Gumarska in kemična industrija

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Sava

Facsimile message ( 5 pages) to

The Goodyear Tire & Rubber Company
Attn. Mr. Clark E. Sprang
Vice President Business Development
Akron, Ohio, USA
Fax No. 1 330 7965034

Kranj, February 7, 1997

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 a 75% controlling interest in two new joint ventures (Tires and Engineered Products) for an aggregate price of US$ 85 million.

Sava 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 the parties in 1995 - namely, (a) Goodyear would only contemplate entering into a collaboration with Sava providing Goodyear held a majority shareholding in any joint venture and (b) Sava required that the prospective collaborative arrangement would cover both tires and engineered products.

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. 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. ***Strengthening the Sava Brand***: Goodyear shall undertake to further strenghthen the Sava brand. The tire joint venture would maintain its own sales and marketing organization in order to effectively market the Sava brand on a global basis. There will be no limitations as to market access for Sava brand tires.

3. ***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 such joint venture as the sole European manufacturing base for Goodyear´s entire range of power transmission products, automotive hose and air springs.



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4. ***Technology Access***: Goodyear shall undertake to provide both joint ventures with unlimited access to the latest present and future material, product and process technology to enable them to compete effectively in their respective markets.

5. ***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, in the tire joint venture, priority shall at all times be given to the production and sale of Sava branded tires.

6. ***Shareholding***: Mindful of our original understanding, Sava has been 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 product 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 | 60% | 40% |

7. ***Put Option***: Sava shall have the right, in perpetuity, to require Goodyear to purchase any or all of its minority shareholding in either of the joint venture. During the first five years of the joint venture, the exercise price for 1% share shall be the initially agreed sale price for 1% of the joint venture compounded at 8 % p.a. less the net present value on actual dividend paid on the share. After five years from the inception of the joint venture, the exercise price shall be based on an independent valuation of the joint venture. During the first five years, the put option shall be exercisable at any time upon 30 days notice and thereafter upon completion of the valuation, but, in any event not later than 90 days after Sava shall have given notice of its intention to exercise the option.

8. ***Purchase Price***:

- <u>Tire Operations</u>: Subject to final negotiations, Sava is prepared to sell to Goodyear for a price of ***US$ 125 million*** a 51% interest in the tire joint venture which would contain the entire fixed assets of the Sava-Semperit tire plant, the energetic plant and Forma, excluding the land. The book values of these assets are reflected in the May 31, 1996 balance sheet of Sava. 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 this amount, Goodyear and Sava would share the excess cost proportional to their respective shareholdings in the tire joint venture. The value of the part of machinery and equipment included in the agreed tire joint venture capital expenditure program which would be acquired by Sava before the inception of the tire joint venture shall be purchased by the joint venture from Sava at cost.

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- Engineered Product Operations: Subject to final negotiations, Sava is prepared to sell to Goodyear for a price of ***US$ 20 million*** a 60% interest in the engineered product joint venture which would contain the entire fixed assets of the existing power transmission operation, excluding the land, the equipment of the existing air spring operation and the building presently occupied by the artificial leather operation. The book values of these assets are reflected in the May 31, 1996 balance sheet of Sava.

- 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 be converted to a freehold title upon the respective joint venture achieving the minimum investment program and installed capacities as agreed in the Goodyear/Sava business plan. For the term of the lease, each joint venture shall pay to Sava an annual lease payment of US$ 1 plus all taxes and fees incurred by Sava related to this land.

- Working Capital: The purchase price for both joint ventures expressly excludes any title to inventories and receivables which shall remain the property of Sava. Sava shall be responsible for liquidating its own receivables and settling ist 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.

- Sava Trade Network: The Sava Trade network shall not constitute a part of the joint ventures. Long-term distribution arrangements shall be made between the joint ventures and this network.

9. *Technology License*: The royalty for the technology transfer shall not exceed 3% of the net ex factory sales value of the joint ventures. The royalty payable on products destined for Goodyear interco sales shall be included in the factory cost base when computing the interco transfer price.

10. *Trade Mark License*: The ownership of the Goodyear and Sava brand names shall remain exclusive property of Goodyear and Sava respectively. The joint ventures shall pay to both Goodyear and Sava a trade mark royalty not exceeding 1% of the net factory sales prices of all sales bearing their respective brand names. To the extent that the royalty is payable on products destined for Goodyear interco sales, it shall be included in the factory cost base when computing the interco transfer price.

11. *Goodyear Support during Semperit AG Notice Period*: In the event that Continental wholly or partially reduces its tire offtake from the Sava-Semperit joint venture during the notice period, 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 Goodyear sales/distribution network. Any financial loss eventually incurred by Sava will be shared by Goodyear and Sava proportional to their respective shareholdings in the tire joint venture.

12. *Interco Sales*:
- Tires: Interco sales from the tire joint venture and other Goodyear operations shall be at factory cost (to be defined) plus 10% or more. Interco sales from other Goodyear operations to the joint venture shall be at factory cost (to be defined) plus 5%.

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- Engineered Products: Interco sales of products from Goodyear operations to the engineered product joint venture shal be at factory cost (to be defined) plus 5%. However, it should be expressly understood that sale of products by the joint venture shall 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. Interco sales of products from the engineered product joint venture to other Goodyear operations for re-sale outside Europe shall be at factory cost (to be defined) plus 10%.

13. ***Dividend policy***: Notwithstanding the capital expenditure requirements of the businesses, both joint ventures shall distribute to the shareholders 100% of annual earnings (i.e. net after tax profits), such distribution to take place not later than six months following the end of the fiscal year in which the earnings were generated. The distribution shall be effected in proportion with the respective shareholdings. Goodyear and Sava shall re-invest their shares of profits or parts thereof if and to the extent required to assure the financing of the agreed capital expenditure progamme of the joint ventures.

14. ***Minimal Return on Minority Shareholding***: Notwithstanding the actual profits of either of the joint ventures generated during any year, Goodyear shall guarantee that Sava minority shareholding in either of the joint ventures shall get a net return of not less than 6% p.a. of the nominal value of its respective share. In the event that the dividend stream from either joint venture in any year does not honor this right of Sava, the difference shall be paid to Sava directly by Goodyear.

15. ***Financial policy***: Unless specifically agreed to by the Sava representatives in the shareholders´assembly, the total debt of the joint ventures shall not exceed 40% of the capital employed, being defined as shareholders capital, including all reserves and retained earnings (if any), long and short term bank loans and all other borrowings but excluding trade payables with a maturity less than 90 days.

16. ***Manning Levels***: Goodyear and Sava have jointly analysed the manpower requirements of the proposed joint ventures. They have established the present manning levels and projected the movements in employment, by applying the Goodyear standards. Notwithstanding the projected downside movements in the manning requirements, the two joint ventures shall, upon inception of the joint venture agreement, take over the responsibility for the present manning establishment of both operations (1.847 plus 387 - a total of 2.234) and take over the financial responsibility for all future pension and severance obligations that may arise. Additionally, the purchase price to be paid by Goodyear under Para 8 shall be increased by all manning separation cost related to the reduction of employment on the part of Sava which would be a direct consequence of the Goodyear/Sava joint venture project, and Goodyear shall assist Sava in handling the manning separation process. Goodyear shall undertake not to decrease the manning levels below that contemplated in the jointly developed business plan for a period of 10 years.

17. ***Goods and Services***: Contracts shall be drawn up among Sava, Goodyear and the joint ventures for the following goods and services:

- Some raw materials, compounds and semi-products, energy, water, internal transport, environmental services and possibly other (from the joint ventures to Sava).
- Tubes, office rent and services, guards/security, fire brigade, phone/mail, parking, canteen services, medical services, cleaning, waste collection/storage, sight services,

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legal services, data processing, central lab services, central archives and possibly other (from Sava to the joint ventures).

- Management, sales, procurement and other possible services (from Goodyear to the joint ventures) The joint ventures shall not be required to share the Goodyear sales promotion/advertising cost aimed at promoting the Goodyear brand name.

Interim period arrangements shall be made. The principal basis for such interchange of services shall be cost plus or agreed 1997 price indexed.

18. ***Tube Offtake:*** Although Sava respects Goodyear´s desire not to include into the joint venture the inner tube factory located at Ptuj, the continued operation of this facility is extremely important. Accordingly, Sava expects that the Ptuj factory will be the predominant source of supply of inner tubes for the tire joint venture requirements and that Goodyear will enter into a long-term offtake agreement for 930.000 pcs of truck inner tubes, 1.700.000 pcs of car inner tubs and 150.000 pcs of flaps yearly (based on 315 working days).

19. ***Minority Shareholder Rights***: In either of the joint ventures, Sava shall enjoy minority shareholder rights, including right of veto to any amendment of the articles of association and statutes, any increase or reduction of share capital, liquidation of the joint venture company, any transfer or sale of a substantial part of the assets and other rights provided by law. Unanimous decision of the shareholders shall be required for the following matters: any decrease of employment under the manning levels defined in the Goodyear/Sava business plan, any change of the initial capital expenditure program, reinvesting of profits, any borrowing in excess of the debt/capital employed ratio defined in Para 15, any investments or disinvestments or undertaking other measures in the field of infrastructure on the site shared by Sava which may adversely affect the interests of Sava, approving, terminating or modifying any arrangements between the joint venture and its shareholders, any sub-licensing of the Sava brand and any transfer of shares or parts thereof to a third party. Sava should further have an adequate say in the matters of major importance of the joint venture such as, but not limited to: appointment and removal of directors, adoption of annual business plans, approval of annual financial statements, appointment and removal of auditors, major change in the marketing and sale structure of the joint venture, positioning of the Sava brand.

Gentlemen, this letter is not intended, and shall not constitute, a contract or an offer to enter into a contract. It is a response to Goodyear´s October 25, 1996 proposal and is intended to form a basis for detailed negotiation scheduled to take place in Akron from February 12 to 14, 1997. No representation is made herein by Sava. 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 Supervisory Board of Sava.

We are looking forward to meet you in Akron next week.

Best regards,

Franc Balanč                Janez Bohorič

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