The Communications Market: Digital Progress Report

Digital TV, Q2 2010

This is Ofcom's twenty-seventh 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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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 figure for 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 (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 that 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 second quarter of 2010 show that take-up of digital television in UK households stood at 92.7%, up by 2.9 percentage points year on year.**

1.2 Consumers are continuing to convert additional sets in the home. Almost **71% of all *secondary* TV sets had been converted to digital by the end of June 2010, up by one percentage point in a year but up 16 percentage points from two years ago.**

1.3 **Taking these figures together, 80% of *all* TV sets had converted to digital television by the end of Q2 2010** (this figure was stable year on year owing to a 'spike' in the Q2 2009 figure, but was up 11pp on two years previously). The remaining 20% of sets continue to receive analogue terrestrial broadcasts.

Other findings

1.4 Other findings in the second quarter of 2010 include:

- Sales of DTT-enabled equipment reached almost 3.1 million units in Q2, up by 14% on Q2 2009. Integrated digital television sets (IDTVs) accounted for over 76% of sales in the quarter (2.3 million units). Almost all TV sets sold (99.5%) now include an integrated digital decoder. Freeview set-top boxes accounted for over 720,000 sales in the quarter, up 5.8% on Q2 2009.

- In the year to Q2 2010 just over 14 million DTT units (IDTVs and set-top boxes) were sold, compared to 13 million in the previous year, an increase of 7.4%.

- The number of homes claiming that DTT was their primary means of digital TV reception was 10.1 million, according to survey results in Q2 2010. This was equivalent to 39.3% of all homes and up by around 0.5 percentage points on Q2 2009.

- Q2 2010 sales data from BBC/ITV freesat show that unit sales had reached around 1.25 million by the end of June, up from 1 million units in Q1 2010. Over three-quarters (80%) of freesat decoders sold supported HD services.

- According to our consumer research results for Q2, around 1.6 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 1.3 million in the previous quarter and up by 900,000 year on year.

- The Q2 survey also indicated that almost 9.3 million, or 36.5% of homes, received pay-satellite TV services, up 1.7 percentage points year on year. Separately, BSkyB reported that it added 90,000 subscribers to its pay television service in the UK and the Republic of Ireland during the fourth quarter; we estimate that around 70,000 of these were UK additions.

- Research results for Q2 show that 13% of homes took cable television, up from 12% a year before. Separately, Virgin Media reported net additions of over 22,000 TV subscribers, with its total TV customer base now over 3.75 million. Digital cable added almost 26,000 subscribers in the quarter (including conversions from analogue cable), with over 99% of all cable television customers using digital cable services by Q2.

1.5 Points to note on the platform shares discussed 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 the survey respondent.

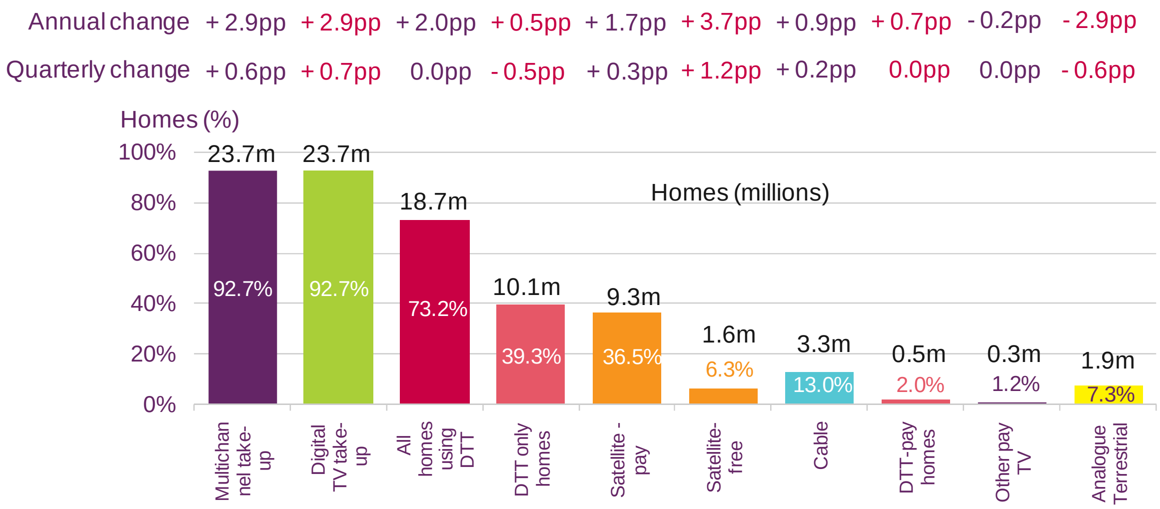
- Similarly, respondents with DTT and free satellite services may switch between the two services and may designate one or the other as the primary platform in the home; with their responses potentially changing over time.

Section 2

Platform figures Q2 2010

2.1 Figure 1 summarises quarterly and annual digital growth. Take-up has now reached 92.7%, up by 2.9 percentage points year on year. The number of homes using DTT on any TV set rose by 2.0pp in the year to over 73.2% of homes by the end of Q2 2010. Homes where DTT was the sole platform had reached 39.3% of the total (10.1 million) in Q2 2010, up 0.5pp in the year. Pay satellite take-up rose by 1.7pp over the year to 36.5% or 9.3 million homes, with the cable share of homes up 0.9pp year on year, to 13.0% (3.3 million 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, the report data focus 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 DTV 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 Q2); these are a subset of the 10.1 million total for Q2.

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

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 Q2 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, 23.7 million households (92.7%) had digital television on their main set in Q2 2010, up by 2.9pp in a year.

2.4 Our research showed that Freeview was the most widely-used service on main sets, accounting for around 10.1 million (39.3%) homes in Q2. The number of homes using DTT on any set in the home was 18.7 million (73.2%) in Q2 2010, up 2.0pp in the year.

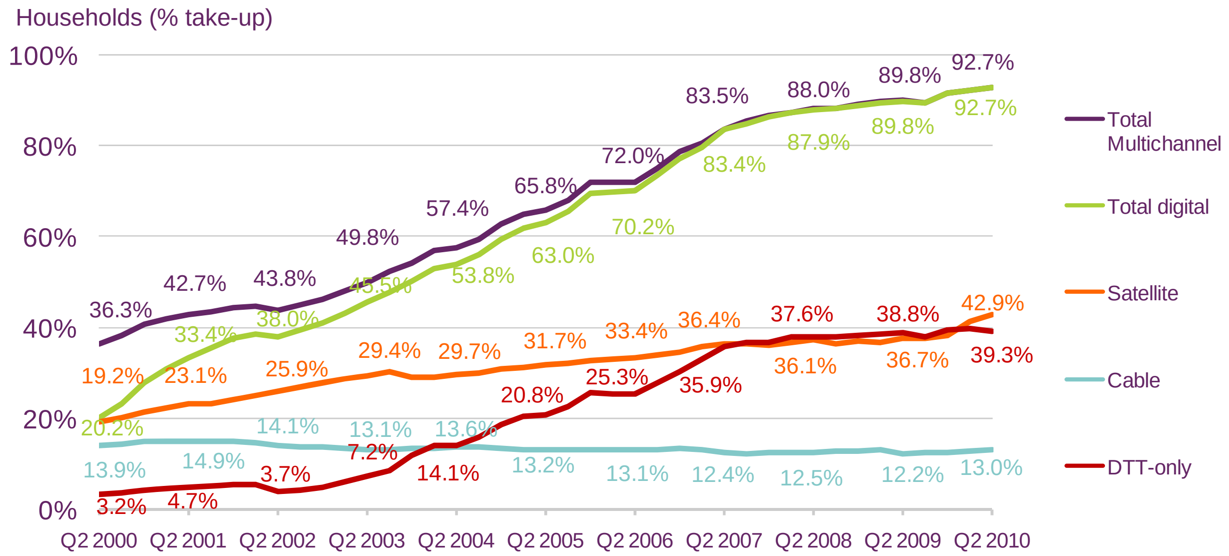
2.5 Q2 survey results show that almost 11 million (42.9%) of homes had access to satellite services (free or pay), up by 6.2pp year on year. Pay satellite accounted for the majority (9.3 million) of these homes (up by 400,000 year on year). The number of homes with access to free satellite services has increased by 900,000 over the year to reach 1.6 million in Q2 2010.

2.6 The number of homes using cable as their primary multichannel platform was 3.3 million (13.0%), with fewer than 25,000 of this total still receiving an analogue service. This survey-based total is lower than Virgin Media’s reported figure of 3.75 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 being the primary set in the home and/or (ii) statistical fluctuation on the survey.

2.7 The number of TV homes relying solely on analogue terrestrial television for their primary set was around 1.9 million (7.3%). This figure was down by 0.7 million (-2.9pp) over the year.

2.8 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 over 39% of homes, almost doubling from 21% homes five years ago. Satellite take-up has grown by 11pp over the past five years and was the most widely used primary platform in Q2 2010, in almost 43% of homes. By comparison, the use of cable TV has been more stable over the past five years, down only slightly by 0.2pp to 13.0%. Subscriptions to cable services have continued to grow over the past few years, although cable ownership has increasingly overlapped with other TV platforms during this period.

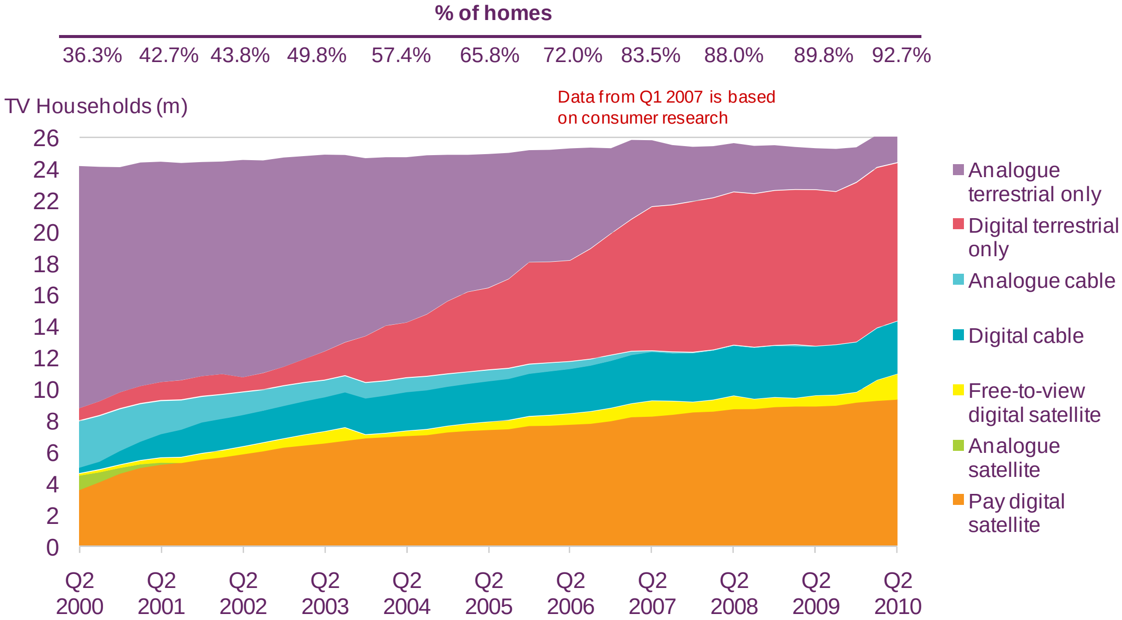
Figure 2: Multichannel take-up on main sets by platform 2000 - 2010



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 to be represented on this chart.

2.9 Figure 3 shows the year-on-year decline in the number of households receiving an analogue terrestrial television (ATT) on the main set. Ten years ago almost two-thirds of homes relied solely on analogue terrestrial; this had fallen to less than one in ten by Q2 2009, with DTV conversion of main sets up to almost 93% by Q2 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.

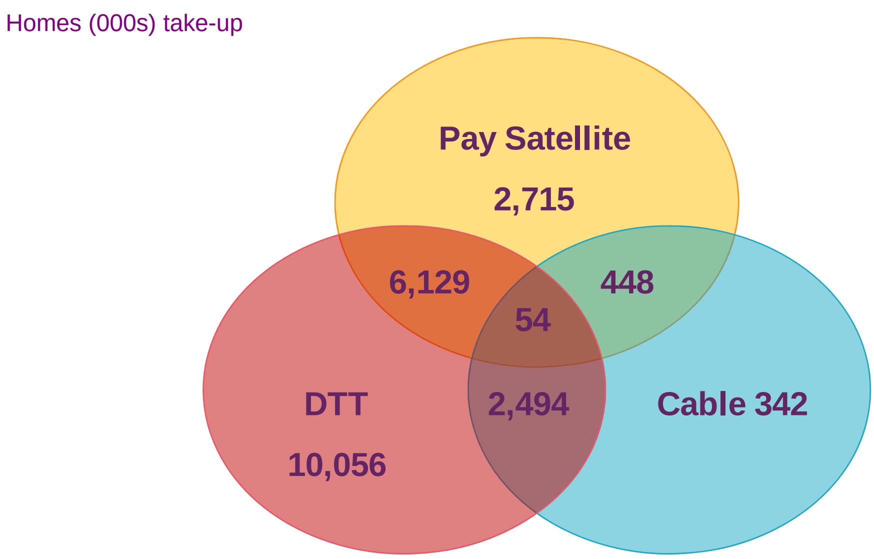
Figure 3: Multichannel take-up on main sets: 2000 – 2010



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 (53.7% or 10.1 million) rely solely on DTT for digital reception. The remaining 46.3% (8.7 million) are satellite or cable homes using DTT either on a primary or second set. Results indicate that around 500,000 homes claim to have access to both satellite and cable, with around 50,000 homes owning all three platforms. Nine in ten cable homes also 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: Q2 2010

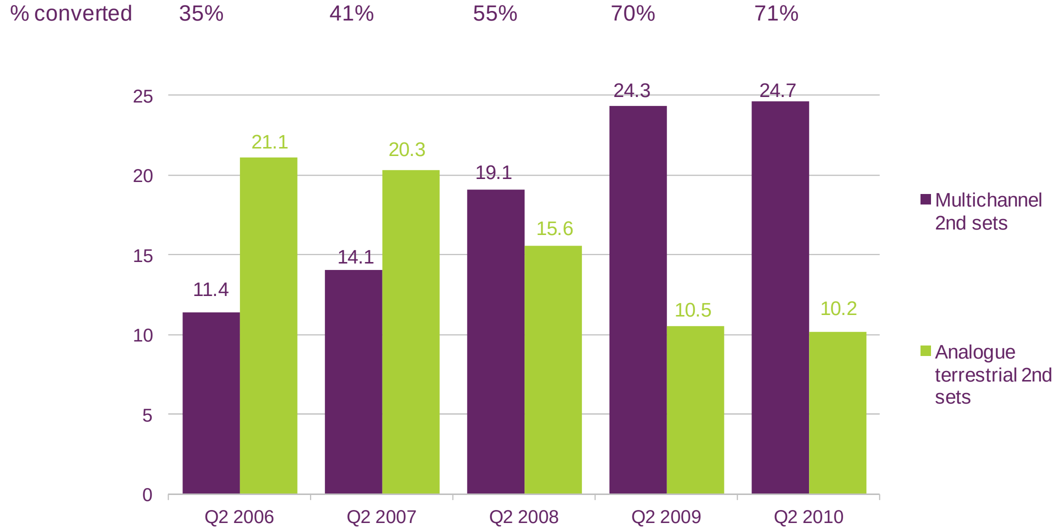


Source: GfK NOP consumer research, Q2 2010.
Note: Due to the smaller sample size it is not possible to depict the overlap among other multichannel platforms.

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 Q2 2010 around 24.7 million (71%) 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 over 300,000 (0.9pp) year on year.

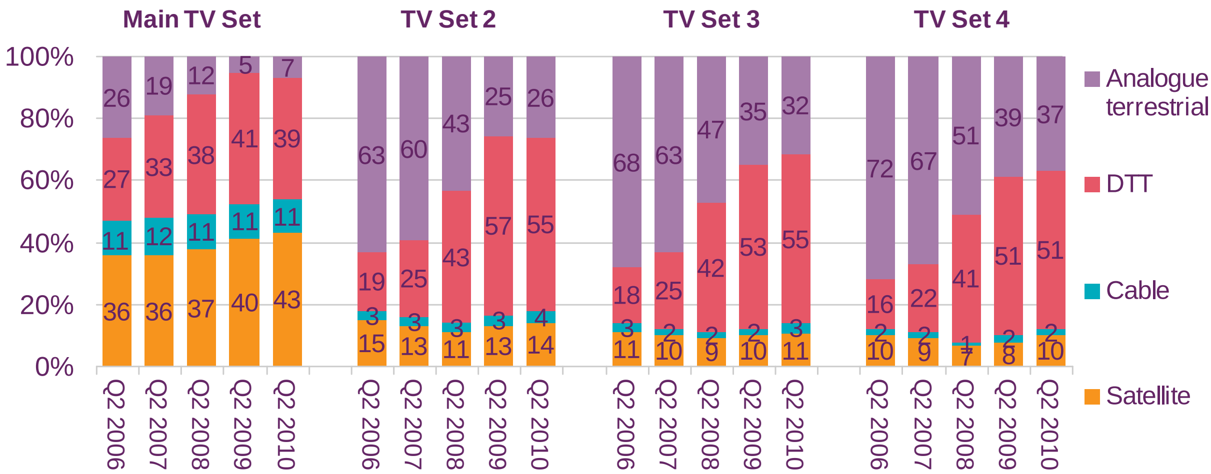
Figure 5: Total secondary digital sets across all platforms (millions)



Source: GfK NOP research

2.13 The latest survey results from Q2 2010 show that satellite (free and pay) held the largest share of main sets, at 43%, followed by DTT with 39%. On second, third and fourth sets DTT was the most widely used platform, connected to over half of secondary sets. By comparison, analogue terrestrial remained on a quarter of second sets, a third of third sets and less than 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, with over one in ten secondary sets receiving satellite services (Figure 6).

Figure 6: Platform shares for TV sets 1 – 4

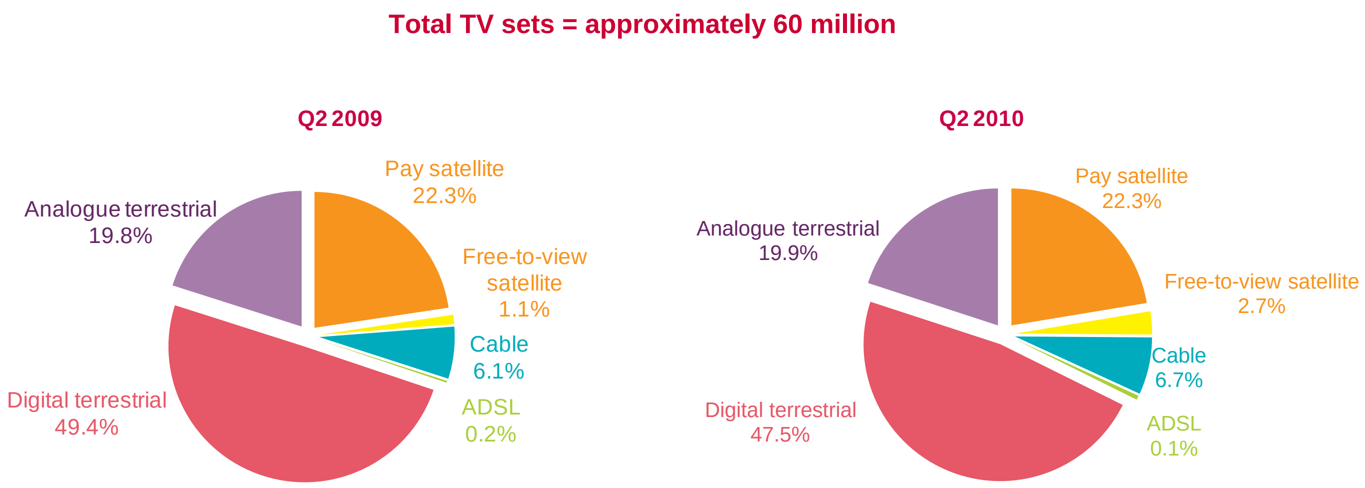


Source: GfK NOP research / Ofcom

Digital progress on all sets

2.14 Of the total of 60 million television sets (main and secondary), 48.3 million (80.1%) had been converted to digital by Q2 2010; similar to a year before when survey results reported a spike in the number of conversions (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 Q2 2010 included:

- Analogue terrestrial accounted for just under one in five (19.9%) of the total set universe in Q2, equivalent to almost 12.0 million television sets. This was similar to the analogue share a year before. Of the analogue sets, around 1.9 million were main sets and 10.1 million were secondary (in a bedroom or kitchen, for example).

- The number of digital terrestrial sets had reached almost 28.6 million equivalent to a 47.5% share of all sets in Q2 2010. Its share fell from 49.4% over the year following a spike in the Q2 2009 survey figures. However total DTT sales (IDTVs and set-top boxes), were up year on year by 14%. The number of DTT-enabled secondary sets is now significantly higher than primary sets at 18.7 million versus 10.1 million.

- Survey results indicate that a quarter (25.0%) of all television sets were connected to a satellite service by Q2 2010, up by 1.6pp in a year, with much of the recent growth coming from free satellite. Within this total, pay satellite accounted for 22.3% and free satellite 2.7%. BSkyB has continued to add main set and second set subscriptions via its Multiroom service. The BBC ITV freesat service has continued to report growing device sales over the year (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 Q2 2010, equivalent to a 6.7% share of all sets, up 0.6pp from 6.1% in a year.

Summary of multichannel trends Q1 2009 – Q2 2010

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

Homes (%)	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
Multichannel take-up						
Cable	13.2%	12.2%	12.4%	12.4%	12.9%	13.0%
Satellite	36.8%	37.5%	37.6%	38.3%	41.3%	42.9%
DTT	38.5%	38.8%	38.0%	39.6%	39.8%	39.3%
Other platforms [1]	2.3%	2.1%	1.4%	1.4%	1.2%	1.2%
Total multichannel [2]	**89.6%**	**89.8%**	**89.5%**	**91.4%**	**92.1%**	**92.7%**
Pay TV take-up						
Cable	13.2%	12.2%	12.4%	12.4%	12.9%	13.0%
Pay satellite	34.8%	34.8%	35.0%	35.8%	36.2%	36.5%
Pay DTT	0.8%	1.2%	1.9%	2.3%	2.0%	2.0%
Other pay platforms [1]	2.3%	2.1%	1.4%	1.4%	1.2%	1.2%
Total pay TV [2]	**49.9%**	**49.6%**	**49.3%**	**51.8%**	**52.3%**	**52.7%**
Share of multichannel TV market						
Cable	14.7%	13.6%	14.1%	13.5%	13.6%	13.5%
Satellite	41.1%	41.8%	42.7%	41.8%	43.4%	44.5%
DTT	43.0%	43.2%	43.2%	43.2%	41.8%	40.8%
Other platforms [1]	2.6%	2.3%	1.5%	1.5%	1.3%	1.2%
TV sets conversion						
Secondary sets converted	61.3%	69.8%	67.4%	68.9%	70.5%	70.7%
All TV sets converted	73.1%	80.2%	78.5%	79.0%	80.1%	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

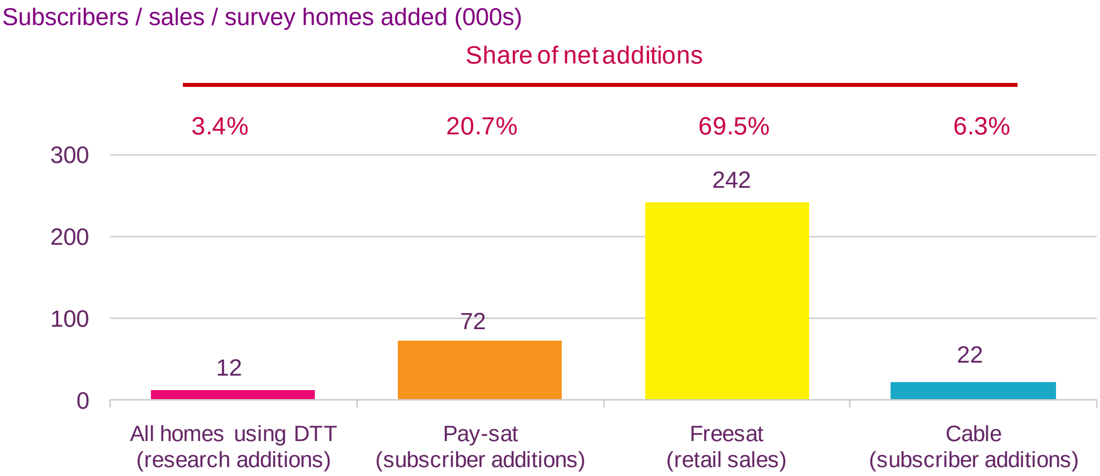
3.1 This section includes a comparison of net additions during the quarter across the various platforms. In the case of DTT these are based on the survey results. The satellite and cable platform additions are based on figures reported by the main platform operators. These are included for information 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 the number of homes using DTT on any TV set was broadly stable in the quarter, up slightly by around 12,000 in Q1 to reach 18.7 million homes. The figure was up by 500,000 year on year. *All homes using DTT* therefore includes satellite and cable homes using DTT on a secondary set. In the free satellite market, BBC/ITV freesat reported sales of around 242,000 during Q2.

3.3 BSkyB's Q2 results for the UK and the Republic of Ireland reported a net increase of 90,000 paying satellite subscribers. Based on the historical split of additions, we estimate that approximately 72,000 of these were UK homes. Virgin Media reported net additions of 22,000 cable TV subscribers during the quarter and, when including additional conversions from analogue cable, the increase in digital subscriptions stood at almost 26,000.

3.4 Using these results as a guide, free satellite had the highest additions in Q2 with 242,000 retail sales during the quarter. Converting that figure into new homes would equate to over a two-thirds (69.5%) share of additions during the quarter, but it is possible that a share of these sales could also overlap with other platforms in the home. Pay satellite reported the second highest volume of net additions in Q2, accounting for over a fifth (20.7%) of the total, with cable taking a 6.3% share and DTT the remaining 3.4% (Figure 9).

Figure 9: Estimated net quarterly multichannel growth: Q2 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 Q2 2010 and Q1 2010 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 Q2 2010 results*

Pay digital satellite – BSkyB	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
Pay-TV satellite subscribers*	**9,442,000**	**9,536,000**	**9,708,000**	**9,770,000**	**9,860,000**
ARPU (annualised)**	£464	£469	£492	£503	£508
Churn**	9.9%	11.3%	9.6%	9.9%	10.5%
Basic package price	£17.50	£17.50	£18.00	£18.00	£19.00
Sky Multiroom	1,835,000	1,897,000	1,999,000	2,062,000	2,121,000
Sky +	5,491,000	5,902,000	6,455,000	n/a***	n/a***
Sky + HD	1,313,000	1,600,000	2,082,000	2,510,000	2,939,000

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 or Q2 2010 figure for the standard Sky + service

3.5 BSkyB's Q2 results reported a 90,000 quarterly increase in subscribers, taking its total UK and Ireland subscriber base to 9,860,000, up 418,000 over the past year. Based on historic additions for the UK and Ireland, we estimate that around 350,000 of these were new UK customers in the year to Q2 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 59,000 during Q2 to 2,121,000 (with 286,000 additions over the past year). This means that over a fifth (22%) 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 429,000 subscribers in Q2, the second highest quarterly additions for the product so far, just above 428,000 in Q1 2010. With almost 1.6 million additions over the past year, total HD subscriptions are now over 2.9 million, equivalent to 29.8% of all Sky subscribers.

3.8 By September 2010, 46 HD channels were available on this service, up from 41 in Q1, and Sky plans to provide 50 HD channels by the end of 2010. BSkyB announced in its 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 Q2, of £508, up by £5 per annum on the previous quarter and by £44 year on year. By the end of Q2, a fifth (20% or almost 2.0 million) Sky customers took three services – TV, broadband and telephony. Churn – the proportion of subscribers ending contracts - increased year on year and quarter on quarter by the same amount, up by 0.6% from 9.9% to 10.5% in Q2 2010.

Digital satellite - free-to-view households

Figure 11: Free-to-view satellite

Free-to-view digital satellite	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
Free-to-view satellite households	682,000	667,000	643,000	1,307,000	1,625,000

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 and provides access to over 240 digital TV and over 85 radio channels.
- homes taking the freesat service offered by the BBC and ITV; and
- those which have satellite-receiving equipment from suppliers other than Sky or freesat.

3.11 Freesat, the digital satellite TV service from ITV and the BBC, is available nationwide and provides subscription-free access to over 140 digital TV and radio channels including HD channels, the BBC iPlayer, and, planned for 2010, the ITV Player.

3.12 By the end of Q2 2010, survey results indicated that around 1,600,000 homes had access to some form of free satellite in the home. Free satellite survey results have shown an increase over the past year, with 6.3% of homes now claiming to have some form of free satellite service.

3.13 The BBC/ITV freesat service reported further growth during the period, with total retail sales reaching 1.25 million units by the end of June 2010, up from 1.07 units in Q1 2010. 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.

Cable

Figure 12: Virgin Media Q2 2010 results

Cable – Virgin Media	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
Digital TV subscribers	3,543,300	3,599,300	3,656,200	3,702,800	3,728,700
Total TV subscribers	**3,622,700**	**3,659,700**	**3,693,900**	**3,729,600**	**3,751,900**
Total subscribers (TV, telephony, internet)	4,686,800	4,694,900	4,723,500	4,761,800	4,768,900
TV penetration rate *	28.8%	29.1%	29.4%	29.7%	29.9%
ARPU ** (annualised)	£519	£531	£538	£540	£551
Churn **	15.6%	18.0%	14.4%	13.2%	15.6%
Basic package price	£11.00	£11.00	£11.99	£11.99	£11.99
Virgin DVR (V+)	668,500	749,300	862,000	939,900	1,198,900

Source: Virgin Media quarterly results 2009/10
* As part of its analogue cable switch-off programme, 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's ARPU and churn rates relate to its total consumer division.

3.14 Virgin Media's Q2 results included net additions of 22,300 television subscribers (following 35,700 additions in Q1 2010). Allowing for the migration of analogue subscribers to digital cable, 25,900 digital TV subscribers were added in Q2.

3.15 Virgin Media has added 129,200 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. Virgin Media's combined annualised ARPU reached a new high of £550 in Q2 2010; an increase of over £31 year on year and up by over £10 in the quarter. Customer churn increased in Q2 to 15.6% from 13.2% in Q1, but was stable year on year.

3.16 Virgin Media now carries 26 HD channels, following the launch of Sky Sports 1 and 2 HD and ten Sky Movies HD channels in August 2010. Almost a third (32%) of the company's TV subscribers now use the V+ HD DVR (1,198,900 subscribers). Virgin also now provides a standard V HD-ready set-top box, enabling customers to access HD services for no additional monthly fee.

3.17 The number of Virgin Media customers taking three or more communications services reached 62.4% during Q2, up 4.1pp from 58.3% a year before (Q2 2009). The proportion of 'quad-play' customers reached 11.3% by Q2 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 Q2; this was up by over 200,000 in a year.

Digital terrestrial television (DTT) equipment sales

Figure 13: DTT equipment quarterly sales

DTT quarterly sales (actuals)	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
Freeview set-top boxes	684,600	696,360	1,247,000	855,000	724,000
Integrated Digital Televisions (IDTVs)	2,004,694	2,154,600	3,491,000	2,540,000	2,341,000
Total sales	**2,689,294**	**2,850,960**	**4,738,000**	**3,395,000**	**3,065,000**
DTT DVR sales*	213,600	203,805	329,000	207,000	153,000

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 Q2 2010 reached almost 3.1 million; this was up by 14% on the corresponding quarter last year. Integrated digital televisions (IDTVs) accounted for over three-quarters of these sales (over 2.3 million), while the number of set-top-box sales reached almost 724,000 in Q2.

3.20 Year on year, IDTV sales were up by over 336,000, or 17%, taking total sales in the 12 months to the end of Q2 2010 to 10.5 million. This compared to 9.1 million in the previous year. During Q2, almost all TV sets sold (99.5%) included a digital tuner.

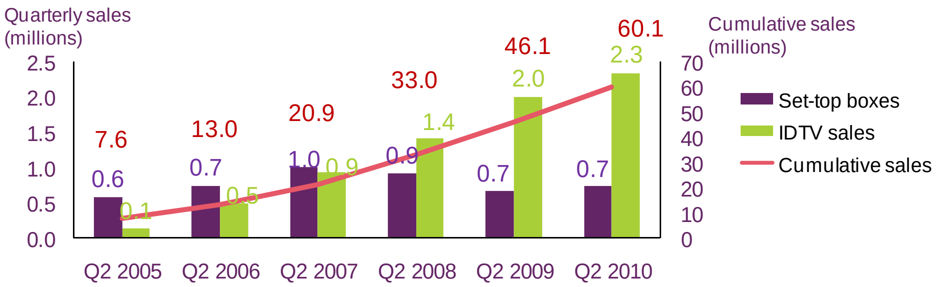
3.21 Annual sales of set-top boxes reached just over 3.5 million in the year to Q2 2010, down 12% from 4.0 million in the previous 12-month period. This decrease might be explained by higher sales of integrated TVs along with the increasing maturity of the DTT platform.

3.22 Cumulative sales of DTT DVRs (digital video recorders) reached over 3.75 million by the end of Q2 2010, with over 150,000 sales in the quarter. This represented just over a fifth (21%) 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, and had increased to over 50% of the UK by June 2010. By the end of 2010 coverage is expected to reach 60% of the UK and 98.5% by 2012.

3.24 Since Freeview's launch in October 2002, total sales of DTT devices have reached 60 million units, comprising over 32 million IDTVs and almost 28 million DTT set-top boxes (Figure 14).

Figure 14: Quarterly and cumulative sales of DTT 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)	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
Total number of DTT enabled sets Percentage of all TV sets (%)	29.7m 49.4%	28.8m 47.7%	28.5m 47.3%	28.8m 47.8%	28.6m 47.5%
Total number of homes using DTT equipment Homes percentage (%)	18.2m 71.2%	18.2m 71.1%	18.6m 72.6%	18.7m 73.1%	18.7m 73.2%
Number of homes where DTT is the only digital platform Homes percentage (%)	9.9m 38.8%	9.7m 38.0%	10.1m 39.6%	10.2m 39.8%	10.1m 39.3%

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

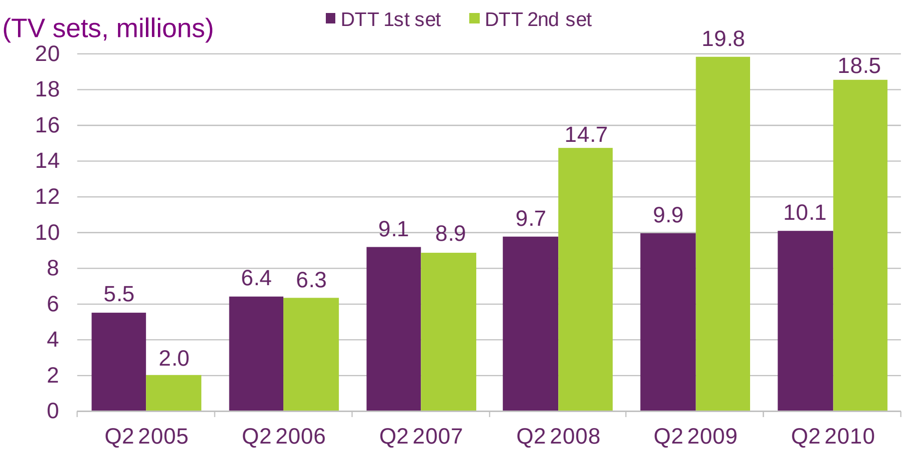
3.28 DTT equipment was being used in 18.7 million homes by the end of Q2, taking account of cable and satellite homes using DTT on secondary sets. This was up by around 500,000 year on year, with 73% of homes now using DTT on either a primary or secondary set. The Consumerscope survey showed that DTT was the only digital platform in 10.1 million homes (39.3%) by the end of June 2010, up by around 120,000 year on year.

3.29 The Q2 GfK ownership survey estimated the total number of DTT-enabled TV sets at around 28.6 million; this was down on the survey result of a year before, following a jump in the Q2 2009 figures. Cumulative DTT sales reached over 14.0 million in the past year, following on from 13.1 million the previous year. Increasing sales have helped to speed the conversion of TV sets from analogue terrestrial to digital terrestrial. Almost half (47.5%) of all TV sets were connected to a DTT device by June 2010, compared to a fifth of all 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 Q2 2010 there were 28.6 million DTT-enabled sets, of which 10.1 million were primary and around 18.5 million were secondary sets. This means that almost two-thirds (65%) of DTT devices are now connected to secondary sets (Figure 16).

Figure 16: DTT on primary and secondary sets



Source: GfK NOP research