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PRESS NOTICE

RESULT: SYNDICATED OFFERING OF 1¼% INDEX-LINKED TREASURY GILT 2055

The United Kingdom Debt Management Office ("DMO") announces that the syndicated offering of £1.25 billion nominal of 1¼% Index-linked Treasury Gilt 2055 has been priced at £105.29 per £100 nominal, equating to a real yield of 1.112%. The offer was priced at a yield spread of 19 basis points (bps) below 2% Index-linked Treasury Stock 2035. The offer will settle, and the gilt be issued, on 23 September 2005.

The domestic investor base provided the main support for the issue, taking around 90% of the allocation. The remaining 10% was placed in Continental Europe. In terms of investor type, there was very strong interest from "real money" accounts, reflecting the structural demand for long-dated assets. "Real money", primarily including fund managers, pension funds and insurance companies, took two thirds of the transaction and the remaining one third was placed within the GEMM community. There were 43 bids from members of the public who took £501,000 of the issue.

Commenting on the result, Robert Stheeman, the Chief Executive of the DMO said,

> "*The execution of this transaction has been very orderly and the result is very good, both for ourselves as issuer and, I believe, for the market as a whole. We have successfully opened a new sector of the index-linked gilt market, matching the extension of the conventional gilt curve earlier this year. The syndicate of banks who have delivered this result have assembled a strong order book from a broad range of investors, thereby setting the foundation for an active and efficient market for the new gilt. We decided to respond to the strength and diversity of demand by increasing the size of the offer from our initial target of around £1 billion to £1.25 billion. This transaction has secured excellent value for the taxpayer, whilst also responding to investors demand for secure long-term assets"*.

NOTES TO EDITORS

1¼% Index-linked Treasury Gilt 2055 is the longest-dated sovereign index-linked bond in the world. It is the first index-linked gilt to adopt a three-month indexation lag – now considered to be international best practice.

This is the first gilt to be issued by means of a Syndicated Offering. The decision to use syndication as opposed to an auction to launch this new index-linked gilt was based on its unique and innovative characteristics, in particular related to the opening of a new sector of the sterling market, where few points of comparison exist for the purpose of pricing. The syndication process was considered the best way to ensure a fair and transparent price formation process, benefiting both investors and the issuer. The DMO announced the decision to syndicate the issue on 31 August 2005. At the same time, the DMO announced that the index-linked gilt auction originally scheduled for 22 September 2005 was cancelled.

The Syndicated Offering was managed by four Joint Bookrunners: Barclays Capital, Morgan Stanley & Co International Limited, Royal Bank of Scotland and UBS Limited. The Syndicate also included ten Co-Lead Managers comprising the other Index-linked GEMMs: CS First Boston Limited, Deutsche Bank (AG) London Branch, Dresdner Bank (AG) London Branch, Goldman Sachs International Limited, HSBC Bank PLC, JP Morgan Securities Limited, Lehman Brothers International (Europe), Merrill Lynch International, Royal Bank of Canada Europe Limited and Winterflood Securities Limited. The composition of the syndicate was announced by the DMO on 13 September 2005.

The order book managed by the Joint Bookrunners was opened at 8.30am on 20 September 2005 with a target size of approximately £1 billion and with indicative price guidance for investors at a spread of 14bps to 19bps below the yield on 2% Index-linked Treasury Stock 2035. The value of orders in the book passed £1 billion after four hours. At the close of 20 September 2005 orders were in excess of £1.25 billion and early on 21 September the price guidance was tightened to 17bps to 19bps below the 2035 maturity index-linked gilt. Given the quality and strength of the orders in the book, it was announced on 21 September that the final size of the transaction would be £1.25bn and the book closed at 3.30 pm on that day – containing orders in excess of £2 billion. The offer was priced on 22 September at a yield spread of 19 bps below the 2035 maturity index-linked gilt, i.e. the tight end of the original spread range.

Gross proceeds from the transaction are expected to be £1.32 billion and will take index-linked gilt sales for the financial year to £5.3 billion relative to the remit target of £10.0 billion. Five index-linked gilt auctions remain in the remit for 2005-06. Total gross gilt sales for the financial year to-date are £24.3 billion, relative to the remit target of £51.1 billon.

As set out in its debt financing remit for 2005-06, the DMO will be reverting to its usual issuance method - auctions - for subsequent issuance of gilts. The next gilt auction, of £2,750 million (nominal) of 4¾% Treasury Stock 2020 will be held on 27 September 2005. Details of the gilt auction calendar for October-December 2005 will be announced by the DMO at 3.30pm on Friday 30 September 2005.

This press notice will be appearing on the DMO's website at: www.dmo.gov.uk