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Membership Number: 00000

Dear Members

I sent you a letter just after our AGM in February, letting you know that the Board intended to call a further (potentially Special) General Meeting of the membership, so that we could recognise the concerns of members and further discuss both our strategic plans and the future direction of the business. I had intended to write again much sooner, to address the very real concerns, some of you raised at the AGM and hoped to allay those concerns.

However, since then a great deal has happened and attached you will find a notice for a Special General Meeting (on 28 April), a brochure about The Phone Co-op's strategy and a proposal for a Transfer of Engagements with Midcounties Co-operative.

All this is, of course, huge and we hope you will come to the meeting or take part online. We need to get as many of your views as possible into this process and you need to use your votes. This is now a Special General Meeting, and therefore there will be no scope to accept motions from members.

We have appointed Emma Laycock of Co-ops UK to be our interim Society Secretary, which is helping us to deal with a complex set of circumstances, all happening at the same time. She will guide us all through this process, and her input is already proving invaluable. We have deferred the appointment of a new, permanent Society Secretary until after we know the outcome of the Special General Meeting.

Our new Chief Executive, Nick Thompson, has started work, and has had to deal with many challenges and potential changes from day one. To respond to members' concerns raised at the AGM, one of his first tasks, working with our new interim Chief Finance Officer, Matt Ryans, was to look at risk mitigation and the proposed strategy.

Our approach as a Board, together with senior staff, following the AGM, was to take a step back and look again at areas where we could perhaps move more slowly. The Board now feel that we have a strategy to propose, which, while built firmly on the previous version, takes better cognisance of members' concerns. The telecommunications market has changed significantly since TPC's inception; our strategy reflects these changes and seeks to increase our customers amongst social and ethical businesses, while still giving good support to the household and individual customer side of the business. The Board is confident in the strategy, which has been developed in good faith, and would like to reassure members



The Phone Co-op. Your voice counts.

that their investments and the TPC's reserves will not be put at greater risk than permitted.

Other recent changes include a decision to delay moving premises, while recognising that a move for Chipping Norton staff is urgent and necessary. We are still seeking a set of premises to acquire that more fully meet our needs now and into the future. We have also slowed the recruitment of new staff but do need to increase staff in business sales to achieve our aims. There have been opportunities not to replace staff who are leaving in areas which no longer have the same staff requirement. In these and other ways we have been able to reduce the expenditure in the current year, while still forecasting some losses, as previously announced.

The Board has faith and trust that our strategy is the right one. We can reassure members that the Board and senior team are mindful of and prudent with members' money and members as customers. However, we are aware that members have had an impression of the profitability and success of The Phone Co-op but these have been changing and are not quite as positive as supposed, since the telecommunications arena has changed so much and margins have become harder to find.

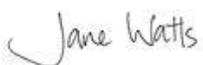
The Phone Co-op had been approached in the past to transfer engagements to other societies and up to now had rejected such approaches, preferring to maintain our independence. However, as a Board, we have opened negotiations with Midcounties Co-operative Limited and the reason for 28 April being an SGM is to vote on the proposed and recommended transfer. (We would need 66% of members present on the day to vote in favour for this proposal to succeed.) Attached is further information on transfer of engagements and a question and answer document to aid members when considering the motion.

We have had to do much soul-searching to arrive at our recommendation to vote in favour of this transfer of engagements. Some of the board were quickly convinced by the sheer size and possibility offered by becoming part of a co-operative with a much bigger customer base; others of us have had to return to first principles. The Phone Co-op was set up to deliver phone and broadband services co-operatively, and, as was re-iterated at our AGM, to prove that a consumer co-op could be developed successfully in the late twentieth century. We certainly have proved that latter point. However, we still want to be able to offer phone and broadband, and in their many new forms, co-operatively and a larger co-op offers us the chance to do that for so many more people than we can achieve alone. We believe that Midcounties Co-operative is a reputable, values-driven co-operative, with a track record of developing national, consumer-facing utilities services, and that this can be a good home for us.

Why we believe this to be the best way forward, is in part driven by our members' obvious concern about continuing to have as a major part of our co-operative, the provision of household level telecommunications. The reach offered by Midcounties, as they have shown through Co-op Energy, is considerable, and so is the level of customer service. The transition period will be significant and will enable us to share our high levels of customer service and approaches to the telecommunications world. This is a good example of co-operatives working co-operatively and we are assured that our brand will be kept.

Thank you to the many members who have contacted me, the Chief Executive and/or our Membership Manager since the AGM; your questions and suggestions have been many and varied, and both helpful and insightful. We have tried to respond to each one of you. As might be expected of a co-operative of such a broad base, your responses were not all of the same mind. For this reason, I particularly urge you to take part in the SGM and to have your say there.

Yours in Co-operation



Jane Watts  
Chair of The Phone Co-op