

Fitch: North Sea Acquisition Neutral; INA More Important for MOL's Credit

Profile Ratings Endorsement Policy

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Fitch Ratings-Warsaw/London-16 December 2013: Fitch Ratings says that MOL Hungarian Oil and Gas Company Plc's (MOL; BBB-/Negative) ratings are unaffected by its recently announced acquisition of assets in the North Sea. Rather, the future of its Croatian subsidiary INA Industrija Nafta, d.d. (INA), in light of tensions between MOL and the Croatian government, is more important for MOL's credit profile, in Fitch's view.

MOL acquired 14 licenses in the North Sea from Norway-based Wintershall Norge AS for USD375m, subject to closing adjustments. Purchase price consideration is within our forecast capex and acquisition spending for 2013 and therefore we do not envisage any immediate rating implications from this transaction. We expect funds from operations (FFO)-adjusted net leverage of below 2.0x in 2013, a level commensurate with the current rating.

Additional production of 1,000 barrel of oil equivalent per day (boe/d) in 2014 from the acquired assets, and increasing to 6,000 boe/d in 2015, is positive for MOL's business profile and will help arrest a decline in oil and gas production from its Hungarian and Croatian assets. We view the prospective production from a politically stable region and strategic cooperation with Wintershall as positive for the credit profile of MOL.

Healthy oil prices and management's actions have allowed MOL to maintain favourable FFO adjusted net leverage in 2012 and 9M13 despite declining upstream EBITDA and a still difficult European refining environment. However, MOL has no rating headroom for large debt-funded acquisitions under our negative rating guideline of FFO-adjusted net leverage above 2.5x on a through-the-cycle basis.

Separately, tensions between the Croatian government and MOL over the corporate governance structure of INA intensified in 4Q13, but so far without direct consequences on the financial profile or operations of both companies. Fitch will treat 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. Loss of management control will affect MOL's cash flows and credit metrics because our analysis will then focus on received dividends rather than on the consolidated profile, assuming MOL would retain its 49.1% stake in INA. The recently intensified uncertainty regarding the control of INA is reflected in MOL's Negative Outlook.

Fitch expects that discussions between MOL and the Croatian government will continue into 2014. We also believe that MOL's base case scenario is to retain its stake and management control over INA rather than dispose of its shares in the Croatian company.

For 9M13 INA accounted for 39% of MOL's total hydrocarbon production and approximately 29% of consolidated EBITDA.

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