OFFICE OF COMMUNICATIONS

The Communications Market: Digital Progress Report

Digital TV, Q2 2009

This is Ofcom's twenty-third 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 second quarter of 2009, the three months to the end of June, show that take-up of digital television in UK households increased to 89.8%, up by 0.6 percentage points (pp) from 89.2% in Q1 2009, and up by 1.9 pp year on year.**

1.2 With a majority of main sets now able to receive digital TV, many consumers continue to convert additional sets in the home. As a result almost **70% of all *secondary* TV sets had been converted to multichannel by the end of Q2, up by around 15 percentage points in a year.**

1.3 **Taking these figures together, 80% of *all* TV sets had converted to multichannel television by the end of Q2 2009** (up 11 percentage points on a year ago and up by 7pp quarter on quarter). The remaining 20% of sets continue to receive analogue terrestrial broadcasts.

Other findings

1.4 Other findings in the second quarter of 2009 include:

- Sales of DTT enabled equipment in Q1 reached almost 2.7 million units, up by 15% on Q2 2008. Integrated digital television sets (IDTVs) accounted for almost 75% of sales in the quarter (2.0 million units), with around 96% of sets sold now including an integrated DTT decoder.

- Freeview set-top boxes accounted for over 680,000 sales in the quarter, down 25% on last year, with a vast majority of TVs sold now already equipped with an integrated digital receiver. Over the past year around 13.0 million DTT units (IDTVs and set-top-boxes) have been sold, compared to 12.1 million in the previous year, an increase of almost 8%.

- DTT-only households (free and pay) rose by around 85,000 in Q2, with over 9.9 million homes relying solely on DTT for multichannel viewing.

- Q2 sales data for BBC/ITV *freesat* show that unit sales had reached around 450,000 by the end of June, up from 350,000 units in Q1. Over three quarters (79%) of *freesat* decoders sold supported HD services by Q2. According to consumer research results for Q2, almost 700,000 homes claimed to be using some form of free-to-view digital satellite device on their main set.

- The Q2 survey also indicated that 9.6 million, or around 37% of homes, received satellite TV services (either pay or free-to-view). Pay satellite homes accounted for just over 8.9 million with free-to-view adding a further 700,000 homes during the quarter.

- Just over 40% of households (10.3 million) received free-to-view digital television on their main set at the end of June, 37.6% had a non-pay DTT decoder and 2.7% had free-to-view satellite.

- Research results for Q2 show that just over 12% of homes took cable television. Separately, Virgin Media reported net additions of almost 20,400 new TV subscribers, taking its total TV customer base to over 3.67 million. Digital cable added over 32,900 subscribers in the quarter (including conversions from analogue cable) and accounted for 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 Q2 2009

Figure 1: Platform take-up survey results

	Q1 2009	Q2 2009	Q1 2009	Q2 2009	Quarterly change	Annual change
Digital pay TV homes	**Homes (millions)**	**Homes (millions)**	**% TV homes**	**% TV homes**	**Change % points**	**Change % points**
Digital Cable	3.3m	3.1m	12.9%	12.2%	-0.7pp	-0.2pp
Pay Satellite 1	8.9m	8.9m	34.8%	34.8%	0.0pp	0.8pp
Other pay TV platforms* 2	0.8m	0.9m	3.1%	3.4%	0.3pp	1.0pp*
Total digital pay TV homes	*13.0m*	*12.9m*	*49.9%*	*49.6%*	*-0.3pp*	*1.5pp*
Free-to-view digital TV households						
DTT (Freeview) only homes (non pay) 3	9.7m	9.7m	37.7%	37.6%	-0.1pp	0.8pp
Free-to-view Satellite* 4	0.5m	0.7m	2.0%	2.7%	0.7pp	-0.6pp*
Total Free-to-view digital TV households	*10.2m*	*10.3m*	*39.7%*	*40.2%*	*0.6pp*	*0.2pp*
Total digital TV homes	**22.8m**	**23.0m**	**89.2%**	**89.8%**	**0.6pp**	**1.9pp**
Analogue Cable 5	0.09m	0.00m	0.3%	0.0%	-0.3pp	-0.1pp
Total multichannel TV homes	**22.9m**	**23.0m**	**89.6%**	**89.8%**	**0.2pp**	**1.8pp**
Terrestrial TV homes						
Analogue Terrestrial 6	2.7m	2.6m	10.4%	10.2%	-0.2pp	-1.8pp
All homes using DTT (Freeview) 7	18.0m	18.2m	70.2%	71.2%	1.0pp	6.1pp

Source: GfK and Ofcom research. Please note that homes receiving overseas satellite services are not included in the multichannel total in this report.

Note: The individual platform figures may not always add up to the totals, partly due to an element of overlap in homes that take both pay satellite and cable services and also due to figures being rounded.

*****Owing to lower subscriber numbers and the uneven distribution of subscribers across the UK, 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 an element of survey respondents not differentiating between pay and free satellite.

2 Other pay TV platforms includes homes with Top Up TV, BT Vision or Tiscali TV connected to their main television set. *BT Vision* customers receive live scheduled programming via DTT (in Freeview coverage areas) rather than by broadband but are included here as a pay platform to provide the total number of homes paying for / capable of paying for digital TV services.

3 *DTT-only* homes (non pay) 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 TV progress on main sets

2.1 Of the total of 60.2 million television sets 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, 23.0 million households (89.8%) had digital television on their main set in Q2 2009, up by approximately 154,000 (0.6pp) on Q1 2009.

2.3 Freeview was still the most widely-used service on main sets, accounting for around 9.9 million (38.8%) homes in Q2, up by 85,000 (0.3pp) in the quarter. The number of homes using DTT on any set in the home reached over 18 million (71%) in Q2 2009, up by around 258,000 (1.0pp) on Q1 2009.

2.4 Q2 survey results show that around 9.6 million (37.5%) of homes used satellite (free or pay) as their main means of receiving digital television, up by around 170,000 on the previous quarter. Pay satellite accounted for almost 93% (8.9 million) of these homes, with free satellite homes making up the remaining 700,000.

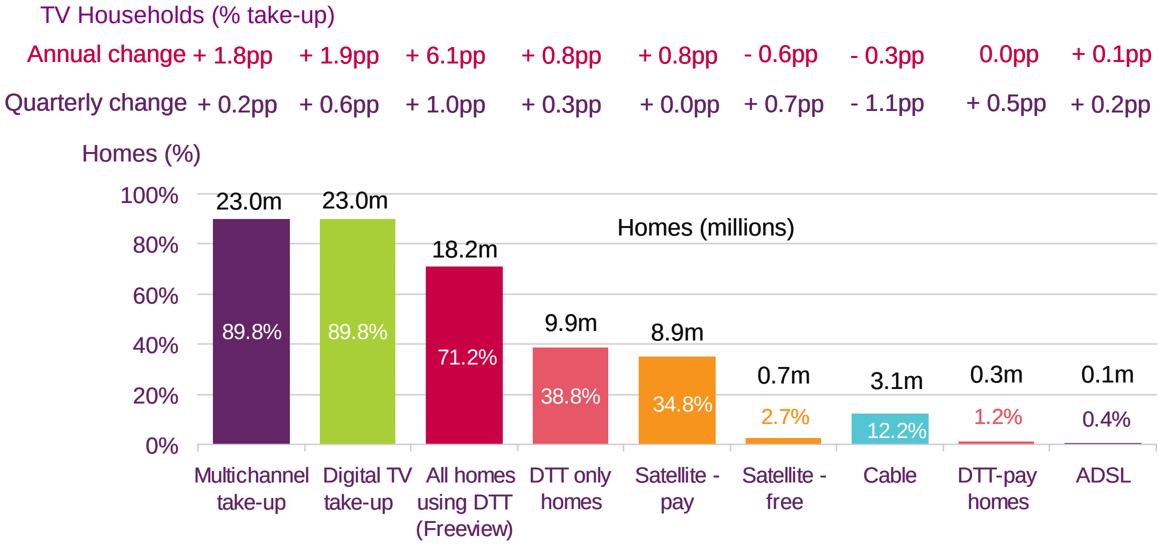
2.5 The number of homes using cable as their primary multichannel platform was 3.1 million (12.2%) with a small proportion of this total still receiving an analogue service. This survey-based total is lower than Virgin Media's reported figure of just over 3.67 million subscribers. This can be explained by the large ratio of cable homes owning more than one platform, meaning the cable service is not always registered on the consumer survey as being connected to the primary set in the home. There is also likely to be an element of non-residential customers in the Virgin quarterly subscriber figures.

2.6 The number of TV homes relying solely on analogue terrestrial television on their primary set fell by around 64,000 (-0.2pp) during Q2 2009 to 2.6 million (10.2%) homes. This figure fell by 0.5 million (-1.8pp) over the year.

2.7 Around 860,000 homes were subscribing to other pay TV platforms in Q2 with BT Vision subscribers reaching 433,000 by June 2009, with Top Up TV and Tiscali TV making up the remainder.

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 slowed; year-on-year multichannel take-up rose by 1.8 percentage points. The number of homes using DTT on any television set rose by 6.1pp in the year to over 7 in 10 homes by the end of Q2 2009. Homes where DTT was the sole platform experienced slower growth over the past year, with take-up up by 0.8pp in a year. Pay satellite take-up also rose by 0.8pp over the year.

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

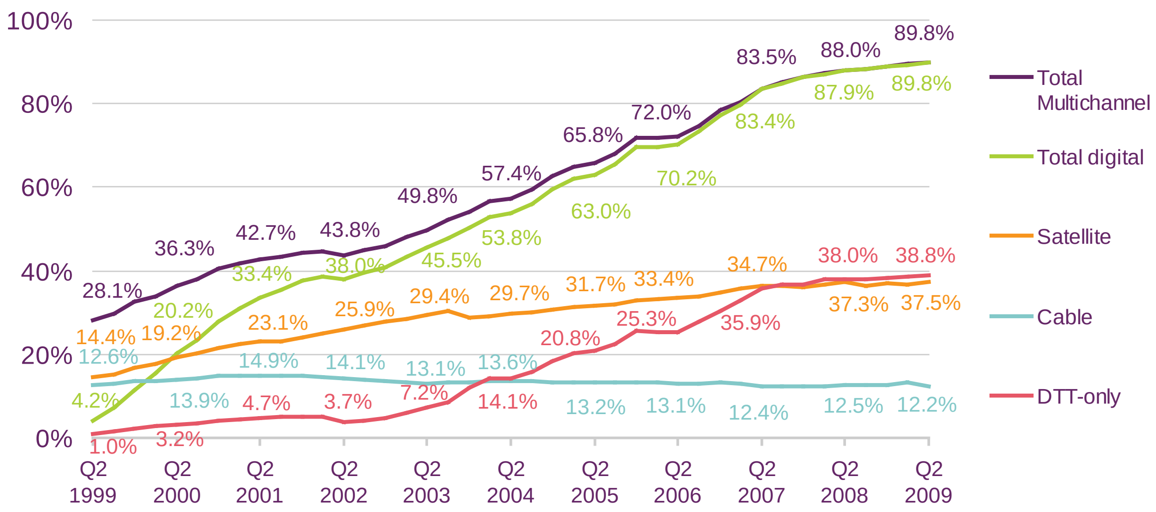


Source: GfK and Ofcom research

Note: Analogue terrestrial homes were estimated at 10.2%, (2.6m homes) by Q2 2009.
Smaller platform figures may fluctuate due to the smaller sample sizes and uneven patterns of take-up across the UK.
PP = percentage points, 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 the ten-year trend of TV platform take-up expressed as a proportion of all TV homes, (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 24.7pp to 38.8% of homes over this period. Satellite, the next most-used platform, has grown by 7.8pp over the past five years to 37.5%. The use of cable on primary sets has been more stable and was down by 0.4pp over a decade at 12.2%.

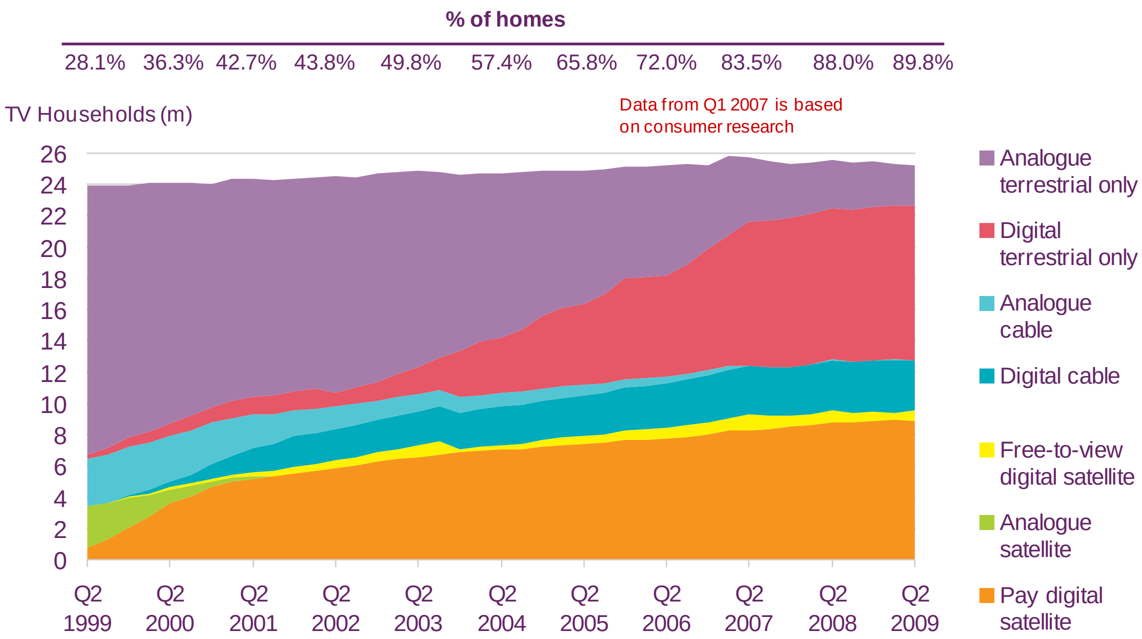
Figure 3: Multichannel take-up on main sets by platform 1999 - 2009



Source: GfK and Ofcom 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 receiving an analogue terrestrial service on main sets. It has fallen from around three-quarters of homes ten years ago to around one in ten by Q2 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

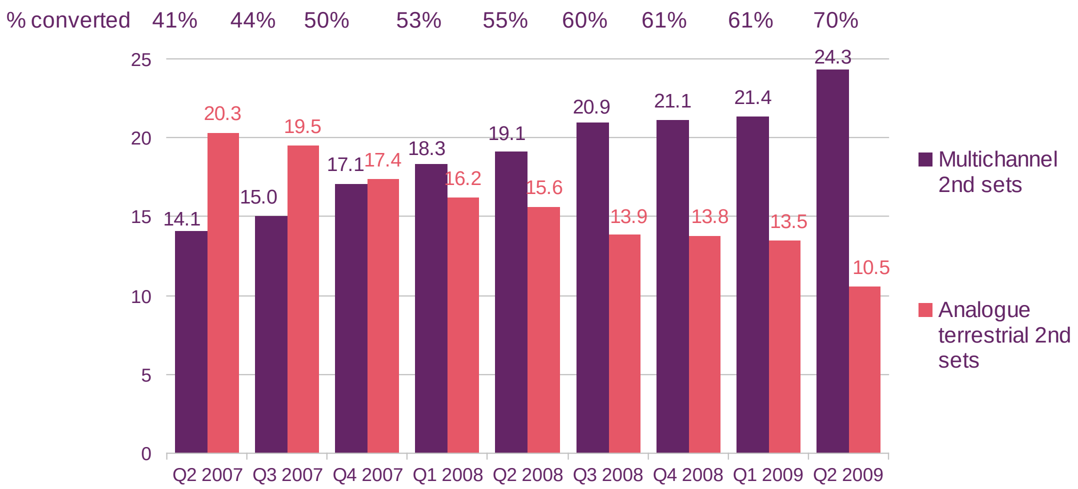


Source: GfK and Ofcom research from Q1 2007 onwards; previous quarters use platform operator data, research and Ofcom estimates
Note: TV over ADSL take-up stood at around 0.4% by Q2 2009

Digital progress on secondary sets

2.11 With the average home owning 2.4 TV sets, there are around 35 million secondary sets in the market. By Q2 2009 around 24.3 million (70%) 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 almost 3 million (8.5pp) in the quarter and by 5.2 million (14.8pp) on Q2 2008.

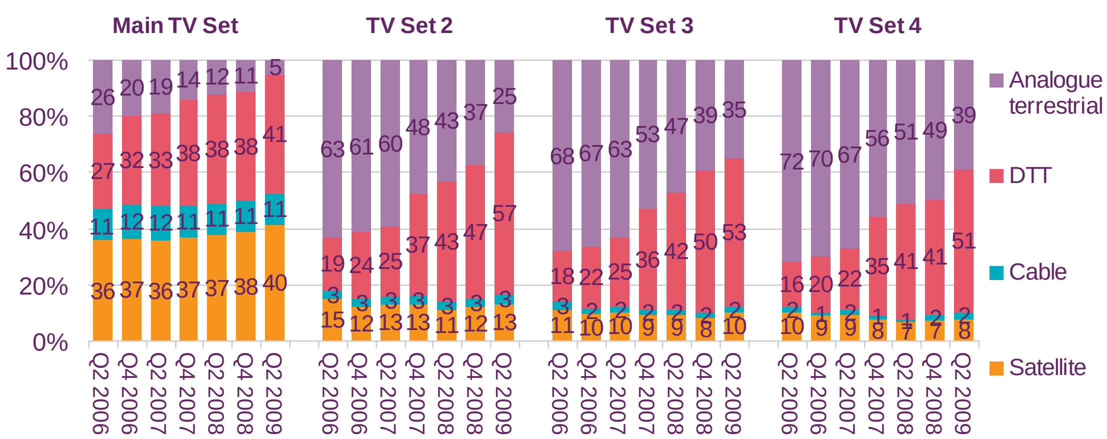
Figure 5: Total secondary digital sets across all platforms (millions)



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 from Q2 2009 shows that satellite (free and pay) and DTT attracted similar shares of main sets (with 40% and 41% respectively). On second, third and fourth sets, DTT was the most widely used platform with over half of secondary sets connected to a DTT device. By comparison, analogue terrestrial's share was 25% of second sets, 35% of third sets and 39% of fourth. Satellite (in the form of Sky Multiroom or free satellite services) was more commonly used on additional sets than cable (Figure 6).

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

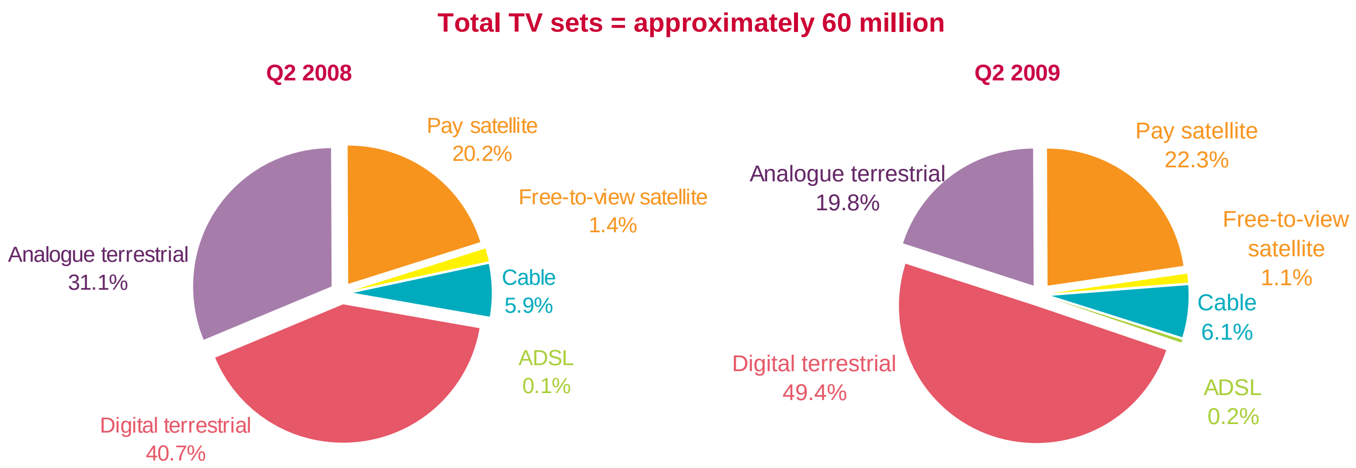


Source: GfK research
Note: Main set shares in this chart differ slightly from those in Figure 1 and Figure 3 because of a small element of overlap between cable and satellite

Digital progress on all sets

2.13 Of the total of 60 million television sets (main and secondary), 48.3 million (80.2%) had been converted to multichannel by Q2 2009, up by 6.9 million (11.3pp) over the year. Conversions during Q2 2009 stood at 4.2 million sets (7.1pp) (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 Q2 2009 included:

- Analogue terrestrial now accounts for just under a fifth of the total set universe at just under 20%, equivalent to around 11.9 million television sets. This was down by around 11.3pp from 31.1% of TV sets in a year and down 7.1pp from the previous quarter. Of the remaining analogue sets, around 2.6 million were main sets and 9.3 million were secondary (in a bedroom or kitchen, for example).

- The number of digital terrestrial sets has risen by around 5.3 million over the year to 29.7 million, equivalent to a 49.4% share of all sets in Q2 2009. This was up by 8.7pp from under 40.7% a year ago. Sales of IDTVs and DTT set-top boxes were up 15% compared to Q2 last year, with more DTT-enabled secondary sets than primary, 19.8 million versus 9.9 million respectively.

- Survey results indicate that almost a quarter (22.3%) of all television sets are now connected to a pay satellite service, up by 2.1pp 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 1.1% share of all sets by Q2 2009, up by 0.3pp on the previous quarter. The BBC / ITV *freesat* service has continued to grow over this period (see section 3 page 15).

- The number of cable sets increased over the year. There were around 3.7 million sets connected to cable by Q2 2009, equivalent to a 6.1% share of all sets, up slightly from 5.9% a year previously.

Summary of multichannel trends Q1 2008 – Q2 2009

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

	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
Multichannel take-up						
Cable	12.5%	12.5%	12.8%	12.8%	13.2%	12.2%
Satellite	36.6%	37.3%	36.6%	37.0%	36.8%	37.5%
DTT	37.9%	38.0%	38.1%	38.4%	38.5%	38.8%
Other platforms	1.3%	1.1%	1.4%	2.1%	2.3%	2.1%
Total multichannel 1	**87.2%**	**88.0%**	**88.2%**	**88.9%**	**89.6%**	**89.8%**
Pay TV take-up						
Cable	12.5%	12.5%	12.8%	12.8%	13.2%	12.2%
Pay satellite	33.7%	34.0%	34.2%	34.7%	34.8%	34.8%
Pay DTT	1.6%	1.3%	1.6%	1.5%	0.8%	1.2%
Other pay TV platforms	1.3%	1.1%	1.4%	2.1%	2.3%	2.1%
Total	**47.9%**	**48.0%**	**48.8%**	**49.5%**	**49.9%**	**49.6%**
Share of multichannel TV market						
Cable	14.3%	14.2%	14.5%	14.4%	14.7%	13.6%
Satellite	42.0%	42.4%	41.5%	41.6%	41.1%	41.8%
DTT	43.5%	43.2%	43.2%	43.2%	43.0%	43.2%
Other platforms	1.5%	1.3%	1.6%	2.4%	2.6%	2.3%
TV sets conversion						
Secondary sets converted	52.8%	55.0%	60.2%	60.5%	61.3%	69.8%
All TV sets converted	67.5%	68.9%	72.1%	72.3%	73.1%	80.2%

Source: GfK and Ofcom research

Note: Other platforms includes homes with pay TV services such as BT Vision and Tiscali. Top Up TV homes are included in DTT and pay DTT.
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.

Section 3

Platform quarterly results

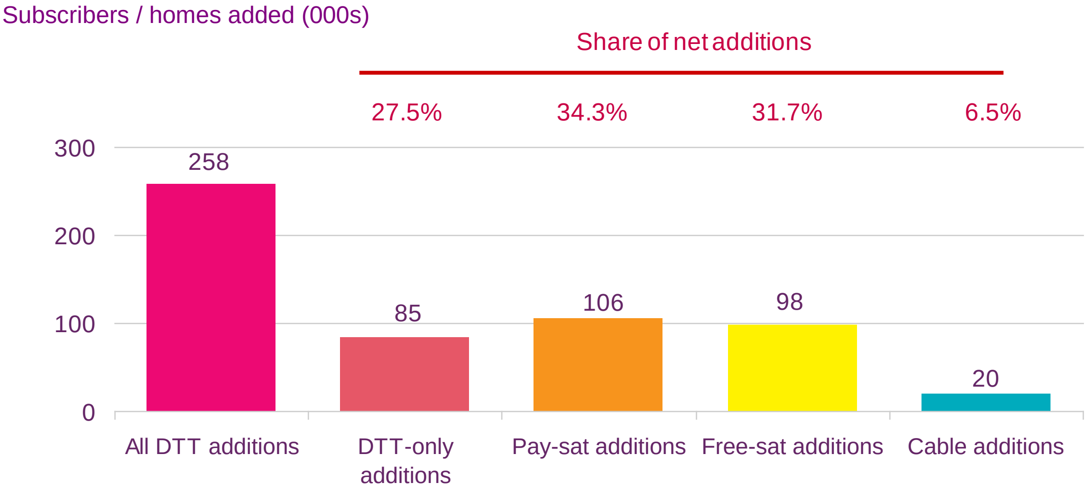
3.1 This section sets out the net homes added during the quarter. In the case of the DTT platform these are based on survey results. For the satellite and cable platforms they are based on figures reported by the main platform operators. The operator-based figures are included for information only and 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 sector, survey results suggested that homes using DTT on any set rose by 258,000 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 85,000 in Q2. Within the free satellite market, BBC / ITV *freesat* reported sales of around 98,000 during Q2.

3.3 BSkyB's Q2 results for the UK and the Republic of Ireland reported a net increase of 124,000 paying satellite subscribers. Based on the historical split of additions we estimate that approximately 106,000 of these were UK homes with the remainder added in the Republic of Ireland. Virgin Media results showed a net addition of almost 20,400 cable TV subscribers over the quarter and, with additional conversions from analogue, the increase in digital cable subscriptions stood at over 32,900 during Q2. (Note that the cable and satellite figures are likely to include an element of non-residential customers).

3.4 Based on these results the satellite platform showed the highest additions in Q2 with pay satellite additions equivalent to a 34% share of all net adds, followed by free satellite with almost 32%. DTT had a 28% share of Q2 adds with cable the remaining 7%. However, these figures should be regarded as indicative, as they draw on a range of different data sources (Figure 9).

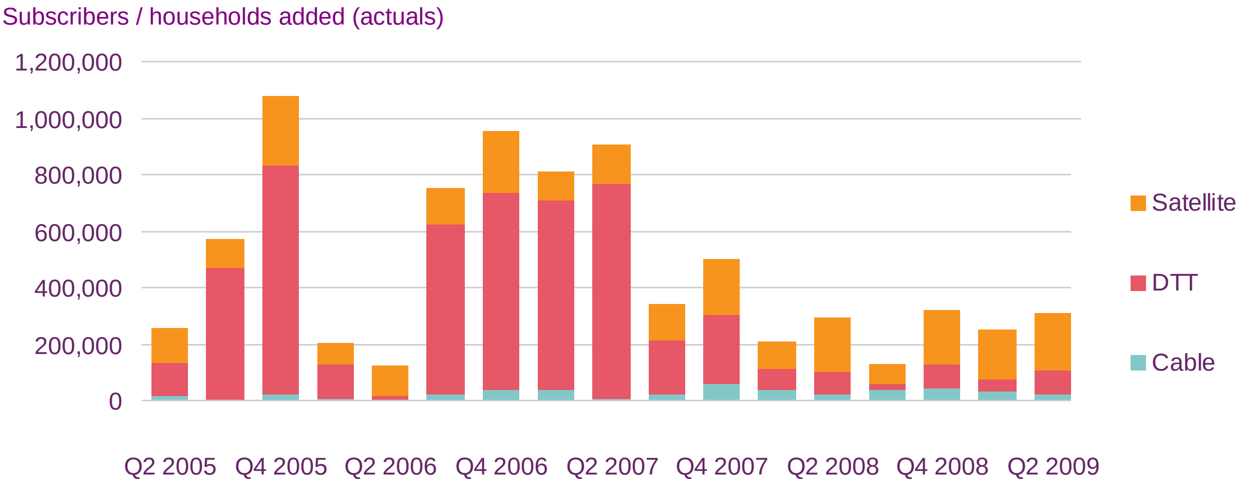
Figure 9: Net quarterly multichannel growth Q2 2009



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 digital television growth. However, with the majority of homes now having multichannel TV, the contribution of each of the three main platforms has levelled out. Satellite has added the most homes over the past year, but cable has also had an increased share of additions over the past two years as DTT take-up has reached maturity (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 Q2 2009 results*

Pay digital satellite – BSkyB	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
Pay-TV satellite subscribers	**8,980,000**	**9,067,000**	**9,238,000**	**9,318,000**	**9,442,000**
ARPU (annualised)**	£427	£430	£444	£452	£464
Churn	9.8%	10.9%	9.9%	10.6%	9.9%
Basic package price	£16.00	£17.00	£16.50	£16.50	£17.50
Sky Multiroom	1,604,000	1,655,000	1,723,000	1,769,000	1,835,000
Sky +	3,714,000	4,135,000	4,650,000	5,056,000	5,491,000
Sky HD	498,000	591,000	779,000	1,022,000	1,313,000

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 Q2 results reported a 124,000 increase in subscriptions to its television service, taking its total UK and Ireland subscriber base to 9,442,000, up 462,000 over the past year. Based on historic additions for the UK and Ireland we estimate that around 390,000 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 66,000 during Q2 to 1,835,000 (with 231,000 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 435,000 subscribers added in Q2. This took the total number of *Sky+* homes to approaching 5.5 million, 58% of its customer base.

3.9 The high-definition (HD) service added 291,000 subscribers in Q2. This was the highest number of HD additions of any quarter to date and took total HD subscribers to over 1.3 million, with 13.9% of all *Sky* subscribers now taking its HD services. By June 2009, 33 HD channels were available on this service, broadcasting 13,000 hours of HD content per month.

3.10 Annualised average revenue per user (ARPU) reached a new high of £464 in Q2, up by £12 on the previous quarter and by £37 year-on-year. By the end of Q2, 16% of Sky customers (1.5 million) took three services – TV, broadband and telephony. Churn – the proportion of subscribers ending contracts - fell in the quarter from 10.6% to 9.9%, similar to churn on the corresponding quarter in 2008.

Digital satellite - free-to-view households

Figure 12: Free-to-view satellite

Free-to-view digital satellite	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
Free-to-view satellite households	840,000	617,000	597,000	503,000	682,000

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.
- homes taking the *'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 142 digital TV and radio channels with no subscription. Standard-definition *freesat* digital box prices are available from around £55, High-definition boxes, providing access to HD services from the BBC and ITV, start at £67 and *freesat* + HD DVR receivers retail from around £249 (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 Q2 2009, survey results indicated that around 700,000 homes were using free satellite as their primary television platform. Free satellite survey results have fluctuated over the past year, possibly 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 450,000 units by the end of June 2009, up from 350,000 units in Q1 2009. HD receivers (rather than standard definition) accounted for 79% of sales by Q2.

Cable

Figure 13: Virgin Media Q2 2009 results

Cable – Virgin Media	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
Digital TV subscribers	3,353,500	3,407,900	3,469,000	3,510,400	3,543,300
Total TV subscribers	**3,538,800**	**3,576,500**	**3,621,000**	**3,651,600**	**3,672,000**
Total subscribers (TV, telephony, internet)	4,741,200	4,740,400	4,755,200	4,762,300	4,736,100
Homes passed and marketed	12,575,400	12,561,900	12,553,100	12,554,800	12,559,600
TV penetration rate *	28.0%	28.5%	28.8%	29.1%	29.2%
ARPU ** (annualised)	£500	£503	£508	£507	£519
Churn **	15.6%	18.0%	14.4%	13.2%	15.6%
Basic package price	£11.00	£11.00	£11.00	£11.00	£11.00
Virgin DVR (V+)	424,900	468,700	521,500	611,900	668,500

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 Q2 results included additions of 32,900 digital television subscribers, (following on from 41,400 additions in Q1 2009). After allowing for the migration of analogue subscribers to digital cable, 20,400 net cable TV homes were added in Q2.

3.15 Virgin Media has added 133,200 net new television homes over the past year, and now has over 3.67 million TV subscribers, the highest level of take-up for cable television to date. Virgin Media's digital video recorder (DVR) service *V+,* added 56,600 subscribers in Q2 to reach 668,500 in total, equivalent to over 18% of its TV subscriber base.

3.16 Virgin Media reported that over half (55%) of its digital customer base (1.9 million TV customers) was using its video-on-demand (VoD) service on a monthly basis in Q2. Average monthly VoD views per user were 32, up from 24 a year previously. Total VoD views reached 186 million in Q2, up from 165 million in Q1 2009.

3.17 Virgin announced the launch of six new HD channels on the cable platform in summer 2009, including HD services from Channel 4, ESPN, LIVING, FX, MTV and National Geographic. By August 2009 there was 300 hours of HD content on available the Virgin VoD service.

3.18 The number of Virgin Media customers taking three services or more reached a new high of 58% during Q2. Annualised ARPU also set a new record, up by £12 in the quarter to £519, this was up by almost £20 over the year.

Digital terrestrial television (DTT) equipment sales

Figure 14: DTT equipment quarterly sales

DTT quarterly sales (actuals)	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
Freeview set-top boxes	912,115	973,730	1,409,220	922,320	684,600
Integrated Digital Televisions (IDTV's)	1,417,500	1,575,630	3,059,700	2,453,325	2,004,694
Total sales	**2,329,615**	**2,549,360**	**4,468,920**	**3,375,645**	**2,689,294**
DTT DVR sales*	191,000	195,000	394,000	291,000	213,600

Source: Sales figures from GfK, as adjusted by Freeview. The 5% upwards adjustment represents Freeview's estimate of the number of DTT set-top boxes and IDTVs sold in Northern Ireland and offshore islands.

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

3.19 DTT equipment sales in Q2 2009 reached almost 2.7 million; this was up by 15% on the corresponding quarter last year. IDTVs accounted for almost three-quarters of these sales at just over 2.0 million, while the number of set-top-box sales reached around 685,000 in Q2.

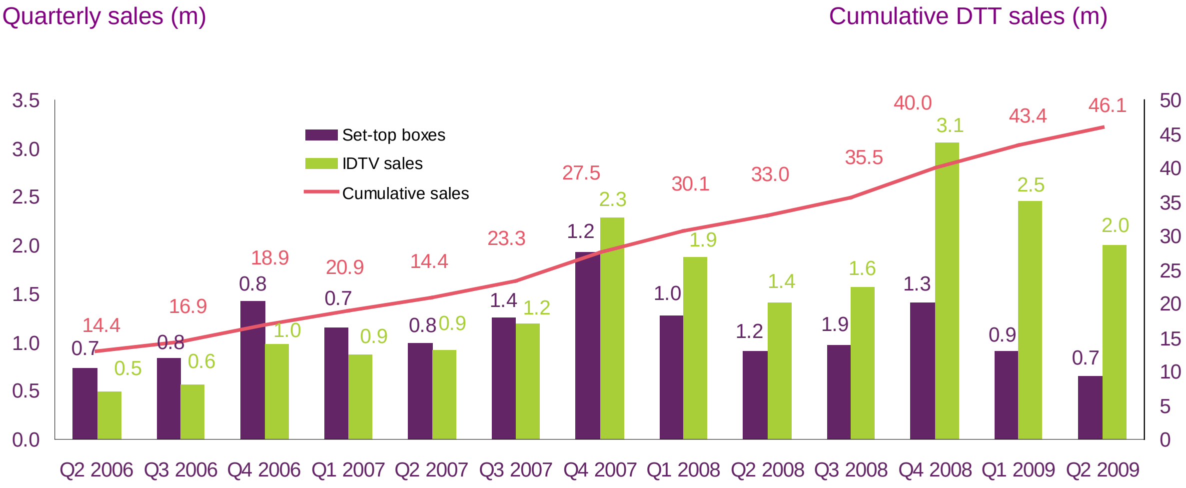
3.20 Year-on-year IDTV sales were up by almost 590,000, or 41%, taking total sales in the 12 months to the end of Q2 2009 to 9.0 million. This compared to 6.8 million in the previous year, an increase of 34%. During Q2, around 96% of all TV sets sold included a digital decoder.

3.21 Cumulative sales of set-top boxes reached 4.0 million in the year to Q2 2009, down 26% from 5.4 million in the previous year. This decrease might be partly explained by higher sales of integrated TVs and the increasing maturity of the DTT platform.

3.22 Cumulative sales of DTT DVRs (Digital Video Recorders) reached around 2.9 million by the end of Q2 2009, with almost 214,000 sales in the quarter. This represented almost a third (31%) of all DTT set-top-box sales, up from around one fifth (21%) a year ago.

3.23 Since Freeview's launch in October 2002, total sales of DTT devices have reached over 46 million units, comprising almost 22 million IDTVs and over 24 million DTT set-top boxes. IDTVs have outsold set-top-boxes sold since Q3 2007 and are likely to overtake the cumulative total of set-top-box sales this year (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 primarily motivated by the desire for an integrated DTT tuner, but often for other reasons such as bigger screens or high-definition capabilities.

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 used in the report 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. Over the past year survey results suggest an increase in the level of replacement DTT sales, as consumers upgrade older equipment.

DTT households and sets

Figure 16: DTT households and sets estimates

DTT sets and households (millions)	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
Total number of DTT enabled sets	24.4m	25.7m	25.9m	26.1m	29.7m
Total number of homes using DTT equipment	16.7m	17.2m	17.7m	18.0m	18.2m
Number of homes where DTT is the only digital platform	9.7m	9.7m	9.8m	9.8m	9.9m

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

3.27 DTT equipment was being used in 18.2 million homes by the end of Q2, when taking account of cable and satellite homes using DTT on secondary sets. This was an increase of around 258,000 homes on Q1 2009 and up by 1.6 million homes year on year. We estimate that DTT was the only digital platform in 9.9 million homes by the end of Q2. This was up by around 85,000 homes over the quarter and around 207,000 homes over the year.

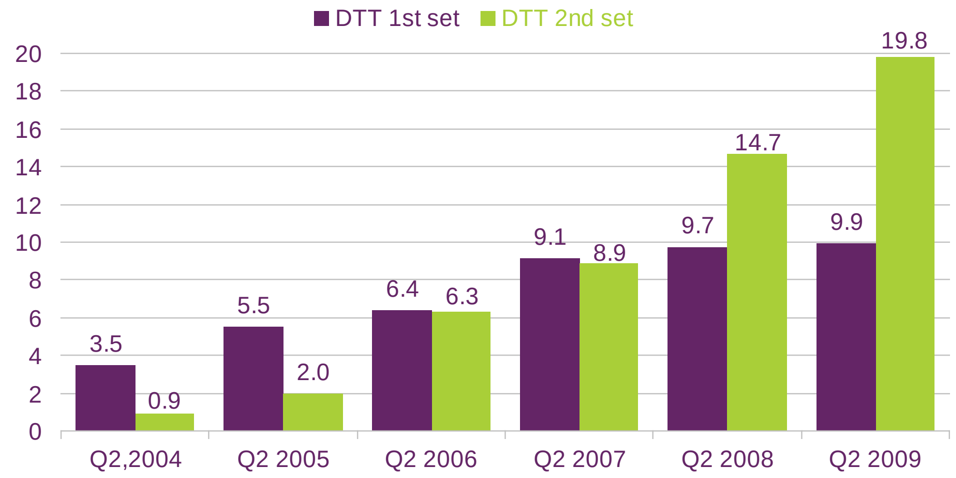
3.28 The Q2 GfK ownership survey estimated the total number of DTT-enabled TV sets at around 29.7 million; this was 3.6 million higher than the previous quarter and an increase of over 5.3 million in the year. Cumulative DTT sales of 13.0 million over the past year, (following on from 12.1 million the previous year), appear to be driving the conversion of TV sets from analogue terrestrial to digital terrestrial. Almost 50% of all TV sets were connected to a DTT device by Q2, compared to just under 20% still relying solely on analogue terrestrial for reception.

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 Q2 2009 there were 29.7 million DTT-enabled sets, of which 9.9 million were primary and almost 19.8 million were secondary sets. This means that 67% of DTT devices are now connected to secondary sets (Figure 17).

Figure 17: DTT on primary and secondary sets

(TV sets, millions)



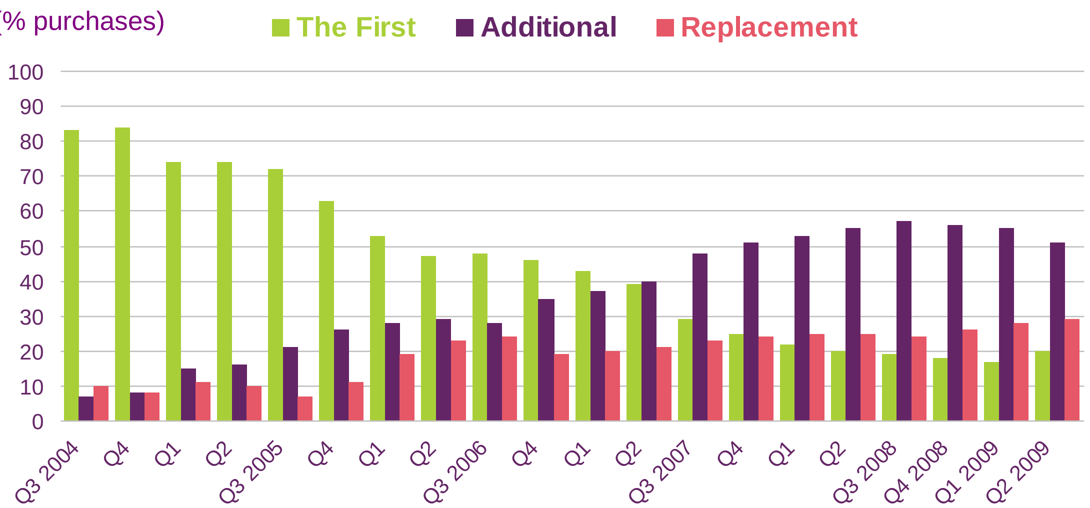
Source: GfK research

3.30 In a separate piece of research, GfK asked consumers who had bought DTT equipment during the quarter about their reasons for purchase. In 2004, a large majority (over 80%) of DTT sales were first-time DTT purchases. However, by Q2 2009, this had declined to around 20% (this also includes satellite and cable homes purchasing DTT for the first time). The remaining sales were intended for connection to additional / secondary sets (51%) or as a replacement for existing DTT equipment (29%). The number of replacement sales was therefore 9% higher than the ratio 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.