Ofcom
OFFICE OF COMMUNICATIONS

The Communications Market: Digital Progress Report

Digital TV, Q3 2007

This is the sixteenth Ofcom Digital Progress Report covering developments in digital television. The data are the latest available at the time of writing and include quarterly figures provided by platform operators as well as from market research surveys.

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Section 1

Overview

1.1 In the three months to the end of September 2007 (Q3) there were 361,700 net UK household conversions to digital television (DTV), following 944,200 additions in the previous quarter. The DTT equipment market also had a strong quarter, with almost 2.4 million units sold, while the digital cable and satellite platforms together added almost 170,000 digital households.

1.2 This means that **85.1% of households now receive digital television services** on their primary set, up 1.1 percentage points since June 2007.

1.3 With a further 1.0% of households subscribing to analogue cable, the total number of homes receiving multi-channel television at the end of Q3 2007 has risen to **86.1%.**

Other key findings

1.4 Other key findings in the third quarter of 2007 include:

- The number of households with digital TV equipment connected to their primary television set stood at almost 21.7 million by the end of the period.
- With DTT sales of almost 2.4 million, Q3 was the second highest quarter on record. Year on year Q3 sales were 70% higher, fuelled by the increasing popularity of integrated digital television sets (IDTVs) which sold almost 1.2 million units in Q3 and accounted for just over 50% of all DTT sales. DTT sales over the past year have reached almost 8.6 million, an average of over 2 million per quarter.
- New DTT-only households accounted for 57% of all growth in digital TV homes, rising by 193,000 to around 9,332,000 during the quarter.
- We estimate that there are also around 1 million free-to-view digital satellite homes. This means that there are now 10.3 million free-to-view digital households (satellite and DTT combined).
- The number of BSkyB subscribers rose by 67,000 to approaching 8.2 million by the end of the quarter. Adding pay satellite to free-to-view satellite homes took the satellite homes total to over 9.1 million at the end of the quarter.
- Net cable subscriber numbers rose by 20,400 during the quarter and stood at 3.4 million. Digital cable subscribers increased by over 41,000 and now total nearly 3.2 million, or 93% of all cable subscriptions.

1.5 In calculating platform totals in the report, DTT-only homes are defined as those where DTT is the only digital TV platform in the home. A household with satellite or cable on the main TV set and DTT on a second set is counted as a satellite or cable home for the purposes of calculating take-up on primary sets. Figures for all homes with DTT are included in section 3 of the report.

Section 2

Platform figures Q3 2007

Figure 1: Platform take-up

	Q2 2007	Q3 2007	Net additions	Growth rate
Pay TV digital subscribers				
Digital cable	3,132,571	3,174,271	41,700	1.3%
Digital satellite (BSkyB) [1]	8,085,000	8,152,000	67,000	0.8%
TV over ADSL [2]	36,000	36,000	-	-
Total digital pay TV subscribers [3]	11,253,571	11,362,271	108,700	1.0%
Free-to-view digital households				
DTT (Freeview) only homes [4]	9,139,000	9,332,000	193,000	2.1%
Free-to-view digital satellite [5]	945,000	1,005,000	60,000	6.3%
Total Free-to-view households	10,084,000	10,337,000	253,000	2.5%
Total UK digital households	**21,337,571**	**21,699,271**	**361,700**	**1.7%**
Digital penetration	**84.0%**	**85.1%**	**1.1 pp [6]**	
Other multi-channel households				
Analogue cable	272,454	251,154	-21,300	-7.8%
Multi-channel penetration	85.0%	86.1%	1.1pp [6]	

Source: Platform operators, GfK research, Ofcom market estimates.

[1] BSkyB subscriber figures include commercial premises and also TV over ADSL households that subscribe to Sky packages. There is therefore an element of overstatement in these areas.

[2] The Q3 figure for TV over ADSL refers to ADSL subscribers from Tiscali's Q3 results in November 2007. ADSL figures do not include BT Vision customers, (60,000 subscribers by Q3 2007), to whom live scheduled programming is delivered via DTT (in Freeview coverage areas) rather than by broadband. The Q2 2007 figure for ADSL has been restated following an update from Tiscali in Q3.

[3] Pay TV households do not include figures for Top Up TV which are not in the public domain. Top Up TV subscribers are therefore counted in free-to-view digital terrestrial homes.

[4] Ofcom uses survey data from GfK for the number of homes where DTT is the only digital platform. The total number of all homes with DTT is therefore higher, as some homes have more than one multichannel platform.

[5] Ofcom estimates the number of viewers using satellite equipment to receive the free-to-view channels.

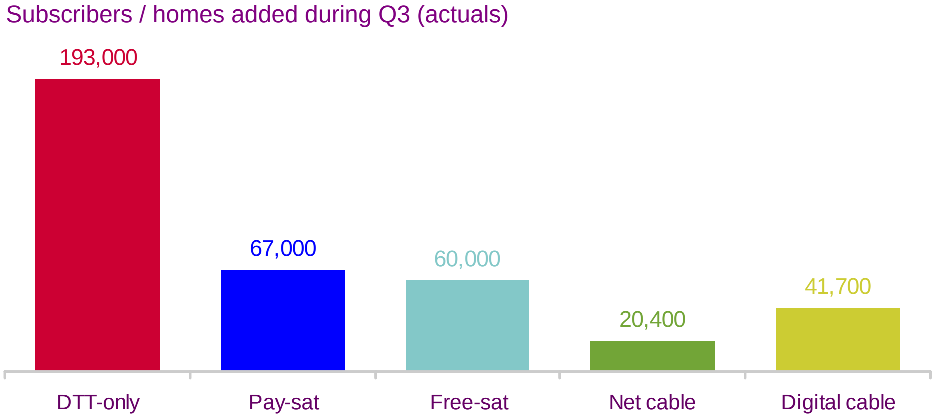
[6] pp = percentage points.

Note: Percentages may be rounded.

Q3 net platform additions

2.1 The 193,000 analogue terrestrial households which purchased Freeview equipment for the first time in Q3 accounted for around 57% of DTV growth. BSkyB added 67,000 net subscribers during the quarter and we estimate that the number of homes using free satellite equipment grew by 60,000. Cable showed a net increase of 20,400 homes, and, when including migrations from analogue cable, total digital cable additions reached 41,700 in Q3 (Figure 2).

Figure 2: Net quarterly DTV growth



Source: Platform operators, GfK research, Ofcom estimates.

Multichannel growth

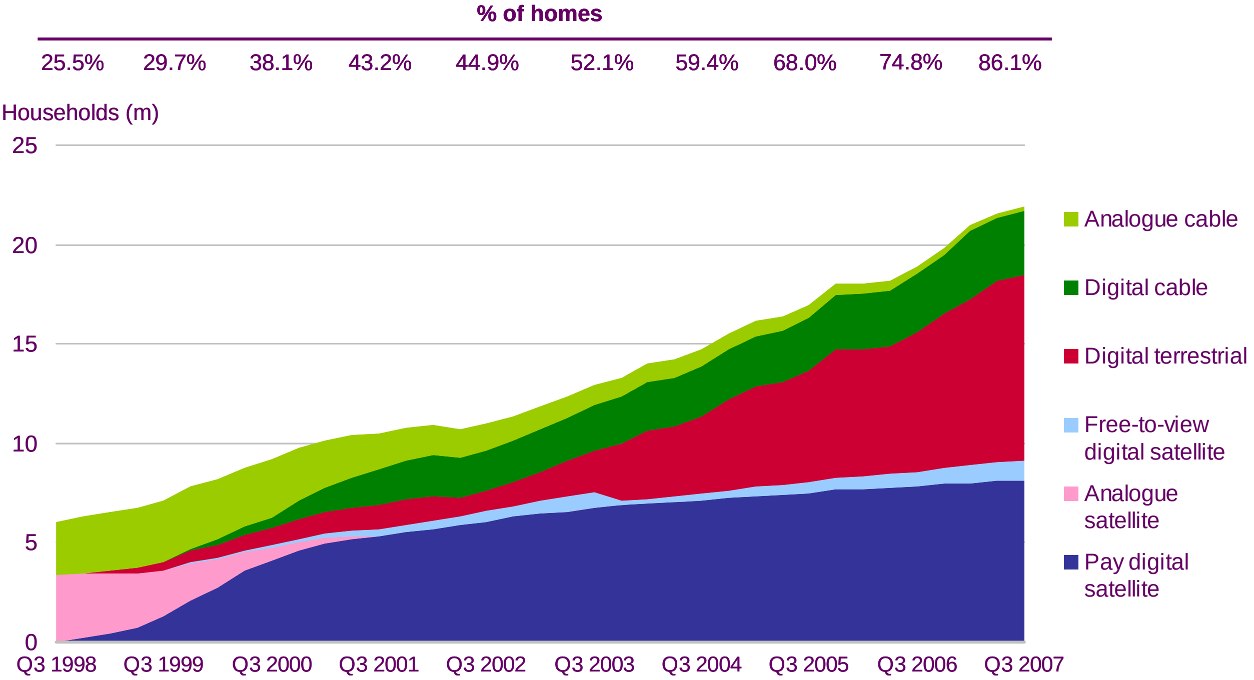
2.2 Multichannel take-up increased by around 1.1 percentage point in Q3 to 86.1%. Over the past year take-up has risen by over 11 percentage points from 74.8% in Q3 2006 and up by over 18 percentage points from two years ago (68.0%) in Q3 2005 (Figure 3).

2.3 Of the 86.1% homes with multichannel, digital television accounts for 85.1%, of the total with the remaining 1% made up by analogue cable. Around 20-30,000 analogue cable homes are converted to digital every quarter.

2.4 The total number of multichannel homes reached almost 22.0 million by the end of Q3 2007. This was up by over 340,000 on the previous quarter and by over 3.0 million on the year.

2.5 Digital terrestrial is the largest platform on main sets, accounting for over 9.3 million homes, up from around 9.1 million in Q2 2007. Satellite (free or pay) ranks second as the main platform in almost 9.2 million homes. There are a further 3.4 million cable TV homes following net additions of 100,000 homes over the last year.

Figure 3: Multichannel growth

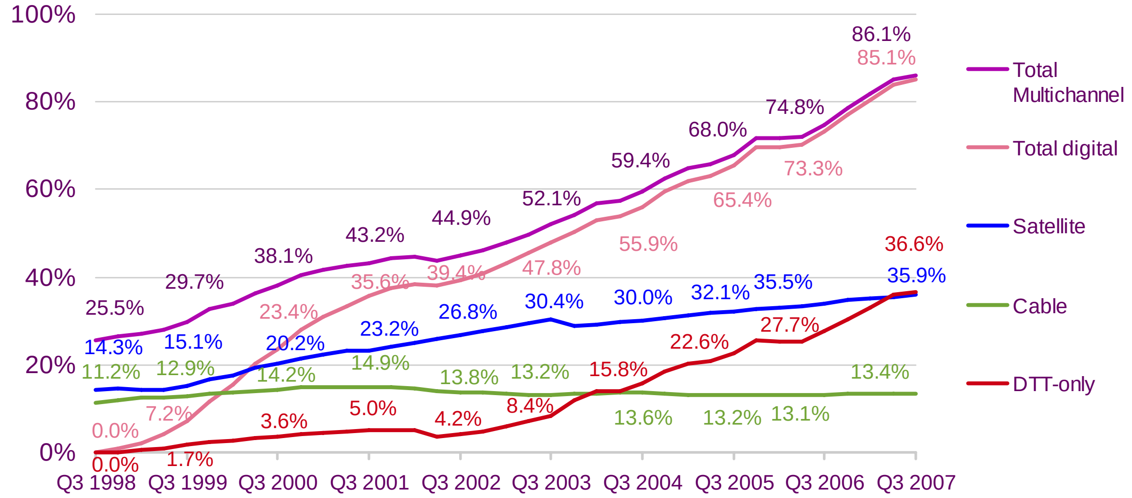


Source: Platform operators, GfK research, Ofcom estimates.

Platform-by-platform growth

2.6 DTT-only take-up increased by 0.7 percentage points in the quarter and was the primary platform in 36.6% of homes; over the past year the platform has attracted a further 8.9% of UK homes. Satellite penetration grew by 0.4% during Q3, partly assisted by the growth in free satellite, and was the primary platform in 35.9% of all homes. Cable has grown steadily over the year and accounted for main-set viewing in around 13.4% of homes by (Figure 4).

Figure 4: Platform take-up 1998 - 2007

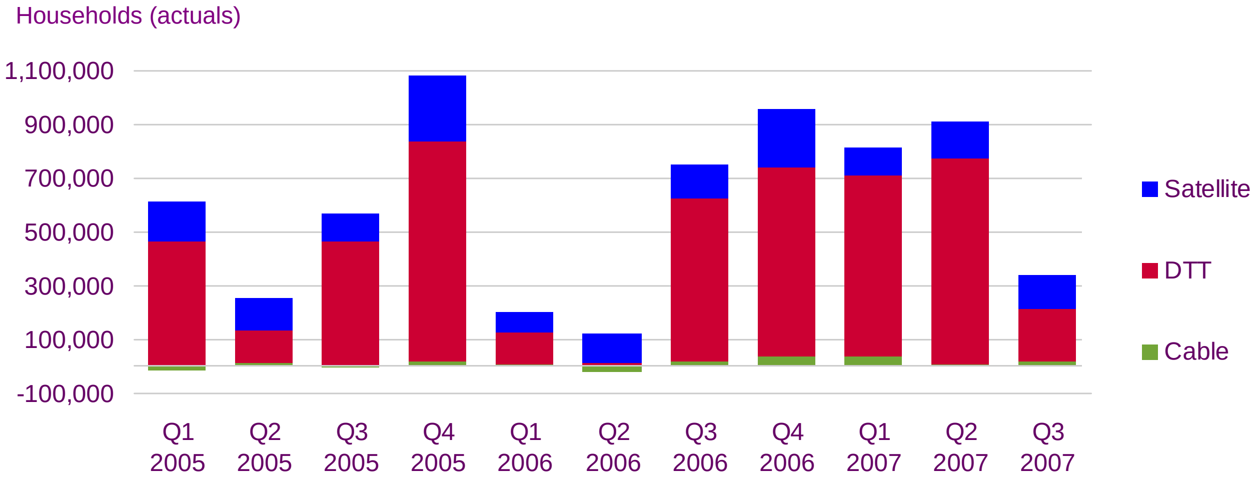


Source: Platform operators, GfK research, Ofcom estimates.

Drivers of DTV growth

2.7 Since 2005, satellite and DTT have generally been the primary drivers of DTV growth. In Q3 2007, DTT accounted for 57% of net digital additions with 193,000 homes added. Satellite (pay and free) added 127,000 homes (37% of all additions). Q3 saw 20,400 cable TV homes added (around 6% of all additions in the quarter); this was therefore the fifth successive quarter of growth in cable TV homes. (Figure 5)

Figure 5: Net quarterly additions

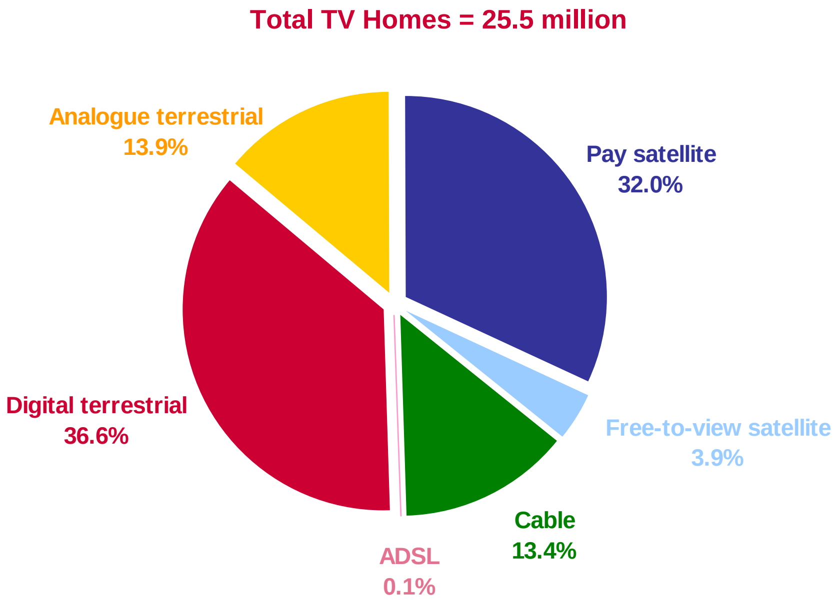


Source: Platform operators, GfK research, Ofcom estimates.

TV platform share on primary sets, Q3 2007

2.8 The chart below shows the means of reception on primary sets in the UK's 25.5 million television homes in Q3 2007 (Figure 6).

Figure 6: Platform share of main television sets, Q3 2007



Source: Platform operators, GfK research, Ofcom estimates.

2.9 Developments in the third quarter of 2007 include:

- The number of homes receiving analogue terrestrial television on their primary set fell by 1.1 percentage point during Q3 2007 from 15.0% in Q2. Over the year, analogue television take-up has fallen by over 11 percentage points, from 25.2% in Q3 2006 to 13.9% by Q3 2007.

- Digital terrestrial is now used on main sets by over a third of UK homes (36.6%), almost 23 percentage points higher than analogue terrestrial by Q3. DTT penetration exceeded satellite by 0.7 percentage points.

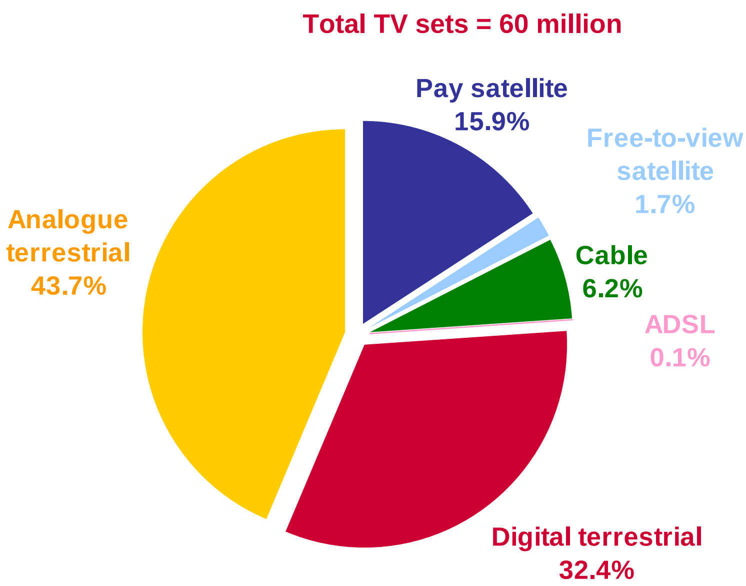
- Pay satellite penetration rose by 0.2 percentage points in Q3 to reach 32.0% of UK homes, while free-to-view satellite take-up rose by a similar amount to stand at 3.9% of primary sets.

- The majority of homes remaining took cable (13.4%) while 0.1% were estimated to receive digital TV on their main set through an ADSL connection.

TV platform share on all sets, Q3 2007

2.10 Taking all TV sets (analogue and digital); over half were connected to a multichannel platform at 56.3%, up by 2.7 percentage points from 53.6% at the end of the previous quarter (Figure 7).

Figure 7: Platform share of all TV sets



Source: Platform operators, GfK research, Ofcom estimates.
Note: Research from GfK estimates the total number of TV sets to be approximately 60 million.

2.11 Other key headlines at the end of Q3 2007 included:

- Analogue terrestrial share fell from 46.4% to 43.7% by the end of Q3; of these 5.9% were primary sets and 37.8% secondary (for example in a bedroom or kitchen). The number of analogue sets has fallen by 11.6 percentage points over the past year.

- Digital terrestrial share rose by 2.4 percentage points over the quarter to 32.4% of all TV sets. Year on year, DTT's share of TV sets has increased by 9.9 percentage points, following continued growth in the number of IDTV sets and DTT devices used on both primary and secondary sets.

- Pay satellite took a 15.9% share of all sets in Q3, up by 1.1 percentage points in 12 months, with both main-set subscriptions and Sky Multiroom increasing during the quarter. Adding in free-to-view satellite (1.7% of all sets) satellite took a 17.6% share, up by 1.5 percentage points on Q3 2006.

- Cable share was up 0.2% over the year at 6.2% of TV sets in Q3, with ADSL making up the remaining 0.1%.

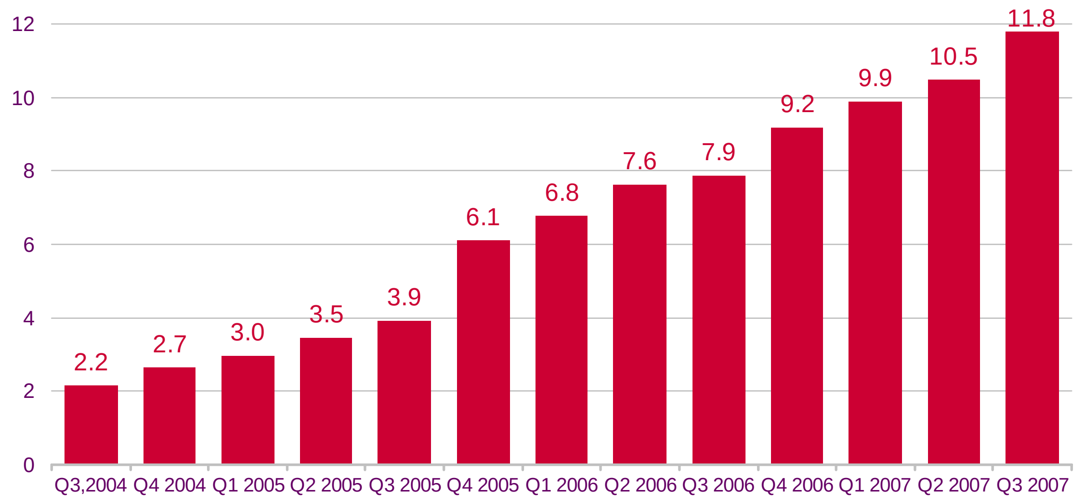
Growth in secondary digital sets

2.12 With the average home owning 2.4 TV sets, there are around 35 million secondary sets in the UK market. Around a third (12 million) of these have been converted to digital using either the Sky Multiroom service, a second cable box or through a DTT reception device. Q3 saw an increase of around 1.3 million secondary sets on Q2 2007, with DTT by far the biggest growth driver, accounting for over 1.2 million of these.

2.13 Secondary TV sets conversion increased by more than 3.9 million over the last year, up from around 7.9 million sets at the end of Q3 2006 to around 11.8 million by Q3 2007.

Figure 8: Total secondary digital sets across all platforms

(Sets millions)



Source: Platform operators, GfK research, Ofcom estimates.
Note: this chart also includes a small number of analogue cable second sets.

Summary of trends in digital take-up and market share in UK homes

Figure 9: Market share, take-up and additions on primary TV sets

	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007
Digital take-up									
Digital cable	10.6%	10.8%	11.1%	11.3%	11.6%	11.9%	12.2%	12.3%	12.4%
Digital satellite	32.1%	32.8%	33.1%	33.4%	33.9%	34.7%	35.0%	35.5%	35.9%
DTT	22.6%	25.7%	25.3%	25.3%	27.7%	30.4%	33.0%	35.9%	36.6%
ADSL	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.1%
Total digital	**65.4%**	**69.5%**	**69.7%**	**70.2%**	**73.3%**	**77.2%**	**80.5%**	**84.0%**	**85.1%**
Analogue cable	2.6%	2.4%	2.1%	1.8%	1.6%	1.4%	1.2%	1.1%	1.0%
Total multichannel	68.0%	71.8%	71.8%	72.0%	74.8%	78.6%	81.7%	85.0%	86.1%
Pay TV take-up									
Cable	13.2%	13.2%	13.2%	13.1%	13.1%	13.3%	13.4%	13.4%	13.4%
Pay digital satellite	29.9%	30.5%	30.5%	30.7%	30.9%	31.5%	31.6%	31.8%	32.0%
ADSL	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.1%
Total	**43.2%**	**43.8%**	**43.9%**	**43.9%**	**44.2%**	**45.0%**	**45.2%**	**45.4%**	**45.5%**
Share of digital TV market									
Cable	16.2%	15.6%	15.9%	16.0%	15.8%	15.4%	15.1%	14.7%	14.6%
Digital satellite	49.0%	47.3%	47.5%	47.6%	46.2%	45.0%	43.6%	42.3%	42.2%
ADSL	0.2%	0.2%	0.3%	0.3%	0.2%	0.2%	0.3%	0.3%	0.2%
DTT	34.5%	36.9%	36.4%	36.1%	37.8%	39.4%	41.0%	42.8%	43.0%
Share of multichannel TV market									
Cable	19.4%	18.4%	18.4%	18.1%	17.5%	16.9%	16.4%	15.7%	15.6%
Digital satellite	47.2%	45.7%	46.1%	46.4%	45.3%	44.2%	42.9%	41.7%	41.7%
DTT	33.2%	35.7%	35.3%	35.2%	37.0%	38.7%	40.4%	42.2%	42.5%
Share of net additions									
Cable	0.0%	2.0%	6.2%	0.0%	3.0%	4.3%	4.3%	0.7%	6.0%
Digital satellite	17.2%	22.6%	84.3%	87.7%	17.0%	22.9%	12.3%	15.1%	37.3%
DTT	79.7%	75.2%	0.0%	12.3%	80.0%	73.1%	81.0%	84.1%	56.7%
ADSL	3.1%	0.2%	9.5%	0.0%	0.0%	0.0%	2.3%	0.0%	0.0%

Source: Platform operators, GfK research, Ofcom estimates.

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

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

Section 3

Update by platform

Digital satellite – pay TV households

Figure 10: BSkyB Q2 2007 and Q3 2007 results

Pay digital satellite – BSkyB	Q2 2007	Q3 2007
Pay-TV satellite subscribers	**8,085,000 ***	**8,152,000 ***
ARPU (annualised)	£412	£411
Churn	12.1%	11.3%
Basic package price	£16.00	£16.00
Sky Multiroom	1,343,000	1,411,000
Sky +	2,374,000	2,697,000
Sky HD	292,000	358,000

Source: BSkyB Q3 2007 results.

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

3.1 BSkyB's subscriber base increased by 67,000 during the quarter to reach 8,152,000, with over 335,000 net additions year on year.

3.2 The number of BSkyB subscribers taking the Multiroom service (which converts an additional set in the home to receive BSkyB services) increased by 68,000 during Q3 to 1,411,000. This means that 17% Sky customers now have at least one additional set converted to pay satellite viewing.

3.3 BSkyB's digital video recorder service (DVR, also known as PVR – personal video recorder), Sky+, saw another quarter of growth, adding 323,000 new subscribers in Q3, taking the total to almost 2.7 million homes, around a third of its UK customer base. BSkyB's HD service also added 66,000 subscribers, taking the total number to 358,000 by the end of Q3, 4.4% of subscribers.

3.4 Annualised average revenue per user (ARPU) for the quarter was down slightly, by £1, on the previous quarter, to £411 in Q3. Churn decreased quarter on quarter from 12.1 to 11.3%.

3.5 In November 2007, Sky launched a new package in 'Sky Pay Once', following an earlier trial during the summer of 2007. For a one-off fee of £75, customers can now have Sky satellite equipment installed and also have access to four of Sky's TV package 'mixes' for a six-month period. After this period customers can choose to keep the four 'mixes' for a subscription of £19 per month or alternatively they can opt to receive the 200 free to view channels available on satellite at no monthly cost. The offer is currently available only through third-party retailers rather than directly from Sky.

3.6 Sky announced in December 2007 that its Sky Anytime service, would become available to non-Sky subscribers through the launch of a new external broadband service. Sky Anytime originally launched for Sky customers in March and offers access to a library of on-demand programmes. The new service means that non-Sky customers now have access to premium Sky TV shows which are available to download online for a £2 fee with non-premium shows available for £1. In addition, for £5 per month broadband users can also subscribe to highlights of Sky's football coverage. This also means that the Sky Anytime service is now available via broadband and mobile telephone as well as through the television for Sky+ and Sky HD subscribers.

Digital satellite - free-to-view households

Figure 11: Free satellite

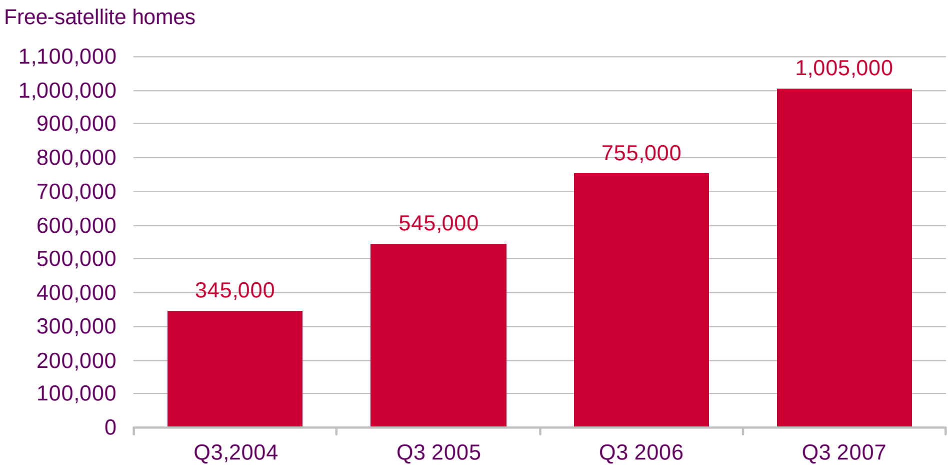
Free-to-view digital satellite	Q2 2007	Q3 2007
Free-to-view satellite households	945,000	1,005,000

Source: Ofcom

3.7 An increasing number of homes now receive free-to-view channels on satellite reception equipment. These homes generally fall into three categories including: (i) those who have churned from BSkyB 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 payment of £150 or more recently BSkyB's 'Pay Once' offer costing £75; and (iii) those who have obtained satellite receiving equipment from other retailers and also have a viewing card which allows them to receive free-to-view channels. The BBC and ITV are planning to launch their own free satellite service in 2008.

3.8 We estimate that use of free-satellite equipment has increased steadily over the last three years and by the end of Q3 2007 around a million homes were able to receive free-to-view channels in this way.

Figure 12: Estimated free-satellite households 2003 - 2007



Source: Ofcom

Cable

Figure 13: Virgin Media Q2 2007 and Q3 2007 results

Cable – Virgin Media	Q2 2007	Q3 2007
Digital TV homes connected	**3,125,300**	**3,167,000**
Total TV homes connected	3,396,600	3,417,000
Total residential subscribers (TV, telephony, internet)	4,737,300	4,750,300
Homes passed and marketed	12,697,400	12,701,500
TV penetration rate *	26.7%	26.9%
ARPU ** (annualised)	£506	£499
Churn ***	21.6%	20.4%
Basic package price	£11.00	£11.00
Virgin DVR (V+)	166,800	190,000

Source: Virgin Media Q3 2007 results.

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

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

3.9 Third quarter results for Virgin Media showed additions of 41,700 digital TV subscribers (44,200 in Q2 2007). After allowing for the migration of analogue subscribers to digital cable, 20,400 net cable TV homes were added in Q3, (6,600 in Q2 2007). Virgin has added over 100,000 net new TV homes over the past year, to reach over 3.4 million homes. There were also 190,000 subscribers to Virgin Media's digital video recorder (DVR) service V+ by the end of Q3 2007.

3.10 The total number of UK cable households in Q3 stood at 3,425,425 (when including the smaller cable operators); around 93%, or 3,174,271 of these, were digital.

3.11 During the quarter Virgin Media announced they had added six Setanta Sports channels to their service with content including Premier League football alongside other major sports. The new sports channels are available as part of Virgin's 'Size XL' subscription TV package. The group also launched two new channels during Q4 2007. Another sports channel, developed in partnership with Setanta went live in November 2007, while October saw the launch of the 'Virgin 1' entertainment channel on cable, DTT and satellite.

3.12 Virgin also reported that 45% of its customer base, (equivalent to approximately 1.5 million homes), were using its Video on Demand (VoD) service on a monthly basis by Q3, with viewing up by 23% on Q2.

Digital Terrestrial Television (DTT) sales

3.13 Q3 saw the second highest DTT equipment sales on record, at over 2.3 million (up almost 70% year on year). Growth was again fuelled mainly by increasing sales of IDTVs, which more than doubled year on year. Meanwhile DTT set-top box sales also continue rose, up by 40% year on year. Altogether 8.6 million DTT units have been sold over the past year, compared to 5.8 million in the preceding year.

3.14 Around 1.2 million IDTVs were sold in Q3; the highest in any quarter so far, up by 114% on the 556,000 sold a year ago. Total sales in the last 12 months totalled almost 4.0m, compared to 1.8m the preceding year. The growing popularity of IDTV sales means that 61% of all TVs sold are now digitally-enabled. IDTVs accounted for just over half of all DTT equipment sales in Q3, the highest proportion to date.

3.15 Set-top box sales reached almost 1.2 million in Q3 2007, the highest Q3 sales so far, up by 40% on last year's Q3 figure of 835,000. Over the past year around 4.6 million set-top boxes have been sold compared to 3.9 million in the previous year.

Figure 14: DTT equipment quarterly sales

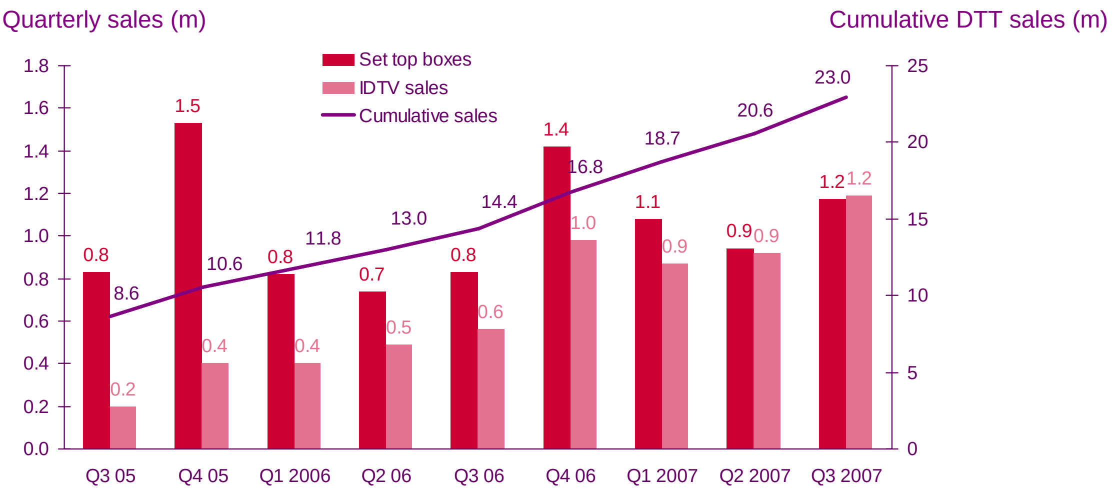
DTT quarterly sales (actuals)	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007
Freeview set-top boxes	834,960	1,416,765	1,084,650	942,690	1,170,855
Integrated Digital Televisions (IDTV's)	555,765	984,060	869,715	921,900	1,187,130
Total sales	**1,390,725**	**2,400,825**	**1,954,365**	**1,864,590**	**2,357,985**

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.

3.16 Between Freeview's launch in October 2002 and Q3 2007, almost 23.0 million DTT units have been sold. This includes over 7.2 million IDTVs and over 15.7 million DTT set-top boxes.

Figure 15: DTT cumulative sales since launch of Freeview in 2002



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

DTT households and DTT equipment sales

3.17 An important 'overlap' factor must be accounted for when evaluating the impact of IDTV sales on digital conversions. IDTV purchases are not always motivated by the integrated DTT tuner, but often for other reasons such as a desire for a bigger screen or high-definition capabilities.

3.18 As a result, IDTVs can in some cases be 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 could imply. Ofcom's consumer research into DTT take-up on main sets takes account of this effect by recording homes where DTT is the sole digital platform.

3.19 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 can therefore lead to a divergence between DTT sales and homes converted to DTT. Q3 saw the highest ratio of additional or replacement sales of DTT so far.

3.20 The Q3 GfK ownership survey estimated the total number of DTT-enabled TV sets to be around 19.4 million.

3.21 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 9.3 million at the end of Q3, up by 193,000 over the quarter.

Figure 16: DTT households and sets estimates

DTT sets and households (millions)	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007
Total number of DTT enabled sets	13.5m	15.3m	16.7m	18.0m	19.4m
Total number of homes using DTT equipment	9.3m	10.6m	11.7m	12.9m	14.0m
Number of homes where DTT is the only digital platform	7.0m	7.7m	8.4m	9.1m	9.3m

Source: GfK consumer research.

3.22 DTT equipment was being used in around 14 million homes in total by the end of Q3, when including cable and satellite homes using DTT on secondary sets. This was an increase of over 1 million on Q2.

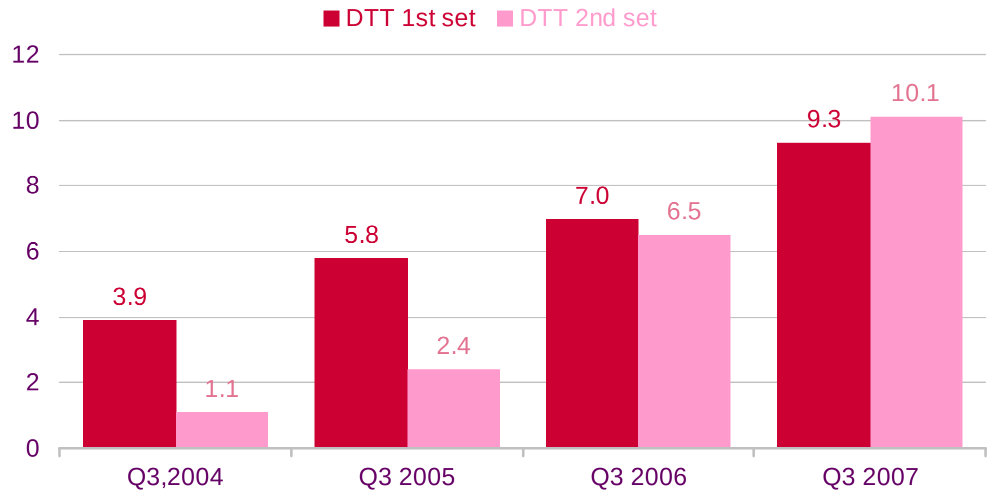
DTT growth on primary and secondary sets

3.23 The number of DTT devices used on secondary sets overtook the number used on primary sets for the first time in Q3. Of the 19.4 million DTT-enabled sets, 10.1 million are now secondary sets compared to 9.3 million primary sets (Figure 17). While initial DTT growth was fuelled mainly by primary set conversions, by Q3 2006 second set sales had almost caught up with main set sales. By Q2 2007, secondary DTT sets stood at 8.9 million, compared to

9.1 million on primary sets. Secondary DTT sets have therefore increased by over 1,200,000 during the quarter.

Figure 17: DTT on primary and secondary sets

(TV sets, millions)



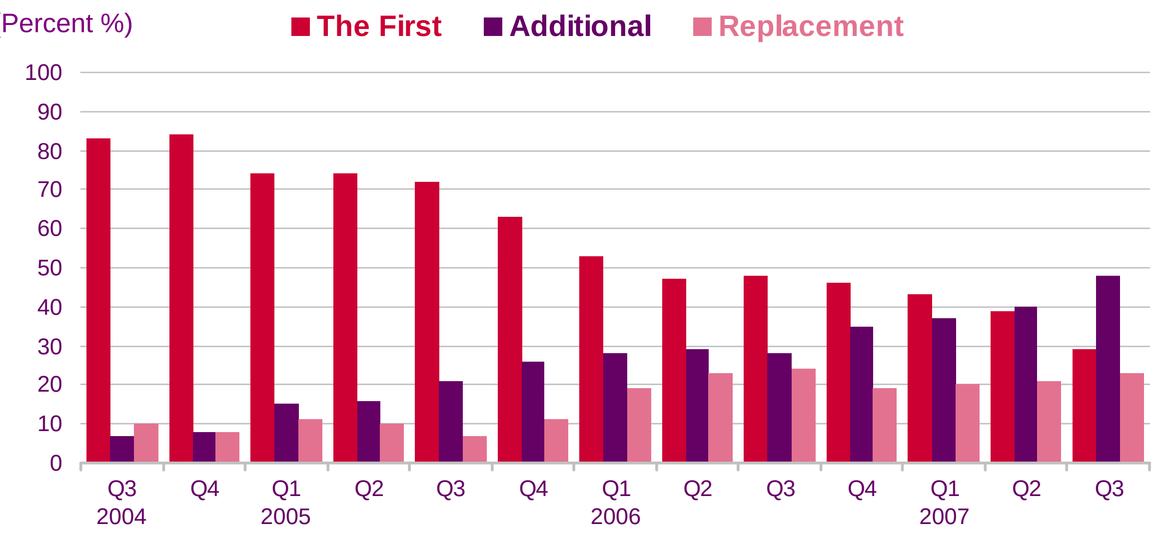
Source: GfK consumer research

3.24 Separate analysis from GfK consumer research asks respondents about their purchases of DTT equipment during the quarter. By Q3 2007 almost three quarters of purchasers said the equipment was intended for an additional set or as a replacement for an existing piece of DTT equipment. Previously in 2004 a large majority of sales had been first time purchases, this has declined steadily over time.

Figure 18: DTT purchase trends

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

(Percent %)



Source: GfK consumer research