The Communications Market: Digital Progress Report

Digital TV, Q2 2007

This is the fifteenth Ofcom Digital Progress Report covering developments in digital television take-up. The data are the latest available at the time of writing and include quarterly figures provided by platform operators as well as from market research surveys.

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Section 1

Overview

1.1 In the three months to the end of June 2007 (Q2 2007) there were 944,000 net UK household conversions to digital television (DTV), following 870,000 additions in the previous quarter.

1.2 This means that **84.0% of households now receive digital television services** on their primary set, up 3.5 percentage points since March 2007.

1.3 With a further 1.1% of homes subscribing to analogue cable, the proportion of homes with multi-channel television at the end of Q2 2007 rose to **85.0%.**

Other key findings

1.4 Other key findings in the second quarter of 2007 include:

- The number of households with digital TV equipment connected to their main television stood at almost 21.4 million by the end of the period.

- The sale of 1.9 million DTT units in Q2 2007 was the fourth highest quarter on record following on from over 1.9m sales in Q1 2007 and from record sales in Q4 2006 of 2.4m units. Year on year Q2 sales were 52% higher (rising from 1.2m in Q206 and 0.7m in Q205), aided by the growing availability of integrated digital televisions (IDTVs), with sales of over 900,000 in Q2.

- DTT-only households accounted for 81% of the growth in digital TV homes in Q2 2007, rising by 763,000 to around 9.1 million over the quarter.

- Digital terrestrial is now the most commonly used platform on main TV sets, available in 9.1 million homes, followed closely by satellite (free-to-view and pay), which is in 9.0 million homes.

- We estimate that there are also around 945,000 free-to-view digital satellite homes, bringing the total number of free-to-view digital households (including both satellite and terrestrial) to almost 10.1 million.

- The number of BSkyB subscribers also rose by 77,000 to almost 8.1 million by the end of the quarter, taking total satellite homes (including free-to-view) beyond the 9 million mark for the first time.

- Net cable subscriber numbers rose by 6,600 during the quarter, to over 3.4 million. Digital cable subscribers rose by over 44,000, accounting for over 3.1 million or 92% of all cable subscriptions.

1.5 When calculating platform totals in this report, DTT-only homes are defined as those households where DTT is the only digital TV platform in the home. A household with satellite or cable on the main TV set and DTT on a second set is counted primarily as a satellite or cable home. (We assume that there are very few houses with satellite or cable on the second set). Figures for all homes with DTT are included in section 3 of the report.

Section 2

Platform figures Q2 2007

Figure 1: Platform take-up

	Q1 2007	Q2 2007	Net additions	Growth rate
Pay TV digital subscribers				
Digital cable	3,088,371	3,132,571	44,200	1.4%
Digital satellite (BSkyB) [1]	8,008,000	8,085,000	77,000	1.0%
TV over ADSL [2]	62,000	62,000	-	-
Total Digital pay TV subscribers [3]	11,158,371	11,279,571	121,200	1.1%
Free-to-view digital households				
DTT (Freeview) only homes [4]	8,376,000	9,139,000	763,000	9.1%
Free-to-view digital satellite [5]	885,000	945,000	60,000	6.8%
Total Free-to-view households	9,261,000	10,084,000	823,000	8.9%
Total UK digital households	**20,419,371**	**21,363,571**	**944,200**	**4.6%**
Digital penetration	**80.5%**	**84.0%**	**3.5 pp [6]**	
Other multi-channel households				
Analogue cable	310,054	272,454	-37,600	-12.1%
Multi-channel penetration	81.7%	85.0%	3.3 pp [6]	

Source: Platform operators, GfK research, Ofcom estimates.

[1] BSkyB subscriber figures include commercial premises and also TV over ADSL households that subscribe to Sky packages. There is therefore an element of overstatement in these areas.

[2] The Q2 figure for TV over ADSL refers to ADSL subscribers from Tiscali's Q1 results in May 2007. 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.

[3] Pay TV households do not include figures for Top Up TV which are not in the public domain. Top Up TV subscribers are therefore counted in free-to-view digital terrestrial homes.

[4] We use survey data from GfK to estimate the number of homes where DTT is the only digital platform. The total number of homes with DTT is therefore higher, as some have more than one multichannel platform.

[5] We estimate the number of viewers using satellite equipment to receive the free-to-view channels.

[6] pp = percentage points.

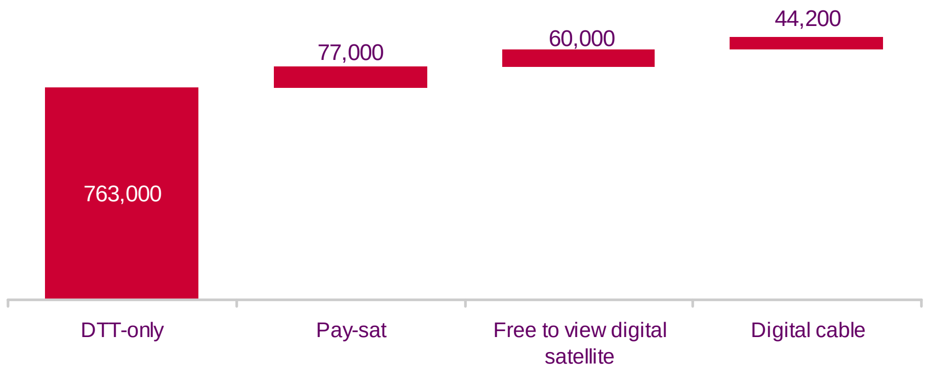
Note: Percentages may not add to 100% owing to rounding.

Q2 net platform additions

2.1 The 763,000 analogue terrestrial households which purchased Freeview equipment for the first time in Q2 accounted for over 80% of DTV growth. BSkyB added 77,000 net subscribers during the quarter while the number of homes using free satellite equipment also grew by an estimated 60,000. Cable homes show a net increase of 6,600 homes added and, when including migrations from analogue cable, total digital cable additions reached 44,200 in Q2 (Figure 2).

Figure 2: Net quarterly DTV growth

Subscribers / homes added during Q2



Source: Platform operators, GfK research, Ofcom estimates.

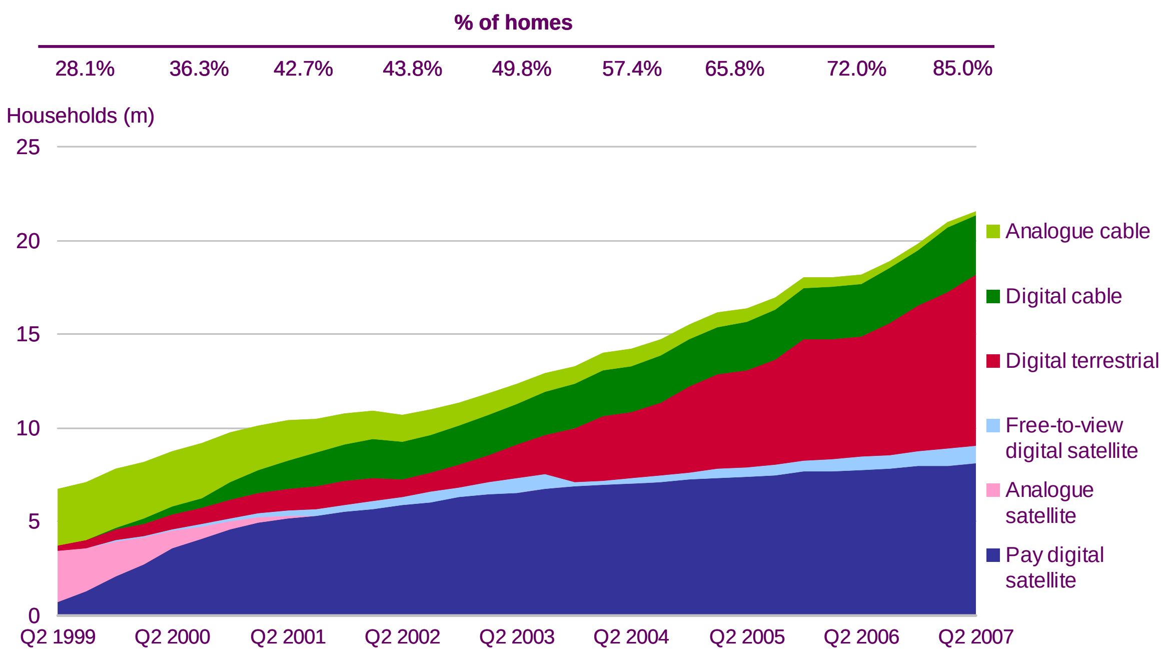
Multichannel take-up

2.2 Multichannel take-up increased by around 3.4 percentage points in Q2 to 85.0%. Over the last two years take-up has risen by almost a fifth of UK homes, (19.2 percentage points) from just under two-thirds (65.8%) in Q2 2005 to over eight in ten homes by Q2 2007 (Figure 3).

2.3 Of the 85.0% of homes with multichannel, digital television accounts for 84.0%, with the remaining 1% made up by analogue cable. Around 40,000 analogue cable homes are currently being converted to digital every quarter.

2.4 The total number of multichannel homes exceeded 21.6 million by the end of Q2 2007. This was up by over 906,000 on the previous quarter and by 3.4 million on the year.

Figure 3: Multichannel growth



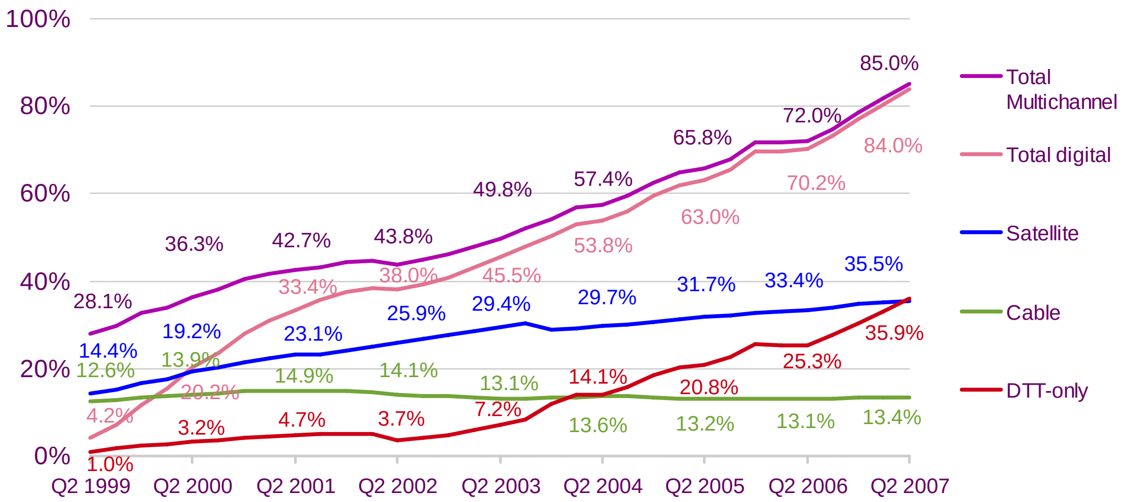
Source: Platform operators, GfK research, Ofcom estimates.

Platform by platform growth

2.5 DTT-only take-up increased by 2.9 percentage points over the quarter and was the primary platform in 35.9% of homes; over the year it has risen by 10.6 percentage points. Satellite penetration went up by 0.5 percentage points during Q2, partly assisted by the growth in free satellite, and was the primary platform in 35.5% of all homes. Cable has grown steadily over the year and accounted for main-set viewing in around 13.4% of homes by the end of Q2. (Figure 4)

Figure 4: Platform take-up 1999 - 2007

Households (% take-up)



Source: Platform operators, GfK research, Ofcom estimates.

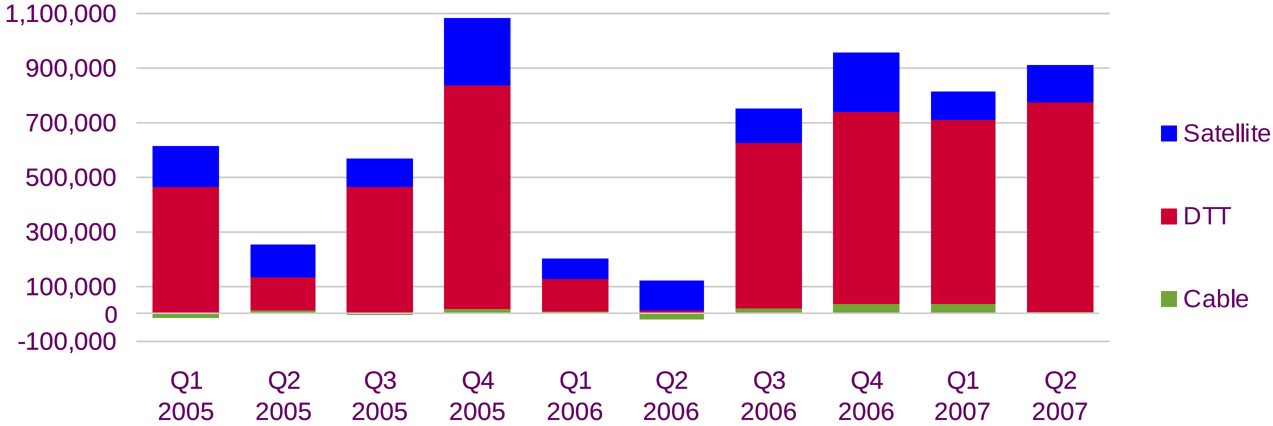
Drivers of DTV growth

2.6 Since 2005, satellite and DTT have been the main drivers of DTV growth. In Q2 2007:

- DTT accounted for 84% of net digital additions with 763,000 homes added;
- satellite added 137,000 homes or 15% of all additions; and
- Cable added 6,600 homes, just under 1% of all additions, and a smaller rise than in the previous three quarters. (Figure 5).

Figure 5: Net quarterly additions

Households

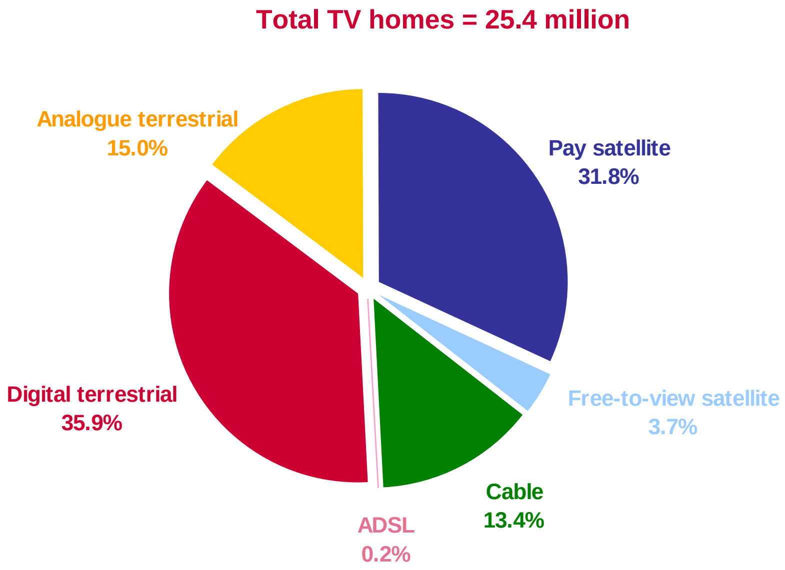


Source: Platform operators, GfK research, Ofcom estimates.

TV platform share on primary sets, Q2 2007

2.7 The chart below shows the means of reception on primary sets in the UK's 25.4 million television homes in Q2 2007. (Figure 6)

Figure 6: Platform share of main television sets, Q2 2007



Source: Platform operators, GfK research, Ofcom estimates.

2.8 Developments in the second quarter of 2007 include:

- The number of homes receiving analogue terrestrial television on their primary set fell by 3.3 percentage points during Q2 2007 from 18.3% in Q1. Over the year, analogue television take-up has declined by around 13 percentage points, from 28.0% in Q2 2006 to 15.0% by Q2 2007.

- The number of main sets using digital terrestrial is now more than double the number with analogue terrestrial. DTT penetration also exceeded that of total satellite (free and pay combined) for the first time during Q2 2007, ahead by 0.4 percentage points, having overtaken pay satellite in Q1.

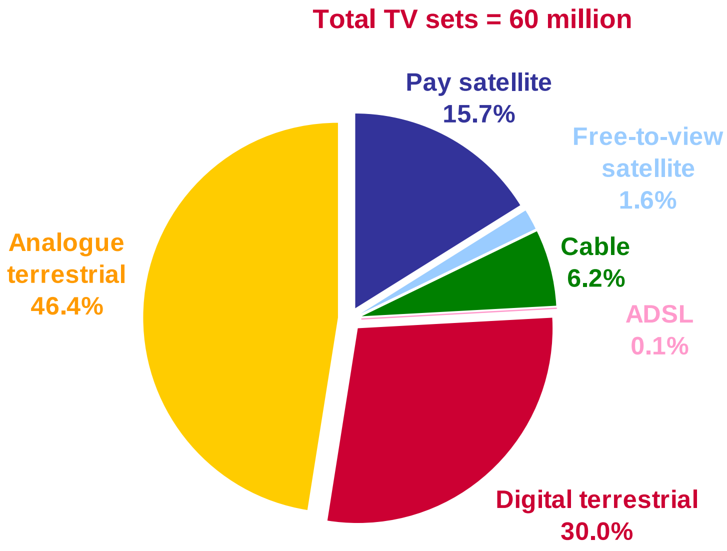
- Pay satellite penetration rose by 0.2 percentage points in Q2 to reach 31.8% of UK homes, while free-to-view satellite take-up also rose by 0.2% to 3.7%.

- The remaining homes took cable or ADSL, at 13.4% and 0.2% respectively.

TV platform share on all sets, Q2 2007

2.9 When including all sets (analogue and digital) in the analysis, multichannel now accounts for over half of all the UK's TV sets. (Figure 7).

Figure 7: Platform share of all TV sets



Source: Platform operators, GfK research, Ofcom estimates.
Note: According to Ofcom consumer research, the average home owns almost 2.4 TV sets equating to 60 million TV sets in total.

2.10 At the end of Q2 2007:

- Over half (53.6%) of all TV sets in the UK were multichannel by the end of Q2 2007, up from 51.0% at the end of the previous quarter. Analogue terrestrial share fell from 49.0% to 46.4%.
-
- Digital terrestrial share rose by 2.2 percentage points over the quarter to account for 30.0% of all TV sets. Year on year, DTT's share of TV sets has increased by 8.9 percentage points, driven partly by continued growth in the number of IDTV (integrated digital television) sets.

- Pay satellite had a share of 15.7% of all TV sets in Q2, up by 0.2 percentage points on Q1 2007, with both main-set subscriptions and Sky Multiroom increasing during the quarter. Adding in free-to-view sets (1.6%) satellite took a 17.3% share of all sets overall, up by 0.3 percentage points on Q1 2007.

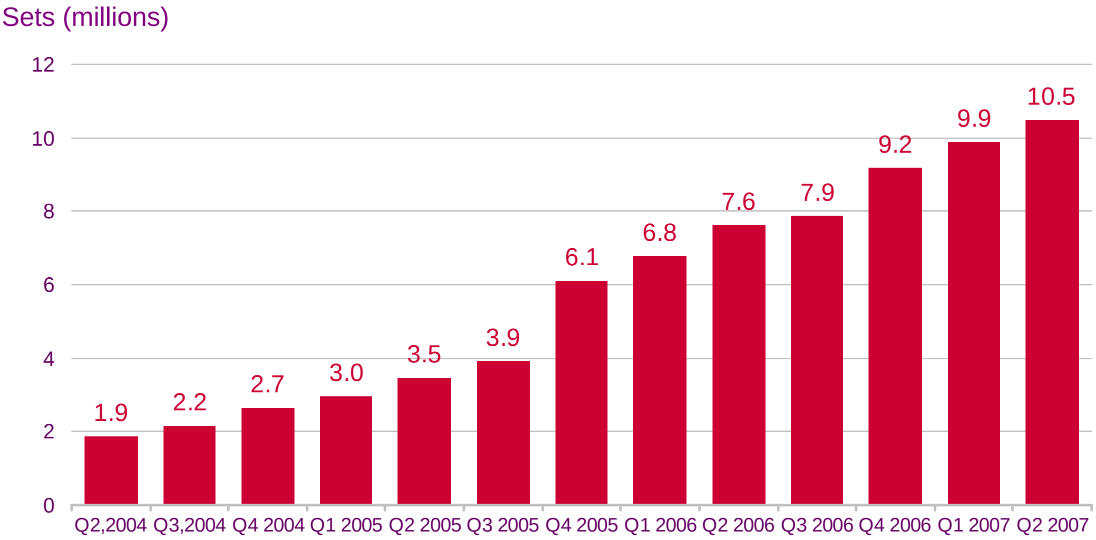
- Cable share was stable at 6.2% of TV sets in Q2, with ADSL making up the remaining 0.1%.

Growth in secondary digital sets

2.11 With the average UK home owning 2.4 TV sets, there are around 35 million secondary sets in the market, (for example sets in the bedroom or kitchen). Over 10 million secondary sets have now been converted to digital, equivalent to around 30% of the total. This includes secondary sets connected to the Sky Multiroom service, or to a second cable box or DTT set top box. Q2 saw an increase of around 610,000 secondary sets on Q1 2007. DTT was the biggest driver of growth, accounting for around 570,000 additions in the quarter.

2.12 Conversion of secondary TV sets has increased by almost 2.9 million (38%) during the last year, up from around 7.6 million at the end of Q2 2006 to around 10.5 million by Q2 2007.

Figure 8: Total secondary digital sets across all platforms



Source: Platform operators, GfK research, Ofcom estimates.
Note: this chart includes a small number of analogue cable second sets.

Summary of trends in digital take-up and market share in UK homes

Figure 9: Market share, take-up and additions on primary TV sets

	Q2 2005	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007
Digital take-up									
Digital cable	10.4%	10.6%	10.8%	11.1%	11.3%	11.6%	11.9%	12.2%	12.3%
Digital satellite	31.7%	32.1%	32.8%	33.1%	33.4%	33.9%	34.7%	35.0%	35.5%
DTT	20.8%	22.6%	25.7%	25.3%	25.3%	27.7%	30.4%	33.0%	35.9%
ADSL	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Total digital	**63.0%**	**65.4%**	**69.5%**	**69.7%**	**70.2%**	**73.3%**	**77.2%**	**80.5%**	**84.0%**
Analogue cable	2.8%	2.6%	2.4%	2.1%	1.8%	1.6%	1.4%	1.2%	1.1%
Total multichannel	65.8%	68.0%	71.8%	71.8%	72.0%	74.8%	78.6%	81.7%	85.0%
Pay TV take-up									
Cable	13.2%	13.2%	13.2%	13.2%	13.1%	13.1%	13.3%	13.4%	13.4%
Pay digital satellite	29.8%	29.9%	30.5%	30.5%	30.7%	30.9%	31.5%	31.6%	31.8%
ADSL	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Total	**43.1%**	**43.2%**	**43.8%**	**43.9%**	**43.9%**	**44.2%**	**45.0%**	**45.2%**	**45.4%**
Share of digital TV market									
Cable	16.6%	16.2%	15.6%	15.9%	16.0%	15.8%	15.4%	15.1%	14.7%
Digital satellite	50.4%	49.0%	47.3%	47.5%	47.6%	46.2%	45.0%	43.6%	42.3%
ADSL	0.1%	0.2%	0.2%	0.3%	0.3%	0.2%	0.2%	0.3%	0.3%
DTT	32.9%	34.5%	36.9%	36.4%	36.1%	37.8%	39.4%	41.0%	42.8%
Share of multichannel TV market									
Cable	20.1%	19.4%	18.4%	18.4%	18.1%	17.5%	16.9%	16.4%	15.7%
Digital satellite	48.2%	47.2%	45.7%	46.1%	46.4%	45.3%	44.2%	42.9%	41.7%
DTT	31.5%	33.2%	35.7%	35.3%	35.2%	37.0%	38.7%	40.4%	42.2%
Share of net additions									
Cable	5.3%	0.0%	2.0%	6.2%	0.0%	3.0%	4.3%	4.3%	0.7%
Digital satellite	48.1%	17.2%	22.6%	84.3%	87.7%	17.0%	22.9%	12.3%	15.1%
DTT	46.7%	79.7%	75.2%	0.0%	12.3%	80.0%	73.1%	81.0%	84.1%
ADSL	0.0%	3.1%	0.2%	9.5%	0.0%	0.0%	0.0%	2.3%	0.0%

Section 3

Update by platform

Digital satellite – pay TV households

Figure 10: BSkyB

Pay digital satellite – Sky	Q1 2007	Q2 2007
Pay-TV satellite subscribers	**8,008,000 ***	**8,085,000 ***
ARPU (annualised)	£395	£412
Churn	13.7%	12.1%
Basic package price	£15.00	£16.00
Sky Multiroom	1,297,000	1,343,000
Sky +	2,167,000	2,374,000
Sky HD	244,000	292,000

Source: BSkyB Q2 2007 results.

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

3.1 BSkyB's subscriber base increased by 77,000 during the quarter to reach 8,085,000, with over 336,000 net subscriber additions year on year.

3.2 The number of BSkyB subscribers taking the Multiroom service (which enables an additional set in the home to receive BSkyB services) increased by 46,000 during Q2 to 1,343,000; 296,000 Multiroom subscribers have been added over the last year.

3.3 BSkyB's PVR service, Sky+, saw another quarter of growth, adding 207,000 new subscribers in Q2, taking the total to 2.37 million homes. This means that 29% of all Sky subscribers now have the PVR service. BSkyB's HD (high definition) service also added 48,000 subscribers, taking the total number to 292,000 by the end of Q2, equivalent to 3.6% of Sky's UK subscriber base.

3.4 Annualised average revenue per user (ARPU) for the quarter was up by £17 on the previous quarter, to £412 in Q2, driven by growth in Multiroom, Sky + and Sky HD. Churn decreased quarter on quarter from 13.7% to 12.1%.

Digital satellite - free-to-view households

Figure 11: Free satellite

Free-to-view digital satellite	Q1 2007	Q2 2007
Free-to-view satellite households	885,000	945,000

Source: Ofcom estimates.

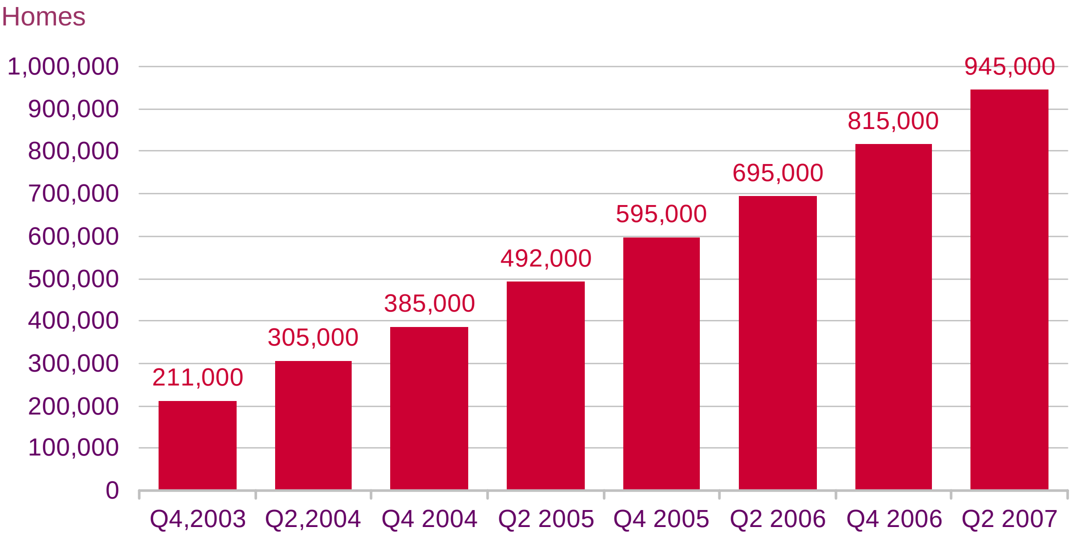
3.5 An increasing number of homes now receive free-to-view channels on satellite reception equipment. Free satellite viewers currently fall into three categories:

- those who have churned from BSkyB pay services but have retained their satellite equipment and can continue to receive free-to-view channels;
- users of BSkyB's own non-subscription service 'Freesat', which allows viewers to receive the free-to-view channels for a one-off payment of £150 (covering installation of satellite equipment); and
- those who have obtained satellite receiving equipment from retailers other than BSkyB and which allows them to receive free-to-view channels.

The BBC is also planning to launch its own free satellite service in 2008.

3.6 We estimate that use of free-satellite equipment has increased steadily over the last three years and that by the end of Q2 2007 almost one million homes received free-to-view channels in this way.

Figure 12: Estimated free-satellite households 2003 – 2007



Source: Ofcom estimates.

Cable

Figure 13: Virgin Media

Cable – Virgin Media	Q1 2007	Q2 2007
Digital TV homes connected	**3,081,100**	**3,125,300**
Total TV homes connected	3,390,000	3,396,600
Total residential subscribers (TV, telephony, internet)	4,807,600	4,737,300
Homes passed and marketed	12,696,200	12,697,400
TV penetration rate *	26.7%	26.7%
ARPU ** (annualised)	£513	£506
Churn ***	19.2%	21.6%
Basic package price	£11.00	£11.00
Virgin DVR (V+)	150,000	166,800

Source: Virgin Media Q2 2007 results.

* TV penetration rate is the percentage of take-up based on the number of homes passed by the cable network.

** Virgin Media ARPU and churn rates relate to their total consumer division.

3.7 Second quarter results for Virgin Media (previously ntl:Telewest) showed additions of 44,200 digital TV subscribers (75,200 in Q1 2007). After allowing for analogue subscribers migrating to digital cable, net additional TV homes were 6,600 in Q2, (36,100 in Q1 2007). This was the fourth consecutive quarter of growth for cable TV, with over 100,000 net TV subscribers added over the past year. There were also 166,800 subscribers using Virgin Media's V+ digital video recorder (DVR) service by the end of Q2 2007.

3.8 The total number of UK cable TV households in Q2 stood at 3,405,025 (when including the smaller cable operators such as Wight Cable and One World); 92%, or 3,132,571 of these, were digital.

Digital Terrestrial Television (DTT) device sales

3.9 Q2 saw almost 1.9 million sales of DTT devices (up 52% year on year). This was the fourth highest sales quarter so far for DTT, aided by strong sales of both IDTV equipment and of stand-alone set-top boxes. 7.6 million DTT units have been sold over the past year, compared to 5.4 million in the preceding year.

3.10 Around 922,000 IDTVs were sold in Q2, the second highest quarterly figure so far, and up by 89% on the 488,000 sold a year ago. Total sales over the last 12 months totalled 3.3m, compared to 1.5m the preceding year. IDTVs accounted for 49% of all DTT equipment sales in Q2, the highest ratio so far. IDTV's also now account for 52% of all TV sales.

3.11 Set top box sales approached 1 million in Q2 2007, the highest second quarter sales so far, up by 28% on last year's figure of 736,000. Over the past year around 4.3 million set top boxes have been sold, (compared to 3.9 million the previous year).

Figure 14: DTT equipment quarterly sales

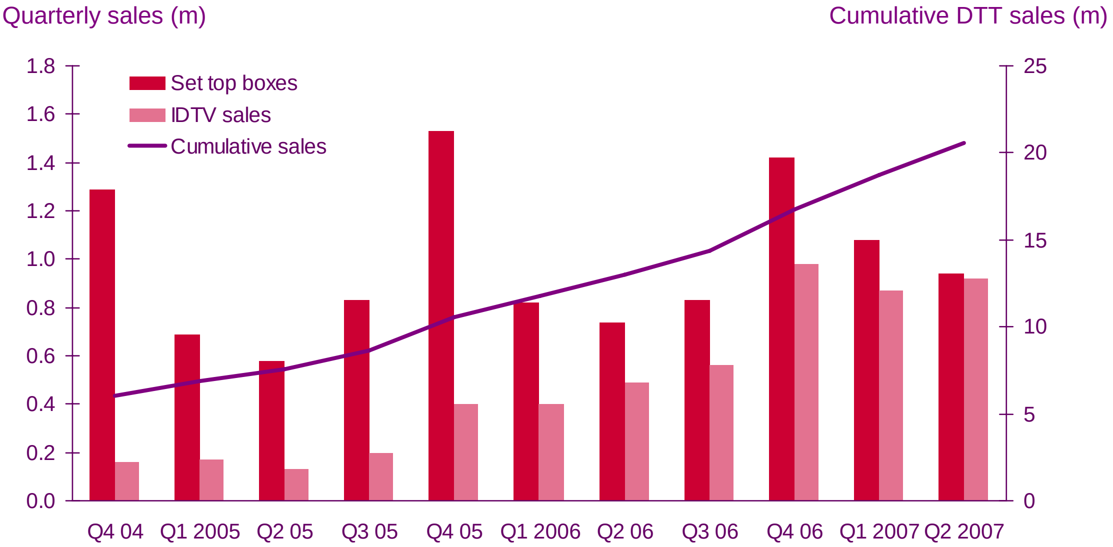
DTT quarterly sales (actuals)	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007
Freeview set-top boxes	736,470	834,960	1,416,765	1,084,650	942,690
Integrated Digital Televisions (IDTV's)	487,725	555,765	984,060	869,715	921,900
Total sales	**1,224,195**	**1,390,725**	**2,400,825**	**1,954,365**	**1,864,590**

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

* Freeview adjusts the GfK sales figures upwards by 5% to represent its estimate of the number of Digital TV set top boxes and IDTVs sold in Northern Ireland and offshore islands.

3.12 Between the launch of Freeview in October 2002 and Q2 2007, over 20.6 million DTT units have been sold. This includes over six million IDTVs and around 14.5 million DTT set top boxes.

Figure 15: DTT cumulative sales since launch of Freeview in 2002



Source: Sales figures GfK, as adjusted by Freeview.

DTT households and DTT device sales

3.13 An important 'overlap' factor must be taken into account when evaluating the impact of IDTV sales on digital conversions. IDTVs are often used as the main set in the home, yet in some cases they are connected to satellite or cable set-top boxes. This leads to an overlap, and therefore a lower rate of digital conversion than IDTV sales alone would imply. The explanation for this effect relates to the fact that new TV purchases may be motivated not by the DTT-receiving functionality of IDTV sets, but by a desire for bigger screens or high definition capabilities.

3.14 It also appears that an increasing number of DTT purchases are being made to convert secondary sets in the home to DTV, or as replacements for existing DTT set top boxes on the primary set. Replacement purchases can often be motivated by a desire to obtain new features such as 7-day programme guides or PVR functionality.

3.15 This can lead to a divergence between DTT sales figures and estimates for the number of homes converted to DTT. The Q2 GfK ownership survey estimated the total number of DTT-enabled TV sets to be around 18.0 million, which contrasts with total DTT equipment sales figures of 20.6 million.

3.16 After allowing for DTT homes which also use another digital platform, such as satellite or cable, GfK's estimate for homes where DTT is the only digital platform stood at 9.1 million at the end of Q2.

Figure 16: DTT households and sets estimates

DTT sets and households (millions)	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007
Total number of DTT enabled sets	12.7m	13.5m	15.3m	16.7m	18.0m
Total number of homes using DTT equipment	8.6m	9.3m	10.6m	11.7m	12.9m
Number of homes where DTT is the only digital platform	6.4m	7.0m	7.7m	8.4m	9.1m

Source: GfK consumer research.

3.17 The latest GfK consumer survey, in which respondents were asked about their DTT purchases, showed that around 39% of sales of DTT equipment in Q2 were to first-time buyers.

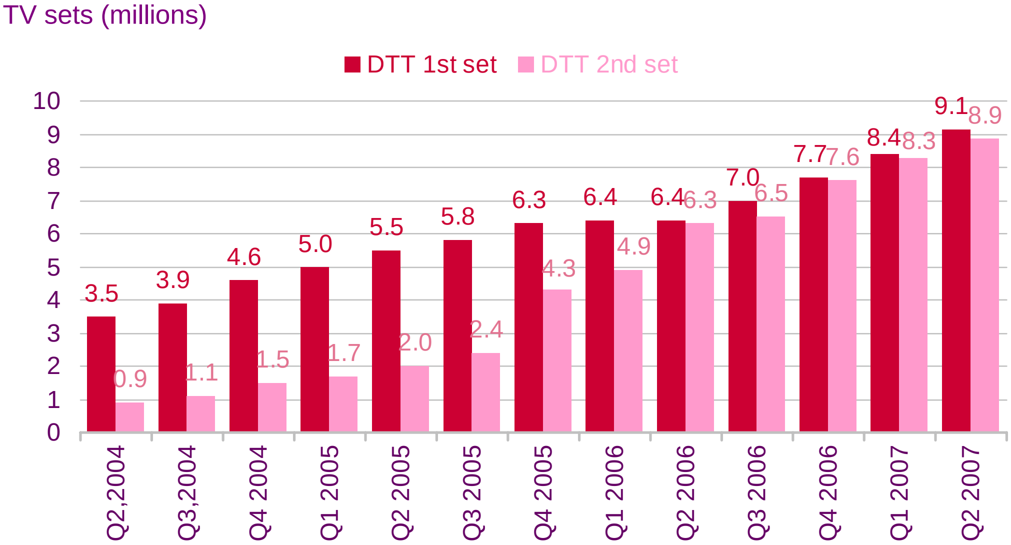
3.18 Of The remaining Q2 sales secondary or additional DTT devices accounted for about 40%, with the remainder, around 21%, being purchased for use as replacement equipment.

3.19 DTT equipment was being used in almost 13 million homes by the end of Q2. This represented an increase of around 1.2m on Q1, of which 760,000 were using DTT as their sole digital platform.

DTT growth on primary and secondary sets

3.20 Of the 18 million DTT-enabled sets, almost as many DTT devices are now in use on secondary sets as on main sets in the home (Figure 17). While initial growth was fuelled mainly by primary set conversions, by Q2 2006 second set sales had almost caught up with main set sales. By Q2 2007, secondary DTT sets stood at 8.9 million, compared to 9.1 million on primary sets. Secondary DTT sets have therefore increased by just under 600,000 during the quarter.

Figure 17: DTT on primary and secondary sets



Source: GfK consumer research, Ofcom estimates