

The Phone Co-op Limited

Annual Report and Financial Statements

for the year ended 31 August 2002

The Phone Co-op Limited

Notice of Annual General Meeting

The Annual General Meeting will be held at 2.00 p.m. on Saturday 18 January 2003 at The ACE Centre, Burford Road, Chipping Norton, Oxfordshire.

Please note that a buffet lunch will be available at the ACE Centre from 1.00 p.m.

AGENDA

1. Apologies
2. Introductions
3. To receive the Directors' report and accounts for the year ended 31 August 2002
4. To approve the following appropriations, including dividend distributions recommended by the Board of Directors:
 - Share Interest: £6,575
 - Dividend: £3,050
 - Allocation to the Co-operative and Social Economy Development Fund: £3,050
5. To re-appoint Bronsens as Auditors of the Society
6. Election of Directors: Declaration of the result
7. Election of Scrutineers
8. To consider any Notices of Motion submitted by Members
9. Any other Business

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Society Information

for the Year Ended 31 August 2002

DIRECTORS: Simon Blackley (Chairperson)
Martin Alder
Justin Andersen
Jenny Smith
Martin Stott
Pete Turnbull

**CHIEF EXECUTIVE OFFICER
AND SECRETARY:** Vivian Woodell

**FINANCE AND
ADMINISTRATION MANAGER:** Maz Chaudhry

**SALES AND CUSTOMER
SERVICES MANAGER:** Thomas Dege

REGISTERED OFFICE: 5 The Millhouse
Elmsfield Business Centre
Worcester Road
Chipping Norton
Oxfordshire
OX7 5XL

REGISTERED NUMBER: 28965R

AUDITORS: Bronsens
Chartered Accountants
Registered Auditors
Hillside, Albion Street
Chipping Norton
Oxfordshire
OX7 5BH

Incorporated under the Industrial and Provident Societies Acts

Directors' Report

for the year ended 31 August 2002

Overview

The Board of Directors is delighted to report another year of continuing growth and successful co-operative trading. Turnover has increased by just under £1 million to £2.35 million compared with the previous trading year, an increase of 68%.

During the year, the Board took the decision to bring forward certain expenditure, including the appointment of several new members of staff, to ensure that The Phone Co-op remains well placed to handle its continuing rapid growth. Partly as a result of this, our key profitability measure, Profit before Distributions, fell to £41,842.

In the light of this, the Board has resolved to recommend a reduction in the rate of dividend to members to 0.5% of VAT-exclusive eligible purchases. However, the definition of eligible purchases has been extended to include all sales to members (last year only sales of telecommunications services were included). In accordance with current policy, the Board is also recommending an allocation of an amount equal to the dividend (£3,050) to the Co-operative and Social Economy Development Fund. The Board's policy is to use the Fund to provide loans to help co-operatives to get started and to develop and expand. This reflects the commitment of The Phone Co-op to wider change through the development of the Co-operative Movement nationally.

Despite the fact that profitability is lower than last year, the Board considers that this is a strong result, which has been achieved at a time of continuing crisis in the telecommunications sector. The year has seen a number of notable business failures including our principal supplier, Atlantic Telecommunications. The result reflects the very great efforts made by The Phone Co-op's employees, and the continuing commitment to well-managed growth on the part of the Board of Directors. The Society has also benefited from the strong loyalty of our members and customers, without which this success could not have been achieved.

Review of the Year

Retail prices in the telecoms industry have continued to fall slightly, and it is against this background that we have increased sales and customer numbers substantially. Growth was assisted by the transfer to The Phone Co-op in October 2001 of part of the customer base of Atlantic Telecommunications, (at the time our largest supplier), and we also experienced the full-year effect of the acquisition of the telecommunications resale business of First Call Direct Limited in February 2001. However, organic growth remained the most significant factor behind the sales increase. In particular, we have developed and expanded our affinity scheme programme. Growth has also resulted from sales through agents, as well as from direct sales.

As an indicator of growth, and of the level of price deflation, sales of switched outbound minutes in the month of August 2002 were 4.9 million against 3.0 million in August 2001, an increase of 63.1%. The value of these sales was £187,686 compared with £118,563 in August 2001, an increase of 58.3%.

During the year, we saw the introduction of a new method of providing access to our service. Known as Carrier Pre-Selection (CPS), it enables customers to switch to The Phone Co-op without the need to dial an access code or to install a "dialler". As a result, capital expenditure in the year on diallers and routing equipment was significantly lower than last year. However, we do face new costs, in the form of a set-up charge for each line which is switched to our service using CPS. It has been our practice in the past to capitalise the diallers and routing equipment, and to write the cost down over a period of 3 years. However, the new CPS set-up charges have been fully expensed in this year's accounts. This shift has depressed profitability somewhat, since we have been bearing the cost of depreciation on diallers installed over the last 3 years as well as the expense of set-up charges on new lines. Furthermore, in the light of the advent of CPS, the Board has reviewed the depreciation policy in relation to the installed base of diallers and routing equipment, and has taken the view that it would be prudent to write off the remaining value of this equipment in our accounts. This has resulted in a one-off charge of just over £20,000.

The year also saw the introduction of two important new services, Cost-Code Billing, and a low-cost internet dial-up access service called "Pay Less As You Go". By the year-end, both were attracting new customers and improving margin, and they are expected to make a noticeable contribution to both in the year ahead. The Phone Co-op is one of only a small number of operators in the UK who can provide either of these services, giving us an additional advantage in the marketplace.

In earlier years, the Board and management took the view that the value of holiday pay due to employees at the year-end was not material, and that no provision should be made for it in the accounts. This year has seen a large increase in the number of employees, and it was decided to review the position relating to the holiday pay liability. A liability of just over £4,600 has been included in the balance sheet to cover this, with a charge of the same amount appearing in this year's revenue account.

Unfortunately, bad debt has increased significantly during the year from a low level last year. The Phone Co-op's internal procedures have been thoroughly reviewed and substantially strengthened in the light of this experience.

During the year, our principal supplier, Atlantic Telecommunications, went into administrative receivership. A few weeks later, their indirect access business, including wholesale supply to The Phone Co-op, was transferred to a stronger operator, Opal Telecom. This ended a period of uncertainty, which had been created by our supplier's financial difficulties. Prior to going into administration, Atlantic attempted to restructure its customer base by reducing the number of customers. As part of this restructuring activity, Atlantic agreed to transfer a significant number of customers to The Phone Co-op in October 2001, and we were pleased to welcome these customers to The Phone Co-op. During the wind-down of Atlantic Telecommunications by the receivers, several outstanding issues relating to overcharges on wholesale bills issued in earlier trading periods were finally resolved, and this resulted in significant credits being issued to The Phone Co-op. It is the Phone Co-op's general policy to account for such credits only when they are received, so the resolution of these issues had a positive impact on profitability in the year.

The Board has continued to review the options in relation to its joint venture company, EcoBilling. As part of this process, it was decided that our billing supplier

would make supplies through EcoBilling, and this resulted in EcoBilling starting to trade during the year.

Membership

Membership more than doubled, from 1,039 at the beginning of the year to 2,139 at the end of the year. Members' share capital grew from £107,950 to £188,366. It is the Board's policy to encourage customers to become members and a number of membership promotions took place. During the year, [30.35%] of eligible sales were purchased by members, slightly down on the proportion achieved in the previous year. However, The Phone Co-op's acquisition of part of the customer base of Atlantic Telecommunications, and the full-year effect of the acquisition in the previous year of the First Call Direct business, almost certainly had the effect of diluting the percentage of trade with members. The Board recognises the fundamental importance of membership in a co-operative, and hopes to see a greater proportion of customers becoming members in the coming year.

Employees

The Board would like to place on record its appreciation of the efforts made by the Society's employees during the year. Without their hard work, often involving long hours, the achievements of the year would not have been possible.

The number of permanent employees increased from eight to 13 during the year. We welcomed Lisa Catling and Pamela Jefferies to the Customer Services team, and Mazhar Chaudhry, Alice Bremmers and Joan Luney to the Finance and Administration Department, where Leonie Cran also worked for part of the year. In Sales, we welcomed Kayte Lovell, Francis Vines and Yvette Williams. Nicola Russ joined as Personal Assistant to the Chief Executive. Estelle Brain, who has been with us since The Phone Co-op was started, retired during the year, and we would like to thank her for her work, and wish her well in her retirement. The other staff employed during the year were Vivian Woodell, Thomas Dege, Amanda Beard, Sally Murrey, Kevin Kewin, Alison Oldfield, Charles Jennings, and Debbie Probetts. In addition, we were assisted by a number of short-term staff. We should like to thank everyone who has worked with us during the year for their contribution to The Phone Co-op's success.

The Board of Directors

At the AGM in January 2002, Jill Duncan and Martin Meteyard did not offer themselves for re-election. The Board would like to thank both of them for their work as Directors and for their support for The Phone Co-op over the years. Following a rule change, the number of places on the Board of Directors was reduced by one, to seven. The term of office was increased to two years, with elections being held for either three or four seats each year. Martin Alder, Justin Andersen, Simon Blackley, Jenny Smith, Martin Stott and Pete Turnbull offered themselves for re-election. No ballot was therefore required to determine who would be elected. As this was the first year of the new system, it was necessary to decide which candidates were to be elected for two years and which ones would serve for one year. To avoid the need for the expense of an election simply to determine the length of terms of office, the candidates agreed amongst themselves that Justin Andersen, Simon Blackley, Martin Stott and Pete Turnbull would serve for two years, with Martin Alder and Jenny Smith serving for one year.

The Directors during the year under review were:

Martin Alder
Justin Andersen
Simon Blackley
Jill Duncan - until 19 January 2002
Martin Meteyard - until 19 January 2002
Jenny Smith
Martin Stott
Peter Turnbull

National and International Links

The Phone Co-op attaches great importance to participation in the national and international co-operative movement. The Phone Co-op is a member of the Co-operative Union and an international member of the US-based National Telephone Co-operative Association.

During the year, the Co-operative Union and ICOM completed their merger. Prior to the merger, The Phone Co-op had been a member of both organisations. The merger was welcomed and fully supported by the Board, as we believe it will result in a stronger and more effective voice for the co-operative movement at national level, and The Phone Co-op remains a member of the merged Co-operative Union.

We were delighted to welcome Carine Corcelle, a university placement student from Lille, France, who worked with us between February and July 2002. As part of her work, she carried out a customer survey, which has provided extremely useful information to the Board and Management, and we would like to thank her for her work.

Outlook

During August 2002, The Phone Co-op was successful in being appointed by a major national organisation to operate an affinity scheme which is expected to result in very substantial numbers of new customers joining during the financial year 2002-2003. The high up-front costs associated with this growth mean that the Board has approved a budget showing a reduced profit for the year 2002-2003, compared with the year under review. In the following financial years, we project a return to a significantly higher level of profitability.

In the light of this and other new affinity schemes, as well as a strong pattern of continuing organic growth, the Board remains confident about The Phone Co-op's prospects, despite the continuing uncertain economic climate and highly competitive environment.

At the year-end, plans were well advanced to introduce an unmetered internet service to complement the low-cost dial-up service which was launched a few months earlier. This is expected to add further volume growth to sales during the coming year.

Considerable consolidation is currently taking place within the telecommunications industry, and occasionally opportunities for acquisitions become known to the Board

and management. It is the Board's policy to make such acquisitions, where it is considered that they will strengthen The Phone Co-op's business, and we shall continue to seek out such opportunities in the coming year.

The Phone Co-op's continuing rapid growth means that we need to plan ahead to ensure we have adequate premises to meet our needs. The Board has considered various options, and has concluded that the best option is for The Phone Co-op to acquire its own office building. A review of funding options has also taken place, and the Board has concluded that members' share capital is the most advantageous funding source, providing a good deal for the Society and for its members. During the financial year 2002-2003, the Board intends to invite members to consider increasing their share capital to finance the new building. It is the Board's intention to ensure that the new building reflects The Phone Co-op's policy of care for the environment, to the extent that this can practicably be achieved within the available resources.

Statement Of Directors' Responsibilities

Industrial and Provident Society law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Society and of the profit or loss of the Society for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Society will continue in business.

The Directors are responsible for ensuring the keeping of proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and which enable them to ensure that the financial statements comply with the Industrial and Provident Societies Acts. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

Principal Activity

The principal activity of the Society during the year under review was the provision of telecommunications services and equipment, on a co-operative basis, to members and customers.

Auditors

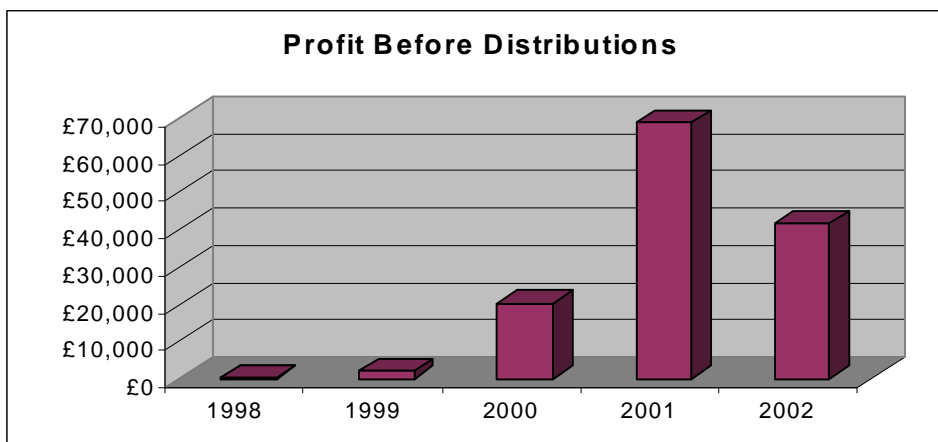
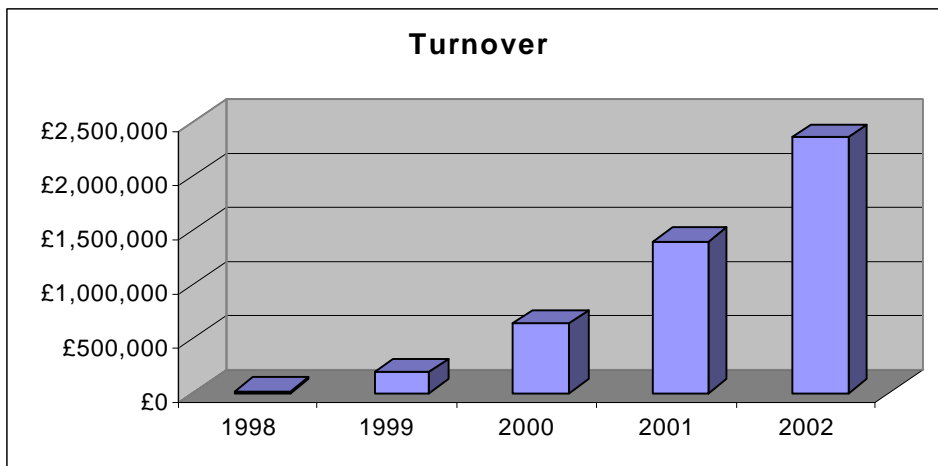
The auditors, Bronsens, will be proposed for re-appointment at the Annual General Meeting.

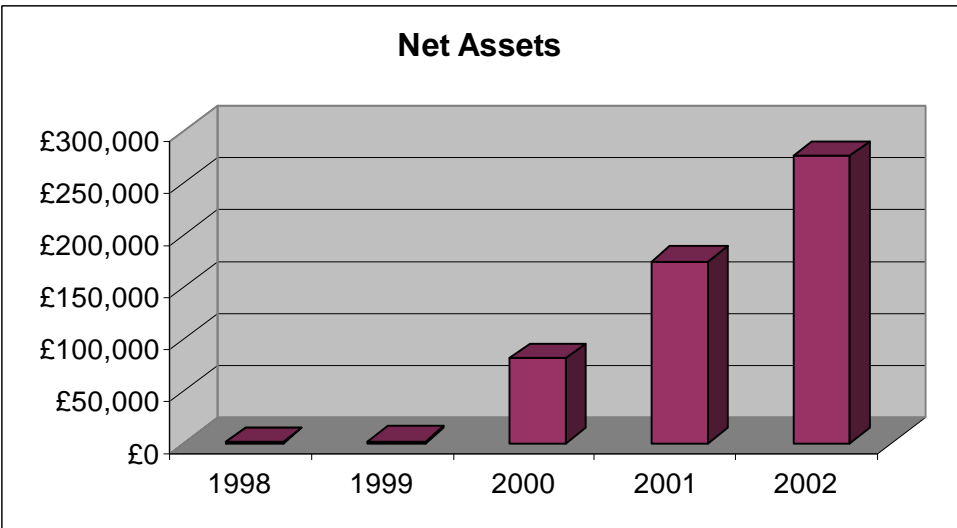
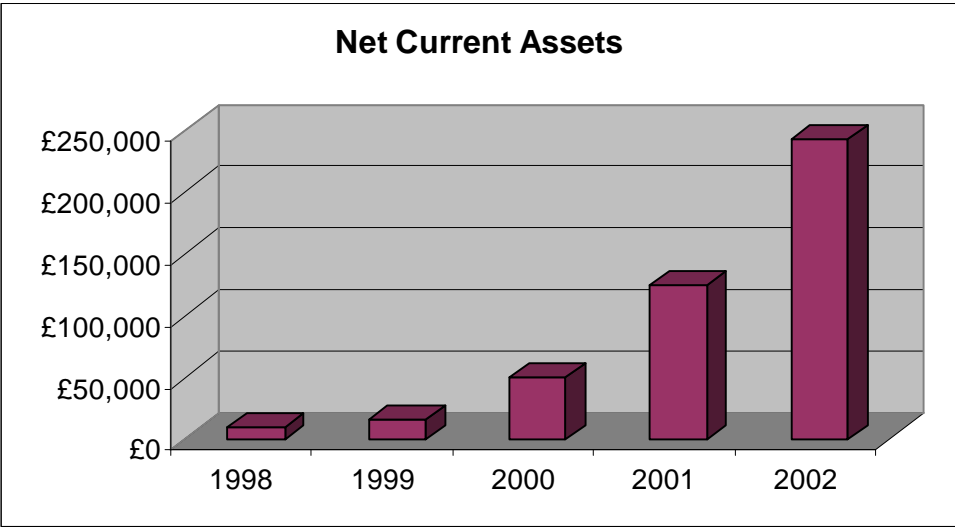
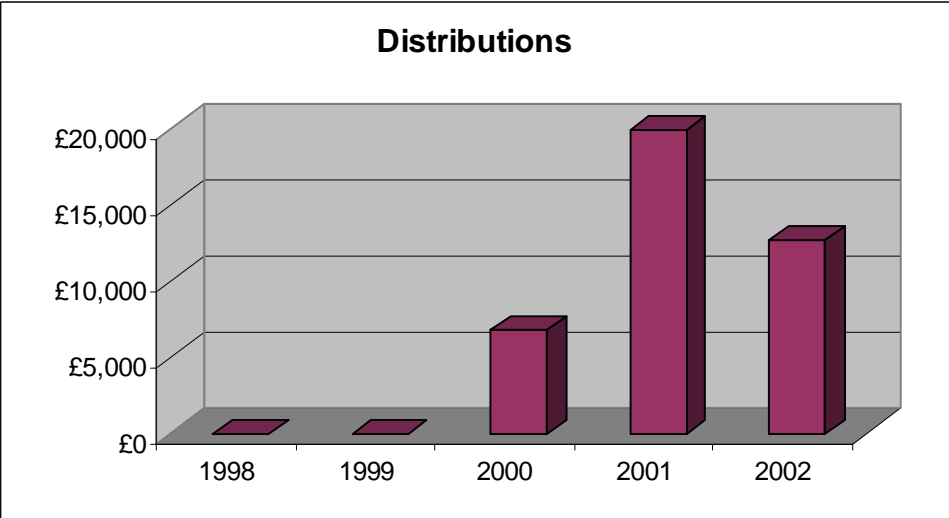
On behalf of the Board of Directors

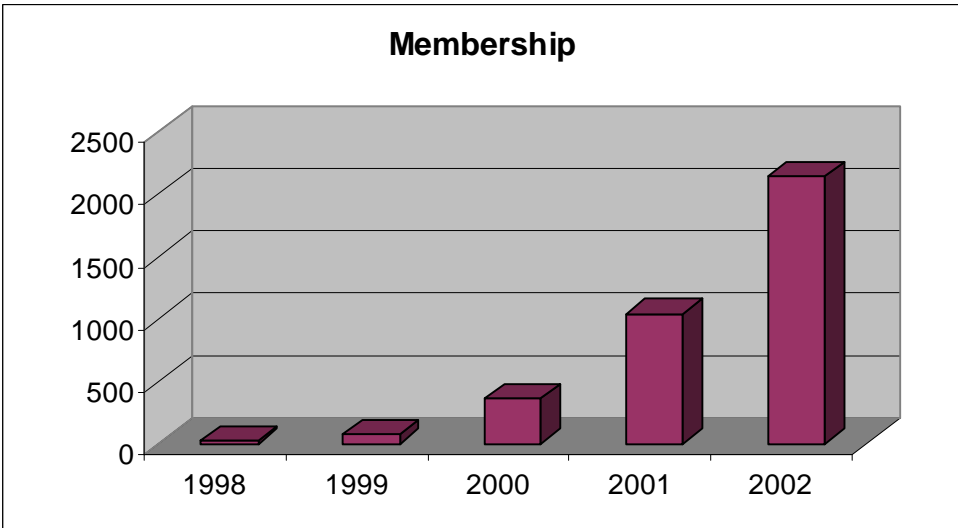
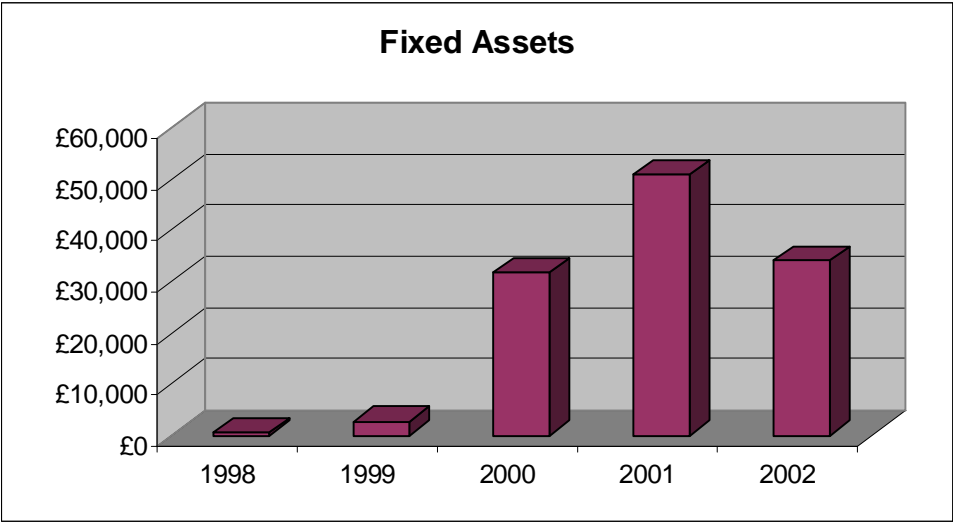
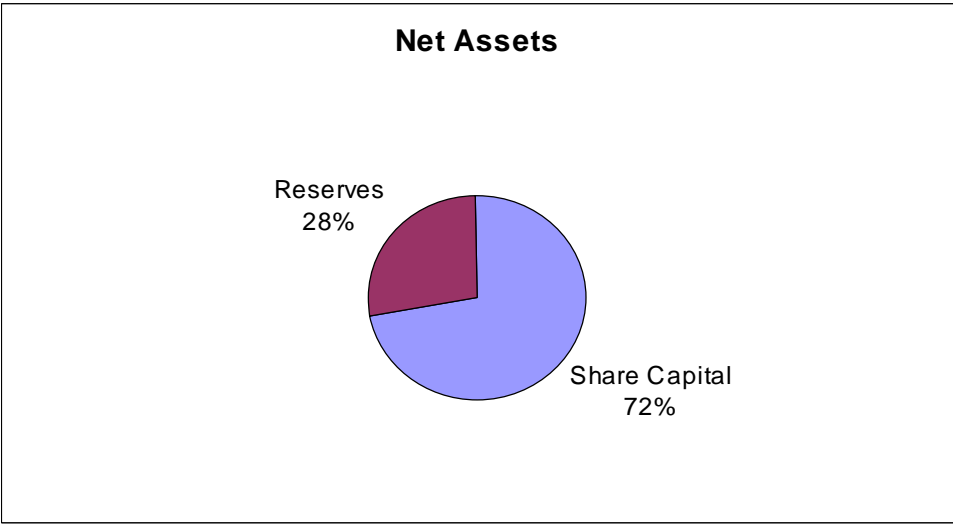
Simon Blackley, Chairperson
Vivian Woodell, Chief Executive

4 Years of Growth

	Period ended 31 August			
	1999	2000	2001	2002
Membership	71	362	1039	2081
Revenue Account				
Turnover	£194,511	£640,170	£1,401,311	£2,355,790
Depreciation	£1,501	£6,295	£21,063	£53,447
Operating Profit	£4,095	£22,402	£62,713	£32,393
Profit Before Distributions	£2,009	£20,257	£68,682	£41,842
Distributions	£0	£6,762	£19,844	£12,675
Transfer to Reserves	£1,605	£13,097	£41,730	£18,796
Balance Sheet				
Fixed Assets	£2,710	£31,765	£50,834	£34,130
Current Assets	£74,782	£305,608	£687,425	£594,406
Net Current Assets	£15,490	£50,342	£124,326	£242,601
Loans: ICOF and Members	£26,420	£0	£0	£0
Net Assets	£1,780	£82,107	£175,160	£276,731
Share Capital	£0	£64,700	£107,950	£188,366
Reserves	£1,780	£14,877	£56,607	£74,712







REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF
THE PHONE CO-OP LIMITED

We have audited the financial statements of The Phone Co-op Limited for the year ended 31 August 2002 on pages 14 to 22. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described on page 9 the Society's directors are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards, and to form an independent opinion, based on our audit, on those statements. We are also required to form an opinion on whether the Society has maintained a satisfactory system of control over its transactions.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Industrial and Provident Societies Acts 1965, and the Friendly and Industrial and Provident Societies Act 1968. We also report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements, if the Society has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, if the Society has not maintained a satisfactory system of control over its transactions, or if information specified by law regarding directors' remuneration and transactions with the Society is not disclosed.

We read the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Society's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Society's affairs as at 31 August 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Industrial and Provident Societies Act 1965, the Friendly and Industrial and Provident Societies Act 1968.

Bronsens
Chartered Accountants
Registered Auditors
Hillside, Albion Street
Chipping Norton, Oxfordshire
OX7 5BH

29 November 2002

Revenue Account

for the Year Ended 31 August 2002

		31.8.02	31.8.01
	Notes	£	£
TURNOVER		2,355,790	1,401,311
Less VAT and other sales-related taxes		<u>(346,530)</u>	<u>(207,161)</u>
NET SALES		2,009,260	1,194,150
Cost of sales		<u>1,406,737</u>	<u>807,983</u>
GROSS PROFIT		602,523	386,167
Administrative expenses		<u>570,130</u>	<u>323,454</u>
OPERATING PROFIT	3	32,393	62,713
Interest receivable and similar income		<u>9,449</u>	<u>7,979</u>
		41,842	70,692
Amounts written off investments	4	<u>-</u>	<u>1,056</u>
		41,842	69,636
Interest payable and similar charges		<u>-</u>	<u>954</u>
PROFIT BEFORE DISTRIBUTIONS		41,842	68,682
Share interest		6,575	3,698
Members' dividend		3,050	8,073
Social Economy Development Fund		<u>3,050</u>	<u>8,073</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		29,167	48,838
Tax on profit on ordinary activities	5	<u>11,062</u>	<u>7,108</u>
PROFIT FOR THE FINANCIAL YEAR AFTER TAXATION		18,105	41,730
Retained profit brought forward		<u>56,607</u>	<u>14,877</u>
RETAINED PROFIT CARRIED FORWARD		<u><u>£74,712</u></u>	<u><u>£56,607</u></u>

The notes on pages 15 to 21 form part of these financial statements.

Balance Sheet

As at 31 August 2002

		31.8.02		31.8.01	
	Notes	£	£	£	£
FIXED ASSETS:					
Tangible assets	6		34,130		50,834
Investments	7		<u>-</u>		<u>-</u>
			34,130		50,834
CURRENT ASSETS:					
Stock		153		-	
Debtors	8	459,916		315,958	
Investments	9	10,603		250	
Cash at bank	10	<u>123,734</u>		<u>371,217</u>	
		594,406		687,425	
CREDITORS: Amounts falling due within one year	11	<u>351,805</u>		<u>563,099</u>	
NET CURRENT ASSETS:			<u>242,601</u>		<u>124,326</u>
TOTAL ASSETS LESS CURRENT LIABILITIES:			<u>£276,731</u>		<u>£175,160</u>
CAPITAL AND RESERVES:					
Members' share capital	12		188,366		107,950
Co-operative and Social Economy Development Fund	13		13,653		10,603
Profit and loss account			<u>74,712</u>		<u>56,607</u>
			<u>£276,731</u>		<u>£175,160</u>

Board Certification

The financial statements on pages 14 to 22 are hereby signed on behalf of the Board pursuant to Section 3 (5) (c) of the Friendly and Industrial and Provident Societies Acts 1968.

Simon Blackley, Chairperson

Pete Turnbull, Director

Vivian Woodell, Chief Executive and Secretary

29 November 2002

The notes on pages 16 to 22 form part of these financial statements.

Notes to the Financial Statements

for the Year Ended 31 August 2002

1. ACCOUNTING POLICIES

Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Turnover

Turnover represents net invoiced sales of goods, including value added tax.

Tangible fixed assets

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Diallers, routers & programming	- 33% on cost
Fixtures and fittings	- at varying rates on cost
Computer equipment	- at varying rates on cost

Due to the introduction of carrier pre-selection, the diallers have to a degree become redundant. This has resulted in a revision of the estimated useful life of the diallers by the directors, which in turn has resulted in an additional depreciation charge in the year.

Deferred taxation

Provision is made at current rates for taxation deferred in respect of all material timing differences except to the extent that, in the opinion of the directors, there is reasonable probability that the liability will not arise in the foreseeable future.

Pensions

The Society operates a defined contribution pension scheme. Contributions payable for the year are charged in the profit and loss account.

2. STAFF COSTS

	31.8.02	31.8.01
	£	£
Wages and salaries	193,727	125,293
Social security costs	15,623	11,704
Other pension costs	<u>18,195</u>	<u>15,215</u>
	<u>227,545</u>	<u>152,212</u>

The number of members of the management team whose remuneration, excluding pension contributions, fell in each £5,000 bracket (*part year only) was as follows:

	31.8.02	31.8.01
Salary range	Number	Number
£0 - £5,000	-	1*
£5001 - £10,000	-	-
£10001 - £15,000	1+1*	-
£15001 - £20,000	-	1*
£20,001 - £25,000	1	-
£25,001 - £30,000	1	1
£30,001 - £35,000	1	1

Notes to the Financial Statements

for the Year Ended 31 August 2002

The remuneration of the Chief Executive (who is also the highest paid employee) included above was as follows:

Salary	£32,663
Performance related:	£ 2,137
Sub Total	£34,800
Pension contributions:	£ 7,104
 Total	 £41,904

The average monthly number of employees during the year was as follows:

	31.8.02	31.8.01
Directors (executive)	-	-
Full-time staff	7	4
Part-time staff	<u>9</u>	<u>6</u>
	<u>16</u>	<u>10</u>

3. OPERATING PROFIT

The operating profit is stated after charging:

	31.8.02	31.8.01
	£	£
Depreciation - owned assets	53,447	21,008
Loss on disposal of fixed assets	-	1,296
Fees paid to auditors:		
Audit	5,000	2,400
Other	<u>1,500</u>	<u>1,500</u>
 Directors' emoluments and other benefits etc	 <u>-</u>	 <u>13,820</u>

4. AMOUNTS WRITTEN OFF INVESTMENTS

	31.8.02	31.8.01
	£	£
Amounts written off investments	<u>-</u>	<u>1,056</u>

5. TAXATION

The tax charge on the profit on ordinary activities for the year was as follows:

	31.8.02	31.8.01
	£	£
UK corporation tax	<u>11,062</u>	<u>7,108</u>

Notes to the Financial Statements

for the Year Ended 31 August 2002

6. TANGIBLE FIXED ASSETS

	Diallers, routers & programming	Fixtures and fittings	Computer equipment	Totals
	£	£	£	£
COST:				
At 1 September 2001	46,878	14,420	18,581	79,879
Additions	8,508	21,708	6,527	36,743
Disposals	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 August 2002	<u>55,386</u>	<u>36,128</u>	<u>25,108</u>	<u>116,622</u>
DEPRECIATION:				
At 1 September 2001	17,798	2,665	8,582	29,045
Charge for year	37,586	9,085	6,776	53,447
Eliminated on disposals	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 August 2002	<u>55,384</u>	<u>11,750</u>	<u>15,358</u>	<u>82,492</u>
NET BOOK VALUE:				
At 31 August 2002	<u>2</u>	<u>24,378</u>	<u>9,750</u>	<u>34,130</u>
At 31 August 2001	<u>29,080</u>	<u>11,755</u>	<u>9,999</u>	<u>50,834</u>

7. FIXED ASSET INVESTMENTS

	£
COST:	
At 1 September 2001	<u>1,056</u>
At 31 August 2002	<u>1,056</u>
PROVISIONS:	
At 1 September 2001	<u>1,056</u>
At 31 August 2002	<u>1,056</u>
NET BOOK VALUE:	
At 31 August 2002	<u>-</u>
At 31 August 2001	<u>-</u>

8. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31.8.02	31.8.01
	£	£
Trade debtors	442,174	309,406
Prepayments	2,335	-
Other debtors	<u>15,407</u>	<u>6,552</u>
	<u>459,916</u>	<u>315,958</u>

Notes to the Financial Statements

for the Year Ended 31 August 2002

9.	CURRENT ASSET INVESTMENTS	31.8.02	31.8.01
		£	£
	Investments in Other Industrial and Provident Societies:		
	Shares, ICOF Community Capital Ltd.	<u>10,603</u>	<u>250</u>
10.	CASH AT BANK		
	Cash and bank balance include the following share account balance held with another Industrial and Provident Society:	31.8.02	31.8.01
		£	£
	Oxford Swindon and Gloucester Co-operative Society Limited Community Membership Account	89,489	183,322
	Cash and bank balances also include a sum of £nil invested on behalf of the Society by ICOF Group on the money market as at 31 August 2002 (2001: £105,144).		
11.	CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	31.8.02	31.8.01
		£	£
	Trade creditors	273,477	518,645
	Other creditors	6,575	3,655
	Members dividends	3,050	8,073
	V.A.T.	18,723	17,188
	Social security & other taxes	10,459	3,834
	Taxation	11,062	7,109
	Accrued expenses	<u>28,459</u>	<u>4,595</u>
		<u>351,805</u>	<u>563,099</u>

Notes to the Financial Statements

for the Year Ended 31 August 2002

12. MEMBERS' SHARE CAPITAL

	31.8.02	31.8.01
	£	£
As at 1 September 2001	107,950	64,700
Contributions in the year	122,703	46,570
Withdrawals in the year	<u>(42,287)</u>	<u>(3,320)</u>
As at 31 August 2002	<u>188,366</u>	<u>107,950</u>

- (i) Share capital is comprised entirely of non-equity shares of £1 each (as defined in Financial Reporting Standard 4).
- (ii) At the year-end, Shares attracted interest of 4% per annum, payable annually after the financial year-end.
- (iii) Shares are withdrawable on notice of 1 week. The rules give the Board the power to suspend withdrawals.
- (iv) Each member is entitled to one vote irrespective of the number of shares held.
- (v) In the event of a solvent winding-up of the Society, the rules state that a surplus remaining after all liabilities, including paid up share capital, have been settled, would not be distributed to members of the Society, but that they would be transferred to some other non-profit, Co-operative or charitable body or bodies subject to at least the same degree of restriction on the distribution of surpluses and assets as is imposed on this co-operative. Any assets not so transferred would be paid to the Co-operative Union Limited or its successor organisation.
- (vi) Dividends payable to members are related to eligible purchases from the Society.
- (vii) The position that a shareholder of this Society occupies is no different from that of a shareholder in any other corporate body in the sense that, if the Society fails, not all or any of their investment may be returned to them. Investments are withdrawable without penalty. The Society, unlike banks and building societies, is not subject to prudential supervision by the Financial Services Authority.

13. SOCIAL ECONOMY DEVELOPMENT FUND

	31.8.02	31.8.01
	£	£
Brought forward	10,603	2,530
Transferred in the year	<u>3,050</u>	<u>8,073</u>
	<u>13,653</u>	<u>10,603</u>

14. OPERATING LEASE COMMITMENTS

The following payments are committed to be paid within one year:

	Land & Buildings	Land & Buildings
	31.8.02	31.8.01
	£	£
Expiring:		
In less than five years	<u>15,555</u>	<u>8,420</u>

Notes to the Financial Statements

for the Year Ended 31 August 2002

15. PROVISION FOR LIABILITIES AND CHARGES

The amount for which no provision has been made in respect of deferred tax, is as follows:

	31.8.02	31.8.01
	£	£
Accelerated capital allowances	<u>1,276</u>	<u>3,953</u>

16. PENSION COMMITMENTS

The Society operates a defined contribution pension scheme. The contributions charged to the profit and loss account during the year amounted to £18,195 (2001 £15,215). There were no commitments at the balance sheet date.

17. RELATED PARTIES

Good corporate governance requires that material transactions involving related parties as defined by Financial Reporting Standard 8 should be disclosed to members. The following were considered to fall into this category during the year. All amounts shown are excluding VAT.

Contracts with related parties

Throughout the year, The Phone Co-op had a contract for the supply of telecommunications services to Oxford Swindon and Gloucester Co-operative Society Ltd., of which Vivian Woodell (The Phone Co-op's Chief Executive) was President, and Martin Alder (one of the Phone Co-op's Directors) was a Director. The value of services provided under this contract during the year was £79,399 (last year: £86,225). During the year, The Phone Co-op also supplied telecommunications equipment and related services to Oxford, Swindon and Gloucester Co-operative Society to the value of £nil. (last year: £9,513). Martin Alder was nominated for election to the Board of The Phone Co-op by Oxford, Swindon and Gloucester Co-operative Society Ltd.

During the year, Peter Turnbull, a Director, was contracted to carry out work for The Phone Co-op, including credit control, and various 'one-off' projects. During the year he received £8,828 for this work (last year: £5,937).

Peter Turnbull, a Director, was also an Agent for The Phone Co-op during the year, and received income of £4,408 from commissions on sales generated under his agency (last year: £3,172).

During the year, Claire Jarvis, the partner of Vivian Woodell, Chief Executive, had a contract for carrying out public and media relations for The Phone Co-op. The value of this contract was £3,518 (last year: £1,144). The Society provided office services to Claire Jarvis to the value of £1,410 (last year : £nil).

Justin Andersen, a Director, provided recruitment and training services to the Society during the year to the value of £1675 (last year: nil)

During the year, payments totalling £6,000 were made to Co-operative Policy and Development Limited for work carried out by Vivian Woodell prior to The Phone Co-op commencing trading as a reseller in June 1998. Between 1996 and June 1998, Vivian Woodell carried out a significant amount of work to build up the organisation (then known as SETCO) and the Board agreed that, should The Phone Co-op be in a position to pay for this, it would do so. It was also agreed that such payments would be made to Co-operative Policy and Development Limited, the workers' co-operative in which Vivian Woodell worked prior to commencing full time work with The Phone Co-op. A charge of £10,000 was taken in the accounts for the year to 31 August 2000 to cover this liability. During the year 2000-01, the Board agreed that payments could commence, and a total payment of £4,000 was paid during that year. The £6,000 paid in the year under review reduced the outstanding liability to nil at the year end. Vivian Woodell is a Director of Co-operative Policy and Development Limited.

Notes to the Financial Statements

for the Year Ended 31 August 2002

Joint Venture

In August 2000, a joint venture (EcoBilling Limited) was established with Sum International Holdings Limited. An agreement (the Joint Venture Agreement) was signed containing the terms of the venture. Sum International Holdings Limited holds 55% of the shares in the joint venture and The Phone Co-op holds 45%. It is planned that EcoBilling Limited will operate a billing and wholesale telecoms business and that The Phone Co-op will be a customer of EcoBilling. Under the terms of the Joint Venture Agreement The Phone Co-op received a management fee from EcoBilling, and during the year this amounted to £ nil (last year: £31,293). During the year the Society paid Ecobilling £21,543 (last year: nil) for the provision of call rating services.

Simon Blackley and Vivian Woodell were appointed by the Board of The Phone Co-op under the terms of the Joint Venture Agreement as Directors of EcoBilling Limited.

Treasury/Financial

The Phone Co-op deposited funds during the course of the year in a Community Membership Account, (a type of share account), operated by Oxford, Swindon and Gloucester Co-operative Society Limited, of which Vivian Woodell (The Phone Co-op's Chief Executive) was President, and of which Martin Alder (one of the Phone Co-op's Directors) was a Director. The value of the funds held in the account at the year-end was £89,489 (2001: £183,321) The value of interest received was £7,528 (2001: £1,866).

The above transactions were carried out at arm's length.

Trading and Profit and Loss Account

for the Year Ended 31 August 2002

	31.8.02		31.8.01	
	£	£	£	£
Income:				
Sales - telecommunication services	1,912,876		1,062,817	
Sales - phone systems	86,443		86,376	
Commissions received	789		6,132	
Other income	<u>9,152</u>		<u>38,825</u>	
		2,009,260		1,194,150
 Cost of sales:				
Carrier charges	1,322,880		725,400	
Phone systems	83,352		81,768	
Miscellaneous	<u>505</u>		<u>815</u>	
		<u>1,406,737</u>		<u>807,983</u>
 GROSS PROFIT		602,523		386,167
 Other income:				
Deposit account interest		<u>9449</u>		<u>7,979</u>
		611,972		394,146
 Expenditure:				
Directors' remuneration	-		13,820	
Social security	-		1,686	
Pension contributions	-		3,838	
Salaries and other personnel costs	193,727		111,473	
Social security	15,623		10,018	
Pensions	18,195		11,377	
Staff recruitment & training	7,715		5,869	
Telephone	11,072		7,266	
Print, Post & stationery	30,259		15,248	
Travelling & subsistence	3,538		2,907	
Repairs, renewals	7,424		3,142	
Engineering & provisioning costs	15,485		940	
Billing costs	27,430		16,127	
Sundry expenses	4,345		1,878	
Auditors' remuneration	5,000		2,400	
Board expenses	1,364		1,724	
AGM expenses	805		685	
Accountancy	1,547		1,500	
Consultancy fees	7,524		10,850	
Legal & professional fees	834		2,051	
Credit control	11,339		-	
Commission paid	67,171		58,676	
PR & Promotional costs	10,805		4,379	
Bad debts	56,029		3,998	
Rent & services	10,458		4,690	
Rates & water	2,486		2,548	
Subscriptions and Donations	488		-	
Insurance	199		634	
Light & heat	<u>1,486</u>		<u>1,134</u>	
		<u>512,348</u>		<u>300,858</u>
 Carried forward		99,624		93,288

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Trading and Profit and Loss Account

for the Year Ended 31 August 2002

	31.8.02		31.8.01	
	£	£	£	£
Brought forward		99,624		93,288
Finance costs:				
Equipment leasing	-		954	
Bank charges	3,947		126	
Credit card	<u>388</u>		<u>111</u>	
		<u>4,335</u>		<u>1,191</u>
		95,289		92,097
Depreciation:				
Diallers, routers & programming	37,586		12,121	
Fixtures & fittings	9,085		2,086	
Computer equipment	<u>6,776</u>		<u>6,856</u>	
		<u>53,447</u>		<u>21,063</u>
		41,842		71,034
Loss on disposal of fixed assets:				
Fixtures & fittings		<u>-</u>		<u>1,296</u>
		41,842		69,738
Amount written off investments:				
Amounts written off investments	<u>-</u>		<u>1,056</u>	
		<u>-</u>		<u>1,056</u>
NET PROFIT		<u><u>£41,842</u></u>		<u><u>£68,682</u></u>

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