

SAVA KRANJ, p. o.  
Škofjeloška 6, 64000 Kranj, Slovenija  
Tel.: 064 26 50, faks: 064 221 114  
Teleks: 37015 sava SI, poštni predal: 146  
Žiro račun: 51500-601-13180

**Sava**

Facsimile message (8 pages) to

Mr. Clark E. Sprang  
Vice President - Business Development  
The Goodyear Tire & Rubber Company  
Akron, Ohio, USA  
Fax No. 1 330 796-5034

August 22, 1996

Dear Clark,

following our telephone conversation this week and your telephone contacts with John Clarke last and this week, here are my views as to the substance of your written joint venture proposal which should accompany your Tire & Engineered Products Business Plan to enable us to secure the necessary support of the project by the competent management bodies of Sava, main shareholders, employee representatives and government.

A list of issues to be addressed in such a document is given in Appendix 1 hereto. During the part of our discussions planned for Wednesday morning, we shall have enough opportunity to exchange our views and refine the structure of such document. At this occasion we should also discuss the mechanics and the timeframe of the total exercise. Since we did not receive your business plan to be presented next week and were not aware of its structure/ contents when drafting the list of issues, it may include also some of those already contained in your plan.

I understand that you will not be able to formulate an offer until your discussion with Mr. Gibara, to take place tentatively on September 10. You indicated that you would then come to Slovenia between September 18 and 20 to present the Goodyear proposal to the Sava Management Board as well as to the Sava Supervisory Board and the Slovenian Government. Provided that Sava Management feels comfortable and that the necessary support from Supervisory Board, Government, etc. we should then enter into negotiations with the objective to finalize the deal until the end of this year. I would appreciate to get your written proposal a few days before our September meeting.

The answers to your fax of August 19 will be given in a separate fax by Slavko Koren.

Attached hereto pls find a paper presented to you in November last year, reflecting our position and expectations concerning the joint venture project at that time.

I look forward to our meeting in Kranj next week. Hotel (Toplice Bled) and transport arrangements for the Goodyear group will be taken care of.

Warm regards,

  
Janez Bohorič

**Sava/Goodyear Joint Venture**

**List of most relevant issues to be included in the first offer of Goodyear**

Principal objectives pursued by Goodyear

✓ Scope of joint venture business (as covered by the business plan)

Further expansion plans

Project cost

- scope and value of existing assets
- new investments

Financial structure

- equity
- internal cash generation
- loans (existing liabilities in or out?)

Ownership and capital structure

Transaction price and other basic elements of the majority share sale/purchase deal

Physiognomy of the joint venture company/ies to carry out the joint venture business (profit center, full product range, full availability of Goodyear material, product and process technology, SAVA leading brand, free access to the markets, own sales and marketing team, market pricing system, European distribution center for engineered products etc) and its/their position within the Goodyear family

Legal structure and major legal steps

Protection of Sava minority rights

Post transaction employment conditions and employment guarantees

Board of directors and management arrangements

Basics of

- know how licensing and technical assistance arrangements, future R&D arrangements and role of Sava R&D teams and facilities
- marketing arrangements  
incl. trade mark licensing (Sava brand and Goodyear brands)
- Goodyear intercompany arrangements (incl. pricing systems)

- Sava intercompany arrangements  
incl. availability of compounds and calendring capacities for the programmes  
outside joint venture/s (on a cost plus pricing basis) - details in fax by Cvenkel to  
Foley
- outsourcing service arrangements
- financial policies (incl. profit policy)
- direction and management systems
- environmental policies

Contractual structure

Time frame

Business plan (incl. marketing plan) = base and framework for the implementation of the  
JV Project

## STATUS REPORT

### concerning the Proposed Goodyear/Sava Kranj Joint Venture in the Field of Manufacture and Sale of Automotive Tyres and Selected Engineered Products

#### Background:

3 meetings (Mr. Sharp in Kranj on March 31 and April 1, Sava Kranj team in Akron on June 6-7, Goodyear team in Kranj on July 25-27), exchange of numerous faxes and phone calls.

Sava Kranj management is uncomfortable not only with the present level of profitability of its operations (both in tyre and technical product field), but also with the future of the tyre business under the present collaborative arrangements with Semperit/Continental. It is for this reason that Sava Kranj is seeking a substantial improvement of the existing arrangements with Continental and is exploring possible new arrangements with Goodyear. The confidence was built up among the members of Sava Kranj management team after our meetings in Akron and Kranj that Sava Kranj may have a better future within the Goodyear family.

#### Mechanics:

The mechanics how Goodyear would acquire majority ownership of the Sava Kranj automotive tyre and technical product business and the legal steps to complete such transaction were already explained:

- It would be inappropriate at this time to contemplate Goodyear buying the majority of Sava Kranj shares. Goodyear should rather acquire 51% (or more) of two joint venture companies newly established by Sava Kranj and Goodyear - one for automotive tires and one for selected technical products. In such case negotiation would take place with the management of Sava Kranj (today still having the status of a socially owned enterprise to be transformed into a joint stock company according to the Slovenian Company Law until the end of this year). The government of Slovenia will in no case be a negotiating party. However, due to importance of such a project for the Slovenian economy formal or informal approval (as the case may be at the time of concluding the transaction) would be sought.

- We have drawn Goodyear's attention to the brochure "Foreign Investment and Privatization in Slovenia", handed over in Kranj, which explains a general framework for foreign investment in Slovenia.

- The sequential order of the legal steps would be as follows:

**Tyres:** Based on the business plan jointly developed by Sava Kranj and Goodyear, the parties formulate a joint venture agreement, including the articles of association of a new joint venture company and including an agreement on the net assets value (assets minus liabilities) of the existing tyre manufacturing plant (Sava-Semperit) as per ... (preferably 31.Dec.1995).

Sava Kranj terminates the joint venture agreement with Semperit (see legal opinion of Dr. Schneider) and pays it out in compliance with the repatriation clause.

Goodyear and Sava Kranj establish a new limited liability company (Sava-Goodyear) with minimal share capital. Goodyear takes 51% (or bigger) share and Sava Kranj takes 49% (or smaller) share. The company starts operating immediately after the effective termination of the joint venture agreement with Semperit.

Upon effective termination of the joint venture agreement with Semperit any increase or decrease of the net assets value of Sava-Semperit is established as per ... (preferably 31.Dec.,1996). The parties increase the share capital of Sava-Goodyear accordingly and Sava Kranj contributes the assets debited with liabilities (= net assets value) of Sava-Semperit and Goodyear makes its possible contribution in kind and Sava Kranj sells and cedes to Goodyear an appropriate part of its share to finally establish the agreed ratio of shares in Sava-Goodyear.

This is only one of possible schemes. When we know more about the expansion programme, required equity financing, possible contributions in kind from Goodyear etc., then alternatives may be explored further.

**Technical Products:** Based on the business plan jointly developed by Sava Kranj and Goodyear, the parties formulate a joint venture agreement, including the articles of association of a new joint venture company and including the agreement on the value of assets and liabilities taken over. Goodyear and Sava Kranj establish a new limited liability company and make the agreed contributions in cash and in kind. The company starts operating immediately.

Obligation towardsSemperit/Continental:

Michelin/Continental arrangement is no more a framework within which Sava Kranj is willing to restructure its collaborative arrangements with Semperit/Continental.

The legal opinion of Dr. G. Schneider, attorney at law from Vienna selected by Goodyear's lawyers, confirmed the right of Sava Kranj to terminate the joint venture agreement with Semperit at any time after October 8, 1995 with the effect one year thereafter.

In the light of this termination clause we shall now continue the negotiations with Semperit/Continental on the terms and conditions of possible future collaboration.

Vision:Tyres:

- SAVA brand should become one of Goodyear's pull brands.
- The JV company would have its own marketing team, build its own marketing network (with considerable help from Goodyear) and operate a market pricing system. Initially a substantial part of the production would be sold through the Goodyear network.
- Product range should include passenger car, light truck and truck tyres.
- Production capacity for passenger car tyres would be substantially increased and that for truck tyres modernized in the next couple of years.
- Present level of employment should be preserved although structural changes may be required.
- Expansion and modernization of the tyre plant, maintenance of low production cost, introduction of a market pricing system and other measures would enhance the return to shareholders and thereby provide an attractive long-term investment.

Engineered Products:

- Existing Sava Kranj operations have lagged behind in technical innovation, quality and market access. Given the opportunity and technical/market/financial support of Goodyear a capability equal to that in the tyre sector could be developed.
- Following product groups were identified by Goodyear for further exploration: conveyor belts, V-belts, air springs, moulded products and hoses.

Steps:

Marketing Plan  
Business Plan  
Agreed Basic Terms of the Joint Venture  
Asset Valuation  
Due Dilligence  
Draft Legal Documents  
Negotiation  
Approvals  
Termination of Semperit/Sava Kranj Arrangements  
Establishment of JV Companies  
Interim Arrangements  
Increase of Capital/Contributions  
Implementation

Objectives of Meetings  
in Kranj in Dec. 95:

To develop a marketing plan for the tyre sector and further explore collaboration possibilities in the engineered product sector.