

United Kingdom
**Debt
Management
Office**

INFORMATION MEMORANDUM

ISSUE, STRIPPING AND RECONSTITUTION OF BRITISH GOVERNMENT STOCK

December 2004

The *United Kingdom Debt Management Office* is an Executive Agency of Her Majesty's Treasury

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 21 December 2004 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 for Issue, Stripping and Reconstitution of British Government Stock dated November 2004.

GENERAL

1. 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.
2. 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 1995*¹ (as amended) (the "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 34 to 57 below.
3. Stock and strips are transferable in multiples of one penny.

¹ *Uncertificated Securities Regulations 1995* (SI 1995/3272).

4. 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 in accordance with the holder's instructions 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.

5. 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

6. 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 9 Index-linked Stocks in existence:

2 % Index-linked Treasury Stock 2006
2 ½ % Index-linked Treasury Stock 2009
2 ½ % Index-linked Treasury Stock 2011
2 ½ % Index-linked Treasury Stock 2013
2 ½ % Index-linked Treasury Stock 2016
2 ½ % Index-linked Treasury Stock 2020
2 ½ % Index-linked Treasury Stock 2024
4 ½ % Index-linked Treasury Stock 2030
2 % Index-linked Treasury Stock 2035

Paragraphs 7 to 33 (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 three types and by the DMO in respect of the remaining fourth type.

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

First issued March 1981 to February 1982

Paragraphs 7 to 13 (both inclusive) set out the terms of Index-linked Stocks first issued March 1981 to February 1982 and references to "Stock" in such paragraphs are to the Stocks as set out immediately below:

2 % Index-linked Treasury Stock 2006
2 ½ % Index-linked Treasury Stock 2011

Maturity

7. If not previously redeemed under the provisions of paragraph 13, 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 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, such movement being indicated by the Index figure issued monthly and subsequently published in the London Gazette².

² Some older prospectuses refer to the Edinburgh and Belfast Gazettes in addition to the London Gazette.

8. 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 two 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

9. 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 prospectus³.

Interest

10. 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 7. 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 two 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

11. If the Index is revised to a new base after a Stock is issued, it will be necessary, for the purposes of paragraphs 7 to 10 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.

12. 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.

13. 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 in advance of the revised Index becoming effective for the purposes of this Memorandum. Repayment to the stockholders who exercise this right will be effected, on a date to be chosen by Her Majesty's Treasury, not later than six months from the month of publication of the revised 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 March 1982 to May 1988

Paragraphs 14 to 20 (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:

*2 ½ % Index-linked Treasury Stock 2009
2 ½ % Index-linked Treasury Stock 2013
2 ½ % Index-linked Treasury Stock 2016
2 ½ % Index-linked Treasury Stock 2020
2 ½ % Index-linked Treasury Stock 2024*

Maturity

14. If not previously redeemed under the provisions of paragraph 20, 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 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.

15. 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

16. 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

17. 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 14. 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:

³ The Base Index figures for existing Index-linked Stocks are shown in Annex A.

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

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

18. If the Index is revised to a new base after a Stock is issued, it will be necessary, for the purposes of the paragraphs 14 to 17 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.

19. 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.

20. 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 21 to 27 (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:

4 ½ % Index-linked Treasury Stock 2030

Maturity

21. If not previously redeemed under the provisions of paragraph 27, 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.

22. 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

23. 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

24. 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 21. 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

25. If the Index is revised to a new base after the Stock is issued, it will be necessary, for the purposes of paragraphs 21 to 24, 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.

26. 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.

27. 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 from July 2002

Paragraphs 28 to 33 (both inclusive) set out the terms of Index-linked Stocks first issued from July 2002 and as at the date of this Memorandum, includes the Stock as set out immediately below:

2 % Index-linked Treasury Stock 2035

Maturity

28. 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 the movement during the life of that 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.

29. 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

30. 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

31. 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 28. 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 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

32. If the Index is revised to a new base after a Stock is issued, it will be necessary, for the purposes of paragraphs 28 to 31, 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.

33. 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.

STRIPS

Stock which may be stripped and reconstituted

34. 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.

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

36. The expression "eligible Stock" is used in this Memorandum to refer to Stock falling within paragraph 34 above.

Who may hold strips; who may strip and reconstitute Stock

37. 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.

38. 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

39. 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 payment⁴ 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.

40. In this Memorandum –

- (i) the process of exchange described in paragraph 39 above is referred to as the "stripping" of the relevant amount of Stock;
- (ii) securities of the kinds described in paragraph 39 (i) and (ii) above are referred to as "strips";
- (iii) a security of the kind described in paragraph 39 (i) above is referred to as a "coupon strip";
- (iv) a security of the kind described in paragraph 39 (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 39 above or paragraphs 49 to 56 below and all transfers made as described in paragraph 46 below.

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

42. 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.

⁴ 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.

43. 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.

44. 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

45. 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.

46. The current regulations⁵ 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 47 and 48 below.

47. Subject to paragraph 48 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.

48. 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 47 (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 49 to 56 below. Any such terms will be set out in a notice given in accordance with paragraph 81 below at or before the time of issue of the relevant strips.

Reconstitution of Stock from strips

49. Subject to the provisions of this Memorandum, strips such as are specified in paragraph 50 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.

⁵ *The Government Stock Regulations 2004 (SI 2004/1611).*

50. The strips referred to in paragraph 49 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 48 above.

51. 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.

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

53. 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.

54. Principal and coupon strips exchanged under paragraph 49 above for reconstituted Stock will be cancelled upon the issue of the reconstituted Stock.

55. 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.

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

Amendments relating to stripping and reconstitution

57. Any amendments or supplements made pursuant to paragraph 81 below may -

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

(b) 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;

(c) modify the terms relating to fungibility in paragraphs 47 and 48 above (including a modification to provide that strips of specified descriptions will no longer be distinguished one from another);

(d) modify the arrangements for reconstitution in paragraphs 49 to 56 above.

Any such amendments relating to the matters referred to in this paragraph 57 may affect Stock and strips already in issue.

METHODS OF APPLICATION FOR STOCK

Auctions

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

59. Competitive and non-competitive bids by GEMMs must be submitted by telephone. 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. Only one bid may be submitted on any one application form.

60. *Competitive bids*

(i) Each competitive bid must be for one amount and at one price expressed in multiples of £0.01 per £100 nominal of Stock (ie. 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 ("IG auctions"), competitive bids may only be made by those GEMMs formally recognised as Index-linked Gilt-edged Market Makers by the DMO ("IG 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 64 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.

61. *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 IG 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 IG 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.

62. 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 (in the case of conventional auctions) or £250,000 nominal of Stock (in the case of IG auctions), 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 approved list (see paragraph 68 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 64 below - and except for bids by GEMMs - see paragraph (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 IG 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 60 (iii) above (except for applicants who have requested that any Stock sold to them be credited direct to a CREST stock account - see paragraph 64 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 not 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 gilt 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 index-linked auctions each IG GEMM's non-competitive entitlement will be communicated individually to that IG 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.

63. 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.

64. 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).

65. 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 disregarded⁶.

66. 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.

⁶ See paragraph 3A of the *Government Stock Regulations 1965* (SI 1965/1420, as amended).

67. 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.

68. List of Approved 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.

69. 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 may decide not to sell any of the Stock.

"Taps" and Reverse "Taps"

70. The DMO from time to time conducts operations in Stock by "tap" or "reverse tap" to GEMMs and IG GEMMs. Bids or offers may be made in accordance with the DMO's Gilt-edged Market Operational Notice.

Conversions and Switch Auctions

71. 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 Document 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 Gilt-edged Market Operational Notice.

TAXATION

72. 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 72(iv) below).
- (iii) Stock is not a "relevant 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 "relevant 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 Schedule 13 to the *Finance Act 1996*. 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 Chapter II of Part IV of the *Finance Act 1996* will apply. Accordingly, such stockholders 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.
- (vi) Transfers of Stock or strips are free of stamp duty and stamp duty reserve tax.

Residents abroad: freedom from tax

73. 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 74 and 75 apply for the purpose of conferring exemptions in certain cases from United Kingdom taxation on non-resident holders of Stock.

Stock

74. 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 77 below.

75. 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 74 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 77 below.

Strips

76. 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 77 below.

77. General

(i) For the purposes of paragraphs 74 to 76 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 74 to 76 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 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 five years from the 31 January following 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 of Inland Revenue. The appropriate forms may be obtained from the Inland Revenue, Financial Intermediaries and Claims Office, Fitz Roy House, PO Box 46, Nottingham, NG2 1BD.

Provision of information to the Inland Revenue for exchange with other tax authorities

78. On 3 June 2003, the European Council of Economics and Finance Ministers adopted a Directive on the taxation of savings income. Under the Directive Member States will (if equivalent measures have been introduced by certain non-EU countries) be required, from 1 July 2005, 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 an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria will instead be 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).

79. Once the Reporting of Savings Income Information Regulations 2003, SI 2003/3297 (the **2003 Regulations**) are brought into force (which will not be before 1 July 2005), a paying agent (as defined in the 2003 Regulations) established in the United Kingdom who makes a payment of savings income to an individual or a residual entity (as defined in the 2003 Regulations) established in another EU member state will be required to obtain, verify, record and then provide to the Inland Revenue certain information about the payee and the payment.

GOVERNMENT STATEMENT

80. 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.

REVISION

81. 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

December 2004

Copies of this Information Memorandum are available from:

UK Debt Management Office, Eastcheap Court, 11 Philpot Lane, London EC3M 8UD
(telephone 020-7862 6500; fax 020-7862 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

Bond	Maturity Date	Date of First Issue	Base RPI
2% Index-linked Treasury Stock 2006	19 July 2006	8 July 1981	274.1
2½% Index-linked Treasury Stock 2009	20 May 2009	19 October 1982	310.7
2½% Index-linked Treasury Stock 2011	23 August 2011	28 January 1982	294.1
2½% Index-linked Treasury Stock 2013	16 August 2013	21 February 1985	351.9
2½% Index-linked Treasury Stock 2016	26 July 2016	19 January 1983	322.0
2½% Index-linked Treasury Stock 2020	16 April 2020	12 October 1983	327.3
2½% Index-linked Treasury Stock 2024	17 July 2024	30 December 1986	385.3
4½% Index-linked Treasury Stock 2030	22 July 2030	12 June 1992	135.1*
2% Index-linked Treasury Stock 2035	26 January 2035	11 July 2002	173.6*

(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.