FitchRatings

FITCH AFFIRMS MOL AT 'BBB-'; OUTLOOK NEGATIVE

Fitch Ratings-Warsaw/London-11 July 2014: Fitch Ratings has affirmed MOL Hungarian Oil and Gas Company Plc's (MOL) Long-term Issuer Default Rating (IDR) at 'BBB-'. The Outlook is Negative. A full list of MOL's ratings is provided at the end of this commentary.

The Negative Outlook reflects pressures on the company's operations from declining oil and gas production, a challenging downstream environment and uncertainties over shareholding in its Croatian subsidiary INA - Industrija nafte d.d. (INA).

MOL is yet to arrest the decline in oil and gas production, which decreased to 97 thousand barrels of oil equivalent per day (mboepd) in 2013 (excluding production from disposed assets) from 108 mboepd in 2012. MOL plans to return to production growth by monetising assets in Kurdistan and the North Sea, where the company faces material capital expenditure, a risk of delay to future cash flow and/or project expenses exceeding budget. Finally, the downstream refining and marketing environment is under pressure with tight margins and weak demand.

MOL's ratings are supported by the company's business diversification with operations in upstream, refining, fuel retail and petrochemical segments, and by a strong financial profile. In addition to significant planned investments in the upstream segment, MOL plans to expand its petrochemical operations in the medium term with investments in butadiene, LDPE and synthetic rubber production units, which will strengthen its business diversification.

Despite the challenging environment, MOL strengthened its financial profile as funds from operations (FFO) adjusted net leverage improved to 1.4x in 2013 from 2.1x in 2012. Fitch forecasts leverage will remain within our rating guidance, below 2.5x on a sustained basis, despite MOL's significant capex and M&A plans.

KEY RATING DRIVERS

Rating Impact from INA Uncertainty
Tensions between the Croatian government and MOL over the corporate governance structure of INA intensified in 4Q13, but so far with limited consequences on the financial profile or operations of both companies. INA accounted for 29% of MOL's consolidated EBITDA in 2013 and 39% of its hydrocarbon production. Fitch treats the potential loss of management control over INA arising from the conflict between the Croatian government and MOL as an event risk with probable negative credit implications. Pressure on MOL's ratings may also arise if INA's performance deteriorates further due to unfavourable regulatory changes.

Upstream Production to Grow Again
MOL's upstream production declined in 2013 due to divestments and natural output decline in Hungary and Croatia. MOL also cut 2018 peak upstream production targets from the current portfolio by around 25% from previous guidance to 125mboepd-135mboepd, mainly due to a revised outlook for production in Kurdistan and following divestment of assets in Russia. The company expects to arrest declining production in 2014 on the back of rising output in the Kurdistan region of Iraq and the recently acquired assets in the North Sea.

Kurdistan and North Sea Key
Recent unrest and political instability in Iraq have had no impact on MOL's operations in Kurdistan so far. Our forecasts reflect an expected increase in oil and gas production from Shaikan and Akri-Bijeel fields to 20mboepd-25mboepd in 2018 (net entitlement share of MOL), but this is subject to

significant risks in the volatile operating environment in Iraq. North Sea oil output is in perpetual decline and incremental production from recently acquired acreage is only possible with significant capital investment.

Strong Financial Profile

MOL has shown the ability and willingness to maintain conservative financial ratios through a reduction in capex or dividends in the face of operational headwinds. Funds from operations (FFO) adjusted net leverage decreased to 1.4x in 2013 from 2.1x in 2012.

The company plans to increase capex by 70% in 2014-2016 compared with 2011-2013, with approximately 49% of total spending directed at the upstream segment. MOL also made three acquisitions in the past several months (acquisition of upstream assets in the North Sea and a retail network from Eni SpA (A+/Negative)) and plans further M&A spending in the medium term. Fitch forecasts that MOL will maintain leverage ratios within its rating guidance, ie FFO net adjusted leverage below 2.5x on a sustained basis, despite high capex and M&A spending.

Exposure to Hungary

Geographically, MOL's business is not dominated by the Hungarian economy - the country represented 27% of revenue. Moreover, MOL's two main profit drivers - crude oil prices and crack spreads on refined products - are affected by global factors, not by the domestic economy. MOL's foreign currency ratings are higher than that of the Hungarian sovereign (BB+/Stable) but below Hungary's Country Ceiling of 'BBB.' In line with Fitch's criteria, 'Rating Non-Financial Corporates Above the Country Ceiling', if the company's standalone rating rises above 'BBB', its foreign currency IDR would be capped by the Country Ceiling.

RATING SENSITIVITIES

Negative: Future developments that could, individually or collectively, lead to negative rating action include:

- FFO-adjusted net leverage above 2.5x on a through-the-cycle basis
- Extension of the timeline for delivering on its upstream project in Kurdistan or a reduction in MOL's projected net production of between 20mboepd-25 mboepd by 2018.
- Higher-than-expected budgeted expenditure to develop North Sea assets

Positive: Potential upside to the rating is presently limited by the company's Negative Outlook. However, future developments that could, individually or collectively, lead to the Outlook being revised to Stable include:

- Better-than-expected results in the delivery of its upstream projects in Kurdistan and/or the North Sea returning projected output to previous guidance levels of around 170mboepd-180 mboepd.
- Successfully completing additional efficiency improvements in the downstream segment to enhance profitability and margins

LIQUIDITY AND DEBT STRUCTURE

At end-March 2014, the company had available liquidity comprising cash of HUF236bn (EUR0.8bn) and undrawn committed long-term facilities of HUF763bn (EUR2.5bn equivalent) against debt maturing in one year of HUF302bn (EUR1bn)

FULL LIST OF RATING ACTION

MOL Hungarian Oil and Gas Company plc:

Long-term foreign and local currency IDRs: affirmed at 'BBB-'; Outlook Negative

Short-term foreign and local currency IDRs: affirmed at 'F3'

Senior unsecured rating: affirmed at 'BBB-'

MOL Group Finance SA:
Senior unsecured rating: affirmed at 'BBB-'

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Additional information is available on 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 28 May 2014, 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=749393

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