

Briefing Note:

The following are extracts from the Settlement Agreement setting out the agreed background to the disputes:

- (a) The Czech Republic has established a reputation as one of the leaders in macroeconomic stabilization and microeconomic reform in Central Europe, and is one of the leading new entrants in the European Union enlargement process. The Czech Republic has become a key destination in the region for foreign investment, including investment from Japan.
- (b) Nomura has an extensive investment banking track record in, and history of service to, the Czech Republic, including lead managing the debut international bond issues of Statni Banka Ceskoslovenska and the CNB, advising on the privatisation of the Czech brewing industry, including resolving the intellectual property issues necessary for privatisation, advising on the restructuring of the international obligations of the former Czechoslovakia, obtaining credit ratings for the former Czechoslovakia and the newly formed Czech Republic, advising on setting the initial exchange rate for the convertible Czechoslovak Koruna, and procuring \$950 million of investment by advising the government on the privatisation of the state tobacco monopoly.
- (c) Following the reorganisation of the unitary state banking system and the dissolution of Czechoslovakia, there were four major banks operating in the Czech Republic: Komerční banka (“KB”); Česká spořitelna (“CS”); CSOB and IPB. Initially, all of these banks were wholly state-owned. By the beginning of 1998, the Czech Republic’s share ownership in KB, CS and IPB had been reduced, but still represented a controlling stake in each of these institutions except for IPB. In the case of IPB, the Czech Republic’s ownership did not represent a controlling stake but rather a blocking minority.
- (d) During the period from 1998-2001, the Czech Republic disposed of its remaining stakes in KB, CS, CSOB and IPB (“Large Bank Privatisation”). The first Large Bank Privatisation was the sale of the Czech Republic’s shares in IPB. The price for these shares was 100% of the Net Asset Value (NAV) as confirmed to the Czech Republic by Ernst & Young. In subsequent Large Bank Privatisations, the Czech Republic sold its shares at a higher price than in the IPB share sale.
- (e) The Czech Republic sold its shares in IPB to Nomura Europe pursuant to a Share Sale Agreement dated 8 March 1998. Pursuant to such Share Sale Agreement, Nomura Europe undertook to subscribe for newly issued IPB shares and to use its reasonable endeavours, subject to the then prevailing market conditions, to assist IPB to issue subordinated debt.
- (f) Both the Czech Republic and Nomura Europe expected the financial position of IPB to improve following Nomura Europe’s investment in IPB. However, IPB subsequently experienced a significant increase in predicted asset provision requirements that threatened IPB’s capital adequacy.
- (g) Both the Czech Republic and Nomura Europe also expected the operations of IPB to improve following Nomura Europe’s investment in IPB. IPB did improve its operations, which was recognised when Andersen Consulting published a study concluding that IPB provided the best customer service among all banks in the Czech Republic. However, the current accounting profit from the operational improvement was not enough to offset the contemporaneous predicted increase in asset provision requirements.

- (h) During the period 1998 – 2001, the Czech Republic took a variety of measures that increased the capital of CSOB, KB, CS and the enterprise of IPB in connection with its sale to CSOB. The purposes of these measures were variously to maintain target bank's capital adequacy or stability, to prepare the target bank for privatisation and to stabilize the banking system.
- (i) During the first half of 2000, IPB experienced pressure on its deposit base and increasing estimates of its required provisions. Among other things, the CNB issued a preliminary report following a regulatory review indicating potential additional provisions of up to CZK 40 billion. IPB provided detailed responses to the indicated requirements, acceptance of which by CNB would have substantially reduced required provisions; however, the report was not finalised before IPB's forced administration. In discussions among IPB, Nomura Europe and the Czech Republic no final agreement was reached as to how to address these problems.
- (j) On 16 June 2000, the CNB with the consent of the Ministry of Finance and the Czech Government, imposed forced administration on IPB to resolve the crisis in the financial position of IPB.
- (k) On 19 June 2000, the Forced Administrator entered into a Sale of Enterprise Agreement with CSOB to sell the IPB Enterprise. In connection with that sale the Ministry of Finance issued certain guarantees and the CNB issued certain indemnities to CSOB with respect to the IPB Enterprise.
- (l) The circumstances surrounding each of the above transactions and the cause of the financial difficulties suffered by IPB have given rise to disputes and to a series of legal proceedings between the Nomura Parties on the one hand and the Czech Republic on the other hand.
- (m) On 17 March 2006 the Tribunal in the arbitration proceedings commenced by Saluka against the Czech Republic issued a Partial Award in which it was found that certain of the Czech Republic's actions were in breach of Article 3 of the Bi-lateral Investment Treaty between the Czech Republic and the Netherlands. The Czech Republic's attempt to appeal this finding to the Swiss Federal Supreme Court was rejected by that court on 7 September 2006. Absent a settlement, the issue of the appropriate redress for the Czech Republic's breach of the Treaty will be determined in a second phase of the arbitration proceedings to be heard by the same Tribunal in November 2007.
- (n) In March and September 2006 another Tribunal held hearings in an arbitration commenced by the Czech Republic against Nomura Europe. The Czech Republic claims contractual penalties and damages based on the Czech Republic's arguments that Nomura Europe did not fulfil certain promises that were given at the time of its acquisition of the NPF's IPB shares and that certain other actions taken by Nomura Europe made the economic condition of IPB worse. Nomura rejects the Czech Republic's claims and asserts that the allegations that Nomura damaged IPB already have been refuted by the findings of the Tribunal in the Bi-lateral Investment Treaty proceeding. Absent a settlement, the merits of the Czech Republic's claims, and damages, if any, will be determined in a final award expected at the end of 2006 or in early 2007.
- (o) CSOB (both directly and through Torkmain and Levitan) have brought three separate sets of proceedings before three tribunals (the Municipal Court in Prague, a London arbitral

tribunal and the Amsterdam District Court) seeking to challenge the legality, validity and effectiveness of the contractual arrangements entered into in and after March 1998 between certain of the Nomura Parties and IPB and others relating to Nomura Europe's investment in IPB and the sale of shares in Plzensky Prazdroj. All three tribunals have dismissed those challenges. CSOB still have the right to appeal the decision of the Municipal Court in Prague.

- (p) Both the Nomura Parties and the Czech Republic would have wished to settle their disputes with the KBC Group in relation to, inter alia, the matters referred to above. The KBC Group, however, would not co-operate. The Nomura Parties and Czech Republic remain willing to consider in good faith any settlement proposals the KBC Group may in future propose.
- (q) The Nomura Parties, on the one hand, and the Czech Republic, on the other hand, acknowledge that taking into consideration, in the case of the Nomura Parties, the value of the goodwill from its record of service to the Czech Republic and, in the case of the Czech Republic, the value of the goodwill from its record of successful economic reform, it is in all the Parties' best interests to settle the disputes in relation to, inter alia, the matters referred to above on the terms and conditions of this Agreement.