Digital Television Update

Q4 2004

This is the fifth of Ofcom's Digital Television Update quarterly reports. As far as possible, data is based upon the latest figures provided by platform operators; however, it is also necessary to rely on some estimated figures.

Publication date: 30 March 2005

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Section 1

Executive summary

By 31 December 2004 digital TV penetration was estimated to have reached almost 60% of UK households, at 59.4%, up from 55.9% at 30 September 2004.

In addition 3.2% of households were subscribing to analogue cable, bringing the total receiving some form of multi-channel television to just over 62.6%. Within these total figures, the key developments were:

The total number of digital television households grew by 914,980 over the quarter, increasing digital penetration by 3.5 percentage points.

BSkyB's subscriber numbers increased by 177,000 to reach 7,262,000 in the UK at the end of Q4 2004.

Freeview (Digital Terrestrial Television) saw a very strong increase, with household numbers estimated to have grown to around 4,592,920 in the same period.

Latest estimates suggest there are also around 385,000 free-to-view digital satellite homes. This figure includes viewers who are no longer Sky subscribers but still receive the public service channels through their set-top box. Also included in this figure are the "Solus" viewers who are able to receive the public service channels through this scheme.

In total there are now almost 5 million free-to-view digital households. (Freeview (DTT), plus free to view satellite).

The total number of subscribers to cable television remained around 3.3 million. Digital cable accounts for just over 2.5 million of the total, with 11,500 additions in Q4.

An adjustment has been made to account for the number of households which have digital on more than one set. Latest estimates suggest that 25% of sales of Freeview adapters in the last quarter were bought for use on second sets by people who already have digital (either Freeview, Sky or cable) on their main set. Sky and cable subscriber figures already account for multi-set users.

Section 2

Digital television uptake

Platform figures for Q3 2004 and Q4 2004

	Q3, 2004	Q4, 2004	Quarterly growth rate
Pay TV digital subscribers			
Digital cable	2,502,451	2,513,961	0.5%
Digital Satellite (Sky)	7,085,000	7,262,000	2.5%
TV over ADSL*	11,530	20,000	73.5%
Total digital pay TV households**	9,598,981	9,795,961	2.1%
Free-to-view digital households			
Free-to-view DTT (Freeview) homes	3,914,920	4,592,920	17.3%
Free-to-view digital satellite***	345,000	385,000	11.6%
Total Free-to-view homes	4,259,920	4,977,920	16.9%
Total UK digital households	**13,858,901**	**14,773,881**	**6.6%**
Digital penetration	**55.9%**	**59.4%**	**3.5%~**
Additional homes receiving analogue multi-channel services			
Analogue cable	860,193	787,732	-8.4%
Multi-channel penetration	59.4%	62.6%	3.2%~

* TV over ADSL figures are Ofcom market estimates.

** Pay TV households does not include figures for TopUpTV due to Q4 figures not being in the public domain. In terms of digital households, TopUpTV subscribers will be accounted for under digital terrestrial homes.

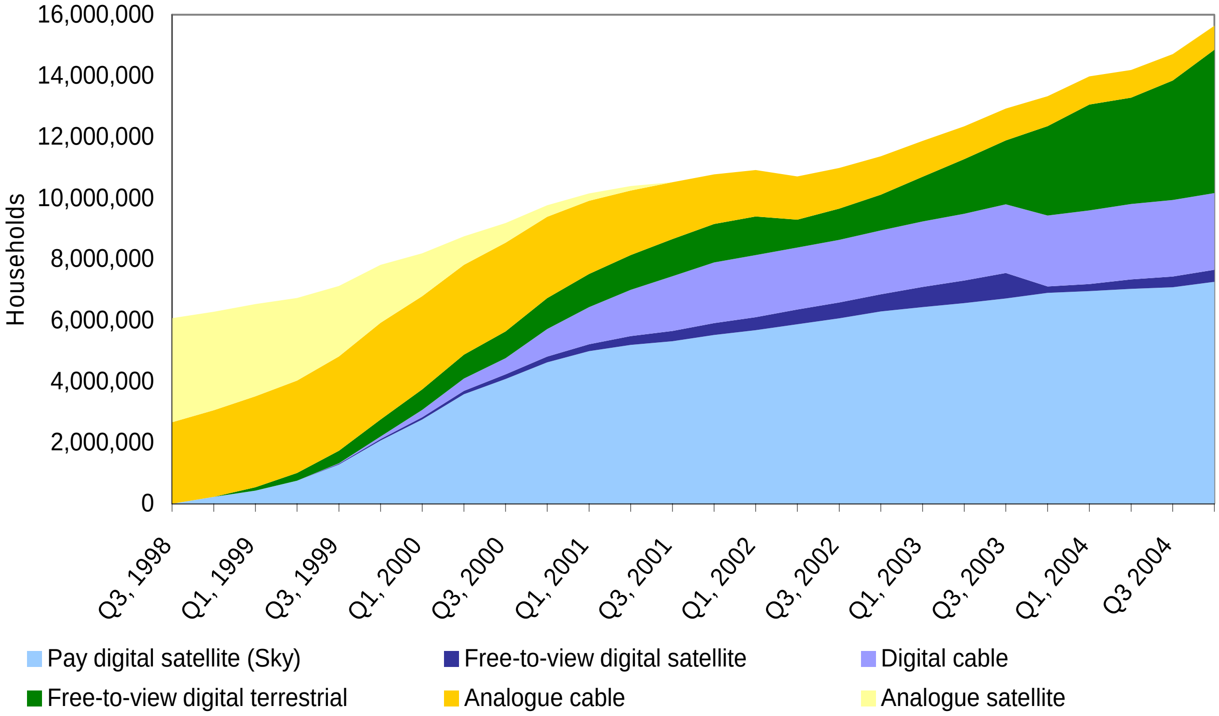
*** Free-to-view digital satellite comprises the number of 'Solus' card viewers plus an estimate of the number of ex-Sky subscribers who continue to use their set-top boxes for viewing Free to view channels.

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

Percentages may not add due to rounding.

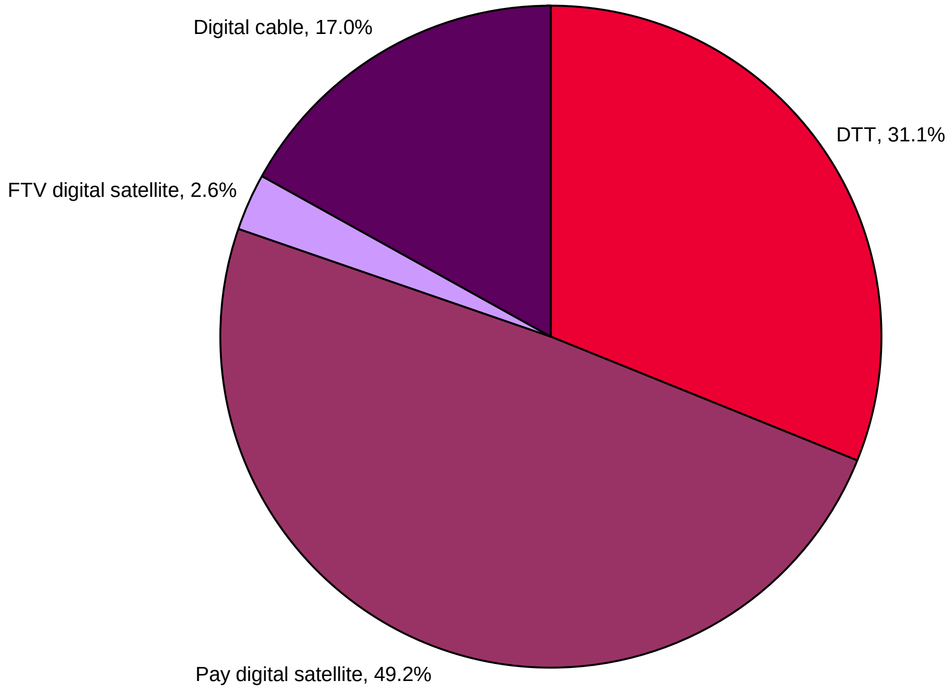
Overall digital penetration increased, by 3.5 percentage points, reaching 59.4% of UK households. Multichannel penetration in the UK is now around 62.6%.

Digital and multichannel penetration of UK households



Market shares

The share of total digital homes across all platforms (both pay and free-to-view) at the end of Q4 2004 was:



Share of digital homes by platform

- BSkyB's share of digital homes showed a small drop from 53.6% in Q3 2004 to 51.8% in Q4 2004. This reduction was mainly due to the increase in DTT's share of digital homes. There was a similar decrease in BSkyB's share of multichannel homes to 49.1%. BSkyB's share of pay-television homes however increased slightly in the quarter from 67.7% in Q3 to 68.6% in Q4.

- Cable saw a drop in its share of digital TV homes in Q4 2004, now around 17.0%, down from 18.1% in Q3 2004. This was largely due to an adjustment by ntl's to its customer numbers in Q4. The cable share of the Pay TV market showed a small decrease down by 1% to 31.2% in Q4.

- The Christmas period saw a major quarter of growth for DTT. Resulting in an increase in share of the digital TV market from 28.2% in Q3 to 31.1% by the end of Q4. DTT share of multichannel homes saw a similar increase from 26.6% in Q3 to 29.5% in Q4.

Figures for penetration, share of homes and net additions by platform up to the end of Q4 are as follows:

	2003 Q2	2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4
Digital take-up							
Digital cable	8.8%	9.0%	9.4%	9.8%	10.0%	10.1%	10.1%
Digital satellite	29.4%	30.4%	28.9%	29.1%	29.7%	30.0%	30.8%
DTT	7.2%	8.6%	11.9%	14.1%	14.1%	15.8%	18.5%
ADSL	0.04%	0.04%	0.04%	0.04%	0.04%	0.05%	0.08%
Total digital	**45.5%**	**48.0%**	**50.2%**	**53.0%**	**53.8%**	**55.9%**	**59.4%**
Analogue Cable	4.3%	4.1%	4.0%	3.7%	3.6%	3.5%	3.2%
Total Multichannel	49.8%	52.2%	54.2%	56.7%	59.1%	59.4%	62.6%
Pay TV take-up*							
Cable	13.1%	13.2%	13.4%	13.5%	13.6%	13.6%	13.3%
Digital Satellite	26.4%	27.0%	28.0%	28.2%	28.4%	28.6%	29.2%
ADSL	0.04%	0.04%	0.04%	0.04%	0.04%	0.05%	0.08%
Total	**39.6%**	**40.3%**	**41.5%**	**41.7%**	**42.1%**	**42.2%**	**42.6%**
Share of digital TV market							
Cable	19.4%	18.8%	18.8%	18.4%	18.6%	18.1%	17.0%
Digital Satellite	64.7%	63.2%	57.5%	55.0%	55.2%	53.6%	51.8%
ADSL	0.09%	0.08%	0.07%	0.07%	0.07%	0.08%	0.13%
DTT	15.8%	17.8%	23.7%	26.5%	26.2%	28.2%	31.1%
Share of multichannel TV market							
Cable	26.4%	25.3%	24.8%	23.8%	23.7%	22.8%	21.2%
Digital Satellite	59.1%	58.2%	53.3%	51.4%	51.7%	50.5%	49.1%
DTT	14.5%	16.4%	21.9%	24.8%	24.5%	26.6%	29.5%
Share of net additions							
Cable	-12.9%	2.8%	2.6%	3.4%	6.9%	-1.0%	-6.7%
Digital Satellite	44.8%	40.9%	0.0%	12.8%	24.4%	17.8%	24.0%
DTT	68.3%	56.4%	97.4%	83.8%	68.6%	82.7%	75.0%
ADSL	0.0%	0.0%	0.0%	0.0%	0.2%	0.5%	0.9%

* Latest figures for the Top-Up TV service are not in the public domain for Q4. Subscribers to Top-Up TV also receive free-to-view DTT, therefore these figures are included under the DTT sections for subscribers.

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

Section 3

Platform updates

Digital satellite – Pay TV Homes

	Pay digital satellite	
	Q3, 2004	**Q4, 2004**
Pay-TV homes	**7,085,000***	**7,262,000***
ARPU (annualised)	£377	£386
Churn	9.8%	9.5%
Base package price	£13.50	£13.50

Source: BSkyB Q4 2004 results

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

BSkyB's UK subscriber base reached 7,262,000 during the quarter with 177,000 net additions to its pay-TV service during the quarter. In the previous quarter BSkyB had added 53,000 subscribers.

Annualised average revenue per user (ARPU) for the quarter was £386. Churn decreased during the quarter from 9.7% to 9.5%.

Digital satellite - Free-to-view homes

	Free-to-view digital satellite	
	Q3, 2004	**Q4, 2004**
Free-to-view homes	345,000	385,000

Source: BSkyB, Channel 4, and Ofcom market estimates

Following the BBC's decision to stop encrypting its services on satellite, the scheme run by the BBC to provide free-to-view "Solus" conditional access viewing cards came to an end. During 2003, Sky upgraded its conditional access system, replacing all old "P1" conditional access cards with new "P2" cards. Any "Solus" viewers left with old P1 cards lost access to the digital satellite services of ITV 1,Channel 4, Five and S4C and therefore ceased to be digital homes, (although they can still receive BBC digital services). The same happened to viewers with P1 cards who had been subscribing to Sky pay services but had "churned off", becoming free-to-view homes.

Those viewers who had lost their free-to-view services had the opportunity to obtain a new "Solus" card under a scheme operated by Channel 4 between July 2003 and January 2004. Around 145,000 viewers acquired the new P2 card and this scheme has now come to an end.

Of the viewers that have churned-off Sky subscription services an estimated 240,000 still use their set top box to receive all of the free-to-view public service channels.

Cable

	ntl		Telewest Broadband	
	Q3, 2004	Q4, 2004	Q3, 2004	Q4, 2004
Homes passed and marketed	7,901,017	7,910,444	4,686,799	4,686,794
Total residential subscribers	3,102,800	3,136,800	1,769,263	1,799,556
TV homes connected	2,056,100	1,979,600	1,297,304	1,312,825
Digital TV homes connected	**1,414,700**	**1,382,500**	**1,078,623**	**1,122,301**
TV penetration rate	26.0%	26.1%	27.7%	28.0%
ARPU (annualised)	£498.72	£508.80	£540.60	£541.56
Churn rate*	18.0%	19.2%	16.9%	18.0%
Basic package price	£19.50	£19.50	£14.50	£15.00

Source: Telewest Broadband and ntl Q4 2004 results

*Telewest Broadband and ntl churn rates relate to their total consumer division.

By 31 December 2004, the total number of UK cable households was 3,301,693. Of these, 1,979,600 subscribed to ntl, 1,312,825 to Telewest Broadband, with the remainder to Omne Communications and Wightcable.

Telewest Broadband showed a net increase of 15,500 subscribers in the quarter, with 43,678 digital subscribers added. Ntl saw an overall decrease of 76,500 subscribers, this was due to the company carrying out a data cleanse of the customer base.

As a result, the cable industry saw a decrease in total subscribers of 60,951. The number of digital subscribers increased however, reaching 2,513,961 by the end of Q4 2004 – an increase of 11,510 or nearly 0.5% from Q3.

Digital terrestrial television (DTT)

Quarterly DTT sales	**DTT sales Q3, 2004**	**DTT sales Q4, 2004**
Digital TV adapters	562,900	1,289,100
IDTV's	96,600	159,900
Total sales	**659,500**	**1,449,000**

Source: Q4 sales figures,GfK as adjusted by Freeview.*

*Freeview has adjusted the sales figures upwards by 5% to represent its estimate of the number of Digital TV adapters and iDTVs sold via Northern Ireland, offshore islands, staff sales and business to business, the sales details for which are not compiled by GfK.

Cumulative totals DTT boxes	**DTT total Q3, 2004**	**DTT total Q4, 2004**
Freeview adapters	3,825,600	5,114,700
IDTV's	759,600	919,500
*ITV Digital STB**	431,000	350,000
Total digital terrestrial units in market	5,016,200	6,384,200

Source: Ofcom market research, GfK.

* ITV Digital set top boxes – latest GfK research on this area suggests that 350,000 ex-ITV digital boxes are still active. This number is steadily declining over time.

DTT showed an exceptional quarter of growth, adding over 1.4 million sales during Q4. This exceeded the corresponding quarter last year when just over a million sales were added. This brought the estimated total number of DTT units in the market to over 6.3 million.

DTT households

For the purposes of this report we are attempting to calculate the number of digital TV households that DTT has added to the overall total of digital TV homes in the UK. With over six million DTT enabled sets in the market, the total number of homes now capable of receiving DTT broadcasts is now estimated to be over 5 million.

Second set duplication
Ofcom estimates that around 1.46 million DTT sets have been bought for use on second sets by viewers who already have digital (either Freeview or Sky or cable) on their main set. Latest market estimates for Q4 suggest that around 25% of Freeview adapters owned are for this purpose. No adjustment has been made to the Sky or cable figures as these are already shown net of second receivers (e.g. a household with two Sky boxes is only recorded once).

In-active boxes
There are also a percentage of DTT boxes that are currently in-active. This could be due to issues with reception or for other reasons. To allow for this issue Ofcom has deducted a further 220,000 from the Q4 cumulative total, (this figure is based on the latest available research from GfK for this area).

ITV Digital legacy boxes
Of the 350,000 ITV Digital legacy boxes, 30% of these are estimated to be in homes that also have another digital platform, leaving 245,000 homes that have ITV Digital as their only digital platform.

Ofcom adjustment
The total deduction Ofcom has made for Q4 is therefore 1,791,280. This means the number of Freeview-only homes is therefore calculated as 4,592,920.

DTT only households	DTT only households Q3, 2004	DTT only households Q4, 2004
Total digital terrestrial units in market	5,016,200	6,384,200
Ofcom adjustment	-1,101,280	-1,791,280
Total DTT only households	***3,914,920***	***4,592,920***

Source: Ofcom market research, GfK.

Overall, DTT showed a strong quarter of growth, adding 678,000 households during Q4, representing an increase of 17.3% on the previous quarter. Of these, Ofcom estimates that around 4,347,920 use Freeview adapters or IDTV sets, with the additional 245,000 using former ITV Digital set-top boxes.