

SURFACE SOLUTIONS BUSINESS OF MERCK
KOMMANDITGESELLSCHAFT AUF AKTIEN
AND ITS SUBSIDIARIES

Report and Combined Financial Statements
For each of the three years ended 31 December 2024

SURFACE SOLUTIONS BUSINESS OF
MERCK KOMMANDITGESELLSCHAFT AUF AKTIEN AND ITS SUBSIDIARIES

REPORT AND COMBINED FINANCIAL STATEMENTS
FOR EACH OF THE THREE YEARS ENDED 31 DECEMBER 2024

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**ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF
SURFACE SOLUTIONS BUSINESS OF MERCK KOMMANDITGESELLSCHAFT AUF
AKTIEN AND ITS SUBSIDIARIES TO THE DIRECTORS OF GLOBAL NEW
MATERIAL INTERNATIONAL HOLDINGS LIMITED**

Introduction

We report on the historical financial information of surface solutions business of Merck Kommanditgesellschaft auf Aktien (the "Merck KGaA") and its subsidiaries (together, the "Merck Group") (the "Surface Solutions Business") set out on pages I-4 to I-51, which comprises the combined statements of financial position of the Surface Solutions Business as at 31 December 2022, 2023 and 2024 and the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Surface Solutions Business for each of the 3 years ended 31 December 2022, 2023 and 2024 (the "Relevant Periods") and material accounting policy information and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-51 forms an integral part of this report, which has been prepared for inclusion in the circular of Global New Material International Holdings Limited (the "Company") dated 25 June 2025 (the "Circular") in connection with the purchase of the Surface Solutions Business.

Directors' responsibility for the Historical Financial Information

The directors of the Merck KGaA are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Notes 2 and 3 to the Historical Financial Information, and for such internal control as the directors of the Merck KGaA determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The directors of the Company are responsible for the contents of this Circular in which the Historical Financial Information of the Surface Solutions Business is included, and such information is prepared based on accounting policies materially consistent with those of the Company.

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF SURFACE SOLUTIONS BUSINESS OF MERCK KOMMANDITGESELLSCHAFT AUF AKTIEN AND ITS SUBSIDIARIES TO THE DIRECTORS OF GLOBAL NEW MATERIAL INTERNATIONAL HOLDINGS LIMITED - continued

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Notes 2 and 3 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Merck KGaA, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Surface Solutions Business' financial position as at 31 December 2022, 2023 and 2024 and of the Surface Solutions Business' financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Notes 2 and 3 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

The Historical Financial Information is stated after making such adjustments to the Underlying Financial Statements as defined on page I-4 as were considered necessary.

**ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF
SURFACE SOLUTIONS BUSINESS OF MERCK KOMMANDITGESELLSCHAFT AUF
AKTIEN AND ITS SUBSIDIARIES TO THE DIRECTORS OF GLOBAL NEW
MATERIAL INTERNATIONAL HOLDINGS LIMITED - continued**

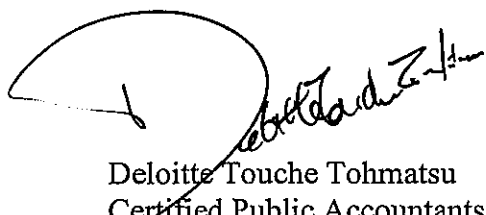
**Report on matters under the Rules Governing the Listing of Securities on the Stock
Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance
- continued**

Dividends

We refer to Note 12 to the Historical Financial Information which states that no dividend was declared or paid by the Surface Solutions Business in respect of the Relevant Periods.

No historical financial statements for the Surface Solutions Business

No financial statements have been prepared for the Surface Solutions Business for any period of three years ended on a date three months before the issue of the Circular.



Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
25 June 2025

**SURFACE SOLUTIONS BUSINESS OF
MERCK KOMMANDITGESELLSCHAFT AUF AKTIEN AND ITS SUBSIDIARIES**

HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The Historical Financial Information in this report was prepared based on combined financial statements of the Surface Solutions Business for the Relevant Periods. The combined financial statements have been prepared in accordance with IFRS Accounting Standards as adopted by the European Union and were audited by Deloitte GmbH, certified public accountants registered in Germany in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board ("Underlying Financial Statements").

The Historical Financial Information is presented in Euro ("€") and all values are rounded to the nearest million (€million) except when otherwise indicated.

SURFACE SOLUTIONS BUSINESS OF
MERCK KOMMANDITGESELLSCHAFT AUF AKTIEN AND ITS SUBSIDIARIES

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	Year ended 31 December		
		2022 €million	2023 €million	2024 €million
Revenue	7	433	405	402
Cost of sales		(248)	(247)	(271)
Gross profit		185	158	131
Other operating income	8	3	2	1
Marketing and selling expenses		(102)	(90)	(89)
Administrative expenses		(25)	(20)	(20)
Research and development expenses		(19)	(16)	(15)
Other operating expenses		(9)	(14)	(9)
Finance costs	9	(1)	(2)	(2)
Profit (loss) before tax	10	32	18	(3)
Income tax (expense) credit	11	(4)	-	2
Profit (loss) for the year		28	18	(1)
Other comprehensive loss				
<i>Item that will not be reclassified to profit or loss</i>				
Remeasurement of defined benefit obligations		(51)	(2)	(3)
<i>Item that may be reclassified to profit or loss</i>				
Exchange differences arising on translation of foreign operations		(3)	(12)	2
Other comprehensive expense for the year		(54)	(14)	(1)
Total comprehensive (expense) income for the year		<u>(26)</u>	<u>4</u>	<u>(2)</u>

SURFACE SOLUTIONS BUSINESS OF
MERCK KOMMANDITGESELLSCHAFT AUF AKTIEN AND ITS SUBSIDIARIES

COMBINED STATEMENTS OF FINANCIAL POSITION

	NOTES	As at 31 December		
		2022 €'million	2023 €'million	2024 €'million
Non-current assets				
Property, plant and equipment	14	98	104	106
Right-of-use assets	15	16	10	14
Goodwill	17	162	162	162
Other intangible assets	16	3	2	1
Prepayments	19	1	-	-
Deferred tax assets	28	16	21	21
		<u>296</u>	<u>299</u>	<u>304</u>
Current assets				
Inventories	18	259	281	253
Trade and other receivables, and prepayments	19	106	81	81
Amounts due from related parties	20	23	15	-
		<u>388</u>	<u>377</u>	<u>334</u>
Current liabilities				
Trade and other payables	21	77	48	48
Provisions	27	2	3	2
Refund liabilities	22	1	1	1
Contract liabilities	23	3	4	3
Loans from related parties	24	16	14	9
Amounts due to related parties	25	3	7	26
Tax payable		7	2	3
Lease liabilities	26	5	5	4
		<u>114</u>	<u>84</u>	<u>96</u>
Net current assets		<u>274</u>	<u>293</u>	<u>238</u>
Total assets less current liabilities		<u>570</u>	<u>592</u>	<u>542</u>
Non-current liabilities				
Other payables	21	47	51	54
Provisions	27	2	2	1
Lease liabilities	26	12	7	11
		<u>61</u>	<u>60</u>	<u>66</u>
Net assets		<u>509</u>	<u>532</u>	<u>476</u>
Equity				
Invested equity attributable to Merck Group		496	533	478
Reserves		13	(1)	(2)
Total equity		<u>509</u>	<u>532</u>	<u>476</u>

SURFACE SOLUTIONS BUSINESS OF
MERCK KOMMANDITGESELLSCHAFT AUF AKTIEN AND ITS SUBSIDIARIES

COMBINED STATEMENTS OF CHANGES IN EQUITY

	<u>Attributable to owners of the Surface Solutions Business</u>			<u>Total equity</u> €'million
	<u>Invested equity</u> <u>attributable to</u> <u>Merck Group</u> €'million	<u>Exchange</u> <u>differences</u> €'million	<u>Remeasurements</u> <u>of post-</u> <u>employment</u> <u>benefits</u> €'million	
At 1 January 2022	340	-	67	407
Equity transactions with owners (note)	128	-	-	128
Profit for the year	28	-	-	28
Other comprehensive expense	-	(3)	(51)	(54)
At 31 December 2022	496	(3)	16	509
Equity transactions with owners (note)	19	-	-	19
Profit for the year	18	-	-	18
Other comprehensive expense	-	(12)	(2)	(14)
At 31 December 2023	533	(15)	14	532
Equity transactions with owners (note)	(54)	-	-	(54)
Loss for the year	(1)	-	-	(1)
Other comprehensive expense	-	2	(3)	(1)
At 31 December 2024	478	(13)	11	476

Note: Equity transactions with owners represent transactions with remaining Merck Group that are treated as contributions or withdrawals, particularly corporate cost allocation, taxes and charges for usage of shared assets etc.

**SURFACE SOLUTIONS BUSINESS OF
MERCK KOMMANDITGESELLSCHAFT AUF AKTIEN AND ITS SUBSIDIARIES**

COMBINED STATEMENTS OF CASH FLOWS

	Years ended 31 December		
	<u>2022</u>	<u>2023</u>	<u>2024</u>
	€million	€million	€million
OPERATING ACTIVITIES			
Profit (loss) before tax	32	18	(3)
Finance costs	1	2	2
Depreciation of property, plant and equipment	13	17	13
Depreciation of right-of-use assets	6	5	6
Amortisation of other intangible assets	1	1	1
Write-off of inventories	2	20	2
Share-based payment expenses	1	-	1
Operating cashflows before movements in working capital	56	63	22
(Increase) decrease in inventories	(27)	(47)	27
Decrease in trade and other receivables, and prepayments	8	17	1
(Decrease) increase in trade and other payables	(14)	(34)	3
(Decrease) increase in provisions	(53)	5	(5)
Increase (decrease) in contract liabilities	1	1	(2)
Increase (decrease) in amounts due to related parties	3	(1)	-
Cash (used in) from operations	(26)	4	46
Income tax refund (paid)	14	(5)	2
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(12)	(1)	48
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(23)	(28)	(27)
Purchase of other intangible assets	-	-	(1)
Proceeds from disposal of property, plant and equipment	2	1	-
NET CASH USED IN INVESTING ACTIVITIES	(21)	(27)	(28)

SURFACE SOLUTIONS BUSINESS OF
MERCK KOMMANDITGESELLSCHAFT AUF AKTIEN AND ITS SUBSIDIARIES

COMBINED STATEMENTS OF CASH FLOWS - continued

	Years ended 31 December		
	<u>2022</u> €'million	<u>2023</u> €'million	<u>2024</u> €'million
FINANCING ACTIVITIES			
Repayment of lease liabilities	(4)	(6)	(6)
Proceeds from (repayment to) loans from related parties	16	(1)	(4)
(Repayment to) proceeds from related parties	(10)	8	33
Contributions from (withdrawals to) Merck Group	31	27	(43)
NET CASH FROM (USED) IN FINANCING ACTIVITIES	<u>33</u>	<u>28</u>	<u>(20)</u>
NET CHANGES IN CASH AND CASH EQUIVALENTS	<u>-</u>	<u>-</u>	<u>-</u>
CASH AND CASH EQUIVALENTS AT BEGINNING AND END OF THE YEAR	<u>-</u>	<u>-</u>	<u>-</u>

SURFACE SOLUTIONS BUSINESS OF
MERCK KOMMANDITGESELLSCHAFT AUF AKTIEN AND ITS SUBSIDIARIES

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION

Merck KGaA has signed an agreement to sell the Surface Solutions Business to Global New Material International Holdings Ltd., Cayman Islands (the "Transaction").

The principal activity of the Surface Solutions Business is the production and sale of pigment products.

2. GROUP REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION OF THE HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared on the historical cost basis except for certain financial instruments that are measured at fair value at the end of each reporting period and in accordance with the following accounting policies which conform with IFRS Accounting Standards. In addition, the Historical Financial Information includes the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

During the Relevant Periods, the Surface Solutions Business comprising the companies (collectively the "Perimeter Entities") as set out in note 32, underwent a group reorganisation as described below ("Group Reorganisation").

For the purposes of the Transaction, Merck KGaA undertook local reorganisation steps, involving establishment of new legal entities and transferring the Surface Solutions Business to new legal entities by way of asset deal.

The combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and combined statements of cash flows for the years ended 31 December 2022, 2023 and 2024 have been prepared to include the financial performance, changes in equity and cashflows of the Perimeter Entities, which form the Surface Solutions Business, for each of the years ended 31 December 2022, 2023 and 2024. The combined statements of financial position as at 31 December 2022, 2023 and 2024 have been prepared to present the carrying amounts of the combined assets and the combined liabilities of the Perimeter Entities, which form the Surface Solutions Business, as at 31 December 2022, 2023 and 2024.

3. BASIS OF COMBINATION

The scope of combination for the Historical Financial Information of Surface Solutions Business for the years ended 31 December 2022, 2023 and 2024 was determined based on the legal reorganisation concept. That is, the Historical Financial Information generally reflect all entities, operations, assets and liabilities which, as a result of the legal reorganisation under common control of Merck KGaA will be part of the Surface Solutions Business by the date of the demerger.

SURFACE SOLUTIONS BUSINESS OF
MERCK KOMMANDITGESELLSCHAFT AUF AKTIEN AND ITS SUBSIDIARIES

NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

3. BASIS OF COMBINATION - continued

The Surface Solutions Business represents a collection of economic activities which represents a business under IFRS Accounting Standards.

The Historical Financial Information is prepared on the basis that the Perimeter Entities, forming the Surface Solutions Business, were under the common control and management of the Merck KGaA and have been managed as a single business by the Merck KGaA throughout the years ended 31 December 2022, 2023 and 2024.

During the Relevant Periods, activities of Surface Solutions Business have been conducted in a variety of legal entities, many of which also conducted business activities other than Surface Solutions Business (the "Mixed Entities") and many of which solely conducted Surface Solutions Business operations (the "Dedicated Entities").

Dedicated Entities and operations conducted in Mixed Entities, which constitute a business as defined in accordance with IFRS 3 *Business Combinations*, included with their respective assets and liabilities (historical carrying amounts extracted from the consolidated financial statements of Merck KGaA) as well as income and expenses in the Historical Financial Information for all reporting periods presented.

The transfer of operations that constitute a business as defined in IFRS 3 have been executed as either share deals, which mostly is the case for the Dedicated Entities, or by way of an asset deal, which mainly applies to the operations in Mixed Entities.

In general, Dedicated Entities have been reflected in the Historical Financial Information in their entirety. For Mixed Entities, the attribution of long lived assets and liabilities is based on the executed legal transfer or in-tended legal transfer concept as of the date of the demerger, or in case such assets and liabilities were already derecognised in periods prior to the legal transfer, based on whether such assets or liabilities were directly attributable to Surface Solutions Business. Short-term assets and liabilities were presented in the Historical Financial Information if they were directly attributable to Surface Solutions Business. Short-term assets and liabilities that were not directly attributable to Surface Solutions Business were excluded, unless such items were expected to be legally transferred to Surface Solutions Business. Income and expenses for Mixed Entities are presented based on the concept of reflecting all costs of doing business by direct attribution or allocation of the costs historically incurred for Surface Solutions Business. Transactions and balances between the Perimeter Entities are eliminated. Transactions and balances between the Surface Solutions Business and the remaining Merck Group that is not part of the transaction have been presented as external transactions and balances and have been disclosed as related party transactions and balances in accordance with IAS 24 *Related Party Disclosures*. For the purpose of cost allocation, reasonable basis have been used and applied consistently during the periods under consideration. For further details refer to Note 4.

SURFACE SOLUTIONS BUSINESS OF
MERCK KOMMANDITGESELLSCHAFT AUF AKTIEN AND ITS SUBSIDIARIES

NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

3. BASIS OF COMBINATION - continued

The Historical Financial Information are prepared on a carve-out basis and comprise the combined statements of financial position as of 31 December 2022, 2023 and 2024, combined statements of profit or loss and other comprehensive income, combined statements of cash flows and the notes to the Historical Financial Information for the years ended 31 December 2022, 2023 and 2024.

These Historical Financial Information have been prepared in Euros, the functional currency and the presentation currency of the Surface Solutions Business.

The material accounting policies used in the Historical Financial Information are presented in Note 6.

4. BASIS OF ALLOCATION

All separately identifiable assets and liabilities, income and expenses and cash flows that are attributable to the Surface Solutions Business have been included in the Historical Financial Information.

Certain financial assets and liabilities are managed at the Merck Group level for the entire Merck Group (including the Surface Solutions Business). Treatment of these balances in the Historical Financial Information is as described below:

Corporate cost allocation

The Merck Group incurs a number of corporate costs centrally. These costs comprise costs associated with remuneration of the Merck Group's Board including top executives, provision of treasury services, use of shared assets etc. These costs are recharged to the Perimeter Entities based on pre-defined agreements, on an arm's length basis. The expenses are recognised by the Perimeter Entities in their statutory accounts and are included as such in the Historical Financial Information as presented below:

SURFACE SOLUTIONS BUSINESS OF
MERCK KOMMANDITGESELLSCHAFT AUF AKTIEN AND ITS SUBSIDIARIES

NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

4. BASIS OF ALLOCATION - continued

Corporate cost allocation - continued

Year ended 31 December 2022:

	Before corporate cost <u>allocation</u> €million	Corporate cost <u>allocation</u> €million	<u>Total</u> €million
Revenue	433	-	433
Cost of sales	(239)	(9)	(248)
Gross profit	194	(9)	185
Other income	1	2	3
Marketing and selling expenses	(100)	(2)	(102)
Administrative expenses	-	(25)	(25)
Research and development expenses	(11)	(8)	(19)
Other operating expenses	(3)	(6)	(9)
Operating result (EBIT) (note)	81	(48)	33
Finance costs	(1)	-	(1)
Profit before tax	80	(48)	32
Income tax (expense) credit	(19)	15	(4)
Profit for the year	61	(33)	28

Year ended 31 December 2023:

	Before corporate cost <u>allocation</u> €million	Corporate cost <u>allocation</u> €million	<u>Total</u> €million
Revenue	405	-	405
Cost of sales	(240)	(7)	(247)
Gross profit	165	(7)	158
Other income	1	1	2
Marketing and selling expenses	(89)	(1)	(90)
Administrative expenses	-	(20)	(20)
Research and development expenses	(11)	(5)	(16)
Other operating expenses	(6)	(8)	(14)
Operating result (EBIT) (note)	60	(40)	20
Finance costs	(2)	-	(2)
Profit before tax	58	(40)	18
Income tax (expense) credit	(12)	12	-
Profit for the year	46	(28)	18

SURFACE SOLUTIONS BUSINESS OF
MERCK KOMMANDITGESELLSCHAFT AUF AKTIEN AND ITS SUBSIDIARIES

NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

4. BASIS OF ALLOCATION - continued

Corporate cost allocation - continued

Year ended 31 December 2024:

	Before corporate cost <u>allocation</u> €million	Corporate cost <u>allocation</u> €million	<u>Total</u> €million
Revenue	402	-	402
Cost of sales	(266)	(5)	(271)
Gross profit	136	(5)	131
Other income	-	1	1
Marketing and selling expenses	(87)	(2)	(89)
Administrative expenses	-	(20)	(20)
Research and development expenses	(10)	(5)	(15)
Other operating expenses	(3)	(6)	(9)
Operating result (EBIT) (note)	36	(37)	(1)
Finance costs	(2)	-	(2)
Profit (loss) before tax	34	(37)	(3)
Income tax (expense) credit	(10)	12	2
Profit (loss) for the year	24	(25)	(1)

Note: Operating result (EBIT) before corporate cost allocation are €81 million, €60 million and €36 million respectively for the years ended 31 December 2022, 2023 and 2024.

5. APPLICATION OF IFRS ACCOUNTING STANDARDS

For the purpose of preparing and presenting the Historical Financial Information for the Relevant Periods, the Surface Solutions Business has consistently applied the accounting policies which conform with IFRS Accounting Standards issued by the IASB that are effective for the Surface Solutions Business's financial year beginning 1 January 2024 and throughout the Relevant Periods.

SURFACE SOLUTIONS BUSINESS OF
MERCK KOMMANDITGESELLSCHAFT AUF AKTIEN AND ITS SUBSIDIARIES

NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

5. APPLICATION OF IFRS ACCOUNTING STANDARDS - continued

The Surface Solutions Business has not early applied the following amendments to IFRS Accounting Standards that have been issued but are not yet effective:

Amendments to IFRS 9 and IFRS 7	Amendments to the Classification and Measurement of Financial Instruments ³
Amendments to IFRS 9 and IFRS 7	Contract Referencing Nature-Dependent Electricity ³
Amendments to IFRS 10 and IAS 28	Sales or Contribution of Assets between an Investor and its Associates or Joint Venture ¹
Amendments to IFRS Accounting Standards	Annual Improvements to IFRS Accounting Standards - Volume 11 ³
Amendments to IAS 21	Lack of Exchangeability ²
IFRS 18	Presentation and Disclosure in Financial Statements ⁴
IFRS 19	Subsidiaries without Public Accountability: Disclosures ⁴

¹ Effective for annual periods beginning on or after a date to be determined

² Effective for annual periods beginning on or after 1 January 2025

³ Effective for annual periods beginning on or after 1 January 2026

⁴ Effective for annual periods beginning on or after 1 January 2027

Except for the new IFRS Accounting Standard mentioned below, the management of the Surface Solutions Business anticipate that the application of all amendments to IFRS Accounting Standards will have no material impact on the financial statements of the Surface Solutions Business in the foreseeable future.

IFRS 18 *Presentation and Disclosure in Financial Statements*

IFRS 18 *Presentation and Disclosure in Financial Statements*, which sets out requirements on presentation and disclosures in financial statements, will replace IAS 1 *Presentation of Financial Statements*. This new IFRS Accounting Standard, while carrying forward many of the requirements in IAS 1, introduces new requirements to present specified categories and defined subtotals in the statement of profit or loss; provide disclosures on management-defined performance measures in the notes to the financial statements and improve aggregation and disaggregation of information to be disclosed in the financial statements. In addition, some IAS 1 paragraphs have been moved to IAS 8 and IFRS 7. Minor amendments to IAS 7 *Statement of Cash Flows* and IAS 33 *Earnings per Share* are also made.

IFRS 18, and amendments to other standards, will be effective for annual periods beginning on or after 1 January 2027, with early application permitted. The application of the new standard is expected to affect the presentation of the statement of profit or loss and disclosures in the future financial statements. The management of the Surface Solutions Business is in the process of assessing the detailed impact of IFRS 18 on the combined financial statements.

SURFACE SOLUTIONS BUSINESS OF
MERCK KOMMANDITGESELLSCHAFT AUF AKTIEN AND ITS SUBSIDIARIES

NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

6. MATERIAL ACCOUNTING POLICY INFORMATION

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any. When the Merck Group disposes the Surface Solutions Business from one of its segment (a cash-generating unit), the amount of goodwill disposed of is measured on the basis of the relative values of the Surface Solutions Business disposed of and the portion of the cash-generating unit retained.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

Revenue

Information about the Surface Solutions Business' accounting policies relating to the revenue from contracts with customers is provided in notes 7 and 23.

Leases

The Surface Solutions Business assess whether a contract is or contains a lease based on the definition under IFRS 16 at inception of the contract. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Surface Solutions Business as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Surface Solutions Business allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Surface Solutions Business applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

**SURFACE SOLUTIONS BUSINESS OF
MERCK KOMMANDITGESELLSCHAFT AUF AKTIEN AND ITS SUBSIDIARIES**

NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

6. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Leases - continued

The Surface Solutions Business as a lessee - continued

Right-of-use assets

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date; and
- any initial direct costs incurred by the Surface Solutions Business.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The Surface Solutions Business presents right-of-use assets as a separate line item on the combined statements of financial position.

Lease liabilities

At the commencement date of a lease, the Surface Solutions Business recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Surface Solutions Business uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Surface Solutions Business remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- a lease contract is modified and the lease modification is not accounted for as a separate lease (see below for the accounting policy for "lease modifications").

The Surface Solutions Business presents lease liabilities as a separate line item on the combined statements of financial position.

SURFACE SOLUTIONS BUSINESS OF
MERCK KOMMANDITGESELLSCHAFT AUF AKTIEN AND ITS SUBSIDIARIES

NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

6. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss for the period in which they arise.

For the purposes of presenting the combined financial statements, the assets and liabilities of the Surface Solutions Business' operations are translated into the presentation currency of the Surface Solutions Business (i.e. €) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of Exchange differences.

Employee benefits

Retirement benefit costs

Payments to defined contribution retirement plans are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement plans, the cost of providing the benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. In determining the present value of the Surface Solutions Business' defined benefit obligations and the related current service cost and, where applicable, past service cost, the Surface Solutions Business attributes benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than earlier years, the Surface Solutions Business attributes the benefit on a straight-line basis from:

- (a) the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service) until.
- (b) the date when further service by the employee will lead to no material amount of further benefits under the plan other than from further salary increases.

Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the combined statements of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

SURFACE SOLUTIONS BUSINESS OF
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NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

6. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Employee benefits - continued

Retirement benefit costs - continued

Past service cost is recognised in profit or loss in the period of a plan amendment or curtailment and a gain or loss on settlement is recognised when settlement occurs. When determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability or asset using the current fair value of plan assets and current actuarial assumptions, reflecting the benefits offered under the plan and the plan assets before and after the plan amendment, curtailment or settlement, without considering the effect of asset ceiling (i.e. the present value of any economic benefits available in the form of refunds from the plan or reduction in future contributions to the plan).

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. However, if the Surface Solutions Business remeasures the net defined benefit liability or asset before the plan amendment, curtailment or settlement, the Surface Solutions Business determines net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the benefits offered under the plan and plan assets after the plan amendment, curtailment or settlement and the discount rate used to remeasure such net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period resulting from contributions or benefit payments.

Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The retirement benefit obligation recognised in the combined statements of financial position represents the actual deficit or surplus in the Surface Solutions Business' defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans and reductions in future contributions to the plans.

Discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

6. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Employee benefits - continued

Retirement benefit costs - continued

When the formal terms of the plans specify that there will be contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows:

- if the contributions are not linked to services (for example contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they are reflected in the remeasurement of the net defined benefit liability or asset.
- if contributions are linked to services, they reduce service costs. For the amount of contribution that is dependent on the number of years of service, the Surface Solutions Business reduces service cost by attributing the contributions to periods of service using the attribution method required by IAS 19 *Employee Benefits* for the gross benefits (i.e. either using the plan's contribution formula or on a straight-line basis). For the amount of contribution that is independent of the number of years of service, the Surface Solutions Business reduces service cost in the period in which the related service is rendered/reduces service cost by attributing contributions to the employees' periods of service in accordance with IAS 19.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS Accounting Standards requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries and annual leave) after deducting any amount already paid.

Share-based payments

Cash-settled share based payment transactions

For cash-settled share-based payment, a liability is recognised for the goods or services acquired, measure initially at the fair value of the liability. The fair value of the cash-settled share-based payments is determined without taking into consideration all non-market vesting conditions.

At the end of each reporting period until the liability is settled, and at the date of settlement, the liability is remeasured to fair value. For cash-settled share-based payments that are already vested, any changes in fair value are recognised in profit or loss for the year. For cash-settled share-based payments which are still subject to non-market vesting conditions, the effects of vesting and non-vesting conditions are accounted on the same basis as equity-settled share-based payments.

SURFACE SOLUTIONS BUSINESS OF
MERCK KOMMANDITGESELLSCHAFT AUF AKTIEN AND ITS SUBSIDIARIES

NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

6. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Taxation

Income tax expense represents the sum of the current and deferred income tax expense.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit (loss) before tax' as reported in the combined statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years/periods and items that are never taxable or deductible. The Surface Solutions Business' liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the combined statement of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit and at the time of the transaction does not give rise to equal taxable and deductible temporary difference.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Surface Solutions Business expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Surface Solutions Business recognises the right-of-use assets and the related lease liabilities, the Surface Solutions Business first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deduction are attributable to the lease liabilities, the Surface Solutions Business applies IAS 12 requirements to the lease liabilities and the related assets separately. The Surface Solutions Business recognised a deferred tax asset related to lease liabilities to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised and a deferred tax liability for all taxable temporary differences.

SURFACE SOLUTIONS BUSINESS OF
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NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

6. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Taxation - continued

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current tax assets or current tax liabilities are recognised in an entity that is legally required to claim the tax assets from or settle the tax liabilities to the taxation authorities. Current tax assets or current tax liabilities and current tax income or expense resulting from the Surface Solutions Business activities in Mixed Entities are considered as contribution or withdrawal from Merck KGaA. This is because the tax asset or liability is deemed to be settled immediately by the Mixed Entities and, as such, is accounted for as a contribution or withdrawal. Likewise, deferred tax income or expense from tax losses and tax credits is reversed against equity.

Current and deferred tax are recognised in profit or loss.

Property, plant and equipment

Property and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes (other than freehold lands as described below). Property and equipment are stated in the combined statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Freehold lands are not depreciated and are measured at cost less subsequent accumulated impairment losses.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment losses. Cost includes any costs directly attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, including costs of testing whether the related asset is functioning properly and, for qualifying assets, borrowing costs capitalised in accordance with the Surface Solutions Business' accounting policy.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

6. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Intangible assets

Intangible asset with finite useful life that is acquired separately is carried at cost less any accumulated impairment losses. Amortisation for intangible asset with finite useful life commences when the asset is available for use and is recognised on a straight-line basis over its estimated useful life. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment on property, plant and equipment, intangible assets and right-of-use assets

At the end of each reporting period, the Surface Solutions Business reviews the carrying amounts of its property, plant and equipment, intangible assets and right-of-use assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any. Intangible asset not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of property, plant and equipment, intangible assets and right-of-use assets, are estimated individually. When it is not possible to estimate the recoverable amount individually, the Surface Solutions Business estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro-rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

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NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

6. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Impairment on property, plant and equipment, intangible assets and right-of-use assets - continued

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of manufactured, finished, and unfinished materials, raw materials, and merchandise are determined on a first-in, first-out method and cost of supplies are determined on weighted average method. Net realisable value represents estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Surface Solutions Business must incur to make the sale.

Provisions

Provisions are recognised when the Surface Solutions Business has a present obligation (legal or constructive) as a result of a past event, it is probable that the Surface Solutions Business will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

A restructuring provision is recognised when the Surface Solutions Business has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

**SURFACE SOLUTIONS BUSINESS OF
MERCK KOMMANDITGESELLSCHAFT AUF AKTIEN AND ITS SUBSIDIARIES**

NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

6. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Impairment of financial assets subject to impairment assessment under IFRS 9

The Surface Solutions Business performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables, other receivables and amounts due from related parties) which are subject to impairment assessment under IFRS 9. The amount of ECL is updated at the end of each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date.

The Surface Solutions Business always assesses lifetime ECL for trade receivables.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Surface Solutions Business compares the risk of a default occurring on the financial instrument as at the end of each reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Surface Solutions Business considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

SURFACE SOLUTIONS BUSINESS OF
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NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

6. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets subject to impairment assessment under IFRS 9 - continued

(i) Significant increase in credit risk - continued

Irrespective of the outcome of the above assessment, the Surface Solutions Business presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Surface Solutions Business has reasonable and supportable information that demonstrates otherwise.

(ii) Definition of default

For internal credit risk management, the Surface Solutions Business considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Surface Solutions Business, in full (without taking into account any collaterals held by the Surface Solutions Business).

Irrespective of the above, the Surface Solutions Business considers that default has occurred when a financial asset is more than 90 days past due unless the Surface Solutions Business has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Surface Solutions Business writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of accounts receivable, when the amounts are over one year past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Surface Solutions Business' recovery procedures, taking into account legal advice where appropriate. Any subsequent recoveries are recognised in profit or loss.

SURFACE SOLUTIONS BUSINESS OF
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NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

6. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Financial instruments - continued

Financial assets - continued

Derecognition of financial assets

The Surface Solutions Business derecognises a financial asset only when the contractual rights to the cash flows from the asset expire.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of a group entity after deducting all of its liabilities. Equity instruments issued by the group entities are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at amortised cost

Financial liabilities (including trade and other payables, amounts due to related parties, and loans from related parties) are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Surface Solutions Business derecognises financial liabilities when, and only when, the Surface Solutions Business' obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**SURFACE SOLUTIONS BUSINESS OF
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NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

7. REVENUE

Disaggregation of revenue from contracts with customers

An analysis of Surface Solutions Business' revenue by product type is as follows:

	Year ended 31 December		
	<u>2022</u>	<u>2023</u>	<u>2024</u>
	€'million	€'million	€'million
Recognised at a point in time:			
Cosmetics products	157	157	148
Automotive (Coatings)	158	146	148
Industrial products	118	102	106
	<u>433</u>	<u>405</u>	<u>402</u>

Sale of goods

For sales of goods, the customer typically obtains control depending on the delivery and the shipping terms involved, given that the customer is generally not able to obtain any benefits from the asset before that point in time.

8. OTHER OPERATING INCOME

	Year ended 31 December		
	<u>2022</u>	<u>2023</u>	<u>2024</u>
	€'million	€'million	€'million
Income from third parties	2	2	1
Others	1	-	-
	<u>3</u>	<u>2</u>	<u>1</u>

9. FINANCE COSTS

	Year ended 31 December		
	<u>2022</u>	<u>2023</u>	<u>2024</u>
	€'million	€'million	€'million
Net interest on pension provisions	<u>1</u>	<u>2</u>	<u>2</u>

**SURFACE SOLUTIONS BUSINESS OF
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NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

10. PROFIT (LOSS) BEFORE TAX

Profit (loss) before tax has been arrived at after charging:

	<u>Year ended 31 December</u>		
	<u>2022</u>	<u>2023</u>	<u>2024</u>
	€'million	€'million	€'million
Depreciation of property, plant and equipment	13	17	13
Depreciation of right-of-use assets	6	5	6
Amortisation of intangible assets	1	1	1
Auditor's remuneration (note)	-	-	-
Cost of inventories recognised as an expense	248	247	271
Write-off of inventories	2	20	2
Research and development costs recognised as an expense	19	16	15
Wages and salaries	104	93	91
Compulsory social security contributions and other costs	19	14	16
Pension expenses	8	7	8
Cash-settled share-based payments	1	-	1
Total staff costs	<u>132</u>	<u>114</u>	<u>116</u>

Note: The amount is less than €1 million.

11. INCOME TAX EXPENSE (CREDIT)

	<u>Year ended 31 December</u>		
	<u>2022</u>	<u>2023</u>	<u>2024</u>
	€'million	€'million	€'million
Current tax	32	18	18
Deferred tax:			
Change in deferred tax assets	18	(5)	-
Change in deferred taxes recognised as contributions or transfer from invested equity attributable to Merck Group	(46)	(13)	(20)
	<u>(28)</u>	<u>(18)</u>	<u>(20)</u>
	<u>4</u>	<u>-</u>	<u>(2)</u>

Taxation of the Surface Solutions Business for the 3 years ended 31 December 2022, 2023 and 2024 is calculated by applying the statutory tax rate of 31% in Germany as the Surface Solutions Business is headquartered in Germany.

**SURFACE SOLUTIONS BUSINESS OF
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NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

11. INCOME TAX EXPENSE (CREDIT) - continued

The Surface Solutions Business is operating in certain jurisdictions where the Pillar Two Rules are effective. However as the combined revenue of the Surface Solutions Business is less than EUR750 million, the management of the Surface Solutions Business considered the Surface Solutions Business is not liable to top-up tax under the Pillar Two Rules and has not made relevant disclosures of qualitative and quantitative information about the Surface Solutions Business' exposure to the Pillar Two income taxes.

A reconciliation of the tax expense (credit) applicable to profit (loss) before tax at the statutory rate in Germany to the tax expense at the effective tax rates is as follows:

	Year ended 31 December		
	2022 €'million	2023 €'million	2024 €'million
Profit (loss) before tax	32	18	(3)
Tax effect at statutory tax rate (31%)	10	6	(1)
Tax effect of expenses not deductible for tax purpose	-	-	1
Tax effect of income not taxable for tax purpose	(2)	(4)	(1)
Effect of different tax rates of Surface Solutions Business' entities operating in other jurisdictions	(2)	(2)	(1)
Others	(2)	-	-
Income tax expense (credit) for the year	4	-	(2)

12. DIVIDENDS

No dividend has been declared or paid by the Surface Solutions Business during the Relevant Periods.

13. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of the Historical Financial Information, is not considered meaningful having regard to the Reorganisation and the result of the Surface Solutions Business that is prepared on a combined basis as disclosed in Note 3 to the Historical Financial Information.

**SURFACE SOLUTIONS BUSINESS OF
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NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

14. PROPERTY, PLANT AND EQUIPMENT

	Land and <u>buildings</u> €million	Plant and <u>machinery</u> €million	Other facilities, operating and office <u>equipment</u> €million	Construction in <u>progress</u> €million	<u>Total</u> €million
Cost					
At 1 January 2022	76	369	48	19	512
Additions	-	5	2	16	23
Disposals	-	(4)	(3)	(2)	(9)
Transfer	1	5	-	(6)	-
Exchange adjustments	(1)	(1)	-	-	(2)
At 31 December 2022	76	374	47	27	524
Additions	2	6	1	19	28
Disposals	(1)	(1)	(2)	(2)	(6)
Transfer	-	1	-	(1)	-
Exchange adjustments	(5)	(11)	(1)	(1)	(18)
At 31 December 2023	72	369	45	42	528
Additions	1	11	2	13	27
Disposals	(3)	(8)	(6)	(13)	(30)
Transfer	2	8	2	(12)	-
Exchange adjustments	1	2	1	(1)	3
At 31 December 2024	73	382	44	29	528
Depreciation and impairment					
At 1 January 2022	50	324	42	6	422
Charge for the year	2	9	2	-	13
Eliminated on disposals	-	(4)	(3)	-	(7)
Exchange adjustments	-	(2)	-	-	(2)
At 31 December 2022	52	327	41	6	426
Charge for the year	3	12	2	-	17
Eliminated on disposals	(1)	(1)	(2)	-	(4)
Exchange adjustments	(4)	(10)	(1)	-	(15)
At 31 December 2023	50	328	40	6	424
Charge for the year	2	10	1	-	13
Eliminated on disposals	(1)	(12)	(4)	-	(17)
Exchange adjustments	-	1	1	-	2
At 31 December 2024	51	327	38	6	422
Net book value					
At 31 December 2022	24	47	6	21	98
At 31 December 2023	22	41	5	36	104
At 31 December 2024	22	55	6	23	106

The above items of property, plant and equipment except for freehold land and construction in progress are depreciated on a straight-line basis after taking into account of the residual value as follows:

Buildings	not less than 2.5% to 3% per annum
Plant and machinery	7% to 17% per annum
Other facilities, operating and office equipment	10% to 33% per annum

**SURFACE SOLUTIONS BUSINESS OF
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NOTES TO THE HISTORICAL FINANCIAL INFORMATION – continued

15. RIGHT-OF-USE ASSETS

	Land, land rights and buildings €'million	Other facilities operating and office equipment €'million	<u>Total</u> €'million
As at 31 December 2022			
Carrying amount	16	-	16
As at 31 December 2023			
Carrying amount	10	-	10
As at 31 December 2024			
Carrying amount	13	1	14
For the year ended 31 December 2022			
Depreciation charge	5	1	6
For the year ended 31 December 2023			
Depreciation charge	5	-	5
For the year ended 31 December 2024			
Depreciation charge	5	1	6
	<u>Year ended 31 December</u>		
	<u>2022</u>	<u>2023</u>	<u>2024</u>
	€'million	€'million	€'million
Total cash outflow for leases	4	6	6
Additions to right-of-use assets	3	1	9

During the Relevant Periods, the Surface Solutions Business leases land, land rights and buildings and other facilities, operating and office equipment for its operations. Except for lease contracts for land, land rights and buildings which are entered into for a fixed term of 4 to 7 years, lease contracts for other facilities, operating and office equipment are entered into for fixed term of 3 to 4 years. Lease terms are negotiated on an individual basis and contain different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Surface Solutions Business applies the definition of a contract and determines the period for which the contract is enforceable.

As at 31 December 2022, 2023 and 2024, the Surface Solutions Business did not enter into new leases that have not yet commenced.

Details of the lease maturity analysis of lease liabilities are set out in notes 26 and 33.

SURFACE SOLUTIONS BUSINESS OF
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NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

16. OTHER INTANGIBLE ASSETS

	Customer relationships, brands and trademarks €million	Patents and license and similar rights (finite useful life) €million	Software and software in development €million	Total €million
Cost				
At 1 January 2022	2	64	4	70
Disposals	-	(1)	(1)	(2)
Exchange adjustments	-	(2)	-	(2)
	<u>2</u>	<u>61</u>	<u>3</u>	<u>66</u>
At 31 December 2022	2	61	3	66
Exchange adjustments	-	(4)	(1)	(5)
	<u>2</u>	<u>57</u>	<u>2</u>	<u>61</u>
At 31 December 2023	2	57	2	61
Additions	-	1	-	1
Disposals	-	(1)	-	(1)
Exchange adjustments	-	(2)	-	(2)
	<u>2</u>	<u>55</u>	<u>2</u>	<u>59</u>
At 31 December 2024	2	55	2	59
Amortisation				
At 1 January 2022	2	61	3	66
Charge for the year	-	1	-	1
Eliminated on disposal	-	(1)	(1)	(2)
Exchange adjustments	-	(2)	-	(2)
	<u>2</u>	<u>59</u>	<u>2</u>	<u>63</u>
At 31 December 2022	2	59	2	63
Charge for the year	-	1	-	1
Exchange adjustments	-	(5)	-	(5)
	<u>2</u>	<u>55</u>	<u>2</u>	<u>59</u>
At 31 December 2023	2	55	2	59
Charge for the year	-	1	-	1
Eliminated on disposal	-	(1)	-	(1)
Exchange adjustments	-	(1)	-	(1)
	<u>2</u>	<u>54</u>	<u>2</u>	<u>58</u>
At 31 December 2024	2	54	2	58
Carrying Values				
At 31 December 2022	-	2	1	3
At 31 December 2023	-	2	-	2
At 31 December 2024	-	1	-	1

**SURFACE SOLUTIONS BUSINESS OF
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NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

16. OTHER INTANGIBLE ASSETS - continued

The above items of intangible assets other than software in development have finite useful lives. Such intangible assets are amortised on a straight-line basis over the following periods:

Patents, licenses and similar rights 5 to 11 years

17. GOODWILL

€'million

Cost

At 1 January 2022, 31 December 2022, 2023 and 2024 162

Impairment

At 1 January 2022 and 31 December 2022, 2023 and 2024 -

Carrying Values

At 31 December 2022, 31 December 2023 and 31 December 2024 162

Goodwill attributable to the Surface Solutions Business is allocated by Merck Group as at 31 December 2022, 2023 and 2024.

During the Relevant Periods, goodwill is tested for impairment by Merck Group. The recoverable amount of the goodwill have been determined on the basis of the fair value less cost of disposal, which is calculated using the discounted cash flow method (level 3 in the IFRS 13 Fair Value Measurement) based on weighted cost of capital after tax of 7.1%, 8.1% and 7.6% respectively for the years ended 31 December 2022, 2023 and 2024. The key assumptions used by management of Merck Group in setting the discounted cashflow were as follows:

- (a) Forecast sales growth - based on internal past experience and largely non-observable input factors in the market such as new products from the development pipeline, expected future market shares, selling prices and volumes.
- (b) Long-term growth rate at 2% per annum for each of the three years ended 31 December 2024, taking into account expected long-term growth and long-term inflation expectations.

18. INVENTORIES

	As at 31 December		
	<u>2022</u>	<u>2023</u>	<u>2024</u>
	€'million	€'million	€'million
Raw materials	162	177	149
Work in progress	58	59	70
Finished goods	39	45	34
	<u>259</u>	<u>281</u>	<u>253</u>

**SURFACE SOLUTIONS BUSINESS OF
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NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

19. TRADE AND OTHER RECEIVABLES, AND PREPAYMENTS

	<u>As at 31 December</u>		
	<u>2022</u>	<u>2023</u>	<u>2024</u>
	€million	€million	€million
Trade receivables	78	68	63
Less: allowance for credit losses	(1)	(1)	(1)
Total trade receivables	77	67	62
Retirement benefit assets	1	1	1
Prepayments	4	1	1
Receivable from non-income related tax	9	5	6
Other receivables	12	4	8
Others	4	3	3
Total trade and other receivables, and prepayments	107	81	81
Analysed as:			
- Non-current	1	-	-
- Current	106	81	81
Total trade and other receivables, and prepayments	107	81	81

As at 31 December 2022, 2023 and 2024, the Surface Solutions Business has trade receivables comprise receivables from contracts with customers of €77 million, €67 million and €62 million, respectively.

As at 1 January 2022, the amount of trade receivables from contracts with customers of the Surface Solutions Business amounted to €79 million.

The Surface Solutions Business generally grants credit terms ranging from 30 to 60 days to its customers. The following is an aged analysis of gross trade receivables of the Surface Solutions Business, presented based on due date at the end of the reporting period is set out below:

	<u>As at 31 December</u>		
	<u>2022</u>	<u>2023</u>	<u>2024</u>
	€million	€million	€million
Not overdue	52	52	51
Up to 90 days past due	24	16	12
Up to 180 days past due	2	-	-
	78	68	63

**SURFACE SOLUTIONS BUSINESS OF
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NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

19. TRADE AND OTHER RECEIVABLES, AND PREPAYMENTS - continued

As at 31 December 2022, 2023 and 2024, included in the trade receivable balance of the Surface Solutions Business are debtors with aggregate carrying amount of €26 million, €16 million and €12 million respectively which are past due as at the reporting date. Out of the past due balances, €2 million, nil and nil has been past due 90 days or more as at 31 December 2022, 2023 and 2024 respectively but not considered default. The Surface Solutions Business does not hold any collateral over these balances.

Details of impairment assessment of trade and other receivables are set out in note 33.

20. AMOUNTS DUE FROM RELATED PARTIES

The amounts due from related parties relate to cash pooling arrangement with Merck Group which are non-trade related, unsecured, interest bearing at an internally agreed interest rate and repayable on demand as at 31 December 2022, 2023 and 2024.

21. TRADE AND OTHER PAYABLES

	As at 31 December		
	<u>2022</u>	<u>2023</u>	<u>2024</u>
	€'million	€'million	€'million
Trade payables	50	25	25
Accrued payroll and other expenses	15	11	17
Provision for employee benefits	52	53	56
Other tax payable	3	2	1
Other payables	4	8	3
	<u>124</u>	<u>99</u>	<u>102</u>
Analysed as:			
- Non-current	47	51	54
- Current	77	48	48
	<u>124</u>	<u>99</u>	<u>102</u>

The following is an aged analysis of trade payables of the Surface Solutions Business presented based on the due date.

	As at 31 December		
	<u>2022</u>	<u>2023</u>	<u>2024</u>
	€'million	€'million	€'million
Not overdue	<u>50</u>	<u>25</u>	<u>25</u>

SURFACE SOLUTIONS BUSINESS OF
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NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

22. REFUND LIABILITIES

	As at 31 December		
	<u>2022</u>	<u>2023</u>	<u>2024</u>
	€million	€million	€million
Refund liabilities arising from rebates	<u>1</u>	<u>1</u>	<u>1</u>

23. CONTRACT LIABILITIES

	As at 31 December		
	<u>2022</u>	<u>2023</u>	<u>2024</u>
	€million	€million	€million
Advances received in relation to sale of goods	<u>3</u>	<u>4</u>	<u>3</u>

As at 1 January 2022, contract liabilities amounted to €2 million. Contract liabilities are classified as current based on the Surface Solutions Business' obligation to transfer goods to customers.

All of the contract liabilities at the end of each reporting period were recognised as revenue in subsequent year.

24. LOANS FROM RELATED PARTIES

As at 31 December 2022, 2023 and 2024, the loans with related parties represent loans granted by Merck Group to the Surface Solutions Business which are non-trade related, unsecured, interest bearing at an internally agreed interest rate and repayable on demand.

25. AMOUNTS DUE TO RELATED PARTIES

Except for the amount due to a related party amounted to €5 million as at 31 December 2023 which is non-trade related and interest-free and the amount due to a related party amounted to €24 million relate to cash pooling arrangement with Merck Group as at 31 December 2024 which is non-trade related and interest bearing at an internally agreed interest rate, the remaining balances are trade-related unsecured and repayable on demand.

The following is an aged analysis of trade-related amounts due to related parties of the Surface Solutions Business presented based on the due date.

	As at 31 December		
	<u>2022</u>	<u>2023</u>	<u>2024</u>
	€million	€million	€million
Not overdue	<u>3</u>	<u>2</u>	<u>2</u>

SURFACE SOLUTIONS BUSINESS OF
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NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

26. LEASE LIABILITIES

	As at 31 December		
	<u>2022</u> €'million	<u>2023</u> €'million	<u>2024</u> €'million
Lease liabilities payable:			
Within one year	5	5	4
Within a period of more than one year but not exceeding two years	5	4	3
Within a period of more than two years but not exceeding five years	7	3	5
Within a period of more than five years	-	-	3
	<u>17</u>	<u>12</u>	<u>15</u>
Less: Amount due for settlement within 12 months shown under current liabilities	<u>(5)</u>	<u>(5)</u>	<u>(4)</u>
Amount due for settlement after 12 months shown under non-current liabilities	<u>12</u>	<u>7</u>	<u>11</u>

As at 31 December 2022, 2023 and 2024, the weighted average incremental borrowing rates applied to lease liabilities is 1.4%, 1.6% and 2.7% respectively.

27. PROVISIONS

	As at 31 December		
	<u>2022</u> €'million	<u>2023</u> €'million	<u>2024</u> €'million
Analysed for reporting purpose as:			
Non-current liabilities	2	2	1
Current liabilities	<u>2</u>	<u>3</u>	<u>2</u>
	<u>4</u>	<u>5</u>	<u>3</u>

	<u>Litigation</u> €'million	<u>Restructuring</u> €'million	<u>Others</u> €'million	<u>Total</u> €'million
At 1 January 2022	-	7	4	11
Addition	-	4	1	5
Utilisation	-	(6)	(2)	(8)
Release	-	(2)	(2)	(4)
At 31 December 2022	-	3	1	4
Additions	1	4	1	6
Utilisation	(1)	(2)	-	(3)
Release	-	(1)	(1)	(2)
At 31 December 2023	-	4	1	5
Additions	1	2	1	4
Utilisation	(1)	(2)	-	(3)
Release	-	(2)	(1)	(3)
At 31 December 2024	-	2	1	3

**SURFACE SOLUTIONS BUSINESS OF
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NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

27. PROVISIONS - continued

The Surface Solutions Business use formal restructuring plans and the expectations of the affected employees concerning the performance of the restructuring measures to assess the recognition obligation for provisions for restructuring projects and the amount of the expected outflow of resources.

28. DEFERRED TAX ASSETS

The following is a summary of the deferred tax balances after offsetting for financial reporting purposes:

	<u>As at 31 December</u>		
	<u>2022</u> €'million	<u>2023</u> €'million	<u>2024</u> €'million
Deferred tax assets	<u>16</u>	<u>21</u>	<u>21</u>

The following are the major deferred tax assets recognised and movements thereon before offsetting during the years ended 31 December 2022, 2023 and 2024.

	<u>Property, plant and equipment</u> €'million	<u>Inventories</u> €'million	<u>Accruals for pension and other provisions</u> €'million	<u>Others</u> €'million	<u>Total</u> €'million
At 1 January 2022	2	4	26	2	34
(Charged) credited to profit or loss	<u>-</u>	<u>(1)</u>	<u>(15)</u>	<u>(2)</u>	<u>(18)</u>
At 31 December 2022	2	3	11	-	16
Credited to profit or loss	<u>-</u>	<u>-</u>	<u>5</u>	<u>-</u>	<u>5</u>
At 31 December 2023	2	3	16	-	21
(Charged) credited to profit or loss	<u>(1)</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2024	<u>1</u>	<u>4</u>	<u>16</u>	<u>-</u>	<u>21</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

29. RETIREMENT BENEFITS PLANS

The vast majority of defined benefit obligations of German entities were attributable to plans that encompass old-age, disability, and surviving dependent pensions. These obligations were based on benefit rules comprising benefit commitments dependent on years of service and final salary, as well as two different direct commitments for employees newly hired since 1 January 2005, that is not based on the final salary. The benefit entitlement for new members from 1 January 2005, to 31 December 2020, resulted from the cumulative total of annually determined pension components calculated on the basis of a defined benefit expense and an age-based annuity table. The benefit entitlement for new members from 1 January 2021, resulted from the performance of salary-based employer contributions and voluntary employee contributions, topped up by the employer, to an external fund. A minimum return on contributions has been guaranteed. There were no statutory minimum funding obligations in Germany. Pension obligations in Japan resulted primarily from benefit plans which are based on years of service and final salary and were closed to newly hired employees from 30 April 2013. The agreed benefits comprised retirement and surviving dependent benefits. The employer made contributions to the plans. Statutory minimum funding obligations did not exist.

In relation to the pension obligations for the other countries, the most significant balances relate to Switzerland and France. Pension obligations in Switzerland mainly comprised retirement, disability and surviving dependent benefits regulated by law. The employer and the employees made contributions to the plans. Statutory minimum funding obligations existed. On the other hand, the pension obligation in France is provided as lump-sum payments at retirement, determined by the years of service and the applicable salary. These benefits are typically based on tariff agreements and are offered by most companies in the country, albeit with some variations. The funding of these plans is not mandatory and relatively uncommon.

The principal assumptions used for the purposes of actuarial valuations were as follows:

	Valuation at 31 December		
	2022	2023	2024
Germany:			
Discount rate	3.74%	3.32%	3.50%
Expected rate of long-term salary increases	2.75%	2.75%	3.00%
Expected rate of long-term pension increases	2.15%	2.15%	2.14%
Japan:			
Discount rate	0.80%	1.50%	1.50%
Expected rate of long-term salary increases	2.00%	2.00%	2.00%
Other countries:			
Discount rate	4.38%	4.68%	3.91%
Expected rate of long-term salary increases	3.20%	3.30%	2.20%
Expected rate of long-term pension increases	0.27%	0.35%	0.38%

**SURFACE SOLUTIONS BUSINESS OF
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NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

29. RETIREMENT BENEFITS PLANS - continued

As at 31 December 2022, 2023 and 2024, the actuarial valuation showed that the market value of plan assets was approximately €49 million, €57 million and €61 million respectively and that the actuarial value of these assets represented 56%, 56% and 56% of the benefits that had accrued to members respectively.

Amounts recognised in combined statements of profit or loss and other comprehensive income in respect of these defined benefit obligations are as follows:

	As at 31 December		
	<u>2022</u>	<u>2023</u>	<u>2024</u>
	€million	€million	€million
Current service cost	7	4	5
Interest expense	2	3	3
Interest income on plan assets	(1)	(1)	(1)
Components of defined benefit costs recognised in profit or loss	<u>8</u>	<u>6</u>	<u>7</u>
	As at 31 December		
	<u>2022</u>	<u>2023</u>	<u>2024</u>
	€million	€million	€million
Remeasurement on defined benefit obligations:			
Actuarial gains (losses) arising from changes in financial assumptions	48	(8)	4
Actuarial gains (losses) arising from experience adjustments	3	7	(1)
Decrease in cumulative other comprehensive income due to effect of business transfers	-	3	-
Components of defined benefit costs recognised in other comprehensive income	<u>51</u>	<u>2</u>	<u>3</u>

During the Relevant Periods, the expense for the year has been included in salaries, bonus and pension expenses. The remeasurement of defined benefit obligations is included in other comprehensive income.

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NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

29. RETIREMENT BENEFITS PLANS - continued

The amount included in the combined statements of financial position arising from the Surface Solutions Business' obligation in respect of the plan is as follows:

	As at 31 December		
	<u>2022</u>	<u>2023</u>	<u>2024</u>
	€million	€million	€million
Fair value of plan assets	49	57	61
Present value of defined benefit obligations	(87)	(101)	(108)
Net liability arising from defined benefit obligations	<u>(38)</u>	<u>(44)</u>	<u>(47)</u>

Movement in the present value of the defined benefit obligations in the Relevant Periods were as follows:

	<u>2022</u>	<u>2023</u>	<u>2024</u>
	€million	€million	€million
At January	137	87	101
Current service cost	7	4	5
Interest expense	2	3	3
Actuarial (gains) losses arising from changes in financial assumptions	(48)	8	(4)
Actuarial (gains) losses arising from changes in experience adjustments	(10)	-	3
Exchange difference	-	-	-
Benefits paid	(1)	(1)	-
At 31 December	<u>87</u>	<u>101</u>	<u>108</u>

Movement in the fair value of the plan asset in the Relevant Periods were as follows:

	<u>2022</u>	<u>2023</u>	<u>2024</u>
	€million	€million	€million
At January	56	49	57
Interest income	1	1	1
Actuarial (losses) gains arising from changes in experience adjustments	(7)	7	2
Exchange difference	-	1	1
Benefits paid	(1)	(1)	-
At 31 December	<u>49</u>	<u>57</u>	<u>61</u>

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NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

29. RETIREMENT BENEFITS PLANS - continued

The fair value of the plan assets at the end of each reporting period for each category, are as follows:

	<u>2022</u> €'million	<u>2023</u> €'million	<u>2024</u> €'million
Cash and cash equivalents	2	1	2
Equity instruments	10	11	11
Debt instruments	13	23	24
Investment funds	17	16	18
Insurance contracts	7	6	6
At 31 December	<u>49</u>	<u>57</u>	<u>61</u>

During the year ended 31 December 2022, 2023 and 2024, the actual return on plan assets was approximately €6 million, €9 million and €4 million respectively.

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected rate of long-term salary increases and expected rate of long-term pension increases (except for Japan). The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate is 50 basis points higher (lower), the defined benefit obligation as at 31 December 2022, 2023 and 2024 would decrease by approximately €9 million, €11 million and €11 million respectively (increase by approximately €10 million, €12 million and €12 million respectively).
- If the expected salary growth increases (decreases) by 50 basis points, the defined benefit obligation as at 31 December 2022, 2023 and 2024 would increase by approximately €4 million, €4 million and €4 million respectively (decrease by approximately €4 million, €5 million and €4 million respectively)
- If the expected pension growth increases (decreases) by 50 basis points, the defined benefit obligation as at 31 December 2022, 2023 and 2024 would increase by approximately €5 million, €6 million and €6 million respectively (decrease by approximately €4 million, €5 million and €6 million respectively)

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligations has been calculated using the projected unit credit method at the end of each reporting period, which is the same as the applied in calculating the defined benefit obligation liability recognised in the combined statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis for the Relevant Periods.

**SURFACE SOLUTIONS BUSINESS OF
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NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

30. SHARE-BASED PAYMENT TRANSACTIONS

Merck KGaA issued to certain employees Merck KGaA share units ("MSUs") that require Merck KGaA to pay the intrinsic value of the MSUs to the employees subsequent to end of each reporting period. At 31 December 2022, 2023 and 2024, the Surface Solutions Business has recorded liabilities of €3 million, nil and nil respectively. The fair value of the MSUs is determined using Monte Carlo simulation based on the assumptions such as weighted average share price, expected volatility, risk-free rate and expected dividend yield. During the year ended 31 December 2022, 2023 and 2024, share-based payment expenses of €1 million, nil and €1 million has been recognised in profit or loss respectively. As at 31 December 2022, 2023 and 2024, the total intrinsic value of the vested MSUs was nil, nil and nil respectively.

31. RELATED PARTY DISCLOSURES

Apart from details of balances with related parties disclosed in the combined statement of financial position, the Surface Solutions Business had also entered into the following transactions with related parties:

Compensation of directors and key management personnel

The remuneration of directors and other members of key management during the year was as follow:

	<u>Year ended 31 December</u>		
	<u>2022</u>	<u>2023</u>	<u>2024</u>
	€million	€million	€million
Short-term employee benefits	4	4	5
Share-based payment expenses	1	-	-
	<u>5</u>	<u>4</u>	<u>5</u>

The remuneration of key management personnel is determined by the management of the Surface Solutions Business having regard to the performance of individuals and market trends.

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NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

32. PARTICULARS OF PERIMETER ENTITIES

Details of the material Perimeter Entities at the end of the reporting period are set out below:

Name of Perimeter Entity	Place of operation/ establishment	Issued and fully paid share capital/ registered capital as at 31 December			Shareholding/equity interest attributable to the Merck KGaA as at 31 December			Principal activities
		2022 €'million	2023 €'million	2024 €'million	2022 €'million	2023 €'million	2024 €'million	
SUSONITY Services GmbH	Germany	4	4	4	100%	100%	100%	Surface Solutions Business
SUSONITY Commercial GmbH	Germany	note	note	note	100%	100%	100%	Surface Solutions Business
Surface Solutions LLC	United States of America	N/A	note	note	N/A	100%	100%	Surface Solutions Business
Surface Solutions, Inc	Republic of Korea	N/A	N/A	note	N/A	N/A	100%	Surface Solutions Business
Surface Materials (Thailand) Ltd.	Thailand	N/A	N/A	note	N/A	N/A	100%	Surface Solutions Business
SURFACE MATERIALS LTD	United Kingdom	note	note	note	100%	100%	100%	Surface Solutions Business
Surface Solutions Sdn. Bhd.	Malaysia	N/A	N/A	note	N/A	N/A	100%	Surface Solutions Business
SUSONITY sp. z. o. o.	Poland	N/A	N/A	note	N/A	N/A	100%	Surface Solutions Business
Surface Solutions S.A.S.	France	N/A	note	note	N/A	100%	100%	Surface Solutions Business
SURFACE SOLUTIONS BRASIL LTDA	Brazil	N/A	N/A	note	N/A	N/A	100%	Surface Solutions Business
SUSONITY Holdings G.K.	Japan	141	128.7	126.8	100%	100%	100%	Surface Solutions Business
Merck S.r.l.	Italy	60.7	45.2	46.3	100%	100%	100%	Surface Solutions Business
SUSONITY Japan G.K.	Japan	97.2	92.4	97.9	100%	100%	100%	Surface Solutions Business
SUSONITY Production GmbH	Germany	63.1	58.2	62.4	100%	100%	100%	Surface Solutions Business

Note: Not disclosed owing a minor significance.

33. CAPITAL AND FINANCIAL RISK MANAGEMENT

The capital management for the Surface Solutions Business was performed by Merck KGaA during the Relevant Periods.

The capital structure of the Surface Solutions Business consists of net debt, which includes equity attributable to owners of the Surface Solutions Business, comprising invested equity attributable to Merck Group and reserves.

Categories of financial instruments

	As at 31 December		
	2022 €'million	2023 €'million	2024 €'million
The Surface Solutions Business			
Financial assets			
Amortised costs	112	86	70
Financial liabilities			
Amortised costs	74	55	64
Lease liabilities	17	12	15

**SURFACE SOLUTIONS BUSINESS OF
MERCK KOMMANDITGESELLSCHAFT AUF AKTIEN AND ITS SUBSIDIARIES**

NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

33. CAPITAL AND FINANCIAL RISK MANAGEMENT - continued

Financial risk management objectives and policies

The Surface Solutions Business' financial instruments includes trade and other receivables, amounts due from/to related parties, trade and other payables, loans from related parties and lease liabilities.

Details of these financial instruments are disclosed in the respective notes. The risk associated with these financial instruments include market risks (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Surface Solutions Business manages and monitors these exposures to ensure appropriate measure are implemented on a timely and effective manner.

Currency risk

The Surface Solutions Business has sales and purchase denominated in foreign currencies for its operations, which expose the Surface Solutions Business to foreign currency risk during the Relevant Periods.

The Surface Solutions Business currently does not have a foreign currency hedging policy. However, management of the Surface Solutions Business monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Surface Solutions Business' foreign currency denominated monetary assets and monetary liabilities at the end of each reporting period are as follows:

	<u>As at 31 December</u>		
	<u>2022</u>	<u>2023</u>	<u>2024</u>
	€'million	€'million	€'million
The Surface Solutions Business			
Assets			
Renminbi ("RMB")	12	10	13
United States dollar ("USD")	13	14	11
Japanese Yen ("JPY")	50	40	4
Indian Rupee ("INR")	2	4	4
Mexican peso ("MXN")	3	2	3
	<u> </u>	<u> </u>	<u> </u>
Liabilities			
RMB	1	2	8
USD	13	10	7
JPY	26	24	16
INR	2	1	1
MXN	2	2	1
	<u> </u>	<u> </u>	<u> </u>

SURFACE SOLUTIONS BUSINESS OF
MERCK KOMMANDITGESELLSCHAFT AUF AKTIEN AND ITS SUBSIDIARIES

NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

33. CAPITAL AND FINANCIAL RISK MANAGEMENT - continued

Financial risk management objectives and policies - continued

Currency risk - continued

Sensitivity analysis

The following tables details the Surface Solutions Business' sensitivity to a 5% weakening in the functional currencies of group entities against the relevant foreign currencies of respective group entities, while all other variables are held constant. 5% sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents the management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding monetary items denominated in foreign currencies at the year end. For a 5% strengthening of the functional currencies of group entities against the relevant foreign currencies, these would be an equal and opposite impact on profit after tax.

	(Decrease) increase in profit (loss) after tax As at 31 December		
	<u>2022</u>	<u>2023</u>	<u>2024</u>
	€'million	€'million	€'million
The Surface Solutions Business			
RMB	1	-	-
USD	-	-	-
JPY	1	1	(1)
INR	-	-	-
MXN	-	-	-
	<u> </u>	<u> </u>	<u> </u>

Interest rate risk

The Surface Solutions Business is exposed to fair value interest rate in relation to the Surface Solutions Business' lease liabilities as at 31 December 2022, 2023 and 2024.

The Surface Solutions Business is exposed to cash flow interest rate risk due to the fluctuation of the variable-rate loans from related parties as at 31 December 2022, 2023 and 2024.

The Surface Solutions Business manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook.

Management has considered the Surface Solutions Business' exposure to cash flow interest rate risk in relation to variable-rate loans from related parties to be limited.

Credit risk and impairment assessment

The Surface Solutions Business' credit risk is primarily attributable to trade receivables, other receivables and amounts due from related parties.

**SURFACE SOLUTIONS BUSINESS OF
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NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

33. CAPITAL AND FINANCIAL RISK MANAGEMENT - continued

Financial risk management objectives and policies - continued

***Credit risk and impairment assessment* - continued**

The Surface Solutions Business' maximum exposure to credit risk which will cause a financial loss to the Surface Solutions Business due to failure to discharge the obligations by counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the combined statements of financial position at the end of each reporting period. The Surface Solutions Business do not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

Trade receivables

The credit risk from trade accounts receivable is largely impacted by the specific circumstances of individual customers. The Surface Solutions Business also considers additional factors such as the general default risk in the respective industry and country in which the customer operates.

The credit risk of customers is assessed using established credit management processes that take individual customer risks into account. This is done by analyzing the aging structure of trade receivables.

The Surface Solutions Business continuously reviews and monitors the open positions of all its customers in the corresponding countries and takes steps to mitigate credit risks if necessary. As at 31 December 2022, 2023 and 2024, the Surface Solutions Business provided €1 million, €1 million and €1 million impairment allowance for trade receivables respectively. Details of the quantitative disclosures are set out below in this note.

Other receivables and amounts due from related parties

12-month ECL ("12m ECL") was used to determine the amount if expected credit loss of other receivables when examining the individual credit risk of the respective contract partner. The credit risk associated with other receivables and amounts due from related parties is considered immaterial for the Relevant Periods.

The Surface Solutions Business' internal credit risk grading assessment comprising the following categories:

<u>Internal credit rating</u>	<u>Description</u>	<u>Trade receivables</u>	<u>Other financial assets</u>
Level 1	The counterparty has a low risk of default and does not have any past-due amounts and debtor frequently repays after due dates but actually settle in full	Lifetime ECL - not credit-impaired	12m ECL
Level 2	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL - not credit-impaired	Lifetime ECL - not credit-impaired
Level 3	There is evidence indicating the asset is credit-impaired	Lifetime ECL - credit-impaired	Lifetime ECL - credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

**SURFACE SOLUTIONS BUSINESS OF
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NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

33. CAPITAL AND FINANCIAL RISK MANAGEMENT - continued

Financial risk management objectives and policies - continued

Credit risk and impairment assessment - continued

The tables below detail the credit risk exposures of the Surface Solutions Business' financial assets which are subject to ECL assessment:

The Surface Solutions Business

	<u>Notes</u>	<u>Internal credit rating</u>	<u>12-month or lifetime ECL</u>	<u>2022</u> €million	<u>Gross carrying amount</u> <u>2023</u> €million	<u>2024</u> €million
Financial assets at amortised cost						
Trade receivables	19	Level 1/2	Lifetime ECL-not credit-impaired	77	67	62
		Level 3	Lifetime ECL-credit-impaired	1	1	1
Other receivables	19	Level 1	12m ECL	12	4	8
Amounts due from related parties	20	Level 1	12m ECL	23	15	-
				<u>113</u>	<u>87</u>	<u>71</u>

Liquidity risk

The Surface Solutions Business manages its liquidity on the basis of short-term, medium-term and long-term liquidity and financing planning.

The following table details the Surface Solutions Business' remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cashflows of financial liabilities based on the earliest date on which the Surface Solutions Business can be required to pay.

The table includes both interest and principal cash flows. To the extent that interest rates are floating rate, the undiscounted amount is derived from interest rate at the end of each reporting period.

SURFACE SOLUTIONS BUSINESS OF
MERCK KOMMANDITGESELLSCHAFT AUF AKTIEN AND ITS SUBSIDIARIES

NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

33 CAPITAL AND FINANCIAL RISK MANAGEMENT - continued

Financial risk management objectives and policies - continued

Liquidity risk - continued

Liquidity table

	Weighted average effective interest rate %	Repayable on demand or less than 1 year €'million	1 - 2 years €'million	2 - 5 years €'million	>5 years €'million	Total undiscounted cash flows €'million	Total carrying amount €'million
<u>At 31 December 2022</u>							
Non-derivative financial liabilities							
Trade payables	-	50	-	-	-	50	50
Other payables	-	4	-	-	-	4	4
Refund liabilities	-	1	-	-	-	1	1
Loans from related parties	(note)	16	-	-	-	16	16
Amounts due to related parties	(note)	3	-	-	-	3	3
Lease liabilities	1.4	5	5	7	-	17	17
		<u>79</u>	<u>5</u>	<u>7</u>	<u>-</u>	<u>91</u>	<u>91</u>
<u>At 31 December 2023</u>							
Non-derivative financial liabilities							
Trade payables	-	25	-	-	-	25	25
Other payables	-	8	-	-	-	8	8
Refund liabilities	-	1	-	-	-	1	1
Loans from related parties	(note)	14	-	-	-	14	14
Amounts due to related parties	(note)	7	-	-	-	7	7
Lease liabilities	1.6	5	4	3	-	12	12
		<u>60</u>	<u>4</u>	<u>3</u>	<u>-</u>	<u>67</u>	<u>67</u>
<u>At 31 December 2024</u>							
Non-derivative financial liabilities							
Trade payables	-	25	-	-	-	25	25
Other payables	-	3	-	-	-	3	3
Refund liabilities	-	1	-	-	-	1	1
Loans from related parties	(note)	9	-	-	-	9	9
Amounts due to related parties	(note)	26	-	-	-	26	26
Lease liabilities	2.7	4	3	5	3	15	15
		<u>68</u>	<u>3</u>	<u>5</u>	<u>3</u>	<u>79</u>	<u>79</u>

Note: The interest rate is internally agreed.

Fair value measurements of financial instruments

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

The management of the Surface Solutions Business considers that the carrying amounts of financial assets and financial liabilities recognised in the Historical Financial Information approximate their fair values. Such fair values have been determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

**SURFACE SOLUTIONS BUSINESS OF
MERCK KOMMANDITGESELLSCHAFT AUF AKTIEN AND ITS SUBSIDIARIES**

NOTES TO THE HISTORICAL FINANCIAL INFORMATION - continued

34. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Amounts due (from) to related parties <u>(non-trade related)</u> €million (notes 20 and 25)	Loans from related parties €million (note 24)	Lease <u>liabilities</u> €million (note 26)	<u>Total</u> €million
At 1 January 2022	(14)	-	18	4
Financing Cashflows	(10)	16	(4)	2
Non-cash items:				
Exchange realignment	1	-	-	1
New lease entered	-	-	3	3
	<u>-</u>	<u>-</u>	<u>3</u>	<u>3</u>
At 31 December 2022	(23)	16	17	10
Financing Cashflows	8	(1)	(6)	1
Non-cash items:				
Exchange realignment	5	(1)	-	4
New lease entered	-	-	1	1
	<u>-</u>	<u>-</u>	<u>1</u>	<u>1</u>
At 31 December 2023	(10)	14	12	16
Financing Cashflows	33	(4)	(6)	23
Non-cash items:				
Exchange realignment	1	(1)	-	-
New lease entered	-	-	9	9
	<u>-</u>	<u>-</u>	<u>9</u>	<u>9</u>
At 31 December 2024	<u>24</u>	<u>9</u>	<u>15</u>	<u>48</u>

35. CAPITAL COMMITMENTS

As at 31 December 2022, 2023 and 2024, the Surface Solutions Business has capital commitments of €6 million, €9 million and nil respectively in relation to property, plant and equipment.

Subsequent to the date of demerger of the Surface Solutions Business and Merck KGaA, lease contracts will be executed in relation to buildings and facilities at the production site Gernsheim at a fixed duration of 15 years with a prolongation period of additional 5 years and a yearly rent of €5 million.

36. SUBSEQUENT EVENTS

No significant activities or events have taken place subsequent to 31 December 2024 that have a material impact on the Surface Solutions Business.