

**thePhoneCo-op**  
your voice counts

# Annual report and financial statements 200708



# The Phone Co-op Limited

## Annual Report and Financial Statements

For the year ended 31 August 2008

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# Society Information

## **Directors**

Mick Taylor (Chairperson)  
Justin Andersen (Vice-Chairperson)  
Bob Burlton  
Robert Denbeigh  
Tony Mitchell  
Kate O'Donoghue  
Pete Turnbull

## **Chief Executive**

Vivian Woodell

## **Secretary & Membership Manager**

Jane Avery

## **Management Team**

**Finance & Administration Manager**  
**Head of Sales & Marketing**  
**Head of Operations**  
**Business Sales Manager**  
**Customer Services Manager**  
**Products & Service Delivery  
Manager**

Maz Chaudhry  
David Clapham  
Sven Trogstad  
Guy Ohlenschlager  
Amanda Beard

Fiona Ravenscroft

## **Registered office**

5 Millhouse  
Elmsfield Business Centre  
Worcester Road  
Chipping Norton  
Oxfordshire  
OX7 5XL

## **Registered number**

28965R

## **Auditors**

Shaw Gibbs LLP  
Chartered Certified Accountants  
Registered Auditors  
264 Banbury Road  
Oxford  
OX2 7DY

# **Directors' Report**

## for the year ended 31 August 2008

### **Overview**

This has been a year in which we were able to build on last year's solid progress, continuing our pattern of steady growth. We have continued to expand our sales, and have also improved our profitability. Once again, we are pleased to have broken records for turnover, profit, membership, share capital and assets. The directors believe this places us in a good position to focus more intensively on growth in 2008-2009. The strong performance has also enabled the board to recommend a dividend of 2% of eligible purchases (excluding VAT), up from 1.5% last year.

### **Review of the year**

In the year under review, The Phone Co-op has continued to consolidate and grow. Turnover was 10% up on the previous year, reaching a new record of £7.65m, mainly driven by increased sales to existing customers. In line with experience in the industry generally, sales of fixed-line calls fell, and the growth was mainly secured through increased sales of broadband and line rental. Mobile services grew strongly, but remained a small part of the business.

We have continued to focus on our ethical and environmental initiatives, and have also strengthened our support for the wider Social Enterprise sector with the launch of a new fund to help new and expanding social enterprises with their telecoms costs.

No acquisitions were made during the year, but discussions took place with a number of parties which could lead to transactions taking place in the year ahead.

### **Trading performance**

Sales increased by £569,000, or 10%. The largest increase among the main product categories was fixed line rental income, which rose by 40% to £2m. Sales of internet access and hosting products saw an overall increase of 11%, taking them to £1.33m. Sales of fixed line call minutes declined by 7% to £2.88m, reflecting falling prices and a gradual migration towards mobile, as well as away from voice calls in general. Sales of mobile services, (principally standing charges and call minutes), increased by 217%, from a low base, to £69,000. Although the regulatory environment is not particularly friendly to independent service providers, we believe that this is an area with considerable growth potential. Sales of phone systems and maintenance contracts increased by 9% to £132,000.

Margins remained generally strong, rising in all main product categories, which helped lift the gross profit by £278,000 to £1.94m, an increase of 17%. This represented an overall gross profit margin of 30%, up from 28% in the previous year, and has been achieved largely because our increased buying power has helped us to negotiate better rates from suppliers.

Expenses increased by £271,000, or 19%, partly because of rising costs, but also because we strengthened our management and staff teams and spent more on marketing and promotional activities. In addition, the directors made the decision to write off the remaining value of certain IT systems, following the acquisition of The Phone Co-op's supplier, and indications that the systems will not follow a development path well-suited to our needs. This is likely to result in a requirement for increased capital expenditure on IT in the year ahead. The bad debt provision also increased sharply reflecting the worsening economic climate, and the comparison with a particularly good year in 2006-7 during which a number of significant recoveries were made. Nevertheless, at 1.4% of sales our provision for the year under review is still low for the telecoms industry.

Operating profit was up slightly at a new record of £239,000, an increase of 3%. While this did not match the growth in turnover, it reflected in part the prudent provisions and write-downs referred to above, as well as expenditure designed to help us achieve growth in the future.

Increased cash balances, coupled with higher interest rates, meant that interest received increased by 35% to £99,000. This took our profit before distributions to a new record of £338,000, an increase of 11%, enabling the board to recommend a dividend to members of 2% of VAT-exclusive eligible purchases, equalling our previous record.

## **Balance sheet**

The write-downs on our IT systems helped reduce tangible assets by 61% to £42,000. Investments of £7,000 from our Co-operative and Social Economy Development Fund boosted fixed asset investments by 21% to £40,000. Overall, fixed assets were reduced by 39% to £132,000. Current assets rose by 22% to £3.78m. Net current assets rose by 25% to £2.39m, placing the business in a strong position to finance projects of a significant nature, such as acquisitions.

Net assets increased by 18% to £2.52m, driven by an inflow of share capital which was up by £229,000 (or 14%) to a new record of £1.87m, and retained profits. Revenue reserves passed the £0.5 million mark for the first time, reaching £544,000 by the year-end, an increase of 28%.

## **Employees**

The number of employees grew by nearly 20%, as we built capacity to generate and handle our planned growth. The board would like to pay particular tribute to the efforts of our employees throughout the organisation. We are fortunate to have such a dedicated, hard-working and committed group of colleagues working at The Phone Co-op; without them, we would not have been able to build the successful co-operative we have now become.

## **Employee engagement and stakeholding**

The Phone Co-op operates a profit-sharing scheme and a sales-related bonus scheme which are available to all permanent employees after six months' service. The Phone Co-op also has an elected Employee Council, which holds periodic meetings and is encouraged to input into strategy.

Employees are encouraged to belong to an appropriate trade union, and discussions took place with The National Association of Co-operative Officials (NACO) during the year which it is expected will lead to the establishment of a recognition agreement.

## **Membership**

The number of members increased by 425 during the year to 7,160. This was a slightly bigger increase than in the previous year, although the rate of growth, at 6.3%, was roughly the same in percentage terms. In April, we were pleased to welcome Jane Avery as our new Membership Manager and Secretary, and we believe that this key new post will enable greater focus on membership recruitment and development than we have been able to achieve in the past. Our members are at the heart of our organisation, and membership is at the core of what makes us different. Trade with members in the year was 45% of sales (compared with 42% in the previous year), bringing it within reach of the board's target of least 50% of trade with members. This is the highest level achieved to date, and is the second year when an increase has been recorded. 10% more of our business is being done with members than was the case two years ago.

## **Outlook**

Last year we were able to report that we had experienced 18 consecutive months of profitable trading. We are pleased to report that this positive performance continued throughout the year under review and at the time of writing, we have had 30 months of profitable trading without a break (including the first three months of 2008-9, which are unaudited), setting a new record for The Phone Co-op. However, the growth plans the board has approved involve an increase in expenditure in order to achieve them, and we anticipate that the result for 2008-9 will reflect this planned investment in the growth of your co-operative. We are also conscious that the worsening economic outlook brings us challenges as well as opportunities. While the talk is now of the risk of deflation in the wider economy, this is a phenomenon we have been familiar with in the telecoms industry for many years, and we expect that this will continue, although in a regulated industry such as ours, we cannot assume this will apply to all products.

We did not complete any acquisitions in the year under review, but we continued to pursue opportunities, and negotiations with various potential vendors are still ongoing. We believe that the current economic climate may present opportunities to acquire customer bases and we expect valuations to decline, making deals more attractive. We are well-funded and in a good position to complete acquisitions as a cash buyer, giving us an advantage over other operators. We will aim for acquisitions that are either strategic in nature, or generate an immediate improvement in profitability, enabling us to utilise the funds generated to finance additional organic growth.

The Phone Co-op operates in a global industry, and the opportunities for co-operation in this industry are not restricted to national boundaries. Towards the end of the financial year, we started work on a project to commence a service in Belgium, initially aiming to supply the Ethical Property Company's latest development in Brussels. We believe the Belgian market could offer worthwhile opportunities for The Phone Co-op in the future.

## Non-financial measures

### **Key Social and Co-operative Performance Indicators**

Our Ethical Policy sets out our values and intentions when conducting business. We have developed a set of indicators based on Co-operativesUK's Key Social & Co-operative Performance Indicators, which will allow members to monitor our performance.

Co-operativesUK's indicators are:

- Indicator 1: Member economic involvement
- Indicator 2: Member democratic participation
- Indicator 3: Participation of employees and members in training and education
- Indicator 4: Staff injury and absentee rates
- Indicator 5: Staff profile – gender and ethnicity
- Indicator 6: Customer satisfaction
- Indicator 7: Consideration of ethical issues in procurement and investment
- Indicator 8: Investment in community and co-operative initiatives
- Indicator 9: Net carbon dioxide emissions arising from operations
- Indicator 10: Proportion of waste recycled/reused.

The Phone Co-op's indicators, measures and performance are:

Indicator	The Phone Co-op Measure	2008	2007	2006
<b>Our Values</b>				
Membership	Number of members at the end of the year	7,160	6,735	6,333
	Growth in membership (%)	6.3	6.3	17
Member economic involvement <b>(1)</b>	Trade with members as % of sales	44.73	42.01	34.7
Member democratic participation <b>(2)</b>	Number of candidates for Board (number of vacancies in brackets)	8 (4)	5 (3)	9 (4)
	Voting turnout (%)	20.35	31.7	21.9
<b>Our Employees</b>				
Employee Council	Number of grants made to employees for non-vocational training	5	3	2
Participation of employees in training and education schemes <b>(3)</b>	Number of training days per full time employee per year*	1.8	3.1	2
Staff injury and absentee rates <b>(4)</b>	Average number of days leave recorded due to injury, illness etc per full time employee per year*	3.3	2.7	3.7
<b>Diversity</b>				
Staff profile – ethnicity <b>(5)</b>	Non-white as % of all staff	11	12	
Staff profile – gender <b>(5)</b>	Women as % of all management and supervisory staff	55	44	40
	Women as % of all staff	65	56	44
Director profile – ethnicity	Non-white as % of all directors	0	0	

Director profile – gender	Women as % of all directors	14	14	14
<b>Customer Service</b>				
Customer satisfaction (6)	% rating average, very good and excellent		86 <sup>‡</sup>	
	% rating very good and excellent		72 <sup>‡</sup>	

<b>Social responsibility</b>				
Consideration of ethical issues in procurement and investment decisions (7)	Purchases with other Co-operatives as % of costs (non-personnel overhead)	11.06	14.0	12.3
	Sales to other Co-operatives as % of total	14.7	13.4	6.0
Investment in community and co-operative initiatives (8)	Co-operative and Social Economy Development Fund (£ in year)	37,804		19,491
	Co-operative and Social Economy Development Fund value to date (£)	110,161	72,357	72,357
	Share capital investments in community and co-operative initiatives (long term, excluding ICOF Community Capital/CCF) (£)	40,000	33,000	17,500
	Other investments in co-operatives (short term) (£)	2,188,442	1,905,844	1,056,334
Revenue paid to Affinity Partners	£ commission in year	80,821	76,833	83,633
Other charitable donations	£ total in year	400	25	175
<b>Environment</b>				
Business journeys by rail, bus, bicycle or foot	% of journeys	74	78	69
	% of miles travelled	93	86	67
Proportion of waste recycled/reused (10)	% of paper waste recycled/reused	100	100	100
	Number of sheets of A4 ordered in year for letters and bills per £1,000 turnover	73	102	140
	Number of sheets of A4 used for publicity material per £1,000 turnover	23	31	60
Electricity use (total of all offices)	kWh per m <sup>2</sup> of treated floor area	110±	89	90
	KgCO <sub>2</sub> per m <sup>2</sup> of treated floor area	0 <sup>†</sup>	0 <sup>†</sup>	0 <sup>†</sup>
Gas use (LPG)	kWh per m <sup>2</sup> of treated floor area	97±	108	104
	Kg CO <sub>2</sub> per m <sup>2</sup> of treated floor area	21 <sup>†</sup>	23 <sup>†</sup>	22 <sup>†</sup>
Net carbon dioxide emissions arising from electricity and gas use (9)	Kg CO <sub>2</sub>	8125 <sup>†</sup>	9068 <sup>†</sup>	8716 <sup>†</sup>

Voluntary carbon offset levy	Tonnes CO <sub>2</sub> equivalent arising from operations (including suppliers)	211.9	181.7	162.7
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Notes: 1. Co-operatives UK Social & Co-operative performance indicators are noted in brackets

‡ 2007: 490 responses; 2005: 872 responses # No customer survey was undertaken in 2008

\* Average monthly number of employees was 51 (33 full time)

† All electricity is purchased from renewable energy suppliers. Electricity based on landfill gas, hydro and wind is considered to have zero net carbon dioxide emissions. LPG is 0.21 kgCO<sub>2</sub> per kWh. Source <http://www.defra.gov.uk/>

± An additional office unit at Chipping Norton, previously used for storage, is included in this calculation for 2007-8

## ***Environmental and other ethical measures***

In addition, for the past three years we have been reporting on specific environmental policies, and on other non-financial measures, and we are pleased to do so again this year.

### **Environmental issues**

- We have invested £20,000 in the Westmill Wind Farm Co-operative, which is building a wind farm near Swindon, and a further £5,000 in Torrs Hydro, a small-scale hydro-electric project in Derbyshire, run as a community-owned social enterprise.
- 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, 74.3% of journeys were made by less environmentally damaging transport modes (rail, bus, cycling or walking), slightly lower than the figure of 78.1% last year. However, if the analysis is done by distance travelled, 92.7% of business miles travelled were by less environmentally damaging transport modes, compared with 86.1% last year. This represents a real improvement on the figures for the previous year, which were already good. This year's figures are the best overall since we started reporting on these measures.
- We provide bicycles free of charge for the use of our employees for commuting and for business journeys. This new initiative was started last year. We also offer a mileage payment for cycling and walking on business journeys.
- Last year we launched a new initiative, our Sustainability Fund. The aim of this is to create a ring-fenced fund which enables us to finance initiatives to improve our environmental performance which would not otherwise have been financially viable. In relation to capital expenditure this will mean the Fund will finance the difference between an investment which would have been justified by the financial return the investment will produce, and the actual cost of the investment. The Sustainability Fund received support in various ways:
  - The Phone Co-op contributed £5 for each customer transferring to electronic billing and £1 for each customer moving to direct debit
  - Members waived their dividend and share interest in favour of the Fund
  - Members and customers contributed directly to the Fund.
- The Sustainability Fund was launched in June 2007, and by the end of August 2008 had raised over £16,800, up from £9,000 a year earlier. These funds are held on our balance sheet. We would like to thank our members and customers for the strong support they have shown for this initiative.

- 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 support for more efficient cooking stoves in Cambodia and Uganda, wind power generation in China, and biomass generation in India. At the present time our view is that, although offsets alone cannot solve the problem of global warming, and while there may on occasions be abuses in the way offsets are marketed, this does not invalidate their use by The Phone Co-op in relation to emissions which we are unable to reduce (including emissions generated by suppliers, which we also offset). It was therefore decided that we should continue to use offsets, while redoubling our efforts to reduce our own emissions where we can.
- 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, and other waste where possible.

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

Means of transport	Recorded journeys		Percentage of total journeys		Miles travelled		% of total miles	
	2007-8	2006-7	2007-8	2006-7	2007-8	2006-7	2007-8	2006-7
Rail (including underground and tram)	676	687	51.8%	57.8%	79128	47615	90.9%	81.9%
Bus/Ferry/Riverbus	287	218	22.0%	18.4%	1601	2392	1.8%	4.1%
Cycle and walking	7	23	0.5%	1.9%	4	22	0.0%	0.0%
<b>Sub-total – less environmentally damaging transport modes:</b>	<b>970</b>	<b>928</b>	<b>74.3%</b>	<b>78.1%</b>	<b>80729</b>	<b>50007</b>	<b>92.7%</b>	<b>86.1%</b>
Personal car or motorbike	188	138	14.4%	11.6%	4803	4494	5.5%	7.7%
Taxi	148	119	11.3%	10.0%	1520	850	1.7%	1.5%
Air	0	3	0%	0.3%	0	2752	0%	4.7%
<b>Sub-total – more environmentally damaging transport modes:</b>	<b>336</b>	<b>260</b>	<b>25.7%</b>	<b>21.9%</b>	<b>6323</b>	<b>8096</b>	<b>7.3%</b>	<b>13.9%</b>
<b>Total (all recorded journeys)</b>	<b>1306</b>	<b>1188</b>	<b>100.0%</b>	<b>100.0%</b>	<b>87052</b>	<b>58103</b>	<b>100.0%</b>	<b>100.0%</b>

### **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, (EPC), 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 11% of non-personnel overhead

costs<sup>1</sup>. This compares with 14% last year, a reduction which partly results from the fall in stationery purchases from one co-operative due to the increasing proportion of customers who receive their bills by email. Sales of telecoms and internet services to other co-operatives and co-op movement organisations totalled 15% of total sales (2007: 13%)<sup>1</sup>.

- 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.

## **Wider recognition**

Last year we were able to report that we were rated second out of 19 providers in a Which? Magazine survey. We were delighted when we started the year under review with another accolade: The Phone Co-op received the runner-up award in the Fixed Service Provider of the Year awards given by Federation of Communications Services.

## **Board of Directors**

The directors who served during the year were:

Justin Andersen (Vice-Chairperson)  
Simon Blackley – until 2 February 2008  
Jim Brown – until 2 February 2008  
Bob Burlton – from 2 February 2008  
Robert Denbeigh – from 2 February 2008  
Tony Mitchell  
Kate O'Donoghue  
Mick Taylor (Chairperson)  
Pete Turnbull

At the AGM in February 2008, the terms of office of Justin Andersen, Simon Blackley, Jim Brown and Pete Turnbull came to an end. Simon Blackley and Jim Brown did not offer themselves for re-election. Nominations were received for 8 candidates for the four available places. A postal ballot was held and, in accordance with the transitional arrangements which formed part of the Rule changes approved in 2006, the three candidates receiving the highest number of votes (Justin Andersen, Bob Burlton and Robert Denbeigh) were elected to serve for three years, and the candidate receiving the fourth highest number of votes (Pete Turnbull) was elected to serve for one year.

The board would like to place on record its thanks for the service of the two retiring directors. We would like to make particular mention of the work of Simon Blackley, who was a director from the time The Phone Co-op was incorporated in 1997, serving as Chairperson until 2007.

The Board attaches great importance to ensuring that directors receive the training they need to fulfil their roles to the highest standard. A skills audit was carried out during the previous year with external support, and using the results of this, training was arranged during the year under review to improve directors' knowledge and skills. The training focused on acquisitions and industry developments. Directors also have access to other training resources. Briefing sessions were arranged in London and Edinburgh, as well as by telephone, for people interested in standing for the Board, to provide information on the role of directors and to help potential candidates decide whether they would like to stand.

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

## **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**

A resolution to reappoint Shaw Gibbs LLP as auditors for the ensuing year will be proposed at the annual general meeting.

## **Remuneration Report**

### **Overview**

This report, which is published in accordance with the Code of Best Practice adopted by the Co-operative Congress in May 2005, aims to provide members with an overview of the Society's remuneration policies and practices for its senior management, together with details of their remuneration, pension and other benefits. The report also provides details of the fees and other benefits paid to the Society's directors, and provides an overview of performance-related benefits available to employees generally.

The Board considers that it is not appropriate, given the size of the Society, to establish a separate Remuneration Committee, and these functions are carried out by the Board as a whole. The Board is responsible for setting the remuneration of the Chief Executive and Secretary, and, in conjunction with the Chief Executive, for setting the remuneration of other members of the Management Team.

External advice is taken from time to time, usually from sources within the co-operative movement.

## Senior management remuneration

Remuneration packages for the management team comprise basic salary, participation in the Society's incentive scheme and pension provision. Details for the Management Team are given below (the notes form an integral part of the table):

Name	Employment commenced	Basic Salary	Performance related	Pension	Total emoluments	Total emoluments
		£	£	£	2007/2008 £	2006/2007 £
Vivian Woodell	01/07/1998	23,309	1,697	41,718	66,724	62,800
Maz Chaudhry	18/03/2002	34,000	1,697	6,260	41,957	40,768
Sven Trogstad	25/06/2007	51,398	1,140	3,876	56,414	9,512
Amanda Beard	18/09/1999	31,866	1,697	3,505	37,068	30,929
Guy Ohlenschlager	09/02/2004	36,400	6,750	4,004	47,154	41,562
Fiona Ravenscroft	21/07/2004	34,000	1,697	3,740	39,437	36,606
Jane Avery	16/04/2008	6,750	n/a	n/a	6,750	n/a

### Notes:

#### Basic salary

- basic salary is the amount paid during the year.

#### Performance related

- payments shown relate to financial year 2007/08.

#### Pensions

During the year, all members of the Management Team who had completed six months service were members of the Society's group personal pension scheme. This is a non-contributory scheme, and the Society's contributions are set at a level determined by the Board from time to time. Contributions in the year were paid at the rate of 11% of basic salary.

The Phone Co-op operates a salary sacrifice option in connection with its defined contribution pension scheme. Employees may opt to reduce their gross salary and have the salary foregone, together with an additional amount equivalent to the National Insurance contributions which would have been payable by the employer in respect of the salary foregone, contributed to their pension. This option is available to all employees for whom pension contributions are paid.

The following employees opted for salary sacrifice under this scheme during the year. If they had not done so, their gross basic salary and their pension contributions would have been as follows:

Name	Basic Salary	pension	Total 2007/2008	Basic Salary	Pension	Total 2006/2007
	£	£	£	£	£	£
Vivian Woodell	56,000	6,160	62,160	51,500	5,665	57,165
Maz Chaudhry	36,400	4,004	40,404	n/a	n/a	n/a

No other members of the Management Team opted for salary sacrifice during the year.

#### Service Contracts

The employment contracts of the Management Team members provide for a notice period of three months, except in the case of the Chief Executive, where the notice period is 6 months.

## **Performance-related benefits**

The Society operates a profit sharing scheme and two sales-related bonus schemes.

**Profit sharing scheme:** Under this scheme, 11% of the Society's profit before distributions, less share interest, but before deduction of the cost of the scheme, is divided between all employees on permanent contracts, subject to a qualification period of 6 months' service. Payments are pro-rata to the number of full calendar months of service in the year (after completion of the waiting period, where applicable), and to contracted basic hours for part-time employees. Senior managers participate in this scheme on the same basis as all other employees. The percentage of profit paid under this scheme is discretionary and is fixed by the Board from time to time. Certain exceptions and conditions apply.

**Sales-related bonus scheme (general):** The Society pays an amount equal to a percentage, (fixed by the Board from time to time), of the increase in sales in the previous month, compared with the same month in the previous year, which is divided between all employees on permanent contracts, (apart from the Business Sales Team), in proportion to their contracted basic hours, subject to a waiting period of 6 months. The percentage paid was 1% throughout the year. Certain exceptions and conditions apply. Members of the Business Sales Team do not participate in this scheme, as a separate scheme is in operation covering those employees. Members of the Management Team (apart from those who are in the Business Sales Team) participate in this bonus scheme on the same basis as other employees.

**Sales-related bonus scheme (business sales staff):** A separate scheme was approved by the Board and introduced during the year for Business Sales Team members, which is based on sales revenues generated by individual field sales staff and by the Sales Manager, subject to meeting a minimum threshold for business generated. A separate team bonus scheme is in operation for all Business Sales Team members, based on business sales increases compared with the same period in the previous year.

## **Remuneration of Directors**

In accordance with a resolution approved by members at the AGM in 2005, Directors receive a fee of £1,000 per year (£1,500 for the Chairperson). They are also entitled to claim reasonable out-of-pocket expenses incurred in the performance of their duties. Details of the total value of fees paid to the Directors are provided in the Notes to the Accounts. At the AGM in 2008, members approved an increase of 15% to directors' fees, to take effect from 1 September 2008.

On behalf of the Board of Directors

Mick Taylor, Chairperson  
Justin Andersen, Vice-Chairperson  
Vivian Woodell, Chief Executive

10 December 2008

## Six years of growth

### Period ended 31 August

2003                      2004                      2005                      2006                      2007                      2008

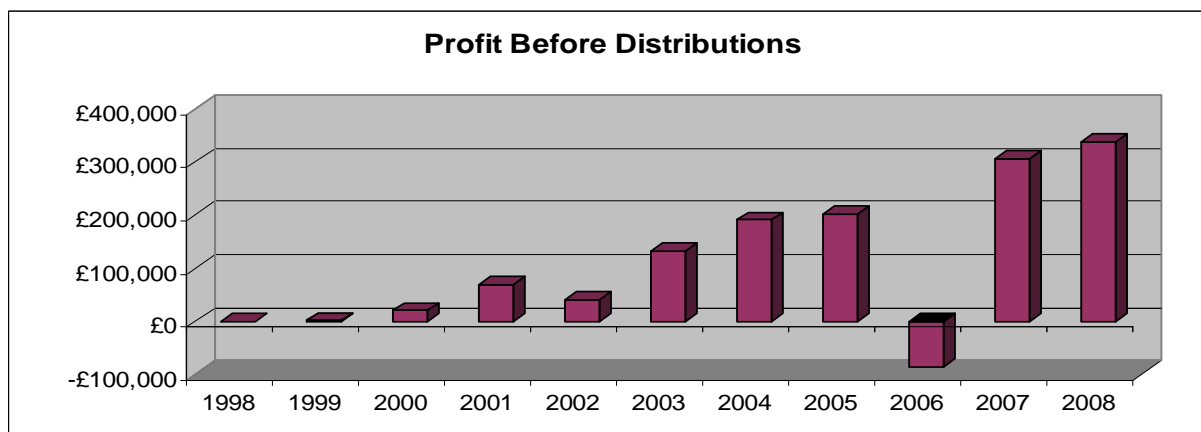
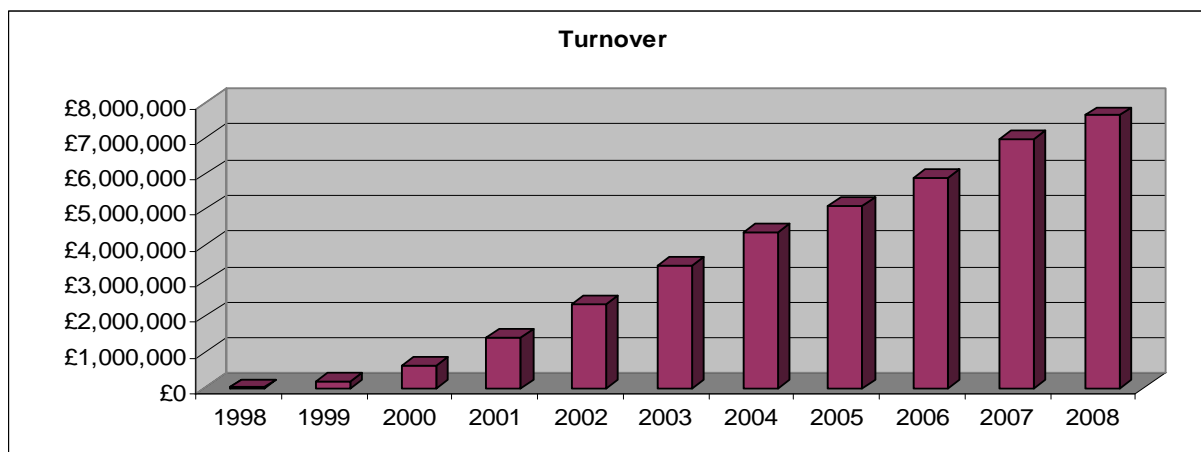
**Membership**                      2985                      4248                      5414                      6333                      6735                      7160

### Revenue Account

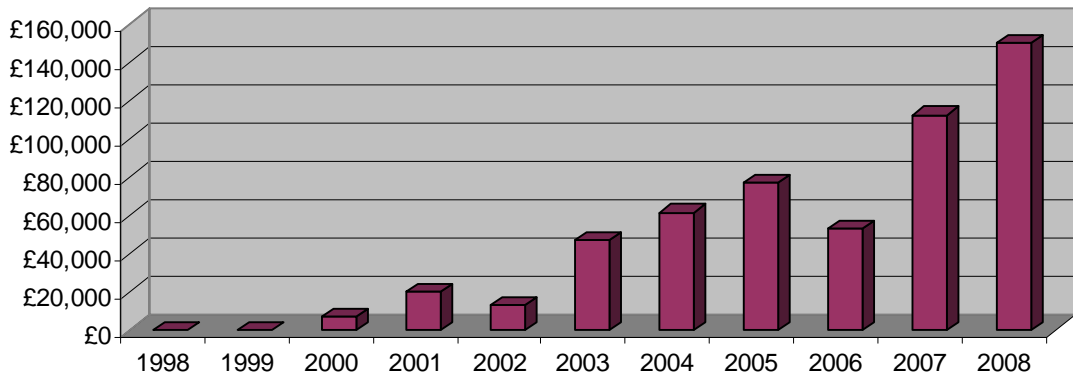
Turnover	£3,422,113	£4,383,340	£5,111,218	£5,894,437	£6,980,800	£7,645,888
Depreciation & amortisation	£17,237	£27,716	£42,506	£81,783	£88,315	£123,368
Operating Profit/(Loss)	£124,378	£172,248	£150,244	£(141,334)	£232,436	£239,398
Profit/(Loss) Before Distributions	£132,077	£190,771	£202,409	£(85,588)	£305,567	£338,158
Recommended Distributions for year	£46,942	£61,565	£77,217	£52,850	£112,383	£150,199
Transfer to/(from) Reserves	£69,762	£106,822	£131,695	£(98,713)	£262,548	£212,477

### Balance Sheet

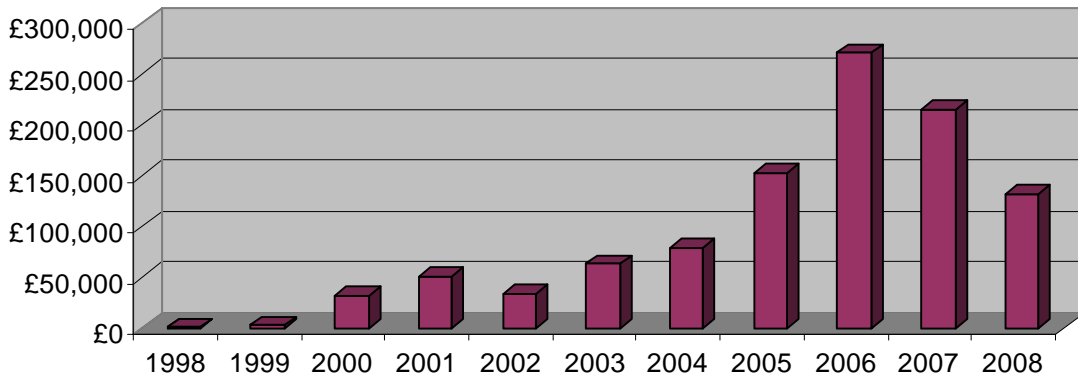
Fixed Assets	£62,654	£79,250	£152,743	£271,303	£214,754	£131,681
Current Assets	£1,070,374	£1,793,646	£2,106,262	£2,312,676	£3,095,317	£3,779,430
Net Current Assets	£485,270	£896,356	£1,329,768	£1,339,920	£1,917,857	£2,388,585
Net Assets	£547,924	£975,606	£1,482,511	£1,611,223	£2,132,611	£2,520,266
Share Capital	£371,565	£671,444	£1,042,927	£1,303,711	£1,637,130	£1,866,522
Reserves	£144,474	£251,296	£367,227	£235,155	£423,124	£543,583



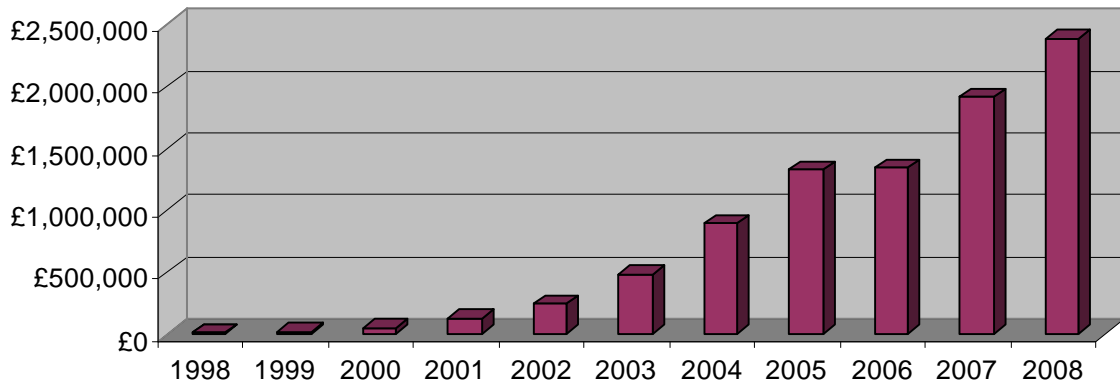
### Recommended Distributions Relating to the Year

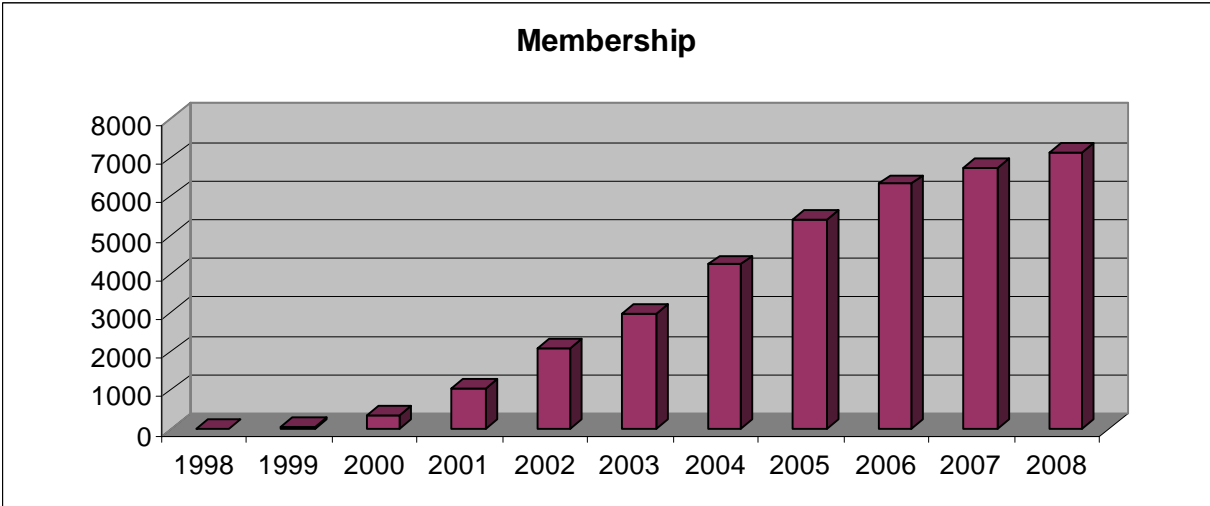
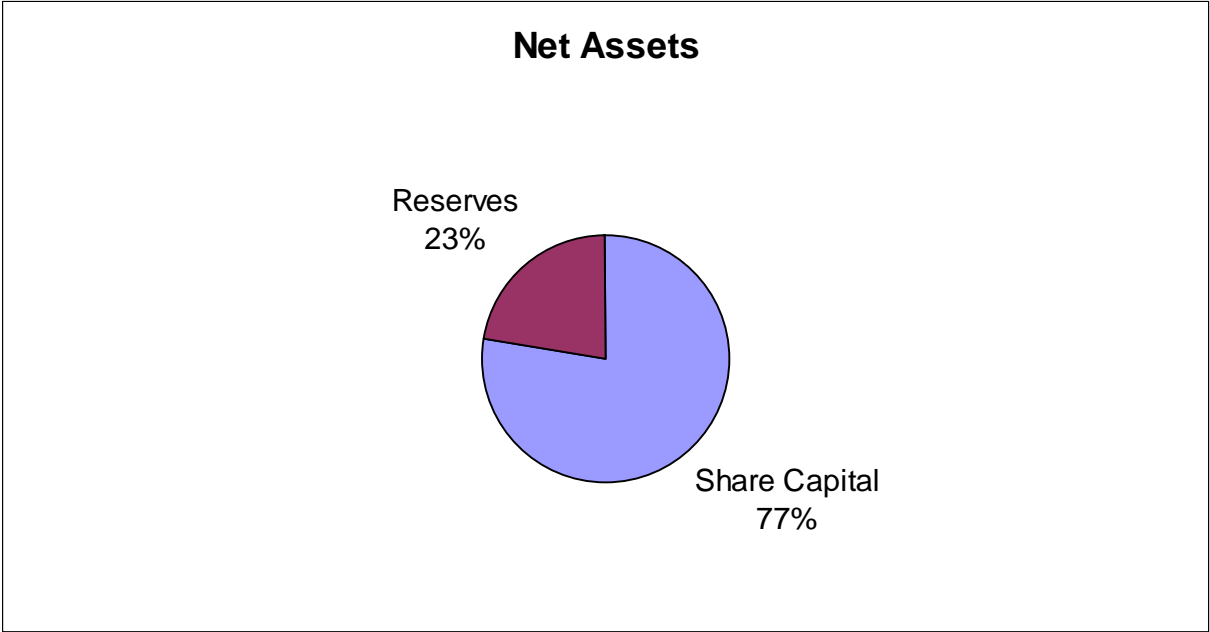
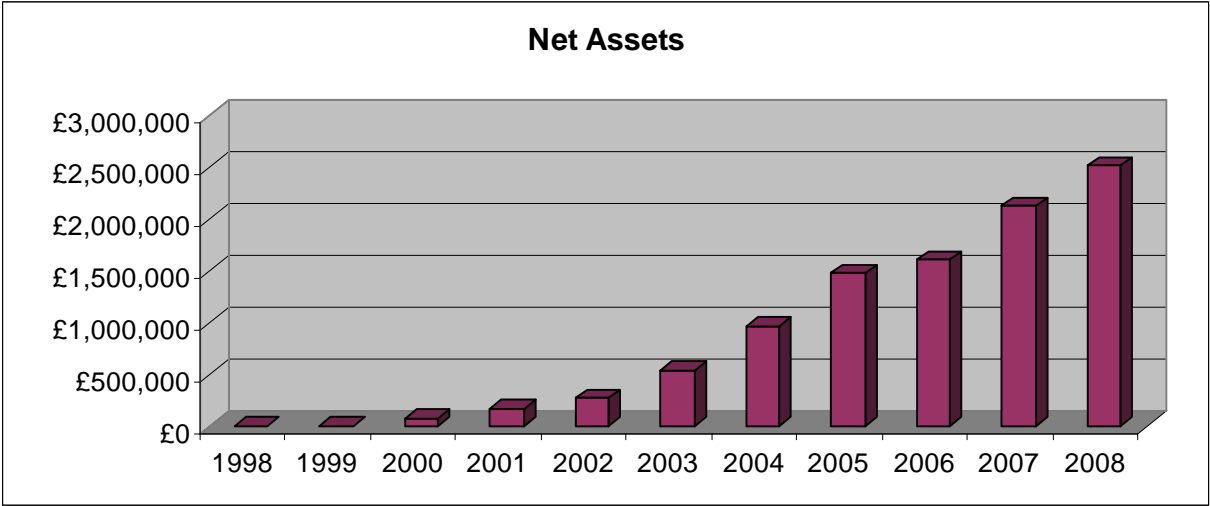


### Fixed Assets



### Net Current Assets





## 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 2008, which comprise 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 pages 11, 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 International Standards on Auditing (UK and Ireland).

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 International Standards on Auditing (UK and Ireland) 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 2008 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.

Shaw Gibbs LLP  
Chartered Certified Accountants  
Registered Auditors  
264 Banbury Road  
Oxford  
OX2 7DY

30 January 2009

# Revenue Account

for the year ended 31 August 2008

		<u>31.8.08</u>	<u>31.8.07</u>
	Notes	£	£
<b>TURNOVER</b>		7,645,888	6,980,800
Less Value Added Tax		<u>(1,143,023)</u>	<u>(1,046,704)</u>
<b>NET SALES</b>		6,502,865	5,934,096
Cost of sales		<u>4,559,584</u>	<u>4,268,477</u>
<b>GROSS PROFIT</b>		1,943,281	1,665,619
Administrative expenses		<u>1,703,883</u>	<u>1,433,183</u>
<b>OPERATING PROFIT</b>	3	239,398	232,436
Interest receivable and similar income		<u>98,760</u>	<u>73,131</u>
<b>PROFIT BEFORE DISTRIBUTIONS</b>		338,158	305,567
Members' dividend Co-operative and Social Economy Development Fund	4	37,804	-
		<u>37,804</u>	<u>-</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		262,550	305,567
Tax on profit on ordinary activities	5	<u>50,073</u>	<u>43,019</u>
<b>TRANSFER TO RESERVES</b>		<u>212,477</u>	<u>262,548</u>

## Continuing operations

The results for 2008 and 2007 relate wholly to continuing operations.

The notes on pages 20 to 27 form part of these financial statements.

# Balance Sheet

as at 31 August 2008

		31.8.08		31.8.07	
	Notes	£	£	£	£
<b>FIXED ASSETS:</b>					
Tangible assets	6		42,476		110,415
Intangible assets	7		49,204		71,338
Investments	8		<u>40,001</u>		<u>33,001</u>
			131,681		214,754
<b>CURRENT ASSETS:</b>					
Debtors	9	1,105,049		925,446	
Investments	10	1,771,762		1,495,435	
Cash at bank	11	<u>902,619</u>		<u>674,436</u>	
		3,779,430		3,095,317	
<b>CREDITORS:</b> Amounts falling due within one year	12	<u>1,390,845</u>		<u>1,177,460</u>	
<b>NET CURRENT ASSETS:</b>			<u>2,388,585</u>		<u>1,917,857</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES:</b>			<u>2,520,266</u>		<u>2,132,611</u>
<b>CAPITAL AND RESERVES:</b>					
Members' share capital	13		1,866,522		1,637,130
Co-operative and Social Economy Development Fund	14		110,161		72,357
Revenue reserve	15		<u>543,583</u>		<u>423,124</u>
			<u>2,520,266</u>		<u>2,132,611</u>

## Board Certification

The financial statements on pages 14 to 27 are hereby signed on behalf of the Board pursuant to Section 3 (5) (c) of the Friendly and Industrial and Provident Societies Acts 1968.

Mick Taylor, Chairperson

Justin Andersen, Vice-Chairperson

Vivian Woodell, Chief Executive

Jane Avery, Secretary

10 December 2008

The notes on pages 20 to 27 form part of these financial statements.

# Statement of total recognised gains and losses

for the year ended 31 August 2008

	<u>31.8.08</u>	<u>31.8.07</u>
	£	£
Retained profit for the year	212,477	262,548
Share interest	<u>(92,018)</u>	<u>(74,579)</u>
Total recognised gains and losses in the year	120,459	187,969
Total recognised gains and losses since last annual report	<u>120,459</u>	<u>187,969</u>

## Notes to the Financial Statements

for the year ended 31 August 2008

### 1. ACCOUNTING POLICIES

#### Accounting basis and changes in presentation during the year

The following accounting policies have been applied consistently in dealing with the items which are considered material in relation to financial statements. The financial statements are prepared in accordance with applicable accounting standards, using the historical cost convention.

#### 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. Where goodwill is regarded as having an indefinite useful economic life, it is subject to an annual impairment review.

#### Impairment of fixed assets and goodwill

Fixed assets and goodwill are subject to review for impairment in accordance with FRS11, Impairment of Fixed Assets and Goodwill. Any impairment is recognised in the revenue account in the year in which it occurs.

#### 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 revenue account.

#### Leasing

Rentals paid under operating leases are charged over the life of the lease.

#### 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 revenue account.

# Notes to the Financial Statements

for the year ended 31 August 2008

## 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

	31.8.08	31.8.07
	£	£
Wages and salaries	777,801	664,457
Severance costs	-	9,529
Social security costs	73,893	63,044
Other pension costs	<u>102,960</u>	<u>84,232</u>
	<u>954,654</u>	<u>821,262</u>

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

	31.8.08	31.8.07
Full-time staff	32	29
Part-time staff	<u>17</u>	<u>12</u>
	<u>49</u>	<u>41</u>

### 3. OPERATING PROFIT

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

	31.8.08	31.8.07
	£	£
Depreciation - owned assets	101,235	66,182
Amortisation - intangible fixed assets	22,133	22,133
Operating leases - land & buildings	39,471	35,562
Interest payable	-	-
Foreign exchange gains & losses	5	(13)
Fees paid to auditors:		
Audit	7,750	7,500
Other	-	-
Directors' fees	<u>7,500</u>	<u>6,123</u>

#### Directors' remuneration

The total remuneration of the directors for their Board duties was as follows:

Fees	<u>7,500</u>	<u>6,123</u>
------	--------------	--------------

The following annual fees were payable to directors during the year under review:

Chairperson	1,500	1,500
Board Directors	1,000	1,000

The average number of directors during the year was 7.

### 4. MEMBERS' DIVIDEND

	31.8.08	31.8.07
	£	£
Members' dividend	37,804	-
	<u>37,804</u>	<u>-</u>

# Notes to the Financial Statements

for the year ended 31 August 2008

## 5. TAXATION

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

	31.8.08	31.8.07
	£	£
UK corporation tax – current taxation	50,073	43,428
Adjustments in respect of previous years	-	(409)
	<u>50,073</u>	<u>43,019</u>

Factors affecting tax charge for the year

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (20.42%).

The differences are explained below:

	31.8.08	31.8.07
	£	£
Profit on ordinary activities before distributions	<u>338,158</u>	<u>305,567</u>

Profit on ordinary activities multiplied by small companies rate corporation tax in the UK of 20.42% (2007: 19.42%)

Effects of:

Expenses/income not deductible for tax purposes	568	300
Depreciation for period in excess of capital allowances	11,124	5,612
Members' distributions	(30,671)	(21,825)
Adjustments to tax charge in respect of previous years	-	-

Current tax charge for period

<u>50,073</u>	<u>43,428</u>
---------------	---------------

## 6. TANGIBLE FIXED ASSETS

	Diallers, routers & programming	Fixtures and fittings	Computer equipment & software	Totals
	£	£	£	£
<b>COST:</b>				
At 1 September 2007	55,386	78,149	268,568	402,103
Additions	-	9,267	24,030	33,297
Disposals	<u>-</u>	<u>(13,764)</u>	<u>-</u>	<u>(13,764)</u>
At 31 August 2008	<u>55,386</u>	<u>73,652</u>	<u>292,598</u>	<u>421,636</u>
<b>DEPRECIATION:</b>				
At 1 September 2007	55,384	62,417	173,887	291,688
Charge for year	-	8,571	92,665	101,236
Eliminated on disposals	<u>-</u>	<u>(13,764)</u>	<u>-</u>	<u>(13,764)</u>
At 31 August 2008	<u>55,384</u>	<u>57,224</u>	<u>266,552</u>	<u>379,160</u>
<b>NET BOOK VALUE:</b>				
At 31 August 2008	<u>2</u>	<u>16,428</u>	<u>26,046</u>	<u>42,476</u>
At 31 August 2007	<u>2</u>	<u>15,732</u>	<u>94,681</u>	<u>110,415</u>

## 7. INTANGIBLE FIXED ASSETS

	Goodwill
	£
<b>COST:</b>	
At 1 September 2007	116,164
Additions	-
Disposals	<u>-</u>
At 31 August 2008	<u>116,164</u>

# Notes to the Financial Statements

for the year ended 31 August 2008

## AMORTISATION:

At 1 September 2007	44,826
Charge for year	22,134
Eliminated on disposals	-

At 31 August 2008 66,960

## NET BOOK VALUE:

At 31 August 2008 49,204

At 31 August 2007 71,338

## 8. FIXED ASSET INVESTMENTS

£

### COST:

At 1 September 2007 34,057

Additions 7,000

Disposals -

At 31 August 2008 41,057

### PROVISIONS:

At 1 September 2007 and 31 August 2008 1,056

### NET BOOK VALUE:

At 31 August 2008 40,001

At 31 August 2007 33,001

	31.8.08	31.8.07
	£	£
Investment in subsidiary undertaking	1	1
Investments in Other Industrial and Provident Societies:		
Shares in the Co-operative Group (CWS) Ltd.	10,000	10,000
Community Broadband Network Limited	2,500	2,500
Westmill Wind Farm Co-operative Limited	20,000	20,000
Community and Co-op Publishing Ltd	500	500
Torrs Hydro New Mills Ltd.	5,000	-
-	-	-
Other investments:		
ICO Fund plc	2,000	-

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	100

	30.9.07	30.9.06
	£	£
Aggregate capital and reserves	<u>6,784</u>	<u>6,710</u>
Profit for the year	<u>74</u>	<u>41</u>

## 9. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31.8.08	31.8.07
	£	£
Trade debtors	889,761	765,974
Prepayments and accrued income	190,873	137,164
Other debtors	<u>24,415</u>	<u>22,308</u>
	<u>1,105,049</u>	<u>925,446</u>

# Notes to the Financial Statements

for the year ended 31 August 2008

10.	<b>CURRENT ASSET INVESTMENTS</b>	31.8.08	31.8.07
		£	£
	Investments in other Industrial and Provident Societies:		
	Shares, ICOF Community Capital Ltd.	59,980	58,804
	Corporate investor shares, the Co-operative Group (CWS) Ltd.	<u>1,711,782</u>	<u>1,436,631</u>
		<u>1,771,762</u>	<u>1,495,435</u>
11.	<b>CASH AT BANK</b>		
	Cash and bank balances include the following share account balances held with other Industrial and Provident Societies:	31.8.08	31.8.07
		£	£
	The Midcounties Co-operative Limited		
	Community Membership Account	276,661	469,213
	Chelmsford Star Co-operative Society Limited		
	Membership share account	200,000	-
12.	<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>	31.8.08	31.8.07
		£	£
	Trade creditors	514,130	425,054
	Inter-company loans	6,400	6,500
	Value added tax	60,897	66,222
	Social security & other taxes	25,856	22,229
	Corporation tax	50,073	43,428
	Accrued expenses and deferred income	<u>733,489</u>	<u>614,027</u>
		<u>1,390,845</u>	<u>1,177,460</u>
13.	<b>MEMBERS' SHARE CAPITAL</b>		
		31.8.08	31.8.07
		£	£
	As at 1 September 2007 as previously reported	1,637,130	1,303,711
	Share interest	92,018	74,579
	Contributions in the year	419,442	470,524
	Withdrawals in the year	<u>(282,068)</u>	<u>(211,684)</u>
	As at 31 August 2008	<u>1,866,522</u>	<u>1,637,130</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 6 % 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-operativesUK 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.

# Notes to the Financial Statements

for the year ended 31 August 2008

## 14. CO-OPERATIVE AND SOCIAL ECONOMY DEVELOPMENT FUND

	31.8.08	31.8.07
	£	£
Brought forward	72,357	72,357
Transferred in the year	<u>37,804</u>	<u>-</u>
	<u>110,161</u>	<u>72,357</u>

## 15. MOVEMENTS IN RESERVES

Revenue  
reserve

	£
As at 31 August 2007	423,124
Retained profit for the year	212,477
Share interest	<u>(92,018)</u>
As at 31 August 2008	<u>543,583</u>

## 16. OPERATING LEASE COMMITMENTS

The following annual payments are committed to be paid within:

	<b>Land &amp; Buildings</b>	<b>Land &amp; Buildings</b>
	31.8.08	31.8.07
	£	£
Expiring:		
Within one year	-	-
Between two and five years	<u>35,208</u>	<u>34,719</u>

## 17. CAPITAL COMMITMENTS

	31.8.08	31.8.07
	£	£

Expenditure contracted but not provided for	-	-
---	---	---

## 18. PENSION COMMITMENTS

The Society operates a defined contribution pension scheme. The contributions charged to the profit and loss account during the year amounted to £102,960 (2007: £84,232). There were no commitments at the balance sheet date.

## 19. 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, less amounts invested directly, 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, one loan was outstanding and the value of the guarantee on the loan was £2067.

# Notes to the Financial Statements

for the year ended 31 August 2008

## 20. 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 The Midcounties Co-operative Ltd., of which Vivian Woodell (The Phone Co-op's Chief Executive) was President/Vice-President during the year. Justin Andersen and Bob Burlton, (directors of The Phone Co-op) were in receipt of pensions from The Midcounties Co-operative's pension scheme during the year. During the year, Bob Burlton also served as a senior executive of The Midcounties Co-operative. The value of services provided under this contract during the year was £973,474 (last year: £789,725). Amounts outstanding at the balance sheet date, included in Trade Debtors, totalled £77,891 (last year: £45,415).

Throughout the year, The Phone Co-op purchased personnel support services from The Midcounties Co-operative. The value of these services during the year was £2,250 (last year: £5,400)

During the year, The Phone Co-op purchased office supplies from The Midcounties Co-operative to the value of £2,410

Bob Burlton, a director, was also a director (Chairman for part of the year) of The Co-operative Group Ltd. and of its subsidiary society, Co-operative Financial Services Ltd., of which he was Chairman throughout the year. The Phone Co-op is a member of The Co-operative Group, and used its banking and insurance services throughout the year.

Peter Turnbull, a Director, was an Agent for The Phone Co-op during the year, and received income of £2,695 from commissions on sales generated under his agency (last year: £3,086).

During the year, Claire Jarvis, the partner of Vivian Woodell, Chief Executive, had a contract for carrying out public and media relations and marketing communications for The Phone Co-op. The value of this contract was £9,306 (last year: £10,152). The Society provided office services to Claire Jarvis to the value of £1,519 (last year: £1,978). At the balance sheet date £414 (last year: £1,074) was owed from C Jarvis and included in Trade Debtors.

### 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 The Midcounties Co-operative Ltd., of which Vivian Woodell (The Phone Co-op's Chief Executive) was Vice-President. The value of the funds held in the account at the year-end was £276,661 (last year: £469,213). The value of interest received was £16,222 (last year: £6,691) The Midcounties Co-operative Ltd. 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 £21,518 (last year £11,322). The Phone Co-op paid interest on this share capital of £1,205 and dividend on purchases of £9,626 (last year: interest of £470 and dividend on purchases of £nil).

Bob Burlton, a director, was also a director (Chairman for part of the year) of The Co-operative Group Ltd. and of its subsidiary society, Co-operative Financial Services Ltd., of which he was Chairman throughout the year. The Phone Co-op is a member of The Co-operative Group, and held both corporate member shares and corporate investor shares in that society throughout the year.

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

## 21. 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.
- c. The Society's Rules do not provide for a compulsory retirement age, or prescribe a maximum period of continuous service for directors. The Board believes that The Phone Co-op has a vigorous democracy, with contested elections for the Board of Directors being the norm. The make-up of the board has changed considerably over the years, and the directors believe that further measures to promote change are neither required, nor desirable.

**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. Details of recent actions taken are provided in the Directors' Report.

22. **SUPPLIER PAYMENT POLICY**

It is our policy to agree the terms of payment at the start of business with that supplier and then pay according to those terms once we receive an accurate invoice. Trade creditor days for the year under review were 34 days (last year: 26 days)

This is based on the ratio of trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

# The Phone Co-op Limited

## Notice of Annual General Meeting

**The Annual General Meeting will be held at 2.00pm on Saturday 7 February 2009 at Chipping Norton School, Burford Road, Chipping Norton, Oxfordshire.**

**A buffet lunch will be available at the school from 1.00pm.**

### Interim Agenda

1. Introductions and welcome
2. Apologies
3. To approve the minutes of the Annual General Meeting held on 2 February 2008
4. Matters arising from the minutes of the AGM
5. To approve the minutes of the Special Members' Meeting held on 2 February 2008
6. Matters arising from the minutes of the Special Meeting
7. To receive the Directors' report and accounts for the year ended 31 August 2008
8. To approve the following appropriation recommended by the Board of Directors:

Share Interest:	£92,018
Dividend:	£58,181
Co-operative and Social Economy Development Fund:	£58,181
9. To re-appoint Shaw Gibbs LLP as auditors of the Society
10. Election of Directors: declaration of the result
11. Election of Scrutineers
12. Any other business

**From 12 noon until lunch at 1.00 pm there will be an informal workshop session where members can meet directors and management to discuss topics of current interest.**

**Following the Annual General Meeting, a Special Members' Meeting will be held to consider a complete new Rule Book, the purpose of which is to enable the Society to issue share capital in Euros as well as in sterling.**

**Following the conclusion of the formal business, the meeting will be addressed by David Coulter, Deputy Chief Executive of Co-operativesUK, on the subject of *"The Co-operative Economy and Performance Indicators for Co-operatives"***

## The Phone Co-op

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