

# The Communications Market: Digital Progress Report

Digital TV, Q3 2006

This is the twelfth Ofcom Digital Progress Report to cover developments in digital television. The data are the latest available at the time of writing and include quarterly figures provided by platform operators as well as from market research.

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## Section 1

# Overview

- 1.1 The three months to the end of September 2006 (Q3) saw 800,000 net conversions to digital television (DTV). Q3 was also a strong quarter for sales of digital terrestrial television (DTT) equipment, with total sales approaching 1.4 million.
- 1.2 The proportion of households in the UK which received digital television services on their primary TV set increased by 3.1 percentage points during the three months to September 2006 to reach 73.3%.
- 1.3 With a further 1.6% of households subscribing to analogue cable at the end of Q3 2006, the total number of homes receiving some form of multi-channel television stood at 74.8%.

## Key findings

- 1.4 Key developments in the third quarter of 2006 included:
  - DTT units sold during the quarter approached 1.4 million, marking the fifth consecutive quarter of sales in excess of one million. Year on year, Q3 2006 sales were 36% higher, assisted by growing sales of integrated digital televisions (IDTVs), which accounted for 40% of all DTT units sold in the quarter.
  - The number of households with digital TV equipment connected to their main television set rose by almost 814,000 to reach over 18.5 million.
  - 74% of that growth was explained by new DTT-only households, which increased by 602,000 to 7,004,000 over the quarter. This was a strong quarter of growth for new DTT homes following a slower first half of 2006.
  - Latest Ofcom estimates suggest there were also around 750,000 free-to-view digital satellite homes. Meaning that in total there are now around 7.8 million free-to-view digital households (DTT and free-to-view satellite).
  - The number of BSkyB UK subscribers rose by 68,000 to over 7.8 million. When free-to-view satellite viewers are included, the total number of satellite homes was approaching 8.6 million.
  - The number of net cable subscribers increased by 22,000 during the quarter and now stands at over 3.3 million. Analogue cable subscriptions fell by 63,500 while digital cable increased by almost 85,800. Digital cable subscribers now account for over 2.9 million, or 88%, of all cable.
- 1.5 In calculating platform totals in the report, DTT-only homes are defined as those households where DTT is the only digital TV platform in the home. A household with satellite or cable on the main TV set and DTT on a second set, would be counted primarily as a satellite or cable home. Satellite and cable subscriber figures are already shown net of second receivers (e.g. a household with two Sky boxes is only recorded once).

## Section 2

## Platform figures Q3 2006

Figure 1: Platform take-up

	Q2, 2006	Q3, 2006	Net additions	Growth rate
<b>Pay TV digital subscribers</b>				
Digital cable	2,843,471	2,929,271	85,800	3.0%
Digital satellite (BSkyB) <sup>1</sup>	7,749,000	7,817,000	68,000	0.9%
TV over ADSL <sup>2</sup>	45,000	43,000	-2,000	-4.4%
<b>Total digital pay TV subscribers<sup>3</sup></b>	<b>10,637,471</b>	<b>10,789,271</b>	<b>151,800</b>	<b>1.4%</b>
<b>Free-to-view digital households</b>				
DTT (Freeview) only homes <sup>4</sup>	6,402,000	7,004,000	602,000	9.4%
Free-to-view digital satellite <sup>5</sup>	695,000	755,000	60,000	8.6%
<b>Total Free-to-view households</b>	<b>7,097,000</b>	<b>7,759,000</b>	<b>662,000</b>	<b>9.3%</b>
<b>Total UK digital households</b>	<b>17,734,471</b>	<b>18,548,271</b>	<b>813,800</b>	<b>4.6%</b>
<b>Digital penetration</b>	<b>70.2%</b>	<b>73.3%</b>	<b>3.1pp<sup>6</sup></b>	
<b>Other multi-channel households</b>				
Analogue cable	458,054	394,554	-63,500	-13.9%
<b>Multi-channel penetration</b>	<b>72.0%</b>	<b>74.8%</b>	<b>2.8pp<sup>6</sup></b>	

Source: Platform operators, GfK research, Ofcom market estimates.

<sup>1</sup> BSkyB subscriber figures include commercial premises and also TV over ADSL households that subscribe to Sky packages. There is therefore an element of overstatement in these areas.

<sup>2</sup> The Q3 figure for TV over ADSL includes Homechoice figures as released in Tiscali's Q3 results in November 2006, following the integration of Video Networks Limited (VNL).

<sup>3</sup> Pay TV households do not include figures for Top Up TV as these figures are not in the public domain. Top Up TV subscribers are therefore counted in free-to-view digital terrestrial homes.

<sup>4</sup> Ofcom uses survey data from GfK for the number of homes where DTT is the only digital platform. The total number of all homes with DTT is therefore higher.

<sup>5</sup> Ofcom estimates the number of viewers using satellite equipment to receive the free-to-view channels.

<sup>6</sup> pp = percentage points.

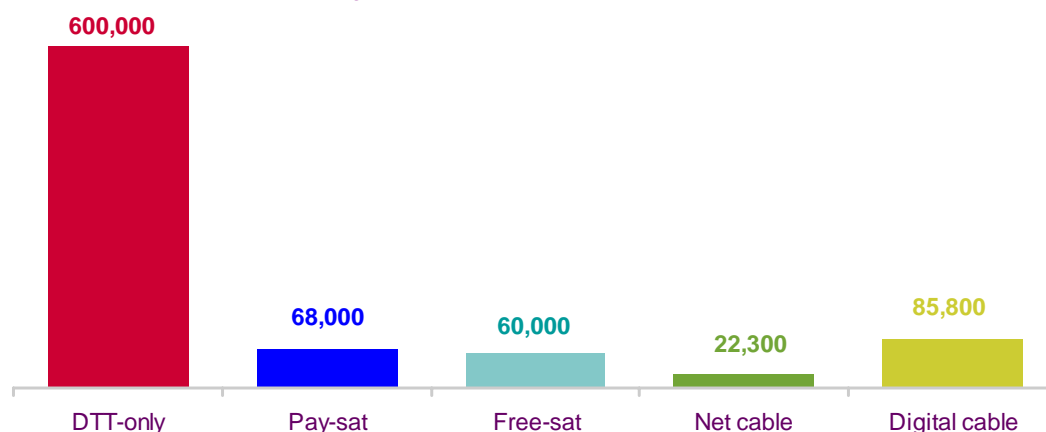
Note: Percentages may not add to 100% owing to rounding.

## Q3 net platform additions

2.1 New homes connecting a DTT device to their main television set explained a large proportion of DTV growth in Q3 with an estimated 600,000 DTT homes added. On pay satellite, BSkyB had 68,000 net additions in the quarter. Ofcom estimates that a further 60,000 homes were using free-satellite equipment for the first time by the end of Q3. On cable ntl:Telewest added a net 22,300 homes, but also continued to upgrade its analogue cable network which meant that there were 85,800 further digital cable subscribers in Q3.

**Figure 2: Net quarterly growth**

Subscribers / homes added during Q3 (actuals)



Source: Platform operators, GfK research, Ofcom market estimates.

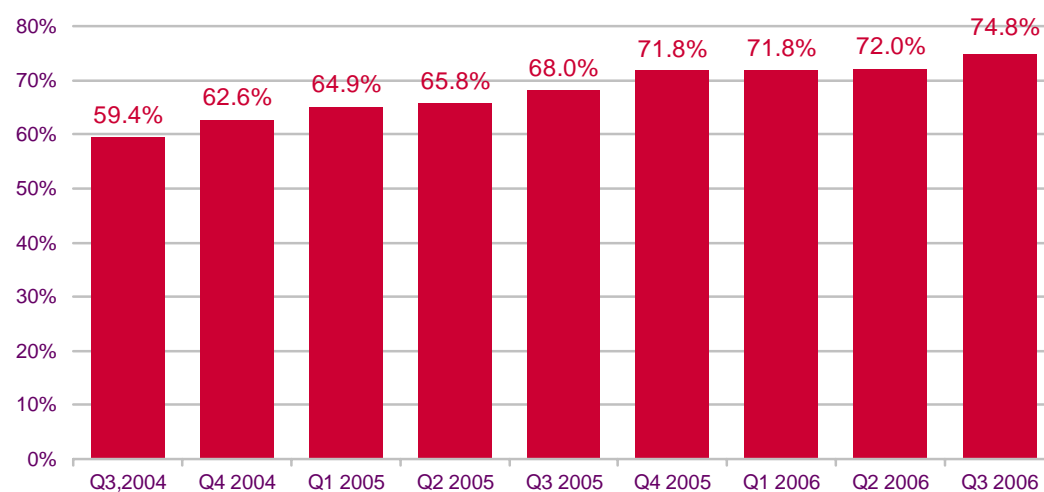
## Multichannel 15% growth in 2 years

2.2 Multichannel take-up increased by 2.8 percentage points in Q3 up to 74.8%. Over the last two years take-up has increased by 15.4 percentage points from Q3 2004, when take-up was under 60%.

2.3 Of the 74.8% of homes with multichannel television, digital television accounted for 73.3%, with the remaining 1.5% made up by analogue cable homes.

**Figure 3: Multichannel take-up**

Multichannel take-up, percentage % homes

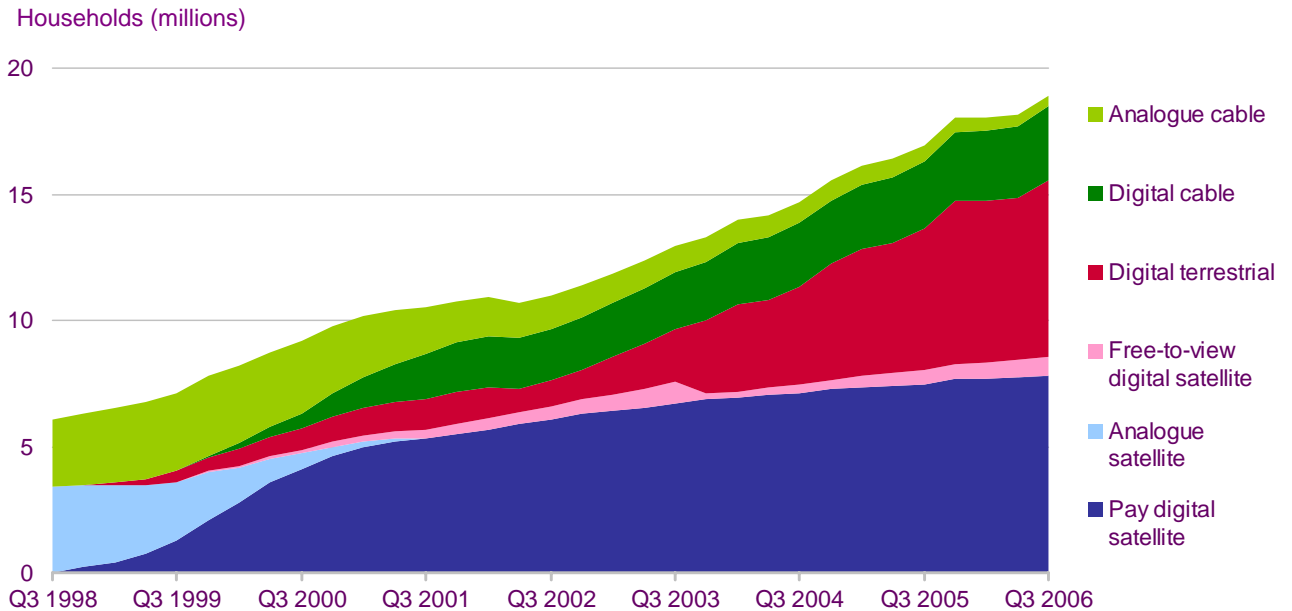


Source: Ofcom, platform operators, GfK research.

## Digital and multichannel penetration of UK households

2.4 Overall DTV penetration increased by 3 percentage points during Q3 2006, reaching 73.3% of UK households. Multichannel penetration, which includes analogue cable subscribers, has now reached 74.8%.

**Figure 4: Multichannel growth 1998 - 2006**

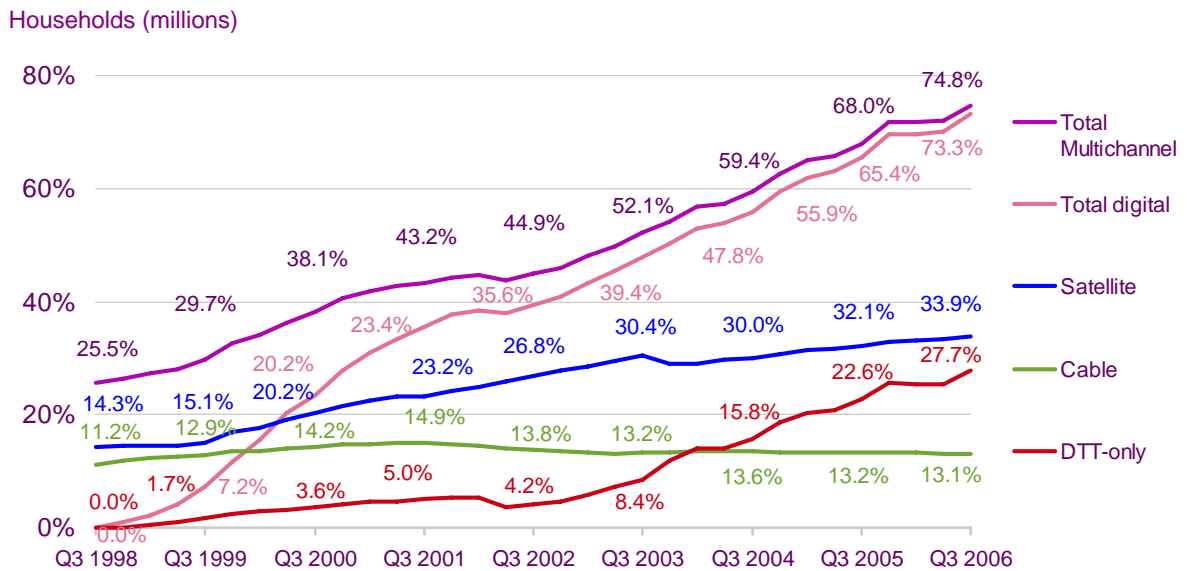


Source: Platform operators, GfK research, Ofcom market estimates.

### Platform growth in UK households

2.5 DTT has provided most of the digital television growth over the last three years, with DTT-only homes increasing from 8.4% in Q3 2003, to 27.7% of homes by Q3 2006. Satellite has maintained steady growth over this time, partly assisted by the growth in free-satellite, and was in almost 34% of homes by Q3. Cable has been relatively stable over this time at around 13% of homes.

**Figure 5: Platform take-up 1998 - 2006**

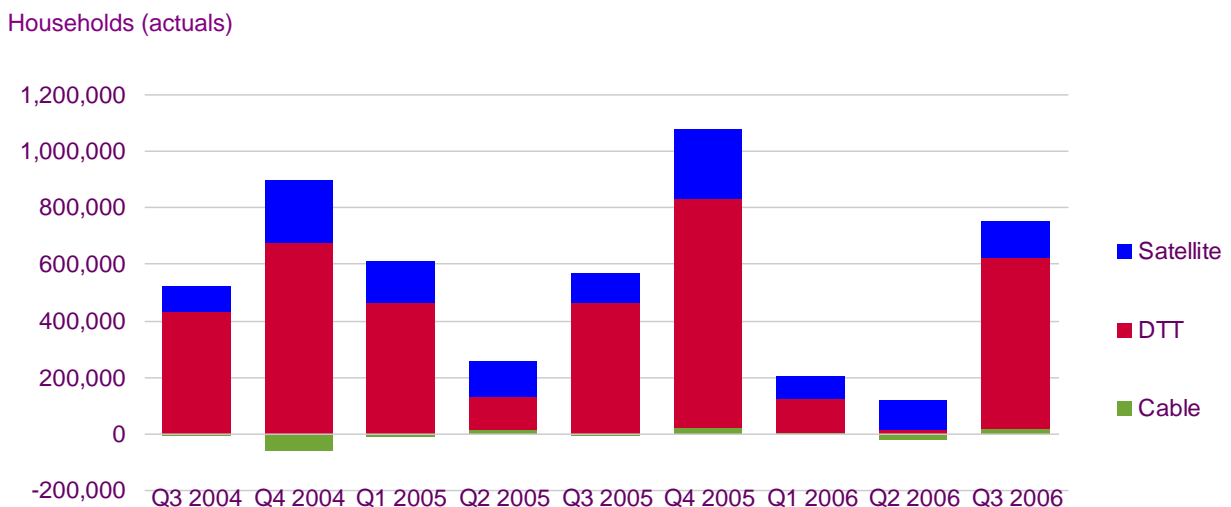


Source: Platform operators, GfK research, Ofcom market estimates.

### Net additions to multi-channel homes by platform

2.6 The chart below shows net additions for the DTV main platforms over the nine quarters to Q3 2006. Satellite and DTT have been the main drivers of DTV growth over this period.

**Figure 6: Net quarterly additions**

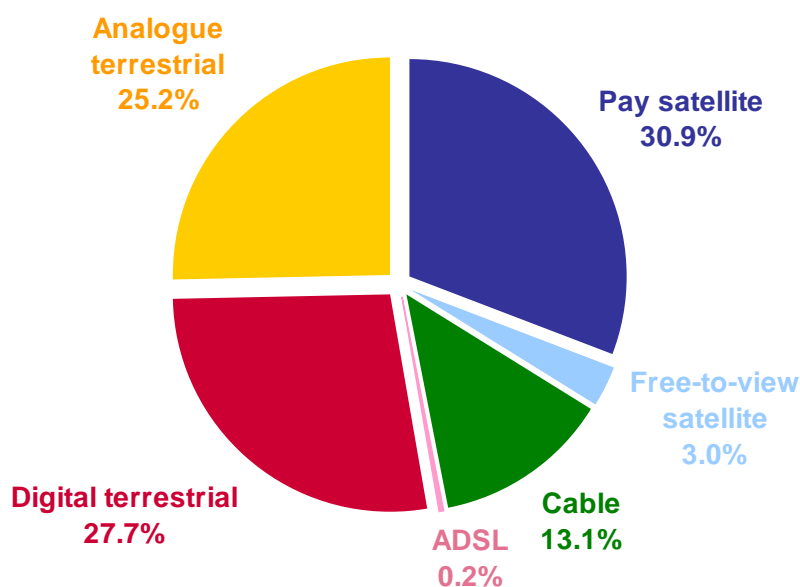


Source: Platform operators, GfK research, Ofcom market estimates.

## Share of TV platforms on primary sets, 30 September 2006

2.7 The chart below shows Q3 platform share on the primary sets in the UK's 25.3 million television homes (analogue and digital).

Figure 7: Share of main sets in homes



Source: Platform operators, GfK research, Ofcom market estimates.

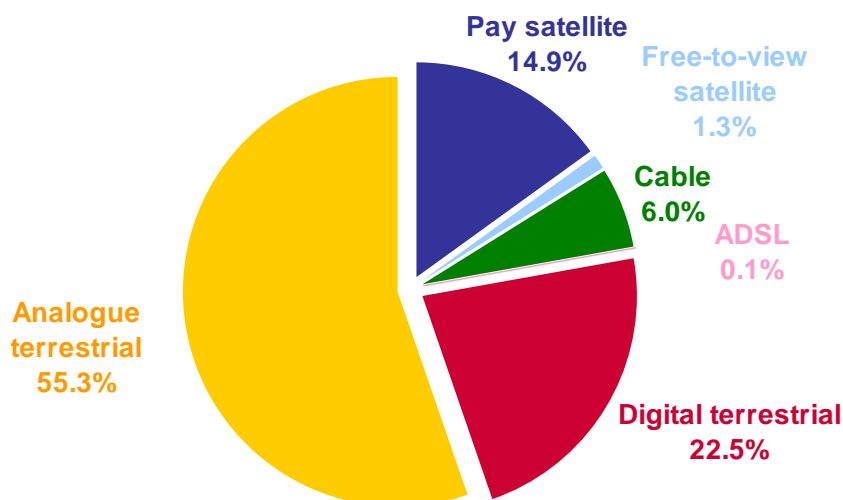
2.8 Developments in the third quarter include:

- DTT became the second most widely used platform on main sets in quarter 3, up 2.4 percentage points to 27.7% of all homes. DTT homes now exceed those with analogue on the main set by 2.5 percentage points, analogue had a 25.2% share of main sets by Q3, (28.0% in Q2).
- Pay satellite was still the leading platform on primary sets, with 30.9% of UK homes subscribing to BSkyB, up slightly from 30.8% in Q2.
- Free-to-view satellite increased steadily in the quarter, and had a share of around 3.0% of sets in Q3. This growth has been driven by homes acquiring free satellite equipment for the first time or viewers who previously paid a subscription but now watch the free to view satellite channels.
- The remaining market share was made up of cable (13.1%) and ADSL (0.2%), both stable on Q2 share.

## Share of TV platforms on all TV sets

2.9 Turning to all TV sets (both analogue and digital), analogue terrestrial still accounts for more than half of all the UK's 60m TV sets.

**Figure 8: Share of 60 million TV sets**



Source: Platform operators, GfK research, Ofcom market estimates.

At the end of Q3 2006:

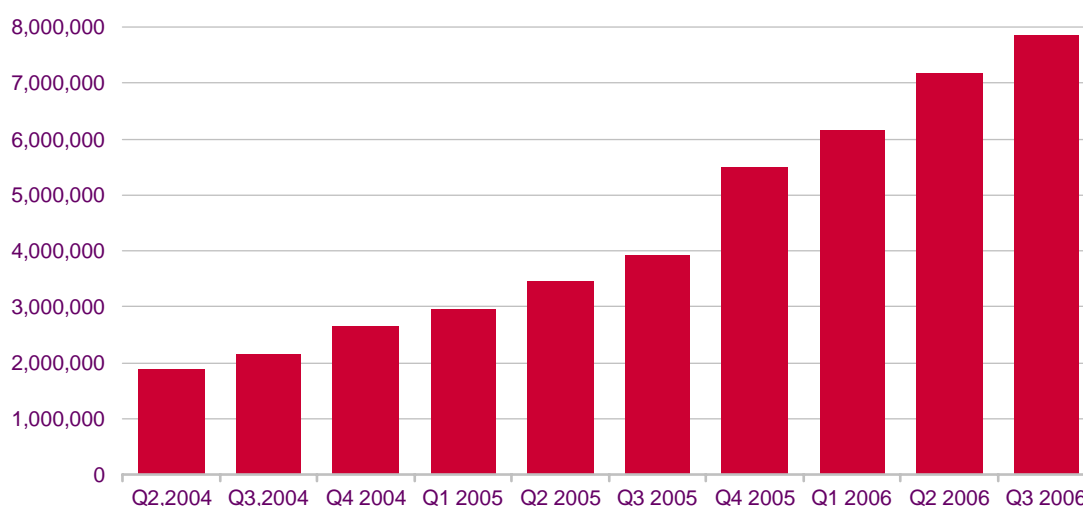
- Of the 55.3% of television sets still using analogue terrestrial television, 10.6% were primary sets with the remaining 44.7% secondary. (for example sets in a bedroom or kitchen). In Q2 analogue share was 57.6% of sets by comparison.
- Digital terrestrial was the second biggest platform with a 22.5% share of all TV sets in Q3 (up from 19.4% in Q2). This growth was explained by an increase in the number of DTT devices connected to secondary sets.
- Pay satellite had a share of 14.9% of all TV sets in Q3, up slightly on Q2 by 0.2%, with both net subscriptions and Sky multiroom increasing during the quarter. When adding-in free-to-view satellite, satellite had a 16.2% share of all sets overall.
- Cable was the fourth largest platform, with a share of 6.0% of all TV sets. ADSL made up the remaining 0.1%, stable on last quarter.

## Growth in secondary digital sets

- 2.10 Conversion of secondary television to a digital platform continued in Q3. The trend towards converting secondary sets appears to have gathered momentum as those with DTV on the main set become accustomed to having the extra choice of channels on the main set in the home and are now using a variety of options to upgrade additional sets. DTT has again been a main driver in the conversion of second sets.
- 2.11 The chart below illustrates the growth in the number of DTV secondary TV sets over the past two years. This includes secondary sets that have been converted to receive either one of the satellite, DTT or cable platforms. Conversion has doubled in the last year from just under 4 million a year ago in Q3 2005 to approaching 8 million by Q3 2006.

**Figure 9: Total secondary digital sets across all platforms**

(actuals)



Source: Platform operators, GfK research, Ofcom market estimates.

Note that this chart will also include a small number of analogue cable second sets.

## Summary of trends in digital take-up and market share in UK homes.

Figure 10: Market shares, take-up and additions

	2004	2005	2005	2005	2005	2006	2006	2006
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<b>Digital take-up</b>								
Digital cable	10.1%	10.2%	10.4%	10.6%	10.8%	11.1%	11.3%	11.6%
Digital satellite	30.8%	31.3%	31.7%	32.1%	32.8%	33.1%	33.4%	33.9%
DTT	18.5%	20.3%	20.8%	22.6%	25.7%	25.3%	25.3%	27.7%
ADSL	0.1%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%
<b>Total digital</b>	<b>59.4%</b>	<b>61.9%</b>	<b>63.0%</b>	<b>65.4%</b>	<b>69.5%</b>	<b>69.7%</b>	<b>70.2%</b>	<b>73.3%</b>
Analogue cable	3.2%	3.0%	2.8%	2.6%	2.4%	2.1%	1.8%	1.6%
Total multichannel	62.6%	64.9%	65.8%	68.0%	71.8%	71.8%	72.0%	74.8%
<b>Pay TV take-up*</b>								
Cable	13.3%	13.2%	13.2%	13.2%	13.2%	13.2%	13.1%	13.1%
Pay digital satellite	29.2%	29.5%	29.8%	29.9%	30.5%	30.5%	30.7%	30.9%
ADSL	0.1%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%
<b>Total</b>	<b>42.6%</b>	<b>42.8%</b>	<b>43.1%</b>	<b>43.2%</b>	<b>43.8%</b>	<b>43.9%</b>	<b>43.9%</b>	<b>44.2%</b>
<b>Share of digital TV market</b>								
Cable	17.0%	16.5%	16.6%	16.2%	15.6%	15.9%	16.0%	15.8%
Digital satellite	51.8%	50.6%	50.4%	49.0%	47.3%	47.5%	47.6%	46.2%
ADSL	0.1%	0.1%	0.1%	0.2%	0.2%	0.3%	0.3%	0.2%
DTT	31.1%	32.8%	32.9%	34.5%	36.9%	36.4%	36.1%	37.8%
<b>Share of multichannel TV market</b>								
Cable	21.2%	20.3%	20.1%	19.4%	18.4%	18.4%	18.1%	17.5%
Digital satellite	49.1%	48.2%	48.2%	47.2%	45.7%	46.1%	46.4%	45.3%
DTT	29.5%	31.3%	31.5%	33.2%	35.7%	35.3%	35.2%	37.0%
<b>Share of net additions</b>								
Cable	0.0%	0.0%	5.3%	0.0%	2.0%	6.2%	0.0%	3.0%
Digital satellite	24.0%	24.0%	48.1%	17.2%	22.6%	84.3%	87.7%	17.0%
DTT	75.0%	76.0%	46.7%	79.7%	75.2%	0.0%	12.3%	80.0%
ADSL	0.9%	0.0%	0.0%	3.1%	0.2%	9.5%	0.0%	0.0%

Source: Platform operators, GfK research, Ofcom market estimates.

\* Figures for the pay DTT service, Top Up TV, are not in the public domain for Q3. Subscribers to Top Up TV also receive free-to-view DTT, and are therefore included in the DTT market shares.

Some figures in the table may not add exactly due to rounding.

## Section 3

## Update by platform

## Digital satellite – pay TV households

Figure 11: BSkyB Q2 and Q3 2006 results

	Pay digital satellite – Sky	
	Q2, 2006	Q3, 2006
<b>Pay-TV households</b>	<b>7,749,000*</b>	<b>7,817,000*</b>
ARPU (annualised)	£388	£385
Churn	10.6%	11.8%
Basic package price	£15.00	£15.00
Sky Multiroom	1,047,000	1,093,000
Sky+	1,553,000	1,692,000

Source: BSkyB Q3 2006 results

\* These figures are for the UK and exclude BSkyB's subscribers in the Republic of Ireland.

- 3.1 BSkyB's pay-TV subscriber base increased by 68,000 during the quarter to reach 7,817,000 UK subscribers. This was an increase on Q1 and Q2 2006 and was also up by 20,000 on the Q3 2005 additions of 48,000.
- 3.2 The number of BSkyB subscribers taking the multiroom service (which converts additional sets in the home to receive BSkyB channels) increased by 46,000 during Q3 to 1,093,000, equivalent to 13% of all Sky subscribers. Multiroom additions have slowed so far this year with 187,000 converting an additional set, compared to 275,000 in the equivalent period a year ago.
- 3.3 BSkyB's PVR service Sky+ had another strong quarter, adding 139,000 new subscribers, taking its total subscriber base to 1,692,000 homes or 20% of all Sky subscribers.
- 3.4 Annualised average revenue per user (ARPU) for the quarter was down by £3 on the previous quarter to £385 in Q3. Churn increased quarter on quarter from 10.6% to 11.8%.

## Digital satellite - free-to-view households

**Figure 12: Free satellite**

	Free-to-view digital satellite	
	Q2, 2006	Q3, 2006
Free-to-view households	695,000	755,000

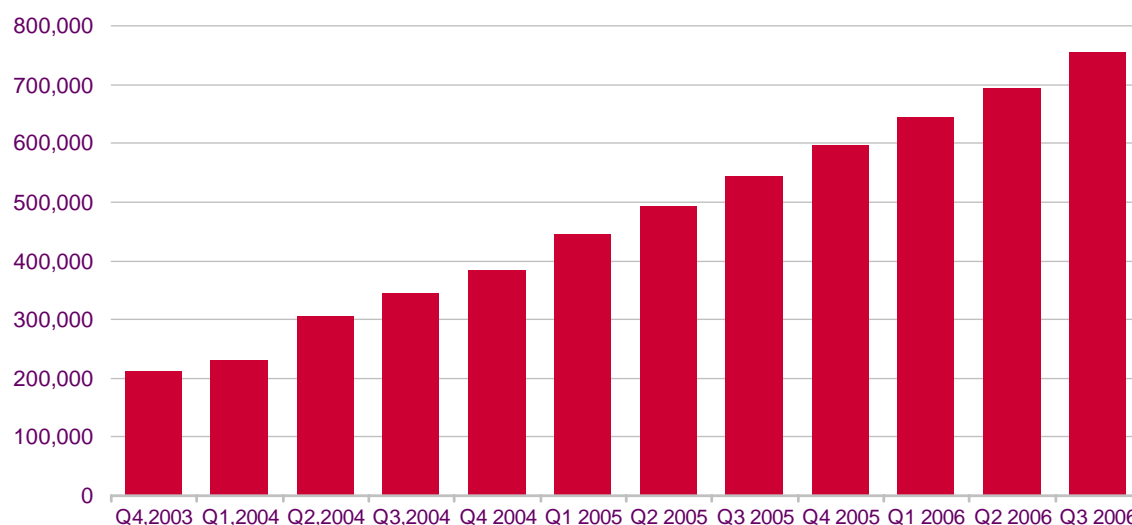
Source: Ofcom market estimates.

3.5 Free-satellite viewers: An increasing number of homes now use satellite reception equipment to receive free-to-view channels. Free satellite viewers fall into one of three categories:

- Homes that have churned from BSkyB pay services but have retained their satellite equipment so that they continue to receive the free-to-view channels.
- BSkyB's own non-subscription service 'Freesat'. For a one-off payment of £150 (covering installation of satellite equipment) viewers can receive the free-to-view channels.
- Some homes have obtained satellite receiving equipment from BSkyB or from other retailers and also have a viewing card which allows them to receive the free-to-view channels.

3.6 Use of free-satellite equipment has increased steadily over the last three years and by the end of Q3 2006 the total number of homes using satellite equipment to receive the free-to-view channels was estimated at 755,000.

**Figure 13: Estimated free-satellite growth 2003 - 2006**



Source: Ofcom market estimates

## Cable

**Figure 14: Ntl:Telewest Q2 and Q3 2006 results**

	ntl:Telewest	
	Q2, 2006	Q3, 2006
Homes passed and marketed	12,661,100	12,505,500
Total residential subscribers (TV, telephony, internet)	4,928,700	4,891,500
<b>Digital TV homes connected</b>	<b>2,836,200</b>	<b>2,922,000</b>
Total TV homes connected	3,293,100	3,315,400
TV penetration rate	26.0%	26.5%
ARPU* (annualised)	£507	£510
Churn rate*	18.0%	21.6%
Basic package price	£16.50	£11.00

Source: Ntl:Telewest Q3 2006 results

Note: The above figures are the combined results of the previous ntl and Telewest Broadband statistics.

\* Ntl ARPU and churn rates relate to their total consumer division.

- 3.7 The combined ntl:Telewest results show that the company added 85,800 digital TV subscribers during Q3, mainly due to analogue cable homes being upgraded to the digital network. Taking account of analogue cable subscribers converting to digital, net additional TV homes were 22,300 during Q3, which was the largest number of net cable TV additions since Q2 2004.
- 3.8 The total number of UK cable households in Q3 stood at 3,323,825, including Wight Cable subscribers. There are now 2,929,271 digital cable subscribers, an increase of 3.0% on Q2 2006. Digital cable now accounts for over 88% of all cable TV subscribers.

## Digital Terrestrial Television (DTT) sales – IDTVs take a 40% share

- 3.9 Q3 saw almost 1.4 million sales of DTT set top boxes and IDTVs (up 36% year on year). This is the fifth successive quarter in which sales have exceeded the 1 million mark and the third highest quarter for DTT sales ever, bettered only in the fourth quarters of 2004 and 2005.
- 3.10 IDTV sales almost trebled year on year, with 555,000 units sold in Q3 2006, accounting for 40% of all DTT sales in the third quarter, compared to 19% a year earlier. So far this year, 1.4m IDTVs have been sold, compared to under 500,000 in the first three quarters of 2005.
- 3.11 Set top box sales stood at 835,000 in Q3 2006 and were up slightly on last year's Q3 sales of 826,000.

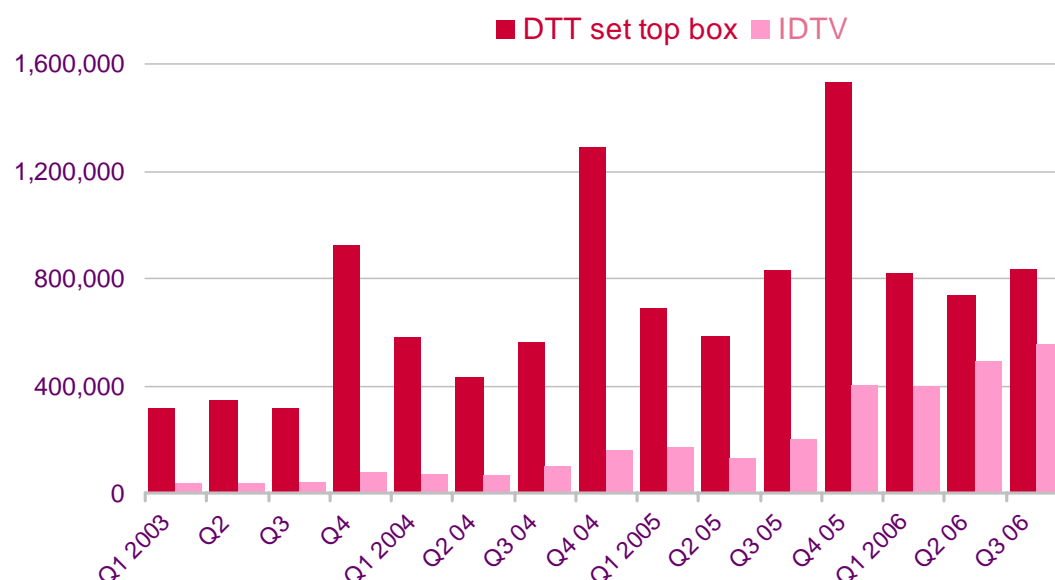
**Figure 15: DTT equipment quarterly sales**

Quarterly DTT sales	Q3 2005	Q4, 2005	Q1, 2006	Q2, 2006	Q3 2006
Freeview set top boxes	826,300	1,527,579	817,215	736,470	834,960
IDTVs	196,000	402,211	395,115	487,725	555,765
<b>Total sales</b>	<b>1,022,300</b>	<b>1,929,790</b>	<b>1,212,330</b>	<b>1,224,195</b>	<b>1,390,725</b>

Source: Sales figures GfK, as adjusted by Freeview.\*

\* Freeview adjusts the sales figures upwards by 5% to represent its estimate of the number of Digital TV set top boxes and IDTVs sold in Northern Ireland, offshore islands, staff sales and business to business, to allow for the sales details for which are not compiled by GfK.

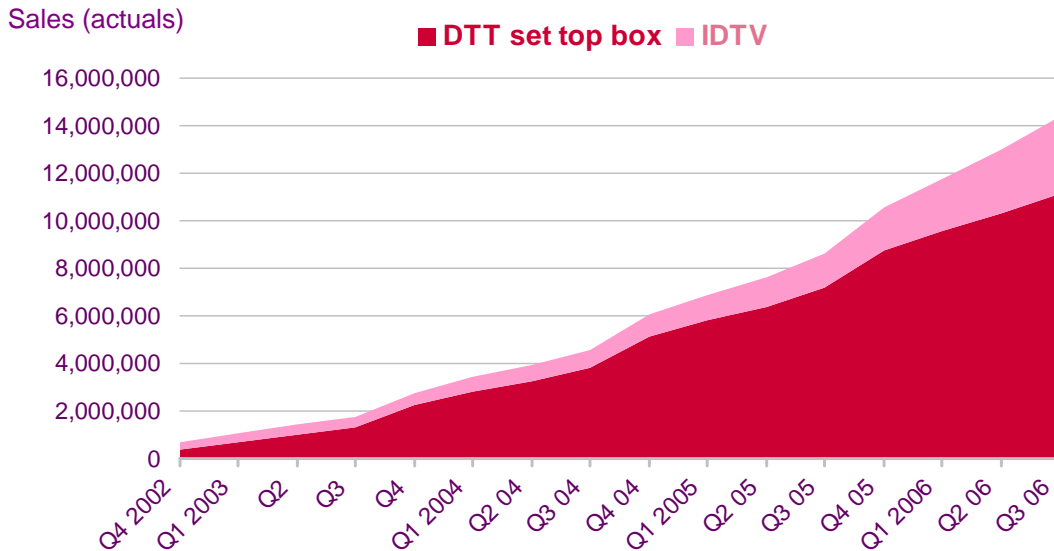
**Figure 16: Sales of DTT equipment**



Source: Sales figures GfK, as adjusted by Freeview.\*

3.12 Between the launch of Freeview in October 2002 and Q3 2006, over 14 million DTT units have been sold. This includes over three million TVs with integrated DTT units and over 11 million DTT set top boxes.

**Figure 17: DTT cumulative sales since launch of Freeview in 2002**



Source: Sales figures GfK, as adjusted by Freeview.

\* DTT sales since the launch of the Freeview digital terrestrial platform in October 2002.

### DTT households and DTT equipment sales

3.13 DTT equipment sales were stronger in quarter 3 than they were a year ago, while IDTVs now make up a larger proportion of sales as more TV sets are being sold with integrated DTT receivers as standard. Cumulative set-top-box sales for the year had reached around 2.4 million by Q3 2006, compared to 2.1 millions sales in the first three quarters of 2005, an increase of almost 14%.

3.14 There is a distinction to be drawn between the DTT devices connected to the main set in the home, and total DTT sales:

3.15 With IDTVs often used as the main set in the home, these televisions can in some cases be connected to the satellite or cable platforms, leading to an overlap in this area, and therefore a lower rate of digital conversion in relation to DTT sales. Many new TV purchases by satellite and cable homes may therefore include sets which have an integrated DTT receiver, however the primary reasons for purchase could be for other features such as widescreen or high definition capability rather than for the integrated digital receiver itself.

3.16 It also appears that an increasing number of DTT purchases are being made to convert secondary sets in the home to DTV, or as replacements for existing DTT set-top-boxes on the primary set. Replacement purchases are often to obtain newer DTT devices that offer additional features such as 7 day programme guides or personal video recorder (PVR) functionality. This can therefore lead to a divergence between the number of new DTT homes added and overall DTT sales.

- 3.17 Based on the latest consumer survey results, when respondents were asked about their DTT purchase, nearly half of the sales of DTT equipment in Q3 were first time purchases, meaning it was the first time that the home had acquired DTT equipment. This was reflected by the increase in homes using DTT in Q3. By contrast first time purchases in Q1 and Q2 2006 appeared to have slowed, based on survey results for that period.
- 3.18 The remaining Q3 sales were bought either for use on secondary sets in the home or as a replacement for existing equipment. Replacement sales in particular have increased over the last year and accounted for almost a quarter of all sales in Q3. This could be as a result of the original equipment purchased now being 2-3 years old in some homes and also due to the additional features available on newer equipment. Purchases intended for secondary or additional sets have been increasing steadily and were approaching 30% of sales in Q3, indicating that many more homes are now converting additional sets to digital TV.
- 3.19 Results from the Q3 ownership survey estimated the total number of DTT enabled TV sets to be around 13.5 million. While the total number of homes using DTT equipment is now estimated at around 9.3 million.
- 3.20 After allowing for DTT homes which also use another digital platform, such as satellite or cable, the estimate for homes where DTT is the only digital platform stood at 7.0 million by the end of Q3.

**Figure 18: DTT households and sets estimates**

<b>DTT sets and households in 2006</b>	<b>Q1, 2006</b>	<b>Q2, 2006</b>	<b>Q3 2006</b>
Total number of DTT enabled TV sets	10.9 million	12.7 million	13.5 million
Total number of homes using DTT equipment	8.3 million	8.6 million	9.3 million
Number of homes where DTT is the only digital platform	6.4 million	6.4 million	7.0 million

Source: GfK consumer research

Q2 DTT TV sets figure has been restated from 11.6 million to 12.7 million, adjusted by GfK in Q3.

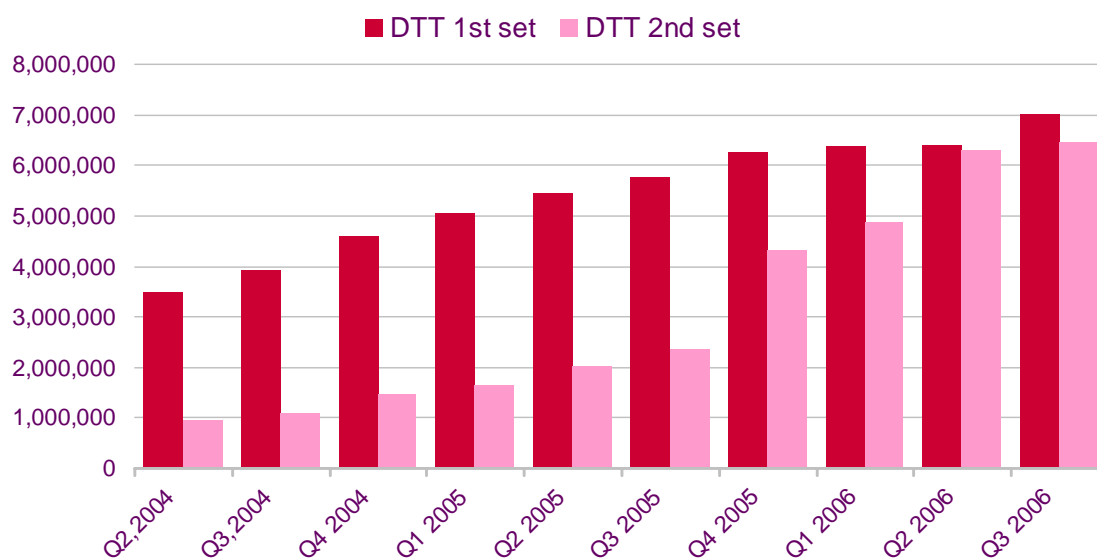
- 3.21 Based on survey results, DTT equipment was being used in 700,000 more homes in total by the end of Q3. Within this figure, 600,000 more homes were using DTT as their sole digital platform.

## DTT growth on primary and secondary sets

3.22 The chart below illustrates the growth in DTT over the past two years and also illustrates that DTT is now being used on almost as many secondary sets as on primary. A year ago in Q3 2005, DTT was being used on the main set in around 5.8 million homes with around 2.4 million DTT enabled second sets. By Q3 2006 the number of DTT on main sets had increased to just over 7 million whilst second set DTT had increased to almost 6.5 million.

**Figure 19: DTT on primary and secondary sets**

(TV sets, actuals)



Source: GfK consumer research, Ofcom market estimates