Digital Television Update

Q1 2005

This is the sixth 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.

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Contents

Section 1

Executive summary

1.1 By 31 March 2005 digital TV penetration was estimated to have reached 61.9% of UK households, up from 59.4% at 31 December 2004.

1.2 In addition 3% of households were subscribing to analogue cable, bringing the total receiving some form of multi-channel television to just over 64.9%. Within these total figures, the key developments in the first quarter of 2005 were:

- The total number of digital television households grew by 643,517 over the quarter, increasing digital penetration by 2.5% points.
- BSkyB's subscriber numbers in the UK increased by 87,000 to reach 7,349,000 in the UK at the end of Q1 2005.
- Freeview (Digital Terrestrial Television) saw a very strong increase, with household numbers estimated to have grown to around 5,059,350 in the same period.
- Latest estimates suggest there are also around 445,000 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 over 5.5 million free-to-view digital households. (Freeview (DTT), plus free to view satellite).
- The total number of subscribers to cable television is now just under 3.3 million. Digital cable increased by just over 30,000 and now accounts for just over 2.5 million of the total.

1.3 In calculating DTT households an adjustment has been made to account for the number of households which have digital TV on more than one set. Latest estimates suggest that 25% of Freeview boxes are in households that already have digital (either Freeview, Sky or cable) on their main set. Sky and cable subscriber figures already account for multi-set users.

Section 2

Digital television uptake

Platform figures for Q4 2004 and Q1 2005

	Q4, 2004	Q1, 2005	Quarterly growth rate
Pay TV digital subscribers			
Digital cable	2,513,961	2,544,048	1.2%
Digital Satellite (Sky)	7,262,000	7,349,000	1.2%
TV over ADSL	20,000	20,000*	
Total digital pay TV households**	9,795,961	9,913,048	1.2%
Free-to-view digital households			
Free-to-view DTT (Freeview) homes	4,592,920	5,059,350	10.2%
Free-to-view digital satellite***	385,000	445,000	15.6%
Total Free-to-view homes	4,977,920	5,504,350	10.6%
Total UK digital households	**14,773,881**	**15,417,398**	**4.4%**
Digital penetration	**59.4%**	**61.9%**	**2.5%~**
Additional homes receiving analogue multi-channel services			
Analogue cable	787,732	744,214	-5.5%
Multi-channel penetration	62.6%	64.9%	2.3%~

* The Q1 figure for TV over ADSL includes Homechoice figures for as at 31st January. Homechoice figures for the end of March 2005 are not in the public domain.

** Pay TV households does not include figures for TopUpTV, Q1 figures are not in the public domain. TopUpTV subscribers are therefore counted in free-to-view digital terrestrial homes.

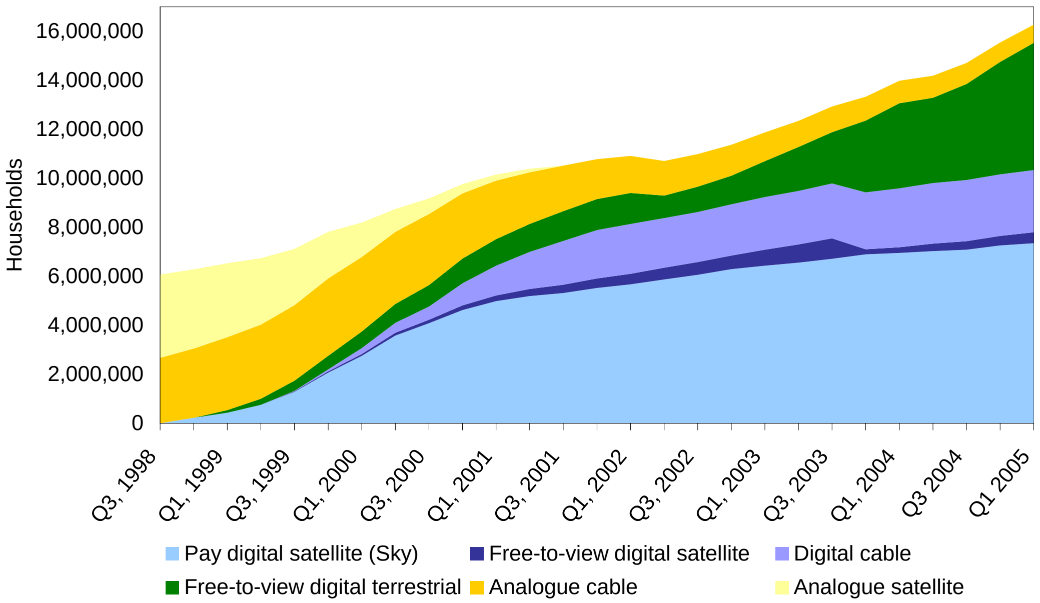
*** Free-to-view digital satellite comprises the number of 'Solus' card viewers plus an estimate of the number of ex-Sky subscribers who continue to use their set-top boxes for viewing Free to view channels.

~ This figure represents the increase in percentage penetration not the % quarterly growth rate.

Percentages may not add due to rounding.

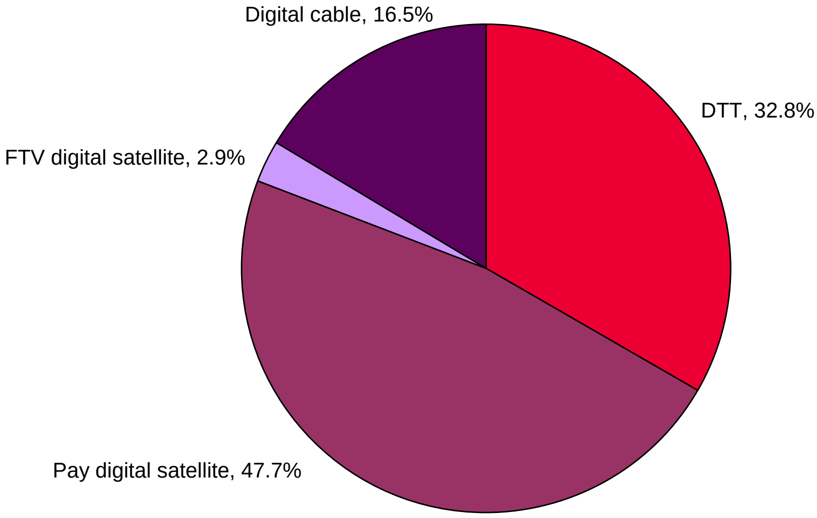
2.1 Overall digital penetration increased, by 2.5 percentage points, reaching 61.9% of UK households. Multichannel penetration in the UK is now around 64.9%.

Digital and multichannel penetration of UK households



Market shares

2.2 The share of total digital homes across all platforms (both pay and free-to-view) at the end of Q1 2005 was:



Share of digital homes by platform

- BSkyB's share of digital homes showed a decrease of 1.5% from 49.2% in Q4 2004 to 47.7% in Q1 2005. This reduction was mainly due to the increase in DTT's share of digital homes. BSkyB's share of pay-television homes increased slightly in the quarter from 68.6% in Q4 to 69.0% in Q1.

- Cable saw a drop in its share of digital TV homes in Q1 2005, now around 16.5%, down from 17.0% in Q4 2004. The cable share of the Pay TV market remained largely the same at around 31% in Q1.

- DTT showed another quarter of growth, increasing share of the digital TV market by 1.7% from 31.1% in Q4 to 32.8% by the end of Q1 2005.

Figures for penetration, share of homes and share of net additions by platform up to the end of Q1 are as follows:

	2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2005 Q1
Digital take-up							
Digital cable	9.0%	9.4%	9.8%	10.0%	10.1%	10.1%	10.2%
Digital satellite	30.4%	28.9%	29.1%	29.7%	30.0%	30.8%	31.3%
DTT	8.6%	11.9%	14.1%	14.1%	15.8%	18.5%	20.3%
ADSL*	0.04%	0.04%	0.04%	0.04%	0.05%	0.08%	0.08%
Total digital	**48.0%**	**50.2%**	**53.0%**	**53.8%**	**55.9%**	**59.4%**	**61.9%**
Analogue Cable	4.1%	4.0%	3.7%	3.6%	3.5%	3.2%	3.0%
Total Multichannel	52.2%	54.2%	56.7%	59.1%	59.4%	62.6%	64.9%

	2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2005 Q1
Pay TV take-up**							
Cable	13.2%	13.4%	13.5%	13.6%	13.6%	13.3%	13.2%
Digital Satellite	27.0%	28.0%	28.2%	28.4%	28.6%	29.2%	29.5%
ADSL*	0.04%	0.04%	0.04%	0.04%	0.05%	0.08%	0.08%
Total	**40.3%**	**41.5%**	**41.7%**	**42.1%**	**42.2%**	**42.6%**	**42.8%**

	2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2005 Q1
Share of digital TV market							
Cable	18.8%	18.8%	18.4%	18.6%	18.1%	17.0%	16.5%
Digital Satellite	63.2%	57.5%	55.0%	55.2%	53.6%	51.8%	50.6%
ADSL*	0.08%	0.07%	0.07%	0.07%	0.08%	0.13%	0.13%
DTT	17.8%	23.7%	26.5%	26.2%	28.2%	31.1%	32.8%

	2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2005 Q1
Share of multichannel TV market							
Cable	25.3%	24.8%	23.8%	23.7%	22.8%	21.2%	20.3%
Digital Satellite	58.2%	53.3%	51.4%	51.7%	50.5%	49.1%	48.2%
DTT	16.4%	21.9%	24.8%	24.5%	26.6%	29.5%	31.3%

	2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2005 Q1
Share of net additions							
Cable	2.8%	2.6%	3.4%	6.9%	-1.0%	-6.7%	-2.2%
Digital Satellite	40.9%	0.0%	12.8%	24.4%	17.8%	24.0%	24.0%
DTT	56.4%	97.4%	83.8%	68.6%	82.7%	75.0%	76.0%
ADSL*	0.0%	0.0%	0.0%	0.2%	0.5%	0.9%	0.0%

* ADSL figures for Q1 include Homechoice figures for as at 31st January 2005. Homechoice figures for the end of March 2005 are not in the public domain.

** Latest figures for the Top-Up TV service are not in the public domain for Q1. Subscribers to Top-Up TV also receive free-to-view DTT, and are therefore included in the DTT market shares.

Some figures in the table may not add exactly due to rounding.

Section 3

Platform updates

Digital satellite – Pay TV Homes

	Pay digital satellite	
	Q4, 2004	**Q1, 2005**
Pay-TV homes	**7,262,000***	**7,349,000***
ARPU (annualised)	£386	£382
Churn	9.5%	11.1%
Base package price	£13.50	£13.50

Source: BSkyB Q1 2005 results

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

3.1 BSkyB's pay-TV subscriber base increased by 87,000 net additions during the quarter to reach 7,349,000 subscribers in the UK. During Q4 2004 BSkyB had added 177,000 subscribers.

3.2 Annualised average revenue per user (ARPU) for the quarter was £382 down from £386 in Q4 2004. Churn increased during the quarter from 9.5% to 11.1%.

Digital satellite - Free-to-view homes

	Free-to-view digital satellite	
	Q4, 2004	**Q1, 2005**
Free-to-view homes	385,000	445,000

Source: BSkyB, Channel 4, and Ofcom market estimates

3.3 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.

3.4 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 viewers acquired the new P2 card and this scheme has now come to an end.

3.5 Of the viewers that have churned-off Sky subscription services an estimated 300,000 still use their set top box to receive all of the free-to-view public service channels.

Cable

	ntl		Telewest Broadband	
	Q4, 2004	**Q1, 2005**	**Q4, 2004**	**Q1, 2005**
Homes passed and marketed	7,910,444	7,912,600	4,686,794	4,694,480
Total residential subscribers	3,136,800	3,194,900	1,799,556	1,822,530
TV homes connected	1,979,600	1,960,000	1,312,825	1,320,487
Digital TV homes connected	**1,382,500**	**1,387,900**	**1,122,301**	**1,149,641**
TV penetration rate	25.0%	24.8%	28.0%	28.1%
ARPU (annualised)	£508.80	£490.32	£541.56	£544.08
Churn rate*	19.2%	16.8%	18.0%	16.8%
Basic package price	£19.50	£19.50	£15.00	£16.00

Source: Telewest Broadband and ntl Q1 2005 results

* ntl churn rates relate to their total consumer division.

3.6 By 31 March 2005, the total number of UK cable households was 3,288,262. Of these, 1,960,000 subscribed to ntl, 1,320,487 to Telewest Broadband, with the remainder subscribing to Wightcable.

3.7 Telewest Broadband showed a net increase of 7,660 subscribers in the quarter, with 27,340 digital subscribers added. Ntl saw an overall decrease of 19,600 TV subscribers, but increased its digital subscriber base by 5,400.

3.8 As a result, the cable industry saw an overall decrease in total TV subscribers by 13,400. However, the number of digital cable subscribers increased by 30,000, reaching 2,544,048 by the end of Q1 2004 – an increase of 1.2% from Q4 2004.

Digital terrestrial television (DTT)

Quarterly DTT sales	DTT sales Q4, 2004	DTT sales Q1, 2005
Freeview set top boxes	1,289,100	690,500
IDTV's	159,900	168,300
Total sales	**1,449,000**	**858,800**

Source: Q1 sales figures, GfK as adjusted by Freeview.*

* Freeview has adjusted the sales figures upwards by 5% to represent its estimate of the number of Digital TV set top boxes and iDTVs sold via Northern Ireland, offshore islands, staff sales and business to business, the sales details for which are not compiled by GfK.

Cumulative totals DTT boxes	DTT total Q4, 2004	DTT total Q1, 2005
Freeview set top boxes	5,114,700	5,805,200
IDTV's	919,500	1,087,800
*ITV Digital set top boxes**	350,000	290,000
Total digital terrestrial units in market	6,384,200	7,183,000

Source: Ofcom market research, GfK.

* ITV Digital set top boxes – latest GfK research on this area suggests that 290,000 ex-ITV digital boxes are still active. This number is steadily declining over time.

3.9 DTT showed another strong quarter of growth, with 858,800 sales during Q1. This exceeded the corresponding quarter last year when 652,200 sales were added. The estimated total number of DTT units in the market is now approaching 7.2 million.

DTT households

3.10 For the purposes of this report we are attempting to calculate the number of digital TV households that DTT has added to the overall total of digital TV homes in the UK. With around seven million DTT enabled sets in the market, the total number of homes now capable of receiving DTT broadcasts is now estimated to be over 5.5 million.

Second set duplication

3.11 Ofcom estimates that around 1.72 million DTT sets have been bought for use on second sets by viewers who already have digital (either Freeview or Sky or cable) on their main set. Latest market estimates for Q1 suggest that around 25% of Freeview boxes owned are for this purpose. 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).

In-active boxes

3.12 There are also a percentage of DTT boxes that are currently in-active. This could be due to issues with reception or for other reasons. To allow for this Ofcom has deducted a further 310,500 from the Q1 cumulative total, (this figure is based on the latest available research from GfK for this area).

ITV Digital legacy boxes

3.13 Latest estimates suggest that there are around 290,000 ITV Digital legacy boxes remaining in the market. Around 31% of these boxes are estimated to be in homes that also have another digital platform, leaving 200,100 homes that have ITV Digital as their only digital platform.

Ofcom adjustment

3.14 The total deduction Ofcom has made for Q1 is therefore 2,123,650. This means the number of Freeview-only homes is therefore calculated as 5,059,350.

DTT only households	DTT only households Q4, 2004	DTT only households Q1, 2005
Total digital terrestrial units in market	6,384,200	7,183,000
Ofcom adjustment	-1,791,280	-2,123,650
Total DTT only households	***4,592,920***	***5,059,350***

Source: Ofcom market research, GfK.

3.15 Overall, DTT added over 466,000 households during Q1, representing an increase of 10.2% on the Q4 2004 DTT homes total. Of these, Ofcom estimates that around 4,859,250 use Freeview set top boxes or IDTV sets, with the additional 200,100 using former ITV Digital set top boxes.