The Communications Market: Digital Progress Report

Digital TV, Q2 2008

This is Ofcom's nineteenth 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.

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Section 1

Overview

1.1 **Survey results for the three months to the end of June 2008 show that take-up of multichannel television on main sets in UK households increased by 0.8 percentage points (pp), from 87.2% to 88.0%, and by 4.5pp 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; **over half (55%) of all *secondary* TV sets had been converted to multichannel by the end of Q2.**

1.3 **Taking these figures together, the proportion of *all* TV sets converted to multichannel reached 69% in Q2 2008,** with the remaining 31% continuing to receive only analogue terrestrial broadcasts. This means that over the last twelve months, the proportion of analogue-only terrestrial sets fell by almost 10 percentage points, from 41% in Q2 2007.

Other key findings

1.4 Other key findings in the second quarter of 2008 include:

- Over 22.5m million households had multichannel television equipment connected to their primary set by the end of Q2 2008.

- More than two million digital terrestrial television (DTT) devices were sold during the period, up by 21% on Q2 2007. Integrated digital television sets (IDTVs) accounted for around 1.4 million units of these - up 54% on twelve months ago - while set-top boxes accounted for over 0.8 million. Over the past year more than 11.7 million DTT units have been sold, compared to around 7.6 million in the previous year.

- DTT-only households accounted for around a quarter of all growth in multichannel main sets in Q2, rising by around 78,000 to reach 9.7 million homes.

- Free-to-view digital satellite homes increased by almost 120,000 to 840,000 in the quarter, contributing over a third of net additions to multichannel main sets. More than 40% of households (around 10 million) now have some form of free-to-view digital television (either DTT or free-to-view satellite) on their main set.

- The total number of homes with satellite (either pay or free-to-view) in Q2 reached 37.3% or almost 9.6 million. Pay satellite homes accounted for around 8.7m (91%) of these with free-to-view making up the remainder.

- Cable was the primary viewing platform in 12.5% of homes in Q2. Virgin Media reported net additions of around 24,000 new subscribers taking their total subscriber base to over 3.5 million. Digital cable added over 42,000 subscribers in the quarter (including conversions from analogue cable) and now accounts for around 95% 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 Q2 2008

Figure 1: Platform take-up survey results

	Q1 2008	Q2 2008	Q1 2008	Q2 2008	Net additions	Growth rate
Digital pay TV homes	Homes (millions)	Homes (millions)	% TV homes	% TV homes	Increase % points	% growth
Digital Cable	3.1m	3.2m	12.4%	12.4%	0.1pp	1.2%
Pay Satellite 1	8.6m	8.7m	33.7%	34.0%	0.3pp	1.5%
DTT pay (Top-Up-TV)	0.4m	0.3m	1.6%	1.3%	-0.3pp	- 19.7%
TV over ADSL 2	0.05m	0.07m	0.2%	0.3%	0.1pp	27.8%
Total digital pay TV homes	**12.2m**	**12.3m**	**47.9%**	**48.0%**	**0.1 pp**	**0.8%**
Free-to-view digital households						
DTT (Freeview) only homes (non pay) 3	9.2m	9.4m	36.3%	36.7%	0.4pp	1.7%
Free-to-view satellite 4	0.7m	0.8m	2.8%	3.3%	0.4pp	16.3%
Total Free-to-view digital households	**10.0m**	**10.2m**	**39.2%**	**40.0%**	**0.8pp**	**2.8%**
Total digital homes	**22.2m**	**22.5m**	**87.1%**	**87.9%**	**0.8pp**	**1.6%**
Analogue Cable 5	0.03m	0.02m	0.1%	0.1%	0.0pp	-14.3%
Total multichannel homes	**22.2m**	**22.5m**	**87.2%**	**88.0%**	**0.8pp**	**1.6%**
Terrestrial homes						
Analogue Terrestrial 6	3.3m	3.1m	12.8%	12.0%	-0.8pp	-5.7%
All homes using DTT (Freeview) 7	16.1m	16.7m	63.1%	65.1%	2.0pp	3.8%

Source: GfK research

Note: The individual platform figures may not add up to the 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 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 (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 include all homes with satellite TV 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 with 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 25.3 million are 'main' sets (which broadly equates to the most-watched set, one in each TV household) and 34.7 million are 'secondary' sets (in bedrooms, kitchens, etc).

2.2 According to our consumer survey results, 22.5 million households (87.9%) had digital television on their main set in Q2 2008, up by approximately 350,000 (0.8pp) on Q1 2008. When including analogue cable homes, total multichannel take-up reached 88.0% in Q2.

2.3 DTT is the most commonly-used platform on main sets, accounting for around 9.7 million (38.0%) homes in Q2, up by almost 600,000 (2.1pp) over the year (on a like-for-like survey basis). The number of homes using DTT on any set in the home reached 16.7m (65.1%) in Q2 2008, up by around 600,000 (2.0pp) on Q1 2008.

2.4 The number of homes using satellite (free or pay) as their main means of receiving multichannel television reached almost 9.6 million (37.3%) in Q2, up by around 300,000 (0.9pp) on a year ago. Within these figures, pay satellite take-up increased by 0.3pp to 34.0% of UK homes, while free-to-view satellite was the primary platform in 3.3% of homes up from 2.8% in Q1 2008.

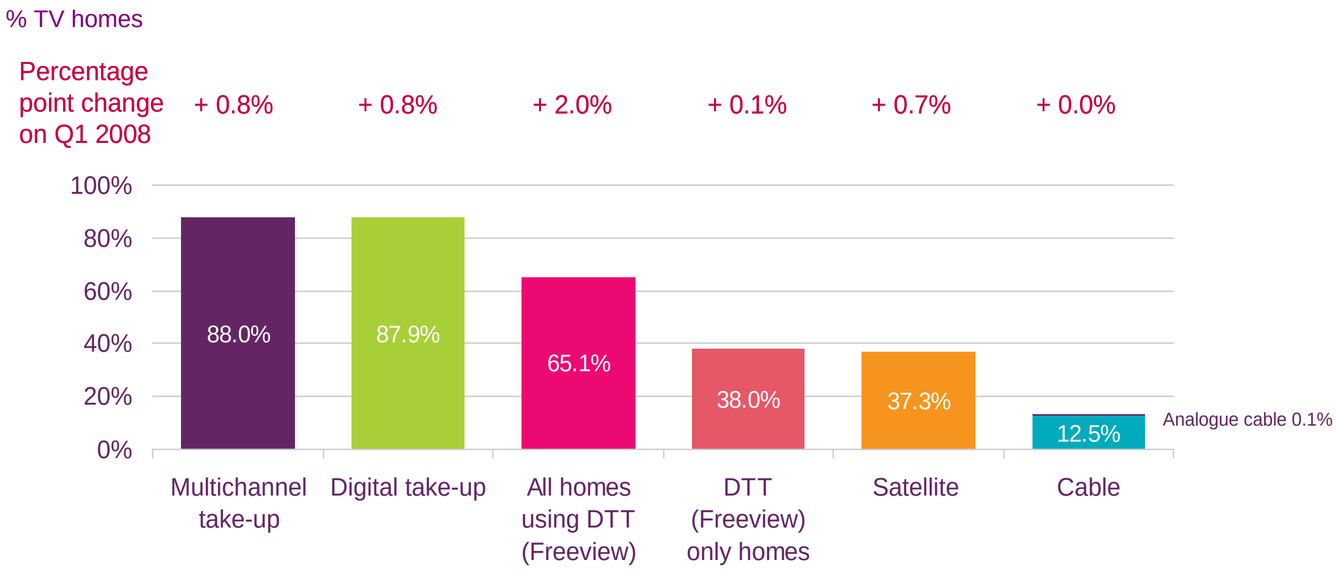
2.5 The number of homes using cable as their primary multichannel platform remained steady at around 3.2 million (12.5%) in Q2, with a small proportion of this total receiving an analogue service. (This survey-based total is lower than Virgin Media's reported figure of over 3.5 million subscribers, which could be partly due to non-residential customers and also an element of overlap with some homes having both satellite and cable television).

2.6 The number of homes relying solely on analogue terrestrial television for their primary set fell by almost 190,000 (0.8pp) during Q2 2008 to under 3.1m (12.0%) homes. This figure has fallen by 1.1 million (4.5pp) over the year.

2.7 Approximately 70,000 (0.3%) households claimed to be using an ADSL connection to receive digital television on the main set by Q2; up by around 15,000 on last quarter.

2.8 Figure 2 shows the take-up of multichannel television on main sets by platform in Q2 2008 and also the growth from Q1 2008 on a like-for-like basis. It also shows that almost two thirds of households now have a DTT device on at least one set, reflecting the increasing conversion of secondary sets.

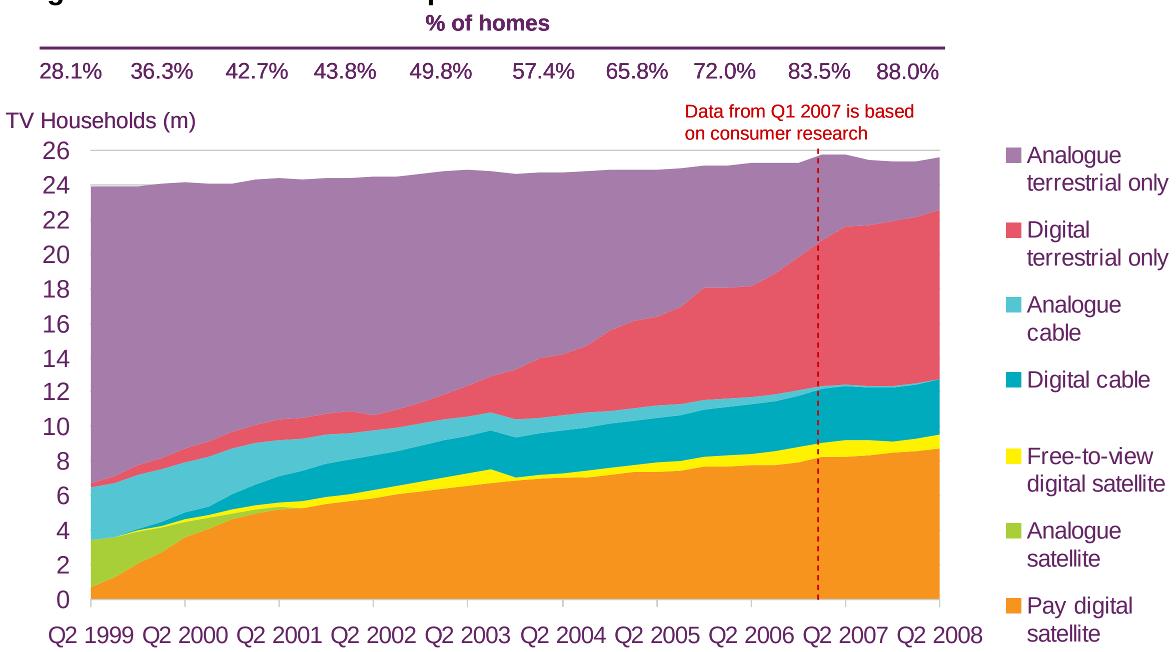
Figure 2: Multichannel take-up Q2 2008



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

2.9 Figure 3 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 3: Multichannel take-up on main sets 1999 - 2008

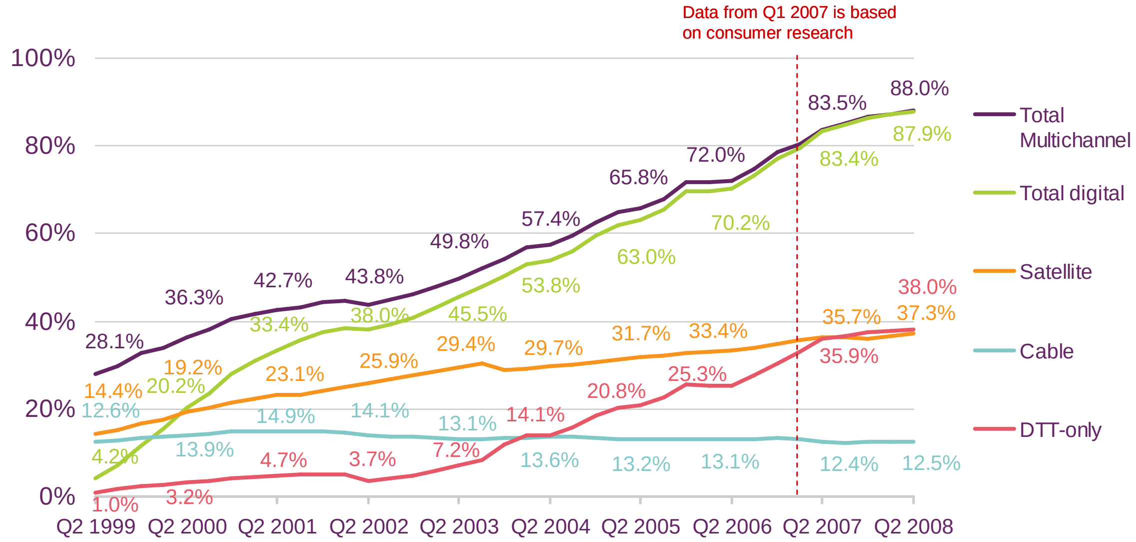


Source: GfK research from Q1 2007 onwards; previous quarters use platform operator data, research and Ofcom estimates
Note: TV over ADSL take-up stood at around 0.3% by Q2 2008

2.10 Figure 4 shows the same data in percentage terms, grouping analogue with digital cable, and free-to-view with pay satellite. It shows that DTT is still the most common main-sets platform at 38.0%, just higher than satellite (pay and free-to-view) at 37.3%. Cable television (analogue and digital) is on 12.5% of main sets, just higher than analogue terrestrial homes at 12.0%.

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

Households (% take-up)

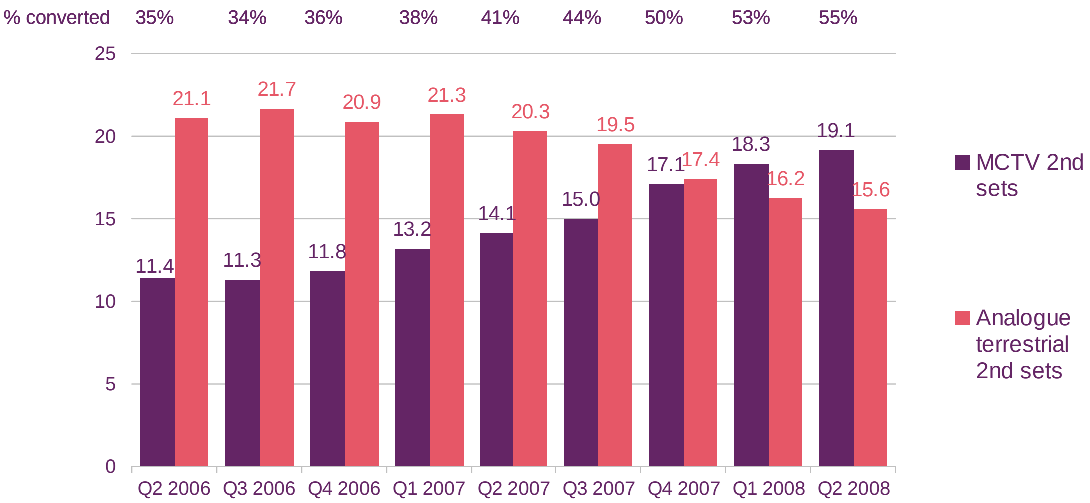


Source: GfK research from Q1 2007 onwards; previous quarters use platform operator data, research and Ofcom estimates
Note: TV over ADSL take-up is too low to appear on this chart

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 Q2 2008 around 19.1 million (55%) of these had been converted to multichannel using either the Sky Multiroom service, a second cable box or a DTT reception device. This figure is up 0.8 million (1.9pp) on Q1 2008, and up 5 million (14.3pp) over the year, with DTT the main driver of growth (Figure 5).

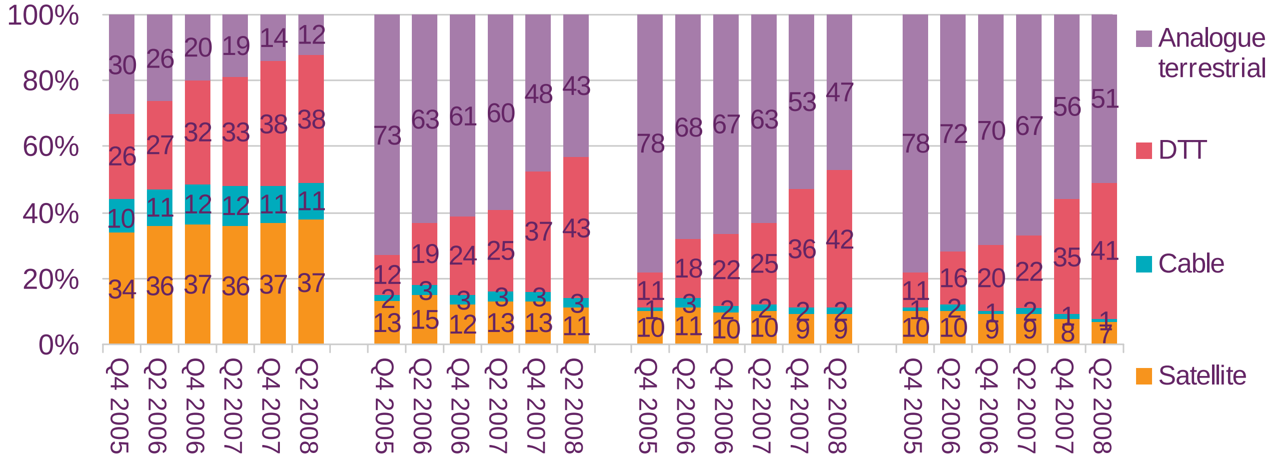
Figure 5: Total secondary digital sets across all platforms
(Secondary sets millions)



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

2.12 Using consumer research we can break down both primary and secondary sets by platform. Digital terrestrial is the leading platform on main sets with a 38% share. On second sets DTT matches analogue terrestrial at 43%. However, analogue terrestrial share is higher on third and fourth sets, although DTT is increasing rapidly (Figure 6). Satellite is more commonly used on additional sets than cable, aided by services such as Sky Multiroom.

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

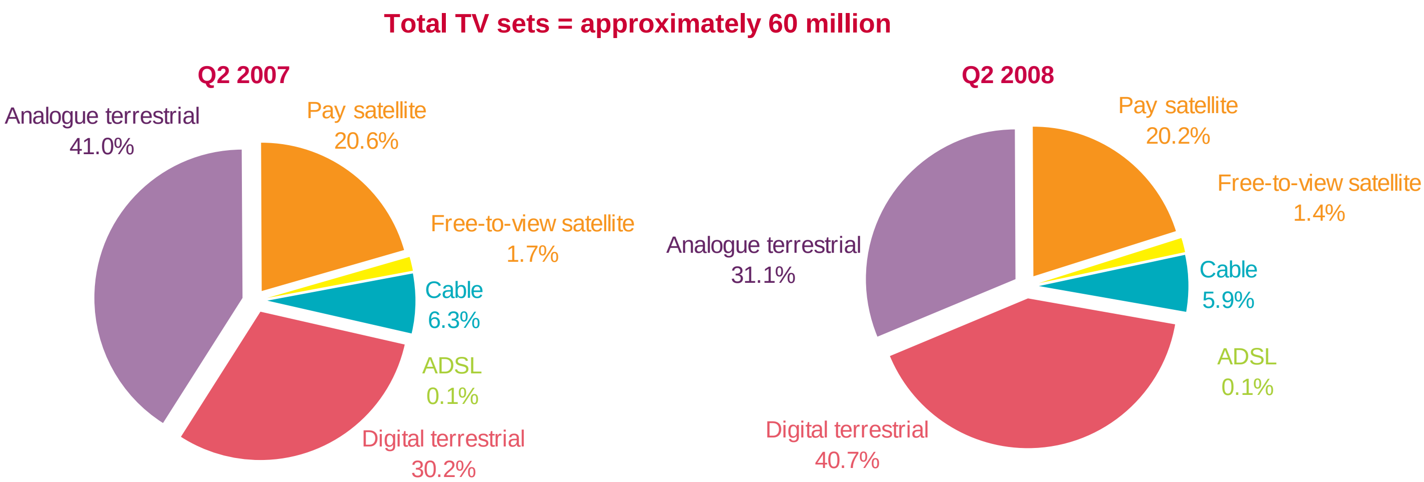


Source: GfK research
Note: Cable main set shares in this chart differ slightly from those in Figure 3 and Figure 5 because of a small element of overlap between cable and satellite

Digital progress on all sets

2.13 Of the 60 million television sets in the UK (main and secondary), around 41.4 million (68.9%) had been converted to multichannel at the end of Q2, up by around 1.1 million sets (1.4pp) from the previous quarter, and up by around 6.2 million (9.9pp) over the year (Figure 7).

Figure 7: Platform shares among all TV sets



Source: GfK research for both Q2 2007 and Q2 2008
Note: figures may not add up to 100% owing to roundings.

2.14 Other key all-sets headlines at the end of Q2 2008 included:

- Analogue terrestrial accounts for around 18.7 million television sets, less than a third of the total set universe (31.1%, down from 32.5% last quarter and from 41% a year ago). Of these, 3.1 million were main sets and 15.6 million were secondary (for example in a bedroom or kitchen).

- The number of digital terrestrial sets has risen by around 6.4 million over the year to 24.4 million, equivalent to a 40.7% share of all sets, up from 30.2% a year ago. Growth has been driven by increased sales of IDTV sets and DTT set-top boxes (up 21% on last year), used on both primary and secondary sets.

- The number of television sets connected to a pay satellite service has continued to rise and currently stands at around 13 million. This constitutes a smaller share of the set universe than a year ago (down 0.4pp to 20.2%); partly the result of an increase in the total number of TV sets in the UK, with 8.9 million sets sold in the past year alone.

- The number of cable sets has increased over the year with Virgin Media continuing to add new subscribers to its television service. However share has fallen 0.4pp over the 12 months to 5.9% of sets – again partly because of an increase in the universe of sets.

Summary of multichannel trends Q1 2007 – Q2 2008

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

	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008
Multichannel take-up						
Cable	13.0%	12.4%	12.2%	12.4%	12.5%	12.5%
Satellite	35.7%	36.4%	36.3%	36.1%	36.6%	37.3%
DTT	33.0%	35.9%	36.6%	37.6%	37.9%	38.0%
ADSL	0.2%	0.2%	0.1%	0.2%	0.2%	0.3%
Total multichannel 1	**80.3%**	**83.5%**	**85.2%**	**86.5%**	**87.2%**	**88.0%**
Pay TV take-up						
Cable	13.0%	12.4%	12.2%	12.4%	12.5%	12.5%
Pay satellite	32.4%	32.5%	32.9%	33.6%	33.7%	34.0%
Pay DTT				1.5%	1.6%	1.3%
ADSL	0.2%	0.2%	0.1%	0.2%	0.2%	0.3%
Total	**45.6%**	**45.1%**	**45.2%**	**47.7%**	**47.9%**	**48.0%**
Share of multichannel TV market						
Cable	15.9%	14.7%	14.3%	14.4%	14.3%	14.2%
Satellite	43.7%	43.0%	42.6%	41.9%	42.1%	42.4%
DTT	40.3%	42.4%	43.0%	43.7%	43.6%	43.2%
TV sets conversion						
Secondary sets converted	38.5%	40.7%	43.2%	49.1%	52.8%	55.0%
All TV sets converted	56.3%	59.0%	61.1%	65.1%	67.5%	68.9%

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

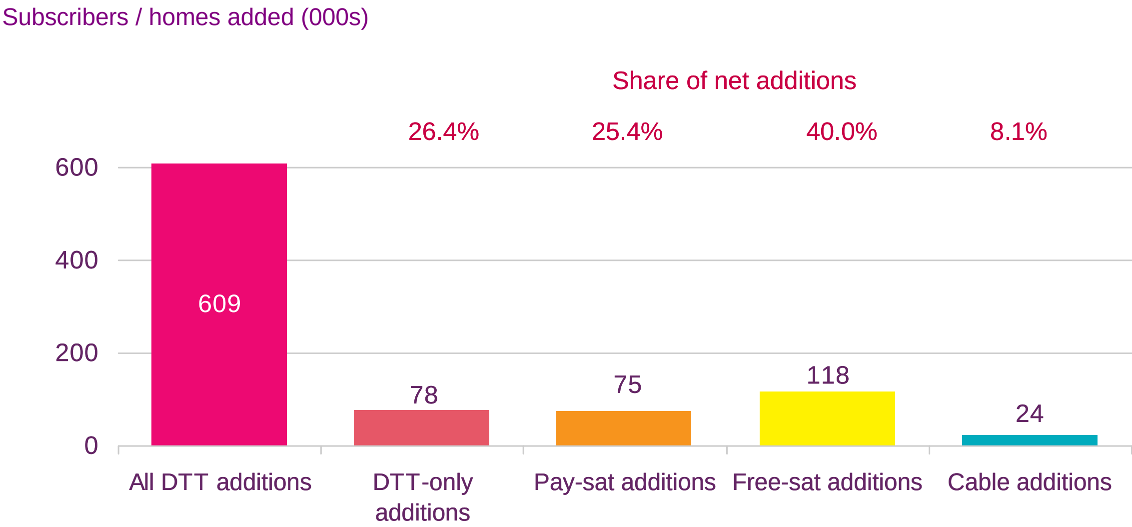
3.1 This section compares the net homes added on DTT and free satellite using survey results with the net subscriber additions reported by multichannel platform operators. The operator-based figures are included for information and to help give context to our research-based take-up figures; they do not,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

3.2 For the free platforms, survey results indicated an increase of around 609,000 homes using DTT on any set by the end of Q2, with 78,000 of these using DTT as their only multichannel platform. Free-to-view satellite homes rose by 118,000 during the quarter.

3.3 BSkyB reported 92,000 net added satellite subscribers in the UK and Ireland for Q2; based on the split of additions in the previous quarter we estimate that approximately 75,000 of these were UK homes. Virgin Media results showed a net addition of almost 24,000 cable TV subscribers over the quarter and, with additional conversions from analogue, digital cable subscriptions increased by just over 42,000 during Q2. (These cable and satellite figures are likely to include a small element of non-residential customers).

3.4 Using these results as an indicator, free satellite added the most homes in Q2 with a 40% share of net additions followed by DTT with 26%, pay satellite 25% and cable with around 8%. However, these figures should only be used as a general guide, as they draw on different sources (Figure 9).

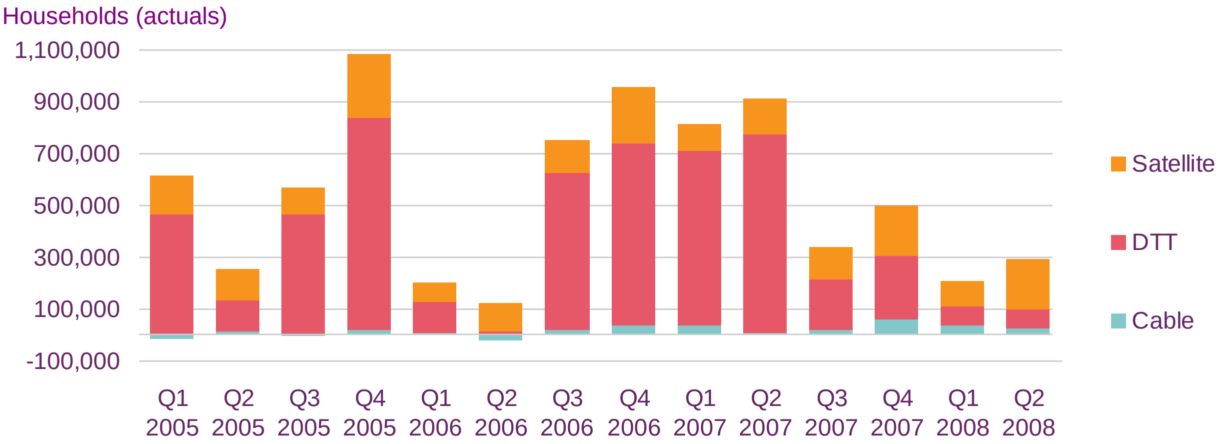
Figure 9: Net quarterly multichannel growth Q2 2008



Source: Pay platform additions based on Virgin Media reported results and Ofcom estimates using BSkyB results. Free platform additions (DTT and free-to-view 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, ahead of satellite. However, the contribution of the three main platforms is starting to even out now that the majority of homes have multichannel TV (Figure 10).

Figure 10: 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 households

Figure 11: BSkyB Q1 2008 and Q2 2008 results

Pay digital satellite – BSkyB	Q1 2008	Q2 2008
Pay-TV satellite subscribers in the UK and Ireland	**8,888,000 ***	**8,980,000 ***
ARPU (annualised)	£424	£427
Churn	10.5%	9.8%
Basic package price	£16.00	£16.00
Sky Multiroom	1,571,000	1,604,000
Sky +	3,393,000	3,714,000
Sky HD	465,000	498,000

Source: BSkyB Q2 2008 results

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

3.6 BSkyB's Q2 results reported a 92,000 increase in subscriptions to its *Sky* television service, taking its total UK and Ireland subscriber base to 8,980,000, up by 398,000. It has been estimated that 90% of these additions were attributable to the UK market.

3.7 The number of subscribers taking the *Sky Multiroom* service (which enables an additional set in the home to receive *Sky*) rose by 33,000 during Q2 to 1,604,000, (with 261,000 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 321,000 subscribers added in Q2. This took the total number of *Sky+* homes to almost 3.7 million, or around 41% of its customer base. BSkyB's high-definition (HD) service added 33,000 subscribers, taking the total number to 498,000 or 5.5% of Sky subscribers by the end of Q2.

3.9 Driven by the growth in *Multiroom* and HD take-up, annualised average revenue per user (ARPU) in Q2 reached a new high, up by £3 on the previous quarter to £427 and by £15 year-on-year. Customer churn fell in the quarter from 10.5% to 9.8%.

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 its 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 BSkyB.

Digital satellite - free-to-view households

Figure 12: Free-to-view satellite

Free-to-view digital satellite	Q1 2008	Q2 2008
Free-to-view satellite households	720,000	840,000

Source: GfK research

3.11 May 2008 saw the launch of the Freesat from ITV and the BBC, which is available to an estimated 98% of UK homes. This service currently provides access to over 130 free digital TV and radio channels with no subscription. It offers an electronic programme guide that lists only free-to-air channels that form part of Freesat's offering. Standard definition set-top box prices start from around £49. High definition set-top boxes are available from £120, with HD services available from the BBC and ITV. Satellite dish installation costs a further £80 if a home does not already have a satellite dish).

3.12 This means that there are now four 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 £150 (or, more recently, their 'Sky Pay Once' product which costs £75 for 4 months access to all free-to-view channels plus four of Sky's subscription mixes);
- homes taking the new 'Freesat' service offered by the BBC and ITV; and
- those which have obtained satellite-receiving equipment from retailers other than BSkyB or Freesat.

3.13 By the end of Q2 2008 survey results indicated that around 840,000 homes were using free satellite as their primary television platform. This was an increase of around 120,000 on the previous quarter. Latest adjusted retail sales data suggests that the Freesat from BBC/ITV service, which launched on 6 May, sold 39,018 units by the end of Q2 2008 - 23,854 of which were HD units. By the week ending September 27 Freesat's cumulative sales had reached 100,000 units.

Cable

Figure 13: Virgin Media Q1 2008 and Q2 2008 results

Cable – Virgin Media	Q1 2008	Q2 2008
Digital TV subscribers	3,311,400	3,353,500
Total TV subscribers	**3,514,900**	**3,538,800**
Total subscribers (TV, telephony, internet)	4,779,600	4,741,200
Homes passed and marketed	12,578,100	12,575,400
TV penetration rate *	27.9%	28.1%
ARPU ** (annualised)	£503	£500
Churn **	14.4%	15.6%
Basic package price	£11.00	£11.00
Virgin DVR (V+)	364,200	424,900

Source: Virgin Media Q2 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 Q2 results showed additions of 42,100 digital television subscribers. After allowing for the migration of analogue subscribers to digital cable, 23,900 net cable TV homes were added in Q2.

3.15 Virgin Media has therefore added over 142,000 net new television 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. Virgin Media's digital video recorder (DVR) service *V+*, added 60,700 subscribers in Q2 to reach 424,900 in total, equivalent to 12% of cable homes.

3.16 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 Q2. In total there were 38 million VoD views in Q2, up 5% on Q1 and 92% on a year ago. Average views per user were up to 24 from 14 a year previously.

3.17 Virgin Media also launched the *BBC iPlayer* as part of its VoD service during the quarter, providing access to BBC archive programming. The new service achieved 10.5m views in June 2008.

Digital terrestrial television (DTT) equipment sales

Figure 14: DTT equipment quarterly sales

DTT quarterly sales (actuals)	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008
Freeview set-top boxes	942,690	1,170,855	1,775,130	1,151,955	836,115
Integrated Digital Televisions (IDTV's)	921,900	1,187,130	2,286,900	1,879,605	1,417,500
Total sales	**1,864,590**	**2,357,985**	**4,062,030**	**3,031,560**	**2,253,615**
DTT PVR sales	65,800	91,300	190,000	130,000	115,000

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 Q2 2008 reached over 2.2 million, following 3 million in Q1 2008. Of these, 1.4 million sales were IDTVs and 0.8m were set-top-boxes (or other DTT devices).

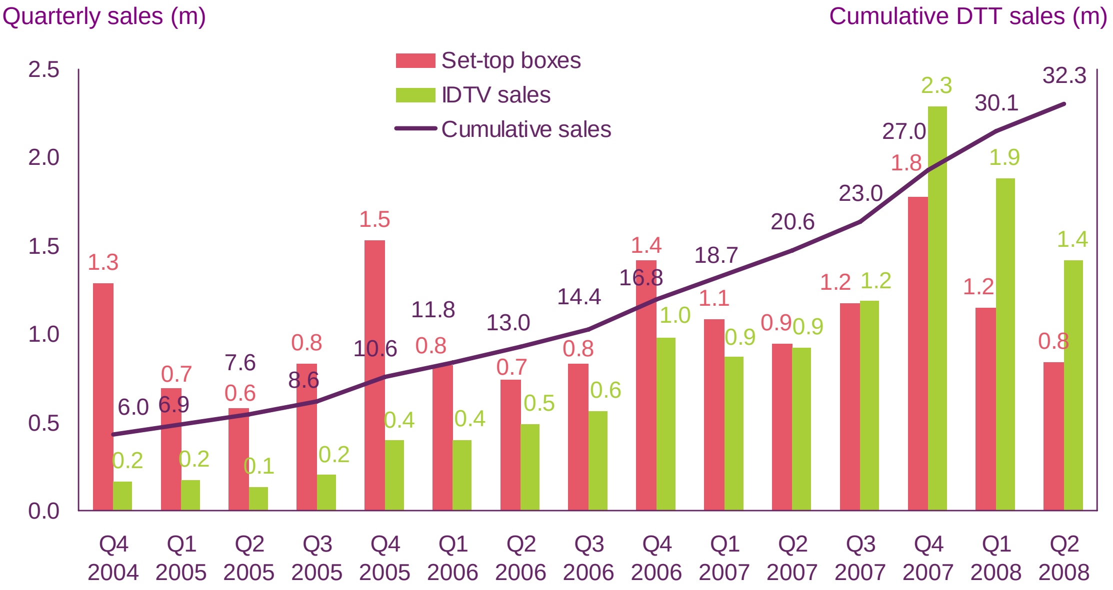
3.19 IDTV sales were up by almost 500,000 on the 922,000 sold a year ago. Total sales in the last 12 months reached almost 6.8m, compared to 3.3m in the preceding year. Integrated receivers are rapidly becoming the norm, with 82% of all TV sets sold now digitally-enabled. IDTVs also accounted for almost two thirds (63%) of all DTT equipment sales in Q2, the highest proportion to date.

3.20 Set-top box sales reached around 0.8 million in Q2 2008, a fall of around 11% on last year's Q2 figure of 943,000, probably largely due to the increasing take-up of IDTVs. However, over the past year over 4.9 million Freeview set-top boxes have been sold, compared to 4.3 million in the previous year.

3.21 Cumulative sales of DTT DVRs (Digital Video Recorders) reached around the 1 million mark by Q2 2008, with 115,000 sales in Q2 2008 following on from the 130,000 sales in Q1.

3.22 Since Freeview's launch in October 2002 total sales of DTT devices have exceeded 32.3 million units, comprising 12.8 million IDTVs and 19.5 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

DTT households and DTT equipment sales

Figure 16: DTT households and sets estimates

DTT sets and households (millions)	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008
Total number of DTT enabled sets	18.0m	19.4m	22.0m	23.4m	24.4m
Total number of homes using DTT equipment	12.9m	14.0m	15.3m	16.1m	16.7m
Number of homes where DTT is the only digital platform	9.1m	9.3m	9.6m	9.6m	9.7m

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 bigger screens 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 can be motivated by a desire to add new features such as seven-day programme guides or DVR functionality, which leads to a significant divergence between DTT sales and the number of homes converted to DTT. Q2 again saw an increase in the level of additional or replacement DTT sales.

3.26 The Q2 GfK ownership survey estimated the total number of DTT-enabled TV sets at around 24.4 million, an increase of around 1.0 million sets in the quarter and 6.4 million over the year. 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 9.7 million at the end of Q2, up by around 78,000 homes over the quarter and around 590,000 homes over the year.

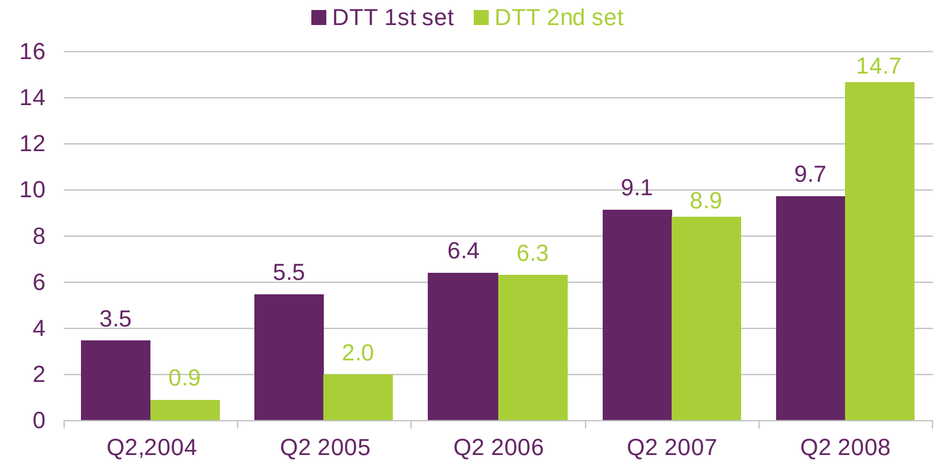
3.27 DTT equipment was being used in around 16.7 million homes in total by the end of Q2, when including cable and satellite homes using DTT on secondary sets. This was an increase of around 600,000 homes on Q1 2008 and an increase of around 3.7 million homes year-on-year.

DTT growth on primary and secondary sets

3.28 The number of DTT devices used on secondary sets overtook the number used on primary sets in Q3 2007. By Q2 2008 there were 24.4 million DTT-enabled sets, of which 9.7 million were primary and 14.7 million were secondary sets. This means that 60% of DTT devices are now connected to secondary sets (Figure 17).

Figure 17: DTT on primary and secondary sets

(TV sets, millions)

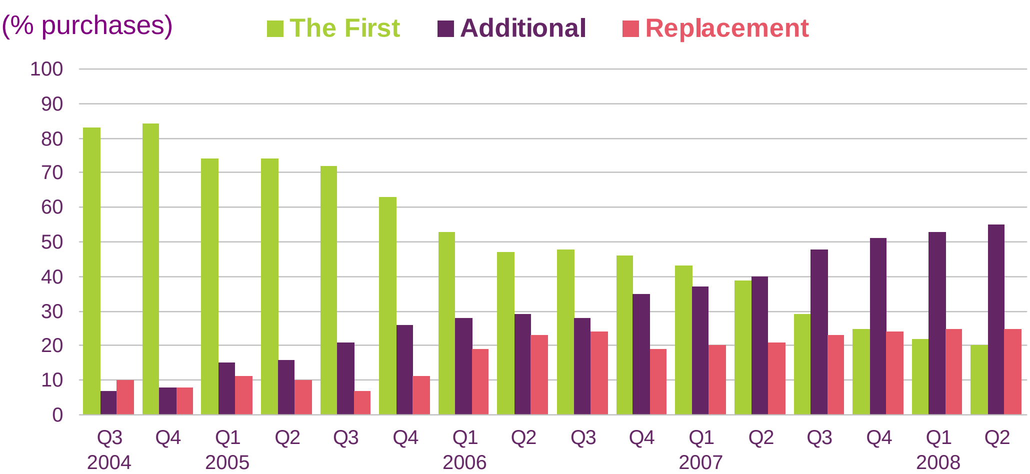


Source: GfK research

3.29 In a separate piece of GfK research, consumers who have bought DTT equipment during the quarter are questioned on their reasons for purchase. In 2004, a large majority (over 80%) of sales were first-time DTT purchases. However, by Q2 2008, this had declined to just 20%, (this also includes satellite and cable homes purchasing DTT for the first time). The remaining sales were intended for connection to additional sets, (over 50%), or as a replacement for existing DTT equipment (25%). 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?



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

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 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.