

AUCTION OF £1,000,000,000

**0⁵/₈% INDEX-LINKED
TREASURY GILT 2040**

**ON A UNIFORM PRICE BASIS ON
7 JUNE 2011**

PROSPECTUS



AUCTION OF £1,000,000,000

0⁵/₈% INDEX-LINKED TREASURY GILT 2040

ON A UNIFORM PRICE BASIS ON 7 JUNE 2011
INTEREST PAYABLE HALF-YEARLY ON 22 MARCH AND 22 SEPTEMBER

PAYABLE IN FULL WITH APPLICATION

With a bid by an Index-linked Gilt-edged Market Maker:	The striking price (in accordance with paragraph 17)
With a non-competitive bid by any other applicant:	£115 per £100 nominal of the Gilt

Application has been made to the UK Listing Authority for the Gilt to be admitted to the Official List on 8 June 2011.

Application has also been made to the London Stock Exchange for the Gilt to be admitted to trading on the London Stock Exchange's regulated market.

Auction of Gilt

1. THE UNITED KINGDOM DEBT MANAGEMENT OFFICE (the "DMO") invites bids for the above Gilt.

General

2. This prospectus is issued under the arrangements described in the Information Memorandum relating to the Issue, Stripping and Reconstitution of British Government Stock published by the DMO dated May 2009 (the "Information Memorandum"). The terms of the Information Memorandum apply to the above Gilt and to the auction described in this prospectus except where expressly varied.

Maturity

3. The Gilt will be repayable on 22 March 2040. The value of the principal on redemption will be related, subject to the terms of this prospectus, to the movement during the life of the 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 the Gilt) shall be conclusive and binding on all holders of the Gilt. If a replacement Index is selected in accordance with this paragraph, the Index figure used for the purposes of paragraph 6 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.

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

$$\text{Redemption Payment} = 100 \times \text{Index Ratio}_{22 \text{ March } 2040}$$

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.

Indexation

5. For the purposes of this prospectus, 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_{28 January 2010}"), rounded to the nearest 5th decimal place.

$$\text{Index Ratio}_{\text{Date}} = \left[\frac{\text{Ref Index}_{\text{Date}}}{\text{Ref Index}_{28 \text{ January } 2010}} \right], \text{ rounded to the nearest } 5^{\text{th}} \text{ decimal place.}$$

6. 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. 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.

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

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

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

8. Interest is payable half-yearly on 22 March and 22 September (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.

9. 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.

10. The actual amount payable for this further issue of the Gilt per £100 nominal will be the real clean price multiplied by the Index Ratio for 8 June 2011, the settlement date of this auction, plus £0.142520, the index-adjusted accrued interest per £100 nominal from 22 March 2011, the most recent interest payment date of the Gilt, to 8 June 2011. The Index Ratio for 8 June 2011 is 1.07584. The Gilt being auctioned will, therefore, rank for the full amount of the interest payment due on 22 September 2011.

Revisions to the Index

11. If the Index is revised to a new base after the Gilt is issued, it will be necessary, for the purposes of paragraphs 3-10, 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 un-rounded notional Index figures will then be used to calculate the relevant Reference Index figure as described in paragraphs 6 and 7 above. This procedure will be used for each occasion on which a revision is made during the life of the 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 the Gilt.

12. If the Index is not published for any month for which it is relevant for the purposes of this prospectus, 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 the 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.

FOTRA exemptions

13. 0⁵/₈% Index-linked Treasury Gilt 2040 was first issued on 28 January 2010 and, consequently, the Gilt and the interest payable on it will benefit from the exemptions from United Kingdom taxation in favour of non-resident holders described in paragraph 107 of the Information Memorandum.

Gross payment of interest

14. Interest will be paid without deduction of income tax. However, holders of the Gilt may elect to have UK income tax deducted from interest payments on application to the Registrar, Computershare Investor Services PLC.

Methods of application

15. Bids may be made on either a competitive or non-competitive basis as set out below and in accordance with paragraphs 72 to 88 of the Information Memorandum.

Bids by IG GEMMs

16. Competitive bids may only be made by those Gilt-edged Market Makers who have been formally recognised as Index-linked Gilt-edged Market Makers ("IG GEMMs") by the DMO and in accordance with paragraph 76 of the Information Memorandum. Each IG GEMM may also make one non-competitive bid in accordance with paragraph 78 of the Information Memorandum. Bids by IG GEMMs must be made by means of the Bloomberg Bond Auction System to the DMO not later than **10.30AM ON TUESDAY, 7 JUNE 2011**.

Settlement of competitive and non-competitive bids - IG GEMMs

17. For those competitive and non-competitive bids from IG GEMMs which are accepted, settlement must be effected in accordance with paragraphs 76(iii) and 78(v) of the Information Memorandum. For these purposes, the latest time and date for CHAPS payments to be sent to the Bank of England is **1.30PM ON WEDNESDAY, 8 JUNE 2011**.

Latest times for receipt of applications

18. Application forms from Approved Group members must be sent to the Registrar, Computershare Investor Services PLC, PO Box 2411, The Pavilions, Bristol, BS99 6WX, who are acting on behalf of the DMO, to arrive not later than **10.00AM ON TUESDAY, 7 JUNE 2011**; or lodged by hand at the DMO, Eastcheap Court, 11 Philpot Lane, London, EC3M 8UD not later than **10.00AM ON TUESDAY, 7 JUNE 2011**.

Non-competitive bids: amount payable on application

19. The amount payable on application in the case of a non-competitive bid (except for a non-competitive bid made by an IG GEMM) is £115 per £100 nominal of the Gilt.

Allocation of the Gilt

20. The DMO reserves the right to reject any or part of any competitive or non-competitive bid. Subject to this, competitive bids will be ranked in descending order of price and the Gilt 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 "striking price"). Applicants whose competitive bids are accepted will purchase the Gilt at the striking price (plus accrued interest as set out in paragraph 10). Competitive bids which are accepted and which are made at prices above the striking price will be satisfied in full. Competitive bids which are accepted and which are made at the striking price may be satisfied in part only. No sale will be made of an amount less than £1,000 nominal of the Gilt. Non-competitive bids which are accepted will be accepted in full at the non-competitive sale price (plus accrued interest). The non-competitive sale price will be equal to the striking price.

Bids irrevocable

21. Bids will not be revocable between 10.30 am on Tuesday, 7 June 2011 and 10.00 am on Friday, 10 June 2011.

Post Auction Option Facility

22. The provisions relating to the Post Auction Option Facility contained in the Information Memorandum will apply.

United Kingdom **Debt Management Office**

LONDON

31 May 2011