

# Digital Television Update

## Q2 2004

This is the third 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:** September 2004

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# Executive summary

**By 30 June 2004 digital TV penetration was estimated to have reached over 55% of UK households, up from 53% at 31 March 2004.**

In addition a further 4% of households were subscribing to analogue cable, bringing the total receiving some form of multi-channel television to over 59%. Within these total figures, the key developments were:

- The total number of digital television households grew by 630,000 over the quarter, increasing digital penetration by 2.4%.
- Sky's subscriber numbers are now over seven million, reaching 7,032,000 in the UK at the end of Q2 2004.
- Freeview (Digital Terrestrial Television) also saw an increase, with household numbers estimated to have grown to around 3,889,000 in the same period.
- Latest estimates suggest there are also around 305,000 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 4.2 million free to view digital households. (Freeview (DTT) plus free to view satellite).
- The total number of subscribers to cable television is estimated to have increased slightly and is now around 3.36 million, of which digital cable accounts for almost 2.47 million.
- An adjustment has been made to account for the number of households which have digital on more than one set. Ofcom estimates that 15% 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.

# Digital television uptake

## Platform figures for Q1 2004 and Q2 2004

	Q1, 2004	Q2, 2004	Quarterly growth rate
<b>Pay TV subscribers</b>			
<i>Digital cable</i>	2,408,530	2,469,326	2.5%
<i>Digital Satellite (Sky)</i>	6,956,000	7,032,000	1.1%
<i>ADSL</i>	8,664	9,074	4.7%
<b>Total digital pay TV households</b>	9,373,194	9,510,400	1.2%
<b>Free-to-view receivers (set-top boxes plus integrated digital TVs)</b>			
<i>Free-to-view DTT (Freeview)</i>	3,929,200	4,424,485	12.6%
<i>Free-to-view digital satellite*</i>	231,000	305,000	32.0%
<i>Total Free-to-view receivers</i>	4,160,200	4,729,485	13.7%
<i>Adjustment to remove double counting for Households equipped to receive digital on more than one set</i>	-461,133	-535,426	
<b>Total Free-to-view households</b>	3,699,067	4,194,059	13.4%
<b>Total UK digital households</b>	<b>13,072,261</b>	<b>13,704,459</b>	<b>4.8%</b>
<b>Digital penetration</b>	<b>53.0%</b>	<b>55.4%</b>	<b>2.4%**</b>
<b>Additional homes receiving analogue multi-channel services</b>			
<i>Analogue cable</i>	916,745	898,424	-2.0%
<b>Total analogue and digital</b>			
<i>Total UK pay TV households</i>	10,289,939	10,408,824	1.2%
<i>Total UK multi-channel households</i>	13,989,006	14,602,883	4.4%
<i>Multi-channel penetration</i>	56.7%	59.1%	2.4%**

\*These figures comprise 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. Figures may not add due to rounding.

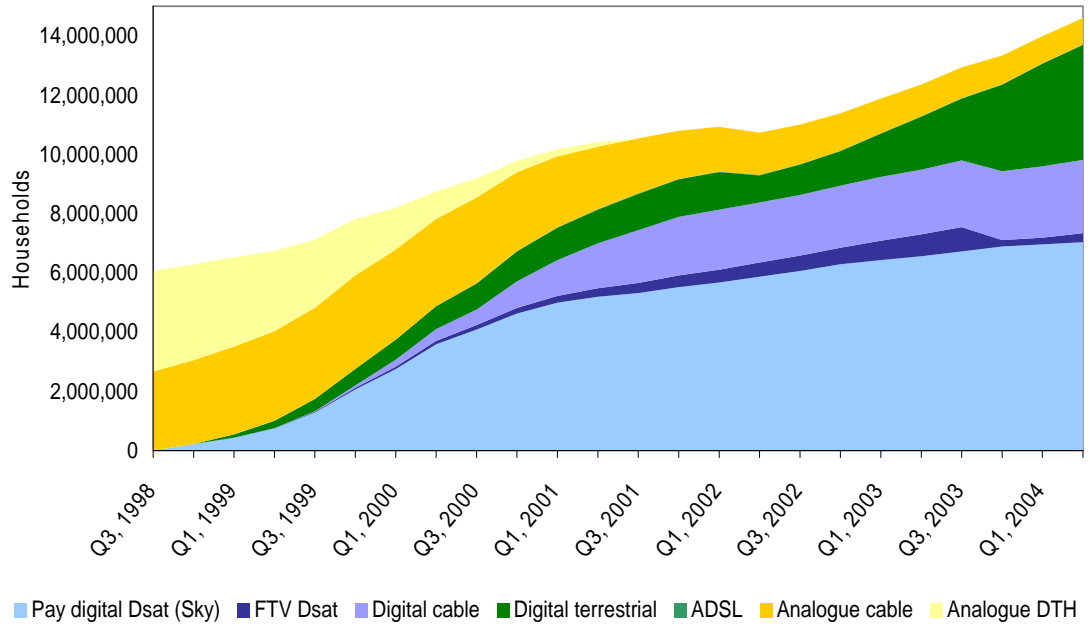
Sky continued its consistent growth, adding 76,000 paying subscribers over the quarter, to bring the total number of UK subscribers to 7,032,000.

After adjustment for double counting, total DTT households increased by around 421,000 during the quarter, representing an increase of over 12%.

Based on the latest figures for Q2 March 2004, overall cable television subscribers are around 3,367,750. Digital cable subscribers make up around 73% of the total cable base.

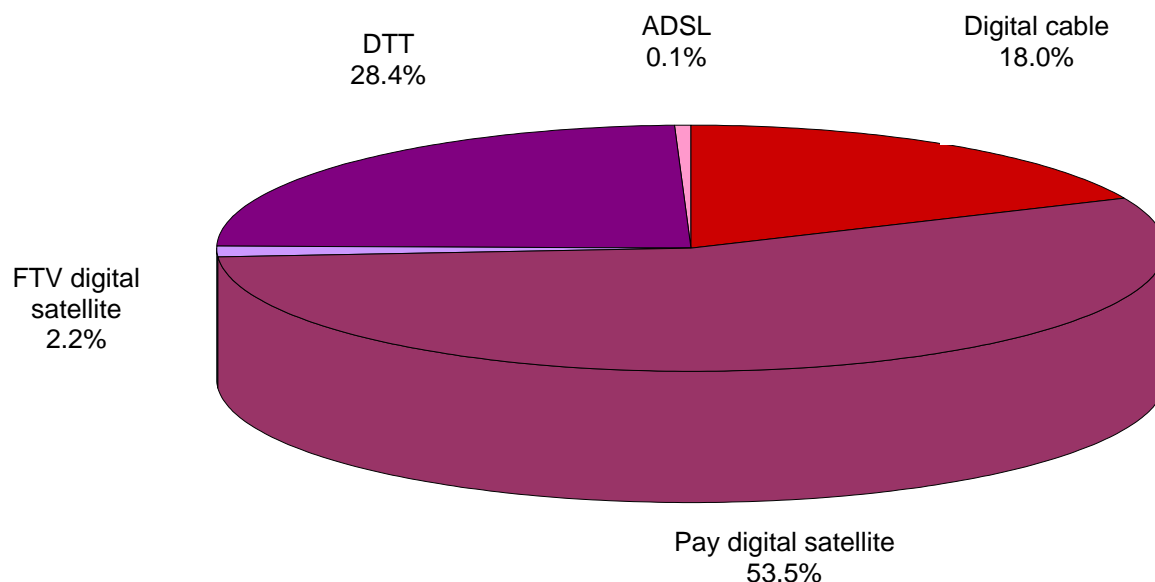
Overall digital penetration increased, by 2.4 percentage points, reaching 55.4% of UK households. Multichannel penetration in the UK is now around 59.1%.

## 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 Q2 2004 was:



## Share of digital homes by platform

- Sky share of digital homes showed a drop from 55% in Q1 2004 to 53.5% in Q2 2004. This reduction was mainly due to the increase in DTT's share of digital homes. This also resulted in a decrease in Sky's share of multichannel homes to 50.2%. Sky's share of pay-television homes however is remaining stable at 67.6%.
- Cable saw a slight decline in its share of digital TV homes in Q2 2004, and is now at around 18% down from 18.4% in Q1 2004. However the cable share of the Pay TV market showed a slight increase to 32.4% from 32.3% in Q1 2004. Pay TV market shares overall remain largely unchanged over the last year.
- Another quarter of growth for DTT resulted in an increase in share of the digital TV market from 26.5% in Q1 to 28.4% at the end of Q2. DTT share of multichannel homes also increased from 24.8% in Q1 to 26.6% in Q2.

Figures for penetration, share of homes and net additions by platform up to the end of Q2 are as follows:

	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4	2004 Q1	2004 Q2
<b>Digital take-up</b>							
Digital cable	8.5%	8.7%	8.8%	9.0%	9.4%	9.8%	10.0%
Digital satellite	27.7%	28.6%	29.4%	30.4%	28.9%	29.1%	29.7%
DTT	4.8%	6.0%	7.2%	8.6%	11.9%	14.1%	15.7%
ADSL	0.05%	0.05%	0.04%	0.04%	0.04%	0.04%	0.04%
<b>Total digital</b>	<b>41.0%</b>	<b>43.3%</b>	<b>45.5%</b>	<b>48.0%</b>	<b>50.2%</b>	<b>53.0%</b>	<b>55.4%</b>
Analogue Cable	5.1%	4.7%	4.3%	4.1%	4.0%	3.7%	3.6%
Total Multichannel	46.1%	48.0%	49.8%	52.2%	54.2%	56.7%	59.1%

<b>Pay TV take-up</b>							
Cable	13.6%	13.4%	13.1%	13.2%	13.4%	13.5%	13.6%
Digital Satellite	25.4%	26.0%	26.4%	27.0%	28.0%	28.2%	28.4%
DTT*	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ADSL	0.05%	0.05%	0.04%	0.04%	0.04%	0.04%	0.04%
<b>&gt;bold&lt;Total</b>	<b>39.1%</b>	<b>39.4%</b>	<b>39.6%</b>	<b>40.3%</b>	<b>41.5%</b>	<b>41.7%</b>	<b>42.1%</b>

<b>Share of digital TV market</b>							
Cable	20.6%	20.0%	19.4%	18.8%	18.8%	18.4%	18.0%
Digital Satellite	67.5%	66.1%	64.7%	63.2%	57.5%	55.0%	53.5%
DTT	11.7%	13.7%	15.8%	17.8%	23.7%	26.5%	28.4%
ADSL	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%

<b>Share of multichannel TV market</b>							
Cable	29.4%	27.9%	26.4%	25.3%	24.8%	23.8%	23.1%
Digital Satellite	60.0%	59.6%	59.1%	58.2%	53.3%	51.4%	50.2%
DTT	10.4%	12.4%	14.5%	16.4%	21.9%	24.8%	26.6%
ADSL	0.11%	0.09%	0.09%	0.08%	0.07%	0.06%	0.06%

<b>Share of net additions</b>							
Cable	-5.3%	-7.7%	-12.9%	2.8%	2.6%	3.4%	6.9%
Digital Satellite	65.8%	49.9%	44.8%	40.9%	0.0%	12.8%	24.4%
DTT	40.6%	58.0%	68.3%	56.4%	97.4%	83.8%	68.6%
ADSL	-1.1%	-0.2%	-0.1%	-0.1%	-0.3%	0.0%	0.1%

\* Latest figures for the Top-Up TV service have not been released for Q2. However as the subscribers to Top-Up TV also receive free-to-view DTT they are therefore already included under the DTT sections for subscribers.

# Platform updates

## Digital satellite – Pay TV Homes

	Pay digital satellite	
	Q1, 2004	Q2, 2004
<b>Pay-TV homes</b>	<b>6,956,000*</b>	<b>7,032,000*</b>
<i>ARPU (annualised)</i>	£382	£380
<i>Churn</i>	9.4%	9.7%
<i>Base package price</i>	£13.50	£13.50

Source: BSkyB Q2 2004 results

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

Sky's UK subscriber base reached 7,032,000 during the quarter with 76,000 net additions to its pay-TV service during the quarter. This was an increase in the rate of take-up from Q1 2004, when 66,000 subscribers joined Sky.

Annualised average revenue per user (ARPU) for the quarter was £380 – Sky aims to increase this to £400 by 2005. Churn increased slightly during the quarter from 9.4% to 9.7%. but has remained below 10% for over a year.



## Digital satellite - Free-to-view homes

	Free-to-view digital satellite	
	Q1, 2004	Q2, 2004
<i>Free-to-view homes</i>	231,000	305,000

Source: Sky, 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 did so and this scheme has now come to an end.

A further 160,000 viewers are estimated to have churned-off Sky subscription services but have a P2 card and so for the time being still receive all of the free-to-view public service channels.

## Cable

The operating statistics for the key cable companies below are as at Q2 June 2004.

	ntl		Telewest Broadband	
	Q1, 2004	Q2, 2004	Q1, 2004	Q2, 2004
>spacing< <i>Homes passed and marketed</i>	7,861,100	7,798,000	4,678,182	4,682,777
<i>Total residential subscribers</i>	2,923,200	2,981,500	1,742,144	1,752,553
<i>TV homes connected</i>	2,048,900	2,070,600	1,285,797	1,288,272
>spacing< <b><i>Digital TV homes connected</i></b>	<b>1,371,000</b>	<b>1,408,700</b>	<b>1,029,759</b>	<b>1,052,855</b>
<i>TV penetration rate</i>	26.1%	26.6%	27.5%	27.5%
<i>ARPU (annualised)</i>	£502.92	£496.56	£540.6	£539.76
<i>Churn rate*</i>	12.4%	14.4%	14.4%	15.2%
<i>Basic package price</i>	£18	£19	£13.50	£13.50

Source: Telewest Broadband and ntl Q2 2004 results

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

By 30 June 2004, the total number of UK cable households was 3,367,750. Of these, 2,070,600 subscribed to ntl, 1,288,272 to Telewest Broadband, and the remainder to Omne Communications and Wightcable. Telewest Broadband showed an increase of 2,475 subscribers in the quarter, whilst ntl saw an increase of 21,700 subscribers.

Overall, the cable industry saw an increase in total subscribers of 24,175. The number of digital subscribers also continued to grow, reaching 2,469,326 by the end of Q2 2004 – an increase of 60,796 or 2.5% from Q1.

## Digital terrestrial television (DTT)

	DTT	DTT
	Q1 , 2004	Q2 , 2004*
<i>ITV Digital STB</i>	500,000	500,000
<i>Freeview adapters</i>	2,832,800	3,264,785
<i>IDTV's</i>	596,400	659,700
<b><i>Digital terrestrial units in market</i></b>	<b>3,929,200</b>	<b>4,424,485</b>
Adjustment for 2 <sup>nd</sup> sets	-461,133	-535,426
<b><i>Total DTT households</i></b>	<b>3,468,067</b>	<b>3,889,059</b>

Source: Freeview Q2 sales figures, and Ofcom market estimates

An adjustment has been made to account for the number of households which have digital on more than one set. Ofcom estimates that 15% of sales of Freeview adapters over the last three quarters were bought for use on second sets by people who already have digital (either Freeview or Sky or cable) on their main set. An adjustment has also been made for previous quarters of 12%, as it is estimated that a smaller proportion of adapters were used for second sets in earlier quarters. 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).

DTT showed another strong quarter of growth, adding over 420 000 households during Q2, representing an increase of 12.1% on the previous quarter. Of these, Ofcom estimates that around 3,389,000 use new Freeview adapters or IDTV sets, with the additional 500,000 using former ITV Digital set-top boxes.

Set-top boxes have reduced in price and a number are now available for around £50, compared with £99 since launch. It has also been possible to obtain free-to-air digital decoders at lower prices.

## TV over ADSL

	Homechoice		Kingston Interactive	
	Q1, 2004	Q2, 2004	Q1, 2004	Q2, 2004
<i>Homes passed</i>	155,530	1,247,906	105,000	105,000
<b><i>TV homes connected</i></b>	<b>3,300</b>	<b>3,870</b>	<b>5,364</b>	<b>5,204</b>
<i>TV penetration rate</i>	2%	0.3%	5%	5%
<i>Churn rate</i>	9%	0.3%	6%	5%

Source: Homechoice and Kingston Q2 2004 figures

The total number of subscribers to TV over ADSL increased by 4.7% in Q2 2004 to 9,074. Of those homes taking TV over ADSL, 5,204 subscribed to Kingston Interactive and 3,870 to Homechoice. Homechoice's penetration rate dropped in the quarter due to a large increase in the number of homes passed and marketed.