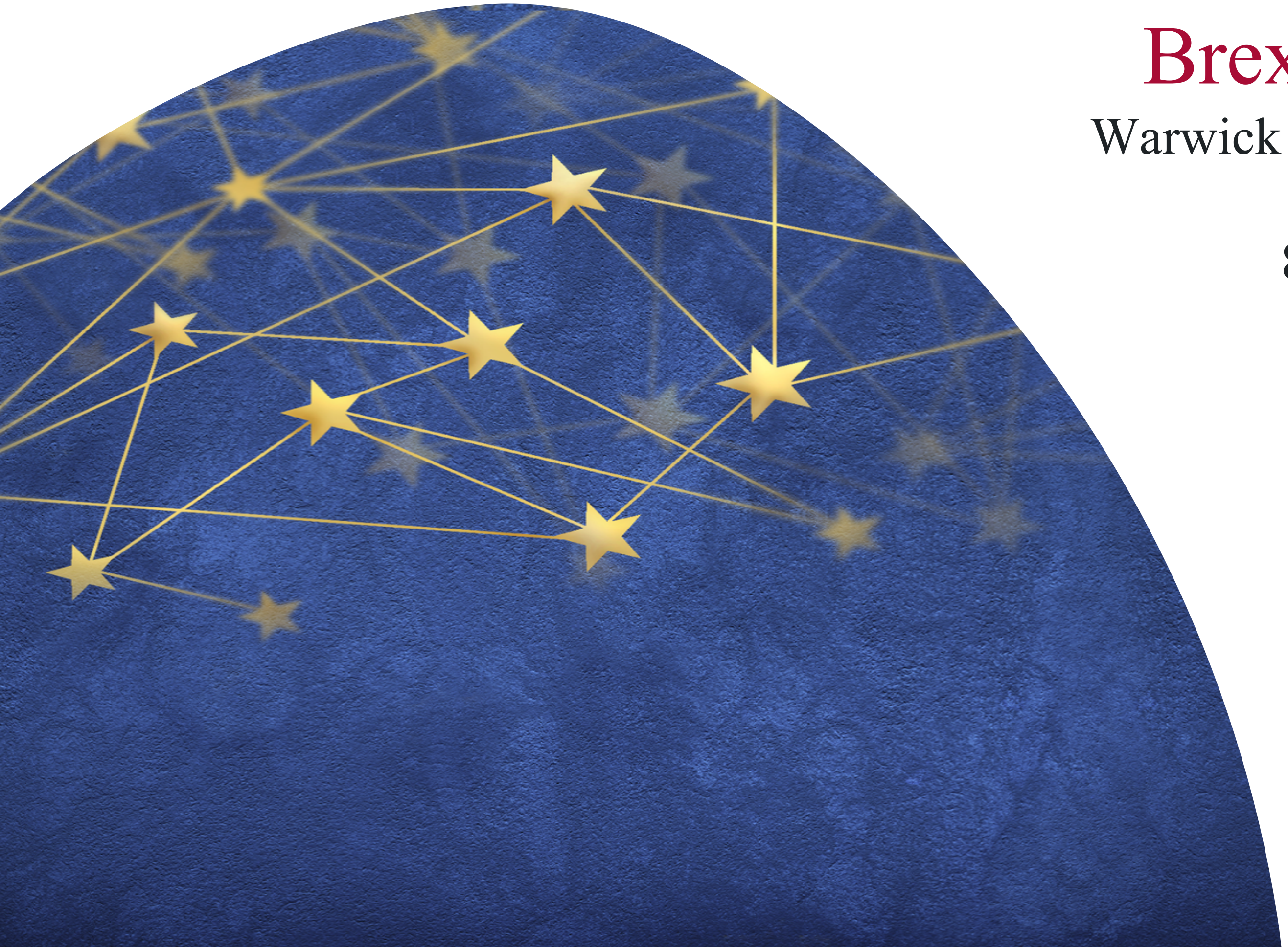

Brexit Scenarios

Warwick Manufacturing Group

8th May 2018

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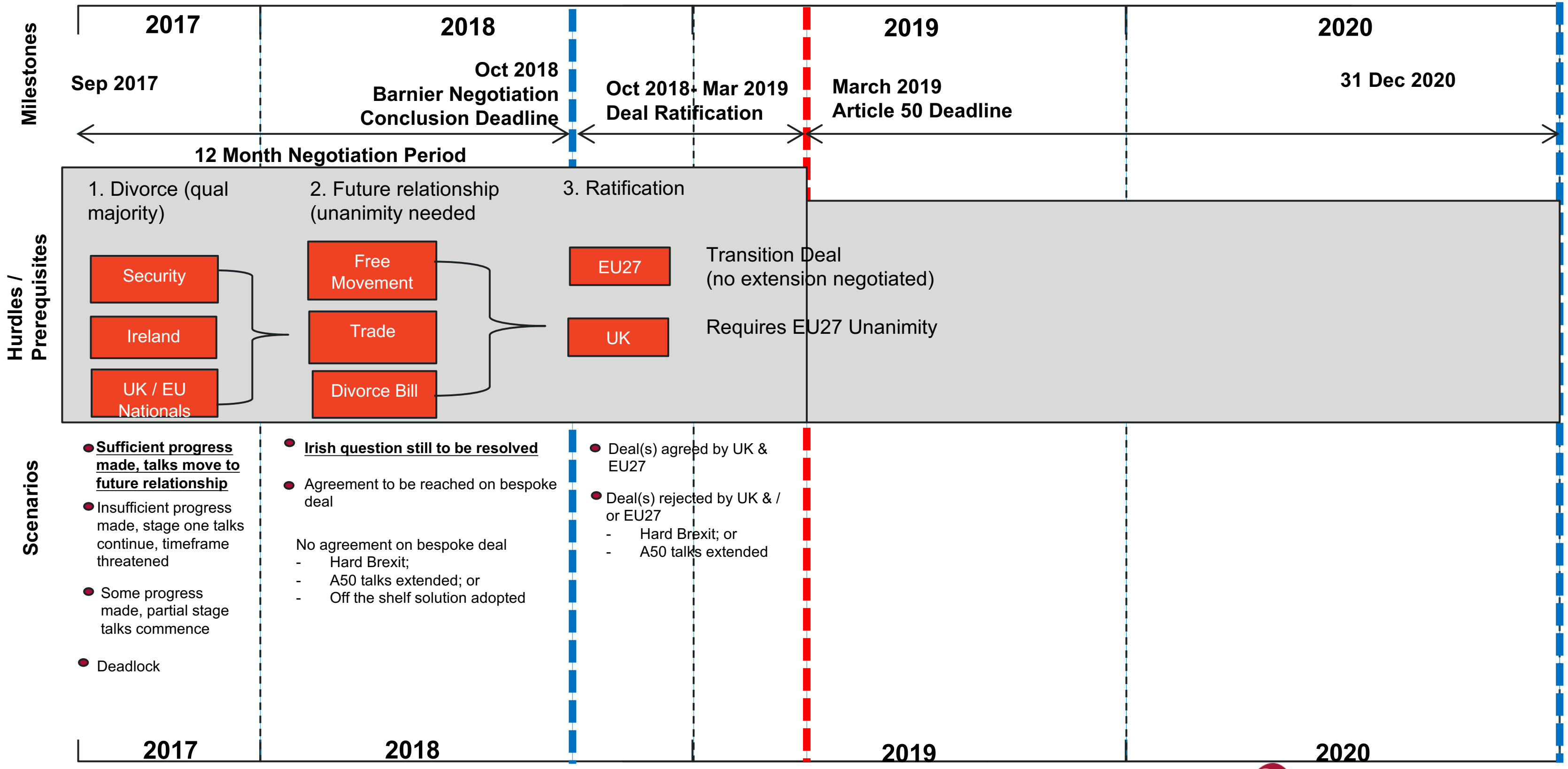
Brexit timeline



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Brexit preparedness survey

What?	Survey administered by telephone
Who?	100 x C-Suite from FTSE350 and equivalent unlisted companies
When?	23rd Jan – 9th Feb 2018

Equivalent survey undertaken by The Lawyer of GCs

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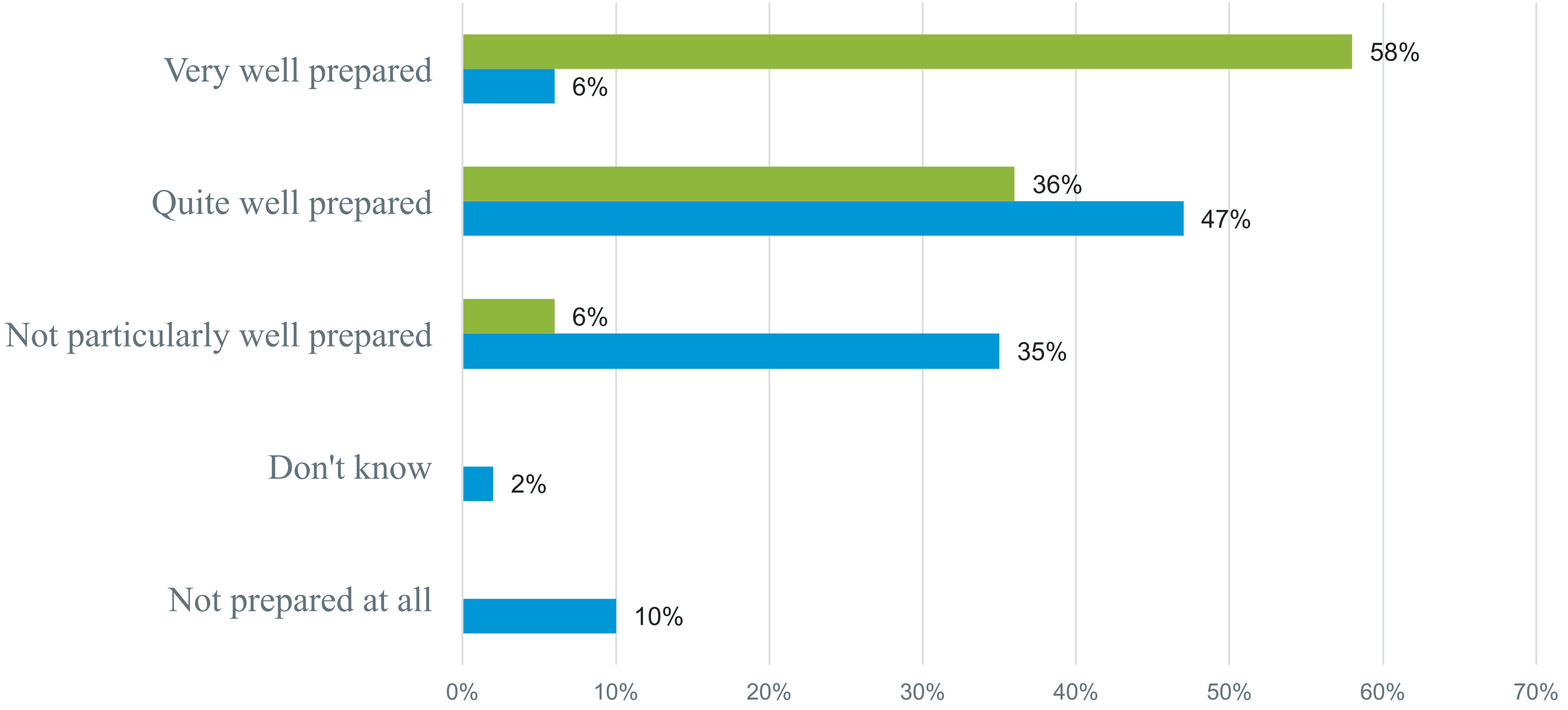
Board/GC: How Brexit prepared are you?



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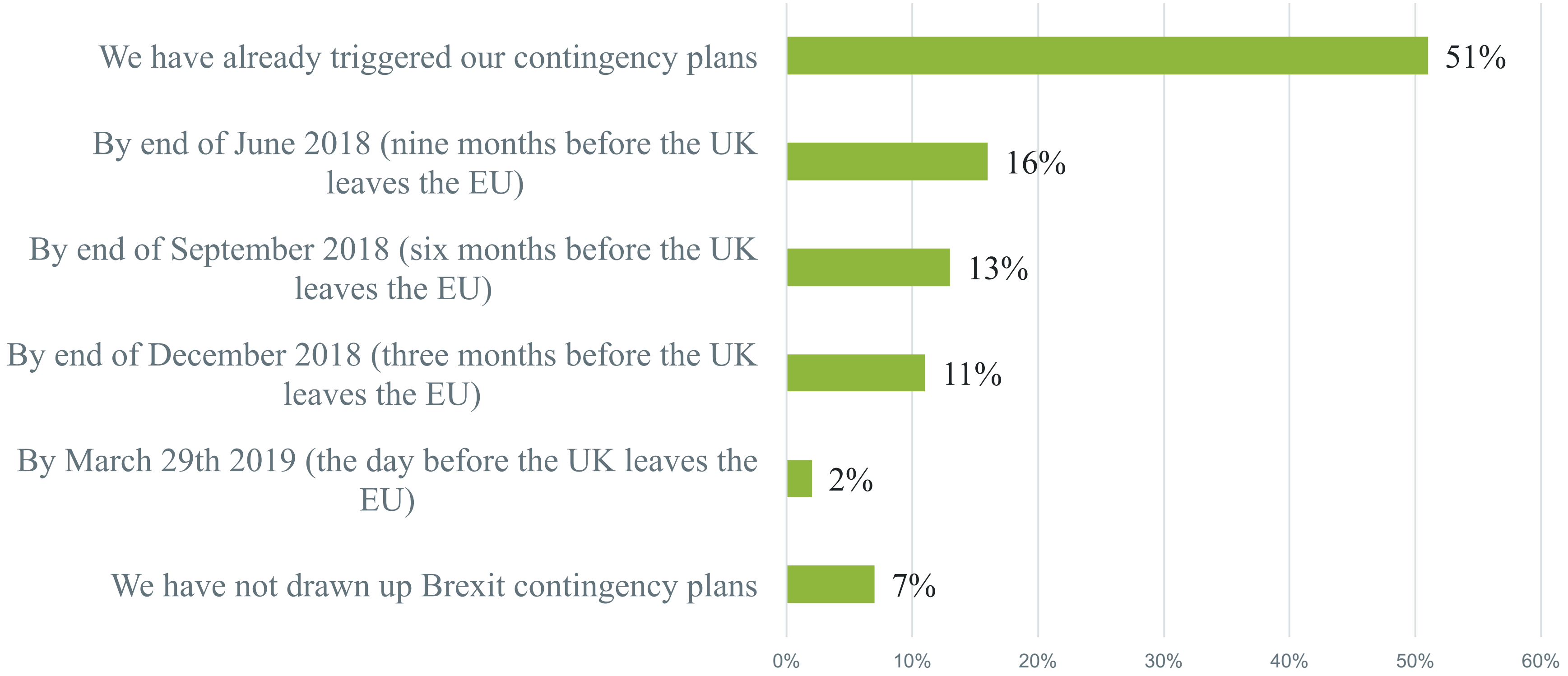
Board: When will you trigger contingencies?



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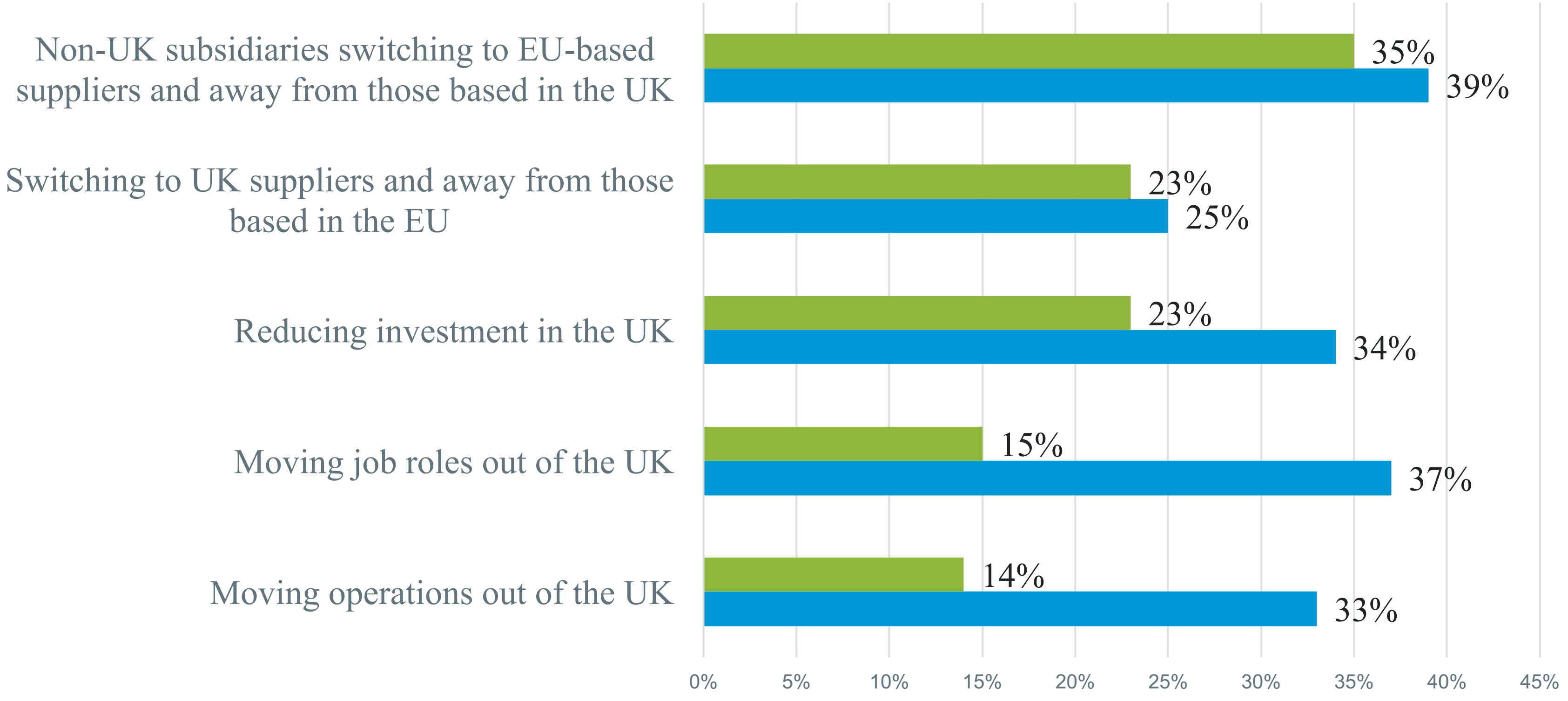
Board/GC: What changes will you make?



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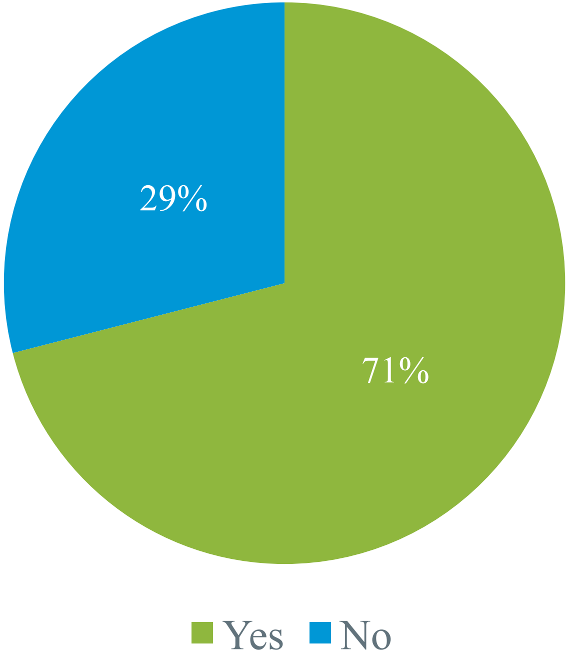
Board: Has your business convened detailed Brexit scenario workshops?



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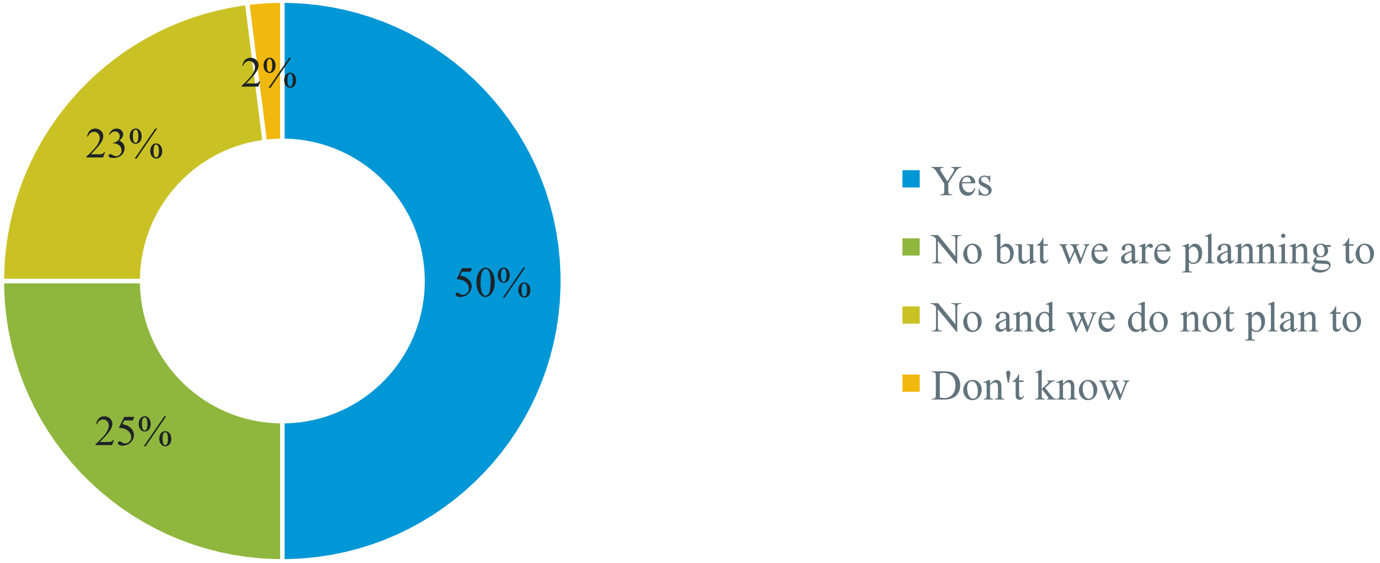
GC: Business conducted a risk assessment?



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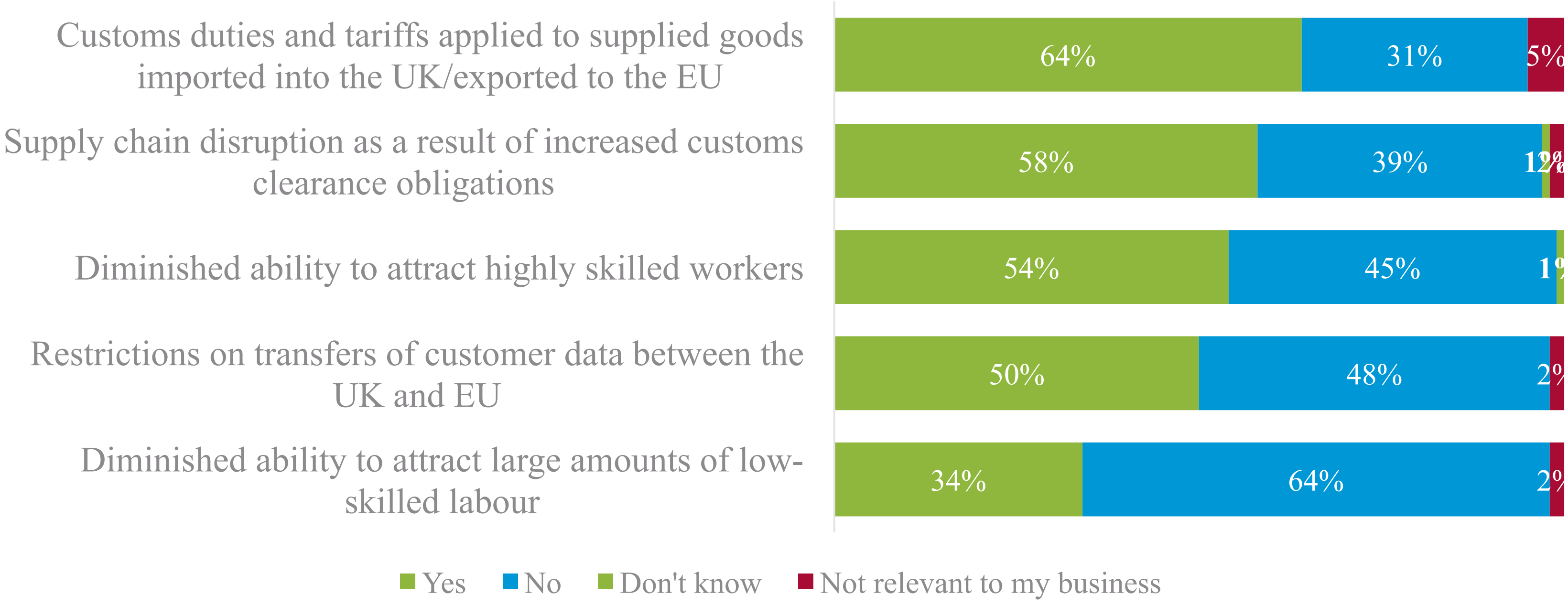
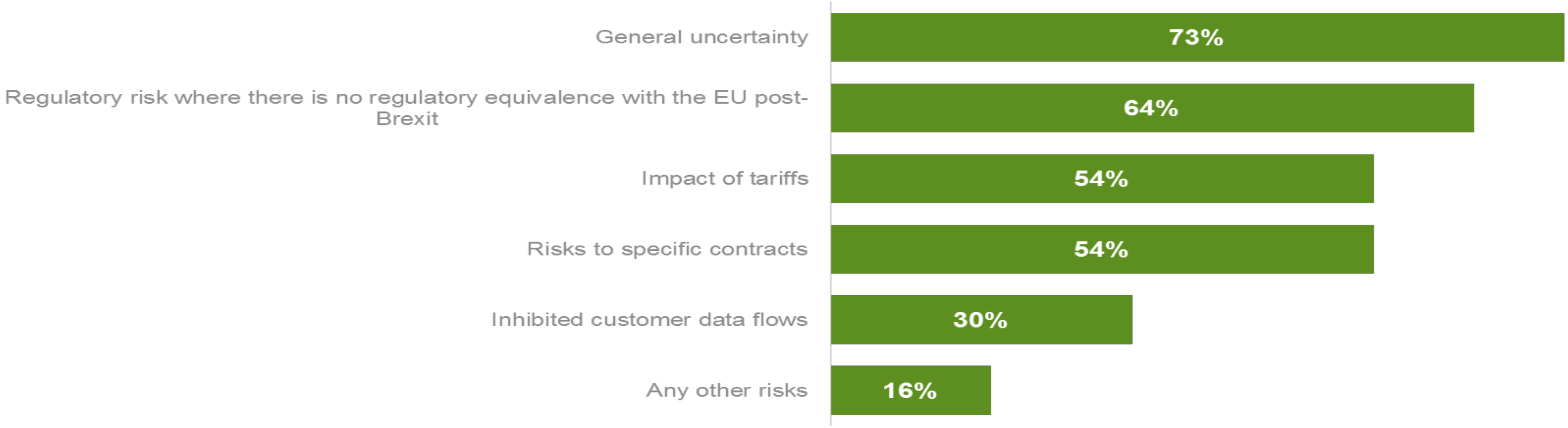
Board: What risks should be assessed?



Board: Risks reported to shareholders?

As the economic and political effects are developed and become more certain in the medium and longer term, we expect Boards to provide increasingly company specific disclosures with quantification of the effects

Financial Reporting Council (October 2016)



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5 things businesses should do now

1. Plan for a range of Brexit scenarios immediately.
2. Convene scenario planning workshops with business operational leads.
3. Assess the impact of five key areas on their business: *customs duties & tariffs, supply chain disruption, labour shortages, restrictions on transfers of customer data, and risk exposure in contracts.*
4. If any major risks are identified, report these to the Board immediately.
5. Ensure that your Board and Company Secretary understand these risks when drafting and approving annual reports.

Brexit Scenarios - headlines

	Timeline	EU Agreement	Disruption to trade	Currency	Non EU Trade Deals – Goods
Scenario 1: Baseline	Leave: March 2019 Implementation period ends: 2020	Limited Deal from 2021	Medium	GBP declines 10% vs Euro	Australia & Canada in 2027 Japan & China 2031
Scenario 2: Cliff-edge	Leave: March 2019 Implementation period: None	None	High	GBP drops significantly vs Euro	Australia & Canada in 2023 Japan & China 2025
Scenario 3: Managed Exit	Leave: March 2019 Implementation period ends: 2020	Broad deal from 2021	Medium	GBP stronger vs Euro	Australia & Canada in 2027 Japan & China 2031

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Scenario 1 - Baseline

- The UK leaves the EU on 29 March 2019
- An implementation period commences on 29 March 2019 and lasts until 31 December 2020 maintaining the status quo
- A limited FTA is agreed and covers trade in goods between the EU and UK from 1 January 2021, but does not cover services
- The number of EU workers in the UK decreases and average hourly wages increase 10%
- The FTA includes tariffs on imported goods and allows for regulatory divergence between the UK and EU. Customs checks therefore take place at all UK ports and there is significant disruption to trade flows at Dover in particular. Container ports face less disruption
- The European Commission determines that the UK does not offer an adequate level of data protection
- GBP depreciates by 10% against the Euro on 1 January 2020
- VAT is due upfront on goods imported into the UK
- Manufacturers hold some additional inventory to protect against border delays
- Some tier 1 supply chain relationships have been renegotiated
- The UK government is focused on securing a free trade agreement with the EU until 2021. Negotiations with third countries are not permitted until end of 2021 and the UK signs FTAs with Australia and Canada in 2027 and Japan and China in 2031.

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Scenario 2 – Cliff-edge

- The UK leaves the EU on 29 March 2019
- The UK and EU do not agree all the terms of the UK's withdrawal from the EU
- The principle that "nothing is agreed until everything is agreed" applies and there is no implementation period after UK exit
- The UK trades with the EU on WTO rules and MFN terms
- There is a large reduction in the number of EU workers in the UK after March 2019.
- Customs checks and tariffs are applied to goods entering and leaving the UK from the EU causing major disruption to trade
- The majority of UK and EU exporters, anticipating an implementation period, are not prepared for the customs burden associated with exports, causing major disruption
- VAT is due upfront on goods imported into the UK. Manufacturers, anticipating an implementation period, do not build up stores of additional inventory
- EU national's automatic right to work in the UK extends only to March 2021 and the level of EU workers leaving the UK increases significantly
- GBP drops below parity with the Euro on 30 March 2019 for 6 months
- No contingency plans have been made to manufacturer's supply chains
- The UK government, pre-empting a 'no deal' scenario, starts negotiating FTAs with Canada and Australia in September 2018 with UK/Australia and Canada agreements signed in 2023 and FTA's with Japan and China signed after that.

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Scenario 3 – Managed Exit

- The UK leaves the EU on 29 March 2019
- A FTA is agreed and covers trade between the EU and UK from 1 January 2021
- An implementation period commences on 29 March 2019 and lasts until 31 December 2020 maintaining the status quo
- A FTA is agreed and covers trade in goods between the EU and UK from 1 January 2021. The number of EU workers in the UK declines but is offset by modest increases of non-EU workers as a result trade agreements with third countries
- The EU FTA includes tariffs on goods as well as customs checks and other barriers to trade due to regulatory divergence
- Customs checks take place at all UK ports.
- The European Commission determines that the UK does not offer an adequate level of data protection
- VAT is due upfront on goods imported into the UK. Manufacturers hold significantly more inventory to protect against border delays
- GBP strengthens by 10% against the Euro on 1 January 2020
- Tier 1 supply chain relationships have been renegotiated, but just in time
- The UK government is focused on securing a free trade agreement with the EU until 2021. Negotiations with third countries are not permitted until end of 2021 and the UK signs FTAs with Australia and Canada in 2027 and Japan and China in 2031.

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Poster Slides

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Scenario: ____________________

Newspaper Headline

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Scenario: ____

Issue or opportunity	Planning	Procurement	Manufacturing	Logistics
Customs duties & tariffs applied to imports/exports				
Supply chain disruption				
Labour shortages				
Restrictions on transfers of customer data				
Risk exposure in contracts				
Opportunities from trade deals				
Other				

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Scenario: ____________________

Mitigation	Planning	Procurement	Manufacturing	Logistics
Customs duties & tariffs applied to imports/exports				
Supply chain disruption				
Labour shortages				
Restrictions on transfers of customer data				
Risk exposure in contracts				
Opportunities from trade deals				
Other				

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