The Communications Market: Digital Progress Report

Digital TV, Q4 2006

This is the thirteenth 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 surveys.

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Section 1

Overview

1.1 The three months to the end of December 2006 (Q4) saw over 1,000,000 net household conversions to digital television (DTV) in the UK, following on from 800,000 additions in the previous Q3. Growth was driven by another strong quarter for digital terrestrial television (DTT), with total sales of DTT equipment reaching 2.4 million.

1.2 The digital cable and satellite platforms also added over 300,000 households between them during the quarter. This means that 77.2% of households now receive digital television services on their primary set, up 3.9 percentage points from the previous quarter.

1.3 With a further 1.4% of households subscribing to analogue cable, the total number of homes receiving multi-channel television at the end of Q4 2006 stood at 78.6%.

Key findings

1.4 Key developments in the fourth quarter of 2006 included:

- The number of households with digital TV equipment connected to their main television set rose by 1,002,000 to reach over 19.5 million.
- Over 2.4 million DTT units were sold during the quarter, meaning sales have now exceeded the million mark for each of the last six quarters. Year on year, Q4 2006 sales were 24% higher, assisted by growing take-up of integrated digital televisions (IDTVs), with sales exceeding 1million in Q4.
- 70% of the growth in digital TV homes was accounted for by new DTT-only households, which increased by around 700,000 to 7,703,000 over the quarter.
- Latest Ofcom estimates suggest there were also around 815,000 free-to-view digital satellite homes, bringing total free-to-view households to around 8.5 million (DTT and free-to-view satellite).
- The number of BSkyB UK subscribers rose by 158,980 and approached 8.0 million by the end of Q4. When free-to-view satellite viewers are included, the total number of satellite homes was almost 8.8 million.
- The number of net cable subscribers increased by 38,500 during the quarter with total subscribers of over 3.3 million. Digital cable subscribers increased by almost 84,000 and now account for over 3.0 million, or almost 90%, 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. Figures for all homes with DTT are included in section 3 of the report.

Section 2

Platform figures Q4 2006

Figure 1: Platform take-up

	Q3, 2006	Q4, 2006	Net additions	Growth rate
Pay TV digital subscribers				
Digital cable	2,929,271	3,013,171	83,900	2.9%
Digital satellite (BSkyB)[1]	7,817,000	7,975,980	158,980	2.0%
TV over ADSL[2]	43,000	43,000	-	-
Total digital pay TV subscribers[3]	10,789,271	11,032,151	242,880	2.3%
Free-to-view digital households				
DTT (Freeview) only homes[4]	7,004,000	7,703,000	699,000	10.0%
Free-to-view digital satellite[5]	755,000	815,000	60,000	7.9%
Total Free-to-view households	7,759,000	8,518,000	759,000	9.8%
Total UK digital households	**18,548,271**	**19,550,151**	**1,001,880**	**5.4%**
Digital penetration	**73.3%**	**77.2%**	**3.9pp[6]**	
Other multi-channel households				
Analogue cable	394,554	349,154	-45,400	-11.5%
Multi-channel penetration	74.8%	78.6%	3.8pp[6]	

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

[1] 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.

[2] The Q4 figure for TV over ADSL refers to Homechoice figures as released in Tiscali's Q3 results in November 2006, following the integration of Video Networks Limited (VNL).

[3] Pay TV households do not include figures for Top Up TV which are not in the public domain. Top Up TV subscribers are therefore counted in free-to-view digital terrestrial homes.

[4] 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, due to homes with more than one multichannel platform.

[5] Ofcom estimates the number of viewers using satellite equipment to receive the free-to-view channels.

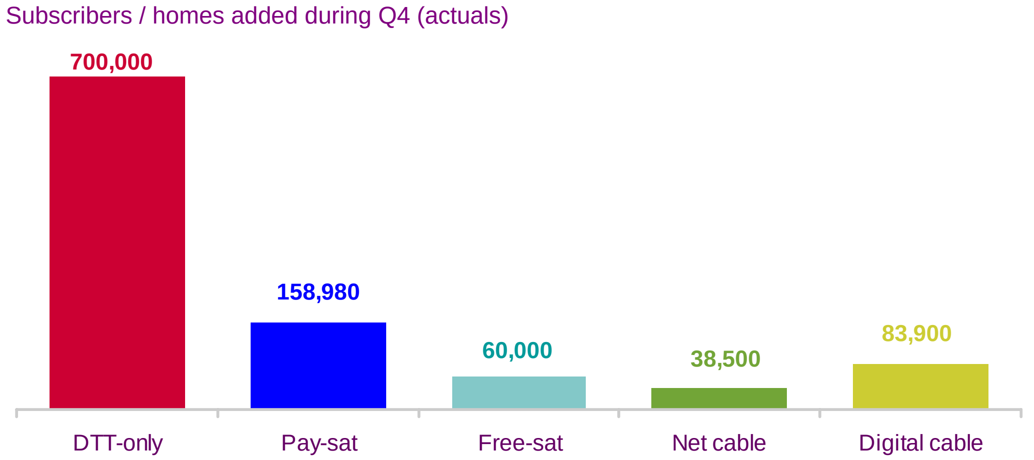
[6] pp = percentage points.

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

Q4 net platform additions

2.1 The 700,000 analogue terrestrial homes which purchased Freeview equipment for the first time in Q4 accounted for a large proportion of DTV growth. On pay satellite, BSkyB added almost 159,000 net subscribers during the quarter. We estimate that the number of homes using free satellite equipment also grew by 60,000 in Q4. There were 38,500 new cable homes added during the quarter and, with additional analogue cable customers being migrated to the digital network, total digital cable additions were 83,900 in Q4.

Figure 2: Net quarterly growth



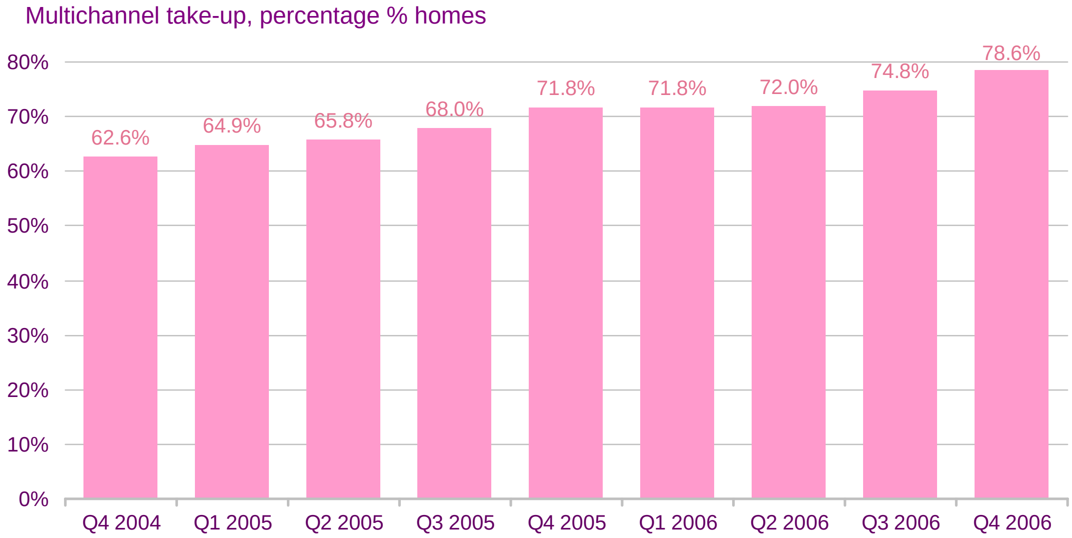
Source: Platform operators, GfK research, Ofcom market estimates.

Multichannel 16% growth in 2 years

2.2 Multichannel take-up increased by 3.8 percentage points in Q4 to 78.6%. Over the last two years take-up has increased by 16 percentage points from 62.6%.

2.3 Of the 78.6% of homes with multichannel television, digital television accounted for 77.2%, with the remaining 1.4% made up by analogue cable.

Figure 3: Multichannel take-up

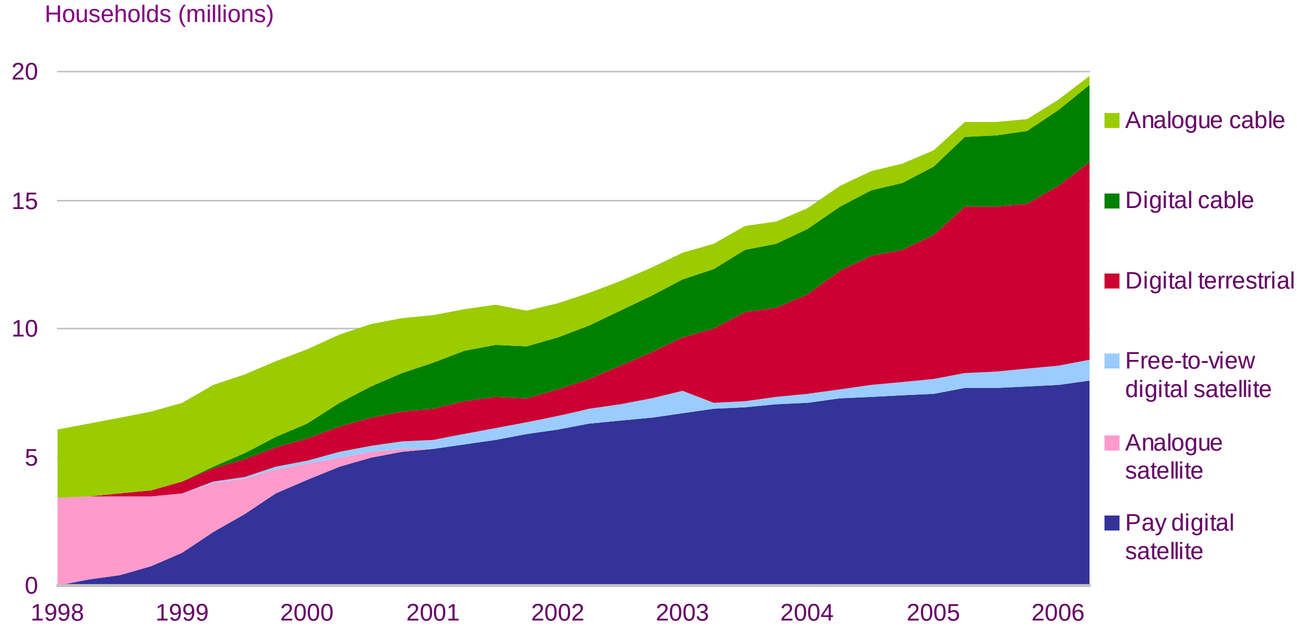


Source: Ofcom, platform operators, GfK research.

Digital and multichannel penetration of UK households

2.4 The total number of multichannel homes was approaching 20 million by the end of Q4 2006. This was up by 1.8 million homes over the year, from 18.1 million at the end of 2005. Satellite is still the largest platform, with around 8.8 million homes using either free or pay satellite for their primary viewing. Digital terrestrial was the main platform in 7.7 million homes by the end of the year, up from 6.5 million in Q4 2005. Cable homes were mainly stable year on year at around 3.3 million, with 40,000 net cable homes added during 2006.

Figure 4: Multichannel growth 1998 - 2006

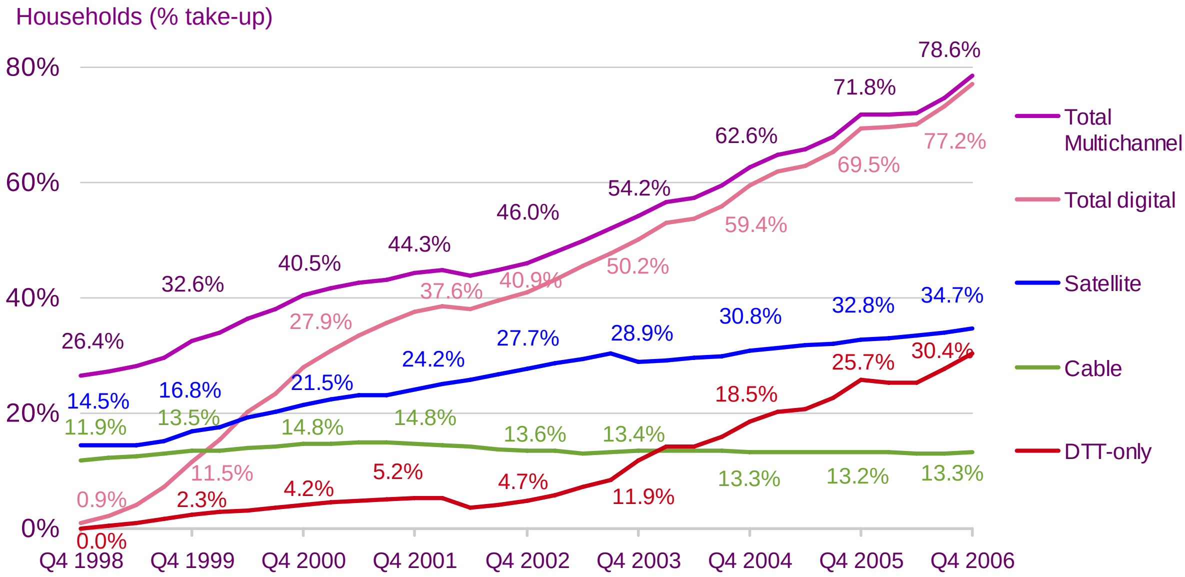


Source: Platform operators, GfK research, Ofcom market estimates.

Platform growth in UK households

2.5 DTT has continued to grow over the year, with DTT-only homes increasing from 25.7% in Q4 2005, to 30.4% of homes by Q4 2006, an increase of 4.7 percentage points. Satellite has maintained steady growth over 2006, partly assisted by the growth in free-satellite, and was in 34.7% of homes by the end of Q4, up by 1.9% points on last year. Cable has increased slightly during the year and was the primary platform in around 13.3% of homes by Q4 2006.

Figure 5: Platform take-up 1998 - 2006

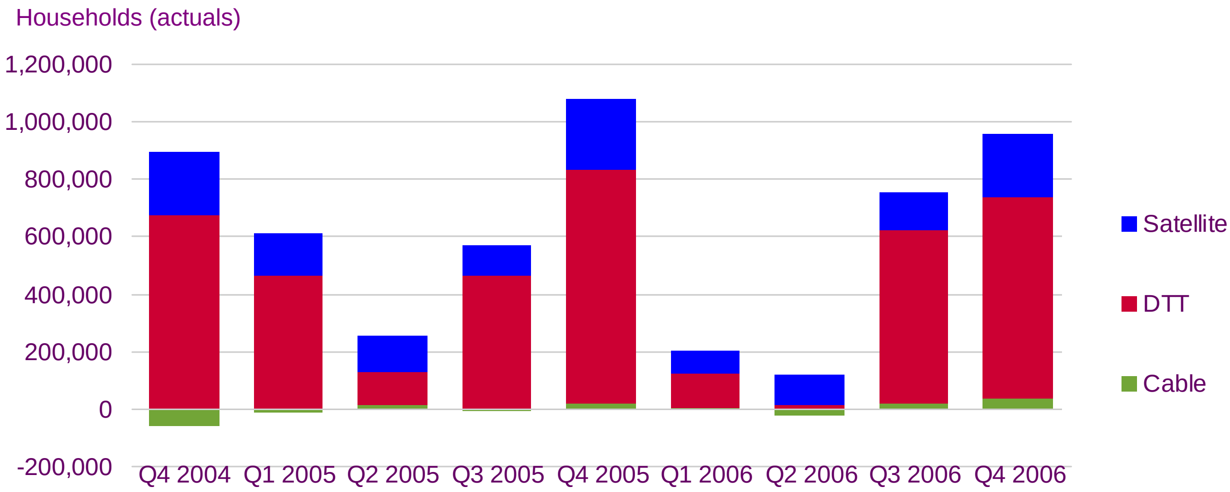


Source: Platform operators, GfK research, Ofcom market estimates.

Net additions to multi-channel homes by platform

2.6 The chart below shows net additions for the DTV main platforms over the two years to Q4 2006. Satellite and DTT have been the main drivers of DTV growth over this period, with cable also showing growth in Q3 and Q4 2006.

Figure 6: Net quarterly additions

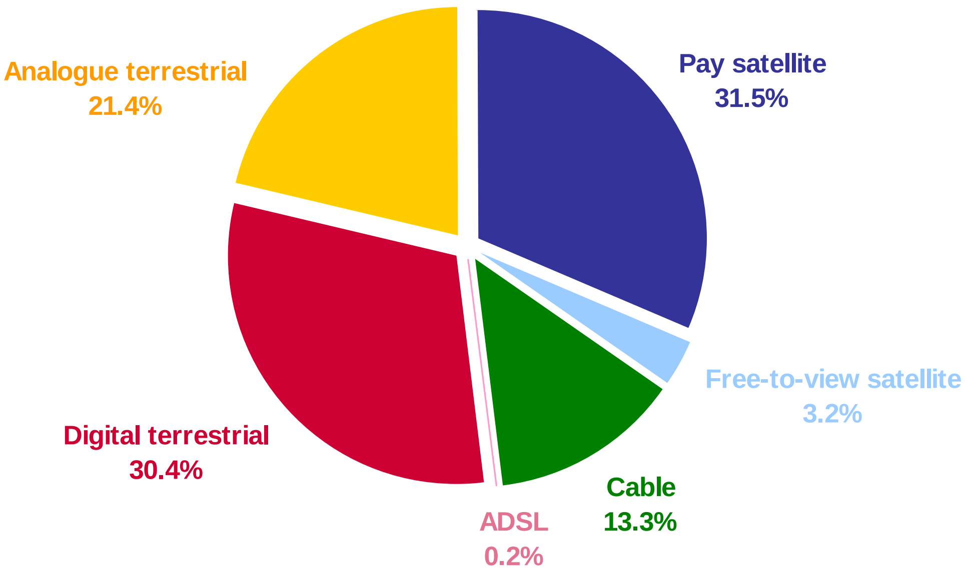


Source: Platform operators, GfK research, Ofcom market estimates.

TV platform share on primary sets, Q4 2006

2.7 The chart below shows the means of reception on the primary sets in the UK's 25.3 million television homes (analogue and digital) in Q4.

Figure 7: Platform share of main television sets



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

2.8 Developments in the fourth quarter include:

- The number of homes receiving analogue terrestrial signals on their primary sets fell again during Q4 2006, down to 21.4% from 25.2% in Q3 and 28.2% in Q4 2005. DTT homes now exceed those with analogue terrestrial on the main set by 9.0 percentage points, after starting the year 2.5 points behind.

- Pay satellite was still the leading platform for primary sets, with 31.5% of UK homes subscribing to BSkyB in Q4, up from 30.9% in Q3 and having increased by 1% share over the year.

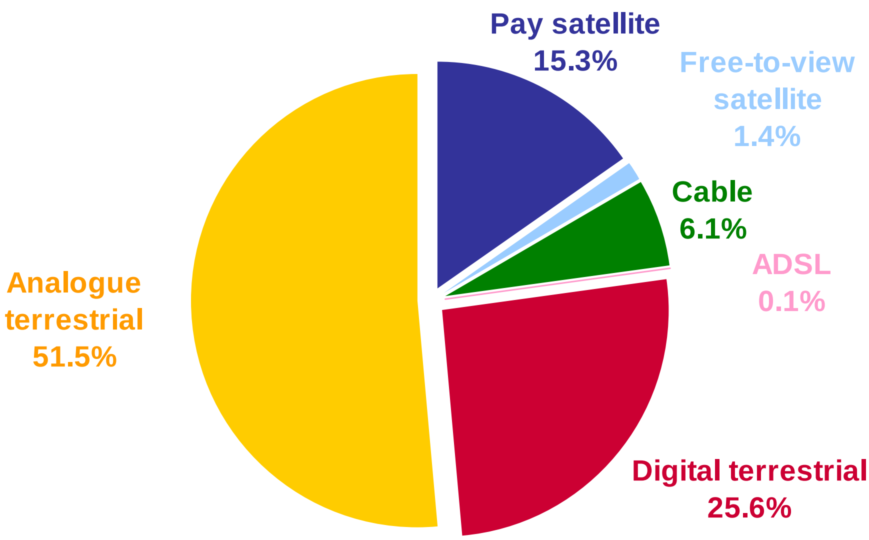
- Free-to-view satellite on the main set increased steadily in the quarter, with 3.2% share. This growth has been driven by homes acquiring free satellite equipment for the first time or viewers who previously paid a subscription but now watch the free to view satellite channels.

- The remaining market share was made up of cable (13.3%), up slightly on Q3, and ADSL (0.2%).

TV platform share on all TV sets, Q4 2006

2.9 When analysing all TV sets (both analogue and digital), multichannel now accounts for almost half of all the UK's 60m TV sets.

Figure 8: Platform share of all 60 million TV sets



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

At the end of Q4 2006:

- Approaching half of all TV sets were multichannel by the end of Q4 2006 at 48.5%, up from 44.7% at the end of Q3. Analogue terrestrial share was therefore 51.5% in Q4, down from 55.3% in Q3. Of these, 9% of TV sets were primary sets with 42.5% secondary TV sets, (for example sets in a bedroom or kitchen).

- Digital terrestrial increased its share to over a quarter of all TV sets in Q4, up from 22.5% in Q3. Following growth in the number of IDTV sets and DTT devices being used on both primary and secondary sets.

- Pay satellite had a share of 15.3% of all TV sets in Q4, up by 0.4% on Q3, with both net subscriptions and Sky multiroom increasing during the quarter. When adding free-to-view, satellite had a 16.7% share of all sets overall, up by 0.5% on Q3.

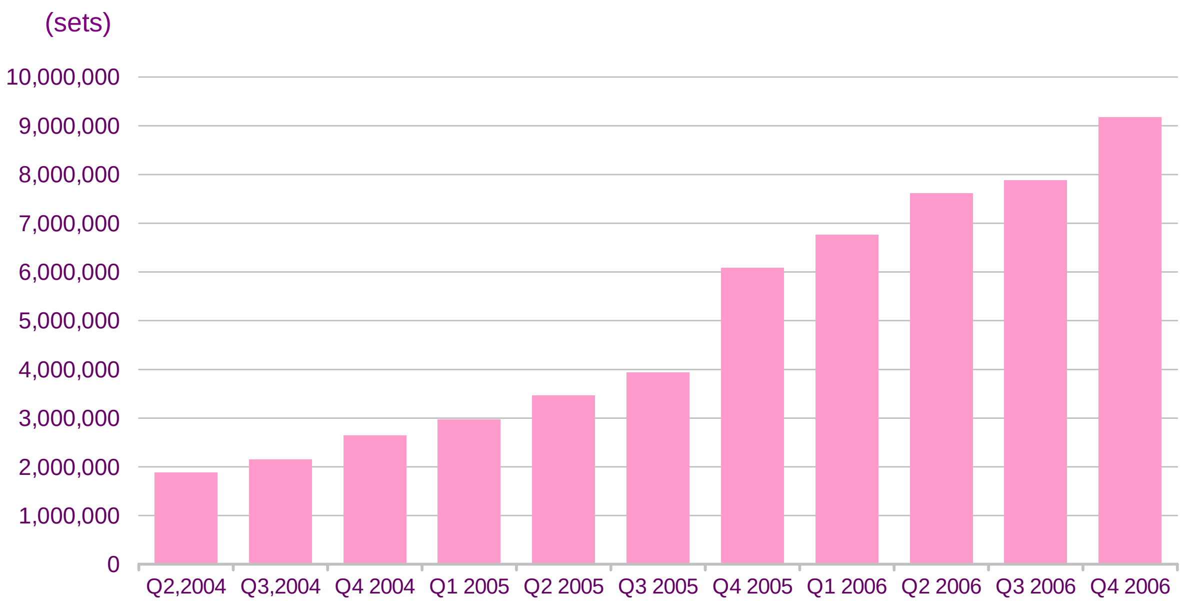
- Cable share was up slightly by 0.1% to 6.1% of TV sets in Q4, with ADSL making up the remaining 0.1%.

Growth in secondary digital sets

2.10 When looking at the conversion of secondary TV sets across all of the multichannel platforms, the number of additional digital sets converted is now over 9 million. This includes the number of secondary sets connected to either Sky multiroom, cable or DTT. Q4 was therefore an increase of over a million sets on Q3. The majority of the growth in Q4 was in homes converting secondary sets with DTT equipment.

2.11 Conversion of secondary TV sets has increased by over 50% during the last year, up from less than 6 million at the end of 2005 to over 9 million by the end of 2006.

Figure 9: Total secondary digital sets across all platforms



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 share, take-up and additions on primary TV sets

	2005 Q1	2005 Q2	2005 Q3	2005 Q4	2006 Q1	2006 Q2	2006 Q3	2006 Q4
Digital take-up								
Digital cable	10.2%	10.4%	10.6%	10.8%	11.1%	11.3%	11.6%	11.9%
Digital satellite	31.3%	31.7%	32.1%	32.8%	33.1%	33.4%	33.9%	34.7%
DTT	20.3%	20.8%	22.6%	25.7%	25.3%	25.3%	27.7%	30.4%
ADSL	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Total digital	**61.9%**	**63.0%**	**65.4%**	**69.5%**	**69.7%**	**70.2%**	**73.3%**	**77.2%**
Analogue cable	3.0%	2.8%	2.6%	2.4%	2.1%	1.8%	1.6%	1.4%
Total multichannel	64.9%	65.8%	68.0%	71.8%	71.8%	72.0%	74.8%	78.6%
Pay TV take-up*								
Cable	13.2%	13.2%	13.2%	13.2%	13.2%	13.1%	13.1%	13.3%
Pay digital satellite	29.5%	29.8%	29.9%	30.5%	30.5%	30.7%	30.9%	31.5%
ADSL	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Total	**42.8%**	**43.1%**	**43.2%**	**43.8%**	**43.9%**	**43.9%**	**44.2%**	**45.0%**
Share of digital TV market								
Cable	16.5%	16.6%	16.2%	15.6%	15.9%	16.0%	15.8%	15.4%
Digital satellite	50.6%	50.4%	49.0%	47.3%	47.5%	47.6%	46.2%	45.0%
ADSL	0.1%	0.1%	0.2%	0.2%	0.3%	0.3%	0.2%	0.2%
DTT	32.8%	32.9%	34.5%	36.9%	36.4%	36.1%	37.8%	39.4%
Share of multichannel TV market								
Cable	20.3%	20.1%	19.4%	18.4%	18.4%	18.1%	17.5%	16.9%
Digital satellite	48.2%	48.2%	47.2%	45.7%	46.1%	46.4%	45.3%	44.2%
DTT	31.3%	31.5%	33.2%	35.7%	35.3%	35.2%	37.0%	38.7%
Share of net additions								
Cable	0.0%	5.3%	0.0%	2.0%	6.2%	0.0%	3.0%	4.3%
Digital satellite	24.0%	48.1%	17.2%	22.6%	84.3%	87.7%	17.0%	22.9%
DTT	76.0%	46.7%	79.7%	75.2%	0.0%	12.3%	80.0%	73.1%
ADSL	0.0%	0.0%	3.1%	0.2%	9.5%	0.0%	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 Q4. 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 Q3 and Q4 2006 results

	Pay digital satellite – Sky	
	Q3, 2006	**Q4, 2006**
Pay-TV households	**7,817,000***	**7,975,980***
ARPU (annualised)	£385	£394
Churn	11.8%	11.9%
Basic package price	£15.00	£15.00
Sky Multiroom	1,093,000	1,226,000
Sky+	1,692,000	1,968,000

Source: BSkyB Q4 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 158,980 during the quarter to reach 7,975,980 UK subscribers, with over 309,980 net subscriber additions over the year.

3.2 The number of BSkyB subscribers taking the multiroom service (which converts additional sets in the home to receive BSkyB services) increased by 133,000 during Q4 to 1,226,000, equivalent to 15% of all Sky subscribers. This was the highest number of multiroom additions in a quarter so far and meant that 320,000 multiroom subscribers were added over 2006.

3.3 BSkyB's PVR service, Sky+, had another strong quarter, adding 276,000 new subscribers, taking the total to 1,968,000 homes. This means one in four (25%) of all Sky subscribers now have PVR capability. BSkyB's HD service also added 88,000 subscribers to total 184,000 by Q4.

3.4 Annualised average revenue per user (ARPU) for the quarter was up by £9 on the previous quarter to £394 in Q4. Churn increased very slightly quarter on quarter from 11.8% to 11.9%.

Digital satellite - free-to-view households

Figure 12: Free satellite

	Free-to-view digital satellite	
	Q3, 2006	**Q4, 2006**
Free-to-view households	755,000	815,000

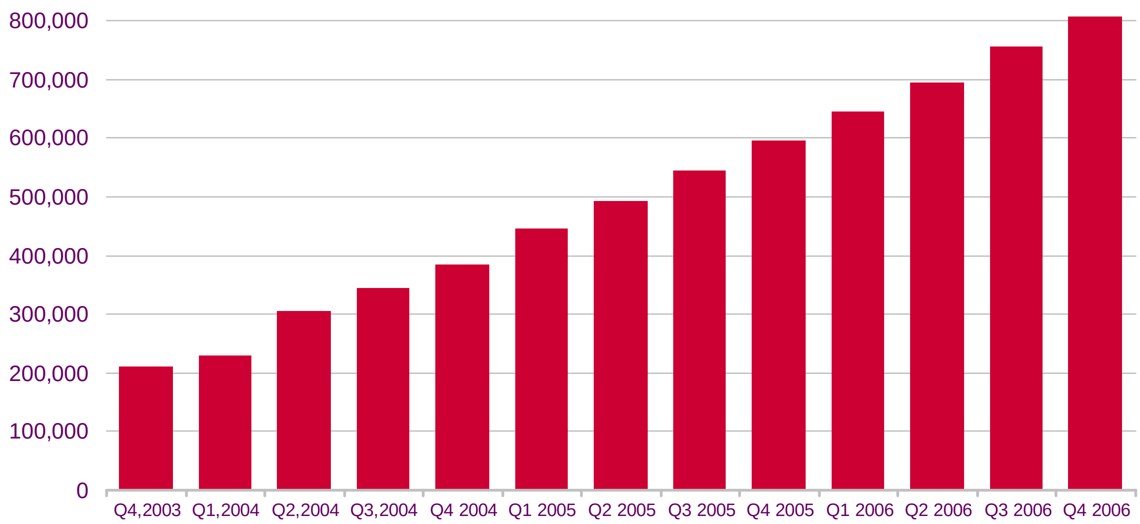
Source: Ofcom market estimates.

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 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 free-to-view channels.

3.6 We estimate that use of free-satellite equipment has increased steadily over the last three years and by the end of Q4 2006, around 815,000 homes received the free-to-view channels in this way.

Figure 13: Estimated free-satellite households 2003 - 2006



Source: Ofcom market estimates

Cable

Figure 14: Virgin Media Q3 and Q4 2006 results

	Virgin media	
	Q3, 2006	**Q4, 2006**
Homes passed and marketed	12,505,500	12,509,700
Total residential subscribers (TV, telephony, internet)	4,891,500	4,854,500
Digital TV homes connected	**2,922,000**	**3,005,900**
Total TV homes connected	3,315,400	3,353,900
TV penetration rate*	26.5%	26.8%
ARPU** (annualised)	£510	£514
Churn rate**	21.6%	20.4%
Basic package price	£11.00	£11.00

Source: Virgin Media Q4 2006 results

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

* TV penetration rate is the percentage of take-up based on the number of homes passed by the cable network.

** Virgin Media ARPU and churn rates relate to their total consumer division.

3.7 Fourth quarter results for Virgin Media (previously ntl:Telewest), show 83,900 digital TV subscribers added. The total number of digital cable TV subscribers therefore exceeded 3 million for the first time. After taking into account analogue subscribers converting to digital cable, net additional TV homes were 38,500 during Q4. This was the largest number of net cable TV additions since Q1 2004. There were also 79,000 subscribers using Virgin Media's digital video recorder (DVR) service by the end of Q4 2006.

3.8 The total number of UK cable households in Q3 stood at 3,362,325, when including Wight Cable subscribers. There are now 3,013,171 digital cable subscribers, an increase of 10.6% over the year 2006. Digital cable also now accounts for almost 90% of all cable TV subscribers.

Digital Terrestrial Television (DTT) sales

3.9 Q4 saw almost 2.4 million sales of DTT set top boxes and IDTVs (up 24% year on year). This was the highest quarterly sales for DTT so far and the sixth successive quarter in which sales have exceeded the 1 million mark.

3.10 Almost one million IDTV sets were sold in Q4, equivalent to 23% of all IDTV sales so far. This meant that IDTVs accounted for 41% of all DTT sales in Q4, compared to 21% a year earlier. In total 2.4m IDTVs were sold in 2006, compared to just under 900,000 during 2005.

3.11 Set top box sales totalled 1.4 million in Q4 2006, down slightly on last year's Q4 sales of 1,527,579. This means that over the year, 3.8 million set top boxes have been sold, compared to 3.6 million during 2005.

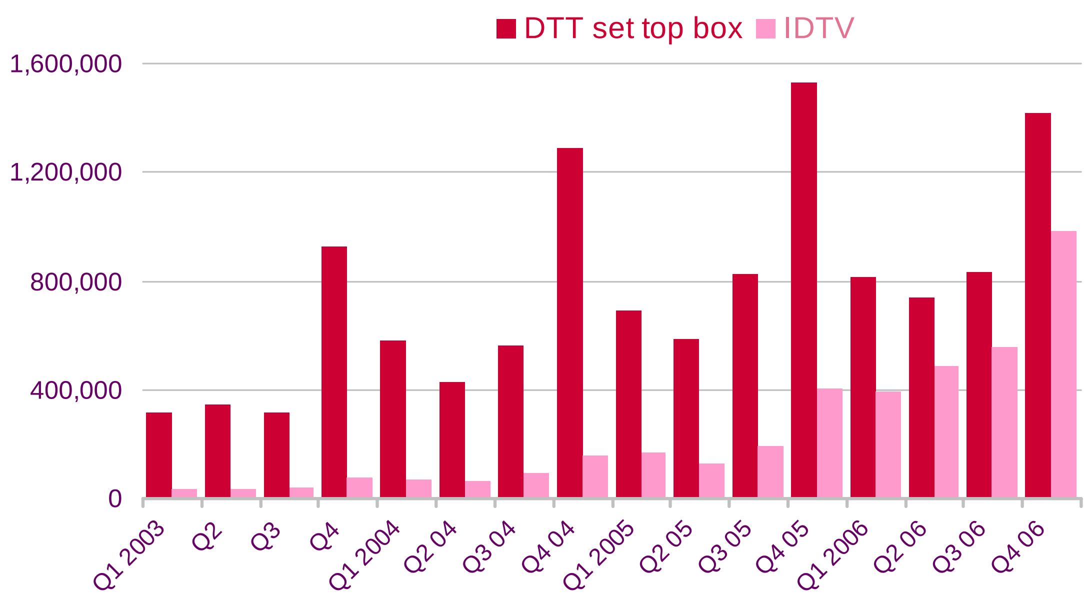
Figure 15: DTT equipment quarterly sales

Quarterly DTT sales	Q4, 2005	Q1, 2006	Q2, 2006	Q3 2006	Q4 2006
Freeview set top boxes	1,527,579	817,215	736,470	834,960	1,416,765
IDTVs	402,211	395,115	487,725	555,765	984,060
Total sales	**1,929,790**	**1,212,330**	**1,224,195**	**1,390,725**	**2,400,825**

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 and offshore islands, to allow for the sales details for which are not compiled by GfK.

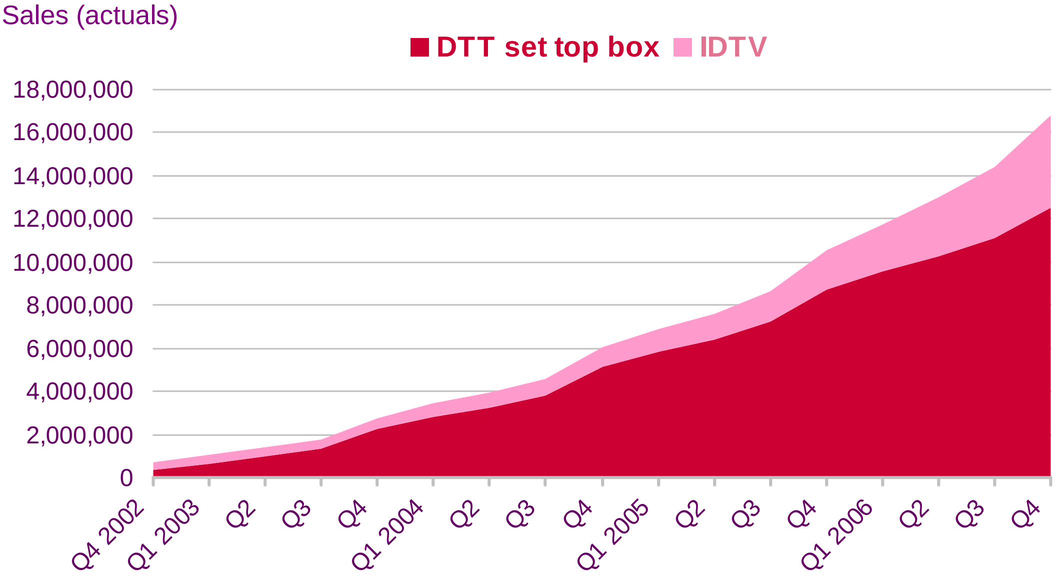
Figure 16: Sales of DTT equipment



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

3.12 Between the launch of Freeview in October 2002 and Q4 2006, almost 17 million DTT units have been sold. This includes over four million TVs with integrated DTT units and over 12.5 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 in Q4 were the highest so far, assisted by particularly strong sales of IDTVs. With almost a million sales in Q4, IDTVs have rapidly become a mass market item, as more TV sets incorporate integrated receivers as standard. Set top box sales were also the second highest quarterly sales reached so far.

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, 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, but the primary reason for purchase could relate to 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 can often be 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, around half of the sales of DTT equipment in Q4 were first time purchases, meaning it was the first time that the home had acquired DTT equipment. This trend was also reflected in the number of new homes using DTT equipment in Q4.

3.18 The remaining Q4 sales were bought either for use on secondary sets in the home or as a replacement for existing equipment. Additional or secondary sales accounted for around a third of sales in Q4 with the remaining sales replacements to existing equipment.

3.19 Results from the Q4 ownership survey estimated the total number of DTT enabled TV sets to be around 15.3 million. While the total number of homes using DTT equipment is now estimated at around 10.6 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 7.7 million by the end of Q4.

Figure 18: DTT households and sets estimates

DTT sets and households in 2006	Q1, 2006	Q2, 2006	Q3 2006	Q4 2006
Total number of DTT enabled TV sets	11.3 million	12.7 million	13.5 million	15.3 million
Total number of homes using DTT equipment	8.3 million	8.6 million	9.3 million	10.6 million
Number of homes where DTT is the only digital platform	6.4 million	6.4 million	7.0 million	7.7 million

Source: GfK consumer research

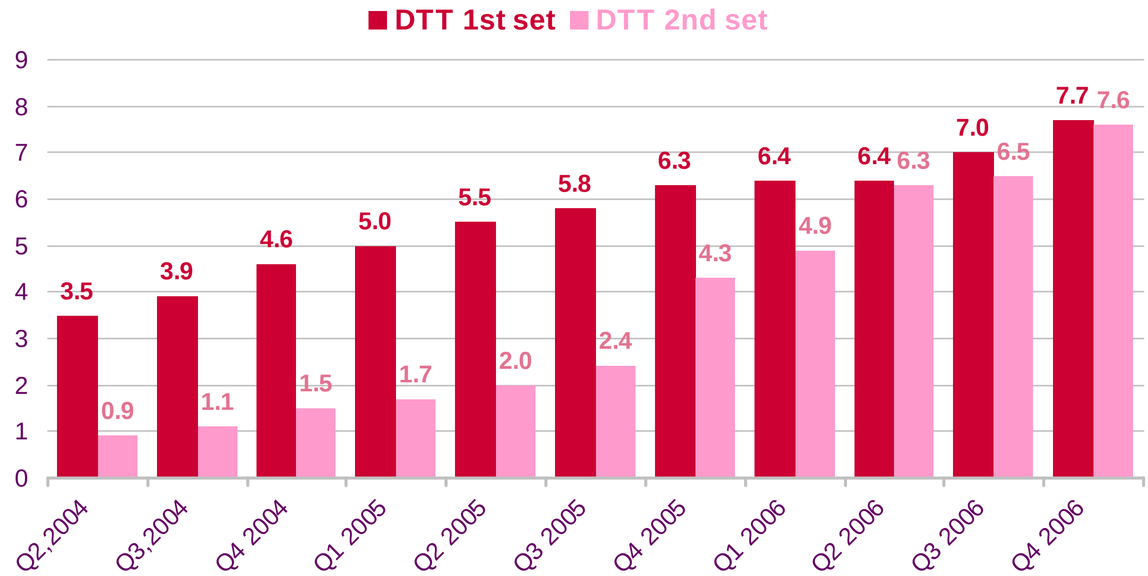
3.21 Based on survey results, DTT equipment was being used in 1,300,000 more homes in total by the end of Q4. Within this figure, 700,000 more homes were using DTT as their sole digital platform.

DTT growth on primary and secondary sets

3.22 The chart below illustrates the growth in DTT on primary and secondary TV sets over the past two and a half years. DTT is now being used on almost as many secondary sets as main sets in the home. After initial growth had largely been focused on primary sets, additional equipment sales had increased the number of secondary DTT sets to 7.6 million by Q4, up from 4.3 million just a year ago. On current growth rates secondary DTT sets would overtake primary in the next quarter.

Figure 19: DTT on primary and secondary sets

(TV sets, actuals)



Source: GfK consumer research, Ofcom market estimates