The Communications Market: Digital Progress Report

Digital TV, Q1 2010

This is Ofcom's twenty-sixth 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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Contents

Background on survey methodology

The GfK consumer research used in this report is based on a panel of 12,000 homes surveyed quarterly via the internet and by telephone. The survey provides data on ownership and acquisition of television sets and related receiving equipment. The ratio of online to telephone interviews is designed to specifically meet demographic representative quotas. The error margin for the research results is estimated to be within 1-2 percentage points, (up to +/- 500,000 homes). This means that the survey results may move within the error margin while the underlying population being measured has not changed at all. If the sample population for a particular platform is less than 500,000 the significance intervals are substantially wider (when interpreting allow for up to +/- 5pp) and caution should be applied when interpreting any shifts.

This sample is weighted to be representative of the GB 16+ households in terms of age, gender, working status, socio-economic grade (SEG), region, size of household, tenure and presence of children. Panel continuity is maintained at 75-80% per quarter with recruitment of new households targeted to ensure panel shape is as close to the GB population profile as possible.

The weighted data is then re-checked from a commercial perspective and against point of sales data captured by GfK's retail and technology division, to ensure consistent and reliable market trends. Factors may be applied at this stage to accommodate market changes that are not reflected in the sample data. This is most common with small or emerging platforms. Therefore, wider fluctuation may occur with regard to these platforms before it represents a significant underlying change in the population.

The survey records the means of viewing on each TV set, as reported by the respondent. This means that sets which are connected to more than one digital platform will only be recorded once for the purposes of measuring digital conversion.

Section 1

Overview

1.1 **Consumer survey results for the first quarter of 2010 show that take-up of digital television in UK households stood at 92.0%, up by 2.8 percentage points year on year.**

1.2 Consumers are continuing to convert additional sets in the home. As a result over **70% of all *secondary* TV sets had been converted to digital by the end of March 2010, up by around 9.2 percentage points in a year.**

1.3 **Taking these figures together, 80% of *all* TV sets had converted to digital television by the end of Q1 2010** (up 7.0 percentage points in a year). The remaining 20% of sets continue to receive analogue terrestrial broadcasts.

Other findings

1.4 Other findings in the first quarter of 2010 include:

- Sales of DTT enabled equipment reached around 3.4 million units in Q1, up by 8% on Q1 2009. Integrated digital television sets (IDTVs) accounted for almost 75% of sales in the quarter (2.5 million units). Around 99% of TV sets sold now including an integrated digital decoder. Freeview set-top boxes accounted for 850,000 sales in the quarter, down 7.3% on Q1 2009.

- In the year to Q1 2010 almost 13.7 million DTT units (IDTVs and set-top-boxes) were sold, compared to 12.7 million in the previous year, an increase of 7.5%.

- The number of homes claiming DTT was their primary means of digital TV reception reached 10.2 million according to survey results in Q1 2010. This was equivalent to 39.8% of all homes and up by around 1.3 percentage points on Q1 2009.

- Q1 2010 sales data from BBC/ITV *freesat* show that unit sales had reached over one million by the end of March, up from around 900,000 units in Q4 2009. Over three quarters (80%) of *freesat* decoders sold supported HD services.

- According to our consumer research results for Q1, around 1.3 million homes claimed to have access to some form of free-to-view digital satellite device on any set in the home. This was up from 643,000 in the previous quarter following increasing sales of free satellite devices over the past year. However this may also be partly due to fluctuations on the survey as a feature of measuring a smaller sector.

- The Q1 survey also indicated that almost 9.3 million or 36% of homes, received pay satellite TV services, up 1.4 percentage points year on year. BSkyB reported that it added 62,000 subscribers to its pay television service in the UK and Republic of Ireland during the fourth quarter; we estimate that around 45,000 of these were UK additions.

- Research results for Q1 show that almost 13% of homes took cable television. Separately, Virgin Media reported net additions of almost 36,000 TV subscribers, with its total TV customer base now over 3.7 million. Digital cable added almost 47,000 subscribers in the quarter (including conversions from analogue cable) and accounted for over 99% of all cable television customers.

1.5 The following points to note on the platform shares in this report include:

- In calculating platform totals, DTT-only homes are defined as those where DTT is the only multichannel television platform in the home or where the survey respondent considers DTT to be their primary viewing platform, (figures for all homes using DTT on any set are included in Sections 2 and 3 of the report).

- As DTV markets mature, the likelihood of overlap between DTV platforms grows. For example a household with a pay service from either a satellite or cable provider in addition to free DTV equipment (such as DTT or free satellite), may often be recorded primarily as a pay satellite / cable home by survey respondents.

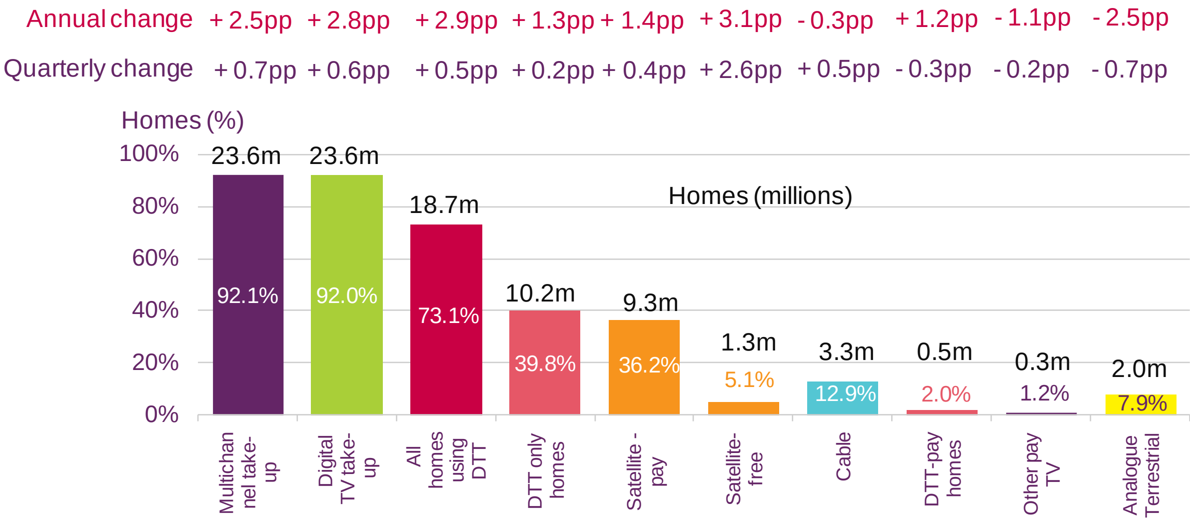
- Similarly, respondents with both DTT and free satellite services may also switch between the two services and may designate one or the other as the primary platform in the home; with their responses potentially varying over time.

Section 2

Platform figures Q1 2010

2.1 Figure 1 summarises quarterly and annual digital growth. Take-up has now reached 92.0%, up by 2.8 percentage points year on year. The number of homes using DTT on any TV set rose by 2.9pp in the year to over 73.1% of homes by the end of Q1 2010. Homes where DTT was the sole platform had reached 39.8% of the total (10.2m) in Q1 2010, up 1.3pp in the year. Pay satellite take-up rose by 1.4pp over the year to 36.2% or 9.3m homes, with the cable share of homes relatively stable year on year, at 12.9% (3.3m homes).

Figure 1: Platform take-up survey results



Source: GfK NOP and Ofcom research. Homes receiving overseas satellite services are not included in the multichannel total in this report. Chart figures; m = million, pp = percentage points.

Notes on Figure 1:
1 For a market where quarterly growth in take-up is low, the changes illustrated may often be more a product of statistical survey fluctuations rather than material changes in the level of DTV take-up; the overall survey error margin can be up to + or - 2 percentage points. For the smaller platforms such as ADSL and pay DTT, error margins can be significantly wider, up to + or - 5 percentage points. For these reasons, this report focuses on year-on-year changes rather than quarterly fluctuations.

2 Due to the increasing amount of overlap between platforms, the allocation of homes to a specific platform has become increasingly complex with many owning more than one DTV platform (see overlap diagram, Figure 4 on page 8). In particular, an increasing proportion of main sets are now able to receive more than one DTV service. Summary platform take-up percentages are also included in the multichannel trends table in Figure 8 on page 11.

3 Annual and quarterly changes in the chart are expressed in percentage points, i.e. the net change in total take-up rather than growth rate.

4 The individual platform figures may not always add up to the totals, partly due to overlap in homes that take more than one service and also due to rounding.

5 Figures for the smaller platforms may show substantial fluctuations from quarter to quarter that are not statistically significant. This can be due to the lower number of homes involved and the uneven distribution of subscribers across the UK, these changes should be therefore treated with caution.

6 Multichannel homes now largely equates to digital TV homes, as analogue cable homes have declined over time and are a very small element on the survey.

Figure 1 notes continued:

7 *All homes using DTT* include 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. DTT-pay homes relate to homes claiming to have the facility to access Top Up TV (c.500,000 in Q1); these are a subset of the 10.2 million total for Q1.

8 *Pay satellite* homes may include an element of survey respondents who do not differentiate between pay and free satellite, and therefore may misattribute their free satellite service to pay.

9 *Free-to-view satellite* homes include all homes with satellite TV on the main set which do not pay a subscription, including BBC/ITV *freesat*, Freesat from Sky, Sky churners who remain on the platform, and any other non-pay satellite service that offers access to UK channels.

10 *Other pay TV homes*: Survey results show that around 300,000 homes claimed to have access to the pay TV services provided by BT Vision and Talk Talk TV (formerly Tiscali TV) by Q1 2010.

11 *Analogue terrestrial* refers to homes which have no multichannel television services.

Digital TV progress on main sets

2.2 Of the total of 60.2 million television sets in the UK, approximately 25.4 million are ‘main’ sets (which equates to the most-watched set in each TV household), and 34.9 million are ‘secondary’ sets (in bedrooms, kitchens, etc).

2.3 According to consumer survey results, 23.6 million households (92.0%) had digital television on their main set in Q1 2010, up by 2.8pp in a year.

2.4 Our research showed that Freeview was the most widely-used service on main sets, accounting for around 10.2 million (39.8%) homes in Q1. The number of homes using DTT on any set in the home increased to 18.7 million (73.1%) in Q1 2010, up 2.9pp in the year.

2.5 Q1 survey results show that around 10.6 million (41.3%) of homes had access to satellite services (free or pay), up by 4.5pp year on year. Pay satellite accounted for the majority (9.3 million) of these homes (up by 350,000 year on year). The number of homes with access to free satellite services has increased by 800,000 over the year to reach 1.3 million in Q1 2010.

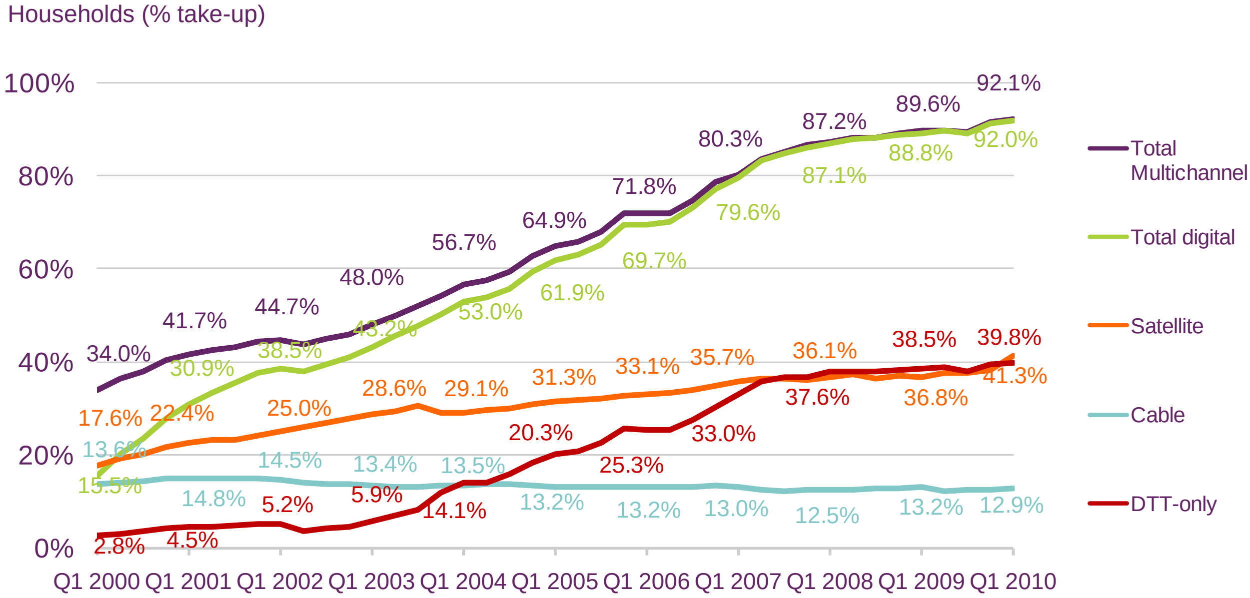
2.6 The number of homes using cable as their primary multichannel platform was 3.3 million (12.9%), with fewer than 30,000 of this total still receiving an analogue service. This survey-based total is lower than Virgin Media’s reported figure of just over 3.7 million subscribers. This might be explained by; (i) a number of cable homes owning more than one platform, which may result in the cable service not always being recorded on the consumer survey as connected to the primary set in the home, also (ii) statistical fluctuations on the survey.

2.7 The number of TV homes relying solely on analogue terrestrial television for their primary set was around 2.0 million (7.9%) homes. This figure was down by 0.6 million (-2.5pp) over the year.

2.8 BT’s latest quarterly results reported that subscribers to its DTT / ADSL television service, BT Vision, had reached 467,000 by the end of March 2010, up 16,000 in the quarter. BT also reported that the average monthly VoD views per subscriber had reached 40 by March 2010 (up by 37% in a year).

2.9 Figure 2 illustrates the ten-year trend of TV platform take-up expressed as a proportion of all homes (grouping analogue with digital cable, and free-to-view with pay satellite). DTT is now the primary platform in approaching 40% of homes, almost doubling from 20% homes five years ago. Satellite take-up has grown by 10pp over the past five years and was most widely used primary platform in Q1 2010, at over 41% of homes. By comparison, the use of cable TV has been more stable over the past five years, down by 0.3pp to 12.9%. Subscriptions to cable services have continued to grow over the past few years however cable ownership has also increasingly overlapped with other TV platforms during this time.

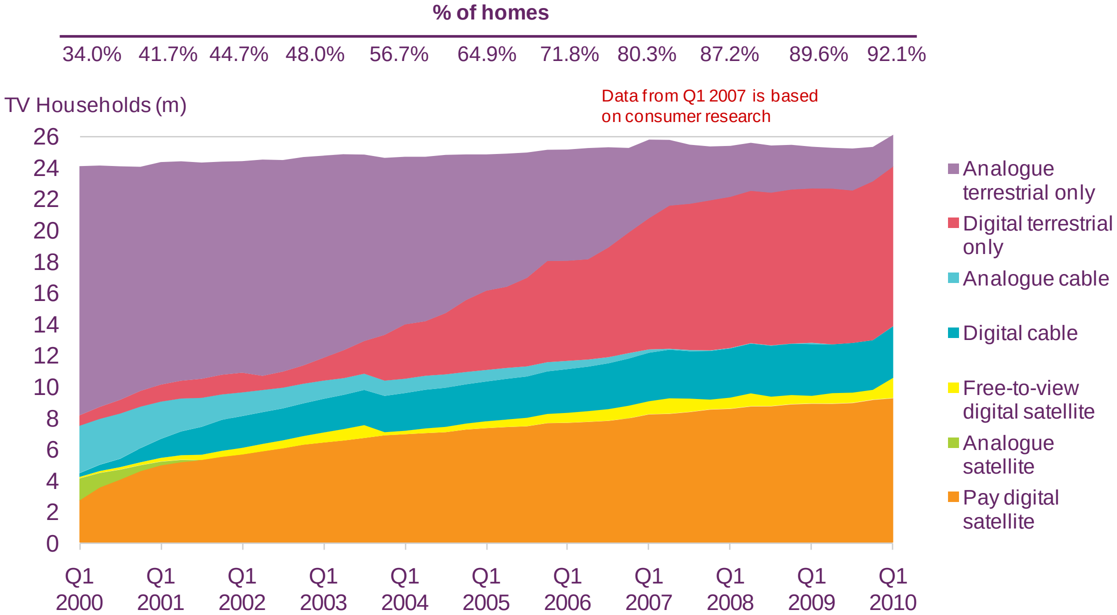
Figure 2: Multichannel take-up on main sets by platform 2000 - 2010



Source: GfK NOP 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 represent on this chart.

2.10 Figure 3 shows the year on year decline in the number of households receiving an analogue terrestrial television (ATT) on main sets. Ten years ago around two-thirds of homes relied solely on analogue terrestrial; this had fallen to around one in ten by Q1 2009, with DTV conversion up to 92% by Q1 2010. Digital terrestrial and pay satellite have emerged as the two most widely used television platforms over the past decade and now hold a broadly equal share of main sets.

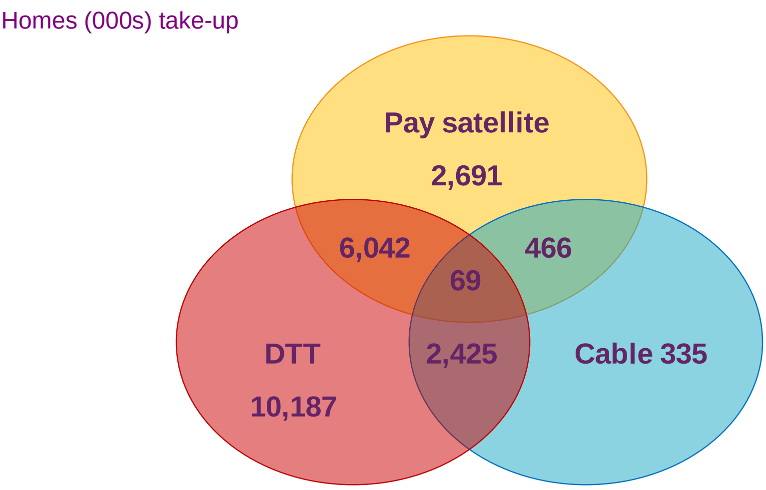
Figure 3: Multichannel take-up on main sets 2000 – 2010



Source: GfK NOP and Ofcom research from Q1 2007 onwards; previous quarters use a combination of platform operator data, research and Ofcom estimates.

2.11 Figure 4 illustrates the degree of overlap between the larger multichannel platforms. This indicates the number of homes with access to one or more of the three main platforms (DTT, pay-satellite, cable). Of the 18.7 million homes with access to DTT, over half (54.5% or 10.2 million) rely solely on DTT for digital reception, while the remaining 45.5% (8.5 million) are satellite or cable homes using DTT either on a primary or second set. Around 535,000 homes claim to have access to both satellite and cable, with around 69,000 homes owning all three platforms. Nine in ten cable homes use another DTV platform, while just over seven in ten pay satellite homes also use DTT or cable in some form.

Figure 4: Multichannel homes platform overlap Q1 2010



Source: GfK NOP consumer research, Q1 2010.
Note: Due to the smaller sample size it is not possible to indicate the overlap amongst the other multichannel platforms.

Digital progress on secondary sets

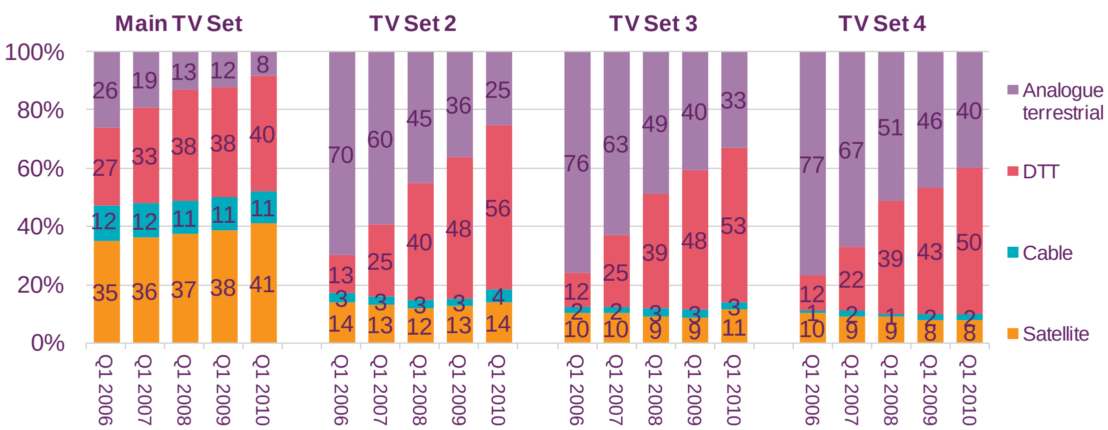
2.12 With the average home owning 2.4 TV sets, there are around 35 million secondary sets in the market. By Q1 2010 around 24.6 million (70%) of these had been converted to multichannel using either the Sky Multiroom service, a free satellite device, a second cable box or a DTT receiver. This figure was up by 3.2 million (9.2pp) year on year, and up by 1.6pp on the previous quarter.

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

Source: GfK NOP research

2.13 The latest survey results from Q1 2010 shows that satellite (free and pay) and DTT attracted similar shares of main sets (41% and 40% respectively). On second, third and fourth sets DTT was the most widely used platform with over half of secondary sets connected to DTT. By comparison, analogue terrestrial remained on a quarter of second sets, a third of third sets and four in ten of fourth sets. Satellite (in the form of Sky Multiroom or free satellite services) was more commonly used on additional sets than cable, at around one in ten sets (Figure 6).

Figure 6: Platform shares for TV sets 1 – 4

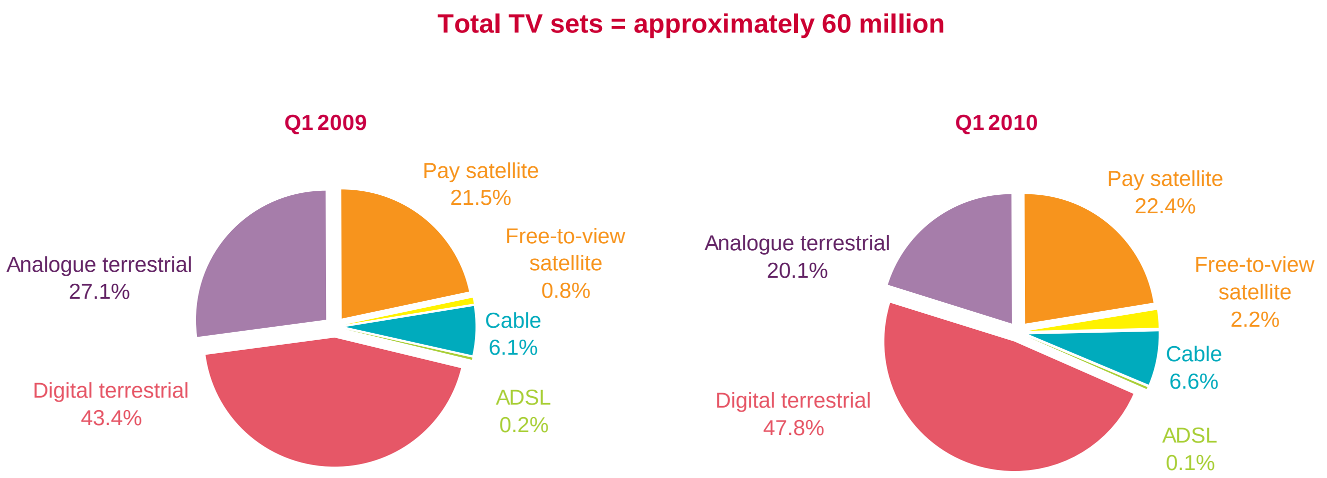


Source: GfK NOP research / Ofcom

Digital progress on all sets

2.14 Of the total of 60 million television sets (main and secondary), 48.2 million (80.1%) had been converted to digital by Q1 2010, up by 4.2 million (6.9pp) over the year (Figure 7).

Figure 7: Platform shares among all TV sets



Source: GfK NOP research
Note: Figures may not add up to 100% due to rounding.

2.15 Other all-sets figures in Q1 2010 included:

- Analogue terrestrial accounted for around one in five (20.1%) of the total set universe in Q1, equivalent to around 12.0 million television sets. This was down from 16 million sets in a year. This represented a fall of 6.9pp from over a quarter of sets (27.1%) year on year. Of the analogue sets, around 2.0 million were main sets and 10.0 million were secondary (in a bedroom or kitchen, for example).

- The number of digital terrestrial sets rose by around 2.7 million over the year to 28.8 million, equivalent to a 47.8% share of all sets in Q1 2010. This was up by 4.4pp from 43.4% a year ago. This was aided by an increase in total DTT sales (IDTVs and set-top boxes), which were up by 9% in the year to Q1 2010. The number of DTT-enabled secondary sets is now significantly higher than primary sets, 18.6 million versus 10.2 million.

- Survey results indicate that over a fifth (22.4%) of all television sets were connected to a pay satellite service, up by 0.9pp on a year ago. BSkyB has continued to add both main set subscriptions and also second sets via its multiroom service. According to survey results, free satellite accounted for a 2.2% share of all sets by Q1 up by around 1.4 pp year on year. The BBC / ITV *freesat* service has continued to report growing device sales over this period and exceeded the 1 million mark by March 2010 (see section 3, page 14).

- The number of cable connected TV sets increased over the year. There were around 4.0 million sets connected to cable in Q1 2010, equivalent to a 6.6% share of all sets, up 0.5pp from 6.1% a year previously.

Summary of multichannel trends Q4 2008 – Q1 2010

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

Homes (%)	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010
Multichannel take-up						
Cable	12.8%	13.2%	12.2%	12.4%	12.4%	12.9%
Satellite	37.0%	36.8%	37.5%	37.6%	38.3%	41.3%
DTT	38.4%	38.5%	38.8%	38.0%	39.6%	39.8%
Other platforms 1	2.1%	2.3%	2.1%	1.4%	1.4%	1.2%
Total multichannel 2	**88.9%**	**89.6%**	**89.8%**	**89.5%**	**91.4%**	**92.1%**
Pay TV take-up						
Cable	12.8%	13.2%	12.2%	12.4%	12.4%	12.9%
Pay satellite	34.7%	34.8%	34.8%	35.0%	35.8%	36.2%
Pay DTT	1.5%	0.8%	1.2%	1.9%	2.3%	2.0%
Other pay platforms 1	2.1%	2.3%	2.1%	1.4%	1.4%	1.2%
Total pay TV 2	**49.5%**	**49.9%**	**49.6%**	**49.3%**	**51.8%**	**52.3%**
Share of multichannel TV market						
Cable	14.4%	14.7%	13.6%	14.1%	13.5%	13.6%
Satellite	41.6%	41.1%	41.8%	42.7%	41.8%	43.4%
DTT	43.2%	43.0%	43.2%	43.2%	43.2%	41.8%
Other platforms 1	2.4%	2.6%	2.3%	1.5%	1.5%	1.3%
TV sets conversion						
Secondary sets converted	60.5%	61.3%	69.8%	67.4%	68.9%	70.5%
All TV sets converted	72.3%	73.1%	80.2%	78.5%	79.0%	80.1%

Source: GfK NOP and Ofcom research

Note:
1. Other platforms includes homes with BT Vision and Talk Talk TV (formerly Tiscali TV). Top Up TV homes are included in DTT and also shown separately in pay DTT.

2. Totals may not correspond to the individual platform figures due to an element of platform overlap and figures being rounded.

Section 3

Platform quarterly results

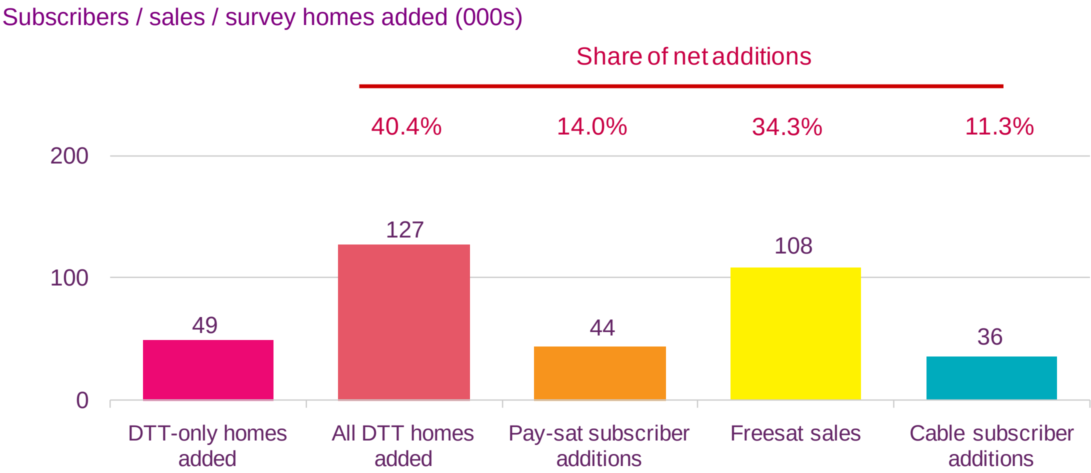
3.1 This section includes a comparison of net additions during the quarter across the various platforms. In the case of DTT these are based on the survey results. The satellite and cable platform additions are based on figures reported by the main platform operators. These are included for information only and to help give context to our research; they do not 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 TV set was up by around 127,000 in Q1 to reach 18.7 million homes. All homes using DTT therefore includes satellite and cable homes using DTT on a secondary set. The number of homes which rely solely on DTT for digital TV increased by around 50,000 in Q1. In the free satellite market, BBC/ITV *freesat* reported sales of around 108,000 during Q1.

3.3 BSkyB's Q1 results for the UK and the Republic of Ireland reported a net increase of 62,000 paying satellite subscribers. Based on the historical split of additions we estimate that approximately 44,000 of these were UK homes. Virgin Media reported net additions of almost 36,000 cable TV subscribers over the quarter and, with additional conversions from analogue, the increase in digital cable subscriptions stood at almost 47,000.

3.4 Using these results as a guide, DTT added the most homes in Q1 with a further 127,000 homes now using DTT on any set in the home. This was followed by free satellite, with 108,000 sales in the quarter, which if converted to new homes would equate to around a 34% share of additions in the quarter. The pay platforms accounted for the remaining share of additions in Q1, with pay satellite at 14% and cable 11% (Figure 9).

Figure 9: Estimated net quarterly multichannel growth Q1 2010



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 Q1 2010 and Q4 2009 consumer survey results.
Note: Chart uses multiple sources and is therefore intended to be only considered as a general indication of quarterly performance.

Digital satellite – pay households

Figure 10: BSkyB Q1 2010 results*

Pay digital satellite – BSkyB	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010
Pay-TV satellite subscribers*	**9,318,000**	**9,442,000**	**9,536,000**	**9,708,000**	**9,770,000**
ARPU (annualised)**	£452	£464	£469	£492	£503
Churn**	10.6%	9.9%	11.3%	9.6%	9.9%
Basic package price	£16.50	£17.50	£17.50	£18.00	£18.00
Sky Multiroom	1,769,000	1,835,000	1,897,000	1,999,000	2,062,000
Sky +	5,056,000	5,491,000	5,902,000	6,455,000	n/a***
Sky + HD	1,022,000	1,313,000	1,600,000	2,082,000	2,510,000

Source: BSkyB quarterly results 2009/10

* 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, telephone, and internet).
*** BSkyB did not report a Q1 2010 figure for the standard Sky + service

3.5 BSkyB's Q1 results reported a 62,000 quarterly increase in subscribers, taking its total UK and Ireland subscriber base to 9,770,000, up 452,000 over the past year. Based on historic additions for the UK and Ireland we estimate that around 380,000 of these were new UK customers in the year to Q1 2010.

3.6 The number of subscribers taking the *Sky Multiroom* service (which enables an additional set in the home to receive *Sky*) rose by 63,000 during Q1 to 2,062,000 (with 293,000 additions over the past year). This means that 21% of *Sky* customers have at least one extra set connected to a pay satellite service in addition to their primary set.

3.7 The high-definition Sky + HD service added 428,000 subscribers in Q1, the second highest quarterly additions so far, following 482,000 in Q4 2009. With almost 1.5 million additions over the past year, total HD subscriptions are now over 2.5 million, equivalent to just over a quarter (25.7%) of all *Sky* subscribers.

3.8 By June 2010, 41 HD channels were available on this service, with four new HD channels announced in Q1 including: Five HD, ITV1 HD, Sky Sports HD 4, and Hallmark Channel HD, with Sky News HD also added. Sky plans to provide 50 HD channels by the end of 2010. It was announced in the Q4 results that Sky + HD customers would be able to access new services including 3D television and video on demand, to be launched later in 2010.

3.9 Annualised average revenue per user (ARPU) reached a new high in Q1, exceeding the £500 mark for the first time (£503) in Q1, up by £11 on the previous quarter and by £51 year on year. By the end of Q1, almost a fifth (19% or 1.9 million) of Sky customers took three services – TV, broadband and telephony. Churn – the proportion of subscribers ending contracts - increased quarter on quarter from 9.6% to 9.9%, but was lower than the churn rate in the corresponding Q1 in 2009 (10.6%).

Digital satellite - free-to-view households

Figure 11: Free-to-view satellite

Free-to-view digital satellite	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010
Free-to-view satellite households	503,000	682,000	667,000	643,000	1,307,000

Source: GfK NOP research

3.10 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 £175.
- 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*.

3.11 The *freesat* service from ITV and the BBC launched in May 2008 and is available to an estimated 98% of UK homes. It provides subscription-free access to over 140 digital TV and radio channels including HD channels, the BBC iPlayer and will also add the ITV Player during 2010.

3.12 By the end of Q1 2010, survey results indicated that around 1,300,000 homes had access to some form of free satellite in the home. Free satellite survey results have fluctuated over the past year, possibly due to sampling issues arising from measuring a smaller sector. The error margins on the consumer survey are higher for the smaller platforms, therefore when interpreting these results allow for up to +/– 5 percentage points. There could also be misattribution where survey respondents do not differentiate between pay and free satellite.

3.13 The quarterly growth seen in the Q1 survey results may not solely reflect growth during the quarter but may be symptomatic of a maturing market. With a combination of growing sales of free satellite devices and increasing consumer awareness leading to free satellite services registering more consistently on the survey.

3.13 Separately the BBC/ITV *freesat* service reported further growth during the period, with total retail sales reaching over a million units by the end of March 2010, up from 900,000 units in Q4 2009. Set-top boxes have accounted for 65% of *freesat* sales so far, with the remaining 35% being televisions with *freesat* built in. Of all *freesat* receivers sold, 80% have been high definition. *Freesat* also confirmed that total retail sales had reached 1.2 million units by the end of May 2010.

Cable

Figure 12: Virgin Media Q1 2010 results

Cable – Virgin Media	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010
Digital TV subscribers	3,510,400	3,543,300	3,599,300	3,656,200	3,702,800
Total TV subscribers	**3,651,600**	**3,622,700**	**3,659,700**	**3,693,900**	**3,729,600**
Total subscribers (TV, telephony, internet)	4,713,000	4,686,800	4,694,900	4,723,500	4,761,800
TV penetration rate *	29.1%	28.8%	29.1%	29.4%	29.7%
ARPU ** (annualised)	£507	£519	£531	£538	£540
Churn **	13.2%	15.6%	18.0%	14.4%	13.2%
Basic package price	£11.00	£11.00	£11.00	£11.99	£11.99
Virgin DVR (V+)	611,900	668,500	749,300	862,000	939,900

Source: Virgin Media quarterly results 2009/10
* Virgin Media identified 49,300 analogue customers who are not expected to convert to digital TV and are also not receiving directly billable services and has therefore removed these from the customer totals, restating these figures back to Q1 2009.
** TV penetration rate is based on the number of homes passed by the Virgin Media cable network. The number of homes passed and marketed had reached over 12.5 million by Q2 2009.
*** Virgin Media ARPU and churn rates relate to their total consumer division.

3.14 Virgin Media's Q1 results included additions of 46,600 digital television subscribers (following on from 56,900 additions in Q4 2009). After allowing for the migration of analogue subscribers to digital cable, 35,700 net cable TV homes were added in Q1. Virgin reported that the analogue signal has now been switched off in all digitally capable areas thereby freeing up more capacity for digital services.

3.15 Virgin Media has added 127,300 net new television homes over the past year, There are now over 3.7 million TV subscribers, the highest level of take-up for cable television to date. The combined annualised ARPU reached £540 in Q1 2010 the highest level so far and an increase of almost £33 in a year. Q1 churn was also down to 13.2% from 14.4% in Q4 2009.

3.16 Virgin Media now carries 13 HD channels, following the launch of Discovery HD, Eurosport HD, E4 HD, SyFy HD and also ITV1 HD in April 2010. Just over a quarter of the company's TV subscribers now use the V+ HD DVR (939,900 subscribers). Virgin also now provides a standard V HD ready set-top box, which means customers can access HD services for no additional monthly fee.

3.17 The number of Virgin Media customers taking three or more communications services reached 61.9% during Q1, up from 57.0% in Q1 2009. The proportion of 'quad-play' customers reached 11% by Q1 2010.

3.18 Virgin Media reported that over half (58%) of its digital customer base (around 2.1 million TV customers) were using its video-on-demand (VoD) service on a monthly basis in Q1, this was up by 200,000 in a year. Virgin is currently working alongside TiVo in developing a new converged TV and broadband interactive platform which it plans to launch later this year.

Digital terrestrial television (DTT) equipment sales

Figure 13: DTT equipment quarterly sales

DTT quarterly sales (actuals)	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010
Freeview set-top boxes	922,320	684,600	696,360	1,247,000	855,000
Integrated Digital Televisions (IDTVs)	2,453,325	2,004,694	2,154,600	3,491,000	2,540,000
Total sales	**3,375,645**	**2,689,294**	**2,850,960**	**4,738,000**	**3,395,000**
DTT DVR sales*	291,000	213,600	203,805	329,000	207,000

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 Q1 2010 reached almost 3.4 million; this was up by 8% on the corresponding quarter last year. Integrated digital televisions (IDTVs) accounted for almost three-quarters of these sales (over 2.5 million), while the number of set-top-box sales reached almost 855,000 in Q1.

3.20 Year on year, IDTV sales were up by over 87,000, or 3.6%, taking total sales in the 12 months to the end of Q1 2010 to 10.2 million. This compared to 8.5 million in the previous year. During Q1, almost all TV sets sold (99%) included a digital tuner.

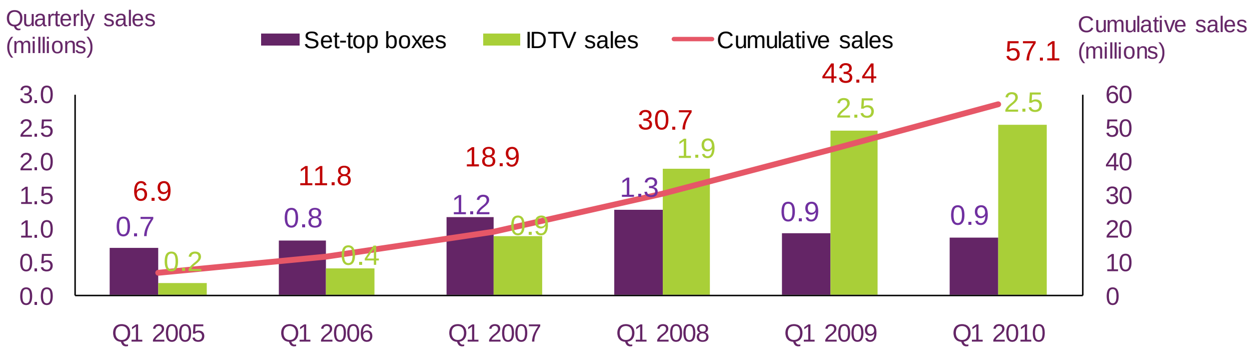
3.21 Cumulative sales of set-top boxes reached almost 3.5 million in the year to Q1 2010, down 17% from 4.2 million in the previous year. This decrease might be partly explained by higher sales of integrated TVs and the increasing maturity of the DTT platform.

3.22 Cumulative sales of DTT DVRs (digital video recorders) reached almost 3.6 million by the end of Q1 2010, with over 200,000 sales in the quarter. This represented just under a quarter (24%) of all DTT set-top-box sales in the quarter.

3.23 In March 2010 Freeview launched its HD service, with initial coverage of 4.5 million homes. Coverage had increased to over 50% of the UK by June 2010 including major cities such as Manchester, London, Newcastle, Leeds, Birmingham, and Liverpool, as well as the majority of Wales. By the end of 2010 coverage is expected to reach 60% of the UK and 98.5% by 2012. By Q1 2010 cumulative sales of HD ready televisions had reached over 24 million.

3.24 Since Freeview's launch in October 2002, total sales of DTT devices have reached over 57 million units, comprising almost 31 million IDTVs and around 27 million DTT set-top boxes (Figure 15).

Figure 14: DTT quarterly and cumulative sales of Freeview devices



Source: Sales figures from GfK, as adjusted by Freeview

3.25 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 larger screens or high-definition capabilities.

3.26 As a result, IDTVs are sometimes connected to existing satellite or cable receiving equipment. This leads to an overlap with the integrated DTT tuner, and therefore to a lower rate of DTT 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.

3.27 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, DVR functionality, greater storage capacity, high definition services, or broadband connectivity. 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 15: DTT households and sets estimates

DTT sets and households (millions)	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010
Total number of DTT enabled sets	26.1m	29.7m	28.8m	28.5m	28.8m
Percentage of all TV sets (%)	43.4%	49.4%	47.7%	47.3%	47.8%
Total number of homes using DTT equipment	18.0m	18.2m	18.2m	18.6m	18.7m
Homes percentage (%)	70.2%	71.2%	71.1%	72.6%	73.1%
Number of homes where DTT is the only digital platform	9.8m	9.9m	9.7m	10.1m	10.2m
Homes percentage (%)	38.5%	38.8%	38.0%	39.6%	39.8%

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

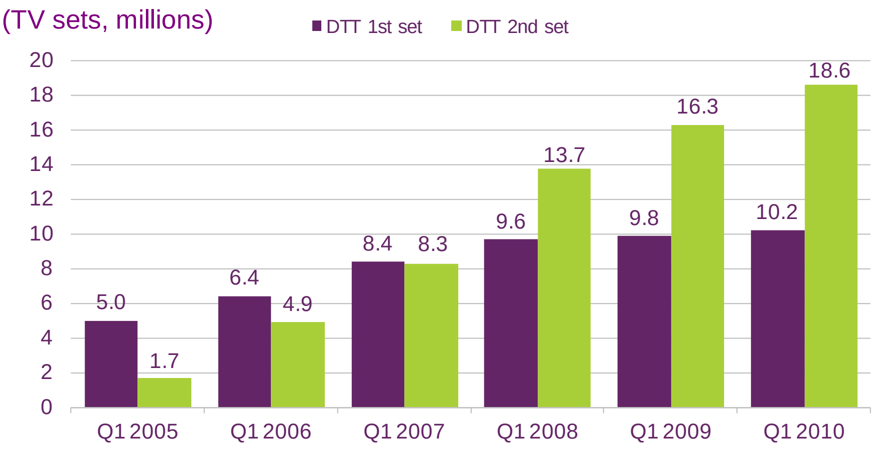
3.28 DTT equipment was being used in 18.7 million homes by the end of Q1, taking account of cable and satellite homes using DTT on secondary sets. This was up by around 127,000 on the previous quarter and by almost 750,000 homes year on year. The survey showed that DTT was the only digital platform in 10.2 million homes by the end of March 2010, up by almost 340,000 year on year.

3.29 The Q1 GfK ownership survey estimated the total number of DTT-enabled TV sets at around 28.8 million; this was up by almost 2.7 million in a year. Cumulative DTT sales reached almost 13.7 million over the past year, following on from 12.7 million the previous year. Growing sales have helped to increase the conversion of TV sets from analogue terrestrial to digital terrestrial. Almost half (48%) of all TV sets were connected to a DTT device by March 2010, compared to a fifth of sets (20%) still relying solely on analogue terrestrial for reception.

DTT growth on primary and secondary sets

3.30. The number of DTT devices used on secondary sets overtook the number used on primary sets during 2007. By the end of Q1 2010 there were 28.8 million DTT-enabled sets, of which 10.2 million were primary and around 18.6 million were secondary sets. This means that almost two-thirds (65%) of DTT devices are now connected to secondary sets (Figure 17).

Figure 16: DTT on primary and secondary sets



Source: GfK NOP research