

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

Fitch Ratings-London/Moscow-03 April 2012: Fitch Ratings has assigned Georgia's JSC Partnership Fund (PF) a Long-term foreign and local currency rating of 'BB-' and a Short-term foreign currency rating of 'B'. The Outlooks for the Long-term ratings are Stable.

The ratings are equalised with those of Georgia (Long-term foreign currency Issuer Default Rating (IDR): 'BB-/Stable; Short-term foreign currency IDR: 'B') to reflect its quasi-sovereign status and Fitch's confidence in timely government support of the fund's financial debt and guarantees issued. However Fitch considers the fund's standalone profile to be weak due to the possible vulnerability of the dividend stream from strategic assets and therefore Georgia's government ability and intent to support the fund's potential issued or guaranteed debt is a key factor determining rating equalization with the sovereign.

Fitch notes that an upgrade of Georgia, coupled with continued support from the state, would be rating positive, as PF is credit linked to the sovereign. Conversely a downgrade of Georgia or changes that would lead to dilution or reassessment of state support such as material disposals of stakes in state-owned infrastructure companies or meaningful changes in the goals of the fund could exert downward pressure on the rating.

PF is 100% owned by Georgia's government shareholding company established by its own act in June 2011. The state transferred stakes in key infrastructure companies, including 24% of Georgian Railway LLC, 24% of Georgian Oil and Gas Corporation LLC, 49% of Georgian State Electrosystem LLC, and 49% of Electricity System Commercial Operator LLC to fund the PF's initial paid-in capital.

The entity is mandated to extend guarantees for projects in the energy sector and promote private equity investments in viable economic projects promising significant return on investments and generating positive economic externalities. The private equity investments market is in its initial stages in Georgia and therefore the establishment of PF, a policy arm aimed at its development, is in Fitch's view important to meet economic demand.

PF is tightly controlled by the state and reports to Georgia's President and is supervised by the country's Prime Minister, who heads the company's supervisory board. The company's supervisory board is composed of the minister of finance, minister of economy and sustainable development, minister of justice, and minister of energy and natural resources. The state appoints the PF's auditors, authorises borrowing and has to approve its financial statements.

PF's debt is low and limited to an open credit line (USD5m) contracted from the local bank. The credit line is maturing in 2012, thus classified as short-term debt. By end-2011 the Fund had drawn GEL0.7m (USD0.4m) for the credit line and by March 2012 PF additionally drew GEL6m (USD3.6m) effectively increasing its outstanding short-term debt up to GEL6.8m. Fitch notes that PF's debt might increase up to USD80m by end-2012 upon the launch of the fund's investment operations, which will be subject to the agency's assessment of the credit metrics of new debt.

PF has no track record as its operations started in June 2011. As of March 2012 PF did not fund any projects. However the scope of the fund's operations will be increasing in the medium term thus its performance will be under strict Fitch's review due to the fund's short operating history.

Contact:

Primary Analyst
Konstantin Anglichanov

Director
+7 495 956-9994
Fitch Ratings CIS Limited
6 Gasheka Street
Moscow, 125047

Secondary Analyst
Turda Ozmen
Director
+90 212 284 7882

Committee Chairperson
Elzbieta Kaminska
Senior Director
+48 22 338-6284

Media Relations: Anna Bykova, Moscow, Tel: + 7 495 956 9903, Email: anna.bykova@fitchratings.com; Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com.

Additional information is available at www.fitchratings.com.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable criteria, 'Tax-Supported Rating Criteria' dated 15 August 2011 and 'Rating of non-US Public Sector Entities' dated 5 March 2012 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=648898

Rating of Public Sector Entities - Outside the United States

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=665613

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