

Facsimile message (2 pages) to

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

Kranj, May 8, 1997

Dear Clark,

thank you very much for your letter dated May 2 which has been carefully reviewed. As you indicate in your letter, two major issues remain: the price for Goodyear's purchase of majority control of the two joint ventures and the put/call option.

I believe we can address the first issue when we meet in Kranj. However, I feel it would be useful to expand on our concerns as they relate to the put/call issue.

I must express our very serious concern with the proposed put/call option, as now presented. Neither this latest proposal nor your original proposal meet the needs of Sava management or shareholders. Prima facie, your latest proposal appears even less attractive than your earlier formulation which, as you were already aware, was unacceptable. Either proposal is not so much an "insurance policy", but a date certain contract to sell 100% of the business with, at best, 40% being sold on an interest free deferred payment program. At worse, Goodyear is seeking a discount on the original "strike price" for the remaining 40%.

In practical terms, less than two years of operations is simply inadequate for Sava to establish a comfort level with the role of a minority shareholder in the joint ventures. Your original offer of six years seemed reasonable to Sava. The Sava management and shareholders very much want to remain minority participants in both joint ventures. However, we need a reasonable curing time to establish a comfort level, particularly after our last two meetings in Kranj. It became very clear that it is Goodyear's intention not only to keep the minority shareholders' rights at a minimum level. It also transpired that Goodyear running the business would mean that "when we find the time we will inform Sava ex post what has been done". In an increasingly competitive world, there may very well be sound commercial reasons why the business needs to be run in such a fashion. However, I must tell you this approach has shaken Sava confidence in the Goodyear/Sava relationship and, as a consequence, Sava management and shareholders need the comfort a put option affords.

In terms of the put price, since Goodyear expects to buy the future cashflows of the business at a discount rate in the order of 20% magnitude, logic and equity would suggest that the same rate be employed at the put price. Sava is prepared to contemplate a lower rate as such lower discount rate would bear an element of a price for obtaining an "insurance policy". However, the rate must meet the requirements of our shareholders who are not prepared to give Goodyear an interest free loan.

As you know, we had very reluctantly conceded that Goodyear should have a call option as compensation for put option. Sava will live with its concession but, in reaching agreement on the structure of the put/call option, we expect fairness.

In that spirit, we would propose the following put/call option formulation:

Sava shall have the right, for a period of five years (the "Put Option Period") from the operation date of a joint venture to require Goodyear to purchase any or all of its initial minority shareholding in both or either the tire or engineered products joint ventures. The option may be exercised once or several times. During the Put Option Period Sava shall have the right, upon 30 days notice, to exercise its option once per year at any time in respect of each joint venture. The exercise price of a 1% share of each of the joint venture shall be the initially agreed sales price of 1% of the joint venture compounded at the lower of 8% or 50% of the underlying discount rate implied in the purchase price for the initial Goodyear majority control of the respective joint venture, less the nominal value of pro rata share of any cash dividends distributed to the 1% shareholding, compounded at the lower of 8% or 50% of the underlying discount rate implied in the purchase price for the initial Goodyear majority control of the respective joint venture) from the date of distribution to the exercise date.

Goodyear shall have a one time (call) option, upon 30 days notice, for a period of 90 days from the expiration of the Put Option Period, to require Sava to sell to Goodyear any or all of its minority shareholding in either joint venture at the same price formula and payment terms as applicable to the put option. In the event Goodyear shall exercise its right to an extent that the minority shareholding of Sava drops below 20% in any one of the joint ventures, Sava shall have a one time right, upon 30 days notice to require Goodyear to purchase the remaining minority shareholding in either joint venture.

We also have several other more minor comments on your May 2 paper which M. Fajfar will send to you in a separate fax, to make our next meeting as productive as possible.

In closing, let me say that Sava management and our shareholders are anxious to reach closure of the remaining issues and move forward with building a new Goodyear/Sava operation. However the risks and rewards need to be equitable and be seen equitable. I am looking forward to meeting you on May 11.

Best regards,

Janez Bohorič

cc: Members of the Advisory Board  
Mr. S. Valant, Representative of Institutional Shareholders

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Kranj, May 8, 1997

Dear Mr. Sprang,

following the fax of J. Bohorič, here are our comments on the wording of some of the issues contained in your Position Statements of May 1, 1997. You are aware that during our last meeting in April, the priority issues which occupied the plenary meeting all the time prevented us from going into necessary details on the remaining ones. We are determined to finalize the deal on Sunday and Monday and produce a very clear document in order to avoid possible misunderstandings at a later stage.

Ad 1) Development of Joint Ventures:

New 2nd sentence: The Sava/Goodyear Business Plan, containing i.a. the agreed capital expenditure programme required to achieve the growth objectives is the base and the framework within which the tire and engineered products joint venture projects shall be implemented.

Ad 2) Strengthening the Sava Brand:

4th sentence to be replaced by: Sava brand shall be fully integrated into and subject to the Goodyear Europe's overall marketing strategy.

Add new sentences: Goodyear shall enhance Sava brand through a wide range of high quality products. It is intended that the present passenger tire product line will be expanded to include standard S/T rated summer, all-season and winter tires, an extended range of H rated tires as well as radial/fabric/steel light truck tires for the 4x4 off road vehicles. Goodyear will focus the Sava brand to meet replacement market requirements as well as current and future original equipment car manufacturing requirements.

Ad 4) Technology Access:

Add: for the life of the joint ventures

Ad 8) Purchase price:

The provision " This price is subject to any adjustments in values in comparison to the fixed assets values on the balance sheet as of Dec. 31, 1996 that may arise from a closing audit ..." should be defined further. We understand that such audit relates solely to the existence of the asset base, which must be properly maintained by the expenditure of the maintenance moneys at approx. the same levels and the ratios of expense and capital as expended during 1996.

Concerning the inventories, they should be purchased separately by each joint venture from Sava upon the operation date at a lower of cost or market value. The inventory carry requirements of the joint ventures should be defined now in order to allow Sava adequate time to achieve agreed inventory levels for transfer. No inventories that are of a substandard quality level not acceptable to Goodyear will be purchased by the respective joint ventures. In this connection Goodyear shall also not later than 30 days after the formation date provide Sava with the technical and engineering specifications of the raw materials that it uses, so that future buyings comply with Goodyear standards.

From the para dealing with Sava Trade network delete the sentence "In all cases, the owner of the assets will only be tire joint venture".

Ad 9) Technology Licence:

Licencee fee shall be charged on the products manufactured and sold by the joint venture, i.e. no fee shall be charged on the products purchased from Goodyear on the intercompany basis for resale by the joint ventures.

Ad 13) Dividend policy:

For the purpose of the dividend policy, capital expenditures shall be limited to those supporting the modernization and growth of the manufacturing operations on the Kranj site.  
Delete last sentence.

Ad 19) Minority rights:

Part I/Item 6: The words " in any one or related transactions" should be re-included. Item 10: Changes to the transfer pricing policy as defined in Item 12 and Goodyear paper of February 13 and changes of the initial service agreements; Sava's consent to such changes shall not be unreasonably withheld.

Part II/Item 4: reference should be made to Art. 15 hereof (and not the letter of March 10,1997).  
Item 6: Sava shall be entitled to require special audit by the auditors of its choice at the respective joint venture company's expense.

Part III/Item 2 should read: Detailed exit scenario

Ad 20) Management Fees:

A scheme should be developed for the engineered products sector.

Best regards

Marko Fajfar