Tear Sheet:

Augstsprieguma Tikls

December 12, 2025

This report does not constitute a rating action.

S&P Global Ratings sees the framework under which Latvian power transmission system operator (TSO) Augstsprieguma Tikls (AST) operates as mostly supportive. The new regulatory period begins on Jan. 1, 2026, and runs until Dec. 31, 2028, after the current one ends Dec. 31, 2025. Changes to tariff methodology for the next regulatory period were approved in June 2025 and the Public Utilities Commission (PUC) approved AST's electricity transmission tariffs for 2026-2028 at the end of November 2025. We view these changes as credit neutral since they should allow for more efficient cost recovery. We continue to view the regulation as strong/adequate. The increase in the weighted average cost of capital is the main reason we expect EBITDA will increase to €60 million-€70 million in 2026-2028, compared to our expectation of about €55 million during 2025.

The investment plan increases the regulatory asset base (RAB) but supports the grid's efficiency. We estimate AST's gross capital expenditure (capex) during 2025 at about €170 million versus close to €200 million during 2024. The majority of capex was financed with EU grants and congestion income, and net capex is estimated at €10 million to €15 million during 2025. We expect gross capex of €80 million-€90 million in 2026 and close to €60 million in 2027. But only a small portion will be financed by AST. Consequently, we expect only modest RAB growth to about €430 million-€440 million by 2028 compared with a RAB of €414 million used for the tariff calculation in 2024.

Our forecast credit ratios, namely funds from operations (FFO) to debt, show financial flexibility. We continue to consolidate unallocated congestion income with debt in our calculations. Hence, we currently forecast adjusted FFO to debt will remain at 50%-60%. The regulator has approved use of congestion income of €44.4 million to cover expenses and reduce tariff. Any congestion income received in 2026 is considered unallocated and will need a further allocation decision. We expect the accumulated congestion income will offset investments the regulator has earmarked to be financed by congestion income, which we define as allocated congestion revenue. Importantly, we add unallocated congestion income to our adjusted debt calculation, namely about €10 million of unallocated congestion revenue during 2026, and about €20 million to €30 million in 2027-2028.

AST plans to replace its bond due in 2027 during 2026 . We believe AST currently has sufficient liquidity to meet its obligations for the coming 12 months, with cash sources exceeding uses by more than 1.1x. The company has, however, a sizable maturity in January 2027 when its €100 million bond is due. According to AST's management, the company has obtained bridge financing

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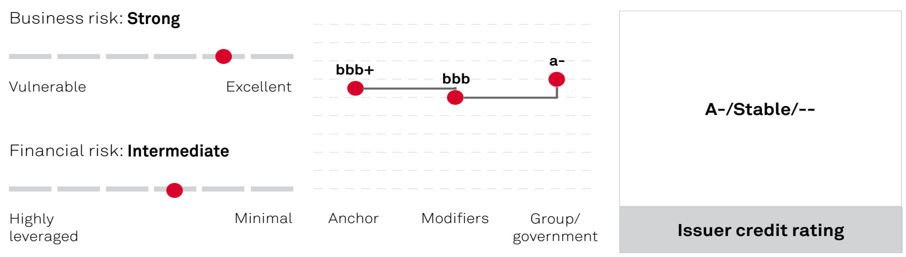
in total of €100 million. The €90 million facility matures in March 2027. Inability to execute refinancing could alter our view of AST's liquidity.

Ratings Score Snapshot



Company Description

AST is the sole power TSO in Latvia. Established in 1939, it was part of Latvenergo until 2012, when it was unbundled in line with EU directives. The Ministry of Climate and Energy currently owns AST. Since 2012, AST has leased its network from LET, the Latvia-based network owner that maintains the existing transmission network and constructs new ones. Latvenergo has maintained generation and distribution activities, the latter regulated under the same framework as AST.

In 2017, AST purchased 18.31% and 16.05% of Conexus, the Latvian gas TSO, from Uniper and Itera Latvija, respectively. In December 2020, AST merged with LET, effectively owning the transmission network and taking on 68.46% of Conexus by acquiring 34.1% of its shares from Gazprom. Conexus is accounted for as an equity affiliate within AST.

AST owns 5,555 kilometers of power lines and 145 substations, and its S&P Global Ratings-adjusted EBITDA amounted to €49 million during 2024.

Outlook

The stable outlook incorporates our view that AST will continue to use its congestion income efficiently, maintaining regulatory FFO to debt at 40%-55% (adjusted with liabilities related to unallocated congestion revenue received), while volatility of credit metrics reduces as congestion income is used.

Downside scenario

A downgrade of Latvia would trigger a similar action on AST.

A downgrade could also stem from AST reporting regulatory FFO to debt below 23% or if the final terms of the regulatory framework for the period commencing in January 2026 is substantially weaker than anticipated. In these scenarios, we would likely revise downward our assessment of AST's stand-alone credit profile (SACP) by one notch to 'bbb-'.

Upside scenario

We could revise our SACP assessment upward by one notch to 'bbb+' if the regulatory framework were to become more supportive than we currently anticipate, combined with significant reduction and usage of accumulated congestion income. This would have no impact on our issuer credit rating unless we also raised the rating on Latvia to 'A+' from 'A'.

Key Metrics

Period ending	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
(Mil. EUR)	2023a	2024a	2025e	2026f	2027f
EBITDA	45	49	55-60	60-70	60-70
Funds from operations (FFO)	44	48	55-60	60-70	60-70
Gross capital expenditure (capex)	53	175	170-180	80-90	50-60
EU Fund cash payments	*22*	*56*	*100*	*44*	*13*
Received cash from clients for projects			*63*	*27*	*1*
Net capex			5-10	10-15	35-40
Dividends	7	10	10-15	10-15	15-20
Debt (excluding)	5	49	100-110	90-100	110-130
o/w accumulated unallocated congestion income	na	na	0	10	20
Adjusted ratios					
Debt/EBITDA (x)	0.1	1.0	1.5-2.0	1.3-1.8	1.5-2.0
FFO/debt (%)	849.4	98.6	50-60	65-75	50-60

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. EUR--euro.

Financial Summary

Augstsprieguma Tikls--Financial Summary

Period ending	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024
Reporting period	2019a	2020a	2021a	2022a	2023a	2024a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	181	147	131	303	166	166
EBITDA	37	47	94	47	45	49
Funds from operations (FFO)	36	47	91	47	44	48
Interest expense	2	1	2	1	1	0
Cash interest paid	0	0	3	0	1	1
Operating cash flow (OCF)	25	54	91	35	47	75
Capital expenditure	48	13	32	31	53	175
Free operating cash flow (FOCF)	(23)	41	59	4	(6)	(100)
Discretionary cash flow (DCF)	(26)	40	51	(25)	(14)	(110)
Cash and short-term investments	48	57	49	92	113	68
Gross available cash	48	57	49	92	113	68

Augstsprieguma Tikls--Financial Summary

Debt	43	162	69	26	5	49
Common equity	70	385	465	448	450	457
Adjusted ratios						
EBITDA margin (%)	20.2	31.9	71.8	15.5	27.0	29.3
Return on capital (%)	0.4	3.0	10.5	2.3	2.6	3.2
EBITDA interest coverage (x)	21.5	59.1	45.4	70.5	65.6	118.8
FFO cash interest coverage (x)	NM	2,369.0	34.5	203.5	53.7	64.4
Debt/EBITDA (x)	1.2	3.5	0.7	0.5	0.1	1.0
FFO/debt (%)	83.6	28.7	131.8	181.0	849.4	98.6
OCF/debt (%)	57.4	33.3	131.7	135.1	905.4	154.4
FOCF/debt (%)	(54.4)	25.3	85.4	15.3	(125.6)	(204.9)
DCF/debt (%)	(61.1)	24.4	73.8	(97.5)	(261.7)	(225.7)

Peer Comparison

Augstsprieguma Tikls--Peer Comparisons

	Augstsprieguma Tikls	REN-Redes Energeticas Nacionais SGPS S.A.	Fingrid Oyj	Zapadoslovenska energetika a.s.	Madrileña Red de Gas S.A.U.
Foreign currency issuer credit rating	A-/Stable/--	BBB/Stable/A-2	A+/Stable/A-1	A/Stable/--	BBB-/Negative/A-3
Local currency issuer credit rating	A-/Stable/--	BBB/Stable/A-2	A+/Stable/A-1	A/Stable/--	BBB-/Negative/A-3
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2024-12-31	2024-12-31	2024-12-31	2024-12-31	2024-12-31
Mil.	EUR	EUR	EUR	EUR	EUR
Revenue	166	628	1,403	2,469	153
EBITDA	49	481	367	397	110
Funds from operations (FFO)	48	424	285	261	87
Interest	0	91	42	23	27
Cash interest paid	1	78	47	25	22
Operating cash flow (OCF)	75	568	176	268	72
Capital expenditure	175	234	536	235	13
Free operating cash flow (FOCF)	(100)	334	(360)	33	58
Discretionary cash flow (DCF)	(110)	232	(497)	(73)	56
Cash and short-term investments	68	40	757	214	127
Gross available cash	68	40	839	214	127
Debt	49	2,543	1,044	641	787
Equity	457	1,552	600	1,349	788
EBITDA margin (%)	29.3	76.5	26.2	16.1	71.7
Return on capital (%)	3.2	6.2	18.8	13.1	5.2
EBITDA interest coverage (x)	118.8	5.3	8.7	17.0	4.1
FFO cash interest coverage (x)	64.4	6.4	7.1	11.3	4.9
Debt/EBITDA (x)	1.0	5.3	2.8	1.6	7.2
FFO/debt (%)	98.6	16.7	27.2	40.6	11.1

Augstsprieguma Tikls--Peer Comparisons

OCF/debt (%)	154.4	22.3	16.9	41.8	9.1
FOCF/debt (%)	(204.9)	13.1	(34.5)	5.1	7.4
DCF/debt (%)	(225.7)	9.1	(47.6)	(11.4)	7.2

Liquidity

We assess AST's liquidity as adequate because we expect liquidity sources will cover uses by more than 1.1x over the 12 months started June 30, 2025. Our view of adequate liquidity is further underpinned by AST's good relationships with banks, given it has successfully contracted bank loans and overdraft facilities at reasonable prices.

Principal liquidity sources as of June 30, 2025, include:

- Cash and cash equivalents of about €60 million;
- About €40 million of cash FFO over the next 12 months;
- Annual congestion income of €10 million-€15 million; and
- Our expectation of about €10 million-€15 million of dividends from Conexus Baltic Grid.

Principal liquidity uses over the same period include:

- About €10 million-€15 million of capex, net of EU funds;
- Dividends of at least €10 million set in law; and
- About €2 million in maturing debt.

Environmental, Social, And Governance

Environmental, social, and governance factors have no material influence on our credit rating analysis of AST. The company's main focus is on Latvia’s electrification and synchronization with continental Europe.

Rating Component Scores	
Foreign currency issuer credit rating	**A-/Stable/--**
Local currency issuer credit rating	**A-/Stable/--**
Business risk	**Strong**
Country risk	Intermediate
Industry risk	Very Low
Competitive position	Satisfactory
Financial risk	**Intermediate**
Cash flow/leverage	Intermediate
Anchor	**bbb+**
Modifiers	
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Negative (-1 notch)
Stand-alone credit profile	**bbb**

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011