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TO: **Mr. Janez Bohoric, President**
Sava Kranj, Kranj
Slovenia

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Dear Mr. Bohoric,

In order to fully prepare for the forthcoming negotiations with Goodyear, we need to develop a set of financial projections to reflect your third alternative - "termination of the Continental relationship and pursuit of an independent course employing a third tier license technology". As a matter of urgency, please have Tony Kepez, with the support of the Marketing and Technical Departments, prepare ten year financial projections reflecting this alternative approach. The key assumptions to be determined are (i) Sales volume and pricing by various markets - realistically this would mean loss of Conti offtake after one year and a relatively slow growth from Sava's present "own sales" of today, (ii) Capital investment program - there would be no need to spend money on "Goodyearizing" the plant, any additional capacity enhancements or further infrastructure developments. There would be a need to (a) pay off Conti and (b) adapt the plant from Conti to "third party" license technology. However, the aim should be to minimize capital expenditure unless absolutely necessary. Remember capital expenditure is spend in advance of cash generation which may flow from such expenditure. Unless the project has a very quick payback, it may serve to depress the net present value of the business.

Development of this alternative will be an important element in the negotiating "tool-kit" when you sit down with Goodyear. You also need this information as background to formulate the terms and value of Sava's "Counter Proposal" which Goodyear expects to receive early in 1997 and before commencement of negotiations. In this connection, I would also urge you to re-visit Sava's existing "Base Case" tyre business plan (i.e. the status quo) to ensure that it is realistic and defensible. Aside from making sure that Sava can defend the sales and price assumptions you should carefully review the US$107 million capital expenditure program. Why is the "status quo" investment program higher than the Goodyear/Sava joint venture business plan investment program (US$96 million). I would have thought that the reverse would have been the case. After all, there would be no need to spend money "Goodyearizing" and there would be no investment needs relating to light truck/4X4 tyres.

Incidentally, Tony Kepez's "model" of the "status quo" business plan is essentially one sheet with no supporting sheets showing the underlying assumptions and how it is built up. When Sava sits down with Goodyear to negotiate you will need all the details at your fingertips. When, as will inevitably happen, Goodyear challenges you to defend why Sava believes its business is worth "x", you need to have all the data readily to hand and it must be defensible. Therefore, I would urge you and everyone involved to carefully review all assumptions and be in a position to strongly defend them. Tony Kepez should be a part of the Sava team which comes to Akron for the negotiations.

With specific regard to Sava's counter offer, you need to begin giving careful thought to the following items:

- share of business, Sava is prepared to (a) initially offer and (b) ultimately agree to sell to Goodyear.
- terms and conditions of such a sale
- price Sava is prepared to (a) initially propose and (b) ultimately accept for whatever share of the business Sava Kranj is prepared to cede to Goodyear.

Whilst in Fulda, Mr. Valance expressed to me his concern at the time the Goodyear/Sava "courtship" was taking, the need to expedite the process and get to "end game". He made it very clear that he had a finite appetite for further extended meetings without reaching a definitive decision. He indicated that unless Sava and Goodyear reached an agreement fairy quickly, he would plan to re-deploy his resources elsewhere.

Although there is doubtless an element of "posturing" by Mr. Valance, it is clear that now Goodyear has essentially completed its own due diligence, it wants to quickly move to a conclusion - one way or another. You should expect Goodyear to substantially increase the pressure to reach closure during the first quarter of 1997.

As discussed in your office in Kranj two weeks ago, you need to focus very carefully on advantages and disadvantages of the alternatives before you. For me, a very serious consideration would be Conti's reaction if the Goodyear negotiations were terminated. My guess is that Goodyear, and possibly others, would always be prepared to come back to the table if the Conti collaboration terminated - for whatever reason. However, at that time Sava would be probably be in a weaker negotiating position. Sava could also pursue an independent course. However, it would be very tough. Another consideration is that the window of opportunity for the Engineered Products Joint Venture Proposal (worth 500 incremental jobs) is very definitely limited. I am sure that Goodyear Engineered Products Group is talking to other potential partners in Europe. They are anxious to expand their presence in Europe and will likely not wait very much longer to conclude a deal with Sava.

Best Regards,

John Clarke