The Communications Market: Digital Progress Report

Digital TV, Q4 2008

This is Ofcom's twenty-first 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.

Publication date: 6 April 2009

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Section 1

Overview

1.1 **Survey results for the three months to the end of December 2008 show that take-up of multichannel television on main sets in UK households increased over the quarter to 88.9%, up by 0.7 percentage points (pp) from 88.2% in Q3, and up by 2.4 pp year-on-year.**

1.2 With a majority of main sets now able to receive digital TV, many consumers are now converting additional sets in the home; just over **60% of all *secondary* TV sets had been converted to multichannel by the end of Q4, up by around 11 percentage points in a year.**

1.3 **Taking these figures together, 72% of *all* TV sets had converted to multichannel television by the end of Q4 2008** (up 7.3 percentage points on a year ago and up by 0.3pp quarter-on-quarter) The remaining 28% of sets continue to receive analogue terrestrial broadcasts.

Other findings

1.4 Other findings in the fourth quarter of 2008 include:

- Q4 saw the highest sales of DTT enabled equipment in any quarter, with almost 4.5 million units sold, up by 5.9% on Q4 2007. This was largely driven by record sales of IDTVs during the run-up to Christmas, with nearly 3.1 million units sold, up by almost 34% year on year.

- Freeview set-top boxes accounted for over 1.4 million sales, down 27.0% on last year. Over the past year around 12.5 million DTT units have been sold, compared to around 10.6 million in the previous year.

- DTT-only households (free and pay) rose by around 85,000 in Q4, with over 9.8 million homes now relying solely on DTT for multichannel viewing.

- Q4 sales data for BBC/ITV *Freesat* show that unit sales had reached almost 233,000 by the end of December, up from 108,000 units in Q3. According to consumer research results for Q4, around 600,000 homes claimed to be using some form of free-to-view digital satellite.

- Approaching 9.5 million (37%) homes received satellite TV services (either pay or free-to-view) by the end of 2008. Pay satellite homes accounted for almost 8.9 million (94%) of these with free-to-view making up the remainder.

- Almost 40% of households (around 10.1 million) now have some form of free-to-view digital television, with 36.9% using non-pay DTT and 2.3% free-to-view satellite on their main set.

- Research results for Q4 show that cable was the primary viewing platform in 12.8% of homes, broadly in line with the Q3 figure. Separately, Virgin Media reported net additions of almost 44,500 new subscribers, taking their total TV customer base to over 3.6 million. Digital cable added over

61,100 subscribers in the quarter (including conversions from analogue cable) and now accounts for around 96% of all cable television customers.

1.5 We have made the following assumptions in this report:

- In calculating platform totals, DTT-only homes are defined as those where DTT is the only multichannel television platform in the home (figures for homes which have DTT as well as another platform are included in Sections 2 and 3 of the report).

- A household with either a satellite or cable subscription in addition to DTT equipment is counted primarily as a satellite or cable home.

Section 2

Platform figures Q4 2008

Figure 1: Platform take-up survey results

	Q3 2008	Q4 2008	Q3 2008	Q4 2008	Net additions	Growth rate
Digital pay TV homes	**Homes (millions)**	**Homes (millions)**	**% TV homes**	**% TV homes**	**Increase % points**	**% growth**
Digital Cable	3.3m	3.3m	12.7%	12.8%	0.1pp	0.6%
Pay Satellite 1	8.8m	8.9m	34.2%	34.7%	0.5pp	1.4%
DTT pay (Top-Up-TV)	0.4m	0.4m	1.6%	1.5%	-0.2pp	-9.4%
TV over ADSL (Tiscali) 2	0.1m	0.1m	0.3%	0.3%	-0.1pp	-16.7%
Total digital pay TV homes	**12.5m**	**12.7m**	**48.6%**	**49.5%**	**0.9 pp**	**2.0%**
Free-to-view digital TV households						
DTT (Freeview) only homes (non pay) 3	9.3m	9.5m	36.5%	36.9%	0.5pp	1.3%
Free-to-view Satellite 4	0.6m	0.6m	2.4%	2.3%	-0.1pp	-3.2%
Total Free-to-view digital TV households	**10.0m**	**10.1m**	**38.9%**	**39.3%**	**0.4pp**	**1.1%**
Total digital TV homes	**22.6m**	**22.7m**	**88.2%**	**88.8%**	**0.7pp**	**0.8%**
Analogue Cable 5	0.02m	0.01m	0.1%	0.03%	-0.05pp	-60.0%
Total multichannel TV homes	**22.6m**	**22.8m**	**88.2%**	**88.9%**	**0.6pp**	**0.7%**
Terrestrial TV homes						
Analogue Terrestrial 6	3.0m	2.9m	11.8%	11.1%	-0.6pp	-5.3%
All homes using DTT (Freeview) 7	17.2m	17.7m	67.2%	69.0%	1.8pp	2.6%

Source: GfK research

Note: The individual platform figures may not always add up to the totals as numbers are rounded.

1 *Pay satellite* homes may include some UK households which subscribe to overseas pay satellite services and also an element of survey respondents not differentiating between pay and free satellite.

2 *TV over 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. These homes are therefore included in DTT homes.

3 *DTT-only* homes (Freeview) means those homes where DTT is the only digital platform and no monthly subscription is paid for additional DTT services such as *Top Up TV*.

4 *Free-to-view satellite* homes include all homes with satellite TV on the main set which do not pay a subscription.

5 The survey results for analogue cable may be understated due to the small sample size and also because some consumers may be unaware of the distinction between analogue and digital cable.

6 *Analogue terrestrial* refers to homes which have no multichannel television services.

7 *All homes using DTT* includes 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.

Note: pp = percentage points, m = million.

Digital progress on main sets

2.1 There are around 60 million television sets in the UK, of which around 25.6 million are ‘main’ sets (which broadly equates to the most-watched set, one in each TV household) and approximately 34.8 million are ‘secondary’ sets (in bedrooms, kitchens, etc).

2.2 According to consumer survey results, 22.7 million households (88.8%) had digital television on their main set in Q4 2008, up by approximately 172,000 (0.7pp) on Q3 2008.

2.3 DTT is still the most widely-used platform on main sets, accounting for around 9.8 million (38.4%) homes in Q4, up by 500,000 (1.7pp) over the year. The number of homes using DTT on any set in the home reached almost 17.7 million (69.0%) in Q4 2008, up by around 450,000 (1.8pp) on Q3 2008.

2.4 Q4 survey results show that around 9.5 million (37.0%) of homes used satellite (free or pay) as their main means of receiving digital television, up by around 190,000 (0.5pp) on a year ago. Pay satellite accounted for almost 8.9 million homes with free satellite homes making up a further 600,000.

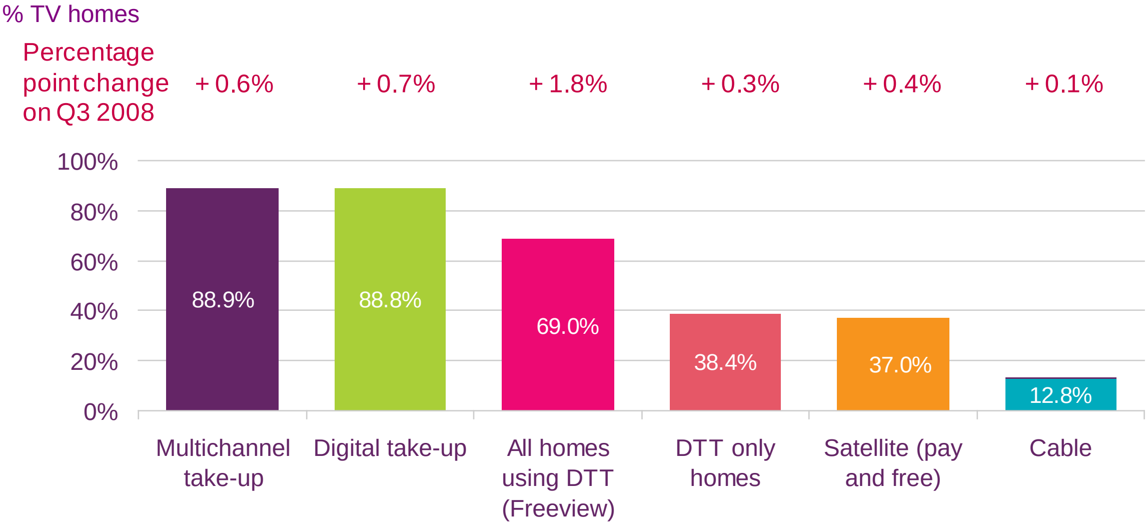
2.5 The number of homes using cable as their primary multichannel platform increased slightly in Q4 and was at 3.3 million (12.8%) with a small proportion of this total still receiving an analogue service. This survey-based total is lower than Virgin Media’s reported figure of over 3.6 million subscribers. This could partly be explained by an element of non-residential customers in the Virgin figure and also by overlap homes that pay for both satellite and cable television.

2.6 The number of TV homes relying solely on analogue terrestrial television for their primary set fell by around 160,000 (-0.6pp) during Q4 2008 to 2.9m (11.1%) homes. This figure has fallen by 0.6 million (2.4pp) over the year.

2.7 Approximately 65,000 (0.3%) households claimed to be using television over DSL, also known as IPTV, as their primary means of receiving digital television on the main set by Q4.

2.8 Figure 2 shows illustrates multichannel television take up on main sets by platform in Q4 2008 and also the growth from Q3 2008 on a like-for-like basis. It also shows that nearly 7 in 10 households now have a DTT device on at least one television set, reflecting the increasing conversion of secondary sets.

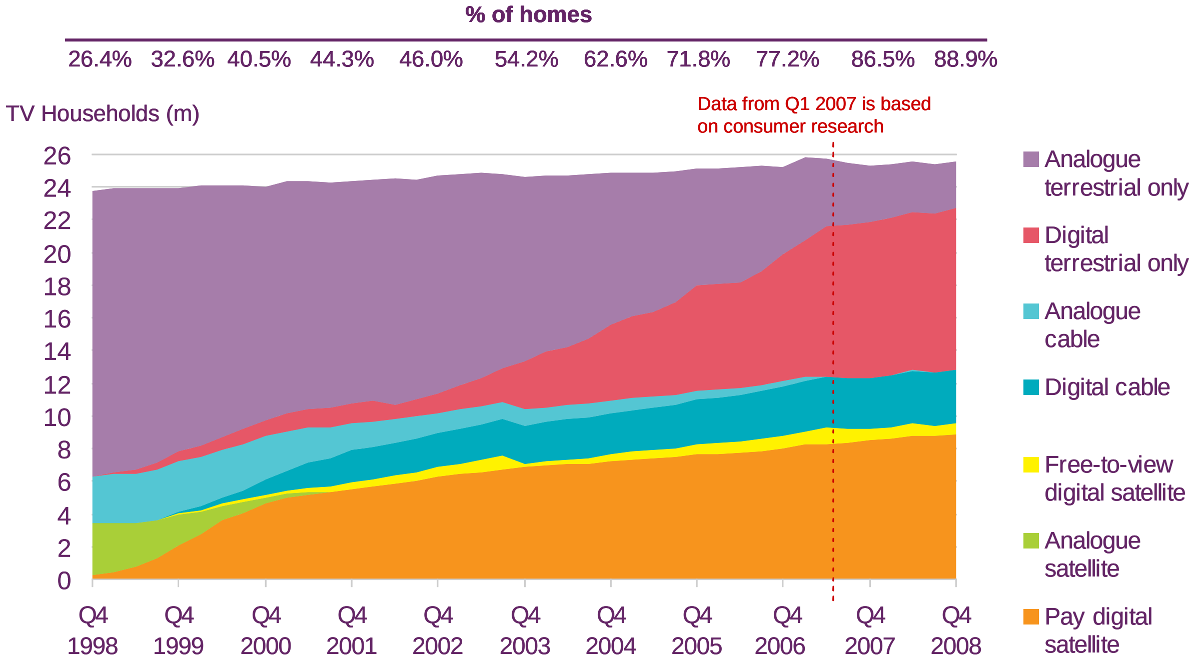
Figure 2: Multichannel take-up Q4 2008



Source: GfK research
Note: TV over ADSL take-up stands at around 0.3%

2.9 Figure 3 shows the year-on-year decline in the number of households using analogue terrestrial on main sets. It has fallen from around three quarters of homes ten years ago to approaching one in ten by Q4 2008. Digital terrestrial and pay satellite have emerged as the two most widely used digital television platforms on main sets over the past decade.

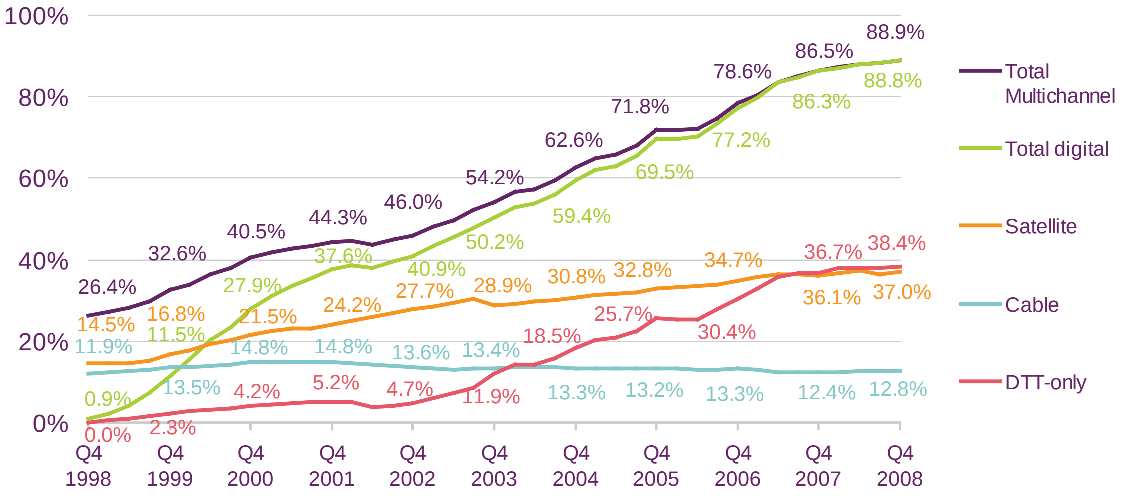
Figure 3: Multichannel take-up on main sets 1998 - 2008



Source: GfK research from Q1 2007 onwards; previous quarters use platform operator data, research and Ofcom estimates
Note: TV over ADSL take-up stood at around 0.3% by Q4 2008

2.10 Figure 4 shows homes take-up by platform expressed as a proportion of all TV homes. It groups analogue with digital cable, and free-to-view with pay satellite. It illustrates that DTT is still the most common main-set platform at 38.4%, just higher than satellite (pay and free-to-view) at 37.0%. Cable television (analogue and digital) was the main platform in 12.8% of homes, 1.7 pp higher than analogue terrestrial homes, which were down to 11.1% by the end of 2008.

Figure 4: Multichannel take-up on main sets by platform 1998 - 2008

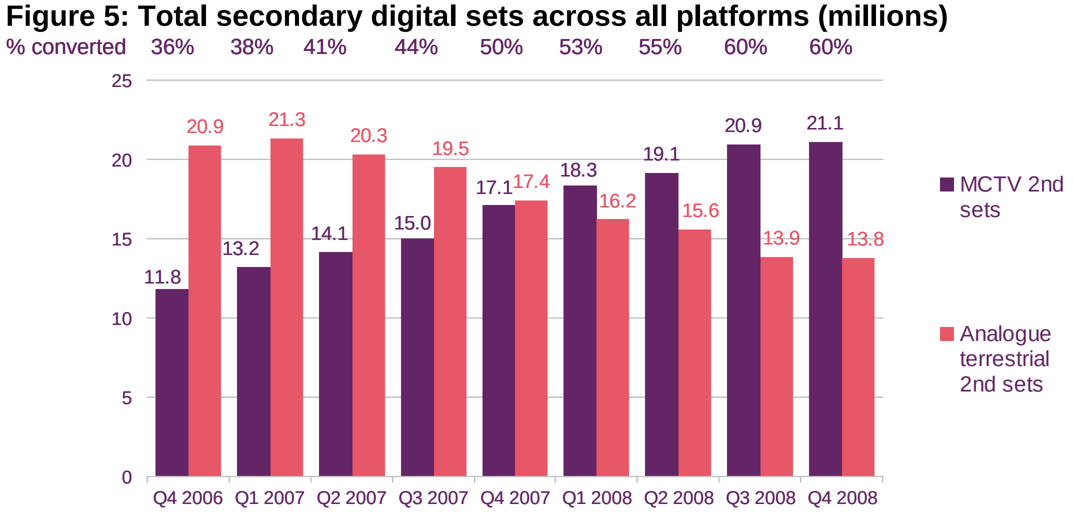


Source: GfK research from Q1 2007 onwards; previous quarters use platform operator data, research and Ofcom estimates. Note: TV over ADSL take-up is too low to appear on this chart

Digital progress on secondary sets

2.11 With the average home owning 2.4 TV sets, there are around 35 million secondary sets in the UK market. By Q4 2008 around 21.1 million (60%) of these had been converted to multichannel using either the Sky Multiroom service, a second cable box or a DTT reception device. This figure was up by close to 4 million (11.0pp) on a year previously in Q4 2007 and by 140,000 (0.3pp) on Q3 2008.

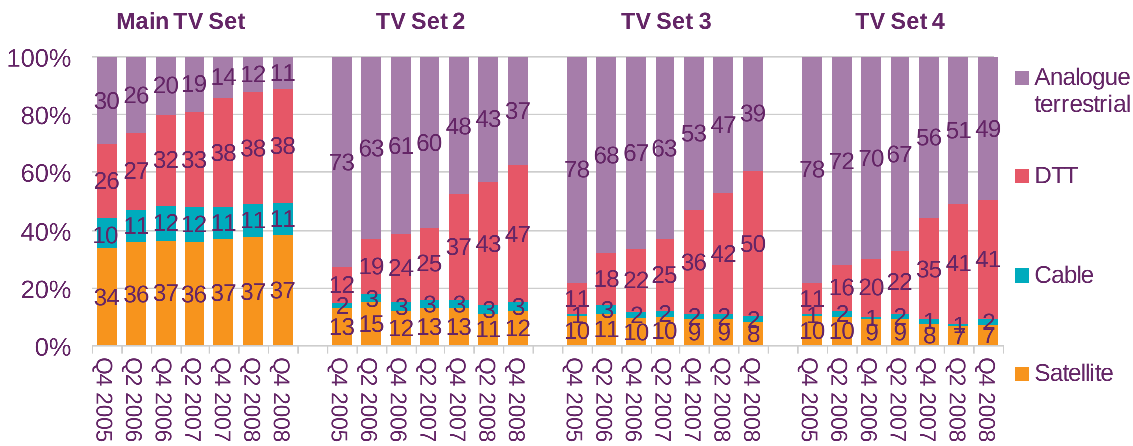
Figure 5: Total secondary digital sets across all platforms (millions)



Source: GfK research, all quarters. (Chart includes a small number of analogue cable sets)

2.12 Our consumer research breaks down primary and secondary sets by platform. The latest survey shows that satellite (free and pay) and DTT have a similar share of main sets with shares of 37% and 38% respectively. On second and third sets, DTT is the most widely used platform with take-up being 10pp higher than analogue terrestrial (Figure 6). Satellite (in the form of Sky Multiroom) is more commonly used on additional sets than cable.

Figure 6: Platform shares by platform TV sets 1 – 4

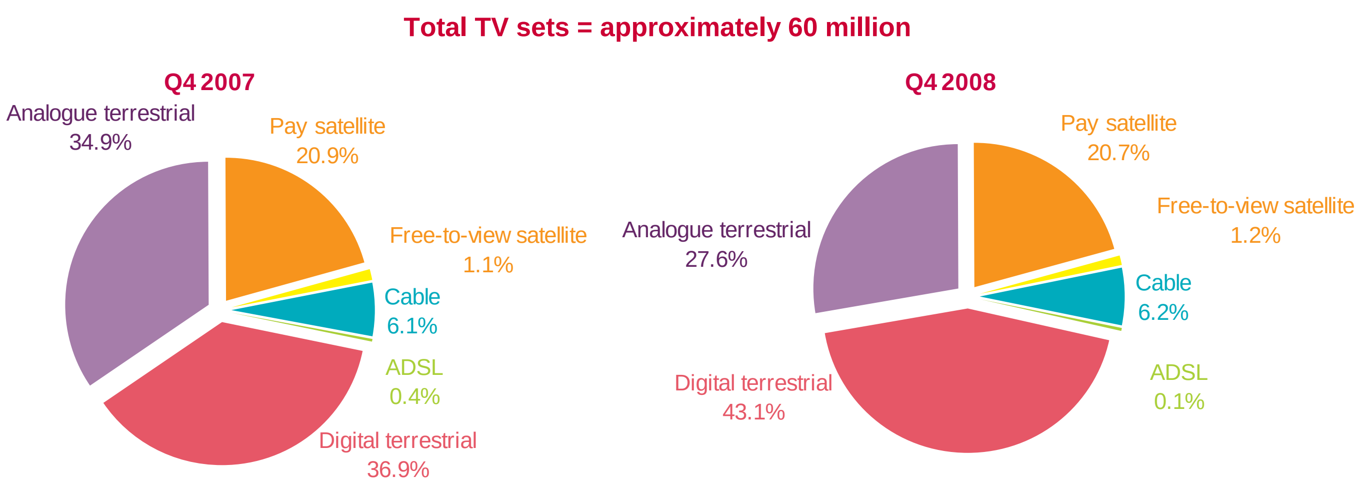


Source: GfK research
Note: Cable main set shares in this chart differ slightly from those in Figure 3 and Figure 5 because of a small element of overlap between cable and satellite

Digital progress on all sets

2.13 Of the 60 million television sets in the UK (main and secondary), around 43.6 million (72.3%) had been converted to multichannel by the end of 2008, up by 4.8 million (7.3pp) in a year. Conversions to digital in Q4 2008 stood at over 200,000 sets (0.3pp) (Figure 7).

Figure 7: Platform shares among all TV sets



Source: GfK research for both Q4 2007 and Q4 2008
Note: figures may not add up to 100% owing to rounding.

2.14 Other all-sets headlines at the end of Q4 2008 included:

- Analogue terrestrial accounts for less than a third of the total set universe at just under 28%, equivalent to around 16.6 million television sets. This was down 7pp from 35% of TV sets a year previously and also down slightly (0.3pp) from Q3 2008. Of these, around 2.9 million were main sets and 13.8 million were secondary (in a bedroom or kitchen, for example).

- The number of digital terrestrial sets has risen by almost 4.0 million over the year to 25.9 million, equivalent to a 43.1% share of all sets, up 6.2pp from 36.9% a year ago. Growth has been driven by strong sales of IDTV sets and DTT set-top boxes (up almost 6% on last year), in use on both primary and secondary sets.

- Survey results indicate that around a fifth (20.7%) of all television sets are now connected to a pay satellite service, a similar share to a year previously. BSkyB has continued to add both main set subscriptions and also second sets via its multiroom service. Free satellite also increased steadily over the year and was up 0.2pp in the year to a 1.2% share of all sets by Q4 2008.

- The number of cable sets increased over the year with Virgin Media continuing to add new subscribers to its television service. There were around 3.7 million sets connected to cable by Q4 2008, equivalent to a 6.2% share of all sets, this was up slightly (0.1pp) on a year ago.

Summary of multichannel trends Q3 2007 – Q4 2008

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

	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008
Multichannel take-up						
Cable	12.2%	12.4%	12.5%	12.5%	12.8%	12.8%
Satellite	36.3%	36.1%	36.6%	37.3%	36.6%	37.0%
DTT	36.6%	37.6%	37.9%	38.0%	38.1%	38.4%
ADSL	0.1%	0.2%	0.2%	0.3%	0.3%	0.3%
Total multichannel 1	**85.2%**	**86.5%**	**87.2%**	**88.0%**	**88.2%**	**88.9%**
Pay TV take-up						
Cable	12.2%	12.4%	12.5%	12.5%	12.8%	12.8%
Pay satellite	32.9%	33.6%	33.7%	34.0%	34.2%	34.7%
Pay DTT		1.5%	1.6%	1.3%	1.6%	1.5%
ADSL	0.1%	0.2%	0.2%	0.3%	0.3%	0.3%
Total	**45.2%**	**47.7%**	**47.9%**	**48.0%**	**48.8%**	**49.5%**
Share of multichannel TV market						
Cable	14.3%	14.4%	14.3%	14.2%	14.5%	14.4%
Satellite	42.6%	41.9%	42.1%	42.4%	41.3%	41.6%
DTT	43.0%	43.7%	43.6%	43.2%	43.1%	43.2%
TV sets conversion						
Secondary sets converted	43.2%	49.1%	52.8%	55.0%	60.2%	60.5%
All TV sets converted	61.1%	65.1%	67.5%	68.9%	72.1%	72.3%

Source: GfK research for all quarters

Note: Multichannel totals may not correspond to the individual platform figures due to an element of platform overlap, i.e. where some respondents may have answered that they have two multichannel platforms connected to the main set, for example DTT and either satellite or cable.

Section 3

Platform quarterly results

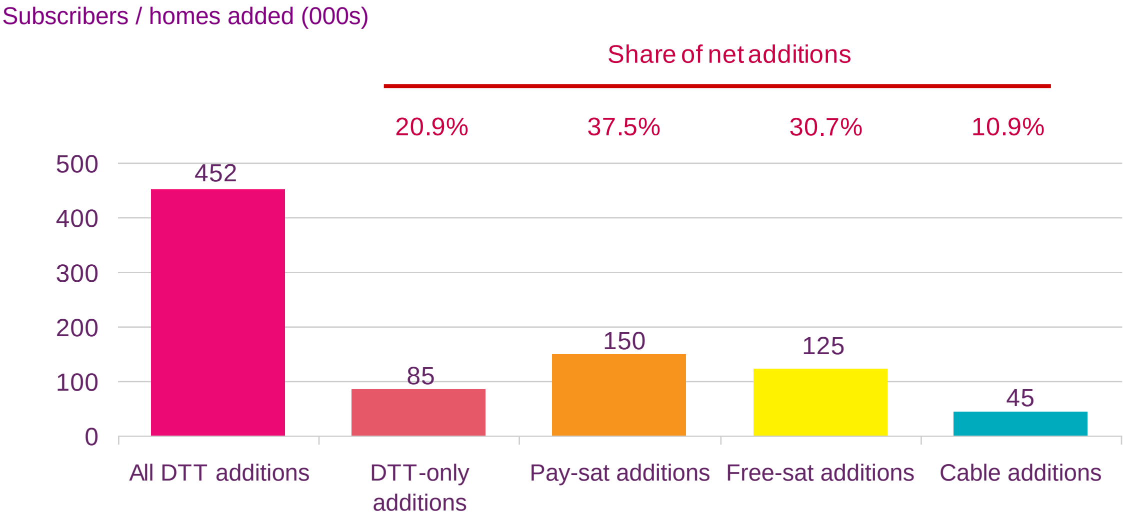
3.1 This section sets out the net homes added during the quarter. In the case of the DTT platform these are based on survey results. For the satellite and cable platforms these are based on the net subscriber or sales additions reported by the main platform operators. The operator-based figures are included for information only and to help give context to our research-based take-up figures; they do not, however, feed through into our calculations for multichannel take-up.

3.2 Within the free-to-view platform sector, survey results indicated an increase of around 450,000 homes using DTT on any set by the end of Q4. This total includes satellite and cable homes now using DTT on a secondary set. The number of homes where DTT provided the *only* multichannel platform increased by 85,000 in Q4. While on free-to-view satellite; BBC ITV Freesat reported sales of around 125,000 during Q4.

3.3 BSkyB Q4 results for the UK and the Republic of Ireland reported a net 171,000 satellite subscribers added. Based on the historical split of additions we estimate that approximately 150,000 of these were UK homes with the remainder added in Ireland. Virgin Media results showed a net addition of almost 44,500 cable TV subscribers over the quarter and, with additional conversions from analogue, they reported an increase in digital cable subscriptions of over 61,000 during Q4. (Please note that the cable and satellite figures are likely to include a small element of non-residential customers).

3.4 Based on these results pay satellite added the most homes in Q4 with a share of around 38% of net additions followed by free satellite with around 31%. DTT had a 21% share of Q4 adds with Cable the remaining 11%. However, these figures should be regarded as indicative, as they draw on different data sources (Figure 9).

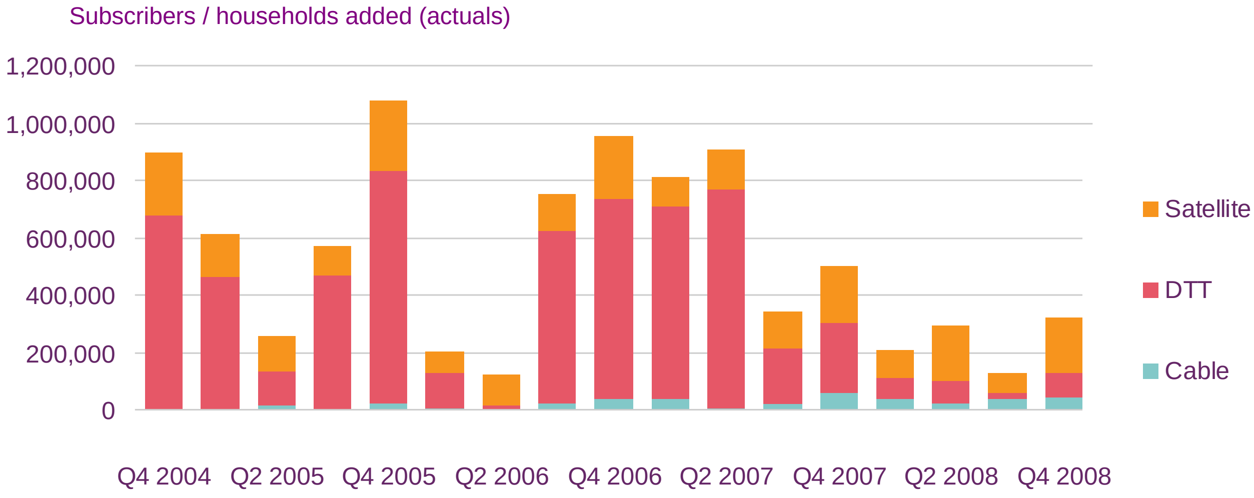
Figure 9: Net quarterly multichannel growth Q4 2008



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 GfK research. Note: *All DTT additions* include satellite and cable homes acquiring DTT for the first time during the quarter. *DTT-only additions* are first-time DTT acquirers with no other multichannel platform.

3.5 Looking over the longer term, we can see that DTT was the primary driver of multichannel growth during the years 2004 - 2007. However, the contribution of the three main platforms is starting to even out now that the majority of homes have multichannel TV, with satellite and cable additions playing a more prominent role over the past year (Figure 10).

Figure 10: Net quarterly multichannel additions



Source: Platform operator data (BSkyB, BBC/ITV Freesat, and Virgin Media) for pay / free satellite and cable, GfK research for DTT homes.

Digital satellite – pay households

Figure 11: BSkyB Q3 2008 and Q4 2008 results

Pay digital satellite – BSkyB	Q3 2008	Q4 2008
Pay-TV satellite subscribers	**9,067,000 ***	**9,238,000 ***
ARPU (annualised)	£430	£444
Churn	10.9%	9.9%
Basic package price	£17.00	£16.50
Sky Multiroom	1,655,000	1,723,000
Sky +	4,135,000	4,650,000
Sky HD	591,000	779,000

Source: BSkyB Q4 2008 results

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

3.6 BSkyB's Q4 results reported a 171,000 increase in subscriptions to its *Sky Digital* television service, taking its total UK and Ireland subscriber base to 9,238,000, up 406,000 over the past year. Based on historical additions for the UK and Ireland we estimate that around 340,000 of these were new UK customers in 2008.

3.7 The number of subscribers taking the *Sky Multiroom* service (which enables an additional set in the home to receive *Sky*) rose by 68,000 during Q4 to 1,723,000 (with 192,000 additions over the past year). This means that 19% of *Sky* customers have at least one extra set connected in addition to their primary set.

3.8 BSkyB's digital video recorder service (DVR, also known as PVR - personal video recorder - or DTR - digital television recorder), *Sky+*, saw another quarter of growth, with 515,000 subscribers added in Q4. This took the total number of *Sky+* homes to 4.65 million, or 50% of its customer base for the first time.

3.9 BSkyB's high-definition (HD) service added 188,000 subscribers. This was the highest number of additions of any quarter to date and took total HD subscribers to 779,000, or 8.4% of all *Sky* subscribers, by the end of 2008. A further 17 HD channels were launched by *Sky* in Q4, making a total of 32 HD channels now available on the platform as of March 2009. In Q1 2009 Sky revised the cost of their *Sky+* HD box, dropping the price from £150 to £49.

3.10 Annualised average revenue per user (ARPU) reached a new high of £444 in Q4, up by £14 on the previous quarter and by £23 year-on-year. By the end of Q4, 13% of Sky customers took three services – TV, broadband and telephony. Churn decreased in the quarter from 10.9% to 9.9%.

Digital satellite - free-to-view households

Figure 12: Free-to-view satellite

Free-to-view digital satellite	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008
Free-to-view satellite households	639,000	722,000	840,000	617,000	597,000

Source: GfK research

3.11 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 £147 (or, more recently, their '*Sky Pay Once*' product which for a one off payment of £73 provides access to all free-to-view channels plus four of *Sky's* subscription mixes for the first 4 months);
- homes taking the new *'Freesat'* service offered by the BBC and ITV; and
- those which have obtained satellite-receiving equipment from retailers other than *Sky* or *Freesat*.

3.12 The Freesat service from ITV and the BBC launched in May 2008 and is available to an estimated 98% of UK homes. This service currently provides access to 150 free digital TV and radio channels with no subscription. Standard-definition Freesat set-top box prices are available from around £49 while high-definition boxes, providing access to HD services from the BBC and ITV, start at £97. (Satellite dish installation costs a further £80 for homes with no existing satellite dish). More recently Freesat launched Freesat +, with HD DVR receivers retailing from around £275, and a range of Freesat HD IDTVs are also now on the market.

3.13 By the end of Q4 2008, survey results indicated that around 600,000 homes were using free satellite as their primary television platform. Free satellite survey results have fluctuated over the past year, probably due to sampling issues arising from measuring a smaller sector. The BBC/ITV Freesat service reported further growth during the period, with total retail sales reaching around 233,000 units by the end of 2008, up from 108,000 units in Q3. Almost three quarters of sales by Q4 2008 were HD receivers (172,000 units). By March 2009, latest reported sales of BBC/ITV Freesat had reached 300,000.

Cable

Figure 13: Virgin Media Q3 2008 and Q4 2008 results

Cable – Virgin Media	Q3 2008	Q4 2008
Digital TV subscribers	3,407,900	3,469,000
Total TV subscribers	**3,576,500**	**3,621,000**
Total subscribers (TV, telephony, internet)	4,740,400	4,755,200
Homes passed and marketed	12,561,900	12,553,100
TV penetration rate *	28.5%	28.8%
ARPU ** (annualised)	£503	£508
Churn **	18.0%	14.4%
Basic package price	£11.00	£11.00
Virgin DVR (V+)	468,700	521,500

Source: Virgin Media Q4 2008 results

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

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

3.14 Virgin Media's Q4 results showed additions of 61,100 digital television subscribers, (following on from 54,400 additions in Q3). After allowing for the migration of analogue subscribers to digital cable, 44,500 net cable TV homes were added in Q4.

3.15 Virgin Media has added almost 143,000 net new television homes over the past year, and now has over 3.6 million subscribers, the highest level of take-up for cable television since Q3 2001. Virgin Media's digital video recorder (DVR) service *V+,* added 52,800 subscribers in Q4 to reach 521,500 in total, equivalent to 14% of Virgin Media's TV subscriber base.

3.16 Virgin Media reported that over half (52%) of its customer base, (equivalent to approximately 1.8 million TV customers), were using its video-on-demand (VOD) service on a monthly basis by Q4. Average monthly VOD views per user were up to around 30 from 22 a year previously. Total VOD views reached 53 million per month in Q4, up 19% on Q3 and 60% on a year ago.

3.17 Virgin Media added the BBC iPlayer as part of its VOD service during Q2 2008, providing access to BBC catch-up programming. In February 2009,Virgin added 500 hours of new content from ITV to the on-demand service.

3.18 The number of Virgin customers taking three services or more reached a new high of 55.9% while annualised ARPU increased to £508. Virgin also launched a 50Mbit/s broadband service in December 2008 and announced plans to upgrade the existing 2Mbit/s service to 10Mbit/s from May 2009.

Digital terrestrial television (DTT) equipment sales

Figure 14: DTT equipment quarterly sales

DTT quarterly sales (actuals)	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008
Freeview set-top boxes	1,931,130	1,273,955	912,115	973,730	1,409,220
Integrated Digital Televisions (IDTV's)	2,286,900	1,879,605	1,417,500	1,575,630	3,059,700
Total sales	**4,218,030**	**3,153,560**	**2,329,615**	**2,549,360**	**4,468,920**
DTT DVR sales*	346,000	252,000	191,000	195,000	393,000

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

*DVR sales include devices that combine DVR with DVD recording functionality.

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

3.19 DTT equipment sales in Q4 2008 reached almost 4.5 million; this was up by over 5.9% on the corresponding quarter last year. IDTVs sales were the highest so far, exceeding 3.0 million and accounting for over 68% of DTT sales in Q4 2008. The number of set-top-box sales exceeded 1.4 million in Q4.

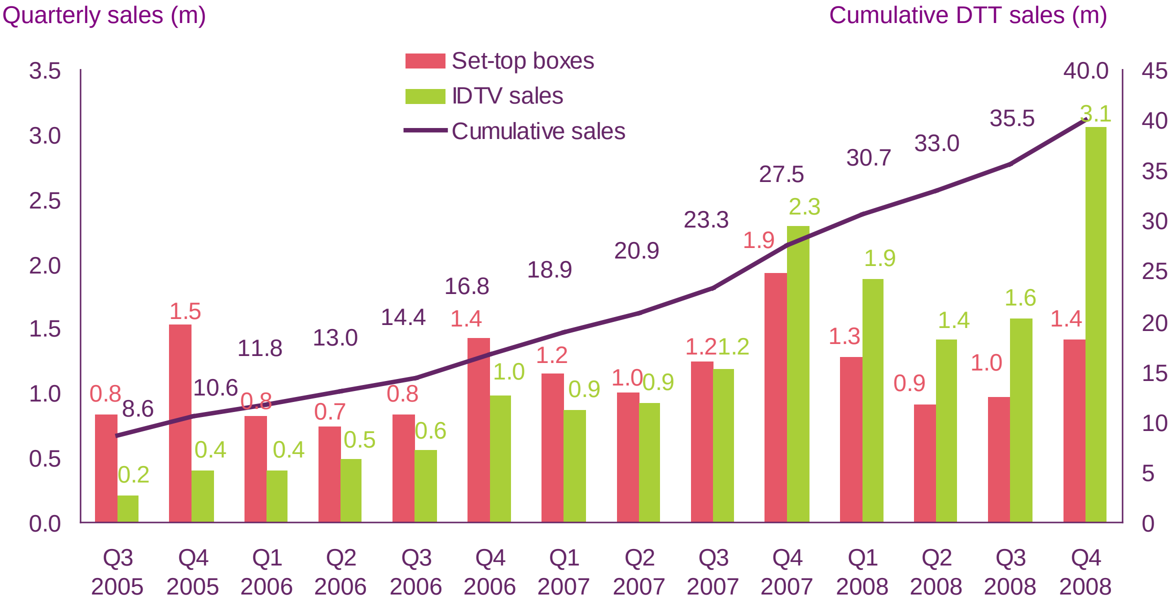
3.20 Year-on-year IDTV sales were up by almost 800,000, or 34%. Total sales in the 12 months to the end of Q4 2008 climbed to over 7.9 million, compared to 5.3 million in the preceding year, an increase of 51%. During Q4 around 90% of all TV sets sold were digitally-enabled.

3.21 Sales of 1.4 million set-top boxes represented the highest quarterly sales in 2008 however this was down by around 27% on Q4 2007. This is probably due to the growing sales of IDTVs as well as the increasing maturity of DTT take-up. Over 2008 almost 4.6 million Freeview set-top boxes were sold, compared to around 5.3 million sales in 2007, a fall of 14% year on year.

3.22 Cumulative sales of DTT DVRs (Digital Video Recorders) reached around 2.3 million by the end of 2008, this total also includes DVRs that are also able to record onto DVDs.. With almost 400,000 sales in Q4 2008, this was the highest quarterly sales so far for DTT recording devices, equivalent to around 28% of all DTT set-top-box sales in Q4 2008 (up from around 18% a year ago).

3.23 Since Freeview's launch in October 2002 total sales of DTT devices have almost reached around 40.0 million units, comprising 17.4 million IDTVs and 22.6 million DTT set-top boxes. IDTVs have outsold set-top-boxes sold since Q3 2007 (Figure 15).

Figure 15: DTT quarterly and cumulative sales since launch of Freeview



Source: Sales figures from GfK, as adjusted by Freeview

3.24 An 'overlap' factor must be taken into account when evaluating the impact of IDTV sales on digital conversions. IDTV purchases are not always motivated by the desire for an integrated DTT tuner, but often for other reasons such as bigger screens or high-definition capability.

3.25 As a result, in some cases IDTVs are connected to satellite or cable receiving equipment. This leads to an overlap with the integrated DTT tuner, and therefore to a lower rate of digital conversion than IDTV sales alone would imply. GfK's survey takes account of this effect by distinguishing homes where DTT is the sole digital platform from those where it is an additional platform.

3.26 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 or DVR functionality. These trends have lead to a significant divergence between quarterly DTT sales and the number of homes converted to DTT. Q4 again saw an increase in the level of additional or replacement DTT sales.

DTT households and DTT equipment sales

Figure 16: DTT households and sets estimates

DTT sets and households (millions)	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008
Total number of DTT enabled sets	22.0m	23.4m	24.4m	25.7m	25.9m
Total number of homes using DTT equipment	15.3m	16.1m	16.7m	17.2m	17.7m
Number of homes where DTT is the only digital platform	9.6m	9.6m	9.7m	9.7m	9.8m

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

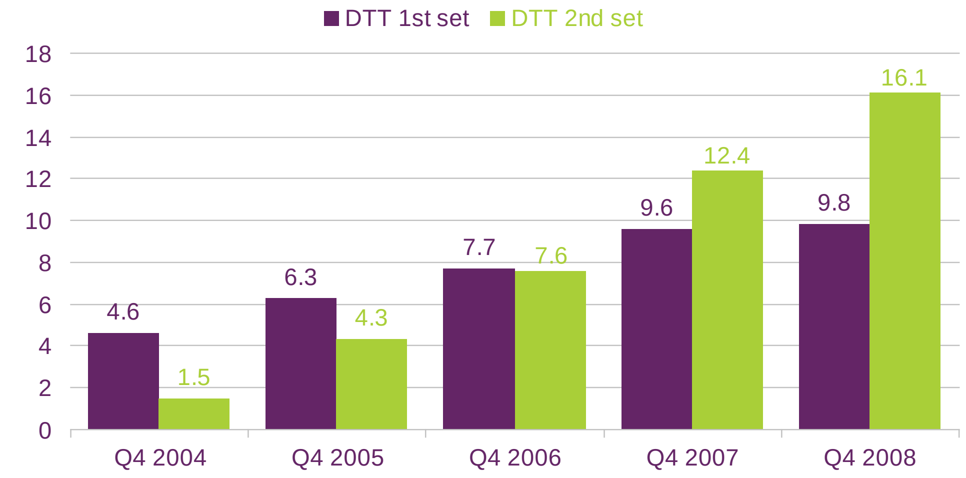
3.27 DTT equipment was being used in almost 17.7 million homes by the end of Q4, when including cable and satellite homes using DTT on secondary sets. This was an increase of around 450,000 homes on Q3 2008 and of around 2.4 million homes year on year. We estimate that DTT was the only digital platform in 9.8 million homes by the end of Q4. This was up by around 85,000 homes over the quarter and around 260,000 homes over the year.

3.28 The Q4 GfK ownership survey estimated the total number of DTT-enabled TV sets at around 25.9 million; this was 270,000 higher than the previous quarter and an increase of almost 4.0 million over the year.

DTT growth on primary and secondary sets

3.29 The number of DTT devices used on secondary sets overtook the number used on primary sets in Q3 2007. By the end of 2008 there were 25.9 million DTT-enabled sets, of which 9.8 million were primary and 16.1 million were secondary sets. This means that 62% of DTT devices are now connected to secondary sets (Figure 17).

Figure 17: DTT on primary and secondary sets
(TV sets, millions)



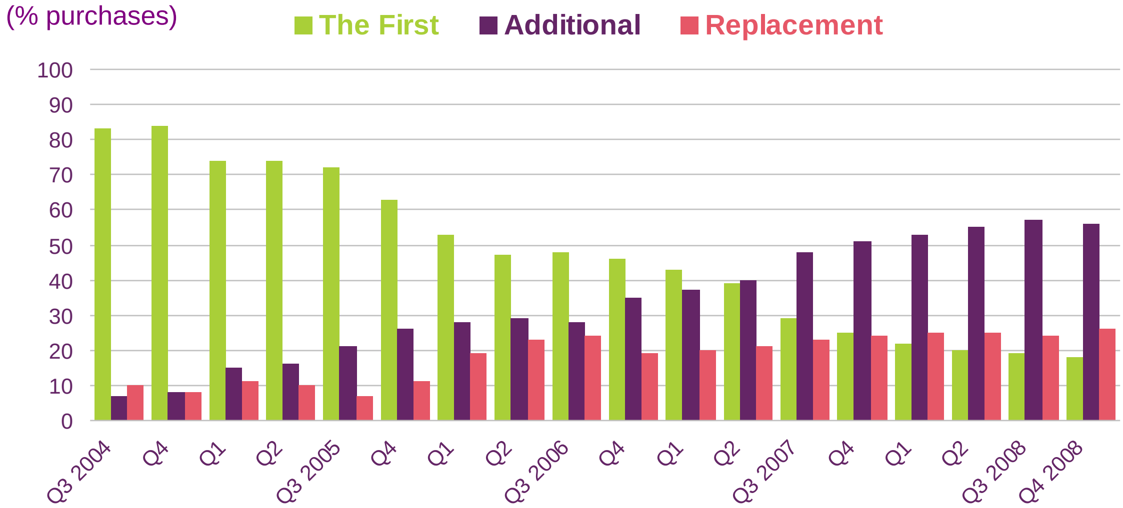
Source: GfK research

3.30 In a separate piece of GfK research, consumers who have bought DTT equipment during the quarter are questioned on their reasons for purchase. Back in 2004, a large majority (over 80%) of DTT sales were first-time DTT purchases. However, by Q4 2008, this had declined to 18%, (this also includes satellite and cable homes purchasing DTT for the first time). The remaining sales were intended for connection to additional sets (56%) or as a replacement for existing DTT equipment (26%). The number of replacement sales is therefore now higher than the number of first-time purchases.

Figure 18: DTT purchase trends

Is the digital Freeview equipment the first in your present home, additional or replacement to that already owned?

(% purchases)



Source: GfK consumer research, based on acquisitions during the quarter.

Background on survey methodology

GfK consumer research survey

The GfK consumer research used in this report is based on a panel of 14,000 homes screened quarterly via the internet and by telephone. The survey collects data on ownership and acquisition of television sets and related receiving equipment. The ratio of online to telephone interviews is approximately 75% to 25% respectively. The error margin for the research results is estimated to be within 1-2 percentage points.