POSLOVNA

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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 Janez and Franc,

1. As you know, I have read Marko's "aide memoire" dated January 22, 1996 summarizing Sava's thought process concerning the proposed counter offer to Goodyear, and have passed back my comments to both Franc and Marko.

2. As time is extremely short and I have not received any draft Counter-Offer from Sava I have prepared my own first draft which is shown below:

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QUOTE

First Draft of Counter-Offer Letter

Gentlemen:

Goodyear/Sava Joint Venture - Counter Proposal

We refer to your letter dated October 25, 1996 wherein Goodyear indicated a willingness, subject to further detailed discussions and negotiations, to purchase from Sava Kranj a 75% controlling interest in two joint ventures (Tires and Engineered Products) for an aggregate price of US$85 million.

Sava Kranj management and shareholders are very appreciative of the continued interest of Goodyear and the constructive and collaborative manner in which Goodyear management has approached the development of the two joint venture business plans. We have reviewed the Goodyear Proposal and, as requested by yourselves following subsequent discussions, set forth below our Counter-Proposal.

In making this counter-proposal, Sava has kept in mind the two underlying principles which were originally agreed upon by both parties in 1995 - namely, (a) Goodyear would only contemplate entering into a collaboration with Sava Kranj providing Goodyear held a majority shareholding in the joint venture(s) and (b) Sava Kranj required that the prospective collaborative arrangement would deliver both tire and engineered product technology.

Summarized below are the key elements of our Counter-Proposal:

1. **Development of Joint Ventures**: Goodyear shall undertake, so far as is practicable given prevailing market growth, to expand both the tire and engineered products business in line with the jointly developed business plans. Additionally, Sava places a high priority on the development of Sava's management, technical and marketing skills. Consequently, Sava expects Goodyear to promote career development opportunities for Slovene staff both within the proposed joint ventures and in the wider Goodyear organization.

2. **European Engineered Product Development**: Goodyear shall undertake to develop the Goodyear/Sava Engineered Product joint venture as Goodyear's primary European engineered product manufacturing facility. In particular, Goodyear shall undertake to develop the Goodyear/Sava Engineered Product joint venture as the sole European manufacturing base for Goodyear's entire range of power transmission products, automotive hose and air springs.

3. **Technology Access**: Goodyear shall undertake to provide both joint ventures with unhindered access to the latest product technology to enable them to compete effectively in their respective markets.

4. **Capacity Utilization**: Goodyear shall undertake to maintain production and sales of both joint ventures at full installed capacity. To the extent that the individual joint venture is temporarily not able to sell its production, Goodyear shall take such surplus production through the Interco system for sale elsewhere in the Goodyear network. However, priority shall at all times be given to the production and sale of Sava branded tire products.

5. **Shareholding**: Mindful of our original understanding, Sava is prepared to cede majority (51%) control of both joint ventures to Goodyear. However, as you are aware from our discussions, it is Sava's desire to maximize its minority interest. Equally, Sava recognizes that Goodyear is anxious to maximize its majority interest. Sava believes that, beyond 51%, the level of shareholding should be based upon the relative level of contribution to the joint venture both in terms of product sales and added-value. Sava recognizes that Goodyear will be the prime mover in the development of the Engineered Products Joint Venture and penetration of the European OE market. However, Sava is already an established presence in the European tire market which is clearly recognized in the business plan proposed product mix. Accordingly, Sava proposes that the respective shareholdings of the two joint ventures would be as follows:

	Goodyear	Sava
Tire Joint Venture	51%	49%
Engineered Product Joint Venture	65%	35%

In recognition of Goodyear's concern that the Sava management team may fail to develop and grow the Sava brand as envisaged in the business plan, and therefore may require increased Goodyear support, Sava would be prepared to jointly develop a formula which would permit Goodyear to purchase additional shares from Sava (up to a maximum of 65%) in the event the joint venture failed to achieve pre-agreed targets for Sava branded product sales. Sava for its part would expect Goodyear to undertake to buy its entire minority stake in both joint ventures should it choose to exit either joint venture. The outline of such an arrangement would be embodied in a PUT/CALL Agreement.

6. **PUT/CALL Agreement**:

- The Call: Commencing day one of the third year of the Tire joint venture and for a period of five years thereafter, Goodyear shall have the right to require Sava to sell it one percent (1%) of the shares of the joint venture held by Sava for every two percentage points (2%) that the Sava branded product sales fall below 75% of total sales. Such percentage achievements shall be measured in US Dollar value and averaged over a preceding three year period. The exercise price shall be the initially agreed sale price for one percent (1%) of the joint venture compounded at [x%], less actual dividend distribution paid on the shares since the inception of the join venture.

- The Put: Sava shall have the right, for a period of ten years from the operational commencement of the joint ventures, to require Goodyear to purchase any or all of its minority shareholding in either joint venture. The exercise price shall be the initially agreed sale price for one percent (1%) of the joint venture compounded at [x %], less actual dividend distribution paid on the shares since the inception of the join venture.

Notwithstanding the above Put/Call, Sava shall be free to sell its minority shareholding to a third party provided however that:

- during the Call period, Sava shall first offer to Goodyear any shares which would increase Goodyear's shareholding up to 65% at the Call exercise price.

- during the Put period, Sava shall first notify Goodyear of its intention to sell and Goodyear shall have a right to purchase such shares as are not covered by the Call at the Put exercise price.

- after the Put period, Sava shall continue to have an obligation to first notify Goodyear of its intention to sell and Goodyear shall have a right of first refusal at the market price.

7. **Sale by Goodyear of Majority Control**: In the event that Goodyear elects to terminate the technology agreements with the joint ventures or sell its majority shareholding in either joint venture, Goodyear shall give Sava twelve months notice of such intention and Sava shall have a right of first refusal to purchase Goodyear's shareholding or, alternatively, exercise its rights under the PUT agreement and require Goodyear to purchase Sava's minority shareholding.

8. **Purchase Price**:

- Tire Operations: Subject to final negotiations and issue of notice of termination to Semperit AG, Sava is prepared to sell to Goodyear a 51% interest in the buildings, plant, equipment and machinery of (a) the Tire operation, (b) the Energetic plant, (c) Forma, (d) [GO & FF ??] and (e) [the technical rubber batch plant???] **for a price of [US$125 million}**. This price assumes that the separation cost involved in compensating Semperit AG for the 28% it presently holds in the Sava-Semperit joint venture shall not exceed US$28 million. In the event that the separation cost exceeds US$28 million, Goodyear and Sava would share the excess cost proportional to their respective shareholdings (51:49). — excluded

- Engineered Products: Subject to final negotiations, Sava is prepared to sell to Goodyear a 65% interest in the buildings, plant, machinery and equipment that presently comprises (a) the existing Power Transmission operations, (b) the existing Air Spring operation and (c) the Artificial Leather operation (building only) **for a price of [US$22 million]**. The power transmission and air spring operation will be transferred to the new joint venture in its prevailing condition and Sava shall have no obligation to change or re-arrange the buildings, plant, machinery or equipment in any way. In the case of the Artificial Leather building, Sava shall deliver the building to the joint venture clear of all plant, machinery and equipment related to artificial leather production. The removal of the artificial leather equipment shall be at Sava's expense. However, any modification to the building or electrical & mechanical requirements for the new joint venture requirements, shall be for the account of the new joint venture.

- Inventories and Working Capital: The purchase price for both joint ventures expressly excludes any title to inventories and the receivables book which shall remain the property of Sava. Sava shall be responsible for liquidating its own receivables and settling its own payables. Inventories shall be purchased separately by each joint venture from Sava according to their requirements at the lower of cost or market value.

- Land: The land on which the joint venture assets are located shall initially remain in the ownership of Sava and be leased to the joint ventures. The term of each lease shall be for a period of 50 years with the caveat that the leasehold shall automatically converted to a freehold title upon the respective joint venture achieving the following minimum investment program and installed capacities:

Tire Joint Venture -	Investment program: US$90 million 8.5 million tires 55,000 MT's of Rubber processing capacity
Engineered Products:	Investment program: US$35 million ??? MT's of Rubber processing capacity

Until such time as the performance tests have been achieved, both joint ventures shall pay to Sava an annual lease payment. The first year payments shall be US$xx in the case of the Tire operation and US$xx in the case of the Engineered Product Operation. Thereafter, the annual lease payment shall be first year lease payment, adjusted annually in line with the US retail price index.

- Factory Access: Sava shall guarantee the joint ventures free and unhindered physical access to both joint venture operations within the Sava site complex.

- Taxes and Registration Fees: The new joint ventures shall be responsible for the payment of all property transfer taxes and or registration fees associated with this sale. Goodyear shall be responsible for any taxes/registration fees associated with registering its ownership in the new joint ventures. Sava shall be responsible for any capital gains or profit taxes which may arise from the transfer of assets to the new joint ventures and sale of majority ownership in such joint ventures to Goodyear.

9. **License & Technology Fee**: The license fee and technology transfer fee shall not exceed three (3) percent of the net ex:factory sales value of the joint ventures. To the extent that the license fee is payable on products destined for Goodyear Interco sales, the license fee shall be included in the factory cost base when computing the Interco transfer price.

10. **Trade Mark**: The ownership of the Goodyear and Sava brand names shall remain the exclusive property of Goodyear and Sava, respectively. The joint ventures shall pay to both Goodyear and Sava a trade mark fee not exceeding one (1) percent of the net ex:factory sales price of all sales bearing their respective brand names.

11. **Goodyear Support during Semperit Notice Period**: In the event that Continental wholly or partially reduces its tire offtake during the final year of operation of the Sava-Semperit joint venture, or otherwise acts in such a way as to financially disadvantage Sava, Goodyear shall do whatever is necessary to mitigate Sava's financial loss including offtake of tires for sale through the sales distribution network

12. **Interco Sales**:

- Tires: Interco sale of tires between the Tire joint venture and other Goodyear operations shall be at factory cost (to be defined) plus [ten (10) percent].

- Engineered Products: Interco sale of engineered products between the Engineered Product joint venture and other Goodyear operations shall be at factory cost (to be defined) plus [five (5) percent]. However, it should be expressly understood that sale of product by the joint venture shall be deemed to be direct to the original equipment manufacturer or distribution system and as such no sales of the Engineered Product joint venture into the European market place will be subject to the Interco pricing regime.

13. **Dividend Policy**: Subject to the capital expenditure requirements of the respective joint ventures, which shall be agreed by the respective management Boards, both joint ventures shall annually distribute one hundred percent (100%) of earnings. Such distribution to take place no later than six months following the end of the fiscal year in which the earnings were generated. Notwithstanding the capital expenditure requirements of the businesses, the joint ventures shall in any event distribute not less than twenty-five percent (25%) of annual earnings.

14. **Financial Policy**: Unless specifically agreed to by the Sava representatives on the Management Board, the total debt of the joint ventures shall not exceed 40% of total capital employed. Capital employed being defined as Shareholders capital, including all reserves and retained earnings, long and short term bank loans and all other borrowings but excluding trade payables with a maturity less than 90 days.

15. **Manning Levels**: Goodyear and Sava have jointly analyzed the manpower requirements of the proposed joint ventures and have concluded that the needs are those as set forth in annex 1. Specifically, the Tire joint venture, as conceived jointly by Goodyear and Sava, has a present manning level of 1,870 while the Engineered Product joint venture has a manning level of 387. Notwithstanding the projected movements in the manning requirements, the two joint ventures shall, upon conclusion of the joint venture agreement, take over responsibility for the present manning establishment of both operations (1,870 plus 387 - a total of 2,257) and take over the financial responsibility for all future pension and severance obligations that may arise. Goodyear shall undertake not to decrease the manning levels below that contemplated in the jointly developed business plan for a period of five (5) years.

16. **Purchased Services**: Contracts shall be drawn up among Sava, Goodyear, the Tire joint venture and the Engineered product joint venture for the following purchased service:

- Processed Batch Rubber
- Office Rent
- Office Services
- Security
- Parking facilities
- Canteen Facilities
- Medical facilities
- Steam and Electrical requirements
- Other Purchased Services, including those from Goodyear (define).

The principal basis for such interchange of services shall be [cost plus x%, 1997 price indexed, annual renegotiation - must be defined]

The joint venture shall not be required to share in Goodyear Group sales promotion/advertising costs aimed at promoting the Goodyear brand name (such as operation of the Goodyear Blimp and the racing program).

17. **Tube Offtake:** Although Sava respects Goodyear's desire not to include in the joint venture the inner tube factory located at Ptuj, the continued operation of this facility in an economically depressed area of the country is extremely important. Accordingly, Sava expects Goodyear to enter into a five year offtake agreement for [x number] of truck and [x number] of car inner tubes at an average price equivalent to [US$ per kg] of processed rubber at January 1997 prices. The price to be adjusted every six months for (a) actual raw material cost changes (b) the non-material content of the 1997 base price, including overhead and profit, to be adjusted according to the US retail price index.

18. **Minority Shareholder Rights:** Sava shall enjoy minority shareholder rights, including right of veto for the amendment of the articles of association and statutes, reduction of share capital, liquidation of the joint ventures, transfer or sale of a substantial part of the assets and other rights provided by law.

19. This letter is not intended, and shall not constitute, a contract or an offer to enter into a contract. It is in response to Goodyear's letter of October 25, 1996 and is intended to form the basis for detailed negotiation scheduled to take place in Akron on Wednesday, February 12th. and 13th. 1997. No representation is made herein by Sava Kranj. Any transaction shall be effected, and any obligation by either party to the other shall arise, only after these negotiations have been concluded, the execution of the necessary agreements and the approval of such agreements by the Board of Directors of Goodyear and the Management and Supervisory Boards of Sava Kranj.

UNQUOTE

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3. The first thing I would emphasis is that this is a starting position for negotiations (much as Goodyear's October 25th,. letter represented their opening position). You are most unlikely to achieve the shareholding indicated in para 5 and you will most definitely not get the price indicated in para 8. However, it is better to start high and meet Goodyear somewhere in the middle.

4. Let me first discuss the Engineered Products JV. Goodyear's opening position is that they are willing to pay c.US$12.5 million for 75% of the business (assuming a 21% discount rate). If I adjust Goodyear's model to reflect an "effective" tax burden and assume that net working capital is debt funded, the revised Goodyear offer for 75% of the business, at a 21% discount rate, would be c.US$15 million. Sava's projections for the existing Artificial Leather, V-belt and Air Spring operations suggests that 100% of

the three business activities is worth in total only c.US$6 million - at a 15% discount rate. This would suggest that, irrespective of the discount rate, Sava should pay Goodyear to come into the business rather than the other way round. That said, I would suggest that Sava not insist on a large minority share of the business - particularly as Goodyear brings both the technology and market. My suggestion would be to initially ask for 35% and settle for 30%. As for price, I would initially seek a price of US$22 million for 65%. This is based, not on Sava's alternative opportunities because it is far worse that what Goodyear offers but, on the adjusted Goodyear business plan at an 18% discount rate. I have chosen 18% because the model Goodyear provided us seemed to suggest the "negotiating window" is between 15% and 21%. I would recommend that we start at a 15% discount rate for the Tire operation and, as I believe the Engineered Product business has more risk than the tire business, a higher discount rate is defensible. Thus 18%. Ultimately we will probably end up at c.US$14 million for 70%.

5. In terms of negotiating strategy, I would urge that we try to "nail" the Engineered Product terms fairly quickly without being to unrealistic. We can then move on to the more difficult Tire JV and, with Goodyear's Engineered Product happy, we may have an ally to expedite negotiations on the Tire deal.

6. Concerning the Tire operation. I continue to believe that Sava's Status Quo business plan is unrealistic. If, for the sake of argument, we assume a 15% discount rate, the NPV of 100% of the Status Quo Tire business would be US$162 million. By comparison, an analysis of Sava-Semperit's historical performance strongly suggests that the present business is worth c.US$ 95 million, again at a 15% discount rate. That means, other things being equal, any normal investor would not pay more than c.US$100 million for 100% of the business. Goodyear is no ordinary investor and clearly has the ability to create greater added value. However, as Clark Sprang told us, Goodyear is not going to pay for what it delivers itself. It will therefore be a tough negotiation.

9. Goodyear clearly wants to keep as much of the added value it creates to itself and is using a high discount rate and has heavily discounted Interco sales benefits to hold the price as low as possible. However, by making available a copy of their model, Goodyear has provided us a significant insight into (a) their thought process and (b) where their profit is derived. As a starting position I suggest we seek to hold Goodyear to a 51% shareholding for a cost of US$125 million. This will likely be met with the same derision that Sava held for Goodyear's initial offer <u>and don't expect to get this or anywhere close to it</u>. However, better to start to high than to low. Rather than basing the initial offer on Sava's Status Quo, I have chosen to base it on Goodyear's own business plan using a 15% discount rate (what I believe to be the low end of their "negotiating window"). I have also progressively reduced the 50% discount factor (what Goodyear chooses to call "incremental" factor) on Interco profits from 50% flat for 120 years to zero by year six. This substantially increases the "face value" of the business. I believe this is defensible since it should take no more than a couple of years or so to absorb the incremental Sava capacity. By comparison, if one translates this price into a discount rate on the Sava Status Quo, it works out to c.8% - which is clearly unrealistic in the international context. However, given real local returns it is a

GO+FF gre vse nam (2,3 mio), ker bo [illegible].

useful talking point. My guess is that we could probably end up with an initial Goodyear majority stake of 60% at a price of anywhere between US$85-95 million.

10. As a negotiating strategy to maximize Sava's minority stake in the Tire JV, I suggest we introduce the concept of a "Call" (see para 6 of the Counter proposal) which would enable Sava to maintain a higher minority shareholding if it delivers on growing the business. Of course, if Sava management fails to deliver, Goodyear would get a greater share of the business. As constructed, the exercise price is based on the initial purchase price, plus a compound rate of interest. Realistically, I don't expect Goodyear to accept such a structure because (a) it provides Sava with no downside risk and (b) the initial purchase price already includes 100% of the license fee and Interco benefit. If I were Goodyear and agreed to the general "Call" concept, I would base the exercise price on a multiple of earnings at the exercise date. The mirror image of the "Call" is the "Put", which would provide Sava with a guaranteed exit in the future should it wish to do so. Regarding the "Put" exercise price, the same comment applies as for the "Call" exercise price.

11. Para 8 - Land: The purpose of leasing the land initially is not to generate incremental revenue but to try and ensure that Goodyear invests and grows the business as represented in the business plan. You could of course levy an economic rent and I have included the framework language to do so. However, I would suggest that you use a nominal rent (US$1 per year). If you chose to charge an economic rent you should expect Goodyear to adjust the price to neutralize the impact.

12. As for the rest of the points, I have tried to reflect as many of the issues as I remember we have discussed when meeting Goodyear. However, please feel free to adapt, amend or delete as you see fit. No one has a monopoly on knowledge and five heads are better than one. Please review and let's discuss on the speaker phone in your office with Franc, Emil, Vinko and Marko. I suggest you call me at say call me at home at 1.30 PM your time.

Best regards,

John Clarke

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Goodyear Offer
Summary

	Goodyear Shareholdin	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%			*$127,362*	*$10,067*	*$10,320*	*$10,179*	*$10,811*	*$11,541*	*$12,219*	*$16,367*	*$28,922*
Tyre Joint Venture	51%	15%	$64,954	$5,134	$5,263	$5,191	$5,514	$5,886	$6,232	$8,347	$14,750
Interco Sales Benefit		15%	$37,501	$778	$2,020	$3,034	$4,213	$5,410	$6,679	$7,829	$8,927
Licence Fee - Tyres		15%	$22,782	$3,032	$3,181	$3,192	$3,203	$3,248	$3,306	$3,535	$3,766
Total Tyre Joint Venture		15.0%	$125,238	$8,944	$10,464	$11,417	$12,930	$14,544	$16,216	$19,711	$27,443
EP Joint Venture @ 100%			$24,486	($17,658)	($9,882)	$1,415	$7,903	$13,467	$12,981	$14,466	$14,086
Engineered Products Joint Ventu	65%	18%	$15,916	($11,477)	($6,424)	$920	$5,137	$8,753	$8,438	$9,403	$9,156
Licence Fee - Tyres		18%	$5,708	$338	$465	$723	$1,000	$1,276	$1,319	$1,363	$1,408
Total Engineered Products Joint Venture		18%	$21,625	($11,140)	($5,958)	$1,643	$8,137	$10,029	$9,756	$10,765	$10,564
Total Joint venture			$146,863	($2,196)	$4,506	$13,060	$19,066	$24,573	$25,972	$30,477	$38,007

Status Quo v's Goodyear Tyre Operation

	Goodyear Shareholding	Discount Rate 30 years 8.0%	NPV	1997 Year 1	1998 Year 2	1999 Year 3	2000 Year 4	2001 Year 5	2002 Year 6	2003 Year 7	2004 Year 8	2005 Year 9	2006 Year 10
				Adjusted After Tax Free Cashflow									
Goodyear/Sava Tyre JV			251,983		10,067	10,320	10,179	10,611	11,641	12,219	16,367	28,922	32,717
Less: Goodyear Shareholding	51%		128,511		5,134	5,263	5,191	5,514	5,986	6,232	8,347	14,750	16,686
Sava Kranj Share of Goodyear/Sava JV	49%		123,472		4,933	5,057	4,988	5,297	5,655	5,987	8,020	14,172	16,031
Cashflow from Existing Operations (Status Quo)			304,682		2,840	20,124	24,573	26,522	23,841	28,013	30,129	32,651	32,651
Less: Conti 28% Share			85,311		795	5,635	6,881	7,426	6,676	7,844	8,436	9,142	9,142
Sava Kranj Share of Existing Operations			219,371		2,045	14,490	17,693	19,096	17,166	20,170	21,693	23,509	23,509
Therfore Purchase Price for	51%		95,899		(2,888)	9,433	12,705	13,799	11,510	14,182	13,673	9,337	7,477
Plus: Exit Price form Conti			28,101										
Total purchase Price			124,000										
Note: Price for 1% shareholding			$2,431,375										
Cashflow from Historical Performance			164,959		14,783	14,783	14,783	14,783	14,783	14,783	14,783	14,783	14,783
Less: Conti 28% Share			46,189		4,139	4,139	4,139	4,139	4,139	4,139	4,139	4,139	4,139
Sava Kranj Share of Historical Operations			118,771		10,644	10,644	10,644	10,644	10,644	10,644	10,644	10,644	10,644
Therfore Purchase Price for	51%		(4,701)		5,711	5,587	5,656	5,347	4,989	4,657	2,624	(3,528)	(5,387)
Plus: Exit Price form Conti			28,101										
Total purchase Price			23,400										
Note: Price for 1% shareholding			$458,614										
Cashflow from P.Rel			203,844		12,284	19,151	14,712	18,395	18,706	17,198	21,103	20,579	20,579
Less: Conti Payout			28,101										
Net Sava Kranj Cashflow of P.rel			175,543										