The Communications Market: Digital Progress Report

Digital TV, Q1 2006

This is the tenth of Ofcom's Digital Television Update quarterly reports. As far as possible, data are based on the latest figures provided by platform operators; however, in some instances market research estimates are required.

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Contents

Section 1

Overview

1.1 As at 31 March 2006 Ofcom estimates that 72.5% of UK households, could receive digital TV services, up from 69.5% at 31 December 2005.

1.2 At the same time 2.1% of households subscribed to television services via analogue cable, bringing the total receiving some form of multi-channel television to around 74.6%. Within these figures, the key developments in the first quarter of 2006 were:

- The number of households able to receive digital TV services rose by over 787,000 to over 18.2 million during Q1.
- Ofcom estimates that Digital Terrestrial Television (DTT) only households grew by 600,000 over the quarter. This means that digital terrestrial households exceeded analogue terrestrial only households for the first time. This growth was fuelled by 1.2 million sales of Freeview set top boxes and Integrated Digital Television sets (IDTVs), exceeding the 860,000 sales for the corresponding period in 2005.
- On satellite, the number of BSkyB UK subscribers increased by 26,000 to reach almost 7.7 million at the end of Q1 2006. When free-to-view satellite viewers are taken into account, the total number of satellite homes exceeds 8 million.
- The total number of subscribers to cable television increased slightly during the quarter and currently stands at just over 3.3 million. Analogue cable subscribers fell by 65,000 in the quarter whilst digital cable subscriptions increased by 70,000. Digital cable subscribers now account for almost 2.8 million of the total.
- Ofcom estimates that the number of households with Digital Terrestrial Television (DTT) as the only digital platform had grown to around 7.1 million by the end of March 2006. Whilst all homes using DTT equipment was estimated to be around 8.8 million.
- Latest estimates suggest there are also around 645,000 free-to-view digital satellite homes. This figure includes viewers who are using satellite equipment to receive the free-to-view channels.
- In total there are now over 7.7 million free-to-view digital households. (Freeview (DTT), plus free-to-view satellite).

1.3 In calculating the platform totals, DTT homes are defined as those households where DTT is the only digital TV platform. Therefore a household with satellite or cable on the main TV set and DTT on a second set, would be counted primarily as a satellite or cable home. Satellite and cable subscriber figures are already shown net of second receivers (e.g. a household with two Sky boxes is only recorded once).

Section 2

Platform figures Q1 2006

	Q4, 2005	Q1, 2006	Net additions	Growth rate
Pay TV digital subscribers				
Digital cable	2,723,171	2,793,771	70,600	2.6%
Digital satellite (BSkyB)[1]	7,666,000	7,692,000	26,000	0.3%
TV over ADSL[2]	40,000	48,545	8,545	21.4%
Total digital pay TV subscribers[3]	10,429,171	10,534,316	105,145	1.0%
Free-to-view digital households				
DTT (Freeview) only homes[4]	6,457,801	7,090,000	632,199	9.8%
Free-to-view digital satellite[5]	595,000	645,000	50,000	8.4%
Total Free-to-view households	7,052,801	7,735,000	682,199	9.7%
Total UK digital households	**17,481,972**	**18,269,316**	**787,344**	**4.5%**
Digital penetration	**69.5%**	**72.5%**	**3.0%***	
Other multi-channel households				
Analogue cable	595,654	530,554	-65,100	-10.9%
Multi-channel penetration	71.8%	74.6%	2.8%*	

* This figure represents the increase in percentage penetration not the % quarterly growth rate.

Percentages may not add due to rounding.

[1] BSkyB subscriber figures include commercial premises and also TV over ADSL households which subscribe to Sky packages. Double counting will therefore occur for TV over ADSL households subscribing to Sky packages.

[2] The Q1 figure for TV over ADSL includes Homechoice figures as released by the company in May 2006.

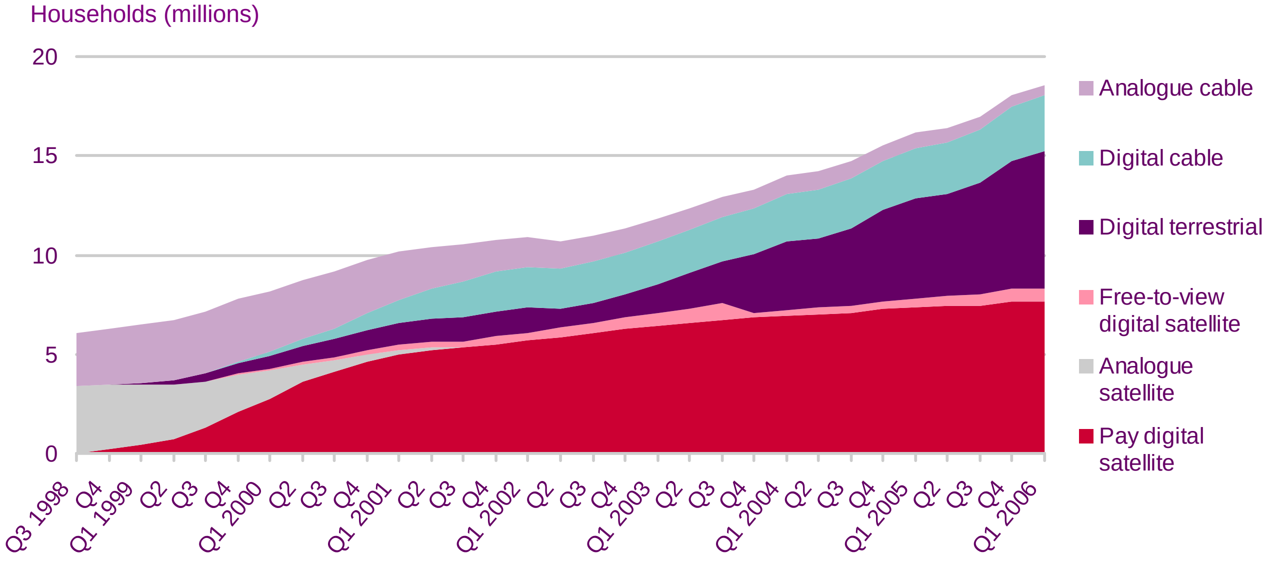
[3] Pay TV households do not include figures for Top Up TV, these figures are not in the public domain. Top Up TV subscribers are therefore counted in free-to-view digital terrestrial homes.

[4] Ofcom estimates the number of homes where DTT is the only digital platform. The total number of all homes using DTT is therefore higher.

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

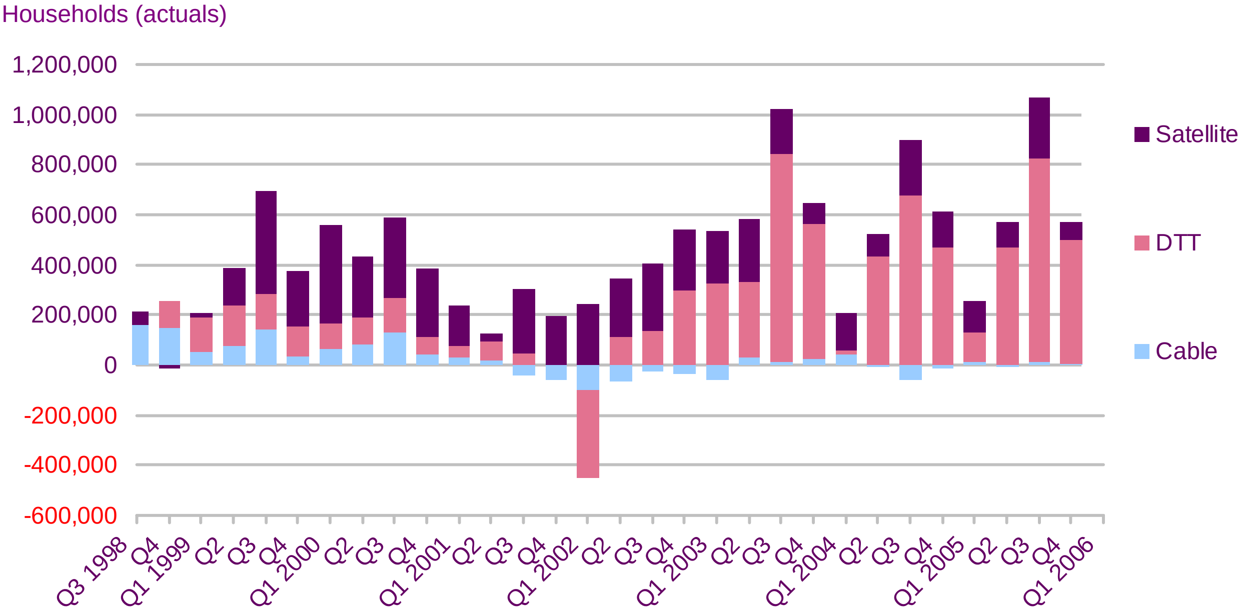
2.1 Overall digital penetration increased, by 3 percentage points, reaching 72.5% of UK households. Multichannel penetration in the UK is now around 74.6%.

Digital and multichannel penetration of UK households



2.2 The chart below shows the net additions for the main platforms from 1998 to 2006. Satellite and DTT have contributed the main increases in multichannel homes since 2002, with DTT gaining an increasing share of additions over this time.

Multichannel homes net additions by platform

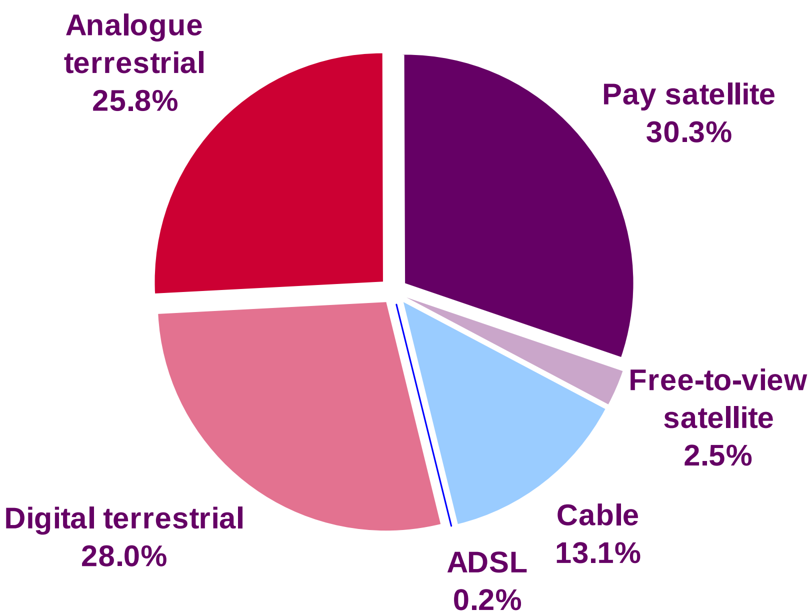


Q2 2002 shows the drop in DTT homes after the closure of the ITV digital service and before the launch of Freeview.

Market share of TV platforms on primary sets, 31 March 2006

2.3 The share of all TV platforms on the primary set in the home (both analogue and digital) at the end of Q1 2006 was:

Platform share of TV homes



This chart illustrates the viewing share of TV platforms on primary sets, there are an estimated 25.2 million TV homes in the UK.

- In Q1 2006 Digital Terrestrial homes overtook analogue terrestrial homes for the first time. This means that more homes receive Freeview than receive analogue terrestrial services on the primary set. (However, the overall number of analogue TV sets in UK homes is still larger than the number of digital TV sets, see chart 2.4 below).

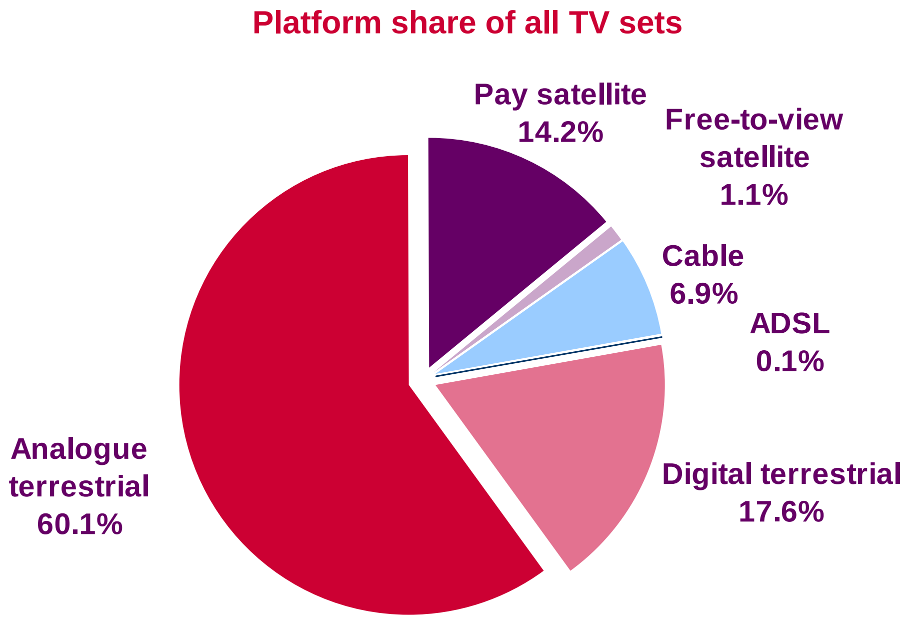
- Pay satellite is still the largest platform on primary sets with over 30% of homes in the UK subscribing through BSkyB. In addition, an estimated 2.5% of homes use satellite equipment to receive the free-to-view satellite channels.

- The main gainer on Q4's share was Digital Terrestrial, which was up by 2.3% on Q4 2005 to 28.0% by the end of Q1 2006. This gain was largely in analogue terrestrial homes, which were down by 2.4% in the quarter. This illustrates that most digital additions tend to be in analogue homes acquiring Freeview. The other main platforms, cable, ADSL and pay satellite maintained a similar share as in Q4 2005 following lower subscriber additions during Q1.

- Free-to-view Satellite was the other gainer in share during the quarter, up slightly by 0.1%. This increase could include homes acquiring free satellite equipment for the first time or viewers churning from BSkyB's pay services.

Market share of TV platforms on all TV sets, 31 March 2006

2.4 When we examine the universe of all TV sets (both analogue and digital), the market share of the platforms changes:



This chart illustrates the viewing share of platforms on all TV sets in the home. There are an estimated 61 million TV sets in use across all UK homes.

At the end of Q1 2006:

- Sets which receive analogue terrestrial TV account for more than half of all TV sets with a 60.1% share, (10.5% on primary sets and 49.6% on secondary sets).

- Digital terrestrial is the next biggest platform with a 17.6% share of all TV sets. Due to the increasing use of DTT equipment on secondary sets, DTT has a higher share than satellite across all TV sets, whilst satellite is still currently higher on primary sets.

- Pay satellite has a share of 14.2% of all TV sets. When adding free-to-view, satellite has a 15.3% share of all sets, making it the third largest platform.

- Cable currently has a share of around 6.9% of all TV sets making it the fourth largest platform. ADSL makes up the remaining 0.1% of sets.

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

	2004 Q3	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4	2006 Q1
Digital take-up							
Digital cable	10.1%	10.1%	10.2%	10.4%	10.6%	10.8%	11.1%
Digital satellite	30.0%	30.8%	31.3%	31.7%	32.1%	32.8%	33.1%
DTT	15.8%	18.5%	20.3%	20.8%	22.6%	25.7%	28.1%
ADSL*	0.05%	0.08%	0.08%	0.08%	0.15%	0.16%	0.19%
Total digital	**55.9%**	**59.4%**	**61.9%**	**63.0%**	**65.4%**	**69.5%**	**72.5%**
Analogue cable	3.5%	3.2%	3.0%	2.8%	2.6%	2.4%	2.1%
Total multichannel	59.4%	62.6%	64.9%	65.8%	68.0%	71.8%	74.6%
Pay TV take-up**							
Cable	13.6%	13.3%	13.2%	13.2%	13.2%	13.2%	13.2%
Pay digital satellite	28.6%	29.2%	29.5%	29.8%	29.9%	30.5%	30.5%
ADSL*	0.05%	0.08%	0.08%	0.08%	0.15%	0.16%	0.19%
Total	**42.2%**	**42.6%**	**42.8%**	**43.1%**	**43.2%**	**43.8%**	**43.9%**
Share of digital TV market							
Cable	18.1%	17.0%	16.5%	16.6%	16.2%	15.6%	15.3%
Digital satellite	53.6%	51.8%	50.6%	50.4%	49.0%	47.3%	45.6%
ADSL*	0.08%	0.13%	0.13%	0.13%	0..23%	0.23%	0.27%
DTT	28.2%	31.1%	32.8%	32.9%	34.5%	36.9%	38.8%
Share of multichannel TV market							
Cable	22.8%	21.2%	20.3%	20.1%	19.4%	18.4%	17.7%
Digital satellite	50.5%	49.1%	48.2%	48.2%	47.2%	45.7%	44.3%
DTT	26.6%	29.5%	31.3%	31.5%	33.2%	35.7%	37.7%
Share of net additions							
Cable	-1.0%	-6.7%	-2.2%	5.3%	0.0%	2.0%	0.8%
Digital satellite	17.8%	24.0%	24.0%	48.1%	17.2%	22.6%	10.5%
DTT	82.7%	75.0%	76.0%	46.7%	79.7%	75.2%	87.5%
ADSL*	0.5%	0.9%	0.0%	0.0%	3.1%	0.2%	1.2%

* ADSL figures for Q1 include Homechoice figures as released by the company in May 2006.

** 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.

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

Section 3

Update by platform

Digital satellite – pay TV households

	Pay digital satellite – Sky	
	Q4, 2005	**Q1, 2006**
Pay-TV households	**7,666,000***	**7,692,000***
ARPU (annualised)	£397	£392
Churn	10.6%	11.4%
Basic package price	£15.00	£15.00
Sky Multiroom	906,000	990,000
Sky+	1,281,000	1,430,000

Source: BSkyB Q1 2006 results

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

3.1 BSkyB's pay-TV subscriber base increased by 26,000 net additions during the quarter to reach 7,692,000 UK subscribers. This was a comparatively quiet quarter for new subscriber additions, in Q1 last year BSkyB had added 87,000. Q1 2006 also followed a substantial gain of subscribers in the previous quarter of 194,000 during Q4 2005.

3.2 Meanwhile the number of BSkyB subscribers taking the multiroom service which converts additional sets in the home to receive satellite, increased by 84,000 during Q1, to almost a million at 990,000.

3.3 BSkyB's PVR service Sky+ had another strong quarter of growth and added 149,000 new subscribers. There are now a total of 1,430,000 of homes using the Sky+ service.

3.4 Annualised average revenue per user (ARPU) for the quarter was down by £5 to £392 on the previous quarter. Churn increased during the quarter from 10.6% to 11.4%.

Digital satellite - free-to-view households

	Free-to-view digital satellite	
	Q4, 2005	**Q1, 2006**
Free-to-view households	595,000	645,000

Source: Ofcom market estimates, GfK research, BSkyB, Channel 4.

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

- The number of homes who have churned from BSkyB pay services but have retained their satellite equipment in order to continue to receive the free-to-view channels.
- BSkyB also offers its own non-subscription service 'Freesat'. For a one-off payment of £150 to cover the installation of satellite equipment, viewers can receive the free-to-view channels.
- There are also a number of homes which have obtained satellite receiving equipment either previously from BSkyB or from other retailers and have also acquired a viewing card which allows them to receive the free-to-view channels. Channel 4 operated a 'Solus' card scheme up until January 2004, this scheme was also previously operated by the BBC, under this scheme 145,000 viewers acquired viewing cards in order to access free satellite channels.
- By the end of Q1 2006 the total number of homes using satellite equipment to receive the free-to-view channels was estimated at around 645,000.

Cable

	NTL cable	
	Q4, 2005	**Q1, 2006**
Homes passed and marketed	12,652,800	12,656,700
Total residential subscribers (TV, telephony, internet)	4,958,000	4,983,800
Digital TV homes connected	**2,715,900**	**2,786,500**
Total TV homes connected	3,310,300	3,315,900
TV penetration rate	26.2%	26.2%
ARPU* (annualised)	£495	£498
Churn rate*	16.8%	15.6%
Basic package price	£16.50	£16.50

Source: NTL Q1 2006 results

The above figures are the combined results of the previous NTL and Telewest Broadband statistics.

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

3.6 The new combined NTL results showed the company adding 70,600 digital subscribers during Q1. Net additions stand at 5,600, as the digital increase was mainly as a result of analogue subscribers transferring to digital services.

3.7 The total number of UK cable households in Q1 was 3,324,325, when Wight Cable subscribers are included. Total digital cable subscribers now stand at 2,793,771; an increase of 2.6% on Q4 2005.

Digital Terrestrial Television (DTT) sales

3.8 Q1 saw over 1.2 million sales of DTT receivers and IDTVs, making Q1 the third successive quarter in which sales have exceeded the 1 million mark, (Q4 2005 and Q3 2005 saw sales of 1.9m and c.1.0m respectively). Q1 sales for 2006 were also up by 40% on last year's Q1 total of 850,000 sales.

Quarterly DTT sales	DTT sales Q4, 2005	DTT sales Q1, 2006
Freeview set top boxes	1,527,579	817,215
IDTVs	402,211	395,115
Total sales	**1,929,790**	**1,212,330**

Source: Q1 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 via Northern Ireland, offshore islands, staff sales and business to business, to allow for the sales details for which are not compiled by GfK.

3.9 In the three and half years since the launch of Freeview in October 2002, the total number of DTT units sold stands at over 11.7 million, this includes over 2 million TVs with integrated DTT units and over 9.5 million DTT set top boxes.

Total DTT sales*	DTT total Q4, 2005	DTT total Q1, 2006
Freeview set top boxes	8,742,280	9,559,495
IDTVs	1,813,310	2,208,425
Total digital terrestrial sales since launch of Freeview	**10,555,590**	**11,767,920**

Source: GfK. sales data, Freeview.

*Sales since the launch of the Freeview digital terrestrial platform in October 2002.

DTT households

3.10 Of the 1.2 million DTT sales in Q1, an estimated 38% are for use on secondary sets in the home. This figure has increased over time, indicating that more homes are now converting additional sets to digital TV.

3.11 These sales bring the total number of DTT enabled TV sets currently in use to almost 11 million. The total number of homes using DTT equipment is now estimated to be approaching 9 million.

3.12 After allowing for DTT homes which also use another digital platform such as satellite or cable, the Ofcom estimate for homes where Freeview is the only digital platform stands at 7.1 million.

DTT households	DTT households Q4, 2005	DTT households Q1, 2006
Total number of DTT enabled TV sets	9.8 million	10.9 million
Total number of homes using DTT equipment	8.0 million	8.8 million
Number of homes where DTT is the only digital platform	6.5 million	7.1 million

Source: Ofcom market estimates, GfK consumer research

3.13 Compared to the Q4 2005 homes estimate, DTT has added around 630,000 new digital households during Q1, representing an increase of 14% on the Q4 total.