The Communications Market: Digital Progress Report

Digital TV, Q3 2008

This is Ofcom's twentieth 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 September 2008 show that take-up of multichannel television on main sets in UK households has remained relatively stable over the quarter at 88.2%, up by 0.2 percentage points (pp) from 88.0% in Q2, and up by 3.1 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; **60% of all *secondary* TV sets had been converted to multichannel by the end of Q3, up by 5 percentage points on Q2.**

1.3 **Taking these figures together, the proportion of *all* TV sets converted to multichannel reached 72% in Q3 2008,** (up 3pp quarter-on-quarter), with the remaining 28% receiving analogue terrestrial broadcasts. Over the last twelve months, the proportion of multichannel sets has increased by 11 percentage points, up from 61% in Q3 2007.

Other findings

1.4 Other findings in the third quarter of 2008 include:

- Almost 2.5 million digital terrestrial television (DTT) devices were sold during the period, 4% more than in Q3 2007. Integrated digital television sets (IDTVs) accounted for almost 1.6 million units - up 33% on twelve months ago - while set-top boxes accounted for almost 0.9 million. Over the past year more than 11.8 million DTT units have been sold, compared to around 8.6 million in the previous year.

- DTT-only households accounted for almost a fifth of all growth in multichannel main sets in Q3, rising by around 22,000, with over 9.7 million homes now relying solely on DTT for multichannel viewing.

- Q3 sales data for BBC/ITV *freesat* show that unit sales had reached almost 108,000 by the end of September, (up from 39,000 units in Q2). According to consumer research results for Q3 around 600,000 homes claimed to be using some form of free-to-view digital satellite. This was down from the Q2 figure of over 800,000, but this is more likely a result of survey fluctuations arising due to the smaller sample size in this area.

- We estimate that over 9.3 million (36%) homes received satellite TV services (either pay or free-to-view) in Q3. Pay satellite homes accounted for almost 8.8m (93%) of these with free-to-view making up the remainder.

- Almost 41% of households (around 10.4 million) now have some form of free-to-view digital television, with 38.1% using DTT and 2.5% free-to-view satellite) on their main set.

- Cable was the primary viewing platform in 12.8% of homes in Q3 up by 0.3pp on Q2. Virgin Media reported net additions of almost 38,000 new subscribers taking their total subscriber base to approaching 3.6 million. Digital cable added over 54,000 subscribers in the quarter (including conversions from analogue cable) and now accounts for around 95% 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 Q3 2008

Figure 1: Platform take-up survey results

	Q2 2008	Q3 2008	Q2 2008	Q3 2008	Net additions	Growth rate
Digital pay TV homes	**Homes (millions)**	**Homes (millions)**	**% TV homes**	**% TV homes**	**Increase % points**	**% growth**
Digital Cable	3.2m	3.3m	12.4%	12.7%	0.3pp	2.4%
Pay Satellite 1	8.7m	8.8m	34.0%	34.2%	0.1pp	0.4%
DTT pay (Top-Up-TV)	0.3m	0.4m	1.3%	1.6%	0.3pp	26.7%
TV over ADSL 2	0.07m	0.08m	0.3%	0.3%	0.0pp	13.0%
Total digital pay TV homes	**12.3m**	**12.5m**	**48.0%**	**48.8%**	**0.8 pp**	**1.7%**
Free-to-view digital TV households						
DTT (Freeview) only homes (non pay) 3	9.4m	9.3m	36.7%	36.5%	-0.3pp	-0.7%
Free-to-view Satellite 4	0.8m	0.6m	3.3%	2.4%	-0.9pp	-26.5%
Total Free-to-view digital TV households	**10.2m**	**10.0m**	**40.0%**	**38.9%**	**-1.1pp**	**-2.8%**
Total digital TV homes	**22.5m**	**22.6m**	**87.9%**	**88.2%**	**0.2pp**	**0.3%**
Analogue Cable 5	0.02m	0.02m	0.1%	0.1%	0.0pp	-16.7%
Total multichannel TV homes	**22.5m**	**22.6m**	**88.0%**	**88.2%**	**0.2pp**	**0.2%**
Terrestrial TV homes						
Analogue Terrestrial 6	3.1m	3.0m	12.0%	11.8%	-0.2pp	-1.8%
All homes using DTT (Freeview) 7	16.7m	17.2m	65.1%	67.2%	2.1pp	3.2%

Source: GfK research

Note: The individual platform figures may not add up to the totals as figures in the table are rounded.

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 (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 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 million television sets in the UK, of which around 25.6 million are 'main' sets (which broadly equates to the most-watched set, one in each TV household) and 34.4 million are 'secondary' sets (in bedrooms, kitchens, etc).

2.2 According to consumer survey results, 22.6 million households (88.2%) had digital television on their main set in Q3 2008, up by approximately 59,000 (0.2pp) on Q2 2008.

2.3 DTT is still the most widely-used platform on main sets, accounting for around 9.7 million (38.1%) homes in Q3, up by over 400,000 (1.4pp) over the year. The number of homes using DTT on any set in the home reached 17.2m (67.2%) in Q3 2008, up by around 540,000 (2.0pp) on Q2 2008.

2.4 We estimated that more than 9.3 million (36.4%) of homes used satellite (free or pay) as their main means of receiving multichannel television in Q3, up by around 100,000 (0.1pp) on a year ago. Within these figures, pay satellite accounts for almost 8.8m homes with free satellite homes making up the remaining 600,000.

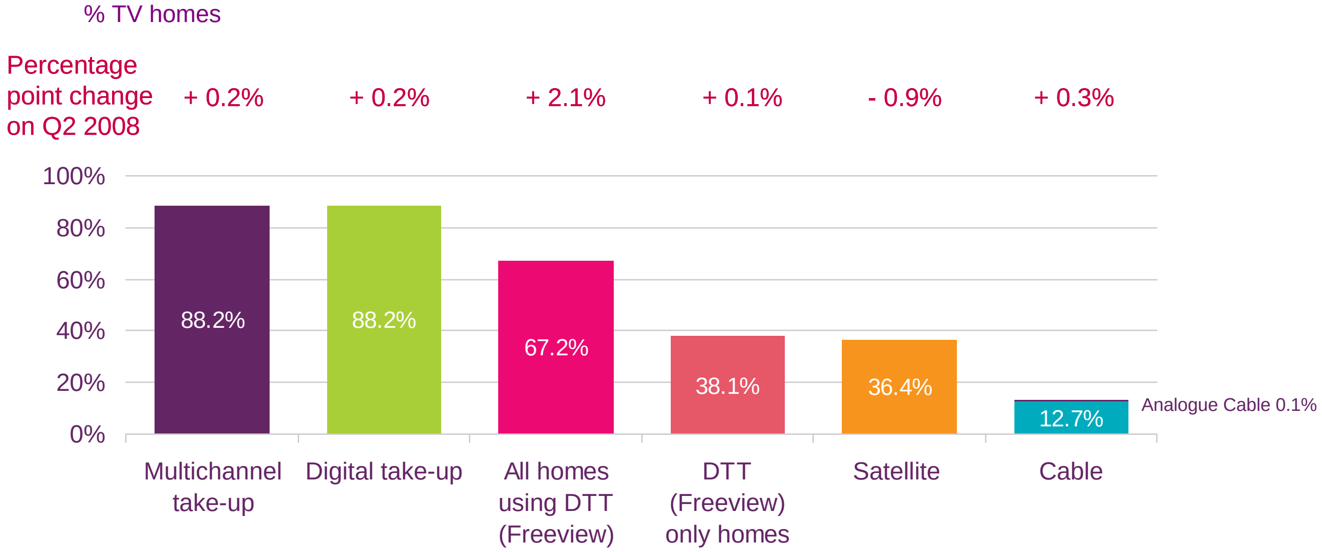
2.5 The number of homes using cable as their primary multichannel platform increased slightly to 3.3 million (12.8%) in Q3, with a small proportion of this total still receiving an analogue service. (This survey-based total is lower than Virgin Media's reported figure of over 3.6 million subscribers. This could partly be explained by the inclusion of some non-residential customers in the Virgin figures and also by an element of overlap with some homes having both satellite and cable television).

2.6 The number of TV homes relying solely on analogue terrestrial television for their primary set fell by almost 56,000 (-0.2pp) during Q3 2008 to 3.0m (11.8%) homes. This figure has fallen by 0.8 million (3.1pp) over the year.

2.7 Approximately 80,000 (0.3%) households claimed to be using an ADSL connection to receive digital television on the main set by Q3, up by around 10,000 on last quarter.

2.8 Figure 2 shows the take-up of multichannel television on main sets by platform in Q3 2008 and also the growth from Q2 2008 on a like-for-like basis. It also shows that over two thirds of households now have a DTT device on at least one set, reflecting the increasing conversion of secondary sets.

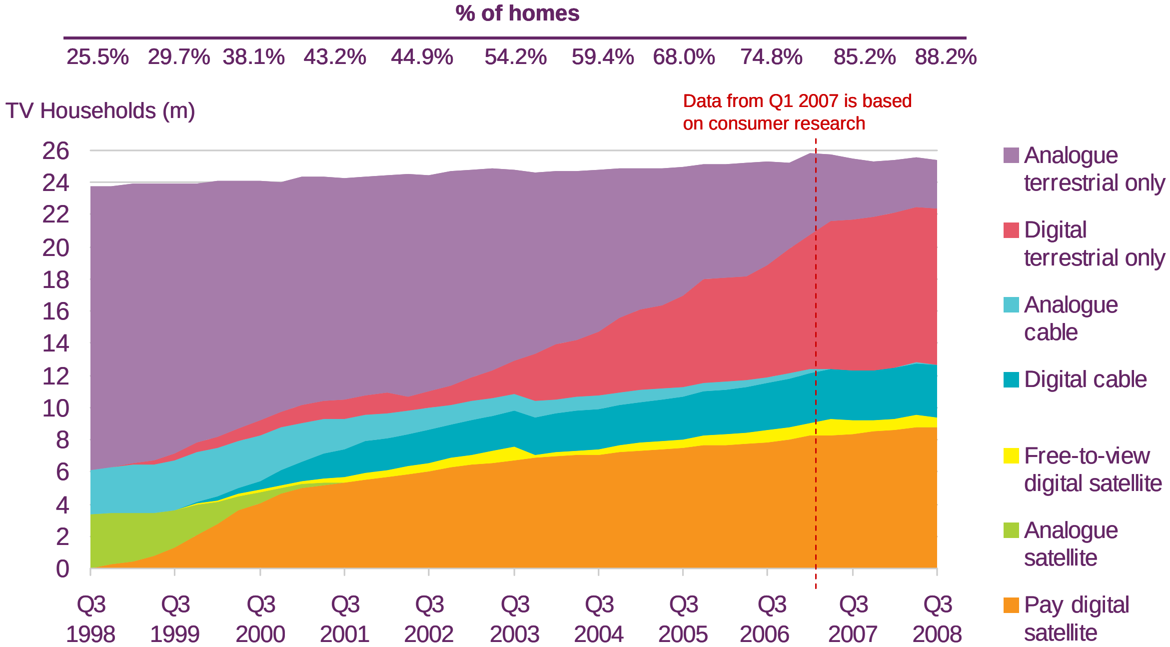
Figure 2: Multichannel take-up Q3 2008



Source: GfK research
Note: TV over ADSL take-up stands at around 0.3%

2.9 Figure 3 shows the year-on-year decline in the number of households using analogue terrestrial on main sets. This has fallen from around three quarters of homes ten years ago down to around one in ten by Q3 2008. Digital terrestrial and pay satellite have emerged as the two most common forms of receiving television on main sets over the past decade, with cable TV homes increasing more steadily over this time.

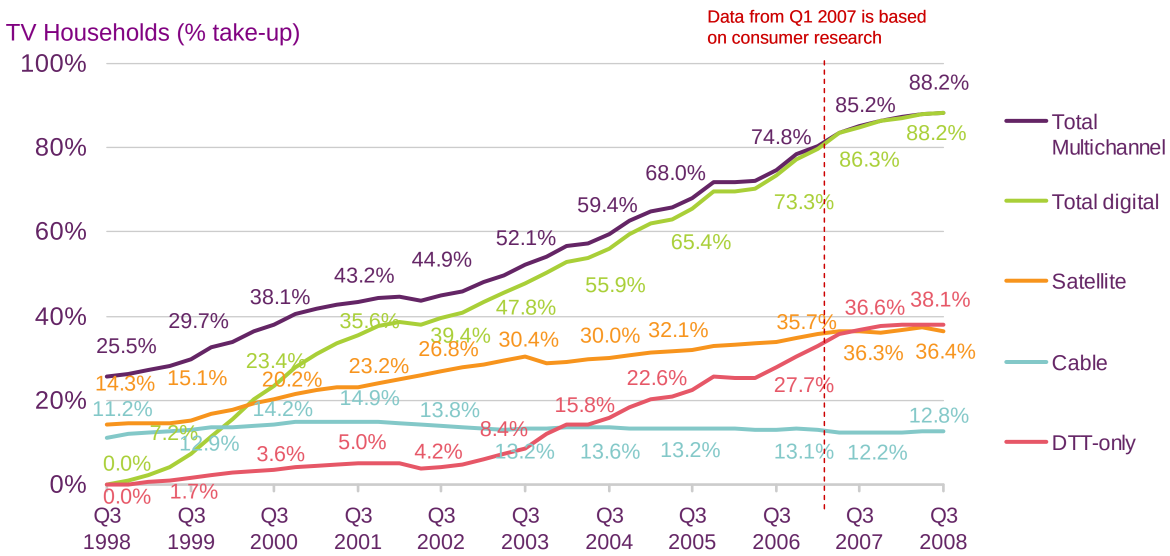
Figure 3: Multichannel take-up on main sets 1998 - 2008



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 0.3% by Q3 2008

2.10 Figure 4 shows homes take-up by platform in percentage terms, grouping analogue with digital cable, and free-to-view with pay satellite. It illustrates that DTT is still the most common main-set platform at 38.1%, just higher than satellite (pay and free-to-view) at 36.4%. Cable television (analogue and digital) is now on 12.8% of main sets, 1.0 percentage point higher than analogue terrestrial homes at 11.8%.

Figure 4: Multichannel take-up on main sets by platform 1998 - 2008

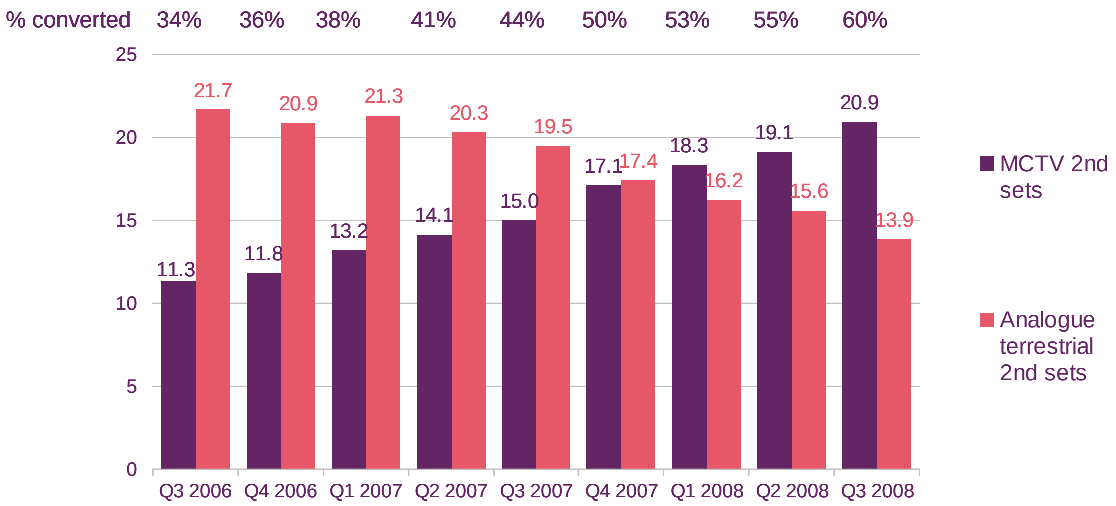


Source: GfK research from Q1 2007 onwards; previous quarters use platform operator data, research and Ofcom estimates. Note: TV over ADSL take-up is too low to appear on this chart

Digital progress on secondary sets

2.11 With the average home owning 2.4 TV sets, there are around 34 million secondary sets in the UK market. By Q3 2008 around 20.9 million (60%) of these had been converted to multichannel using either the Sky Multiroom service, a second cable box or a DTT reception device. This figure is up 1.8 million (5.2pp) on Q2 2008, and up 5.9 million (16.6pp) over the year.

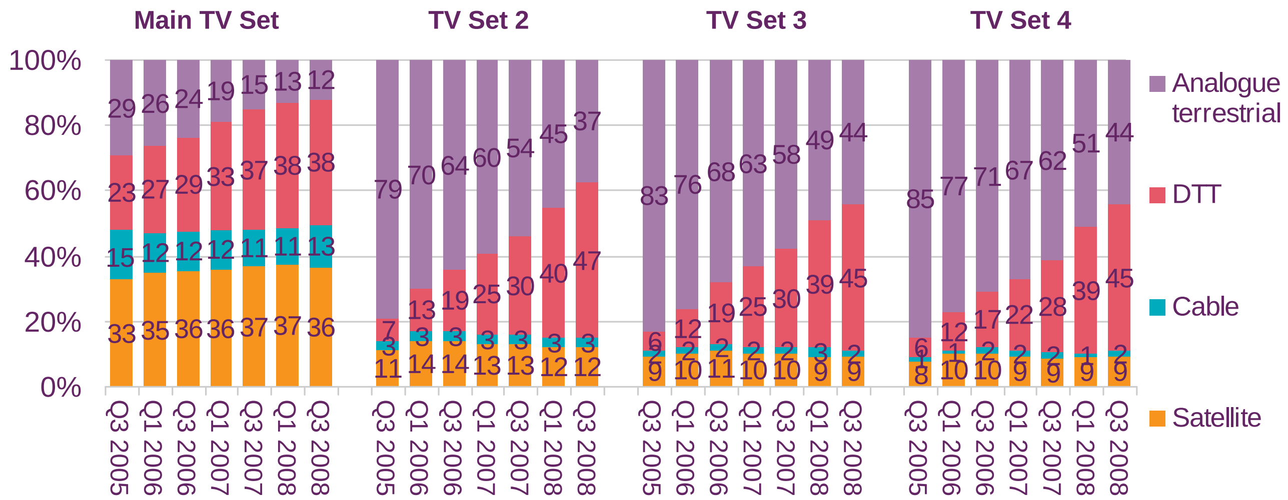
Figure 5: Total secondary digital sets across all platforms
(Secondary sets millions)



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

2.12 Our consumer research breaks down primary and secondary sets by platform. The latest survey shows that satellite (both free and pay) is currently the leading platform on main sets with a 40% share, closely followed by DTT with 37%. On second sets, DTT take-up is now 10 percentage points higher than analogue terrestrial, at 47% versus 37%. For the first time in this quarter, DTT is also the most commonly used platform for third and fourth sets, with 45% of sets connected to a DTT device compared to 44% for analogue terrestrial (Figure 6). Satellite (in the form of Sky Multiroom) is more commonly used on additional sets than cable.

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

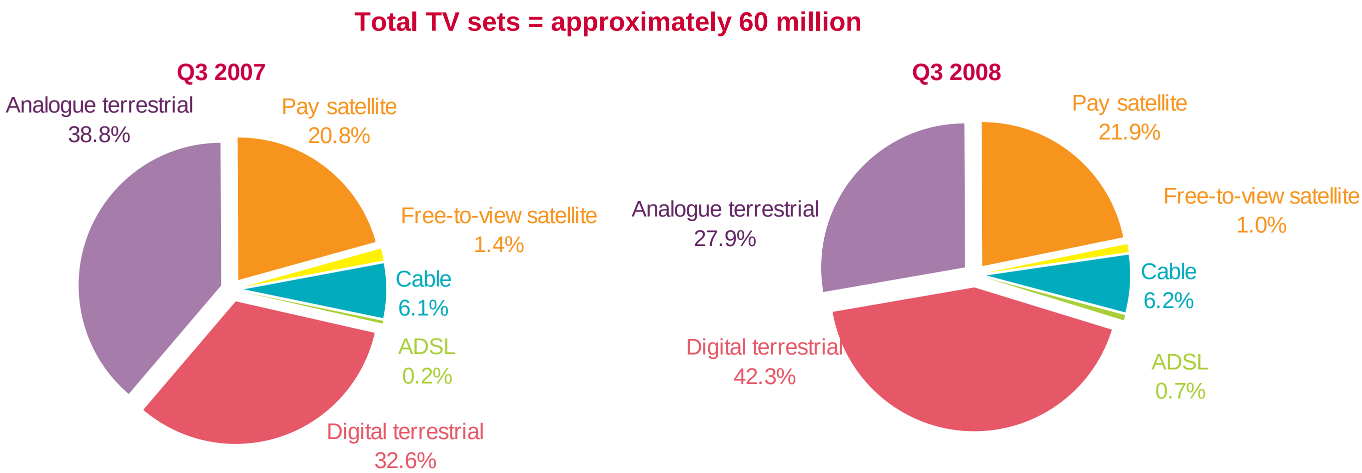


Source: GfK research
Note: Cable main set shares in this chart differ slightly from those in Figure 3 and Figure 5 because of a small element of overlap between cable and satellite

Digital progress on all sets

2.13 Of the 60 million television sets in the UK (main and secondary), around 43.3 million (72.1%) had been converted to multichannel by the end of Q3, up by almost 2.0 million sets (3.2pp) from the previous quarter, and up by around 6.9 million (10.9pp) over the year (Figure 7).

Figure 7: Platform shares among all TV sets



Source: GfK research for both Q3 2007 and Q3 2008
Note: figures may not add up to 100% owing to roundings.

2.14 Other all-sets headlines at the end of Q3 2008 included:

- Analogue terrestrial accounts for less than a third of the total set universe at around 28%, equivalent to around 16.8 million television sets. This was down from 31% of TV sets last quarter and from 39% a year ago. Of these, 3.0 million were main sets and 13.8 million were secondary (for example in a bedroom or kitchen).

- The number of digital terrestrial sets has risen by around 6.0 million over the year to 25.4 million, equivalent to a 42.3% share of all sets, up from 32.6% a year ago. Growth has been driven by continuingly strong sales of IDTV sets and DTT set-top boxes (up 4% on last year), in use on both primary and secondary sets.

- We estimate that around a fifth (21.9%) of all television sets are now connected to a pay satellite service. This represents an increase of around 1.1 percentage points on last year, following further additions for BSkyB main set subscriptions as well as on second sets via the multiroom service.

- The number of cable sets has 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 Q3 2008, equivalent to a 6.2% share.

Summary of multichannel trends Q2 2007 – Q3 2008

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

	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008
Multichannel take-up						
Cable	12.4%	12.2%	12.4%	12.5%	12.5%	12.8%
Satellite	36.4%	36.3%	36.1%	36.6%	37.3%	36.4%
DTT	35.9%	36.6%	37.6%	37.9%	38.0%	38.1%
ADSL	0.2%	0.1%	0.2%	0.2%	0.3%	0.3%
Total multichannel 1	**83.5%**	**85.2%**	**86.5%**	**87.2%**	**88.0%**	**88.2%**
Pay TV take-up						
Cable	12.4%	12.2%	12.4%	12.5%	12.5%	12.8%
Pay satellite	32.5%	32.9%	33.6%	33.7%	34.0%	34.2%
Pay DTT			1.5%	1.6%	1.3%	1.6%
ADSL	0.2%	0.1%	0.2%	0.2%	0.3%	0.3%
Total	**45.1%**	**45.2%**	**47.7%**	**47.9%**	**48.0%**	**48.8%**
Share of multichannel TV market						
Cable	14.7%	14.3%	14.4%	14.3%	14.2%	14.5%
Satellite	43.0%	42.6%	41.9%	42.1%	42.4%	41.3%
DTT	42.4%	43.0%	43.7%	43.6%	43.2%	43.1%
TV sets conversion						
Secondary sets converted	40.7%	43.2%	49.1%	52.8%	55.0%	60.2%
All TV sets converted	59.0%	61.1%	65.1%	67.5%	68.9%	72.1%

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

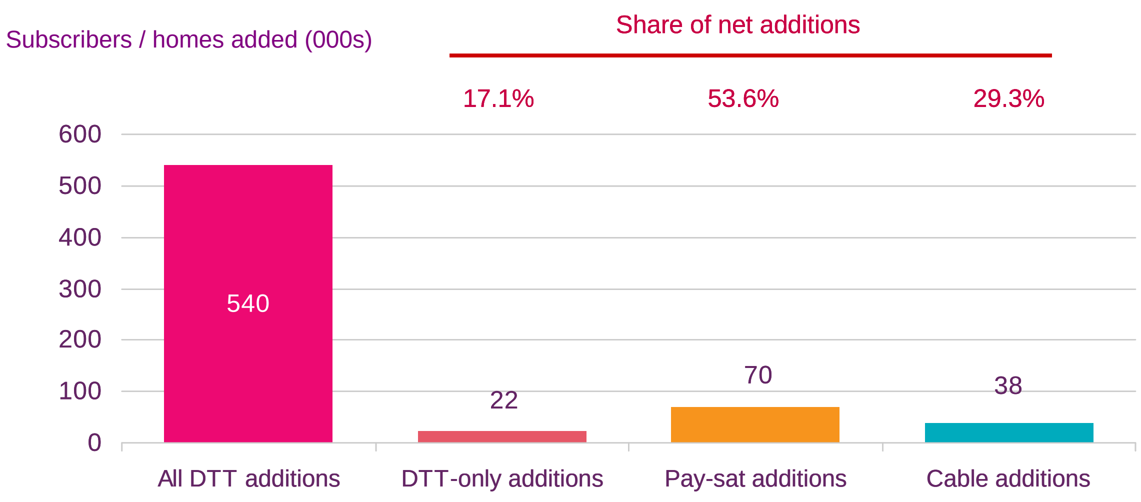
3.1 This section compiles the net homes added on DTT and free satellite using survey results along with the net subscriber additions reported by multichannel platform operators. The operator-based figures are included for information and to help give context to our research-based take-up figures; they do not, however, feed through into our calculations for multichannel take-up.

3.2 Within the free platform sector, survey results indicated an increase of around 540,000 homes using DTT on any set by the end of Q3. This total therefore includes satellite and cable homes now using DTT on a secondary set. The number of homes where DTT provided the only multichannel platform increased by 22,000 in Q3. The research result for free-to-view satellite homes showed a fall of around 200,000 during the quarter. However, this is more likely to be the result of survey fluctuations because of the smaller size of this sector rather than a material fall.

3.3 BSkyB Q3 results for the UK and the Republic of Ireland reported a net 87,000 satellite subscribers added. Based on the split of additions in the previous quarter we estimate that approximately 70,000 of these were for UK homes. Virgin Media results showed a net addition of almost 38,000 cable TV subscribers over the quarter and, with additional conversions from analogue, they reported an increase in digital cable subscriptions of over 54,000 during Q3. (The cable and satellite figures are likely to include a small element of non-residential customers).

3.4 Using these results as an indicator, pay satellite added the most homes in Q3 with a share of around 54% of net additions followed by cable with 30%, and DTT with around 17%. However, these figures should only be used as a general guide, as they draw on different sources (Figure 9).

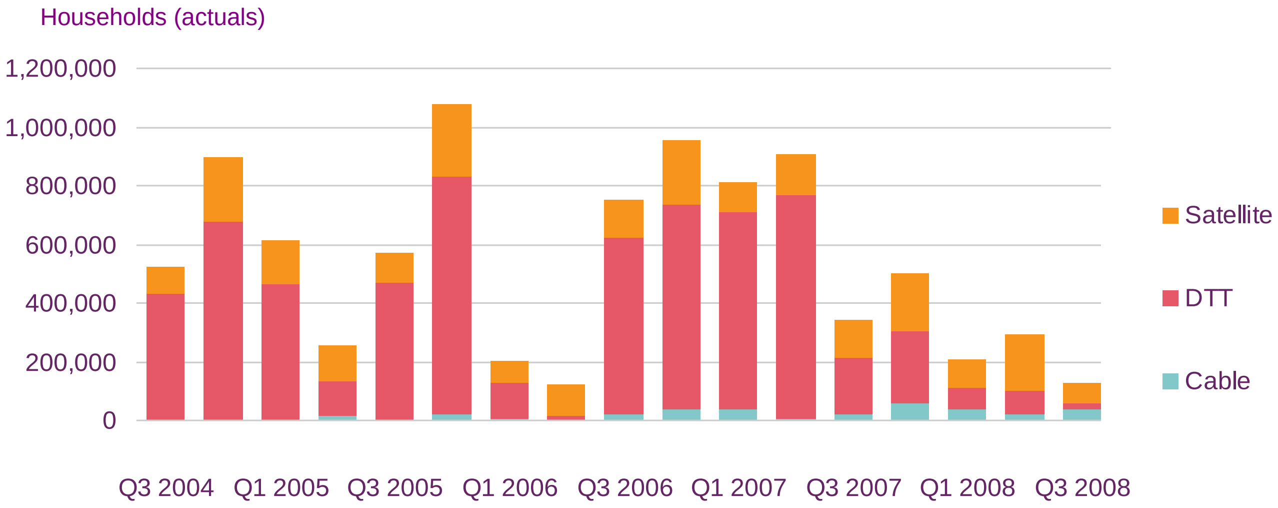
Figure 9: Net quarterly multichannel growth Q3 2008



Source: Pay platform additions based on Virgin Media reported results and Ofcom estimates based on BSkyB results. Free platform additions (DTT and free-to-view satellite) 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 in the home.

3.5 Looking over the longer term, we can see that DTT has been the main driver of multichannel growth for the past three years, ahead of satellite. However, the contribution of the three main platforms is starting to even out now that the majority of homes have multichannel TV, with cable playing a more prominent role over the past year (Figure 10).

Figure 10: Net quarterly multichannel additions



Source: Platform operator data (BSkyB and Virgin Media) for pay satellite and cable, GfK research for DTT and free satellite, Ofcom estimates for free satellite prior to Q1 2008

Digital satellite – pay households

Figure 11: BSkyB Q2 2008 and Q3 2008 results

Pay digital satellite – BSkyB	Q2 2008	Q3 2008
Pay-TV satellite subscribers	**8,980,000 ***	**9,067,000 ***
ARPU (annualised)	£427	£430
Churn	9.8%	10.9%
Basic package price	£16.00	£17.00
Sky Multiroom	1,604,000	1,655,000
Sky +	3,714,000	4,135,000
Sky HD	498,000	591,000

Source: BSkyB Q3 2008 results

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

3.6 BSkyB's Q3 results reported a 87,000 increase in subscriptions to its *Sky* television service, taking its total UK and Ireland subscriber base to 9,067,000, up by 402,000 over the past year. We estimate that around 330,000 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 51,000 during Q3 to 1,655,000 (with 244,000 additions over the past year). This means that 18% of *Sky* customers have at least one extra set connected 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 421,000 subscribers added in Q3. This took the total number of *Sky+* homes to over 4.1 million, or 46% of its customer base.

3.9 BSkyB's high-definition (HD) service added 93,000 subscribers. This was the highest number of additions of any quarter to date and took total HD subscribers to 591,000, or 6.5% of all *Sky* subscribers, by the end of Q3. This followed a reduction in price for the *Sky+* HD box from £249 to £150 in June 2008. A further 7 HD channels were launched by *Sky* in October, making a total of 26 channels now available on the platform.

3.10 Annualised average revenue per user (ARPU) reached a new high of £430 in Q3, up by £3 on the previous quarter and by £19 year-on-year. By the end of Q3, 12% of Sky customers were taking three services – TV, broadband and telephony. However churn increased in the quarter from 9.8% to 10.9%.

Digital satellite - free-to-view households

Figure 12: Free-to-view satellite

Free-to-view digital satellite	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008
Free-to-view satellite households	860,000	639,000	722,000	840,000	617,000

Source: GfK research

3.11 May 2008 saw the launch of the *freesat* service from ITV and the BBC, which is available to an estimated 98% of UK homes. This service currently provides access to over 140 free digital TV and radio channels with no subscription. Standard-definition *freesat* set-top box prices are available from around £49 while high-definition boxes, providing access to HD services from the BBC and ITV, start at £97. (Satellite dish installation costs a further £80 for homes with no existing satellite dish). More recently *freesat* launched a HD DVR receiver retailing from £299, and a range of *freesat* HD IDTVs are also now on the market.

3.12 This means that there are now four 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 £150 (or, more recently, their '*Sky Pay Once*' product which costs £75 for 4 months access to all free-to-view channels plus four of *Sky's* subscription mixes);
- homes taking the new *'freesat'* service offered by the BBC and ITV; and
- those which have obtained satellite-receiving equipment from retailers other than *Sky* or *freesat*.

3.13 By the end of Q3 2008, survey results indicated that around 600,000 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. This is demonstrated by the fact that the BBC/ITV *freesat* service reported growth during the period, with total retail sales reaching around 108,000 units by the end of September, up from 39,000 units in Q2. Around 68% of sales so far (73,000 units) have been HD-enabled receivers.

Cable

Figure 13: Virgin Media Q2 2008 and Q3 2008 results

Cable – Virgin Media	Q2 2008	Q3 2008
Digital TV subscribers	3,353,500	3,407,900
Total TV subscribers	**3,538,800**	**3,576,500**
Total subscribers (TV, telephony, internet)	4,741,200	4,740,400
Homes passed and marketed	12,575,400	12,561,900
TV penetration rate *	28.0%	28.5%
ARPU ** (annualised)	£500	£503
Churn **	15.6%	18.0%
Basic package price	£11.00	£11.00
Virgin DVR (V+)	424,900	468,700

Source: Virgin Media Q3 2008 results

* 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.

3.14 Virgin Media's Q3 results showed additions of 54,400 digital television subscribers. After allowing for the migration of analogue subscribers to digital cable, 37,700 net cable TV homes were added in Q3.

3.15 Virgin Media has added almost 160,000 net new television homes over the past year, and now has approaching 3.6 million subscribers. This is the highest level of take-up for cable television since Q4 2001. Virgin Media's digital video recorder (DVR) service *V+,* added 43,800 subscribers in Q3 to reach 468,700 in total, equivalent to 13% of Virgin Media's TV subscriber base.

3.16 Virgin Media reported that almost half (49%) of its customer base, (equivalent to approximately 1.7 million TV customers), were using its Video on Demand (VoD) service on a monthly basis by Q3. Average monthly VoD views per user were up to 27 from 17 a year previously. Total VoD views reached 45 million per month in Q3, up 17% on Q1 and 95% on a year ago.

3.17 Virgin Media also announced during the quarter that it had come to an agreement with BSkyB to carry the *Sky* basic channels on its cable platform. These channels, including *Sky1,2,3, Sky News* and *Sky Sports News* as well as the *Sky Arts* and *Sky Real Lives*, were available on the cable platform by November 2008. Virgin Media launched the *BBC iPlayer* as part of its VoD service during Q2, providing access to BBC archive programming. The new service achieved 10.5m views in June 2008, this had increased to 11.7m views in the month of September 2008.

Digital terrestrial television (DTT) equipment sales

Figure 14: DTT equipment quarterly sales

DTT quarterly sales (actuals)	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008
Freeview set-top boxes	1,170,855	1,775,130	1,151,955	836,115	884,730
Integrated Digital Televisions (IDTV's)	1,187,130	2,286,900	1,879,605	1,417,500	1,575,630
Total sales	**2,357,985**	**4,062,030**	**3,031,560**	**2,253,615**	**2,460,360**
DTT PVR sales	91,300	190,000	130,000	115,000	106,000

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

* 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.

3.18 DTT equipment sales in Q3 2008 reached almost 2.5 million; this was up by over 4% on the corresponding quarter last year. IDTVs made up almost two thirds of DTT sales in Q3 2008 with almost 1.6 million sold, compared to 0.9m set-top-boxes (or other DTT devices).

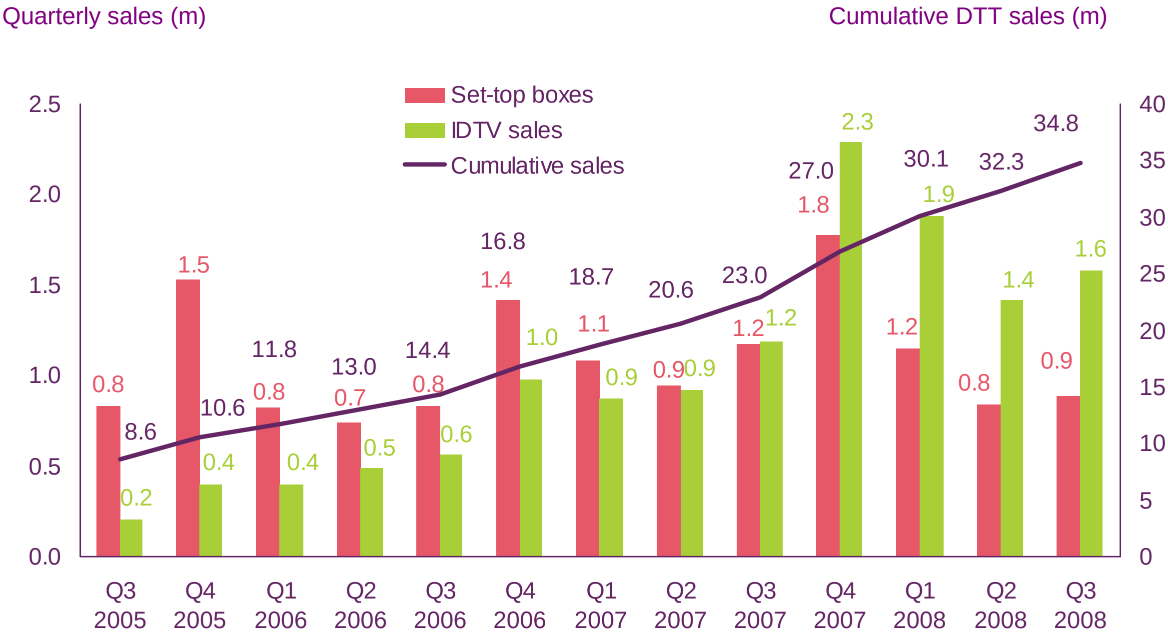
3.19 IDTV sales were up by almost 400,000 or 33% on the 1.2m sold a year ago. Total sales in the last 12 months reached almost 7.2m, compared to 4.0m in the preceding year. During Q3 over 77% of all TV sets sold were digitally-enabled.

3.20 Set-top box sales totalled almost 0.9 million in Q3 2008, down by around 24% on Q3 last year when 1.2m were sold. This is probably partly due to the growing sales of sets which include an integrated receiver, as well as the increasing adoption of DTT generally. In the past year over 4.6 million Freeview set-top boxes have been sold, slightly higher than the previous year when around 4.6 million were also sold.

3.21 Cumulative sales of DTT DVRs (Digital Video Recorders) reached around 1.1 million by Q3 2008, with 106,000 sales in Q3 2008 following on from 115,000 sales in Q2. This was equivalent to around 12% of DTT set-top-box sales in Q3 2008, up from around 8% of sales a year ago.

3.22 Since Freeview's launch in October 2002 total sales of DTT devices have almost reached 34.8 million units, comprising 14.4 million IDTVs and 20.4 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

3.23 An important '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.

3.24 As a result, in some cases IDTVs are 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. GfK's survey takes account of this effect by distinguishing homes where DTT is the sole digital platform from those where it is an additional platform.

3.25 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, which leads to a significant divergence between DTT sales and the number of homes converted to DTT. Q3 again saw an increase in the level of additional or replacement DTT sales.

DTT households and DTT equipment sales

Figure 16: DTT households and sets estimates

DTT sets and households (millions)	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008
Total number of DTT enabled sets	19.4m	22.0m	23.4m	24.4m	25.7m
Total number of homes using DTT equipment	14.0m	15.3m	16.1m	16.7m	17.2m
Number of homes where DTT is the only digital platform	9.3m	9.6m	9.6m	9.7m	9.7m

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

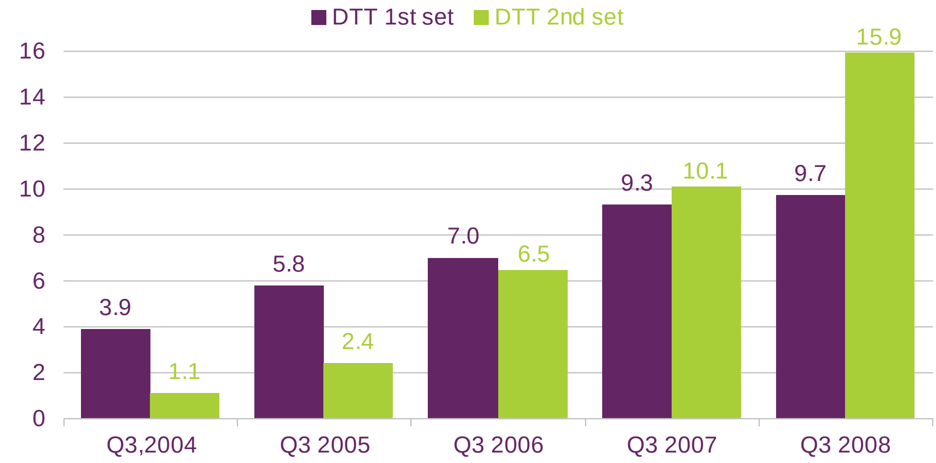
3.26 The Q3 GfK ownership survey estimated the total number of DTT-enabled TV sets at around 25.7 million, an increase of around 1.3 million sets in the quarter and almost 6.3 million over the year. After allowing for DTT homes which also use another digital platform, such as satellite or cable, the estimate for homes where DTT is the only digital platform remained at over 9.7 million at the end of Q3, up by around 22,000 homes over the quarter and around 420,000 homes over the year.

3.27 DTT equipment was being used in around 17.2 million homes in total by the end of Q3, when including cable and satellite homes using DTT on secondary sets. This was an increase of around 540,000 homes on Q2 2008 and an increase of around 3.2 million homes year-on-year.

DTT growth on primary and secondary sets

3.28 The number of DTT devices used on secondary sets overtook the number used on primary sets a year previously in Q3 2007. By Q3 2008 there were 25.7 million DTT-enabled sets, of which 9.7 million were primary and 15.9 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)



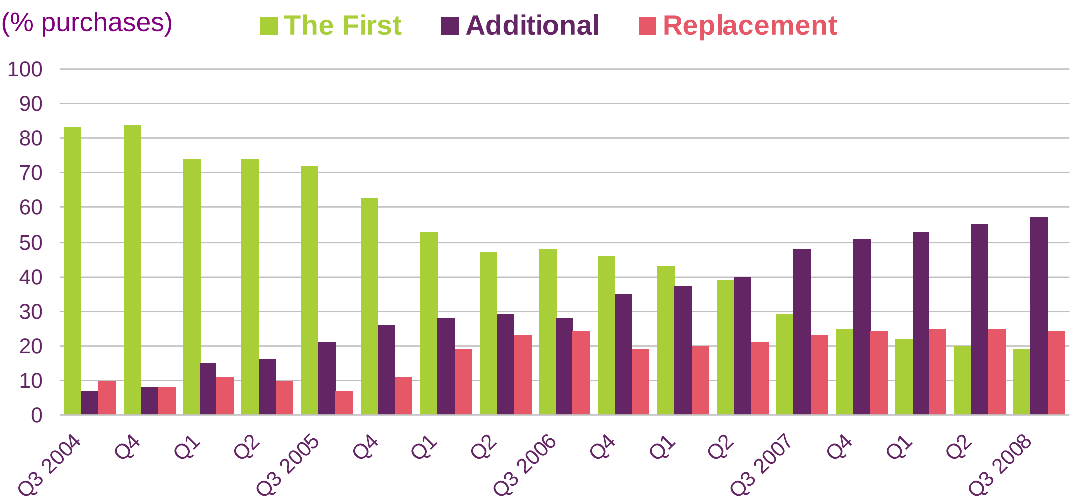
Source: GfK research

3.29 In a separate piece of GfK research, consumers who have bought DTT equipment during the quarter are questioned on their reasons for purchase. In 2004, a large majority (over 80%) of DTT sales were first-time DTT purchases. However, by Q3 2008, this had declined to just 19%, (this also includes satellite and cable homes purchasing DTT for the first time). The remaining sales were intended for connection to additional sets (57%) or as a replacement for existing DTT equipment (24%). The number of replacement sales is therefore now 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.