thePhoneCo-op

your voice counts

Annual report and financial statements 200405

Society Information

Directors	Simon Blackley *Chairperson* Kate Whittle *Vice-Chairperson* Justin Andersen Brian Condon Malcolm Corbett Bernard Skillerne de Bristowe Peter Turnbull
Chief Executive and Secretary	Vivian Woodell
Management Team	
Finance and Administration	Maz Chaudhry
Sales	Guy Ohlenschlager
Customer Services	Amanda Beard
Head of Internet Services	Shaun Fensom
Operations	Dave Hart
Projects and Membership	Fiona Ravenscroft
Registered office	5 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

The Phone Co-op Limited
Notice of Annual General Meeting

The Annual General Meeting will be held at 2.00 pm on Saturday 28 January 2006 at Chipping Norton School, Burford Road, Chipping Norton, Oxfordshire.

A buffet lunch will be available at the school from 1.00 pm. A Special Meeting of Members, of which notice has been given separately, will take place immediately following the conclusion of the AGM, to consider a number of proposals submitted by the Board of Directors to amend the Society's Rules.

Interim Agenda

1. Apologies
2. Introductions and welcome
3. To approve the minutes of the Annual Members' Meeting held on 29 January 2005
4. To approve the minutes of the Special Members' Meeting held on 29 January 2005
5. To receive the Directors' report and accounts for the year ended 31 August 2005
6. To approve the following appropriations, including dividend distributions recommended by the Board of Directors:

Share Interest:	£38,235
Dividend:	£19,491
Allocation to the Co-operative and Social Economy Development Fund:	£19,491

7. To appoint Shaw & Co as auditors of the Society
8. Election of Directors: declaration of the result
9. Election of Scrutineers
10. To approve the draft Ethical Policy
11. To consider the following notice of motion submitted by Alan Rayner:

    "This meeting, mindful of the potentially undemocratic features of the 'first-past-the-post' system of voting (which could result in the elected candidates all representing a majority opinion to the exclusion of substantial minority opinions), requests the Board to investigate the possibility of using an alternative system for all elections internal to the co-op and to report back to the next AGM with their findings.

    In particular, the Board is requested to consult with the Electoral Reform Society with a view to enhancing their knowledge of the various possible alternatives and the ways that these have been implemented in other organisations."

12. Any other business

The Phone Co-op Limited

Annual Report and Financial Statements

For the year ended 31 August 2005

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Directors' Report
for the year ended 31 August 2005

Overview

The Board is pleased to present to members the results for the year ended 31 August 2005. Once again The Phone Co-op set new records for performance both in terms of turnover and profit before distributions. Member investment in the Society also reached a new high.

But these new levels of achievement took place against the background of increasingly difficult trading conditions and rising costs, and the rate of growth slowed somewhat compared with earlier years. Sales were affected by a combination of rapid price deflation and a more competitive environment. The operating profit (before interest) fell compared with the previous year, but profit before distributions was boosted by significantly higher levels of interest received.

During the year, we launched a line rental service to business and residential customers. Line rental sales in the year were still small, but grew rapidly and were ahead of expectations. We expect line rental to make a significant contribution to overall sales in the future. Although the margin on line rental is low, we believe that it is important to provide a total service to customers and that this will help us to attract and retain customers.

The year saw a major shift in the focus of growth. Voice sales (including line rental) showed an increase of just 3.4% over the previous year. Internet sales increased by 73.6%, and phone systems sales increased by 233% to £231,000. On the other hand, margins on the voice side improved by £216,000, whereas margin on internet sales increased by just £34,000 and on phone systems by £10k. To some extent, these trends reflected a shift by customers who had been using low-margin 0845 dial-up internet access (where the outbound calls are included in the voice part of the business) to broadband (also fairly low margin).

While most of the turnover increase was achieved through organic growth including cross-selling of broadband and line rental services to voice customers, we also made a small acquisition of managed server and IP-transit customers.

Review of the Year

Trading profitability was weaker than last year (down from £172,000 to £150,000). A number of factors contributed to this. We experienced continuing difficulties in making the internet business profitable; indeed the losses increased significantly. Bad debt charges were up from 1.2% to 1.5% of sales, reflecting in particular problems in the wholesale business, and although overall gross margin increased from 36% to 37% of sales (partly reflecting the full-year effect of taking certain internet services in-house), expenses increased faster, rising from 31% to 33% of sales. The increase in expenses was driven by rises in depreciation and amortisation charges following significant investment in servers within the internet business together with increases in personnel costs.

Some substantial supplier credits during the year – relating to earlier trading periods – buoyed the results. The underlying level of profitability was therefore somewhat lower than reported.

Capital investment was up sharply on earlier years. This resulted partly from the acquisition from Real Poptel Limited of their IP Transit business and part of their managed server business. In addition, significant replacement and upgrading took place in the server infrastructure supporting our internet business.
Interest received was up sharply from £19,000 to £52,000, taking profit before distributions to a record at £202,000.

The increased level of share capital means however that share interest is considerably higher last year, and this, taken together with the more difficult outlook for the year ahead, have led the Board to recommend a reduction in the rate of dividend to 1.25% of eligible purchases. In accordance with current policy, the Board is recommending that the same amount is allocated to the Co-operative and Social Economy Development Fund.

During the year, we launched a small-scale trial of Voice over IP (VoIP – also known as internet telephony) services in partnership with community broadband networks. These have proved successful and we plan to develop this service more fully in the year ahead, building partnerships with providers to offer a feature-rich and cost-effective service.

We carried out a large-scale survey of residential customers and members in May, and were delighted with the response. Nearly 44% of the 2,000 questionnaires which were distributed were returned, which was an exceptional response rate, and the Board would like to thank everyone who responded. We were also very pleased with the responses themselves, which showed that over 90% of customers agreed with the proposition that we offer good value for money in the telecoms market, and over 82% felt we offered excellent or very good customer service. Respondents also supported the high priority The Phone Co-op gives to ethical and environmental issues, and showed a strong interest in buying other services from us.

Outlook

During the year, the Board and management worked on a five-year plan to develop the business into a substantial one with a turnover in the region of £50 million. This will entail considerable investment in new marketing methods, and will also see us branching out into new areas of activity, including mobile phones, electricity and gas.

A year ago, we predicted a fall in profitability during 2004-5 and in the event the operating profit did fall, although the profit was above budget. This was partly because anticipated growth from some large affinity schemes (with associated up-front costs which would have depressed profitability) did not take place, and partly because margins were stronger than had been expected. This year the Board believes that a combination of difficult trading conditions together with the planned growth will result in a trading loss in 2005-6 for the first time during a whole trading year. Sales are expected to continue to grow, however, and the Board aims to return the Society to profitability in the following financial year. The decision to budget for a loss ha not been taken lightly, and indeed the fact that we are able to draw on our

substantial reserves to finance our growth plans is only possible as a result of the strong platform created by many years of profitable trading.

The Board firmly believes that an important and growing share of the consumer market is motivated by a desire to purchase ethically, and that growing interest in issues such as corporate social responsibility point to a similar trend in the business-to-business market. In both the business and residential markets, the Board is committed to building on the strengths of co-operative ownership to create long-term trading relationships with customers, based on trust. We need to find new ways to reach these markets as well as strengthening the existing channels.

In the year ahead we will be working to launch new services such as mobile telephony, and possibly electricity and gas services. These will form a key part of our product mix in the future. The multi-utility approach has proved popular among our competitors, and we believe it is necessary for us to move in the same direction.

The Board of Directors

The Directors who served during the year were:

Martin Alder – until 29 January 2005
Justin Andersen
Simon Blackley
Brian Condon – from 29 January 2005
Malcolm Corbett – from 29 January 2005
Herbert Daybell – until 29 January 2005
Bernard Skillerne de Bristowe – from 29 January 2005
Peter Turnbull
Lloyd Wilkinson – until 29 January 2005
Kate Whittle – from 29 January 2005

At the Annual Meeting in January 2005, the terms of office of Herbert Daybell, Lloyd Wilkinson and Martin Alder came to an end. There was also a casual vacancy caused by the resignation in May 2004 of Martin Stott. Herbert Daybell and Lloyd Wilkinson offered themselves for re-election. Nominations were received for eighteen candidates. A postal ballot was held, and Kate Whittle, Malcolm Corbett and Brian Condon were elected to serve for two years, and Bernard Skillerne de Bristowe was elected to fill the casual vacancy until the AGM in January 2006.

At a Special Meeting of members following the AGM in January 2005, members approved a Rule change creating the position of Vice-Chairperson. Following the registration of this Rule amendment, Kate Whittle was elected by the Board to this position. Members also approved the payment of Directors' fees of £1,000 per annum (£1,500 per annum for the Chairperson) with effect from 1 September 2005.

The Board is conscious of the need to ensure that Directors receive adequate training so that they are fully equipped to carry out their task. Training is also a requirement of the Co-operatives UK Corporate Governance Code. The Board conducted a Skills Audit with the assistance of the Co-operative College. Using the results from this, training sessions and teambuilding activity have been arranged during the year. Directors also have access to training courses available from the Co-operative College. Three regional briefing sessions for people interested in standing

for the Board were also held to encourage members to stand in the election, contributing to the record number of candidates.

Membership

The number of members increased by 1,166 to reach a new high of 5,414. The increase was not quite as large as in the previous year, but was nevertheless a real achievement. Members invested an additional £333,000 of share capital, net of withdrawals, a record increase in one year, taking the level of share capital to just over £1 million. Trade with members reached 35.9% of total sales, a significant increase over last year, although it still falls short of our long-term aspirations.

Employees

None of our achievements in the year under review would have been possible were it not for the dedication and effort shown by our team of highly skilled and motivated employees. The Board wishes to place on record its appreciation for the work and commitment shown by our staff. The average number of employees increased significantly during the year, from 31 to 40, reflecting the growth of the business and our investment in developing new products and services.

During the year we welcomed Scott Cooper, Indra Hopcraft and Andrew Reynolds in the Operations Department. Yvette Williams, who had also been working in the Operations Department, left in August. In Customer Services, we were joined by Yasin Qadir and Yonni Davies. Guy Ohlenschlager became Sales Manager early in the year, taking responsibility for sales of both voice and internet services. In the same department. we recruited Adam Leaver as a Sales Executive, and Michael Wignall, a web marketing specialist. Gordon Lee, Andi Bullough, Stewart Peters and Chris Merrett joined our internet technical support team. Dave Beardall left the same team in August. We were also joined in the Internet Department by Mark Griffin. In the Finance Department, Alice Bremmers left in December and we were joined by Pamela Jefferies (who worked for us some years ago in Customer Services and whom we were pleased to be able to welcome back). In the Chief Executive's Department, Fiona Ravenscroft was appointed as Projects and Membership Manager in October.

We would also like to thank a number of other people who worked with us during the year, including Penny Embden, Pauline Clapton, Margaret Burden and Ailsa Naumann.

As in previous years we were joined by a placement student from Liile University in France. This year Matthieu Burette spent six months with us and carried out some very valuable work including a sizeable customer and member survey.

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 second year, 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 resulting 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 South Africa, 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), a programme to introduce more efficient cooking stoves in Bangladesh, and a project to restore natural rainforests in Uganda. In addition, we purchase our electricity from green suppliers, who source their electricity 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, 66% of journeys were made by less environmentally damaging transport modes (rail, bus, cycling or walking), an Improvement compared wtih 55% last year. In addition, 76% of business miles travelled were by less environmentally damaging transport modes, compared with 72% last year.
- 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 journeys		Miles travelled	Miles travelled	% of total miles	% of total miles
	2004-5	**2003-4**	**2004-5**	**2003-4**	**2004-5**	**2003-4**	**2004-5**	**2003-4**
Rail (including underground and tram)	811	398	46.8%	42.9%	60977	35574	74.5%	69.6%
Bus	334	113	19.3%	12.2%	1265	1037	1.5%	2.0%
Cycle and walking	6	0	0.3%	0.0%	91	0	0.1%	0.0%
Sub-total – less environmentally damaging transport modes:	**1151**	**511**	**66.4%**	**55.1%**	**62242**	**36611**	**76.0%**	**71.6%**
Personal car or motorbike	284	237	16.4%	25.5%	8643	10020	10.6%	19.6%
Taxi	281	176	16.2%	19.0%	1757	573	2.1%	1.1%
Air	17	4	1.0%	0.4%	9252	3940	11.3%	7.7%
Sub-total – more environmentally damaging transport modes:	**582**	**417**	**33.6%**	**44.9%**	**19652**	**14533**	**24.0%**	**28.4%**
Total (all recorded journeys)	**1733**	**928**	**100.0%**	**100.0%**	**81894**	**51144**	**100.0%**	**100.0%**

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. Miles shown as travelled by bus and rail are road equivalent miles.

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 £69,689 or 11.6% of non-personnel overhead costs[1]. This compares with 9.4% last year. Sales of telecoms and internet services to other co-operatives and co-op movement organisations totalled £339,512 or 7.8% of total sales (2004: 8.5%)[1].
- 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.

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 and internet services and equipment, on a co-operative basis, to members and customers.

Auditors

Shaw & Company will be proposed for appointment as auditors, at the Annual General Meeting.

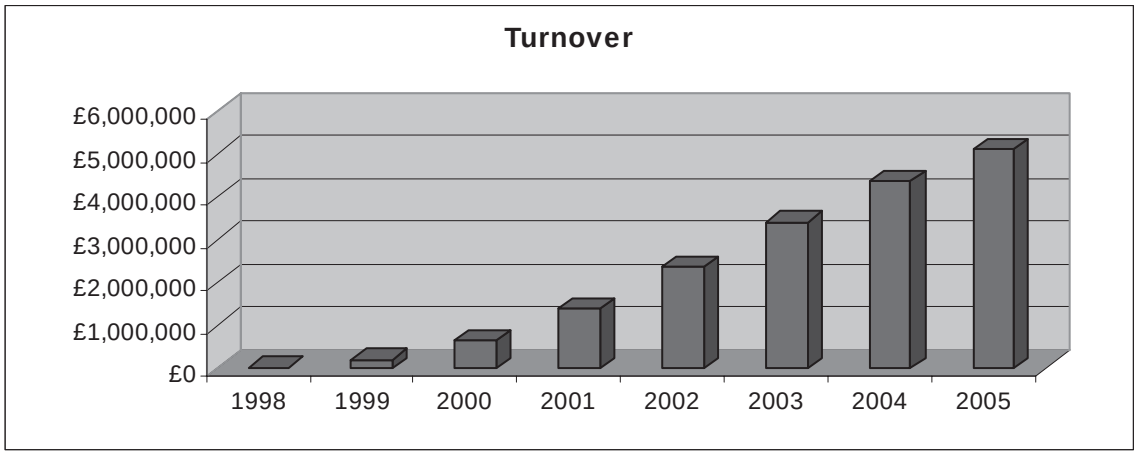
On behalf of the Board of Directors

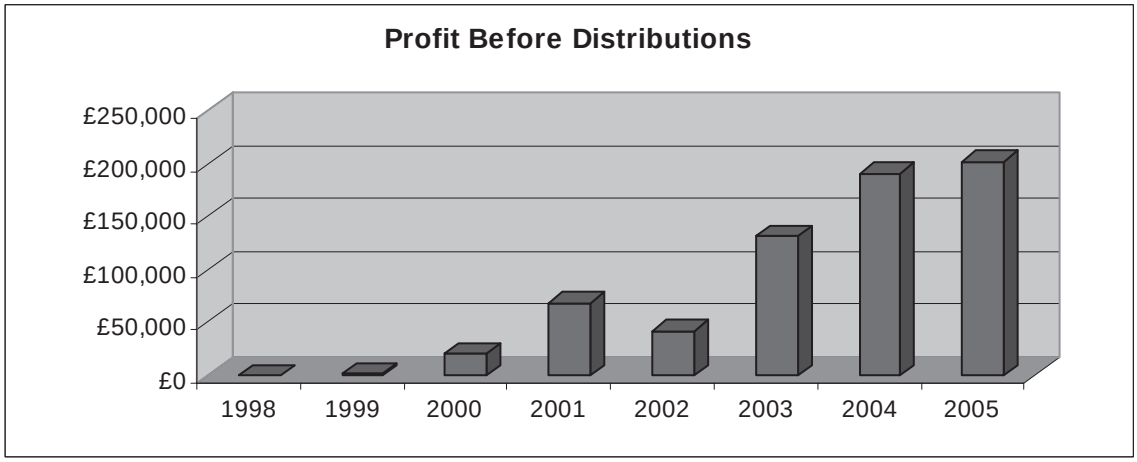
Simon Blackley, Chairperson
Vivian Woodell, Chief Executive
4 January 2006

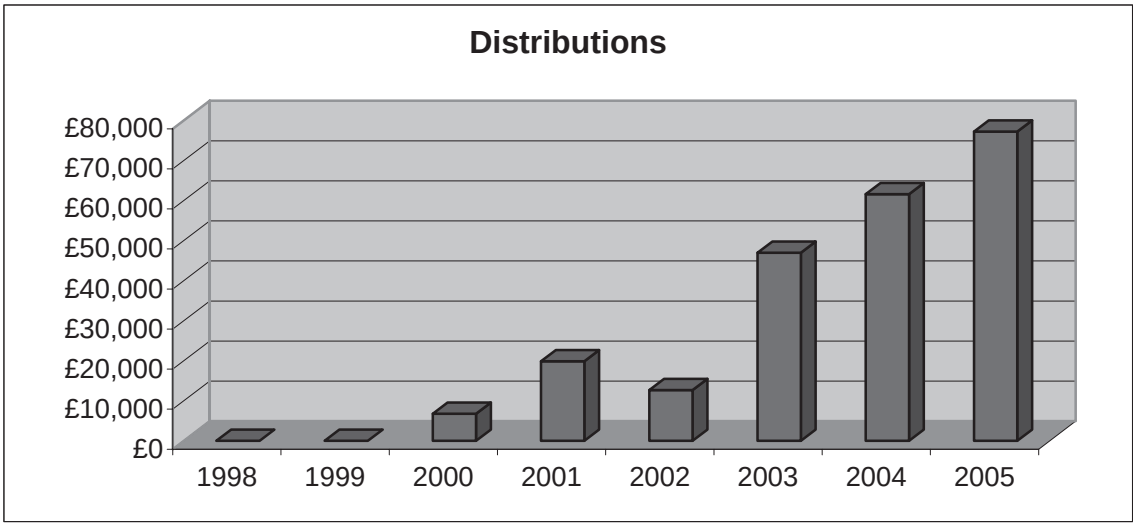
[1] Figures based on known purchases from and sales to co-operatives and other co-op movement organisations

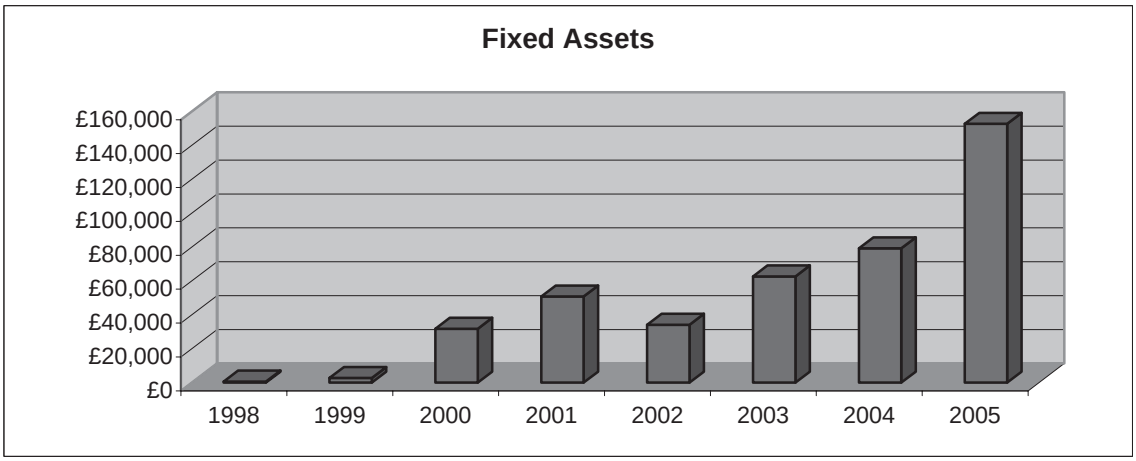
Six years of growth

Period ended 31 August	2000	2001	2002	2003	2004	2005
Membership	362	1039	2081	2985	4248	5414
Revenue Account						
Turnover	£640,170	£1,401,311	£2,355,790	£3,422,113	£4,383,340	£5,111,218
Depreciation	£6,295	£21,063	£53,447	£17,237	£27,716	£42,506
Operating Profit	£22,402	£62,713	£32,393	£124,378	£172,248	£150,244
Profit Before Distributions	£20,257	£68,682	£41,842	£132,077	£190,771	£202,409
Distributions	£6,762	£19,844	£12,675	£46,942	£61,565	£77,217
Transfer to Reserves	£13,097	£41,730	£18,796	£69,762	£106,822	£96,440
Balance Sheet						
Fixed Assets	£31,765	£50,834	£34,130	£62,654	£79,250	£152,743
Current Assets	£305,608	£687,425	£594,406	£1,070,374	£1,793,646	£2,106,262
Net Current Assets	£50,342	£124,326	£242,601	£485,270	£896,356	£1,272,042
Loans: ICOF and Members	£0	£0	£0	£0	£0	£0
Net Assets	£82,107	£175,160	£276,731	£547,924	£975,606	£1,424,785
Share Capital	£64,700	£107,950	£188,366	£371,565	£671,444	£1,004,692
Reserves	£14,877	£56,607	£74,712	£144,474	£251,296	£347,736






Distributions
£80,000
£70,000
£60,000
£50,000
£40,000
£30,000
£20,000
£10,000
£0
1998
1999
2000
2001
2002
2003
2004
2005


Fixed Assets
£160,000
£140,000
£120,000
£100,000
£80,000
£60,000
£40,000
£20,000
£0
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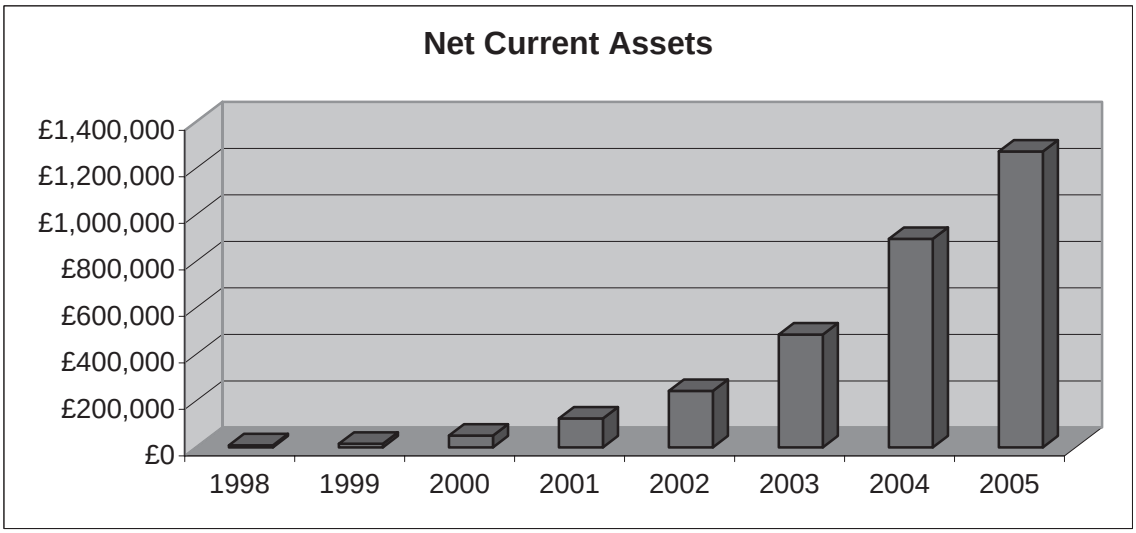
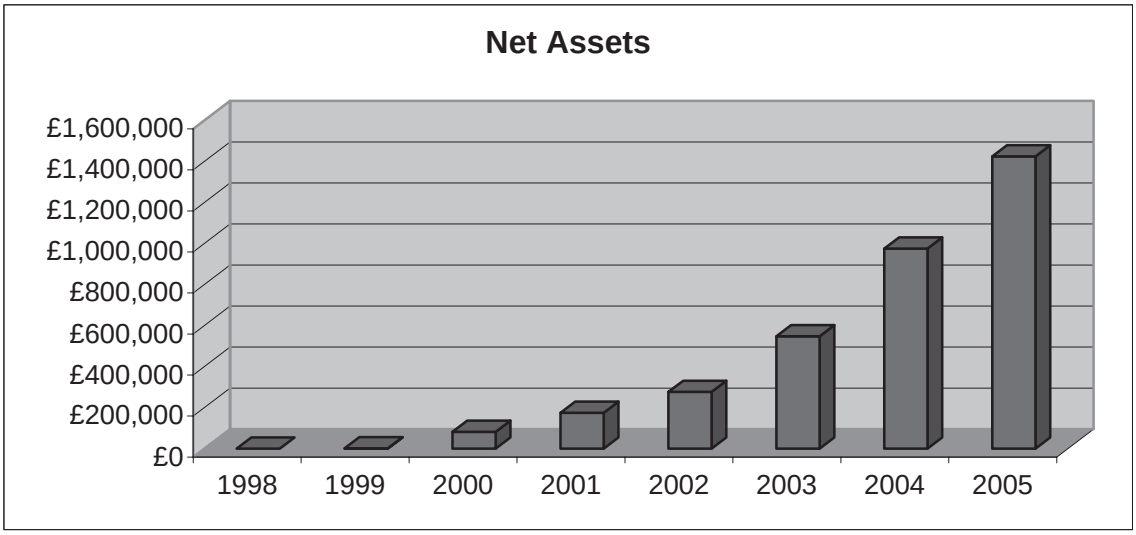
1999
2000
2001
2002
2003
2004
2005


Net Current Assets
£1,400,000
£1,200,000
£1,000,000
£800,000
£600,000
£400,000
£200,000
£0
1998
1999
2000
2001
2002
2003
2004
2005


Net Assets
£1,600,000
£1,400,000
£1,200,000
£1,000,000
£800,000
£600,000
£400,000
£200,000
£0
1998
1999
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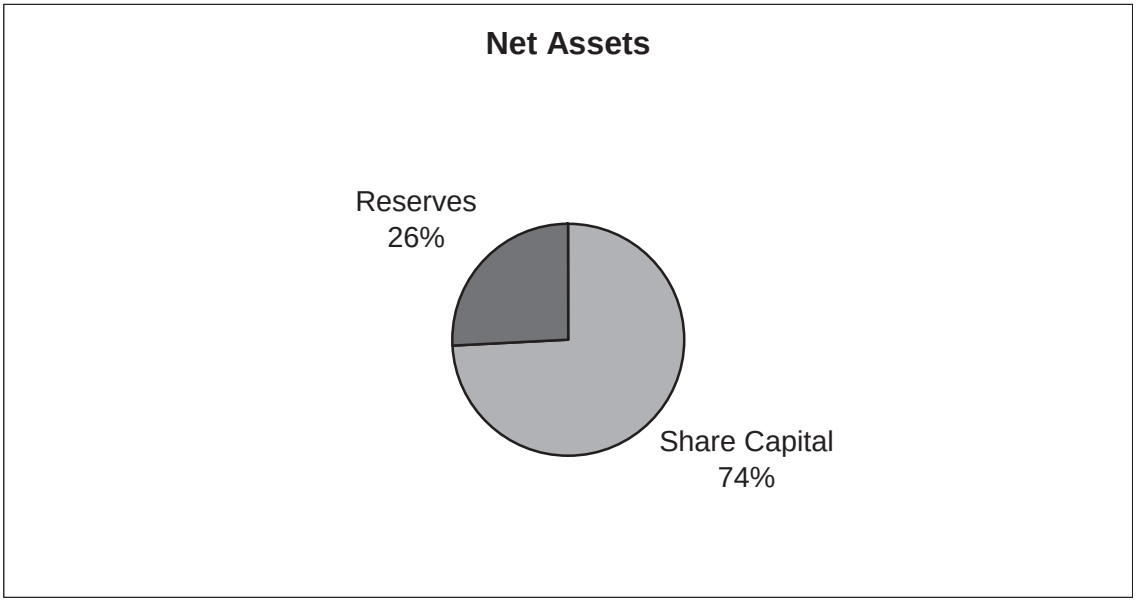
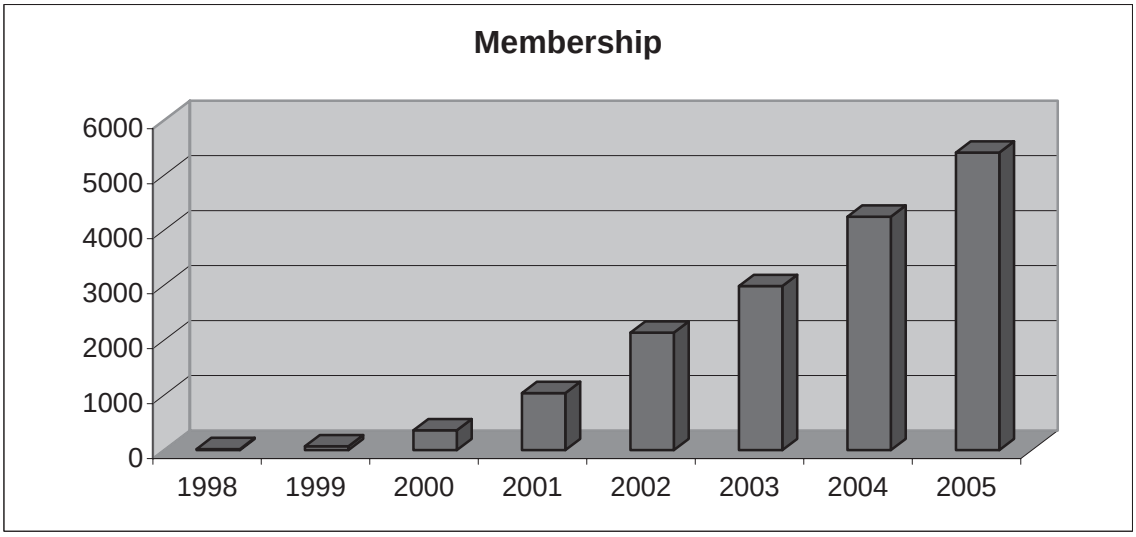
2001
2002
2003
2004
2005


Net Assets
Reserves
26%
Share Capital
74%


Membership
6000
5000
4000
3000
2000
1000
0
1998
1999
2000
2001
2002
2003
2004
2005

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 2005, 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 2005 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

5 January 2006

Revenue Account

for the year ended 31 August 2005

	Notes	31.8.05 £	31.8.04 £
TURNOVER		5,111,218	4,383,340
Less Value Added Tax		(770,243)	(648,390)
NET SALES		4,340,975	3,734,950
Cost of sales		2,744,243	2,391,841
GROSS PROFIT		1,596,732	1,343,109
Administrative expenses		1,446,488	1,170,861
OPERATING PROFIT	3	150,244	172,248
Interest receivable and similar income		52,165	18,523
PROFIT BEFORE DISTRIBUTIONS		202,409	190,771
Share interest		38,235	19,603
Members' dividend		19,491	20,981
Co-operative and Social Economy Development Fund		19,491	20,981
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		125,192	129,206
Tax on profit on ordinary activities	4	28,752	22,384
PROFIT FOR THE FINANCIAL YEAR AFTER TAXATION		96,440	106,822
Retained profit brought forward		251,296	144,474
RETAINED PROFIT CARRIED FORWARD		£347,736	£251,296

Continuing operations
The results for 2005 and 2004 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 14 to 21 form part of these financial statements.

Balance Sheet

as at 31 August 2005

	Notes	31.8.05 £	31.8.05 £	31.8.04 £	31.8.04 £
FIXED ASSETS:					
Tangible assets	5		98,803		69,244
Intangible assets	6		43,939		-
Investments	7		10,001		10,006
			152,743		79,250
CURRENT ASSETS:					
Debtors	8	720,863		741,225	
Investments	9	890,978		666,068	
Cash at bank	10	494,421		386,353	
		2,106,262		1,793,646	
CREDITORS: Amounts falling due within one year	11	834,220		897,290	
NET CURRENT ASSETS:			1,272,042		896,356
TOTAL ASSETS LESS CURRENT LIABILITIES:			£1,424,785		£975,606
CAPITAL AND RESERVES:					
Members' share capital	12		1,004,692		671,444
Co-operative and Social Economy Development Fund	13		72,357		52,866
Profit and loss account			347,736		251,296
			£1,424,785		£975,606

Board Certification
The financial statements on pages 14 to 23 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

Kate Whittle, Director

Vivian Woodell, Chief Executive and Secretary

4 January 2006

The notes on pages 14 to 21 form part of these financial statements.

Notes to the Financial Statements

for the year ended 31 August 2005

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 relating to business acquired is amortised over its useful economic life.

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

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.

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.

Foreign currency translation

Transactions in foreign currencies are translated at the exchange rate in effect at the time of the transaction. Monetary items in foreign currencies are translated at the exchange rate in effect on the balance sheet date. All exchange differences are dealt with in the profit and loss account.

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**

	31.8.05	31.8.04
	£	£
Wages and salaries	678,403	522,815
Social security costs	64,643	50,506
Other pension costs	70,631	53,061
	813,677	626,382

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:

Salary range	31.8.05 Number	31.8.04 Number
£0 - £5,000	-	1*
£5001 - £10,000	-	-
£10001 - £15,000	-	-
£15001 - £20,000	-	1+1*
£20,001 - £25,000	1	1*
£25,001 - £30,000	1*	-
£30,001 - £35,000	3	1+1*
£35,001 - £40,000	1	2
£40,001 - £45,000	1	-

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

Salary	£41,076
Performance related:	£ 1,500
Sub Total	£42,576
Pension contributions:	£ 8,204
Total	£50,780

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

	31.8.05	31.8.04
Full-time staff	30	25
Part-time staff	10	6
	40	31

3. **OPERATING PROFIT**

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

	31.8.05 £	31.8.04 £
Depreciation - owned assets	42,506	27,716
Operating leases – land & buildings	38,613	26,714
Interest payable	165	-
Foreign exchange gains & losses	(114)	-
Fees paid to auditors:		
Audit	7,500	6,500
Other	650	1,550
Directors' emoluments and other benefits etc	-	-

4. **TAXATION**

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

	31.8.05	31.8.04
	£	£
UK corporation tax – current taxation	28,752	25,994
Adjustments in respect of previous years	-	(3,610)
	28,752	22,384

Factors affecting tax charge for period

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (19%). The differences are explained below:

	31.8.05	31.8.04
	£	£
Profit on ordinary activities before distributions	202,409	190,771
Profit on ordinary activities multiplied by small companies rate corporation tax in the UK of 19% (2004: 19%)	38,458	36,246
Effects of:		
Expenses not deductible for tax purposes	817	47
Capital allowances for period in excess of depreciation	445	(2,588)
Members distributions	(10,968)	(7,711)
Adjustments to tax charge in respect of previous years	-	(3,610)
Current tax charge for period	28,752	22,384

5. **TANGIBLE FIXED ASSETS**

	Diallers, routers & programming	Fixtures and fittings	Computer equipment	Totals
	£	£	£	£
COST:				
At 1 September 2004	55,386	61,112	79,673	196,171
Additions	-	8,965	60,990	69,955
Disposals	-	-	-	-
At 31 August 2005	55,386	70,077	140,663	266,126
DEPRECIATION:				
At 1 September 2004	55,384	30,702	40,841	126,927
Charge for year	-	11,324	29,072	40,396
Eliminated on disposals	-	-	-	-
At 31 August 2005	55,384	42,026	69,913	167,323
NET BOOK VALUE:				
At 31 August 2005	2	28,051	70,750	98,803
At 31 August 2004	2	30,410	38,832	69,244

6. **INTANGIBLE FIXED ASSETS**

	Goodwill
	£
COST:	
At 1 September 2004	1
Additions	46,050
Disposals	-
At 31 August 2005	46,051
AMORTISATION:	
At 1 September 2004	1
Charge for year	2,111
Eliminated on disposals	-
At 31 August 2005	2,112
NET BOOK VALUE:	
At 31 August 2005	43,939
At 31 August 2004	-

7. **FIXED ASSET INVESTMENTS**

	£
COST:	
At 1 September 2004	11,062
Additions	-
Disposals	(5)
At 31 August 2005	11,057
PROVISIONS:	
At 1 September 2004 and 31 August 2005	1,056
NET BOOK VALUE:	
At 31 August 2005	10,001
At 31 August 2004	10,006

	31.8.05	31.8.04
	£	£
Investment in subsidiary undertaking	1	1
Investments in Other Industrial and Provident Societies:		
Shares in the Co-operative Group:	10,000	10,005
Interest received from the Co-operative Group	-	5

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:	% holding
Ordinary & Preference shares of 10p	100

	30.9.04 £	30.9.03 £
Aggregate capital and reserves	14,160	20,951
Loss for the year	6,791	5,538

8. **DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	31.8.05 £	31.8.04 £
Trade debtors	650,806	715,003
Amounts due from subsidiaries	-	335
Prepayments and accrued income	55,414	12,482
Other debtors	14,643	13,405
	720,863	741,225

9. **CURRENT ASSET INVESTMENTS**

	31.8.05 £	31.8.04 £
Investments in other Industrial and Provident Societies:		
Shares, ICOF Community Capital Ltd.	52,866	31,885
Corporate investor shares, The Co-operative Group (CWS) Ltd.	838,112	633,833
Corporate investor share account, The Co-operative Group (CWS) Ltd.	-	350
	890,978	666,068

10. **CASH AT BANK**

Cash and bank balance include the following share account balance held with another Industrial and Provident Society:	31.8.05 £	31.8.04 £
Oxford Swindon and Gloucester Co-operative Society Limited Community Membership Account	250,718	139,323

11. **CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	31.8.05 £	31.8.04 £
Bank overdraft	-	85
Trade creditors	428,409	617,917
Other creditors	38,347	19,603
Members' dividends	19,491	21,342
V.A.T.	44,170	46,777
Social security & other taxes	22,484	15,646
Taxation	28,752	25,994
Accrued expenses and deferred income	252,567	149,926
	834,220	897,290

12. MEMBERS' SHARE CAPITAL

	31.8.05	31.8.04
	£	£
As at 1 September 2003	671,444	371,565
Contributions in the year	430,341	365,510
Withdrawals in the year	(97,093)	(65,631)
As at 31 August 2004	1,004,692	671,444

(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 4.5% 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. CO-OPERATIVE AND SOCIAL ECONOMY DEVELOPMENT FUND

	31.8.05	31.8.04
	£	£
Brought forward	52,866	31,885
Transferred in the year	19,491	20,981
	72,357	52,866

14. OPERATING LEASE COMMITMENTS

The following payments are committed to be paid within:

	Land & Buildings	Land & Buildings
	31.8.05	31.8.04
	£	£
Expiring:		
Within one year	-	6,650
Between two and five years	49,663	20,064

15. **CAPITAL COMMITMENTS**

	31.8.05 £	31.8.04 £
Expenditure contracted but not provided for	103,000	-

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 £70,631 (2004: £53,061). There were no commitments at the balance sheet date.

17. **CONTINGENT LIABILITIES**

The Society has entered into an arrangement with ICOF Community Capital ltd. (ICC) to manage the Co-operative and Social Economy Development Fund., Under this arrangement, the Society invested an amount equal to the value of the Co-operative and Social Economy Development Fund in the withdrawable share capital of ICC, and provided a guarantee to ICC in respect of loans made by ICC to co-operatives, up to a maximum of the value of the fund. At the year-end, two loans of £5,000 each had been made from the fund.

18. **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. The Board has resolved that only transactions involving related parties with a value of £1,000 or more are disclosed in the Annual Report.

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 of which Martin Alder (who was a director of The Phone Co-op during the year) was a Director. The value of services provided under this contract during the year was £119,565 (last year: £133,146). Amounts outstanding at the balance sheet date, included in Trade Debtors, totalled £20,547 (last year: £14,193).

Peter Turnbull, a Director, was an Agent for The Phone Co-op during the year, and received income of £3,302 from commissions on sales generated under his agency (last year: £3,726).

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 £4,950 (last year: £5,460). At the balance sheet date £529 (last year: £1,057) was owing and included in Trade Creditors. The Society provided office services to Claire Jarvis to the value of £1,524 (last year: £1,692). At the balance sheet date £1,453 (last year: £869) was owed from C Jarvis and included in Trade Debtors.

Justin Andersen, a Director, provided recruitment and training services to the Society during the year to the value of £1,177 (last year: £354). At the balance sheet date £nil (last year: £nil) was outstanding.

During the year, Brian Condon, a Director, Vivian Woodell, Chief Executive, and Shaun Fensom, Head of Internet Services, served on the Board of the Community Broadband Network. Malcolm Corbett, a Director of The Phone Co-op, was also the Principal Officer of the Community Broadband Network. In March 2005, The Phone Co-op was the lead sponsor of a conference at the Department of Trade and Industry organised by the Community Broadband Network and the Access to Broadband Campaign. The cost of the sponsorship was £1,500.

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 (who was a director of The Phone Co-op during the year) was a Director. The value of the funds held in the account at the year-end was £250,718 (last year: £139,323). The value of interest received was £9,955 (last year: £11,202) Oxford, Swindon and Gloucester Co-operative Society also had a share account with The Phone Co-op (the balance of which was almost entirely made up of accrued dividends and interest), and the balance at the year-end was £8,600 (last year £6,010).

During the year the Society also purchased billing and wholesale telecommunications services from Ecobilling Limited (a wholly owned subsidiary) to the value of £nil (last year: £40,885). At the balance sheet date Ecobilling owed £nil (last year: £335) to the society.

During the year, Brian Condon, a Director, Vivian Woodell, Chief Executive, and Shaun Fensom, Head of Internet Services, served on the Board of the Community Broadband Network. Malcolm Corbett, a Director of The Phone Co-op, was also the Principal Officer of the Community Broadband Network. The Board of The Phone Co-op resolved during the year to invest £2,500 in withdrawable share capital issued by the Community Broadband Network. The investment was made after the year-end.

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

19. **CORPORATE GOVERNANCE**

The Society subscribes to the Code of Good Practice on Corporate Governance for Retail Co-operative Societies published by Co-operatives UK, and strives to comply with it. In the year under review, the Board believes that it complied in all respects, except the following:

a. The Society does not publish interim financial statements. This is because, in the Board's view, taking account of the size of the Society, the benefits of doing so are outweighed by the costs. This policy is kept under review.
b. The Society has not established a separate Audit Committee. Again, this is considered not to be appropriate in view of the small size of the Society and the limited number of Board members. The Board is responsible for recommendations to members on the appointment of auditors, and for oversight of the Society's risk management policies. The Board holds a private meeting with the auditor at least annually.

Board training: The Corporate Governance Code requires that a statement be made each year on the arrangements in place for Board training. The Board recognises that the Society is operating in a complex and rapidly changing industry, and that training is needed to ensure that Directors remain abreast of key developments. With this in mind, a skills audit was carried out with the help of the Co-operative College, Using the results from this, a number of training and teambuilding sessions have been arranged during the year. In addition, Directors have access to training provided by The Co-operative College. The Board is arranging for a skills audit to be carried out during 2004-2005. Three regional briefing sessions for people interested in standing for the Board were also held to encourage members to stand in the election.

Trading and Profit and Loss Account

for the year ended 31 August 2005

	31.8.05		31.8.04	
	£	£	£	£
Income:				
Sales - telecommunication services	3,297,876		3,188,723	
Sales – internet services	801,807		461,996	
Sales - phone systems	231,524		69,484	
Commissions received	2,434		3,551	
Other income	7,334		11,196	
		4,340,975		3,734,950
Cost of sales:				
Carrier charges	1,986,925		2,093,932	
Internet services	538,396		231,060	
Phone systems	218,672		66,798	
Miscellaneous	250		51	
		2,744,243		2,391,841
GROSS PROFIT		1,596,732		1,343,109
Other income:				
Deposit account interest		51,764		18,039
Dividend received		401		325
Other interest received		-		159
		1,648,897		1,361,632
Expenditure:				
Salaries and other personnel costs	681,320		534,315	
Social security	64,643		50,506	
Pensions	70,631		53,061	
Staff recruitment & training	26,786		7,167	
Outsourced HR support	4,652		-	
Telephone	12,319		13,117	
Print, Post & stationery	66,953		53,088	
Travelling & subsistence	19,867		13,094	
Repairs & renewals	12,884		7,727	
Computer & IT overheads	6,165		27,179	
Engineering & provisioning costs	11,382		26,161	
Billing costs	41,896		41,115	
Sundry expenses	7,821		6,646	
Auditors' remuneration	7,500		6,500	
Board expenses	8,201		3,564	
AGM expenses	1,712		1,035	
Accountancy	650		1,550	
Consultancy fees	1,895		4,933	
Legal & professional fees	8,517		9,462	
Credit control	1,328		715	
Commission paid	119,320		107,731	
PR & Promotional costs	29,477		23,814	
Bad debts	66,839		45,385	
Rent & services	38,625		30,948	
Rates & water	10,415		8,028	
Subscriptions and Donations	4,209		3,581	
Insurance	2,532		3,096	
Light & heat	6,688		4,227	
Project development costs	-		1,120	
Outsourced customer & technical support	55,648		42,847	
		1,390,875		1,131,712
Carried forward		258,022		229,920

This page does not form part of the statutory financial statements.

Trading and Profit and Loss Account

for the year ended 31 August 2005

	31.8.05		31.8.04	
	£	£	£	£
Brought forward		258,022		229,920
Finance costs:				
Bank charges	12,146		10,333	
Credit card	961		1,100	
		13,107		11,433
		244,915		218,487
Depreciation:				
Goodwill	2,111		-	
Fixtures & fittings	4,873		5,122	
Computer equipment	35,522		22,594	
		42,506		27,716
		202,409		190,771
Profit on disposal of fixed assets				
Computer equipment		-		-
		202,409		190,771
NET PROFIT		£202,409		£190,771

Society Information

Directors	Simon Blackley *Chairperson* Kate Whittle *Vice-Chairperson* Justin Andersen Brian Condon Malcolm Corbett Bernard Skillerne de Bristowe Peter Turnbull
Chief Executive and Secretary	Vivian Woodell
Management Team	
Finance and Administration	Maz Chaudhry
Sales	Guy Ohlenschlager
Customer Services	Amanda Beard
Head of Internet Services	Shaun Fensom
Operations	Dave Hart
Projects and Membership	Fiona Ravenscroft
Registered office	5 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

The Phone Co-op Limited
Notice of Annual General Meeting

The Annual General Meeting will be held at 2.00 pm on Saturday 28 January 2006 at Chipping Norton School, Burford Road, Chipping Norton, Oxfordshire.

A buffet lunch will be available at the school from 1.00 pm. A Special Meeting of Members, of which notice has been given separately, will take place immediately following the conclusion of the AGM, to consider a number of proposals submitted by the Board of Directors to amend the Society's Rules.

Interim Agenda

1. Apologies
2. Introductions and welcome
3. To approve the minutes of the Annual Members' Meeting held on 29 January 2005
4. To approve the minutes of the Special Members' Meeting held on 29 January 2005
5. To receive the Directors' report and accounts for the year ended 31 August 2005
6. To approve the following appropriations, including dividend distributions recommended by the Board of Directors:

Share Interest:	£38,235
Dividend:	£19,491
Allocation to the Co-operative and Social Economy Development Fund:	£19,491

7. To appoint Shaw & Co as auditors of the Society
8. Election of Directors: declaration of the result
9. Election of Scrutineers
10. To approve the draft Ethical Policy
11. To consider the following notice of motion submitted by Alan Rayner:

    "This meeting, mindful of the potentially undemocratic features of the 'first-past-the-post' system of voting (which could result in the elected candidates all representing a majority opinion to the exclusion of substantial minority opinions), requests the Board to investigate the possibility of using an alternative system for all elections internal to the co-op and to report back to the next AGM with their findings.

    In particular, the Board is requested to consult with the Electoral Reform Society with a view to enhancing their knowledge of the various possible alternatives and the ways that these have been implemented in other organisations."

12. Any other business

The Phone Co-op
5 Millhouse
Elmsfield Business Centre
Worcester Road
Chipping Norton
Oxon OX7 5XL

Phone Co-op Internet Services
Rutherford House
Manchester Science Park
Manchester M15 6GG

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