

PRESS NOTICE

FACILITY TO SWITCH HOLDINGS OF 8% TREASURY STOCK 2009 INTO 5¾% TREASURY STOCK 2009

The United Kingdom Debt Management Office ("DMO") announces that HM Treasury is creating an additional £400 million of 5¾% Treasury Stock 2009 available for switching from 8% Treasury Stock 2009. This facility is exceptionally being made available in response to representations received from gilt market participants concerning market illiquidity arising from last year's conversion offer from 8% Treasury Stock 2009 into 5¾% Treasury Stock 2009.

The DMO is willing to receive offers from Gilt-Edged Market Makers ("GEMMs") to switch holdings of 8% Treasury Stock 2009 into this further amount of 5¾% Treasury Stock 2009. The rates at which the DMO is prepared to make this stock available are set out below. These rates, which have been calculated on a "dirty price" basis, will be effective only from 9:00am on 11 January to 5:00pm on 15 January 1999 and have been set at a level which reflects the DMO's intention not to disadvantage those who accepted the original conversion terms.

After 15 January 1999, any successive switch rates will be set at progressively less generous terms.

The rates will be published on the DMO's wire services pages.

Should £310 million or more of 8% Treasury Stock 2009 be offered by GEMMS and accepted by the DMO as part of this operation, the stock would be assigned "rump" status.

In these circumstances the DMO would, when asked by a GEMM, be prepared to bid a price of its own choosing for any remaining 8% Treasury Stock 2009.

The DMO may however also be prepared to accept further bids from GEMMs to switch holdings of 8% Treasury Stock 2009 for any of the remaining 5¾% Treasury Stock 2009 issued.

Bids to switch stock may only be made by GEMMs and should be made by telephone to the DMO. Other holders may submit bids to the DMO via a GEMM but not directly. The DMO may accept bids in whole or in part. Any residual stock remaining following this operation will be included in any future auction of 5¾% Treasury Stock 2009, when this facility will cease to be available.

The additional amount of 5¾% Treasury Stock 2009 created as a result of this operation will, on issue, represent a further amount of the existing stock, carrying the same rights as that stock and will be subject to the terms and conditions applicable to that stock. It will also rank for the full six months' interest due on 7 June 1999.

TABLE OF "DIRTY PRICE" RATIOS

Trade date	Settlement date	"Dirty price" ratio
11 Jan 99	12 Jan 99	1.1753
12 Jan 99	13 Jan 99	1.1754
13 Jan 99	14 Jan 99	1.1754
14 Jan 99	15 Jan 99	1.1754
15 Jan 99	18 Jan 99	1.1755

NOTE TO EDITORS

This notice has been issued following discussions with the GEMMs and end-investors on the conversion offer issued in October 1998. This offer, which was the largest of its kind in recent years, provided an opportunity for investors to convert their holdings of 8% Treasury Stock 2009 into 5¾% Treasury Stock 2009. The result of this offer was that £2,890 million (83.8%) of the £3,450 million of 8% Treasury Stock 2009 outstanding prior to the offer was converted into 5¾% Treasury Stock 2009. Although a large proportion of the stock was converted, the remaining £560 million in issue was too large for the DMO to assign rump status to the stock.

The DMO announced on 18 December 1998 that it was considering suggestions made at the quarterly consultation meetings with gilt market participants to deal with market illiquidity in 8% Treasury Stock 2009. Any switches under this facility will not have an impact on the gilt financing requirement for 1998-99.

The rates in the above table have been calculated on a "dirty price" basis which means that the relevant amounts of accrued interest on 8% Treasury Stock 2009 and 5¾% Treasury Stock 2009 have been included in the calculation. As indicated above, the rates have been set so as not to disadvantage those holders who accepted the conversion offer in November 1998. It is not valid to make a comparison of the "dirty price" ratios between this operation and the original conversion since 5¾% Treasury Stock 2009 paid a dividend on 7 December 1998. The clean price terms of this operation are about 80p of 5¾% Treasury Stock 2009 per £100 nominal of 8% Treasury Stock 2009 less generous (relative to the DMO's assessment of the current yield curve) than those of the conversion offer.

To facilitate the settlement of transactions resulting from this operation, the DMO will agree prices of the relevant stocks with GEMMs based on the "dirty price" ratios indicated above to enable bargains to be settled at the time of each transaction.

Assigning "rump" status to 8% Treasury Stock 2009 would have three main effects:

- GEMMs would no longer be required to make prices in the stock because the amount of stock in market hands would be too small for a two-way market to be expected to exist.
- For those investors who wished to sell their holdings in future, the DMO would be prepared to make a bid for the stock at a price of its own choosing providing that the request was made by a GEMM.
- The stock would no longer be available for purchase from the Bank of England Brokerage Service, although holders of the stock could sell it through the Brokerage Service.

Government Statement

As explained in the statement issued by Her Majesty's Treasury on 29 May 1985, in the interest of the orderly conduct of fiscal policy, neither Her Majesty's Government nor its servants or agents undertake to disclose tax changes decided on but not yet announced, even where they may specifically affect the terms on which, or the conditions under which, the further amount of 5¼% Treasury Stock 2009 is issued or sold by or on behalf of the Government. No responsibility can therefore be accepted for any omission to make such disclosure and any such omission shall neither render any transaction liable to be set aside nor give rise to any claim for compensation.