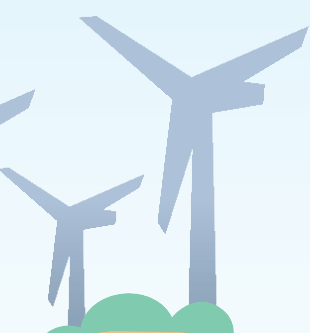
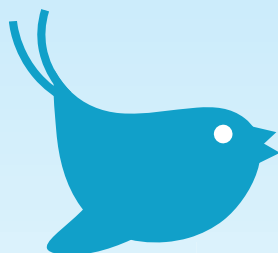


thePhoneCo-op

it's your call



Annual report and
financial statements
2010/11

Society Information as of 31 August 2011

Directors

Mick Taylor (Chairperson)
Justin Andersen (Vice-Chairperson)
Paul Hopewell
Kate O'Donoghue
Pete Turnbull
Linda Ward
Jamie Hartzell (until May 2011)

Chief Executive

Vivian Woodell

Secretary, Membership and Co-operative Affairs Manager

Amanda Beard

Management Team

Chief Financial Officer
Chief Operating Officer
Products & Service Deliver Manager
Corporate Sales Manager
Customer Services Manager
Marketing & Partnerships Manager

Lisa Logan
Chris Herbert
Fiona Ravenscroft
Guy Ohlenschlager
Marianne O'Brien
Matt Lane

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

The Phone Co-op Limited

Annual Report and Financial Statements

For the year ended 31 August 2011

Table of Contents

	Page
Society Information	inside front cover
Directors' Report	2
Remuneration Report	14
Six Year Comparison	17
Report of the Auditors	20
Consolidated Revenue Account	21
Consolidated Balance Sheet	22
Society Balance Sheet	23
Consolidated Statement of Total Recognised Gains and Losses	24
Notes to the Financial Statements	23

Directors' Report

for the year ended 31 August 2011

Overview

It has been another tough year for The Phone Co-op but, despite facing considerable headwinds, we have achieved steady progress in many areas. We have continued to grow, as we have done every year since we were launched. Our turnover reached the key milestone of £10 million, and profitability improved significantly. This is despite the impact of a worsening economic climate, rising costs, and accelerating falls in the prices of some key products. Although profitability did improve in 2010-11, the environment remains difficult and the Board is recommending that the level of dividend is held at 1% of eligible purchases.

In the first quarter of the year under review, we had to address a number of difficult operational challenges. Not only did we absorb the SAGA business, we also had to deal with the insolvency of an important supplier, and the implementation of our new billing and customer management system. It is a tribute to the skill and determination of all our teams, both within management and more widely, that we were able to overcome these simultaneous challenges without significant disruption to our customers.

We had a strong focus on improving our operational efficiency during the year, and this has brought real rewards which have helped us weather the difficult environment. Our programme of multi-skilling within our customer service teams has given us much greater flexibility in addressing inbound calls, inputting data into our systems and those of our suppliers, and making changes to customer accounts as and when required. This has been assisted by our investment in new billing and customer management software, which is integrated with the latest industry platforms, reducing duplication of effort, as well as limiting the scope for errors.

We have also worked hard to improve our marketing, including greater emphasis on encouraging customers to recruit new customers, as well as on the development of our strongest affinity partnerships. This has resulted in consistently higher rates of customer acquisition throughout the year, compared with last year.

All of this has been underpinned by a programme of training and development with external support which has involved the Board, management and staff in re-visiting and re-articulating The Phone Co-op's purpose, values and vision. This has been a worthwhile exercise, and has enabled us to develop and unite around a more coherent framework within which to develop our strategy.

We also took the opportunity to put in place a further building block for our future development by acquiring Transcend Communications Limited (later renamed Phone Co-op Numbering Limited). The company (which had not traded) holds geographic number ranges in the majority of UK localities, as well as some ranges of 0800, 03, and other non-geographic numbers. In total, this brought us the rights to over 700,000 UK numbers. The intention is to secure the rights to ranges in all UK geographic areas in due course. We believe that owning our own number ranges will be important in the future as we move increasingly to the provision of services via Voice over IP (VoIP). In addition, we will be in a position to reduce the underlying cost of providing number translation services using geographic numbers, opening up new opportunities to provide benefits to our customers, and to offer new services.

Trading Performance

Sales rose by 8.8% compared with the previous year. This was a faster rate of growth than last year, and took our turnover to £10.08 million, a new record. The acquisition of the telecommunications business of SAGA during September provided an important boost to customer numbers and to sales, as we welcomed over 8,000 new customers to The Phone

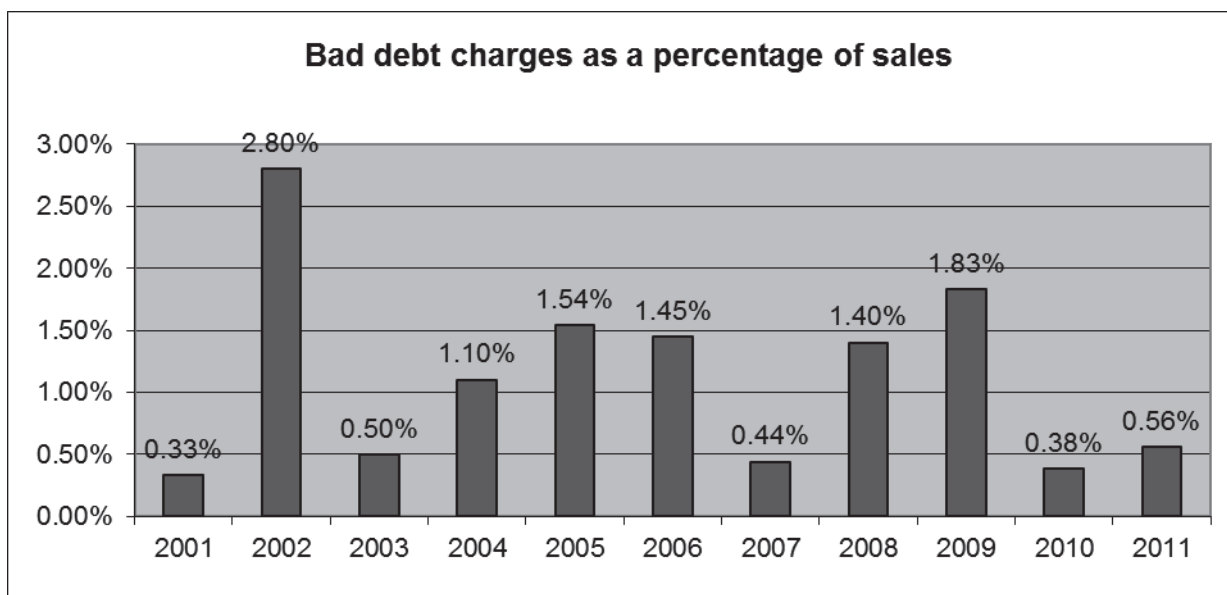
Co-op. This represented an increase of over 50% in our customer numbers and was an important step for The Phone Co-op. SAGA had not offered line rental or broadband to their customers, so we have been working hard to promote these additional products to them, and have had considerable success in doing so during the year, although the task is by no means complete. We also launched a marketing partnership with SAGA under which our products are being offered to their entire customer base. Within our residential operation in general we took a number of steps to improve our marketing processes and have secured a consistently higher rate of new customer acquisition throughout the year, compared with the previous year. These factors combined to drive an overall increase of 21% in sales to residential customers, compared to 2009-10. Within that figure, sales of fixed voice minutes rose by 32%, and sales of line rental rose by 23%, while sales of internet services were up by 9%.

In business sales, the position was rather less encouraging, with overall sales declining by 2.8%. This resulted from a number of factors. We faced intensifying price pressure in the market for larger customers, as well as the fact that a number of our voluntary sector customers were forced to cut back their operations or even close as a result of reductions in public sector funding. Many commercial customers also downsized their businesses, and some unfortunately ceased trading. Our business team achieved modest growth in sales of line rental (up 1%) and internet services (up 2%) to business customers, but this was more than offset by a decline in sales of fixed voice minutes of 10% (reflecting the trend in our industry away from fixed line to mobile and also a general shift from voice telephony to other forms of communication), and a fall in sales of phone systems and maintenance of 12%.

Across the business, mobile sales were the star performer yet again, with our Mobile Virtual Network Operator (MVNO) agreement enabling us to deliver a sales increase of 39.4% compared with the previous year to £179,000.

We saw some significant shifts in the way margin was generated. The increasing proportion of residential sales in the mix contributed both to a rise in the margin on call minutes and a fall in the margin on line rental and internet services, reflecting the way the industry typically prices these products in different markets. Overall, gross profit was up from 27.3% to 27.6% of sales, helped by worthwhile reductions we were able to negotiate in our wholesale costs, and some changes of supplier, as well as by the shift towards higher-margin residential services. In absolute terms, the value of gross profit increased by £212,000, or 10%. Within that figure, there was a rise in margin percentage generated from call minutes, following the acquisition of the SAGA customer base (initially calls only), and a fall in the margin percentage achieved from line rental and internet services, reflecting the general approach to the pricing of residential telephony in our industry.

Our costs were also controlled at 27.8% of sales – the same level as last year. Direct costs rose by 23.5%, reflecting the increased costs associated with the supply of free routers to residential customers. The cost of these is amortised over the lifetime of each customer contract, and the overall charge in the year was £57,000 compared with nil last year. This cost can be expected to rise further next year as the stock of routers grows. The efficiency gains from the implementation of multi-skilling in our teams enabled us to control personnel costs, which were unchanged at £1.47 million, falling from 18.8% to 17.3% of sales compared with last year, helped by staffing reductions in some areas and a very modest pay increase this year. Indirect costs, however, rose by £150,000, from 6.9% to 8.1% of sales. The largest element of this was the extra goodwill amortisation associated with the SAGA acquisition. However there were notable increases in costs as a result of our investment in the new billing and customer management system, and also a 64% increase in postage costs as a result both of higher charges and of us bringing on board the SAGA customers, all of whom had been receiving their bills by post. We also faced an increase in bad debt charges compared with last year when there was a substantial exceptional credit due to the reclaim of VAT on the write-off of debts from earlier years. If the impact of this is stripped out, our performance improved markedly this year, and remains exceptional by the standards of our industry.



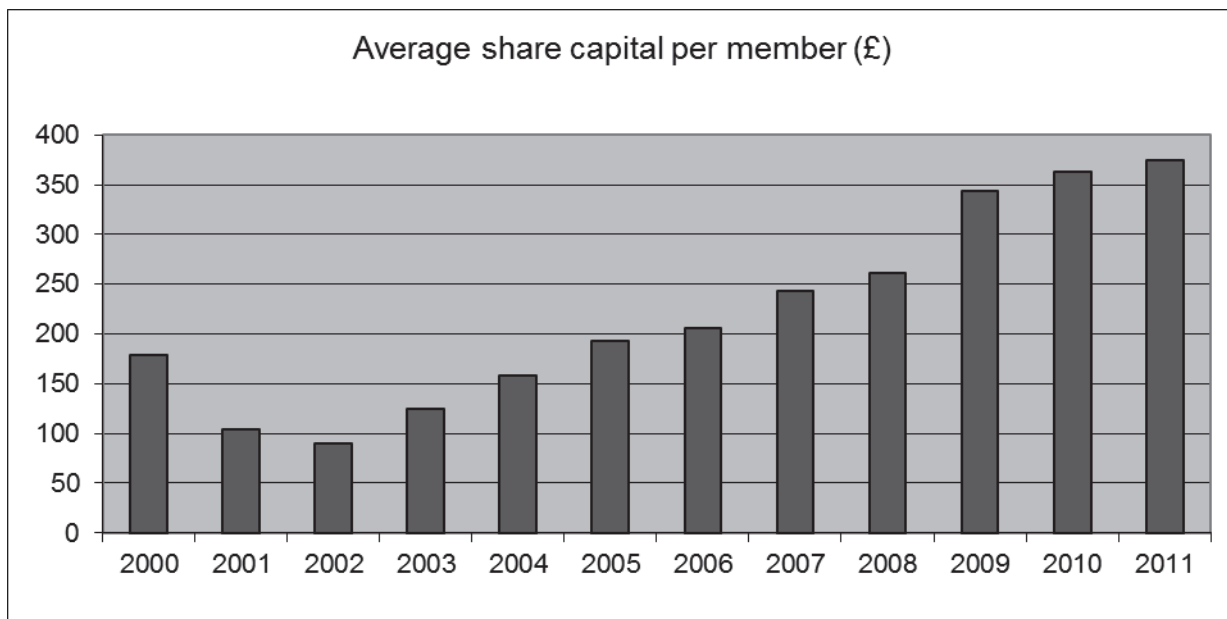
Overall we were able to show a modest improvement in profitability. Our operating loss was reduced from £37,000 to £11,000, and profit before distributions was up 33% to £111,000. Most notably, earnings before interest, taxation, depreciation and amortisation (EBITDA), a measure of cash generated from trading, was up 161% to £186,000.

Balance sheet

The year saw a record level of capital investment, with £366,000 being committed to the growth and development of your co-operative. This figure remained above the level of depreciation and amortisation, which also reached a record level of £197,000. Fixed assets therefore grew by 33% to £676,000, a strong indication of your directors' confidence in the future. The value of tangible fixed assets rose 9% to £147,000 as we continued to invest in IT equipment and systems. However the biggest investment in the year was the acquisition of the SAGA customer base, which resulted in an increase in the level of intangibles. The acquisition cost for this included both a cash lump sum and a share of revenue over a number of years. Accounting rules require us to capitalise the estimated value of the future revenue share where it is linked to a transaction of this kind, and this has increased the amount shown as capital expenditure. In addition, our acquisition of Transcend Communications contributed to the level of intangibles, which increased by 68% to £386,000.

Our cash and overall liquidity position remained strong, with current assets rising by 6.7% to £4.84 million and net current assets, a key measure of our ability to meet bills as they fall due, improving by 6.0% to £3.24 million, or nearly 20 weeks' sales. There can be few telecoms businesses in such a strong position.

Net assets rose by 9.6% to £3.90 million. Our reserves remained static so the key driver was the confidence shown in The Phone Co-op by our members, who made net share capital investments of £346,000, increasing the total invested by 12% to £3.23 million. The average member investment also rose by 3.4%, to £375.

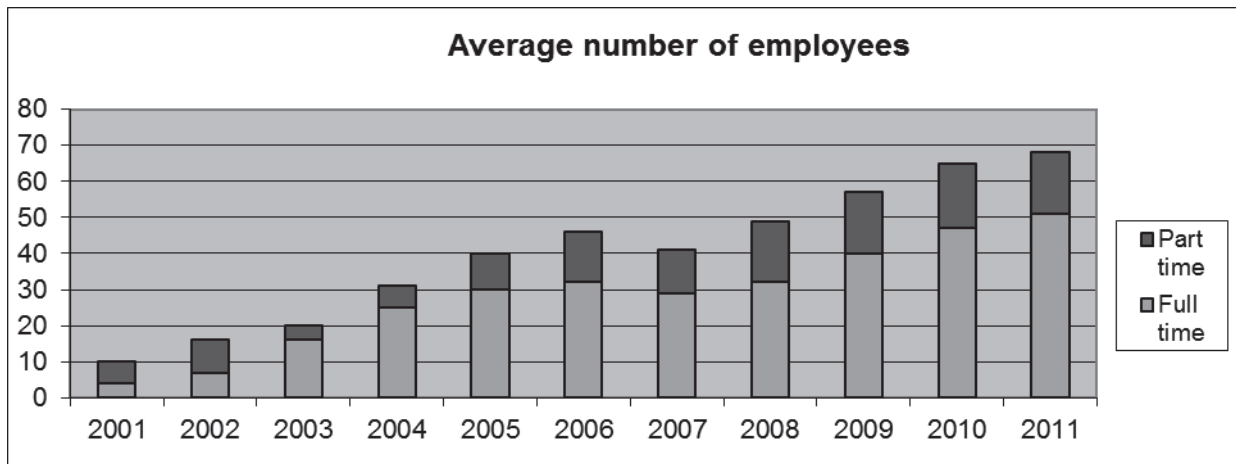


Management team

The year under review saw a number of significant changes to the Management Team. Chris Herbert was appointed to the new role of Chief Operating Officer, taking responsibility for sales, marketing, customer service, products, billing and IT, and (on a temporary basis) credit control. Maz Chaudhry decided to retire from the position of Finance and Administration Manager. The Board would like to place on record its appreciation for his hard work and commitment during the nine years he spent with us. Following a review, the Board agreed on a restructuring of the finance area, including the creation of the new post of Chief Financial Officer, with a wider strategic remit. After an extensive selection process, Lisa Logan was successful in being appointed, and the Board welcomes her to The Phone Co-op and wishes her well in her new role. During the year, two existing managers, Marianne O'Brien (Customer Services Manager) and Matt Lane (Marketing & Partnerships Manager) also joined the Management Team.

Employees

Our staff team grew slightly during the year, with the average monthly number of people employed rising from 65 to 68. The main increase was in the area of customer services, where we continued to invest in improving our service quality, and we also needed to take on additional people to cover the requirements of the former SAGA customers. This was partly offset by a reduction in the sales area, following the change of strategy reported last year. The Board would like to place on record its thanks and appreciation for the hard work and dedication displayed by our employees in a year that has seen many changes. The Board recognises that our employees have played a central role in building The Phone Co-op to the point where it is widely recognised as a pioneer in the co-operative sector and in the telecommunications industry.



Employee engagement and stakeholding

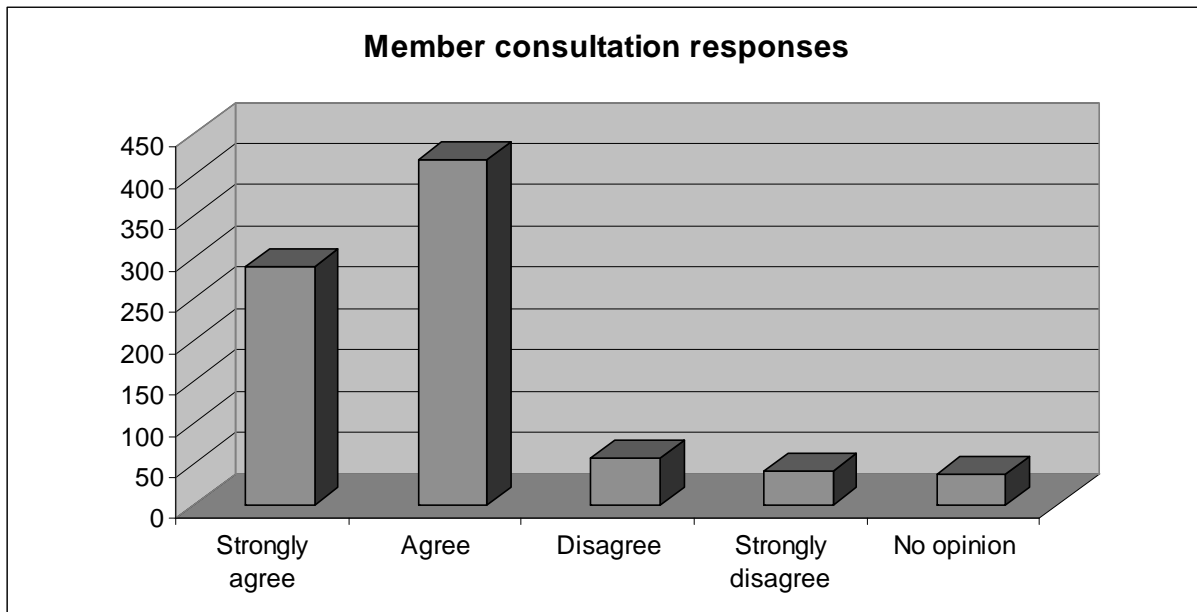
The Phone Co-op operates a profit-sharing scheme and a sales-related bonus scheme which are available to all permanent employees after six months' service. The Phone Co-op also has an elected Employee Council, which holds periodic meetings and is encouraged to feed its ideas into strategy. Membership of a trade union is encouraged, and we have a partnership agreement with The National Association of Co-operative Officials (NACO) which all employees are eligible to join.

Membership

For the second year running we saw faster growth in the number of members. During the year, 789 new members joined and 125 left, leading to a net increase of 664, the fastest rate of growth we have achieved since 2006. We have strengthened our focus on this area during the year, with increased emphasis on asking non-member customers to consider joining when they contact us, and extra mailings to non-members. In addition, we received applications for membership from a number of former SAGA customers following our acquisition of their telecoms business. Despite this encouraging trend, the proportion of trade with members fell slightly from 39% to 36% of total sales, as a result of the large number of non-member customers joining through the SAGA acquisition. The board retains the objective of achieving a minimum of 50% of sales to members, and we will be redoubling our efforts to encourage more of our customers to join your co-operative in the year ahead. We will also work towards finding new ways to engage members in their co-operative.

Outlook

During the summer of 2011, a letter was sent to members setting out the board's strategic thinking and seeking feedback. Members were asked to consider the statement: "I agree with the strategy proposed by the board both for strengthening our existing business, and looking for new opportunities, including expanding into other European markets, and that this approach creates the opportunity for The Phone Co-op to make a cooperative difference." Members were asked to give the response which most clearly fitted their view, ranging from 'strongly agree' to 'strongly disagree.' The board is grateful to those members who took the time to give their views. Of the 843 responses we received, 84% strongly agreed or agreed with the statement, compared to 12% who felt the opposite. In other words, those supporting the board's strategy outnumbered those opposing the recommendation by seven to one.



The outlook for 2011-12 is challenging. The economic environment is difficult, with many customers reducing their expenditure on telecoms. The crisis in the Eurozone and the potential for further economic shocks, also cast a shadow. During the year ahead, we aim to continue to improve the efficiency of our business, and will also pursue new acquisitions to give us further economies of scale. We also plan improvements in the way we acquire both business and residential customers, with a view to growing the rate of new customer acquisition, and we plan additional steps in the further evolution of our product set. At the close of the year, we are continuing to work towards the launch of an energy supply business, and exploring opportunities to invest in microgeneration, as part of our strategy to diversify our business into growing, profitable areas where we can increase sales to our existing customers and members, and also bring on board new ones.

We will continue to explore the opportunities to extend The Phone Co-op's activities outside the UK. The telecoms market in the UK is very mature, and the long-term regulatory environment for a business such as ours is uncertain.

Influencing our industry

We operate in a regulated industry which means we need to be vigilant to try to ensure that regulation does not place unfair obstacles in our way. As a customer-owned telecoms provider we are unique in having the perspective that comes with being an industry player and a consumer-based organisation. We seek, both directly and through our trade association, the Federation of Communications Services, to influence our industry for the better. We have continued to campaign for changes to the regulation of the mobile market, which in our view remains skewed in favour of large network operators rather than independent suppliers, and to underline the importance of smaller, innovative service providers, both in fixed line and mobile, such as ourselves, in creating diversity, choice and innovation, all of which benefit consumers.

Wider recognition

Once again we received recognition from our industry this year, following a number of awards in recent years.

- In June 2011 we won the “Reseller of the Year” award at the Federation of Communications Services 30th Anniversary Event. The award was presented by John Sergeant.
- At the same event, we won the Green Award, in the Large Business Category. This is the third year in succession we have won the Green Award.

We feel honoured to receive this continued recognition for our service, innovation, and ethical approach, and recognise that this has only been possible achieved through the efforts of our staff as well as the loyalty and support of our members and customers, which we greatly appreciate.

Board of Directors

At the AGM, two members of the board, Bob Burlton and Robert Denbeigh, reached the end of their terms of office, and did not offer themselves for re-election. The board would like to thank them both for the time and energy they have given to work of the board. Two new directors Jamie Hartzell and Linda Ward, joined the board at the AGM, following a postal ballot. Jamie Hartzell decided to stand down from the board in May 2011 due to his work commitments. The vacancy created as a result of his resignation will be filled in the election to be held in January 2012.

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 were:

Indicator	The Phone Co-op Measure	2011	2010	2009
Our Values				
Membership	Number of members at the end of the year	8,625	7,961	7,538
	Growth in membership (%)	8.3	5.6	5.3
Member economic involvement (1)	Trade with members as % of sales	36.04(a)	39.15	42.94
Member democratic participation (2)	Number of candidates for Board (number of vacancies in brackets)	7(3)	7 (2)	10 (2)
	Voting turnout (%)	23.3	22.5	22.98
Our Employees				
Employee Council	Number of grants made to employees for non-vocational training	8	14	12
Participation of employees in training and education	Number of training days per full time employee per year (b)	17.6	2.8	2.0

schemes (3)				
Staff injury and absentee rates (4)	Average number of days leave recorded due to injury, illness etc per full time employee per year (b)	5.6	3.05	2.1
Diversity				
Staff profile – ethnicity (5)	Non-white as % of all staff	7	11	4
Staff profile – gender (5)	Women as % of all management and supervisory staff	48	57	50
	Women as % of all staff	56	47	56
Director profile – ethnicity	Non-white as % of all directors	0	0	0
Director profile – gender	Women as % of all directors	22	14	14
Customer Service				
Customer satisfaction (6)	% rating average, very good and excellent			97(c)
	% rating very good and excellent			85(c)

Social responsibility				
Consideration of ethical issues in procurement and investment decisions (7)	Purchases with other Co-operatives as % of costs (non-personnel overhead)	11.3	9.9	9.01
	Sales to other Co-operatives as % of total	12.2	13.3	12.6
Investment in community and co-operative initiatives (8)	Co-operative and Social Economy Development Fund (£ in year)	0		58,181
	Co-operative and Social Economy Development Fund value to date (£)	167,504	167,504	168,342
	Share capital investments in community and co-operative initiatives (long term, excluding ICOF Community Capital/CCF) (£)	141,960	142,460	42,500
	Other investments in co-operatives (short term, including fixed-term loans) (£)	2,764,908	2,751,510	2,632,687
Revenue paid to Affinity Partners	£ revenue share in year	53,067	58,518	68,623
Other charitable donations	£ total in year	35	1,272	130
Environment				
Business journeys by rail, bus, bicycle or foot	% of journeys	68	66	67
	% of miles travelled	86	84	91
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	71(d)	66	47
	Number of sheets of A4 used for publicity material per £1,000 turnover	38(d)	15	19
Electricity use (total of all offices)	kWh per m ² of treated floor area	110(f)	100(e)	101

	KgCO ₂ per m ² of treated floor area (g)	0	0	0
Gas use (LPG)	kWh per m ² of treated floor area	78	73	100±
	Kg CO ₂ per m ² of treated floor area (g)	16.9	15.6	21
Net carbon dioxide emissions arising from electricity and gas use (9)	Kg CO ₂ (g)	7441	6119	8415
Voluntary carbon offset levy	Tonnes CO ₂ equivalent arising from operations (including suppliers)	319.14	293.78	221.3

Notes: 1. Co-operatives UK Social & Co-operative performance indicators are noted in brackets

(a) The reduction reflects the impact of the SAGA acquisition

(b) Average monthly number of employees was 68 (51 full time).

(c) 2009: 532 responses; no customer survey was undertaken in 2010 or 2011

(d) Includes letters and bills to an additional 7,500 former SAGA customers for the full 12 months

(e) Includes Consett office, which we acquired in June 2009

(f) The Withers Building was used as fulltime office space from March 2010 to August 2011

(g) 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 kgCO₂ per kWh. Source <http://www.defra.gov.uk/>

Environmental and other ethical measures

In addition, for the past six 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 £7,500 in Torrs Hydro, a small-scale hydro-electric project in Derbyshire, run as a community-owned social enterprise. Last year we added to our investments in renewables with a further £20,000 investment in the Energy Prospects Co-operative, a new venture which aims to make it easier to get new wind farm projects off the ground, by undertaking the initial high-risk task of feasibility work and obtaining planning consent, in return for a share of the revenue from successful projects. 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, 68% of journeys were made by less environmentally damaging transport modes (rail, bus, cycling or walking), the same percentage as last year. If the analysis is done by distance travelled, 86% of business miles travelled were by less environmentally damaging transport modes, compared with 84% last year. We are pleased that, after two years in which the percentage of miles travelled by less environmentally damaging methods fell, we have reversed the trend and are able to report an improvement. Overall, travel was reduced and we were therefore able to report a significant drop in the absolute volume of more environmentally damaging travel.
- Last year, in support both of our aim of promoting the use of public transport, and of the introduction of co-operative ownership models, we invested £20,000 in the Go! Co-operative, a new venture which aims to start rail and bus services run along consumer co-operative lines. In addition, the board agreed to use the Fund to support the Go! Co-operative by joining with others to provide a guarantee to enable them to enter into a track access agreement with Network Rail. The Phone Co-op's agreed share of this guarantee will be £10,000.
- We provide bicycles free of charge for the use of our employees for commuting and for business journeys. We also offer a mileage payment for cycling and walking on business journeys.

- In 2007 we launched 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:
 - Members waived their dividend and share interest in favour of the Fund
 - Members and customers contributed directly to the Fund
- By the end of August 2011 over £40,000 had been raised, up from £36,000 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. Following a review by the Ethical Policy Committee, the levy is being paid to PURE, a charity which uses the funds to purchase and cancel carbon credits from emissions reduction projects worldwide, which are audited and verified by the United Nations Clean Development Mechanism.
- 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	
	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10
Rail (including underground and tram)	765	1083	49.7%	52.3%	72147	99628	83.6%	83.1%
Bus/Ferry/Riverbus	230	271	14.9%	13.1%	2151	1395	2.5%	1.1%
Cycle and walking	57	27	3.7%	1.3%	73	87	0.1%	0.1%
Sub-total – less environmentally damaging transport modes:	1052	1381	68.4%	66.7%	74370	101110	86.1%	84.3%
Personal car or motorbike	234	406	15.2%	19.6%	6814	13309	7.9%	11.1%
Taxi	249	278	16.2%	13.4%	1288	1603	1.5%	1.6%
Air	4	4	0.3%	0%	3870	3904	4.5%	3.3%
Sub-total – more environmentally damaging transport modes:	487	668	31.6%	33.3%	11972	18816	13.9%	15.7%
Total (all recorded journeys)	1539	2069	100%	100.0%	86342	119926	100%	100.0%

Figures taken from expense claims submitted to The Phone Co-op

Promoting a co-operative economy

We aim to use our influence to promote co-operation in the economy generally. One of the most important ways in which we can do this is by using our purchasing power to procure goods and services from other co-operatives, an approach which is recognised in the 6th principle of co-operation approved by the International Co-operative Alliance. We are pleased to be able to report that purchases from other co-operatives as a percentage of non-personnel overheads increased from 10% last year to 11% this year. Sales of telecoms and internet

services to other co-operatives and co-op movement organisations totalled 12% of total sales (2009: 13%)¹.

We have also sought to promote co-operation by using our Co-operative and Social Economy Development Fund, which has been voted by members over the years, to invest in new and developing co-operatives. Although no further investments were made in 2010-11, negotiations were underway which would lead to investments being made after the year-end.

Other Ethical Issues

- In addition to trading with co-operatives, we aim to work with other organisations with similar and compatible values. Examples include our partnership with the Ethical Property Company (EPC), which provides affordable office space for voluntary and campaigning groups. Last year we invested £50,000 in their share capital and have worked with them to provide a low-cost telecommunications service for their tenants, as well as generating revenue for EPC to cover overheads. We also supply many other charitable and Third Sector organisations.
- We aim to act fairly in our dealings with others. For example, unlike many telecoms providers, we do not impose sales targets on our agents or affinity partners as a condition of their continuing to receive revenue.

Governance Report

This report is prepared in accordance with the Code of Best Practice adopted by Co-operativesUK in 2005. The Code sets out the recommended best practice on issues of governance for organisations in the co-operative sector and performance is assessed every year.

Board Composition

The Society's Rules provide for seven directors, including the Chairperson and Vice-Chairperson, and the term of office is three years with annual elections held by postal ballot preceding the Annual General Meeting.

Role and Responsibilities of the Board

The Board directs the affairs of the Society and works with the Chief Executive and management team to define the Society's objectives within the framework of the rules, developing policies and strategies to achieve those objectives. The directors are responsible for devising and maintaining an effective system of internal control and for the preparation of financial statements each year.

The Board ensures compliance with the provisions of the Industrial and Provident Societies Acts and other relevant legislation and encourages the growth of membership and member involvement in the affairs of the society, and is are responsible for the Society's rules and all aspects of membership policy as well as identifying and managing risk.

The Board approves all business and property acquisitions as well as the appointment of the Chief Executive and the Society Secretary, and, in conjunction with the Chief Executive, appoints other senior managers reporting to the Chief Executive.

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

Board Procedures

The Board holds a minimum of ten meetings each year with four conducted face-to-face and others by telephone conference. The directors also meet in private session as necessary.

The Board receives reports from the management team and reviews financial performance regularly as well as considering strategy, annual budgets and forecasting at relevant times of the year. Papers are circulated to directors in advance of each meeting and minutes are circulated afterwards. Decisions made are actioned by management as appropriate.

The Society's Rules provide that the Board of Directors shall have and keep under review a code of conduct for Board members. All Directors, on election, are required to sign a document agreeing to abide by this code.

Board Training and Development

A skills audit is conducted on a regular basis and an on-going training plan is being implemented that looks at the organisation as a whole with particular emphasis placed on the Board and its relationship with the management team. As part of this process, the board took part in a number of training and development sessions during the year.

Independence

The Society's Rules state that a director, or his or her partner or family member, cannot be engaged in a senior managerial capacity for any business that competes in a material way with any business trade or undertaking carried on by The Phone Co-op or has business interests or undertakes activities which, in the opinion of the Board, would render that person's service on the Board prejudicial to the interests of the Society. The Rules provide that a maximum of two members who are employees or who are considered to be materially dependent on the Society can serve as directors at any time. Directors are asked to register any conflicts of interest on an annual basis, and are required to declare specific conflicts as and when they arise.

Amanda Beard
Secretary
1 December 2011

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

The Co-operativesUK Code of Governance requires that the audit engagement partner should be changed every five years. Our current audit engagement partner has completed five years' service with the audit of this year's accounts. The board has considered the position and has decided it would like to conduct a selection process for our auditors during the year ahead, so that if a change does take place, it will coincide with the change of audit partner, and has therefore submitted a resolution to the Annual General Meeting requesting the members to grant it the authority to appoint the auditor for 2011-12.

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.

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 contributions	Total emoluments	Total emoluments
		£	£	£	2010/11 £	2009/2010 £
Vivian Woodell	01/07/1998	29,404	485	39,178	69,067	68,887
Maz Chaudhry	18/03/2002	29,239	266	8,180	37,685	43,175
Lisa Logan	04/07/2011	8,136	0	0	8,136	N/A
Chris Herbert	30/03/2009	55,620	485	6,288	62,393	57,547
Amanda Beard	18/09/1999	34,261	485	3,799	38,545	38,057
Guy Ohlenschlager	09/02/2004	37,977	1068	4,179	43,224	42,988
Fiona Ravenscroft	21/07/2004	35,490	485	3,904	39,879	39,789
Marianne O'Brien	12/03/2007	13,542	214	1,490	15,245	N/A
Matt Lane	06/07/2009	10,833	214	1,192	12,239	N/A

Note: the figures shown relate only to the period during the year when each of the above was a member of the Management Team.

General

- Maz Chaudhry left the Society on 14 July 2011. The payments disclosed are for the period 1 September 2010 to 14 July 2011.
- Marianne O'Brien and Matt Lane joined the Management Team on 1 April 2011.

Basic salary

- basic salary is the amount paid during the year.

Performance related

- payments shown relate to financial year 2010/11. Where a member of the Management Team served for part of the year only, performance related amounts which were paid monthly are shown for the months when they served on the Management Team, and those which were paid annually are shown pro-rata to their length of service on the Management Team during the year.

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 2010/2011	Basic Salary	Pension	Total 2009/2010
	£	£	£	£	£	£
Vivian Woodell	58,376	6,421	64,797	58,257	6,408	64,665
Maz Chaudhry	33,238	3,656	36,894	37,867	4,165	42,032

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.

Pay differentials

There has been considerable focus and disquiet in the media of late about the increasing pay differentials in many organisations. The Phone Co-op's Board has always sought to ensure fair rates of pay and benefits for all. To this end, management pay rates have been moderate by the standards of our industry, while pay at the lower end of the scale has been relatively generous. In addition, both the general sales-related bonus schemes, and the profit share are paid in relation to contracted hours, meaning that everyone receives the same amount, subject to qualifying periods. Our pension scheme is non-contributory, which means that everyone benefits, avoiding the situation in many businesses where lower-paid employees opt out because they are unable to afford the employee-contributions, and therefore lose out on the employer-contributions as well. Furthermore, given the difficult economic environment, in which it is not possible for us to award pay increases which match the rate of inflation, the pay settlement in 2010-11, and that agreed for 2011-12, have been modest flat cash amounts paid across the board, rather than percentage increases. This has further narrowed pay differentials, which we feel has been the right approach at a time when everyone must unfortunately suffer reductions in living standards. The Board wishes to express its appreciation to management for taking a lead in adopting this progressive approach, which reflects our values, and which we believe, if it were adopted as a model in the economy in general, would go a long way towards re-building the broken trust in our business community in general. The rate of remuneration paid to directors has not increased since 2008.

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 2% 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 is in place for Business Sales Team members, which is based on sales revenues generated by individual sales staff, subject to meeting a minimum threshold for business generated. A team bonus scheme is also 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 2008, Directors receive a fee of £1,150 per year (£1,725 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 and expenses paid to the Directors are provided in the Notes to the Accounts.

On behalf of the Board of Directors

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

17 December 2011

Six years of growth

Period ended 31
August

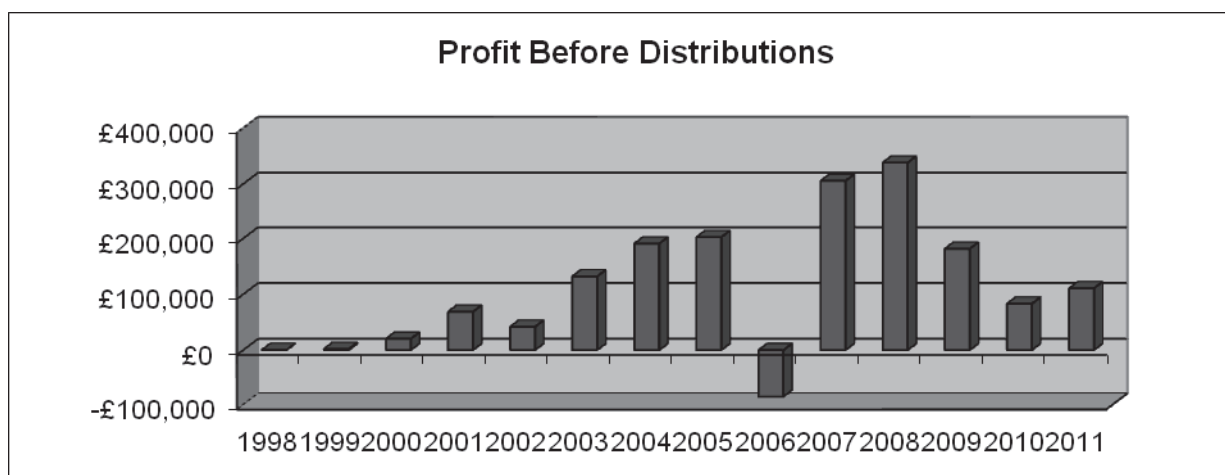
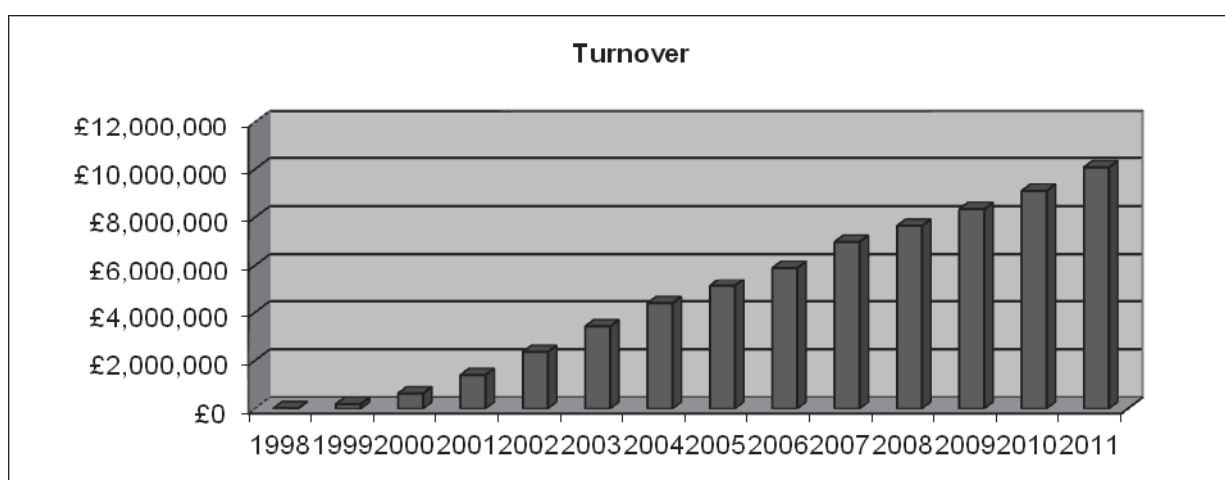
	2006	2007	2008	2009	2010	2011
Membership	6,333	6,735	7,160	7,538	7,961	8,625

Revenue Account

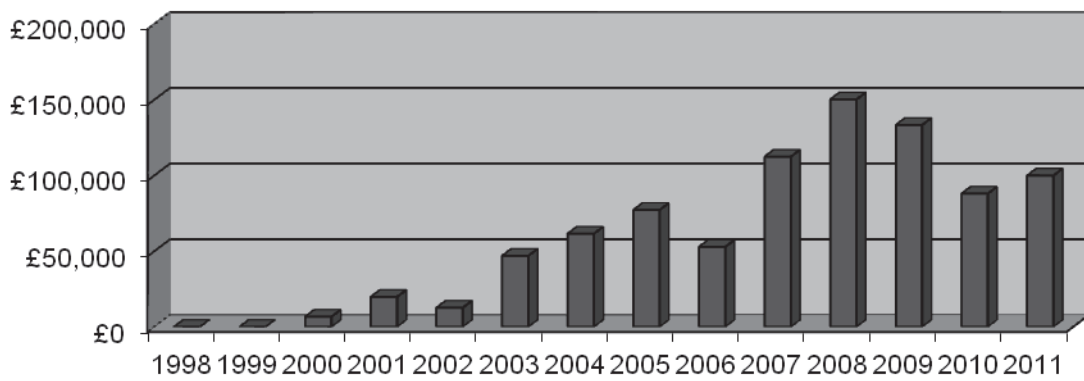
Turnover	5,894,437	6,980,800	7,645,888	8,341,116	9,101,233	10,079,942
Depreciation	81,783	88,315	123,368	59,331	108,730	197,257
Operating Profit/(Loss)	(141,334)	232,436	239,398	36,113	(37,433)	(11,015)
Profit/(Loss) Before Distributions	(85,588)	305,567	338,158	181,640	83,094	110,751
Recommended Distributions for year	52,850	112,383	150,199	133,367	87,975	69,434
Transfer to/(from) Reserves	(98,713)	262,548	212,477	66,792	34,212	66,413

Balance Sheet

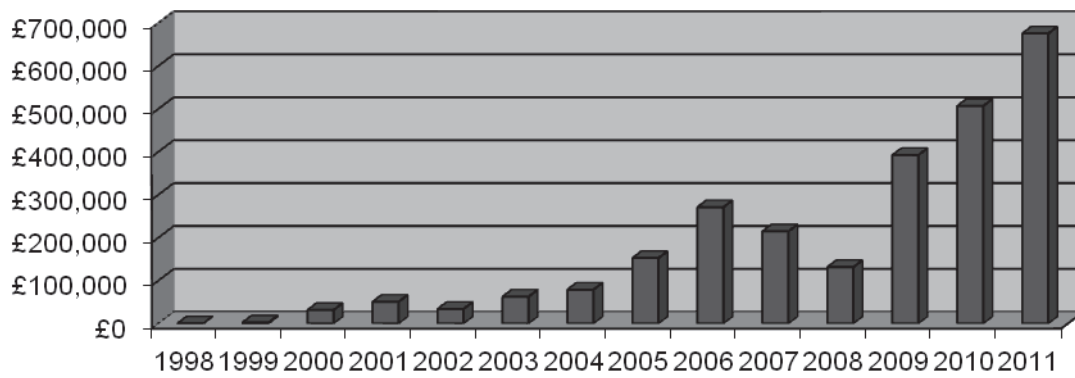
Fixed Assets	271,303	214,754	131,681	392,519	507,071	675,707
Current Assets	2,312,676	3,095,317	3,779,430	4,583,213	4,535,075	4,840,312
Net Current Assets	1,339,920	1,917,857	2,388,585	2,901,252	3,051,426	3,235,782
Net Assets	1,611,223	2,132,611	2,520,266	3,293,771	3,558,497	3,901,648
Share Capital	1,303,711	1,637,130	1,866,522	2,592,756	2,884,119	3,230,310
Reserves	235,155	423,124	543,583	532,673	506,874	503,833



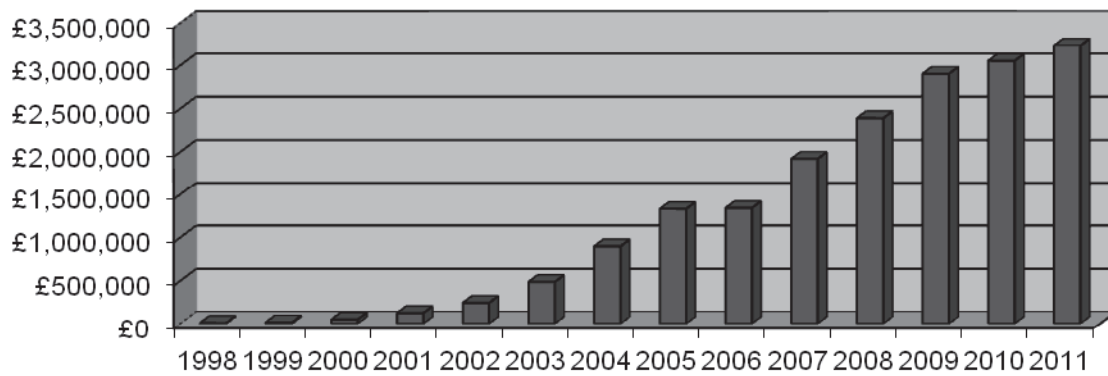
Recommended Distributions Relating to the Year



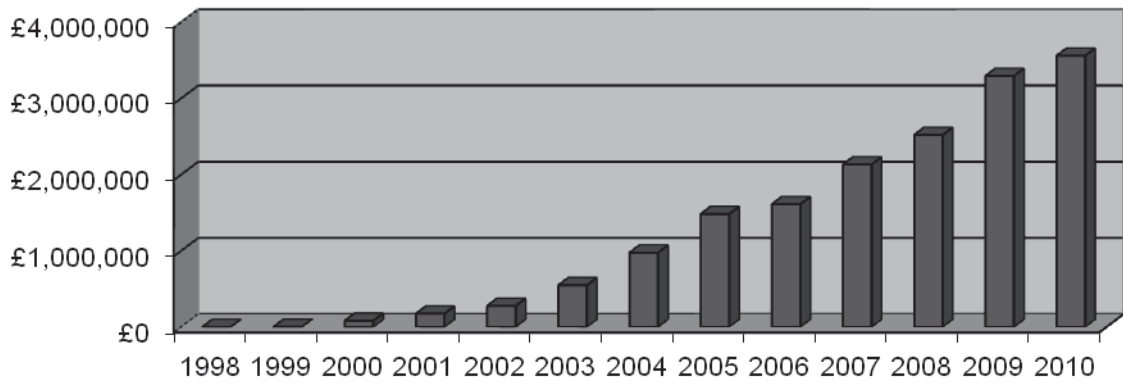
Fixed Assets



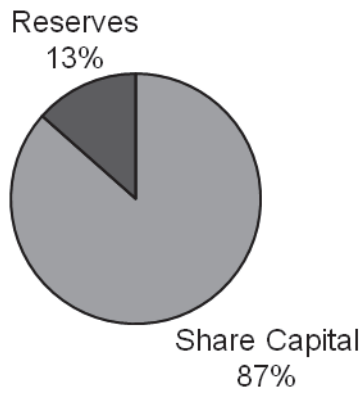
Net Current Assets



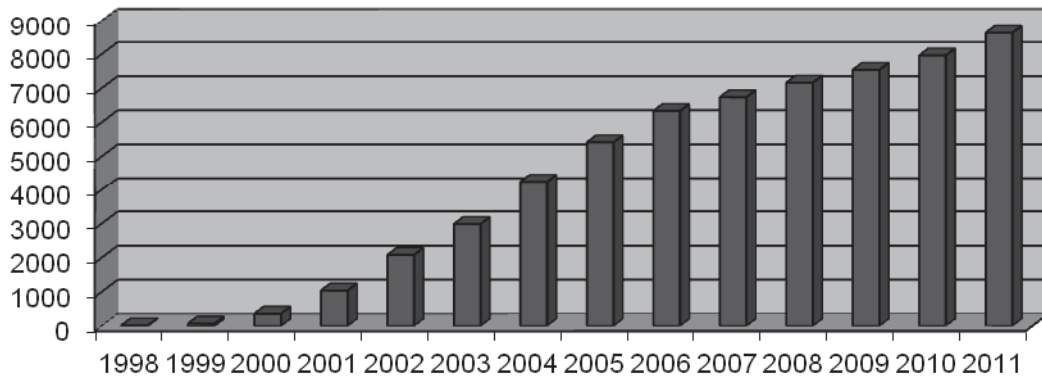
Net Assets



Net Assets



Membership



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

We have audited the financial statements of The Phone Co-op Limited for the year ended 31 August 2011, which comprise the Consolidated Revenue Account, Consolidated Balance Sheet, Society 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 14, 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 to 2002 and the Friendly and Industrial and Provident Societies Act 1968. We also report to you if, in our opinion, a satisfactory system of control over transactions has not been maintained or if proper books of account have not been kept by the society. In addition we state if we have not obtained all the information and explanations necessary for the purposes of our audit or if the society's balance sheet and its revenue account are not in agreement with the books of account.

We read other information contained in the Report of the Committee of Management 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.

Opinion

In our opinion the financial statements give a true and fair view of the Society's and its group's affairs at 31 August 2011 and of its profit for the year then ended and have been properly prepared in accordance with the Industrial and Provident Societies Act 1965 to 2002 and the Friendly and Industrial and Provident Societies Act 1968 .

Nicola Jaques FCCA
Senior Statutory Auditor
For and on behalf of Shaw Gibbs LLP
Chartered Certified Accountants
Registered Auditors
264 Banbury Road
Oxford OX2 7DY
2 December 2011

Consolidated Revenue Account

for the year ended 31 August 2011

		<u>31.8.11</u>	<u>31.8.10</u>
	Notes	£	£
TURNOVER		10,079,942	9,101,233
Less Value Added Tax		<u>(1,613,608)</u>	<u>(1,318,364)</u>
NET SALES		8,466,334	7,782,869
Cost of sales		<u>6,127,745</u>	<u>5,658,840</u>
GROSS PROFIT		2,338,589	2,124,029
Administrative expenses		<u>2,349,604</u>	<u>2,161,462</u>
OPERATING (LOSS) / PROFIT	3	(11,015)	(37,433)
Interest receivable and similar income		<u>121,766</u>	<u>120,527</u>
PROFIT BEFORE DISTRIBUTIONS		110,751	83,094
Members' dividend Co-operative and Social Economy Development Fund	4	27,964	48,882
		<u>-</u>	<u>-</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		82,787	34,212
Tax on profit on ordinary activities	5	<u>16,373</u>	<u>-</u>
TRANSFER TO RESERVES		<u>66,413</u>	<u>34,212</u>

Continuing operations

The results for 2011 and 2010 relate wholly to continuing operations.

The notes on pages 24 to 32 form part of these financial statements.

Consolidated Balance Sheet

as at 31 August 2011

		31.8.11		31.8.10	
	Notes	£	£	£	£
FIXED ASSETS:					
Tangible assets	6		147,288		134,751
Intangible assets	7		386,459		229,860
Investments	8		<u>141,960</u>		<u>142,460</u>
			675,707		507,071
CURRENT ASSETS:					
Stock		3,622		2,870	
Debtors	9	2,573,836		2,109,022	
Investments	10	1,174,049		1,160,651	
Cash at bank	11	<u>1,088,805</u>		<u>1,262,532</u>	
		4,840,312		4,535,075	
CREDITORS: Amounts falling due within one year	12	<u>1,604,530</u>		<u>1,483,649</u>	
NET CURRENT ASSETS:			<u>3,235,782</u>		<u>3,051,426</u>
TOTAL ASSETS LESS CURRENT LIABILITIES:			3,911,489		3,558,497
CREDITORS: Amounts falling due after one year	13		9,841		
TOTAL ASSETS LESS TOTAL LIABILITIES:			<u>3,901,648</u>		<u>3,558,497</u>
CAPITAL AND RESERVES:					
Members' share capital	14		3,230,310		2,884,119
Co-operative and Social Economy Development Fund	15		167,504		167,504
Revenue reserve	16		<u>503,834</u>		<u>506,874</u>
			<u>3,901,648</u>		<u>3,558,497</u>

Board Certification

The financial statements on pages 22 to 32 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

Amanda Beard, Secretary

2 December 2011

Society Balance Sheet

as at 31 August 2011

		31.8.11		31.8.10	
	Notes	£	£	£	£
FIXED ASSETS:					
Tangible assets	6		147,288		134,751
Intangible assets	7		386,459		229,860
Investments	8		<u>143,061</u>		<u>143,461</u>
			676,808		508,072
CURRENT ASSETS:					
Stock		3,622		2,870	
Debtors	9	2,573,636		2,108,922	
Investments	10	1,174,049		1,160,651	
Cash at bank	11	<u>1,088,565</u>		<u>1,262,292</u>	
		4,839,872		4,534,735	
CREDITORS: Amounts falling due within one year	12	<u>1,620,371</u>		<u>1,499,490</u>	
NET CURRENT ASSETS:			<u>3,219,501</u>		<u>3,035,245</u>
TOTAL ASSETS LESS CURRENT LIABILITIES:			3,896,309		3,543,317
CREDITORS: Amounts falling due after one year	13		9,841		
TOTAL ASSETS LESS TOTAL LIABILITIES:			<u>3,886,468</u>		<u>3,543,317</u>
CAPITAL AND RESERVES:					
Members' share capital	14		3,230,310		2,884,119
Co-operative and Social Economy Development Fund	15		167,504		167,504
Revenue reserve	16		<u>488,654</u>		<u>491,694</u>
			<u>3,886,468</u>		<u>3,543,317</u>

Consolidated statement of total recognised gains and losses

for the year ended 31 August 2011

	<u>31.8.11</u>	<u>31.8.10</u>
	£	£
Retained profit for the year	66,413	34,212
Share interest	<u>(69,433)</u>	<u>(60,011)</u>
Total recognised gains and losses in the year	(3,020)	(25,799)
Total recognised gains and losses since last annual report	<u>(3,020)</u>	<u>(25,799)</u>

Notes to the Financial Statements

for the year ended 31 August 2011

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

Group turnover, which includes value added tax, comprises the value of services provided and equipment sales by group undertakings.

Turnover from calls is recognised in the Group profit and loss account at the time the call is made over the Group's carrier network. Turnover from rentals is recognised evenly over the rental period. Turnover arising from other services, including broadband and maintenance contracts, is recognised evenly over the periods in which the service is provided to the customer.

Goodwill

- a) 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.
- b) In accordance with FRS7 goodwill includes a reasonable estimate of the fair value of amounts expected to be payable in the future.

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.

Notes to the Financial Statements

for the year ended 31 August 2011

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.

Stock

Stock is stated at the lower of cost and net realisable value.

Basis of Consolidation

The Group financial statements consolidate the financial statements of The Phone Co-op Limited and its wholly owned subsidiaries.

2. STAFF COSTS

	31.8.11	31.8.10
	£	£
Wages and salaries	1,131,647	1,167,072
Severance costs	31,500	2,950
Social security costs	103,804	108,871
Other pension costs	<u>140,693</u>	<u>139,399</u>
	<u>1,407,644</u>	<u>1,418,292</u>

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

	31.8.11	31.8.10
Full-time staff	51	47
Part-time staff	<u>17</u>	<u>18</u>
	<u>68</u>	<u>65</u>

3. OPERATING PROFIT

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

	31.8.11	31.8.10
	£	£
Depreciation - owned assets	64,822	45,139
Amortisation - intangible fixed assets	132,436	63,591
Operating leases - land & buildings	45,944	46,504
Foreign exchange gains & losses	239	-
Fees paid to auditors:		
Audit	8,300	8,100
Other		295
Directors':		
Fees	8,344	8,625
Expenses	<u>11,721</u>	<u>8,873</u>

Directors' remuneration

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

Fees	<u>8,344</u>	<u>8,625</u>
Expenses	<u>11,271</u>	<u>8,873</u>

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

Chairman	1,725	1,725
Board Directors	1,150	1,150

The average number of directors during the year was 7.

Notes to the Financial Statements

for the year ended 31 August 2011

4. MEMBERS' DIVIDEND

	31.8.11 £	31.8.10 £
Members' dividend	27,964	48,882
	<u>27,964</u>	<u>48,882</u>

5. TAXATION

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

	31.8.11 £	31.8.10 £
UK corporation tax – current taxation	13,984	-
Adjustments in respect of previous years	<u>2,389</u>	<u>-</u>
	<u>16,373</u>	<u>-</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 (21%).
The differences are explained below:

	31.8.11 £	31.8.10 £
Profit on ordinary activities before distributions	<u>110,750</u>	<u>83,094</u>

Profit on ordinary activities multiplied by small companies rate
corporation tax in the UK of 20.58% (2010: 21%)

Effects of:		
Expenses/income not deductible for tax purposes		87
Depreciation for period in excess of capital allowances	5,481	(690)
Members' distributions	(14,290)	(18,475)
Adjustments to tax charge in respect of previous years	2,389	
Other timing differences		<u>1,628</u>
Current tax charge for period	<u>16,373</u>	<u>(1,514)</u>

6. TANGIBLE FIXED ASSETS

Group and Society

	Diallers, routers & programming	Fixtures and fittings	Computer equipment & software	Totals
	£	£	£	£
COST:				
At 1 September 2010	55,386	90,810	441,800	587,996
Additions	-	5,458	71,901	77,359
Disposals			(650)	(650)
	<u>55,386</u>	<u>96,268</u>	<u>513,051</u>	<u>664,705</u>
At 31 August 2011				
DEPRECIATION:				
At 1 September 2010	55,384	76,423	321,438	453,245
Charge for year	-	8,028	56,794	64,822
Eliminated on disposal			(650)	(650)
	<u>55,384</u>	<u>84,451</u>	<u>377,582</u>	<u>517,417</u>
At 31 August 2011				
NET BOOK VALUE:				
At 31 August 2011	<u>2</u>	<u>11,817</u>	<u>135,469</u>	<u>147,288</u>
At 31 August 2010	<u>2</u>	<u>14,387</u>	<u>120,362</u>	<u>134,751</u>

Notes to the Financial Statements

for the year ended 31 August 2011

7. INTANGIBLE FIXED ASSETS Group and Society

	<u>Goodwill</u>	<u>Number</u> <u>Ranges</u>	<u>Total</u>
	£	£	£
COST:			
At 1 September 2010	390,708	0	390,708
Additions	<u>274,534</u>	<u>14,500</u>	<u>289,034</u>
At 31 August 2011	<u>665,242</u>	<u>14,500</u>	<u>679,742</u>
AMORTISATION:			
At 1 September 2010	160,848		160,848
Charge for year	<u>132,436</u>		<u>132,436</u>
At 31 August 2011	<u>293,284</u>	<u>0</u>	<u>293,284</u>
NET BOOK VALUE:			
At 31 August 2011	<u>371,959</u>	<u>14,500</u>	<u>386,459</u>
At 31 August 2010	<u>229,860</u>	<u>0</u>	<u>229,860</u>

8. FIXED ASSET INVESTMENTS

Group

	£
COST:	
At 1 September 2010	143,516
Additions	
Disposals	<u>(500)</u>
At 31 August 2011	<u>143,016</u>
PROVISIONS:	
At 1 September 2010 and 31 August 2011	<u>1,056</u>
NET BOOK VALUE:	
At 31 August 2011	<u>141,960</u>
At 31 August 2010	<u>142,460</u>

	31.8.11 £	31.8.10 £
Investments in Other Industrial and Provident Societies:		
Shares in the Co-operative Group (CWS) Limited	19,955	19,955
Community Broadband Network Limited	2,500	2,500
Westmill Wind Farm Co-operative Limited	20,000	20,000
Community and Co-op Publishing Limited		500
Torrs Hydro New Mills Limited	7,500	7,500
Anglia Farmers Limited	5	5
Energy Prospects Co-operative Limited	20,000	20,000
Go! Co-operative Limited	20,000	20,000
Other investments:		
ICO Fund plc	2,000	2,000
The Ethical Property Company Limited	50,000	50,000

Notes to the Financial Statements

for the year ended 31 August 2011

Society		£
COST:		
At 1 September 2010		144,517
Additions		100
Disposals		(500)
		<hr/>
At 31 August 2011		<u>144,117</u>
PROVISIONS:		
At 1 September 2010 and 31 August 2011		<u>1,056</u>
NET BOOK VALUE:		
At 31 August 2011		<u>143,061</u>
At 31 August 2010		<u>143,461</u>
	31.8.11	31.8.10
	£	£
Investment in subsidiary undertaking	1,101	1,001
Investments in Other Industrial and Provident Societies:		
Shares in the Co-operative Group (CWS) Limited	19,955	19,955
Community Broadband Network Limited	2,500	2,500
Westmill Wind Farm Co-operative Limited	20,000	20,000
Community and Co-op Publishing Limited		500
Torrs Hydro New Mills Limited	7,500	7,500
Anglia Farmers Limited	5	5
Energy Prospects Co-operative Limited	20,000	20,000
Go! Co-operative Limited	20,000	20,000
Other investments:		
ICO Fund plc	2,000	2,000
The Ethical Property Company Limited	50,000	50,000

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

Ecobilling Limited

Nature of business: Dormant
Country of incorporation: United Kingdom

Class of shares:	%
Ordinary & Preference shares of 10p	holding 100

Avoco UK Limited

Nature of business: Telecommunication services
Country of incorporation: United Kingdom

Class of shares:	%
Ordinary of £1 each	holding 100

Phone Co-op Numbering Limited

Nature of business: Telecommunication services
Country of incorporation: United Kingdom

Class of shares:	%
Ordinary of £1 each	holding 100

Notes to the Financial Statements

for the year ended 31 August 2011

9. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Society	
	31.8.11	31.8.10	31.8.11	31.8.10
	£	£	£	£
Trade debtors	1,184,870	860,941	1,184,870	860,941
Prepayments and accrued income	312,585	191,924	312,385	191,824
Loans to other Co-operatives	1,000,000	1,000,000	1,000,000	1,000,000
Other debtors	<u>76,382</u>	<u>56,157</u>	<u>76,383</u>	<u>56,157</u>
	<u>2,573,836</u>	<u>2,109,022</u>	<u>2,573,636</u>	<u>2,108,922</u>

The Society has advanced a loan to Anglia Co-operative Society for £1m which is due to be repaid on 31 May 2012

10. CURRENT ASSET INVESTMENTS

	Group		Society	
	31.8.11	31.8.10	31.8.11	31.8.10
	£	£	£	£
Investments in other Industrial and Provident Societies:				
Shares, ICOF Community Capital Limited	59,142	59,142	59,142	59,142
Share bond, The Midcounties Co-operative Limited	500,000	500,000	500,000	500,000
Corporate investor shares, the Co-operative Group (CWS) Ltd.	<u>614,907</u>	<u>601,509</u>	<u>614,907</u>	<u>601,509</u>
	<u>1,174,049</u>	<u>1,160,651</u>	<u>1,174,049</u>	<u>1,160,651</u>

11. CASH AT BANK

	Group		Society	
	31.8.11	31.8.10	31.8.11	31.8.10
	£	£	£	£
Cash and bank balances include the following share account balances held with other Industrial and Provident Societies:				
The Midcounties Co-operative Limited				
Community Membership Account	1	1	1	1
Chelmsford Star Co-operative Limited				
Membership share account	<u>650,000</u>	<u>650,000</u>	<u>650,000</u>	<u>650,000</u>

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Society	
	31.8.11	31.8.10	31.8.11	31.8.10
	£	£	£	£
Trade creditors	521,643	491,610	521,643	491,610
Value added tax	81,754	19,561	81,754	19,561
Social security & other taxes	27,558	31,317	27,558	31,317
Corporation tax	16,277	30	13,984	(2,263)
Accrued expenses and deferred income	918,087	941,131	918,087	941,131
Other creditors	<u>39,211</u>	<u>-</u>	<u>57,345</u>	<u>18,134</u>
	<u>1,604,530</u>	<u>1,483,649</u>	<u>1,620,371</u>	<u>1,499,490</u>

13. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	Group		Society	
	31.8.11	31.8.10	31.8.11	31.8.10
	£	£	£	£
Other creditors	9,841	-	9,841	-

Notes to the Financial Statements

for the year ended 31 August 2011

14. MEMBERS' SHARE CAPITAL

	Group		Society	
	31.8.11 £	31.8.10 £	31.8.11 £	31.8.10 £
As at 1 September 2010 as previously reported	2,884,119	2,592,756	2,884,119	2,592,756
Share interest	69,433	60,011	69,433	60,011
Contributions in the year	686,025	506,642	686,025	506,642
Withdrawals in the year	<u>(409,267)</u>	<u>(275,290)</u>	<u>(409,267)</u>	<u>(275,290)</u>
As at 31 August 2011	<u>3,230,310</u>	<u>2,884,119</u>	<u>3,230,310</u>	<u>2,884,119</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 2.25 % 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.

15. CO-OPERATIVE AND SOCIAL ECONOMY DEVELOPMENT FUND

	Group		Society	
	31.8.11 £	31.8.10 £	31.8.11 £	31.8.10 £
Brought forward	167,504	168,342	167,504	168,342
Transferred in the year		<u>(838)</u>		<u>(838)</u>
As at 31 August 2011	<u>167,504</u>	<u>167,504</u>	<u>167,504</u>	<u>167,504</u>

16. MOVEMENTS IN RESERVES

	Group	Society
	Revenue reserve	Revenue reserve
As at 31 August 2010	£ 506,874	£ 491,694
Prior Year difference	(20)	(20)
Retained profit for the year	66,413	66,413
Share interest	<u>(69,433)</u>	<u>(69,433)</u>
As at 31 August 2011	<u>503,834</u>	<u>488,654</u>

17. OPERATING LEASE COMMITMENTS

The following annual payments are committed to be paid within:

	Group		Society	
	Land & Buildings	Land & Buildings	Land & Buildings	Land & Buildings
	31.8.11 £	31.8.10 £	31.8.11 £	31.8.10 £
Expiring:				
Within one year	2,300	3,395	2,300	3,395
Between two and five years	<u>-</u>	<u>27,600</u>	<u>-</u>	<u>27,600</u>

Notes to the Financial Statements

for the year ended 31 August 2011

18. CAPITAL COMMITMENTS

	Group		Society	
	31.8.11 £	31.8.10 £	31.8.11 £	31.8.10 £
Expenditure contracted but not provided for	10,301	230,154	10,301	230,154

19. PENSION COMMITMENTS

The Society operates a defined contribution pension scheme. The contributions charged to the profit and loss account during the year amounted to £140,693 (2010: £139,399). There were no commitments at the balance sheet date.

20. CONTINGENT LIABILITIES

At the year-end there were no contingent liabilities. (last year: none).

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 £2,000 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 Vice-President during the year. Justin Andersen and Bob Burlton (directors of The Phone Co-op during the year) were in receipt of pensions from The Midcounties Co-operative's pension scheme during the year. The value of services provided under this contract during the year was £746,472 (last year: £696,725). Amounts outstanding at the balance sheet date, included in Trade Debtors, totalled £149,604 (last year: £nil).

During the year, The Phone Co-op purchased office supplies from The Midcounties Co-operative to the value of £2,768 (last year: £2,879).

Bob Burlton, a director until February 2011, was also a director and then Chairman of The Ethical Property Company. During the year the Society provided telecom services to The Ethical Property Company to the value of £93,813 (last year £116,225.38).

Peter Turnbull, a Director, was an Agent for The Phone Co-op during the year, and received income of £2,216 from commissions on sales generated under his agency (last year: £2,579). He also provided credit control services to the Society for which he received an income of £964 (last year: £2,145).

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 £7,560 (last year: £9,828). The Society provided office services to Claire Jarvis to the value of £1,293 (last year: £1,293). At the balance sheet date £1,293 (last year: £138) was accrued and included in Prepayments and accrued income.

Treasury/Financial

The Phone Co-op held 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 £1 (last year: £680,378). The value of interest received was £nil (last year: £17,884). The Phone Co-op also invested £500,000 (last year: £500,000) in a share bond issued by The Midcounties Co-operative Ltd. 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 £61,591 (last year £52,724). The Phone Co-op paid interest on this share capital of £1,386 (last year: £1,186) and dividend on purchases of £7,681 (last year: £11,915).

Paul Hopewell, a director, was a director of Torrs Hydro New Mills in which the Phone Co-op has an investment of £7,500 (last year £7,500).

Bob Burlton, a director until February 2011, was also a director and then Chairman of The Ethical Property Company. The Phone Co-op holds investor shares of £50,000 in that company (last year £50,000)

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

Notes to the Financial Statements

for the year ended 31 August 2011

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 32 days (last year: 29 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.

Notice of Annual General Meeting

The Annual General Meeting will be held from 2.00pm to 4.00pm on Saturday 4 February 2012 at Chipping Norton School, Burford Road, Chipping Norton, Oxfordshire, OX7 5DY.

Please note that informal workshops will take from 12.00 to 1.00pm and a buffet lunch will be available from 1.00pm.

Interim Agenda

1. Introductions and welcome
2. Appointment of Tellers
3. Apologies
4. To approve the minutes of the Annual General Meeting held on 5 February 2011
5. Matters arising
6. To receive the Directors' Report and Accounts for the year ended 31 August 2011
7. To approve the following appropriations recommended by the Board of Directors:

Share Interest:	£69,433
Dividend:	£30,516

8. To consider the following proposal submitted by the Board of Directors:

To ask members' permission to waive rule 73(c) and grant the Board of Directors authority to appoint the auditors for the financial year 2011-12, following a selection process (see note 1)

9. Election of Directors: declaration of the result
10. Election of Scrutineers
11. Any other business

Note 1

Rule 73 states:

- (c) Save as provided in Clause (d) of this rule every appointment of an auditor shall be made by resolution of a members' meeting of the Society
- (d) The board may appoint an auditor to fill any casual vacancy occurring between meetings of members of the Society

Our governance code stipulates that a new audit partner should be appointed every five years. We have just reached the end of this period with Shaw Gibbs & Co and would like to start a tender process for a new partner. The adoption of this resolution will mean that a new auditor can be approved by the Board this year, rather than the current auditor, with an alternative partner remaining in position for a period of one year to fill a casual vacancy.

The Phone Co-op

Registered office

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

Manchester office

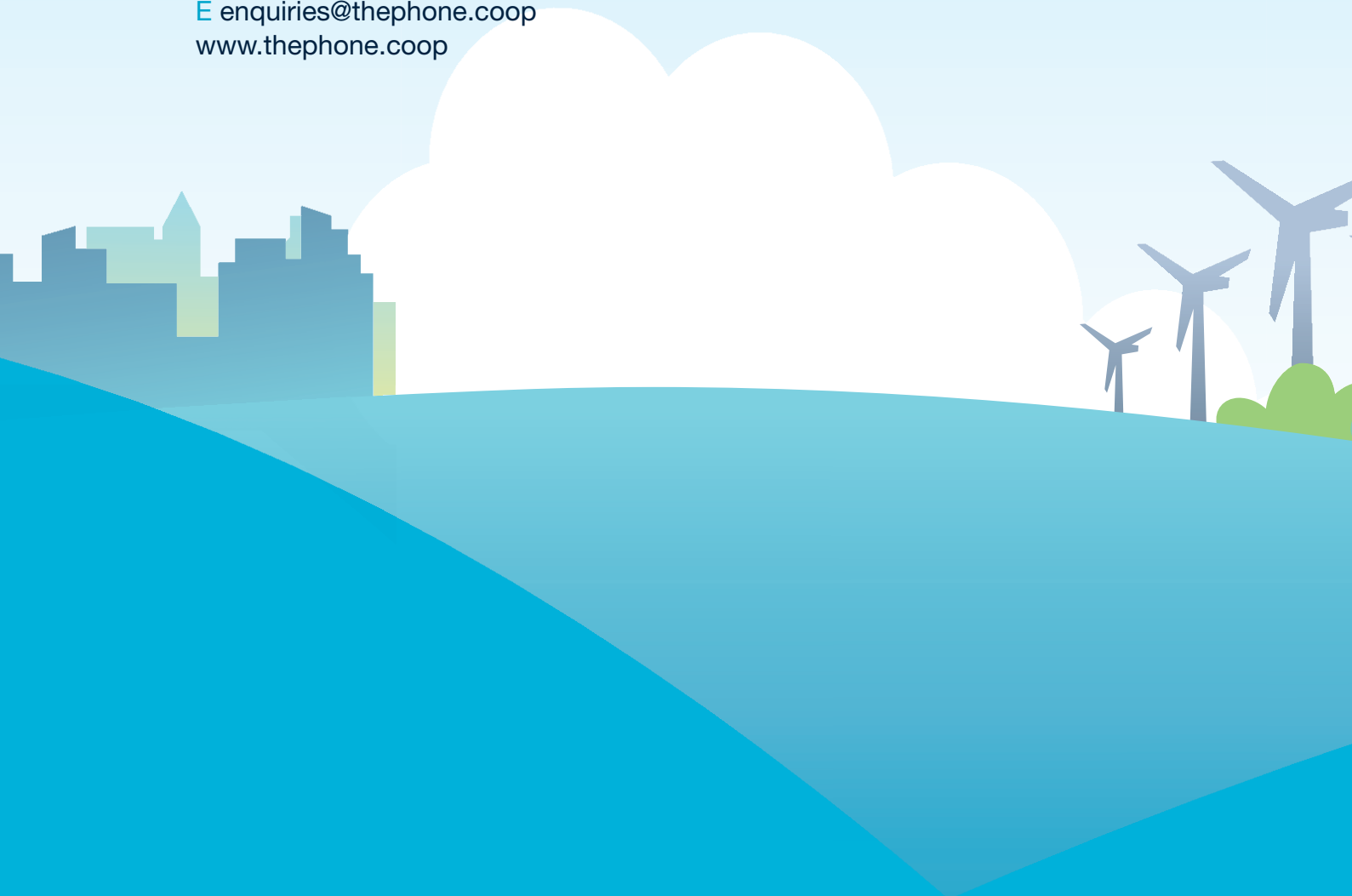
Rutherford House
Manchester Science Park
Manchester M15 6GG

T 0845 458 9000

F 0845 458 9001

E enquiries@thephone.coop

www.thephone.coop



Cover designed by **wave**. Printed throughout by **Calverts**
using 100% recycled paper supplied by **Paperback**.
All these organisations are workers' co-operatives.