

The Phone Co-op Limited

Annual Report and Financial Statements

for the year ended 31 August 2003

The Phone Co-op Limited

Notice of Annual General Meeting

The Annual General Meeting will be held at 2.00 p.m. on Saturday 17 January 2004 at The Town Hall, Chipping Norton, Oxfordshire.

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

AGENDA

1. Apologies
2. Introductions
3. To receive the Directors' report and accounts for the year ended 31 August 2003
4. To approve the following appropriations, including dividend distributions recommended by the Board of Directors:
 - Share Interest: £10,478
 - Dividend: £18,232
 - Allocation to the Co-operative and Social Economy Development Fund: £18,232
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

Members may take part in the AGM by telephone conference. To register for telephone participation, please contact the Secretary.

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Society Information

for the year ended 31 August 2003

DIRECTORS: Simon Blackley (Chairperson)
Martin Alder
Justin Andersen
Herbert Daybell
Martin Stott
Pete Turnbull
Lloyd Wilkinson

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

**FINANCE AND
ADMINISTRATION MANAGER:** Maz Chaudhry

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

HEAD OF INTERNET SERVICES: Shaun Fensom

OPERATIONS MANAGER: Chris Hogan

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 2003

Overview

We are very pleased to report on what is almost certainly The Phone Co-op's most exciting and successful year to date. Turnover increased by just over £1 million to £3.42 million, an increase of 45% compared with the previous trading year. At the same time we completed an important acquisition, consolidating our position as a provider of internet services.

Operating profit increased almost fourfold to £124,060 and profit before distributions increased more than threefold to £132,077. These figures were achieved with the help of improved gross profit (which grew by 48%) and by controlling costs so that they grew more slowly than gross profit (expenses grew by 34% compared with last year). In the previous financial year, all the remaining diallers and routing equipment were written off against profit. This has resulted in a reduced depreciation charge this year. Levels of bad debt were significantly lower, showing a 69% reduction on the previous year, despite the increase in the volume of trade. This reflects the strong measures which have been taken to control fraud and other non-payment. These include building an awareness throughout the organisation of the importance of controlling such risks, and the appointment of a full-time credit controller in January 2003. Whilst no level of bad debt can be considered acceptable, this year's bad debt provision of 0.5% of turnover is certainly very low by the standards of our industry.

In the light of this, the Board has resolved to recommend an increase in the rate of dividend to members to 2% of VAT-exclusive eligible purchases. In accordance with current policy, the Board is also recommending an allocation of an amount equal to the dividend (£18,232) 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 or 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.

One of the most significant events which took place in the year was the acquisition of the retail arm of Poptel. This business, with around 1,000 customers and five staff based in Manchester, transferred to The Phone Co-op in July 2003. This is a most important development for The Phone Co-op, as it enables us to offer customers and members a full range of internet services, including broadband and dial-up internet access, web hosting and domain name registration. Poptel is a former worker co-operative, control of which had passed to an external investor in September 2002. It has a long tradition of providing services to social economy and other values-based organisations, and the customers who have transferred to The Phone Co-op therefore fit well with our existing customer base. The members of the internet team bring with them a wealth of expertise, enabling us to move forward rapidly in the development of this area of the business. The move followed the introduction earlier in the year of an unmetered dial-up service, which has now been integrated into the new internet business.

This year's extremely strong 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 whom this success could not have been achieved.

Review of the year

Price deflation has remained a factor in the industry, although in terms of the average retail call cost per minute, the gradual increase in the proportion of calls to mobile phones within the overall mix has largely offset the effect of lower charges for specific call types.

The year's trading benefited from the full-year effect of the transfer of customers from Atlantic Telecommunications to The Phone Co-op in October 2001, as well as from two months of trading within the new internet division, which was transferred to The Phone Co-op in July 2003.

Carrier pre-selection (CPS), which enables customers to route their calls through our service without the need to dial a prefix or use a "dialler" box, has now become firmly established as the principal access method for new customers. This has enabled us to consolidate the benefits of this change, which has improved the reliability of our service and reduced costs, as well as ensuring that call traffic is consistently routed through The Phone Co-op.

Delays to the full introduction of a major affinity scheme led to a reduction in associated planned up-front marketing costs, and although revenues were lower than had been anticipated as a result, there was a net positive impact on profitability in the year under review.

In July, ownership of the shares in EcoBilling Ltd. which were held by our joint venture partner, Sum International, was transferred to The Phone Co-op. As a result of this transaction, Ecobilling Ltd. became a wholly-owned subsidiary of The Phone Co-op.

Membership

Membership increased from 2,139 at the beginning of the year to 2,985 at the end of the year. Members' share capital almost doubled from £188,366 to £371,565. It is the Board's policy to encourage customers to become members and a number of membership promotions took place. During the year, 31.1% of eligible sales within the telephony and related businesses were to members, slightly up on the proportion achieved in the previous year. Significant efforts have been made to convert customers to members over the year, but it is clear that we need to do even more. We hope to see a greater proportion of customers becoming members in the coming year.

Environmental and other ethical measures

The Phone Co-op places great emphasis on seeking to operate in a more environmentally sustainable way, and on other ethical measures, including trading with other co-operatives. For the first time, we set out in this report what we do, and include some quantitative measures to back this up.

Environmental issues

- The Phone Co-op pays a voluntary levy to offset all the carbon dioxide emissions resulting directly from its activities, as well as from the activities of the upstream telecoms providers whose networks we utilise in the provision of our telephony service. The levy is paid to Climate Care, which uses the funds to finance projects which result in a sustainable reduction in carbon dioxide emissions, or in increased fixing of carbon from the atmosphere. Examples of the projects supported include the provision of subsidised low-energy light bulbs to people in Mauritius, a country in which all electricity is generated from fossil fuel (this project also has the benefit of reducing poverty by cutting the electricity bills of low-income people), and a project to restore natural rainforests in Uganda. In addition, we purchase most of our electricity from a green supplier, which sources its supplies from renewable generators.
- It is our policy to encourage the use, where practical, of public transport for business journeys, rather than cars. During the year under review, over half of recorded business journeys were made by rail or bus.
- We purchase almost all of our paper and envelopes from Paperback Ltd., a worker co-operative which specialises in recycled paper products.
- We recycle our own paper office waste.
- We are planning that our next office move will be to a new, purpose-built environment-friendly building.

Journeys by public transport as a proportion of total recorded business journeys

Means of transport	Recorded journeys	Percentage of total
Rail (including underground and tram)	172	39%
Bus	56	13%
<i>Sub-total - less environmentally damaging transport modes:</i>	228	52%
Personal car	170	39%
Taxi	38	9%
Air	4	1%
<i>Sub-total - more environmentally damaging transport modes:</i>	212	48%
Total (all recorded journeys)	440	100%

Based on an analysis of expense claims for travel. Where more than one transport mode has been used in any one trip, each one has been counted as a separate journey.

Other ethical issues

- We aim to trade as much as possible with other co-operatives and organisations with similar values. Examples include our partnership with the Ethical Property Company, which provides affordable office space for voluntary and campaigning groups. We have worked with them to provide a low-cost telecommunications service for their tenants, as well as generating revenue for EPC to cover overheads. During the year we made purchases (including payments of agent and affinity commissions) from other co-operatives and co-op movement organisations totalling £46,345, or 12.2% of non-personnel overhead costs. Sales of telecoms services to other co-operatives and co-op movement organisations totalled £286,758, or 9.8% of total sales¹.

¹ Figures based on known purchases from and sales to co-operatives and other co-op movement organisations

- We aim to act fairly in our dealings with others. For example, unlike many telecoms providers, we do not impose sales targets on our agents or affinity partners as a condition of their continuing to receive revenue.

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, sometimes involving long hours, the achievements of the year would not have been possible.

The number of permanent employees increased from 13 to 21 during the year.

We welcomed Carly Key and Jeannie Wise to the customer services team, and Lee Thomson to our sales team. Brian Luney joined as Credit Controller within our finance department. We also welcomed Chris Hogan to the new post of Operations Manager. Shaun Fensom, Sue Collins, Daphne Amica, Siân McNeill and Dave Beardall joined us following the transfer of Poptel's retail arm, and from the internet department based in our new Manchester office. We would also like to thank Philippine Feutry, a French business student from Lille who undertook a number of very useful projects for us over the six months of her work placement in our office in Chipping Norton.

During the course of the year we said goodbye to Pamela Jefferies and Kayte Lovell, who moved on to other things. The other staff employed during the year were: Vivian Woodell, Thomas Dege, Amanda Beard, Maz Chaudhry, Sally Murrey, Nicola Russ, Lisa Catling, Yvette Williams, Francis Vines, Joan Luney and Alice Bremmers. In addition we were assisted by a number of short-term staff. We would 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 2003, Jenny Smith did not stand for re-election. The Board would like to thank her for her work on the Board of Directors, on which she had served since 1998, and for her support for The Phone Co-op over the years.

Nominations were invited for three members of the Board, to serve for two years from January 2003. Nominations were received for Martin Alder, Herbert Daybell, Peter Weston and Lloyd Wilkinson. A postal ballot was held, and Martin Alder, Herbert Daybell and Lloyd Wilkinson were elected.

The Directors during the year under review were:

Martin Alder	
Justin Andersen	
Simon Blackley	
Herbert Daybell	- from 18 January 2003
Jenny Smith	- until 18 January 2003
Martin Stott	
Peter Turnbull	
Lloyd Wilkinson	- from 18 January 2003

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 Co-operatives UK and an international member of the US-based National Telephone Co-operative Association.

Early in 2003, The Phone Co-op applied to become a corporate member of the Co-operative Group. This application was accepted, and membership became effective from April. The Board sees this as an important development which further strengthens our links with the wider movement.

Outlook

We anticipate continued growth in telecoms revenues during the year ahead, in an environment where further price deflation is likely to occur. The rate of increase will depend in part on the timing of major affinity scheme launches. We expect to maintain or improve margins through effective negotiations based on our increased buying power. We aim to grow and consolidate the internet business, and to take advantage of opportunities to cross-sell services between the two customer bases. Cost control will remain a key objective. Overall, the financial prospects for the year ahead are good.

Consolidation is continuing 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 development of the market for broadband services is creating a number of opportunities for The Phone Co-op. Not only are we able to sell these services directly, but we also have the opportunity to work closely with the growing number of local broadband groups (many of them structured as co-operatives), using both wireless and fixed-line technologies.

Last year, we reported that we planned to approach members during the year under review, to ask them to consider increasing their investment to finance the construction of new, environment-friendly offices for The Phone Co-op in Chipping Norton. Legal delays related to the acquisition of an option on the proposed site have meant that this has not yet occurred, but we expect that it will take place during the coming year.

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.

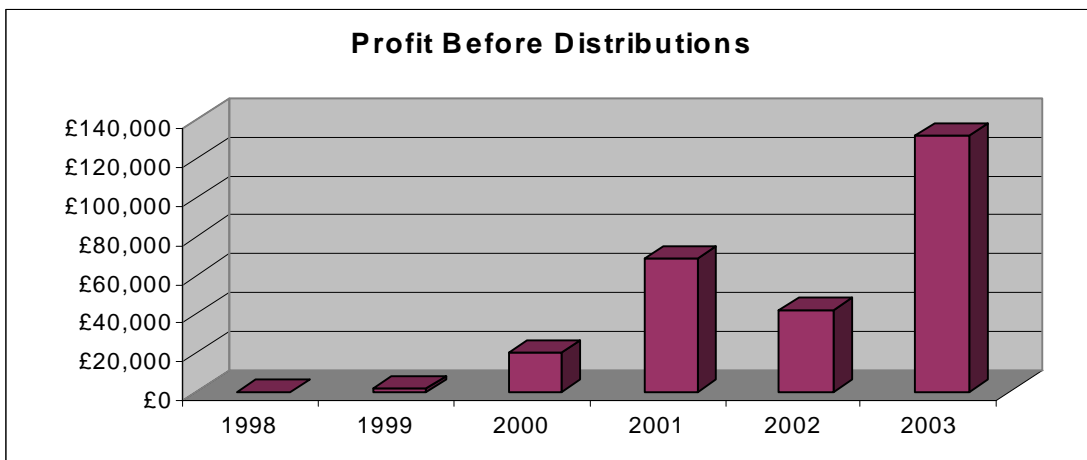
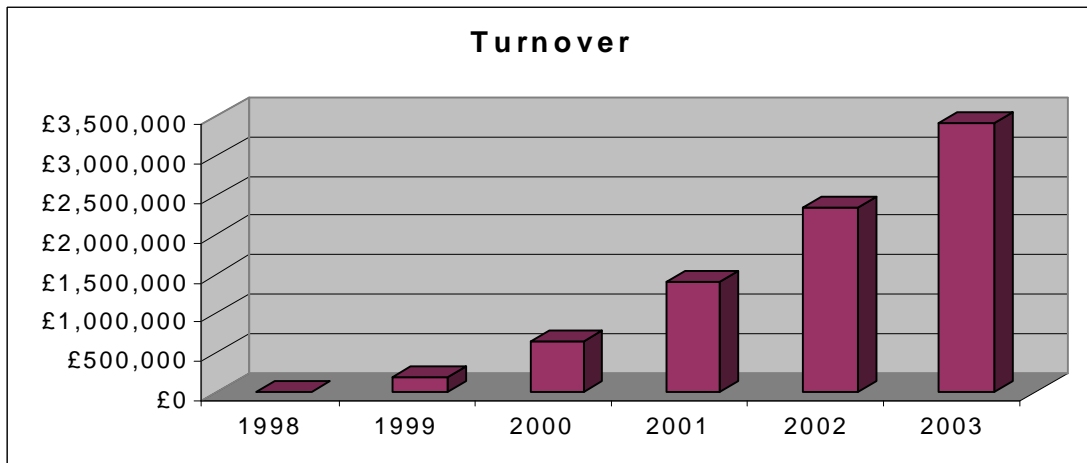
On behalf of the Board of Directors

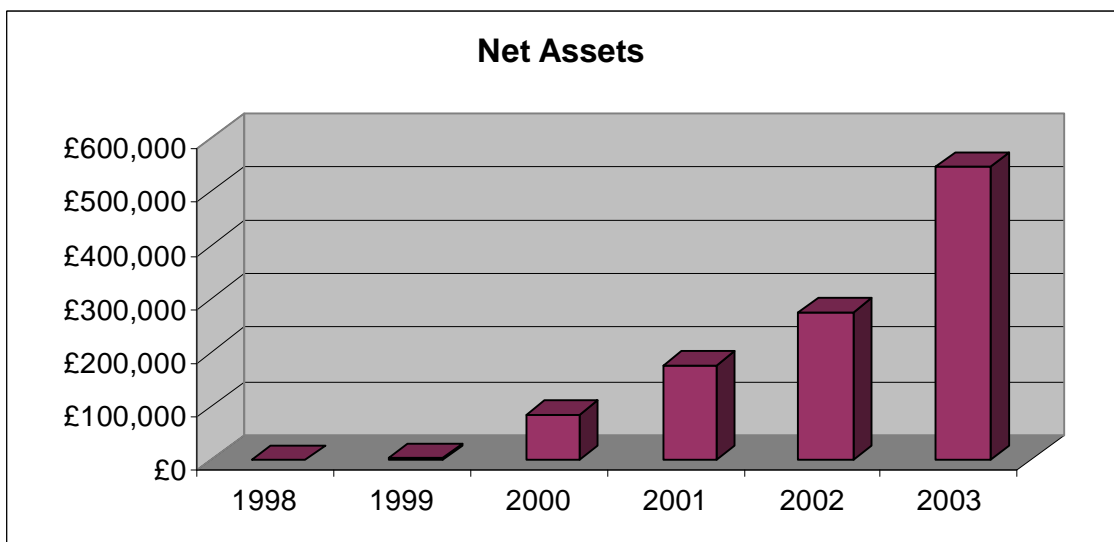
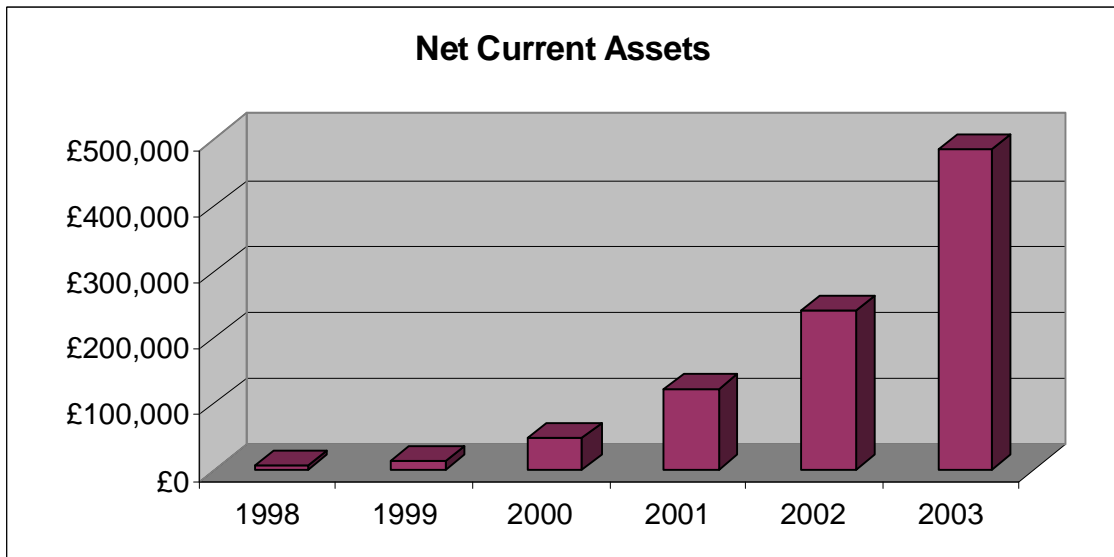
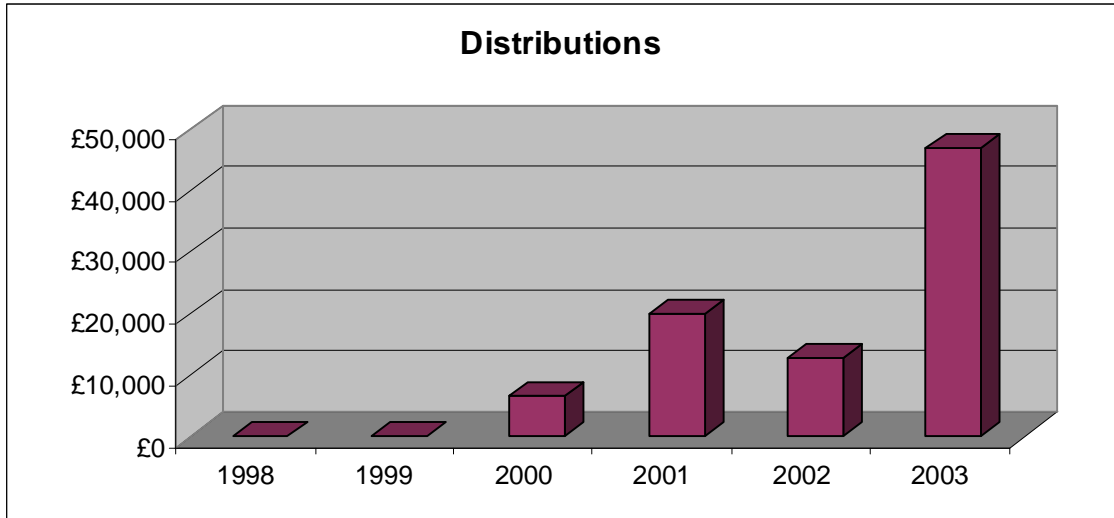
Simon Blackley, Chair
Vivian Woodell, Chief Executive
16 December 2003

Five years of growth

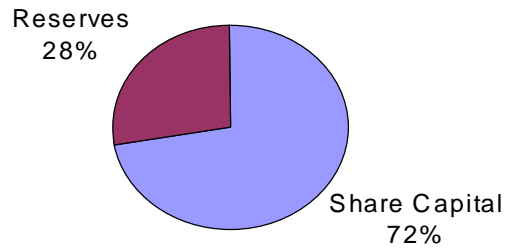
Period ended 31 August

	1999	2000	2001	2002	2003
Membership	71	362	1039	2081	2985
Revenue Account					
Turnover	£194,511	£640,170	£1,401,311	£2,355,790	£3,422,113
Depreciation	£1,501	£6,295	£21,063	£53,447	£17,237
Operating Profit	£4,095	£22,402	£62,713	£32,393	£124,378
Profit Before Distributions	£2,009	£20,257	£68,682	£41,842	£132,077
Distributions	£0	£6,762	£19,844	£12,675	£46,942
Transfer to Reserves	£1,605	£13,097	£41,730	£18,105	£69,762
Balance Sheet					
Fixed Assets	£2,710	£31,765	£50,834	£34,130	£62,654
Current Assets	£74,782	£305,608	£687,425	£594,406	£1,070,374
Net Current Assets	£15,490	£50,342	£124,326	£242,601	£485,270
Loans: ICOF and Members	£26,420	£0	£0	£0	£0
Net Assets	£1,780	£82,107	£175,160	£276,731	£547,924
Share Capital	£0	£64,700	£107,950	£188,366	£371,565
Reserves	£1,780	£14,877	£56,607	£74,712	£144,474

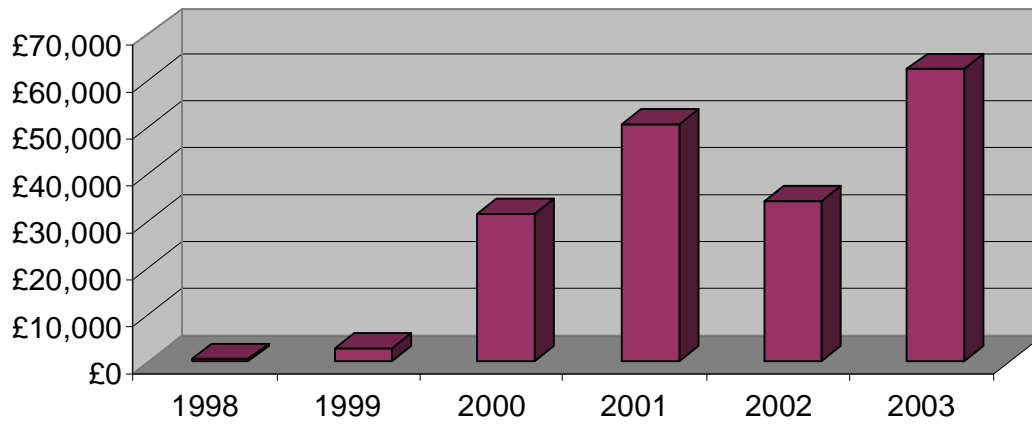




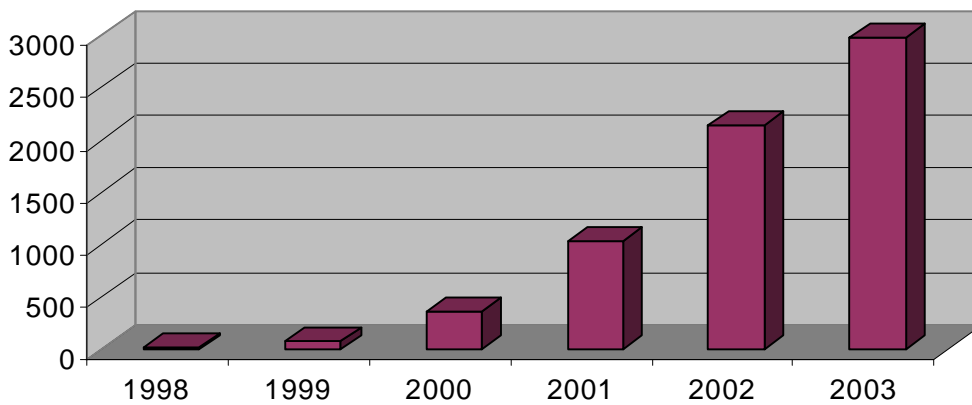
Net Assets



Fixed Assets



Membership



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 2003, which comprise of the Revenue Account, Balance Sheet and related notes. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the Society's members, as a body, in accordance with Section 9 of the Friendly and Industrial and Provident Societies Act 1968. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the society and the society's members as a body, for our audit work, for this report, or for the opinions we have formed.

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.

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 Act 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 or if a satisfactory system of internal control has not been established and maintained.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of 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.

The Financial Services Authority has granted the Society an exemption from preparing group accounts. In respect of this exemption, we agree with the Board of Directors that the grounds given in the original application for exemption to the FSA applied throughout the period of account.

Opinion

In our opinion the financial statements give a true and fair view of the Society's affairs at 31 August 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Industrial and Provident Societies Act 1965 and the Friendly and Industrial and Provident Societies Act 1968.

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

17 December 2003

Revenue Account

for the year ended 31 August 2003

		<u>31.8.03</u>	<u>31.8.02</u>
	Notes	£	£
TURNOVER		3,422,113	2,355,790
Less Value Added Tax		<u>(506,381)</u>	<u>(346,530)</u>
NET SALES		2,915,732	2,009,260
Cost of sales		<u>2,025,326</u>	<u>1,406,737</u>
GROSS PROFIT		890,406	602,523
Administrative expenses		<u>766,028</u>	<u>570,130</u>
OPERATING PROFIT	3	124,378	32,393
Interest receivable and similar income		<u>7,699</u>	<u>9,449</u>
PROFIT BEFORE DISTRIBUTIONS		132,077	41,842
Share interest		10,478	6,575
Members' dividend		18,232	3,050
Co-operative and Social Economy Development Fund		<u>18,232</u>	<u>3,050</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		85,135	29,167
Tax on profit on ordinary activities	4	<u>15,373</u>	<u>11,062</u>
PROFIT FOR THE FINANCIAL YEAR AFTER TAXATION		69,762	18,105
Retained profit brought forward		<u>74,712</u>	<u>56,607</u>
RETAINED PROFIT CARRIED FORWARD		<u>£144,474</u>	<u>£74,712</u>

Continuing operations

The results for 2003 and 2002 relate wholly to continuing operations.

Total recognised gains and losses

There are no recognised gains or losses other than the profits for the above two financial years.

The notes on pages 18 to 24 form part of these financial statements.

Balance Sheet

as at 31 August 2003

		31.8.03		31.8.02	
	Notes	£	£	£	£
FIXED ASSETS:					
Tangible assets	5		52,303		34,130
Intangible assets	6		-		-
Investments	7		<u>10,351</u>		<u>-</u>
			62,654		34,130
CURRENT ASSETS:					
Stock			-	153	
Debtors	8	584,928		459,916	
Investments	9	13,653		10,603	
Cash at bank	10	<u>471,793</u>		<u>123,734</u>	
		1,070,374		594,406	
CREDITORS: Amounts falling due within one year	11	<u>585,104</u>		<u>351,805</u>	
NET CURRENT ASSETS:			<u>485,270</u>		<u>242,601</u>
TOTAL ASSETS LESS CURRENT LIABILITIES:			<u>£547,924</u>		<u>£276,731</u>
CAPITAL AND RESERVES:					
Members' share capital	12		371,565		188,366
Co-operative and Social Economy Development Fund	13		31,885		13,653
Profit and loss account			<u>144,474</u>		<u>74,712</u>
			<u>£547,924</u>		<u>£276,731</u>

Board Certification

The financial statements on pages 16 to 24 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

16 December 2003

The notes on pages 18 to 24 form part of these financial statements.

Notes to the Financial Statements

for the year ended 31 August 2003

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.

Goodwill

Goodwill, being the £1 paid in connection with the Manchester division in the year, has been amortised in the year of acquisition.

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 resulted in a revision of the estimated useful life of the diallers by the directors in the previous year, which in turn resulted in an additional depreciation charge in that year.

Investments

Fixed asset investments are stated at cost less any provision for diminution in value.

Current assets investments are stated at the lower of cost and net realisable value.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Pensions

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

Leasing

Rentals paid under operating leases are charged to income as incurred.

Exemption from preparation of group accounts

The Society has been granted an exemption by the Financial Services Authority allowing it not to produce group accounts. The accounts of the Society's subsidiary undertaking, EcoBilling Limited, have therefore not been consolidated.

2. STAFF COSTS

	31.8.03	31.8.02
	£	£
Wages and salaries	324,471	193,727
Social security costs	29,725	15,623
Other pension costs	<u>32,049</u>	<u>18,195</u>
	<u>386,245</u>	<u>227,545</u>

Notes to the Financial Statements

for the year ended 31 August 2003

Staff costs cont.....

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:

	31.8.03	31.8.02
Salary range	Number	Number
£0 - £5,000	-	-
£5001 - £10,000	1*	-
£10001 - £15,000	1*	1+1*
£15001 - £20,000	1	-
£20,001 - £25,000	-	1
£25,001 - £30,000	-	1
£30,001 - £35,000	2	1
£35,001 - £40,000	1	-

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

Salary	£35,949
Performance related:	<u>£ 1,044</u>
Sub Total	£36,993
Pension contributions:	<u>£ 7,161</u>
Total	<u>£44,154</u>

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

	31.8.03	31.8.02
Full-time staff	16	7
Part-time staff	<u>4</u>	<u>9</u>
	<u>20</u>	<u>16</u>

3. OPERATING PROFIT

The operating profit is stated after charging/(crediting):

	31.8.03	31.8.02
	£	£
Depreciation - owned assets	17,237	53,447
Profit on disposal of fixed assets	(317)	-
Operating leases – land & buildings	16,949	10,458
Fees paid to auditors:		
Audit	6,000	5,000
Other	<u>2,145</u>	<u>1,500</u>
Directors' emoluments and other benefits etc	<u>-</u>	<u>-</u>

Notes to the Financial Statements

for the year ended 31 August 2003

4. TAXATION

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

	31.8.03	31.8.02
	£	£
UK corporation tax – current taxation	<u>15,373</u>	<u>11,062</u>

5. TANGIBLE FIXED ASSETS

	Diallers, routers & programming	Fixtures and fittings	Computer equipment	Totals
	£	£	£	£
COST:				
At 1 September 2002	55,386	36,128	25,108	116,622
Additions		22,754	13,138	35,892
Disposals	<u>-</u>	<u>-</u>	<u>(1,000)</u>	<u>(1,000)</u>
At 31 August 2003	<u>55,386</u>	<u>58,882</u>	<u>37,246</u>	<u>151,514</u>
DEPRECIATION:				
At 1 September 2002	55,384	11,750	15,358	82,492
Charge for year	-	8,220	9,016	17,236
Eliminated on disposals	<u>-</u>	<u>-</u>	<u>(517)</u>	<u>(517)</u>
At 31 August 2003	<u>55,384</u>	<u>19,970</u>	<u>23,857</u>	<u>99,211</u>
NET BOOK VALUE:				
At 31 August 2003	<u>2</u>	<u>38,912</u>	<u>13,389</u>	<u>52,303</u>
At 31 August 2002	<u>2</u>	<u>24,378</u>	<u>9,750</u>	<u>34,130</u>

6. INTANGIBLE FIXED ASSETS

	Goodwill £
COST:	
At 1 September 2002	-
Additions	1
At 31 August 2003	<u>1</u>
AMORTISATION:	
At 1 September 2002	-
Charge for year	1
At 31 August 2003	<u>1</u>
NET BOOK VALUE:	
At 31 August 2003	<u>-</u>
At 31 August 2002	<u>-</u>

Notes to the Financial Statements

for the year ended 31 August 2003

7. FIXED ASSET INVESTMENTS

	£	
COST:		
At 1 September 2002		1,056
Additions		10,351
		<u> </u>
At 31 August 2003		<u>11,407</u>
PROVISIONS:		
At 1 September 2002		<u>1,056</u>
At 31 August 2003		<u>1,056</u>
NET BOOK VALUE:		
At 31 August 2003		<u>10,351</u>
At 31 August 2002		<u> </u>

	31.8.03 £	31.8.02 £
Investment in subsidiary undertaking	1	-
Investments in Other Industrial and Provident Societies: Shares in the Co-operative Group:	10,350	-
Interest received from the Co-operative Group	350	-

The Society's investments at the balance sheet date in the share capital of unlisted companies include the following:

Ecobilling Limited

Nature of business: billing and wholesale telecommunication services

Class of shares:	%		
Ordinary & Preference shares of 10p	holding		
	100	30.9.02 £	30.9.01 £
Aggregate capital and reserves		<u>26,489</u>	<u>35,791</u>
Loss for the year		<u>9,302</u>	<u>34,838</u>

8. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31.8.03 £	31.8.02 £
Trade debtors	549,456	442,174
Prepayments and accrued income	21,917	2,335
Other debtors	<u>13,555</u>	<u>15,407</u>
	<u>584,928</u>	<u>459,916</u>

Notes to the Financial Statements

for the year ended 31 August 2003

9.	CURRENT ASSET INVESTMENTS	31.8.03 £	31.8.02 £
	Investments in other Industrial and Provident Societies: Shares, ICOF Community Capital Ltd.	<u>13,653</u>	<u>10,603</u>
10.	CASH AT BANK		
	Cash and bank balance include the following share account balance held with another Industrial and Provident Society:	31.8.03 £	31.8.02 £
	Oxford Swindon and Gloucester Co-operative Society Limited Community Membership Account	374,030	89,489
11.	CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	31.8.03 £	31.8.02 £
	Trade creditors	364,675	273,477
	Other creditors	10,478	6,575
	Members' dividends	18,232	3,050
	V.A.T.	32,531	18,723
	Social security & other taxes	13,526	10,459
	Taxation	15,373	11,062
	Accrued expenses and deferred income	<u>130,289</u>	<u>28,459</u>
		<u>585,104</u>	<u>351,805</u>
12.	MEMBERS' SHARE CAPITAL		
		31.8.03 £	31.8.02 £
	As at 1 September 2002	188,366	107,950
	Contributions in the year	212,347	122,703
	Withdrawals in the year	<u>(29,148)</u>	<u>(42,287)</u>
	As at 31 August 2003	<u>371,565</u>	<u>188,366</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.

Notes to the Financial Statements

for the year ended 31 August 2003

Members' share capital cont.....

(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. CO-OPERATIVE AND SOCIAL ECONOMY DEVELOPMENT FUND

	31.8.03	31.8.02
	£	£
Brought forward	13,653	10,603
Transferred in the year	<u>18,232</u>	<u>3,050</u>
	<u>31,885</u>	<u>13,653</u>

14. OPERATING LEASE COMMITMENTS

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

	Land & Buildings	Land & Buildings
	31.8.03	31.8.02
	£	£
Expiring: Between one and five years	<u>20,382</u>	<u>15,555</u>

15. PENSION COMMITMENTS

The Society operates a defined contribution pension scheme. The contributions charged to the profit and loss account during the year amounted to £32,049 (2002: £18,195). There were no commitments at the balance sheet date.

16. RELATED PARTY DISCLOSURES

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 £111,136 (last year: £79,399). 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 £5,875 for this work (last year: £8,828).

Notes to the Financial Statements

for the year ended 31 August 2003

Related party disclosures cont.....

Peter Turnbull, a Director, was also an Agent for The Phone Co-op during the year, and received income of £4,167 from commissions on sales generated under his agency (last year: £4,408).

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 £5,519 (last year: £3,518). The Society provided office services to Claire Jarvis to the value of £1,410 (last year : £1,410).

Justin Andersen, a Director, provided recruitment and training services to the Society during the year to the value of £381 (last year: 1,675)

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 £374,030 (2002: £89,489) The value of interest received was £6,622 (2002: £7,528)

During the year the Society also purchased billing and wholesale telecommunications services from its Ecobilling Limited (an associate company which became a subsidiary during the year) to the value of £41,719 (2002: £25,313). At the balance sheet date the Society owed £nil (2002: £nil) to its subsidiary.

The above transactions were carried out at arm's length and under normal commercial terms.

17. ACQUISITION OF SUBSIDIARY UNDERTAKING

On 1 July 2003 the Society acquired a further 55% holding in Ecobilling Limited, thereby increasing its total holding to 100%. The additional holding was acquired for £1 (see note 7).

Trading and Profit and Loss Account

for the year ended 31 August 2003

	31.8.03		31.8.02	
	£	£	£	£
Income:				
Sales - telecommunication services	2,733,884		1,912,876	
Sales – internet services	78,813		-	
Sales - phone systems	89,744		86,443	
Commissions received	968		789	
Other income	<u>12,323</u>		<u>9,152</u>	
		2,915,732		2,009,260
Cost of sales:				
Carrier charges	1,888,911		1,322,880	
Internet services	51,074		-	
Phone systems	85,341		83,352	
Miscellaneous	<u>-</u>		<u>505</u>	
		<u>2,025,326</u>		<u>1,406,737</u>
GROSS PROFIT		890,406		602,523
Other income:				
Deposit account interest		7,221		9,449
Dividend received		118		-
Other interest received		<u>360</u>		<u>-</u>
		898,105		611,972
Expenditure:				
Salaries and other personnel costs	324,471		193,727	
Social security	29,725		15,623	
Pensions	32,049		18,195	
Staff recruitment & training	4,514		7,715	
Telephone	9,933		11,072	
Print, Post & stationery	46,366		30,259	
Travelling & subsistence	6,336		3,538	
Repairs & renewals	12,674		7,424	
Engineering & provisioning costs	21,653		15,485	
Billing costs	35,556		27,430	
Sundry expenses	9,786		4,345	
Auditors' remuneration	6,000		5,000	
Board expenses	2,579		1,364	
AGM expenses	847		805	
Accountancy	2,145		1,547	
Consultancy fees	7,846		7,524	
Legal & professional fees	17,388		834	
Credit control	5,132		11,339	
Commission paid	86,093		67,171	
PR & Promotional costs	21,899		10,805	
Bad debts	17,448		56,029	
Rent & services	20,258		10,458	
Rates & water	5,839		2,486	
Subscriptions and Donations	1,518		488	
Insurance	1,645		199	
Light & heat	3,109		1,486	
Project development costs	2,364		-	
Outsourced customer support	<u>5,400</u>		<u>-</u>	
		<u>740,573</u>		<u>512,348</u>
Carried forward		157,532		99,624

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Trading and Profit and Loss Account

for the year ended 31 August 2003

	31.8.03		31.8.02	
	£	£	£	£
Brought forward		157,532		99,624
Finance costs:				
Equipment leasing	-		-	
Bank charges	7,673		3,947	
Credit card	<u>862</u>		<u>388</u>	
		<u>8,535</u>		<u>4,335</u>
		148,997		95,289
Depreciation:				
Goodwill	1		-	
Diallers, routers & programming	-		37,586	
Fixtures & fittings	4,910		9,085	
Computer equipment	<u>12,326</u>		<u>6,776</u>	
		<u>17,237</u>		<u>53,447</u>
		131,760		41,842
Profit on disposal of fixed assets				
Computer equipment		<u>317</u>		<u>-</u>
		<u>132,077</u>		<u>41,842</u>
NET PROFIT		<u><u>£132,077</u></u>		<u><u>£41,842</u></u>

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