Q3 2006

Digital television and switchover: market developments and consumer metrics

Prepared for the Ministerial Group on Digital Switchover

Paper MGDS (07) 2

11 January 2007

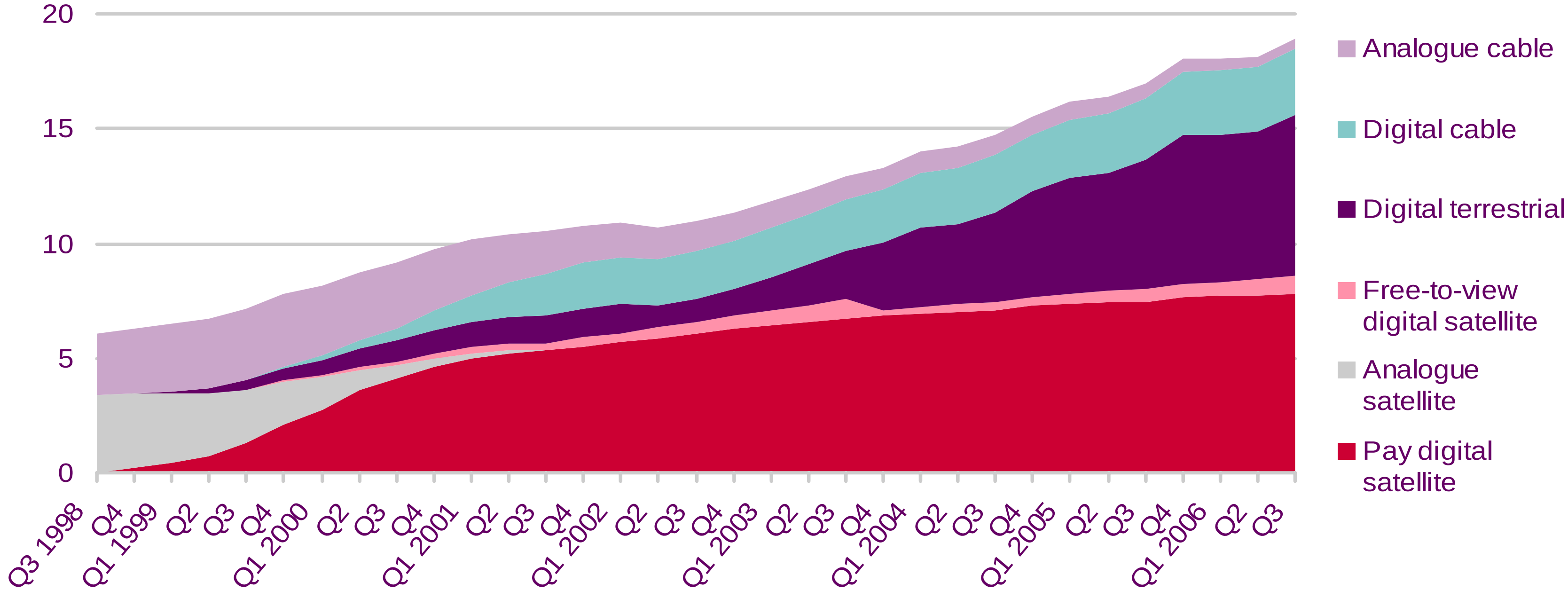
Contents

Conversion Update

UK conversions to digital driven by Freeview

- Third quarter of 2006: c. 800k primary sets converted to a digital, 74% of which was Freeview
- Freeview device sales reached 1.4m in the same period
- Primary TV set digital conversion now 73.3%; multichannel conversion now 74.8%

Market share of UK multichannel TV homes, Q3 2006



Source: Ofcom Q3 Digital TV Progress Report

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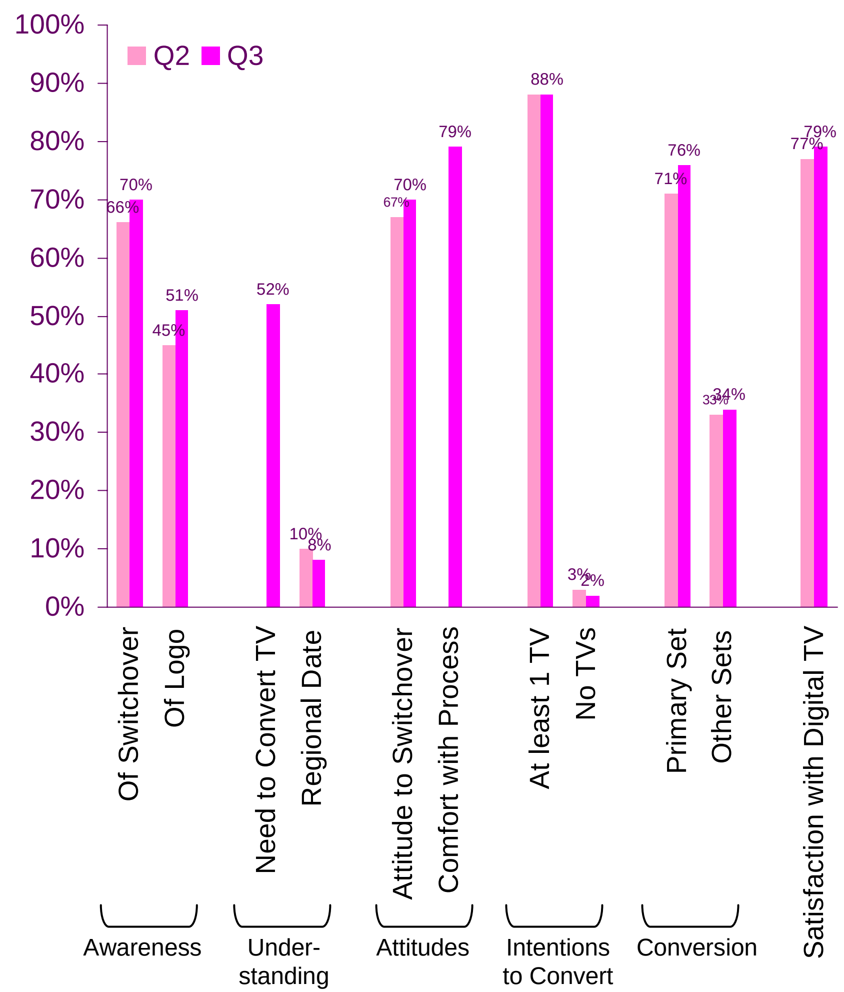
Consumer Metrics

Q3 Switchover Tracker Highlights

- *See Annex for full dashboards*
- All key metrics were stable to improving
- Awareness built solidly, up 4 percentage points to **70%** and meeting the Q3 target. Growth strongest in lead regions, however there is a discernable ‘campaign effect’ in monthly figures (peaked at 75% in June)
- More than half of the population (**52%**) know what they need to do at switchover – understanding lowest amongst minority ethnic groups, non-English speakers and the young (16-24s)
- The number of ‘resisters’ saying they wouldn’t convert fell from 3% to **2%** - although was 4% amongst the 75+ and 7% for those living in flats
- Attitudes improved marginally, with those saying they felt neutral or positively about the change rising 3 points to **70%** - although only a minority feel it is a good thing (26% nationally, 20% amongst 65-74s and 10% of 75+)

Q3 Progress on Key Metrics



Source: Ofcom / Digital UK Switchover Tracker, Q3 2006

Consumer Metrics

Progress Against Targets

	Awareness of Switchover			Awareness of Logo		
	Q3 Target	Q3 Actual	Q4 Target	Q3 Target	Q3 Actual	Q4 Target
National	70%	70% (-)	75%	50%	51% (+1)	57%
Border	85%	89% (+4)	91%			
Westcountry	80%	86% (+6)	89%			
Wales	75%	77% (+2)	84%			
Granada	69%	71% (+2)	82%			

- Q3 awareness targets were met or exceeded at the national level and in each of the leading 4 regions; current indications suggest we are on track to meet the Q4 target of 75%
- Logo awareness targets were met in Q3, but meeting the Q4 target will require strong results from Digital UK's autumn 'look for the logo' campaign

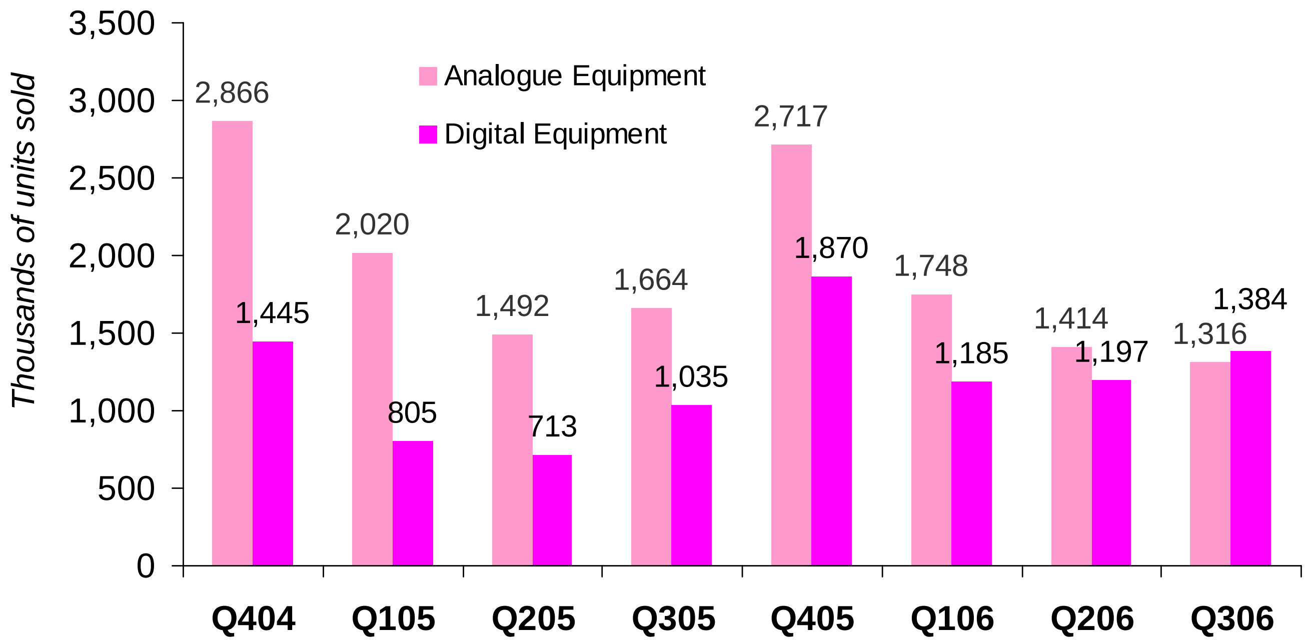
Source: Ofcom / Digital UK Switchover Tracker, Q3 2006; Ofcom Digital TV Progress Report

Market Developments

More than 50% of TV equipment was digital

- For the first time the combined total of digital TVs, set-top boxes and recorders sold at retail was greater than the numbers of analogue TVs and analogue recorders
- *See Annex for full sales data*

<u>Unit Sales of All TV Equipment</u>
(thousands)



% Digital	34%	28%	32%	28%	41%	40%	46%	**51%**

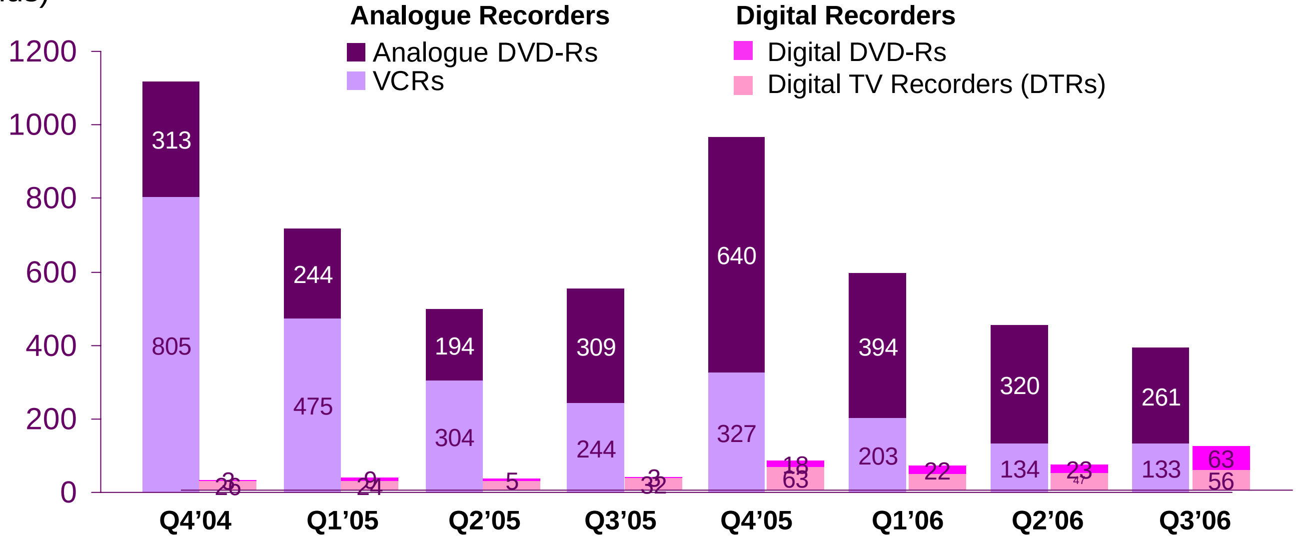
Source: GfK LekTrak;
** Analogue Equipment = TV sets, VCRs and DVD-Rs; Digital Equipment = iDTVs, digital TV recorders and other set-top boxes*

Market Developments

Analogue DVD-R sales slow for first time

- Any analogue recorder (VCR or analogue DVD-R) will need converting at switchover if the user wishes to record one programme whilst watching another
- VCR sales have slowed for the past 18 months (units sold in Q3 ’06 were nearly half those sold in Q3 ‘05)
- However, up until now most DVD-Rs have been analogue (93% in Q2 ’06), and analogue DVD-R sales have been growing (Q2 ’06 was up 65% on Q2 ’05)
- This trend reversed in Q3 ’06, with fewer analogue DVD-Rs sold than in the previous year, and nearly 20% of DVD-Rs sold were digital

Unit Sales of Analogue and Digital Recorders
(thousands)



Source: GfK LekTrak. Note that VCR sales include sales of VCR combi televisions.

Market Developments

Q3 has seen a growing trend towards Video-on-Demand

- Download content 24/7 for original Channel 4 comedies, documentaries and films
- Also available through digital cable television for NTL/Telewest viewers

- Access to over 40 Freeview channels
- 80 hours of programming on a PVR Download and programmes on demand

- Telewest's VOD offering
- 7 day catch up and download premiere programmes

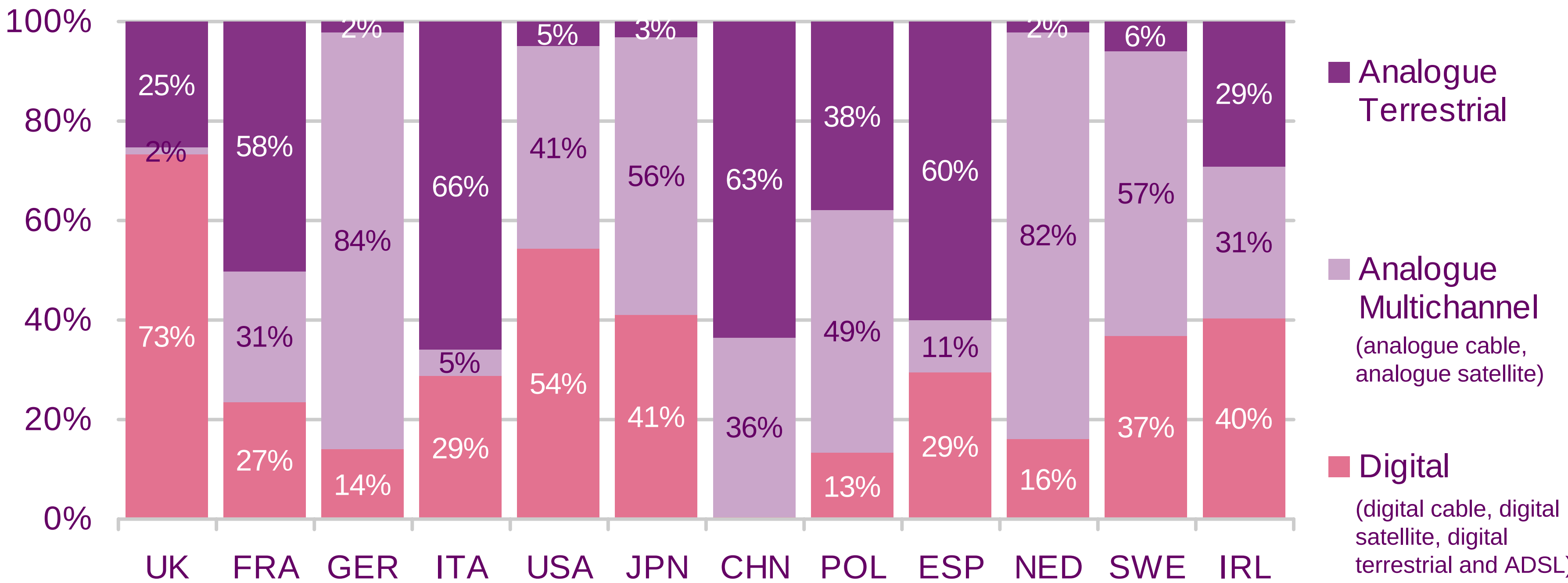
- Offering downloads of their American acquired TV franchise CSI by the season

- BBC programmes will be made available for free on a file-sharing network following a deal between BBC Worldwide and technology firm Azureus.
- The titles will be protected by digital rights management software to prevent the programmes being traded illegally on the internet

International Updates

UK has the highest digital TV take-up

Proportion of homes (%)



NOTE – Figures are before Netherlands and Swedish switchover had commenced
Source: World Television Markets 2005, IDATE; Ofcom Q3 Digital TV Progress Report for UK figures

International Updates

The Netherlands completed analogue switch-off on 11/12/06 – the first country in the world to do so

Background

- 90% of Dutch households have cable (largely analogue), 8% have satellite; less than 2% (50-100k) homes relied on analogue terrestrial at the point of switchover

Preparation

- The Dutch Government promoted the switchover in the press from early October
- KPN (the company awarded the DTT licence) started selling ‘Digitienne’ DTT boxes to the public 2-3 weeks prior to switchover at €85 (£57) for a standard box and €360 (£240) for a digital TV recorder
- The box can be bought with no subscription for access to 3 Dutch national and 1 regional channel; or with a €7.50 (£5) p.m. subscription for access to 21 channels

The Switchover

- The analogue terrestrial signal was switched-off between midnight and 2am on Monday 11th December 2006
- Government and KPN believed that all households were well informed
- As of Friday 15th December:
    - c. 12,000 Digitienne boxes had been sold
    - Up to 40,000 homes were thought to be without television – thought to be waiting to decide which platform to opt for
    - The KPN received just 500 calls on the day of switchover (<1% of analogue terrestrial homes) – 70% of which had questions on set-top aerials, which all needed replacing at switchover
    - Press and public opinion had been low key (see article on page 7 of one of the national papers, right), with no significant issues raised

The Dutch ‘Telegraaf’, 10/12/06, p7

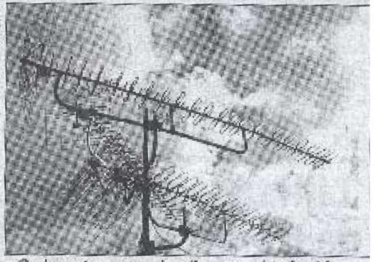
Analoge antenne vannacht op zwart

Van een onzer verslaggevers

AMSTERDAM, zondag

Om twaalf uur vannacht gaat de ouderwetse sprietantenne op ruis.

Het is dan niet meer mogelijk via deze antenne die meestal op het dak staat naar de Nederlandse zenders 1, 2 en 3 te kijken noch naar de regionale zender. Nederland is het eerste land waar de analoge antenne verdwijnt. Hij heeft 55 jaar dienst gedaan. In de jaren zestig waren de daken van ons land een groot mastbos.



Ouderwets en nu ook volkomen achterhaald: sinds vandaag ontvangt de antenne op het dak geen signaal meer.

De meeste mensen die uitsluitend via een antenne kijken zijn inmiddels overgeschakeld op kabel, digitenne of de schotel. Toch staan er nog circa 74.000 antennes op het dak van een woning, terwijl nog eens 220.000 mensen een antenne hebben op hun caravan, recreatiewoning of boot. Kijken via de antenne kost immers helemaal niets.

Met de omschakeling wordt elf miljoen euro bespaard. Dat geldt wordt gebruikt voor verdere uitbreiding van digitale televisie.

Man steelt politiebus en arrestant

Van onze correspondent

HOOGERHEIDE, zondag

In de nacht van vrijdag op zaterdag heeft een nog onbekende man in Hoogerheide korte tijd rondgereden in een politiebus met daarin een arrestant.

De bus werd een paar honderd meter verder in een zijstraat teruggevonden. Van de

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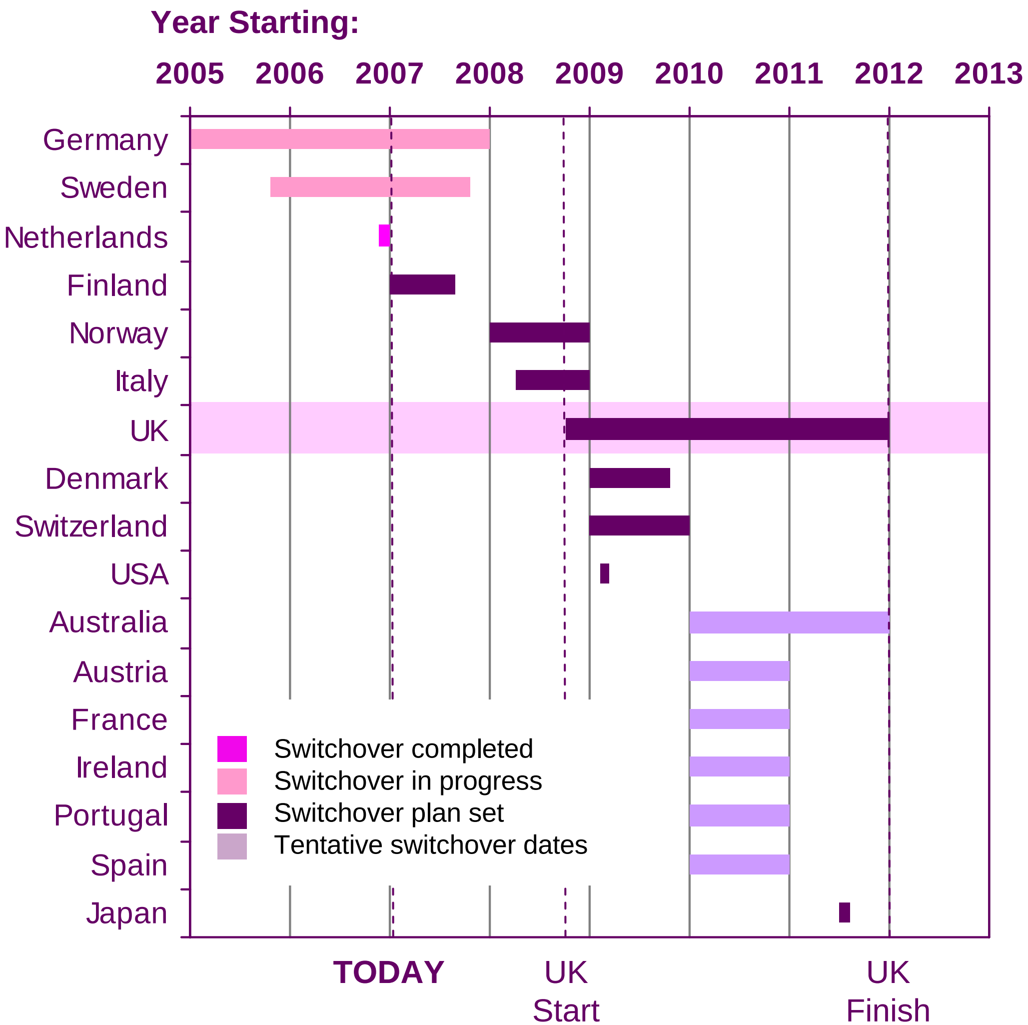
International Updates

Recent International Switchover Developments



Sweden

- Completed Phase 3 (of the 5 phase programme) on 6th November
- 50% of the Swedish population have now switched over
- Programme progressing well with no major problems

Finland

- Finland remain on track for analogue terrestrial switch-off by 31 August 2007
- Were intending to switch all cable to digital at the same time, but facing some problems persuading consumers to buy digital cable boxes

Germany

- Germany remain on-track to achieve a 2008 switch-off

Italy

- Italy have established a ‘Italia Digitale’ programme to manage switchover, reporting into the Communications Ministry
- They have further delayed the start of switchover in the first regions: Sardinia to 1 March 2008 and Val d’Aosta to 1 October 2008 (originally scheduled for 2006)
- National switchover still slated for completion by 31 December 2008

Norway

- Norway to launch DTT between end of 2007 and end of 2008
- Will then switch-off analogue terrestrial between end of 2008 and late 2009 or early 2010

USA

- The USA have set a switchover date of 17 February 2009 and have now started planning the $1.5 billion programme to provide vouchers for boxes to convert the remaining c. 70 million analogue TVs

Australia

- The Australian Government have announced the formation of ‘Digital Australia’ and a target switchover timeframe of 2010-2012

Annexes

- Tracker Dashboards
- Digital TV Equipment Sales Data
- Digital TV Platform Availability

Annex: Q3 Tracker Dashboard – Regions

* Very small base size – data should be viewed as indicative only

** Extremely small base size – data omitted

	BASE SIZE	-1- Awareness		-2- Understanding			-3- Pos/neut attitude		-4- Intentions to convert			-5- Conversion				-6-
		-a- Unpromptd	-b- Logo	-a- What to do for DSO	-b- Update every TV set	-c- Date	-a- Overall opinion	-b- Personal opinion	-a- Convert at least one set	-b- Will not convert any set	-c- Analogue h/holds to cnvrt 12m	-a- Primary set converted	-b- Other sets converted	-c- Full h/hold convrsion	-d- Total converted	Satisfact'n with digital TV
NATIONAL	1963	70%	51%	75%	67%	8%	70%	79%	89%	1%	15%	79%	35%	39%	55%	79%
1 - Border	326	89%	60%	75%	80%	49%	72%	80%	92%	1%	16%	77%	35%	39%	55%	81%
2 - Westcountry	310	86%	59%	82%	79%	10%	70%	78%	91%	2%	9%	77%	30%	39%	52%	76%
3 - Wales	316	77%	54%	70%	72%	15%	63%	74%	90%	2%		82%	29%	38%	53%	80%
4 - Granada	328	71%	51%	68%	67%	8%	68%	78%	88%	3%	12%	81%	40%	40%	58%	78%
5 - West	57*	79%	51%		81%	17%	69%	72%	98%	0%		83%	39%	35%	58%	
6 - STV/Gramp	72*	74%	57%	61%	65%	15%	67%	79%	86%	3%		73%	23%	32%	49%	86%
7 - Central	100	74%	55%	76%	69%	2%	76%	80%	91%	2%		82%	36%	45%	56%	76%
8 - Yorkshire	103	66%	51%	62%	60%	2%	61%	73%	90%	2%		77%	41%	43%	57%	73%
9 - Anglia	76*	77%	61%	83%	77%	8%	75%	78%	93%	0%		76%	32%	37%	53%	82%
10 - Meridian	95*	72%	40%	73%	73%	10%	67%	83%	87%	2%		78%	41%	35%	57%	73%
11 - London	100	62%	51%	85%	62%	9%	83%	84%	92%	0%		83%	35%	38%	56%	78%
12 - Tyne Tees	55*	63%	35%		60%	4%	53%	72%	86%	0%		75%	21%	29%	43%	
13 - Ulster	66*	51%	28%		42%	3%	47%		75%	2%		57%		36%	48%	

Source: Ofcom / Digital UK Switchover Tracker, Q3 2006

Ulster fieldwork dates: 1st April – 30th September 2006

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Annex: Q3 vs. Q2 Progress – Regions

- Worsened by more than 10 percentage points
- Worsened by up to 10 percentage points
- Improved by up to 10 percentage points
- Improved by more than 10 percentage points

Percentage Points	BASE SIZE	-1- Awareness		-2- Understanding			-3- Pos/neut attitude		-4- Intentions to convert			-5- Conversion				-6-
		-a- Unpromptd	-b- Logo	-a- What to do for DSO	-b- Update every TV set	-c- Date	-a- Overall opinion	-b- Personal opinion	-a- Convert at least one set	-b- Will not convert any set	-c- Analogue h/holds to cnvrt 12m	-a- Primary set converted	-b- Other sets converted	-c- Full h/hold convrsion	-d- Total converted	Satisfact'n with digital TV
NATIONAL	**1963**	4%	6%	N/A	3%	N/A	3%	N/A	1%	-2%	5%	5%	1%	2%	N/A	2%
1 - Border	**326**	7%	6%	N/A	4%	0%	0%	N/A	1%	-2%	11%	8%	-5%	0%	N/A	2%
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3 - Wales	**316**	6%	9%	N/A	6%	3%	-3%	N/A	0%	0%	N/A	-1%	-15%	-11%	N/A	-3%
4 - Granada	**328**	7%	9%	N/A	10%	1%	0%	N/A	1%	-2%	0%	2%	0%	-1%	N/A	-5%
5 - West	**57***	4%	11%	N/A	19%	-1%	8%	N/A	19%	-2%	N/A	20%	3%	3%	N/A	N/A
6 - STV/Gramp	**72***	12%	15%	N/A	1%	3%	-5%	N/A	-3%	0%	N/A	-3%	-24%	-15%	N/A	2%
7 - Central	**100**	8%	10%	N/A	3%	0%	11%	N/A	0%	1%	N/A	6%	3%	6%	N/A	4%
8 - Yorkshire	**103**	-1%	10%	N/A	-3%	-2%	2%	N/A	-2%	-2%	N/A	0%	12%	15%	N/A	-1%
9 - Anglia	**76***	9%	22%	N/A	24%	5%	15%	N/A	5%	-3%	N/A	8%	3%	10%	N/A	3%
10 - Meridian	**95***	-7%	-5%	N/A	0%	-5%	2%	N/A	4%	-6%	N/A	10%	7%	-7%	N/A	2%
11 - London	**100**	3%	-3%	N/A	-4%	-5%	6%	N/A	4%	-1%	N/A	12%	8%	4%	N/A	1%
12 - Tyne Tees	**55***	-5%	-13%	N/A	-2%	-12%	-15%	N/A	-9%	0%	N/A	-14%	-16%	-10%	N/A	N/A
13 - Ulster	**66***	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

 Source: Ofcom / Digital UK Switchover Tracker, Q3 2006

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Annex: Q3 Tracker Dashboard – Consumer Groups

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NATIONAL	1963	70%	51%	75%	67%	8%	70%	79%	89%	1%	15%	79%	35%	39%	55%	79%
Male	954	75%	56%	78%	74%	11%	73%	83%	90%	2%	15%	81%	39%	43%	58%	81%
Female	1009	65%	46%	71%	60%	6%	67%	76%	88%	1%	15%	77%	31%	35%	52%	76%
16-24	230	44%	53%	77%	47%	6%	74%	84%	87%	2%		82%	36%	33%	54%	86%
65-74	239	76%	56%	66%	78%	10%	65%	75%	86%	4%	11%	75%	27%	36%	50%	77%
65+	423	70%	49%	63%	69%	9%	62%	74%	81%	4%	20%	60%	23%	29%	43%	69%
ABC1	886	77%	48%	81%	73%	9%	74%	80%	92%	1%	15%	81%	36%	40%	56%	81%
C2DE	1077	63%	53%	67%	60%	8%	65%	79%	87%	2%	15%	77%	34%	37%	54%	76%
Rural	396	80%	52%	78%	76%	9%	72%	82%	92%	1%	11%	82%	36%	42%	56%	84%
Urban	1567	68%	51%	74%	65%	8%	70%	79%	89%	1%	15%	79%	35%	38%	55%	78%
Low income	411	67%	57%	60%	64%	8%	63%	72%	85%	3%	14%	68%	20%	34%	45%	68%
BME	93*	42%	56%		39%	5%	76%	83%	84%	1%		83%	38%	47%	61%	74%
Non-English	91*	48%	59%	66%	45%	8%	75%	85%	77%	3%		70%	28%	45%	52%	83%
Disabled	366	71%	49%	62%	63%	8%	68%	68%	84%	4%	10%	73%	26%	38%	49%	73%
Socially isolated	16**															
Living alone	366	72%	47%	69%	66%	12%	68%	75%	82%	3%	16%	56%	19%	33%	41%	72%
Families w/ chidren	554	72%	54%	75%	65%	8%	66%	78%	90%	1%	12%	86%	35%	41%	56%	80%
Rent private	200	60%	47%	77%	58%	7%	67%	83%	82%	3%		71%	22%	43%	52%	70%
Rent council	359	60%	54%	71%	60%	8%	67%	73%	84%	4%	28%	77%	28%	36%	51%	88%
House	1785	70%	51%	75%	67%	8%	70%	80%	90%	1%	15%	80%	36%	40%	56%	78%
Flat	158	68%	48%	69%	65%	13%	65%	77%	83%	7%		67%	13%	31%	45%	81%
THS - 75+	184	62%	41%	58%	57%	6%	58%	73%	76%	4%	25%	41%	16%	22%	31%	53%
THS - DLA/AA <75	110	72%	50%	68%	67%	9%	65%	67%	91%	5%		86%	33%	47%	58%	81%

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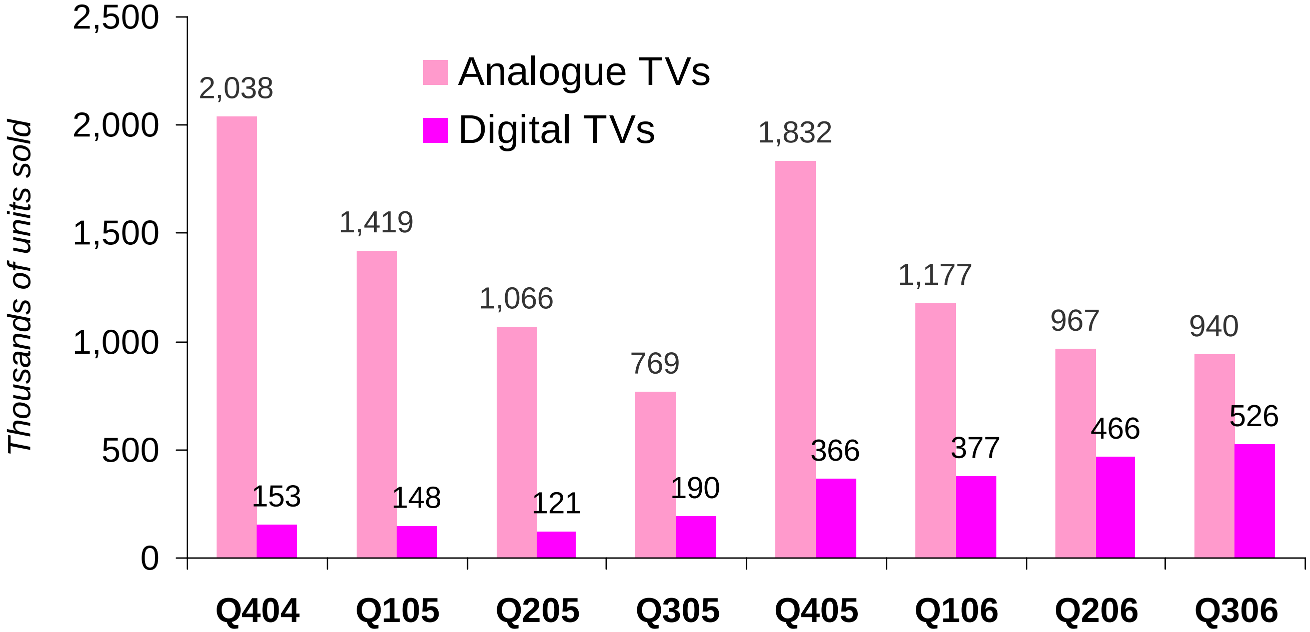
Male	**954**	3%	7%	N/A	2%	N/A	0%	N/A	0%	-1%	5%	7%	4%	4%	N/A	1%
Female	**1009**	4%	5%	N/A	4%	N/A	4%	N/A	1%	-2%	4%	4%	-2%	0%	N/A	1%
16-24	**230**	-3%	8%	N/A	-2%	N/A	1%	N/A	-1%	-2%	N/A	0%	2%	-4%	N/A	6%
65-74	**239**	-2%	8%	N/A	1%	N/A	-2%	N/A	-1%	0%	5%	8%	4%	6%	N/A	4%
65+	**423**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
ABC1	**886**	3%	4%	N/A	2%	N/A	4%	N/A	2%	-1%	6%	7%	3%	5%	N/A	5%
C2DE	**1077**	4%	8%	N/A	3%	N/A	0%	N/A	0%	-1%	4%	4%	-2%	-2%	N/A	-2%
Rural	**396**	4%	10%	N/A	6%	N/A	11%	N/A	3%	0%	5%	12%	-1%	4%	N/A	1%
Urban	**1567**	3%	6%	N/A	2%	N/A	2%	N/A	1%	-2%	4%	5%	1%	1%	N/A	1%
Low income	**411**	8%	11%	N/A	5%	N/A	0%	N/A	1%	-1%	4%	0%	-6%	-6%	N/A	-14%
BME	**93***	0%	0%	N/A	-2%	N/A	5%	N/A	-3%	-1%	N/A	8%	19%	3%	N/A	0%
Non-English	**91***	13%	3%	N/A	12%	N/A	0%	N/A	3%	1%	N/A	1%	-9%	-9%	N/A	8%
Disabled	**366**	3%	2%	N/A	-1%	N/A	13%	N/A	1%	-2%	7%	2%	-6%	2%	N/A	-4%
Socially isolated	**16****	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Living alone	**366**	3%	10%	N/A	0%	N/A	6%	N/A	0%	-3%	8%	3%	-2%	2%	N/A	-7%
Families w/ chidren	**554**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Rent private	**200**	3%	0%	N/A	0%	N/A	-2%	N/A	0%	-2%	N/A	11%	-5%	5%	N/A	-14%
Rent council	**359**	3%	5%	N/A	7%	N/A	4%	N/A	-4%	0%	22%	4%	-15%	-6%	N/A	7%
House	**1785**	2%	7%	N/A	2%	N/A	2%	N/A	1%	-2%	8%	4%	2%	4%	N/A	0%
Flat	**158**	13%	-2%	N/A	9%	N/A	-2%	N/A	-1%	3%	N/A	7%	-20%	-11%	N/A	5%
THS - 75+	**184**	-1%	2%	N/A	-2%	N/A	3%	N/A	0%	-4%	24%	-4%	-9%	-11%	N/A	-28%
THS - DLA/AA <75	**110**	6%	3%	N/A	6%	N/A	6%	N/A	7%	0%	N/A	15%	-6%	8%	N/A	-4%

Source: Ofcom / Digital UK Switchover Tracker, Q3 2006

Annex: Equipment Sales Update : TV Sales



Units Sold (k)	2,191	1,567	1,187	959	2,198	1,554	1,433	1,466
% Digital	7%	9%	10%	20%	17%	24%	33%	36%
Digital Growth: Q-on-Q		-7%	-18%	+57%	+93%	+3%	+24%	+11%
Digital Growth: Year-on-Yr					+139%	+155%	+285%	+180%

- In Q3 2006 36% of all TVs sold were digital – up from 20% in Q3 2005
- This masks a significant disparity between large screen (26”+) and small screen (<26”) TVs: 79% of large TVs were digital but only 8% of small TVs
- Despite the growth in the number and proportion of digital TVs sold in Q3, more analogue TVs were sold in Q3 2006 than in Q3 2005

 Source: GfK LekTrak

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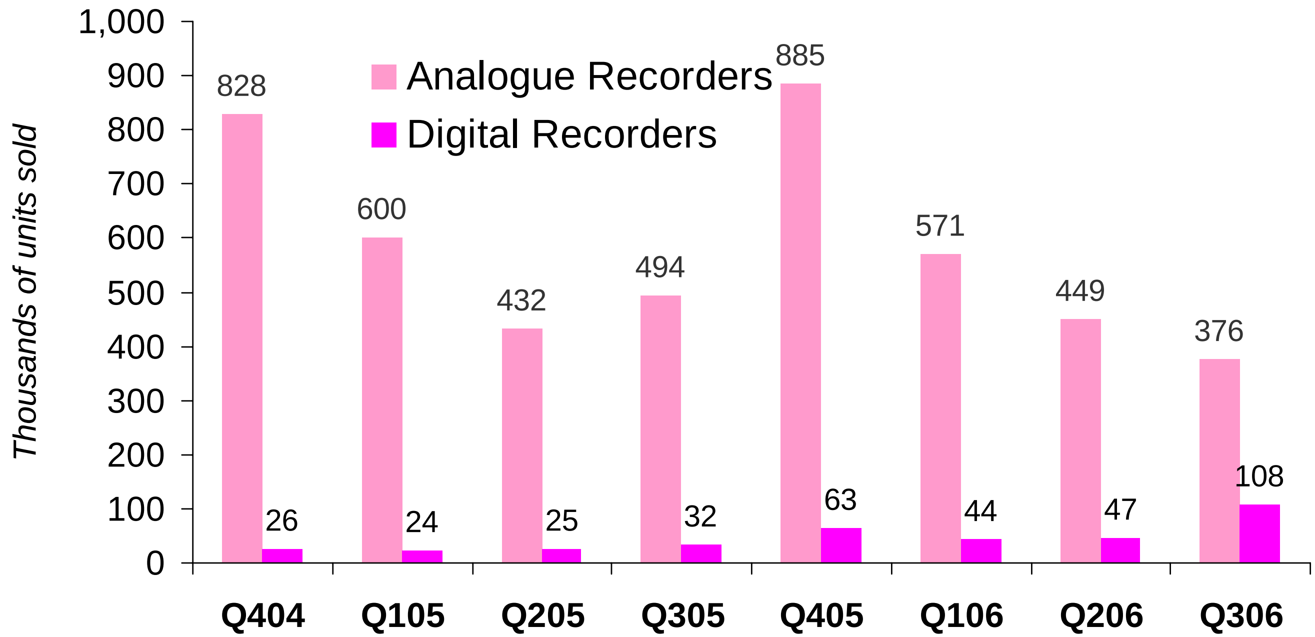
Annex: Equipment Sales Update : Recorders

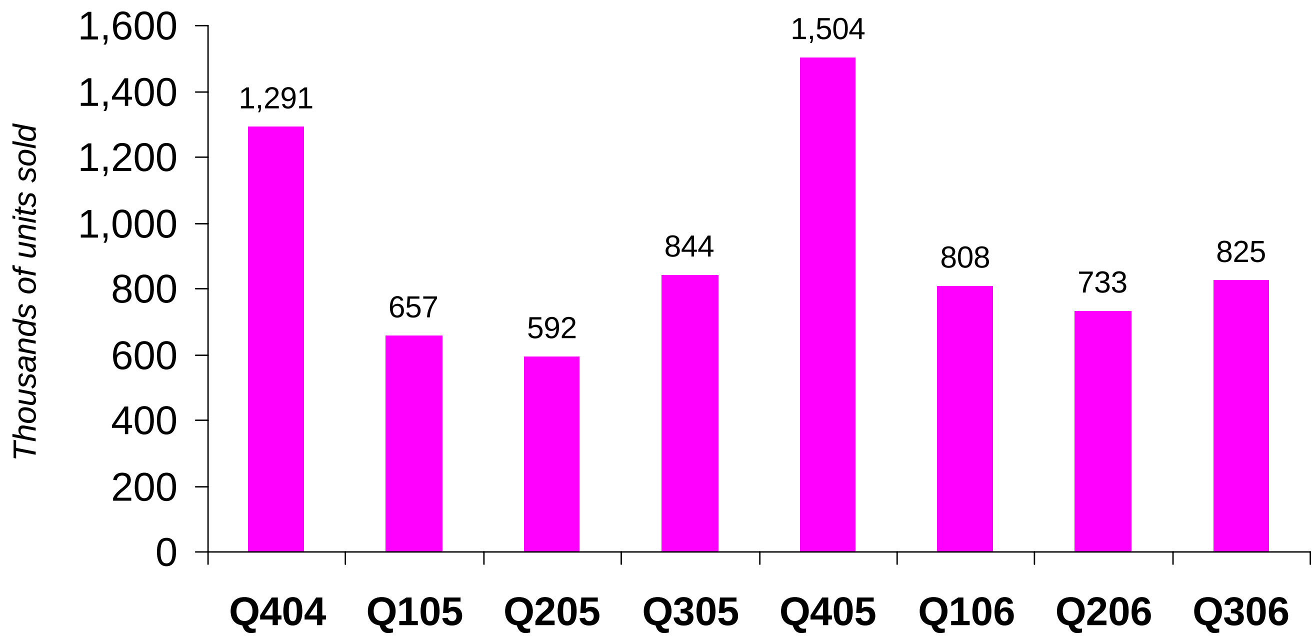


	Q404	Q105	Q205	Q305	Q405	Q106	Q206	Q306
Units Sold (k)	854	624	457	526	948	615	496	483
% Digital	3%	4%	5%	6%	7%	7%	9%	22%
Digital Growth: Quarter-on-Q		-8%	+4%	+28%	+97%	-30%	+7%	+130%
Digital Growth: Year-on-Yr					+142%	+83%	+88%	+376%

- Q3 saw a substantial shift towards digital TV recorders, with more than double sold in Q3 versus the previous quarter
- DVD-Rs are also rapidly becoming digital with 19% of the 324k units sold in the quarter being digital, against just 7% in Q2
- Sales of VCRs were 38% down on Q3 '05, but 7% up on Q2 '06

Source: GfK LekTrak

Annex: Equipment Sales Update : Boxes



Units Sold (k)	1,291	657	592	844	1,504	808	733	825
Digital Growth: Quarter-on-Q		-49%	-10%	+43%	+78%	-46%	-9%	+13%
Digital Growth: Year-on-Yr					+16%	+23%	+24%	-2%

- 825,000 digital boxes were sold at retail during Q3 2006
- This represented a slight slowdown in sales of digital boxes on the same quarter last year for the first time (down 2% on Q3 2005)
- 4% were Sky and 96% Freeview boxes
- 7% were digital TV recorders and 93% standard set-top boxes

NOTE: Including digital recorders and Sky retail sales

Source: GfK LekTrak

Annex: 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	7.8m Q3 2006	30.9%	£15 - £42.50 per month
			Free to view: Sky/ Solus	0.75m Q3 2006	3.0%	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 Q3 2006	13.1%	£11 - £51 per month
Digital Terrestrial	Conventional TV aerial and either a set top box or a TV with a built-in digital tuner	73%	Freeview Pay: Top Up TV	9.3m Q3 2006 (7.0m DTT only platform)	27.7% (DTT-only homes)	DTT boxes from around £30. Top Up TV from £7.99 per month
TV over ADSL	Using existing telephone lines and set top box.	10%	Pay: Tiscali / Homechoice.	43,000 Q3 2006	0.2%	£15 - £44 per month
Total digital TV penetration of UK households:				**74.8% multi-channel** **73.3% digital**		

Source: Ofcom Digital Progress Report, Q3 2006