

# Digital Television Update - 2003 Q3

Q3 2003

## ITC Multichannel Quarterly - Q3 2003

The ITC's **Multichannel Quarterly** reports every three months on the take-up of both analogue and digital multichannel television in the UK. As far as possible, the data in this report is based upon the latest figures provided by the platform operators. However, it is also necessary to rely on some estimated figures. For free-to-air penetration for example, data from third party sources and the ITC's own view of the market has been used to compile this report.

From the 29<sup>th</sup> of December the existing duties of the ITC, together with those of the Broadcasting Standards Commission, Oftel, the Radio Authority and the Radiocommunications Agency will pass to Ofcom, which will also fulfil the additional duties enacted in the provisions laid down in the Communications Act 2003.

While the precise format of future reports is yet to be determined Ofcom will continue to provide a quarterly summary of key multi-channel statistics.

### Executive Summary:

By 30 September 2003 multichannel and digital TV penetration were estimated to have reached 51% and 47% of UK households, respectively. Within these total figures, the key developments were:

- The total number of digital television households grew by 3% over the quarter, with an additional 380,000 going digital during the quarter.
- Sky's UK subscriber numbers increased to 6,718,000 by the end of Q3 2003.
- Freeview also saw an increase, with household numbers estimated to have grown to 1,900,000 in the same period.
- In addition to Freeview households, latest estimates suggest there are over 800,000 free to air digital satellite homes. This means that in total there are now more than 2.7 million free to air digital households.
- The total number of subscribers to cable television rose by 17,000, a rise in digital cable subscriber numbers of almost 60,000 more than offsetting a decline in analogue cable subscribers

Note: This report does not take into consideration platform overlap. In other words, all households are considered to be discrete multichannel units. This issue is something which Ofcom will seek to address in more detail in future reports.

### Multichannel Penetration

Table 6 - Summary residential access & call revenues ((GBP) £m)

**Q2, 2003    Q3, 2003    Quarterly growth rate**

Table 6 - Summary residential access & call revenues ((GBP) £m)

	Q2, 2003	Q3, 2003	Quarterly growth rate
<b>Pay TV</b>			
<b>Analogue cable</b>	1,071,676	1,028,977	-4.0%
<b>Digital cable</b>	2,188,375	2,248,190	2.7%
<b>Digital DTH</b>	6,559,000	6,718,000	2.4%
<b>ADSL</b>	10,686	10,037	-6.1%
<b>Total pay TV households</b>	9,829,737	10,005,204	1.8%
<b>Free-to-air (FTA)</b>			
<b>FTA DTT</b>	1,790,000	1,900,000	6.1%
<b>FTA DTH*</b>	738,900	827,705	12.0%
<b>Total FTA households</b>	2,528,900	2,727,705	7.9%
<b>Total</b>			
<b>Total UK multi-channel households</b>	12,358,637	12,732,909	3.0%
<b>Total UK digital households</b>	11,286,961	11,703,932	3.7%
<b>Multi-channel penetration</b>	49.8%	51.2%	1.4%**
<b>Digital penetration</b>	45.5%	47.1%	1.6%**

\* - These figures comprise an estimate of the number of Sky viewers who have only ever been FTA viewers plus an estimate of the number of ex-Sky subscribers who continue to use their set-top boxes for viewing FTA channels.

\*\* - This figure represents the increase in percentage penetration not the % quarterly growth rate. Figures may not add due to rounding.

Based on the data available, the ITC estimates an overall increase in multichannel households of 2.8% in Q3. Over 12.7m households now receive multichannel television in the UK.

Sky continued its consistent growth, adding 159,000 paying subscribers over the quarter in the UK. Republic of Ireland subscribers stood at 297,000 by the end of the quarter, bringing the total number of Sky subscribers to over 7 million.

Freeview added around 80,000 households during the quarter, representing an increase of 4%, and bringing the total to 1,867,000.

Overall cable television subscribers showed an increase of around 17,000 for the quarter. Of these, analogue subscribers declined by 42,700 whilst digital subscribers increased by around 60,000. As of 30 September 2003, there was a total of 3,277,167 cable television subscribers.

Overall, multichannel penetration in the UK increased by 1.4 percentage points, reaching 51.2%. Digital penetration also increased, by 1.5 percentage points, reaching 47.1% of UK households.

## Multichannel Penetration of UK Households

### Market Shares

The share of total multichannel homes across platforms (both pay and FTA) at the end of Q3 2003 was:

### Share of Multichannel Homes by Platform

- Sky increased its share of multichannel homes from 59.1% in Q2 2003 to 59.3% in Q3. It also increased its share of pay-television homes, to 67.1%, whilst its share of digital homes fell slightly to 64.5%.
- Cable saw a slight decline in share in Q3 2003 for multichannel, pay and digital television homes, with shares of 25.7%, 32.8% and 19.2%, respectively.
- DTT showed a small increase again and now stands at 14.9% of multi-channel homes and 16.2% of digital homes.

Figures for penetration, share of homes and net additions by platform up to the end of Q3 are as follows:

	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3
<b>Multi-channel penetration - % TV households</b>						
<b>Cable</b>	14.1%	13.8%	13.6%	13.4%	13.1%	13.2%
<b>DTH</b>	25.9%	26.8%	27.7%	28.6%	29.4%	30.4%
<b>DTT</b>	3.7%	4.2%	5.4%	6.5%	7.2%	7.6%
<b>ADSL</b>	0.1%	0.1%	0.05%	0.05%	0.04%	0.04%
<b>Total</b>	<b>43.8%</b>	<b>44.9%</b>	<b>46.7%</b>	<b>48.6%</b>	<b>49.8%</b>	<b>51.1%</b>
<b>Pay TV penetration - % TV households</b>						
<b>Cable</b>	14.1%	13.8%	13.6%	13.4%	13.1%	13.2%
<b>Satellite</b>	24.0%	24.7%	25.4%	26.0%	26.4%	27.0%
<b>DTT</b>	3.7%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>ADSL</b>	0.1%	0.1%	0.05%	0.05%	0.04%	0.04%
<b>Total</b>	<b>41.8%</b>	<b>38.6%</b>	<b>39.1%</b>	<b>39.4%</b>	<b>39.6%</b>	<b>40.3%</b>
<b>Digital penetration - % TV households</b>						
<b>Cable</b>	8.3%	8.3%	8.5%	8.7%	8.8%	9.0%
<b>DTH</b>	25.9%	26.8%	27.7%	28.6%	29.4%	30.4%

	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3
DTT	3.7%	4.2%	5.4%	6.5%	7.2%	7.6%
ADSL	0.1%	0.1%	0.05%	0.05%	0.04%	0.04%
<b>Total</b>	<b>38.0%</b>	<b>39.4%</b>	<b>41.6%</b>	<b>43.9%</b>	<b>45.5%</b>	<b>47.1%</b>

#### Share of multichannel TV market - %

Cable	32.1%	30.7%	29.1%	27.6%	26.4%	25.7%
DTH	59.2%	59.8%	59.3%	58.9%	59.1%	59.3%
DTT	8.5%	9.3%	11.5%	13.4%	14.5%	14.9%
ADSL	0.2%	0.2%	0.11%	0.09%	0.09%	0.08%

#### Share of pay TV market - %

Cable	33.6%	35.7%	34.8%	34.0%	33.2%	32.8%
DTH	57.3%	64.1%	65.1%	65.9%	66.7%	67.1%
DTT	8.9%	0.0%	0.0%	0.0%	0.0%	0.0%
ADSL	0.2%	0.2%	0.13%	0.11%	0.11%	0.10%

#### Share of Digital TV Market - %

Cable	21.8%	21.1%	20.4%	19.8%	19.4%	19.2%
DTH	68.2%	68.1%	66.6%	65.3%	64.7%	64.5%
DTT	9.8%	10.6%	12.9%	14.8%	15.9%	16.2%
ADSL	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%

#### Share of net additions - %

Cable	-49.0%	-23.2%	-3.9%	-7.7%	-18.2%	4.6%
DTH	119.0%	83.1%	49.2%	50.0%	63.2%	66.2%
DTT	-169.4%	40.8%	55.6%	57.9%	55.3%	29.4%
ADSL	-0.5%	-0.7%	-0.8%	-0.2%	-0.2%	-0.2%

## Platform Updates

### Direct to Home (DTH) Satellite

	Pay DTH	
	Q2, 2003	Q3, 2003
Pay-TV homes	6,559,000*	6,718,000*
ARPU (annualised)	(GBP) £366	(GBP) £366
Churn	9.4%	9.6%

**Base package price** (GBP) £12.50 (GBP) £12.50

Source: BSkyB

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

Sky's UK subscriber base reached 6,718,000 during the quarter with 159,000 net additions to its pay-TV service during the quarter. This was an increase on Q2 2003, when 126,000 UK subscribers joined Sky.

Annualised average revenue per subscriber (ARPU) remained steady at (GBP) £366 - Sky aims to achieve ARPU of (GBP) £400 by 2005. Churn increased slightly from 9.4% to 9.6% but has now remained fairly steady at below 10% for more than a year.

	<b>FTA DTH</b>	
	<b>Q2, 2003</b>	<b>Q3, 2003</b>
<b>FTA homes</b>	738,900	827,705

The ITC estimates that 25% of former paying Sky subscribers may still use their set top box to obtain FTA channels. This would equate to approximately 448,000 homes. In addition to this base, by the end of September 2003, around 380,000 households are estimated to have taken advantage of Sky's FTA offer, which was reintroduced in early 2003 with set-top boxes priced at (GBP) £120. Therefore, the total estimate of FTA digital satellite households by the end of Q3 was 828,000.

The FTA digital satellite base is, by definition, very hard to measure. During 2003 the BBC made a decision to broadcast its channels 'in the clear' bring the Solus card scheme to an end. A replacement scheme has since been introduced. Also during the period Sky digital replaced viewing cards for existing subscribers. These events will require a change in the estimation process for future reports.

## Cable

The operating statistics for the key cable companies were as follows:

	<b>Ntl</b>		<b>Telewest</b>	
	<b>Q2, 2003</b>	<b>Q3, 2003</b>	<b>Q2, 2003</b>	<b>Q3, 2003</b>
<b>Homes passed and marketed</b>	7,756,900	8,404,100	4,686,974	4,679,688
<b>Total residential subscribers</b>	2,753,300	2,809,500	1,719,868	1,721,550
<b>TV homes connected</b>	2,022,800	2,009,700	1,250,511	1,258,549
<b>Digital TV homes connected</b>	1,269,700	1,294,800	911,191	945,595
<b>TV penetration rate</b>	26.1%	26.9%	26.7%	26.9%
<b>ARPU (annualised)</b>	(GBP) £492.48	(GBP) £497.16	(GBP) £512.64	(GBP) £527.16

<b>Churn rate</b>	12.9%	14.4%	19.8%	16.9%
<b>Basic package price</b>	(GBP) £18	(GBP) £18	(GBP) £13.50	(GBP) £13.50

Source: Company data

\* - Telewest churn rates apply to the cable TV division only. Ntl churn rates apply to the total consumer division.

By 30 September 2003, the total number of UK cable households was 3,277,167. Of these, 2,009,700 subscribed to ntl, 1,258,549 to Telewest, and the remainder to Omne Communications and Wightcable. Telewest subscribers showed an increase of 8,038 in the quarter, whilst NTL subscribers saw a decrease of 13,000.

Overall, the industry saw an increase in total subscribers of 17,116, to 3,277,167. Digital subscribers also continued to grow, reaching 2,248,190 by the end of Q3 2003 - an increase of 2.7% from Q2 2003.

Telewest reduced its churn rates for cable TV from 20.5% to 16.9% in Q3. Ntl's churn rate (for TV, telephony and the internet) increased from 12.9% in Q2 to 14.4% in Q3.

Both companies again reported an increase in average revenue per subscriber (ARPU). Telewest's ARPU increased from (GBP) £512.64 in Q2 2003 to (GBP) £527.16 in Q3, while NTL's increased from (GBP) £492.48 to (GBP) £497.16.

	<b>DTT</b>	
	<b>Q2, 2003</b>	<b>Q3, 2003</b>
<b>Digital Terrestrial TV Homes</b>	1,790,000	1,900,000
<b>ITV Digital STB</b>	600,000	600,000
<b>Freeview adapters</b>	797,000	892,000
<b>IDTV sets</b>	393,000	408,000

Source: ITC estimates

Based on the best estimates available Freeview added approximately 110,000 households during Q3, representing an increase of 6% on the previous quarter. Of these, the ITC estimates that 892,000 use new Freeview adapters, 408,000 use IDTV sets, and the remaining 600,000 use former ITV Digital set-top boxes.

Set-top boxes have recently reduced in price and a number are now available for around (GBP) £70, compared with (GBP) £99 since launch. It has also been possible to obtain free-to-air digital decoders at lower prices.

	<b>Homechoice</b>		<b>Kingston Interactive</b>	
	<b>Q2, 2003</b>	<b>Q3, 2003</b>	<b>Q2, 2003</b>	<b>Q3, 2003</b>
<b>Homes passed</b>	185,000	185,000	105,000	105,000
<b>TV homes connected</b>	4,520	4,410	6,166	5,627
<b>TV penetration rate</b>	2%	2%	6%	5%

<b>Churn rate</b>	2%	2%	7%	9%
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Source: Company data

The total number of subscribers to TV over ADSL declined by 6% in Q3 2003 to 10,037. Of those homes taking TV over ADSL, 5,627 subscribed to Kingston Interactive and 4,410 to Homechoice. Homechoice's TV penetration rate also shows a larger decline from Q2 onwards - this is as a result of an increase in the number of homes passed following a reorganisation of Homechoice's parent company, Video Networks, and of its delivery system design.

### **Broadband Internet**

Currently, the main broadband internet access services that are available on the market are via a cable modem or ADSL connection. The subscribers for the different broadband platforms as of the end of Q3 were:

<b>Operator</b>	<b>Q2, 2003</b>	<b>Q3, 2003</b>
<b>Ntl</b>	764,200	864,600
<b>Telewest</b>	329,336	367,410
<b>ADSL (BT and other ISPs)</b>	1,058,000	1,500,000

Source: Company data

ADSL showed strong growth in Q3 2003, with 442,000 net additions, representing growth of 42%. As a result ADSL became the majority broadband technology, increasing its share from 49% to 55% of subscribers.

Broadband via cable modems also showed continued growth with an increase of 137,474 subscribers during the quarter a growth rate of 13%. Of these, ntl accounted for 100,400 subscribers, representing growth of 13%, and Telewest added 38,074 subscribers, an increase of 12%.

Oftel figures released on the 12th December show that the total number of broadband subscribers passed 3 million by the end of November 2003.

### **Broadband Subscribers - ADSL and Cable Modem**