



**SMITHS GROUP plc**

*(incorporated as a public limited company in England and Wales with registered number 137013)*

**EUR 600,000,000**

**1.250 per cent. Guaranteed Notes due 2023**

**guaranteed by**

**SMITHS GROUP INTERNATIONAL HOLDINGS LIMITED**

*(incorporated as a limited company in England and Wales with registered number 01085153)*

The issue price of the EUR 600,000,000 1.250 per cent. Guaranteed Notes due 2023 (the "**Notes**") of Smiths Group plc (the "**Issuer**") is 99.269 per cent. of their principal amount.

Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 28 April 2023 (the "**Maturity Date**"). The Notes are subject to redemption in whole at their principal amount at the option of the Issuer at any time (i) in the event of certain changes affecting taxation in the United Kingdom or (ii) on or after 28 January 2023. Upon the occurrence of a Put Event (as defined in the Terms and Conditions), the Notes may be redeemed, at the option of holders of the Notes (the "**Noteholders**"), at their principal amount. See "*Terms and Conditions of the Notes—Redemption and Purchase*".

The Notes will bear interest from 28 April 2015 at the rate of 1.250 per cent. per annum payable in arrear on 28 April in each year commencing on 28 April 2016. Payments on the Notes will be made in Euro without deduction for or on account of taxes imposed or levied by the United Kingdom to the extent described under "*Terms and Conditions of the Notes—Taxation*". Smiths Group International Holdings Limited (the "**Guarantor**") will unconditionally and irrevocably guarantee the due and punctual payment of all amounts at any time becoming due and payable in respect of the Notes (the "**Guarantee**").

This Prospectus has been approved by the United Kingdom Financial Conduct Authority (the "**FCA**"), under part VI of the Financial Services and Market Act 2000. Applications have been made for the Notes to be admitted to listing on the Official List of the UK Listing Authority and to trading on the Regulated Market of the London Stock Exchange plc (the "**London Stock Exchange**"). The Regulated Market of the London Stock Exchange plc is a regulated market for the purposes of Directive 2004/39/EC on markets in financial instruments.

The Notes have not been, and will not be, registered under the United States Securities Act of 1933 (the "**Securities Act**") and are subject to United States tax law requirements. The Notes are being offered outside the United States by the Managers named under "Subscription and Sale" below (the "**Managers**") in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Notes will be in bearer form and in denominations of EUR 100,000 and integral multiples of EUR 1,000 in excess thereof, up to and including EUR 199,000. The Notes will initially be in the form of a temporary global note (the "**Temporary Global Note**"), without interest coupons, which will be deposited on or around 28 April 2015 (the "**Closing Date**") with a common depositary for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme*, Luxembourg ("**Clearstream, Luxembourg**"). The Temporary Global Note will be exchangeable, in whole or in part, for interests in a permanent global note (the "**Permanent Global Note**", together with the Temporary Global Notes, the "**Global Notes**"), without interest coupons, not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership. The Permanent Global Note will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in definitive form in denominations of EUR 100,000 and integral multiples of EUR 1,000 in excess thereof, up to and including EUR 199,000 and with interest coupons attached ("**Definitive Notes**"). See "*Summary of Provisions Relating to the Notes in Global Form*".

The Notes are expected to be rated Baa2 by Moody's Investors Service ("**Moody's**") and BBB+ by Standard & Poor's Rating Services, a division of the McGraw Hill Companies, Inc. ("**S&P**"). Each of Moody's and S&P is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.

Prospective investors should have regard to the factors described under the section headed "*Risk Factors*" in this Prospectus.

**JOINT LEAD MANAGERS**

**BNP PARIBAS**

**HSBC**

**MUFG**

**RBC Capital Markets**

## IMPORTANT NOTICES

This Prospectus comprises a prospectus for the purposes of Directive 2003/71/EC, as amended, to the extent that such amendments have been implemented in the relevant Member State of the European Economic Area (the “**Prospectus Directive**”) and for the purpose of giving information with regard to the Issuer, the Issuer and its subsidiaries as a whole (the “**Group**”), the Guarantor and the Notes which according to the particular nature of the Issuer, the Guarantor and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and the Guarantor. Each of the Issuer and the Guarantor (each a “**Responsible Person**”) accepts responsibility for the information contained in this Prospectus and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus to the best of its knowledge is in accordance with the facts and contains no omission likely to affect its import.

Neither the Managers named under “*Subscription and Sale*” below (the “**Managers**”) nor the Trustee has separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers or the Trustee as to the accuracy or completeness of the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuer or the Guarantor. Neither the Managers nor the Trustee accepts any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuer or the Guarantor.

Each of the Issuer and the Guarantor has confirmed to the Managers that this Prospectus contains all information regarding the Issuer, the Guarantor and the Notes which is (in the context of the issue of the Notes) material; such information is true and accurate in all material respects and is not misleading in any material respect; any opinions, predictions or intentions expressed in this Prospectus on the part of the Issuer or (as the case may be) the Guarantor are honestly held or made and are not misleading in any material respect; this Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in such context) not misleading in any material respect; and all proper enquiries have been made to ascertain and to verify the foregoing.

Neither the Issuer nor the Guarantor has authorised the making or provision of any representation or information regarding the Issuer, the Guarantor or the Notes other than as contained in this Prospectus or as approved for such purpose by the Issuer and the Guarantor. Any such representation or information should not be relied upon as having been authorised by the Issuer, the Guarantor or the Managers.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no change in the affairs of the Issuer or the Guarantor since the date hereof or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or the Guarantor since the date of this Prospectus.

None of the Trustee nor the Managers nor any of their respective affiliates have authorised the whole or any part of this Prospectus and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Prospectus.

The Notes may not be a suitable investment for all investors.

Each potential investor in the Notes must determine the suitability of that investment in light of their own circumstances. In particular, each potential investor should:

1. have sufficient knowledge and experience to make a meaningful evaluation of the merits and risks of investing in the Notes;
2. have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of their particular financial situation, an investment in the Notes and the impact such investment will have on their overall investment portfolio;
3. have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor’s currency;

4. understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
5. be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect their investment and their ability to bear the applicable risks.

This Prospectus does not constitute an offer of, or an invitation to subscribe for or purchase, any Notes.

The distribution of this Prospectus and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Guarantor, the Trustee and the Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this Prospectus and other offering material relating to the Notes, see "*Subscription and Sale*".

In particular, the Notes have not been and will not be registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons.

In this Prospectus, unless otherwise specified, references to a "**Member State**" are references to a Member State of the European Economic Area, references to "**€**", "**EUR**" or "**Euro**" are to the single currency introduced at the start of the third stage of the European Economic and Monetary Union Treaty Establishing the European Community, as amended, references to "**Sterling**", "**GBP**" or "**£**" are to the lawful currency of the United Kingdom and references to "**U.S. Dollars**" or "**U.S.\$**" are to the lawful currency of the United States.

*Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.*

**In connection with the issue of the Notes, BNP Paribas (the "Stabilising Manager") (or persons acting on behalf of the Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Issue Date (as defined below) and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment shall be conducted in accordance with all applicable laws and rules.**

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## **DOCUMENTS INCORPORATED BY REFERENCE**

The documents set out below shall be deemed to be incorporated in, and to form part of, this Prospectus **provided however that** any statement contained in any document incorporated by reference in, and forming part of, this Prospectus shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such statement. Any documents themselves incorporated by reference into the documents set out below shall not form part of this Prospectus.

Such documents will be made available, free of charge, from the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html> and during usual business hours at the specified offices of the Principal Paying Agent, unless such documents have been modified or superseded.

### **Smiths Group plc**

- Audited consolidated financial statements and corresponding auditors' reports for the years ended 31 July 2014 and 31 July 2013; and
- Unaudited condensed consolidated interim financial statements for the six months ended 31 January 2015.

The Guarantor does not produce and has not published any consolidated financial statements. The Guarantor is fully consolidated in the Issuer's consolidated financial statements incorporated by reference into this Prospectus.

## OVERVIEW

*This overview must be read as an introduction to this Prospectus and is provided as an aid to investors when considering whether to invest in the Notes, but is not a substitute for the Prospectus. Any decision to invest in the Notes should be based on a consideration of the Prospectus as a whole, including any documents incorporated by reference.*

*Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Prospectus have the same meanings in this overview.*

The Issuer:	Smiths Group plc, a public limited company incorporated under the laws of England and Wales which operates in the global technology business serving the threat and contraband detection, energy, medical devices, communications and engineered component markets worldwide.
The Guarantor:	Smiths Group International Holdings Limited, a limited company incorporated under the laws of England and Wales whose principal activity is that of an investment holding company and which conducts substantially all of its business through operating subsidiaries.
Lead Managers:	BNP Paribas, HSBC Bank plc, RBC Europe Limited and Mitsubishi UFJ Securities International plc.
Trustee:	Citicorp Trustee Company Limited.
Principal Paying Agent:	Citibank, N.A., London Branch.
The Notes:	EUR 600,000,000 1.250 per cent. Guaranteed Notes due 2023.
Issue Price:	99.269 per cent. of the principal amount of the Notes.
Issue Date:	Expected to be on or about 28 April 2015.
Use of Proceeds:	General corporate purposes and the repayment of certain existing indebtedness of the Issuer.
Interest:	The Notes will bear interest from 28 April 2015 at a rate of 1.250 per cent. per annum payable in arrear on 28 April in each year commencing on 28 April 2016.
Status and Guarantee:	The Notes constitute direct, unconditional and (subject to Condition 3 ( <i>Negative Pledge</i> )) unsecured obligations of the Issuer. The Guarantee constitutes a direct, unconditional and (subject to Condition 3 ( <i>Negative Pledge</i> )) unsecured obligation of the Guarantor.
Form and Denomination:	The Notes will be issued in bearer form in denominations of EUR 100,000 and integral multiples of EUR 1,000 in excess thereof, up to and including EUR 199,000. The Notes will initially be in the form of a Temporary Global Note, without interest coupons, which will be deposited on or around the Closing Date with a common depositary for Euroclear and Clearstream, Luxembourg. The Temporary Global Note will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership. The Permanent Global Note will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in definitive

	form in denominations of EUR 100,000 and integral multiples of EUR 1,000 in excess thereof, up to and including EUR 199,000 and with interest coupons attached. Full information is set out in " <i>Summary of Provisions Relating to the Notes in Global Form</i> ".
Final Redemption Date:	28 April 2023.
Redemption for tax reasons:	The Notes may be redeemed at the option by the Issuer, in whole, but not in part, at any time on giving notice to the Noteholders at their principal amount, together with interest accrued to the date fixed for redemption, if the Issuer (or the Guarantor, as the case may be) has or will become obliged to pay additional amounts as provided in Condition 7 ( <i>Taxation</i> ) as a result of any change in, or amendment to, the laws and regulations of the United Kingdom, which change or amendment becomes effective on or after the date of this Prospectus, and such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it. Full details are set out in Condition 5(b) ( <i>Redemption for taxation reasons</i> ).
Redemption at the option of the Issuer:	The Issuer may, upon not less than 30 nor more than 60 days' notice in accordance with Condition 15 ( <i>Notices</i> ) (which notice shall be irrevocable), redeem all of the Notes at any time on or after 28 January 2023 at their principal amount, together with interest accrued to but excluding the date of redemption.
Redemption at the option of the Noteholders:	The Noteholders may, on the occurrence of a Put Event set out in Condition 5(d) ( <i>Redemption at the option of the Noteholders</i> ), exercise an option to require the Issuer to redeem or, at the Issuer's option, purchase (or procure the purchase of) their Notes at their principal amount together with interest accrued to but excluding the date of redemption or purchase. Full details are set out in Condition 5(d) ( <i>Redemption at the option of the Noteholders</i> ).
Negative Pledge:	So long as any Note remains outstanding, neither the Issuer nor the Guarantor shall, and the Issuer and the Guarantor shall procure that none of their respective subsidiaries will, create or permit to subsist any security interest upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any capital markets indebtedness without at the same time securing the Notes equally and rateably to the satisfaction of the Trustee or providing such other security as the Trustee may in its absolute discretion consider to be not materially less beneficial to the interests of the Noteholders or as may be approved by an extraordinary resolution of Noteholders. Full details are set out in Condition 3 ( <i>Negative Pledge</i> ).
Cross Acceleration:	The Terms and Conditions of the Notes will contain a cross acceleration provision. Full details are set out in Condition 8(c) ( <i>Events of Default</i> ).
Rating:	The Notes are expected to be rated Baa2 by Moody's Investors Service (" <b>Moody's</b> ") and BBB+ by Standard & Poor's Rating Services, a division of the McGraw Hill Companies, Inc. (" <b>S&amp;P</b> "). Each of Moody's and S&P is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.
	A rating is not a recommendation to buy, sell or hold securities

	and may be subject to suspension, reduction or withdrawal at any time.
Risk Factors:	There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Notes and the Guarantor's ability to fulfil its obligations under the Guarantee. Certain of these factors are set out under " <i>Risk Factors</i> " below and include, among others, risks relating to regulatory and legislative changes, market, liquidity and legal risks and the general economic situation. In addition, there are certain factors in relation to assessing the risks associated with holding the Notes.
Withholding Tax:	All payments of principal and interest in respect of the Notes and the Coupons or under the Guarantee of the Notes by or on behalf of the Issuer or the Guarantor will be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer or (as the case may be) the Guarantor will pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, subject to customary exceptions. Full details are set out in Condition 7 ( <i>Taxation</i> ).
Use of Proceeds:	The net proceeds of the issue of the Notes will be used by the Issuer for general corporate purposes and to repay certain existing indebtedness of the Issuer.
Governing Law:	The Notes, the Trust Deed, the Paying Agency Agreement and the Subscription Agreement will be governed by English law.
Listing and Trading:	Application has been made for the Notes to be admitted to listing on the Official List of the United Kingdom Financial Conduct Authority and to trading on the Regulated Market of the London Stock Exchange plc.
Clearing Systems:	Euroclear and Clearstream, Luxembourg.
Selling Restrictions:	The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States or to U.S. persons. The offer and sale of Notes is also subject to restrictions in the United Kingdom. See " <i>Subscription and Sale</i> ".
United States selling Restriction:	Regulation S, Category 2.



## **RISK FACTORS**

*The Issuer and the Guarantor believe that the following factors may affect their ability to fulfil their obligations under the Notes. All of these factors are contingencies which may or may not occur and neither the Issuer nor the Guarantor is in a position to express a view on the likelihood of any such contingency occurring.*

*Factors which the Issuer and the Guarantor believe may be material for the purpose of assessing the market risks associated with the Notes are also described below.*

*The Issuer and the Guarantor believe that the factors described below represent the principal risks inherent in investing in the Notes, but the Issuer or the Guarantor may be unable to pay interest, principal or other amounts on or in connection with the Notes for other reasons, and the Issuer and the Guarantor do not represent that the statements below regarding the risks of holding the Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision.*

*Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Prospectus have the same meanings in this section.*

### **Risks Relating To the Group's Business**

***The Group operates in over 50 countries, and is thus exposed to a broad range of social, political and economic risks that are inherent in operating in a global market.***

The Group operates in over 50 countries and derives revenue from significant operations in the United States, Canada, United Kingdom, Japan, Germany and China. The Group's results of operations and financial condition are influenced by the social, economic, regulatory and political situations in these and other markets and regions in which it has operations, which are often unpredictable and outside its control.

Furthermore, the Group has operations in several developing economies, particularly in Asia and Latin America (including Mexico), and its strategy includes continuing to expand its operations in these regions. However, many developing economies have recent histories of economic, social and political instability, including, for example, recent political unrest in North Africa and the Middle East and security concerns in Mexico, unexpected changes in local laws, regulations and standards, substantial depreciation and volatility in national currencies and the imposition of trade barriers and wage and price controls.

The Group's operations in all of these countries are subject to varying degrees of risk including:

- exchange controls, currency restrictions and fluctuations in currency values;
- political instability;
- risk of sovereign default;
- trade protection measures;
- import or export requirements;
- subsidies or increased access to capital for firms who are currently or may emerge as competitors in countries in which the Group has operations;
- consumer confidence and consumer perception of economic conditions in the Group's markets;
- legal, fiscal and regulatory change;
- differing labour regulations; and
- differing protection of intellectual property.

These and other factors may have a material adverse effect on the Group's international operations, supply chains or on its business, results of operations and financial condition generally.

***The Group's revenues and financial condition depend to a significant degree on spending by governments and government agencies.***

Approximately 35 per cent. of the Group's revenues are from governments and their agencies or are influenced by government regulation; a significant majority of the revenue for the Smiths Detection and Smiths Medical, and a significant minority for Smith Interconnect, are directly or indirectly influenced by spending by governments and government agencies. As a result, the Group's business is affected by government spending priorities and budgetary conflicts, in particular those of the United States and European governments, and the willingness of governments to commit substantial resources to homeland security and defence initiatives. In particular, for the financial years ended 31 July 2013 and 31 July 2014, the reductions in government spending around the world, most notably in the military sector, led to a decline in revenue from such sources and adversely affected revenue and operating margins in Smiths Detection and Smiths Interconnect.

Smiths Detection frequently need to tender for government contracts. Smiths Detection has observed delays and uncertainty in the timing of contracts and tender activities. The timing of the award of contracts and payments under such contracts may be uncertain and uneven over a given financial year, possibly resulting in uneven revenues which may distort the Group's results of operations in a given period compared to prior periods.

At times the Group must bid for contracts prior to completing the necessary design, which may result in unforeseen technological difficulties and/or cost overruns. In addition the Group is exposed to periodic government audit procedures which may lead to a shortfall in cost recovery.

Additionally, the risk that governmental purchases of the Group's products may decline results from the terms of certain of the Group's contracts with governments, including the US government. For example, a government body that is the Group's counterparty to a contract may:

- terminate contracts at its convenience;
- terminate, reduce or modify contracts or subcontracts if its requirements or budgetary constraints change; and
- cancel multi-year contracts and related orders if funds become unavailable.

***A prolonged economic downturn and/or a continuation of volatile credit markets , both globally and as a consequence of the sovereign debt crisis in Europe, could continue to have a material adverse effect on the Group's business, financial condition and results of operations.***

Current global economic and financial market conditions, including disruptions in the Eurozone and global credit markets, uncertainty surrounding the sovereign debt crises in Europe, the potential for a prolonged global economic downturn and the effects of a long-term reduction in global oil prices, have affected and may continue to materially and adversely affect the Group's results of operations and financial condition.

These economic conditions, which could include a default or a significant decline in the credit rating of one or more sovereigns or financial institutions, may also materially impact the Group's customers, suppliers and other parties with which the Group does business directly or indirectly and in ways which are difficult to predict. Economic and financial market conditions that adversely affect the Group's customers may cause them to terminate existing purchase orders or to reduce the volume of products or services they purchase from the Group in the future.

Political and economic structural weaknesses in the Eurozone's single currency framework have heightened uncertainty regarding the future of the Eurozone. This may result in substantial defaults on existing Euro sovereign debt and could lead to economic dislocation. It could also result in capital exchange controls being imposed, domestic banking failures or the expropriation of assets.

Changes of this type could significantly affect the Group's liquidity and could have a material adverse effect on its business, financial condition and results of operations. If the Group is unable to anticipate

successfully changing economic and financial market conditions, it may be unable to plan effectively for and respond to those changes, and its business could be negatively affected.

***The Group is subject to a broad range of laws, regulations and standards in the jurisdictions in which it operates. Any unexpected changes in these laws or regulations or failure to comply with them could have significant adverse consequences for the Group's business and results of operations.***

The Group operates in highly regulated markets. The Smiths Detection, Smiths Interconnect and Smiths Medical divisions are particularly subject to regulation, with certain customers and regulatory or other enforcement bodies routinely inspecting practices, processes and premises. Certain of the Group's products, most notably devices produced by Smiths Medical, are subject to regulatory approval processes. Should a regulator's approval process take a particularly long time, the Group's products may suffer a delay in getting to the market, which could give an advantage to a competitor with a similar product and negatively affect the Group's results.

As manufactures and exporters of military and dual-use goods, Smiths Detection and Smiths Interconnect are subject to the export control laws and regulations of the countries in which they do business. Violations of export control laws and regulations can result in criminal and/or civil penalties, denial of export privileges, debarment and reputational harm.

Smiths Detection and Smiths Interconnect also maintain a Special Security Agreement ("SSA") with the U.S. Department of Defense that enables their "cleared" facilities to access classified information in support of work performed on certain government contracts despite their foreign ownership. The "cleared" facilities must operate in accordance with the SSA and other relevant laws and regulations and are subject to annual audit by the U.S. Defense Security Service. Violations can result in invalidation of facility security clearances, loss of business, and reputational harm.

In addition, new regulations or certification requirements may require additional expenses or restrict the Group's commercial flexibility and planned business strategies. Efforts by the private and public sector, specifically in the United States, to control health care costs through legislation and regulatory initiatives may lead to lower reimbursements and increased utilisation controls related to the use, by health care providers, of a range of medical devices, including those produced by Smiths Medical.

Further, new legislation, regulations or certification requirements may require additional expense, restrict commercial flexibility and business strategies or introduce additional liabilities for the Group or its directors. There also appears to be a growing trend for legislation that could be described as 'protectionist', which may affect the Group's businesses.

Should any of the Group's divisions, including their respective agents and distributors, fail to comply with the laws and regulations of the jurisdictions in which they operate, that division or the Group could be subject to civil and/or criminal penalties, administrative sanctions including disqualification from public procurement processes, debarment and reputational damage.

***The Group may be adversely affected by environmental laws, regulations and liabilities.***

The Group is subject to numerous foreign, international, national, regional and local environmental laws and regulations concerning emissions into the environment, including greenhouse gas emissions, discharges to the ground, air and surface and subsurface water, the generation, storage, handling, use, transportation, disposal and treatment of hazardous materials and waste, noise pollution and the health and safety of its employees. Pursuant to such laws and regulations, for certain activities, the Group is required to obtain permits from governmental authorities. There can be no assurance that the Group has been or will be at all times in complete compliance with such laws, regulations and permits. If the Group violates or fails to comply with these laws, regulations or permits, it could be fined or otherwise sanctioned by regulators. The Group cannot anticipate whether, and to what extent, these environmental requirements may become stricter over time, nor can there be any assurance that the cost of maintaining compliance with environmental laws, regulations or permits will not increase. Substantial increases in environmental compliance costs or the Group's failure to comply with such environmental requirements could adversely affect its business, reputation, results of operations and financial condition.

Under certain environmental laws, the Group could be held responsible for any and all liabilities and consequences arising out of past or future releases of hazardous materials or waste, human exposure to such substances or other environmental damage, including potentially significant remedial costs. The environmental laws of the jurisdictions in which it operates impose liability for and actual and potential obligations to remediate releases of hazardous materials or contamination relating to the Group or its predecessors' past or present facilities or third-party waste disposal sites. The Group is currently involved in various investigation and remediation activities at such locations. There is a risk that such liabilities or remediation costs could prove greater than expected or that further contamination could be discovered with significant adverse consequences for the Group. The Group makes provisions for expected liabilities and remediation costs based on independent professional advice, but there can be no assurance that such provisions will adequately cover such liabilities or costs.

The Group's liabilities or remediation costs arising from releases of or exposure to hazardous materials could have an adverse effect on its business, reputation, results of operations and financial condition.

***The Group operates in diverse locations which exposes it to a broad range of operational and other external risks.***

Because of the location of the Group's operations and manufacturing facilities, it is exposed to a number of natural catastrophe risks, such as earthquakes, floods, hurricanes and other types of storm, which, like other external events, such as terrorist attacks, nuclear catastrophe or a disease pandemic, could have significant adverse consequences for its business. Other operational risks the Group faces include:

- equipment and systems failures including information technology failures;
- difficulty in enforcing legal claims and agreements through some national legal systems;
- labour force shortages or work stoppages;
- events impeding or increasing the cost of transporting products; and
- social unrest and civil disturbances.

Should any of these operational risks materialise, they could lead to delays in the delivery of the Group's products or breaches in the provision of its services, including adverse effects on the quality of its products or services which could lead to the need for product recalls or liability claims from customers or third parties in connection with faults in the design or manufacture of the products, which could have an adverse effect on the Group's business, reputation, results and financial condition.

***The Group depends heavily on supplies of raw materials and purchased components and any disruption in supply or volatility in price could have a material adverse effect on the Group's performance.***

The Group's business is affected by the price, quality, availability and timely delivery of the various raw materials and purchased components, including electronic components, metals and plastics that it uses in the manufacture of its products. The Group's business, therefore, could be adversely impacted by factors affecting its suppliers and supply chain, such as the destruction of suppliers' facilities or their distribution infrastructure, a work stoppage or strike by suppliers' employees, disruption of transportation and supply routes due to civil or political unrest or other factors, or the failure of suppliers to provide materials of the requisite quality or by increased costs of such raw materials or components.

In particular, the Group relies on sole suppliers to provide raw materials or purchased components for some of its products. The Group cannot guarantee that it will not encounter loss of or shortage in supply or volatility in prices of these sourced materials, in the future, in which case it may not be able to quickly establish additional or replacement sources for certain components or materials. A reduction or interruption in manufacturing, disruptions in transport, volatility in prices or an inability to secure alternative sources of raw materials or components could have a material adverse effect on its business, financial condition, results of operations and cash flows.

The concentration of manufacturing in countries with lower manufacturing costs, in particular in Mexico, Malaysia and China, increases the length of the supply chain and means that an adverse event could have

more significant consequences for the Group's ability to supply customers on time. A longer supply chain also affects transport costs, which could be exacerbated by energy cost inflation.

***The Group is subject to litigation including, but not limited to, asbestos and other product liability litigation.***

In the ordinary course of business, the Group is subject to litigation such as product liability claims, employee disputes and other kinds of lawsuits, and faces different types of legal issues in different jurisdictions. The high level of activity in the United States, for example, exposes the Group to the likelihood of various types of litigation commonplace in that country, such as a "mass tort" and "class action" litigation, and challenges to the scope and validity of patents. These types of proceedings (or the threat of them) are also used to create pressure to encourage negotiated settlement of disputes. Any claim brought against the Group, with or without merit, could be costly to defend and could result in an increase of its insurance premiums. Some claims brought against the Group might not be covered by its insurance policies. Furthermore, even where the claim is covered by the Group's insurance, insurance coverage might be inadequate and it would have to pay the amount of any settlement or judgment that is in excess of its policy limits. In addition, there is the risk that any litigation the Group is subject to may prove more costly and time consuming than expected. There is also a risk that the current litigation, and any additional litigation instigated in the future, could have a material adverse impact on the Group. For risks specifically associated with John Crane, Inc. asbestos litigation and Titeflex Corporation's flexible gas piping products, see "*Description of the Issuer — Litigation*".

***A failure by the Group to deliver products and services could adversely affect the Group.***

The Group is obliged, as part of its business, to deliver, in a timely fashion, a number of products and services. Failure to do so, or any fault in contract execution due to delays or breaches by its suppliers or other counterparties, may lead the Group to be liable for higher costs, liquidated damages or other penalties. In addition, certain contracts entered into by the Group may expose the Group to unlimited liabilities to counterparties or allow them to terminate a contract unilaterally, amend the terms of such contract or seek other remedies at the expense of the Group.

***Defects or failures associated with the Group's products could lead to recalls or safety alerts and negative publicity.***

Manufacturing flaws, component failures or design defects could require the Group to recall products (as the Group was required to do in recent years in Smiths Medical). Many of the Group's products are used in critical applications such as products sold to aviation, security, health care, energy and consumer/domestic industries, where the consequences of a failure could be extremely serious and, in some cases, potentially catastrophic, particularly where its products have medical applications or have been supplied to government or military organisations.

Due to the strong name recognition of certain of the Group's brands, an adverse event involving one of its products could result in reduced market acceptance and demand for all products within that brand, and could harm the Group's reputation and its ability to market its products in the future. In some circumstances, adverse events arising from or associated with the design, manufacture or marketing of the Group's products could result in the suspension or delay of regulatory reviews of its applications for new product approvals. The Group may also undertake voluntarily to recall products or temporarily shut down production lines based on internal safety and quality monitoring and testing data. These problems may arise from issues with the Group's suppliers or other external parties who operate outside its control. Any of the foregoing problems could disrupt the Group's business and have a material adverse effect on its business, results of operations, financial condition and cash flows.

***Fluctuation in currency exchange and interest rates could have an adverse effect on the Group's results of operations.***

Exchange rate fluctuations have had, and could continue to have, a material impact on the Group's operating results. The continuing global financial crisis and the recent Eurozone crisis have led to increased volatility in exchange rates, which makes it harder to predict exchange rates and thus carry out accurate financial planning. Changes in exchange rates can unpredictably and adversely affect the Group's consolidated operating results, and could result in exchange losses.

The Group is exposed to two types of currency risk, transaction risk in respect of products manufactured in one currency region and sold in another currency, and translation risk in that the results of its non-UK businesses will translate into Sterling, the Group's reporting currency, at differing values, depending on the exchange rate. Over 95 per cent. of the Group's revenues for the financial year 2014 were derived from non-UK markets. Therefore, fluctuations in the exchange rate of the pound sterling against other currencies (particularly the U.S. Dollar and the Euro) can have a significant impact on its manufacturing costs, and as a result on its revenues and operating results. In circumstances where the Group's contracts are denominated in currencies other than Sterling, delays in payment can affect translation value if the relevant currency exchange rate fluctuates between the time the contract is signed and payment.

The Group is exposed to interest rate risk derived from indebtedness which has been issued at floating interest rates. The Group manages interest rate risk through fixed rate borrowings and interest rate swaps; however, there can be no assurance that these measures will be sufficient to eliminate exposure to higher interest rates.

Changes in currency values, including future exchange rate fluctuations between the pound sterling and the currencies of countries in which the Group operates, as well as changes in interest rates, may have an adverse impact on the Group's business, financial condition and results of operations.

***The Group is exposed to credit risk from its credit counterparties, including customers, banks and insurers.***

Cash deposits and other financial instruments expose the Group to credit risk on the amounts due from counterparties such as suppliers, banks, insurers, pension annuity providers and customers, including governments and government agencies. Concerns about credit risk (including that of sovereigns) and the Eurozone crisis have recently intensified. The large sovereign debts and/or fiscal deficits of a number of European countries and of the United States have raised concerns regarding the financial condition of financial institutions, insurers and other corporates either (i) located in these countries, (ii) that have direct or indirect exposure to these countries and/or (iii) whose banks, counterparties, custodians, customers, service providers, sources of funding and/or suppliers have direct or indirect exposure to these countries. Continued constraints on government budgets due to the sovereign debt crisis in Europe may put pressure on public sector spending in areas such as healthcare, defence and homeland security in markets in which the Group operates. For example, budgetary pressure has caused payment periods to lengthen with some government-funded customers in southern Europe. The failure of any counterparty to meet its obligations to the Group could have an adverse effect on the Group's financial condition or operations. There can be no guarantee that any particular credit risk will not have a material adverse effect on the Group's financial condition.

***The Group relies on insurance to manage many of the risks to which it is subject in the course of its business. Such insurance may not be sufficient to cover the Group's potential losses.***

Where appropriate, the Group seeks to insure against business risks and protect many of its assets and associated profits by purchasing insurance. The severity and frequency of various events, such as accidents and other mishaps, business interruptions or potential damage to the Group's facilities, property and equipment caused by inclement weather, human error, pollution, labour disputes, natural catastrophes and other eventualities, may result in losses or expose the Group to liabilities in excess of its insurance coverage or significantly impair its reputation.

There can be no assurance that the Group will be able to obtain insurance on terms acceptable to it or at all since insurance varies in cost and can be difficult to obtain. Furthermore, there can be no assurance that the insurance coverage of the Group will respond or be sufficient to cover the loss arising from any or all of the above events. In addition, even if the Group's coverage is sufficient, the insurance industry is subject to credit risk, particularly in the event of a catastrophe or where an insurer has substantial exposure to a specific risk, which may expose the Group to losses.

The Group aims to transfer certain legal liability risks such as product liability and employer's liability to insurers, but the Group's claims under insurance policies are subject to policy limits, deductibles, exclusions and other conditions, and there is no guarantee that the Group's insurance will cover any or all such legal liability claims. In particular, because the Issuer and its subsidiaries have been in business for many years, there is a risk of latent injury claims that may not be covered by insurance.



Furthermore, as the Group operates globally, it may not enjoy the protection of limited liability in certain instances afforded by local statutes such as the US Safety Act. There can be no guarantee that the policies in place will be sufficient to cover any or all costs and financial awards the Group may be required to pay as a result of third party contractual or other liability claims. Claims which are not covered or which significantly exceed the insurance policy coverage, or for which insurance companies demand reimbursement for costs and financial judgments against the Group could have a material adverse effect on the Group and its business, financial condition and results of operations.

Any accident, failure, incident or liability could significantly impact the cost and availability of adequate insurance in the future, which could have a material adverse effect on the Group's business.

***The Group's ability to refinance its borrowings in the bank or capital markets may be materially and adversely affected by a financial crisis in a particular geographic region, industry or economic sector.***

The Group's ability to refinance its borrowings in the bank or capital markets to meet the financial requirements of the Group is dependent on favourable market conditions. Financial crises in particular geographic regions, such as the Eurozone, or in particular industries or economic sectors have, in the recent past, led and could, in the future, lead to sharp declines in the currencies, stock markets and other asset prices in those geographic regions, industries or economic sectors, in turn threatening affected financial systems and economies.

Such financial crises may adversely impact the Group's ability to refinance its borrowings in the bank or capital markets and may significantly increase the costs of such refinancing. If sufficient sources of financing are not available in the future for these or other reasons, the Group may not be able to meet its financial requirements, which could have an adverse effect on its funding and liquidity position, its credit ratings or its ability to finance acquisitions. This could materially and adversely affect the Group's business, results of operations and financial condition.

***The key markets of the Group are highly competitive and in order to remain competitive in such key markets, the Group must make frequent investments in new technologies, product improvements and other projects.***

The industries in which the Group operates are characterised by technological innovation, intense global competition, consolidation through mergers, joint ventures and alliances and some of the Group's competitors may have greater resources than it does. Additionally, the entry of new competitors, the consolidation of competitors and changed or irrational behaviour by competitors could all have a significant adverse impact on the Group's business.

Continued development of new products and improvements to existing products are critical to the future of the Group's business and competitors, or potential competitors, may innovate in these areas more effectively than the Group does, including development of new technologies by competitors which could impact the commercial success of the Group's existing technologies, with significant adverse consequences for the Group's business and cash flow. The speed of innovation in certain markets may lead to shorter product lifecycles, increasing the need for innovation. The Group's growth depends on penetrating new markets, particularly in Brazil, China and India, adapting existing products to new requirements and introducing new products that achieve market acceptance.

The Group frequently develops new technologies and introduces new products or improves existing ones, in some cases contracting to supply the products to the customer before the design is established or proven. All new or improvements to technologies and products involve risk, including possible abortive expenditure, reputational risk, and potential customer claims or onerous contracts. Further, the Group's research and development programme may not produce successful results and its new products may not receive regulatory approval or achieve market acceptance, create additional revenue or become profitable, which could materially harm the Group's reputation, business, results of operations and financial condition. The same is true for investment in new facilities and other major projects. Such risks, if they materialise, may have significant adverse consequences for the Group's business.

In addition, should there be a decrease in the funds available from the Group's operations, from customer advances (for example, if customers cancel the relevant contracts) or from government grants, the Group may not be able to continue an adequate level of research and development activity which

would harm its ability to develop new products and, accordingly, negatively affect the Group's future results.

If the Group is unable to pursue its growth strategy, is unsuccessful in its research and development efforts to produce technologically superior products or is unable to maintain a competitive cost structure, the Group will not be able to compete effectively on a global scale, which would harm its business, results of operations and financial condition.

***Failure to meet targeted cost savings may reduce profitability.***

Part of the Group's strategy is to improve profitability over time through increased productivity and efficiency by reducing costs throughout the supply chain. However productivity gains may not be realised, targeted cost savings may not materialise and the Group could face unexpected increases in direct or indirect costs.

The Group's ability to gain additional efficiencies may become more difficult over time, particularly when synergies from the Group's current restructuring and rationalisation programme are fully realised. The Group's current restructuring and rationalisation programme may not deliver the cost savings anticipated. In addition, objectives and limitations could be imposed over the scope of savings programmes by relevant stakeholders, which may jeopardise future savings programmes. The Group's failure to achieve such reductions in costs would have an adverse effect on its business, financial condition and results of operations.

***The Group may not be able to expand its portfolio through successful mergers or acquisitions and may become liable for claims arising from completed mergers, acquisitions or disposals.***

The Group's growth strategy includes a combination of organic growth, mergers and acquisitions and selected disposals. The success of this strategy depends, among other things, on the identification of suitable acquisition and disposal targets, obtaining the necessary authorisations and approvals and the ability to commit the necessary finance. There can be no assurance that the necessary acquisition financing would be available to the Group on acceptable terms if and when required.

Even if the Group is successful in making an acquisition, the products and technologies that it acquires may not be successful or may require significantly greater resources and investments than the Group originally anticipated. The Group may not be able to successfully integrate the businesses that it acquires or obtain the appropriate regulatory approvals for such acquisitions. Additionally, there is no guarantee that any anticipated benefits from an acquisition will be realised. Integrating acquisitions is a complex, time consuming and expensive process that involves risks, including the risk that the integration may divert the focus of management and resources from the Group's goals, and the risk that the integration may take longer and be more expensive than expected. The Group can also experience difficulties in integrating geographically separated organisations, systems and facilities, and personnel with diverse backgrounds. The Group's financial performance may suffer from goodwill or other acquisition-related impairment charges. Any of the foregoing risks could result in increased costs, decreased revenues or a loss of opportunities for the Group and have a material adverse effect on the Group's business, results of operations and financial condition.

The Group may also incur or assume significant debt or known, unknown or contingent liabilities, such as environmental liabilities, products liability, patent infringement claims or other unknown liabilities in the event that the Group is deemed to be a successor to the liabilities of the acquired company. Any such claim against the Group may adversely affect its business and financial condition.

In addition, disposals and divestitures of parts of the Group's business may mean that the Group gives certain indemnities, warranties and guarantees to counterparties relating to, among other matters, known and potential latent environmental liabilities.

The extent to which the Group will be required in the future to incur costs under any indemnities, warranties, guarantees or contracts which the Group enters into in connection with such disposals cannot be determined with certainty. If the Group should incur such costs, this could have an adverse effect on its results of operations, financial condition and cash flows.



***The Group is subject to internal control, compliance, security, ethical and technology risks.***

The Group's information systems, personnel and facilities are subject to security risk. Failures in security systems or processes could have significant adverse consequences, as could failures in the Group's various corporate governance and internal controls, failures to detect fraud, theft or corruption or non-compliance with the Group's code of business ethics.

Additionally, the Group is dependent on information technology systems for both internal and external communications and for the day to day management of its operations with a number of key enterprise resource planning projects in the course of implementation across the Group. The incidence of cyber-security crime has increased in recent years and some Group companies operate in sectors where cyber-criminals have been active. Any disruption to these systems, or delays or failures in the implementation of these projects, could have significant adverse consequences to the Group's business.

The Issuer and certain of its subsidiaries and affiliated entities conduct business in countries which experience corruption, including government corruption. The Group is committed to doing business in accordance with all applicable laws and its code of business ethics. However, there is a risk that the Issuer, its subsidiaries or affiliated entities or its or their respective officers, directors, employees and agents may take actions in violation of applicable laws or the Group's code of business ethics. Any such violations could result in substantial civil and/or criminal penalties, loss of business licenses or permits, exclusion from public contracts or other sanctions for the Group, its employees, management or agents and might materially adversely affect its reputation, business and results of operations or financial condition.

***The Group may be unable to protect its intellectual property rights or may infringe the intellectual property rights of others.***

The Group's results of operations are partially dependent on its ability to protect its intellectual property and other proprietary rights. The Group relies primarily on registered patents, trademarks, copyrights, trade secrets, know-how and unfair competition laws, as well as confidentiality and non-disclosure clauses and agreements and other contractual provisions to protect its intellectual and other proprietary rights. However, patent protection does not prevent competitors from developing equivalent or superior products without infringing the Group's intellectual property rights. If the Group does not obtain sufficient protection for its intellectual property, or if it is unable to effectively enforce its intellectual property rights, the Group's competitiveness could be impaired, which would limit its growth and future revenue.

Additionally, the Group's trade secrets and know-how held by it and its employees are critical to the Group's business. There can be no assurance that such persons will not reveal the Group's trade secrets, breach their agreements with the Group or convey the Group's know-how or other confidential information to competitors. In such cases, the Group may not have adequate remedies, if any, to compensate it for losses that it may suffer.

Whilst the Group endeavours to protect its own intellectual property rights and respect those of others, there can be no guarantee that the Group's technology will not be found to infringe rights owned by or granted to others. Similarly, there can be no assurance that any of the Group's currently patented products will not be the subject of intellectual property litigation or other disputes. If the Group cannot resolve an intellectual property dispute, it may be liable for damages, be required to obtain costly licences or be stopped from manufacturing, using or selling its products. Contesting such claims can be costly, even if the Group is successful.

***Lack of or delays in the award of new contracts, cancellation of contracts, breaches of contractual commitments or differences between estimated costs and actual costs of performing a contract could have an adverse effect on the Group's business.***

The Group's long-term economic and financial performance depends, in part, on its ability to service its existing contracts and to win new contracts. The Group's contracts may be completed or expire, or they may be altered or terminated. The Group may be unable to replace these contracts with new contracts of comparable size or in a timely manner. The award of new contracts is often subject to competition and is affected by factors outside the Group's control, such as government spending decisions and administrative procedures. Any failure to secure or any delay in securing a consistent

number of contracts or any interruption to or termination of existing contracts would adversely affect the Group's business, results of operations and financial condition.

Additionally, the Group's ability to execute its contractual commitments, in a timely and satisfactory manner, depends on numerous factors, including its ability to develop necessary technologies. Failure to deliver, in a timely fashion or at all, the products and services the Group is obliged to deliver, or any fault in contract execution due to delays or breaches by the Group's suppliers, may lead to higher costs or penalties. In particular, some of the Group's contracts require compliance with a variety of complex laws, regulations and standards, including US and EU export controls, breaches of which could entail serious consequences for the Group not limited to the loss of the individual contract and including potential fines and other criminal sanctions. The Group may also face difficulty enforcing its contracts with customers, suppliers or other counterparties. Enforcing the Group's contracts is especially challenging given the number of jurisdictions in which it operates.

Some of the Group's business activities involve medium- and long-term contracts and programmes. Under many of the Group's medium- and long-term contracts, revenues to be paid by the customer are established based on an estimate of costs made when the contract is awarded. Differences between the estimated costs and actual costs can have a substantial negative effect on the Group's financial position and results of operations. These differences may arise from a number of factors including production delays, cost overruns and other items. Cost overruns, as well as contractual disputes, may continue to occur in the future which may have a material adverse effect on the Group's business, financial condition and results of operations.

***The Group depends on the recruitment and retention of qualified personnel and any failure to attract and retain such personnel could seriously harm its business.***

The Group relies on its executive directors, senior management and other key employees to generate business, maintain good customer relations and identify new opportunities. Competition for personnel is intense and the Group may not be successful in attracting or retaining qualified personnel, particularly management and engineering professionals. In addition, certain personnel may be required to receive security clearance and substantial training to work on certain programmes or perform certain tasks. The loss of key employees, the Group's inability to attract new qualified employees, adequately trained employees, or a delay in hiring key personnel could seriously harm the Group's business, results of operations and financial condition.

***The Group is exposed to pension funding risk including net liabilities under its retirement benefit schemes which may increase in the future due to a number of factors.***

The Group operates a number of retirement benefit plans worldwide. These arrangements have been developed in accordance with local practices in the relevant market. As a result of these retirement benefit arrangements, the Group is subject to various funding risks, including poor performance of the investments (particularly equity investments), increased longevity of members and changes in valuation and funding assumptions.

The principal defined benefit pension plans are in the United Kingdom and the United States. The contributions to the Group's defined benefit plans and their valuations are determined in accordance with the advice of independent, professionally qualified actuaries. Under the Group's defined benefit plans, it is committed to pay a defined level of benefits to plan participants, thereby bearing the risk that the plans' assets, such as investments in equity and debt securities, will not be sufficient to cover the value of those benefits. As at 31 January 2015, the Group's reported retirement liabilities, including unfunded post retirement health care and unfunded pension plans, exceeded its retirement assets by £338 million, calculated in accordance with IFRS. The value of the plans' assets is affected by, among other things, developments in the equity and bond markets. A triennial review of the two principal UK pension plans is expected to begin in April 2015. The conclusions of such review may have an adverse effect on cash flows from 2016 and beyond. Changes in asset returns, inflation, long-term interest rates and other actuarial assumptions could require the Group to make further contributions to the pension plans, and such contributions could be significant and have a negative impact on the Group's cash flow and results of operations. The Group's pension obligations could also adversely affect the Group's credit rating.

***The Group's business may be significantly impacted by changing tax laws and tax rates from around the world.***

The Group operates in over 50 markets and pays tax in accordance with the tax legislation of those markets. Tax laws and tax rates around the world are constantly changing and the Group is exposed to the risk of changes in tax legislation (particularly following any change of government in a country in which the Group operates), its interpretation and increases in the rate of corporate and other taxes in the jurisdictions in which it operates.

Many jurisdictions in which the Group operates are experiencing high and increasing levels of sovereign debt. If as a result of increasing levels of sovereign debt or for other reasons, governments in the jurisdictions in which the Group operates implement changes in tax legislation or regulations which lead to higher taxes, this may have an adverse effect on the Group's business, results of operations and financial condition. Revisions to tax legislation or to its interpretation might also affect the Group's results in the future.

The exact nature of any tax changes which may be imposed is difficult to predict and outside the control of the Group, and such uncertainty may make it difficult for the Group to plan, invest, and otherwise carry on business in the jurisdictions in which it operates.

***Credit ratings may not reflect all risks, are not recommendations to buy or hold securities and may be subject to revision, suspension or withdrawal at any time. Downgrades of its debt ratings could adversely affect the Group.***

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. Any adverse change in an applicable credit rating could adversely affect the trading price of the Notes.

While each of Moody's and S&P have recently maintained the Group's ratings at Baa2 (stable) and BBB+ (stable) respectively, a downgrade by Moody's and/or S&P may increase the Group's cost of borrowing and make it more difficult for the Group to obtain new financing which may have a material adverse effect on its business, financial condition and results of operations.

## **Risks Relating To The Notes**

***There is no active trading market for the Notes.***

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer and the Guarantor. Although application has been made for the Notes to be admitted to listing on the Official List of the FCA and to trading on the Regulated Market of the London Stock Exchange, there is no assurance that such application will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes.

***The Notes may be redeemed prior to maturity.***

In the event that the Issuer or the Guarantor would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Conditions.

***Because the Global Notes are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer and/or the Guarantor.***

The Notes will be represented by the Global Notes except in certain limited circumstances described in the Permanent Global Note. The Global Notes will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Permanent Global Note, investors will not be entitled to receive definitive Notes. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by the Global Notes, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer and the Guarantor will discharge their payment obligations under the Notes by making payments to or to the order of the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer and the Guarantor have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

***The Issuer and the Guarantor are holding companies with no revenue-generating operations of their own.***

The business of the Group is carried out in large part through its operating subsidiaries and associated companies. The Group depends upon operating subsidiaries to provide the funds necessary to pay the principal of, and the interest on, the Notes. These operating subsidiaries and associated companies have not guaranteed the Notes, and have no obligation, contingent or otherwise, to pay amounts due under the Notes or to make funds available for these payments, whether in the form of liens, dividends or otherwise. Payments from the operating subsidiaries to the Issuer and the Guarantor might not be able to be made in some circumstances, due to corporate law, contractual or other legal restrictions or other factors.

Holders of the Notes will have a direct claim based on the Notes against the Issuer and the Guarantor, but will not have a direct claim based on the Notes against any operating subsidiaries. The right of the holders of the Notes to receive payments under the Notes will be structurally subordinated to all liabilities of the operating subsidiaries and associated companies. These liabilities include debt that some of its subsidiaries have incurred under bank facilities. In the event of a bankruptcy, liquidation, reorganisation or similar proceeding relating to a subsidiary, the right of the holders of the Notes to participate in a distribution of the assets of such subsidiary will rank behind such subsidiary's and associated companies' creditors (including trade creditors) and preferred stockholders (if any), except to the extent that the Issuer or the Guarantor has a direct claim against such subsidiary.

#### ***Modification, and waivers and substitution***

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes and the Trust Deed also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Notes or (ii) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor under any Notes in place of the Issuer or the Guarantor, in the circumstances described in Condition 12 (*Meeting of Noteholders; Modification and Waiver; Substitution*) of the Terms and Conditions of the Notes.

### ***EU Savings Directive***

EC Council Directive 2003/48/EC on the taxation of savings income (the “**Savings Directive**”) requires EU Member States to provide to the tax authorities of other EU Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or secured by such a person for the benefit of) an individual resident, or to (or secured for) certain other types of entity established, in that other EU Member State, except that Austria will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period it elects otherwise.

The Council of the European Union has adopted a Directive (the “**Amending Directive**”) which will, when implemented, amend and broaden the scope of the requirements of the Savings Directive described above. The Amending Directive will expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities, and the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or secured for) (i) an entity or legal arrangement effectively managed in an EU Member State that is not subject to effective taxation, or (ii) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the Savings Directive) which indirectly benefit an individual resident in an EU Member State, may fall within the scope of the Savings Directive, as amended. The Amending Directive requires EU Member States to adopt national legislation necessary to comply with it by 1 January 2016, which legislation must apply from 1 January 2017.

If a payment were to be made or collected through an EU Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to such Directive, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. Furthermore, once the Amending Directive is implemented and takes effect in EU Member States, such withholding may occur in a wider range of circumstances than at present, as explained above.

If the Notes are in definitive form, the Issuer is required to maintain a Paying Agent with a specified office in an EU Member State that is not obliged to withhold or deduct tax pursuant to any law implementing the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000. However, investors should be aware that any custodians or intermediaries through which they hold their interest in the Notes may nonetheless be obliged to withhold or deduct tax pursuant to such laws unless the investor meets certain conditions, including providing any information that may be necessary to enable such persons to make payments free from withholding and in compliance with the Savings Directive, as amended.

Investors who are in any doubt as to their position should consult their professional advisers.

### ***Integral multiples of EUR 100,000***

The Notes are issued in the denomination of EUR 100,000 and higher integral multiples of EUR 1,000 thereafter (up to and including EUR 199,000) and so it is possible that the Notes may be traded in amounts in excess of EUR 100,000 that are not integral multiples of EUR 100,000 (or its equivalent). In such case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than EUR 100,000 will not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to or greater than EUR 100,000.

### ***Change of law***

The Terms and Conditions of the Notes are based on English law in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes.

## **Risks Relating to the Market Generally**

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

### ***The secondary market generally***

The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Although application has been made for the Notes to be admitted to listing on the Official List and to trading on the Regulated Market of the London Stock Exchange, there is no assurance that such application will be accepted or that an active trading market will develop. Illiquidity may have a severely adverse effect on the market value of Notes.

### ***Exchange rate risks and exchange controls***

The Issuer will pay principal and interest on the Notes in Euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than in Euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the euro would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

### ***Interest rate risks***

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of them.

### ***Legal investment considerations may restrict certain investments***

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the Terms and Conditions of the Notes which (subject to completion and amendment) will be endorsed on each Note in definitive form:*

The EUR 600,000,000 1.250 per cent. Guaranteed Notes due 2023 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 14 (*Further Issues*) and forming a single series therewith) of Smiths Group plc (the "**Issuer**") are subject to, and have the benefit of, a trust deed dated 28 April 2015 (as amended, restated and/or supplemented from time to time, the "**Trust Deed**") between the Issuer, Smiths Group International Holdings Limited (the "**Guarantor**") and Citicorp Trustee Company Limited as trustee (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and are the subject of a paying agency agreement dated 28 April 2015 (as amended, restated and/or supplemented from time to time, the "**Paying Agency Agreement**") between the Issuer, the Guarantor, Citibank, N.A., London Branch as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Notes, together with any additional paying agents appointed from time to time pursuant to the terms of the Paying Agency Agreement, the "**Paying Agents**") and the Trustee. Certain provisions of these Conditions are summaries of the Trust Deed and the Paying Agency Agreement and are subject to their detailed provisions. The holders of the Notes (the "**Noteholders**") and the holders of the related interest coupons (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Paying Agency Agreement applicable to them. Copies of the Trust Deed and the Paying Agency Agreement are available for inspection by Noteholders during normal business hours at the registered office for the time being of the Trustee, being at the date hereof, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB and at the Specified Office (as defined in the Paying Agency Agreement) of the Principal Paying Agent, the initial Specified Office of which is set out below.

### 1. **Form, Denomination and Title**

The Notes are serially numbered and in bearer form in the denomination of EUR 100,000 and integral multiples of EUR 1,000 in excess thereof, up to and including EUR 199,000 with Coupons attached at the time of issue. Title to the Notes and the Coupons will pass by delivery. The holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder. No person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

### 2. **Status and Guarantee**

- (a) *Status of the Notes:* The Notes constitute direct, unconditional and (subject to Condition 3 (*Negative Pledge*)) unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
- (b) *Guarantee of the Notes:* The Guarantor has in the Trust Deed unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes. This guarantee (the "**Guarantee of the Notes**") constitutes a direct, unconditional and (subject to Condition 3 (*Negative Pledge*)) unsecured obligation of the Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

### 3. **Negative Pledge**

So long as any Note remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor shall, and the Issuer and the Guarantor shall procure that none of their respective Subsidiaries will, create or permit to subsist any Security Interest upon the whole or any part of

its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness or Guarantee of Relevant Indebtedness without (a) at the same time or prior thereto securing the Notes equally and rateably therewith to the satisfaction of the Trustee or (b) providing such other security for the Notes as the Trustee may in its absolute discretion consider to be not materially less beneficial to the interests of the Noteholders or as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of holders of Notes then outstanding.

In these Conditions:

**"Guarantee"** means, in relation to any indebtedness of any Person, any obligation of another Person to pay such indebtedness including (without limitation):

- (a) any obligation to purchase such indebtedness;
- (b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such indebtedness;
- (c) any indemnity against the consequences of a default in the payment of such indebtedness; and
- (d) any other agreement to be responsible for such indebtedness;

**"Person"** means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

**"Relevant Indebtedness"** means any indebtedness which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market);

**"Security Interest"** means any mortgage, charge, pledge, lien or other encumbrance; and

**"Subsidiary"** means a subsidiary within the meaning of Section 1159 of the UK Companies Act 2006 (the **"Companies Act"**).

#### 4. **Interest**

The Notes bear interest from 28 April 2015 (the **"Issue Date"**) at the rate of 1.250 per cent. per annum (the **"Rate of Interest"**), payable in arrear on 28 April in each year (each, an **"Interest Payment Date"**), subject as provided in Condition 6 (*Payments*).

Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be EUR 12.50 in respect of each Note of EUR 1,000 denomination. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the denomination of such Note divided by the Calculation Amount, where:

**"Calculation Amount"** means EUR 1,000;



**"Day Count Fraction"** means, in respect of any period, the number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period, divided by the number of days in the Regular Period in which the relevant period falls; and

**"Regular Period"** means each period from (and including) the Issue Date or any Interest Payment Date to (but excluding) the next Interest Payment Date.

## 5. **Redemption and Purchase**

- (a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 28 April 2023, subject as provided in Condition 6 (*Payments*).
- (b) *Redemption for tax reasons*: The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that:
  - (i) (A) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 24 April 2015; and (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or
  - (ii) (A) the Guarantor has or (if a demand was made under the Guarantee of the Notes) would become obliged to pay additional amounts as provided or referred to in Condition 7 (*Taxation*) or the Guarantee of the Notes, as the case may be, or the Guarantor has or will become obliged to make any such withholding or deduction as is referred to in Condition 7 (*Taxation*), from any amount paid by it to the Issuer in order to enable the Issuer to make a payment of principal or interest in respect of the Notes, in either case as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 24 April 2015; and (B) such obligation cannot be avoided by the Guarantor taking reasonable measures available to it;

*provided, however, that* no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor (as the case may be) would be obliged to pay such additional amounts or the Guarantor would be obliged to make such withholding or deduction if a payment in respect of the Notes were then due or (as the case may be) a demand under the Guarantee of the Notes were then made.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver or procure that there is delivered to the Trustee:

- (1) a certificate signed by two Authorised Signatories (as defined in the Trust Deed) of the Issuer stating that the circumstances referred to in (i)(A) and (i)(B) prevail and setting out the details of such circumstances or (as the case may be) a certificate signed by two Authorised Signatories of the Guarantor stating that the circumstances referred to in (ii)(A) and (ii)(B) above prevail and setting out the details of such circumstances; and

- (2) an opinion addressed to the Trustee of independent legal advisers of recognised standing to the effect that the Issuer or (as the case may be) the Guarantor has or will become obliged to pay such additional amounts or (as the case may be) the Guarantor has or will become obliged to make such withholding or deduction as a result of such change or amendment.

The Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the circumstances set out in (i)(A) and (i)(B) above or (as the case may be) (ii)(A) and (ii)(B) above, in which event they shall be conclusive and binding on the Noteholders.

Upon the expiry of any such notice as is referred to in this Condition 5(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 5(b).

- (c) *Redemption at the Option of the Issuer:* The Issuer may, upon not less than 30 nor more than 60 days' notice in accordance with Condition 15 (*Notices*) (which notice shall be irrevocable), redeem all of the Notes at any time on or after 28 January 2023 at their principal amount, together with interest accrued to but excluding the date fixed for redemption.
- (d) *Redemption at the option of the Noteholders:* A put event ("**Put Event**") will be deemed to occur if:
- (i) any person or any persons acting in concert or any person or persons acting on behalf of any such person(s) (the "**Equity Holder**") at any time directly or indirectly own(s) or acquire(s):
- (A) more than 50 per cent. of the issued or allotted ordinary share capital of the Issuer; or
- (B) such number of shares in the issued or allotted ordinary share capital of the Issuer carrying more than 50 per cent. of the total voting rights attached to such issued or allotted ordinary share capital of the Issuer that are normally exercisable at a general meeting of the Issuer or any Guarantor (as the case may be),
- (any such event being a "**Change of Control**"), provided that a Change of Control will be deemed not to have occurred if all or substantially all of the holders of the issued or allotted ordinary share capital or units of, or interests in, the Equity Holder are, or immediately prior to the event which would otherwise have constituted a Change of Control were, holders of the issued or allotted ordinary share capital of the Issuer with the same (or substantially the same) pro rata interest in the issued or allotted ordinary share capital or units of, or interests in, the Equity Holder as such holders have, or as the case may be, had in the issued or allotted ordinary share capital of the Issuer; and
- (ii) on the date (the "**Relevant Announcement Date**") that is the earlier of (x) the date of the first public announcement of the relevant Change of Control; and (y) the date of the earliest Relevant Potential Change of Control Announcement (as defined below) (if any), the Notes carry from any Rating Agency (as defined below):
- (A) an investment grade credit rating (Baa3/BBB-, or equivalent, or better) assigned at the invitation of the Issuer (or where there is no rating from any Rating Agency assigned at the invitation of the Issuer, the then investment grade credit rating (if any) assigned from any Rating Agency of its own volition), and such rating from any Rating Agency is within the Change of Control Period either downgraded to a non-investment grade credit rating (Ba1/BB+, or equivalent, or worse) or withdrawn and is not within the Change of Control Period subsequently (in the case of a downgrade) upgraded or (in the case of a withdrawal)

reinstated to an investment grade credit rating by such Rating Agency;  
or

- (B) a non-investment grade credit rating (Ba1/BB+, or equivalent, or worse) assigned at the invitation of the Issuer (or where there is no rating from any Rating Agency assigned at the invitation of the Issuer, the then investment grade credit rating (if any) assigned from any Rating Agency of its own volition), and such rating from any Rating Agency is within the Change of Control Period downgraded by one or more notches (for illustration, Ba1/BB+ to Ba2/BB being one notch) or withdrawn and is not within the Change of Control Period subsequently (in the case of a downgrade) upgraded or (in the case of a withdrawal) reinstated to its earlier credit rating or better by such Rating Agency; or
- (C) no credit rating, and no Rating Agency assigns within the Change of Control Period an investment grade credit rating to the Notes,

provided that if on the Relevant Announcement Date the Notes carry a credit rating from more than one Rating Agency, at least one of which is investment grade, then sub-paragraph (A) will apply; and

- (iii) in making the relevant decision(s) referred to above, the relevant Rating Agency announces publicly or confirms in writing to the Issuer, the Guarantor and the Trustee that such decision(s) resulted, in whole or in part, from the occurrence of the Change of Control.

If a Put Event occurs, each Noteholder shall have the option (unless prior to the giving of the relevant Put Event Notice (as defined below) the Issuer has given notice of redemption under Condition 5(b) (*Redemption for tax reasons*) or Condition 5(c) (*Redemption at the Option of the Issuer*) above) to require the Issuer to redeem or, at the Issuer's option, purchase (or procure the purchase of) that Note on the Put Date (as defined below) at its principal amount together with interest accrued to but excluding the date of redemption or purchase. Such option (the "**Put Option**") shall operate as set out below.

Promptly upon the Issuer or the Guarantor (as the case may be) becoming aware that a Put Event has occurred the Issuer shall notify the Trustee and give notice (a "**Put Event Notice**") to the Noteholders in accordance with Condition 15 (*Notices*) specifying the nature of the Put Event and the procedure for exercising the Put Option.

To exercise the Put Option the holder of the Note must, if it is in definitive form and held outside Euroclear or Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the period (the "**Put Period**") of 30 days after a Put Event Notice is given, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a "**Change of Control Put Notice**") and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under these Conditions accompanied by the Note or evidence satisfactory. The Note should be delivered together with all Coupons appertaining thereto maturing after the date which is seven days after the expiration of the Put Period (the "**Put Date**"), failing which the amount of any such missing unmatured Coupon will be deducted from the sum due for payment. Each amount so deducted will be paid in the manner provided in Condition 6 (*Payments*) against surrender of the relative missing Coupon (or any replacement therefore issued pursuant to Condition 10 (*Replacement of Notes and Coupons*)) at any time after such payment but before the expiry of five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

The Paying Agent to which such Note and Change of Control Put Notice are delivered will issue to the Noteholder concerned a non-transferable receipt in respect of the Note so delivered. Payment in respect of any Note so delivered will be made, if the holder

duly specified a bank account in the Change of Control Put Notice to which payment is to be made, on the Put Date by transfer to that bank account and, in every other case, on or after the Put Date against presentation and surrender or (as the case may be) endorsement of such receipt at the specified office of any Paying Agent.

If a Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the option to require redemption or purchase of the Note the holder of the Note must, within the Put Period, give notice to any Paying Agent of such exercise in accordance with the standard procedures of Euroclear or Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear and Clearstream, Luxembourg or any common depositary for them to such Paying Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time.

Any Change of Control Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg given by a holder of any Note pursuant to these Conditions, once given, shall be irrevocable. For the purposes of this Condition, receipts issued pursuant to this Condition shall be treated as if they were Notes. The Issuer shall redeem or purchase (or procure the purchase of) the relevant Notes on the Put Date unless previously redeemed (or purchased) and cancelled.

If 80 per cent. or more in principal amount of the Notes then outstanding have been redeemed or purchased pursuant to this Condition, the Issuer may, on giving not less than 30 nor more than 60 days' notice to the Noteholders (such notice being given within 30 days after the Put Date), redeem or purchase (or procure the purchase of), at its option, all but not some only of the remaining outstanding Notes at their principal amount, together with interest accrued to (but excluding) the date fixed for such redemption or purchase.

The Trustee is under no obligation to ascertain whether a Put Event or Change of Control or any event which could lead to the occurrence of or could constitute a Put Event or Change of Control has occurred or to notify the Noteholders of the same and, until it shall have actual knowledge or notice pursuant to the Trust Deed to the contrary, the Trustee may assume that no Put Event or Change of Control or other such event has occurred.

In these Conditions:

**"Change of Control Period"** means the period commencing on the Relevant Announcement Date and ending 90 days after the Change of Control;

**"Rating Agency"** means Moody's Investor Services Limited ("**Moody's**") or Standard & Poor's Rating Services, a division of the McGraw Hill Companies, Inc. ("**S&P**") or their respective successors or any rating agency (a "**Substituted Rating Agency**") substituted for any of them by the Issuer or any Guarantor from time to time with the prior written approval of the Trustee; and

**"Relevant Potential Change of Control Announcement"** means any public announcement or statement by the Issuer or any Guarantor, any actual or potential bidder or any advisor thereto relating to any potential Change of Control where within 90 days following the date of such announcement or statement, a Change of Control occurs.

- (e) *No other redemption:* The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) (*Scheduled redemption*) to (d) (*Redemption at the option of the Noteholders*) above.
- (f) *Purchase:* The Issuer, the Guarantor or any of their respective Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price, *provided that* all unmatured Coupons are purchased therewith.
- (g) *Cancellation:* All Notes so redeemed or purchased by the Issuer, Guarantor or any of their respective Subsidiaries and any unmatured Coupons attached to or surrendered with

them may, but need not, be cancelled at the election of the Issuer. Any Notes so cancelled will not be reissued or resold.

6. **Payments**

- (a) *Principal*: Payments of principal shall be made only against presentation and (*provided that* payment is made in full) surrender of Notes at the Specified Office of any Paying Agent outside the United States by Euro cheque drawn on, or by transfer to a Euro account (or other account to which Euro may be credited or transferred) maintained by the payee with, a bank in a city in which banks have access to the TARGET System.
- (b) *Interest*: Payments of interest shall, subject to paragraph (f) (*Payments other than in respect of matured Coupons*) below, be made only against presentation and (*provided that* payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) (*Principal*) above.
- (c) *Payments subject to fiscal laws*: Save as provided in Condition 7 (*Taxation*) all payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment and neither the Issuer nor the Guarantor will be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations or agreements. No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (d) *Deduction for unmatured Coupons*: If a Note is presented without all unmatured Coupons relating thereto, then:
  - (i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; *provided, however, that* if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;
  - (ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:
    - (A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; *provided, however, that* where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and
    - (B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; *provided, however, that*, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) (*Principal*) above against presentation and (*provided that* payment is made in full) surrender of the relevant missing Coupons. No payments will be made in respect of void coupons.

- (e) *Payments on business days*: If the due date for payment of any amount in respect of any Note or Coupon is not a business day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding business day in such place and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, "**business day**" means, in respect of any place of presentation, any day on which banks are open for presentation and payment of bearer debt securities and for dealings in foreign currencies in such place of presentation and, in the case of payment by transfer to a Euro account as referred to above, on which the TARGET System is open.
- (f) *Payments other than in respect of matured Coupons*: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States.
- (g) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

In these Conditions:

"**TARGET2**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

"**TARGET Settlement Day**" means any day on which TARGET2 is open for the settlement of payments in euro; and

"**TARGET System**" means the TARGET2 system.

## 7. **Taxation**

All payments of principal and interest in respect of the Notes and the Coupons or under the Guarantee of the Notes by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer or (as the case may be) the Guarantor shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required ("**Additional Amounts**"), except that no such Additional Amounts shall be payable in respect of any Note or Coupon presented for payment:

- (a) by or on behalf of a Noteholder or Couponholder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the United Kingdom other than the mere holding of the Note or Coupon or where the withholding or deduction could be avoided by the Noteholder or Couponholder making a declaration of non-residence or other similar claim for exemption to the appropriate authority; or
- (b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, any such Directive; or
- (c) by or on behalf of a Noteholder or Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a member state of the European Union; or

- (d) more than 30 days after the Relevant Date except to the extent that the Noteholder or Couponholder would have been entitled to such Additional Amounts on presenting such Note or Coupon for payment on the last day of such period of 30 days.

In these Conditions, "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received in a city in which banks have access to the TARGET System by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any Additional Amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 (*Taxation*) or any undertaking given in addition to or in substitution of this Condition 7 (*Taxation*) pursuant to the Trust Deed.

Notwithstanding any other provision in these Conditions, the Issuer shall be permitted to withhold or deduct any amounts required by Sections 1471 through 1474 (inclusive) of the Internal Revenue Code of 1986, as amended, any current or future regulations or official interpretations thereof, any agreement entered into thereunder, or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation thereof ("**FATCA**"). None of the Issuer, the Trustee or any Agent will have any obligation to pay additional amounts or otherwise indemnify a holder for any amount deducted or withheld on account of FATCA by the Issuer, a Paying Agent or any other party as a result of any person not being entitled to receive payments free of withholding on account of FATCA.

If the Issuer or the Guarantor becomes subject at any time to any taxing jurisdiction other than the United Kingdom, references in these Conditions, in respect of payments by the Issuer or the Guarantor (as the case may be), to the United Kingdom shall be construed as references to the United Kingdom and/or such other jurisdiction.

## 8. **Events of Default**

The following will be Events of Default (each an "**Event of Default**") with respect to the Notes:

- (a) *Non-Payment*: default is made for more than 14 days in the payment on the due date of interest or Additional Amounts in respect of the Notes, or default is made for more than seven days in the payment of all or any part of the principal or premium, if any, of any Note as and when the same shall become due and payable either at maturity, upon any redemption, by declaration or otherwise; or
- (b) *Breach of Other Obligations*: the Issuer or the Guarantor does not perform or comply with any one or more of its other obligations under or in respect of the Notes or the Trust Deed and such default (i) is, in the opinion of the Trustee, incapable of remedy or (ii) being a default which is, in the opinion of the Trustee, capable of remedy, remains unremedied for 30 days after the Trustee has given written notice thereof to the Issuer or the Guarantor (as the case may be) requiring the same to be remedied; or
- (c) *Cross-Acceleration*: (i) any other present or future indebtedness for borrowed money of the Issuer, the Guarantor or any of the Principal Subsidiaries becomes due and payable prior to its stated maturity by reason of any default or event of default (howsoever described) and remains unpaid, or (ii) any such indebtedness for borrowed money is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer, the Guarantor or any of the Principal Subsidiaries fails to pay when due and called upon (after the expiry of any applicable grace period) any amount payable by it under any present or future guarantee for, or indemnity in respect of, any indebtedness for borrowed money and which remains unpaid, provided that (x) payment of the relevant indebtedness for borrowed money is not being contested in good faith and in accordance with legal advice or (y) the aggregate amount of the relevant indebtedness for borrowed money, guarantees and indemnities in respect of which one or more of the events mentioned above in clauses (i), (ii) and (iii) has or have occurred and is or are

continuing, equals or exceeds £25,000,000 or its equivalent in any other currency of the relevant indebtedness for borrowed money or, if greater, 3 per cent. of the Net Assets of the Issuer; or

- (d) *Cessation of Guarantee*: the Guarantee of the Notes ceases to be in full force and effect or the Guarantor denies or disaffirms in writing its obligations under the Trust Deed or the Guarantee of the Notes; or
- (e) *Security Enforced*: any Security Interest, present or future, created or assumed by the Issuer, the Guarantor or any of the Principal Subsidiaries becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, manager or other similar person) against all or substantially all of the assets of the Issuer, the Guarantor or any of the Principal Subsidiaries and is not discharged within 45 days; or
- (f) *Insolvency*: any of the Issuer, the Guarantor or the Principal Subsidiaries is insolvent or bankrupt or unable to pay its debts (within the meaning of Section 123(1)(b) or (e) or Section 123(2) of the UK Insolvency Act 1986), stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, proposes or makes a general assignment or an arrangement or composition (otherwise than for the purposes of reconstruction, amalgamation, reorganisation, merger or consolidation or other similar arrangement or in the case of a Principal Subsidiary, whereby the undertaking and assets of the Principal Subsidiary are transferred to or otherwise vested in the Issuer or another of its Subsidiaries) with or for the benefit of its creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or a material part of the debts of the Issuer, the Guarantor or any of the Principal Subsidiaries; or
- (g) *Winding-up and Cessation of Business*: an order is made, or an effective resolution passed or a plan adopted for the winding-up, liquidation or dissolution or administration of the Issuer, the Guarantor or any of the Principal Subsidiaries, or the Issuer, the Guarantor or any of the Principal Subsidiaries shall apply, propose a plan or petition for a winding-up, liquidation or administration order in respect of itself or ceases or threatens to cease to carry on all or substantially all of its business or operations, in each case, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation or other similar arrangement, or in the case of a Principal Subsidiary, whereby the undertaking and assets of the Principal Subsidiary are transferred to or otherwise vested in the Issuer or another of its Subsidiaries; or
- (h) *Analogous Events*: any event occurs that under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs (e) to (g).

If an Event of Default occurs and is continuing, then and in each and every such case (subject in the case of paragraph (b) above or in relation to any Principal Subsidiary, paragraph (e), (f) and (g) above to the Trustee having certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Noteholders), unless the principal of all the Notes shall have already become due and payable, the Trustee at its discretion may, and if so requested in writing by holders of at least one quarter of the aggregate principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the holders of Notes then outstanding shall (subject to its receiving indemnification and/or security and/or prefunding to its satisfaction), by notice in writing to the Issuer, declare the entire principal amount of all Notes and interest accrued and unpaid thereon, if any, to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, without any further declaration or other act or formality.

In these Conditions:

**"Group"** means, at any time, the Issuer together with its Subsidiaries;

**"Net Assets"** means, at any time, the gross assets of the Group less the liabilities of the Group at that time excluding (a) assets or liabilities representing the fair value of derivative financial



instruments and (b) any liability or asset in respect of retirement benefits obligations and (c) any related deferred tax asset or liability, each as determined in accordance with generally accepted accounting principles in the United Kingdom (including IFRS) as applied in connection with the Group's 2014 financial statements, as calculated by reference to the most recent annual or interim consolidated accounts of the Group; and

**"Principal Subsidiary"** means a Subsidiary of the Issuer at any relevant date:

- (a) which has been a Subsidiary of the Issuer for more than 60 days; and
- (b) whose turnover attributable to the Group for the then latest year or other period in respect of which accounts of such Subsidiary have been prepared for inclusion in the audited consolidated accounts of the Issuer (and as derived by reference to such accounts) represent 10 per cent. or more of the consolidated turnover of the Group for the then latest year or other period (or proportionately if the then latest accounting period of the relevant Subsidiary for which turnover is included in consolidated turnover shall have been for a shorter period than the then latest year or other period of the Group) in respect of which consolidated accounts of the Issuer shall have been audited; or
- (c) whose gross assets as shown by the then latest accounts of such Subsidiary which have been prepared for inclusion in the audited consolidated accounts of the Issuer represent 10 per cent. or more of the consolidated gross assets of the Group, as derived by reference to the then latest audited consolidated accounts of the Issuer; or
- (d) to which has been transferred (whether by one transaction or a series of transactions, related or not) the whole or substantially the whole of the assets of a Subsidiary of the Issuer which immediately prior to those transactions was a Principal Subsidiary,

however:

- (i) a determination of whether a company which becomes a Subsidiary of the Issuer is or is not a Principal Subsidiary may be made at any time after the 60th day following that company becoming a Subsidiary of the Issuer by reference to its latest audited accounts and the latest audited consolidated accounts of the Issuer; and
- (ii) in the case of paragraph (d) above, the transferring Subsidiary shall, upon the transferee Subsidiary becoming a Principal Subsidiary, cease to be a Principal Subsidiary.

A certificate from two Authorised Signatories of the Issuer that in their opinion a Subsidiary is, or is not, or was, or was not, at any particular time, or throughout any particular period, a Principal Subsidiary may, in the absence of manifest error, be conclusive and binding on all parties.

#### 9. **Prescription**

Claims for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

#### 10. **Replacement of Notes and Coupons**

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Principal Paying Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

#### 11. **Trustee and Paying Agents**

Under the Trust Deed, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity relating to the Issuer or the Guarantor without accounting for any profit.

In the exercise of its rights, powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual holders of Notes or Coupons as a result of such holders being connected in any way with a particular territory or taxing jurisdiction.

In acting under the Paying Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents act solely as agents of the Issuer, the Guarantor and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Principal Paying Agent and its initial Specified Office is listed below. The Issuer and the Guarantor reserve the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor principal paying agent and additional or successor paying agents; *provided, however, that* the Issuer shall at all times maintain (a) a principal paying agent and (b) a paying agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC.

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders.

## 12. Meetings of Noteholders; Modification and Waiver; Substitution

- (a) *Meetings of Noteholders:* The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution of holders of Notes then outstanding. Such a meeting may be convened by the Issuer and the Guarantor (acting together) or by the Trustee and shall be convened by the Trustee (subject to the Trustee being indemnified and/or secured and/or prefunded to its satisfaction) upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided, however, that* certain proposals as set out in the Trust Deed (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes, to amend the terms of the Guarantee of the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than two-thirds or, at any adjourned meeting, one third of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of Noteholders holding or representing not less than three-quarters of the aggregate principal amount of the outstanding Notes who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

- (b) *Modification and waiver:* The Trustee may, without the consent of the Noteholders or Couponholders agree to any modification of the Trust Deed or the Notes (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Noteholders or Couponholders authorise or waive any proposed breach or breach of the Notes or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Any such modification, authorisation or waiver shall be binding on the Noteholders and the Couponholders. Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified by the Issuer to the Noteholders as soon as practicable thereafter.

- (c) *Substitution:* The Trust Deed contains provisions under which a company (the "**Substituted Obligor**") may, without the consent of the Noteholders or Couponholders assume the obligations of the Issuer as principal debtor or the Guarantor as guarantor and principal debtor under the Trust Deed and the Notes provided that certain conditions specified in the Trust Deed and summarised below are fulfilled, namely:

- (i) a trust deed is executed or an undertaking is given by the Substituted Obligor to the Trustee agreeing to be bound by the terms of the Trust Deed, the Notes and the Coupons as fully as if the Substituted Obligor had been named in the Trust Deed and on the Notes and the Coupons as the principal debtor in place of the Issuer or, as applicable, as the guarantor and principal debtor in place of the Guarantor;
- (ii) the Issuer, the Guarantor and the Substituted Obligor execute such other deeds, documents and instruments as the Trustee may require in order that the substitution is fully effective and (if applicable) the Guarantee of the Notes is fully effective in relation to the obligations of the Issuer;
- (iii) the Substituted Obligor has obtained all governmental and regulatory approvals and consents (if any) necessary for its assumption of liability as principal debtor in respect of the Notes and the Coupons in place of the Issuer or the Guarantor has obtained all governmental and regulatory approvals and consents necessary for the Guarantee of the Notes to be fully effective;
- (iv) if the Substituted Obligor is subject generally to the taxing jurisdiction of a territory other than the territory to which the Issuer or, as the case may be, the Guarantor is subject generally, the Substituted Obligor will give to the Trustee an undertaking corresponding to the terms of Condition 7 (*Taxation*) with the substitution for the reference in that Condition to the new territory of taxation of references to the substituted territory of taxation;
- (v) the Rating Agencies (as defined in Condition 5(d) (*Redemption at the option of the Noteholders*)) have confirmed in writing to the Trustee that the substitution of the Substituted Obligor will not result in a downgrading of the then current credit rating of the Rating Agencies applicable to the class of debt represented by the Notes;
- (vi) the Trustee is satisfied that the said substitution is not materially prejudicial to the interests of the Noteholders; and
- (vii) pursuant to the law of the country of incorporation of the Substituted Obligor, the assumption by the Substituted Obligor of its obligations hereunder does not impose responsibilities on the Trustee over and above those which have been assumed under the Trust Deed.

In connection with any proposed substitution of the Issuer or the Guarantor or any Substituted Obligor, the Trustee may, in its absolute discretion and without the consent of the Noteholders or the Couponholders agree to a change of the law from time to time governing the Notes and the Coupons and the Trust Deed provided that such change of law, in the opinion of the Trustee, would not be materially prejudicial to the interests of the Noteholders.

If any two directors of the Substituted Obligor certify that immediately prior to the assumption of its obligations as Substituted Obligor under the Trust Deed, the Substituted Obligor is solvent after taking account of all prospective and contingent liabilities resulting from its becoming the Substituted Obligor, the Trustee need not have regard to the financial condition, profits or prospects of the Substituted Obligor or compare the same with those of the Issuer or the Guarantor (or of any previous substitute under this sub-clause).

No Noteholder or Couponholder shall, in connection with any substitution, be entitled to claim any indemnification or payment in respect of any tax consequence thereof for such Noteholder or (as the case may be) Couponholder except to the extent provided for in Condition 7 (*Taxation*) (or any undertaking given in addition to or substitution for it pursuant to the provisions of the Trust Deed).

**13. Enforcement**

The Trustee may at any time, at its discretion and without notice, institute such proceedings as it thinks fit to recover any amounts due in respect of the Notes which are unpaid or to enforce its rights under the Trust Deed or the Conditions, but it shall not be bound to do so unless:

- (a) it has been so requested in writing by the holders of at least one quarter of the aggregate principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution of the holders of Notes then outstanding; and
- (b) it has been indemnified and/or provided with security and/or prefunded to its satisfaction.

No Noteholder or Couponholder may proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

**14. Further Issues**

The Issuer may from time to time, without the consent of the Noteholders or Couponholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes or upon such terms as to interest, conversion, redemption and otherwise as the Issuer may at the time of the issue thereof determine. The Issuer may from time to time, with the consent of the Trustee, create and issue other series of notes having the benefit of the Trust Deed. Any further securities forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Trustee so decides.

**15. Notices**

Notices to the Noteholders shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

**16. Governing Law and Jurisdiction**

- (a) *Governing law:* The Notes, the Coupons and the Trust Deed and any non-contractual obligations arising out of or in connection with them are governed by English law.
- (b) *Jurisdiction:* Each of the Issuer, the Guarantor and the Trustee has in the Trust Deed (i) agreed for the benefit of the Trustee and the Noteholders that the courts of England shall have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including any non-contractual obligations arising out of or in connection with the Notes) and (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient.

*There will appear at the foot of the Conditions endorsed on each Note in definitive form the name and Specified Office of the Principal Paying Agent as set out at the end of this Prospectus.*

## SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Notes will initially be in the form of the Temporary Global Note which will be deposited on or around the Closing Date with a common depositary for Euroclear and Clearstream, Luxembourg.

The Temporary Global Note will be exchangeable in whole or in part for interests in the Permanent Global Note not earlier than 40 days on or after the Closing Date upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

The Permanent Global Note will become exchangeable in whole, but not in part, for Notes in definitive form ("**Definitive Notes**") in denominations of EUR 100,000 and integral multiples of EUR 1,000 each in excess thereof, up to and including EUR 199,000 at the request of the bearer of the Permanent Global Note against presentation and surrender of the Permanent Global Note to the Principal Paying Agent if either of the following events (each, an "**Exchange Event**") occurs: Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, and no alternative clearing system satisfactory to the Trustee is available.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons attached, in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Principal Paying Agent within 60 days of the occurrence of the relevant Exchange Event.

In addition, the Temporary Global Note and the Permanent Global Note will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Temporary Global Note and the Permanent Global Note. The following is a summary of certain of those provisions:

*Payments:* All payments in respect of the Temporary Global Note and the Permanent Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Temporary Global Note or (as the case may be) the Permanent Global Note to or to the order of the Principal Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Temporary Global Note or (as the case may be) the Permanent Global Note, the Issuer shall procure that the payment is noted in a schedule thereto. Condition 7(c) and Condition 11(b) will apply to the Definitive Notes only. For the purpose of any payments made in respect of a Global Note, Condition 6(e) (*Payments on business days*) shall not apply, and all such payments shall be made on a day which is a TARGET Settlement Day.

*Exercise of put option:* In order to exercise the option contained in Condition 5(d) (*Redemption at the option of the Noteholders*) the bearer of the Permanent Global Note must, within the period specified in the Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to the Principal Paying Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

*Notices:* Notwithstanding Condition 15 (*Notices*), while all the Notes are represented by the Permanent Global Note (or by the Permanent Global Note and/or the Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with a common depositary for Euroclear and Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 15 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg.

*Purchase and Cancellation:* Cancellation of any Note required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the Permanent Global Note.

*Meetings:* The quorum at any meeting of Noteholders shall be at least two Voters (as defined in the Trust Deed) representing or holding not less than the Relevant Fraction (as defined in the Trust Deed) of the aggregate principal amount of the outstanding Notes; provided, however, that, so long as at least the Relevant Fraction of the aggregate principal amount of the outstanding Notes is represented by the Temporary Global Note and the Permanent Global Note, a Voter (as defined in the Trust Deed) appointed in relation thereto or being the holder of the Notes represented thereby shall be deemed to be two Voters for the purpose of forming a quorum.

*Prescription:* Claims in respect of principal and interest on the Notes while the Notes are represented by the Permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date.

*Electronic Consent and Written Resolution:* While any Global Note is held on behalf of a relevant Clearing System, then:

- (a) approval of a resolution proposed by the Issuer or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant Clearing System(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes outstanding (an “**Electronic Consent**” as defined in the Trust Deed) shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution to be passed at a meeting for which a special quorum was satisfied), take effect as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held, and shall be binding on all Noteholders and holders of Coupons whether or not they participated in such Electronic Consent; and
- (b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, the Issuer and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer and/or the Trustee, as the case may be, (a) by accountholders in the clearing system(s) with entitlements to such Global Note or, (b) where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person identified by that accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the Issuer, the Guarantor and the Trustee shall be entitled to rely on any certificate or other document issued by, in the case of (a) above, Euroclear, Clearstream, Luxembourg or any other relevant alternative clearing system (the “**relevant clearing system**”) and, in the case of (b) above, the relevant clearing system and the accountholder identified by the relevant clearing system for the purposes of (b) above. Any resolution passed in such manner shall be binding on all Noteholders and Couponholders, even if the relevant consent or instruction proves to be defective. Any such certificate or other document shall be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear’s EUCLID or Clearstream, Luxembourg’s CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. Neither the Issuer nor the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

### **USE OF PROCEEDS**

The net proceeds of the issue of the Notes will be used by the Issuer for general corporate purposes and to repay certain existing indebtedness of the Issuer.



## DESCRIPTION OF THE ISSUER

### Overview

Smiths Group plc (previously known as Smiths Industries Public Limited Company) (the "**Issuer**") was incorporated and registered on 15 July 1914. The Issuer and its subsidiaries taken as a whole (the "**Group**") is a global technology business serving the threat and contraband detection, energy, medical devices, communications and engineered component markets worldwide. The Group's technology-based businesses apply advanced industrial sciences to provide products to a range of highly sophisticated customers.

The Group operates through five divisions:

- *Smiths Detection*, a leading designer and manufacturer of sensors that detect and identify explosives, narcotics, weapons, chemical agents, biohazards, radioactive material and contraband;
- *John Crane*, a leading provider of products and services to global energy services customers operating in the oil and gas, power generation, chemical, pharmaceutical and pulp and paper sectors;
- *Smiths Medical*, a leading supplier of specialist medical devices, consumables and equipment;
- *Smiths Interconnect*, a designer and manufacturer of technically differentiated electronic components and subsystems that connect, protect and control critical systems in diverse end markets; and
- *Flex-Tek*, a provider of engineered components and ducting that heat and move fluids and gases for the aerospace, medical, industrial, construction and domestic appliance markets.

The Group generated revenue of £1,416 million (unaudited) for the half year 2015, £2,952 million and £3,109 million for the financial years 2014 and 2013 respectively. The Group's headline operating profit was £232 million (unaudited) for the half year 2015, £504 million and £560 million for the financial years 2014 and 2013 respectively.

As at 31 January 2015, the Group employed approximately 23,000 people in more than 50 countries. The Group serves a diverse range of global customers including governments and their agencies, petrochemical companies, military and defence companies, hospitals, telecommunications companies and manufacturers in a variety of industrial sectors.

### **Strengths**

The Group seeks to implement its strategy by deploying its key strengths, including:

- *Globally recognised brands*  

The Group has brands which are recognised by customers across the world, particularly in protecting transport, borders and the military (Smiths Detection), supplying vital oil and gas seals and services (John Crane) and airway and pain management and regional anaesthesia (Smiths Medical).
- *Markets with historic long-term defensive qualities*  

The Group operates in markets with historic long-term underlying defensive dynamics. These include security enhancement to combat evolving terror threats, oil and gas production to meet global energy demands, products to meet the growing healthcare needs of ageing populations and growing health spend in the emerging markets and the increased demand for wireless communications.
- *Product engineering and innovation*  

The Group's core competency is leadership in innovation and advanced technology and their practical, commercial applications. Examples of the Group's recent innovative products include a

new generation of larger split rotating seals suited for difficult to maintain pumps allowing installation without dismantling the equipment cutting installation times by up to 50 per cent. and a new generation of ambulatory infusion pumps at Smiths Medical providing enhanced functionality, safety software and performance for patients.

- *Small batch, low cost manufacturing*

The Group has access to a global manufacturing and service footprint which enables it to minimise costs and sustain margins over the long term. Over recent years the Group has undertaken a programme of site rationalisation with relocation to low-cost countries, such as Mexico, China, Malaysia and Tunisia.. The Group creates efficiencies through a continuous focus on its manufacturing footprint.

- *Low capital intensity and high operating cash conversion*

The Group's businesses generally have low requirements for major upfront capital commitments allowing the business to focus resources on research and development. The Group has an operating cash flow that is a high percentage of headline operating profit.

- *Close relationships with blue chip customers and governments*

The Group has strong relationships with its customer base, including blue chip corporates, such as Motorola, Boeing, Raytheon, GE and Shell, governments such as the United States and government agencies including the US Transportation Security Administration (TSA).

## **Strategy**

The Group seeks to create value for its shareholders by managing its portfolio, improving operating performance and growing its revenues. The Group's strategy includes the following elements:

- *Delivering operational efficiency*

The Group aims to continuously make its operations more efficient and to respond to changing products and customer demands. The Group aims to improve margins through restructuring initiatives and self-help programmes.

The Group's global footprint enables it to rationalise manufacturing operations and, where appropriate, relocate manufacturing to countries such as China, Mexico, Malaysia, Costa Rica, Tunisia and India in order to lower costs.

- *Delivering strong cashflow*

The Group is focused on reducing its working capital needs to support the generation of strong free cash-flow and an improved return on invested capital.

Cash generation will be used to fund investment in future revenue growth, both organically and through acquisitions.

The Group intends to maintain an investment grade credit rating.

- *Investing in growth*

The Group aims to invest in long-term growth drivers through research and development, improved sales and marketing capability, targeted acquisitions and expansion into faster growing developing markets.

The Group's research and development spend is targeted at new products which will drive the future organic growth of the business.

## The Group's Divisions

The tables below show the breakdown of the Group's revenue, headline operating profit and statutory operating profit by division for the half year ended 31 January 2015 and for the financial year ended 31 July 2014.

Headline profit is a measure of underlying performance which is not impacted by exceptional items or items considered non-operational in nature, and is used by management to measure and monitor performance.

The following items have been excluded from the headline measure:

- exceptional items (see below);
- costs of operating retirement benefit schemes which have been closed so that no future benefits are accrued, which are referred to below as legacy schemes, and financing credits and charges relating to retirement benefits;
- impairment of goodwill and amortisation of intangible assets acquired in a business combination – the impairment and amortisation charges are non-cash items, and the directors believe that it should be added back to give a clearer picture of underlying performance; and
- *other financing gains and losses, which represent the potentially volatile gains and losses on derivatives and other financial instruments which do not fall to be hedge accounted under IAS 39.* Items which are material, either because of their size or their nature, and material items which are non-recurring, are presented within their relevant consolidated income statement category, but highlighted through separate disclosure. The separate reporting of exceptional items helps provide a better picture of the Company's underlying performance. Items which may be included within the exceptional category include:
  - profits/(losses) on disposal of businesses and acquisitions;
  - spend on the integration of significant acquisitions and other major restructuring programmes;
  - significant goodwill or other asset impairments;
  - income and expenditure relating to material litigation in respect of products no longer in production; and
  - other particularly significant or unusual items.

Exceptional items are excluded from the headline profit measures used by the Group.

	Six months as at 31 January 2015					
	John Crane £m	Smiths Medical £m	Smiths Detection £m	Smiths Interconnect £m	Flex-Tek £m	Total £m
Revenue	453	406	231	198	128	1,416
Divisional headline operating profit	105	78	24	18	23	248
Corporate headline operating costs						(16)
Headline operating profit	105	78	24	18	23	232
Divisional exceptional operating items	(13)	(6)	(10)	(2)	(1)	(32)
Corporate exceptional operating items						13
Legacy retirement benefits admin costs						(5)
Impairment of goodwill and amortisation of acquired intangible assets	(31)	(4)	–	(9)	–	(44)
Operating profit	61	68	14	7	22	164

	Year ended 31 July 2014					
	John Crane £m	Smiths Medical £m	Smiths Detection £m	Smiths Interconnect £m	Flex-Tek £m	Total £m
Revenue	941	804	512	445	250	<b>2,952</b>
Divisional headline operating profit	234	159	25	71	47	<b>536</b>
Corporate headline operating costs						<b>(32)</b>
Headline operating profit	234	159	25	71	47	<b>504</b>
Divisional exceptional operating items	(56)	(8)	(1)	(5)	(10)	<b>(80)</b>
Corporate exceptional operating items						<b>(1)</b>
Legacy retirement benefits admin costs						<b>(6)</b>
Amortisation of acquired intangible assets	(12)	(9)	(1)	(17)		<b>(39)</b>
Operating profit	166	142	23	49	37	<b>378</b>

### Smiths Detection

Smiths Detection is a leading designer and manufacturer of sensors that detect and identify explosives, weapons, chemical agents, biohazards, narcotics and other contraband. Smiths Detection has developed a comprehensive range of detection technology, including X-ray trace detection, millimetre-wave, infra-red and biological detection and diagnostics. These technologies can be broadly divided into imaging, detection and identification.

The core applications for the X-ray technology relate to the imaging of suspicious or dangerous objects. Such technology differentiates itself through its ability to provide high resolution imaging and automatic detection of material. Static X-ray sources are used to identify objects and their chemical composition is compared to a threat database. The division is a leading supplier of automated X-ray equipment used to screen checked and carry-on baggage as well as cargo and container freight.

Smiths Detection holds a broad portfolio of trace detection innovations used in products to detect very small quantities of chemical substances, such as trace amounts of explosives, drugs, toxic industrial material or chemical warfare agents. Infra-red technology is used for the identification of visible materials where sample material is analysed by a spectroscopic analysis which compares the result with an "on board" database of thousands of different materials. Ion Mobility Spectrometry technology lies behind Smiths Detection's range of chemical agent detectors and explosives detectors. This technology is used in extensive applications from the detection and monitoring of chemical warfare agents and toxic industrial chemicals to the detection of explosive traces on airport luggage.

Smiths Detection's key markets are:

- transportation, including airports;
- critical infrastructure, including mass transit, sports and similar events and government and military facilities;
- ports and borders;
- military; and
- emergency responders, including hazardous material teams, law enforcement, and federal and local government agencies.

Smiths Detection's manufacturing is concentrated in North America, Germany, France, Malaysia and the United Kingdom and as at 31 January 2015, it employed approximately 2,200 people.

## John Crane

John Crane is a leading provider of engineered products and services to a global customer base across energy services and other major process industries including chemical, pharmaceutical, pulp and paper, and mining.

The company designs and manufactures a comprehensive range of mechanical seals and sealing support systems, hydrodynamic bearings, power transmission couplings, filtration systems, and also artificial lift products for the upstream oil & gas sector. John Crane's customers are supported by its global presence with more than 230 sales and service centres in 50 countries to maintain and support customer assets throughout their economic lifetime.

John Crane's manufacturing is concentrated in the United States, United Kingdom, Czech Republic and China, with supporting facilities in other parts of Europe, Africa, the Middle East and the Asia Pacific region. At 31 January 2015, John Crane had approximately 6,900 employees.

## Smiths Medical

Smiths Medical is a leading manufacturer and supplier of specialist medical equipment and single use devices for global markets.

Smiths Medical's products fall into three main market categories:

- medication delivery, including devices that help to treat cancer patients and provide relief to those in pain;
- vital care products that reduce hospital acquired infections, manage patients' airways before, during and after surgery, maintain body temperature and assist reproduction through IVF therapy; and
- vascular access products that keep health workers safe by helping to prevent needle stick injuries, allow for enhanced vascular procedures and reduce cross infections.

Smiths Medical's manufacturing is concentrated in the United States, Mexico, the United Kingdom, Italy, Germany and China. Smiths Medical sells to over 100 markets worldwide. As at 31 January 2015, Smiths Medical employed approximately 7,850 employees.

## Smiths Interconnect

Smiths Interconnect is a specialised electronic components and sub-systems business providing signal, power and microwave solutions that are application specific and incorporate innovative technologies. Smiths Interconnect designs and manufactures products that connect, protect, and control critical systems for the global data centre wireless telecommunications, aerospace, defence, space, medical, rail, test and industrial markets.

The Smiths Interconnect division is managed through three technology focussed business units:

- **connectors** provides application-specific, high reliability electrical interconnect solutions from highly integrated assemblies to micro-miniature connectors and spring probe contacts;
- **microwave** provides components, sub-assemblies and systems for defence, aerospace, wireless telecommunications and electronic test applications;
- **power** provides distribution, conditioning, protection and monitoring solutions for data centres, wireless communications and other critical or high-value electrical systems.

As at 31 January 2015, Smiths Interconnect had approximately 4,000 employees.

## Flex-Tek

Flex-Tek is a designer and manufacturer of engineered hoses and tubing, engineered heating solutions and flexible ducting for a diverse set of applications in the aerospace, industrial, housing and construction markets.

- The aerospace business provides tubing which is used on large commercial aircraft and turbine engines for applications such as fuel and hydraulics lines.
- The industrial business provides thermoplastic tubing for automotive, industrial, and medical end markets and increasingly into new areas such as natural gas vehicles, sleep apnea machines, and laser smoke recovery.
- The residential and commercial business provides heat solutions and ducting for diverse applications in industrial, construction, housing appliance and HVAC (heating, ventilation and air conditioning) markets and natural gas tubing products for industrial and residential use.

The overall US housing market accounts for approximately half of the division's sales.

Flex-Tek conducts most of its business in the United States and operates from manufacturing sites in the US, France, Mexico, China, and Malaysia. At 31 January 2015, it had approximately 2,200 employees.

### **Intellectual Property**

Intellectual property is an important asset for the Group. The Group has in excess of 3,583 utility patents (registered and pending) and 206 design patents (registered and pending), and in excess of 3,060 registered or pending trademarks/service marks. Intellectual property also includes copyrights, trade secrets and know-how and other proprietary information. It is the Group's policy, and procedures are in place, to identify, protect (by patent and trademark registration, and maintenance of proprietary information), defend and manage its intellectual property. It is the Group's policy that new and re-designed products, processes or software are thoroughly reviewed at regular points throughout development to safeguard against the potential infringement of the intellectual property rights of third parties.

### **Regulation**

Certain of the businesses of the Group, particularly the Smiths Medical, Smiths Interconnect and Smiths Detection divisions are subject to substantial regulation, with certain customers and regulatory or other enforcement bodies routinely inspecting their respective practices, processes and premises. Certain of the Group's products, most notably devices produced by Smiths Medical, are subject to US Food and Drug Administration (FDA), equivalent European and other approval processes. Smiths Detection and Smiths Interconnect are subject to governmental procurement regulations and technology export controls. Compliance with such regulations may require the Group to incur additional expenses or restrict its commercial flexibility and planned business strategies. Certain of Flex-Tek's aerospace products are subject to regulation by the United States Federal Aviation Administration (FAA), the European Aviation Safety Agency (EASA), and other equivalent foreign regulatory agencies.

Smiths Medical is principally subject to FDA regulations in the United States and the European Medical Devices Directive in the European Union. Broadly, both sets of regulations require the development of internal systems to ensure that proper risk assessments are performed on the design, manufacture and sale of medical devices to certify their safety and fitness for purpose. These regulations also require that the product remains safe over its lifetime. In addition to regulations concerning the safe manufacture and use of medical devices, Smiths Medical is also subject to laws in the United States and other countries in which it operates protecting the privacy of personal medical information and to regulation governing the marketing of its products to healthcare professionals.

Due to the advanced technical features of their products and the regions in which they do business, Smiths Detection and Smiths Interconnect are subject to export control regulations administered by the US Departments of Commerce, State and Treasury that govern the export and re-export of commercial, dual-use and military goods, software and technology. Smiths Detection and Smiths Interconnect are also required to maintain a Special Security Agreement that governs their "cleared sites" that require access to, on a restricted basis, classified information in order to perform certain contracts with the US Government. The "cleared sites" must operate in accordance with the National Industrial Security Program Operating Manual and other applicable laws and regulations and are subject to periodic audit by the US Department of Defense's Defense Security Service.

Because both businesses sell to the US Government, they are subject to Federal Acquisition Regulations ("FAR") that provides highly structured rules and guidelines for the US Government acquisition process.

Although FAR's primary objective is to guide government employees through the acquisition process, in practice many of its provisions are incorporated into proposals and ultimately into government contracts.

All these regulations are constantly developing and any material changes have the potential to impact the way that the Group's divisions which are subject to such regulations conduct their business.

The Group is also subject to numerous foreign, international, national, regional and local environmental laws and regulations, and, in connection with certain of the Group's activities, permits. The Group is currently involved, directly or indirectly, in environmental investigation and remediation activities at various locations and has reserves in respect of these activities. Environmental laws and regulations are continuously changing and have tended to become more stringent over time. The development of new facts or further changes in environmental laws and regulations, or the enforcement of such laws and regulations, could have a material impact on the Group's business, reputation, results of operations or financial condition.

## **Litigation**

In the ordinary course of business, the Group is subject to litigation such as product liability claims and lawsuits, alleging that its products have resulted or could result in an unsafe condition or injury.

### ***John Crane, Inc. Litigation***

John Crane, Inc. ("**JCI**"), a subsidiary of the Group, is currently one of many co-defendants in litigation in the United States relating to products previously manufactured which contained asbestos. This litigation began more than 30 years ago and, typically, involves claims for a number of diseases including asbestosis, lung cancer and mesothelioma. The JCI products generally referred to in these cases consist of industrial sealing products, primarily packing and gaskets. The asbestos was encapsulated within these products in such a manner that causes JCI to believe, based on tests conducted on its behalf, that the products were safe. JCI ceased manufacturing products containing asbestos in 1985.

The litigation involves claims for a number of allegedly asbestos-related diseases, with awards, when made, for mesothelioma tending to be larger than those for the other diseases. JCI's ability to defend mesothelioma cases successfully is, therefore, likely to have a significant impact on its annual aggregate adverse judgment and defence costs.

JCI continues to actively monitor the conduct and effect of its current and expected asbestos litigation, including the most efficacious presentation of its "safe product" defence, and intends to resist these claims based upon this defence. Approximately 237,000 claims against JCI have been dismissed before trial over the last 35 years. JCI is currently a defendant in cases involving approximately 79,000 claims. Despite these large numbers of claims, since the inception of litigation JCI has had final judgments against it in 132 cases, and has had to pay awards amounting to approximately US\$150 million.

At 31 January 2015, the aggregate provision for JCI asbestos litigation, including for adverse legal judgments and defence costs, amounted to £232 million expressed at the then current exchange rate. In deciding on the amount of the provision JCI relied on independent expert advice from a specialist in asbestos liability estimation. Moreover, in establishing this provision no account has been taken of any recoveries from insurers as their nature and timing are subject to pending litigation. Because of the significant uncertainty associated with the future level of asbestos claims and of the costs arising out of related litigation, there can be no guarantee that the assumptions used to estimate the provision will result in an accurate prediction of the actual costs that may be incurred and, as a result, the provision may be subject to potentially material revision from time to time if new information becomes available as a result of future events.

The provision is based on past history and published tables of asbestos incidence projections. Whilst published incidence curves can be used to estimate the likely future pattern of asbestos related disease, JCI's claim experience is significantly impacted by other factors which influence the US litigation environment. These can include: changing approaches on the part of the plaintiffs' bar; changing attitudes amongst the judiciary at both trial and appellate levels; and legislative and procedural changes in both the state and federal court systems. The projections use a 10 year time horizon on the basis that JCI's asbestos valuation experts consider that there is substantial uncertainty in the asbestos litigation environment so probable expenditures are not reasonably estimable beyond this time horizon. As a result, whilst the

Group anticipates that asbestos litigation will continue beyond the period covered by the provision, the uncertainty surrounding the US litigation environment beyond this point is such that the costs cannot be reliably estimated.

The assumptions made in assessing the appropriate level of provision include:

- the periods over which the expenditure can be reliably estimated;
- the future trend of legal costs;
- the rate of future claims filed;
- the rate of successful resolution of claims;
- the average amount of judgments awarded.

The provision in respect of JCI is a discounted pre-tax provision using discount rates, being the risk-free rate on US debt instruments for the appropriate period.

#### ***Titeflex Corporation litigation***

Titeflex Corporation, a subsidiary of the Group in the Flex-Tek division, has received a number of claims in recent years from insurance companies seeking recompense on a subrogated basis for the effects of damage allegedly caused by its flexible gas piping products being energised by lightning strikes. It has also received a number of product liability claims relating to this product, some in the form of purported class actions. Titeflex Corporation believes that its products are a safe and effective means of delivering gas when installed in accordance with the manufacturer's instructions and local and national codes; however some claims have been settled on an individual basis without admission of liability. Equivalent third-party products in the US marketplace face similar challenges.

At 31 January 2015, provision of £66million has been made for the costs which the Group expects to incur in respect of these claims. Because of the significant uncertainty associated with the future level of claims and of the costs arising out of the related litigation, there is no guarantee that the assumptions used to estimate the provision will result in an accurate prediction of the actual costs that may be incurred.

The assumptions made in assessing the appropriate level of provision, which are based on past experience, include:

- The period over which expenditure can be reliably estimated;
- The number of future settlements;
- The average number of settlements.

The projections use a rolling 10 year time horizon on the basis that there is substantial uncertainty in the US litigation environment so probable expenditures are not reasonably estimable beyond this time horizon.

The provision is a discounted pre-tax provision using discount rates, being the risk free rate on US debt instruments for the appropriate period. However, because of the significant uncertainty associated with the future level of claims and of the costs arising out of related litigation, there can be no guarantee that the assumptions used to estimate the provision will result in an accurate prediction of the actual costs that may be incurred and, as a result, the provision may be subject to potentially material revision from time to time if new information becomes available as a result of future events.

The Group anticipates that litigation might continue beyond the period covered by the provision. However, the uncertainty surrounding the US litigation environment at this point (which reflects factors such as changing approaches on the part of the plaintiffs' bar; changing attitudes amongst the judiciary at both trial and appellate levels; and legislative and procedural changes in both the state and federal court systems) is such that the costs cannot be reliably estimated.

#### ***Other Litigation/Administrative Matters***



In addition to the JCI asbestos law suits and litigation in relation to Titeflex Corporation's flexible gas piping products, other companies within the Group are also involved in product liability and other litigation for which no provision is made due to the inherent uncertainty of the outcome.

The Group operates in some markets where the risk of unethical or corrupt behaviour is material and has procedures, including an employee "Ethics Alertline", to help it identify potential issues. Such procedures will, from time to time, give rise to internal investigations, both to manage immediate issues and to improve its practices and procedures for the future. From time to time the Group also co-operates with relevant authorities in investigating business conduct issues. As at the date of this Prospectus, the Group is not aware of any issues which are expected to generate material financial exposures.

## Research and development

The Group invests in research and development ("R&D") to deliver new product initiatives and higher levels of organic revenue growth. The Group's R&D expenditure was £109 million and £108 million in the financial years of 2014 and 2013 respectively, and £53 million in the six months ended 31 January 2015. In addition, the Group actively seeks funding from customers to support R&D and this amounted to £8 million and £9 million in 2014 and 2013 respectively.

## Board of Directors

The Directors of the Issuer and their functions and principal activities outside the Group are as follows:

Name	Title	Principal activities outside the Group
Sir George Buckley	Chairman	Chairman of Ownership Capital Chairman of Arle Capital LLP Non-executive director of Hitachi, Ltd. Non-executive director of PepsiCo Inc Non-executive director of Stanley Black & Decker, Inc.
Philip Bowman <sup>(1)</sup>	Chief Executive	Senior independent director and Chairman of the Audit Committee of Burberry Group plc Non-executive director of Better Capital PCC Limited Chairman of The Miller Group (UK) Limited and Chairman of its Remuneration Committee and a member of its Audit Committee
Bruno Angelici	Non-executive director	Non-executive director and member of the Nomination Committee of Novo Nordisk A/S Member of the Supervisory Board and the Audit Committee of Wolters Kluwer nv Chairman and a member of the Nomination and Remuneration Committees of Vectura Group plc Member of the Global Advisory Board of Takeda Pharmaceutical Company Ltd, Japan
David Challen, CBE	Non-executive director	Deputy Chairman of the UK Takeover Panel
Tanya Fratto	Non-executive director	Non-executive director and member of the Remuneration Committee of Boart Longyear Ltd and Chair of the Environmental, Health and Safety

<b>Name</b>	<b>Title</b>	<b>Principal activities outside the Group</b>
		Committee
		Non-executive director and member of the Audit Committee of Advanced Drainage Systems, Inc.
Anne Quinn, CBE	Non-executive director	Senior Independent Director and Chair of the Remuneration Committee of Mondi plc and Mondi Limited
Bill Seeger	Non-executive director	Non-executive director of Spectris plc and Chairman of its Audit and Risk Committee
		Visiting professor at UCLA Anderson School of Management
Sir Kevin Tebbit, KCB, CMG	Non-executive director	Senior Adviser to AECOM Corporation
		Senior Independent Director of Antar Solutions Limited
		Chairman of Ascot Barclay Group
		Senior Associate Fellow at Royal United Services Institute
		Visiting Professor at King's College, London
		Member of the Advisory Board of the Imperial College Institute for Security, Science and Technology

Notes:

(1) Philip Bowman will retire from the Board and step down as Group Chief Executive on 31 December 2015.

The business address of each member of the Board of Directors is 2nd Floor, Cardinal Place, 80 Victoria Street, London SW1E 5JL.

None of the members of the Board of Directors has any potential conflict of interests between duties to the Issuer and their private interests or other duties.

## **Board Committees**

### ***Audit Committee***

The members of the Audit Committee are Bill Seeger (Chairman), Bruno Angelici, David Challen, Tanya Fratto, Anne Quinn and Sir Kevin Tebbit.

### ***Nomination Committee***

The members of the Nomination Committee are Sir George Buckley (Chairman), Bruno Angelici, David Challen, Tanya Fratto, Anne Quinn, Bill Seeger and Sir Kevin Tebbit.

### ***Remuneration Committee***

The members of the Remuneration Committee are Anne Quinn (Chair), Bruno Angelici, Sir George Buckley, David Challen, Tanya Fratto, Bill Seeger and Sir Kevin Tebbit.

## **Principal Shareholders**

### ***Share Capital***

As at 14 April 2015, the Issuer had issued share capital of £148,041,406 comprised of 394,777,082 ordinary shares and no preference shares.

#### *Shareholders*

The following table sets forth information regarding the beneficial ownership of the Issuer's ordinary shares as of 14 April 2015 by the directors (and their connected persons) as a group and by shareholders who have disclosed notifiable interests, pursuant to the FCA Disclosure & Transparency Rules and the Companies Act 2006, in more than three per cent. or more, or five per cent. or more (as applicable) of the Issuer's outstanding ordinary shares.

<b>Name</b>	<b>Number of shares held (million)</b>	<b>Ownership (per cent.)</b>
Ameriprise Financial, Inc.	19.9	5.0
Black Rock Inc.	20.0	5.1
Dodge & Cox	20.3	5.2
Harris Associates LP	29.3	7.4
M & G Investment	15.7	4.0
Morgan Stanley Investment Management	14.2	3.6
Massachusetts Financial Services Company	17.1	4.3
Directors as a group <sup>1</sup>	0.6	0.2

#### **Recent Developments**

On 18 March 2015 the Issuer announced the appointment of Rob White as Interim Chief Financial Officer with effect from 25 April 2015. Mr. White has replaced Peter Turner who stepped down as Finance Director on 24 April 2015 to pursue opportunities outside the Group. An executive search for the permanent replacement is well underway and a further announcement will be made by the Issuer to the market in due course.

Rob White has been Vice President, Global Finance for Smiths Medical for the last six years and will return to this role following this interim assignment. He will join the Executive Committee of the Group and attend Board meetings but will not be appointed an Executive Director of the Board.

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<sup>1</sup> This figure does not include any shares held by Peter Turner (or any connected persons) who ceased to be a Director of the Issuer on 24 April 2015.

## DESCRIPTION OF THE GUARANTOR

### Incorporation, Registered Office, and Purpose

Smiths Group International Holdings Limited (the "**Guarantor**") was incorporated and registered as a private limited company in England and Wales under the registered number 01085153 on 5 December 1972, and operates under the Companies Act 2006. It changed its name from Alamahda Investments Limited to T.I. International Holdings Limited on 26 January 1973 and to Smiths Group International Holdings Limited on 14 November 2002. The registered office of the Guarantor is located at 2nd Floor, Cardinal Place, 80 Victoria Street, London SW1E 5JL, United Kingdom and the telephone number of its registered office is +44 20 7808 5500.

The Guarantor's principal activity is that of an investment holding company and it conducts substantially all of its business through operating subsidiaries. As at 31 July 2014 the Guarantor had investments of £3,703 million. Since that date the Guarantor has invested an additional £60 million in a UK subsidiary.

As at the date of this Prospectus the Issuer owns 100 per cent. of the shares of the Guarantor.

### Board of Directors

The directors of the Guarantor and their functions and principal activities outside the Guarantor are as follows:

<b>Name</b>	<b>Title</b>	<b>Principal activities outside the Guarantor (including outside the Guarantor's Group)</b>
Julian David Kenelm Fagge	Director	Group Financial Controller, Smiths Group plc
Michael Hugh Creedon Herlihy	Director	General Counsel, Smiths Group plc  Senior independent non-executive director and a member of the Nominations, Audit and Remuneration Committees of Imperial Tobacco Group PLC  Non-executive director of, and senior advisor to, Compass Partners International LLP and Compass Partners Investments LLP
Melanie Jane Rowlands	Director	Deputy General Counsel, Smiths Group plc
Zillah Wendy Stone	Director	Company Secretary, Smiths Group plc

The business address of each of the above directors is 2nd Floor, Cardinal Place, 80 Victoria Street, London SW1E 5JL, United Kingdom.

None of the members of the Board of Directors has any potential conflict of interests between duties to the Guarantor and their private interests or other duties.

### Employees

As at the date of this Prospectus, the Guarantor has no active employees. Employees of other Group companies perform all administration of the Guarantor's affairs.

## **TAXATION**

### **United Kingdom Taxation**

The comments below are of a general nature and are not intended to be exhaustive. They assume that there will be no substitution of the Issuer or further issues of securities that will form a single series with the Notes, and do not address the consequences of any such substitution or further issue (notwithstanding that such substitution or further issue may be permitted by the terms and conditions of the Notes). Any Noteholders who are in doubt as to their own tax position should consult their professional advisers.

The comments are based on current United Kingdom tax law as applied in England and Wales and HM Revenue & Customs practice (which may not be binding on HM Revenue & Customs). They do not necessarily apply where the income is deemed for tax purposes to be the income of any other person. They relate only to the position of persons who hold their Notes and Coupons as investments (regardless of whether the holder also carries on a trade, profession or vocation through a permanent establishment, branch or agency to which the Notes are attributable) and are the absolute beneficial owners thereof. Certain classes of persons such as dealers, certain professional investors, or persons connected with the Issuer may be subject to special rules and this summary does not apply to such Noteholders.

#### **1. Interest paid by the Issuer**

While the Notes are listed on a recognised stock exchange within the meaning of Section 1005 of the Income Tax Act 2007, payments of interest by the Issuer may be made without withholding or deduction for or on account of United Kingdom income tax. The London Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List by the United Kingdom Listing Authority and are admitted to trading on the London Stock Exchange.

If the Notes cease to be listed interest will generally be paid by the Issuer under deduction of United Kingdom income tax at the basic rate (currently 20 per cent.) unless:

- (a) another relief applies under domestic law; or
- (b) the Issuer has received a direction to the contrary from HM Revenue & Customs in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

If interest were paid under deduction of United Kingdom income tax (e.g. if the Notes lost their listing), Noteholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.

#### **2. Payments in respect of the Guarantee**

The United Kingdom withholding tax treatment of payments by the Guarantor under the terms of the Guarantee in respect of interest on the Notes (or other amounts due under the Notes other than the repayment of amounts subscribed for the Notes) is uncertain. In particular, such payments by the Guarantor may not be eligible for the exemption in respect of securities listed on a recognised stock exchange described above in relation to payments of interest by the Issuer. Accordingly, if the Guarantor makes any such payments, these may be subject to United Kingdom withholding tax at the basic rate (currently 20 per cent.) subject to such relief as may be available following a direction by HM Revenue & Customs pursuant to the provisions of any applicable double taxation treaty, or to any other exemption which may apply.

### **Information Reporting**

Information relating to securities may be required to be provided to HM Revenue & Customs in certain circumstances. This may include the value of the Notes, details of the holders or beneficial owners of the Notes (or the persons for whom the Notes are held), details of the persons to whom payments derived from the Notes are or may be paid and information and documents in connection with transactions relating to the Notes. Information may be required to be provided by, amongst others, the holders of the

Notes, persons by (or via) whom payments derived from the Notes are made or who receive (or would be entitled to receive) such payments, persons who effect or are a party to transactions relating to the Notes on behalf of others and certain registrars or administrators. In certain circumstances, the information obtained by HM Revenue & Customs may be provided to tax authorities in other countries.

### **EU Savings Directive**

The Savings Directive requires EU Member States to provide to the tax authorities of other EU Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or secured by such a person for the benefit of) an individual resident, or to (or secured for) certain other types of entity established, in that other EU Member State, except that Austria will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period it elects otherwise.

The Council of the European Union has adopted the Amending Directive which will, when implemented, amend and broaden the scope of the requirements of the Savings Directive described above. The Amending Directive will expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities, and the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or secured for) (i) an entity or legal arrangement effectively managed in an EU Member State that is not subject to effective taxation, or (ii) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the Savings Directive) which indirectly benefit an individual resident in an EU Member State, may fall within the scope of the Savings Directive, as amended. The Amending Directive requires EU Member States to adopt national legislation necessary to comply with it by 1 January 2016, which legislation must apply from 1 January 2017.

*Investors who are in any doubt as to their position should consult their professional advisers.*

### **The Proposed Financial Transactions Tax ("FTT")**

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**").

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

Joint statements issued by participating Member States indicate an intention to implement the FTT by 1 January 2016.

However, the FTT proposal remains subject to negotiation between the participating Member States, and the scope of any such tax is uncertain. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

## SUBSCRIPTION AND SALE

BNP Paribas, HSBC Bank plc, RBC Europe Limited and Mitsubishi UFJ Securities International plc (together, the "**Managers**") have, in a subscription agreement dated 24 April 2015 (the "**Subscription Agreement**") and made between the Issuer, the Guarantor and the Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe for the Notes at their issue price of 99.269 per cent. of their principal amount plus any accrued interest in respect thereof. The Issuer (failing which, the Guarantor) has agreed to pay a combined management, underwriting and selling commission in respect of the Notes. The Issuer (failing which, the Guarantor) has also agreed to reimburse the Managers for certain of their expenses incurred in connection with the management of the issue of the Notes. The Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

### United Kingdom

Each Manager has represented, warranted and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

### United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

Each Manager has represented, warranted and agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after commencement of the offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

### General

Each Manager has represented, warranted and agreed that, to the best of its knowledge and belief, it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Prospectus or any other offering material relating to the Notes. Persons into whose hands this Prospectus comes are required by the Issuer, the Guarantor and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

## GENERAL INFORMATION

### Authorisation

1. The creation and issue of the Notes has been authorised by a resolution of the Board of Directors of the Issuer dated 17 March 2015 and by a resolution of a committee of the Board of Directors of the Issuer dated 19 March 2015. The giving of the Guarantee has been authorised by a resolution of the Board of Directors of the Guarantor dated 20 March 2015.

### Legal and Arbitration Proceedings

2. Save as disclosed in the "*Description of the Issuer – Litigation*" on pages 47 and 48 of this Prospectus there are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer or the Guarantor is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer and its Subsidiaries or the Guarantor and its Subsidiaries.

### No Significant/Material Change

3. There has been no material adverse change in the prospects of the Issuer, the Guarantor or the Group since 31 July 2014. There has been no significant change in the financial or trading position of the Issuer or the Group since 31 January 2015 or of the Guarantor or the Guarantor and its subsidiaries as a whole since 31 January 2015.

### Auditors

4. The consolidated financial statements of the Issuer have been audited without qualification for the years ended 31 July 2014 and 31 July 2013 by PricewaterhouseCoopers LLP, of 1 Embankment Place, London WC2N 6RH, members of the Institute of Chartered Accountants in England and Wales. The report of the auditors on the consolidated financial statements of the Issuer for the years ended 31 July 2013 and 31 July 2014 respectively included the following wording: "This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Sections 495 and 496 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing."

### Documents on Display

5. Copies of the following documents may be inspected during normal business hours on any weekday at the offices of the Issuer and the Principal Paying Agent for 12 months from the date of this Prospectus:
  - (a) the Articles of Association of the Issuer;
  - (b) the Articles of Association of the Guarantor;
  - (c) a copy of this Prospectus together with any supplement to this Prospectus or further Prospectus;
  - (d) the Paying Agency Agreement and the Trust Deed (which includes the Guarantee of the Notes, the form of the Global Notes, the definitive Notes and the Coupons); and
  - (e) the audited consolidated financial statements of the Issuer for the years ended 31 July 2014 and 31 July 2013 and the unaudited condensed consolidated interim financial statements of the Issuer for the six months ended 31 January 2015.

This Prospectus will be published on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news/home.html>.



**Yield**

6. The yield of the Notes is 1.347 per cent. on an annual basis. The yield is calculated as at the Issue Date of the Notes on the basis of the issue price. It is not an indication of future yield.

**Legend Concerning US Persons**

7. The Notes and any Coupons appertaining thereto will bear a legend to the following effect: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

**ISIN and Common Code**

8. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN is XS1225626461 and the common code is 122562646.

**REGISTERED OFFICE OF  
THE ISSUER**

**Smiths Group plc**  
2<sup>nd</sup> Floor  
Cardinal Place  
80 Victoria Street  
London SW1E 5JL

**REGISTERED OFFICE OF THE GUARANTOR**

**Smiths Group International Holdings Limited**  
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Cardinal Place  
80 Victoria Street  
London SW1E 5JL

**TRUSTEE**

**Citicorp Trustee Company Limited**  
Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB

**PRINCIPAL PAYING AGENT**

**Citibank, N.A, London Branch**  
Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB

**LEGAL ADVISERS**

*To the Issuer and the Guarantor as to English  
law:*

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One Silk Street  
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*To the Managers and the Trustee as to  
English law:*

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10 Upper Bank Street  
London E14 5JJ

**AUDITORS TO THE ISSUER  
AND THE GUARANTOR**

**PricewaterhouseCoopers LLP**  
1 Embankment Place  
London WC2N 6RH