The Communications Market: Digital Progress Report

Digital TV, Q1 2007

This is the fourteenth 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 In the three months to the end of March 2007 (Q1) there were nearly 870,000 net UK household conversions to digital television (DTV), following 1,000,000 additions in the previous quarter. The DTT equipment market also had a strong quarter, with 1.95 million units sold, while the digital cable and satellite platforms together added over 175,000 digital households.

1.2 This means that **80.5% of households now receive digital television services** on their primary set, up 3.2 percentage points since December 2006.

1.3 And, with a further 1.2% of households subscribing to analogue cable, the total number of homes receiving multi-channel television at the end of Q1 2007 has risen to **81.7%.**

Other key findings

1.4 Other key findings in the first quarter of 2007 include:

- The number of households with digital TV equipment connected to their main television stood at over 20.4 million by the end of the period.
- The 1.95 million sales of DTT units in Q1 was second only to the Q4 2006 figure of 2.4m units; year on year the figure was 61% higher, fuelled by the growing availability of integrated digital televisions (IDTVs), with sales of almost 900,000 in Q1.
- 81% of the growth in digital TV homes was accounted for by new DTT-only households, which increased by 670,000 to more than 8,370,000 during the quarter.
- We estimate that there are also around 885,000 free-to-view digital satellite homes, which brings the total number of free-to-view digital households to almost 9.3 million.
- The number of BSkyB subscribers rose by 32,020 to over 8 million by the end of the quarter. When we include free-to-view satellite viewers, total satellite homes reach almost 8.9 million.
- Net cable subscriber numbers rose by 36,100 during the quarter, to nearly 3.4 million. Digital cable subscribers went up by over 75,000 and now account for almost 3.1 million, or around 91%, of all cable subscriptions.

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 is counted as a satellite or cable home. Figures for all homes with DTT are included in section 3 of the report.

Section 2

Platform figures Q1 2007

Figure 1: Platform take-up

	Q4 2006	Q1 2007	Net additions	Growth rate
Pay TV digital subscribers				
Digital cable	3,013,171	3,088,371	75,200	2.5%
Digital satellite (BSkyB) 1	7,975,980	8,008,000	32,020	0.4%
TV over ADSL 2	43,000	62,000	19,000	44.2%
Total Digital pay TV subscribers 3	11,032,151	11,158,371	126,220	2.3%
Free-to-view digital households				
DTT (Freeview) only homes 4	7,703,000	8,376,000	673,000	8.7%
Free-to-view digital satellite 5	815,000	885,000	70,000	7.9%
Total Free-to-view households	8,518,000	9,261,000	743,000	8.7%
Total UK digital households	**19,550,151**	**20,419,371**	**869,220**	**4.4%**
Digital penetration	**77.2%**	**80.5%**	**3.2 pp 6**	
Other multi-channel households				
Analogue cable	349,154	310,054	-39,100	-11.2%
Multi-channel penetration	78.6%	81.7%	3.1 pp 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 Q1 figure for TV over ADSL refers to ADSL subscribers from Tiscali's Q1 results in May 2007. ADSL figures do not include BT Vision customers, to whom live scheduled programming is delivered via DTT (in Freeview coverage areas) rather than by broadband.

[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.

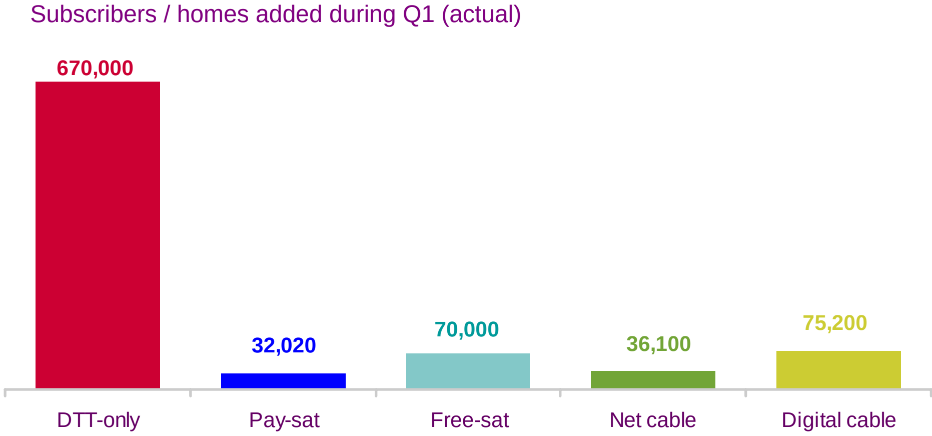
[6] pp = percentage points.

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

Q1 net platform additions

2.1 The 670,000 analogue terrestrial households which purchased Freeview equipment for the first time in Q1 accounted for over 80% of DTV growth. BSkyB added just over 32,000 net subscribers during the quarter while the number of homes using free satellite equipment also grew by an estimated 70,000. There were 36,100 net new cable homes added and, taking account of migrations from analogue cable, total digital cable additions reached 75,200 in Q1. (Figure 2)

Figure 2: Net quarterly DTV growth



Source: Platform operators, GfK research, Ofcom estimates.

Multichannel growth

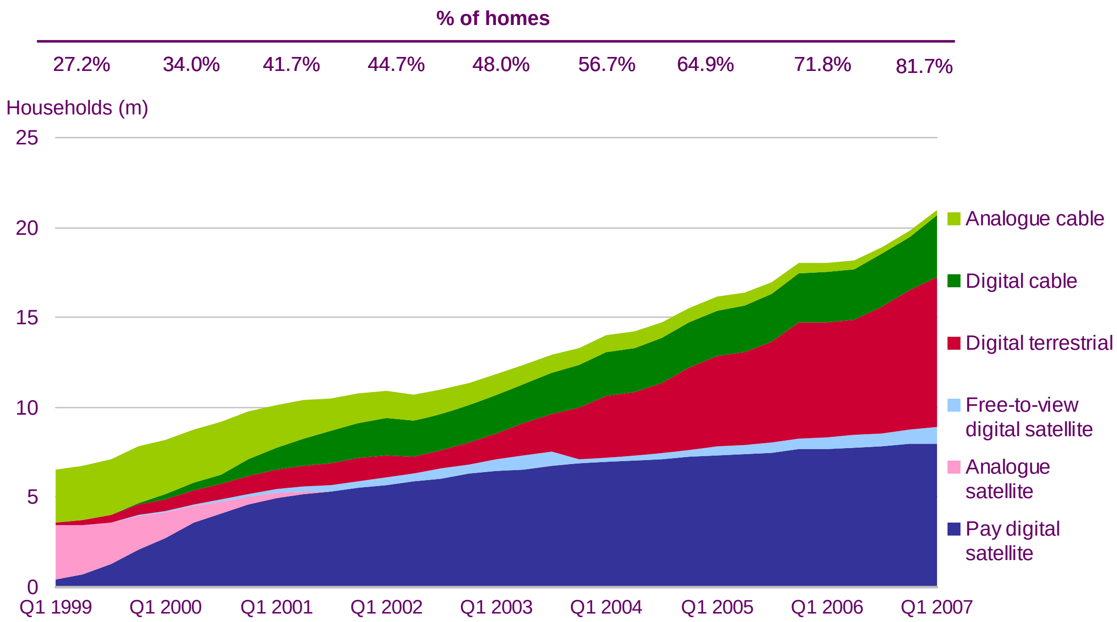
2.2 Multichannel take-up increased by 3.1 percentage points in Q1 to 81.7%. Over the last two years take-up has risen by around 17 percentage points from just under two-thirds of homes (64.9%) in Q1 2005 to over eight in ten by Q1 2007. (Figure 3)

2.3 Of the 81.7% homes with multichannel, digital television accounts for 80.5%, with the remaining 1.2% made up by analogue cable. These homes are progressively being converted to digital.

2.4 The total number of multichannel homes exceeded 20.7 million by the end of Q1 2007. This was up by over 830,000 on the previous quarter and by 2.6 million on the year.

2.5 Satellite is still the largest platform, with almost 8.9 million homes using either free or pay satellite on the primary set. Digital terrestrial was the main platform in around 8.4 million homes by the end of Q1, up from 7.7 million in Q4 2006. Cable TV homes are now approaching 3.4 million, following growth of 74,000 over the last half year. (Figure 4)

Figure 4: Multichannel growth

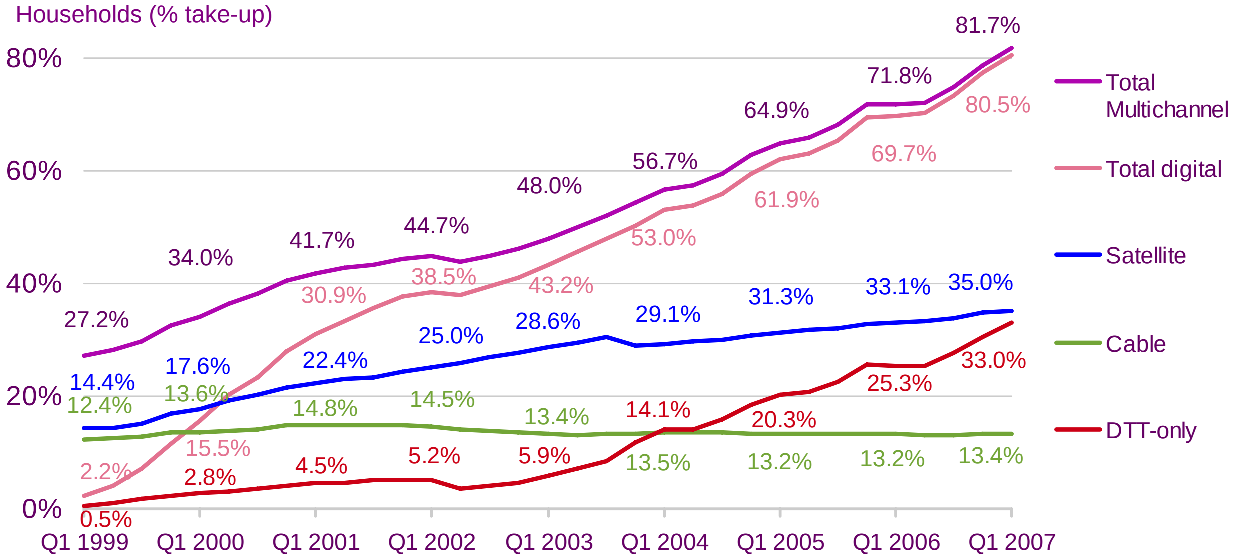


Source: Platform operators, GfK research, Ofcom estimates.

Platform by platform growth

2.5 DTT-only take-up increased by 2.6 percentage points in the quarter to 33.0%; in the year it has risen by 7.7 percentage points. Satellite penetration went up slightly during Q1, partly assisted by the growth in free satellite, and remained the largest platform, with 35% of all homes. Cable has grown steadily over the year and was the primary platform in around 13.4% of homes by the end of Q1. (Figure 5)

Figure 5: Platform take-up 1999 - 2007

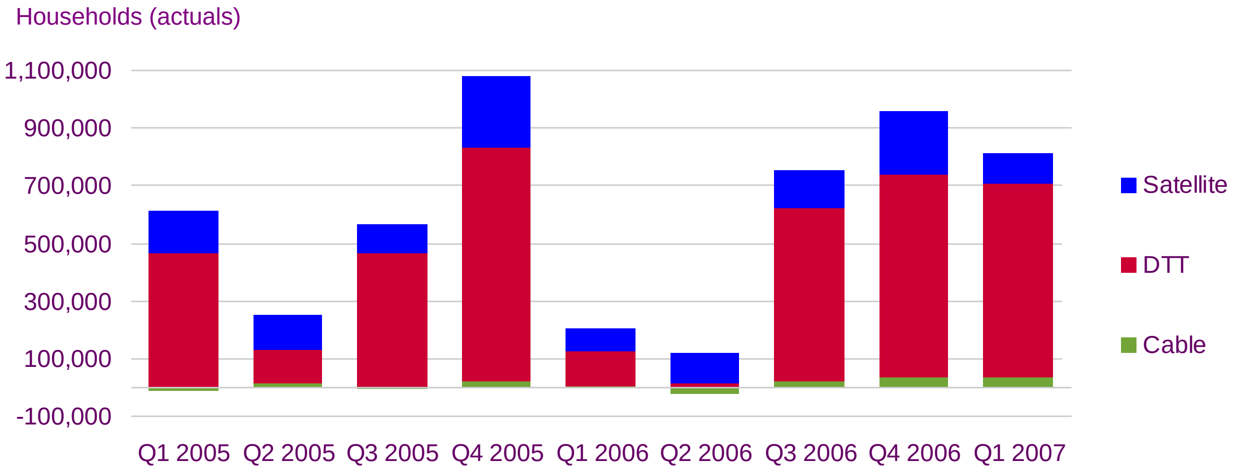


Source: Platform operators, GfK research, Ofcom estimates.

Drivers of DTV growth

2.6 Since 2005, satellite and DTT have been the main drivers of DTV growth. Cable has also begun to show signs of growth in the last three quarters. (Figure 6)

Figure 6: Net quarterly additions

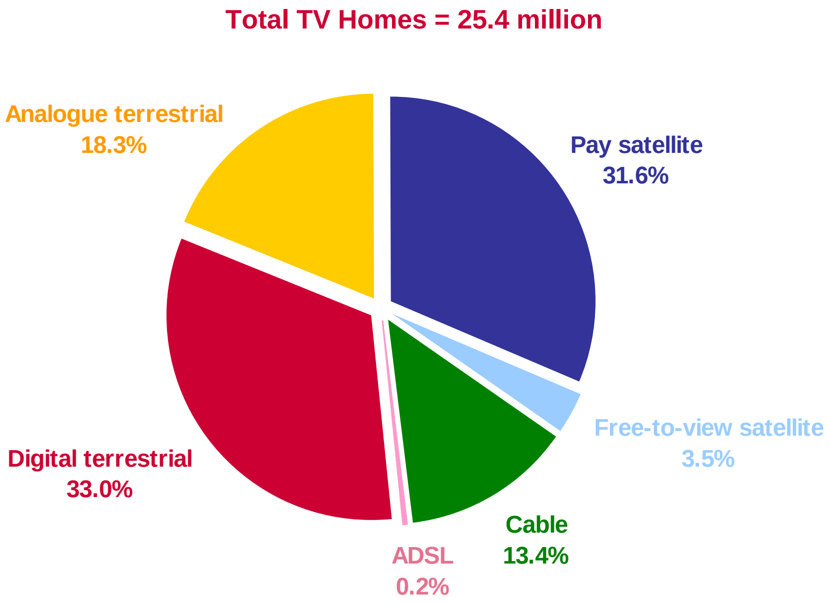


Source: Platform operators, GfK research, Ofcom estimates.

TV platform share on primary sets, Q1 2007

2.7 The chart below shows the means of reception on primary sets in the UK's 25.4 million television homes in Q1 2007. (Figure 7)

Figure 7: Platform share of main television sets, Q1 2007



Source: Platform operators, GfK research, Ofcom estimates.

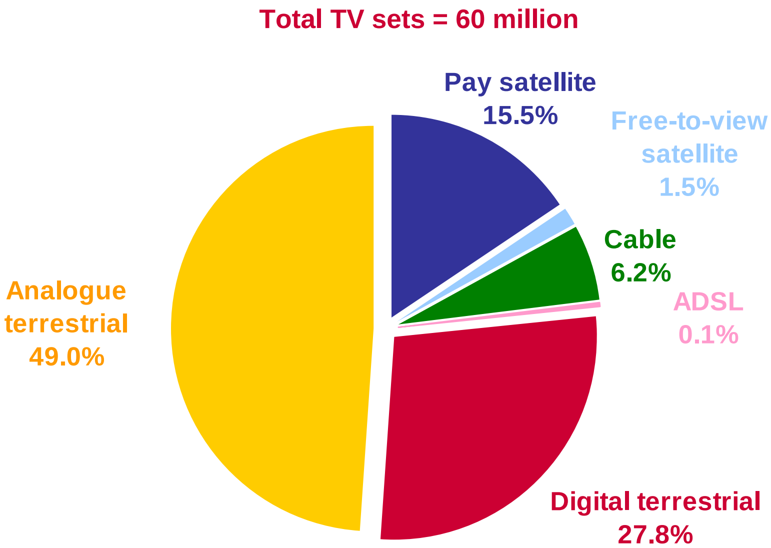
2.8 Developments in the first quarter of 2007 include:

- The number of homes receiving analogue terrestrial television on their primary set fell by 3.1% during Q1 2007 from 21.4% in Q4. Over the year, analogue television take-up has fallen by almost ten percentage points, from 28.2% in Q1 2006 to 18.3% by Q1 2007.
- DTT penetration now exceeds analogue terrestrial take-up by 14.7 percentage points; DTT penetration also exceeded that of pay satellite (by 1.4 percentage points) for the first time during Q1 2007.
- Pay satellite penetration rose by 0.1 percentage points in Q1 to reach 31.6% of UK homes, while free-to-view satellite take-up also rose by 0.3% to 3.5%. When combining free and pay, satellite is still the largest platform with a 35.0% share of homes.
- The remaining homes took cable or ADSL, at 13.4% and 0.2% respectively.

TV platform share on all sets, Q1 2007

2.9 When including all TV sets (analogue and digital) in the analysis, multichannel now accounts for over half of all the UK's TV sets. (Figure 8)

Figure 8: Platform share of all TV sets



Source: Platform operators, GfK research, Ofcom estimates.
Note: According to Ofcom consumer research, the average ownership of TV sets is almost 2.4 per home, equating to 60 million TV sets in total.

At the end of Q1 2007:

- Over half (51%) of all TV sets in the UK were multichannel by the end of Q1 2007, up from 48.5% at the end of the previous quarter. Analogue terrestrial share fell from 51.5% to 49.0%. Of these analogue sets, 7.8% were primary and 41.2% secondary (e.g. in a bedroom or kitchen).

- Digital terrestrial share rose by 2.2 percentage points over the quarter to 27.8% of all TV sets. Year on year, DTT's share of TV sets has increased by 9.3 percentage points, following continued growth in the number of IDTV sets and DTT devices being used on both primary and secondary sets.

- Pay satellite had a share of 15.5% of all TV sets in Q1, up by 0.2 percentage points on Q4 2006, with both main-set subscriptions and Sky Multiroom increasing during the quarter. Adding in free-to-view satellite take-up (1.5%) satellite took a 17.0% share of all sets overall, up by 0.3 percentage points on Q4 2006.

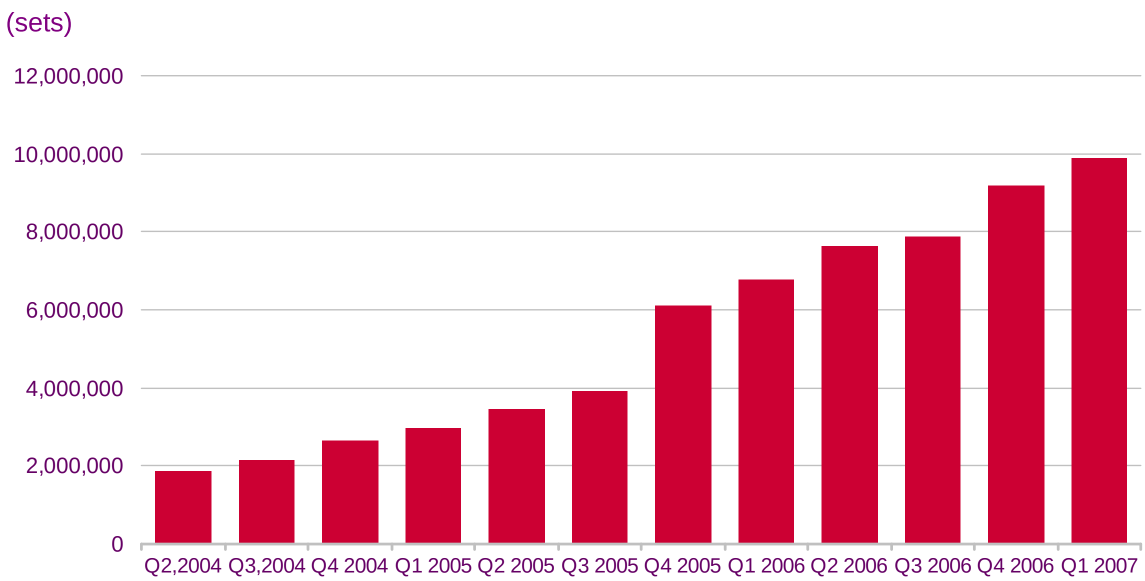
- Cable share was up slightly by 0.1%, to 6.2% of TV sets in Q1, with ADSL making up the remaining 0.1%.

Growth in secondary digital sets

2.10 The number of secondary sets converted to digital on all platforms is now approaching 9.9 million. This includes secondary sets connected to the Sky Multiroom service, or to a second cable box or DTT set top box. Q1 saw an increase of around 700,000 secondary sets on Q4 2006. DTT was the biggest growth driver, accounting for 630,000 additions in the quarter.

2.11 Conversion of secondary TV sets has increased by around 3.7 million sets or 60% during the last year, up from around 6.2 million at the end of Q1 2006 to around 9.9 million by Q1 2007.

Figure 9: Total secondary digital sets across all platforms



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

	Q2 2005	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007
Digital take-up								
Digital cable	10.4%	10.6%	10.8%	11.1%	11.3%	11.6%	11.9%	12.2%
Digital satellite	31.7%	32.1%	32.8%	33.1%	33.4%	33.9%	34.7%	35.0%
DTT	20.8%	22.6%	25.7%	25.3%	25.3%	27.7%	30.4%	33.0%
ADSL	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Total digital	**63.0%**	**65.4%**	**69.5%**	**69.7%**	**70.2%**	**73.3%**	**77.2%**	**80.5%**
Analogue cable	2.8%	2.6%	2.4%	2.1%	1.8%	1.6%	1.4%	1.2%
Total multichannel	65.8%	68.0%	71.8%	71.8%	72.0%	74.8%	78.6%	81.7%
Pay TV take-up								
Cable	13.2%	13.2%	13.2%	13.2%	13.1%	13.1%	13.3%	13.4%
Pay digital satellite	29.8%	29.9%	30.5%	30.5%	30.7%	30.9%	31.5%	31.6%
ADSL	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Total	**43.1%**	**43.2%**	**43.8%**	**43.9%**	**43.9%**	**44.2%**	**45.0%**	**45.2%**
Share of digital TV market								
Cable	16.6%	16.2%	15.6%	15.9%	16.0%	15.8%	15.4%	15.1%
Digital satellite	50.4%	49.0%	47.3%	47.5%	47.6%	46.2%	45.0%	43.6%
ADSL	0.1%	0.2%	0.2%	0.3%	0.3%	0.2%	0.2%	0.3%
DTT	32.9%	34.5%	36.9%	36.4%	36.1%	37.8%	39.4%	41.0%
Share of multichannel TV market								
Cable	20.1%	19.4%	18.4%	18.4%	18.1%	17.5%	16.9%	16.4%
Digital satellite	48.2%	47.2%	45.7%	46.1%	46.4%	45.3%	44.2%	42.9%
DTT	31.5%	33.2%	35.7%	35.3%	35.2%	37.0%	38.7%	40.4%
Share of net additions								
Cable	5.3%	0.0%	2.0%	6.2%	0.0%	3.0%	4.3%	4.3%
Digital satellite	48.1%	17.2%	22.6%	84.3%	87.7%	17.0%	22.9%	12.3%
DTT	46.7%	79.7%	75.2%	0.0%	12.3%	80.0%	73.1%	81.0%
ADSL	0.0%	3.1%	0.2%	9.5%	0.0%	0.0%	0.0%	2.3%

Source: Platform operators, GfK research, Ofcom estimates.

* Figures for the pay DTT service, Top Up TV, are not in the public domain for Q1. Subscribers to Top Up TV also receive free-to-view DTT, and are therefore included in the DTT market shares.

Note: 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 Q4 2006 and Q1 2007 results

Pay digital satellite – Sky	Q4 2006	Q1 2007
Pay-TV satellite subscribers	**7,975,980 ***	**8,008,000 ***
ARPU (annualised)	£394	£395
Churn	11.9%	13.7%
Basic package price	£15.00	£15.00
Sky Multiroom	1,226,000	1,297,000
Sky +	1,968,000	2,167,000
Sky HD	184,000	244,000

Source: BSkyB Q1 2007 results.

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

3.1 BSkyB's subscriber base increased by 32,020 during the quarter to reach 8,008,000, with over 316,000 net subscriber additions year on year.

3.2 The number of BSkyB subscribers taking the Multiroom service (which converts an additional set in the home to receive BSkyB services) increased by 71,000 during Q1 to 1,297,000; 307,000 Multiroom subscribers have been added over the last year.

3.3 BSkyB's PVR service, Sky+, saw another quarter of growth, adding 199,000 new subscribers in Q1, taking the total to over two million homes. This means that more than one in four (27%) of all Sky subscribers now have Sky+. BSkyB's HD service also added 60,000 subscribers, taking the total number to 244,000 by the end of Q1, equivalent to 3% of Sky's UK subscriber base.

3.4 Annualised average revenue per user (ARPU) for the quarter was up by £1 on the previous quarter, to £395 in Q1. Churn increased quarter on quarter from 11.9% to 13.7%.

Digital satellite - free-to-view households

Figure 12: Free satellite

Free-to-view digital satellite	Q4 2006	Q1 2007
Free-to-view satellite households	815,000	885,000

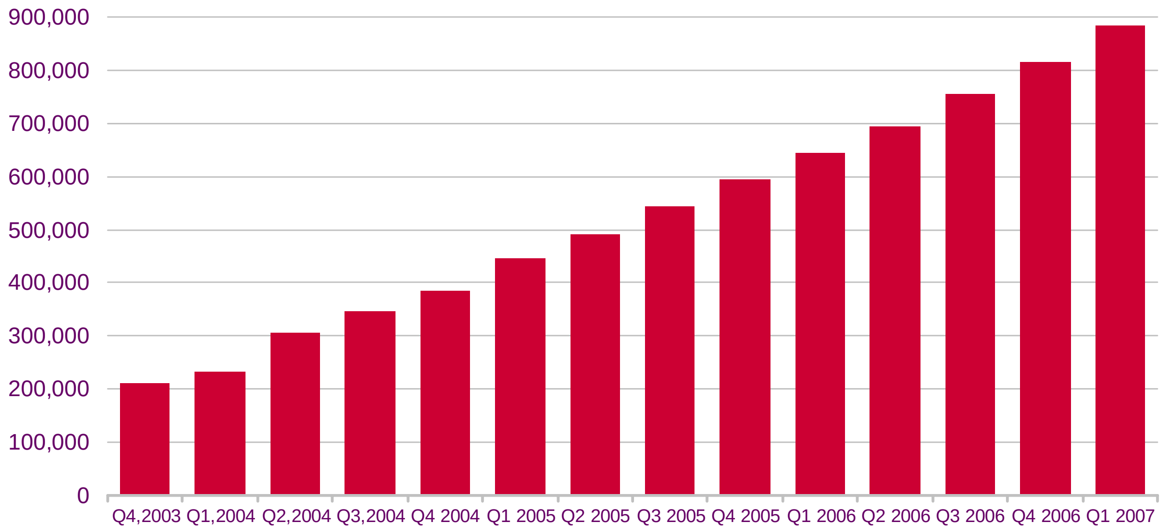
Source: Ofcom estimates.

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

- those who have churned from BSkyB pay services but have retained their satellite equipment so that they can continue to receive free-to-view channels;
- users of 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; and
- those who have obtained satellite receiving equipment either previously 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 Q1 2007, around 885,000 homes received the free-to-view channels in this way. Following the BBC Trust's decision to approve the Executive Board's *FreeSat* proposition, they announced that the service would launch in 2008; potentially fuelling further growth in the number of free-satellite homes.

Figure 13: Estimated free-satellite households 2003 - 2007



Source: Ofcom estimates.

Cable

Figure 14: Virgin Media Q4 2006 and Q1 2007 results

Cable – Virgin Media	Q4 2006	Q1 2007
Digital TV homes connected	**3,005,900**	**3,081,100**
Total TV homes connected	3,353,900	3,390,000
Total residential subscribers (TV, telephony, internet)	4,854,500	4,807,600
Homes passed and marketed	12,509,700	12,696,200
TV penetration rate *	26.8%	26.7%
ARPU ** (annualised)	£514	£513
Churn ***	20.4%	19.2%
Basic package price	£11.00	£11.00
Virgin DVR (V+)	79,000	150,000

Source: Virgin Media Q1 2007 results.

* 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 First quarter results for Virgin Media (previously ntl:Telewest) showed additions of 75,200 digital TV subscribers (83,900 in Q4 2006). After taking out analogue subscribers migrating to digital cable, net additional TV homes were 36,100 in Q1, (38,500 in Q4 2006). This was the third consecutive quarter of growth for cable TV, with almost 100,000 net TV subscribers added over the period. There were also 150,000 subscribers using Virgin Media's digital video recorder (DVR) service by the end of Q1 2007. Virgin Media has also announced plans to extend its reach beyond the cable network and launched a branded DTT service in April 2007. Plans are also in place to offer an IPTV service in 2008 via the use of local loop unbundling.

3.8 The total number of UK cable households in Q1 stood at 3,398,400 (including Wight Cable); 90%, or 3,088,400 of these, were digital.

Digital Terrestrial Television (DTT) sales

3.9 Q1 saw almost 2 million sales of DTT devices (up 61% year on year). This was the second highest sales quarter ever for DTT and the second quarter running where sales have been around the two million mark, helped by IDTV sales and by continuing strong sales of set-top boxes.

3.10 Around 870,000 IDTVs were sold in Q1, up by 120% on the 395,000 sold a year ago, and taking total sales in the last 12 months to 2.8m. They accounted for 45% of all DTT sales in Q1, compared to a third of sales (33%) a year earlier.

3.11 Set top box sales exceeded 1 million in Q1 2007, the highest Q1 sales so far, up by 33% on last year's Q1 figure of 817,000. Over the past year over 4 million set top boxes have been sold.

Figure 15: DTT equipment quarterly sales

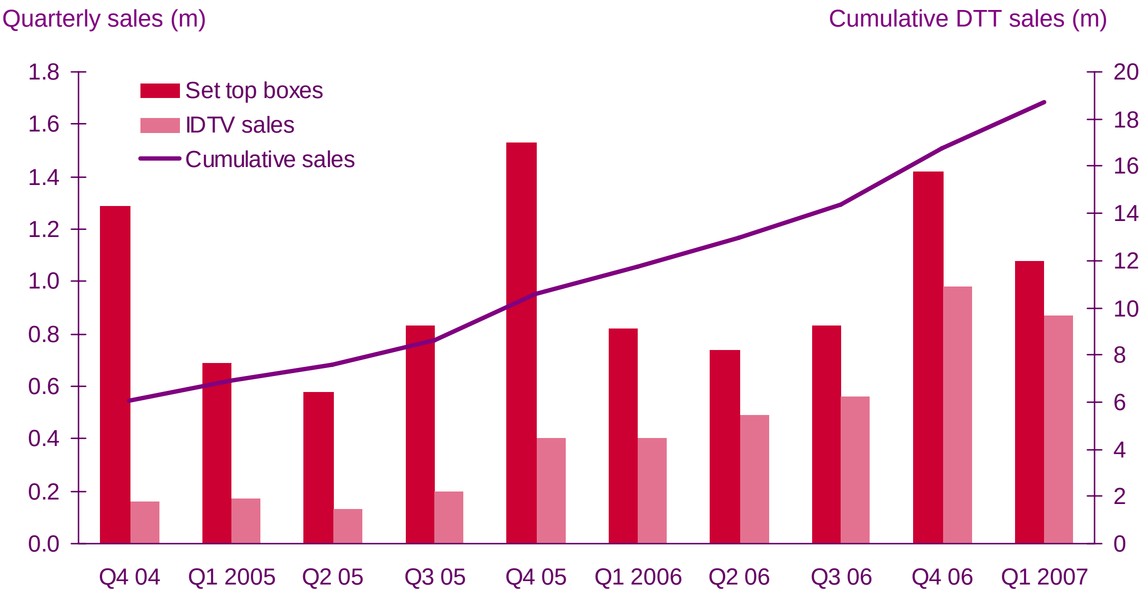
DTT quarterly sales (actuals)	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007
Freeview set-top boxes	817,215	736,470	834,960	1,416,765	1,084,650
Integrated Digital Televisions (IDTV's)	395,115	487,725	555,765	984,060	869,715
Total sales	**1,212,330**	**1,224,195**	**1,390,725**	**2,400,825**	**1,954,365**

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, figures for which are not compiled by GfK.

3.12 Between Freeview's launch in October 2002 and Q1 2007, almost 19 million DTT units have been sold. This includes over five million IDTVs and more than 13.6 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 Q1 were the second highest ever at 1.9m, following the previous quarter sales of 2.4m. IDTV sales were also the second highest so far at 870,000. Set top box sales exceeded a million in Q1 for the first time; previously only fourth quarter sales had achieved this.

3.14 An important 'overlap' factor must be taken into account when evaluating the impact of IDTV sales on digital conversions. IDTVs are often used as the main set in the home, yet they can in some cases be connected to the satellite or cable platforms. This leads to an overlap, and therefore a lower rate of digital conversion than IDTV sales alone would imply. The explanation for this effect relates to the fact that new TV purchases may be motivated not by the IDTV itself, but by bigger screens or high-definition capabilities.

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 motivated by a desire to new features such as 7-day programme guides or PVR functionality. This can therefore lead to a divergence between DTT sales and homes converted to DTT.

3.17 The Q1 GfK ownership survey estimated the total number of DTT-enabled TV sets to be around 16.7 million.

3.18 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 8.4 million at the end of Q1.

Figure 18: DTT households and sets estimates

DTT sets and households (millions)	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007
Total number of DTT enabled sets	11.3m	12.7m	13.5m	15.3m	16.7m
Total number of homes using DTT equipment	8.3m	8.6m	9.3m	10.6m	11.7m
Number of homes where DTT is the only digital platform	6.4m	6.4m	7.0m	7.7m	8.4m

Source: GfK consumer research.

3.19 The latest GfK consumer survey, in which respondents were asked about their DTT purchases, showed that around 43% of sales of DTT equipment in Q1 were to first-time buyers of such equipment for their homes.

3.20 The remaining Q1 sales were of equipment bought either for use with secondary sets or as a replacement for older kit. Secondary sets accounted for about 37% of sales in Q1 with the remainder, around 20%, being replacement equipment.

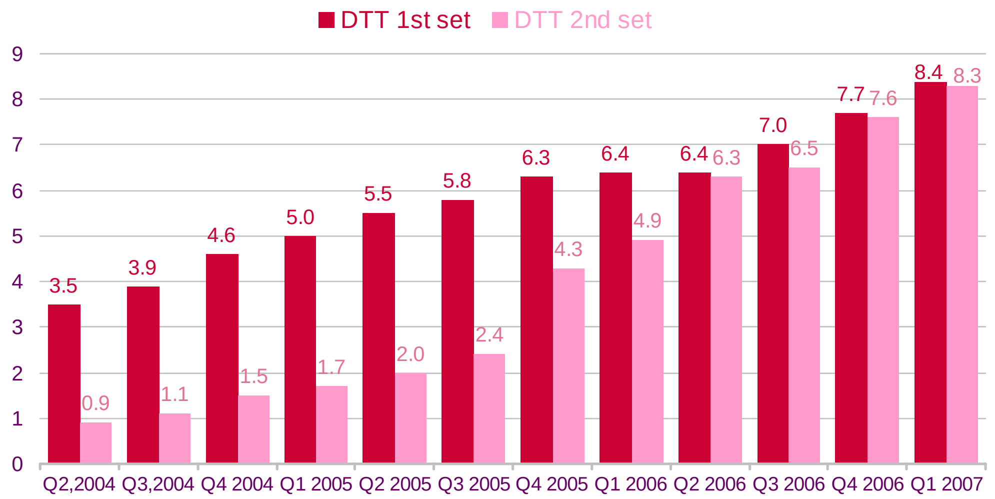
3.21 DTT equipment was being used in 1.1m more homes in total by the end of Q1. Within this figure, 700,000 more homes were using DTT as their sole digital platform.

DTT growth on primary and secondary sets

3.22 DTT is now being used on almost as many secondary sets as main sets in the home (Figure 19). While initial DTT growth was fuelled mainly by primary set conversions, more recently DTT equipment sales have been driven by secondary set conversions, with the result that secondary DTT sets stood at 8.3 million by Q1, up from 4.9 million just a year ago.

Figure 19: DTT on primary and secondary sets

(TV sets, millions)



Source: GfK consumer research, Ofcom estimates