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The Goodyear Tire & Rubber Company
Attn. Mr. Clark E. Sprang
Vice President Business Development
Akron, Ohio, USA

Kranj, March 10, 1997

Gentlemen,

Goodyear/Sava Joint Venture- Position Paper of Sava

We refer to your proposal dated October 25, 1996 and subsequent discussions, our counter proposal of February 7, 1997 presented in Akron from February 12-14, 1997 and the results of Akron discussions. Here is our position paper which presents the platform for the negotiations in Kranj from March 10-14, 1997.

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 for power transmission products, automotive hose and air springs. Sava will be invited to join Goodyear as a minority shareholder should the products to be manufactured by the joint venture be manufacture d as ancillary line in other acquisition candidates in Europe.

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, incl. original equipment.

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***: Sava is prepared to cede 60% control of the tire joint venture to Goodyear as requested in Akron. Sava further recognizes that Goodyear is anxious to maximize its majority interest in the engineered product joint venture beyond 60% proposed by Sava, based upon the relative level of contribution of Goodyear to this joint venture, and is willing to discuss this subject further.

Vpis v sodni register, 26.4.1996: Okrožno sodišče v Kranju - štev. Srg 96/00267; Osnovni kapital: 17.209.870.000,00 SIT
Predsednik nadzornega sveta: Viljem Žener

7. *Put Option*: Sava shall have the right, for a period of 7 years from the inception of the joint venture, to require Goodyear to purchase any or all of its minority shareholding in either 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. 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*:

- Tire Operations: Subject to the revised business plan and final negotiations, Sava is prepared to sell to Goodyear for a price of ***US$154 million*** a 60% interest in the tire joint venture which would contain the entire fixed assets of the Sava-Semperit tire plant, the energetic plant and Forma, excluding the land. The book values of these assets are reflected in the May 31, 1996 balance sheet of Sava. This price assumes that the separation cost involved in compensating Semperit AG for the 28 % it presently holds in the Sava-Semperit joint venture shall not exceed US$ 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.

- 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's tire business shall constitute a part of the tire joint venture. The assets which may be required by the tire joint venture shall be leased to the joint venture.

Details: Sava proposal of February 28 (fax from Bohorič/Koren to Sprang)

9. *Technology License*: The royalty for the technology transfer shall not exceed 3% of the net ex factory sales value of the finished products manfactured and sold by 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 ex-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 cost plus 10%. At the same time the tire joint venture shall purchase from other Goodyear operations on the same basis.

- Engineered Products: Interco sales of products from Goodyear operations to the engineered product joint venture shall be at cost 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 also be at cost plus 5%.

Further details on transfer of finished goods, raw materials, engineering stores and fixed assets: Goodyear Transfer Price Policy paper dated February 13.

Pro memoria: Sava is concerned that, due to product specialization among various European manufacturing locations, the joint venture may not fully enjoy the benefits of its low production cost base since an important part of the SAVA brand tires would be purchased from higher cost production facilities. Satisfactory safeguard against such possible adverse effects on the joint venture's financial performance should be found.

13. *Dividend policy*: Subject to the financial policy defined below and subject to the agreed capital expenditure and other financial requirements (coverage of any historical losses and increase of net working capital), the remaining cash flow of the joint ventures shall be used for distribution to the shareholders of the maximal part 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. Notwithstanding the foregoing, the joint ventures shall in any event distribute not less than a percentage of annual earnings to be agreed upon.. The distribution of profits shall be effected in proportion with the respective shareholdings.

14. *Minimal Return on Minority Shareholding*: Sava is prepared to withdraw its original requirement only if satisfactory solutions are found for the put issue and the minority shareholder rights package as indicated in Points 7 and 19 resp.

15. *Financial policy*: The total debt of the joint ventures shall not exceed 50% of the 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.

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 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 5 years.

Details: Akron position paper (Sava Manning Review)

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, site services, 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.

Details: Akron position papers (Shared Services, Semi-Product Supply)

18. ***Tube Offtake:*** Sava appreciates Goodyear´s willingness to reconsider the inclusion of the inner tube factory located at Ptuj (the continued operation of this facility is extremely important) into the joint venture. Ptuj factory will be the predominant source of supply of inner tubes for the tire joint venture requirements. Depending on the cost reduction possibilities, Goodyear will enter into long-term offtake arrangements from Ptuj for other Goodyear locations.

Details: Akron position paper (Sava Tube Production)

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, major change of the initially agreed product range, major change in the marketing and sale structure of the joint venture, positioning of the Sava brand. This is Sava's original position.

Goodyear position: paper of February 20. Sava's reaction to Goodyear position follows (paper of Dr. Blaum).

Gentlemen, this letter is not intended, and shall not constitute, a contract or an offer to enter into a contract. It is only intended to form a basis for detailed negotiation scheduled to take place in Kranj from March 10 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 share Mr. Gibara's determination (expressed in Akron on February 13) to finalize the deal as soon as possible.

Best regards,

Franc Balanč

Janez Bohorič