

United Kingdom
**Debt
Management
Office**

INFORMATION MEMORANDUM

ISSUE, STRIPPING AND RECONSTITUTION OF BRITISH GOVERNMENT STOCK

15 August 2011

INTRODUCTION

This Memorandum relates to British Government Stock issued on behalf of Her Majesty's Treasury by the United Kingdom Debt Management Office, an Executive Agency of Her Majesty's Treasury ("DMO") on or after 15 August 2011 including further amounts of Stock first issued before that date (a list of Stocks with the amounts outstanding is available on request at the addresses at the end of this Memorandum). It sets out some of the important terms of such Stock and information relating to it, including information about public auctions of Stock conducted by the DMO. For further information on the DMO's operations in the market see the DMO's Official Operations in the Gilt-edged Market Operational Notice, as amended from time to time, which is available on request or from the DMO's website, www.dmo.gov.uk.

This Memorandum also sets out the arrangements under which Stock, whenever issued, may be stripped and strips may be reconstituted into holdings of Stock, and the terms on which strips and Stock will be issued and exchanged under those arrangements.

This Memorandum supplements, and is subject to, the specific terms and information set out in the prospectus or notice relating to each particular issue of Stock. Where a further amount is issued of an existing Stock, this Memorandum is subject also to the provisions of the prospectus or notice under which the Stock was first issued. This Memorandum is issued in substitution for the Information Memorandum relating to the Issue, Stripping and Reconstitution of British Government Stock dated May 2009, as amended by the DMO's Notice of 24 June 2011.

GENERAL

1. British Government Stocks first issued on or after 1 April 2005 will be titled as 'Gilts' (i.e. Treasury Gilt). References to Stock in this Information Memorandum shall be construed as including references to such Gilts. For the avoidance of doubt 'Gilts' constitute 'stock' for the purposes of all relevant statutory provisions.

2. Stocks are issued pursuant to the provisions of section 12 of the *National Loans Act 1968*.

3. The principal of and interest on Stock and sums payable in respect of strips will be a charge on the National Loans Fund, with recourse to the Consolidated Fund of the United Kingdom of Great Britain and Northern Ireland.

4. The arrangements for the maintenance of registers of stockholders and holders of strips, for transfer of Stock and strips and for payment of amounts due in respect of Stock and strips will be governed by the applicable legislation. The current position is as follows –

(i) Stock will be registered at the Registrar. For the purposes of this Memorandum, 'the Registrar' means 'Her Majesty's Treasury's designated Registrar; currently Computershare Investor Services PLC'.

(ii) Stock may be held in either certificated or uncertificated form. Uncertificated Stock will be registered at the Registrar, held by members of the CREST system ("CREST") and transferable pursuant to the *Uncertificated Securities Regulations 2001*¹ (as amended) (the "2001 Regulations"). Certificated Stock will be transferable by instrument in writing in accordance with the *Stock Transfer Act 1963*.

(iii) The arrangements for the registration and transfer of strips are described in paragraphs 40 to 64 below.

5. Stock and strips are transferable in multiples of one penny.

¹ *Uncertificated Securities Regulations 2001* (SI 2001/3755) (as amended).

6. Payment of principal and interest on Stock and of sums payable in respect of strips will be made by credit to a bank or building society account or, in the case of CREST participants, into a CREST Cash Memorandum Account in accordance with the holder's instructions to the Registrar and, where applicable, to CREST, or, at the option of the holder, by warrant sent by post. In the absence of instructions from the holder, payment of interest on Stock will be made by interest warrant sent by post.

7. If the due date for any amount of principal or interest in respect of Stock or any amount payable in respect of a strip is not a business day then payment may not be made until the next succeeding business day and in such cases the holder of the Stock or strip will not be entitled to any further interest or other payment in respect of such delay. For these purposes, "business day" means any day which is not a Saturday or Sunday, Good Friday, Christmas Day, nor a day which is a bank holiday in England and Wales under the *Banking and Financial Dealings Act 1971*.

INDEX-LINKED STOCKS

8. For the avoidance of doubt, in the case of any conflict between the terms of the prospectus of an issue or further issue of an Index-linked Stock and the terms of this Memorandum, the terms of the prospectus shall take precedence. As at the date of this Memorandum, there are 17 Index-linked Stocks in existence²:

2½% Index-linked Treasury Stock 2013
2½% Index-linked Treasury Stock 2016
1¼% Index-linked Treasury Gilt 2017
2½% Index-linked Treasury Stock 2020
1¼% Index-linked Treasury Gilt 2022
2½% Index-linked Treasury Stock 2024
1¼% Index-linked Treasury Gilt 2027
4¼% Index-linked Treasury Stock 2030
1¼% Index-linked Treasury Gilt 2032
0¾% Index-linked Treasury Gilt 2034
2% Index-linked Treasury Stock 2035
1¼% Index-linked Treasury Gilt 2037
0½% Index-linked Treasury Gilt 2040
0¾% Index-linked Treasury Gilt 2042
0¾% Index-linked Treasury Gilt 2047
0½% Index-linked Treasury Gilt 2050
1¼% Index-linked Treasury Gilt 2055

Paragraphs 9 to 39 (both inclusive) set out the terms of the four different types of Index-linked Stocks. These were first issued by the Bank of England in respect of the first two types and by the DMO in respect of the remaining two types.

Further issues of Index-linked Stocks first issued by the Bank of England

First issued March 1982 to May 1988

Paragraphs 9 to 15 (both inclusive) set out the terms of Index-linked Stocks first issued March 1982 to May 1988 and references to "Stock" in such paragraphs are to the Stocks as set out immediately below:

2½% Index-linked Treasury Stock 2013
2½% Index-linked Treasury Stock 2016
2½% Index-linked Treasury Stock 2020
2½% Index-linked Treasury Stock 2024

Maturity

9. If not previously redeemed under the provisions of paragraph 15, a Stock will be repayable on the date specified in the relevant prospectus. The value of the principal on redemption will be related, subject to the terms of this Memorandum, to

² 2½% Index-linked Treasury Stock 2011 redeems on 23 August 2011; the Registrar closed its books for the redemption on 12 August 2011.

the movement, during the life of that Stock, of the United Kingdom General Index of Retail Prices maintained by the Office for National Statistics, or any Index which may replace that Index for the purpose of this Memorandum, such movement being indicated by the Index figure issued monthly and subsequently published in the London Gazette.

10. The amount due on repayment, per £100 nominal of Stock, will be £100 multiplied by the Index ratio applicable to the month in which repayment takes place. This amount, expressed in pounds sterling to four places of decimals rounded to the nearest figure below, will be announced by the Bank of England not later than the business day immediately preceding the date of the penultimate interest payment.

Indexation

11. For the purposes of this Memorandum, the Index figure applicable to any month will be the Index figure issued seven months prior to the relevant month and relating to the month before that prior month; “month” means calendar month; and the Index ratio applicable to any month will be equal to the Index figure applicable to that month divided by the Base Index figure applicable to that Stock and stated in the relevant prospectus.

Interest

12. Interest is payable half-yearly on the dates stated in the prospectus for a particular Stock and will be indexed in the same manner as the payment of principal as set out in paragraph 9. Each half-yearly interest payment will be made at a rate, per £100 nominal of Stock, based on the coupon rate stated in the prospectus for that Stock and determined as follows:

$$\left(\frac{\text{Coupon rate of Stock}}{2} \right) \times \text{Index ratio applicable to the month in which the payment falls due}$$

The rate of interest for each interest payment, expressed as a percentage in pounds sterling to four places of decimals rounded to the nearest figure below, will be announced by the Bank of England not later than the business day immediately preceding the date of the previous interest payment.

Revisions to the Index

13. If the Index is revised to a new base after a Stock is issued, it will be necessary, for the purposes of paragraphs 9 to 12 above, to calculate and use a notional Index figure in substitution for the Index figure applicable to the month in which repayment takes place and/or an interest payment falls due (“the month of payment”). This notional Index figure will be calculated by multiplying the actual Index figure applicable to the month of payment by the Index figure on the old base for the month on which the revised Index is based and dividing the product by the new base figure for the same month. This procedure will be used for each occasion on which a revision is made during the life of a Stock.

14. If the Index is not published for a month for which it is relevant for the purposes of this Memorandum, the Bank of England, after consultation with the relevant Government Department, will publish a substitute Index figure which shall be an estimate of the Index figure which would have been applicable to the month of payment, and such substitute Index figure shall be used for all purposes for which the actual Index figure would have been relevant. The calculation by the Bank of England of the amounts of principal and/or interest payable on the basis of a substitute Index figure shall be conclusive and binding upon all stockholders. No subsequent adjustments to such amounts will be made in the event of subsequent publication of the Index figure which would have been applicable to the month of payment.

15. If any change should be made to the coverage or the basic calculation of the Index which, in the opinion of the Bank of England, constitutes a fundamental change in the Index which would be materially detrimental to the interests of the

stockholders, Her Majesty's Treasury will publish a notice in the London Gazette immediately following the announcement by the relevant Government Department of the change, informing stockholders and offering them the right to require Her Majesty's Treasury to redeem their Stock. For the purposes of this paragraph, repayment to stockholders who exercise this right will be effected, on a date to be chosen by Her Majesty's Treasury, not later than seven months from the last month of publication of the old Index. The amount of principal due on repayment and of any interest which has accrued will be calculated on the basis of the Index ratio applicable to the month in which repayment takes place. A notice setting out the administrative arrangements will be sent to stockholders at their registered address by the Registrar at the appropriate time.

First issued June 1992 to September 1992

Paragraphs 16 to 22 (both inclusive) set out the terms of Index-linked Stock first issued June 1992 to September 1992 and references to "Stock" in such paragraphs are to the Stock as set out immediately below:

4½% Index-linked Treasury Stock 2030

Maturity

16. If not previously redeemed under the provisions of paragraph 22, the Stock will be repayable on the date specified in the relevant prospectus. The value of the principal on redemption will be related, subject to the terms of this Memorandum, to the movement, during the life of the Stock, of the United Kingdom General Index of Retail Prices maintained by the Office for National Statistics, or any Index which may replace that Index for the purpose of this Memorandum, such movement being indicated by the Index figure issued monthly and subsequently published in the London Gazette.

17. The amount due on repayment, per £100 nominal of Stock, will be £100 multiplied by the Index ratio applicable to the month in which repayment takes place. This amount, expressed in pounds sterling to four places of decimals rounded to the nearest figure below, will be announced by the Bank of England not later than the business day immediately preceding the date of the penultimate interest payment.

Indexation

18. For the purposes of this Memorandum, the Index figure applicable to any month will be the Index figure issued seven months prior to the relevant month and relating to the month before that prior month; "month" means calendar month; and the Index ratio applicable to any month will be equal to the Index figure applicable to that month divided by the Base Index figure applicable to the Stock and stated in the relevant prospectus.

Interest

19. Interest is payable half-yearly on the dates stated in the prospectus for the Stock and will be indexed in the same manner as the payment of principal as set out in paragraph 16. Each half-yearly interest payment will be made at a rate, per £100 nominal of Stock, based on the coupon rate stated in the prospectus for the Stock and determined as follows:

$$\left(\frac{\text{Coupon rate of Stock}}{2} \right) \times \text{Index ratio applicable to the month in which the payment falls due}$$

The rate of interest for each interest payment, expressed as a percentage in pounds sterling to four places of decimals rounded to the nearest figure below, will be announced by the Bank of England not later than the business day immediately preceding the date of the previous interest payment.

Revisions to the Index

20. If the Index is revised to a new base after the Stock is issued, it will be necessary, for the purposes of paragraphs 16 to 19 ,above, to calculate and use a notional Index figure in substitution for the Index figure applicable to the month in which repayment takes place and/or an interest payment falls due (“the month of payment”). This notional Index figure will be calculated by multiplying the actual Index figure applicable to the month of payment by the Index figure on the old base for the month on which the revised Index is based and dividing the product by the new base figure for the same month. This procedure will be used for each occasion on which a revision is made during the life of the Stock.

21. If the Index is not published for a month for which it is relevant for the purposes of this Memorandum, the Bank of England will nominate a substitute Index figure which shall be an Index figure applicable to the month of payment, published as a substitute figure by the Office for National Statistics, and such substitute Index figure shall be used for all purposes for which the actual Index figure would have been relevant. The calculation by the Bank of England of the amounts of principal and/or interest payable on the basis of a substitute Index figure shall be conclusive and binding upon all stockholders.

22. If any change should be made to the coverage or the basic calculation of the Index which, in the opinion of the Bank of England, constitutes a fundamental change in the Index which would be materially detrimental to the interests of the stockholders, Her Majesty’s Treasury will publish a notice in the London Gazette immediately following the announcement by the relevant Government Department of the change, informing stockholders and offering them the right to require Her Majesty’s Treasury to redeem their holdings of the Stock. For the purposes of this paragraph, repayment to stockholders who exercise this right will be effected, on a date to be chosen by Her Majesty’s Treasury, not later than seven months from the last month of publication of the old Index. The amount of principal due on repayment and of any interest which has accrued will be calculated on the basis of the Index ratio applicable to the month in which repayment takes place. A notice setting out the administrative arrangements will be sent to stockholders at their registered address by the Registrar at the appropriate time.

New issues of Index-linked Stocks and further issues of Index-linked Stocks first issued by the DMO

First issued July 2002 to March 2005

Paragraphs 23 to 28 (both inclusive) set out the terms of Index-linked Stocks first issued July 2002 to March 2005 and references to “Stock” in such paragraphs are to the Stock as set out immediately below:

2% Index-linked Treasury Stock 2035

Maturity

23. The Stock will be repayable on the date specified in the relevant prospectus. The value of the principal on redemption will be related, subject to the terms of this Memorandum, to the movement during the life of the Stock of the United Kingdom General Index of Retail Prices (RPI), or any subsequent index that, in the opinion of the Chancellor of the Exchequer after consultation with a body that the Chancellor of the Exchequer considers to be independent and to have recognised expertise in the construction of price indices, continues the function of measuring changes in the level of UK retail prices. The selection of the new index by the Chancellor of the Exchequer shall be conclusive and binding on all stockholders.

24. The amount due on repayment, per £100 nominal of Stock, will be £100 multiplied by the Index ratio applicable to the month in which repayment takes place. This amount, expressed in pounds sterling to six places of decimals rounded to the nearest figure, will be announced by Her Majesty’s Treasury’s designated debt manager (currently the DMO) not later than the business day immediately preceding the date of the penultimate interest payment.

Indexation

25. For the purposes of this Memorandum, the Index figure applicable to any month will be the Index figure issued seven months prior to the relevant month and relating to the month before that prior month; "month" means calendar month; and the Index ratio applicable to any month will be equal to the Index figure applicable to that month divided by the Base Index figure applicable to the Stock and stated in the relevant prospectus.

Interest

26. Interest is payable half-yearly on the dates stated in the prospectus for the Stock and will be indexed in the same manner as the payment of principal as set out in paragraph 23. Each half-yearly interest payment will be made at a rate, per £100 nominal of Stock, based on the coupon rate stated in the prospectus for the Stock and determined as follows:

$$\left(\frac{\text{Coupon rate of Stock}}{2} \right) \times \text{Index ratio applicable to the month in which the payment falls due}$$

The rate of interest for each interest payment, which will be announced by Her Majesty's Treasury's designated debt manager (currently the DMO) not later than the business day immediately preceding the date of the previous interest payment, will be expressed as a percentage in pounds sterling to six places of decimals rounded to the nearest figure.

Revisions to the Index

27. If the Index is revised to a new base after the Stock is issued, it will be necessary, for the purposes of paragraphs 23 to 26 above, to calculate and use a notional Index figure in substitution for the Index figure applicable to the month in which repayment takes place and/or an interest payment falls due ("the month of payment"). This notional Index figure will be calculated by multiplying the actual Index figure applicable to the month of payment by the Index figure on the old base for the month on which the revised Index is based and dividing the product by the new base figure for the same month. This procedure will be used for each occasion on which a revision is made during the life of the Stock.

28. If the Index is not published for a month for which it is relevant for the purposes of this Memorandum, the DMO will nominate a substitute Index figure which shall be an Index figure applicable to the month of payment published as a substitute figure by the Office for National Statistics, and such substitute Index figure shall be used for all purposes for which the actual Index figure would have been relevant. The calculation by Her Majesty's Treasury's designated debt manager (currently the DMO) of the amounts of principal and/or interest payable on the basis of a substitute Index figure shall be conclusive and binding on all stockholders. No subsequent adjustment to such amounts will be made in the event of subsequent publication of the Index figure which would have been applicable to the month of payment.

First issued from September 2005

Paragraphs 29 to 39 (both inclusive) set out the terms of Index-linked Gilts first issued from September 2005 and, as at the date of this Memorandum, references to "Gilt" in such paragraphs include the Gilts as set out immediately below:

*1¼% Index-linked Treasury Gilt 2017
1⅞% Index-linked Treasury Gilt 2022
1¼% Index-linked Treasury Gilt 2027
1¼% Index-linked Treasury Gilt 2032
0¾% Index-linked Treasury Gilt 2034
1⅞% Index-linked Treasury Gilt 2037
0% Index-linked Treasury Gilt 2040
0% Index-linked Treasury Gilt 2042
0¾% Index-linked Treasury Gilt 2047
0½% Index-linked Treasury Gilt 2050
1¼% Index-linked Treasury Gilt 2055*

Maturity

29. A Gilt will be repayable on the date specified in the relevant prospectus.

30. The value of the principal on redemption will be related, subject to the terms of this Memorandum, to the movement during the life of that Gilt of the Index. The "Index" means the United Kingdom General Index of Retail Prices (RPI), or if the existing Index ceases to be published any replacement Index existing at that date which, in the opinion of the Chancellor of the Exchequer after consultation with a body that the Chancellor of the Exchequer considers to be independent and to have recognised expertise in the construction of price indices (the "Consultant Body"), continues the function of being an officially recognised index measuring changes in the level of UK retail prices. The selection of the replacement Index by the Chancellor of the Exchequer (together with such consequential changes to the calculation of the Index Ratio (as defined below) as the Chancellor of the Exchequer may, after consultation with the Consultant Body, consider to be just and equitable having regard to the interests of Her Majesty's Treasury (as issuer of the Gilt) and of holders of that Gilt) shall be conclusive and binding on all holders of that Gilt. If a replacement Index is selected in accordance with this paragraph, the Index figure used for the purposes of paragraph 32 will be determined by reference to the replacement Index with effect from the first month for which the existing Index figure is no longer published.

Indexation

31. For the purposes of this Memorandum, an Index Ratio will be applied to calculate the interest payments and the redemption payment. The Index Ratio for a given date is defined as the ratio of the Reference Index applicable to that date ("Ref Index_{Date}") divided by the Reference Index applicable to the first issue date of the Gilt ("Ref Index_{First Issue Date}"), rounded to the nearest 5th decimal place.

$$\text{Index Ratio}_{\text{Date}} = \left[\frac{\text{Ref Index}_{\text{Date}}}{\text{Ref Index}_{\text{First Issue Date}}} \right], \text{ rounded to the nearest 5}^{\text{th}} \text{ decimal place.}$$

32. The Reference Index for the first calendar day of any calendar month shall be the Index figure for the calendar month falling three calendar months earlier. For example, the Reference Index for 1 June corresponds to the Index figure for March, the Reference Index for 1 July corresponds to the Index figure for April, etc. The Reference Index for any other day in the month shall be calculated by linear interpolation between the Reference Index applicable to the first calendar day of the month in which the day falls and the Reference Index applicable to the first calendar day of the month immediately following. Interpolated values for Ref Index_{Date} should be rounded to the nearest 5th decimal place.

33. The formula used to calculate Ref Index_{Date} can be expressed as follows:

$$\text{Ref Index}_{\text{Date}} = \text{Ref Index}_{\text{M}} + \left(\frac{\text{T} - 1}{\text{D}} \right) [\text{Ref Index}_{\text{M}+1} - \text{Ref Index}_{\text{M}}]$$

where:

D = The number of days in the calendar month in which the given date falls.

T = The calendar day corresponding to the given date.

Ref Index_M = Reference Index for the first day of the calendar month in which the given date falls.

Ref Index_{M+1} = Reference Index for the first day of the calendar month immediately following the given date.

Interest

34. Interest is payable half-yearly on the dates stated in the prospectus for a particular Gilt (each date a "Dividend Date")

and will be indexed by reference to the Index Ratio on the relevant Dividend Date. For the Gilt the semi-annual interest payments per £100 nominal shall be calculated as the product of the stated coupon per £100 nominal and the relevant value of the Index Ratio:

$$\text{Interest Payment}_{\text{Dividend Date}} = \frac{c}{2} \times \text{Index Ratio}_{\text{Dividend Date}}$$

where c = Stated annual coupon per £100 nominal.

Interest payments will be rounded to the nearest 6th decimal place per £100 nominal.

35. The rate of interest for each interest payment will be announced by Her Majesty's Treasury's designated debt manager (currently the DMO) not later than the business day immediately preceding the first date on which, in accordance with then current market practice, the Gilt is traded (in unstripped form) without the benefit of the interest payment, and expressed as a percentage in pounds sterling to six places of decimals rounded to the nearest figure.

Calculation of the redemption payment

36. The redemption payment per £100 nominal shall be calculated as follows:

$$\text{Redemption Payment} = 100 \times \text{Index Ratio}_{\text{Redemption Date}}$$

The redemption payment per £100 nominal will be announced by Her Majesty's Treasury's designated debt manager (currently the DMO) not later than the business day immediately preceding the first date on which, in accordance with then current market practice, the Gilt is traded (in unstripped form) without the benefit of the interest payment due on the redemption date, and expressed as a percentage in pounds sterling to six places of decimals rounded to the nearest figure.

37. No deflation floor will be applied when calculating the redemption payment of the Gilt (i.e. the redemption payment for an Index-linked Gilt would fall below £100 per £100 nominal if $\text{Ref Index}_{\text{Redemption Date}}$ were less than $\text{Ref Index}_{\text{First Issue Date}}$).

Revisions to the Index

38. If the Index is revised to a new base after a Gilt is issued, it will be necessary, for the purposes of paragraphs 31 to 36, to calculate and use notional Index figures in substitution for the Index figures used to determine the Reference Index figure applicable to the date on which repayment takes place and/or an interest payment falls due. These notional Index figures will be calculated by multiplying the appropriate actual Index figures by the Index figure on the old base for the month on which the revised Index is based and dividing the product by the new base figure for the same month. The unrounded notional Index figures will then be used to calculate the relevant Reference Index figure as described in paragraphs 32 and 33 above. This procedure will be used for each occasion on which a revision is made during the life of a Gilt. The calculation of the notional Index figures by Her Majesty's Treasury's designated debt manager (currently the DMO) shall be conclusive and binding on all holders of that Gilt.

39. If the Index is not published for any month for which it is relevant for the purposes of this Memorandum, Her Majesty's Treasury's designated debt manager (currently the DMO) will nominate a substitute Index figure which shall be an Index figure applicable to the month of payment published as a substitute figure by the Office for National Statistics or any replacement body, and such substitute Index figure shall be used for all purposes for which the actual Index figure would have been relevant. If the Office for National Statistics or any replacement body does not publish such a figure, Her Majesty's Treasury's designated debt manager (currently the DMO) shall nominate in good faith a substitute Index figure

which shall be used for all purposes for which the actual Index figure would have been relevant. The nomination of the substitute Index figure and the calculation by Her Majesty's Treasury's designated debt manager (currently the DMO) of the amounts of principal and/or interest payable on the basis of a substitute Index figure shall be conclusive and binding on all holders of that Gilt. No subsequent adjustment to such amounts will be made in the event of subsequent publication of the Index figure which would have been applicable to the month of payment.

STRIPS

Stock which may be stripped and reconstituted

40. Stocks which may be stripped under the arrangements described in this Memorandum are –

- (i) any Stocks issued on terms that they may be stripped, and that holdings of them may be reconstituted;
- (ii) any Stock issued as zero-coupon Stock and on terms that such Stock shall be deemed to be treated for the purposes of reconstitution as coupon strips or principal strips as may be designated on issue by the DMO; and
- (iii) any other Stocks specified as Stocks which may be stripped, and of which holdings may be reconstituted, in notices issued by, or on behalf of, Her Majesty's Treasury or the DMO, whether before or after the date of this Memorandum.

41. A list is available, on request to the DMO or on its website, of the Stocks that may be stripped at that time.

42. The expression "eligible Stock" is used in this Memorandum to refer to Stock falling within paragraph 40 above.

Who may hold strips; who may strip and reconstitute Stock

43. Strips may be held only by a CREST member (subject to the CREST Reference Manual, as amended from time to time), Her Majesty's Treasury or the Bank of England. Like any other government securities, strips may be held by one person on behalf of another. Any person may therefore own strips beneficially by making arrangements to hold them through a CREST member.

44. Only a Gilt-edged Market Maker (a "GEMM"), Her Majesty's Treasury or the Bank of England may strip and reconstitute Stock.

Stripping of Stock

45. Subject to the terms of this Memorandum, an amount of eligible Stock of any description may be exchanged for –

- (i) an individual security or individual securities consisting of one such security for each outstanding interest payment³ in respect of that amount of Stock, each such security conferring the right to receive on the due date of the relevant interest payment a sum equal to that of the relevant interest payment; and
- (ii) a security conferring the right to receive, on the due date for the repayment of that Stock, a sum equal to the sum payable in respect of principal on the repayment of that amount of Stock.

46. In this Memorandum -

- (i) the process of exchange described in paragraph 45 above is referred to as the "stripping" of the relevant amount of

³ For this purpose an 'outstanding' interest payment means an interest payment for which the record date (that is, the date on which a balance is struck for payment of that interest payment under section 2 of the *National Debt (Stockholders Relief) Act 1892*, as amended) has not passed at the time the right to strip is exercised.

Stock;

(ii) securities of the kinds described in paragraph 45 (i) and (ii) above are referred to as "strips";

(iii) a security of the kind described in paragraph 45 (i) above is referred to as a "coupon strip";

(iv) a security of the kind described in paragraph 45 (ii) above is referred to as a "principal strip"; and

(v) any reference (in whatever terms) to strips of any description held by a person is a reference to the balance of such strips held by that person at the relevant time, taking account of all exchanges made under paragraph 45 above or paragraphs 56 to 63 below and all transfers made as described in paragraph 53 below.

47. Unless expressly specified in the relevant prospectus or in a notice issued by the DMO Stock may only be stripped or reconstituted in a minimum amount of £10,000 nominal and in multiples of £10,000 nominal thereafter.

48. The procedure for stripping is set out in the CREST Reference Manual, as amended from time to time.

49. Upon the issue of the appropriate strips in exchange for Stock stripped in accordance with this Memorandum, the Stock stripped will be cancelled and the register will be amended accordingly.

50. Where eligible Stock is stripped during the period between the record date for an interest payment and the date of payment, the holder will not be entitled to receive a strip in respect of that interest payment, which will be paid to the person registered as the holder of the Stock on the record date.

51. Eligible Stock may not be stripped after the shutting date. For the purposes of this Memorandum the "shutting date" of Stock of any description means the last day on which transfers of the Stock may be submitted for registration before the redemption date of the Stock.

Strips

52. Each strip will confer on the holder the right to payment, on the due date for payment of the strip, of a sum equal to the nominal amount of the strip. The due date for payment of a strip will be specified in the title of the strip designated on the register.

53. The current regulations⁴ provide that strips may be transferred only through CREST. The regulations provide for the arrangements for registration to reflect the terms relating to fungibility referred to in paragraphs 54 and 55 below.

54. Subject to paragraph 55 below, strips will be issued on the following terms relating to fungibility –

(i) coupon strips payable on the same day will not be distinguished one from another by reference to the Stock from which they are derived or in any other manner;

(ii) principal strips will be distinguished from coupon strips;

(iii) principal strips derived from Stock of a particular description will not be distinguished one from another but will be distinguished from principal strips derived from Stock of any other description, even where the other principal strips are payable on the same date.

⁴ *The Government Stock Regulations 2004* (SI 2004/1611).

55. Strips of any description may be issued on terms that, in respects or in circumstances or to an extent different from those provided by paragraph 54 (ii) and (iii) above, they will be distinguished from, and will accordingly not be fungible with, other strips or other strips of a particular description or descriptions. Such terms may also preclude or restrict the use of the strips in question for the reconstitution of Stock in accordance with paragraphs 56 to 63 below. Any such terms will be set out in a notice given in accordance with paragraph 108 below at or before the time of issue of the relevant strips.

Reconstitution of Stock from strips

56. Subject to the provisions of this Memorandum, strips such as are specified in paragraph 57 below may be exchanged for an amount of eligible Stock of any specified description the shutting date of which has not then passed. Such an exchange is in this Memorandum referred to as the "reconstitution" of such Stock.

57. The strips referred to in paragraph 56 above are -

(i) principal strips derived from eligible Stock of the description in question conferring the right to receive a sum equal to the principal sum payable on the repayment of the amount of Stock to be reconstituted; and

(ii) in respect of each interest payment date in respect of such Stock for which the record date has not then passed, coupon strips conferring the right to payment on that date of a sum equal to the interest payable on that date on the amount of Stock to be reconstituted;

other than any strips which may not be used for the proposed reconstitution because of a restriction of the kind described in paragraph 62 above.

58. Stock may be reconstituted regardless of whether any or all of the coupon strips for which it is exchanged are derived from Stock of the relevant description and regardless of whether the Stock from which those coupon strips are derived can be identified.

59. The procedure for reconstitution of Stock is set out in the CREST Reference Manual, as amended from time to time.

60. Reconstituted Stock will carry the same rights as, and will not be distinguished from, the existing Stock of the relevant description. Stock issued on reconstitution will be amalgamated on the register with any other Stock of the relevant description then held by the person to whom it is issued.

61. Principal and coupon strips exchanged under paragraph 56 above for reconstituted Stock will be cancelled upon the issue of the reconstituted Stock.

62. Where eligible Stock is reconstituted during the period between the record date for an interest payment and the date of payment, the Stock will be reconstituted on an ex-dividend basis and accordingly the strips exchanged for the reconstituted Stock will not include strips corresponding to that interest payment.

63. Stock may not be reconstituted after its shutting date.

Amendments relating to stripping and reconstitution

64. Any amendments or supplements made pursuant to paragraph 108 below may -

(i) extend the scope of the securities which may be stripped and reconstituted;

(ii) extend, limit or redefine who may hold strips and who may strip and reconstitute Stock, either generally or in relation to particular cases or categories;

(iii) modify the terms relating to fungibility in paragraphs 54 and 55 above (including a modification to provide that strips of specified descriptions will no longer be distinguished one from another);

(iv) modify the arrangements for reconstitution in paragraphs 56 to 63 above.

Any such amendments relating to the matters referred to in this paragraph 64 may affect Stock and strips already in issue.

METHODS OF APPLICATION FOR STOCK

Auctions

65. Bids at auctions of Stock may be made on a competitive or non-competitive basis, as set out below.

66. Subject as follows, competitive and non-competitive bids by GEMMs must be submitted electronically by means of the Bloomberg Bond Auction System. The DMO may agree, but is not obliged, to accept bids from any GEMM by telephone, such agreement to have been obtained before such bids are submitted. Notwithstanding this, the DMO may in its absolute discretion require some or all GEMMs to submit some or all bids by telephone; the DMO will use reasonable endeavours to give GEMMs reasonable advance warning of such requirement. GEMMs may make competitive bids either on their own account or on behalf of clients. Non-competitive bids by other bidders must be submitted to the Registrar, who is acting on behalf of the DMO, or the DMO on the application form issued with the prospectus (see paragraph 80(iii)). Only one bid may be submitted on any one application form.

Bid prices for Index-linked Treasury Gilts (see paragraphs 29-39)

67. Each bid price for Index-linked Treasury Gilts must be expressed as a real clean price (i.e. a non-inflation adjusted price) and all references to a price in paragraphs 69(i), 70(i), 70(iii) and 71(iv) shall be taken as a reference to such a real clean price.

Settlement value for Index-linked Treasury Gilts (see paragraphs 29-39)

68. The actual price payable in settlement of an accepted bid will be the real clean price (the striking price) multiplied by the Index Ratio applicable to the settlement date of the relevant auction plus the inflation adjusted accrued interest and all references to a price in paragraphs 71(v) to 71(vii) and 76 shall be taken as a reference to such an actual price.

69. Competitive bids

(i) Unless otherwise specified by the DMO (either in the relevant prospectus or in a notice given in accordance with paragraph 108 below), each competitive bid must be for one amount and at one price expressed in multiples of £0.01 per £100 nominal of Stock (i.e. to 2 decimal places) as a clean price. Telephone bids by GEMMs must be made to the DMO not later than the time on the auction date specified in the prospectus.

(ii) Each competitive bid must be for a minimum of £1,000,000 nominal of Stock and for larger amounts in multiples of £1,000,000. In the case of auctions of Index-linked Stock ("IL auctions"), competitive bids may only be made by those GEMMs formally recognised as Index-linked Gilt-edged Market Makers by the DMO ("IL GEMMs").

(iii) Payment in full at the price bid (plus accrued interest or less rebate interest, if applicable) must be made by a CHAPS payment (except for applicants who have requested that any Stock sold to them be credited direct to a CREST stock account - see paragraph 76 below). Each CHAPS payment must be sent to the Bank of England to arrive not later than

the time on the settlement date specified in the prospectus. CHAPS payments must be debited to an account in the name of the applicant (or an account in the joint names of the applicant and one or more others) held with a bank or building society in the United Kingdom. The account to be credited will be available from the DMO on request.

70. Allocation of Stock

(i) The DMO reserves the right to reject any competitive bid or any part of any competitive bid. Subject to this, competitive bids will be ranked in descending order of price and Stock will be sold to applicants whose competitive bids are at or above the lowest price at which the DMO decides that any competitive bid should be accepted (the "lowest accepted price" for conventional auctions or the "striking price" for IL auctions).

(ii) In the case of conventional auctions, applicants whose competitive bids are accepted will purchase Stock at the prices at which they bid (plus accrued interest or less rebate interest, if applicable). Competitive bids which are accepted and which are made at prices above the lowest accepted price will be allotted in full. Competitive bids which are accepted and which are made at the lowest accepted price may be allotted in part only. No sale will be made of an amount less than £1,000 nominal of Stock.

(iii) In the case of IL auctions, all applicants whose competitive bids are accepted will purchase Stock at the striking price (plus accrued interest or less rebate interest, if applicable). The striking price is the lowest price at which the DMO decides that any competitive bid should be accepted. Competitive bids which are accepted and which are tendered at prices above the striking price will be allotted in full. Competitive bids which are accepted and which are tendered at the striking price may be allotted in part only. No sale will be made of an amount less than £1,000 nominal of Stock.

71. Non-competitive bids

(i) A non-competitive bid must be for not less than £1,000 nominal and (except in the case of a bid made by a GEMM) for not more than £500,000 nominal of Stock, and must be for a multiple of £1,000 nominal of Stock.

(ii) Only one non-competitive bid may be submitted for the benefit of any one person already accepted on to the DMO's list of approved investors (see paragraph 80 below). Multiple applications or suspected multiple applications are liable to be rejected. Only one non-competitive bid may be submitted on any one application form.

(iii) A separate cheque representing payment at the rate specified in the prospectus must accompany each non-competitive bid (except for bids by applicants who have requested that any Stock sold to them be credited direct to a CREST stock account - see paragraph 76 below - and except for bids by GEMMs - see paragraph 71(v) below). Cheques must be drawn on a bank in, and payable in, the United Kingdom, the Channel Islands or the Isle of Man.

(iv) The DMO reserves the right to reject any non-competitive bid or any part of any non-competitive bid. Non-competitive bids which are accepted will be accepted in full at the non-competitive sale price (plus accrued interest or less rebate interest, if applicable). The non-competitive sale price for conventional auctions will be equal to the average of the prices at which competitive bids have been accepted, the average being weighted by reference to the amount accepted at each price and rounded to the nearest multiple of £0.01. The non-competitive sale price for IL auctions will be equal to the striking price.

(v) In the case of non-competitive bids by GEMMs which are accepted, payment in full at the non-competitive sale price (plus accrued interest or less rebate interest, if applicable) must be made by a CHAPS payment in accordance with paragraph 69(iii) above (except for applicants who have requested that any Stock sold to them be credited direct to a CREST stock account - see paragraph 76 below).

(vi) If the non-competitive sale price (plus accrued interest or less rebate interest, if applicable) is less than the amount paid by cheque on application, the excess amount paid will be refunded by cheque sent by post at the risk of the applicant, or by another means chosen by the Registrar.

(vii) If the non-competitive sale price (plus accrued interest or less rebate interest, if applicable) is greater than the amount paid by cheque on application, applicants whose non-competitive bids are accepted may be required to make a further payment equal to the excess. The Registrar on behalf of the DMO will notify applicants from whom a further payment is required by letter of the amount of Stock allocated to them and of the further payment due. Such a notification will entitle an applicant to transfer the amount of Stock so allocated. The despatch of certificates to such applicants will be delayed until the further payment has been made.

(viii) The DMO will make an allowance of 10% of the total amount of Stock on offer available for non-competitive bids by GEMMs. For conventional auctions the amount available to each GEMM will be the non-competitive allowance divided by the number of GEMMs recognised by the DMO on the auction date. For IL auctions each IL GEMM's non-competitive entitlement will be communicated individually to that IL GEMM by the DMO prior to the auction. If any GEMMs do not bid for their full non-competitive entitlements in any auction, the remainder will be combined with the Stock available for allotment to competitive bids.

72. Application forms should arrive at the Registrar or the DMO by the date and time specified in the prospectus for their receipt (the "latest specified time"). However the DMO reserves the right (but is not obliged) to accept applications which are received through the post later than this provided that the cover bears a legible postmark not later than the latest specified time. The DMO will not usually exercise its power to accept an application received late unless it was posted early enough for it to have been reasonable to expect it to arrive before the latest specified time.

Post Auction Option Facility

73. Subject to paragraph 75 below, following the auction of a Stock, the DMO shall make available to GEMMs (IL GEMMs in the case of IL auctions) the option to offer to purchase a further amount of Stock equivalent to 10% of the nominal amount of the Stock allocated at the relevant auction at the "average accepted price" (in the case of conventional auctions) or the "striking price" (in the case of IL auctions). The amount available to each GEMM (or IL GEMM) will be determined by reference to the allocation (including non-competitive allowance and allocation to clients) secured by such GEMM (or IL GEMM) in the relevant auction and rounded down to the nearest £1,000 nominal of Stock. Where a part of an option allowance is attributable to any allocation to a client, the GEMM (or IL GEMM) is required to make such option allowance available to that client; if that client does not opt to exercise such option the GEMM (or IL GEMM) may exercise such option allowance for its own benefit.

74. Such options shall be exercised electronically by means of the Bloomberg Bond Auction System. Notwithstanding this, the DMO may in its absolute discretion require or permit GEMMs (or IL GEMMs) to exercise their options by telephone or by other means; the DMO will advise GEMMs (or IL GEMMs) in advance of such requirement. GEMMs (or IL GEMMs) may exercise such options either on their own account or on behalf of clients. Such options may be exercised from the time specified in a Notice published by the DMO and must be exercised not later than the time specified in such Notice.

75. The DMO reserves the right to reject any exercise of such options or any part of any such exercise. In any event, such further amount of Stock will not be made available to GEMMs (or IL GEMMs) in the event that (i) the DMO specifies in the prospectus relating to the relevant auction that the option facility will not be available or (ii) the Stock on offer at the relevant auction is not allocated in full. For the avoidance of doubt a Stock will not be allocated in full where insufficient

bids have been received for that Stock or where the DMO has, in accordance with paragraphs 70(i) and 71(iv), decided to reject bids such that the remaining accepted bids are insufficient to cover the amount of Stock on offer.

76. Applications for Stock to be credited to a CREST stock account

CREST members may, by completing the appropriate section of the application form, request that any Stock sold to them be credited direct to their CREST stock account. Stock sold to GEMMs as a result of telephone bids will be credited to their CREST stock accounts. Deliveries will be made on the date specified for settlement in the prospectus, by means of a simple delivery ("DEL") from an account in the name of the United Kingdom Debt Management Office (Participant ID "00XBJ"). Applicants who are not CREST members may similarly request that any Stock sold to them be credited direct to a CREST stock account in the name of a CREST member, provided they have made any necessary arrangements to ensure that the CREST member will be willing to receive the Stock. The consideration to be input in respect of the delivery will be the amount payable by the applicant on the sale of the Stock at the price bid in the case of a competitive bid, or at the non-competitive sale price in the case of a non-competitive bid (in either case plus accrued interest or less rebate interest, if applicable).

77. Revocation of bids

Bids will NOT be revocable between the time specified in the relevant prospectus as the latest time by which tenders for the Stock must be lodged and 10.00am on the day following the second clear day thereafter. Any day which is a Saturday or Sunday or which is a bank holiday in any part of Great Britain shall be disregarded⁵.

78. Other applications

Stock sold to applicants who have not requested that Stock sold to them be credited direct to a CREST stock account will be registered in accordance with the instructions given in the application form. A certificate in respect of the Stock sold and (where applicable) a cheque for any excess amount will be sent by post at the applicant's risk or refunded by another means chosen by the Registrar. The DMO may at its discretion withhold despatch of a cheque or certificate until the applicant's cheque has been paid, or CHAPS payment received, and any verification of identity has been completed. In such cases the Registrar on behalf of the DMO will notify the applicant by letter of the acceptance of the application and of the amount of Stock allocated subject to receipt of payment or verification of identity. This notification will not entitle the applicant to transfer the Stock so allocated. If an application is rejected a cheque for any amount paid on application will be returned to the applicant by post at the applicant's risk.

79. Default in payment

The DMO may at its discretion cancel any sale of Stock if the applicant defaults in making due payment. Where the applicant has requested that Stock be credited direct to a CREST stock account there will be a default in making due payment if the relevant CREST member fails to comply with all relevant pre-conditions under the CREST Reference Manual to enable settlement to take place on the due date for such settlement specified in the prospectus. In any other case there will be default in making due payment if the applicant's cheque is not paid on first presentation or if the applicant's CHAPS payment is not received by the relevant time on the due date for such payments specified in the prospectus (as the case may be). If the DMO accepts payment after the due date it may charge interest on the amount payable, in respect of the period from the due date to the date of payment, at a rate equal to the London Inter-Bank Offered Rate for one week deposits in sterling (LIBOR) plus 1% per annum. The DMO will determine this rate by reference to market quotations for LIBOR on the due date for payment, obtained from such source or sources as it may consider appropriate.

⁵ See paragraph 10 of the *Government Stock Regulations 2004* (SI 2004/1611).

80. *Approved Group of investors*

(i) The Registrar, on behalf of the DMO, and the DMO will only permit applications to buy Stock from persons already accepted on to the DMO's list of approved investors (the "Approved Group"). These investors will have previously satisfied the evidentiary requirements of the DMO regarding the identity of any applicant for Stock or of any person for whom an applicant is acting as agent.

(ii) Requests to be admitted to the Approved Group can be made at any time but failure to provide satisfactory evidence of identity will result in an applicant being refused admission to the Approved Group. Requests will normally take a minimum of 10 business days to process, depending on circumstances, but this timescale represents a guide only and applicants should not rely on being admitted to the Approved Group within this timescale.

(iii) When an auction of Stock is announced, the Registrar will dispatch a copy of the relevant prospectus together with an application form to each investor in the Approved Group. Applications for Stock must be made on these forms only.

81. *General*

(i) Cancellation of a sale of Stock for any reason will not affect the non-competitive sale price or any other sale of Stock.

(ii) The DMO may sell less than the full amount of the Stock on offer at the auction and/or pursuant to the post-auction option facility and may decide not to sell any of the Stock.

Mini-tenders

82. The DMO may from time to time issue amounts of Stock by means of a "mini-tender" to GEMMs (IL GEMMs in the case of Index-linked Stock). Bids shall be made in accordance with the DMO's Official Operations in the Gilt-edged Market Operational Notice (as amended from time to time). In the case of mini-tenders of a conventional Stock, the DMO will specify in its announcement of the mini-tender whether the mini-tender is to be conducted on a single or multiple price basis; mini-tenders of Index-linked Stock ("IL mini-tender") will be conducted only on a single price basis.

83. Bids at mini-tenders of Stock shall be made on a competitive basis only, and any reference to 'bids' in paragraphs 82-89 means 'competitive bids'. Bids shall be made as set out below.

84. Subject as follows, bids by GEMMs must be submitted electronically by means of the Bloomberg Bond Auction System. The DMO may agree, but is not obliged, to accept bids from any GEMM by telephone, such agreement to have been obtained before such bids are submitted. Notwithstanding this, the DMO may in its absolute discretion require some or all GEMMs to submit some or all bids by telephone; the DMO will use reasonable endeavours to give GEMMs reasonable advance warning of such requirement. GEMMs may make bids either on their own account or on behalf of clients.

Bid prices for Index-linked Treasury Gilts (see paragraphs 29-39)

85. Each bid price for Index-linked Treasury Gilts must be expressed as a real clean price (i.e. a non-inflation adjusted price) and all references to a price in paragraphs 87(i), 88(i) and 88(iii) shall be taken as a reference to such a real clean price.

Settlement value for Index-linked Treasury Gilts (see paragraphs 29-39)

86. The actual price payable in settlement of an accepted bid will be the real clean price (the striking price) multiplied by the Index Ratio applicable to the settlement date of the relevant mini-tender plus the inflation adjusted accrued interest

and all references to a price in paragraph 89 shall be taken as a reference to such an actual price.

87. Submission of Bids

(i) Unless otherwise specified by the DMO (either in the tender announcement or in a notice given in accordance with paragraph 108 below), each bid must be for one amount and at one price expressed in multiples of £0.01 per £100 nominal of Stock (i.e. to 2 decimal places) as a clean price. Telephone bids by GEMMs must be made to the DMO not later than the time on the mini-tender date specified in the tender announcement.

(ii) Each bid must be for a minimum of £1,000,000 nominal of Stock and for larger amounts in multiples of £1,000,000. In the case of IL mini-tenders, bids may only be made by IL GEMMs.

88. Allocation of Stock

(i) The DMO reserves the right to reject any bid or any part of any bid. Subject to this, bids will be ranked in descending order of price and Stock will be sold to applicants whose bids are at or above the lowest price at which the DMO decides that any bid should be accepted.

(ii) In the case of mini-tenders conducted on a 'multiple price' basis, applicants whose bids are accepted will purchase Stock at the prices at which they bid (plus accrued interest or less rebate interest, if applicable). Bids which are accepted and which are made at prices above the lowest accepted price will be allotted in full. Bids which are accepted and which are made at the lowest accepted price may be allotted in part only. No sale will be made of an amount less than £1,000 nominal of Stock.

(iii) In the case of mini-tenders conducted on a 'single price' basis all applicants whose bids are accepted will purchase Stock at the striking price (plus accrued interest or less rebate interest, if applicable). The striking price is the lowest price at which the DMO decides that any bid should be accepted. Bids which are accepted and which are tendered at prices above the striking price will be allotted in full. Bids which are accepted and which are tendered at the striking price may be allotted in part only. No sale will be made of an amount less than £1,000 nominal of Stock.

89. Stock to be credited to a CREST stock account

Stock sold to GEMMs will be credited to their CREST stock accounts. Deliveries will be made on the date specified for settlement in the tender announcement, by means of a simple delivery ("DEL") from an account in the name of the United Kingdom Debt Management Office (Participant ID "00XBJ") on the basis of Delivery versus Payment. The consideration to be input in respect of the delivery will be the amount payable by the applicant on the sale of the Stock at the price bid in the case of a mini-tender conducted on a 'multiple price' basis, or at the striking price in the case of a mini-tender conducted on a 'single price' basis (in each case plus accrued interest or less rebate interest, if applicable).

"Taps" and "reverse taps"

90. The DMO from time to time conducts operations in Stock by "tap" or "reverse tap" to GEMMs (IL GEMMs in the case of Index-linked Stock). Bids or offers shall be made in accordance with the DMO's Official Operations in the Gilt-edged Market Operational Notice (as amended from time to time).

Conversions and switch auctions

91. The DMO from time to time may announce offers to holders of a Stock of the chance to convert or switch to another specified Stock. The terms of each offer will be set out in the relevant Offer Notice applicable to the conversion or switch auction. The procedures for bidding at switch auctions and the procedures for accepting conversion offers are set out in

the DMO's Official Operations in the Gilt-edged Market Operational Notice (as amended from time to time).

Subscription and sale

92. Her Majesty's Treasury from time to time may issue a Gilt by means of a subscription agreement (an "Agreement") between the Lords Commissioners of Her Majesty's Treasury acting through the DMO and a syndicate of managers (the "Managers"). In the case of an issue of a conventional Gilt the Managers shall comprise some or all of the institutions which are formally recognised as GEMMs by the DMO at the date that the Agreement is made, and selected by the DMO at its absolute discretion. In the case of an issue of an Index-linked Gilt the Managers shall comprise some or all of the institutions which are formally recognised as IL GEMMs by the DMO at the date that the Agreement is made, and selected by the DMO at its absolute discretion.

93. One or more Managers shall be appointed as Lead Manager(s) by the DMO at its absolute discretion. Each Manager shall be required as part of the Agreement to represent and undertake that it has complied and will comply with all selling, statutory and regulatory requirements and obligations.

94. All the Managers shall be required as part of the Agreement to jointly and severally agree to subscribe and pay for the Gilt at the price stated in the Agreement per £100 nominal of the Gilt. Her Majesty's Treasury shall pay to the Managers an amount equal to the commission provided for in the Agreement.

95. The Agreement shall provide that it may be terminated in certain circumstances prior to payment being made to the DMO.

96. Where Her Majesty's Treasury issues a Gilt by means of an Agreement as described in paragraph 92 above, the DMO may at its absolute discretion retain an amount of the Gilt to satisfy applications made by members of the Approved Group. This amount of the Gilt will be issued at the "re-offer price". The "re-offer price" will be equal to the uniform price at which the Managers have covenanted in the Agreement that the Gilt should be sold to subscribers. When an issue of a Gilt by means of an Agreement is announced and the DMO has decided to retain an amount of the Gilt to satisfy applications made by members of the Approved Group, the Registrar will dispatch a copy of the relevant offering document together with an application form to members of the Approved Group. Applications for the Gilt must be made on these forms only. Only one application for the Gilt may be made by each investor.

TAXATION

97. The general taxation position for Stock and strips, under current legislation, is broadly as follows:-

(i) Interest payments on Stock are paid without deduction of income tax unless the stockholder has elected to receive interest payments net of income tax. No deduction of income tax will be made on the payment of the nominal amount of a strip. However, as income arising on Stock and strips has a United Kingdom source, it may in certain circumstances be chargeable to United Kingdom income tax.

(ii) Both Stock and strips are or will be gilt-edged securities for the purposes of Schedule 9 to the *Taxation of Chargeable Gains Act 1992*. Accordingly, a disposal of Stock or of a strip will not give rise to a chargeable gain or allowable loss for the purposes of capital gains tax (see also paragraph 97(iv) below).

(iii) Stock is not a "deeply discounted security" for income tax purposes. Thus, for a holder of Stock who is neither trading in the Stock nor within the charge to corporation tax in respect of it, United Kingdom income tax arising in relation to holdings of the Stock will generally be limited to income tax on interest received or, in certain circumstances, accrued.

(iv) Strips are "deeply discounted securities" for income tax purposes. Thus for a holder within the charge to income tax any profit realised on the transfer or redemption of a strip (including any profit deemed to be realised where the strip is held at the end of 5 April in any year of assessment) will be chargeable to United Kingdom income tax in accordance with the provisions of Chapter 8 of Part 4 of the *Income Tax (Trading and Other Income) Act 2005*. In certain circumstances, a profit or loss arising on the transfer or deemed transfer, or redemption, of a strip will be limited for tax purposes by reference to the original acquisition cost of the strip. Furthermore where a scheme or arrangement involving a strip is entered into in circumstances where the obtaining of a tax advantage, or an allowable loss for capital gains tax purposes, is one of the main benefits of the scheme or arrangement, the acquisition, sale or redemption price of a strip may be treated as being the market value of the strip, or any loss for capital gains tax purposes may be disallowed.

(v) For a holder within the charge to corporation tax, a holding of Stock or of a strip will be a "loan relationship" to which the provisions of Part 5 of the *Corporation Tax Act 2009* will apply. Accordingly, such holders will be charged to tax as income on all returns, profits or gains on, and fluctuations in value of, the Stock or strips broadly in accordance with their statutory accounting treatment or, in the case of an Index-linked Stock, in accordance with fair value accounting, except that corporation tax will not be charged on an accounting credit relating to such Index-linked Stock representing an increase in the Index and tax relief will not be available for a debit representing a decrease in the Index (subject to the provisions of any applicable law directed at preventing avoidance of taxation)).

(vi) Transfers of Stock or strips are free of stamp duty and stamp duty reserve tax.

Residents abroad: freedom from tax

98. Except in the case of 3½% War Loan where the provisions are as set out in the prospectus relating to that Stock, the provisions set out in paragraphs 99 and 100 apply for the purpose of conferring exemptions in certain cases from United Kingdom taxation on non-resident holders of Stock.

Stock

99. The provisions are as follows in the case of further issues of a Stock first issued prior to 29 April 1996 (including any Stock which is reconstituted from strips) if reference is made in the prospectus or notice to provision for exemption from United Kingdom taxation in favour of non-resident holders of the Stock -

(i) The Stock and the interest payable thereon will be exempt from all United Kingdom taxation, present or future, so long as it is shown that the Stock is in the beneficial ownership of persons who are neither domiciled nor ordinarily resident in the United Kingdom.

(ii) Further, the interest payable on the Stock will be exempt from United Kingdom income tax, present or future, so long as it is shown that the Stock is in the beneficial ownership of persons who are not ordinarily resident in the United Kingdom.

(iii) These exemptions will not apply so as to exclude the interest from any computation for taxation purposes of the profits of any trade or business carried on in the United Kingdom.

(iv) These exemptions are also subject to paragraph 102 below.

100. The provisions are as follows in the case of Stock issued after 29 April 1996 where the prospectus or notice provides for exemption from United Kingdom taxation to apply in favour of non-resident holders of the Stock, except where the prospectus or notice provides for paragraph 99 to apply. The same exemption applies in the case of Stocks issued before 6 April 1998 where the prospectus or notice did not provide for the exemption to apply. References below to "Stock" are to the Stock and interest payable thereon.

(i) The Stock will be exempt from all United Kingdom taxation, present or future, so long as it is shown that the Stock is in the beneficial ownership of persons who are not ordinarily resident in the United Kingdom.

(ii) This exemption will not apply so as to exclude the Stock from any computation for taxation purposes of any income, profits or gains derived from any trade or business carried on in the United Kingdom.

(iii) This exemption is also subject to paragraph 102 below.

Strips

101. For strips (including strips derived from a Stock first issued prior to 29 April 1996) the following provisions apply -

(i) Strips will be exempt from all United Kingdom taxation, present or future, so long as it is shown that they are in the beneficial ownership of persons who are not ordinarily resident in the United Kingdom.

(ii) This exemption will not apply so as to exclude strips or amounts payable in respect of strips from any computation for taxation purposes of any income, profits or gains derived from any trade or business carried on in the United Kingdom.

(iii) This exemption is also subject to paragraph 102 below.

102. General

(i) For the purposes of paragraphs 99 to 101 above, persons are not ordinarily resident in the United Kingdom if they are regarded as not ordinarily resident for the purposes of United Kingdom income tax.

(ii) The exemptions set out in paragraphs 99 to 101 above are subject to the following limitations -

(a) The exemptions are subject to the provisions of any law, present or future, of the United Kingdom directed to preventing avoidance of taxation by persons resident or ordinarily resident in the United Kingdom. In particular, no amount in respect of Stock or the interest payable thereon will be exempt from income tax where, under any such provision, it falls to be treated for the purpose of the *Income Tax Acts* (as defined in section 831(1)(b) of the *Income and Corporation Taxes Act 1988*) as income of any person resident or ordinarily resident in the United Kingdom.

(b) The exemptions will not entitle a person to claim any repayment of tax unless the claim is made within the time limit provided for under applicable legislation. In general, such a claim will be within the time limit if it is made within four years after the end of the year of assessment to which it relates.

(iii) Where relevant, applications for exemption from United Kingdom income tax should be made in such form as may be required by the Commissioners for Revenue and Customs. The appropriate forms may be obtained from HM Revenue & Customs, Centre for Non-Residents, Fitz Roy House, PO Box 46, Nottingham, NG2 1BD.

Provision of information to HM Revenue and Customs for exchange with other tax authorities

103. Under European Council Directive 2003/48/EC on the taxation of savings income, as amended, (the "Directive") EU Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of

non-EU countries and territories, including Switzerland, have adopted similar measures (a withholding system in the case of Switzerland). The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

104. The *Reporting of Savings Income Information Regulations 2003*⁶, as amended, (the “2003 Regulations”) require a paying agent (as defined in the 2003 Regulations) established in the United Kingdom who makes a payment of savings income to an individual resident, or a residual entity (as defined in the 2003 Regulations) established, in another EU Member State or one of certain other non-EU countries and territories to obtain, verify, record and then provide to HM Revenue & Customs certain information about the payee and the payment.

GOVERNMENT STATEMENT

105. 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, Stock 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.

JURISDICTION

106. Subject as set out below, the English courts shall have exclusive jurisdiction to settle any dispute which may arise in connection with Stock or any application for Stock. However, in relation to any application for Stock, the DMO reserves the right, to the extent allowed by law, to bring proceedings in any other court or concurrent proceedings in any number of jurisdictions. This clause is for the benefit of the DMO.

GOVERNING LAW

107. This Memorandum and any Notices making amendments to this Memorandum together with any prospectus or other offering document issued under its provisions, and any non-contractual obligations or matter arising therefrom or in connection therewith, are governed by and shall be construed in accordance with the laws of England.

REVISION

108. The right is reserved to amend or supplement this Memorandum by further notices given from time to time. Any notice given under this paragraph will be published by the DMO in such manner as the DMO considers appropriate.

United Kingdom Debt Management Office

London

15 August 2011

⁶ *Reporting of Savings Income Information Regulations 2003* (SI 2003/3297).

Copies of this Information Memorandum are available from:

UK Debt Management Office, Eastcheap Court, 11 Philpot Lane, London EC3M 8UD
(telephone 0845 357 6500; fax 0845 357 6509)

The Registrar - Computershare Investor Services PLC. Registered in England and Wales No 3498808.
Registered Office: The Pavilions, Bridgwater Road, Bristol, BS13 8AE
(telephone 0870 703 0143)

It is also available on the DMO's website at www.dmo.gov.uk.

Annex A

Base RPI for Index-linked Stocks

Stock	Maturity Date	Date of First Issue	Base RPI
2½% Index-linked Treasury Stock 2013	16 August 2013	21 February 1985	351.90000
2½% Index-linked Treasury Stock 2016	26 July 2016	19 January 1983	322.00000
1¼% Index-linked Treasury Gilt 2017	22 November 2017	8 February 2006	193.72500*
2½% Index-linked Treasury Stock 2020	16 April 2020	12 October 1983	327.30000
1⅞% Index-linked Treasury Gilt 2022	22 November 2022	11 July 2007	205.65806*
2½% Index-linked Treasury Stock 2024	17 July 2024	30 December 1986	385.30000
1¼% Index-linked Treasury Gilt 2027	22 November 2027	26 April 2006	194.06667*
4⅛% Index-linked Treasury Stock 2030	22 July 2030	12 June 1992	135.10000*
1¼% Index-linked Treasury Gilt 2032	22 November 2032	29 October 2008	217.13226*
0¾% Index-linked Treasury Gilt 2034	22 March 2034	25 May 2011	232.22903*
2% Index-linked Treasury Stock 2035	26 January 2035	11 July 2002	173.60000*
1⅞% Index-linked Treasury Gilt 2037	22 November 2037	21 February 2007	202.24286*
0⅝% Index-linked Treasury Gilt 2040	22 March 2040	28 January 2010	216.52258*
0⅞% Index-linked Treasury Gilt 2042	22 November 2042	24 July 2009	212.46452*
0¾% Index-linked Treasury Gilt 2047	22 November 2047	21 November 2007	207.76667*
0½% Index-linked Treasury Gilt 2050	22 March 2050	25 September 2009	213.40000*
1¼% Index-linked Treasury Gilt 2055	22 November 2055	23 September 2005	192.20000*

(Correct at date of publication)

* Base RPI: Jan 1987 = 100 (all others use Jan 1974 = 100)

An up to date list of Index-linked Stocks and their respective Base RPIs can be found on the DMO website at www.dmo.gov.uk.