

US\$3.52 billion Nakheel Sukuk Al Ijarah

The largest Sukuk issued in 2006

On the 14th December 2006 Dubai Islamic Bank (DIB) along with Barclays Capital closed the three year Pre-QPO Equity Linked Sukuk al-Ijarah of US\$3.52 billion for Nakheel. DIB was the joint lead manager and bookrunner along with Barclays Capital. This transaction was the largest Sukuk issue to date in the history of Islamic banking and is the first of its kind in both Islamic and conventional capital markets.

The Sukuk was structured as per the rules of Shariah and was approved by the Shariah board of DIB. It was documented according to the Eurobond standards (Reg S) and is listed on the Dubai International Financial Exchange.

BACKGROUND

DIB was approached by Dubai World to devise a funding strategy for Nakheel PJSC, which is UAE's largest property developer. Dubai World is one of the largest holding companies in the world and was established to hold interests of the government of Dubai in companies under common management control. Dubai World currently owns assets in excess of US\$30.5 billion.

Nakheel PJSC is wholly owned by Nakheel Holdings 1, Nakheel Holdings 2 and Nakheel Holdings 3, which are directly owned by Nakheel World. Nakheel World is 99% owned by Dubai World and 1% owned by Dubai World Holdings Limited.

Nakheel PJSC was formed with the objective of developing real estate projects in Dubai and is a part of HH Sheikh Mohammed Bin Rashid Al Maktoum's plan to substantially diversify Dubai's economic base and grow its tourism and real estate industry. Nakheel currently owns approximately US\$29 billion in assets and is in the process of developing iconic projects such as The World, Palm Jumeirah and Palm Jebel Ali etc.

TRANSACTION OVERVIEW

Nakheel's objective was to devise a funding strategy that will ensure access to a deep pool of global capital by tapping investor demand for Nakheel's risk and to establish a platform for successful continued access to the international markets.

Structure

The transaction was structured as a 3 year Pre-QPO Equity Linked Sukuk al-Ijarah wherein funds were raised at the Nakheel Holdings 1 (obligor) level. Under a purchase agreement, certain pre-identified assets were sold to Nakheel Development Limited - an offshore special purpose vehicle (Issuer SPV) that was formulated as a free zone company in the Jebel Ali Free Zone.

The SPV issued trust certificates (Sukuk) for US\$3.52 billion in order to purchase assets from Nakheel Holdings 1. The

purchased assets were subsequently leased by the SPV to Nakheel Holdings 2 for a period of 3 years.

A co-obligor guarantee was executed by Nakheel Holdings 1, Nakheel Holdings 2 and Nakheel Holdings 3 (together the co-obligors) in favor of the issuer SPV under which the co-obligors jointly and severally, irrevocably and unconditionally guarantee the payment, delivery and other obligations of each other under the transaction documents.

Nakheel Holdings 2 in its capacity as the purchase undertaking obligor executed a purchase undertaking by which means Nakheel Holding 2 has undertaken to, in certain circumstances, purchase all of the Issuer SPV's interest in the Sukuk assets from the Issuer SPV.

As a form of credit enhancement, Dubai World (guarantor) also granted a guarantee in favor of the issuer under which the guarantor has irrevocably and unconditionally guaranteed the payment obligations of the co-obligors under the transaction documents. The obligations of the guarantor under the Dubai World guarantee constitute unsecured, direct, unconditional and insubordinate obligations of the guarantor which will at all times rank *pari passu* with all other unsecured and insubordinate obligations of the guarantor.

Further, in order to secure the payment obligations of the co-obligors, Nakheel Holdings 1 has granted a mortgage over property and a share pledge of Nakheel PJSC shares in favour of the security trustee.

Guaranteed Allocation

Under the subscription rights sale undertaking, the Sukuk structure incorporated a guaranteed allocation of 25% of the Sukuk amount to investors in any qualifying public offering (QPO) undertaken by the Nakheel group during the tenor of the Sukuk.

A QPO means any primary or secondary equity offering of the authorized or issued share capital by any member of the Nakheel Group including in the form of global depository receipts, American depository receipts or other depository receipts, any offering of mandatory exchangeable or convertible bonds, warrants and rights issues, in each case listed on any international stock exchange.

Each certificate provides the holder the right to subscribe for QPO shares at the discount of 5% on the indicative share price on each QPO that is launched prior to redemption of the certificates.

A QPO shall be deemed to be launched when the initial, preliminary, pathfinder or other equivalent offering document is published and/or made available to potential investors in connection with that QPO.

continued...

Nakheel Sukuk (continued...)

The rights of certificate holders in aggregate is limited to an aggregate number of QPO shares equal to 30% of the aggregate number of QPO shares to be issued. As such, the aggregate value of the subscription rights in all QPO launched after the closing date and prior to the redemption date including the value of the subscription rights in that QPO does not exceed in aggregate US\$880 million, being 25% of the Sukuk issue amount.

However in the event that the Nakheel Group does not float shares, then investors will receive a higher yield of up to 200 bps depending on the value of the subscription rights allocated to the Sukuk holders.

Look back rights

The Sukuk have a 3-year tenor but investors will also receive look back rights for allocation of Nakheel Group QPO shares that extend into a 4th year. If a QPO takes place between years 3 and 4, investors can participate as though the QPO had taken place at the end of 3 years.

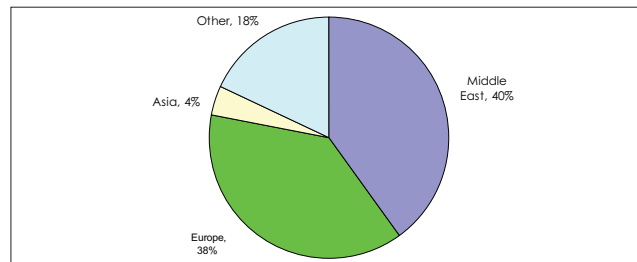
TRANSACTION SUCCESS STORY

The main success story of the transaction was the lead managers placement ability as a result of which they achieved a high quality order book that was oversubscribed by 2.5 times, upsizing of the deal from US\$2.5 billion to US\$3.52 billion

(an increase of over 40%) and tightening of the QPO spread range from the initial price guidance of 95/145bps to 120bps.

DISTRIBUTION

The Sukuk attracted a well-diversified global investor base with demand exceptionally strong from Middle Eastern investors followed by investors in Europe, Asia and the rest of the world. The following graph presents the allocation by geography for this landmark transaction.




TERMSHEET

Nakheel Development Limited


INSTRUMENT	Pre-QPO Equity Linked Sukuk al-Ijarah		
ISSUER	Nakheel Development Limited		
PRINCIPAL ACTIVITIES	A development company based in Dubai, UAE. Their portfolio includes the waterfront developments The Palm, The World and Dubai Waterfront.		
DATE OF LISTING/ISSUE	14 th December 2006	ISSUE SIZE	US\$3,520 million
MATURITY	2009	COUPON	6.345% per annum
ARRANGERS/MANAGERS	Dubai Islamic Bank and Barclays Capital		
LEGAL COUNSEL	To the managers: Denton Wilde Sapte LLP; To the issuer: Clifford Chance LLP		
IDENTIFIED ASSETS	Assets comprise of the leasehold rights for a term of 50 years over certain land, buildings and other property at Dubai Waterfront		
GUARANTOR	Dubai World	METHOD OF ISSUE	Reg S Sukuk
PAYMENT SCHEDULE	The return on the certificates shall be calculated on the basis of a fixed return of 6.345% per annum (the QPO yield). On the 14 th June and 14 th December in each year (each a periodic distribution date) commencing on 14 th June 2007, the issuer will pay periodic distribution amounts to each certificateholder calculated as the product of 50% of the QPO yield and the principal amount of the certificates on a 30/360 basis. In addition, on the redemption date (as defined herein) the issuer will pay to each certificateholder (i) the final distribution amount calculated as the product of 50% of the QPO Yield and the principal amount of the certificates on a 30/360 basis		
PURPOSE OF ISSUE	Sukuk proceeds were be used by the Issuer to purchase the Sukuk Assets in accordance with the terms of the Purchase Agreement		

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Bank Muamalat
Malaysia
MYR100 Million (PRS)/
USD10 Million (CCS)
1st Profit Rate & Cross
Currency Swaps in Malaysia
Swap Provider
June & July 2006


Baitak Asian Real Estate Fund I (Labuan) Limited
Singapore
USD107 Million
Murabaha Facility
Arranger / Investor
December 2005



Sitara Chemical Industries Ltd
Pakistan
PKR1.1 Billion
Privately Placed Sukuk
Sole Mandated
Lead Arranger
June 2006



Government of Dubai
Department of Civil Aviation
United Arab Emirates
USD1 Billion
Syndicated Ijarah Facility
Joint Mandated
Lead Arranger
April 2006



Bank Islam
Malaysia
MYR136 Million (IFRA)
1st Islamic Forward Rate
Agreement in Malaysia
Swap Provider
August 2006



Yanbu National Petrochemical Co
Saudi Arabia
USD846.6 Million
Project Finance Facility
(Islamic Tranche)
Joint Lead Arranger
June 2006

AREF Investment Group
Kuwait
USD200 Million
Syndicated Murabaha
Facility
Bookrunner & Joint
Mandated Lead Arranger
November 2006

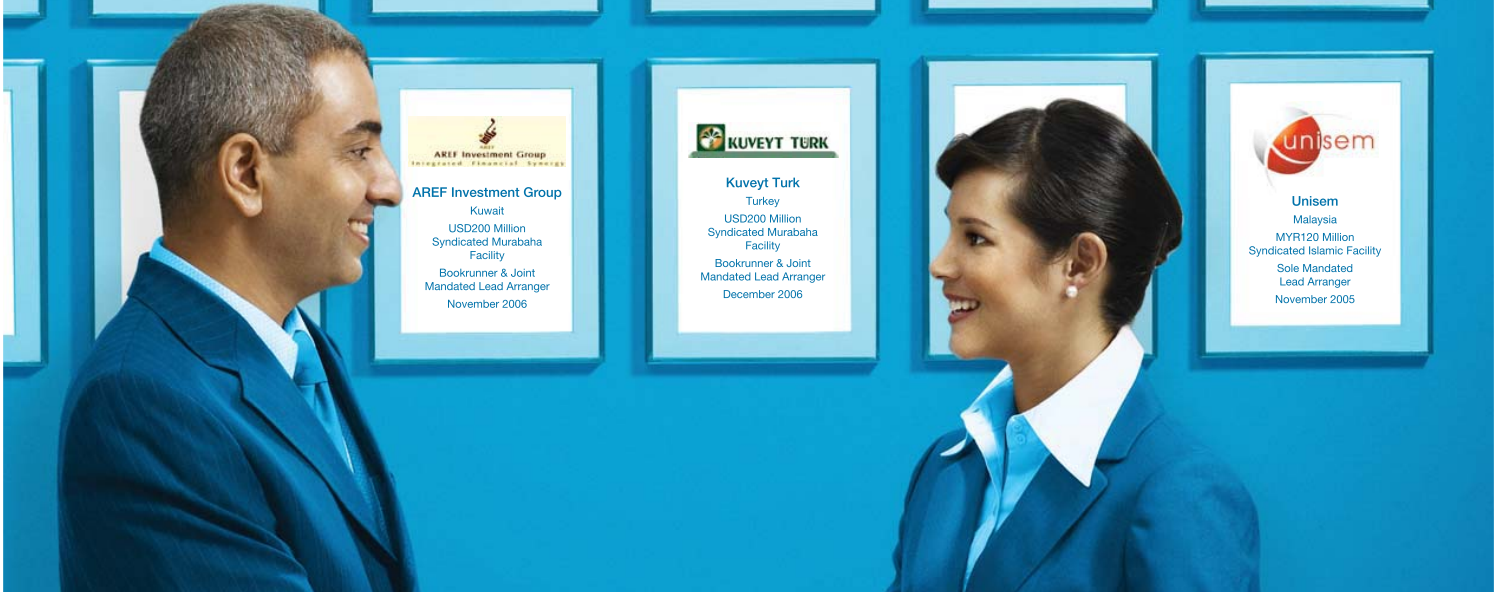


Kuveyt Turk
Turkey
USD200 Million
Syndicated Murabaha
Facility
Bookrunner & Joint
Mandated Lead Arranger
December 2006

Unisem
Malaysia
MYR120 Million
Syndicated Islamic Facility
Sole Mandated
Lead Arranger
November 2005



Unisem
Malaysia
MYR120 Million
Syndicated Islamic Facility
Sole Mandated
Lead Arranger
November 2005



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