FITCH AFFIRMS GEORGIAN OIL AND GAS CORPORATION AT 'BB-'; OUTLOOK STABLE

Fitch Ratings-London/Moscow/Warsaw-23 April 2014: Fitch Ratings has affirmed JSC Georgian Oil and Gas Corporation's (GOGC) Long-term foreign currency Issuer Default Rating (IDR) at 'BB-' with a Stable Outlook and senior unsecured rating on its USD250m bond maturing in 2017 at 'BB-'. A complete list of rating actions is at the end of this release.

The ratings for wholly state-owned GOGC are aligned with the sovereign's ratings as the government of Georgia (BB-/Stable) considers the company critical to national energy policy. In aligning the ratings, Fitch considers the 100% indirect state ownership and strong management and governance linkages between GOGC and the state. Fitch views GOGC's standalone profile as commensurate with a 'B+' rating due to the company's small size and limited operations.

KEY RATING DRIVERS
Ratings Aligned with Sovereign's Ratings
GOGC is one of several corporations in Georgia viewed by the government as critical to the national policy. GOGC's rating alignment is supported by 100% indirect state ownership via the JSC Partnership Fund (PF, BB-/Stable) and by strong management and governance linkages with the sovereign. We do not anticipate the Georgian government's announced reorganisation of the PF to have any impact on this relationship, but will assess the legal and practical impact of any change once final details of the reorganisation are released.

Deteriorating 'B+' Standalone Profile
We assess GOGC's standalone profile as commensurate with a 'B+' rating. The principal rating constraints are the company's small size and high leverage until at least end-2014 due to the construction of the Gardabani Combined Cycle Power Plant (GCCPP). GOGC continues to receive stable income from regulated gas transit operations with SOCAR Gas Export and Import, a subsidiary of the State Oil Company of the Azerbaijan Republic (SOCAR, BBB-/Stable). We view certain recent government decisions, e.g., continuation of the gas price discount for households and a reduction of GOGC's ownership of Gardabani as weakening GOGC's standalone profile.

High Leverage until End-2014
In 2013, GOGC's gross EBITDA leverage exceeded Fitch's 4x guidance for its standalone profile. We expect that in 2014 the company's gross EBITDA leverage will again exceed 4x before improving to about 3x by end-2015 and to 2x by end-2016, subject to phasing out of the gas price discount for households and keeping the Gardabani construction costs within the approved budget.

Gardabani Construction on Track
GOGC and the PF are constructing the USD220m 230 Megawatt (MW) capacity gas-fired GCCPP, with expected completion in October 2015 and latest reported progress being ahead of schedule. Even though GOGC is financing 100% of Gardabani through equity contributions and loans to the PF and the project SPV, GOGC will only own 51% in it while retaining managerial control of the plant, and the PF will own the remaining 49%. In our forecasts for GOCG, we incorporate 100% of future cash flows from Gardabani, but exclude interest and principal repayments from the project SPV and the PF, due to the related-party character of those loans and the fact that PF's loan repayments would likely be supported by cashflows from Gardabani itself.

Gardabani, Consumption Drive Profits

GOGC expects to generate USD40m of annual EBITDA from Gardabani, provided that Georgia's older, less efficient gas-fired power plants are shut down after 2015, resulting in no change in Georgia's overall gas consumption. Higher gas consumption by subsidised households and power plants could lower GOGC's profitability in 2016-2017 unless the regulator increases end-user gas prices correspondingly in this period.

RATING SENSITIVITES

Positive: Future developments that may result in positive rating action include:

- A positive rating action for Georgia within the 'BB' category would be replicated for GOGC

Negative: Future developments that may result in negative rating action include:

- A negative rating action for Georgia would be replicated for GOGC

- Weakening state support and/or an aggressive investment programme resulting in a significant deterioration of standalone credit metrics, e.g., EBITDA leverage above 4x on a sustained basis

- Unanticipated changes in the contractual frameworks supporting GOGC's midstream position, or liquidity problems associated with the concentration of cash deposits.

LIQUIDITY AND DEBT STRUCTURE

Ample Liquidity, Long-Term Maturities
At end-2013, GOGC's short-term debt amounted to GEL6.2m and was fully covered by cash and short-term deposits of GEL295.5m. GOGC's sizable maturities come in 2017 when the USD250m bond is due. At end-2013, GOGC deposited bond proceeds with several local banks, i.e., USD145m was held by, among others, TBC Bank (BB-/Stable) and the Bank of Georgia (BB-/Stable). In addition, GOGC lent on USD50m to the PF and USD28.5m to the State Service Bureau LLC, the latter balance repayment extended to 2017 from 2013.

The rating actions are as follows:

Long-term foreign and local currency IDRs: affirmed at 'BB-'; Outlooks Stable
Short-term foreign and local currency IDRs: affirmed at 'B'
Foreign currency senior unsecured rating: affirmed at 'BB-'

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Additional information is available at www.fitchratings.com. For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

Applicable criteria, 'Corporate Rating Methodology', dated 5 August 2013, are available at www.fitchratings.com.

Applicable Criteria and Related Research:
Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=715139

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