

Q4 (October–December) 2005

Digital television and switchover: market developments and consumer metrics

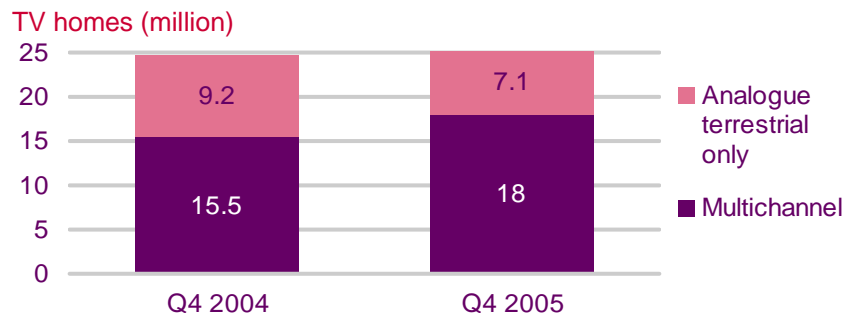
Prepared for the Ministerial Group on Digital Switchover

MGDS (06) 13. 26 April 2006

Summary: key figures

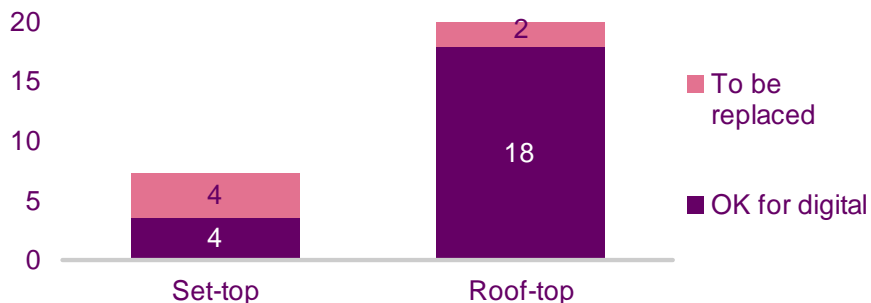
How many UK homes have digital TV?

- 25m TV homes – 18m had multichannel TV by end Dec 2005
- Preliminary estimates show strong growth in Q1 06, meaning that over 70% of all homes now receive digital TV.



How many aerials to convert?*

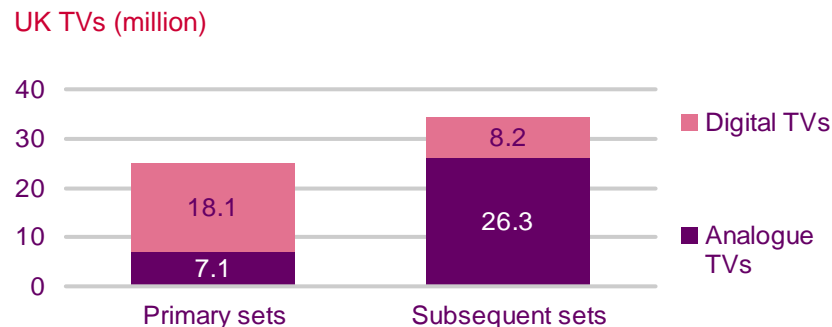
- 8m set-top aerials – 52% need replacing
- 20m roof-top aerials – 10% need replacing



* If homes choose to rely on terrestrial reception

How many TV sets to convert?

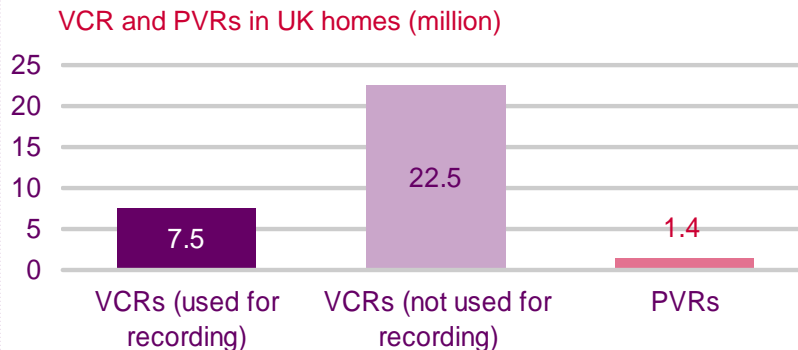
- 61m TVs in UK – nearly 60% have not yet been converted to digital



Source: Ofcom; GfK

How many recorders to replace?

- 30m VCRs in UK – c. 1.4m PVRs and an increasing number of DVD recorders available



Source: Ofcom; GfK

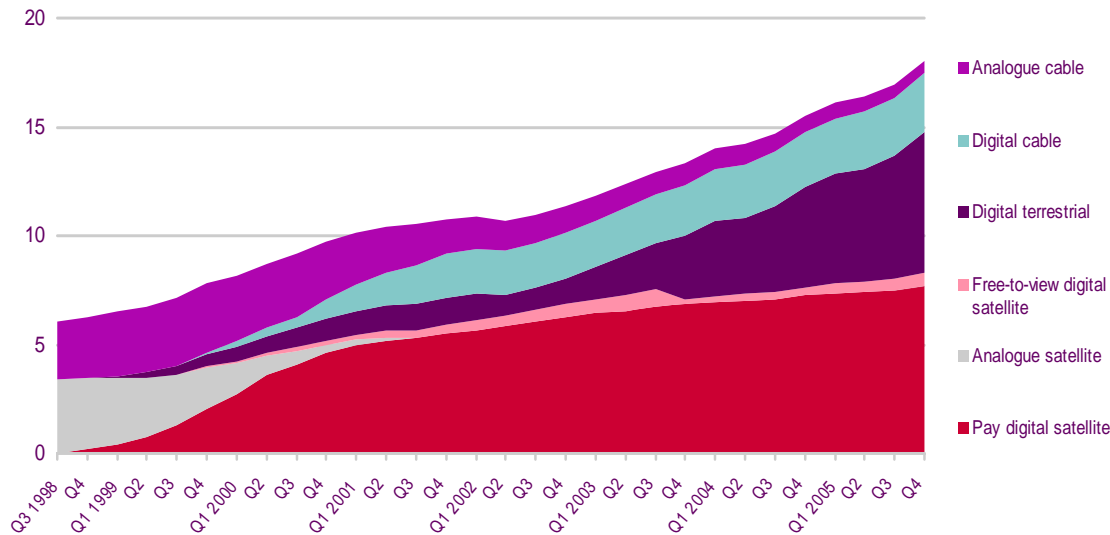
Digital TV is available on four platforms

Platform	Equipment	Availability	Brand	UK take-up (households)	Penetration	Price range
Satellite	Externally mounted receiver and a set top box	Estimated 95-97% maximum	Pay: Sky Digital	7.7m Q4 2005	30.7%	£15 - £42.50 per month
			Free to view: Sky/Solus	0.6m Q4 2005	2.4%	Sky 'freesat' £150 one-off fee
Cable	Cable connection from network to the home and a set top box	51%	Pay: NTL, Telewest, Wightcable (Analogue & Digital)	3.3m Q4 2005	13.2%	£16 - £51 per month
Digital Terrestrial (DTT - Freeview)	Conventional TV aerial and either a set top box or a TV with a built-in digital tuner	73%	Pay: Top Up TV	Est. 200,000 Q4 2005	0.8%	£7.99 per month
			Free to view: Freeview (DTT-only homes)	6.3m Q3 2005	25.0%	DTT boxes from £30+
TV over ADSL	Using existing telephone lines and set top box.	10%	Pay: HomeChoice, KIT (closing April 2006)	38,000 Q4 2005	0.2%	£15 - £44 per month
Total digital TV penetration of UK households:				71.8% multi-channel 69.4% digital		

Now more Sky than analogue terrestrial viewers, DTT the fastest growing platform

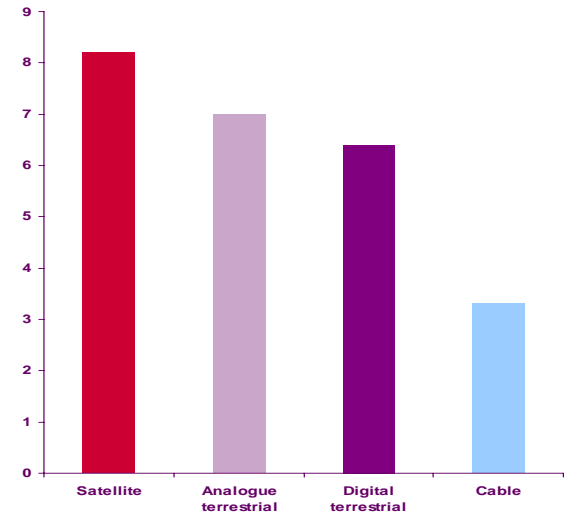
Market share of UK multichannel TV homes, Q4 2005

Households (millions)



Market share of all UK TV homes, Q4 2005

TV homes

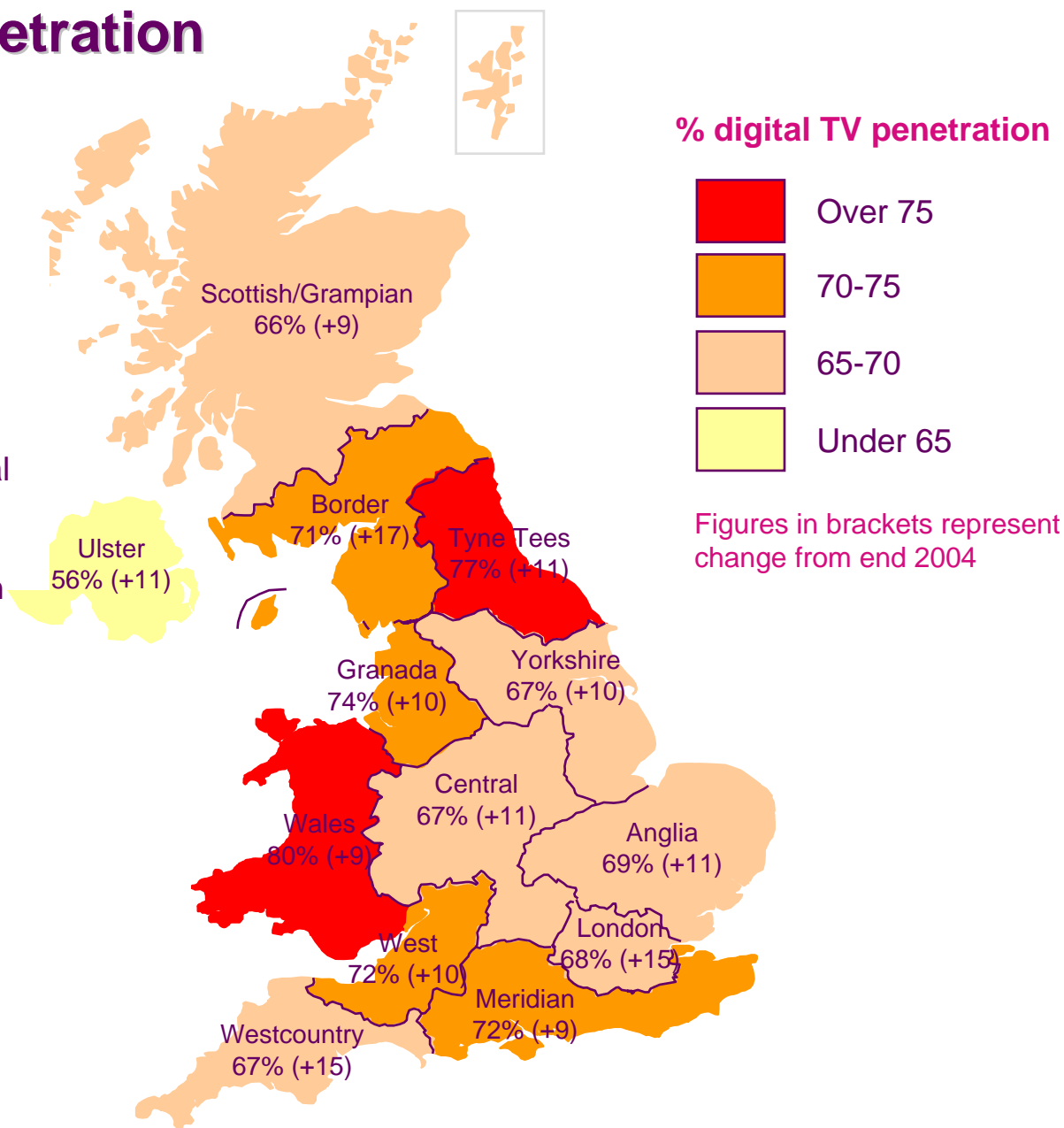


Source: Ofcom Digital Progress Report, Q1 2006

- Over **1.1 million** homes went digital in Q4 2005
- Compared to **900K** homes who took up digital TV in same period in 2004
- Freeview/DTT added **800K** homes (up from 400K additions in Q4 2004)
- Sky & cable combined added **290K** digital subscribers (compared to 180K additions in Q4 2004)
- There are now **7.7 million** Sky subscribers in the UK, meaning that it is the largest single television platform (greater than analogue terrestrial).

Digital television penetration highest in Wales and Tyne Tees

- Northern Ireland is the region with lowest take-up, at 56% of households at the end of 2005.
- Penetration is highest in Wales – the first part of the UK to reach 80% digital take-up – and Tyne Tees (77%).
- To some extent, these differences can be explained by demographic differences between the nations and regions with older and less well-off populations less likely to have taken up digital TV.
- Those regions that are the first to switch – Border and Westcountry – saw the highest increases in digital penetration in 2005, up 17 and 15 percentage points respectively.



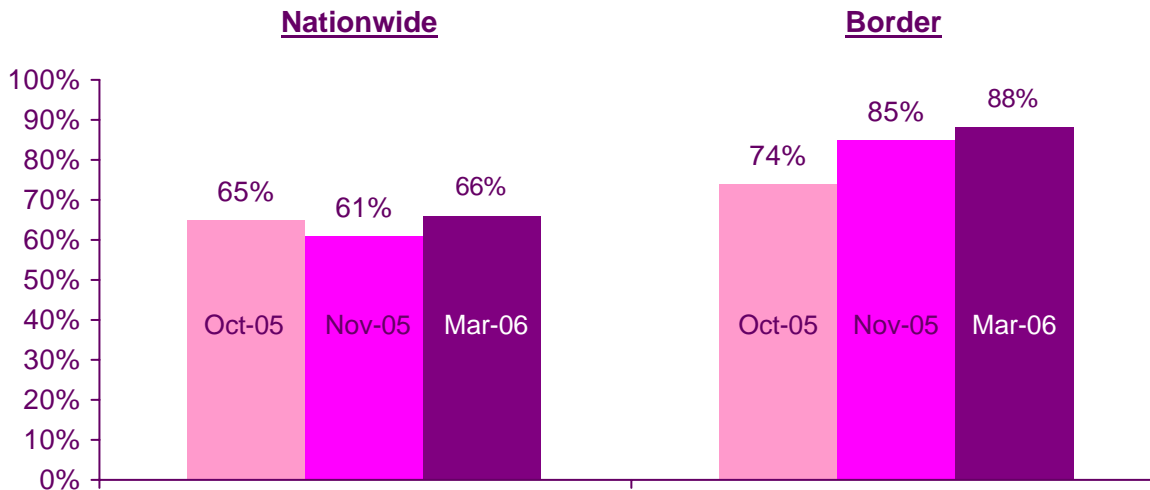
Tracking Consumer Metrics

- Digital UK and Ofcom are launching a **Switchover Tracker** survey to monitor:
 - (i) Awareness of switchover
 - (ii) Understanding of switchover
 - (iii) Attitudes towards switchover
 - (iv) Intentions to convert to digital
 - (v) Conversion of first and subsequent sets and video recorders
 - (vi) Satisfaction with digital TV
- The survey consists of a face-to-face interview of around 20 minutes, and will be conducted with 7,600 households in the coming year
- The first four regions to switch (Border, Westcountry, Wales and Granada) will be boosted to 300 interviews per quarter
- Results will be reported quarterly for each region, and for vulnerable groups
- Results from the Switchover Tracker will be measured against targets set by Digital UK's **Switchover Planning Model**
- The Planning Model will provide awareness, understanding and conversion targets for each of the 15 switchover regions
- The first phase of developing the Planning Model is consultation with key switchover stakeholders (including the broadcasters, platforms, supply chain and consumer groups) to seek their views on future development of the digital TV market – these consultation interviews are now underway
- The Switchover Tracker went to field at the start of April, and the first wave of results will be available in late May
- The Planning Model is due to be delivered at the same time, and the two will provide a 'dashboard' of consumer metrics compared to targets that will be used to monitor progress of the Switchover Programme
- As an interim measure Digital UK has been conducting regular dipstick surveys, the last in early March – a summary is provided on the following pages

Consumer Metrics: Awareness of Switchover

Q. 'Have you ever heard of digital TV switchover'?

Source: Digital UK / ICM Survey October 2005; Digital UK / BMRB Survey November 2005; Digital UK / BMRB Survey 3-5 March 2006*

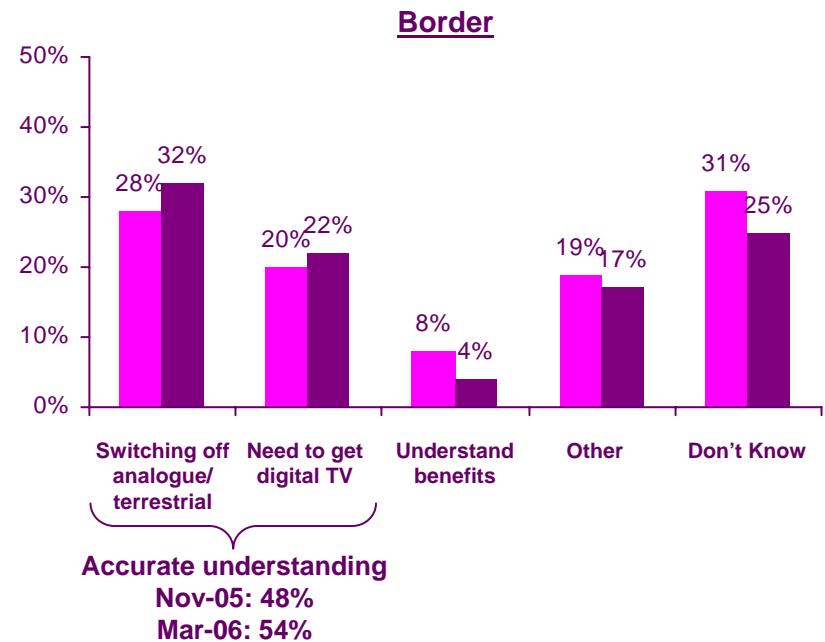
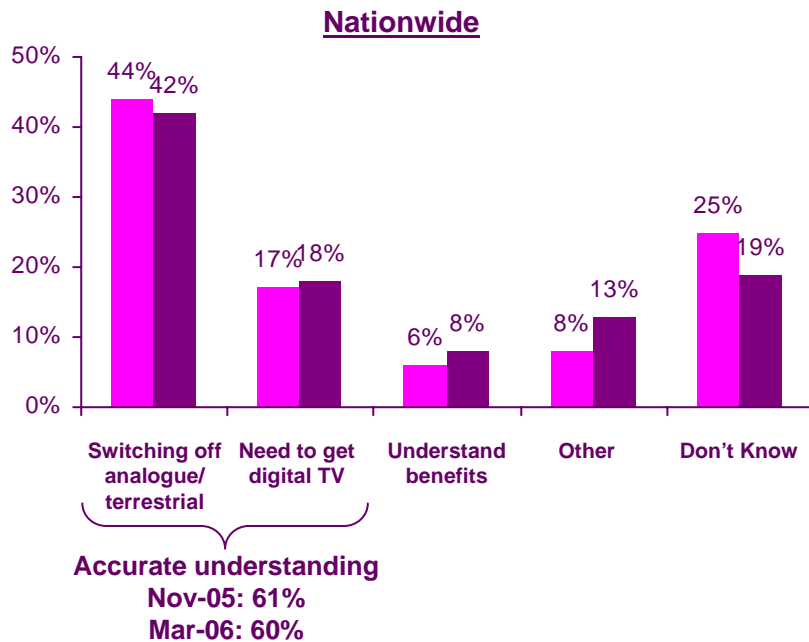


- Two thirds of people are aware of switchover
- 88% of people in the Border region are now aware of switchover – following a rise of 11% in November when Digital UK launched their communications campaign in the region, and Sky marketed their services in the region

Consumer Metrics: Understanding of Switchover

Q. Of those who have heard of switchover; 'What does the term digital switchover mean to you? How would you describe it to someone else?'

Source: Digital UK / BMRB Survey November 2005; Digital UK / BMRB Survey 3-5 March 2006



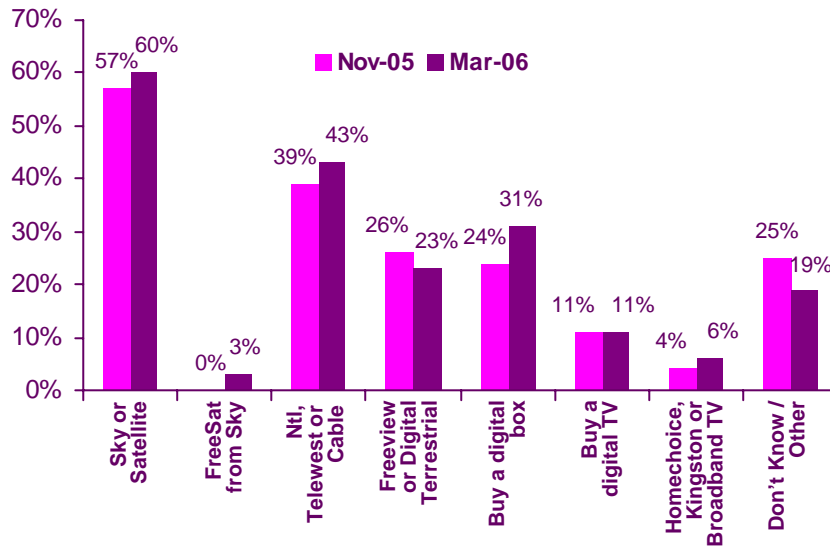
- Understanding of switchover has remained steady at 60% on a national basis – around 40% of the population are aware and understand switchover
- Understanding in Border has risen by 13% in the four months since November 2005 it remains lower than the national average, but on a much larger base of those who are aware – 48% of Border is aware of and understands switchover

Consumer Metrics: Understanding of Digital TV

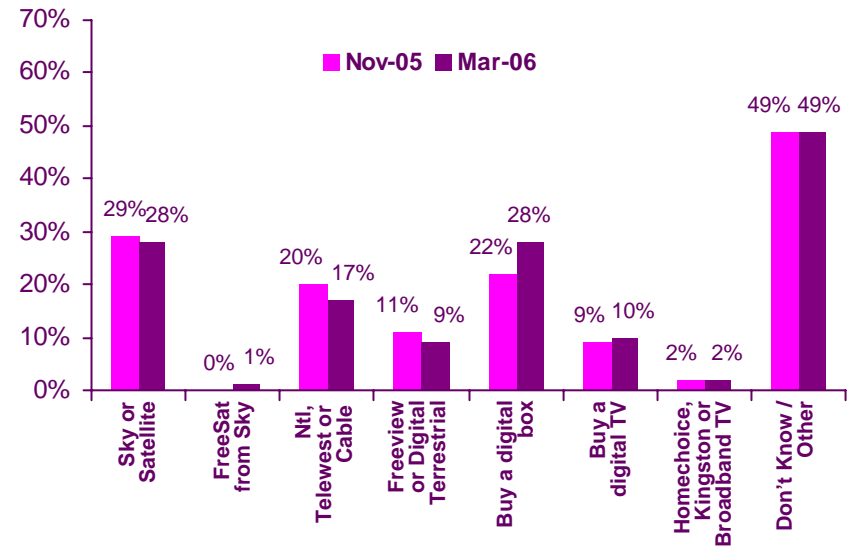
Q. 'Can you tell me the different ways of getting digital TV?'

Source: Digital UK / BMRB Survey November 2005; Digital UK / BMRB Survey 3-5 March 2006

Digital TV Households



Analogue Only Households

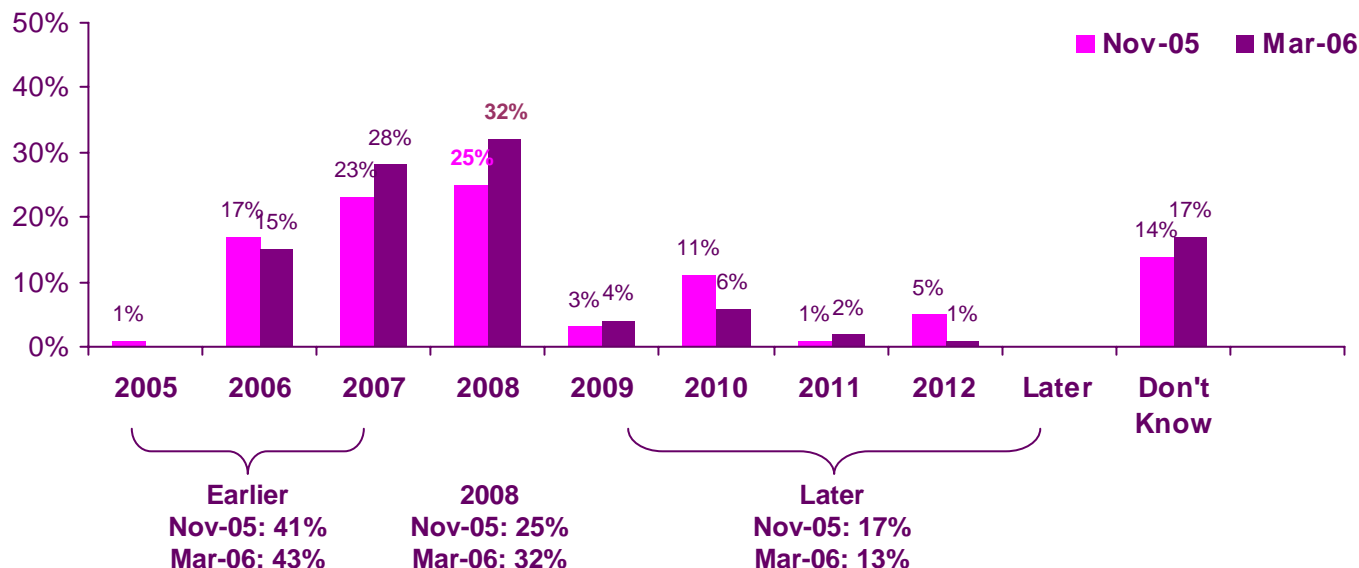


- Half of analogue households cannot name any digital TV service provider or platform
- Even those with digital TV cannot consistently describe the options for getting digital TV
- Sky is the most recognised digital TV brand
- A third of people will simply refer to 'getting a digital box'

Consumer Metrics: Understanding of Timing

Q. In Border Region 'In which year do you think switchover will take place in your region?'

Source: Digital UK / BMRB Survey November 2005; Digital UK / BMRB Survey 3-5 March 2006

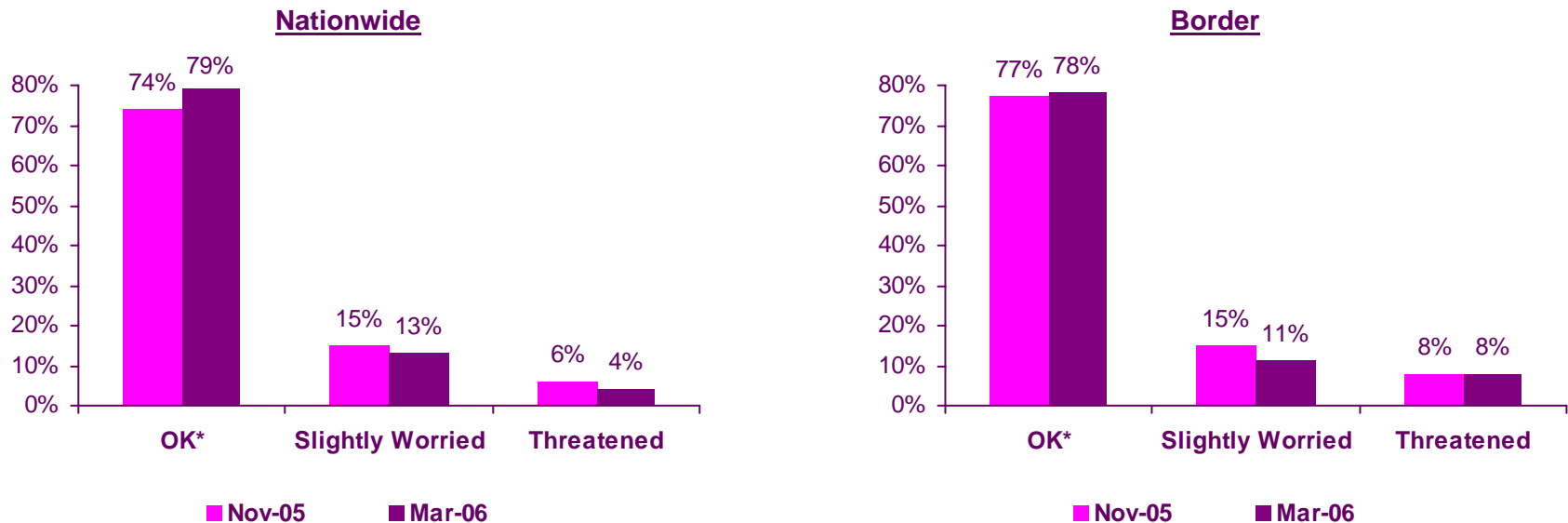


- Almost one third of people in Border now have an accurate understanding of when switchover will happen
- 60% of people in Border believe switchover will happen in 2007 or 2008
- People continue to be more likely to believe switchover will happen earlier than it is than later

Consumer Metrics: Attitudes to Switchover

Q. Which one of the following statements best describes how you feel about switchover?

Source: Digital UK / BMRB Survey November 2005; Digital UK / BMRB Survey 3-5 March 2006



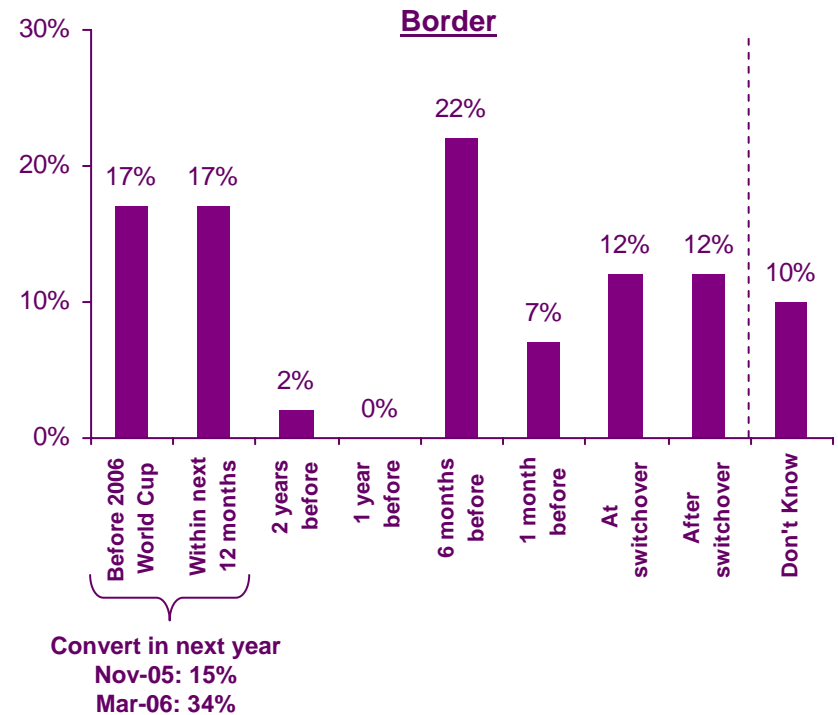
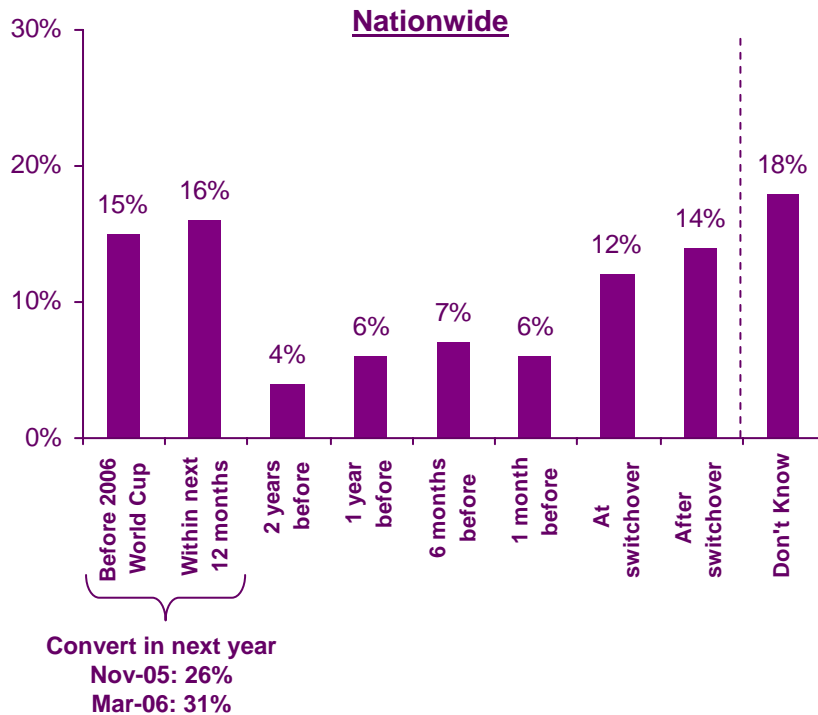
- Almost 8 out of 10 people are comfortable with the process of switching over, and not unduly worried about it
- Of those who feel they need more information:
 - 41% want to know more about what digital TV is and how to get it
 - 20% want more general information about switchover
 - 17% want to know more about why it is happening
 - 11% want to know how much it will cost
 - 11% want to know when it is happening
 - 3% want to know what they can get in their area

* Responding one of 'It's not a problem', 'I know what's happening and what I need to do' or 'I'm OK about it but I need to find out more'

Consumer Metrics: Intentions to Convert

Q. Of those without digital TV: 'When do you think you will convert to digital?'

Source: Digital UK / BMRB Survey November 2005; Digital UK / BMRB Survey 3-5 March 2006

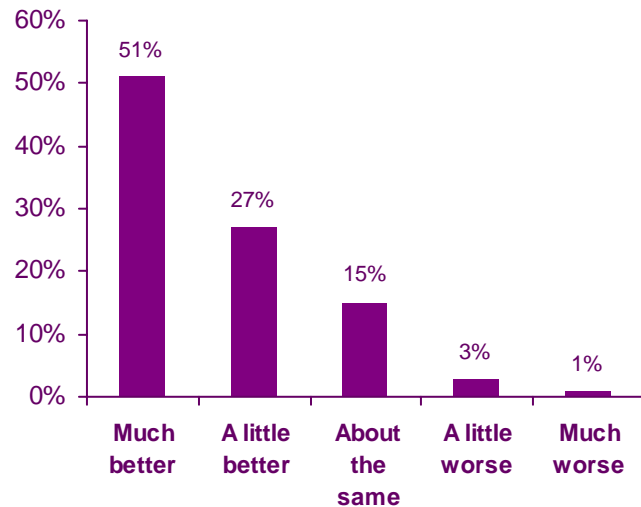


- Of the minority 30% of the population who don't yet have digital TV, almost a third are considering getting it within the next year – equivalent to just over 1 million households
- Those who don't plan to get digital TV in the next 12 months seem likely to leave conversion until switchover happens

Consumer Metrics: Satisfaction with Digital TV

Q. How does digital TV compare to the old analogue system?

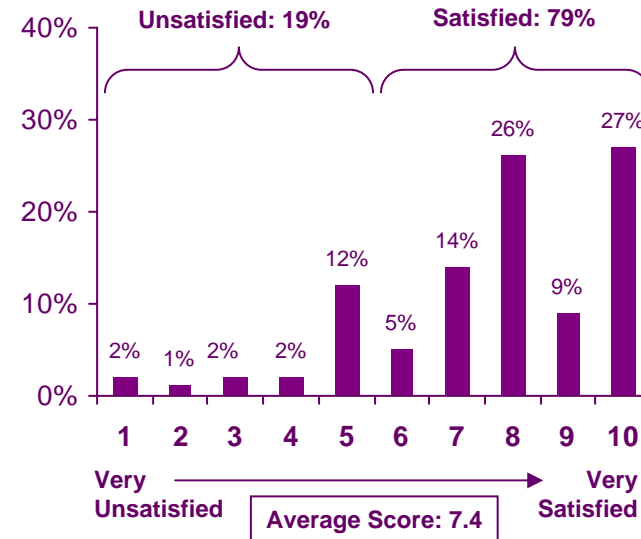
Source: Digital UK / BMRB Survey March 2006



- 78% believe that digital TV is better than analogue TV – only 4% say it is worse
- The percentage saying digital TV is better rises to 88% amongst 16-24s, but falls to just 50% amongst the 75+

Q. How satisfied are you with your digital TV?

Source: Digital UK / BMRB Survey November 2005

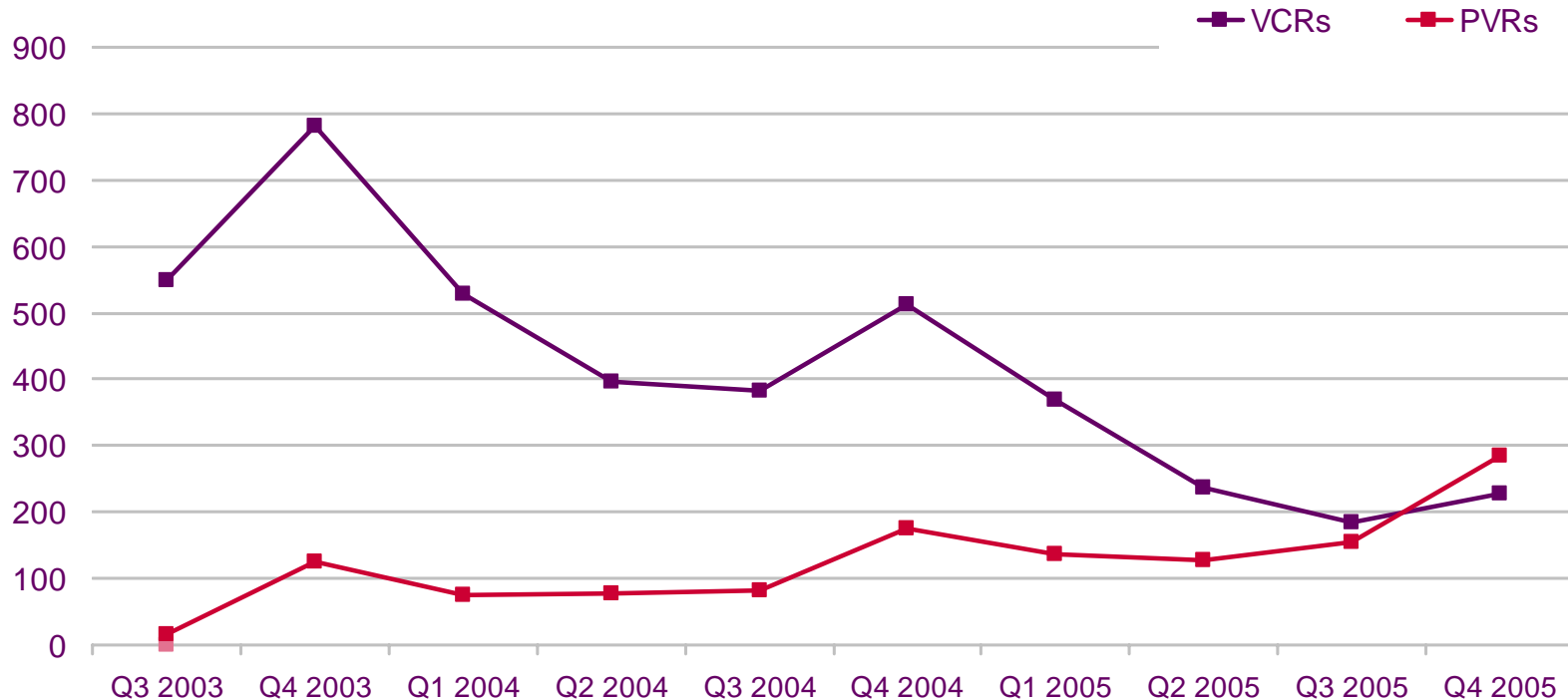


- Satisfaction with digital TV is consistently high – by platform, age group, region and size of household
- The only significant deviation is amongst the 75+, where only 61% are satisfied with their digital television

Sales of PVRs have overtaken VCRs for the first time

Sales of VCRs and PVRs
(Sky+ subscribers plus DTT PVR sales)

Sales (000s)

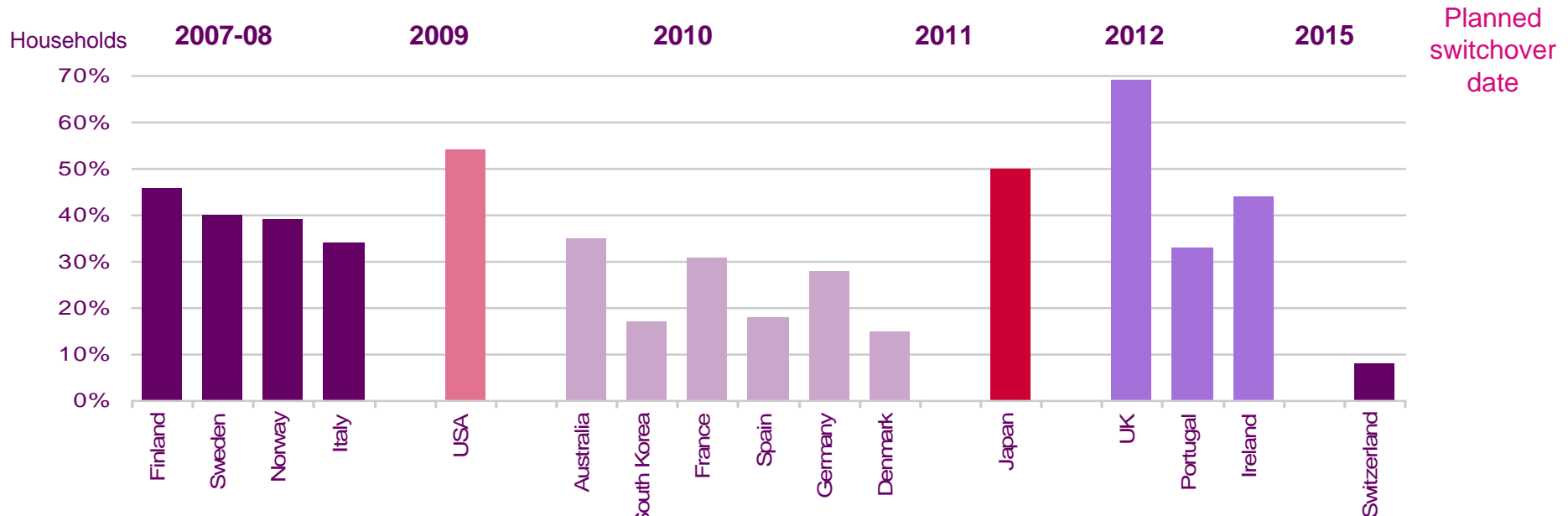


Source: GfK Lek Trak

UK digital penetration remains highest in world

- The UK has the highest digital television penetration in the world, followed by the USA with nearly 55% digital households. Western European countries have an average of around 30% digital households, yet several of these countries are scheduled to complete the transition to digital well before the UK's switchover commences.
- However, earlier switch-off plans do not imply a higher current level of digital penetration, but rather less reliance on the terrestrial broadcast network. Consequently, the transition in these countries is more focused on the conversion to multichannel rather than to digital. The UK will probably be one of the first countries with a high reliance on terrestrial television to commence switchover.

Digital TV household penetration, end 2005



Source: NRAs, Informa Media, Screen Digest

Recent international switchover developments

■ Sweden

- 10% of the Swedish population have now switched over
- 50% will be converted by the end of 2006

■ Finland

- Finland have confirmed a target switchover completion date of 31 August 2007

■ Germany

- Germany have now completed analogue switch-off for more than half of the population, and remain on-track to achieve the 2010 target switch-off date

■ Italy

- Italy have now formally delayed the target switchover date to 31 December 2008
- The two trial areas of Sardinia and Val d'Aosta are expected to be converted by the end of 2006

■ France

- The French Government have confirmed a 2010 target switchover date, but have yet to publish plans on how this will be achieved

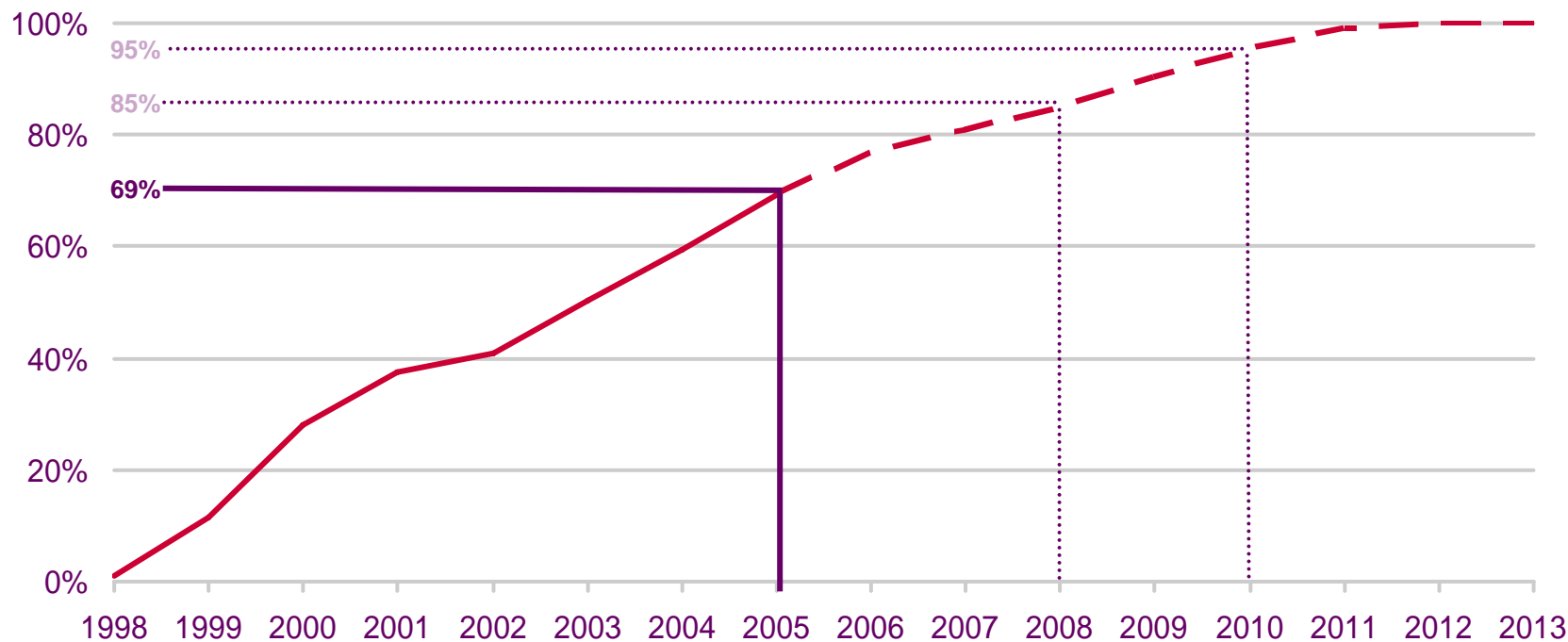
■ USA

- The USA have set a switchover date of 17 February 2009
- The FCC tuner mandate will mean that all new TV sets will have digital tuners by 1 March 2007
- The Government expect to raise \$10-20 billion from the auction of the released spectrum, and will use up to \$1.5 billion of that to fund a voucher scheme to help convert the remaining c. 70 million analogue TVs

Digital take-up to grow steadily

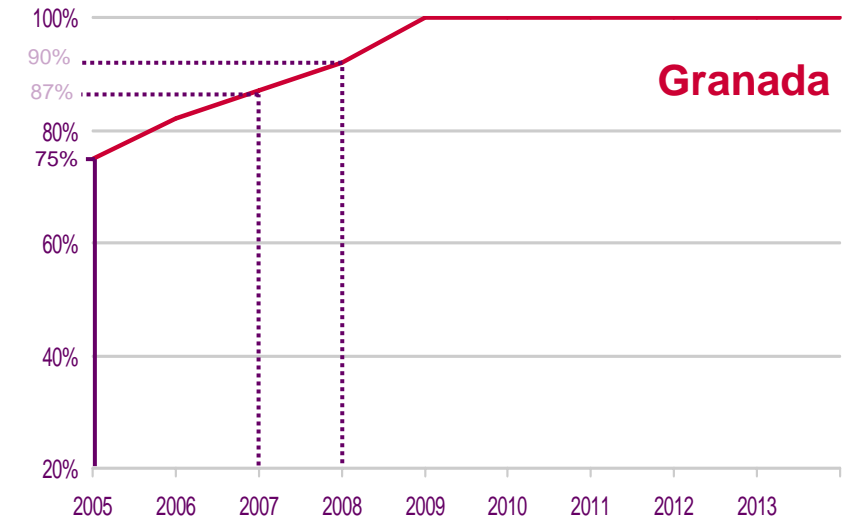
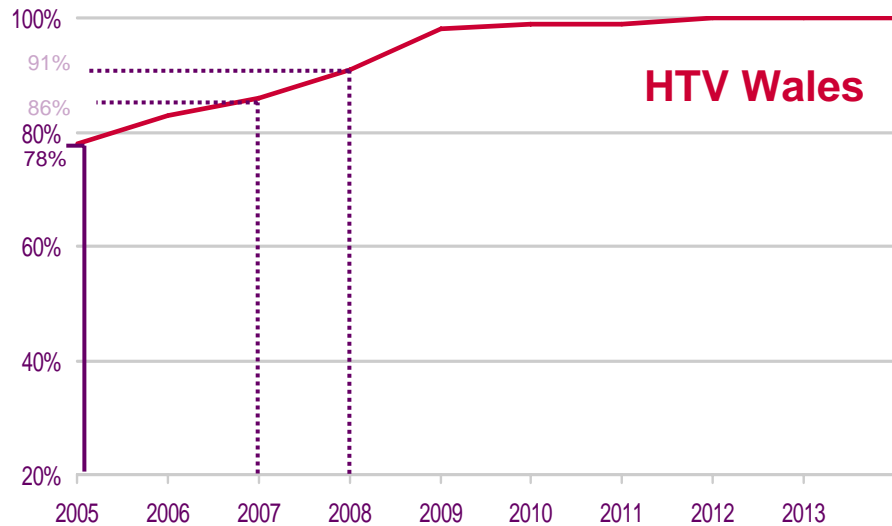
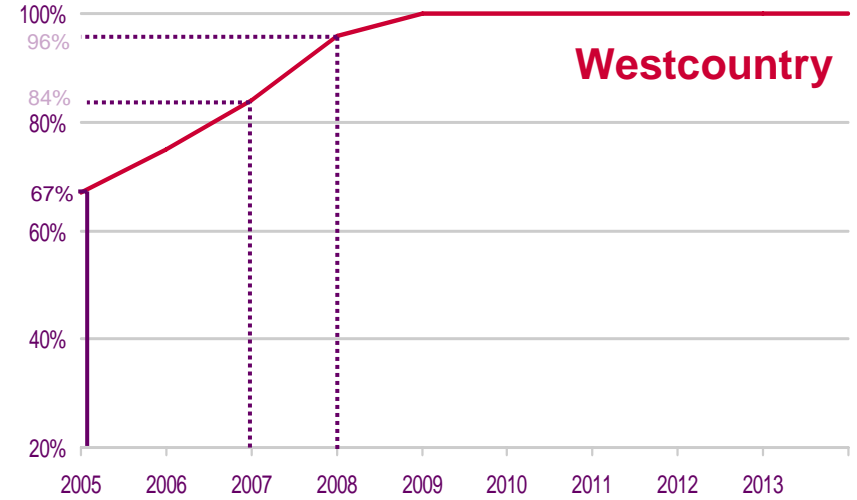
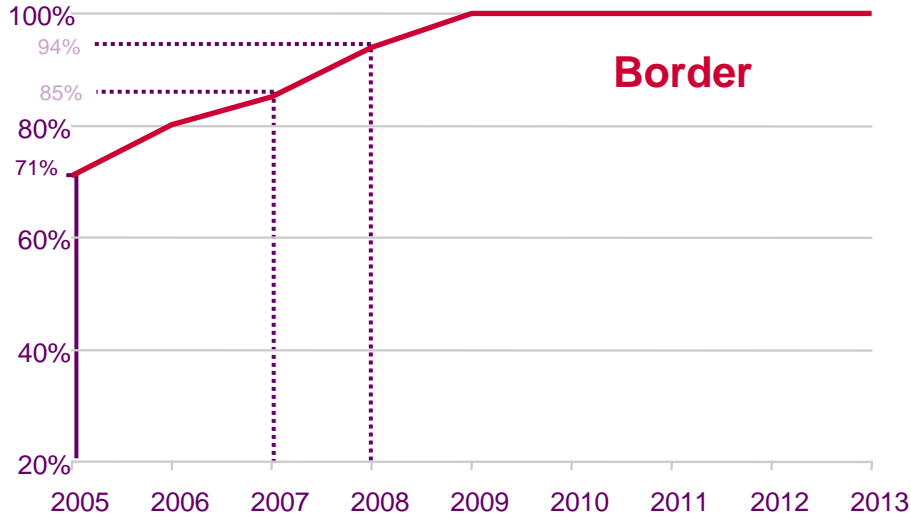
NB: This model reflects Ofcom's market forecasts, and is distinct from Digital UK's ongoing Switchover Planning Model

Actual and forecast household penetration of digital TV (at year end)

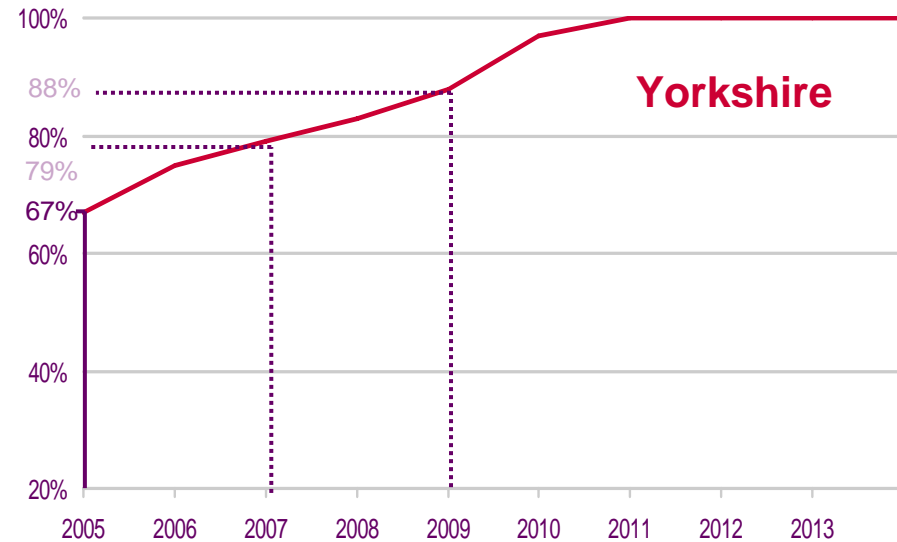
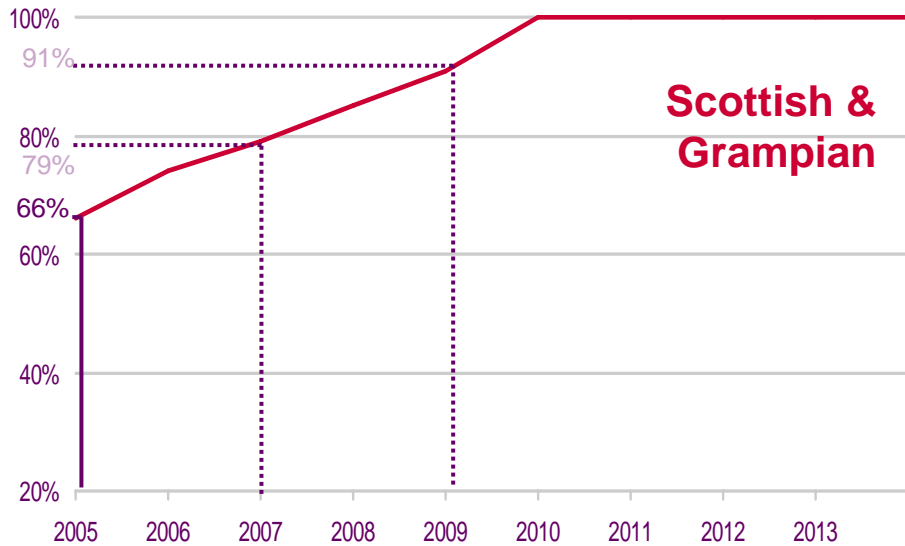
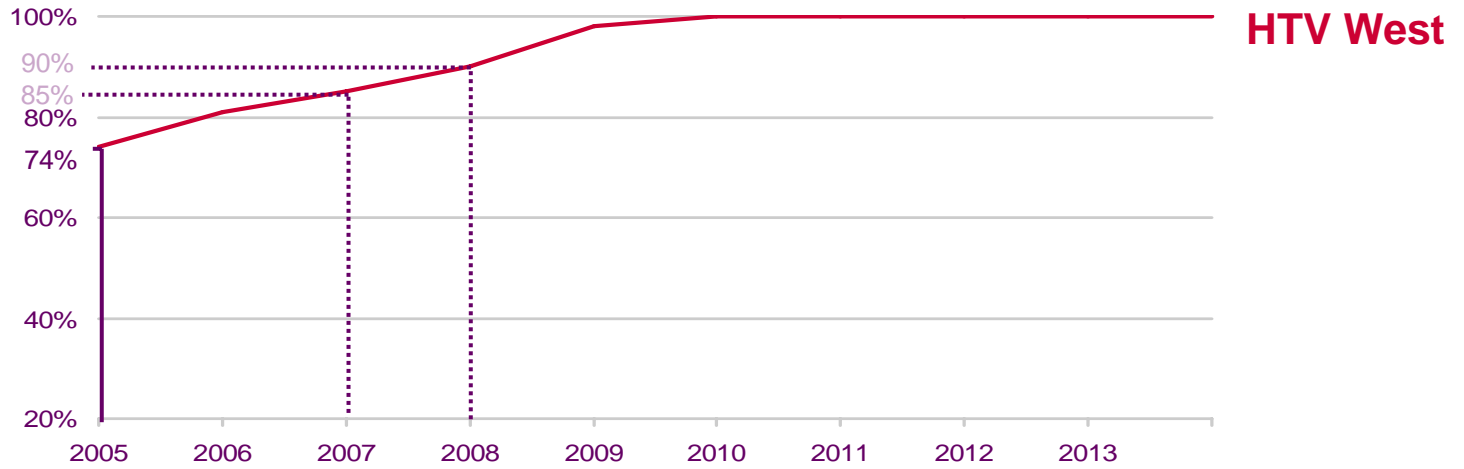


- Ofcom's modelling suggests that digital take-up will continue to grow steadily over the next few years, as switchover starts to take place on a region-by-region basis (regional take-up forecasts in Annex).
- We expect digital penetration to grow by around 1.7 million homes in 2006 (compared to 1.1m in 2005), and on average by around one million homes per year thereafter until 2012.
- 85% of UK homes will have taken up digital TV by the time Border starts to switch in the second half of 2008. By the end of 2010, we estimate 95% of households will have taken up digital TV.

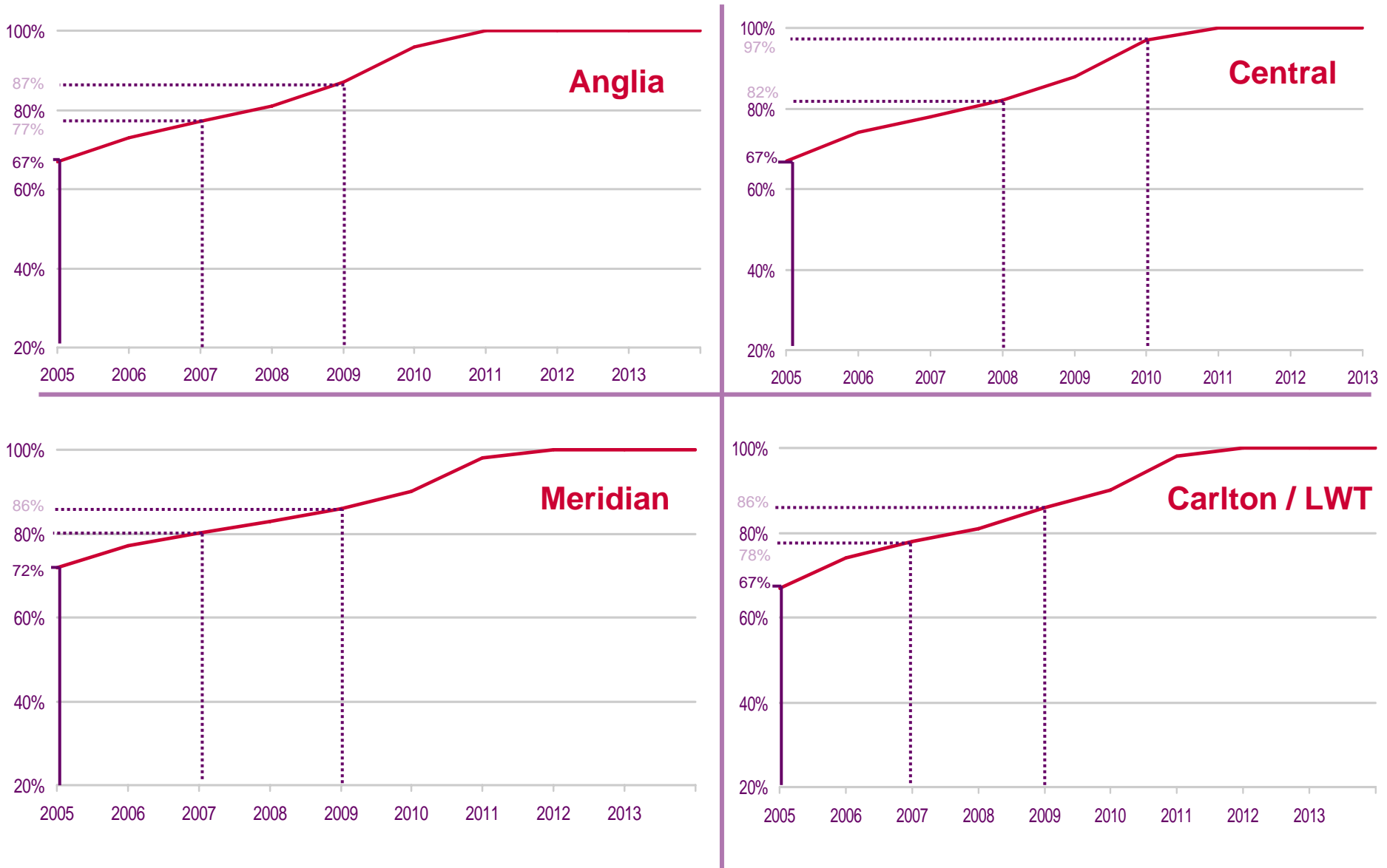
Digital take-up forecast, regions switching 2008-09



Digital take-up forecasts, regions switching 2010-2011



Digital take-up forecasts, regions switching 2011-2012



Digital take-up forecasts, regions switching 2012

