The Communications Market: Digital Progress Report

Digital TV, Q1 2008

This is Ofcom's eighteenth 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 from platform operators.

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New methodology review

In order to try to provide the most accurate view of the market Ofcom is using a new methodology to estimate residential take-up of multichannel television. From this quarter onwards, our data will be based solely on consumer research.

This section sets out how this compares with the way we previously calculated our figures, how we have restated historical figures using the new methodology, the developments in the market which have prompted us to make the change now, and why we will continue to review our methods going forward.

Ofcom's estimates for multichannel television take-up were previously formulated using a combination of three data sources. This hybrid approach enabled us to draw on the most appropriate data available for each platform, although each source has limitations:

1. **Operator subscriber data:** These provide a broadly reliable guide to residential take-up of pay television in the UK for digital satellite, cable and internet television (IPTV) homes. However, the data tend to overstate take-up because they include an element of business and non-residential subscribers, although we believe that these account for less than 5% of the total.

2. **Consumer research:** This offers a good indicator of the number of UK digital terrestrial television (DTT) homes. Most DTT-only homes do not take additional pay DTT services, so there is no subscriber data alternative for this platform. In addition, while data on sales of DTT devices provide a useful cross check to the research, they tend to overstate take-up as they do not account for homes with more than one digital platform or other issues such as replacement or inactive equipment.

3. **Ofcom estimates:** We previously estimated the number of homes taking free satellite services rather than use consumer survey figures because these tended to vary substantially from one survey to another and from quarter to quarter. This was partly a result of a small sample size, and partly, we think, because some respondents may not have differentiated between pay and free satellite services.

As the digital television (DTV) market is maturing patterns of adoption are becoming more complex. One key change is that an increasing number of homes have installed either cable or satellite on their main set but use DTT for additional sets. We can only build an accurate picture of digital television adoption, one which incorporates these 'platform overlap' issues, by using surveys which question consumers about the detail of their television access in the home. This conclusion is reinforced by two other changes to the TV market:

- The launch of BSkyB's *Freesat from Sky* and *Pay Once Watch Forever* products, and the more recent launch of the *freeSat* service from the BBC and ITV suggest that the free satellite platform could emerge as a significant source of DTV growth. As consumers become more accustomed to the terms "free satellite" and "freesat" and take-up increases, research surveys should measure growth increasingly accurately.

- The first major phase of digital switchover will begin later this year with the Border region. As digital switchover moves around the country, main television set conversions will swiftly approach 100%; the trend on secondary sets and recording devices will therefore emerge as a more significant area for analysis thereafter. Consumer surveys also provide the most suitable way to capture this type of information.

Having taken the decision to switch to a full survey methodology, we assessed a number of possible research surveys for this report. We have opted to use research agency GfK, which surveys 18,000 homes per quarter about their take-up and usage of digital and analogue television. This also helps us maintain consistency with previous reports, which used GfK research to measure DTT take-up, and captures the level of detail required to monitor take-up across multiple platforms and sets.

In this report we show figures using our new consumer research methodology from Q1 2007 until Q1 2008 in order to provide a comparable time series. Figures prior to Q1 2007 are calculated using our old methodology. For our charts we also use our new methodology for Q1 2007 to Q1 2008 to help illustrate year-on-year comparisons, but, where applicable, we use our old methodology for figures prior to this. We provide guidance notes for each chart and table to explain which methodology we use for each time period. More detailed information on the effect of the restatement is included in Section 4 of the report.

For comparison purposes we will continue to include the latest subscriber data from platform operators in Section 3 of the report. However we no longer use these figures to calculate digital TV take-up, having replaced them with the survey results.

We will keep under review the effectiveness of our research-based methodology to ensure that we continue to monitor the market in the most appropriate way possible.

Effect of methodology change

Under our new methodology we estimate that 87.2% of TV households had multichannel television at the end of Q1 2008. This is one percentage point lower than the equivalent figure would have been using our previous methodology (88.2%).

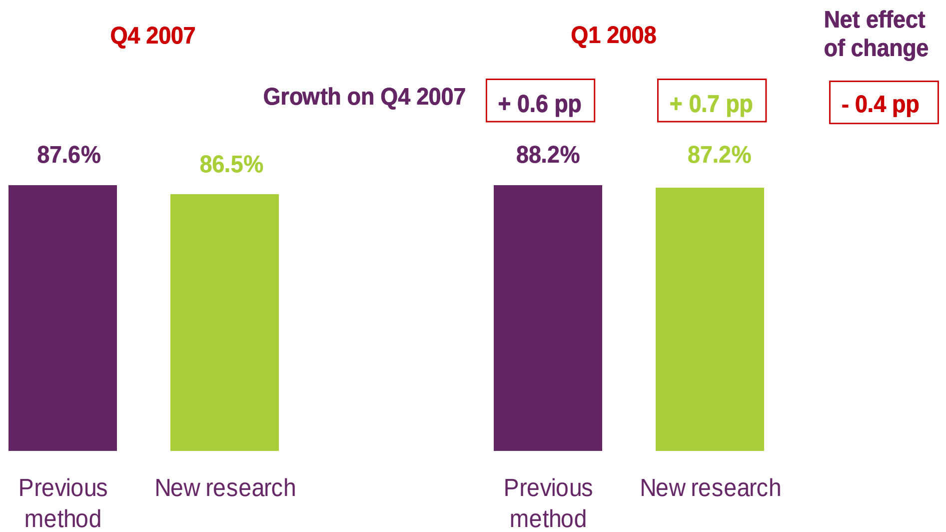
Under our new methodology, we estimate Q4 2007 multichannel take-up at 86.5%, 1.1 percentage points lower than the equivalent figure using our previous methodology (87.6%).

Multichannel take-up grew 0.7 percentage points from 86.5% in Q4 2007 to 87.2% in Q1 2008 under our new methodology. Under our old methodology equivalent growth was 0.6 percentage points, 87.6% to 88.2%.

Our new Q1 2008 figure (87.2%) is therefore 0.4 percentage points lower than the previous published figure under our old methodology for Q4 2007 (87.6%).

Our new Q4 2007 figure (86.5%) is therefore 1.1 percentage points lower than the previous published figure of 87.6% published in the previous Q4 2007 update (Figure 1). This is, however, within the error margin for research.

Figure 1: Multichannel take-up, new and old methodology, Q4 2007 to Q1 2008



Source: GfK research for new research, with the previous method being based on a combination of subscriber data, GfK research and market estimates.

Section 1

Overview

1.1 In this Digital Progress Report we have changed the methodology we use to measure residential take-up of multichannel television. From Q1 2008 we will use consumer research alone, instead of using a combination of subscriber data for the pay platforms (cable, satellite and television delivered over ADSL broadband (IPTV)), research for DTT and Ofcom estimates for free satellite households.

1.2 For comparison purposes, we will continue to report separately on subscriber additions as reported by platform operators (see Section 3), but these figures will no longer be used in our estimate for overall take-up.

1.3 To allow for quarter-on-quarter comparisons, we have restated the Q4 2007 multichannel headline figures using our new research methodology. This has the effect of pulling down the previously reported number by 0.4 percentage points (pp) from 87.6% to 87.2%. (The restated Q4 figure for digital TV, which excludes analogue cable households, is also down 0.4 percentage points, from 86.7% to 86.3%).

1.4 **Based on our new research methodology the three months to the end of March 2008 saw multichannel TV take-up on main sets increase by 190,000 homes, or 0.7 percentage points (pp), from 86.5% to 87.2%** and by 6.9pp year-on-year. The free platforms (DTT and free satellite) accounted for two thirds of this net growth, with the three pay platforms (cable, pay satellite and IPTV) accounting for the remainder.

1.5 With a majority of main sets now already receiving digital TV, many consumers are now converting additional sets in the home; over half (53%) of all *secondary* TV sets had been converted to multichannel by the end of Q1.

1.6 **Taking these figures together, the proportion of *all* TV sets converted to multichannel passed two thirds (68%) in Q1 2008,** with the remaining 32% continuing to receive only analogue terrestrial broadcasts. This means that over the last twelve months, the proportion of analogue terrestrial sets fell by over 11 percentage points from around 44% in Q1 2007 to 32% by Q1 2008.

Other key findings

1.7 Other key findings in the first quarter of 2008 include:

- Nearly 22.2m million households had multichannel TV equipment connected to their primary television set by the end of the period.

- DTT device sales reached over three million during the period, an increase of 55% on Q1 2007. This followed on from four million sales in Q4 2007 (which is traditionally a high quarter in the run up to Christmas). Of the three million sales in Q1, integrated digital television sets (IDTVs) accounted for around 1.9 million units - up 116% on twelve months ago - while set-top boxes accounted for approaching 1.2 million, up 6% on the previous year. Over the past year over 11 million DTT units have been sold, compared to around 7 million in the previous year.

- DTT-only households accounted for almost a third (31%) of all growth in main-set multichannel TV homes in Q1, rising by around 75,000 to over 9.6 million homes.

- Free-to-view digital satellite increased by around 80,000 homes in the quarter, contributing over a third of net additions to multichannel main sets. Our research figures show that around 700,000 homes are currently using free satellite on their main set. Total free-to-view digital households (DTT and free satellite) have now reached 39% or approaching 10m homes.

- Research results for Q1 showed that the total number of homes using pay and free satellite had reached 36.6% or 9.3 million. (According to BSkyB, its pay satellite subscriber base rose by 43,000 to reach over 8.3 million subscribers in the UK by the end of the quarter).

- Research results for Q1 showed that cable was the primary viewing platform in 12.5% of homes. (Virgin Media reported another positive quarter, adding around 37,000 net new subscribers to exceed 3.5 million subscribers by the end of Q1. Digital cable added almost 58,000 subscribers in the quarter (including conversions from analogue cable) and now makes up 94% of the total cable subscriber base).

1.8 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 TV 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 Q1 2008

Figure 2: Platform take-up survey results

	* Q4 2007	Q1 2008	* Q4 2007	Q1 2008	Net additions	Growth rate
Digital pay TV homes	**Homes (millions)**	**Homes (millions)**	**% TV homes**	**% TV homes**	**Increase % points**	**% growth**
Digital Cable	3.1m	3.1m	12.2%	12.4%	0.1pp	1.2%
Pay Satellite 1	8.5m	8.6m	33.6%	33.7%	0.2pp	0.5%
DTT pay (Top-Up-TV)	0.4m	0.4m	1.5%	1.6%	0.1pp	6.8%
TV over ADSL 2	0.05m	0.05m	0.2%	0.2%	0.0pp	3.8%
Total digital pay TV homes	**12.1m**	**12.2m**	**47.5%**	**47.9%**	**0.4 pp**	**0.9%**
Free-to-view digital households						
DTT (Freeview) only homes (non pay) 3	9.2m	9.2m	36.1%	36.3%	0.2pp	0.5%
Free-to-view satellite 4	0.6m	0.7m	2.5%	2.8%	0.3pp	13.0%
Total Free-to-view digital households	**9.8m**	**10.0m**	**38.6%**	**39.2%**	**0.5pp**	**1.3%**
Total digital homes	**22.0m**	**22.2m**	**86.3%**	**87.1%**	**0.8pp**	**0.9%**
Analogue Cable 5	0.04m	0.03m	0.2%	0.1%	-0.1pp	-34.9%
Total multichannel homes	**22.0m**	**22.2m**	**86.5%**	**87.2%**	**0.7pp**	**0.9%**
Terrestrial homes						
Analogue Terrestrial 6	3.4m	3.3m	13.5%	12.8%	-0.7pp	-5.5%
All homes using DTT (Freeview) 7	15.3m	16.1m	60.1%	63.1%	3.0pp	5.1%

Source: GfK research.

* Figures for Q4 2007 have been restated using the new research methodology in order to provide a quarter-on-quarter comparison. A more detailed comparison of the previous Q4 2007 results alongside the new research results is included in Section 4 of the report.

Note: The individual platform figures may not add to the multichannel totals as figures in the table 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 correctly differentiating between pay and free satellite.

2 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 (non pay) 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 includes all homes with satellite TV not paying 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 with digital cable.

6 Analogue terrestrial means those homes which have no multichannel television services.

7 All homes with DTT includes satellite and cable homes which also use DTT on a 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 25.5 million are "main" sets (which broadly equates to the most-watched set, one in each TV household) and 34.5 million are secondary sets (in bedrooms, kitchens, etc).

2.2 According to our latest consumer research results, 22.2 million households (87.1%) had digital television on their main set in Q1 2008, up approximately 200,000 (0.8pp) on Q4 2007. Multichannel take-up, which includes analogue cable, rose 0.7pp to 87.2%.

2.3 DTT is the most commonly-used platform on main sets, accounting for around 9.6 million (37.9%) homes in Q1, up by almost 1.3 million (5.5pp) over the year (on a like-for-like survey basis). The number of homes using DTT on any set in the home had reached 16.1m (63.1%) by Q1 2008, up by around 800,000 (3.0pp) on Q4 2007.

2.4 DTT was closely followed by the 9.3 million (36.6%) homes using satellite (free or pay) as their main means of receiving multichannel television, up by around 130,000 (0.5pp) since Q4, and by 230,000 (0.9pp) over the year (on a like-for-like basis). Within these figures, pay satellite take-up has risen by 1.3pp over the past year to 33.7% of UK homes, while free satellite has fallen by 0.5pp to 2.8%. This is probably due to the smaller sample size as well as survey respondents over-claiming for pay satellite. However Q1 2008 saw a free satellite increase of 0.3 percentage points on Q4 2007.

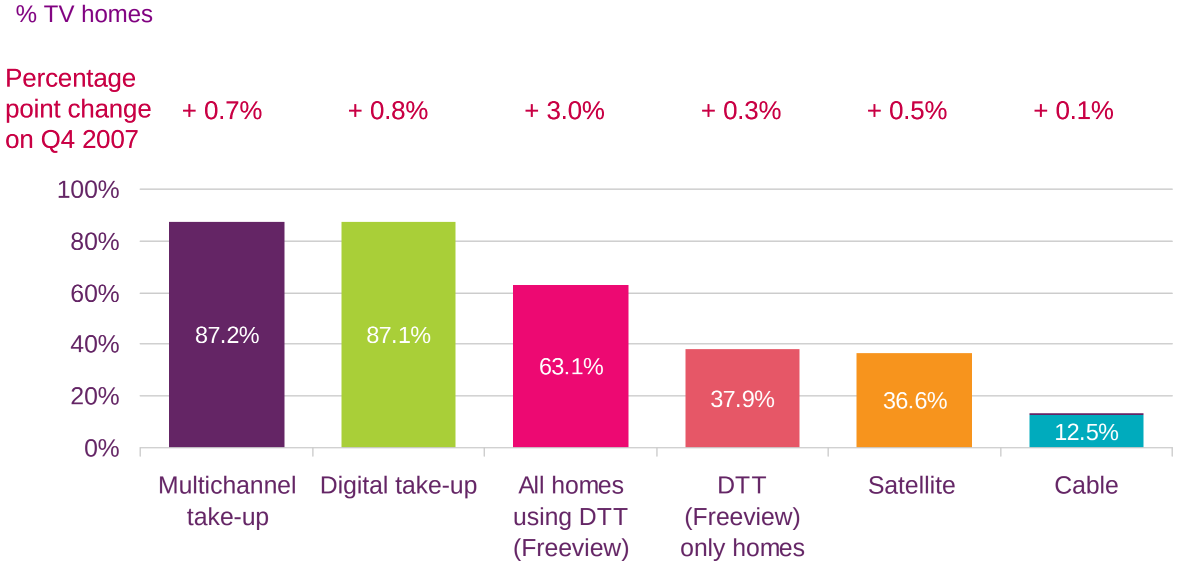
2.5 The survey results suggest that 3.2 million (12.5%) homes were using cable as their primary multichannel platform in Q1, up 0.1 percentage points on Q4 2007, with a small proportion of this total being analogue cable. (These figures are a little lower than Virgin's which show 3.5 million subscribers; this could be partly due to non-residential subscriptions and also an element of overlap with some homes having both satellite and cable TV).

2.6 The number of homes receiving analogue terrestrial television on their primary set fell by almost 190,000 (0.7pp) during Q1 2008 to under 3.3m (12.8%) homes, and by 1.7 million (6.9pp) over the year.

2.7 The remaining 50,000 (0.2%) of households were using an ADSL connection to receive digital television on the main set by Q1; this showed no change over the quarter, and has risen only 0.1pp over the year.

2.8 Figure 3 shows the take-up of digital and multichannel TV on main sets by platform in Q1 2008 and also the growth from Q4 2007 on a like-for-like basis. It also shows that well over two thirds of multichannel households have a DTT device on at least one set, reflecting the conversion of secondary sets.

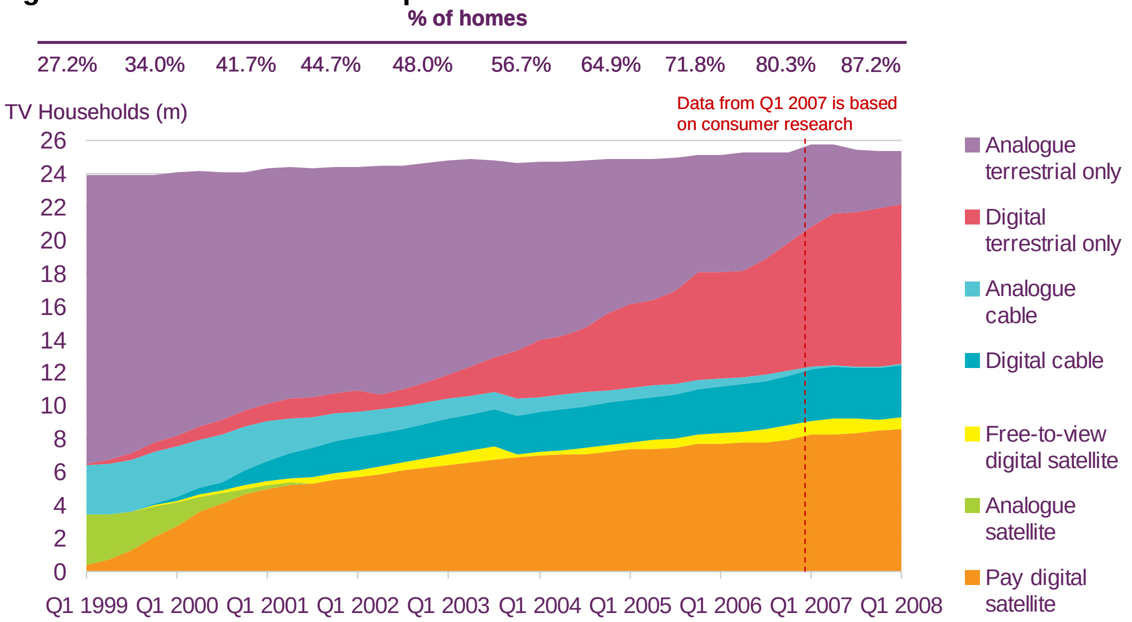
Figure 3: Multichannel take-up Q1 2008



Source: GfK research
Note: TV over ADSL take-up stands at around 0.2%.

2.9 Figure 4 shows the year-on-year decline in the number of households with analogue terrestrial main sets and how digital terrestrial and pay satellite have emerged as the two most common forms of receiving television on main sets.

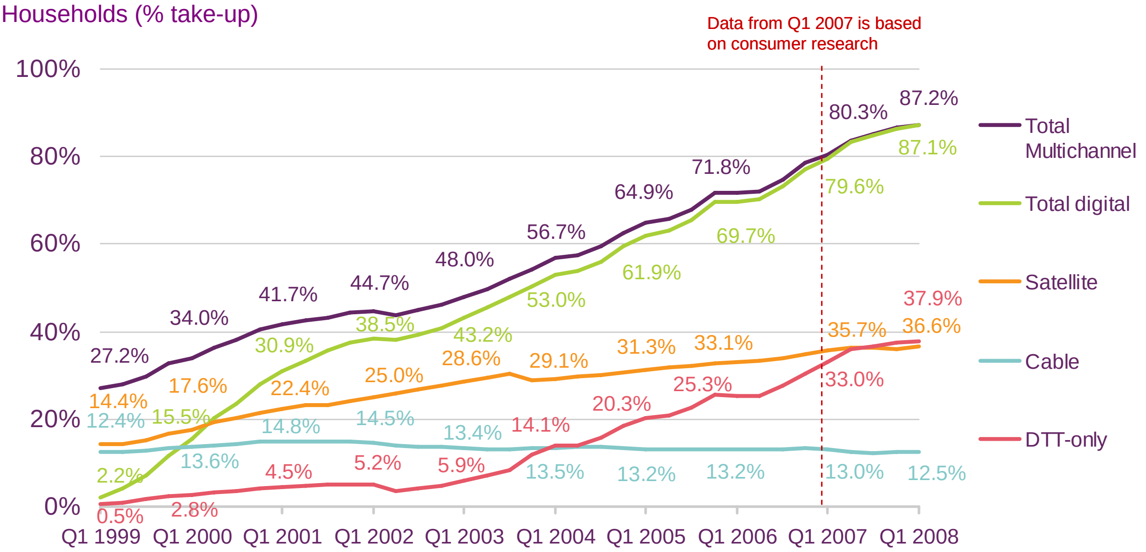
Figure 4: Multichannel take-up on main sets 1999 - 2008



Source: GfK research from Q1 2007 onwards; previous quarters use platform operator data, research and Ofcom estimates.
Note: TV over ADSL take-up stands at around 0.2%.

2.10 Figure 5 shows the same data in percentage terms, grouping analogue with digital cable, and free with pay satellite. This shows that DTT is the largest and fastest growing of the platforms, 25.1 percentage points higher than analogue terrestrial and 1.3 percentage points higher than satellite.

Figure 5: Multichannel take-up on main sets by platform 1999 - 2008

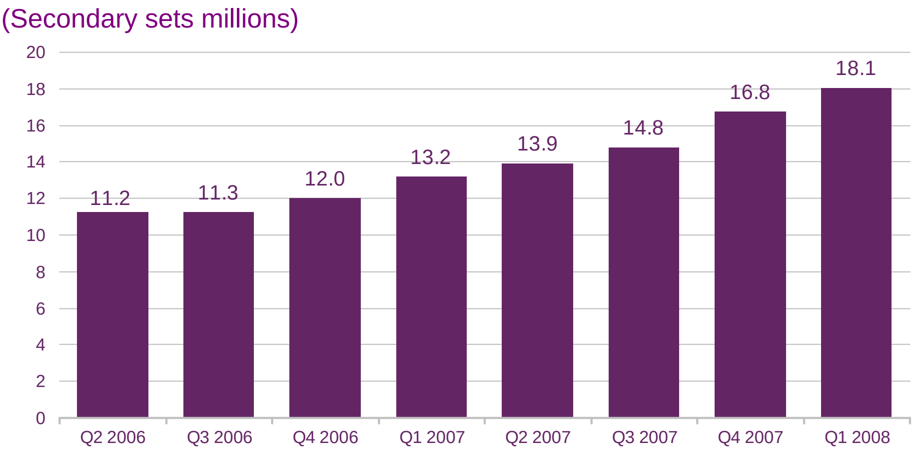


Source: GfK research from Q1 2007 onwards, previous quarters use platform operator data, research and Ofcom estimates.
Note: TV over ADSL figures are too low to appear on this chart

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. In Q1 2008 around 18.1 million (53%) of these had been converted to digital using either the Sky Multiroom service, a second cable box or a DTT reception device. This figure is up 1.3 million (3.7pp) on Q4 2007, and up 4.9 million (14.3pp) over the year, with DTT the main driver of growth (Fig 6).

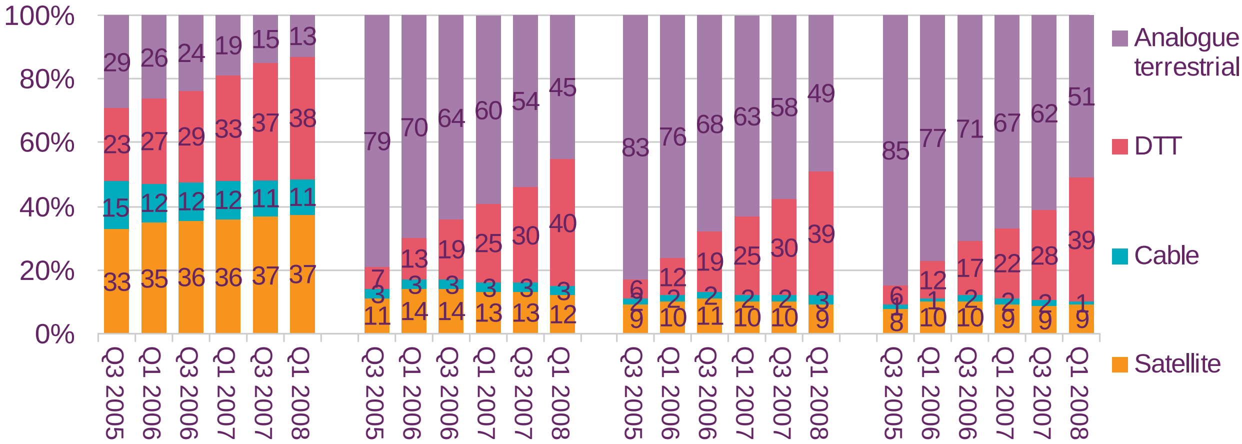
Figure 6: Total secondary digital sets across all platforms



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

2.12 Using consumer research we can break down both primary and secondary sets by platform. On main sets the analogue terrestrial share is around 13% but by the second, third and fourth set this increases to 45-51% (Figure 7). However, the growth in the number of DTT devices connected to additional sets, has helped drive secondary set digital conversion to around 55% of second sets, 51% of third sets and 49% of fourth sets by Q1 2008.

Figure 7: Platform shares by platform TV sets 1 – 4

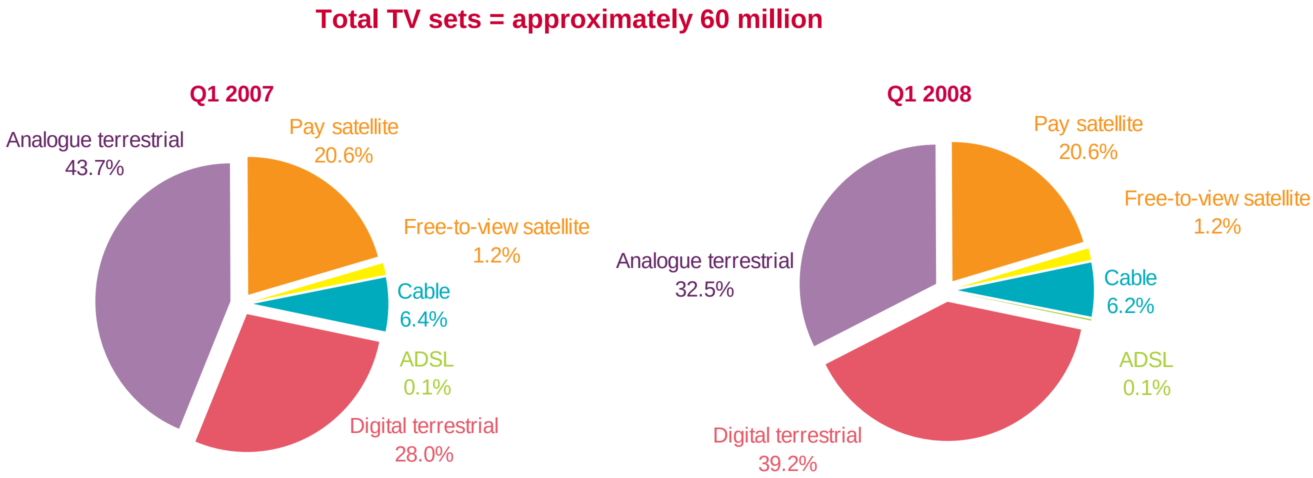


Source: GfK research
Note: Cable main set shares in this chart differ slightly from those in Figure 3 and Figure 5 because of a small element of overlap between cable and satellite.

Digital progress on all sets

2.13 Of the 60 million television sets in the UK (main and secondary), around 40.5 million (67.5%) had been converted to multichannel at the end of Q1, up by around 1.5 million sets (2.4pp) from the previous quarter, and up by around 6.7 million (11.1pp) over the year (Figure 8).

Figure 8: Platform shares among all TV sets



Source: GfK research for both Q1 2007 and Q1 2008
Note: figures may not add up to 100% owing to roundings.

2.14 Other key all-sets headlines at the end of Q1 2008 included:

- Analogue terrestrial now accounts for over 19 million (32.5%) television sets, of which around 3 million were main sets and around 16 million were secondary (for example in a bedroom or kitchen). The analogue terrestrial share of main sets has fallen by around 2.4pp in the quarter from 34.9% in Q4 2007, and by 11.1pp over the year.

- The number of digital terrestrial sets has risen by nearly 7 million over the year and now accounts for over 23 million (39.2%) TV sets. Growth has been driven by increased sales of IDTV sets and DTT set-top boxes (up 62% on last year), used on both primary and secondary sets.

- The satellite share of sets has remained relatively stable over the year at around 13 million (21.8%), with pay satellite holding a 20.6% share and free satellite a 1.2% share.

- The cable share was also stable over the year at around 3.7 million (6.2%) sets, with ADSL making up the remaining 0.1%.

Summary of multichannel trends Q1 2007 – Q1 2008

Figure 9: Take-up and share on primary and secondary TV sets

	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008
Multichannel take-up					
Cable	13.0%	12.4%	12.2%	12.4%	12.5%
Satellite	35.7%	36.4%	36.3%	36.1%	36.6%
DTT	33.0%	35.9%	36.6%	37.6%	37.9%
ADSL	0.2%	0.2%	0.1%	0.2%	0.2%
Total multichannel 1	**80.3%**	**83.5%**	**85.2%**	**86.5%**	**87.2%**
Pay TV take-up					
Cable	13.0%	12.4%	12.2%	12.4%	12.5%
Pay satellite	32.4%	32.5%	32.9%	33.6%	33.7%
Pay DTT				1.5%	1.6%
ADSL	0.2%	0.2%	0.1%	0.2%	0.2%
Total	**45.6%**	**45.1%**	**45.2%**	**47.7%**	**48.0%**
Share of multichannel TV market					
Cable	15.9%	14.7%	14.3%	14.4%	14.3%
Satellite	43.7%	43.0%	42.6%	41.9%	42.1%
DTT	40.3%	42.4%	43.0%	43.7%	43.6%
TV sets conversion					
Secondary sets converted	38.5%	40.7%	43.2%	49.1%	52.8%
All TV sets converted	56.3%	59.0%	61.1%	65.1%	67.5%

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

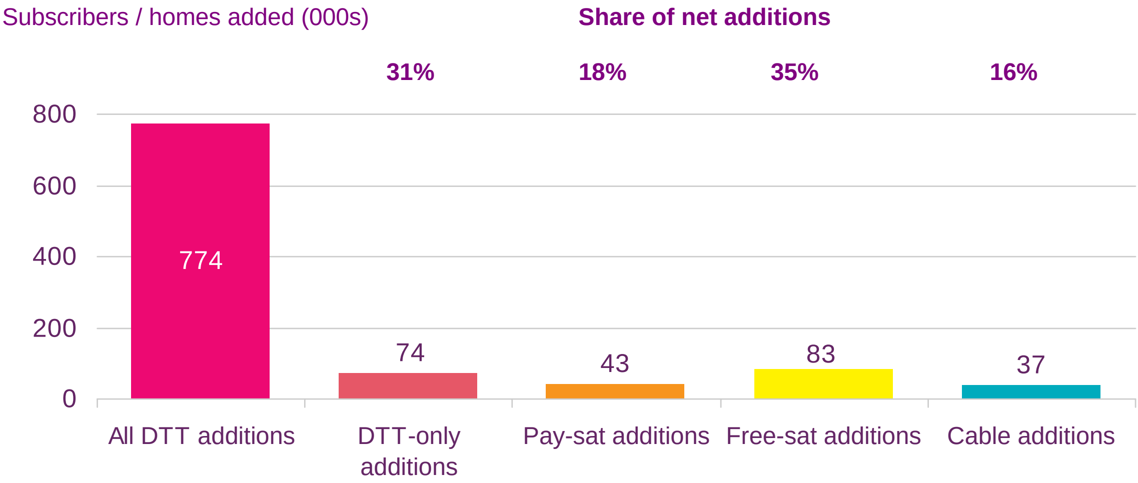
3.1 This section compares the net homes added on DTT and free satellite using survey results with the net subscriber additions reported by multichannel platform operators. The operator-based figures are included for information and to help give context to our research-based take-up figures; they do not, however, feed through into our calculations for multichannel take-up.

3.2 Survey results indicated an increase of around 774,000 homes using DTT on any set by the end of Q1. At the same time, the number of homes where DTT was the only multichannel platform rose by around 74,000 over the quarter. Free satellite homes went up by around 83,000 (0.3pp) during the quarter.

3.3 BSkyB reported 43,000 net added satellite subscribers during Q1, while Virgin Media results showed an additional 37,000 cable TV subscribers over the quarter. With additional conversions from analogue, digital cable increased by almost 58,000 during Q1. (These cable and satellite figures are likely to include an element of non-residential customers although the majority are expected to be new residential subscribers).

3.4 Using these results as an indicator, free satellite added the most homes with a 35% share of additions followed by DTT with 31%, pay satellite 18% and cable 16%. In other words the free platforms - free satellite and DTT - added around twice as many homes as the pay operators in Q1. However, these figures should only be used as a general guide, as they draw on different sources (Figure 10).

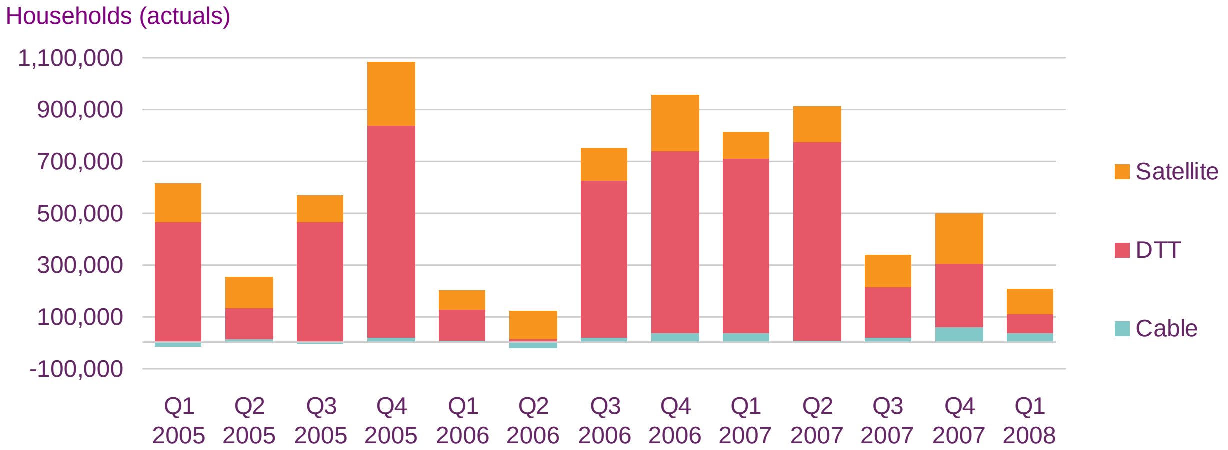
Figure 10: Net quarterly multichannel growth Q1 2008



Source: Pay platform additions based on quarterly BSkyB and Virgin Media results. Free platform additions (DTT and free satellite) based on GfK research.
Note: 'All DTT additions' includes satellite and cable homes acquiring DTT for the first time during the quarter. 'DTT-only additions' are first time DTT acquirers who have no other multichannel platform in the home.

3.5 Looking at multichannel growth by platform over the longer term, we can see that DTT has been the main driver of multichannel growth for the past three years, followed by satellite. However, the contribution of the various platforms appears to be evening out now that the majority of homes have multichannel TV (Figure 11).

Figure 11: Net quarterly multichannel additions



Source: Platform operator data (BSkyB and Virgin Media) for pay satellite and cable, GfK research for DTT and free satellite, Ofcom estimates for free satellite prior to Q1 2008.

Digital satellite – pay TV households

Figure 12: BSkyB Q4 2007 and Q1 2008 results

Pay digital satellite – BSkyB	Q4 2007	Q1 2008
Pay-TV satellite subscribers	**8,297,000 ***	**8,340,000 ***
ARPU (annualised)	£421	£424
Churn	10.0%	10.5%
Basic package price	£16.00	£16.00
Sky Multiroom	1,531,000	1,571,000
Sky +	3,131,000	3,393,000
Sky HD	422,000	465,000

Source: BSkyB Q1 2008 results.

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

3.6 BSkyB reported a 43,000 increase in TV subscribers in its Q1 results to take its total subscriber base to 8,340,000. BSkyB has added 332,000 subscribers over the past year.

3.7 The number of BSkyB subscribers taking the *Multiroom* service (which converts an additional set in the home to receive BSkyB services) rose by 40,000 during Q1 to 1,571,000, (with 274,000 additions over the past year). This means that 18% of Sky customers now 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 262,000 subscribers added in Q1. This took the total to approaching 3.4 million Sky+ homes or around 38% of its customer base. BSkyB's high-definition (HD) service added 43,000 subscribers, taking the total number to 465,000 or 5.2% of Sky subscribers by the end of Q1.

3.9 Annualised average revenue per user (ARPU) in Q4 was up by £3 on the previous quarter to £424, the highest yet reported, with ARPU now up by £29 year-on-year. Churn increased in the quarter from 10.0% to 10.5%, following higher additions during the previous Q4.

3.10 In November 2007, BSkyB launched its '*Sky Pay Once'* package under which customers can have Sky satellite equipment installed and gain access to four of Sky's TV package 'mixes' for six months for a one-off fee of £75. After this period customers can choose to keep the four 'mixes' for a subscription of £19 per month or opt to receive the 200 free-to-view channels available on satellite at no cost. The offer is currently available through third-party retailers rather than directly from Sky.

Digital satellite - free-to-view households

Figure 13: Free satellite

Free-to-view digital satellite	Q4 2007	Q1 2008
Free-to-view satellite households	640,000	720,000

Source: GfK research

3.11 May 2008 saw the launch of the BBC and ITV's free satellite offer, which should be available to up to 98% of UK homes. This service currently provides access to around 80 free digital TV and radio channels which is expected to increase to around 200 channels by the end of 2008. A one-off payment of £45 will cover the cost of equipment (set-top box and satellite dish) while a fee of £80 is charged for installation. A high-definition (HD) version of the set-top box is also available for £120, and HD services are currently available from the BBC and ITV.

3.12 This means that there are now four categories of free satellite viewer: (i) 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; (ii) users of BSkyB's own non-subscription services including '*Freesat from Sky*', which requires a one-off installation payment of £150 (or, more recently, BSkyB's '*Pay Once*' offer costing £75); (iii) homes taking the new '*Freesat'* service offered by the BBC and ITV, and (iv) those which have obtained satellite-receiving equipment from retailers other than BSkyB or BBC / ITV.

3.13 By the end of Q1 2008 survey results indicated that around 720,000 homes were using free satellite as their primary platform. This was an increase of around 80,000 on the previous quarter

Cable

Figure 14: Virgin Media Q4 2007 and Q1 2008 results

Cable – Virgin Media	Q4 2007	Q1 2008
Digital TV subscribers	3,253,500	3,311,400
Total TV subscribers	**3,478,100**	**3,514,900**
Total subscribers (TV, telephony, internet)	4,774,700	4,779,600
Homes passed and marketed	12,586,800	12,578,100
TV penetration rate *	27.6%	27.9%
ARPU ** (annualised)	£507	£503
Churn **	16.8%	14.4%
Basic package price	£11.00	£11.00
Virgin DVR (V+)	262,400	364,200

Source: Virgin Media Q1 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 First quarter results for Virgin Media showed additions of 57,900 digital TV subscribers (compared to 86,500 in Q4 2007). After allowing for the migration of analogue subscribers to digital cable, 36,800 net cable TV homes were added in Q1, compared to 61,100 in Q4 2007.

3.15 Virgin Media has added over 124,900 net new TV homes over the past year, to reach over 3.5 million subscribers. This is the highest level of take-up for cable television since Q1 2002. Within this total, 364,200 subscribers took Virgin Media's digital video recorder (DVR) service *V+*, equivalent to 11% of its digital subscribers. This was up by 108,800 on Q4, the largest quarterly increase so far.

3.16 During the quarter Virgin Media launched the *BBC iPlayer* as part of its TV offering, providing access to BBC archive programming. Virgin also has plans to launch a broadband service with a headline speed of up to 50 Mbit/s later in the year; currently its top tier headline broadband speed is 20 Mbit/s. Triple play customers now make up 51% of Virgin customers, up from around 43% a year ago.

3.17 Virgin reported that 48% of its customer base, (equivalent to approximately 1.6 million TV customers), were using its Video on Demand (VoD) service on a monthly basis by Q1, with viewing up by 10% on Q4 2007.

Digital terrestrial television (DTT) equipment sales

Figure 15: DTT equipment quarterly sales

DTT quarterly sales (actuals)	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008
Freeview set-top boxes	1,084,650	942,690	1,170,855	1,775,130	1,151,955
Integrated Digital Televisions (IDTV's)	869,715	921,900	1,187,130	2,286,900	1,879,605
Total sales	**1,954,365**	**1,864,590**	**2,357,985**	**4,062,030**	**3,031,560**
DTT PVR sales	73,800	65,800	91,300	190,000	130,000

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

* 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.

3.18 DTT equipment sales in Q1 2008 reached 3 million (following 4 million sales in Q4 2007). Of the 3 million sales, around 1.9 million were IDTVs and 1.1m were set-top-boxes (or other DTT devices).

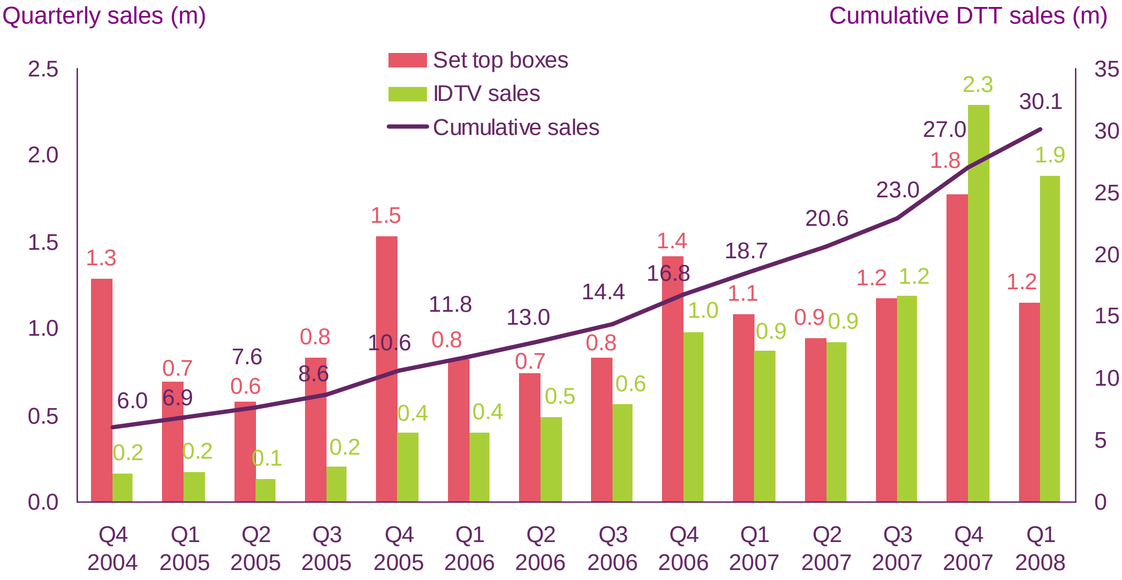
3.19 The 1.9 million IDTV sales were up by 1.0 million on the 870,000 sold a year ago, the highest first quarter sales figure to date. Total sales in the last 12 months reached almost 6.3m, compared to 2.9m in the preceding year. The growing popularity of IDTVs means that 80% of all TV sets sold are now digitally-enabled. IDTVs also accounted for almost two thirds (62%) of all DTT equipment sales in Q1, the highest proportion to date.

3.20 Set-top box sales reached over 1.1 million in Q1 2008, up by 6% on last year's Q1 figure of 870,000. Over the past year just over 5.0 million Freeview set-top boxes have been sold, compared to just under 4.1 million in the previous year.

3.21 The cumulative sales of DTT PVRs / DVRs (Personal Video Recorders / Digital Video Recorders) were approaching 1 million by Q1 2008, following 130,000 sales in Q1 2008 and 190,000 sales in Q4 2007.

3.22 Since Freeview's launch in October 2002 total sales of DTT devices have now exceeded 30.0 million units, comprising almost 11.4 million IDTVs and 18.7 million DTT set-top boxes (Figure 16).

Figure 16: DTT quarterly and cumulative sales since launch of Freeview



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

DTT households and DTT equipment sales

Figure 17: DTT households and sets estimates

DTT sets and households (millions)	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008
Total number of DTT enabled sets	16.7m	18.0m	19.4m	22.0m	23.4m
Total number of homes using DTT equipment	11.7m	12.9m	14.0m	15.3m	16.1m
Number of homes where DTT is the only digital platform	8.4m	9.1m	9.3m	9.6m	9.6m

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

3.23 An important ‘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 a desire for a bigger screen or high-definition capability.

3.24 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.

3.25 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 are often motivated by a desire to add new features such as seven-day programme guides or DVR functionality. This usually leads to a significant divergence between DTT sales and the number of homes converted to DTT. Q1 saw the highest level of additional or replacement DTT sales so far.

3.26 The Q1 GfK ownership survey estimated the total number of DTT-enabled TV sets at around 23.4 million, an increase of around 1.4 million sets in the quarter and 6.7 million over the year.

3.27 After allowing for DTT homes which also use another digital platform, such as satellite or cable, the estimate for homes where DTT is the only digital platform stood at over 9.6 million at the end of Q1, up by around 74,000 homes over the quarter and almost 1.3 million homes over the year (Figure 18).

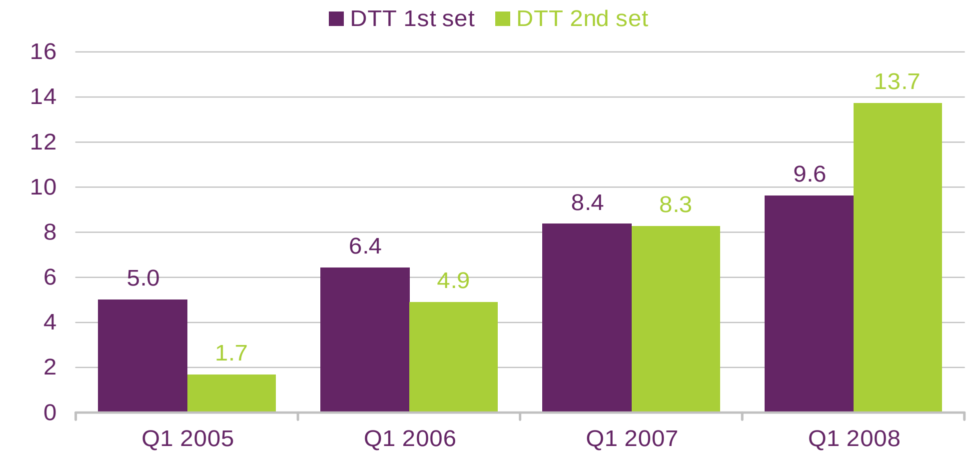
3.28 DTT equipment was being used in around 16.1 million homes in total by the end of Q1, when including cable and satellite homes using DTT on secondary sets. This was an increase of almost 0.8 million homes on Q4 2007 and an increase of around 4.4 million homes year-on-year.

DTT growth on primary and secondary sets

3.29 During 2007, the number of DTT devices used on secondary sets overtook the number used on primary sets for the first time. By Q1 2008 there were 23.4 million DTT-enabled sets, of which 9.6 million were primary and 13.7 million were secondary sets (Figure 18).

Figure 18: DTT on primary and secondary sets

(TV sets, millions)



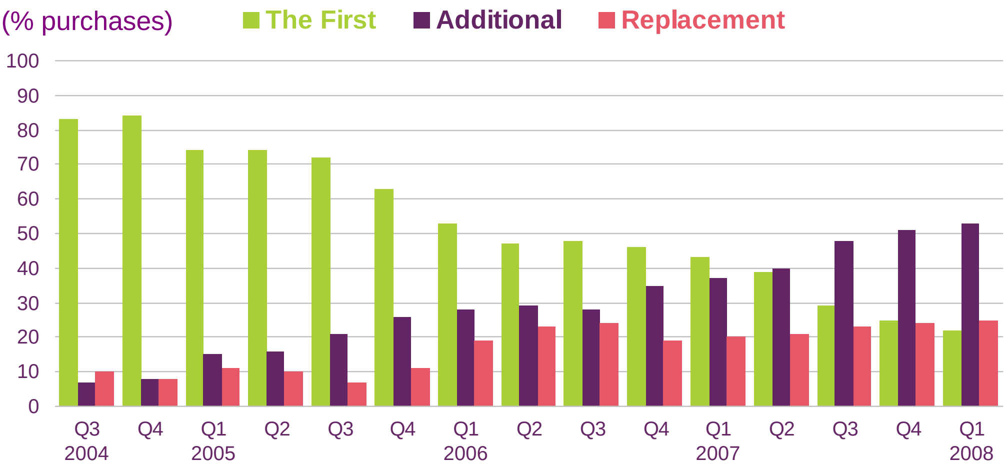
Source: GfK research

3.30 In 2004, a large majority (over 80%) of sales were first-time DTT purchases. However, by Q1 2008, this had declined to just 25%, with the remainder intended for connection to additional sets or as a replacement for existing DTT equipment. In Q1 2008, the number of replacement sales overtook first-time purchases for the first time.

Figure 19: 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.

Section 4

Restatement comparison data

Effect of restatement - comparison data Q1 2007 – Q1 2008

4.1 This section compares data using our new methodology with the approach we used previously in order to help draw comparisons. Under the new methodology data are drawn entirely from consumer research results while the previous methodology incorporated both research and subscriber data with Ofcom market estimates.

4.2 The overall effect of the restatement for main-set multichannel TV take-up for Q4 2007 was a 1.1 percentage point decrease from the original published 87.6% to a revised 86.5%. For Q1 2008, this figure would have reached 88.2% if we had used our previous methodology, i.e. 1.0pp higher than the 87.2% figure derived from our new methodology. Other notable changes in the new methodology include:

- Cable take-up has fallen by 1.2pp points in the restated Q4 figure. This can be partly explained by the overlap between cable and other platforms, which was not captured under our old methodology. For example, some homes may have satellite or freeview in use on a main set but may have acquired a cable subscription primarily for telephony and internet services, and attached the TV set-top box to a television set in a bedroom. The GfK survey we use records the equipment which the respondent claims is in use on the main set in the home, and also the equipment in use on each secondary set.

- Pay satellite has increased by 1.2pp under the new method, this could be accounted for by homes in the UK which subscribe to overseas satellite services. There is also potential error from respondents who think they have 'Sky' services but who do not actually pay a monthly subscription. This could also explain the 1.6pp fall in free satellite in the restated Q4 figures. The overall (free plus pay) satellite take-up figure is down 0.4pp.

Figure 20: Platform take-up figures old and new methodology

Comparison data Q1 2007 – Q1 2008	Old method Q1 2007	New method Q1 2007	*Change (+ or -)*	Old method Q4 2007	New method Q4 2007	*Change (+ or -)*	Old method Q1 2008	New method Q1 2008	*Change (+ or -)*
Multichannel take-up									
Cable	13.4%	13.0%	*-0.4%*	13.6%	12.4%	*-1.2%*	13.7%	12.5%	*-1.2%*
Pay Satellite	31.6%	32.4%	*+0.8%*	32.4%	33.6%	*+1.2%*	32.5%	33.7%	*+1.2%*
Free satellite	3.5%	3.3%	*-0.2%*	4.1%	2.5%	*-1.6%*	4.3%	2.8%	*-1.5%*
DTT	33.0%	33.0%	-	37.4%	37.6%	*+0.2%*	37.9%	37.9%	-
ADSL	0.2%	0.1%	*-0.1*	0.1%	0.2%	*-0.1*	0.1%	0.2%	*+0.1*
Total multichannel	**81.7%**	**80.3%**	***-1.4%***	**87.6%**	**86.5%**	***-1.1%***	**88.2%**	**87.2%**	***-1.0%***
Total digital	**80.5%**	**79.6%**	***-0.9%***	**86.7%**	**86.3%**	***-0.4%***	**87.4%**	**87.1%**	***-0.3%***

Source: GfK consumer research. Previous data under 'Old method' also incorporating platform operator data for pay platforms.

4.3 The table below shows the effect of the methodology change in terms millions of homes for each platform. Some of the quarterly changes may also be accounted for by the fluctuation inherent in using research sources.

Figure 21: Platform take-up figures previous and new methodology

Comparison data Q1 2007 – Q1 2008	Previous Q1 2007	New Q1 2007	Change	Previous Q4 2007	New Q4 2007	Change	Previous Q1 2008	New Q1 2008	Change
	Homes (millions)	Homes (millions)	Homes (+ or -)	Homes (millions)	Homes (millions)	Homes (+ or -)	Homes (millions)	Homes (millions)	Homes (+ or -)
Pay TV homes									
Cable	3.4m	3.3m	-0.1m	3.5m	3.1m	- 0.3m	3.5m	3.1m	- 0.4m
Pay Satellite 1	8.0m	8.2m	+ 0.2m	8.3m	8.5m	+ 0.2m	8.3m	8.6m	+ 0.3m
DTT pay (Top-Up-TV)	n/a	n/a	n/a	*0.4m	0.4m	n/a	*0.4m	0.4m	n/a
TV over ADSL 2	0.06m	n/a	n/a	0.04m	0.05m	+ 0.01m	0.04m	0.05m	+ 0.01m
Total pay homes	**11.5m**	**11.5m**	**-**	**12.2m**	**12.1m**	**- 0.1m**	**12.2m**	**12.2m**	**-**
Free-to-view digital households									
DTT (Freeview) only homes (non pay) 3	*8.4m	*8.4m	-	*9.2m	9.2m	n/a	*9.2m	9.2m	n/a
Free-to-view satellite 4	0.9m	0.8m	-0.1m	1.0m	0.6m	-0.4m	1.1m	0.7m	-0.4m
Total Free-to-view digital households	**9.3m**	**9.2m**	**-0.1m**	**10.2m**	**9.8m**	**-0.4m**	**10.3m**	**10.0m**	**-0.3m**
Total multichannel homes	**20.7m**	**20.4m**	**-0.3m**	**22.4m**	**22.0m**	**-0.4m**	**22.6m**	**22.2m**	**-0.4m**
% multichannel take-up	**81.7%**	**80.3%**	**-1.4%**	**87.6%**	**86.5%**	**-1.1%**	**88.2%**	**87.2%**	**-1.0%**
Analogue Terrestrial 5	4.7m	5.0m	+0.3m	3.2m	3.4m	+0.2m	3.0m	3.3m	+0.3m

Source: GfK consumer research. Previous data under previous method incorporating platform operator data for pay platforms.
Note: * DTT not previously split by pay and free, figures included here for comparison purposes.

Background on survey methodology

GfK consumer research survey

The GfK consumer research used in the report is based on a panel of 14,000 homes screened quarterly via online and by telephone. The survey collects data on ownership and acquisition of TV 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.