



Digital Television Update

Q3 2004

This is the fourth 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		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	9

Section 1

Executive summary

By 30 September 2004 digital TV penetration was estimated to have reached over 55.9% of UK households, up from 53.8% at 30 June 2004* (Please see note below).

In addition a further 3.5% of households were subscribing to analogue cable, bringing the total receiving some form of multi-channel television to over 59.4%. Within these total figures, the key developments were:

The total number of digital television households grew by 560,000 over the quarter, increasing digital penetration by 2.1%.

Sky's subscriber numbers increased by 53,000 to reach 7,085,000 in the UK at the end of Q3 2004.

Freeview (Digital Terrestrial Television) also saw an increase, with household numbers estimated to have grown to around 3,915,000 in the same period.

Latest estimates suggest there are also around 345,000 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 4.2 million free-to-view digital households. (Freeview (DTT), plus free to view satellite).

The total number of subscribers to cable television remained around 3.36 million. Digital cable now accounts for just over 2.5 million of the total, with 33,000 additions in Q3.

An adjustment has been made to account for the number of households which have digital on more than one set. Latest estimates suggest that 24% 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.

* Please note that figures for Q2 2004 have been re-stated in this report. The calculation of digital households has been revised to take account of more recent research relating to the number of DTT receivers which are used on second sets. This means that overall digital TV penetration for Q2 is now estimated at 53.8% compared to 55.4% as previously stated.

Section 2

Digital television uptake

Platform figures for Q2 2004 and Q3 2004

	Q2, 2004	Q3, 2004	Quarterly growth rate
Pay TV subscribers			
Digital cable	2,469,326	2,502,451	1.3%
Digital Satellite (Sky)	7,032,000	7,085,000	0.8%
Total digital pay TV households	9,510,400	9,598,981	0.9%
Free-to-view receivers (set-top boxes plus integrated digital TVs)			
Free-to-view DTT (Freeview)	4,425,700	5,016,200	13.3%
Free-to-view digital satellite*	305,000	345,000	13.1%
Total Free-to-view receivers	4,730,700	5,361,200	13.3%
Adjustment to remove double counting for Households equipped to receive digital on more than one set	-943,000	-1,101,280	
Total Free-to-view households	3,787,700	4,259,920	12.5%
Total UK digital households	13,298,100	13,858,901	4.2%
Digital penetration	53.8%	55.9%	2.1%**
Additional homes receiving analogue multi-channel services			
Analogue cable	898,424	860,193	-4.3%
Total analogue and digital			
Total UK pay TV households	10,408,824	10,459,174	0.5%
Total UK multi-channel households	14,196,524	14,719,094	3.7%
Multi-channel penetration	57.4%	59.4%	2.0%**

* 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.

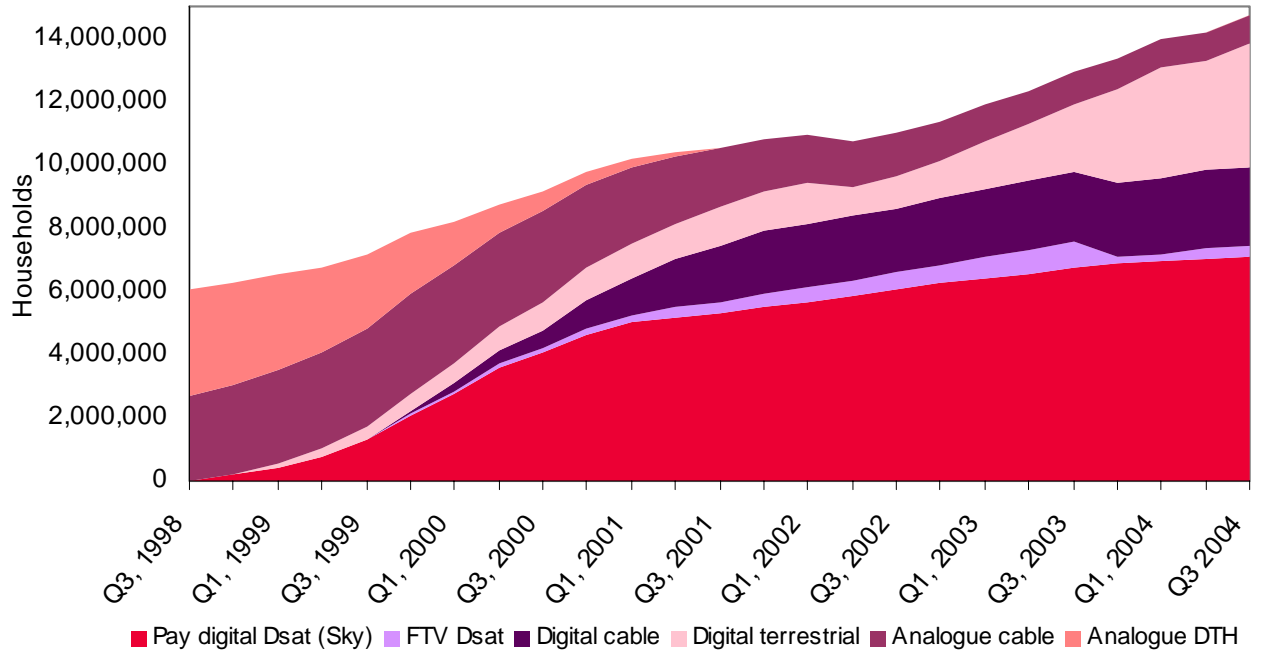
Sky added 53,000 subscribers over the quarter, to bring the total number of UK digital satellite subscribers to 7,085,000.

After adjustment for double counting, total DTT households increased by 432,320 during the quarter, representing an increase of 12.4%.

Based on the latest figures for Q3 September 2004, overall cable television subscribers are 3,362,644. Digital cable subscribers make up over 74% of the total cable base.

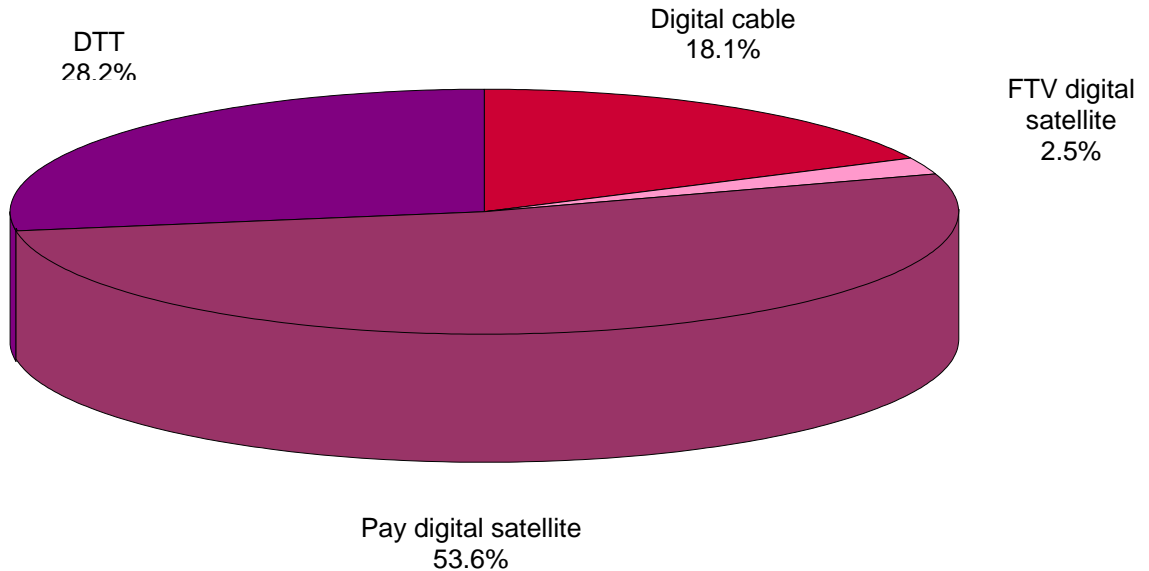
Overall digital penetration increased, by 2.1 percentage points, reaching 55.9% of UK households. Multichannel penetration in the UK is now around 59.4%.

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 Q3 2004 was:



Share of digital homes by platform

- Sky share of digital homes showed a drop from 55.2% in Q2 2004 to 53.6% in Q3 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 50.5%. Sky's share of pay-television homes however is remaining stable at 67.7%.
- Cable saw a slight decline in its share of digital TV homes in Q3 2004, and is now at around 18.1% down from 18.6% in Q2 2004. The cable share of the Pay TV market also showed a slight decrease to 32.2% from 32.4% in Q2 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 26.2% in Q2 to 28.2% at the end of Q3. DTT share of multichannel homes also increased from 24.5% in Q2 to 26.6% in Q3.

Figures for penetration, share of homes and net additions by platform up to the end of Q3 are as follows:

	2003 Q1	2003 Q2	2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3
Digital take-up							
Digital cable	8.7%	8.8%	9.0%	9.4%	9.8%	10.0%	10.1%
Digital satellite	28.6%	29.4%	30.4%	28.9%	29.1%	29.7%	30.0%
DTT	6.0%	7.2%	8.6%	11.9%	14.1%	14.1%	15.8%
Total digital	43.3%	45.5%	48.0%	50.2%	53.0%	53.8%	55.9%
Analogue Cable	4.7%	4.3%	4.1%	4.0%	3.7%	3.6%	3.5%
Total Multichannel	48.0%	49.8%	52.2%	54.2%	56.7%	59.1%	59.4%

Pay TV take-up							
Cable	13.4%	13.1%	13.2%	13.4%	13.5%	13.6%	13.6%
Digital Satellite	26.0%	26.4%	27.0%	28.0%	28.2%	28.4%	28.6%
DTT*	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	39.4%	39.6%	40.3%	41.5%	41.7%	42.1%	42.2%

Share of digital TV market							
Cable	20.0%	19.4%	18.8%	18.8%	18.4%	18.6%	18.1%
Digital Satellite	66.1%	64.7%	63.2%	57.5%	55.0%	55.2%	53.6%
DTT	13.7%	15.8%	17.8%	23.7%	26.5%	26.2%	28.2%

Share of multichannel TV market							
Cable	27.9%	26.4%	25.3%	24.8%	23.8%	23.7%	22.8%
Digital Satellite	59.6%	59.1%	58.2%	53.3%	51.4%	51.7%	50.5%
DTT	12.4%	14.5%	16.4%	21.9%	24.8%	24.5%	26.6%

Share of net additions							
Cable	-7.7%	-12.9%	2.8%	2.6%	3.4%	6.9%	-1.0%
Digital Satellite	49.9%	44.8%	40.9%	0.0%	12.8%	24.4%	17.8%
DTT	58.0%	68.3%	56.4%	97.4%	83.8%	68.6%	82.7%

* Latest figures for the Top-Up TV service have not been released for Q3. Subscribers to Top-Up TV also receive free-to-view DTT and these figures are therefore already included under the DTT sections for subscribers.

Section 3

Platform updates

Digital satellite – Pay TV Homes

	Pay digital satellite	
	Q2, 2004	Q3, 2004
Pay-TV homes	7,032,000*	7,085,000*
ARPU (annualised)	£380	£377
Churn	9.7%	9.8%
Base package price	£13.50	£13.50

Source: BSkyB Q3 2004 results

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

Sky's UK subscriber base reached 7,085,000 during the quarter with 53,000 net additions to its pay-TV service during the quarter. In the previous quarter Sky had added 76,000 subscribers.

Annualised average revenue per user (ARPU) for the quarter was £377. Churn increased slightly during the quarter from 9.7% to 9.8%. but has remained below 10% for over a year.

Digital satellite - Free-to-view homes

	Free-to-view digital satellite	
	Q2, 2004	Q3, 2004
Free-to-view homes	305,000	345,000

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

Of the viewers that have churned-off Sky subscription services an estimated 200,000 still use their set top box to 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	
	Q2, 2004	Q3, 2004	Q2, 2004	Q3, 2004
Homes passed and marketed	7,798,000	7,910,000	4,682,777	4,686,799
Total residential subscribers	2,981,500	3,103,800	1,752,553	1,769,263
TV homes connected	2,070,600	2,056,100	1,288,272	1,297,304
Digital TV homes connected	1,408,700	1,414,700	1,052,855	1,078,623
TV penetration rate	26.6%	26.0%	27.5%	27.7%
ARPU (annualised)	£496.56	£498.72	£539.76	£540.60
Churn rate*	14.4%	18.0%	15.2%	16.9%
Basic package price	£19	£19.50	£13.50	£14.50

Source: Telewest Broadband and ntl Q3 2004 results

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

By 30 September 2004, the total number of UK cable households was 3,362,644. Of these, 2,056,100 subscribed to ntl, 1,297,304 to Telewest Broadband, with the remainder to Omne Communications and Wightcable. Telewest Broadband showed an increase of 9,032 subscribers in the quarter, whilst ntl saw a decrease of 14,500 subscribers.

Overall, the cable industry saw a small decrease in total subscribers of 5,106. The number of digital subscribers increased however, reaching 2,502,451 by the end of Q3 2004 – an increase of 33,125 or 1.3% from Q2.

Digital terrestrial television (DTT)

Quarterly DTT sales	DTT sales	DTT sales
	Q2, 2004	Q3, 2004
<i>Digital TV adapters</i>	429,900	562,900
<i>IDTV's</i>	66,600	96,600
Total sales	496,500	659,500

Source: Q2 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 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 total	DTT total
	Q2, 2004	Q3, 2004
<i>Freeview adapters</i>	3,262,700	3,825,600
<i>IDTV's</i>	663,000	759,600
<i>ITV Digital STB</i>	500,000	431,000
<i>Total digital terrestrial units in market</i>	4,425,700	5,016,200

Source: Ofcom market research, GfK.

DTT households	DTT households	DTT households
	Q2, 2004	Q3, 2004
Ofcom adjustment for 2nd sets	-943,000*	-1,101,280
Total DTT households	3,482,700	3,914,920

Source: Ofcom market research, GfK.

An adjustment has been made to account for the number of households which have digital on more than one set. Ofcom estimates that around 1.1 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 suggest that around 24% of recent sales of Freeview adapters 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).

DTT showed another strong quarter of growth, adding over 432 220 households during Q3, representing an increase of 12.4% on the previous quarter. Of these, Ofcom estimates that around 3,483,920 use new Freeview adapters or IDTV sets, with the additional 431,000 using former ITV Digital set-top boxes.

* Please note that the adjustment for 2nd sets for Q2 2004 has been re-stated in this report. This is to take account of more recent research relating to the number of DTT receivers which are used on second sets. This means that a deduction of 943,000 has been used compared to 535,426 as previously stated in the Q2 report.