

ENDERS|ANALYSIS

Looking Beyond Digital Switchover

DTG AGM and meeting 2008
March 2008

- **Last five years: 2003-2007**
- Growth issues and assumptions
- Next ten years: 2008-2017

Platform category definitions

The trends and forecasts are based on eight mutually exclusive and exhaustive platform categories

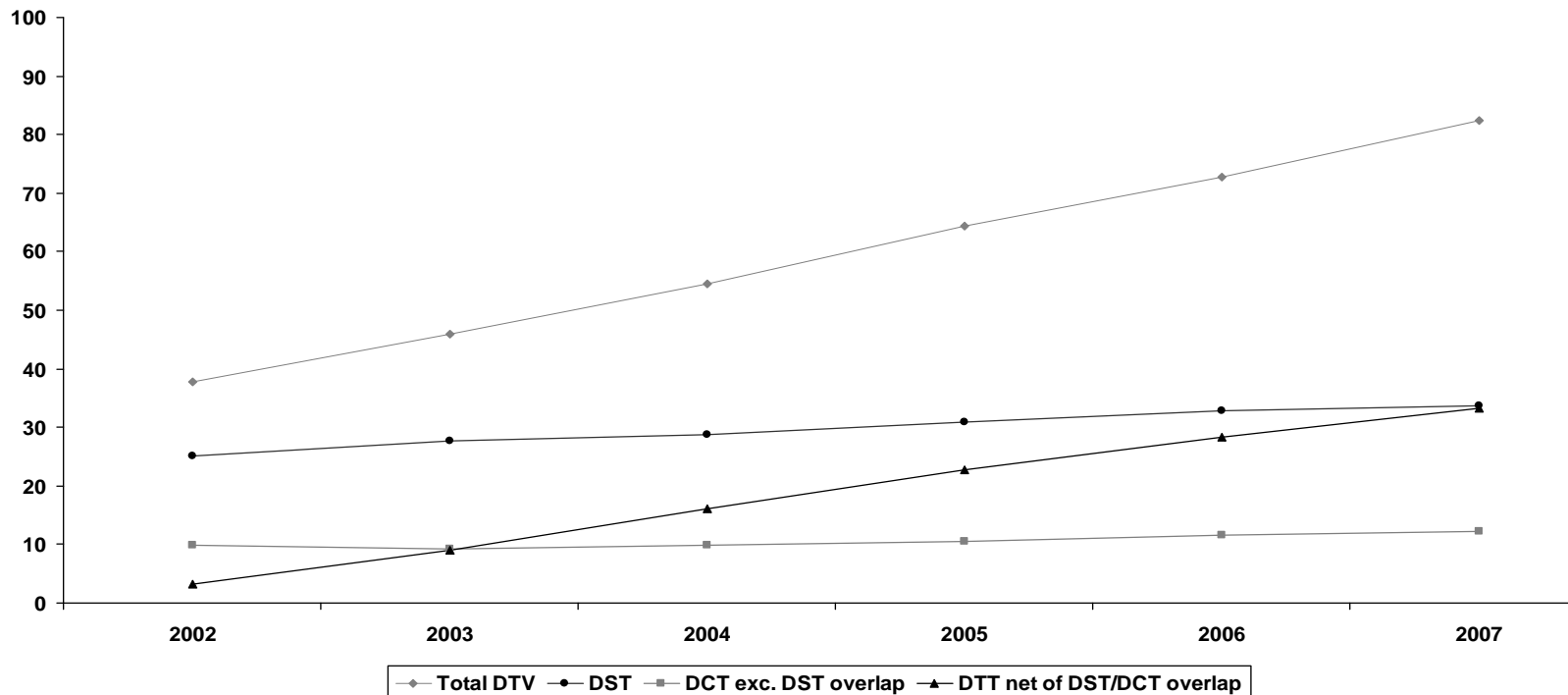
- Category definitions include minor simplifications
 - Analogue satellite TV included in ATT
 - Standalone TV-over-DSL included within DCT (NB: but with hybrid DTT and DSL assigned to DTT)
- BARB used as preferred main source for household reception data (NB: lower estimates than Ofcom)

Category	Definition
Analogue terrestrial TV (ATT)	ATT homes without any digital TV or analogue cable TV reception
Analogue cable TV (ACT)	ACT homes (all with pay TV subscriptions – assumed no digital platform overlap)
Pay digital satellite TV (Pay DST)	DST homes with pay TV subscription (i.e. all Sky UK residential TV homes)
Free digital satellite TV (Free DST)	DST homes without pay TV subscription
Pay digital cable TV (Pay DCT)	DCT homes with pay TV subscription <u>excluding any dual DST platform overlap homes</u> (i.e. all Virgin Media homes opting for subscription pay TV packages)
Free digital cable TV (Free DCT)	DCT homes without pay TV subscription <u>excluding any dual DST platform overlap homes</u> (i.e. all Virgin Media homes opting for the free TV package)
Pay digital terrestrial TV (Pay DTT)	All DTT homes with subscription to at least one pay DTT service, whether broadcast over the air or via DSL (e.g. Top Up TV, Setanta, or subscription packages offered by DSL operators such as BT Vision) and <u>excluding all dual platform DTT and DST/DCT homes</u>
Free digital terrestrial TV (Free DTT)	All DTT homes without any subscription to a pay DTT service and <u>excluding all dual platform DTT and DST/DCT homes</u>

Main set DTV homes by platform: 2003-2008

DTV reception has risen from circa 38% at the launch of Freeview in October 2003 to 82% of TV homes at the end of 2007; and from 43% to 88% of individuals

End of year TV household penetration, 2003-2017
(% of TV homes)



[Source: Enders Analysis]

TV homes reception: 2003-2017

Pay TV growth has been relatively slow, sign of maturity in the UK broadcast TV landscape, where a basic divide exists between the PSB sector and the rest

End of year receiving homes (m)	2003	2004	2005	2006	2007
Total TV	24.6	24.9	25.2	25.3	25.6
Total pay TV	9.8	10.2	10.7	10.8	11.0
Pay DST	6.5	6.9	7.2	7.5	7.8
Pay DCT/ACT excl. DST	3.2	3.2	3.3	3.3	3.0
Pay DCT	2.3	2.4	2.7	2.9	2.7
Pay DTT only	0.0	0.1	0.2	0.1	0.3
Total free TV	14.9	14.6	14.5	14.6	14.6
Free DST	0.3	0.3	0.6	0.8	0.8
Free DCT	0.0	0.0	0.0	0.1	0.5
Free DTT only	2.2	3.9	5.6	7.1	9.0

[Source: Enders Analysis, using BARB and company data as basis for 2003-2007]

- Last five years: 2003-2007
- **Growth issues and assumptions**
- Next ten years: 2008-2017

The TV landscape post DSO depending on the outcome of technological and regulatory issues that primarily affect the DTT platform

- The immediate issue is whether DSO will be implemented as per the current schedule
 - 2008/09 – Border
 - 2009 – Westcountry, Granada
 - 2009/10 – HTV Wales
 - 2010/11 – HTV West, STV North, STV Central
 - 2011 – Central, Yorkshire, Anglia
 - 2011/12 – Meridian, London, Ulster, Tyne-Tees
 - 2013 - Channel Islands

- Assuming DSO goes to plan, eventual platform balance depends on three main issues
 - Spectrum planning for digital terrestrial television (DTT)
 - The balance of platform competition in pay TV
 - Broadband convergence and growth of IPTV over DSL

The future attractiveness of the DTT platform hinges upon the ability to upgrade signal standards

- The core issue is the provision of HD broadcasts on the DTT platform
- The essence of the Ofcom plan is
 - Auction off all the released spectrum, but for one or two minor exceptions, and let the market decide
 - Create HD space within the existing spectrum, using MPEG4/DVB-T2 technology on one multiplex
 - Let consumer demand and market forces determine the further expansion of HD broadcasts on the DTT platform
- The Ofcom plan raises a number of concerns. In particular:
 - Advocacy of as yet unproven DVB-T2 standard
 - 3-4 HD channels to cater for five PSB channels
 - Unclear why the PSBs should receive priority
 - No obvious evolutionary pathway from 3-4 HD channels to all HD
- The evolutionary concern appears the most problematic

Outside HD, pay TV is only realistic option for developing DTT broadcast choice

- Market polarisation at three levels
 - Free to air (FTA) - Subscription pay TV
 - PSB broadcasters - Other broadcasters
 - DTT - DST and DCT

- Free DCT rising rapidly in 2007 due to Sky and Freeview squeeze

- Big question for DTT platform is opening up capacity to pay TV services
 - Pay TV channels only realistic route for expanding broadcast DTT choice
 - Ofcom Picnic decision and outcome of its pay TV investigation crucial to realisation of pay DTT opportunity
 - Root of pay TV competition debate is wholesale/retail access issue

On demand offers main route for enriching viewer choice on DTT platform

- Two main forms of on demand
 - Devices with DVR functionality
 - Non-linear services over cable or DSL hybrid model
- Expect wide deployment of hybrid DSL (to the TV) in run up to DSO, offering range of free, subscription and pay-per-view services
- Audience growth likely to be much slower – forecast 5-10% total viewing share in hybrid DTT/DSL homes by 2017
- Barriers to DSL growth include:
 - Quality of service
 - Ease and speed of navigation and search
 - Inter-operability and connectivity between devices
 - Content and monetisation

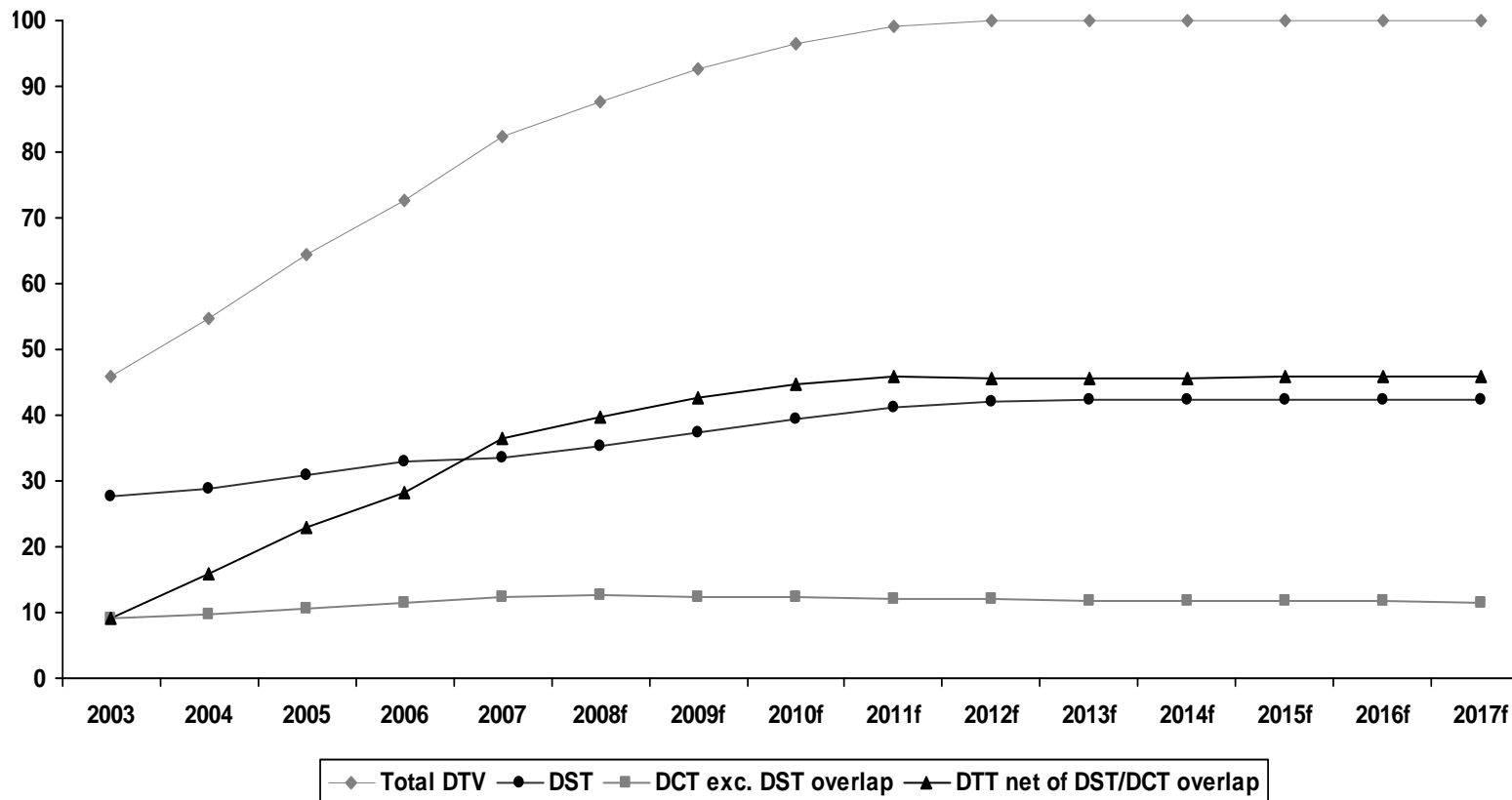
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- 85%+ DTV penetration on main TV sets at start of switchover
- DSO on schedule
- Resolution of pay TV wholesale/retail issues in next three years in favour of greater pay TV competition
- Sky to maintain/strengthen its leadership position in subscription pay TV up to 2010, but in a market that is almost mature
- Post DSO, little further change in platform balance, but still some growth room for subscription pay DTT services
- HD to become the natural format for all broadcast transmissions by 2017
- In our view:
 - Due to the nature of the regional DSO process we do not expect significant change in the capacity or perceived value to the consumer of the DTT platform prior to digital switchover
 - National HD channels will only start to add real value to the DTT platform after DSO, restricted initially by the supply of HD channels and the availability/costs of MPEG-4/DVB-T2 capable receiving equipment
 - If the DTT platform is to remain an attractive alternative to digital satellite (DST) and digital cable (DCT), longer term planning is required for many more HD channels than in the current Ofcom plan
 - The attractiveness of the DTT platform may be enhanced by a few extra channel feeds, but this is more likely to be achieved through hybrid DTT and DSL reception

Main set DTV homes by platform: 2003-2017

The platform reception profile will have reached equilibrium by the completion of digital switchover

TV household penetration, 2003-2017 (% of TV homes)



[Source: Enders Analysis]

TV homes reception: 2003-2017

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Total TV	24.6	25.6	26.8	28.0
Total pay TV	9.8	11.0	13.2	14.0
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