



Interim Report and Financial Statements

For the six months ended
28 February 2017

The Phone Co-op. Your voice counts.



Highlights of the year

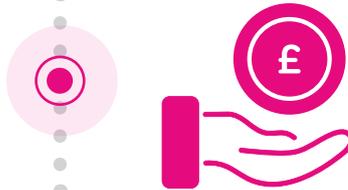
RECORD SALES AGAIN
growth of 5.6%



MEMBERSHIP
increase of 8.5%
over last year



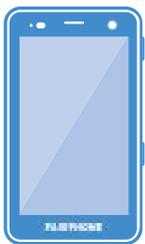
MEMBERS' SHARE CAPITAL
up 9.1% to £7.2m*



MOBILE SALES
above £1m for first time



FAIRPHONE
30% of sales were from
new target group -
younger, ethical mobile
customers.*



FAIRPHONE



MAIN SPONSORS
at Open:2017, London

*From Sept 16 - Feb 17

Directors' Interim Report to Members

The Board has pleasure in presenting the Interim Report and Accounts to members for the half year ended 28 February 2017.

It has been an encouraging period, with a good level of organic sales growth, despite the challenges we face. We have also passed some important milestones, including gaining Investors in People accreditation.

This year we are breaking new ground in evolving the democratic participation of members, with the first "virtual" Half-Yearly Meeting. This will be conducted entirely by teleconference on Thursday 20 July at 7pm. A physical members' meeting will take place on 15th July 2017, building on the successful unconference held in July 2015. At this, members will be able to help shape the future of The Phone Co-op with us working together on ideas for our future development.

The development of our new head office building in the centre of Chipping Norton has been slower than planned, as we encountered unexpected planning delays. We have been working through these with the planners and with our professional advisers, and are confident that work will be able to commence in the second half of the year.

Trading results

During the period under review, sales grew by 5.6% compared with the same period in the previous year, reaching a new high for the period of £5.46 million.

No acquisitions impacted on the sales in the period, and all of this growth was generated organically. Growth was evident in both business and residential sales, and while sales of fixed services were roughly unchanged at £4.19 million, mobile sales continued their rapid growth. Contract mobile sales increased by 45% to £871k, while Pay As You Go sales rose by 26% to £151k, taking mobile sales overall above £1 million for the first time in a half year period. Teleconferencing sales grew 5.5% to £126k, while there was a modest 1.5% rise in other trading income to £85k.

Margin was a little lower than last

'My faith in humanity has been renewed'. We were proud to sponsor George Monbiot's *Breaking the spell of loneliness* tour



year, with contract mobile margins impacted by the rapid growth in hardware sales, driven by the continuing success of Fairphone. Overall Gross margin was 33%, compared with 35% the previous year. Growth in the volume of sales meant that gross profit rose by 0.27% to £1.82 million, an increase of £7.5k. Our costs rose by 4.8% to £1.73 million, with an increase in personnel costs being offset by falls in both direct and indirect costs. Operating profit was 46% lower at £86k. Falls in interest rates generally and investment in our new head office (partly offset by increasing interest received from our investments in other co-operatives and social enterprises) meant that interest receivable fell by 5.3% to £91k taking profit before distributions to £177k, down 30% from £255k last year.

Balance Sheet

Fixed assets rose 0.8% in the first half year to £2.91 million as progress continued on our future headquarters building, and following some

We received Investors in People, the industry-wide accreditation for developing our people.



further investments in other co-operatives. Current assets increased by 7.7% to £7.67 million, and there was a 5.5% fall in current liabilities to £1.69 million. Net assets rose by 8.1% to a new high of £8.8 million, as a small drop in revenue reserves was offset by an inflow of members' share capital, which increased by 9.1% to £7.24 million, and an increase in the Co-operative and Social Economy Development Fund of 14.8% to £481k, following approval of the allocation at the AGM in February.

Importantly, revenue reserves, which stood at £1.09 million, were maintained at the top end of the policy range agreed by the Board, namely £900k to £1.1 million.

Developing our people and culture

The Board has taken a keen interest in the development of our organisational culture and our people in line with our co-operative values. Our members have often said that they want to see The Phone Co-op continue to develop its strength as a business that puts its colleagues, at the heart of everything it does. We take this very seriously. In early 2016 the Board decided to demonstrate this commitment to our employees (we prefer to call them colleagues) by setting the target of gaining Investors in People accreditation within a year. We are delighted to report that this was achieved in January 2017. We believe this is an important milestone in our development, and it is being followed up with further initiatives to develop and empower our colleagues. We would like to place on record our appreciation of the efforts of management and most

“We plan to continue to pursue suitable acquisition targets which can add scale to existing activities”

importantly of all our colleagues in securing this recognition.

Management

During the period, a restructuring of management took place, with Marianne O'Brien assuming responsibility for business and residential customer service, and Jacqui Marcus taking charge of business and residential sales, in addition to marketing. Jacqui, Marianne and Guy Ohlenschlager, Corporate Sales, report into Craig Lumsden, Head of Operations. Amanda Beard, Membership & Co-operative Affairs Manager, continues to report in to Craig.

Society Secretary

Paul Ford served as Society Secretary from October 2016 to February 2017, and we would like to thank him for his service to the Society. Per Simonsen has been appointed as Secretary until a replacement is recruited.

Support for other co-operatives

During the period we made two further investments in other co-operatives. In February, we invested £15k in Leeds Community Housing, an exciting new co-operative that is building 16 new permanently affordable homes in the city. We also invested £10k in Kings Arms Heaton Friends Limited, which is seeking to take the last pub in the Heaton area of Bradford into community control to ensure it remains open and thrives as a hub for local people.

One of the fastest-growing and most

exciting developments in the co-operative movement is happening in the field of “platform co-operatives”, which are co-operatives using online platforms to enable trade, including the sharing economy, on a mutual basis. We were very pleased to be the main sponsor of the Open:2017 conference on platform co-operation in London during February. This well-attended major event included a number of high-profile speakers, and showcased some fast-growing examples of platform co-ops around the UK and beyond.

Future prospects

We believe we need to grow further to ensure we retain critical scale in all our activities, and to maximise our impact. We are pleased that we have achieved an encouraging level of organic growth in the period, but the Board believes that over the coming years we need to grow faster than this.

This is why we have continued to explore further potential acquisitions very actively. In line with our existing strategy, we have looked at some potential acquisitions considerably larger than we have previously made, as well as some smaller ones.

We plan to continue to pursue suitable acquisition targets which can add scale to existing activities, take us into new markets, or enable us to provide some things ourselves that we currently buy wholesale.

Membership

Membership increased by 238 in the period to 11,972. Over the past 12 months, it has increased by 935, or 8.5%, an encouraging level of growth which reflects the efforts we continue to make to encourage customers to become members.

Our AGM was held in Bristol in February 2017, in line with our policy of moving to different locations to make AGMs as accessible as possible to members across the UK. We held the event at The Station, a venue run by a local social enterprise.

In addition to hearing about The Phone Co-op's progress during the year, members also heard from our guest speaker, Sir Graham Melmoth, former Chief Executive of The Co-operative Group, who related how he led the successful battle to prevent the CWS (the precursor of the Group) being taken over by a vehicle controlled by Andrew Regan in the late 1990s.

The AGM was also the occasion for the launch of The Phone Co-op's widely acclaimed new brand, and included a very successful brand workshop run by Ruth Semple, Head of Marketing at The Soil Association.

Board of Directors

The annual Board election took place with the count taking place in January 2017. Justin Andersen, David Legge and Simon Richards had reached the end of their terms and offered themselves for re-election. A further 7 candidates (Nick

Dowson, Helen Grayshan, Phil Horton, Karen McArthur, Graham Mitchell, Peter Murley and Andrew Paterson) also stood.

The count was carried out by Electoral Reform Services, with electronic voting being promoted strongly. The turnout was slightly down on last year, at 24% compared 26% the previous year. Of those voting, 28% chose to do so online, and 72% returned their ballot papers by post. Karen McArthur, Helen Grayshan and Simon Richards were all elected to serve for three years.

The directors would like to place on record their gratitude to the outgoing directors. Justin Andersen had given many years of service to the Society, having served on the Board since just after it started trading, and brought wide-ranging experience to the role. David Legge had served for three years, also making a valued contribution.

On behalf of the Board of Directors
Robert Denbeigh, Chair
Vivian Woodell, Founder
Per Simonsen, Secretary

CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 28 FEBRUARY 2017

	SIX MONTHS ENDED	SIX MONTHS ENDED	YEAR ENDED
	28/02/2017 (Unaudited) £	29/02/2016 (Unaudited) £	31/08/2016 (Audited) £
TURNOVER	6,525,123	6,238,280	12,542,840
Less Value Added Tax	(1,062,120)	(1,064,560)	(2,041,067)
NET SALES	5,463,003	5,173,720	10,501,773
Cost of Sales	3,647,308	3,362,965	6,938,732
GROSS PROFIT	1,815,695	1,810,755	3,563,041
Administrative expenses	1,729,731	1,649,118	3,380,215
OPERATING PROFIT	85,964	161,637	182,826
Interest receivable and similar Income	91,442	96,515	143,720
PROFIT BEFORE DISTRIBUTIONS	177,406	258,152	326,546

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 28 FEBRUARY 2017

	As at 28/02/2017 (Unaudited) £	As at 29/02/2016 (Unaudited) £	As at 31/08/2016 (Audited) £
FIXED ASSETS	2,913,795	2,527,560	2,890,263
Current Assets	7,672,269	7,049,050	7,127,040
Current Liabilities	1,692,654	1,549,056	1,790,357
Provisions for Liabilities and Charges	86,756	81,693	76,630
NET ASSETS	8,806,654	7,945,861	8,150,316
CAPITAL AND RESERVES	£	£	£
Members' share capital	7,235,945	6,406,568	6,632,669
Co-operative and Social Economy Development Fund	480,831	418,927	418,927
Revenue Reserve	1,089,878	1,120,366	1,098,720
	8,806,654	7,945,861	8,150,316

Society Information

Directors

Robert Denbeigh (Chair)
Fiona Nicholls (Vice Chair)
Helen Grayshan
Karen McArthur
Simon Richards
Jane Watts
Shelagh Young

Founder

Vivian Woodell

Head of Operations

Craig Lumsden

Head of Products and Systems

Fiona Ravenscroft

Chief Financial Officer and Secretary

Per Simonsen

Registered Office

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Registered Number

28965R

Registered Auditors

Shaw Gibbs LLP
Chartered Certified Accountants
264 Banbury Road
Oxford
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