OFFICE OF COMMUNICATIONS

Digital Television Update

Q2 2005

This is the seventh of Ofcom's Digital Television Update quarterly reports. As far as possible, data is based upon the latest figures provided by platform operators; however, it is also necessary to rely on some estimated figures.

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Section 1

Executive summary

1.1 By 30 June 2005 digital TV penetration was estimated to have reached 63.0% of UK households, up from 61.9% at 31 March 2005.

1.2 In addition 2.8% of households were subscribing to analogue cable, bringing the total receiving some form of multi-channel television to just over 65.8%. Within these total figures, the key developments in the second quarter of 2005 were:

- The number of digital television households grew by almost 298,000 during the quarter, increasing digital penetration by 1.1% points.
- Freeview (DTT) had another strong quarter of growth with over 700,000 sales of Freeview set top boxes and IDTV's by the end of Q2. This exceeded the corresponding quarter for 2004, when 496,000 sales were added.
- BSkyB's subscriber numbers in the UK increased by 75,000 to reach 7,424,000 in the UK at the end of Q2 2005.
- The total number of subscribers to cable television also increased in the quarter to just over 3.3 million. Digital cable increased by over 57,000 in Q2 and now accounts for over 2.6 million of the total.
- The number of households with Freeview (Digital Terrestrial Television) as the only digital platform is estimated to have grown to almost 5,178,000 by the end of June 2005. Up by over 118,000 during the quarter.
- Latest estimates suggest there are also around 492,000 free-to-view digital satellite homes. This figure includes viewers who are no longer Sky subscribers but still receive the public service channels through their set-top box. Also included in this figure are the "Solus" viewers who are able to receive the public service channels through this scheme.
- In total there are now almost 5.7 million free-to-view digital households. (Freeview (DTT), plus free-to-view satellite).

1.3 In calculating DTT households, an adjustment has been made to account for the number of households which have digital TV on more than one set. Latest estimates suggest that almost 30% of Freeview boxes are used on secondary sets in households that already have a digital platform, (either Freeview, Sky or cable), on their main set. No adjustment has been made to the Sky or cable figures as these are already shown net of second receivers (e.g. a household with two Sky boxes is only recorded once).

Section 2

Digital television uptake

Platform figures for Q1 2005 and Q2 2005

	Q1, 2005	Q2, 2005	Quarterly growth rate
Pay TV digital subscribers			
Digital cable	2,544,048	2,601,354	2.3%
Digital satellite (Sky)	7,349,000	7,424,000	1.0%
TV over ADSL	20,000*	20,000*	
Total digital pay TV households**	9,913,048	10,045,354	1.3%
Free-to-view digital households			
Free-to-view DTT (Freeview) homes	5,059,350	5,177,824	2.3%
Free-to-view digital satellite***	445,000	492,000	10.6%
Total Free-to-view homes	5,504,350	5,669,824	3.0%
Total UK digital households	**15,417,398**	**15,715,178**	**1.9%**
Digital penetration	**61.9%**	**63.0%**	**1.1%~**
Additional homes receiving analogue multi-channel services			
Analogue cable	744,214	700,260	-5.9%
Multi-channel penetration	64.9%	65.8%	0.9%~

* The Q2 figure for TV over ADSL includes Homechoice figures as at 31st January 2005. Homechoice figures for the end of June 2005 are not in the public domain.

** Pay TV households does not include figures for TopUpTV, Q2 figures are not in the public domain. TopUpTV subscribers are therefore counted in free-to-view digital terrestrial homes.

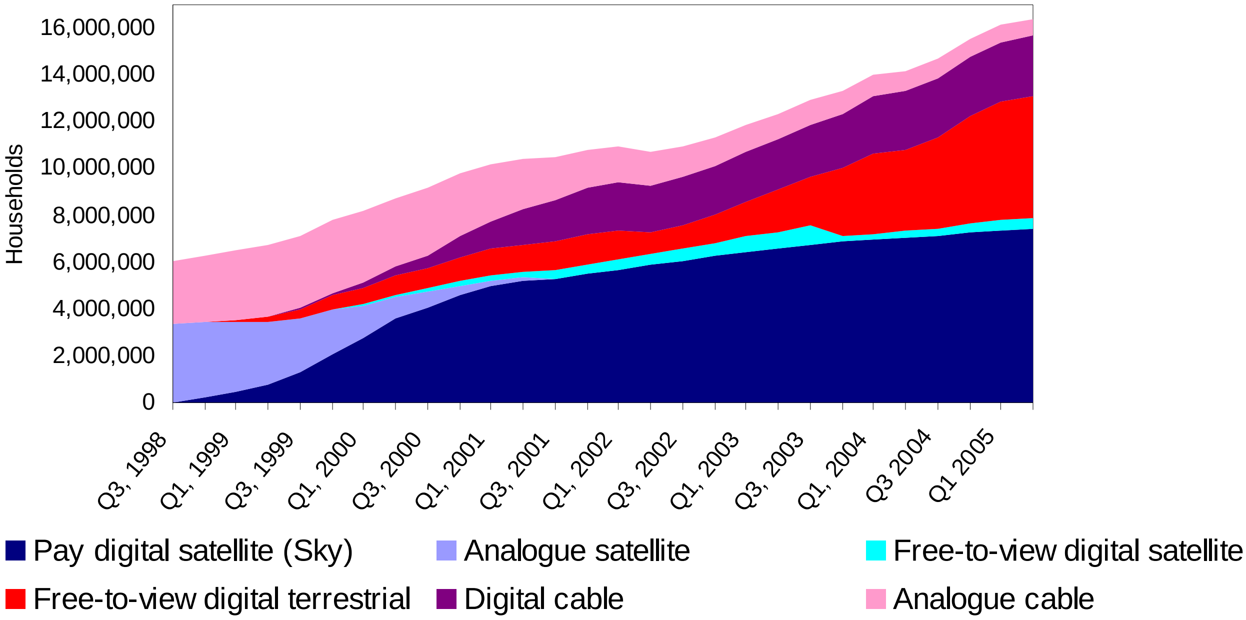
*** Free-to-view digital satellite comprises the number of ‘Solus’ card viewers plus an estimate of the number of ex-Sky subscribers who continue to use their set-top boxes for viewing Free to view channels.

~ This figure represents the increase in percentage penetration not the % quarterly growth rate.

Percentages may not add due to rounding.

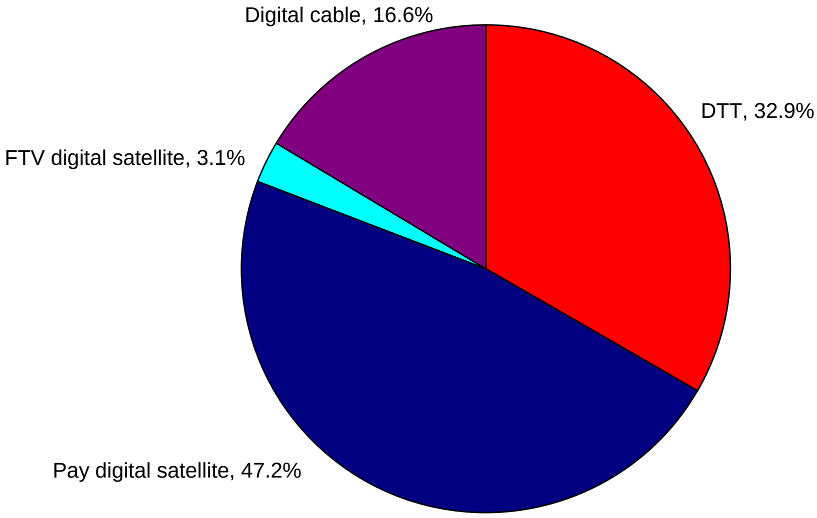
2.1 Overall digital penetration increased, by 1.1 percentage points, reaching 63.0% of UK households. Multichannel penetration in the UK is now around 65.8%.

Digital and multichannel penetration of UK households



Market shares

2.2 The share of total digital homes across all platforms (both pay and free-to-view) at the end of Q2 2005 was:



Share of digital homes by platform

- With all of the digital platforms showing a steady increase during Q2, each platform's share of all digital homes has remained largely the same.
- BSkyB's share of digital homes showed a slight decrease of 0.5% from 47.7% in Q1 2005 to 47.2% in Q2. BSkyB's share of pay-television homes remained broadly stable at 69.1% in Q2.
- Cable's share of digital TV homes increased slightly to 6.6% during the quarter. The cable share of the Pay TV market remained largely the same at 30.7% in Q2.
- DTT showed a small increase in share of digital TV homes, up to 32.9% by the end of Q2.

Figures for penetration, share of homes and share of net additions by platform up to the end of Q2 are as follows:

	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2005 Q1	2005 Q2
Digital take-up							
Digital cable	9.4%	9.8%	10.0%	10.1%	10.1%	10.2%	10.4%
Digital satellite	28.9%	29.1%	29.7%	30.0%	30.8%	31.3%	31.7%
DTT	11.9%	14.1%	14.1%	15.8%	18.5%	20.3%	20.8%
ADSL*	0.04%	0.04%	0.04%	0.05%	0.08%	0.08%	0.08%
Total digital	**50.2%**	**53.0%**	**53.8%**	**55.9%**	59.4%	61.9%	**63.0%**
Analogue Cable	4.0%	3.7%	3.6%	3.5%	3.2%	3.0%	2.8%
Total Multichannel	54.2%	56.7%	59.1%	59.4%	62.6%	64.9%	65.8%
Pay TV take-up**							
Cable	13.4%	13.5%	13.6%	13.6%	13.3%	13.2%	13.2%
Digital satellite	28.0%	28.2%	28.4%	28.6%	29.2%	29.5%	29.8%
ADSL*	0.04%	0.04%	0.04%	0.05%	0.08%	0.08%	0.08%
Total	**41.5%**	**41.7%**	**42.1%**	**42.2%**	**42.6%**	**42.8%**	**43.1%**
Share of digital TV market							
Cable	18.8%	18.4%	18.6%	18.1%	17.0%	16.5%	16.6%
Digital satellite	57.5%	55.0%	55.2%	53.6%	51.8%	50.6%	50.4%
ADSL*	0.07%	0.07%	0.07%	0.08%	0.13%	0.13%	0.13%
DTT	23.7%	26.5%	26.2%	28.2%	31.1%	32.8%	32.9%
Share of multichannel TV market							
Cable	24.8%	23.8%	23.7%	22.8%	21.2%	20.3%	20.1%
Digital satellite	53.3%	51.4%	51.7%	50.5%	49.1%	48.2%	48.2%
DTT	21.9%	24.8%	24.5%	26.6%	29.5%	31.3%	31.5%
Share of net additions							
Cable	2.6%	3.4%	6.9%	-1.0%	-6.7%	-2.2%	5.3%
Digital satellite	0.0%	12.8%	24.4%	17.8%	24.0%	24.0%	48.1%
DTT	97.4%	83.8%	68.6%	82.7%	75.0%	76.0%	46.7%
ADSL*	0.0%	0.0%	0.2%	0.5%	0.9%	0.0%	0.0%

* ADSL figures for Q2 include Homechoice figures for as at 31st January 2005. Homechoice figures for the end of June 2005 are not in the public domain.

** Latest figures for the Top-Up TV service are not in the public domain for Q2. Subscribers to Top-Up TV also receive free-to-view DTT, and are therefore included in the DTT market shares.

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

Section 3

Platform updates

Digital satellite – pay TV homes

	Pay digital satellite	
	Q1, 2005	**Q2, 2005**
Pay-TV homes	**7,349,000***	**7,424,000***
ARPU (annualised)	£382	£384
Churn	11.1%	10.5%
Base package price	£13.50	£15.00

Source: BSkyB Q2 2005 results

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

3.1 BSkyB's pay-TV subscriber base increased by 75,000 net additions during the quarter to reach 7,424,000 subscribers in the UK. During Q1 2005 BSkyB had added 87,000 subscribers.

3.2 Annualised average revenue per user (ARPU) for the quarter was £384 up from £382 in Q1 2005. Churn decreased during the quarter from 11.1% to 10.5%.

Digital satellite - free-to-view homes

	Free-to-view digital satellite	
	Q1, 2005	**Q2, 2005**
Free-to-view homes	445,000	492,000

Source: BSkyB, Channel 4, and Ofcom market estimates

3.3 **Sky churners / free-satellite viewers:** Of the viewers that have churned-off Sky subscription services an estimated 347,000 still use their set top box to receive all of the free-to-view public service channels. Figures for the number of viewers who have taken up Sky's free satellite service are not in the public domain for Q2.

3.4 **Solus viewers:** Around 145,000 viewers are estimated to have acquired Solus cards in order to gain access to free-to-view channels on satellite. This scheme was operated by Channel 4 until January 2004 and also previously by the BBC.

Cable

	ntl		Telewest Broadband	
	Q1, 2005	Q2, 2005	Q1, 2005	Q2, 2005
Homes passed and marketed	7,912,600	7,922,700	4,694,480	4,698,510
Total residential subscribers	3,194,900	3,261,500	1,822,530	1,837,191
TV homes connected	1,960,000	1,961,800	1,320,487	1,331,742
Digital TV homes connected	**1,387,900**	**1,405,100**	**1,149,641**	**1,189,521**
TV penetration rate	24.8%	24.8%	28.1%	28.1%
ARPU (annualised)	£490.32	£477.72	£544.08	£538.32
Churn rate*	16.8%	16.8%	16.8%	18.0%
Basic package price	£19.50	£21.50	£16.00	£16.00

Source: Telewest Broadband and ntl Q2 2005 results

* ntl churn rates relate to their total consumer division.

3.5 By 30 June 2005, the total number of UK cable households was 3,301,614. Of these, 1,961,800 subscribed to ntl, 1,331,742 to Telewest Broadband, with the remainder subscribing to Wightcable.

3.6 Telewest Broadband showed a net increase of 11,255 subscribers in the quarter, with 39,880 digital subscribers added. Ntl saw an overall net increase of 1,800 TV subscribers, but increased its digital subscriber base by 17,200.

3.7 The cable industry as a whole saw an overall increase in total TV subscribers of 13,352. The number of digital cable subscribers increasing by 57,306, reaching 2,601,354 by the end of Q2 2004 – an increase of 2.25% from Q1 2005.

Digital Terrestrial Television (DTT)

Quarterly DTT sales	DTT sales Q1, 2005	DTT sales Q2, 2005
Freeview set top boxes	690,500	583,200
IDTV's	168,300	127,300
Total sales	**858,800**	**710,500**

Source: Q2 sales figures, GfK as adjusted by Freeview.*

* Freeview has adjusted the sales figures upwards by 5% to represent its estimate of the number of Digital TV set top boxes and iDTVs sold via Northern Ireland, offshore islands, staff sales and business to business, the sales details for which are not compiled by GfK.

Cumulative totals DTT boxes	DTT total Q1, 2005	DTT total Q2, 2005
Freeview set top boxes	5,805,200	6,388,400
IDTV's	1,087,800	1,215,100
*ITV Digital set top boxes**	290,000	289,000
Total digital terrestrial units in market	7,183,000	7,892,500

Source: Ofcom market research, GfK.

* ITV Digital set top boxes – latest GfK research on this area suggests that 289,000 ex-ITV digital boxes are still active. This number is steadily declining over time.

3.8 DTT showed another strong quarter of sales, with a total of 710,500 DTT boxes and IDTVs sold during Q2. This exceeded the corresponding quarter for the previous year when 496,500 sales were added. The estimated total number of DTT units in the market is now approaching 7.9 million.

DTT households

3.9 For the purposes of this report we are attempting to calculate the number of digital TV households that DTT has added to the overall total of digital TV homes in the UK. With over seven million DTT enabled sets in the market, the total number of homes now capable of receiving DTT broadcasts is estimated to be over six million. To calculate the number of homes where Freeview is the only digital platform it is necessary to take into account the following issues:

Second set duplication

3.10 Latest market estimates for Q2 suggest that around 29.6% of Freeview boxes are being used on secondary sets by viewers who already have digital (either Freeview or Sky or cable) on their main set. Ofcom estimates that this equates to a total of 2.25 million DTT second sets. This figure shows an increase on Q1 when 25% of DTT sets were estimated to be used on second sets.

In-active boxes

3.11 A number of DTT boxes are currently in-active, due to reception issues and other reasons. Latest GfK research estimates this figure to be around 360,000.

ITV Digital legacy boxes

3.12 Latest estimates suggest that there are around 289,000 ITV Digital legacy boxes remaining in the market. Around 36% of these boxes are estimated to be in homes that also have another digital platform, leaving 184,960 homes with ITV Digital as their only digital platform.

Ofcom adjustment

3.13 The total deduction Ofcom has made for Q2 is therefore 2,714,676. This means the number of Freeview-only homes is therefore calculated as 5,177,824.

DTT only households	DTT only households Q1, 2005	DTT only households Q2, 2005
Total digital terrestrial units in market	7,183,000	7,892,500
Ofcom adjustment	-2,123,650	-2,714,676
Total DTT only households	***5,059,350***	***5,177,824***

Source: Ofcom market research, GfK.

3.14 Overall, DTT added over 118,000 households during Q2, representing an increase of 2.3% on the Q1 2005 DTT homes total. Of these, Ofcom estimates that around 4,992,864 use Freeview set top boxes or IDTV sets, with the additional 184,960 using former ITV Digital set top boxes.