

Customer Service & Supply Chain Update

25 February 2019

Brexit preparations

Croda International Plc ('Croda' or the 'Group'), the speciality chemical company that creates high performance ingredients and technologies relied upon by industries and consumers globally, provides the following update to customers and partners on its Brexit preparations.

Introduction

As outlined in our initial announcement in June 2018, since the United Kingdom (UK) referendum result on membership of the European Union (EU) in June 2016, Croda has been working to assess and mitigate the likely impacts of 'Brexit' on its customers and suppliers under a variety of potential outcomes. Given the continued uncertainty around the overall shape of Brexit next March, we have focussed our efforts in the last few months on preparing for a "no deal" or "hard" Brexit.

Our fundamental objective is to ensure that we offer continuity of service and supply to our customers, wherever they are, and this update is provided to give further information to our customers and supply chain partners on how we plan to achieve this objective.

Background

We are a global business headquartered in the UK. 5% of our sales are made to UK customers. We have 29 manufacturing sites, of which four are located in the UK, and over 4,300 employees, with 1,000 based in the UK. We have a small number of EU nationals working in the UK and vice versa.

Brexit focus areas

As outlined in June, our initial risk assessment identified a number of key areas of focus for a potential Brexit impact. In recent months we have focused on those areas that could have the most direct impact on our ability to service customers, specifically:

- Having a Brexit-ready trading model
- Maintaining effective customer service and supply chain, in the main related to efficient movement of goods
- Ensuring compliance with Regulatory frameworks, most notably ReaCh.

Our established Brexit project group has fully assessed each area and likely impacts have been evaluated. We are also represented on the Brexit sub-committee of the UK Chemical Industries Association.

Since our last update in June, uncertainty over the eventual Brexit impact has, if anything, increased. We have thus switched into full contingency planning mode with a view to ensuring business continuity under a "no deal" Brexit. We continue to hope that a business-friendly deal can be reached but we remain of the belief that our ability to do business with customers and other partners will not be materially affected, even under the harshest exit.

Trading model

We are making minor amendments to our internal trading model within Europe to ensure that our ability to move UK manufactured product onto the continent and vice-versa is not at risk. These amendments include reviewing which ports and airports are best placed to offer the appropriate service levels post-Brexit, as well as ensuring that we have the right Croda companies (i.e. those with full EU recognition) looking after our imports and exports. We do not expect customers or suppliers to be significantly affected by our changes.

It's also worth noting that since 2014 we have had full Authorised Economic Operator (AEO) accreditation. Many companies are now seeing the potential value in being AEO-accredited to help speed up the approved movement of goods across international borders. We are confident that the AEO experience we have built up in recent years will add another layer to the security of our supply chain in the months and years to come.

Customer service and supply chain

In recent months, we have continued to work with our customers and supply chain partners to prepare for Brexit day and beyond.

Since June, we have been developing our contingency plan to ensure supply continuity in the event of a hard Brexit and the likely resulting confusion and delays at borders. To provide our customers with the secure supply they need, we have secured additional warehousing capacity on the continent and are implementing a comprehensive plan to build stocks of finished goods around our extensive distribution network in continental Europe.

To ensure continued effective operation of our manufacturing sites, we are also developing a detailed plan for building an appropriate level of critical raw material stocks at each of our sites, thus providing further assurance of continued supply to our customers.

Looking further ahead, we are strategically reviewing our European warehousing footprint to ensure that we have the optimal presence in continental Europe and in the UK for customer service and satisfaction.

Regulatory

A potential regulatory impact of a hard Brexit is that UK-held REACH registrations will no longer be valid for sale of products in the EU (the UK government has already confirmed that UK-held REACH registrations will continue to be valid for products manufactured in the UK for a transitional period). In the short term, we will be mitigating this risk by holding sufficient inventory of UK manufactured goods on the continent on Brexit day. We will commence the transfer of registrations for UK products to an EU27 Only Representative to allow future supply to the EU. We will also continue to work closely with the UK Chemical Industries Association and the British Association for Chemical Specialities (BACS) who are working with DEFRA and the HSE to manage the transition within the UK.

By building the right buffer stock in the EU and having the right plans in place to quickly transfer registration of our products, we anticipate protecting customer service levels as we navigate through the first weeks and months of Brexit.

Further information

For further information, please talk to your regular Croda customer or supply chain contact or:

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