

SEABRIDGE GOLD INC
Form 6-K
May 12, 2009

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

F O R M 6-K

**REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934**

**For the month of
May 2009**

Commission File Number 1-32135

SEABRIDGE GOLD INC.

(Name of Registrant)

106 Front Street East, Suite 400, Toronto, Ontario, Canada M5A 1E1
(Address of Principal Executive Office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-_____

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Seabridge Gold Inc.
(Registrant)

By: /s/ Rudi Fronk

Rudi Fronk
President and C.E.O.

Date: May 12, 2009

EXHIBITS

- Exhibit 99.1 Unaudited Consolidated Financial Statements for the Three Months Ended March 31, 2009.
- Exhibit 99.2 Management's Discussion and Analysis for the Three Months Ended March 31, 2009.
- Exhibit 99.3 Press Release issued May 8, 2009 in which the Registrant announced the filing of its first quarter financial statements and Management's Discussion and Analysis for the period ended March 31, 2009.

= "right" valign="bottom" >	(7,600)	31.60		
<i>Balance at December 31, 2005</i>				
	1,217,079	35.88	158,020	34.14
Options granted				
	231,270	46.46		
Options exercised				
	(236,640)	35.31	(59,880)	33.17
Options forfeited				
	(112,050)	44.91	(9,060)	37.14
<i>Balance at December 31, 2006</i>				
	1,099,659	37.31	89,080	34.49

The following is a summary of activity pertaining to the OBS Group Executives and Board of Management that participated in the Akzo Nobel performance share plan:

Outstanding	Performance Share Plan (Executives and Board of Management)
<i>Balance at January 1, 2004</i>	
Granted	22,000
<i>Balance at December 31, 2004</i>	
Granted	22,000
Forfeited	382,202
Accreted dividend	(5,963)
	15,402
<i>Balance at December 31, 2005</i>	
Granted	413,641
Forfeited	266,635
Accreted dividend	(14,363)
	30,989
<i>Balance at December 31, 2006</i>	
	696,902

Table of Contents**OBS GROUP****NOTES TO THE COMBINED FINANCIAL STATEMENTS (Continued)**
(All amounts in millions of euros unless otherwise stated)***Fair value and assumptions used***

The expected value of performance stock options for the Board of Management and Executives is based on a binomial lattice option pricing model, using certain assumptions. These assumptions were used for these calculations only, and do not necessarily represent an indication of management's expectations of future developments. In addition, option valuation models require the input of highly subjective assumptions, including expected share price volatility. The OBS Group's employee stock options have characteristics significantly different from those of traded options and changes in the subjective assumptions used for the calculation can materially affect the fair value estimate.

The fair value and the assumptions used for the options granted were as follows:

	Common Shares, in EUR			American Depository Shares, in USD
	2006	2005	2004	2004
Fair value at measurement date	9.97	7.45	7.94	8.48
Share price at measurement date	46.46	31.98	31.45	37.25
Exercise price	46.46	31.98	31.45	37.25
Expected share price volatility (%)	24.8	33.4	35.2	32.7
Expected option life (years)	5	5	5	5
Expected dividend yield (%)	2.74	4.4	4.1	4.1
Risk free interest rate (%)	3.92	3.25	3.2	2.8

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Share options are granted under a service condition and a non-market performance condition. Such conditions are not taken into account in the grant date fair value measurement. There are no market conditions associated with the share option grants.

The grant date fair value of the performance shares is amortized as an expense over the three-year vesting period. The fair value at grant date is based on the Monte Carlo simulation model taking market conditions into account. The value was calculated by external actuaries and amounted to EUR 16.80 for the performance shares conditionally granted in 2006, EUR 12.67 for the 2005 performance shares, and EUR 10.84 for the 2004 performance shares.

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(All amounts in millions of euros unless otherwise stated)**Note 21 Provisions**

	Total	Pensions and Other Postretirement Benefits	Restructuring of Activities	Other
<i>Balance at January 1, 2005</i>	536	417	8	111
Additions made during the year	49	11	7	31
Utilization	(261)	(152)	(10)	(99)
Amounts reversed during the year	(5)		(1)	(4)
Transfers from Akzo Nobel	12	12		
Unwind of discount	1			1
Changes in exchange rates	22	16	1	5
<i>Balance at December 31, 2005</i>	354	304	5	45
Additions made during the year	48	13	11	24
Utilization	(91)	(63)	(9)	(19)
Amounts reversed during the year	(6)		(1)	(5)
Transfers from Akzo Nobel	18	18		
Changes in exchange rates	(11)	(9)		(2)
<i>Balance at December 31, 2006</i>	312	263	6	43

The above movement schedule includes the current portion of the provisions, which at December 31, 2006 and 2005 amounted to EUR 45 million and EUR 29 million, respectively.

Provisions for pensions and other postretirement benefits

The majority of the OBS Group's employees participate in Akzo Nobel defined benefit pension plans, defined contribution pension plans and other postretirement benefit plans, which provide benefits to employees and former employees of both the OBS Group and other Akzo Nobel businesses. In these plans, the assets and liabilities that relate to employees (and former employees) of the OBS Group are combined with those related to employees (and former employees) of other Akzo Nobel businesses.

The OBS Group has obtained information about each of these Akzo Nobel plans measured in accordance with IAS 19 on the basis of assumptions that apply to each of the plans as a whole, and used a reasonable allocation method to determine the OBS Group's portion of each plan's assets, liabilities and benefit costs under IAS 19. For each of these plans, the defined benefit obligation (at each balance sheet date), and the service cost, contributions, benefit payments, and impact of special events (in each accounting period), relating to the OBS Group, have been determined using approximate actuarial techniques which take into account the membership profile of OBS Group participants

compared to the membership profile for participants in the plan as a whole. Plan assets at each balance sheet date have generally been split in the same proportion as the defined benefit obligation.

Management believes that such allocations have been made on a reasonable basis, but may not necessarily be indicative of the actual separation of these pension plans in the future.

Furthermore, some OBS Group employees participate in stand-alone OBS Group pension and other postretirement benefit plans. The related expenses, assets and liabilities for these plans are accounted for in the OBS Group businesses in accordance with IAS 19.

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(All amounts in millions of euros unless otherwise stated)

The defined benefit pension plans in which the OBS Group's employees participate generally provide benefits based on years of service and employees' compensation. The funding policies for the plans are consistent with local requirements in the countries of establishment. Obligations under the plans are systematically provided for by depositing funds with trustees or separate foundations, under insurance policies, or by balance sheet provisions. Plan assets principally consist of long-term interest-earning investments, quoted equity securities, and real estate.

A number of OBS Group's current and former employees participate in Akzo Nobel postretirement healthcare and life assurance plans. The OBS Group has accrued for the expected costs of providing such postretirement benefits during the years that the employee rendered the necessary services.

Valuations of the obligations under the pension and other postretirement benefit plans are carried out by independent actuaries. The discount rates applied are based on yields available on high quality corporate bonds that have currencies and terms consistent with the currencies and estimated terms of the OBS Group's obligations.

During 2006, Akzo Nobel closed their US and Canadian defined benefit pension plans in which OBS Group employees and former employees participate to further accrual and implemented defined contribution plans for future benefit provision. During 2006, Akzo Nobel also altered the qualification requirements and changed the existing level of benefits in its US postretirement welfare plan in which OBS Group employees and former employees participate. Due to these changes, the OBS Group's provision for pensions and other postretirement benefits decreased by EUR 29 million, which was recorded in the combined statements of income during the year ended December 31, 2006.

During 2005, Akzo Nobel reached agreement with the unions to a change to its pension arrangements in The Netherlands in which OBS Group employees and former employees participate. With effect from December 31, 2005, the pension plan changed from a defined benefit plan to a defined contribution plan and certain changes were made to the pre-retirement plan. In connection with these changes during 2005 Akzo Nobel paid a one-time nonrefundable contribution of EUR 151 million, prepaid EUR 50 million in July 2005 of loans which are to be repaid by retaining employee pension premiums, and granted a EUR 100 million subordinated loan in September 2005 that had a fair value of EUR 87 million. A proportion of these amounts has been allocated to the OBS Group using the same method used to allocate the rest of the plan's assets. Management believes that this allocation method is reasonable. These changes resulted in a combined curtailment and settlement of defined benefit obligations for the OBS Group of EUR 1,086 million and a settlement of plan assets of EUR 1,059 million, and of the recognition of previously unrecognized gains and prior service costs totalling EUR 32 million. In total, the net effect of the change to The Netherlands pension arrangements was a pre-tax gain of EUR 59 million, which has been recorded in the combined statements of income in 2005.

Effective December 31, 2005, due to changes in the national healthcare system in The Netherlands, the OBS Group also terminated its postretirement healthcare plan in that country, except for a gradually declining transition arrangement until June 30, 2009. This change resulted in a curtailment of defined benefit obligations of the OBS Group of EUR 29 million, and the recognition of previously unrecognized gains and prior service costs totalling EUR 4 million. In total, the net effect of the termination was a pre-tax gain on the termination of EUR 33 million, which has been recorded in the combined statements of income.

At December 31, 2006 and 2005, the principal defined benefit pension plans covered approximately 24% and 51% of the OBS Group's employees, respectively.

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(All amounts in millions of euros unless otherwise stated)

Below, a table is provided with a summary of the changes in the pension and the other postretirement benefit obligations and plan assets for 2006 and 2005.

Asset/(liability)	Pensions		Other Postretirement Benefits	
	2006	2005	2006	2005
Defined benefit obligation (DBO)				
<i>Balance at beginning of year</i>	(644)	(1,513)	(87)	(89)
Acquisitions/divestments				
Settlements/curtailments	13	1,086	16	29
Service costs	(31)	(99)	(5)	(7)
Contribution by employees	(2)	(10)		
Interest costs	(26)	(61)	(4)	(5)
Other		2		
Plan amendments			9	
Benefits paid	33	46	6	2
Actuarial gains and losses	14	(74)	10	(7)
Changes in exchange rates	13	(21)	7	(10)
<i>Balance at end of year</i>	(630)	(644)	(48)	(87)
Plan assets				
<i>Balance at beginning of year</i>	362	1,162		
Acquisitions/divestments				
Settlements	(1)	(1,059)		
Contribution by employer	46	123	4	1
Contribution by employees	2	10		
Benefits paid	(33)	(46)	(6)	
Actual return on plan assets	34	152	2	(1)
Other		5		
Changes in exchange rates	(12)	15		
<i>Balance at end of year</i>	398	362		
Funded status	(232)	(282)	(48)	(87)
Unrecognized net loss/(gain)	32	60		16
Unrecognized prior service costs			(6)	
Medicare receivable			(9)	(11)
Net balance provisions	(200)	(222)	(63)	(82)

The pension defined benefit obligation breaks down as follows:

	2006	2005
Wholly or partly funded plans	553	564
Unfunded plans	77	80
	630	644

The difference between the actual and the expected return on plan assets was a gain of EUR 11 million in 2006 and EUR 80 million in 2005.

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(All amounts in millions of euros unless otherwise stated)

In the United States, the Medicare Prescription Drug Improvement and Modernization Act of 2003 introduced prescription drug benefits for retirees as well as a federal subsidy to sponsors of postretirement healthcare plans, which both began at January 1, 2006. This reimbursement right has been recognized as an asset under other financial non-current assets, in the combined balance sheets measured at fair value. At December 31, 2006 and 2005, this value was EUR 9 million and EUR 12 million, respectively.

The net periodic pension costs for the defined benefit pension plans were as follows:

Charge/(income)	Pensions			Other Postretirement Benefits		
	2006	2005	2004	2006	2005	2004
Service costs for benefits earned	31	99	101	5	7	7
Interest costs on DBO	26	61	66	4	5	5
Expected return on plan assets	(23)	(72)	(67)			
Amortization of unrecognized losses	1	3	3	(2)		
Settlements/curtailments	(12)	(59)		(17)	(33)	
	23	32	103	(10)	(21)	12

The weighted average assumptions underlying the computations were:

Percentage	Pensions			Other Postretirement Benefits		
	2006	2005	2004	2006	2005	2004
Pension benefit obligation December 31						
discount rate	4.8	4.5	4.7	5.7	5.4	5.4
rate of compensation increase	4.3	4.0	3.1	5.0	4.9	4.2
Net periodic pension costs						
discount rate	4.5	4.7	5.3	5.4	5.4	5.9
rate on compensation increase	4.0	3.0	3.1	4.9	4.2	4.1
expected return on plan assets	6.5	6.7	6.7			

The calculation of the weighted average discount rate as of December 31, 2006 and 2005 excludes the pension plan of the Netherlands. The assumptions for the expected return on plan assets were based on a review of the historical returns of the asset classes in which the assets of the pension plans are invested. The historical returns on these asset classes were weighted based on the expected long-term allocation of the assets of the pension plans.

Akzo Nobel's primary objective with regard to the investment of pension plan assets is to ensure that in each individual scheme sufficient funds are available to satisfy future benefit obligations. For this purpose, asset and liability management (ALM) studies are made periodically for each pension fund. An appropriate asset mix is determined on

the basis of the outcome of these ALM studies, taking into account the local rules and regulations.

Pension plan assets principally consist of long-term interest-earning investments, quoted equity securities, and real estate. At December 31, 2006 and 2005, plan assets did not include financial instruments issued by the OBS Group, nor any property occupied or other assets used by it. The

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weighted average pension plan asset allocation at December 31, 2006 and 2005, and the target allocation for 2007 for the pension plans by asset category are as follows:

Percentage	Target Allocation 2007	Actual Allocation at December 31,	
		2006	2005
Equity securities	55-61	57	61
Long-term interest earning investments	32-38	32	31
Real estate	1-4	1	2
Other	0-6	10	6
Total		100	100

Weighted average assumptions for other postretirement benefits were as follows:

Percentage	2006	2005	2004
Assumed healthcare cost trend rates at December 31:			
healthcare cost trend assumed for next year	11	9	6
rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5	5	4
year that the rate reached the ultimate trend rate	2013	2009	2009

In line with agreements in place until December 31, 2005, allowances under the healthcare plan in the Netherlands are assumed not to increase in the future.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

	1 Percentage Point Increase	1 Percentage Point Decrease
Effect on total of service and interest cost		
Effect on postretirement benefit obligation	1	(2)

Cash flows

The OBS Group expects to contribute EUR 29 million to its defined benefit pension plans in 2007.

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The following benefit payments, which take into account the effect of future service, are expected to be paid:

	Pensions	Other Postretirement Benefits
2007	29	3
2008	36	3
2009	32	3
2010	34	3
2011	37	3
2012-2016	174	20

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(All amounts in millions of euros unless otherwise stated)

The remaining plans primarily represent defined contribution pension plans. Expenses for these plans totaled EUR 102 million in 2006 and EUR 3 million in 2005.

Provisions for restructuring of activities

Provisions for restructuring of activities comprise accruals for certain employee benefits and for costs that are directly associated with plans to exit specific activities and closing down of facilities. For all restructurings a detailed formal plan exists, and the implementation of the plan has started or the plan has been announced. Most restructuring activities relate to relatively smaller restructurings, and are expected to be completed within two years from the balance sheet date. However, for certain plans payments of termination benefits to former employees may take several years longer.

Other provisions

Other provisions relate to a great variety of risks and commitments, including provisions for other long-term employee benefits like long-service leave and jubilee payments, provisions for environmental costs, provision for returns, allowances and legal claims. At December 31, 2006 and 2005, the OBS Group has recorded a provision of EUR 11 million, for returns and allowances. For details on environmental exposures, see Note 27.

The majority of the cash outflows related to other provisions are expected to be within 1 to 5 years. In calculating the other provisions a discount rate of 5%, on average, has been used.

Note 22 Deferred Income

In December 2003, the OBS Group received an initial payment of EUR 88 million from Pfizer for the co-development and co-marketing agreement for asenapine. Such payments are to be reported as deferred income and to be recognized as revenue in subsequent years. For this payment, recognition is based on the estimated co-development costs expected to be incurred over the estimated co-development period, which will be from 2004 to May 2007.

	2006	2005
Non-current deferred income		7
Current deferred income	10	31
	10	38

Note 23 Borrowings (Non-current)

	2006	2005
Debt to credit institutions	6	13
Other borrowings	39	46

During 2006 and 2005, the weighted average effective interest rate was 5.9% and 4.4%, respectively.

Aggregate maturities of non-current borrowings at December 31, 2006 are as follows:

	2007-2011	After 2011
Debt to credit institutions	1	5
Other borrowings	36	3
	37	8

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At December 31, 2006 and 2005, none of the borrowings were secured by means of mortgages, etc.

Finance lease liabilities are included under other borrowings. The amounts payable in respect of these finance lease liabilities at December 31, 2006 are due as follows:

	Minimum Lease Payments	Interest	Principal
Next year	6	1	5
Between 1 and 5 years	10		10
More than 5 years			
	16	1	15

Note 24 Borrowings (Current)

	2006	2005
Debt to credit institutions	75	90
Current portion of borrowings	37	34
	112	124

Note 25 Trade and Other Payables

	2006	2005
Suppliers	183	178
Prepayments by customers	11	17
Taxes and social security contributions	51	47
Amounts payable to employees	160	137
Bonuses and discounts to customers	62	44
Other accrued expenses	30	30
Fair value derivatives		1
Other liabilities	114	99
Total trade and other payables	611	553

Note 26 Financial Instruments***Foreign exchange risk management***

The OBS Group enters into forward exchange contracts with Akzo Nobel to hedge the transaction risk on sales, purchases, and financing transactions denominated in currencies other than the functional currency of the subsidiary concerned. The purpose of these foreign currency hedging activities is to protect the OBS Group from the risk that the eventual functional currency net cash flows resulting from committed trade or financing transactions are adversely affected by changes in exchange rates. Most forward exchange contracts outstanding at year-end have a maturity of less than one year. Where necessary, the forward exchange contracts are rolled over at maturity. The OBS Group does not use financial instruments to hedge the translation risk related to equity, intercompany loans of a permanent nature, and earnings of foreign subsidiaries. Currency derivatives are not used for speculative purposes.

At December 31, 2006 and 2005, the notional value of outstanding contracts to buy currencies totaled EUR 21 million and EUR 43 million, respectively, while contracts to sell currencies totaled EUR 57 million and EUR 43 million, respectively. These contracts mainly relate to the US dollar,

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Australian dollar, Swiss franc, Swedish kronor, Norwegian kronor, Polish zloty, pounds sterling, and Japanese yen, all having maturities within one year.

Interest risk management

The subordinated loan to the Akzo Nobel Pension Fund is sensitive to changes in interest rates. The OBS Group's share of the face value of the loan is EUR 36 million and the expected maturity is subsequent to 2010 with an average interest rate of 3.5%. The OBS Group's share of the carrying value of the loan and estimated fair value is EUR 33 million with an effective interest rate of 5.1%.

Credit risk

The OBS Group has a credit risk management policy in place. The exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit. Generally the OBS Group does not require collateral in respect of financial assets.

Investments in cash and cash equivalents are entered into with counterparties which have a high credit rating and limits per counterparty have been set. Transactions involving derivative financial instruments are with counterparties with sound credit ratings and with whom the OBS Group has contractual netting agreements. The OBS Group has no reason to expect nonperformance by the counterparties to these agreements.

Due to the geographical spread of the OBS Group and the diversity of its customers, at balance sheet date the OBS Group was not subject to any significant concentration of credit risks. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the combined balance sheets.

Sensitivity analysis

By managing currency risks, the OBS Group aims to reduce the impact of short-term fluctuations on the OBS Group's earnings. Over the longer-term, however, permanent changes in foreign exchange and interest rates would have an impact on combined earnings.

At December 31, 2006, the decrease in the OBS Group's profit before tax as a result of a general increase of one percentage point in interest rates would be negligible. Cash and cash equivalent and current borrowings have been included in this assessment.

Fair value of financial instruments

The estimated fair values at December 31, 2006 of non-current borrowings and the subordinated loan to the Akzo Nobel Pension Fund approximate their carrying values. The fair value of the OBS Group's non-current borrowings was estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the OBS Group for debt with similar maturities.

The fair value of forward exchange contracts is determined using quoted forward exchange rates at the balance sheet date. At December 31, 2006 and 2005 the OBS Group's forward exchange contracts were recognized at fair value. The OBS Group implemented IAS 32 and IAS 39 from January 1, 2005. The effect for the year ended December 31, 2004 of not applying IAS 32 and IAS 39 was not material. After implementing IAS 32 and IAS 39 from January 1, 2005, forward exchange contracts are carried at fair value.

The carrying amounts of cash and cash equivalents, receivables, current borrowings, and other current liabilities approximate fair value due to the short maturity period of those instruments.

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Note 27 Contingent Liabilities and Commitments

Environmental matters

The OBS Group is confronted with costs arising out of environmental laws and regulations, which include obligations to eliminate or limit the effects on the environment of the disposal or release of certain wastes or substances at various sites. Proceedings involving environmental matters, such as the alleged discharge of chemicals or waste materials into the air, water, or soil, are pending against the OBS Group in various countries.

It is the OBS Group's policy to accrue and charge against earnings environmental cleanup costs when it is probable that a liability has been incurred and an amount is reasonably estimable. These accruals are reviewed periodically and adjusted, if necessary, as assessments and cleanups proceed and additional information becomes available. Environmental liabilities can change substantially due to the emergence of additional information on the nature or extent of the contamination, the necessity of employing particular methods of remediation, actions by governmental agencies or private parties, or other factors of a similar nature. Cash expenditures often lag behind the period in which an accrual is recorded by a number of years.

The provisions for environmental costs accounted for in accordance with the aforesaid policies aggregated nil and EUR 2 million at December 31, 2006 and 2005, respectively. The provision has been discounted using an average discount rate of 5.25% and 5.0% for 2006 and 2005, respectively.

The OBS Group has certain asset retirement obligations for which the timing of settlement is conditional upon the closure of the related operating facility. At this time, there are no specific plans for the closure of these related facilities, and the OBS Group currently intends to make improvements to the assets as necessary that would extend their lives indefinitely. Furthermore, the settlement dates have not been specified by law, regulation or contract. As a result, the OBS Group is unable to estimate the fair value of the liability. If a closure plan for any of these facilities is initiated in the future, the settlement dates will become determinable, an estimate of the fair value will be made, and an asset retirement obligation will be recorded.

While it is not feasible to predict the outcome of all pending environmental exposures, it is reasonably possible that there will be a need for future provisions for environmental costs which, in Management's opinion, based on information currently available, would not have a material effect on the OBS Group's financial position and liquidity but could be material to the OBS Group's results of operations in any one accounting period.

Antitrust

In 1999, the Brazilian Consumer Authority commenced action against Hoechst Roussel Vet, a veterinary company acquired by Intervet in 1999. The Brazilian Consumer Authority demanded the OBS Group to justify the prices charged for FMD vaccines, asserting that such prices were abusive. On February 1, 2001, the Secretariat for Economic Monitoring issued a technical opinion recommending the dismissal of the proceeding, because there was no proof of the alleged conduct. An economic survey justifying the pricing and documentation was provided by Intervet to the Ministry of Justice in May 2005. However, no final report and opinion has been published at this time. The maximum fine the Brazilian Consumer Authority could impose on Intervet is 30% of the total gross revenue of the Brazilian subsidiary in the year before the alleged infraction, which would amount to less than EUR 10 million.

Also in 1999, the Brazilian Antitrust Authority commenced an investigation into Organon's Brazilian subsidiary and 20 other pharmaceutical companies to investigate alleged collusion on their

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part against generic manufacturers of pharmaceutical products in Brazil. A final administrative decision was issued in October 2005, and each pharmaceutical company, including our subsidiary, was convicted and fined an amount equal to 1% of total gross revenue (free from tax) in the year before the infraction. This amount has not yet been established, however, the OBS Group has made a provision in the amount of approximately EUR 0.8 million.

Litigation

During the years ended December 31, 2005 and 2004, the OBS Group paid EUR 64 million and EUR 87 million, respectively, to settle claims with respect to antitrust cases relating to the Company's Remeron® product. These amounts were accrued prior to 2004.

In December 2005, the OBS Group reached a settlement agreement with Duramed/Barr on its infringement of the OBS Group's rights to the Mircette® patent. Duramed/Barr paid the OBS Group EUR 109 million during the year ended December 31, 2005, for the transfer of the marketing rights to Mircette® and for damages connected to the OBS Group's claim. The OBS Group recognized EUR 70 million of these proceeds during the year ended December 31, 2005.

During 2005, the State of Alabama, the State of Mississippi, and 41 counties (now 42 counties) and New York City within the State of New York, separately brought claims against up to approximately 80 pharmaceutical manufacturers, including Organon Pharmaceuticals USA Inc., the predecessor of our United States subsidiary Organon Pharmaceuticals U.S.A Inc. LLC and Organon USA, Inc., alleging pricing fraud and, in the case of the State of Mississippi, conspiracy to commit such fraud, in violation of state, federal, and/or common law. The plaintiffs claim that the defendants committed fraud and were unjustly enriched by intentionally setting false and inflated average wholesale prices for their pharmaceutical products, which is the basis for Medicaid reimbursement. The plaintiffs further allege that such products were then marketed to pharmacists, physicians and/or pharmacy chain stores in such a way as to capitalize on the difference between the amount reimbursed by Medicaid for dispensing the products and the actual acquisition cost for the products. The allegations against our subsidiary have been pled with limited specificity and, although Remeron® sales are specifically mentioned in most complaints, in all cases except in Alabama, the allegations may extend to other products also. The complaints seek injunctive relief as well as actual, statutory, treble and punitive damages and, in some cases, disgorgements.

All but four of the New York county cases have been consolidated in the US District Court for the District of Massachusetts. Three of the remaining New York cases have been removed to federal district courts in New York and transfer to the US District Court for the District of Massachusetts pending a decision by the Judicial Panel on Multidistrict Litigation. A motion to dismiss the cases in the US District Court for the District of Massachusetts was partially granted in April 2007. Thereafter, plaintiffs have filed a First Amended Consolidated Complaint, in response to which defendants, including our subsidiaries, have filed a joint motion to dismiss. A decision on this motion is expected in the second half of 2007. A motion to dismiss the Erie County case (one of the cases pending transfer to the US District Court for the District of Massachusetts) was partially granted in September 2006. The Mississippi case has been dismissed. The proceedings in the State of Alabama are at an early stage, with discovery having commenced on April 13, 2005. The OBS Group does not believe to have been engaged in any improper conduct and are vigorously defending these matters.

Certain wholly owned operating subsidiaries of Organon and Intervet were named in the final report of the Independent Inquiry Committee into the United Nations Oil for Food Program for humanitarian support to Iraq. The report states that these entities made some improper payments in connection with four contracts (with a total value of USD 3.4 million) with the Iraqi Government to

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provide pharmaceuticals and vaccines. Akzo Nobel has been conducting an internal review of this matter and has voluntarily reported on that review to the US Securities and Exchange Commission and to the US Department of Justice. The Dutch FIOD/ECD also conducted an investigation into Organon's involvement in this matter; these investigations have been concluded in May 2007. The OBS Group is currently discussing a possible settlement with these authorities. While neither of the said authorities have taken any action against Akzo Nobel or its subsidiaries, this matter could expose Akzo Nobel and/or its subsidiaries to regulatory and/or criminal charges and sanctions.

In January 2006, Akzo Nobel Nederland B.V. and the Akzo Nobel Pension Fund in The Netherlands received a summons from the Association of Retired Akzo Nobel Employees (Vereniging van Gepensioneerden Akzo Nobel) with regard to the changed financing of Akzo Nobel's Dutch pension plan (relating to the change from a defined benefit plan to a defined contribution plan), as a consequence of which an alleged unconditional right to indexation became conditional. If the claim were to succeed, then, pursuant to the separation agreement, the OBS Group would be responsible to reimburse Akzo Nobel or any other member of its group for all losses actually incurred in connection therewith to the extent relating to any former employees that, at the time of ceasing their employment with the Akzo Nobel Group, worked primarily in any current or former human healthcare or animal healthcare activities of the Akzo Nobel Group. The claim was recently dismissed by the Court of First Instance. An appeal can be filed within three months after the court's judgment, which period expires in April 2007.

In July 2006, drug wholesaler RxUSA brought claims against 16 pharmaceutical manufacturers, including the OBS Group, as well as against five drug wholesalers, the Healthcare Management Distribution Association and certain individuals, alleging joint and several liability for, amongst other things, monopolization of the wholesale pharmaceutical market in violation of state and federal antitrust laws. The plaintiff claims that defendants willfully acquired and sought to maintain a monopoly and exclude competition by secondary wholesalers. The plaintiff further alleges that the 16 pharmaceutical manufacturers and other wholesale dealers wrongfully and illegally refused to deal directly with RxUSA, making it impossible for it to acquire products for sale. RxUSA is seeking injunctive relief, attorneys' fees and treble damages. The proceedings are at an early stage. The OBS Group has filed motions to dismiss these claims and intend to contest them vigorously.

During 2006, the OBS Group lost key elements of patent protection for Livial® in the United Kingdom. Key protective claims under our chemical purity, crystalline purity and particle size patents have recently been revoked by U.K. courts. The OBS Group has decided to appeal the revocation of the crystalline purity patent, but not to appeal the decision regarding the chemical purity patent. Permission to appeal the decision regarding the particle size patent has been denied by the court in London. The OBS Group's chemical purity patent has been revoked by the European Patent Office. The OBS Group has appealed the decision to revoke this patent, and this appeal has had a suspensive effect on revocation. The OBS Group's particle size patent has also been challenged before the European Patent Office.

A number of the OBS Group subsidiaries are the subject of litigation or product liability claims arising out of the normal conduct of their business, as a result of which claims could be made against them which, in whole or in part, might not be covered by insurance. Provisions are established for the gross amount of any probable claim that can be reasonably estimated. Insurance receivables are recorded only in respect of amounts that are virtually certain to be recovered.

There are various remaining product liability claims pending against the OBS Group in various European countries, Brazil, Mexico and Australia by, in most cases, women claiming to have conceived while allegedly using the OBS

Group s contraceptive Implanon. Other claims relate to

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problems in connection with the insertion or removal of Implanon® or to changes in bleeding patterns. Often, the physician who inserted the product is named as a co-defendant. Although these cases have all been brought by individual women, only in The Netherlands the competent court has decided to consolidate the cases. On June 15, 2005, a court in s-Hertogenbosch in The Netherlands issued a preliminary judgment to the effect that, pending allocation of responsibility between physicians and Organon, damages should be paid to women who unintentionally became pregnant while using Implanon®. The OBS Group appealed this decision in September 2005. Oral pleadings were presented for the court of appeal on May 14, 2007. A judgment is expected on August 28, 2007. No final judgments have been rendered. Any damages for which the OBS Group may be held liable in connection with these cases are expected to be covered by product liability insurance.

In 1999, an ex-freelance collaborator of Diosynth B.V./Moeders voor Moeders, commenced legal action with respect to alleged entitlements to retirement benefits against Diosynth B.V. (as per January 1, 2007, part of N.V. Organon). Entitlement to a retirement benefit requires an employment relationship; Diosynth believes that freelancers working for Moeders voor Moeders do not qualify as employees and are not entitled to receive a pension. The legal position in this case may create a precedent for a couple of hundred of ex-freelancers of Moeders voor Moeders. The deposition of witnesses in this case will be finalized on October 4, 2007.

Salmon producers in Chile have made claims for damages allegedly incurred because of the use of Intervet's fish vaccines in that country. The claims were filed in 2005, 2006 and 2007. The claims maintain that administration of Intervet's vaccine against vibriosis and infectious pancreatic necrosis caused death or injury to part of their salmon populations. No judgments have been rendered. At this time the OBS Group has no reason to believe that any damages for which the OBS Group may be held liable in connection with these claims would not be covered by the product liability insurance the OBS Group maintains.

A case from Intervet, Inc. against Merial Ltd. et al. is pending since December 23, 2005 in the United States District Court for the District of Columbia. This lawsuit is a declaratory judgment action seeking a declaration from the court that United States Patent No. 6,368,601 (titled Porcine Circovirus Vaccine and Diagnostics Reagents and referred to herein as the 601 patent) is invalid, unenforceable, and not infringed by Intervet's PCV-2 vaccine.

Merial Ltd, and Merial SAS have answered the Complaint by alleging that the 601 patent is valid, enforceable, and infringed by Intervet's PCV-2 vaccine. They also have brought a counterclaim for patent infringement against Intervet, Inc. Intervet has responded by asserting that the 601 patent is invalid, unenforceable, and not infringed by Intervet, Inc. Discovery is presently ongoing between Merial SAS, Merial Ltd, and Intervet Inc. Under the present schedule for the case, there will be a hearing to determine the meaning of the claims of the 601 patent early August, 2007. Trial of this matter likely will not occur until the second or third quarter of 2008.

A second case, Intervet, Inc. v. Merial Ltd. et al., is pending since March 20, 2007, in the United States District Court for the District of Columbia. This lawsuit is a declaratory judgment action seeking a declaration from the court that United States Patent No. 7,192,594 (titled Postweaning Multisystemic Wasting Syndrome and Porcine Circovirus from Pigs and referred to herein as the 594 patent) is invalid, unenforceable, and not infringed by Intervet's PCV-2 vaccine. Merial Ltd, and Merial SAS have filed and served a Complaint for patent infringement and demand for jury trial, alleging that the 594 patent is valid, enforceable, and infringed by Intervet's PCV-2 vaccine.

In November 2006, four trade unions together initiated proceedings in The Netherlands against Akzo Nobel Nederland B.V., a subsidiary of Akzo Nobel. The trade unions claim that Akzo Nobel

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Nederland B.V., allegedly as representative of all other parts of the Akzo Nobel Group, wrongfully terminated the future payment of an allowance to cover medical insurance costs of retirees in The Netherlands. These retirees also include persons who were employed in current or former human healthcare and animal healthcare activities of the Akzo Nobel Group.

The trade unions allege that the retirees, on the basis of a promise made by Akzo Nobel Nederland B.V., were entitled to receive the allowance indefinitely and that there was insufficient cause for termination of the obligation. Akzo Nobel Nederland B.V. has indicated that it had the right to terminate the arrangements subject to a transitional regime through June 30, 2009. Akzo Nobel Nederland B.V. has expressed the intention to defend the claim by the trade unions. The proceedings against Akzo Nobel Nederland B.V. are at an early stage. It is currently not clear what would be the financial consequences for the OBS Group if the claim would succeed. Pursuant to the separation agreement, the OBS Group will be responsible for all costs incurred by Akzo Nobel or any other member of its group in connection with the allowances mentioned above with respect to retirees that, at the time of ceasing their employment with the Akzo Nobel Group, worked primarily in any current or former human healthcare or animal healthcare activities of the Akzo Nobel Group. The maximum amount that the OBS Group could be required to reimburse would depend on a number of factors, which also include the arrangements with individual employees, any future changes in the arrangements, and the age to which the retirees will live.

On March 23, 2007 the University of Illinois filed a lawsuit against Organon Teknika Corporation for breach of contract of the revised Tice license agreement which dates back to 1986. The UOI claims USD 14.9 million of underpaid royalties (which is UOI's calculation of the present value of the alleged royalty underpayment), based on an audit on the period January 1, 2002, through December 31, 2004. The difference relates to a different interpretation of what the correct arms length price should be. Organon Teknika is of the opinion that it paid the correct amount of royalties.

There have been various lawsuits filed against several US entities relating to the use of NuvaRing. With the exception of three cases, the lawsuits contain little information about the claimed injuries. It should be noted that Organon does not yet have medical or other records to corroborate the allegations. The remaining cases do not contain any information other than the allegation that the women used NuvaRing and sustained injuries thereby. Other general allegations of the thrombogenicity of the product suggest that the claimants intend to allege that they sustained a thromboembolic event.

A number of other claims are pending against the OBS Group, all of which are contested. The OBS Group is also involved in disputes with tax authorities in several jurisdictions. Furthermore, in the context of the divestitures of certain businesses by Akzo Nobel, our sole shareholder, prior to the creation of our company, the relevant Akzo Nobel Group companies have agreed to indemnify and/or provide guarantees to the buyers (and/or their successors and assignees) regarding certain representations and warranties or developments. To the extent that these relate to the current or former human pharmaceutical or animal health business activities of Akzo Nobel, the OBS Group agreed under the Separation Agreement to indemnify Akzo Nobel in respect of claims arising therefrom.

While the outcome of these claims and disputes cannot be predicted with certainty, the OBS Group believes, based upon legal advice and information received, that the final outcome will not materially affect the combined financial position of the OBS Group but could be material to the OBS Group's result of operations or cash flows in any one accounting period.

Other contingent liabilities

At December 31, 2006 and 2005, guarantees related to contracts with third parties totaled EUR 3 million and EUR 7 million, respectively.

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A majority of the OBS Group businesses do not file separate tax returns since these entities were included in the tax groupings of other Akzo Nobel entities within their respective entity's tax jurisdiction. Certain tax authorities have the right to hold an individual entity within the tax grouping liable for any and all liabilities outstanding of the group. Management of the OBS Group believes that the chances are remote that the OBS Group will be held responsible for tax liabilities incurred by other Akzo Nobel entities.

The OBS Group is a party in several research and development collaborations and licensing agreements. These agreements have various compensation elements that can contain periodic payments, payments related to sales of certain products and milestone payments. The periodic payments are expensed in the period they relate to and the payments related to sales of certain products are expensed in the period the corresponding sales were recognized. Milestone payments are expensed in the period in which the recognition criteria related to the milestone are met.

Some of the licenses and collaboration, co-development, co-marketing and other agreements and instruments to which the OBS Group is a party, contain change of control provisions that may be triggered by a change in the controlling interest in our business. See Note 31 for further discussion of potential impacts related to the separation of the OBS Group.

Pfizer terminated the asenapine license and collaboration agreement on November 27, 2006. The termination took effect on May 27, 2007. If and when we are successful in bringing asenapine to the market, we will be obliged to reimburse Pfizer for its out-of-pocket expenses (plus 10% interest) for development, marketing and manufacturing, by paying it a royalty at the rate of 5% on net asenapine sales.

Commitments

Purchase commitments for property, plant and equipment aggregated EUR 69 million and EUR 35 million at December 31, 2006 and 2005 respectively. The OBS Group also has purchase commitments for materials and other supplies incident to the ordinary conduct of business for a total of EUR 358 million and EUR 320 million at December 31, 2006 and 2005, respectively.

Long-term liabilities contracted in respect of leasehold, rental, operating leases, research, etc., aggregated EUR 287 million and EUR 261 million at December 31, 2006 and 2005, respectively. Payments due within one year amounted to EUR 93 million and EUR 78 million at December 31, 2006 and 2005, respectively; payments between one and five years EUR 158 million and EUR 159 million, respectively, and payments due after more than five years amount to EUR 36 million and EUR 24 million, respectively.

Note 28 Cash Flow Information

The OBS Group paid cash for income taxes of EUR 41 million, EUR 57 million and EUR 70 million for the years ended December 31, 2006, 2005 and 2004, respectively. During the periods presented, some entities of the OBS Group businesses did not file separate tax returns as these entities were included in the tax grouping of other Akzo Nobel entities within the respective entity's tax jurisdiction, and the OBS Group's tax obligations for these entities are paid by other Akzo Nobel entities.

The OBS Group paid cash for interest of EUR 11 million, EUR 7 million and EUR 6 million for the years ended December 31, 2006, 2005 and 2004, respectively.

The OBS Group's financing requirements are primarily met by cash transfers with Akzo Nobel and are reflected in the financing section of the combined statements of cash flows. This represents

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net cash transfers to and from Akzo Nobel for the settlement of various intercompany transactions and financing requirements with Akzo Nobel.

Note 29 Accounting Estimates and Judgments

In preparing the financial statements, management makes estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent liabilities at the date of the OBS Group's combined financial statements. The most critical accounting policies involving a higher degree of judgment and complexity are described below.

Impairment of intangible assets and property, plant and equipment

The OBS Group reviews long-lived assets for impairment when events or circumstances indicate carrying amounts may not be recoverable. Assets subject to this review include intangible and tangible fixed assets. In determining impairments of intangible and tangible fixed assets, management must make significant judgments and estimates to determine if the future cash flows expected to be generated by those assets are less than their carrying value. Determining cash flows requires the use of judgments and estimates that have been included in the OBS Group's strategic plans and long-range planning forecasts. The data necessary for the execution of the impairment tests are based on management's estimates of future cash flows, which require estimating revenue growth rates and profit margins. Assets are written down to their recoverable amount. This recoverable amount of impaired assets is determined by taking into account these estimated cash flows and using a net present value technique based on discounting these cash flows with business-specific discount rates.

Changes in assumptions and estimates included in the impairment reviews could result in significantly different earnings than those recorded in the combined financial statements.

Internally generated research and development

Under IAS 38, *Intangible Assets*, an intangible asset is recognized when it is probable that the expected future economic benefits that are attributable to the asset will flow to the OBS Group and when the cost of the asset can be measured reliably. Internally generated research expenditure does not satisfy these criteria, and therefore is expensed as incurred under research and development expenses.

Internally generated development expenses are recognized as an intangible asset if, and only if, all the following can be demonstrated: (a) the technical feasibility of completing the development project; (b) the OBS Group's intention to complete the project; (c) the OBS Group's ability to use the project; (d) the probability that the project will generate future economic benefits; (e) the availability of adequate technical, financial and other resources to complete the project; and (f) the ability to measure the development expenditure reliably. Due to the risks and uncertainties relating to regulatory approval and to the research and development process, the criteria for capitalization are considered not to have been met until marketing approval has been obtained from the regulatory authorities.

Accounting for income taxes

As part of the process of preparing the combined financial statements, the OBS Group is required to estimate income taxes in each of the jurisdictions in which the OBS Group operates. This process involves estimating actual current tax expenses and temporary differences between tax and financial reporting. Temporary differences result in deferred tax assets and liabilities, which are included in the combined balance sheet. The OBS Group must then assess whether it is probable that deferred tax assets will be recovered from future taxable income.

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Provisions

By their nature, provisions for contingent liabilities are dependent upon estimates and assessments whether the criteria for recognition have been met, including estimates as to the outcome and the amount of the potential cost of resolution. Contingent liabilities are recognized by a charge against income when it is probable that a liability has been incurred and the amount of such liability can be reasonably estimated.

Contingent liabilities and provisioning for environmental matters, litigation, and tax disputes are discussed in Note 27. Provisions for environmental matters are based on the nature and seriousness of the contamination as well as on the technology required for cleanup. Provisions for litigation and tax disputes are also based on an estimate of the costs, taking into account legal advice and information currently available.

Should the actual outcome differ from the assumptions and estimates, revisions to the estimated provisions would be required, which could impact the OBS Group's financial position and results from operations.

Also provisions for termination benefits and exit costs involve management's judgment in estimating the expected cash outflows for severance payments and site closure or other exit costs. Should the actual cash outflows differ from the assumptions and estimates, additional charges would be required, which could impact the OBS Group's financial position and results from operations.

Accounting for pensions and other postretirement benefits

Retirement benefits represent obligations that will be settled in the future and require assumptions to project benefit obligations and fair values of plan assets. Retirement benefit accounting is intended to reflect the recognition of future benefit costs over the employee's approximate service period, based on the terms of the plans and the investment and funding decisions made by the OBS Group. The accounting requires management to make assumptions regarding variables such as discount rate, rate of compensation increase, return on assets, mortality rates, and future healthcare costs. Periodically, management consults with external actuaries regarding these assumptions. Changes in these key assumptions can have a significant impact on the projected benefit obligations, funding requirements and periodic costs incurred. For details on key assumptions and policies, see Note 21.

It should be noted that when discount rates decline or rates of compensation increase due to e.g. increased inflation pension and postretirement benefit obligations will increase. Net periodic pension and postretirement costs might also increase, but that depends on the actual relation between the unrecognized loss and the so-called corridor (10% of the greater of benefit obligations and plan assets) as well as on the relative change of the discount rate versus the change of the benefit obligation.

Note 30 Subsequent Events

Loan from Akzo Nobel

On February 28, 2007, Akzo Nobel and the OBS Group entered into a EUR 1.15 billion loan. Under the loan agreement, the maturity date of the loan is December 31, 2007, and the interest rate is the 6-month EURIBOR + 0.15% that accrues on the amount owed from March 1, 2007 to the date of payment (both days inclusive). The entire

principal amount of the loan not yet repaid to Akzo Nobel shall be due for immediate payment without any further notification or formality being required should, amongst others, any other indebtedness of the OBS Group becomes due and payable prior to its

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specified maturity by reason of any default by the OBS Group in the due performance or observance of any obligation relating thereto, unless such indebtedness shall not be material in the context of the loan agreement.

Schering-Plough proposal to purchase the OBS Group

On March 12, 2007, Schering-Plough announced its intention to acquire the OBS Group from Akzo Nobel for EUR 11 billion in cash.

Note 31 Incorporation and Separation

Incorporation

Following the announcement of Akzo Nobel that it intends to separate its healthcare activities from the Akzo Nobel Group, Akzo Nobel incorporated OBS N.V. on September 1, 2006 as a public company with limited liability (naamloze vennootschap) incorporated under the laws of The Netherlands with an authorized share capital of EUR 225 thousand and an issued share capital of EUR 45 thousand. The OBS N.V.'s corporate seat is in Oss, The Netherlands.

On September 30, 2006 Akzo Nobel contributed to OBS N.V., through a contribution in kind, the shares of the two subholding companies, Organon BioSciences International B.V. and Organon BioSciences Nederland B.V., in exchange for 24,955,000 ordinary shares of OBS N.V. with a nominal value of EUR 1.00 (one euro) per share. As per the date of this contribution, the Company had an authorized share capital of EUR 125 million and an issued share capital of EUR 25 million.

The combined financial statements for the year ended December 31, 2006, include invested equity amounting to EUR 2,311 million. The invested equity included certain allocated balances, which legally were not part of the aforesaid contribution in kind to OBS N.V. on September 30, 2006. Consequently, the shareholders' equity in the legal company balance sheet of OBS N.V. as of December 31, 2006 differs from the invested equity in the combined financial statements as of December 31, 2006. The main differences relate to a different classification of the Akzo Nobel related funding (presented as invested equity in the combined financial statements and as intercompany debt in the legal company balance sheet), provisions for tax liabilities related to allocated balances which will be settled by Akzo Nobel as these tax liabilities were incurred by the OBS entities when those were part of an Akzo Nobel fiscal unity, and to certain other items which are allocated to the OBS Group which will not be transferred to the OBS Group.

Separation

In February 2006, Akzo Nobel announced its intention to separate the OBS Group. In March 2007, Akzo Nobel announced that it had subsequently received an offer from Schering-Plough to acquire the OBS Group. The works council advice procedure in the Netherlands is still to be completed. Subject thereto, the intended closing is further subject to certain conditions precedent, including the obtaining of merger clearances in certain jurisdictions. The proceeds from the sale of the OBS Group will not be received by the OBS Group but will be received by Akzo Nobel.

Akzo Nobel and the OBS Group have identified certain issues and areas that, in preparation of and following the separation, required mutually agreeable arrangements between them. These issues and areas have been included in a separation agreement, entered into between Akzo Nobel and the OBS Group. The separation agreement was signed on February 28, 2007, and was subsequently amended on March 11, 2007.

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The amended separation agreement addresses, amongst others, the separation of liabilities and obligations, health, safety, and environmental indemnities, release of guarantees, pending litigation, provisions and accruals, claimant's insurance and employee benefit related matters.

The terms of the intended transaction between Akzo Nobel and Schering-Plough include that, subject to certain limitations and procedural provisions, Akzo Nobel indemnifies Schering-Plough for (i) all taxes for which a member of the OBS Group becomes liable, relating to the period prior to January 1, 2007 and that are not provided for in the combined financial statements of the OBS Group for the period ended as of December 31, 2006, and (ii) taxes for which a member of the OBS Group becomes liable relating to the period starting on January 1, 2007 and ending on the closing date of the intended transaction, unless and to the extent the member of the OBS Group concerned retains the benefit of the underlying income, profit or gain at closing, or such income, profit, gain or event has arisen in the ordinary course of business of the member of the OBS Group concerned.

The terms of the intended transaction further include Schering-Plough will indemnify Akzo Nobel against any increase of taxes incurred by Akzo Nobel or a member of Akzo Nobel as a consequence of any pre-closing transactions, requested by Schering-Plough and consented by Akzo Nobel, which would allow for a direct sale by Akzo Nobel of the shares in one or more members of the OBS Group to Schering-Plough.

The separation agreement also contains provisions dealing with the retirement benefits of relevant participants in various applicable pension arrangements based on an agreed upon division of the rights, obligations, assets and liabilities relating to, on the one hand, the retirement benefits of the relevant (current and former) employees in the (current and former) human healthcare or animal healthcare activities of the OBS Group and, on the other hand, retirement benefits of other participants in Akzo Nobel plans. It should be noted that a number of these provisions are dependent on the approval of relevant third parties, for example pension fund trustees, employee representative bodies and relevant authorities. The separation agreement thus also provides that in the event that the OBS Group and Akzo Nobel have not been able to give effect to the agreed (basis for) division, they will use their reasonable best efforts to procure that the parties are placed in the same position as they would have had the division been affected on the agreed basis.

OBS N.V. has undertaken in the separation agreement to procure that, for services rendered on or after January 1, 2007, relevant participants under the OBS Group's retirement benefit plans are offered retirement benefits which are substantially equivalent (or such other measure as may be required under applicable law) to their current retirement benefits.

The financial implications of a future split as defined above, for example on assets, liabilities and future pension premiums, if any, cannot be determined yet. However, it is the intention of Akzo Nobel and the OBS Group to limit the financial implications for the companies, arising out of the split of rights, obligations and assets. Furthermore, the subordinated loan to the Akzo Nobel Pension Fund of which the OBS Group's portion (EUR 33 million) was allocated in the combined financial statements for the year ending December 31, 2006, will remain with Akzo Nobel since Akzo Nobel holds the legal title.

The terms of the intended transaction between Akzo Nobel and Schering-Plough further include that (i) Akzo Nobel will transfer to the purchaser, at closing of the intended transaction, its claim against OBS N.V. under the related party loan of EUR 1.15 billion plus accrued interest and (ii) all other intra-group indebtedness between OBS N.V. on the one

hand and the other members of the Akzo Nobel Group on the other hand (including several loans made by OBS N.V. to Akzo Nobel in 2007 on terms substantially equivalent to the aforesaid related party loan), and subsequently will be

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paid immediately after closing. Under the loan agreement between Akzo Nobel (as lender) and OBS N.V. (as borrower) the maturity date of the loan is December 31, 2007 and the interest rate is the 6-month EURIBOR + 0.15%, that accrues on the amount owed, from March 1, 2007 to the date of payment (both days inclusive). The entire principal amount of the loan not yet repaid to Akzo Nobel shall be due for immediate payment without any further notification or formality being required should, amongst others, any other indebtedness of OBS N.V. becomes due and payable prior to its specified maturity by reason of any default by OBS N.V. in the due performance or observance of any obligation relating thereto, unless such indebtedness shall not be material in the context of the loan agreement.

OBS N.V. has undertaken to replace the statement of joint and several liability (verklaring van hoofdelijke aansprakelijkheid) as provided by Akzo Nobel in respect of the members of the OBS Group in The Netherlands under article 2:403 section 1(f) Netherlands Civil Code as soon as reasonably practicable, but in any event within 6 months after closing of the intended transaction between Akzo Nobel and Schering-Plough.

Note 32 Application of Generally Accepted Accounting Principles in the United States of America

The OBS Group's combined financial statements have been prepared in accordance with IFRS which, as applied by the OBS Group, differs in certain significant respects from US GAAP. The effects of the application of US GAAP to combined net income, as determined under IFRS, are set out in the table below:

	For the Year Ended December 31,	
	2006	2005
IFRS profit for the period attributable to equity holders of OBS Group	393	566
<i>US GAAP adjustments:</i>		
(a) Business combinations	1	1
(b) Pensions and other postretirement benefits	(32)	(71)
(c) Impairment of goodwill		15
(d) Research and development	5	(26)
(e) Subsequent events	132	(39)
(f) Tax on elimination of intercompany profits	3	(7)
(g) Deferred income taxes	11	31
Total US GAAP adjustments	120	(96)
Net income, as reported under US GAAP	513	470

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The effects of the application of US GAAP to total invested equity, as determined under IFRS, are set out in the table below:

	As of	
	December 31,	
	2006	2005
Invested equity, as reported under IFRS	2,311	2,186
Less: minority interests, as reported under IFRS		(1)
Invested equity excluding minority interests, as reported under IFRS	2,311	2,185
<i>US GAAP adjustments:</i>		
(a) Business combinations	361	363
(b) Pensions and other postretirement benefits	33	103
(c) Impairment of goodwill	15	15
(d) Research and development	(27)	(32)
(e) Subsequent events	(15)	(138)
(f) Tax on elimination of intercompany profits	(37)	(40)
(g) Deferred income taxes	2	(21)
Total US GAAP adjustments	332	250
Invested equity, as determined under US GAAP	2,643	2,435

(a) Business combinations

The aggregate adjustment for business combinations presented in the tables above consists of the following adjustments:

	For the Year		As of December 31,	
	Ended		2006	
	December 31,	2005	2006	2005
	2006	2005	2006	2005
<i>US GAAP adjustments:</i>				
(1) Acquired in-process research and development	1	1	(5)	(6)
(2) Application of IFRS 1			366	369
Total US GAAP adjustments	1	1	361	363

(1) Acquired in-process research and development

Under IFRS, in-process research and development acquired in connection with a business combination is eligible for capitalization under IFRS 3, *Business Combinations*, and IAS 38. Under US GAAP, the attributable fair value of in-process research and development acquired in a business combination, and which has no alternative future use, is expensed as of the acquisition date in accordance with SFAS No. 141, *Business Combinations*, FIN No. 4, *Applicability of FASB Statement No. 2 to Business Combinations to be Accounted for by the Purchase Method*, and/or SFAS No. 2, *Accounting for Research and Development Costs*.

The adjustment to invested equity included in the tables above reflects the invested equity impact of immediate write-off of acquired in-process research and development-related assets (EUR 5 million and EUR 6 million, respectively, as of the years ended December 31, 2006 and 2005) for US GAAP purposes. The tables also reflect the reversal of amortization expense and/or impairments

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Table of Contents**OBS GROUP****NOTES TO THE COMBINED FINANCIAL STATEMENTS (Continued)**
(All amounts in millions of euros unless otherwise stated)

(EUR 1 million and EUR 1 million, respectively, for each of the years ended December 31, 2006 and 2005) recorded for IFRS purposes in subsequent periods.

(2) Application of IFRS 1

IFRS 1, *First-Time Adoption of International Financial Reporting Standards*, has been applied by the OBS Group in preparing its combined financial statements. IFRS 1 generally requires retrospective application of all IFRS standards that are effective at the reporting date. However, IFRS 1 permits certain exemptions and exceptions to this requirement. In particular, IFRS 1 permits companies who consummated business combinations prior to the date of their transition to IFRS (for the OBS Group as of January 1, 2004) to retain the accounting applied under the accounting principles applied prior to the adoption of IFRS.

Specifically, for certain business combinations consummated prior to January 1, 2000, the OBS Group recorded goodwill resulting from the business combinations directly in invested equity. From January 1, 2000 through the adoption of changes in accounting rules prior to the adoption of IFRS, the OBS Group amortized goodwill. Under US GAAP, for all periods presented, goodwill is required to be recorded as an asset, initially subject to periodic amortization (through December 31, 2001) and subsequently periodic (at least annual) impairment tests.

Accordingly, this adjustment reflects the reinstatement of goodwill, net of applicable accumulated amortization and impairments, for US GAAP purposes as of each of the balance sheet dates presented.

(b) Pensions and other postretirement benefits

The aggregate adjustment for pensions and postretirement benefits presented in the tables above consists of the following adjustments:

	For the Year Ended		As of December 31,	
	2006	2005	2006	2005
<i>US GAAP adjustments:</i>				
(1) Definition of defined contribution plan	(10)	(68)	94	159
(2) Additional minimum pension liability				(74)
(3) Application of IFRS 1 and other differences	(22)	(3)	(61)	18
Total US GAAP adjustments	(32)	(71)	33	103

(1) Definition of defined contribution plan

Under IAS 19 (Revised), *Employee Benefits*, an arrangement qualifies as a defined contribution plan if a company's legal or constructive obligation is limited to the amount contributed by it into a separate entity (generally, a fund).

This is the case regardless of whether the fund holds sufficient assets to pay all employee benefits laid out in the plan agreement relating to employee service in the current and prior periods. This definition focuses on the contributions to be made by the company to the plan as a whole and does not require individual participant accounts to which contributions would be made.

Under US GAAP, SFAS No. 87, *Employers Accounting for Pensions*, states that a defined contribution plan is any arrangement that provides benefits in return for services rendered, establishes an individual account for each participant, and specifies how recurring periodic contributions to the

Table of Contents**OBS GROUP****NOTES TO THE COMBINED FINANCIAL STATEMENTS (Continued)**
(All amounts in millions of euros unless otherwise stated)

individual s account are to be determined. Moreover, the benefits a participant in a defined contribution plan will receive depend solely on the amount contributed to the participant s account, the return earned on those contributions, and forfeitures of other participants benefits that may be allocated to the remaining participant accounts.

During 2005, Akzo Nobel reached an agreement with the unions on a change of its pension plan in the Netherlands, in which OBS Group employees and former employees participate, so that effective December 31, 2005, it changed from a defined benefit plan to a defined contribution plan under IFRS, as the actuarial risks related to the Dutch plan no longer rested with the OBS Group. However, under US GAAP, SFAS No. 87 specifically prescribes for a defined contribution plan that the plan provides an individual account for each participant. The Dutch plan does not provide such individual accounts per participant as it is a collective defined contribution plan. Accordingly for US GAAP, under SFAS No. 87 the Dutch pension plan is still accounted for as a defined benefit plan.

The adjustment to invested equity included in the table above as of December 31, 2006 and 2005 reflects the re-instatement of the US GAAP liability for the pension plan in accordance with SFAS No. 87. The adjustment to net income included in the tables above for the year ended December 31, 2006 reflects the excess of US GAAP expense calculated in accordance with SFAS No. 87 over contributions made to plan during the year. For the year ended December 31, 2005, the adjustment to net income in the table above reflects the excess of SFAS No. 87 expense over contributions, offset in 2005 by the gain on termination of EUR 59 million (before income taxes) recognized upon modification of the plan in 2005 that caused it to be accounted for as a defined contribution plan for IFRS purposes.

(2) Additional minimum pension liability

Prior to adoption of SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)*, SFAS No. 87 required employers to report a minimum pension liability in certain circumstances. Under SFAS No. 87, if the accumulated benefit obligation (ABO) exceeded the fair value of the plan s assets, the employer was required, at a minimum, to recognize a liability for that difference. Where required, an additional minimum pension liability was recognized by recording an intangible pension asset to the extent of any unrecognized prior service cost, with a charge through other comprehensive income, net of any deferred tax benefits, for any excess. The concept of a minimum pension liability does not exist in IFRS. Following adoption of SFAS No. 158 (as of December 31, 2006), which requires employers to recognize in full an asset or a liability for the funded status of its defined benefit plans, additional minimum pension liabilities are no longer required.

(3) Application of IFRS 1 and other difference

Under IFRS, the OBS Group accounts for its pension and other postretirement benefit plans in accordance with IAS 19 (Revised), *Employee Benefits*. In addition, upon transition to IFRS as of January 1, 2004 (and in accordance with IFRS 1), all unrecognized actuarial gains and losses as of that date were recognized immediately in invested equity, with an offset to the pension liability. Accordingly, under IFRS, as of January 1, 2004, the OBS Group had no deferred actuarial gains or losses. Subsequently, in accordance with IAS 19 (Revised), the OBS Group applied a corridor policy whereby actuarial gains and losses are deferred when they initially arise (for those arising after January 1, 2004). Thereafter, to the extent that unrealized actuarial gains or losses exceed 10% of the greater of (i) the present value of the defined benefit obligation and (ii) the fair value of plan assets, they are recognized in the combined statements of income through periodic amortization over the expected remaining working lives of the

employees participating in the plan. Otherwise, they continue to be deferred until they exceed the corridor described above.

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Table of Contents**OBS GROUP****NOTES TO THE COMBINED FINANCIAL STATEMENTS (Continued)**
(All amounts in millions of euros unless otherwise stated)

Under US GAAP, the OBS Group accounts for its pension and postretirement benefit plans in accordance with SFAS No. 87, SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other than Pensions* and, as from December 31, 2006, SFAS No. 158. Prior to the adoption of SFAS No. 158, the OBS Group applied a corridor policy also under US GAAP. Following adoption of SFAS No. 158 from December 31, 2006, the OBS Group continues to apply a corridor policy with respect to determination of the income statement charge for any particular period, but the full funded status of the plan (defined benefit obligation less plan assets) is now recognized as a liability in the balance sheet with actuarial gains and losses recognized directly in invested equity.

In addition to the differences described above (principally related to the recognition of deferred actuarial gains and losses directly in invested equity as of January 1, 2004 pursuant to IFRS 1), the OBS Group has also identified differences related to the measurement date for certain of its plans. Under IFRS, IAS 19, requires that the calculation of the pension obligation, as well as the fair value of plan assets, be determined as of the company's balance sheet date. Under US GAAP, SFAS No. 87, requires that the plan's assets and obligations be measured either as of the date of the financial statements or, if used consistently from year to year, as of a date not more than three months prior to that date. Certain of the OBS Group's defined benefit plans utilize a September 30 measurement date for US GAAP purposes and a December 31 measurement date for IFRS purposes.

In the United States, the Medicare Prescription Drug Improvement and Modernization Act of 2003 introduced prescription drug benefits for retirees as well as a federal subsidy to sponsors of postretirement healthcare plans, which both began on January 1, 2006. This reimbursement right under IFRS has been recognized as an asset under other financial noncurrent assets in the combined balance sheets and is measured at fair value. At December 31, 2006 and 2005, these amounts were EUR 9 million and EUR 12 million, respectively. Under US GAAP, this reimbursement right is netted with the postretirement healthcare benefit liability.

In connection with the change in the pension plan in the Netherlands in 2005, the OBS Group was allocated a portion of the subordinated loan and loans that are to be redeemed by retaining employee pension premiums, which have been recorded at their fair value in other assets under IFRS. For US GAAP purposes, these items are included in the pension assets at their nominal value, and accordingly the assets in the IFRS balance sheet have been reversed. Any difference between the fair value and the nominal value of the loans has been reversed for US GAAP.

(c) Impairment of goodwill

Under IFRS, goodwill is required to be tested for impairment at least annually (and, more frequently, upon the occurrence of a triggering event) at the cash generating unit (or group of cash generating units, if that is how goodwill is monitored internally) level. A cash generating unit is the smallest identifiable group of assets that generates cash inflows from continuing use and that are largely independent of the cash inflows from other assets or groups of assets. The goodwill impairment test is a one-step test that compares the recoverable amount (higher of the fair value less costs to sell or value in use) of the cash generating unit to its carrying amount, with any excess of carrying amount over recoverable amount recognized as an impairment loss. Impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then to the other assets of the unit (or group of units) pro rata on the basis of the carrying amount of each asset in the unit (or group of units). Impairment losses related to goodwill can not be reversed.

Under US GAAP, goodwill is required to be tested for impairment at least annually (and, more frequently, upon the occurrence of a triggering event) at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment (referred to as a component). The

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Table of Contents**OBS GROUP****NOTES TO THE COMBINED FINANCIAL STATEMENTS (Continued)**
(All amounts in millions of euros unless otherwise stated)

goodwill impairment test is a two-step test that compares the fair value of the reporting unit to its carrying amount. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. If the carrying amount of the reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of reporting unit goodwill, which is determined by performing a hypothetical purchase price allocation as of the impairment testing date, to the carrying amount of that goodwill, with any excess of carrying amount over the implied fair value recognized as an impairment loss. Impairment losses related to goodwill can not be reversed.

The cash generating unit is at a lower level in the operation than the reporting unit and, accordingly, under IFRS an impairment was recorded that is not reflected under US GAAP. The adjustment included in the tables above reflects the reversal for US GAAP of the impairment loss recognized for IFRS purposes that was not recognized for US GAAP purposes due to this differing level at which goodwill is tested for impairment (cash generating unit under IFRS vs. reporting unit under US GAAP).

(d) Research and development

Under IFRS, payments made to acquire research and development-related assets outside of a business combination, and patents or licenses for products that are still in the research or development stage, are eligible for capitalization under IAS 38 when all of the following conditions are met: (i) the project meets the definition of an asset, (ii) the project is identifiable and (iii) the fair value of the project can be measured reliably. Accordingly, under IFRS, certain up-front payments made in connection with collaboration agreements were capitalized and are being amortized over their estimated useful lives.

Under US GAAP, payments to acquire research and development-related assets that have no alternative future use are expensed as of the acquisition date in accordance with SFAS No. 2.

The adjustment included in the tables above reflects the immediate write-off of acquired research and development-related assets in the period of acquisition (EUR 4 million and EUR 28 million, respectively, for the years ended December 31, 2006 and 2005) and for US GAAP purposes offset by the reversal of amortization expense and/or impairments (EUR 9 million and EUR 2 million, respectively, for each of the years ended December 31, 2006 and 2005) recorded for IFRS purposes in subsequent periods.

(e) Subsequent events

The aggregate adjustment for subsequent events presented in the tables above consists of the following adjustments:

For the Year Ended		As of December 31,	
December 31,	December 31,	2006	2005
2006	2005	2006	2005

US GAAP adjustments:

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(1) Subsequent events other than taxes	(4)	(7)	4	8
(2) Subsequent events tax-related	136	(32)	(19)	(146)
Total US GAAP adjustments	132	(39)	(15)	(138)

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Table of Contents**OBS GROUP****NOTES TO THE COMBINED FINANCIAL STATEMENTS (Continued)**
(All amounts in millions of euros unless otherwise stated)

Under IFRS, the OBS Group has applied IAS 10, *Events after the Balance Sheet Date*, and has adjusted its combined financial statements for adjusting events identified between the time the parent company financial statements were issued and the date on which the OBS Group's combined financial statements were issued.

Under US GAAP, practice with respect to the preparation of carve-out financial statements is to reflect subsequent events on a consistent basis with the parent company, as the carve-out financial statements are an extraction of the parent company accounts, unless the adjustment represents a correction of an error. The subsequent events other than tax-related adjustments noted above primarily relate to reversals of legal settlements. More significantly, under IAS 10, through January 1, 2004, the OBS Group recorded an aggregate provision of EUR 153 million with respect to various court cases related to its Remeron® product that had been ongoing since 2002. During 2004, the OBS Group settled certain of these court cases (EUR 89 million). During 2005, the OBS Group settled all remaining Remeron® court cases (EUR 64 million) which were approved in November 2005 by the United States District Court for the District of New Jersey. Under US GAAP, the Remeron® settlements were recorded in periods consistent with Akzo Nobel. The subsequent events for the tax-related adjustments primarily relate to tax settlements received by the OBS Group for transfer pricing.

Under US GAAP, the amounts have been recognized in periods consistent with Akzo Nobel. Accordingly, the subsequent event adjustments reflected in the IFRS combined financial statements have been reversed under US GAAP.

(f) Tax on the elimination of intercompany profits

In accordance with IFRS (IAS 12, *Income Taxes*), the deferred tax effect of the elimination of intercompany profit in inventory is calculated using the purchaser's tax rate. Under US GAAP (SFAS 109, *Accounting for Income Taxes*), no deferred tax asset is recorded for the difference between the tax base in the buyer's jurisdiction and the amount reported in the combined financial statements; additionally, taxes payable on intercompany transfers recognized by the seller are deferred in consolidation, hence eliminating the income tax effects of intercompany transfers in the combined statements of income.

For the year ended December 31, 2006, this resulted in an increase in net income of EUR 3 million and a decrease in invested equity at December 31, 2006 of EUR 37 million. For the year ended December 31, 2005, this resulted in a decrease in net income of EUR 7 million and a decrease in invested equity at December 31, 2005 of EUR 40 million.

(g) Deferred income taxes

The aggregate adjustment for income taxes presented in the tables above consists of the following adjustments:

For the Years Ended		As of December 31,	
December 31,	December 31,	2006	2005
2006	2005	2006	2005

US GAAP adjustments:

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(1) Deferred tax on in-process research and development			1	2
(2) Other deferred income tax impacts	11	31	1	(23)
Total US GAAP adjustments	11	31	2	(21)

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OBS GROUP

NOTES TO THE COMBINED FINANCIAL STATEMENTS (Continued)
(All amounts in millions of euros unless otherwise stated)

(1) Deferred income tax on in-process research and development

Under IFRS, a deferred tax asset or liability is recognized for differences in the financial reporting basis and tax basis of acquired in-process research and development, similar to other identifiable intangible assets, irrespective of whether the acquired in-process research and development has basis for tax purposes. Under US GAAP (EITF 96-7, *Accounting for Deferred Taxes on In-Process Research and Development activities acquired in a Business Combination*), in circumstances where there is no tax basis in the acquired in-process research and development deferred taxes are not provided on the initial difference between the amount assigned for financial reporting and tax purposes and the in-process research and development is charged to expense on a gross basis (without tax benefit) at acquisition. In circumstances where a tax basis exists for the acquired in-process research and development, upon consummation of the business combination, the in-process research and development is immediately charged to expense, a deferred tax asset is recognized to the extent that realizability is more likely than not.

The deferred tax liability recorded under IFRS results in a corresponding increase to goodwill. Although this difference does not affect invested equity (between IFRS and US GAAP) at the acquisition date, a reclassification adjustment is necessary under US GAAP to reduce goodwill by the amount of the deferred tax liability recorded under IFRS in relation to acquired in-process research and development and to reduce deferred tax liabilities by a corresponding amount (EUR 8 million). The impact on income tax expense of this difference when the acquired in-process research and development is amortized or impaired for IFRS purposes is reversed under US GAAP.

(2) Other deferred income tax impacts

This adjustment reflects the deferred tax effects attributable to the aforementioned pre-tax adjustments.

(h) Other presentation differences

Deferred income taxes

Under IFRS, deferred tax assets and liabilities are classified as non-current on the balance sheet based on the timing of their expected reversal.

Under US GAAP, deferred tax assets and liabilities are classified as current or non-current on the balance sheet based on the nature of the balance sheet item to which they relate (e.g. deferred taxes related to fixed assets are classified as non-current irrespective of when the underlying temporary difference is expected to reverse). Where no related asset or liability exists (e.g. for net operating losses), deferred tax assets or liabilities are classified as current or non-current on the balance sheet based on the timing of their expected reversal.

Oss, July 30, 2007
The Board of Management
Toon Wilderbeek

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Independent Auditors Report

The Board of Management
Organon BioSciences N. V.

We have audited the accompanying combined balance sheets of the OBS Group, as defined in Note 1 to the combined financial statements, as of December 31, 2006 and 2005, and the related combined statements of income, invested equity and cash flows for each of the years in the three-year period ended December 31, 2006. These combined financial statements are the responsibility of the Organon BioSciences N.V.'s management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (U.S.). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the OBS Group's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the OBS Group as of December 31, 2006 and 2005, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2006 in conformity with International Financial Reporting Standards as adopted by the European Union (E.U.).

International Financial Reporting Standards as adopted by the E.U. vary in certain significant respects from U.S. generally accepted accounting principles. Information relating to the nature and effect of such differences is presented in Note 32 to the combined financial statements.

KPMG Accountants N.V.

KPMG Accountants N. V.
Eindhoven, the Netherlands
July 30, 2007

Table of Contents**OBS Group****UNAUDITED CONDENSED COMBINED INTERIM STATEMENTS OF INCOME**

(Amounts in millions of euros)

	Note	For the Six Months Ended June 30,	
		2007	2006
Revenues		1,859	1,870
Cost of sales		(561)	(580)
<i>Gross profit</i>		1,298	1,290
Selling and distribution expenses		(557)	(571)
Research and development expenses		(307)	(316)
General and administrative expenses		(114)	(127)
Other operating (expense)/income	5	3	7
<i>Operating income</i>		323	283
Financial expense	6	(27)	(19)
Financial income	6	6	1
		(21)	(18)
<i>Operating income less net financing costs</i>		302	265
Share of profit of associates		1	
<i>Profit before tax</i>		303	265
Income tax expense	7	(80)	(72)
<i>Profit for the period</i>		223	193
<i>Attributable to:</i>			
Equity holders of the OBS Group		223	193
Minority interest			
<i>Profit for the period</i>		223	193

The accompanying notes are an integral part of these unaudited condensed combined interim financial statements.

Table of Contents**OBS Group****UNAUDITED CONDENSED COMBINED INTERIM BALANCE SHEETS**

(Amounts in millions of euros)

	Note	As of June 30, 2007	As of December 31, 2006
ASSETS			
Property, plant and equipment, net		1,109	1,097
Intangible assets, net		156	145
Financial non-current assets:			
deferred tax assets	7	282	281
investments in associates		13	13
other investments		116	118
		411	412
Total non-current assets		1,676	1,654
Inventories, net	8	874	851
Income tax receivable		26	74
Receivables from related parties, net	3	377	11
Trade and other receivables, net	9	784	735
Cash and cash equivalents		114	239
Total current assets		2,175	1,910
Total assets		3,851	3,564
Invested Equity			
Owners' net investment (including cumulative translation reserves)	10	1,423	2,311
Minority interest			
Total invested equity		1,423	2,311
LIABILITIES			
Borrowings	14	56	45
Deferred tax liabilities	7	26	25
Provisions	12	280	267
Total non-current liabilities		362	337
Borrowings	15	138	112
Deferred income	13		10
Income tax payable		131	133
Payables to related parties	3	1,163	5
Trade and other payables		596	611

Provisions	12	38	45
Total current liabilities		2,066	916
Total liabilities		2,428	1,253
Total invested equity and liabilities		3,851	3,564

The accompanying notes are an integral part of these unaudited condensed combined interim financial statements.

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Table of Contents**OBS Group**

UNAUDITED CONDENSED COMBINED INTERIM STATEMENTS OF CASH FLOWS
(Amounts in millions of euros)

	For the Six Months Ended June 30,	
	2007	2006
Profit for the period	223	193
<i>Adjustments to reconcile earnings to cash generated from operating activities:</i>		
Depreciation and amortization	89	92
Gains on divestments		(7)
Share of profits of associates	(1)	
Changes in deferred taxes (non-cash recognized in income)	(2)	(1)
Provisions expense (non-cash recognized in income)	5	30
Interest expense funded by Akzo Nobel		15
Corporate overhead costs funded by Akzo Nobel		14
Insurance expense funded by Akzo Nobel		14
Share-based payment costs funded by Akzo Nobel	3	2
Other	2	1
<i>Operating cash flows before changes in working capital and provisions</i>		
(Increase) in trade and other receivables	(32)	(82)
(Increase)/decrease in inventories	(20)	(34)
(Increase)/decrease in other non-current assets	2	14
Increase/(decrease) in trade and other payables and provisions	(5)	15
Increase/(decrease) income tax payable and receivable, net	77	19
Cash generated from operating activities	341	285
Purchase of intangible assets	(27)	(4)
Purchase of property, plant and equipment	(94)	(62)
Proceeds from sale of interests		8
Investments in associates and repayments of loans by associates		(3)
Net cash used in investing activities	(121)	(61)
Dividends paid to Akzo Nobel		
Share premium repayment	(350)	
Cash transfers (to)/from Akzo Nobel, net	(24)	(225)
Bank overdrafts		(8)
Increase in borrowings	30	2
Net cash from financing activities	(344)	(231)
<i>Net decrease in cash and cash equivalents</i>	<i>(124)</i>	<i>(7)</i>
Effect of exchange rate changes on cash and cash equivalents	(1)	(2)
<i>Net decrease in cash and cash equivalents</i>	<i>(125)</i>	<i>(9)</i>

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Cash and cash equivalents at January 1	239	59
<i>Cash and cash equivalents at June 30</i>	114	50

The accompanying notes are an integral part of these unaudited condensed combined interim financial statements.

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**UNAUDITED CONDENSED COMBINED INTERIM STATEMENTS
OF CHANGES IN INVESTED EQUITY
(Amounts in millions of euros)**

	Owners Net Investment	Cumulative Translation Reserves	Minority Interest	Total Invested Equity
<i>Balance as of January 1, 2006</i>	2,139	46	1	2,186
Changes in exchange rates in respect of foreign operations		(26)	(1)	(27)
Net income/(expense) recognized directly in equity		(26)	(1)	(27)
Profit for the period	193			193
<i>Total income/(expenses)</i>	193	(26)	(1)	166
<i>Contributions attributed to:</i>				
Share-based payment costs funded by Akzo Nobel	2			2
Interest expense funded by Akzo Nobel	15			15
Corporate overhead costs funded by Akzo Nobel	14			14
Insurance expense funded by Akzo Nobel	14			14
Tax transfers from Akzo Nobel, net	50			50
Employee benefits and other non-cash transfers, net	(3)			(3)
Cash transfers to Akzo Nobel, net	(225)			(225)
<i>Balance as of June 30, 2006</i>	2,199	20		2,219
<i>Balance as of January 1, 2007</i>	2,313	(2)		2,311
Changes in exchange rates in respect of foreign operations		(3)		(3)
Net income/(expense) recognized directly in equity		(3)		(3)
Profit for the period	223			223
<i>Total income/(expenses)</i>	223	(3)		220
Share premium repayment	(350)			(350)
<i>Contributions attributed to:</i>				
Share-based payment costs funded by Akzo Nobel	3			3
Employee benefits and other non-cash transfers, net	(2)			(2)
Cash transfers to Akzo Nobel, net	1			1

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Non-cash transfers to Akzo Nobel, net	(760)		(760)
<i>Balance as of June 30, 2007</i>	1,428	(5)	1,423

The accompanying notes are an integral part of these unaudited condensed combined interim financial statements.

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OBS GROUP

NOTES TO THE UNAUDITED CONDENSED COMBINED INTERIM FINANCIAL STATEMENTS
(All amounts in millions of euros unless otherwise stated)

Note 1 Business and Basis of Presentation

Business

In these combined interim financial statements, the human healthcare business and animal healthcare business activities of Akzo Nobel N.V. (Akzo Nobel) are together referred to as the healthcare activities and references to the OBS Group or Company mean those operating companies and other subsidiaries of Akzo Nobel that undertook the human and animal healthcare activities during the relevant period covered by the combined financial statements.

The OBS Group is headquartered in Oss, The Netherlands.

The human healthcare business, Organon, specializes in the discovery, development, manufacturing and marketing of prescription medicines and products. Its core therapeutic areas of expertise are contraception, fertility, hormone therapy, mental health and anesthesia. Additionally, the Organon business includes Nobilon, a biotechnology company dedicated to exploring opportunities in the field of human vaccines.

The animal healthcare business, Intervet, offers a full range of veterinary vaccines and pharmaceuticals for a variety of animal species including poultry, pigs, cattle, sheep, goats, horses, cats, dogs and fish.

Following the announcement by Akzo Nobel that it intends to separate its healthcare activities from the Akzo Nobel Group, Akzo Nobel incorporated Organon BioSciences N.V. (OBS N.V.) on September 1, 2006 as a public company with limited liability (naamloze vennootschap) incorporated under the laws of The Netherlands with an authorized share capital of EUR 225 thousand and an issued share capital of EUR 45 thousand.

On September 30, 2006 Akzo Nobel contributed to OBS N.V., through a contribution in kind, the shares of the two subholding companies, Organon BioSciences International B.V. and Organon BioSciences Nederland B.V., in exchange for 24,955,000 ordinary shares of OBS N.V. with a nominal value of EUR 1.00 (one euro) per share. As per the date of this contribution, OBS N.V. had an authorized share capital of EUR 125 million and an issued share capital of EUR 25 million.

On March 12, 2007, Schering-Plough Corporation (Schering-Plough) announced that its board of directors approved a transaction under which it will acquire OBS N.V. from Akzo Nobel.

These combined financial statements were authorized on July 30, 2007 by the Board of Directors of OBS N.V.

Basis of Presentation

These combined financial statements reflect all of the assets, liabilities, revenues, expenses, and cash flows of the OBS Group. The significant legal entities forming part of the OBS Group are as follows:

Legal Entity	Country of Incorporation	Ownership
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Organon BioSciences N.V.	The Netherlands	100.00%
Organon BioSciences Nederland B.V.(*)	The Netherlands	100.00%
Organon BioSciences International B.V. (**)	The Netherlands	100.00%
Intervet International B.V	The Netherlands	100.00%
Intervet Inc.	USA	100.00%
Intervet International GmbH	Germany	100.00%
Intervet UK Ltd	U.K.	100.00%

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Legal Entity	Country of Incorporation	Ownership
Laboratories Intervet S.A.	Spain	100.00%
Hydrochemie GmbH	Germany	100.00%
Intervet Australia Pty Ltd	Australia	100.00%
Intervet Deutschland GmbH	Germany	100.00%
Intervet Innovation GmbH	Germany	100.00%
Intervet do Brasil Veterinaria Ltda(***)	Brazil	100.00%
Intervet Mexico S.A. de CV	Mexico	100.00%
Intervet S.A.	France	100.00%
Intervet Productions S.A.	France	100.00%
Intervet Pharma R&D S.A.	France	100.00%
Intervet (Italia) S.r.l	Italy	100.00%
Intervet UK Production Ltd	UK	100.00%
Intervet Holding B.V	The Netherlands	100.00%
Intervet Nederland B.V	The Netherlands	100.00%
Intervet KK	Japan	100.00%
Nobilon International B.V	The Netherlands	100.00%
N.V. Organon	The Netherlands	100.00%
Organon (Ireland) Ltd. (****)	Ireland	100.00%
Organon International Inc.	USA	100.00%
Organon USA Inc.	USA	100.00%
Organon S.A.	France	100.00%
Nippon Organon KK	Japan	100.00%
Organon GmbH	Germany	100.00%
Organon Laboratories Ltd.	UK	100.00%
Organon Espanola S.A.	Spain	100.00%
Organon Italia S.p.A.	Italy	100.00%
Organon do Brasil Indústria e Comercio Ltda	Brazil	100.00%
Organon Ilaclari A.S	Turkey	100.00%
Organon Holding B.V	The Netherlands	100.00%
Organon Nederland B.V	The Netherlands	100.00%
Organon Canada Ltd.	Canada	100.00%
Multilan AG	Switzerland	100.00%
Diosynth RTP Inc.	USA	100.00%

(*) Formerly Akzo Nobel Pharma B.V.

(**) Formerly Akzo Nobel Pharma International B.V.

(***) Represent the Intervet division of Akzo Nobel Ltda, the combined financial statements only include those assets, liabilities, revenues, expenses and cash flows of this legal entity that pertain directly to healthcare activities. In June 2006 the Intervet division of this legal entity was incorporated in a separate entity (Intervet do Brasil Veterinaria Ltda), which is indirectly 100% owned by OBS N.V. The remaining business of Akzo Nobel Ltda is not related to healthcare activities and are not part of the spin-off healthcare activities.

(****) Including Organon Ireland Swiss Branch

These combined financial statements exclude the assets, liabilities, revenues, expenses and cash flows of Akzo Nobel legal entities (and divisions thereof) not relating to the healthcare activities.

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OBS GROUP

NOTES TO THE UNAUDITED CONDENSED COMBINED INTERIM FINANCIAL STATEMENTS (Continued)

(All amounts in millions of euros unless otherwise stated)

During the six months ended June 30, 2006, the OBS Group divested Crina S.A., one of the remaining feed additives businesses held in the portfolio. These combined interim financial statements reflect the revenues, expenses, and cash flows of this business up to the date of divestment.

The OBS Group has historically operated as an integrated part of Akzo Nobel and within the Akzo Nobel infrastructure. However, these combined interim financial statements have been prepared on a carve-out basis from the consolidated financial statements of Akzo Nobel to represent the financial position and performance of the OBS Group as if the OBS Group has existed, as of and during the six months ended June 30, 2007 and 2006, and as if International Accounting Standard (IAS) 27, *Consolidated and Separate Financial Statements* have been applied through out. The combined financial statements included herein may not necessarily be indicative of the OBS Group s financial position, results of operations, or cash flows had the OBS Group operated as a separate entity during the periods presented or for future periods.

As described above, these combined interim financial statements reflect the assets, liabilities, revenues, expenses, and cash flows of the OBS Group. Under the carve-out basis of preparation, these combined interim financial statements as of and for the six months ended June 30, 2006 include allocations for various expenses, including corporate administrative expenses, as well as an allocation of certain assets and liabilities historically maintained by Akzo Nobel, but not recorded in the accounts of the OBS Group. These include, among other things, corporate overhead, interest expense, certain deferred and current income tax assets and liabilities, liabilities for certain compensation plans and contingent liabilities. The various allocation methodologies for corporate expenses, insurance, interest expense, share based payments, and pension and postretirement expenses are discussed in Notes 3, 3, 6, 11, and 12, respectively. Management of the OBS Group considers that such allocations have been made on a reasonable basis, but may not necessarily be indicative of the costs that could have been incurred if the OBS Group had operated on a stand-alone basis. After January 1, 2007, some of the finance and supporting corporate activities are no longer being provided by Akzo Nobel. As a result, only those expenses relating to issues maintained at Akzo Nobel are included in the combined financial statements as of and for the six months ended June 30, 2007.

Through December 2006, Akzo Nobel used a centralized approach to manage cash and to finance the OBS Group s operations. As a result, certain debt and cash and cash equivalents maintained at Akzo Nobel are not included in the combined interim balance sheet at December 31, 2006. The combined statement of income for the six months ended June 30, 2006 includes an allocation of Akzo Nobel s interest expense as discussed in Note 6. The OBS Group s financing requirements are represented by cash transactions with Akzo Nobel and are reflected in invested equity in the combined balance sheet at December 31, 2006.

The invested equity balance in these combined interim financial statements of the OBS Group constitutes Akzo Nobel s investment in the OBS Group and represents the excess of total assets over total liabilities until December 31, 2006. Invested equity includes the effects of carve-out allocations from Akzo Nobel and the funding of the OBS Group s operations through the in-house banking and cash pooling arrangements and loans to and from related parties with Akzo Nobel, and the OBS Group s cumulative net income, including income directly recognized in equity. After February 28, 2007, Akzo Nobel no longer provided financing support for the OBS Group s operations, other than via the related party loan and as a result, there are no cash transactions with Akzo Nobel reflected in invested equity in the combined balance sheet as of June 30, 2007. Invested equity does not constitute any contract that evidences a

residual interest in the assets after deducting liabilities to which reference is made in IAS 32, *Financial Statements: Disclosure and Presentation*.

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Prior to January 1, 2007 certain OBS Group companies were located in countries where they were included in the tax grouping of other Akzo Nobel entities within the respective entity's tax jurisdiction. The current tax payable or receivable of these OBS Group companies represents the income tax amount to be paid to or to be received from the country tax leading holding company of Akzo Nobel. For the purpose of these combined interim financial statements it is assumed that only the current period is outstanding.

The combined statements of cash flows have been prepared under the indirect method in accordance with the requirements of IAS 7 *Cash Flow Statements*. The combined statement of cash flows exclude currency translation differences, which arise as a result of translating the assets and liabilities of non-Euro companies to euros at period-end exchange rates (except for those arising on cash and cash equivalents) and have been adjusted for non-cash transactions.

Akzo Nobel and the OBS Group have identified certain issues and areas that in preparation of and following the separation require mutually agreeable arrangements between them. These issues and areas have been included in a separation agreement, which was signed on February 28, 2007. Note 20 provides further explanation on the separation agreement.

As a result of the foregoing, among other things, the combined financial statements included herein may not necessarily be indicative of the OBS Group's financial position, results of operations, or cash flows had the OBS Group operated on a stand-alone basis during the periods presented, or for future periods. Further, the combined financial statements do not reflect the financial impact of the actual separation of the OBS Group from Akzo Nobel on a stand alone basis.

The combined interim financial statements of the OBS Group have been prepared in accordance with IAS 34, *Interim Financial Reporting*. The combined financial statements as of and for the six months ended June 30, 2007 and 2006 are unaudited; however, in the opinion of the OBS Group's management, the unaudited combined interim financial statements reflect all normal recurring adjustments necessary for a fair presentation of the combined financial position, the combined results of operations and the combined cash flows of the OBS Group as of the dates and for the periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) have been condensed or omitted. IFRS as applied by the OBS Group does not differ from IFRS as provided by the International Accounting Standards Board (IASB). Although the OBS Group believes that the disclosures are adequate to make the information presented not misleading, these unaudited combined financial statements should be read in conjunction with the audited combined interim financial statements and the notes thereto for the years ended December 31, 2006, 2005 and 2004.

The OBS Group's business is not significantly impacted by seasonality. However, the results of operations for the six months ended June 30, 2007 and 2006 should not be taken as indicative of the results of operations that may be expected for the full year.

These combined interim financial statements are presented in euro, which is the functional currency of OBS N.V. and the OBS Group. All amounts are in millions of euros except headcount or unless otherwise stated. IFRS as applied by the OBS Group differs in certain significant respects from accounting principles generally accepted in the United

States of America (US GAAP). The effects of the application of US GAAP are disclosed in Note 21.

Note 2 Significant Accounting Policies

The accounting policies applied by the OBS Group in the preparation of the accompanying combined interim financial statements are the same as those applied by the OBS Group in its

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combined financial statements as of and for the year ended December 31, 2006. The OBS Group has not implemented any new IFRS accounting standards for the six months ended June 30, 2007.

Foreign currency translation

The main exchange rates against euros used in the preparation of the combined balance sheets and the combined statements of income are:

	Combined Balance Sheets		Combined Statements of Income	
	June 30, 2007	December 31, 2006	For the Six-Months Ended June 30, 2007	2006
USD	1.345	1.317	1.328	1.229
GBP	0.672	0.671	0.675	0.689
CHF	1.657	1.607	1.635	1.567

Note 3 Related Parties

The combined interim financial statements include transactions with related parties. The OBS Group entered into transactions with Akzo Nobel and its subsidiaries. Furthermore, Akzo Nobel provided corporate services for the combined financial statements periods presented. Management believes that product transfers between OBS Group and Akzo Nobel Group were made at arm's length prices. On February 28, 2007, Akzo Nobel and the OBS Group entered into a EUR 1.150 billion loan. Under the loan agreement, the maturity date of the loan is December 31, 2007 and the loan bears an interest rate of 6-months EURIBOR + 0.15% that accrues on the amount owed, from March 1, 2007 to the date of payment (both days inclusive). The entire principal amount of the loan not yet repaid to Akzo Nobel shall be due for immediate payment without any further notification or formality being required should, amongst other matters any other indebtedness of the OBS Group become due and payable prior to its specified maturity by reason of any default by the OBS Group in the due performance or observance of any obligation relating thereto, unless such indebtedness is not material in the context of the loan agreement. The loan is included in payables to related parties in the combined balance sheet as of June 30, 2007.

In the six month period ended June 30 2007, the OBS Group made several cash loans to Akzo Nobel totalling EUR 376 million on terms substantially equivalent to the terms of the aforesaid related party loan. These cash loans are included in receivables from related parties in the combined balance sheet as of June 30, 2007.

Sales and purchases of goods and services to and from Akzo Nobel and its subsidiaries were not significant for the six months ended June 30, 2007 and 2006. At June 30, 2007 and December 31, 2006, the OBS Group had receivables from Akzo Nobel and its subsidiaries of EUR 377 million and EUR 11 million, respectively. These amounts are reflected in receivables from related parties in the combined balance sheets. At June 30, 2007 and December 31, 2006,

the OBS Group had payables to Akzo Nobel and its subsidiaries of EUR 1,163 million and EUR 5 million, respectively. These amounts are reflected in payables to related parties in the combined balance sheets.

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In addition, the OBS Group purchases and sells goods and services to and from two other related parties in which the OBS Group holds less than a 50% equity interest (associates). Such transactions were not significant on an individual or aggregate basis for the six months ended June 30, 2007 and 2006. These transactions were conducted at arm's length with terms comparable to transactions with third parties.

General and administrative expenses for the six months ended June 30, 2006 include allocated corporate and regional costs from Akzo Nobel approximating EUR 14 million. These costs are primarily related to Akzo Nobel's corporate administrative services to the OBS Group, and are generally allocated based on a combination of the ratio of the OBS Group's annual revenues, gross profit, and property, plant, and equipment, to Akzo Nobel's comparable consolidated revenues, gross profit, and property, plant, and equipment. Management considers that such allocations have been made on a reasonable basis, but may not necessarily be indicative of the costs had the OBS Group operated as a separate entity during the periods presented. In addition, Akzo Nobel has incurred specific costs that are directly related to the OBS Group. These costs have been allocated to the OBS Group based upon actual costs incurred by Akzo Nobel. For the six months ended June 30, 2007 and 2006, these direct related expenses amounted to nil and EUR 1 million respectively.

Through December 31, 2006, Akzo Nobel incurred certain insurance costs on behalf of the OBS Group. These costs primarily included insurance premiums, costs related to insurance claims and certain administrative (insurance) services. Akzo Nobel's in-house insurance department acts as an in-house insurer that incurs the risk partially by themselves as well as insuring the risk partially with third party insurance companies. For the six months ended June 30, 2006, Akzo Nobel had allocated EUR 14 million to the OBS Group for total insurance expenses. These costs have been allocated based on the risk profiles of the OBS Group compared to the risk profiles of other Akzo Nobel businesses. The risk profiles used were based on the nature and operations of the various subsidiaries that are included in the OBS Group. Management considers that such allocations have been made on a reasonable basis, but may not necessarily be indicative of the costs had the OBS Group operated as a separate entity. As of January 1, 2007, the OBS Group has its own insurance department which acts as an in-house insurer as well as insures risks partially with third party insurance companies and Akzo Nobel's in-house insurance department acts as an insurance broker on behalf of the OBS Group for an annual fixed fee.

Through December 31, 2006, some of the OBS Group entities formed part of a fiscal unity headed by another Akzo Nobel company. In these instances, the Akzo Nobel tax leading company filed the tax return and settled the taxes with the respective OBS Group in that country. The income tax provisions related to these OBS Group companies were calculated using a method as if these OBS Group companies had filed a separate tax return. As of January 1, 2007, the OBS is solely responsible for the filing and settlement of its companies' tax returns. See Note 20, Incorporation and Separation, for tax settlements of the OBS Group for prior years which have been indemnified by Akzo Nobel.

Through December 31, 2006, Akzo Nobel used a centralized approach to manage cash and to finance the OBS Group's operations. As a result, certain debt and cash and cash equivalents maintained at Akzo Nobel were not included in the combined balance sheet as of December 31, 2006. The OBS Group's funding from Akzo Nobel through in-house banking and cash pooling and loans to and from related parties with Akzo Nobel were reflected in invested equity in the combined balance sheet at December 31, 2006. As of January 1, 2007, Akzo Nobel no longer provides financing support for the OBS Group's operations other than via the related party loan, and therefore there are no such cash transactions reflected in invested equity in the combined balance sheet as of

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OBS GROUP

**NOTES TO THE UNAUDITED CONDENSED COMBINED INTERIM FINANCIAL
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June 30, 2007. All cash and cash equivalents reflected in these combined financial statements at June 30, 2007 belong to legal entities of the OBS Group.

The combined statement of income for the six months ended June 30, 2006 includes an allocation of Akzo Nobel's interest expense of EUR 15 million. The allocation was principally based on the daily average outstanding cash balance funded to the OBS Group through Akzo Nobel's cash accounts using a rate applicable to the underlying currency. While interest expense has been allocated, there was no debt specific to the OBS Group; therefore, no allocation of Akzo Nobel's general corporate debt has been made in the combined balance sheet at December 31, 2006 as all transactions with Akzo Nobel were settled via invested equity. There were no such interest allocations for the six months ended June 30, 2007 as Akzo Nobel no longer finances the OBS Group's operations other than via the related party loan. The combined statement of income for the six months ended June 30, 2007 includes EUR 18 million of interest expense related to the aforementioned related party loan provided by Akzo Nobel on February 28, 2007.

Prior to January 1, 2007, the OBS Group entered into derivative contracts with Akzo Nobel to manage the OBS Group's foreign currency risk. At December 31, 2006 the outstanding contracts with Akzo Nobel to buy currencies had notional values of EUR 21 million while contracts with Akzo Nobel to sell currencies had notional values of EUR 57 million. As of January 1, 2007, the OBS Group's treasury department enters into its own derivative contracts with third parties.

The OBS Group had various net loan receivables with Akzo Nobel which amounted to EUR 289 million and were included in invested equity in the combined balance sheet at December 31, 2006. These loans had interest at rates ranging from 3.9% to 4.0% in 2006. There were no such loans included in invested equity as of June 30, 2007.

In the ordinary course of business, the OBS Group has transactions with various organizations with which certain of the members of its Board of Management are associated, but no transactions were conducted in 2006 or for the six months ended June 30, 2007. Likewise, there have been no transactions with members of the Board of Management, any other senior management personnel or any family member of such persons. Also, no loans have been extended to members of the Board of Management, any other senior management personnel or any family member of such persons. Certain members of the OBS Group's Board of Management are also members of Akzo Nobel's Board of Management.

Guarantees

Through December 31, 2006, Akzo Nobel was jointly and severally liable for contractual debts of certain Dutch OBS Group companies included in these combined financial statements. These debts, provisions, and payables, at December 31, 2006, aggregated to EUR 221 million and are included in the combined balance sheet as of December 31, 2006. In addition, Akzo Nobel issued guarantees on behalf of the OBS Group companies in the amount of EUR 221 million and EUR 252 million as of June 30, 2007 and December 31, 2006, respectively including guarantees issued by Akzo Nobel in relation to the filing exemption for certain Irish companies under section 5(c) of the Companies (Amendment) Act 1986 Ireland.

As of January 1, 2007, Akzo Nobel established an umbrella facility of EUR 80 million on behalf of the OBS Group for guarantees issued by the OBS Group. The OBS Group issued guarantees of EUR 71 million to third parties during the six months ended June 30, 2007.

Note 4 Segment Information

Segment information is presented in respect of the OBS Group's business segments. The primary segment reporting is based on the business segments of the OBS Group, whereby the business

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segments are engaged in providing products or services which are subject to risks and rewards which differ from the risks and rewards of the other segments. In determining whether products and services are related, aspects such as the nature of the products or services, the nature of the production processes, and the type or class of customers and end users, for the products or services are taken into consideration. Segments reported are Organon and Intervet which also reflects the management structure of the OBS Group. The secondary segment reporting is based on the geographical areas in which the OBS Group operates, whereby segment revenue is based on the geographical location of customers and segment assets are based on the geographical location of the assets.

The identification of segments is based on the way the business units are currently managed (composition of management teams and responsibilities) as well as the content of management information used to allocate resources within the business units. The risks and rates of return are affected predominately by differences in its businesses, Organon and Intervet, and not by the fact that the OBS Group operates in different countries.

Segment revenues and results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

	For the Six Months Ended June 30,											
	Revenues from		Group		Operating		Share of		Depreciation			
	Third Parties	2007	2006	Revenues	2007	2006	Income	2007	2006	Profit of	and	
	2007	2006	2007	2006	2007	2006	2007	2006	Associates	Amortization	2007	2006
Organon	1,253	1,308	1,267	1,321	195	174	1			59	63	
Intervet	606	562	606	562	128	109				30	29	
	1,859	1,870	1,873	1,883	323	283	1			89	92	
Inter-segment revenues			(14)	(13)								
			1,859	1,870								

Note 5 Other Operating (Expense) Income

	For the Six Months Ended June 30, 2007 2006	
Results on sale of redundant assets	1	
Currency exchange differences	1	1

impairment charges		
Legal charges		
Results on divestments		6
Other income/(expense)	1	
	3	7

In 2006, the results on divestments of EUR 6 million relate to the gain on Intervet's divestment of one of its feed additives businesses, Crina.

Note 6 Financial Expense and Income

Through December 31, 2006, Akzo Nobel used a centralized approach for cash management and to finance its operations. Through December 31, 2006, cash deposits were remitted to Akzo Nobel on

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a regular basis and reflected within invested equity in the combined balance sheet. Similarly, the OBS Group's cash disbursements were funded through Akzo Nobel's cash accounts.

As a result, certain debt and cash and cash equivalents maintained by Akzo Nobel were not included in the combined balance sheet as of December 31, 2006. The OBS Group's financing requirements were represented by cash transactions with Akzo Nobel and were reflected in invested equity in the combined balance sheet at December 31, 2006.

Through December 31, 2006, interest expense allocations from Akzo Nobel were allocated principally based on the daily average outstanding cash balance funded to the OBS Group through Akzo Nobel's cash accounts using a rate applicable to the underlying currency, which ranged from 1.0% to 7.7% for the six months ended June 30, 2006. For the six months ended June 30, 2006 interest expense of EUR 15 million had been allocated to the OBS Group and is included in the combined interim statement of income.

In addition through December 31, 2006, management had determined that no debt maintained at the Akzo Nobel group level related specifically or entirely to the OBS Group businesses, nor did the OBS Group guarantee or pledge its assets as collateral for Akzo Nobel's debt. As such, management felt that there was no need to push down debt to the combined financial statements of the OBS Group at December 31, 2006. Nevertheless, as described above, interest expense had been allocated and reflected in the combined financial statements of the OBS Group because the OBS Group did receive cash advances from Akzo Nobel.

As of February 28, 2007, Akzo Nobel no longer provides financing to the OBS Group other than via the related party loan and as such, there are no longer any loans from/to Akzo Nobel included in invested equity in the combined balance sheet as of June 30, 2007. The OBS Group enters into financing arrangements with third parties on its own behalf and reflects those as liabilities in the combined balance sheet. The actual interest expense incurred in conjunction with these borrowings has been reflected in the combined interim statement of income. Interest expense of EUR 22 million for the six months ended June 30, 2007 is related to the aforementioned EUR 1.150 billion loan with Akzo Nobel.

Financial expense and income consist of the following:

	2007	2006
For the six months ended June 30,		
<i>Financial expenses</i>		
Interest expense related parties	(22)	(15)
Interest expenses other	(5)	(4)
<i>Financial income</i>		
Interest income related parties	3	
Interest income other	3	1
	(21)	(18)

Interest expense is reduced by EUR 1 million and nil for the six months ended June 30, 2007 and 2006, respectively, due to interest capitalized on capital investment projects under construction.

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Profit before tax amounted to EUR 303 million and EUR 265 million for the six months ended June 30, 2007 and 2006 respectively. Tax (charges)/benefits are included in the combined interim statement of income as follows:

	2007	2006
For the six months ended June 30,		
Tax on operating income less financing costs	(80)	(72)
Tax associates		
	(80)	(72)

The classification of current and deferred tax (charges)/benefits in the combined statement of income is as follows:

	2007	2006
For the six months ended June 30,		
Current tax:		
for the six month period	(82)	(71)
adjustments for prior periods		(2)
	(82)	(73)
Deferred tax:		
origination and reversal of temporary differences	2	1
tax losses not recognized		
	2	1
	(80)	(72)

The reconciliation of the statutory tax rate in the Netherlands to the effective combined tax rate is as follows:

	2007	2006
For the six months ended June 30,		
Statutory tax rate in The Netherlands	26%	30%
Effect of different rates in foreign countries		(2)%
Adjustments for prior years		(1)%

In assessing the realizability of the deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of the deferred tax assets considered realizable, however, could change in the near term if future estimates of projected taxable income during the carry-forward period are revised.

Deferred tax assets and liabilities are offset only when there is a legally enforceable right to set off tax assets against tax liabilities and when the deferred tax assets and liabilities relate to the same tax authority.

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The movement in deferred tax assets and liabilities during the periods are as follows:

	Balance December 31, 2006	Changes in Exchange Rates	Recognized in Income	Other	Balance June 30, 2007
Intangible assets	26		(1)		25
Property, plant and equipment	8	(1)	(2)		5
Inventories	98				98
Trade and other receivables	4				4
Provisions:					
restructuring	1		(1)		
other provisions	85	(1)	11		95
Other items	21		(5)		16
Net operating loss carry-forwards	13				13
Net deferred tax asset/liabilities	256	(2)	2		256

	Balance December 31, 2005	Changes in Exchange Rates	Recognized in Income	Other	Balance June 30, 2006
Intangible assets	61	(3)	(19)		39
Property, plant and equipment	12	(2)	8		18
Inventories	86		20		106
Trade and other receivables	8				8
Provisions:					
restructuring					
other provisions	128	(2)	(13)	(1)	112
Other items	14	(2)	14		26
Net operating loss carry-forwards	22	(1)	(9)		12
Net deferred tax asset/liabilities	331	(10)	1	(1)	321

Classification of the deferred tax assets and liabilities in the combined balance sheets, which is determined at the fiscal entity level, is as follows:

June 30, 2007	December 31, 2006
--------------------------	------------------------------

Deferred tax assets	282	281
Deferred tax liabilities	(26)	(25)
	256	256

Income tax receivable and payable have been offset in cases where there is a legally enforceable right to set off current tax asset against current tax liability and when the intention exists to settle on a net basis or to realize the receivable and payable simultaneously.

Income tax receivable of EUR 26 million and EUR 74 million at June 30, 2007 and December 31, 2006, respectively, represents the amount of income taxes recoverable in respect of current and prior

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periods. As of June 30, 2007 and December 31, 2006, income tax receivable from Akzo Nobel entities of nil and EUR 15 million respectively are included in the income tax receivable in the combined balance sheets.

Income tax payable of EUR 131 million and EUR 133 million at June 30, 2007 and December 31, 2006, respectively, relates to the amount of taxes payable for current and prior periods to the tax authorities.

Note 8 Inventories, net

For the six months ended June 30, 2007 and 2006, EUR 2 million and EUR 11 million, respectively, were recognized in the combined interim statements of income for the write-down of inventories to its net realizable value, while EUR 1 million and EUR 4 million, respectively, of write-downs were reversed in the period of sale. There are no inventories subject to retention or title clauses.

Additionally, for the six-months ended June 30, 2007 and 2006, the OBS Group recorded an expense in the combined interim statements of income of EUR 30 million and EUR 26 million, respectively, related to the impairment of obsolete inventories.

Note 9 Trade and Other Receivables, net

Trade receivables are shown net of impairment losses of EUR 12 million and EUR 15 million at June 30, 2007 and December 31, 2006, respectively. In the six months ended June 30, 2007 and 2006, the OBS Group recorded net additions and reversals of impairment losses of nil and EUR 2 million in the combined interim statements of income, respectively.

Note 10 Invested Equity

Prior to January 1, 2007, the invested equity balance in the combined financial statements of the OBS Group constitutes Akzo Nobel's investment in the OBS Group and represent the excess of total assets over total liabilities. Invested equity includes the effects of carve-out allocations from Akzo Nobel and the funding of the OBS Group activities through the in-house banking and cash pooling and loans from and to related parties with Akzo Nobel, and the OBS Group's cumulative net income, including income directly recognized in invested equity. As of February 28, 2007, Akzo Nobel no longer provides financing support for the OBS Group's operations other than via the related party loan and as a result, there are no such cash transactions with Akzo Nobel nor allocations from Akzo Nobel reflected in the invested equity in the combined balance sheet as of June 30, 2007. Invested equity does not constitute any contract that evidences a residual interest in the assets after deducting liabilities.

Cumulative translation reserves

The cumulative translation reserves comprise all foreign currency differences arising from the translation of the OBS Group's financial statements of net investments in foreign subsidiaries.

Assets and liabilities of foreign subsidiaries are translated into euros at exchange rates on the balance sheet date. Revenues and expenses are translated into euros at rates approximating the foreign exchange rates ruling at the dates

of the transactions. Exchange differences resulting from translation into euros of invested equities and of intercompany loans of a permanent nature with respect to subsidiaries outside the Euro region are recorded within invested equity. Upon disposal or liquidation of a foreign entity, these cumulative translation adjustments are recognized as income or expense.

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A description of the amounts recorded in invested equity is as follows:

Share-based payment costs funded by Akzo Nobel

The share-based payment costs funded by Akzo Nobel represent share-based payment expenses, allocated to the OBS Group, based on the actual OBS Group employees who participate in the Akzo Nobel share plans. See Note 11.

Interest expense funded by Akzo Nobel

The interest expense funded by Akzo Nobel represents interest charges allocated to the OBS Group based on average levels of funding provided to the OBS Group by Akzo Nobel. See Note 3 and Note 6.

Corporate overhead costs funded by Akzo Nobel

The corporate overhead costs funded by Akzo Nobel represents an allocation of charges to the OBS Group incurred by Akzo Nobel for various corporate administrative costs, on behalf of the business units of the OBS Group. See Note 3.

Insurance expense funded by Akzo Nobel

The insurance expense funded by Akzo Nobel represents insurance expenses incurred by Akzo Nobel on behalf of the OBS Group that have been allocated to the OBS Group. See Note 3.

Tax transfers from/(to) Akzo Nobel

The tax transfers from/(to) Akzo Nobel represent intercompany tax payments and settlements, from and to the OBS Group and the Akzo Nobel tax leading holding companies.

Employee benefits and other non-cash transfers

These amounts primarily represent allocations of employee benefit related assets and liabilities in regard of pension plans accounted for by Akzo Nobel on behalf of the OBS Group.

Cash transfers from/(to) Akzo Nobel

The cash transfers from/(to) Akzo Nobel consist of group contributions from or to Akzo Nobel, capital contributions funded by Akzo Nobel, the net movement of funding by Akzo Nobel and intra group movements. As of December 31, 2006, invested equity includes EUR 1,049 million of funding by Akzo Nobel which does not have the characteristics of debt. Also, as of December 31, 2006, invested equity includes EUR 289 million of net loans due from and due to related parties.

Note 11 Share-Based Payments

Akzo Nobel sponsors the following stock options plans and share plans in which certain employees of the OBS Group participate. As the share-based payment plans are Akzo Nobel plans, amounts have been recognized through invested equity.

Stock Option Plans

Akzo Nobel grants options to all members of the Board of Management, senior vice presidents and executives. Stock options granted cliff-vest and are exercisable after three years. The options granted to senior vice presidents and executives expire after five years and options granted from 2002 onwards expire after seven years. Options granted to members of the Board of Management from 2000 expire after ten years and options granted from 2003 onwards expire after seven years. All

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outstanding options issued from 1999 cannot be exercised during the first three years. One option entitles the holder thereof to buy one Akzo Nobel N.V. common share or one American Depositary Share (ADS). The exercise price is the Euronext Amsterdam opening price on the first day that the Akzo Nobel share is quoted ex dividend or the opening price for an ADS on NASDAQ/NMS on the first day that the Akzo Nobel ADS is quoted ex dividend. Also, for the options granted since 2005, certain economic value added performance criteria are included in the vesting conditions. Through June 30, 2005, the option holder could also request that the option be cash settled.

Since 2005, Akzo Nobel grants performance related stock options to executives. Under this plan, executives are granted a conditional number of options, under shareholder approval, whose vesting is conditional on the achievement of financial performance targets, expressed as Economic Value Added on Invested Capital (EOI). The percentage of granted, contingent options that vest depends on Akzo Nobel 's average EOI over a three-year period. One option entitles the holder thereof to buy one Akzo Nobel N.V. common share or one ADS. The option holder can also request that the option be cash settled.

These option plans could be cash settled through July 1, 2005, and were modified as of this date to be share settled. The fair value of employee service received in return for share options granted are measured by reference to the fair value of share options granted. Until July 1, 2005, the OBS Group recognized at each balance sheet the fair value of the options outstanding per that date, taking into account the passage of time of the three-year vesting period. The change in this fair value was recognized in income. Compensation expense of EUR 1 million and EUR 1 million has been recognized under these plans for the six months ended June 30, 2007 and 2006, respectively.

Performance Share Plan (Executives and Board of Management)

In 2004, Akzo Nobel introduced a conditional performance stock option plan for the Board of Management and on January 1, 2005 for executives. Under this plan, members of the Board of Management and executives were granted a conditional number of shares. The vesting of the shares is conditional on the achievement of performance targets, expressed as Total Shareholder Return (TSR) of Akzo Nobel, relative to the TSR of a group of competitors during the relative performance period. The percentage of granted, contingent shares that vest depends on Akzo Nobel 's TSR, relative to those of competitors, achieved during the three-year vesting period. The awards will be satisfied by the delivery of Akzo Nobel N.V. shares, or in exceptional cases, by means of a cash payment.

Due to the performance criteria of the share plan, the OBS Group bases compensation expense on the best available estimate of the number of shares that are expected to vest and revises that estimate, if necessary, if subsequent information indicates that actual forfeitures are likely to differ from initial estimates. Management expects the conditional shares granted to vest based on available information. Expense of EUR 1 million and EUR 1 million has been recognized during the six months ended June 30, 2007 and 2006, respectively.

During the six months ended June 30, 2007, Akzo Nobel has conditionally decided to settle the outstanding 2006 and earlier awards based on the stock price of Akzo Nobel at the day of the closing of the transaction with Schering-Plough. The settlement of these awards is conditional on the closing of the transaction with Schering-Plough and will take place in the month after the closing date. Akzo Nobel remains as the administrator and sponsor of the plans, and any expenses related to the OBS Group will be accounted for by the OBS Group. Further, Akzo Nobel did not issue any new awards during 2007 to OBS Group employees, however, awards conditional on the closing of the

transaction,

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were granted to OBS Group executives. These awards will be settled in cash, subsequent to the closing, in June 2008.

Akzo Nobel has estimated that the total conditional settlement would approximate EUR 9 million, of which 50% will be paid by Schering-Plough, based on current factors. No cash payments will be made by Akzo Nobel until the close of the transaction with Schering-Plough. An additional expense of EUR 2 million has been recognized in the combined statement of income for this change for the six months ended June 30, 2007.

The following is a summary of activity pertaining to the OBS Group employees that participated in the various Akzo Nobel stock option and share plans:

Outstanding	Common Shares	American Depository Shares
<i>Balance at December 31, 2005</i>	1,217,079	158,020
Options granted	230,645	
Options exercised	(223,340)	(56,760)
Options forfeited	(93,632)	(3,640)
<i>Balance at June 30, 2006</i>	1,130,752	97,620
<i>Balance at December 31, 2006</i>	1,099,659	89,080
Options exercised	(446,451)	(64,140)
Options forfeited	(19,170)	
<i>Balance at June 30, 2007</i>	634,038	24,940

The following is a summary of activity pertaining to the OBS Group executives and Board of Management that participated in the Akzo Nobel performance share plan:

Outstanding	Performance Share Plan (Executives and Board of Management)
<i>Balance at June 30, 2006</i>	686,553
<i>Balance at June 30, 2007</i>	696,902

Fair value and assumptions used

The expected value of performance stock options for the Board of Management and executives is based on a binomial lattice option pricing model, using certain assumptions. These assumptions were used for these calculations only, and do not necessarily represent an indication of management's expectations of future developments. In addition, option valuation models require the input of highly subjective assumptions, including expected share price volatility. The OBS Group's employee stock options have characteristics significantly different from those of traded options and changes in the subjective assumptions used for the calculation can materially affect the fair value estimate.

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The fair value and the assumptions used for the options granted were as follows, for the six months ended June 30, 2006:

	2006
Fair value at measurement date	9.86
Share price at measurement date	46.46
Exercise price	46.46
Expected share price volatility (%)	24.8
Expected option life (years)	5
Expected dividend yield (%)	2.74
Risk free interest rate (%)	3.92

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Share options are granted under a service condition and a non-market performance condition. Such conditions are not taken into account in the grant date fair value measurement. There are no market conditions associated with the share option grants.

The grant date fair value of the performance shares is amortized as an expense over the three-year vesting period. The fair value at grant date is based on the Monte Carlo simulation model taking market conditions into account. The value was calculated by external actuaries and amounted to EUR 16.80 for the performance shares conditionally granted during the six months ended June 30, 2006.

Note 12 Provisions

Provisions consist of the following at June 30, 2007 and December 31, 2006, including current portions:

	2007	2006
Pensions and other postretirement benefits	266	263
Restructuring of activities	4	6
Other	48	43
	318	312

Provisions for pensions and other postretirement benefits

The majority of the OBS Group employees participate in Akzo Nobel defined benefit pension plans, defined contribution pension plans and other postretirement benefit plans which provide benefits to employees and former employees of both the OBS Group and other Akzo Nobel businesses. In these plans, the assets and liabilities that

relate to employees (and former employees) of the OBS Group are combined with those related to employees (and former employees) of other Akzo Nobel businesses.

The OBS Group has obtained information about each of these Akzo Nobel plans measured in accordance with IAS 19 on the basis of assumptions that apply to each of the plans as a whole, and used a reasonable allocation method to determine the OBS Group's portion of each plan's assets, liabilities and benefit costs under IAS 19. For each of these plans, the defined benefit obligation (at each balance sheet date), and the service cost, contributions, benefit payments, and impact of special events (in each accounting period), relating to the OBS Group, have been determined using approximate

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actuarial techniques which take into account the membership profile of OBS Group participants compared to the membership profile for participants in the plan as a whole. Plan assets at each balance sheet date have generally been split in the same proportion as the defined benefit obligation.

Management believes that such allocations have been made on a reasonable basis, but may not necessarily be indicative of the actual separation of these pension plans in the future.

Furthermore, some OBS Group employees participate in stand-alone OBS Group pension and other postretirement benefit plans. The related expenses, assets and liabilities for these plans are accounted for in the OBS Group businesses in accordance with IAS 19.

The defined benefit pension plans in which the OBS Group's employees participate generally provide benefits based on years of service and employees' compensation. The funding policies for the plans are consistent with local requirements in the countries of establishment. Obligations under the plans are systematically provided for by depositing funds with trustees or separate foundations, under insurance policies, or by balance sheet provisions. Plan assets principally consist of long-term interest-earning investments, quoted equity securities, and real estate.

A number of OBS Group's current and former employees participate in Akzo Nobel postretirement healthcare and life assurance plans. The OBS Group has accrued for the expected costs of providing such postretirement benefits during the years that the employee rendered the necessary services.

Valuations of the obligations under the pension and other postretirement benefit plans are carried out by independent actuaries. The discount rates applied are based on yields available on high quality corporate bonds that have currencies and terms consistent with the currencies and estimated terms of the OBS Group's obligations.

During 2006, Akzo Nobel closed their US and Canadian defined benefit pension plans in which OBS Group employees and former employees participate to further accrual and implemented defined contribution plans for future benefit provision. During 2006, Akzo Nobel also altered the qualification requirements and changed the existing level of benefits in its US postretirement welfare plan in which OBS Group employees and former employees participate. Due to these changes, the OBS Group's provision for pensions and other postretirement benefits decreased by EUR 29 million, which was recorded in the combined statements of income during the year ended December 31, 2006.

During 2005, Akzo Nobel reached agreement with the unions on a change of its pension plan in The Netherlands, so that, effective December 31, 2005, it changed from a defined benefit plan to a defined contribution plan. In connection with this change during 2005, Akzo Nobel paid a one-time nonrefundable contribution of EUR 151 million, prepaid EUR 50 million in July 2005 of loans which are to be repaid by retaining employee pension premiums, and granted a EUR 100 million subordinated loan in September 2005, that had a fair value of EUR 87 million. At June 30, 2007 and December 31, 2006, Akzo Nobel allocated EUR 4 million and EUR 8 million of the loans, respectively, which are to be redeemed by retaining employee pension premiums, and EUR 33 million and EUR 33 million, respectively, of the fair value of the subordinated loan to the OBS Group based on the ratio of the OBS Group's plan liabilities to the total Akzo Nobel Pension Fund liabilities. Management feels that the allocation method is reasonable.

At June 30, 2007 and December 31, 2006, the pension and postretirement provisions are EUR 266 million and EUR 263 million, respectively, which have been recorded as provisions in the combined balance sheets.

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In the United States, the Medicare Prescription Drug Improvement and Modernization Act of 2003 introduced prescription drug benefits for retirees as well as a federal subsidy to sponsors of postretirement healthcare plans, which both began at January 1, 2006. This reimbursement right has been recognized as an asset under other financial non-current assets in the combined balance sheets and is measured at fair value. At June 30, 2007 and December 31, 2006, this value was EUR 9 million and EUR 9 million, respectively.

The net periodic pension costs for the defined benefit pension plans for the six months ended June 30, 2007 and 2006 was EUR 15 million and EUR 21 million, respectively.

Provisions for restructuring of activities

Provisions for restructuring of activities comprise accruals for certain employee benefits and for costs that are directly associated with plans to exit specific activities and closing down of facilities. For all restructurings a detailed formal plan exists, and the implementation of the plan has started or the plan has been announced. Most restructuring activities relate to relatively smaller restructurings, and are expected to be completed within two years from the balance sheet date. However, for certain plans payments of termination benefits to former employees may take several years longer.

Other provisions

Other provisions relate to a great variety of risks and commitments, including provisions for other long-term employee benefits like long-service leave and jubilee payments, provisions for environmental costs, provision for returns, allowances and legal claims. At June 30, 2007 and December 31, 2006, the OBS Group has recorded a provision of EUR 11 million for returns and allowances. For details on environmental expenses, see Note 17.

The majority of the cash outflows related to other provisions are expected to be within 1 to 5 years. In calculating the other provisions a discount rate average of 5% has been used.

Note 13 Deferred Income

In December 2003, the OBS Group received an initial payment of EUR 88 million from Pfizer for the co-development and co-marketing agreement for asenapine. Such payments are to be reported as deferred income and to be recognized as revenue in subsequent years. For this payment, recognition is based on the estimated co-development costs expected to be incurred over the co-development period. Because the agreement terminated in May 2007, all amounts have been recognized in income as of June 30, 2007.

Note 14 Borrowings (Non-current)

	June 30, 2007	December 31, 2006
Debt to credit institutions	5	6

Other borrowings	51	39
	56	45

The weighted average effective interest rate approximated 5.9% for the six months ended June 30, 2007, and 5.9% in 2006.

At June 30, 2007 and December 31, 2006, none of the borrowings were secured by means of mortgages, etc.

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	June 30, 2007	December, 31, 2006
Debt to credit institutions	107	75
Current portion of borrowings	31	37
	138	112

Note 16 Financial Instruments***Foreign exchange risk management***

The OBS Group enters into forward exchange contracts with Akzo Nobel and with third parties to hedge the transaction risk on sales, purchases, and financing transactions denominated in currencies other than the functional currency of the subsidiary concerned. The purpose of these foreign currency hedging activities is to protect the OBS Group from the risk that the eventual functional currency net cash flows resulting from committed trade or financing transactions are adversely affected by changes in exchange rates. Most forward exchange contracts outstanding at year-end have a maturity of less than one year. Where necessary, the forward exchange contracts are rolled over at maturity. The OBS Group does not use financial instruments to hedge the translation risk related to equity, intercompany loans of a permanent nature, and earnings of foreign subsidiaries. Currency derivatives are not used for speculative purposes.

At June 30, 2007 and December 31, 2006, the notional value of outstanding contracts to buy currencies totalled EUR 41 million and EUR 21 million, respectively, while contracts to sell currencies totalled EUR 361 million and EUR 57 million, respectively. These contracts mainly relate to the U.S. dollar, Australian dollar, Swiss franc, Swedish kronor, Norwegian kronor, Polish zloty, pounds sterling, and Japanese yen, all having maturities within one year.

Interest risk management

The subordinated loan to the Akzo Nobel Pension Fund is sensitive to changes in interest rates. The OBS Group's share of the face value of the loan is EUR 36 million and the expected maturity is subsequent to 2010 with an average interest rate of 3.5%. The OBS Group's share of the carrying value of the loan and estimated fair value is EUR 33 million with an effective interest rate of 5.1%.

Credit risk

The OBS Group has a credit risk management policy in place. The exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit. Generally the OBS Group does not require collateral in respect of financial assets.

Investments in cash and cash equivalents are entered into with counterparties which have a high credit rating and limits per counterparty have been set. Transactions involving derivative financial instruments are with counterparties with sound credit ratings and with whom the OBS Group has contractual netting agreements. The OBS Group has no reason to expect non-performance by the counterparties to these agreements.

Due to the geographical spread of the OBS Group and the diversity of its customers, at the balance sheet date the OBS Group was not subject to any significant concentration of credit risks. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the combined balance sheet.

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Sensitivity analysis

By managing currency risks, the OBS Group aims to reduce the impact of short-term fluctuations on the OBS Group's earnings. Over the longer-term, however, permanent changes in foreign exchange and interest rates would have an impact on combined earnings.

At June 30, 2007 the decrease in the OBS Group's profit before tax as a result of a general increase of one percentage point in interest rates would not be significant. Cash and cash equivalent and short-term borrowings have been included in this assessment.

Fair value of financial instruments

The estimated fair values at June 30, 2007 of non-current borrowings and the subordinated loan to the Akzo Nobel Pension fund approximate their carrying values. The fair value of the OBS Group's non-current borrowings was estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the OBS Group for debt with similar maturities.

The fair value of forward exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

At June 30, 2007 and December 31, 2006 the OBS Group's forward exchange contracts were recognized at fair value.

The carrying amounts of cash and cash equivalents, receivables, current borrowings, and other current liabilities approximate fair value due to the short maturity period of those instruments.

Note 17 Contingent Liabilities and Commitments

Environmental matters

The OBS Group is confronted with costs arising out of environmental laws and regulations, which include obligations to eliminate or limit the effects on the environment of the disposal or release of certain wastes or substances at various sites. Proceedings involving environmental matters, such as the alleged discharge of chemicals or waste materials into the air, water, or soil, are pending against the OBS Group in various countries.

It is the OBS Group's policy to accrue and charge against earnings environmental cleanup costs when it is probable that a liability has incurred and an amount is reasonably estimable. These accruals are reviewed periodically and adjusted, if necessary, as assessments and cleanups proceed and additional information becomes available. Environmental liabilities can change substantially due to the emergence of additional information on the nature or extent of the contamination, the necessity of employing particular methods of remediation, actions by governmental agencies or private parties, or other factors of a similar nature. Cash expenditures often lag behind the period in which an accrual is recorded by a number of years.

The provisions for environmental costs accounted for in accordance with the aforesaid policies aggregated EUR 1.0 million and nil as of June 30, 2007 and as of December 31, 2006, respectively. The provision has been discounted using an average discount rate of 5.25%.

The OBS Group has certain asset retirement obligations for which the timing of settlement is conditional upon the closure of the related operating facility. At this time, there are no specific plans for the closure of these related facilities, and the OBS Group currently intends to make improvements to the assets as necessary that would extend their lives indefinitely. Furthermore, the settlement dates

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have not been specified by law, regulation or contract. As a result, the OBS Group is unable to estimate the fair value of the liability. If a closure plan for any of these facilities is initiated in the future, the settlement dates will become determinable, an estimate of the fair value will be made, and an asset retirement obligation will be recorded.

While it is not feasible to predict the outcome of all pending environmental exposures, it is reasonably possible that there will be a need for future provisions for environmental costs which, in management's opinion, based on information currently available, would not have a material effect on the OBS Group's financial position and liquidity but could be material to the OBS Group's results of operations in any one accounting period.

Antitrust

In 1999, the Brazilian Consumer Authority commenced action against Hoechst Roussel Vet, a veterinary company acquired by Intervet in 1999. The Brazilian Consumer Authority demanded the OBS Group to justify the prices charged for FMD vaccines, asserting that such prices were abusive. On February 1, 2001, the Secretariat for Economic Monitoring issued a technical opinion recommending the dismissal of the proceeding, because there was no proof of the alleged conduct. An economic survey justifying the pricing and documentation was provided by Intervet to the Ministry of Justice in May 2005. However, no final report and opinion has been published at this time. The maximum fine the Brazilian Consumer Authority could impose on Intervet is 30% of the total gross revenue of the Brazilian subsidiary in the year before the alleged infraction, which would amount to less than EUR 10 million.

Also in 1999, the Brazilian Antitrust Authority commenced an investigation into Organon's Brazilian subsidiary and 20 other pharmaceutical companies to investigate alleged collusion on their part against generic manufacturers of pharmaceutical products in Brazil. A final administrative decision was issued in October 2005, and each pharmaceutical company, including our subsidiary, was convicted and fined an amount equal to 1% of total gross revenue (free from tax) in the year before the infraction. This amount has not yet been established, the OBS Group have made a provision in the amount of approximately EUR 0.8 million.

Litigation

During 2005, the State of Alabama, the State of Mississippi, and 41 counties (now 42 counties) and New York City within the State of New York, separately brought claims against up to approximately 80 pharmaceutical manufacturers, including Organon Pharmaceuticals USA Inc., the predecessor of our United States subsidiary Organon Pharmaceuticals U.S.A Inc. LLC and Organon USA, Inc., alleging pricing fraud and, in the case of the State of Mississippi, conspiracy to commit such fraud, in violation of state, federal, and/or common law. The plaintiffs claim that the defendants committed fraud and were unjustly enriched by intentionally setting false and inflated average wholesale prices for their pharmaceutical products, which is the basis for Medicaid reimbursement. The plaintiffs further allege that such products were then marketed to pharmacists, physicians and/or pharmacy chain stores in such a way as to capitalize on the difference between the amount reimbursed by Medicaid for dispensing the products and the actual acquisition cost for the products. The allegations against our subsidiary have been pled with limited specificity and, although Remeron® sales are specifically mentioned in most complaints, in all cases except in Alabama, the allegations may extend to other products also. The complaints seek injunctive relief as well as actual, statutory, treble and punitive damages and, in some cases, disgorgements.

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All but four of the New York county cases have been consolidated in the U.S. District Court for the District of Massachusetts. Three of the remaining New York cases have been removed to federal district courts in New York and transfer to the U.S. District Court for the District of Massachusetts pending a decision by the Judicial Panel on Multidistrict Litigation. A motion to dismiss the cases in the U.S. District Court for the District of Massachusetts was partially granted in April 2007. Thereafter, plaintiffs have filed a First Amended Consolidated Complaint, in response to which defendants, including our subsidiaries, have filed a joint motion to dismiss. A decision on this motion is expected in the second half of 2007. A motion to dismiss the Erie County case (one of the cases pending transfer to the U.S. District Court for the District of Massachusetts) was partially granted in September 2006. The Mississippi case has been dismissed. The proceedings in the State of Alabama are at an early stage, with discovery having commenced on April 13, 2005. The OBS Group does not believe to have been engaged in any improper conduct and are vigorously defending these matters.

Certain wholly owned operating subsidiaries of Organon and Intervet were named in the final report of the Independent Inquiry Committee into the United Nations Oil for Food Program for humanitarian support to Iraq. The report states that these entities made some improper payments in connection with four contracts (with a total value of USD 3.4 million) with the Iraqi Government to provide pharmaceuticals and vaccines. Akzo Nobel has been conducting an internal review of this matter and has voluntarily reported on that review to the US Securities and Exchange Commission and to the US Department of Justice. The Dutch FIOD/ECD also conducted an investigation into Organon's involvement in this matter; these investigations have been concluded in May 2007. The OBS Group is currently discussing a possible settlement with these authorities. While neither of the said authorities have taken any action against Akzo Nobel or its subsidiaries, this matter could expose Akzo Nobel and/or its subsidiaries to regulatory and/or criminal charges and sanctions.

In January 2006, Akzo Nobel Nederland B.V. and the Akzo Nobel Pension Fund in The Netherlands received a summons from the Association of Retired Akzo Nobel Employees (Vereniging van Gepensioneerden Akzo Nobel) with regard to the changed financing of Akzo Nobel's Dutch pension plan (relating to the change from a defined benefit plan to a defined contribution plan), as a consequence of which an alleged unconditional right to indexation became conditional. If the claim were to succeed, then, pursuant to the separation agreement, the OBS Group would be responsible to reimburse Akzo Nobel or any other member of its group for all losses actually incurred in connection therewith to the extent relating to any former employees that, at the time of ceasing their employment with the Akzo Nobel Group, worked primarily in any current or former human healthcare or animal healthcare activities of the Akzo Nobel Group. The claim was recently dismissed by the Court of First Instance. An appeal can be filed within three months after the court's judgment, which period expires in April 2007.

In July 2006, drug wholesaler RxUSA brought claims against 16 pharmaceutical manufacturers, including the OBS Group, as well as against five drug wholesalers, the Healthcare Management Distribution Association and certain individuals, alleging joint and several liability for, amongst other things, monopolization of the wholesale pharmaceutical market in violation of state and federal antitrust laws. The plaintiff claims that defendants willfully acquired and sought to maintain a monopoly and exclude competition by secondary wholesalers. The plaintiff further alleges that the 16 pharmaceutical manufacturers and other wholesale dealers wrongfully and illegally refused to deal directly with RxUSA, making it impossible for it to acquire products for sale. RxUSA is seeking injunctive relief, attorneys' fees and treble damages. The proceedings are at an early stage. The OBS Group has filed motions to dismiss these claims and intend to contest them vigorously.

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During 2006 the OBS Group lost key elements of patent protection for Livial® in the United Kingdom. Key protective claims under our chemical purity, crystalline purity and particle size patents have recently been revoked by U.K. courts. The OBS Group has decided to appeal the revocation of the crystalline purity patent, but not to appeal the decision regarding the chemical purity patent. Permission to appeal the decision regarding the particle size patent has been denied by the Court in London. The OBS Group's chemical purity patent has been revoked by the European Patent Office; The OBS Group has appealed the decision to revoke this patent, and this appeal has had a suspensive effect on revocation. The OBS Group's particle size patent has also been challenged before the European Patent Office.

A number of the OBS Group subsidiaries are the subject of litigation or product liability claims arising out of the normal conduct of their business, as a result of which claims could be made against them which, in whole or in part, might not be covered by insurance. Provisions are established for the gross amount of any probable claim that can be reasonably estimated. Insurance receivables are recorded only in respect of amounts that are virtually certain to be recovered.

There are various remaining product liability claims pending against the OBS Group in various European countries, Brazil, Mexico and Australia by, in most cases, women claiming to have conceived while allegedly using the OBS Group's contraceptive Implanon®. Other claims relate to problems in connection with the insertion or removal of Implanon® or to changes in bleeding patterns. Often, the physician who inserted the product is named as a co-defendant. Although these cases have all been brought by individual women, only in The Netherlands the competent court has decided to consolidate the cases. On June 15, 2005, a court in 's-Hertogenbosch in The Netherlands issued a preliminary judgment to the effect that, pending allocation of responsibility between physicians and Organon, damages should be paid to women who unintentionally became pregnant while using Implanon®. The OBS Group appealed this decision in September 2005. Oral pleadings were presented for the court of appeal on May 14, 2007. A judgment is expected on August 28, 2007. No final judgments have been rendered. Any damages for which the OBS Group may be held liable in connection with these cases are expected to be covered by product liability insurance.

In 1999 an ex-freelance collaborator of Diosynth B.V./Moeders voor Moeders, commenced legal action with respect to alleged entitlements to retirement benefits against Diosynth B.V. (as per January 1, 2007, part of N.V. Organon). Entitlement to a retirement benefit requires all employment relationship; Diosynth believes that freelancers working for Moeders voor Moeders do not qualify as employees and are not entitled to receive a pension. The legal position in this case may create a precedent for a couple of hundred of ex-freelancers of Moeders voor Moeders. The deposition of witnesses in this case will be finalized on October 4, 2007.

Salmon producers in Chile have made claims for damages allegedly incurred because of the use of Intervet's fish vaccines in that country. The claims were filed in 2005, 2006 and 2007. The claims maintain that administration of Intervet's vaccine against vibriosis and infectious pancreatic necrosis caused death or injury to part of their salmon populations. No judgments have been rendered. At this time the OBS Group has no reason to believe that any damages for which the OBS Group may be held liable in connection with these claims would not be covered by the product liability insurance the OBS Group maintains.

A case from Intervet, Inc. against Merial Ltd. et al., is pending since December 23, 2005 in the United States District Court for the District of Columbia. This lawsuit is a declaratory judgment action seeking a declaration from the court

that United States Patent No. 6,368,601 (titled Porcine

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Circovirus Vaccine and Diagnostics Reagents and referred to herein as the 601 patent) is invalid, unenforceable, and not infringed by Intervet's PCV-2 vaccine.

Meril Ltd, and Meril SAS have answered the Complaint by alleging that the 601 patent is valid, enforceable, and infringed by Intervet's PCV-2 vaccine. They also have brought a counterclaim for patent infringement against Intervet, Inc. Intervet has responded by asserting that the 601 patent is invalid, unenforceable, and not infringed by Intervet, Inc. Discovery is presently ongoing between Meril SAS, Meril Ltd, and Intervet Inc. Under the present schedule for the case, there will be a hearing to determine the meaning of the claims of the 601 patent early August, 2007. Trial of this matter likely will not occur until the second or third quarter of 2008.

A second case, Intervet, Inc. v. Meril Ltd. et al., is pending since March 20, 2007, in the United States District Court for the District of Columbia. This lawsuit is a declaratory judgment action seeking a declaration from the court that United States Patent No. 7,192,594 (titled Postweaning Multisystemic Wasting Syndrome and Porcine Circovirus from Pigs and referred to herein as the 594 patent) is invalid, unenforceable, and not infringed by Intervet's PCV-2 vaccine. Meril Ltd, and Meril SAS have filed and served a Complaint for patent infringement and demand for jury trial, alleging that the 594 patent is valid, enforceable, and infringed by Intervet's PCV-2 vaccine.

In November 2006, four trade unions together initiated proceedings in The Netherlands against Akzo Nobel Nederland B.V., a subsidiary of Akzo Nobel. The trade unions claim that Akzo Nobel Nederland B.V., allegedly as representative of all other parts of the Akzo Nobel Group, wrongfully terminated the future payment of an allowance to cover medical insurance costs of retirees in The Netherlands. These retirees also include persons who were employed in current or former human healthcare and animal healthcare activities of Akzo Nobel.

The trade unions allege that the retirees, on the basis of a promise made by Akzo Nobel Nederland B.V., were entitled to receive the allowance indefinitely and that there was insufficient cause for termination of the obligation. Akzo Nobel Nederland B.V. has indicated that it had the right to terminate the arrangements subject to a transitional regime through June 30, 2009. Akzo Nobel Nederland B.V. has expressed the intention to defend the claim by the trade unions. The proceedings against Akzo Nobel Nederland B.V. are at an early stage. It is currently not clear what would be the financial consequences for the OBS Group if the claim would succeed. Pursuant to the separation agreement, the OBS Group will be responsible for all costs incurred by Akzo Nobel or any other member of its group in connection with the allowances mentioned above with respect to retirees that, at the time of ceasing their employment with Akzo Nobel, worked primarily in any current or former human healthcare or animal healthcare activities of Akzo Nobel. The maximum amount that the OBS Group could be required to reimburse would depend on a number of factors, which also include the arrangements with individual employees, any future changes in the arrangements, and the age to which the retirees will live.

On March 23, 2007 the University of Illinois filed a lawsuit against Organon Teknika Corporation for breach of contract the revised Tice license agreement which dates back to 1986. The UOI claims USD 14.9 million of underpaid royalties (which is UOI's calculation of the present value of the alleged royalty underpayment), based on an audit on the period January 1, 2002, through December 31, 2004. The difference relates to a different interpretation of what the correct arms length price should be. Organon Teknika is of the opinion that it paid the correct amount of royalties.

There have been various lawsuits filed against several US entities relating to the use of NuvaRing. With the exception of three cases, the lawsuits contain little information about the claimed

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injuries. It should be noted that the OBS Group does not yet have medical or other records to corroborate the allegations. The remaining cases do not contain any information other than the allegation that the women used NuvaRing and sustained injuries thereby. Other general allegations of the thrombogenicity of the product suggest that the claimants intend to allege that they sustained a thromboembolic event.

A number of other claims are pending against the OBS Group, all of which are contested. The OBS Group is also involved in disputes with tax authorities in several jurisdictions. Furthermore, in the context of the divestitures of certain businesses by Akzo Nobel, our sole shareholder, prior to the creation of OBS NV, the relevant Akzo Nobel companies have agreed to indemnify and/or provide guarantees to the buyers (and /or their successors and assigns) regarding certain representations and warranties or developments. To the extent that these relate to the current or former human pharmaceutical or animal health business activities of Akzo Nobel, the OBS Group agreed under the Separation Agreement to indemnify Akzo Nobel in respect of claims arising therefrom.

While the outcome of these claims and disputes cannot be predicted with certainty, the OBS Group believes, based upon legal advice and information received, that the final outcome will not materially affect the combined financial position of the OBS Group but could be material to the OBS Group's result of operations or cash flows in any one accounting period.

Other contingent liabilities

At June 30, 2007 and December 31, 2006, guarantees related to contracts with third parties totalled EUR 5 million and EUR 3 million, respectively.

A majority of the OBS Group businesses do not file separate tax returns since these entities were included in the tax groupings of other Akzo Nobel entities within their respective entity's tax jurisdiction. Certain tax authorities have the right to hold an individual entity within the tax grouping liable for any and all liabilities outstanding of the group. Management of the OBS Group believes that the chances are remote that the OBS Group will be held responsible for tax liabilities incurred by other Akzo Nobel entities.

The OBS Group is a party in several research and development collaborations and licensing agreements. These agreements have various compensation elements that can contain periodic payments, payments related to sales of certain products and milestone payments. The periodic payments are expensed in the period they relate to and the payments related to sales of certain products are expensed in the period the corresponding sales were recognized. Milestone payments are expensed in the period in which the recognition criteria related to the milestone are met.

Some of the licenses and collaboration, co-development, co-marketing and other agreements and instruments to which the OBS Group is a party, contain change of control provisions that may be triggered by a change in the controlling interest in our business. See Note 20 for further discussion of potential impacts related to the Separation of the OBS group.

Pfizer terminated the asenapine license and collaboration agreement on November 27, 2006. The termination took effect on May 27, 2007. If and when the OBS Group is successful in bringing asenapine to the market, the OBS Group will be obliged to reimburse Pfizer for its out-of-pocket expenses (plus 10% interest) for development, marketing and

manufacturing, by paying it a royalty at the rate of 5% on net asenapine sales.

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Commitments

Purchase commitments for property, plant and equipment aggregated EUR 63 million and EUR 69 million at June 30, 2007 and December 31 2006, respectively. The OBS Group also has purchase commitments for materials and other supplies incident to the ordinary conduct of business for a total of EUR 355 million and EUR 358 million at June 30, 2007 and December 31 2006, respectively.

Long-term liabilities contracted in respect of leasehold, rental, operating leases, research, etc., aggregated EUR 241 million and EUR 287 million at June 30, 2007 and December 31, 2006, respectively. Payments due within one year amounted to EUR 66 million and EUR 93 million at June 30, 2007 and December 31, 2006, respectively; payments between one and five years EUR 152 million and EUR 158 million, respectively, and payments due after more than five years amount to EUR 23 million and EUR 36 million, respectively.

Note 18 Cash Flow Information

The OBS Group has paid cash for income taxes of EUR 57 million and EUR 67 million for the six months ended June 30, 2007 and 2006, respectively. For periods prior to 2007, some entities of the OBS Group businesses did not file separate tax returns as these entities were included in the tax grouping of other Akzo Nobel entities within the respective entity's tax jurisdiction, and OBS Group's tax obligations for these entities are paid by other Akzo Nobel entities.

The OBS Group paid cash for interest of EUR 10 million and EUR 4 million during the six months ended June 30, 2007 and 2006, respectively.

The OBS Group's financing requirements are primarily met by cash transfers with Akzo Nobel and are reflected in the financing section of the combined statement of cash flows. This represents net cash transfers to and from Akzo Nobel for the settlement of various intercompany transactions and financing requirements with Akzo Nobel.

Note 19 Accounting Estimates and Judgments

In preparing the financial statements management makes judgments and estimates that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent liabilities as of the date of the OBS Group's combined financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In preparing these combined interim financial statements, the significant judgements made by management in applying the accounting policies and the key sources of estimation uncertainty were the same as those applied to the combined financial statements as of and for the year ended December 31, 2006. It should be noted that as of June 30, 2007, the OBS Group did not update its actuarial valuation for its pension and postretirement benefits; however, during the six months ended June 30, 2007, the discount rate assumption used in determining benefit costs increased

in the various countries by between .25% and .50%. When discount rates increase, pension and postretirement benefit obligations will decrease. Based on the increase during the six months ended June 30, 2006, the pension and postretirement benefit obligations would have decreased by approximately EUR 50 million. Future net periodic pension and postretirement costs might also

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change, but that depends on the actual relation between the unrecognized loss and the corridor (10% of the greater of benefit obligations and plan assets) as well as on the relative change of the discount rate versus the change of the benefit obligation. In addition, the change in discount rate will not immediately impact the pension expense as the gains or losses from the change in the discount rate would be reflected as an actuarial gain or loss and recognized over the expected average remaining working lives of the employees in the plan.

Current tax expense for the six months ended June 30, 2007 and 2006 has been calculated using the estimated average annual effective income tax applied to the pre-tax income for the six months ended June 30, 2007 and 2006, respectively.

Due to the risks and uncertainties relating to regulatory approval and to internally generated research and development, the criteria for capitalization are considered not to have been met until marketing approval has been obtained from the regulatory authorities.

Prior to January 1, 2007, management had also estimated the allocation of various expenses and certain assets and liabilities that have historically been maintained by Akzo Nobel as disclosed in Note 1 and throughout these combined interim financial statements.

Note 20 Incorporation and Separation

Incorporation

Following the announcement of Akzo Nobel that it intends to separate its healthcare activities from Akzo Nobel, Akzo Nobel incorporated Organon BioSciences N.V., on September 1, 2006 as a public company with limited liability (naamloze vennootschap) incorporated under the laws of The Netherlands with an authorized share capital of EUR 225 thousand and an issued share capital of EUR 45 thousand. OBS N.V.'s corporate seat is in Oss, The Netherlands.

On September 30, 2006 Akzo Nobel contributed to OBS N.V., through a contribution in kind, the shares of the two subholding companies, Organon BioSciences International B.V. and Organon BioSciences Nederland B.V., in exchange for 24,955,000 ordinary shares of OBS N.V. with a nominal value of EUR 1.00 (one euro) per share. As per the date of this contribution, OBS N.V. had an authorized share capital of EUR 125 million and an issued share capital of EUR 25 million.

The combined interim financial statements for the six month period ended June 30, 2007, include invested equity amounting to EUR 1,423 million. The invested equity as of June 30, 2007 includes certain allocated balances, which legally were not part of the aforesaid contribution in kind to OBS N.V. on September 30, 2006. Consequently, the shareholders' equity in the legal company balance sheet of OBS N.V. as of June 30, 2007 differs from the invested equity in the combined interim financial statements as of June 30, 2007. The main differences relate to various items which are allocated to the OBS Group which will not be transferred to the OBS Group.

Separation

In February 2006, Akzo Nobel announced its intention to separate the OBS Group. In March 2007, Akzo Nobel announced that it had subsequently received an offer from Schering-Plough to acquire the OBS Group. The works council advice procedure in the Netherlands is still to be completed. Subject thereto, the intended closing is further subject to certain conditions precedent, including the obtaining of merger clearances in certain jurisdictions. The proceeds from the sale of the OBS Group will not be received by the OBS Group but will be received by Akzo Nobel.

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Akzo Nobel and the OBS Group have identified certain issues and areas that, in preparation of and following the separation, required mutually agreeable arrangements between them. These issues and areas have been included in a separation agreement, entered into between Akzo Nobel and the OBS Group. The separation agreement was signed on February 28, 2007 and was subsequently amended on March 11, 2007.

The amended separation agreement (which becomes effective on the intended closing of the transaction with Schering-Plough) addresses, amongst others, the separation of liabilities and obligations, health, safety, and environmental indemnities, release of guarantees, pending litigation, provisions and accruals, claimant's insurance and employee benefit related matters.

The terms of the intended transaction between Akzo Nobel and Schering-Plough, include that, subject to certain limitations and procedural provisions, Akzo Nobel indemnifies Schering-Plough for i) all taxes for which a member of the OBS Group becomes liable, relating to the period prior to January 1, 2007 and that are not provided for in the combined financial statements of the OBS Group for the period ended as of December 31, 2006 and (ii) taxes for which a member of the OBS Group becomes liable relating to the period starting on January 1, 2007 and ending on the closing date of the intended transaction, unless and to the extent the member of the OBS Group concerned retains the benefit of the underlying income, profit or gain at closing, or such income, profit, gain or event has arisen in the ordinary course of business of the member of the OBS Group concerned.

The terms of the intended transaction further include that Schering-Plough will indemnify Akzo Nobel against any increase of taxes incurred by Akzo Nobel or a member of Akzo Nobel as a consequence of any pre-closing transactions, requested by Schering-Plough and consented by Akzo Nobel, which would allow for a direct sale by Akzo Nobel of the shares in one or more members of the OBS Group to Schering-Plough.

The separation agreement also contains provisions dealing with the retirement benefits of relevant participants in various applicable pension arrangements based on an agreed upon division of the rights, obligations, assets and liabilities relating to, on the one hand, the retirement benefits of the relevant (current and former) employees in the (current and former) human healthcare or animal healthcare activities of the OBS Group and, on the other hand, retirement benefits of other participants in Akzo Nobel plans. It should be noted that a number of these provisions are dependent on the approval of relevant third parties, for example pension fund trustees, employee representative bodies and relevant authorities. The separation agreement thus also provides that in the event that the OBS Group and Akzo Nobel have not been able to give effect to the agreed (basis for) division, they will use their reasonable best efforts to otherwise achieve such division.

OBS N.V. has undertaken in the separation agreement to procure that, for services rendered on or after January 1, 2007, relevant participants under the OBS Group retirement benefit plans are offered retirement benefits which are substantially equivalent (or such other measure as may be required under applicable law) to their current retirement benefits.

The financial implications of a future split as defined above, for example on assets, liabilities and future pension premiums, if any, cannot be determined yet. However, it is the intention of Akzo Nobel and the OBS Group to limit the financial implications for the companies, arising out of the split of rights, obligations and assets. Furthermore, the subordinated loan to the Akzo Nobel Pension Fund of which the OBS Group's portion (EUR 33 million) was allocated

in the combined financial statements for the year ending December 31, 2006, will remain with Akzo Nobel since Akzo Nobel holds the legal title.

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The terms of the intended transaction between, Akzo Nobel and Schering-Plough further include that (i) Akzo Nobel will transfer to the purchaser, at closing of the intended transaction, its claim against the OBS Group under the related party loan of EUR 1.15 billion plus accrued interest and (ii) all other intra-group indebtedness between the OBS Group on the one hand and the other members of the Akzo Nobel Group on the other hand (including several loans made by the OBS Group to Akzo Nobel in 2007 on terms substantially equivalent to the aforesaid related party loan), will be paid immediately after closing. Under the loan agreement between Akzo Nobel (as lender) and the OBS Group (as borrower) the maturity date of the loan is December 31, 2007 and an interest rate of 6-months EURIBOR + 0.15%, that accrues on the amount owed, from March 1, 2007 to the date of payment (both days inclusive). The entire principal amount of the loan not yet repaid to Akzo Nobel shall be due for immediate payment without any further notification or formality being required should, amongst others, any other indebtedness of the OBS Group becomes due and payable prior to its specified maturity by reason of any default by the OBS Group in the due performance or observance of any obligation relating thereto, unless such indebtedness shall not be material in the context of the loan agreement.

The OBS Group has undertaken to replace the statement of joint and several liability (*verklaring van hoofdelijke aansprakelijkheid*) as provided by Akzo Nobel in respect of the members of the OBS Group in The Netherlands under article 2:403 section 1(f) Netherlands Civil Code as soon as reasonably practicable, but in any event within 6 months after closing of the intended transaction between Akzo Nobel and Schering-Plough.

Note 21 Application of Generally Accepted Accounting Principles in the United States of America

The OBS Group's combined interim financial statements have been prepared in accordance with IFRS which, as applied by the OBS Group, differs in certain significant respects from US GAAP. The effects of the application of US GAAP to combined net income, as determined under IFRS, are set out in the table below:

	For the Six Months Ended June 30,	
	2007	2006
IFRS profit for the period attributable to equity holders of the OBS Group	223	193
<i>US GAAP adjustments:</i>		
(a) Business combinations		
(b) Pensions and other postretirement benefits	8	(4)
(c) Impairment of goodwill		
(d) Research and development	(20)	3
(e) Subsequent events	14	128
(f) Tax on elimination of intercompany profits	2	(2)
(g) Deferred income taxes	4	(1)
Total US GAAP adjustments	8	124

Net income, as reported under US GAAP	231	317
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The effects of the application of US GAAP on total invested equity, as determined under IFRS, are set out in the table below:

	As of June 30, 2007	As of December 31, 2006
Invested equity, as reported under IFRS	1,423	2,311
Less: minority interests, as reported under IFRS		
Invested equity excluding minority interests, as reported under IFRS	1,423	2,311
<i>US GAAP adjustments:</i>		
(a) Business combinations	361	361
(b) Pensions and other postretirement benefits	47	33
(c) Impairment of goodwill	15	15
(d) Research and development	(48)	(27)
(e) Subsequent events		(15)
(f) Tax on elimination of intercompany profits	(35)	(37)
(g) Deferred income taxes	6	2
Total US GAAP adjustments	346	332
Invested equity, as determined under US GAAP	1,769	2,643

(a) Business combinations

The aggregate adjustment for business combinations presented in the tables above consists of the following adjustments:

	For the Six Months Ended June 30, 2007	As of June 30, 2007	As of December 31, 2006
<i>US GAAP adjustments:</i>			
(1) Acquired in-process research and development		(5)	(5)

(2) Application of IFRS 1	366	366
Total US GAAP adjustments	361	361

(1) Acquired in-process research and development

Under IFRS, in-process research and development acquired in connection with a business combination is eligible for capitalization under IFRS 3, *Business Combinations*, and IAS 38, *Intangible Assets*. Under US GAAP, the attributable fair value of in-process research and development acquired in a business combination, and which has no alternative future use, is expensed as of the acquisition date in accordance with SFAS No. 141, *Business Combinations*, FIN No. 4, *Applicability of FASB Statement No. 2 to Business Combinations to be Accounted for by the Purchase Method*, and/or SFAS No. 2, *Accounting for Research and Development Costs*.

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The adjustment to invested equity included in the tables above reflects impact of immediate write-off of acquired in-process research and development-related assets (EUR 5 million and EUR 5 million as of the six months ended June 30, 2007 and as of the year ended December 31, 2006, respectively) for US GAAP purposes. There was no impact for the reversal of amortization expense and/or impairments for the six months ended June 30, 2007 and 2006 recorded under IFRS in subsequent periods.

(2) Application of IFRS 1

IFRS 1, *First-Time Adoption of International Financial Reporting Standards*, has been applied by the OBS Group in preparing its combined financial statements. IFRS 1 generally requires retrospective application of all IFRS that are effective at the reporting date. However, IFRS 1 permits certain exemptions and exceptions to this requirement. In particular, IFRS 1 permits companies that consummated business combinations prior to the date of their transition to IFRS (for the OBS Group, as of January 1, 2004) to retain the accounting applied under the accounting principles applied prior to the adoption of IFRS.

Specifically, for certain business combinations consummated prior to January 1, 2000, the OBS Group recorded goodwill resulting from the business combinations directly in invested equity. From January 1, 2000 through the adoption of changes in accounting rules applied prior to the adoption of IFRS, the OBS Group amortized goodwill. Under US GAAP, for all periods presented, goodwill is required to be recorded as an asset, initially subject to periodic amortization (through December 31, 2001) and subsequently periodic (at least annual) impairment tests.

Accordingly, this adjustment reflects the reinstatement of goodwill, net of applicable accumulated amortization and impairments, for US GAAP purposes as of each of the balance sheet dates presented.

(b) Pensions and other postretirement benefits

The aggregate adjustment for pensions and postretirement benefits presented in the tables above consists of the following adjustments:

	For the		As of	As of
	Six Months		June 30,	December 31,
	Ended June 30,	2006	2007	2006
	2007			
<i>US GAAP adjustments:</i>				
(1) Definition of defined contribution plan	7	(2)	104	94
(2) Application of IFRS 1 and other differences	1	(2)	(57)	(61)
Total US GAAP adjustments	8	(4)	47	33

(1) *Definition of defined contribution plan*

Under IAS 19 (Revised), *Employee Benefits*, an arrangement qualifies as a defined contribution plan if a company's legal or constructive obligation is limited to the amount contributed by it into a separate entity (generally, a fund). This is the case regardless of whether the fund holds sufficient

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assets to pay all employee benefits laid out in the plan agreement relating to employee service in the current and prior periods. This definition focuses on the contributions to be made by the OBS Group to the plan as a whole and does not require individual participant accounts to which contributions would be made.

Under US GAAP, SFAS No. 87, *Employers Accounting for Pensions*, states that a defined contribution plan is any arrangement that provides benefits in return for services rendered, establishes an individual account for each participant, and specifies how recurring periodic contributions to the individual's account are to be determined. Moreover, the benefits a participant in a defined contribution plan will receive depend solely on the amount contributed to the participant's account, the return earned on those contributions, and forfeitures of other participants' benefits that may be allocated to the remaining participant accounts.

During 2005, Akzo Nobel reached an agreement with the unions on a change of its pension plan in the Netherlands, part of which relates to the OBS Group, so that effective December 31, 2005, it changed from a defined benefit plan to a defined contribution plan under IFRS, as the actuarial risks related to the Dutch plan no longer rested with the OBS Group. However, under US GAAP, SFAS No. 87 specifically prescribes for a defined contribution plan that the plan provides an *individual account* for each participant. The Dutch plan does not provide such individual accounts per participant as it is a collective defined contribution plan. Accordingly for US GAAP, under SFAS No. 87 the Dutch pension plan is still accounted for as a defined benefit plan.

The adjustment to invested equity included in the table above as of the six months ended June 30, 2007 and as of the year ended December 31, 2006 reflects the re-instatement of the US GAAP liability for the pension and other postretirement plans in accordance with SFAS No. 87. The adjustment to net income included in the tables above for the six months ended June 30, 2007 and 2006 reflects the excess of US GAAP expense calculated in accordance with SFAS No. 87 over contributions made to the plan during the year.

(2) Application of IFRS 1 and other difference

Under IFRS, the OBS Group accounts for its pension and postretirement benefit plans in accordance with IAS 19 (Revised), *Employee Benefits*. In addition, upon transition to IFRS as of January 1, 2004 (and in accordance with IFRS 1, all unrecognized actuarial gains and losses as of that date were recognized immediately in invested equity, with an offset to the pension liability. Accordingly, under IFRS, as of January 1, 2004, the OBS Group had no deferred actuarial gains or losses. Subsequently, in accordance with IAS 19 (Revised), the OBS Group applied a corridor policy whereby actuarial gains and losses are deferred when they initially arise (for those arising after January 1, 2004). Thereafter, to the extent that unrealized actuarial gains or losses exceed 10% of the greater of (i) the present value of the defined benefit obligation and (ii) the fair value of plan assets, they are recognized in the income statement through periodic amortization over the expected remaining working lives of the employees participating in the plan. Otherwise, they continue to be deferred until they exceed the corridor described above.

Under US GAAP, the OBS Group accounts for its pension and postretirement benefit plans in accordance with SFAS No. 87, SFAS No. 106, *Employers Accounting for Postretirement Benefits Other than Pensions* and, from December 31, 2006, SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. Prior to the adoption of SFAS No. 158, the

OBS Group applied a corridor policy also under US GAAP. Following adoption of SFAS No. 158 from December 31, 2006,

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the OBS Group continues to apply a corridor policy with respect to determination of the income statement charge for any particular period, but the full funded status of the plan (defined benefit obligation less plan assets) is now recognized as a liability in the balance sheet with actuarial gains and losses recognized directly in invested equity.

In addition to the differences described above (principally related to the recognition of deferred actuarial gains and losses directly in invested equity as of January 1, 2004 pursuant to IFRS 1), the OBS Group has also identified differences related to the measurement date for certain of its plans. Under IFRS, IAS 19 requires that the calculation of the pension obligation, as well as the fair value of plan assets, be determined as of the company's balance sheet date. Under US GAAP, SFAS No. 87, requires that the plan's assets and obligations be measured either as of the date of the financial statements or, if used consistently from year to year, as of a date not more than three months prior to that date. Certain of the OBS Group's defined benefit plans utilize a September 30 measurement date for US GAAP purposes and a December 31 measurement date for IFRS purposes.

In the United States, the Medicare Prescription Drug Improvement and Modernization Act of 2003 introduced prescription drug benefits for retirees as well as a federal subsidy to sponsors of postretirement healthcare plans, which both began on January 1, 2006. This reimbursement right under IFRS has been recognized as an asset under other financial non-current assets in the combined balance sheets and is measured at fair value. Under US GAAP, this reimbursement right is netted with the postretirement healthcare benefit liability.

In connection with the change in the pension plan in the Netherlands in 2005, the OBS Group was allocated a portion of the subordinated loan and loans that are to be redeemed by retaining employee pension premiums, which have been recorded at their fair value in other assets under IFRS. For US GAAP purposes, these items are included in the pension assets at their nominal value, and accordingly the assets in the IFRS balance sheet have been reversed. Any difference between the fair value and the nominal value of the loans has been reversed for US GAAP.

(c) *Impairment of goodwill*

Under IFRS, goodwill is required to be tested for impairment at least annually (and, more frequently, upon the occurrence of a triggering event) at the cash generating unit (or group of cash generating units, if that is how goodwill is monitored internally) level. A cash generating unit is the smallest identifiable group of assets that generates cash inflows from continuing use and that are largely independent of the cash inflows from other assets or groups of assets. The goodwill impairment test is a one-step test that compares the recoverable amount (higher of the fair value less costs to sell or value in use) of the cash generating unit to its carrying amount, with any excess of carrying amount over recoverable amount recognized as an impairment loss. Impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then to the other assets of the unit (or group of units) pro rata on the basis of the carrying amount of each asset in the unit (or group of units). Impairment losses related to goodwill cannot be reversed.

Under US GAAP, goodwill is required to be tested for impairment at least annually (and, more frequently, upon the occurrence of a triggering event) at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment (referred to as a component). The goodwill impairment test is a two-step test that compares the fair value of the reporting unit to its carrying amount. If the fair value of the reporting unit exceeds its

carrying amount, goodwill of the reporting unit is considered not impaired. If the carrying amount of the reporting unit exceeds its fair

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Table of Contents**OBS GROUP****NOTES TO THE UNAUDITED CONDENSED COMBINED INTERIM FINANCIAL STATEMENTS (Continued)****(All amounts in millions of euros unless otherwise stated)**

value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of reporting unit goodwill, which is determined by performing a hypothetical purchase price allocation as of the impairment testing date, to the carrying amount of that goodwill, with any excess of carrying amount over the implied fair value recognized as an impairment loss. Impairment losses related to goodwill cannot be reversed.

The cash generating unit is at a lower level in the operation, than the reporting unit and accordingly under IFRS an impairment was recorded that is not reflected under US GAAP. The adjustment included in the tables above reflects the reversal for US GAAP of the impairment loss recognized for IFRS purposes that was not recognized for US GAAP purposes due to this differing level at which goodwill is tested for impairment (cash generating unit under IFRS vs. reporting unit under US GAAP).

(d) Research and development

Under IFRS, payments made to acquire research and development-related assets outside of a business combination, and patents or licenses for products that are still in the research or development stage, are eligible for capitalization under IAS 38, when all of the following conditions are met: (i) the project meets the definition of an asset, (ii) the project is identifiable and (iii) the fair value of the project can be measured reliably. Accordingly, under IFRS, certain up-front payments made in connection with collaboration agreements were capitalized and are being amortized over their estimated useful lives.

Under US GAAP, payments to acquire research and development-related assets that have no alternative future use are expensed as of the acquisition date in accordance with SFAS No. 2.

The adjustment included in the tables above reflects the immediate write-off of acquired research and development-related assets in the period of acquisition (EUR 25 million and EUR 1 million, respectively, for the six-months ended June 30, 2007 and 2006, respectively) and for US GAAP purposes offset by the reversal of amortization expense and/or impairments (EUR 5 million and EUR 4 million, respectively, for the six months ended June 30, 2007 and 2006) recorded for IFRS purposes in subsequent periods.

(e) Subsequent events

The aggregate adjustment for subsequent events presented in the tables above consists of the following adjustments:

	For the Six Months Ended June 30, 2007	2006	As of June 30, 2007	As of December 31, 2006
<i>US GAAP adjustments:</i>				
(1) Subsequent events other than taxes	(4)			4

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(2) Subsequent events tax-related	18	128	(19)
Total US GAAP adjustments	14	128	(15)

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Table of Contents**OBS GROUP****NOTES TO THE UNAUDITED CONDENSED COMBINED INTERIM FINANCIAL STATEMENTS (Continued)****(All amounts in millions of euros unless otherwise stated)**

Under IFRS, the OBS Group has applied IAS 10, *Events after the Balance Sheet Date*, and has adjusted its financial statements for adjusting events identified between the time the parent company financial statements were issued and the date on which these OBS Group's financial statements were issued.

Under US GAAP, practice with respect to the preparation of carve-out financial statements is to reflect subsequent events on a consistent basis with the parent company, as the carve-out financial statements are an extraction of the parent company accounts, unless the adjustment represents a correction of an error. The subsequent events for the tax related adjustments primarily relate to tax settlements received by the OBS group for transfer pricing.

Under US GAAP, the amounts have been recognized in periods consistent with Akzo Nobel. Accordingly, the subsequent event adjustments reflected in the IFRS financial statements have been reversed under US GAAP.

(f) Tax on the elimination of intercompany profits

In accordance with IFRS (IAS 12, *Income Taxes*), the deferred tax effect of the elimination of intercompany profit in inventory is calculated using the purchaser's tax rate. Under US GAAP (SFAS 109, *Accounting for Income Taxes*), no deferred tax assets are recorded for the difference between the tax base in the buyer's jurisdiction and the amount reported in the combined financial statements; additionally taxes payable on intercompany transfers recognized by the seller are deferred in consolidation, hence eliminating the effects of intercompany transfers in the combined statements of income.

For the six months ended June 30, 2007, this resulted in an increase in net income of EUR 2 million and a decrease in invested equity at June 30, 2007 of EUR 35 million. For the six months ended June 30, 2006, this resulted in a decrease in net income of EUR 2 million and a decrease in invested equity at December 31, 2006 of EUR 37 million.

(g) Deferred income taxes

The aggregate adjustment for income taxes presented in the tables above consists of the following adjustments:

	For the		As of	As of
	Six Months		June 30,	December 31,
	Ended June 30,		2007	2006
	2007	2006		
<i>US GAAP adjustments:</i>				
(1) Deferred tax on in-process research and development			1	1
(2) Other deferred income tax impacts	4	(1)	5	1
Total US GAAP adjustments	4	(1)	6	2

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OBS GROUP

**NOTES TO THE UNAUDITED CONDENSED COMBINED INTERIM FINANCIAL
STATEMENTS (Continued)**

(All amounts in millions of euros unless otherwise stated)

(1) Deferred income tax on in-process research and development

Under IFRS, a deferred tax asset or liability is recognized for differences in the financial reporting basis and tax basis of acquired in-process research and development, similar to other identifiable intangible assets, irrespective of whether the acquired in-process research and development has basis for tax purposes. Under US GAAP (EITF 96-7, *Accounting for Deferred Taxes on In-Process Research and Development activities acquired in a Business Combination*) in circumstances where there is no tax basis in the acquired in-process research and development deferred taxes are not provided on the initial difference between the amount assigned for financial reporting and tax purposes and the in-process research and development is charged to expense on a gross basis (without tax benefit) at acquisition. In circumstances where a tax basis exists for the acquired in-process research and development, upon consummation of the business combination, the in-process research and development is immediately charged to expense, a deferred tax asset is recognized to the extent that realisability is more likely than not.

The deferred tax liability recorded under IFRS results in a corresponding increase to goodwill. Although this difference does not affect invested equity (between IFRS and US GAAP) at the acquisition date, a reclassification adjustment is necessary under US GAAP to reduce goodwill by the amount of the deferred tax liability recorded under IFRS in relation to acquired in-process research and development and to reduce deferred tax liabilities by a corresponding amount (EUR 8 million). The impact on income tax expense of this difference when the acquired in-process research and development is amortized or impaired for IFRS purposes is reversed under US GAAP.

(2) Other deferred income tax impacts

This adjustment reflects the deferred tax effects attributable to the aforementioned pre-tax adjustments. The adoption of FIN 48, *Accounting for Uncertainty in Income Taxes*, during the six-months ended June 30, 2007, did not have an impact on the OBS Group.

(h) Other presentation differences

Deferred income taxes

Under IFRS, deferred tax assets and liabilities are classified as non-current on the balance sheet based on the timing of their expected reversal.

Under US GAAP, deferred tax assets and liabilities are classified as current or non-current on the balance sheet based on the nature of the balance sheet item to which they relate. Where no related asset or liability exists (e.g. for net operating losses), deferred tax assets or liabilities are classified as current or non-current on the balance sheet based on the timing of their expected reversal.

Oss, July 30, 2007
The Board of Management
Toon Wilderbeek

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Schering-Plough Corporation

5.000% Senior Notes due 2010

5.375% Senior Notes due 2014

Goldman Sachs International

BNP PARIBAS

Credit Suisse

JPMorgan

ABN AMRO

Banc of America Securities Limited

Banca IMI

BBVA

Bear Stearns

Citi

Daiwa Securities SMBC Europe

ING Wholesale Banking

Mizuho International plc

Morgan Stanley

Santander

The Bank of New York Capital Markets Limited