worksheets:

Summary: This summarizes the Tyre and Engineered Products (EP) joint venture yearly cash flows (years 1 - 8), the net present value (NPV) of those cash flows (extended out to 120 years) at the discount rate shown. The first row in the Tyre and EP summary shows the total (100%) of the cash flows/NPV of the operation. The second row in each summary reflects the percentage of the cash flows/NPV attributable to the Goodyear shareholding (column 2). The rows "Interco Sales Benefit" and "License Fee" show the cash flow and NPV benefit of Interco sales and the License Fee to Goodyear. Each of these rows is driven by other worksheets in the model. The last row in each summary (Total Tyre JV & Total EPJV) shows the total cash flows/NPV of the joint ventures to Goodyear at the shown Goodyear Shareholding and discount rate. The last row is simply a total of both sub-totals. If you want to see the value to Goodyear of the joint ventures at different levels of shareholding and different discount rates you simply change the percentages in the GREEN cells. These four cells drive all the other Goodyear shareholding and discount rate cells in the summary and linked worksheets, so DO NOT ATTEMPT TO CHANGE ANY OTHER CELLS.

NPV of Interco Sales: This worksheet shows how Goodyear has arrived at the value, to them of Interco tyre sales.

NPV of License Fee: This worksheet shows how Goodyear has arrived at the value, to them, of the License Fee for Tyres and EP.

Tyre Operating Statement: This worksheet is my restatement of the Goodyear tyre business plan reflecting the amendments discussed above.

Tyre SAG: This is a straight lift from the Goodyear model and supports Years 1 & 3 SAG in the Tyre Operating Statement. Year 2, is the average of years 1 & 3. years 4+ are based on year 3 escalated in real terms at 5% p.a. The Tyre SAG assumptions and 5% p.a. escalation are Goodyear assumptions which you may wish to review.

Tyre Sales Forecast: Provides the underlying volume and selling price assumptions. Although a somewhat simplified presentation, these are Goodyear assumptions and remain unchanged. You may want to review.

Tyre Cost of Sales: Based on the 100 KG Cost worksheet, this summarizes the COS assumptions by product group. Except for the changes in respect to Utilities and License Fee, these numbers reconcile exactly with Goodyear's business plan.

100 KG cost: This is based on Goodyear's 100 LB cost worksheet. However, I have simplified the schedule and kept it in KG. Sava's base numbers are shown in YELLOW and, again, except for the Utilities and License fee adjustments (highlighted in RED), reconcile exactly with Goodyear's original.

Tyre CAPEX: This is a straight lift from the Goodyear model. Please review to ensure that you agree with the assumptions.

EP Operating Statement: This is the Operating Statement for the Engineering Products Joint Venture. I have used the same format/presentation as used for the tyre Joint Venture and that employed for the "Status Quo" projected operating statements. As noted at the beginning of this note, I have not undertaken such an exhaustive rework of the EP JV as for the Tyre JV. Instead, I have pulled the relevant information from the Goodyear Engineered Products Group files **, INC-8.WK3, PRICE-8.WK3** and **SAG-7.WK3**. The numbers are exactly the same as Goodyear down to the operating income level, except for the license fee. When Goodyear reduced the sales revenue on the Air Springs by 10% to reflect expected real decreases in prices, they failed to adjust the License fee. I have corrected this. Following the same principal as with the Tyre joint venture, I have assumed that the NET WORKING CAPITAL requirements would be debt funded and the financial expense in the operating statement reflects the cost of debt funding net working capital. Likewise, I have calculated the effective tax rather than taking a flat 25%.

Capital Expenditure: Finally, there is a summary of the aggregate capital expenditure requirements of both joint venture and Sava's expected share.

In Conclusion: I would ask you to please print out the entire file and carefully review to (a) understand the business plan and approach, (b) verify the underlying assumptions. I would emphasis that this does not necessarily mean agreeing with the level of the proposed Goodyear shareholding, or the NPV (and hence discount rates) of the two joint venture. What you need to do is try wherever possible to verify the underlying assumptions. We will get to the issue of price and level of shareholding during negotiation.

Best regards,

John Clarke

CLAZKOV IZBOLJŠANI
DENARNI TOK
→ NPV 103,823 mio $

SAVA KRANJ
Goodyear Offer
Summary

	Goodyear Shareholding	Discount Rate	NPV (120 yrs)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Tyre Joint Venture @ 100%			**$73,674**	*$10,067*	*$9,056*	*$8,910*	*$9,538*	*$10,250*	*$10,905*	*$14,962*	*$27,425*
Tyre Joint Venture	75%	21.0%	**$55,256**	$7,551	$6,792	$6,683	$7,153	$7,688	$8,179	$11,222	$20,569
Interco Sales Benefit		21.0%	**$13,095**	$778	$1,683	$2,167	$2,633	$3,005	$3,339	$3,915	$4,464
Licence Fee - Tyres		21.0%	**$20,408**	$3,032	$4,241	$4,257	$4,271	$4,331	$4,408	$4,713	$5,021
Total Tyre Joint Venture - GY		21.0%	**$88,759**	$11,360	$12,716	$13,106	$14,057	$15,024	$15,926	$19,849	$30,054

EP Joint Venture @ 100%			**$12,195**	($17,658)	($10,121)	$1,044	$7,390	$12,812	$12,857	$13,924	$13,526
Engineered Products Joint Ventu	75%	21%	**$9,147**	($13,243)	($7,591)	$783	$5,543	$9,609	$9,643	$10,443	$10,145
Licence Fee - Tyres		21%	**$5,918**	$338	$620	$964	$1,333	$1,701	$1,758	$1,817	$1,878
Total Engineered Products Joint Venture		21%	**$15,064**	($12,906)	($6,970)	$1,747	$6,876	$11,311	$11,401	$12,260	$12,022
Total Joint venture			**$103,823**	($1,546)	$5,746	$14,853	$20,933	$26,335	$27,327	$32,109	$42,076

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GY DENARNI TOK ; OSNOVA ZA PONUDBO OKT. 96
→ NPV 84,964 mio $

Goodyear / Sava - Unlevered Basis

Present Value of Future Cash Flows @ Various Discount Rates

US $ in 000's

Excludes Liscense Fee

50%

unt Rate	SAVA Tires Standalone Value 100.0%	SAVA Tires Standalone Value 75.0%	Retail Profit on Offtake Passenger	Retail Profit on Offtake RLT	Technology Liscense Fee	Total Tires	75.0% Technology Eng Prod	75.0% Technology scense Fee Liscense Fee	Total EP	Total Eng Prod & Tires
8.0%	$196,764	$147,573	$40,108	$998	$58,051	$246,730	$63,182	$20,627	$83,809	$330,539
9.0%	$169,437	$127,078	$34,747	$893	$51,201	$213,918	$52,102	$17,964	$70,066	$283,984
10.0%	$147,884	$110,913	$30,499	$807	$45,737	$187,956	$43,389	$15,846	$59,235	$247,191
11.0%	$130,515	$97,886	$27,058	$737	$41,281	$166,963	$36,394	$14,125	$50,519	$217,481
12.0%	$116,267	$87,200	$24,222	$678	$37,581	$149,682	$30,681	$12,701	$43,382	$193,063
13.0%	$104,406	$78,305	$21,848	$628	$34,462	$135,243	$25,949	$11,505	$37,454	$172,697
14.0%	$94,408	$70,806	$19,837	$584	$31,798	$123,025	$21,983	$10,488	$32,471	$155,496
15.0%	$85,888	$64,416	$18,114	$546	$29,498	$112,575	$18,626	$9,613	$28,240	$140,815
16.0%	$78,561	$58,921	$16,625	$513	$27,494	$103,552	$15,761	$8,854	$24,615	$128,167
17.0%	$72,207	$54,155	$15,326	$483	$25,731	$95,696	$13,296	$8,190	$21,487	$117,182
18.0%	$66,656	$49,992	$14,186	$457	$24,171	$88,805	$11,163	$7,605	$18,768	$107,574
19.0%	$61,777	$46,333	$13,178	$433	$22,780	$82,723	$9,307	$7,086	$16,393	$99,116
20.0%	$57,462	$43,096	$12,282	$411	$21,533	$77,322	$7,683	$6,622	$14,306	$91,627
21.0%	$53,626	$40,219	$11,481	$391	$20,409	$72,500	$6,257	$6,207	$12,464	$84,964
22.0%	$50,199	$37,649	~~$10,762~~	~~$373~~	~~$19,391~~	$68,175	~~$4,999~~	~~$5,833~~	$10,831	$79,006
23.0%	$47,124	$35,343	$10,114	$356	$18,465	$64,278	$3,886	$5,494	$9,380	$73,657
24.0%	$44,354	$33,265	$9,527	$341	$17,619	$60,752	$2,898	$5,186	$8,084	$68,836
25.0%	$41,849	$31,386	$8,993	$327	$16,844	$57,550	$2,018	$4,906	$6,924	$64,474

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GY WINDOW OF NEGOTIATIO

lahko je ponudba okt. 96

Retail Profit on Offtake = Retail Selling Price ($23.20 Pass & $50.00 RLT) - SAG @ 10% - Transfer Price (Sava Cost +10%) - 3% Freight

50.0% Incremental

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GY tire model ; pretežno so bili ponudbe