

Digital Television Update – Q1 2004

This is the second of Ofcom's **Digital Television Update** quarterly reports, which supersede the ITC's Multichannel 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.

Contents

Section		Page
1	Executive summary	1
2	Digital television uptake	2
	Digital and multichannel penetration of UK households	3
	Market shares	4
	Share of digital homes by platform	4
3	Platform updates	6
	Digital satellite - Pay TV homes	6
	Digital satellite - Free-to-view homes	7
	Cable	8
	Digital terrestrial television (DTT)	9
	TV over ADSL	10

Executive summary

By 31 March 2004 digital TV penetration was estimated to have reached 53% of UK households, up from 50% at 31 December 2003.

In addition a further 4% of households were subscribing to analogue cable, bringing the total receiving some form of multi-channel television to almost 57%. Within these total figures, the key developments were:

- (a) The total number of digital television households grew by 710,000 over the quarter increasing digital penetration by 2.8%.
- (b) Sky's subscriber numbers increased, reaching 6,956,000 in the UK at the end of Q1 2004.
- (c) Freeview (Digital Terrestrial Television) also saw an increase, with household numbers estimated to have grown to around 3,468,000 in the same period.
- (d) Latest estimates suggest there are also around 231,000 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.
- (e) In total there are now around 3.7 million free to air digital households. (Freeview (DTT) plus free to view satellite).
- (f) The total number of subscribers to cable television is estimated to have increased slightly to around 3.3 million, of which digital cable now accounts for around 2.4 million.
- (g) 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 & Q4 2003

	Q1, 2004	Q4, 2003*	Quarterly growth rate
Pay TV subscribers			
Digital cable	2,408,530	2,324,857	3.6%
Digital Satellite (Sky)	6,956,000	6,893,000	0.9%
ADSL	8,664	8,887	-2.6%
Total digital pay TV households	9,373,194	9,226,744	1.6%
Free-to-view receivers (set-top boxes plus integrated digital TVs)			
Free-to-view DTT (Freeview)	3,929,200	3,287,000	19.5%
Free-to-view digital satellite**	231,000	211,000	9.5%
Total Free-to-view receivers	4,160,200	3,498,000	18.9%
Adjustment to remove double counting for Households equipped to receive digital on more than one set	-461,100	-363,300	
Total Free-to-view households	3,699,100	3,134,700	18.0%
Total UK digital households	13,072,261	12,361,441	5.7%
Digital penetration	53.0%	50.2%	2.8%***
Additional homes receiving analogue multi-channel services			
Analogue cable*	916,745	978,140	-6.3%
Total analogue and digital			
Total UK pay TV households	10,289,939	10,204,884	0.8%
Total UK multi-channel households	13,989,006	13,339,581	4.9%
Multi-channel penetration	56.7%	54.2%	2.5%***

*Some figures for Q4 2003 may have been restated since the previous publication. This is as a result of updated or revised figures being received from the operators.

**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.

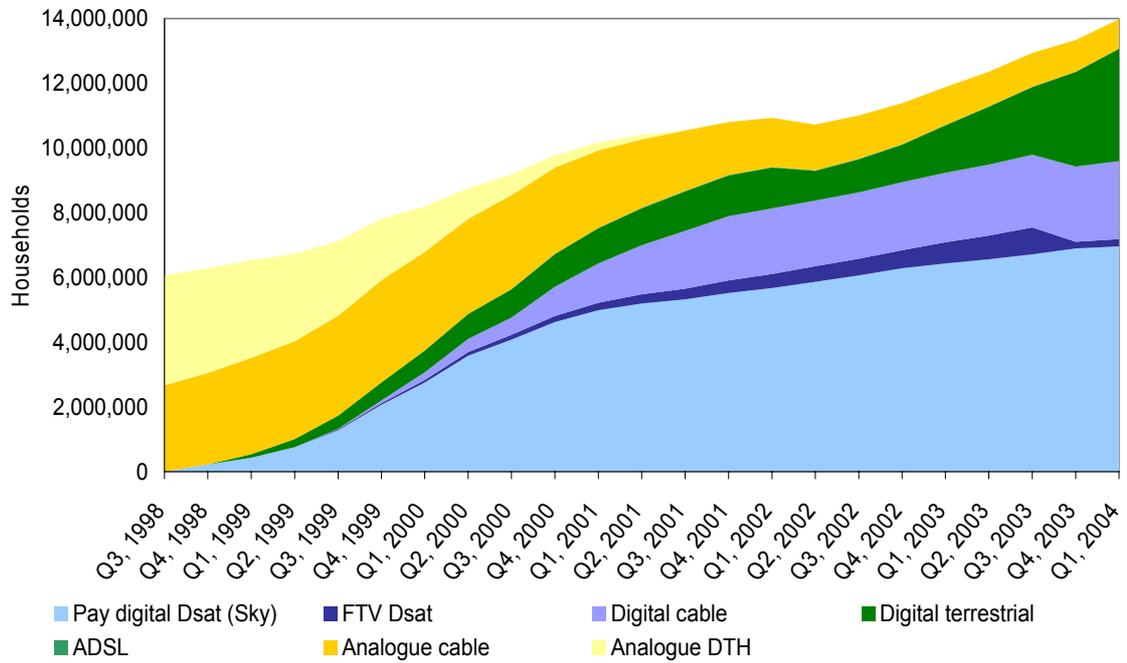
Sky continued its consistent growth, adding 66,000 paying subscribers over the quarter, to bring the total number of UK subscribers to 6,956,000.

Total DTT households increased by around 544,000 during the quarter, representing an increase of over 18%.

Based on the latest figures for Q1 March 2004, overall cable television subscribers are around 3,325,000. Digital cable subscribers make up around 72 % of the total cable base.

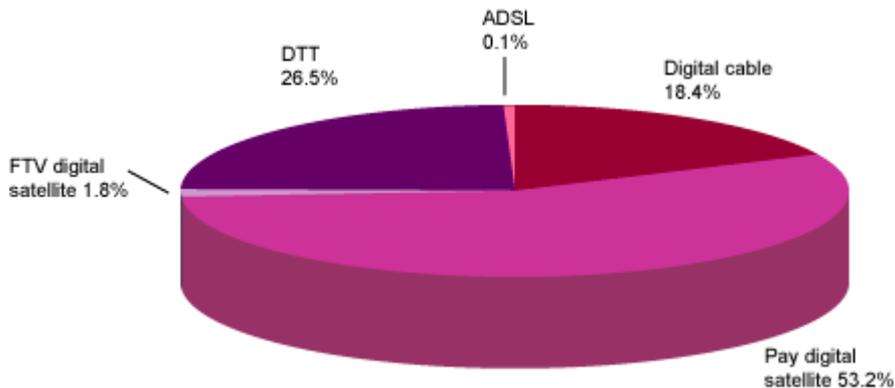
Overall digital penetration increased, by 2.8 percentage points, reaching 53% of UK households. Multichannel penetration in the UK is now around 56.7%.

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 Q1 2004 was:



Share of digital homes by platform

- (a) Sky share of digital homes showed a drop from 55.8% in Q4 2003 to 53.2% in Q1 2004. This reduction was mainly due to the increase in DTT share of digital homes combined with a slow quarter in terms of Sky additions. This also resulted in a decrease in Sky's share of multichannel homes to 51.4%. Sky's share of pay-television homes however remained stable at 67.6%.
- (b) Cable saw a slight decline in share of digital TV homes in Q1 2004, now at around 18.4% from 18.9% in Q3 2003. Likewise the cable share of the Pay TV market showed a similar drop from 32.9% in Q3 2003 to 32.3% in Q1 2004.
- (c) After another strong quarter of growth DTT showed an increase in share of the digital TV market from 23.7% in Q4 to 26.5% at the end of Q1. DTT share of multichannel homes also increased from 21.9% in Q4 to 24.8% in Q1.

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

	2002	2002	2003	2003	2003	2003	2004
	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Digital take-up							
Digital cable	8.3%	8.5%	8.7%	8.8%	9.0%	9.4%	9.8%
Digital satellite	26.8%	27.7%	28.6%	29.4%	30.4%	28.9%	29.1%
DTT	4.2%	4.8%	6.0%	7.2%	8.6%	11.9%	14.1%
ADSL	0.1%	0.05%	0.05%	0.04%	0.04%	0.04%	0.04%
Total digital	39.4%	41.0%	43.3%	45.5%	48.0%	50.2%	53.0%
Analogue Cable	5.4%	5.1%	4.7%	4.3%	4.1%	4.0%	3.7%
Total Multichannel	44.9%	46.1%	48.0%	49.8%	52.2%	54.2%	56.7%
Pay TV take-up							
Cable	13.8%	13.6%	13.4%	13.1%	13.2%	13.4%	13.5%
Digital Satellite	24.7%	25.4%	26.0%	26.4%	27.0%	28.0%	28.2%
DTT	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ADSL	0.1%	0.05%	0.05%	0.04%	0.04%	0.04%	0.04%
Total	38.6%	39.1%	39.4%	39.6%	40.3%	41.5%	41.7%
Share of digital TV market							
Cable	21.1%	20.6%	20.0%	19.4%	18.8%	18.8%	18.4%
Digital Satellite	68.1%	67.5%	66.1%	64.7%	63.2%	57.5%	55.0%
DTT	10.6%	11.7%	13.7%	15.8%	17.8%	23.7%	26.5%
ADSL	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Share of multichannel TV market							
Cable	30.7%	29.4%	27.9%	26.4%	25.3%	24.8%	23.8%
Digital Satellite	59.8%	60.0%	59.6%	59.1%	58.2%	53.3%	51.4%
DTT	9.3%	10.4%	12.4%	14.5%	16.4%	21.9%	24.8%
ADSL	0.2%	0.11%	0.09%	0.09%	0.08%	0.07%	0.06%
Share of net additions							
Cable	-23.2%	-5.3%	-7.7%	-12.9%	2.8%	2.6%	3.4%
Digital Satellite	83.1%	65.8%	49.9%	44.8%	40.9%	0.0%	12.8%
DTT	40.8%	40.6%	58.0%	68.3%	56.4%	97.4%	83.8%
ADSL	-0.7%	-1.1%	-0.2%	-0.1%	-0.1%	-0.3%	0.0%

Platform updates

Digital satellite – Pay TV homes

	Pay digital satellite	
	Q1, 2004	Q4, 2003
Pay-TV homes	6,956,000*	6,893,000*
ARPU (annualised)	£382	£369
Churn	9.4%	9.3%
Base package price	£13.50	£12.50

Source: BSkyB Q1 2004 results

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

Sky's UK subscriber base reached 6,956,000 during the quarter with 66,000 net additions to its pay-TV service during the quarter. This was a decrease in the rate of take-up from Q4 2003, when 175,000 subscribers joined Sky.

Annualised average revenue per subscriber (ARPU) increased by £13 in the quarter to £382 – Sky aims to increase this to £400 by 2005. Churn increased slightly during the quarter from 9.3% to 9.4%. but has remained below 10% for more than a year.

Digital satellite - Free-to-view homes

	Free-to-view digital satellite	
	Q1, 2004	Q4, 2003
Free-to-view homes	231,000	211,000

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 ITV1, 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. Only 111,000 did so and this scheme has now come to an end.

A further 120,000 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.

There is currently no scheme in place for viewers who wish to take-up free-to-view satellite. The only additional free-to-view satellite households in future will be those who churn-off Sky's subscription service.

Cable

The operating statistics for the key cable companies below are as for Q1 March 2004.

	ntl		Telewest Broadband	
	Q1, 2004	Q4, 2003	Q1, 2004	Q4, 2003
Homes passed and marketed	7,861,100	7,779,755	4,678,182	4,674,764
Total residential subscribers	2,923,200	2,867,885	1,742,144	1,730,438
TV homes connected	2,048,900	2,022,055	1,285,797	1,272,064
Digital TV homes connected	1,371,000	1,329,213	1,029,759	987,873
TV penetration rate	26.1%	26.0%	27.5%	27.2%
ARPU (annualised)	£502.92	£503.52	£540.6	£533.04
Churn rate*	12.4%	14.4%	14.4%	15.2%
Basic package price	£18	£18	£13.50	£14.50

Source: Telewest Broadband and ntl Q1 2004 results

**Telewest Broadband and ntl churn rates relate to their total consumer division. ntl's churn rates are based on the monthly average for the quarter.*

By 31 March 2004, the total number of UK cable households was 3,325,275. Of these, 2,048,900 subscribed to ntl, 1,285,797 to Telewest Broadband, and the remainder to Omne Communications and Wightcable. Telewest Broadband subscribers showed an increase of 13,733 in the quarter, whilst ntl subscribers saw an increase of 26,845.

Overall, the industry saw an increase in total subscribers of 22,278. Digital subscribers also continued to grow, reaching 2,408,530 by the end of Q1 2004 – an increase of 3.6% from Q4 2003.

Digital terrestrial television (DTT)

	DTT	
	Q1 , 2004	Q4 , 2003*
ITV Digital STB	500,000	510,000
Freeview adapters	2,832,800	2,251,900
IDTV's	596,400	525,100
Digital terrestrial units in market	3,929,200	3,287,000
Adjustment for 2nd sets	-461,100	-363,300
Total DTT households	3,468,100	2,923,700

Source: Freeview Q1 sales figures, and Ofcom market estimates

**Some figures for Q4 2003 may have been restated since the previous publication. This is as a result of updated or revised figures being received from the operators.*

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 two 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 500,000 households during Q1, representing an increase of 18.6% on the previous quarter. Of these, Ofcom estimates that 2,968,000 use new Freeview adapters or IDTV sets, with the additional 500,000 using former ITV Digital set-top boxes.

Set-top boxes have recently 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	Q4, 2003	Q1, 2004	Q4, 2003
Homes passed	155,530	185,000	105,000	105,000
TV homes connected	3,300	3,550	5,364	5,337
TV penetration rate	2%	2%	5%	5%
Churn rate	9%	15%	6%	5%

Source: Homechoice and Kingston Q1 2004 figures

The total number of subscribers to TV over ADSL declined by 2.5% in Q1 2004 to 8,664. Of those homes taking TV over ADSL, 5,364 subscribed to Kingston Interactive and 3,300 to Homechoice.