European Telecommunication Services Rating Methodology

Corporates

Call for comments

Scope welcomes market participants' comments on its proposed methodology.
Please send your comments by 20 January 2026 to consultation@scoperatings.com.

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1. Scope of application

This proposed methodology outlines Scope Ratings' approach to rating European telecommunication services companies and complements the General Corporate Rating Methodology, superseding it in the event of conflict, inconsistency or ambiguity. More specifically, it provides guidance on how we analyse the business risks that are specific to these companies. The financial risk profile assessment is based on the metrics set out in our General Corporate Rating Methodology. This telecommunication services methodology can also be applied selectively to non-European issuers where appropriate.

We define telecommunication services corporates as those that generate most of their revenues and cash flows from telecommunications and related services, such as transmitting voice, data, text, sound and video. In most cases, they also control significant telecommunications assets, which can either be tangible (e.g. networks, either fixed or mobile, or satellites) or intangible (e.g. spectrum licences and contractual/commercial rights). The operations of telecommunication services companies are typically limited to a specific region, usually determined by the geographic coverage of their telecommunications assets (e.g. networks and mobile licences). Furthermore, these services can be provided either directly to consumers (B2C) or to other businesses (B2B). The broad categories of services provided include wireless, fixed and wholesale/enterprise (refer to Section 2 for details).

Under this proposed methodology, we mainly rate companies that derive most of their revenues from providing wireless or fixed telecommunication services. Mobile virtual network operators (MVNOs) are covered by this methodology, even though they do not own or control significant telecommunications assets. However, companies that operate solely in the wholesale/enterprise segment or in pure-play network infrastructure (such as telecommunication towers) are beyond the scope of this methodology as their operations and business characteristics are different and warrant a separate rating approach.

2. The telecommunication services industry

The telecommunication services industry supports personal, enterprise and government communication needs and is considered an essential infrastructure sector that is closely tied to national security and a key driver of economic growth.

Telecom operators function across one or more service segments, including

- **Wireless services (mobile)**: mobile voice and data, messaging (SMS/MMS) and 4G/5G-based applications.
- **Fixed services (wired/broadband)**: traditional voice services, broadband internet access and leased lines for enterprises.
- **Digital and enterprise services**: television, e-payments, virtual private networks (VPNs), data centre services, interconnection services, cloud services, cyber security and managed IT services.

Most of these services were developed by companies that were originally involved in fixed voice telephony, most of the time under a legal or de facto monopoly regime (and in many cases, by companies that were owned by governments). The industry expanded beyond the traditional fixed telephony services as i) new services were introduced, such as internet access (for individuals) and leased lines (for corporates); and ii) new technologies were introduced, such as wireless services. Over the last few decades, the telecom market has opened up significantly in most countries with new players allowed to enter, introducing more competition in the industry. In most European markets, the telecom sector is typically characterised by the presence of three to four large, integrated operators providing both mobile and fixed services. Despite being relatively concentrated, competitive intensity is maintained by regulatory measures and the presence of smaller alternative providers in most countries.

Telecom operators typically function in a well-regulated industry due to their strategic importance and use of public resources such as spectrum. Regulatory bodies oversee spectrum allocation, licensing and the entry of new players in a market, ensuring consumer protection via means such as tariff regulations, universal service obligations, fair competition laws and antitrust oversight.

The telecom industry is highly capital-intensive; the industry demands substantial initial as well as ongoing investments, starting with spectrum acquisition, followed by investments in network infrastructure (such as the upgrade from 3G to 4G and 5G, and fibre rollouts) and high maintenance capex. The telecom industry also needs capital investments for safeguarding against technological obsolescence as well as regulatory and compliance costs. Some countries also have a strong presence of MVNOs, which lease network capacity from incumbent providers and enhance market competition by offering diverse, low-cost service options to consumers without having to make sizeable network investments. Nevertheless, MVNOs generally report lower profit margins because they remain reliant on the purchase of wholesale network access from established telecom operators, compete primarily on price, and remain unable to cross-sell services given their limited operations.

The creditworthiness of telecom operators is influenced by many factors including market position, revenue stability and capital structure. Typically, an operator with a strong credit profile has a strong market position in its key markets, with a stable and recurring cash flow and a diversified geographic and service portfolio (mobile, fixed, enterprise etc.). The operator would have a large customer base and low churn, culminating in strong operating margins, low leverage and healthy debt protection metrics, with efficient utilisation of owned spectrum. This would typically result in an above-average resilience to economic downturns, in keeping with the essential nature of its services. On the other hand, an operator with a weaker credit profile would have low market shares with high customer churn and a narrow geographic or service focus. This would result in a heavier debt burden, with volatile free cash flow and limited access to capital markets and funding.

3. Information/Data sources

In the analytical process, we typically take into account the following sources of information. Not all of the listed information will be considered for every rated entity. Moreover, we may consider additional sources of information if necessary.

- Audited financial statements
- Unaudited interim financials
- Press releases
- Presentations and information from conference calls/capital market days
- Financial forecasts/budgeting of the rated entity
- Research on the industry, rated entity and relevant jurisdictions
- Data from external data providers, e.g. consensus estimates, debt placements
- Management meeting (in case of issuer participation)
- Loan documentation, e.g. debt prospectuses, bank loan agreements

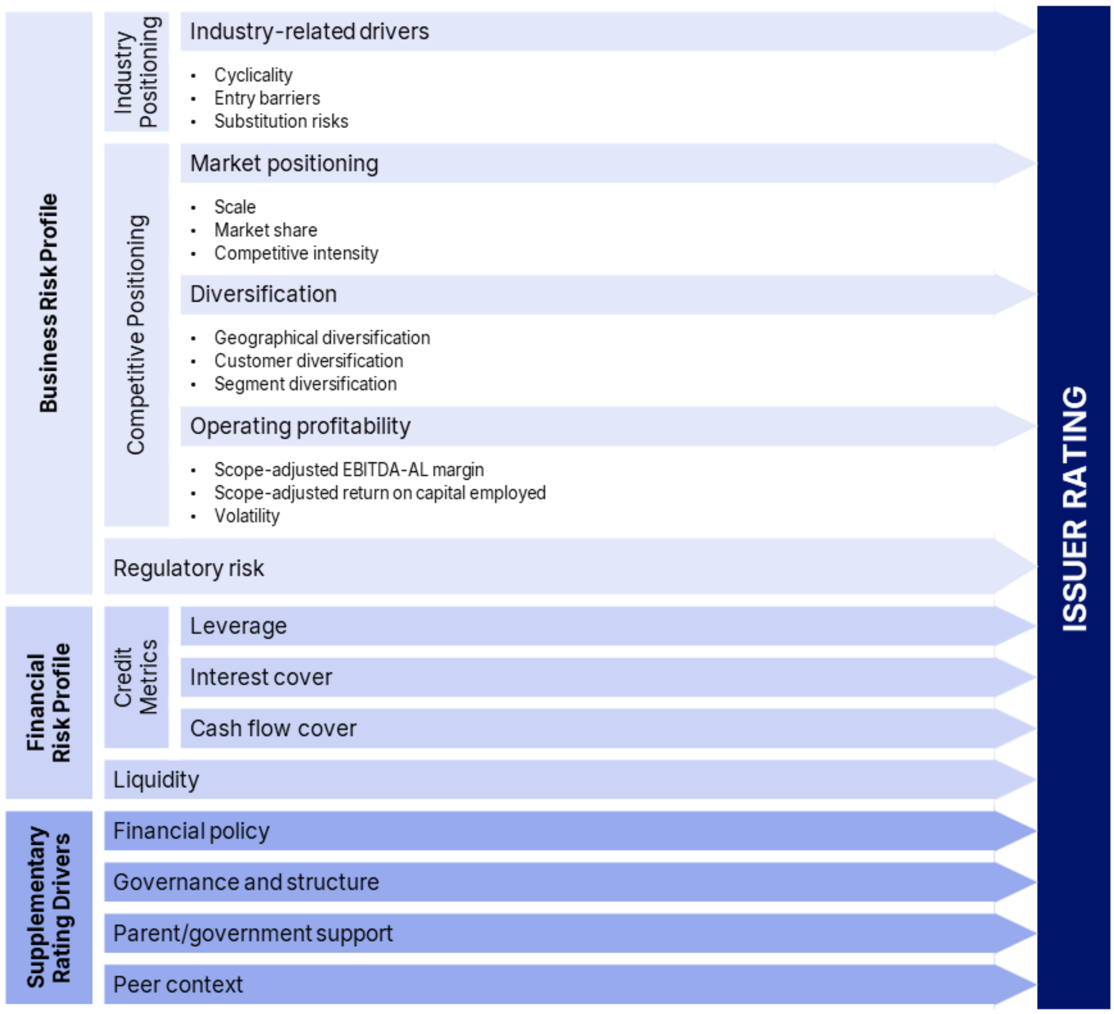
Scope internal data, e.g. spreading of historical financials and detailed forecasts for the next few years, and peer group data.

4. Key components

This proposed methodology would be applied as outlined in Figure 1 and should be read in conjunction with the General Corporate Rating Methodology, which provides rating factors common to all industries such as management, liquidity, legal structure, governance and country risks.

The following business and financial risk indicators are non-exhaustive and may overlap; some may not apply to certain corporates. We may add issuer-specific rating factors. A rated entity's business model determines the applicable indicators. No rating driver has a fixed weight in the assessment.

Figure 1: Scope's rating approach for telecommunications services companies



4.1 Business risk profile

4.1.1 Industry-related drivers

We assess the industry fundamentals of telecommunication services companies by examining the following industry drivers:

1. Cyclicality
2. Entry barriers
3. Substitution risks

Cyclicality (low)

We consider the cyclicality of the telecommunication services industry to be low. Telecommunications services have become indispensable and are considered a basic utility, like access to water and electricity. Due to the non-discretionary nature of these services, demand remains fairly stable through economic cycles as services are rarely cancelled, or their use rarely moderated during economic downturns. As households typically spend around 2%-3% of their budget on telecom services, this expense is not strongly linked with movements in discretionary income.

Furthermore, most telecommunication services are sold with a subscription mechanism (including automatic renewals unless cancelled), which provides stability to revenues as long as the customer remains a subscriber. Apart from this, demand in the B2B segment also remains fairly stable throughout economic cycles, given the critical nature of such services for business operations.

Market entry barriers (medium)

There are significant entry barriers in the sector as new players typically need a mobile licence – usually restricted to three or four per country – and/or must deploy a nationwide network, which involves substantial capital expenditure over several years. Additionally, with subscription growth largely saturated since most of the addressable population already uses these services, there is little incentive for newcomers to enter the market. As a result, the sector tends to be oligopolistic, with the leading operator in each country often being the former monopoly incumbent operator (in some cases state-owned).

In recent years, competition in Europe has even declined slightly, driven by mergers among mobile operators (e.g. in Spain, the UK and Germany) and, more notably, by consolidations between fixed-line providers (including cable operators) and mobile companies (e.g. in the UK, Belgium and Hungary).

Although regulatory approvals, licensing requirements and heavy investment create significant hurdles, national regulators sometimes intervene to encourage competition when market concentration becomes excessive. This can involve issuing new mobile licences or requiring dominant network operators to grant access to alternative providers. Consequently, while barriers to entry in the form of investments and licensing remain considerable, they are assessed as medium overall.

Substitution risk (low)

Providing telecommunication services requires access to regulated assets such as spectrum as well as significant infrastructure that usually takes years to roll out to get national coverage. As a result, substitution risks in the sector are limited.

Nevertheless, there have been some examples of significant substitution in a few segments. One is the progressive replacement of the short message service (SMS) or text message by instant messaging platforms (such as WhatsApp, Messenger and Telegram) by over-the-top (OTT) players. Additionally, we believe that there are more risks coming from some cannibalisation between various telecommunication services. An illustration of this has been mobile voice progressively replacing fixed voice and voice over internet protocol (VoIP) replacing mobile voice. Additionally, satellite-based mobile communications can provide direct connectivity to smartphones without relying on terrestrial towers, extending coverage to remote and underserved areas. While building and maintaining satellite networks requires significant capital, it reduces the need for extensive ground infrastructure. This shift also opens the market to new entrants, enabling satellite operators and tech startups to compete with traditional mobile carriers.

While there could be technological shifts and advancements, telecommunication services cannot be fully substituted. We thus consider the substitution risks in the sector to be low.

Figure 2: Scope's industry risk assessment for telecommunication services companies

Cyclicality \ Entry barriers	Low	Medium	High
High	CCC/B	B/BB	BB/BBB
Medium	B/BB	BB/BBB	BBB/A
Low	BB/BBB	BBB/**A**	A/AA

Based on the low cyclicality, medium entry barriers and low substitution risks, industry risk is assessed at A.

4.1.2 Competitive positioning

We assess the competitive positioning of telecommunication services companies by examining the following risk drivers:

- Market positioning
- Diversification
- Operating profitability

The weighting between the three risk drivers of telecommunication services companies' competitive positioning may be adjusted to reflect specific business situations. For certain sub-assessments of the above-mentioned risk drivers, we provide a classification that spans over multiple rating categories. To position the issuer into a single rating category, we additionally apply a peer/relative analysis.

Market positioning

We view stronger market shares in telecommunication services as positive, implying stability in cash flows (since telecommunication services are typically sold through subscriptions), with a stable or growing market share implying good service quality and price positioning. Market shares are assessed at national level as telecom services are not generally exportable. Further, telecom services are generally offered at national level, via the allocation of licences or spectrum, even if the overarching regulatory framework might by defined at a higher level, such as in the European Union. The sector's competitive dynamics are also usually linked to local market share assessed in relation to the overall size of the addressable market and influenced by national regulatory frameworks.

Market shares are typically evaluated based on subscriber market share in each relevant market sector, mainly in mobile (data and voice) and fixed (mainly broadband) telecommunications. The assessment utilises independent third-party references as much as possible (typically a national regulatory authority) while reflecting the unique characteristics of each market and considers the number of significant players present in the market. In cases where revenue market share differs significantly from subscriber market share, the assessment could deviate marginally (by 1-2 notches) from the assessment suggested below. The assessment also considers any anticipated changes to market share if we expect significant changes to the market in which an issuer operates.

Competitive intensity is a key factor in assessing the final market position for any telecom company. Leading telecom players that face limited competition are generally better positioned to preserve their market standing, thereby sustaining profitability. Barriers to entry may range from regulatory (licences and spectrum) to structural (high capital requirements and economies of scale). A strong market position also erects competitive barriers in the form of brand loyalty, switching costs and well-established distribution.

Figure 3: Market positioning by rating category

	AA and above	A	BBB	BB	B	CCC and below
Scale	Revenues > EUR 50bn	Revenues of EUR 25bn-50bn	Revenues of EUR 10bn-25bn	Revenues of EUR 1bn-10bn	Revenues < EUR 1bn	Nascent operations; start-ups
Market Share	Very strong, sustainable market share in primary markets[1] (>40%)	Strong, sustained market share in primary markets (30%-40%)	Moderate market share in primary markets (20%-30%)	Modest market share in primary markets (10%-20%)	Low market share in primary market (<10%)	New challenger in primary market
Competitive Intensity	Highly stable market position with near-monopoly status, virtually no competition and no incremental entries expected in the near term; high barriers to entry	Stable market with limited number of players and no incremental entries expected in the near term; barriers to entry exist	Stable market with moderate competition; competition exists on an ongoing basis; moderate barriers to entry	Significant competitive intensity; modest barriers to entry	High competitive intensity; low barriers to entry	Very high competitive intensity; virtually no barriers to entry

[1] Primary markets refer to markets constituting at least 25% of an issuer's revenues

Diversification

A telecom company's level of diversification determines its ability to absorb cash flow volatility resulting from economic cycles, regulatory shifts, competitive pressures and technological changes. Limited diversification – whether by geography, customer base or service offering – reduces flexibility and increases exposure to external shocks, which can weaken credit metrics and threaten business sustainability. Although strong market positions or inelastic demand can partially offset these risks, high concentration generally weighs on our assessment of business risk.

For telecom companies, we assess diversification across three dimensions: **geographies**, **customers** and **segments**.

Geographical diversification: In the telecom sector, competitive and regulatory environments differ significantly from one country to another, even within the same region or continent. Accordingly, having a presence across countries helps offset such risks. A regional player focused on a few areas within a country and reliant on an outsourced network to provide nationwide connectivity would be the most exposed to competitive threats and regulatory developments. On the other hand, a player with a strong international presence across multiple global regions[1] would be largely protected against adverse developments in a particular country.

Customer diversification: Given the nature of their operations, telecommunication services companies focusing on mobile and fixed services tend to have large number of individual or corporate customers. A granular customer base helps mitigate risks arising from shifts in customer preferences, spending, local competition or regulatory changes (for instance, mobile number portability). On the other hand, wholesale-focused companies with few clients face higher risk, especially if customer profiles are weak or lack repeat business.

Customer segmentation is assessed alongside the quality of B2B clients, the company's track record with them, and the recurring nature of revenues from these relationships. Thus companies having high contribution from the B2B segment could be assessed higher if they are positioned favourably on the above parameters.

Segment diversification: For the purpose of our analysis, we classify telecommunication operations across three broad segments, as detailed earlier in Section 2: i) wireless/mobile services; ii) fixed services; and iii) digital and enterprise services. Diversification across segments shields issuers against adverse trends in specific services. For example, fixed telephony is structurally declining globally, broadband growth can cannibalise mobile data (as seen during the pandemic lockdowns) or vice versa, and enterprise services tend to be more cyclical.

Figure 4: Diversification by rating category

	AA and above	A	BBB	BB	B	CCC and below
Geographical	Very strong international presence with operations in three or more global regions[2]	Strong international presence with operations in two global regions	Good diversification by country with the primary market accounting for less than 60% of revenues	Moderate diversification by country with the primary market accounting 60%-90% of revenues	Weak diversification with primary market accounting for more than 90% of revenues	National player with no international presence
Customer	Highly granular customer base with more than 80% of revenues from B2C segment	Granular customer base with 65%-80% of revenues from B2C segment	Reasonably granular customer base with 50%-65% of revenues from B2C segment	Balanced presence across B2C and B2B segments, with each having 40%-50% of revenues	High reliance on B2B customers, with 25%-40% of revenues from B2C segment	Very high reliance on B2B customers, with less than 25% of revenues from B2C segment
Segment	Very strong presence across all three segments	Presence in all three segments, with limited coverage in one or two segments	Presence in two of three segments, with strong coverage in both segments	Presence in two of three segments, with limited coverage in one segment	Presence in a single segment, with strong coverage in that segment	Presence in a single segment, with limited coverage within that segment or a new entrant with limited scope of operations

Note: Selling telecommunication equipment linked to offered services is not considered diversification, but an ancillary telecommunication services activity.

Operating profitability

We primarily use the Scope-adjusted EBITDA after leases (EBITDA-AL) margin to assess profitability – successful telecommunication services companies tend to have more stable and stronger margins. We consider EBITDA-AL margins over reported EBITDA margins as the former closely represent the economic costs of running a telecom network, after adjusting for the impact of leased infrastructure. It also enhances comparability between telecom peers with different levels of owned and leased infrastructure.

[1] In our analysis, we identify the following seven global regions: Europe, North America, Latin America, Oceania/Australia, Asia, Africa and the Middle East.

[2] In our analysis, we identify the following seven global regions: Europe, North America, Latin America, Oceania/Australia, Asia, Africa and the Middle East. A region must contribute at least 20% to an issuer's revenues to be considered for geographical diversity.

We also look at the Scope-adjusted return on capital employed to facilitate a comparison across the spectrum of companies covered by the methodology and to assess an issuer's level of return on the large investments in infrastructure, network and spectrum required for telecom companies.

Volatility in the EBITDA-AL margin for established telecommunication services companies is usually low because these services typically generate recurring revenues through monthly subscriptions from a large number of customers, ensuring a steady cash flow. Margin dynamics might nevertheless be influenced by the stage of development (newly established companies requiring higher costs while revenues are still scaling up) or changes in the competitive environment (decrease in customer base, increased marketing costs or entry of new players). Profitability may also be dependent on the operator's foray into a different sector (a mobile operator moving into fixed telecoms or vice versa) or geography (expansion out of home country), requiring higher investments for establishing its position, which could lead to an uptick in volatility.

We would base our assessment of volatility on margin fluctuations over an extended period of time, including the periods where there has been a change in competitive positioning for the company, and over our forecast horizon. The classification of volatility of operating profitability as high, medium or low is based on statistical measures such as the EBITDA-AL margin range, a standard deviation of the company's EBITDA-AL margin or the coefficient of variation of the margin.

Figure 5: Operating profitability by rating category

	AA and above	A	BBB	BB	B	CCC and below
Scope-adjusted EBITDA-AL margin	>50%	40%-50%	30%-40%	20%-30%	10%-20%	<10%
Scope-adjusted return on capital employed	>40%	30%-40%	20%-30%	10%-20%	0%-10%	Negative
Volatility	Low		Medium		High	

4.1.3 Regulatory risk

The assessments of an issuer's industry risk profile and competitive positioning are combined to arrive at a proforma business risk profile assessment. Subsequently, we incorporate an assessment of whether the regulatory framework under which the issuer operates is favourable or unfavourable for its business risk profile.

This regulatory assessment can incorporate an assessment of i) the relevant regulator's views about the need (or not) for a (more/less) competitive market; ii) changes in tax structure specific to the sector; and iii) other forms of indirect interventions such as pricing guidelines to manage inflation, among others. In addition to assessing the existing scenario, we also assess the risks an issuer may face in the future from such regulatory interventions or developments in a country, based on the prevailing competition and pricing scenario and how that compares with peers' nations. While in most cases where the regulatory scenario is fairly evolved and stable, we view this as a neutral assessment, a negative adjustment through which notching is made for an issuer's business risk profile assessment if the regulations are adversely impacting its operations and cash flows, or reasonably likely to do so over the forecast period. Typically, the higher the proforma business risk profile assessment prior to the incorporation of the regulatory risks, the greater the potential negative adjustment to account for such risks.

4.2 Financial risk profile

Our assessment of a telecommunication services company's financial risk profile follows the general guidance in our General Corporate Rating Methodology. We focus on recent and forward-looking financial data. Key parameters include leverage, interest cover and cash flow. Liquidity is also assessed and is central to our analysis of non-investment grade issuers.

The financial risk profile indicates a company's financial flexibility and viability in the short to medium term. A company with a strong financial risk profile is more likely to be resilient to economic downturns, adverse industry dynamics, unfavourable regulation or an unexpected loss of a revenue source. The ability to retain financial flexibility during an economic downturn is a rating driver for a telecommunication services company as this indicates its ability to invest at all phases of the economic cycle.

4.2.1 Credit metrics

We assess the financial risk profile of telecommunication services companies using the same four credit metrics in the General Corporate Rating Methodology. Our analysis typically adjusts the debt of a telecommunications company by various items (where deemed material), including off-balance sheet debt from the leasing of long-term assets (if not reflected by IFRS 16), debt-like provisions such as unfunded pension provisions and unfunded asset retirement provisions for the decommissioning and/or restoration of network infrastructure sites, spectrum payables or other debt-like contingencies.

4.2.2 Liquidity

Our general liquidity assessment is outlined in the General Corporate Rating Methodology.

4.3 Supplementary rating drivers

4.3.1 Financial policy

Our assessment of supplementary rating drivers is described in the General Corporate Rating Methodology.

4.3.2 Governance and structure

Our assessment of supplementary rating drivers is described in the General Corporate Rating Methodology.

4.3.3 Parent/government support

Our assessment of parent support is described in the General Corporate Rating Methodology. When assessing the credit quality of a telecommunication services company that may benefit from government support, we incorporate the relevant sovereign's or sub-sovereign's capacity and willingness to bail out the company in the event of financial distress, as laid out in Scope's Government Related Entity Rating Methodology.

4.3.4 Peer context

Our assessment of supplementary rating drivers is described in the General Corporate Rating Methodology.

4.4 Environmental, social and governance assessment

Credit-relevant environmental and social factors are implicitly captured in the rating process, while corporate governance is explicitly captured at the 'governance and structure' analytical stage (see 4.3.2).

The rating analysis focuses on credit quality and credit assessment drivers. An environmental, social and governance (ESG) factor is only credit-relevant when it has a discernible and material impact on the issuer's cash flow, and, by extension, its overall credit quality.

ESG-related factors can be credit-positive, credit-negative or credit-neutral. Such factors need be assessed through either qualitative judgement or through quantitative measures.

Credit-relevant ESG factors can directly and indirectly affect all elements of the business risk profile, financial risk profile and supplementary rating drivers. The importance/relevance of certain ESG factors is specific to each rated entity, industry and region, except for governance, which is universally applicable across all industries.

Consumer sentiment and awareness of ESG topics are increasingly affecting telecommunication services companies, exposing them to direct as well indirect ESG risks. Telecommunication services companies are increasingly focusing on environmental factors such as energy efficiency and renewable transition, e-waste management, emissions reduction through the value chain and the development of climate-resilient infrastructure.

Social factors regarding telecommunication services companies primarily relate to their ability to achieve digital inclusion and ensure data protection for their customers, while ensuring the well-being, safety and diversity of their employees and managing labour relations.

Companies failing to consider ESG factors within their strategy may be subject to reputational risk that could also significantly harm their brand. Minimising these risks requires sound governance, including independent and external bodies that monitor risk management, incidences of bribery and corruption, and financial disclosures, all while applying transparent communication towards all stakeholders.

The General Corporate Rating Methodology provides further detail on how ESG factors and supplementary rating drivers are incorporated in the credit analysis.

5. Issuer rating

The final issuer rating is based on our analysis of the business risk profile, financial risk profile and supplementary rating drivers. The rating committee decides on the relative importance of each rating driver. The business risk profile and financial risk profile are generally weighted equally for companies that are perceived as crossover credits between investment-grade and non-investment-grade. The business risk profile is typically emphasised for investment-grade companies, while the financial risk profile is mostly the focus for non-investment-grade companies. However, the latter also depends on the level of the financial risk profile. Less focus is granted to strong financial risk profiles of companies showing a weak/vulnerable business risk profile (in the B or low BB category) since for such companies the financial risk profile is subject to higher volatility. This takes into account that the credit rating of companies with business risks that reflect weak or moderate credit quality should not be bolstered by a temporarily strong financial risk profile. Hence, the weighting between the business risk and financial risk profiles is adapted to each issuer’s business model and market(s).

6. Additional methodology factors

For more details on our rating Outlooks for issuer ratings, long-term and short-term debt ratings, the recovery analysis see the General Corporate Rating Methodology.

7. Appendix

7.1 Definition of financial items and key performance indicators applicable only to the telecommunications services industry

The General Corporate Rating Methodology defines in detail the indicators used in our financial risk profile assessments.

The following additional key performance indicators are used for the assessment of telecommunications companies.

Scope-adjusted EBITDA-AL margin (%)	
Profitability measure	This measure adjusts reported EBITDA for lease expenses, which is critical for telecom operators because they rely heavily on leased infrastructure such as towers, fibre and equipment. Reported EBITDA under IFRS (or some local GAAPs following principles similar to IFRS 16 for lease accounting) excludes lease costs. Accordingly, this metric ensures comparability of profitability across companies, irrespective of their asset ownership status (percentage of owned versus leased assets) and their accounting policies for leases.
Scope-adjusted EBITDA after leases (Scope-adjusted EBITDA – depreciation/ amortisation of right-of-use assets – interest on lease liabilities) ――――――――― Revenues	

Scope-adjusted return on capital employed (%)	
Profitability and efficiency	This ratio measures how efficient a company is at generating earnings from its assets. It allows a comparison between companies with varying business mixes and capital intensities (e.g. mobile network operators, or MNOs, versus MVNOs). Balance sheet values are typically used as reported, while EBITDA is adjusted for significant, exceptional or non-recurring items. We take into account the average exposure of capital employed, taking the average of the balance sheet values for periods t and t-1.
Scope-adjusted EBITDA ――――――――― Average capital employed (average property, plant and equipment + average intangible assets + average current assets – average short-term liabilities)	

7.2 Related documents

For more information, please refer to the following documents:

- General Corporate Rating Methodology
- Government Related Entity Rating Methodology
- Credit Rating Definitions

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