FITCH AFFIRMS GEORGIA'S JSC PARTNERSHIP FUND AT 'BB-'; OUTLOOK STABLE

Fitch Ratings-Moscow/London-25 March 2014: Fitch Ratings has affirmed Georgia's JSC Partnership Fund's (PF) Long-term foreign and local currency Issuer Default Ratings (IDR) at 'BB-' and Short-term foreign currency IDR at 'B'. The Outlooks on the Long-term IDRs are Stable.

KEY RATING DRIVERS
The affirmation reflects the equalisation of PF's ratings with those of Georgia (BB-/Stable/B). Fitch uses its public sector entities methodology and applies a top-down approach in its analysis of PF. The Georgian government's ability and intent to support the fund's potential issued or guaranteed debt remains a key factor in determining rating equalisation with the sovereign.

PF is 100% owned by the state, which in Fitch's view demonstrates the fund's strategic importance to Georgia. The fund's mandate is to manage key national infrastructure corporations. The state endowed PF with 100% stakes in Georgian Railway (Grail, BB-/Negative), JSC Georgian Oil and Gas Corporation (GOGC, BB-/Stable), JSC Georgian State Electrosystem (GSE), and JSC Electricity System Commercial Operator (ESCO).

Fitch views the reorganisation of PF into an investment unit of the future Georgia sovereign fund (SF), which is expected to take place in 1H14 as a material change in the company's structure. PF's legal successor is expected to become an investment unit of the future SF, while asset management of key corporations will be transferred to another unit. The proposed reorganisation, once announced will be subject to Fitch's analysis and could potentially lead to separate rating processes.

Another of PF's mandates is to develop private equity investments in viable economic projects generating positive economic returns. The private equity market is currently undeveloped in Georgia, limiting the country's growth potential. PF targets profitable projects in several key areas - agriculture, manufacturing, real estate and energy.

The fund's supervisory board is chaired by the Georgian prime minister and composed of five leading cabinet members and four independent directors. Blending a corporate structure with strong state control should, in Fitch's view, ensure the fund's accountability to Georgia's government, and hence its adherence to mandated policy objectives, as well as adding investment expertise.

PF's only debt is a loan from its subsidiary (USD50m), GOGC. PF has injected this advance payment amount (proceeds of GOGC loan) into equity of Gardabani TPP SPV. PF is considering an exchange of debt to equity with GOGC in 2014, which will effectively reduce the fund's debt liability.

PF successfully exited three investment projects in 2013 in the real estate and agriculture, generating an overall 19.7% internal rate of return.

RATING SENSITIVITIES
An upgrade of Georgia, coupled with continued support from the state, would be rating positive, as PF is credit linked to the sovereign.

Weaker links with the state or its downgrade would be negative. A downgrade of the sovereign or changes that would lead to dilution or reassessment of state support could exert downward pressure on the rating.

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Additional information is available on www.fitchratings.com

Applicable criteria, 'Tax-Supported Rating Criteria' dated 14 August 2012 and 'Ratings of Public Sector Entities Outside the US' dated 4 March 2014 are available at www.fitchratings.com.

Applicable Criteria and Related Research:
Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015
Rating of Public-Sector Entities - Outside the United States
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=738077