# The Communications Market: Digital Progress Report

# Digital TV, Q1 2009

This is Ofcom's twenty-second Digital Progress Report covering developments in multichannel television. The data are the latest available at the time of writing and include quarterly take-up figures derived from consumer research, alongside subscriber figures reported by platform operators and device sales data.

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## Section 1

# Overview

1.1 **Survey results for the three months to the end of March 2009 show that take-up of multichannel television on main sets in UK households increased over the quarter to 89.6%, up by 0.7 percentage points (pp) from 88.9% in Q4 2008, and up by 2.4 pp year-on-year.**

1.2 With a majority of main sets now able to receive digital TV, many consumers are now converting additional sets in the home; just over **61% of all *secondary* TV sets had been converted to multichannel by the end of Q1, up by around 8 percentage points in a year.**

1.3 **Taking these figures together, 73% of *all* TV sets had converted to multichannel television by the end of Q1 2009** (up 5.7 percentage points on a year ago and up by 0.8pp quarter-on-quarter). The remaining 27% of sets continue to receive analogue terrestrial broadcasts.

## Other findings

1.4 Other findings in the first quarter of 2009 include:

- Sales of DTT enabled equipment in Q1 reached almost 3.4 million units, up by 7% on Q1 2008. IDTVs accounted for almost 73% of sales in the quarter (2.5 million units), with around 93% of TV sets sold now being digital.

- Freeview set-top boxes accounted for over 900,000 sales in the quarter, down 28% on last year as integrated TVs have become increasingly popular. Over the past year around 12.7 million DTT units have been sold, compared to around 11.7 million in the previous year, an increase of 8.5%.

- DTT-only households (free and pay) rose by around 15,000 in Q1, with over 9.8 million homes now relying solely on DTT for multichannel viewing.

- Q1 sales data for BBC/ITV *freesat* show that unit sales had reached around 350,000 by the end of March, up from 233,000 units in Q4. Around three quarters of *freesat* sales are HD compatible. According to consumer research results for Q1, around 500,000 homes claimed to be using some form of free-to-view digital satellite.

- The Q1 survey also indicated that 9.4 million or almost 37% of homes received satellite TV services (either pay or free-to-view). Pay satellite homes accounted for almost 8.9 million with free-to-view adding a further 0.5m.

- Almost 40% of households (around 10.2 million) now receive free-to-view digital television on their main set, 37.7% have non-pay DTT and 2.0% have free-to-view satellite.

- Research results for Q1 show that cable television was in 13.2% of homes up from 12.8% the previous quarter. Separately, Virgin Media reported net additions of almost 30,600 new subscribers, taking its total TV customer base to over 3.65 million. Digital cable added over 41,400 subscribers in the quarter (including conversions from analogue cable) and now accounts for just over 96% of all cable television customers.

1.5 We have made the following assumptions in this report:

- In calculating platform totals, DTT-only homes are defined as those where DTT is the only multichannel television platform in the home (figures for homes which have DTT as well as another platform are included in Sections 2 and 3 of the report).

- A household with either a satellite or cable subscription in addition to DTT equipment is counted primarily as a satellite or cable home.

## Section 2

# Platform figures Q1 2009

### Figure 1: Platform take-up survey results

| | Q4 2008 | Q1 2009 | Q4 2008 | Q1 2009 | Quarterly change | Annual change |
|---|---|---|---|---|---|---|
| | Homes (millions) | Homes (millions) | % TV homes | % TV homes | Increase % points | Increase % points |
| **Digital pay TV homes** | | | | | | |
| Digital Cable | 3.3m | 3.3m | 12.8% | 12.9% | 0.1pp | 0.5pp |
| Pay Satellite 1 | 8.9m | 8.9m | 34.7% | 34.8% | 0.2pp | 1.1pp |
| DTT pay (Top-Up-TV)* | 0.4m | 0.2m | 1.5% | 0.8% | -0.7pp | -0.8pp* |
| TV over ADSL (Tiscali)* 2 | 0.1m | 0.1m | 0.3% | 0.4% | 0.2pp | 0.2pp* |
| *Total digital pay TV homes* | *12.7m* | *12.6m* | *49.5%* | *49.5%* | *0.0pp* | *1.6pp* |
| **Free-to-view digital TV households** | | | | | | |
| DTT (Freeview) only homes (non pay) 3 | 9.5m | 9.7m | 36.9% | 37.7% | 0.8pp | 1.4pp |
| Free-to-view Satellite* 4 | 0.6m | 0.5m | 2.3% | 2.0% | -0.4pp | -0.9pp* |
| *Total Free-to-view digital TV households* | *10.1m* | *10.2m* | *39.3%* | *39.7%* | *0.4pp* | *0.5pp* |
| **Total digital TV homes** | **22.7m** | **22.8m** | **88.8%** | **89.2%** | **0.4pp** | **2.1pp** |
| Analogue Cable 5 | 0.01m | 0.09m | 0.03% | 0.3% | 0.3pp | 0.2pp |
| **Total multichannel TV homes** | **22.8m** | **22.9m** | **88.9%** | **89.6%** | **0.7pp** | **2.4pp** |
| **Terrestrial TV homes** | | | | | | |
| Analogue Terrestrial 6 | 2.9m | 2.7m | 11.2% | 10.4% | -0.8pp | -2.4pp |
| All homes using DTT (Freeview) 7 | 17.7m | 18.0m | 69.0% | 70.2% | 1.2pp | 7.1pp |

Source: GfK research. Please note we have not included homes receiving overseas satellite services as part of the multichannel total throughout the report.

Note: The individual platform figures may not always add up to the totals, partly due to an element of overlap in homes with more than one platform and also due to numbers in the table being rounded.

* Due to lower subscriber numbers, figures for the smaller platforms may show substantial fluctuations, from quarter to quarter that are not statistically significant. These changes should be therefore regarded with caution.

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1 *Pay satellite* homes may include some UK households which subscribe to overseas pay satellite services and also an element of survey respondents not differentiating between pay and free satellite.

2 *TV over 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. These homes are therefore included in DTT homes.

3 *DTT-only* homes (Freeview) means those homes where DTT is the only digital platform and no monthly subscription is paid for additional DTT services such as *Top Up TV*.

4 *Free-to-view satellite* homes include all homes with satellite TV on the main set which do not pay a subscription.

5 The survey results for analogue cable may be understated due to the small sample size and also because some consumers may be unaware of the distinction between analogue and digital cable.

6 *Analogue terrestrial* refers to homes which have no multichannel television services.

7 *All homes using DTT* includes satellite and cable homes which also use DTT on any set in the home. DTT-only relates to homes where DTT is the only multichannel platform.

Note: pp = percentage points, m = million.

## Digital progress on main sets

2.1 There are around 60.2 million television sets in the UK, of which around 25.4 million are 'main' sets (which broadly equates to the most-watched set in each TV household), and approximately 34.9 million are 'secondary' sets (in bedrooms, kitchens, etc).

2.2 According to consumer survey results, 22.8 million households (89.2%) had digital television on their main set in Q1 2009, up by approximately 102,000 (0.4pp) on Q4 2008.

2.3 Freeview is still the most widely-used service on main sets, accounting for around 9.8 million (38.5%) homes in Q1, up by 200,000 (0.5pp) over the year. The number of homes using DTT on any set in the home reached almost 18 million (70%) in Q1 2009, up by around 313,000 (1.2pp) on Q4 2008.

2.4 Q1 survey results show that around 9.4 million (36.8%) of homes used satellite (free or pay) as their main means of receiving digital television, up slightly by around 16,000 on a year ago. Pay satellite accounted for almost 95% of these homes at 8.9 million, with free satellite homes making up a further 500,000.

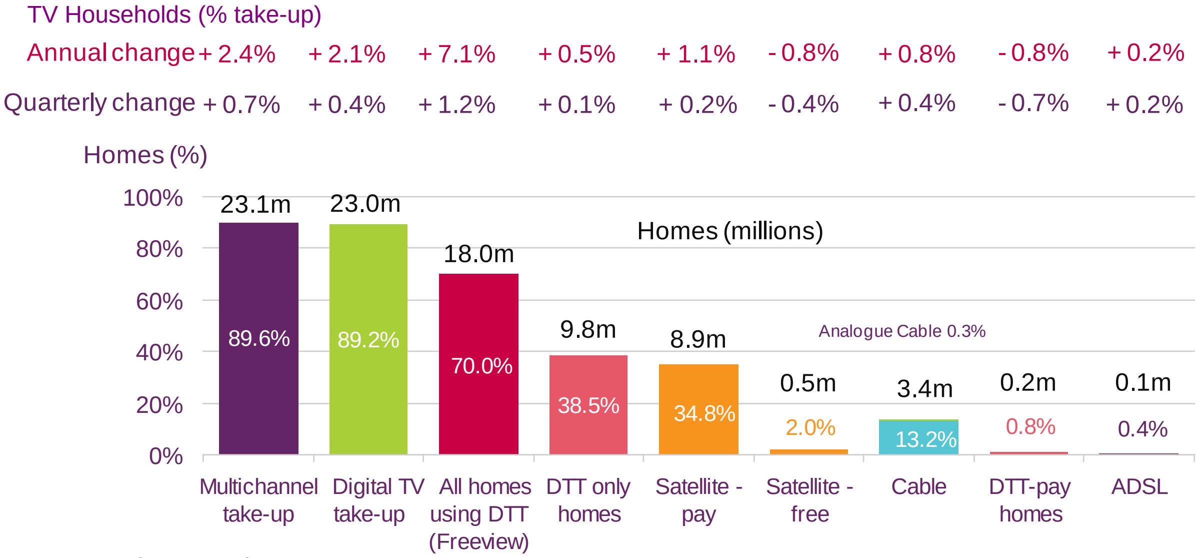
2.5 The number of homes using cable as their primary multichannel platform increased by around 100,000 in Q1 to reach 3.4 million (13.2%) with a small proportion of this total still receiving an analogue service. This survey-based total is lower than Virgin Media's reported figure of just over 3.65 million subscribers. This can partly be explained by an element of non-residential customers in the Virgin figure and also by overlap homes that pay for both satellite and cable television.

2.6 The number of TV homes relying solely on analogue terrestrial television for their primary set fell by around 200,000 (-0.8pp) during Q1 2009 to 2.7 million (10.4%) homes. This figure has fallen by 0.6 million (2.4pp) over the year.

2.7 Approximately 100,000 (0.4%) households claimed to be using television over DSL, also known as IPTV, as their primary means of receiving digital television on the main set by Q1. A further 0.5 million homes were estimated to be subscribing to the DTT / ADSL TV service offered by BT (BT Vision).

2.8 Figure 2 summarises the quarterly and annual growth for each platform. As take-up has approached 9 in 10 homes the rate of growth has generally slowed, however multichannel take-up has still grown by 2.4 percentage points on a year ago. The number of homes using DTT on any set has increased by 7.3pp in the year to around 7 in 10 homes by Q1 2009. Homes where DTT is the sole platform have seen growth slow over the past year, but these were still up 0.5pp on Q1 2008. Of the other platforms, pay satellite was up 1.1pp on a year ago and cable increased 0.8pp.

**Figure 2: Multichannel take-up, quarterly and annual growth**

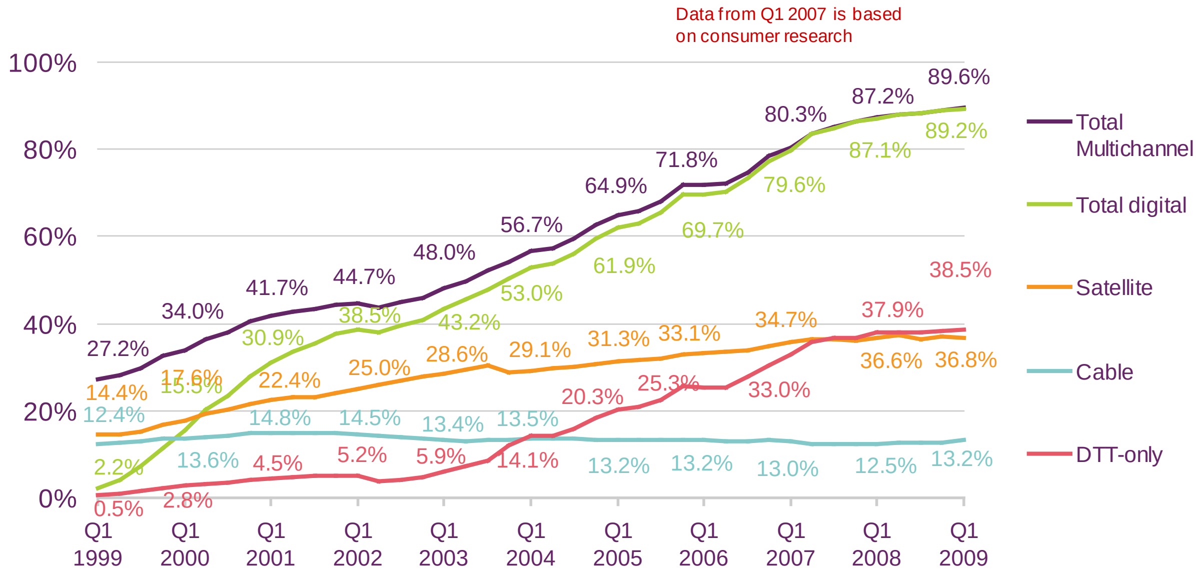



Source: GfK research

Note: Analogue terrestrial homes were estimated at 10.4%, (2.7m homes) by Q1 2009.
* Smaller platform figures may fluctuate due to the smaller sample size. Annual and quarterly changes in the chart relate to percentage points, i.e. the net change in total take up rather than growth rate.

2.9 Figure 3 illustrates TV platform take-up expressed as a proportion of all TV homes and how this has developed over the past ten years, (grouping analogue with digital cable, and free-to-view with pay satellite). Over the past five years DTT take-up has almost trebled to become the most commonly used platform on main sets, up by 24.4pp over this time to 38.5%. The next most used platform, satellite, has grown by 7.7pp over the past five years to 36.8%. While cable, has been more stable over this time and holds a similar take-up to five years ago at 13.2%.

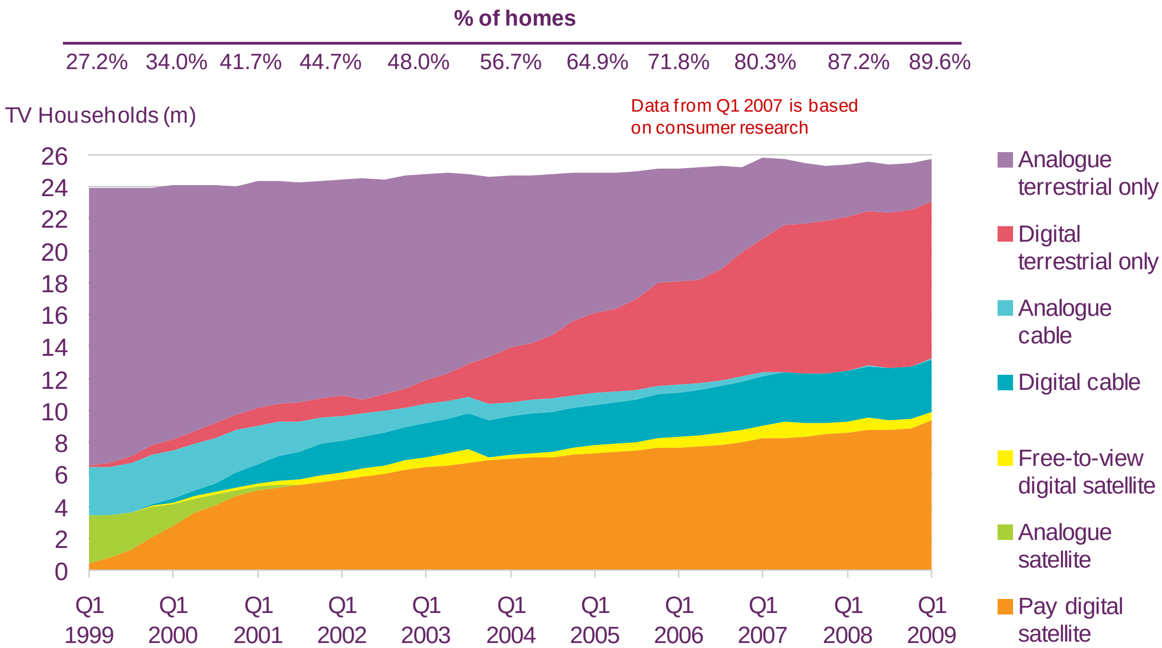
**Figure 3: Multichannel take-up on main sets by platform 1999 - 2009**




Source: GfK research from Q1 2007 onwards; previous quarters use platform operator data, research and Ofcom estimates. Note: TV over ADSL take-up is too low a percentage to appear on this chart

2.10 Figure 4 shows the year-on-year decline in the number of households using analogue terrestrial on main sets. It has fallen from around three quarters of homes ten years ago to approaching one in ten by Q1 2009. Digital terrestrial and pay satellite have emerged as the two most widely used digital television platforms on main sets over the past decade.

**Figure 4: Multichannel take-up on main sets 1999 – 2009**

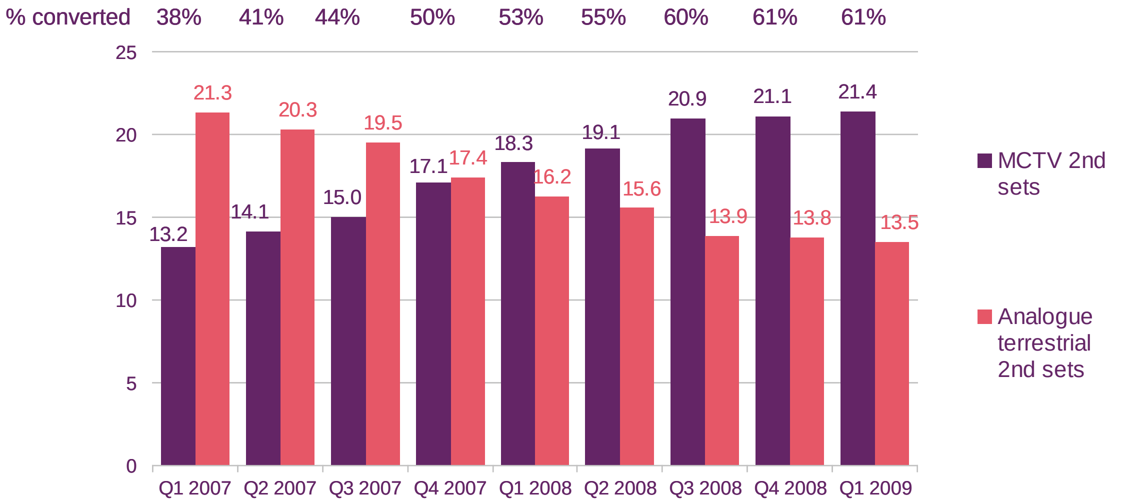



Source: GfK research from Q1 2007 onwards; previous quarters use platform operator data, research and Ofcom estimates
Note: TV over ADSL take-up stood at around 0.4% by Q1 2009

## Digital progress on secondary sets

2.11 With the average home owning around 2.4 TV sets, there are around 35 million secondary sets in the UK market. By Q1 2009 around 21.4 million (61%) of these had been converted to multichannel using either the Sky Multiroom service, a second cable box or a DTT receiver. This figure was up by 3 million (8.2pp) in a year and by 290,000 (0.8pp) on Q4 2008.

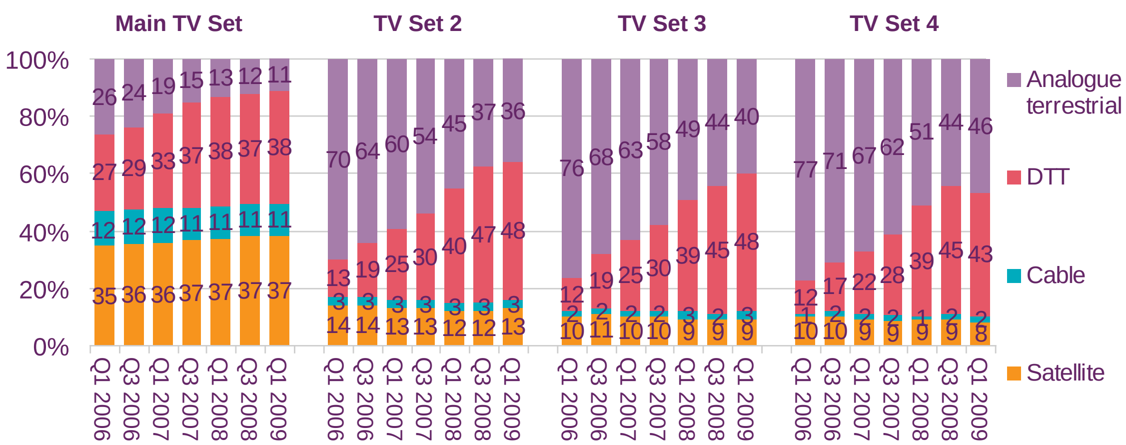
**Figure 5: Total secondary digital sets across all platforms (millions)**




Source: GfK research. (Chart includes a small number of analogue cable sets)

2.12 Consumer research results illustrate the platform share by primary and secondary sets. The latest survey shows that satellite (free and pay) and DTT have a similar share of main sets with shares of 37% and 38% respectively. On second and third sets, DTT is the most widely used platform with take-up of 48%, (12pp and 8pp higher than analogue terrestrial). Satellite (in the form of Sky Multiroom) is more commonly used on additional sets than cable (Figure 6).

**Figure 6: Platform shares by platform TV sets 1 – 4**



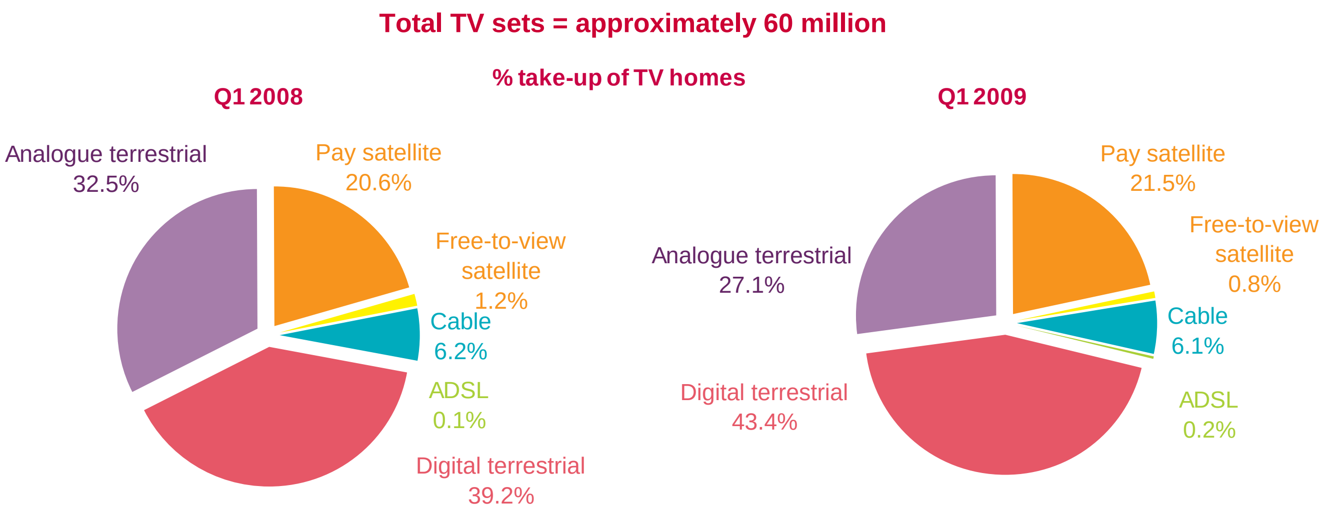

Source: GfK research

Note: Main set shares in this chart differ slightly from those in Figure 1 and Figure 3 because of a small element of overlap between cable and satellite

## Digital progress on all sets

2.13 Of the 60 million television sets in the UK (main and secondary), around 44.0 million (73.1%) had been converted to multichannel by Q1 2009, up by 3.8 million (5.7pp) in a year. Conversions during Q1 2009 were around 500,000 sets (0.8pp) (Figure 7).

**Figure 7: Platform shares among all TV sets**




Source: GfK research
Note: figures may not add up to 100% due to rounding.

2.14 Other all-sets figures in Q1 2009 included:

- Analogue terrestrial accounts for just over a quarter of the total set universe at just over 27%, equivalent to around 16.2 million television sets. This was down by around 5pp from 32% of TV sets a year previously and down 0.8pp on the previous quarter. Of these, around 2.7 million were main sets and 13.5 million were secondary (in a bedroom or kitchen, for example).

- The number of digital terrestrial sets has risen by around 2.7 million over the year to 26.1 million, equivalent to a 43% share of all sets, up by 4pp from under 39% a year ago. Sales of IDTV sets and DTT set-top boxes are up 7% on last year, with more DTT-enabled secondary sets than primary, 16.3 million versus 9.8 million respectively.

- Survey results indicate that over a fifth (22%) of all television sets are now connected to a pay satellite service, up by 1pp on a year ago. BSkyB has continued to add both main set subscriptions and also second sets via its multiroom service. Free satellite accounted for a 0.8% share of all sets by Q1 2009, this showed a fall on the survey of a year ago but this could be due to the fluctuations in measuring a smaller sector. The BBC / ITV freesat service has continued to grow over this period.

- The number of cable sets increased over the year with Virgin Media continuing to add new subscribers to its television service. There were around 3.7 million sets connected to cable by Q1 2009, equivalent to a 6.1% share of all sets, similar to a year previously.

## Summary of multichannel trends Q4 2007 – Q1 2009

### Figure 8: Take-up and share of primary and secondary TV sets

| | Q4 2007 | Q1 2008 | Q2 2008 | Q3 2008 | Q4 2008 | Q1 2009 |
|---|---|---|---|---|---|---|
| **Multichannel take-up** | | | | | | |
| Cable | 12.4% | 12.5% | 12.5% | 12.8% | 12.8% | 13.2% |
| Satellite | 36.1% | 36.6% | 37.3% | 36.6% | 37.0% | 36.8% |
| DTT | 37.6% | 37.9% | 38.0% | 38.1% | 38.4% | 38.5% |
| ADSL | 0.2% | 0.2% | 0.3% | 0.3% | 0.3% | 0.4% |
| **Total multichannel** 1 | **86.5%** | **87.2%** | **88.0%** | **88.2%** | **88.9%** | **89.6%** |
| **Pay TV take-up** | | | | | | |
| Cable | 12.4% | 12.5% | 12.5% | 12.8% | 12.8% | 13.2% |
| Pay satellite | 33.6% | 33.7% | 34.0% | 34.2% | 34.7% | 34.8% |
| Pay DTT | 1.5% | 1.6% | 1.3% | 1.6% | 1.5% | 0.8% |
| ADSL | 0.2% | 0.2% | 0.3% | 0.3% | 0.3% | 0.4% |
| **Total** | **47.7%** | **47.9%** | **48.0%** | **48.8%** | **49.5%** | **49.5%** |
| **Share of multichannel TV market** | | | | | | |
| Cable | 14.4% | 14.3% | 14.2% | 14.5% | 14.4% | 14.7% |
| Satellite | 41.9% | 42.1% | 42.4% | 41.3% | 41.6% | 40.8% |
| DTT | 43.7% | 43.6% | 43.2% | 43.1% | 43.2% | 42.7% |
| **TV sets conversion** | | | | | | |
| Secondary sets converted | 49.1% | 52.8% | 55.0% | 60.2% | 60.5% | 61.3% |
| All TV sets converted | 65.1% | 67.5% | 68.9% | 72.1% | 72.3% | 73.1% |

Source: GfK research for all quarters

Note: Multichannel totals may not correspond to the individual platform figures due to an element of platform overlap, i.e. where some respondents may have answered that they have two multichannel platforms connected to the main set, for example DTT and either satellite or cable.

## Section 3

# Platform quarterly results

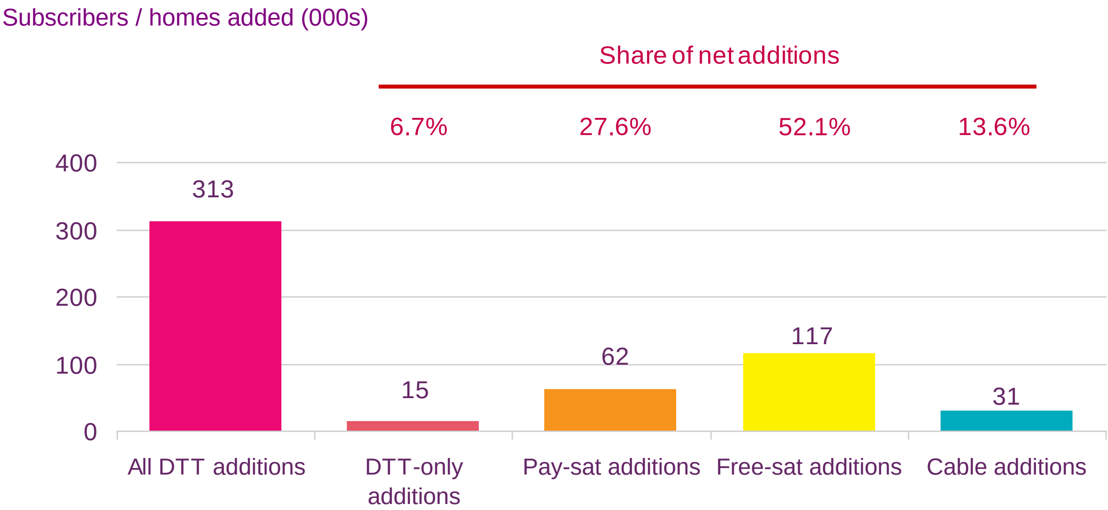
3.1 This section sets out the net homes added during the quarter. In the case of the DTT platform these are based on survey results. For the satellite and cable platforms they are based on the net subscriber or sales additions reported by the main platform operators. The operator-based figures are included for information only and to help give context to our research-based take-up figures; they do not, however, feed into our calculations for multichannel take-up, as set out in sections 1 and 2.

3.2 Within the free-to-view platform sector survey results indicated an increase of around 310,000 homes using DTT on any set over the quarter. This total includes satellite and cable homes now using DTT on a secondary set. The number of homes where DTT was the *only* multichannel platform increased by 15,000 in Q1. Within the free satellite market BBC / ITV Freesat reported sales of around 117,000 during Q1.

3.3 BSkyB Q1 results for the UK and the Republic of Ireland reported a net 80,000 satellite subscribers added. Based on the historical split of additions we estimate that approximately 60,000 of these were UK homes with the remainder added in Ireland. Virgin Media results showed a net addition of almost 31,000 cable TV subscribers over the quarter and, with additional conversions from analogue, the increase in digital cable subscriptions was over 41,000 during Q1. (Please note that the cable and satellite figures are both likely to include an element of non-residential customers).

3.4 Based on these results free satellite showed the highest increase in Q1 with a share of around 52% of net additions followed by pay satellite with almost 28%. Cable had a share of almost 14% of Q1 adds with DTT the remaining 7%. However, these figures should be regarded as indicative, as they draw on a range of different data sources (Figure 9).

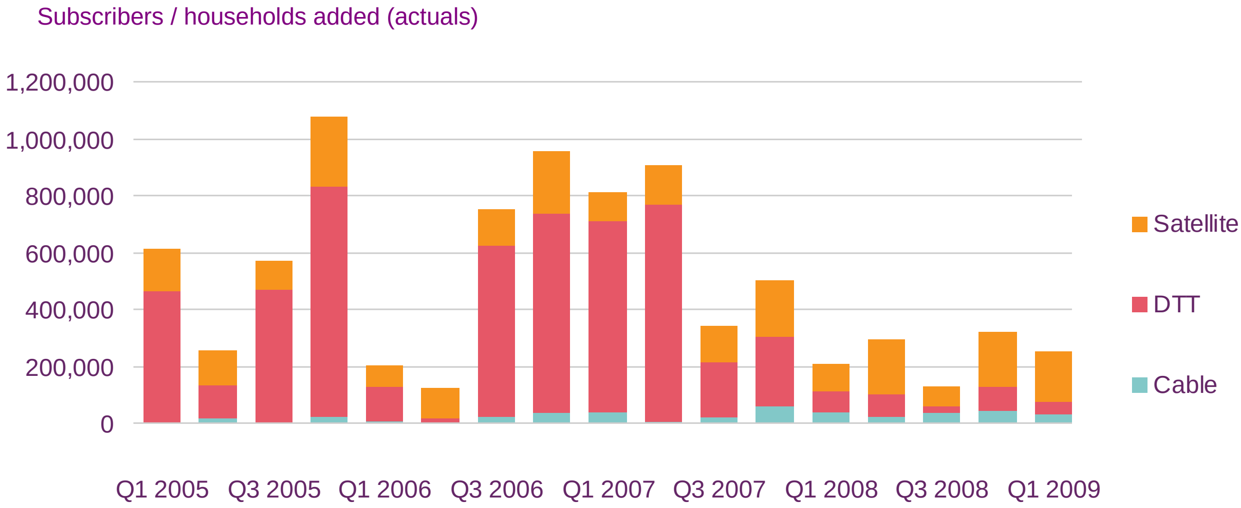
**Figure 9: Net quarterly multichannel growth Q1 2009**




Source: Pay platform additions based on Virgin Media reported results and Ofcom estimates based on BSkyB results. Free satellite additions based on BBC/ITV Freesat sales figures. DTT additions based on GfK research. Note: *All DTT additions* include satellite and cable homes acquiring DTT for the first time during the quarter. *DTT-only additions* are first-time DTT acquirers with no other multichannel platform.

3.5 Over the period 2004-2007 DTT was the primary driver of growth. However, with the majority of homes now having multichannel TV, the contribution of the three main platforms is starting to even out with satellite and cable additions playing a more prominent role over the past two years (Figure 10).

**Figure 10: Net quarterly multichannel additions**




Source: Platform operator data (BSkyB, BBC/ITV Freesat, and Virgin Media) for pay / free satellite and cable, GfK research for DTT homes.

## Digital satellite – pay households

**Figure 11: BSkyB Q1 2009 results***

| Pay digital satellite – BSkyB | Q1 2008 | Q2 2008 | Q3 2008 | Q4 2008 | Q1 2009 |
|---|---|---|---|---|---|
| **Pay-TV satellite subscribers** | **8,340,000** | **8,980,000** | **9,067,000** | **9,238,000** | **9,318,000** |
| ARPU (annualised)** | £424 | £427 | £430 | £444 | £452 |
| Churn | 10.5% | 9.8% | 10.9% | 9.9% | 10.6% |
| Basic package price | £16.00 | £16.00 | £17.00 | £16.50 | £16.50 |
| Sky Multiroom | 1,571,000 | 1,604,000 | 1,655,000 | 1,723,000 | 1,769,000 |
| Sky + | 3,393,000 | 3,714,000 | 4,135,000 | 4,650,000 | 5,056,000 |
| Sky HD | 465,000 | 498,000 | 591,000 | 779,000 | 1,022,000 |

Source: BSkyB quarterly results 2008/09

* These figures are for BSkyB's subscribers in the UK and the Republic of Ireland.
** BSkyB's ARPU and churn rates relate to their total consumer division, (services including TV, telecoms, and internet).

3.6 BSkyB's Q1 results reported a 80,000 increase in subscriptions to its television service, taking its total UK and Ireland subscriber base to 9,318,000, up 430,000 over the past year. Based on historical additions for the UK and Ireland we estimate that around 360,000 of these were new UK customers.

3.7 The number of subscribers taking the *Sky Multiroom* service (which enables an additional set in the home to receive *Sky*) rose by 46,000 during Q1 to 1,769,000 (with 198,000 additions over the past year). This means that 19% of *Sky* customers have at least one extra set connected to a pay satellite service in addition to their primary set.

3.8 BSkyB's digital video recorder service (DVR, also known as PVR - personal video recorder - or DTR - digital television recorder), *Sky+*, saw another quarter of growth, with 406,000 subscribers added in Q1. This took the total number of *Sky+* homes to over 5 million for the first time, 54% of its customer base. In Q1 Sky reported time-shifted viewing accounted for 17 million views per day in Sky+ homes. This would equate to each Sky+ customer watching over three time shifted programmes a day on average.

3.9 In January 2009 Sky revised the cost of their *Sky+* HD box, dropping the price from £150 to £49. The high-definition (HD) service added 243,000 subscribers in Q1. This was the highest number of additions of any quarter to date and took total HD subscribers to over 1 million for the first time, meaning 11% of all *Sky* subscribers now have access to HD services. By March 2009 a total of 33 HD channels were available on this service, broadcasting 12,000 hours of HD content per month.

3.10 Annualised average revenue per user (ARPU) reached a new high of £452 in Q1, up by £8 on the previous quarter and by £28 year-on-year. By the end of Q1, 15% of Sky customers (1.4 million) took three services – TV, broadband and telephony. However churn increased in the quarter from 9.9% to 10.6%, similar to churn in Q1 2008.

## Digital satellite - free-to-view households

**Figure 12: Free-to-view satellite**

| Free-to-view digital satellite | Q1 2008 | Q2 2008 | Q3 2008 | Q4 2008 | Q1 2009 |
|---|---|---|---|---|---|
| Free-to-view satellite households | 722,000 | 840,000 | 617,000 | 597,000 | 503,000 |

Source: GfK research

3.11 There are currently four main categories of free satellite viewer:

- those who have churned from BSkyB's 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 services including *'Freesat from Sky*', which requires a one-off installation payment of around £147 (or, more recently, their '*Sky Pay Once*' product which for a one off payment of £73 provides access to all free-to-view channels plus four of *Sky's* subscription mixes for the first 4 months);
- homes taking the new *'Freesat'* service offered by the BBC and ITV; and
- those which have obtained satellite-receiving equipment from suppliers other than *Sky* or *Freesat*.

3.12 The Freesat service from ITV and the BBC launched in May 2008 and is available to an estimated 98% of UK homes. This service currently provides access to 140 digital TV and radio channels with no subscription. Standard-definition Freesat digital box prices are available from around £49, High-definition boxes, providing access to HD services from the BBC and ITV, start at £95 and Freesat + HD DVR receivers retail from around £250 (Satellite dish installation costs a further £80 for homes with no existing satellite dish). There are also a range of Freesat HD IDTVs and most recently a Freesat + Blu Ray recorder on the market.

3.13 By the end of Q1 2009, survey results indicated that around 500,000 homes were using free satellite as their primary television platform. Free satellite survey results have fluctuated over the past year, probably due to sampling issues arising from measuring a smaller sector. The BBC/ITV Freesat service reported further growth during the period, with total retail sales reaching 350,000 units by the end of March 2009, up from 233,000 units in Q4 2008. Around three quarters of sales by Q1 2009 were HD receivers (263,000 units).

## Cable

### Figure 13: Virgin Media Q1 2009 results

| Cable – Virgin Media | Q1 2008 | Q2 2008 | Q3 2008 | Q4 2008 | Q1 2009 |
|---|---|---|---|---|---|
| Digital TV subscribers | 3,311,400 | 3,353,500 | 3,407,900 | 3,469,000 | 3,510,400 |
| **Total TV subscribers** | **3,514,900** | **3,538,800** | **3,576,500** | **3,621,000** | **3,651,600** |
| Total subscribers (TV, telephony, internet) | 4,779,600 | 4,741,200 | 4,740,400 | 4,755,200 | 4,762,300 |
| Homes passed and marketed | 12,578,100 | 12,575,400 | 12,561,900 | 12,553,100 | 12,554,800 |
| TV penetration rate * | 27.9% | 28.0% | 28.5% | 28.8% | 29.1% |
| ARPU ** (annualised) | £503 | £500 | £503 | £508 | £507 |
| Churn ** | 14.4% | 15.6% | 18.0% | 14.4% | 13.2% |
| Basic package price | £11.00 | £11.00 | £11.00 | £11.00 | £11.00 |
| Virgin DVR (V+) | 364,200 | 424,900 | 468,700 | 521,500 | 611,900 |

Source: Virgin Media quarterly results 2008/09

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

** Virgin Media ARPU and churn rates relate to their total consumer division, (services including TV, telecoms, and internet).

3.14 Virgin Media's Q1 results revealed additions of 41,400 digital television subscribers, (following on from 61,100 additions in Q4). After allowing for the migration of analogue subscribers to digital cable, 30,600 net cable TV homes were added in Q1.

3.15 Virgin Media has added almost 137,000 net new television homes over the past year, and now has over 3.65 million subscribers, the highest level of take-up for cable television to date. Virgin Media's digital video recorder (DVR) service *V+,* added 90,400 subscribers in Q1 to reach 611,900 in total, equivalent to almost 17% of Virgin TV subscriber base.

3.16 Virgin Media reported that over half (53%) of its customer base, (equivalent to approximately 1.9 million TV customers), were using its video-on-demand (VOD) service on a monthly basis in Q1. Average monthly VOD views per user were 29 up from 24 a year previously. Total VOD views reached 165 million in Q1, up 4% on Q4 2008 and 51% on a year ago.

3.17 Virgin Media added the BBC iPlayer as part of its VOD service during Q2 2008, providing access to BBC catch-up programming and in Q1 2009 HD content was added to this service. Overall there was 270 hours of HD content on available the Virgin VOD service by the end of Q1. The company was also in negotiations with broadcasters with a view to launch further HD channels on the cable platform during Q3 2009.

3.18 The number of Virgin customers taking three services or more reached a new high of 57% during Q1, while annualised ARPU was relatively stable at £507.

## Digital terrestrial television (DTT) equipment sales

### Figure 14: DTT equipment quarterly sales

| DTT quarterly sales (actuals) | Q1 2008 | Q2 2008 | Q3 2008 | Q4 2008 | Q1 2009 |
|---|---|---|---|---|---|
| Freeview set-top boxes | 1,273,955 | 912,115 | 973,730 | 1,409,220 | 922,320 |
| Integrated Digital Televisions (IDTV's) | 1,879,605 | 1,417,500 | 1,575,630 | 3,059,700 | 2,453,325 |
| **Total sales** | **3,153,560** | **2,329,615** | **2,549,360** | **4,468,920** | **3,375,645** |
| DTT DVR sales* | 252,000 | 191,000 | 195,000 | 394,000 | 291,000 |

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

*DVR sales include devices that combine DVR with DVD recording functionality.

** Freeview adjusts the sales figures upwards by 5% to represent its estimate of the number of DTT set-top boxes and IDTVs sold in Northern Ireland and offshore islands.

3.19 DTT equipment sales in Q1 2009 reached almost 3.4 million; this was up by 7.0% on the corresponding quarter last year. IDTVs sales accounted for 73% of these sales at almost 2.5 million, while the number of set-top-box sales reached 922k in Q1.

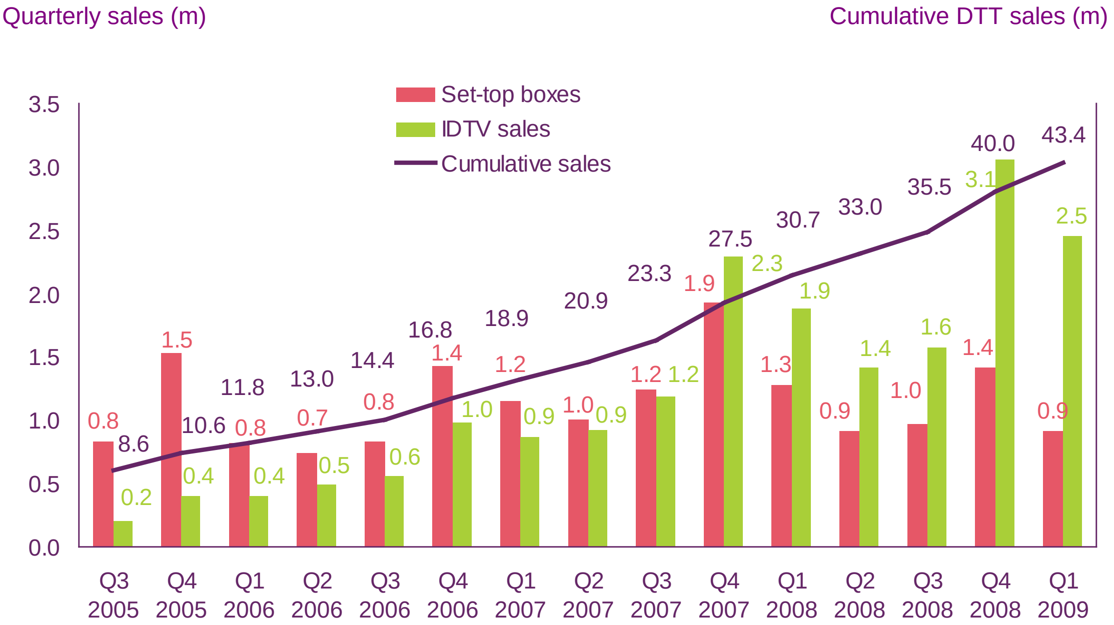
3.20 Year-on-year IDTV sales were up by almost 600,000, or 31%, taking total sales in the 12 months to the end of Q1 2009 more than 8.5 million. This compared to 6.3 million in the preceding year, an increase of 36%. During Q1 around 93% of all TV sets sold included a digital decoder.

3.21 Cumulative sales of set-top boxes reached 4.2 million in the year to Q1 2009, this was down 23% from 5.5 million in the previous year. This decrease could partly be as a result of higher sales of integrated TVs and the increasing ownership of DTT generally.

3.22 Cumulative sales of DTT DVRs (Digital Video Recorders) reached around 2.6 million by the end of Q1 2009, with around 290,000 sales in the quarter. This was the equivalent of over a third (38%) of all DTT set-top-box sales (up from around one fifth (22%) a year ago).

3.23 Since Freeview's launch in October 2002 total sales of DTT devices have reached over 43 million units, comprising almost 20 million IDTVs and over 23 million DTT set-top boxes. IDTVs have outsold set-top-boxes sold since Q3 2007 (Figure 15).

**Figure 15: DTT quarterly and cumulative sales since launch of Freeview**




Source: Sales figures from GfK, as adjusted by Freeview

3.24 An ‘overlap’ factor must be taken into account when evaluating the impact of IDTV sales on digital conversions. IDTV purchases are not always motivated by the desire for an integrated DTT tuner, but often for other reasons such as bigger screens or high-definition capability.

3.25 As a result, IDTVs are sometimes connected to satellite or cable receiving equipment. This leads to an overlap with the integrated DTT tuner, and therefore to a lower rate of digital conversion than IDTV sales alone would imply. The GfK survey takes account of this effect by distinguishing homes where DTT is the sole digital platform from those where it is an additional platform.

3.26 Furthermore, an increasing number of DTT purchases are being made with the purpose of converting secondary sets in the home to digital, or as replacements for existing DTT set-top boxes on the primary set. Replacement purchases can be motivated by a desire to add new features such as seven-day programme guides or DVR functionality. These trends have led to a significant divergence between quarterly DTT sales and the number of homes converted to DTT. Latest survey results again showed an increase in the level of additional or replacement DTT sales, (see figure 18).

## DTT households and sets

**Figure 16: DTT households and sets estimates**

| DTT sets and households (millions) | Q1 2008 | Q2 2008 | Q3 2008 | Q4 2008 | Q1 2009 |
|---|---|---|---|---|---|
| Total number of DTT enabled sets | 23.4m | 24.4m | 25.7m | 25.9m | 26.1m |
| Total number of homes using DTT equipment | 16.1m | 16.7m | 17.2m | 17.7m | 18.0m |
| Number of homes where DTT is the only digital platform | 9.6m | 9.7m | 9.7m | 9.8m | 9.8m |

Source: GfK research
Note: Figures in the table are rounded

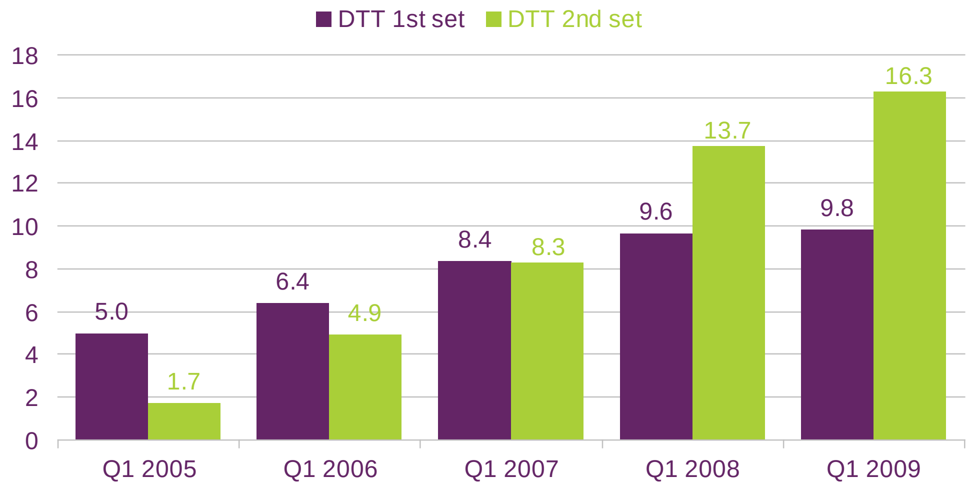
3.27 DTT equipment was being used in 18 million homes by the end of Q1, when including cable and satellite homes using DTT on secondary sets. This was an increase of around 313,000 homes on Q4 2008 and up by 1.9 million homes year on year. We estimate that DTT was the only digital platform in 9.8 million homes by the end of Q1. This was up by around 15,000 homes over the quarter and around 200,000 homes over the year.

3.28 The Q1 GfK ownership survey estimated the total number of DTT-enabled TV sets at around 26.1 million; this was 160,000 higher than the previous quarter and an increase of over 2.7 million in the year.

## DTT growth on primary and secondary sets

3.29 The number of DTT devices used on secondary sets overtook the number used on primary sets during 2007. By the end of Q1 2009 there were 26.1 million DTT-enabled sets, of which 9.8 million were primary and almost 16.3 million were secondary sets. This means that 62% of DTT devices are now connected to secondary sets (Figure 17).

**Figure 17: DTT on primary and secondary sets**
(TV sets, millions)

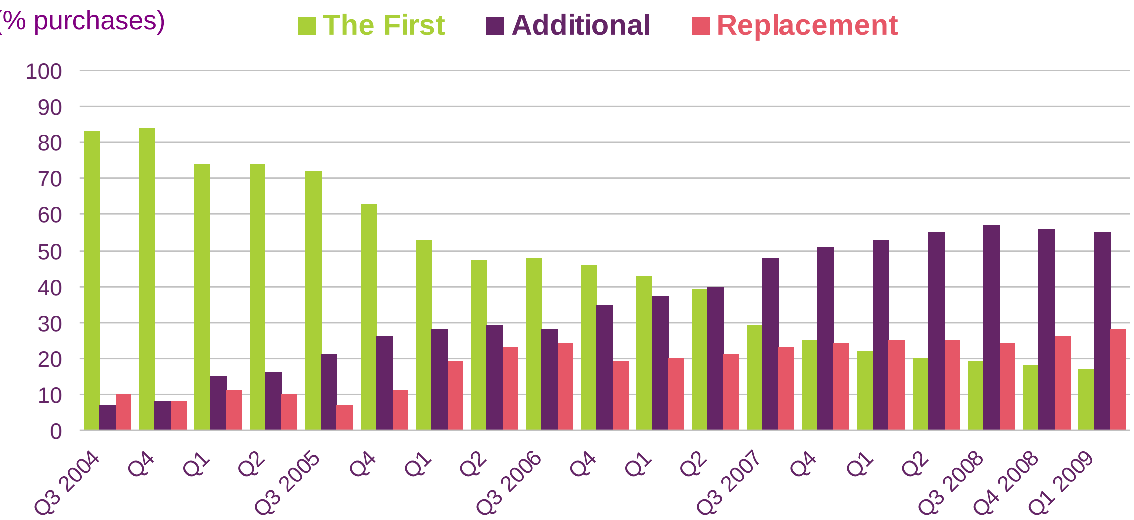



Source: GfK research

3.30 In a separate piece of GfK research, a sample of consumers who have bought DTT equipment during the quarter are questioned on their reasons for purchase. Back in 2004, a large majority (over 80%) of DTT sales were first-time DTT purchases. However, by Q1 2009, this had declined to 17%, (this also includes satellite and cable homes purchasing DTT for the first time). The remaining sales were intended for connection to additional sets (55%) or as a replacement for existing DTT equipment (28%). The number of replacement sales is therefore now 11% higher than the number of first-time purchases.

**Figure 18: DTT purchase trends**
Is the digital Freeview equipment the first in your present home, additional or replacement to that already owned?

(% purchases)




Source: GfK consumer research, based on acquisitions during the quarter.

## Background on survey methodology

### GfK consumer research survey

The GfK consumer research used in this report is based on a panel of 14,000 homes screened quarterly via the internet and by telephone. The survey collects data on ownership and acquisition of television sets and related receiving equipment. The ratio of online to telephone interviews is approximately 75% to 25% respectively. The error margin for the research results is estimated to be within 1-2 percentage points.