

Our strategy 2018 to 2022



Introduction

It is a pleasure and a privilege to introduce myself to you.

The Phone Co-op is a remarkable business, and one that stands pretty much alone in the cut-throat commercial telecoms world. That it stands at all is testimony to our members who, in 1998, had the foresight and imagination to see the major role that telecoms and the internet would play in our homes and workplaces.

So here we are in 2018, in a data-driven world, standing on the brink of major developments in high bandwidth connectivity. BT's IP migration will affect every home and business in the UK, and give us the opportunity to share our unique values-led approach with even more residential and business customers.

The Phone Co-op is proud to deliver your bold and brave vision of a modern telecommunications service: one that gives people the opportunity to be part of a network that provides excellent products and services with a very human, co-operative connection.

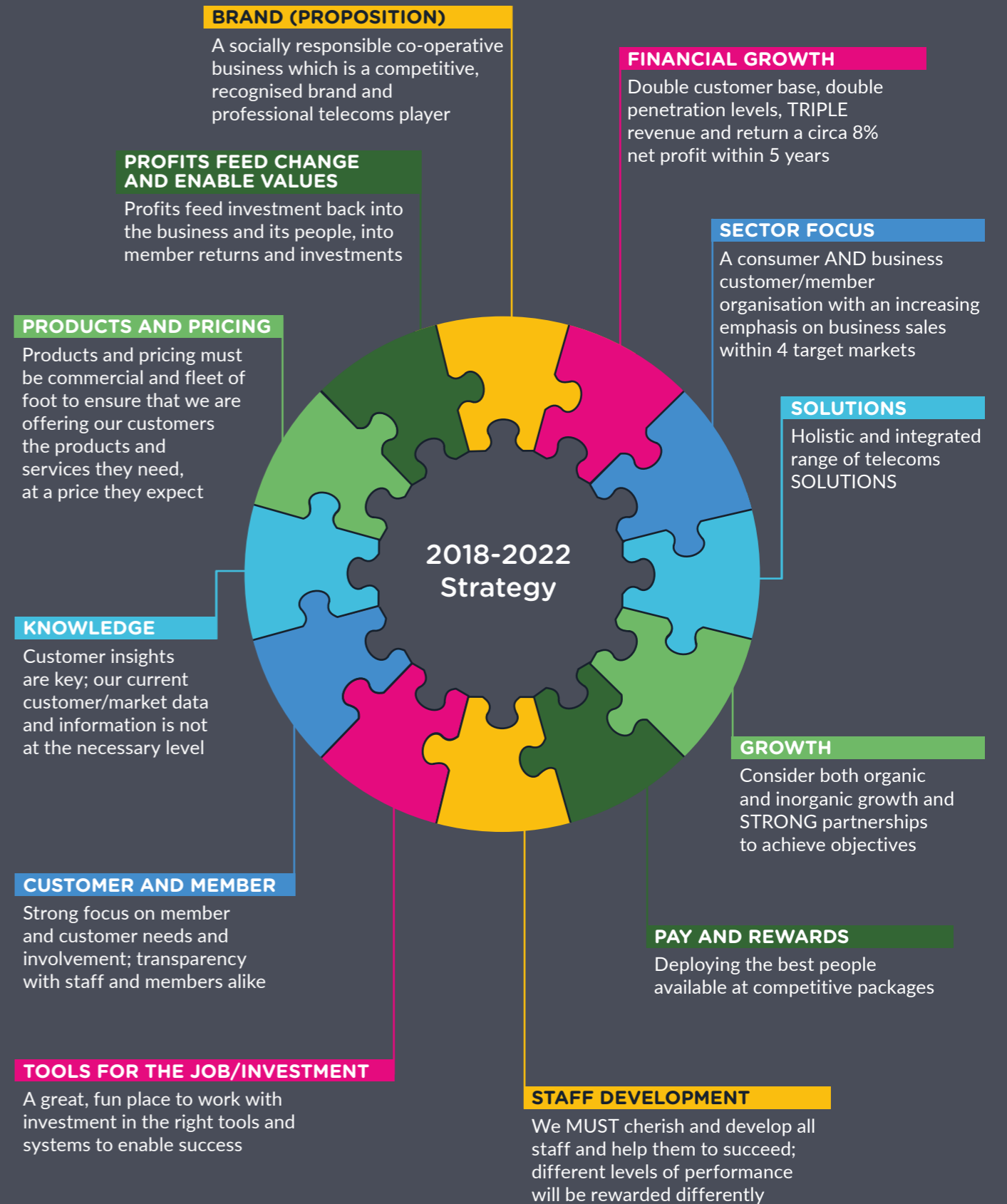
This will require judicious investment, and it will require change. However it will not require any change to our co-operative values and approach, and our respect for every customer, investor, member and employee. Investment will focus in three areas of traditional under investment where we need to run 'get-well' programmes.

I am humbled by your vision to deliver telecoms in a unique and different way. My commitment to you is that The Phone Co-op team I lead will do its utmost to deliver on this vision and provide the very best telecommunications service to every customer.

Nick Thompson
Chief Executive



We're a unique co-operative telecoms business





B2C Residential Sales

| | |
|---|--|
| 90% of people go online every day | ▶ Broadband is increasingly the lead product customers choose |
| Bundled calls and broadband services, incorporating line rental, are positioned as a cost saving option | ▶ Residential ARC (Average Revenue per Customer) has declined by 50% over the last 10 years |
| 60% of people would prefer a shorter contract period | ▶ Organic growth is down to 0.6%. A clear position and proposition must be articulated |
| Incumbent providers rely on inertia rather than loyalty to maintain their business | ▶ The Phone Co-op's customer loyalty significantly outperforms the market, especially with members |
| Over 80% of MVNOs (Mobile Virtual Network Operators) have ceased trading over the last 5 years | ▶ The Phone Co-op is one the of UK's largest, and only co-operative, MVNO |



B2B Business Sales

| | |
|---|--|
| <p>The UK B2B (Business to Business) market is broadly split into three key segments:</p> <ul style="list-style-type: none"> • Enterprise • Mid-market • VSME (Very Small and Micro Enterprise) / SOHO (Small Office, Home Office) | <p>Enterprise is fiercely competitive with BT/EE, Vodafone, Virgin & Deutsche Telecom and others all competing. The VSME/SOHO market similarly has over 110 known providers and resellers. In contrast, the mid-market (20-300 connected employees) is under-served and presents a significant opportunity, particularly in our target segments.</p> |
| <p>Cloud Services are now the core driver of IT/Telecommunication requirements with IT Support businesses offering bundled calls and connectivity services.</p> | <p>The Phone Co-op's integrated cloud, connectivity & calls (UC/Cloud) proposition is a proven solution for businesses that goes beyond the telecoms calls and broadband revenue-driven business model.</p> |
| <p>The UK Business market is increasingly looking for integrated solutions to its needs**, rather than the traditional individual services.</p> | <p>Our integrated Four Cs (Co-operative Cloud, Connectivity and Calls), with upsell routes into mobile handsets and desktop software support, positions The Phone Co-op as the co-operative solutions provider.</p> |

Target Markets

| 1 | 2 | 3 | 4 |
|---|---|---|---------------------|
| SOCIAL HOUSING | ETHICAL BUSINESSES | THIRD SECTOR | CO-OPERATIVE SECTOR |
| 106 housing associations 5,500 care homes student accommodation growing approx 3% per annum | £38 billion size of ethical UK marketplace 36,000 businesses | 165,000 organisations 13,000 NCVO members Sector worth £45+ billion (NCVO 2015) | 4000 businesses |

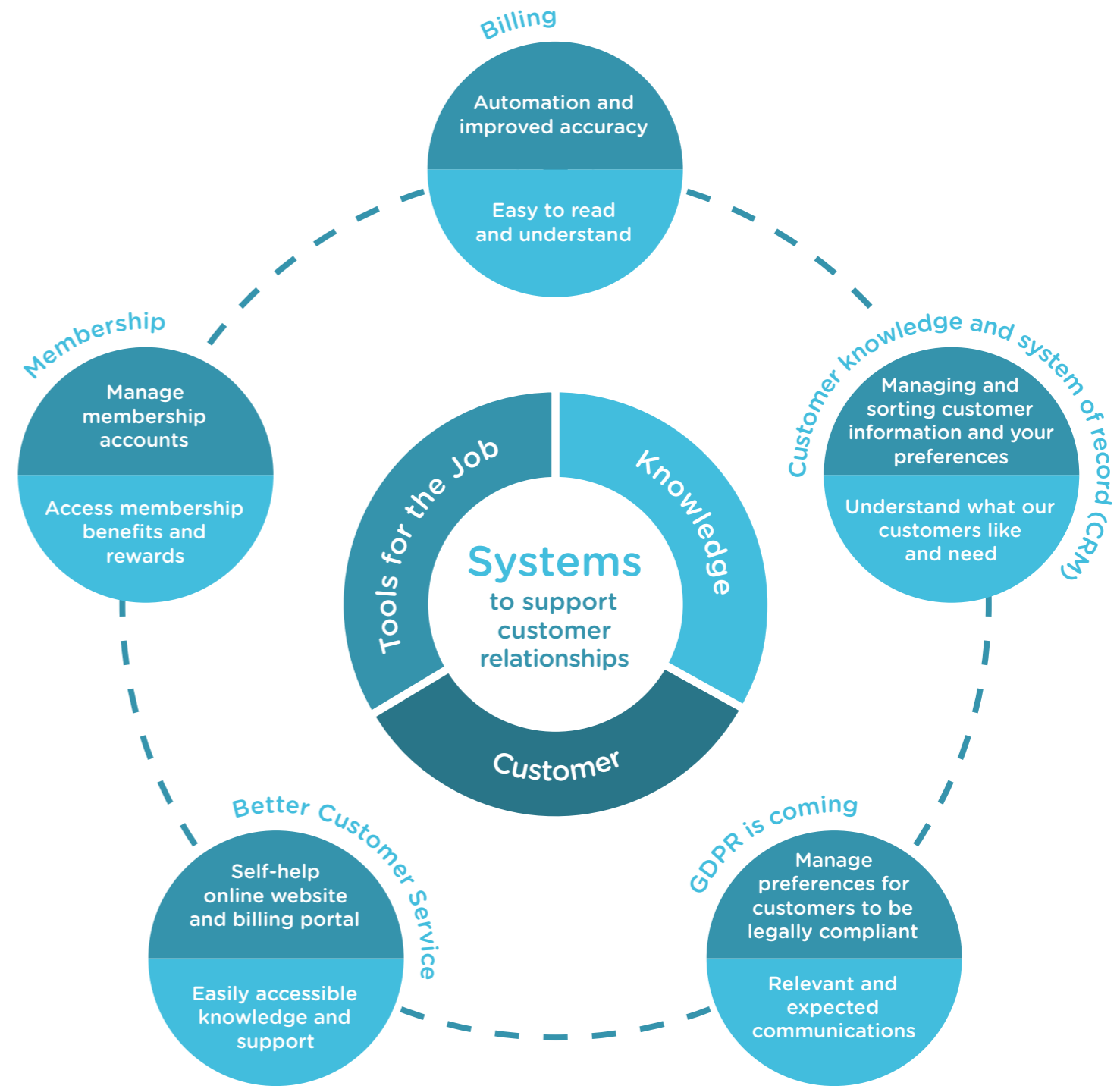
Using multiple suppliers to meet their requirements for individual telephone calls, broadband, connectivity and, increasingly, cloud services.

We will continue to build our residential and small business customer bases, exploiting the upheaval of BT's IP Transition. We will specifically target mid-market organisations, offering a managed service of cloud, connectivity and calls. We have identified

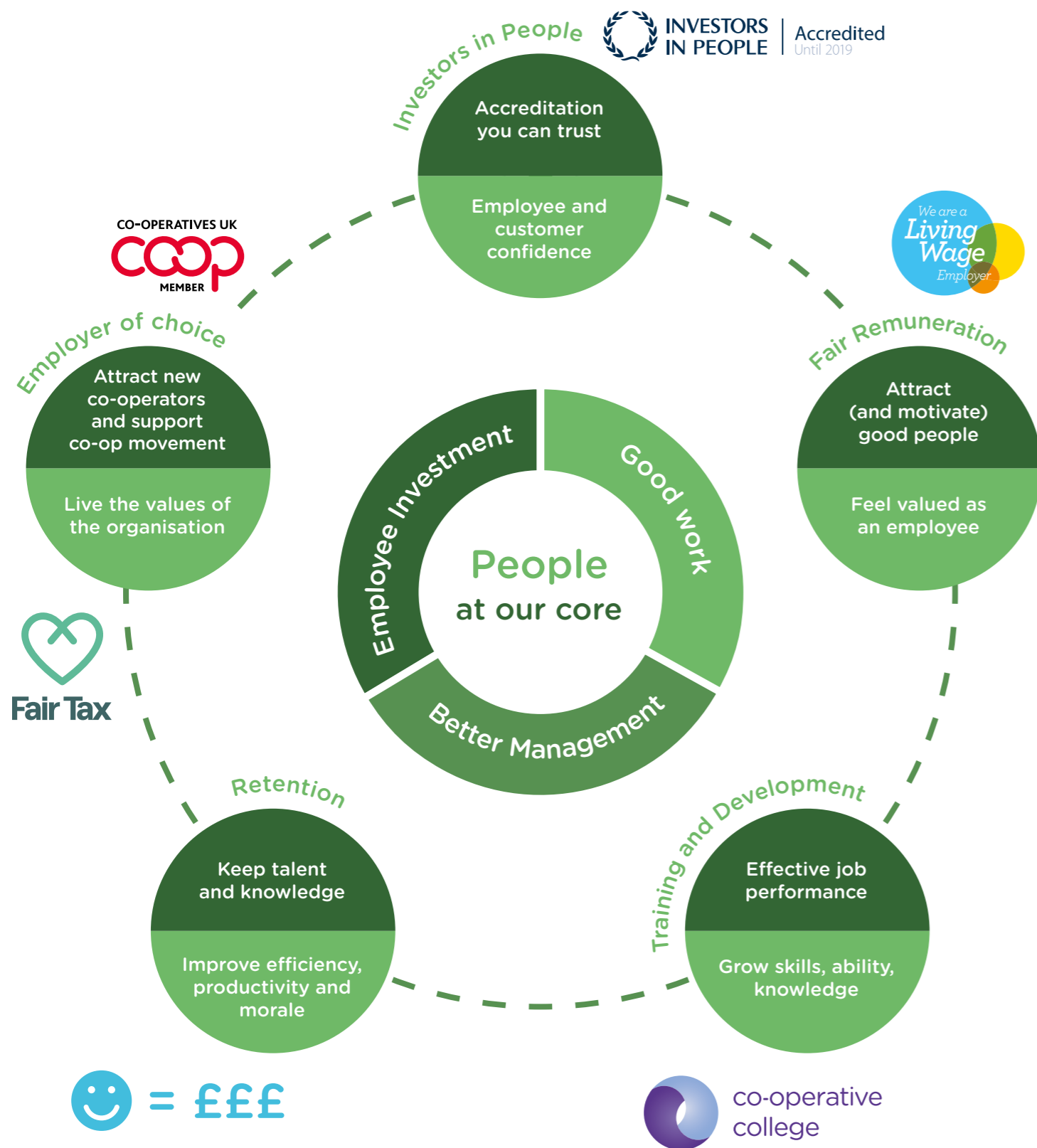
four core segments, comprising around 60,000 businesses, that fit this profile and will be the focus for our sales and marketing efforts – although, of course, we continue to share our co-operative values with any business wishing to work with us.

* PWC ** Gartner

'Get well' Programme 1 - Systems



'Get well' Programme 2 - People

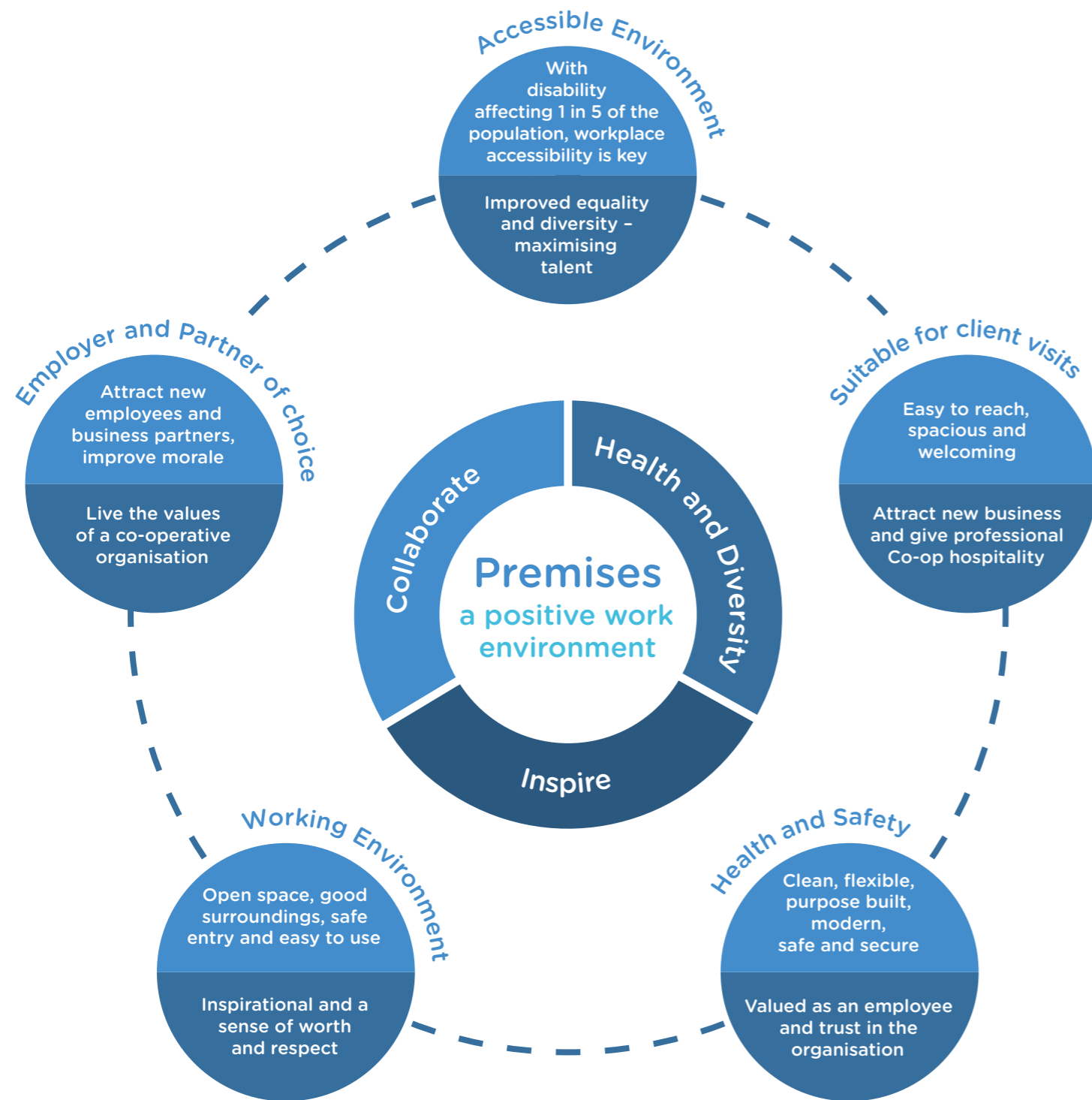


Our direction of travel









- 1 Initial strategy work 2015
- 2 Head of Marketing & Ecommerce Jacci Marcus, appointed November 2015
- 3 New brand - The Phone Co-op January 2017
- 4 New website April 2017
- 5 New Role, HR Manager - Jeni Yeung, appointed September 2017
- 6 Business strategy work 2017
- 7 CFO - Matthew Ryans, appointed January 2018
- 8 CEO - Nick Thompson, appointed February 2018

We started the process of building growth in 2015 and the 2017 strategy drives forward change.

'Get-well' Programme 3 - Premises



Comparison of office locations

| Chipping Norton tired and challenging | Manchester new, clean and accessible |
|---|---|
|  <p>Poor accessibility</p> |  <p>Excellent accessibility</p> |
|  <p>Old farm site and busy car park</p> |  <p>City Centre and good public transport</p> |
|  <p>Uninspiring interior spaces</p> |  <p>Dynamic interior spaces</p> |
|  <p>Lifeless views</p> |  <p>Inspirational views</p> |

Business plan headlines

Current Trajectory

| Our Financial Year: Sept – Aug | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Revenue | £11,310,059 | £12,139,505 | £12,738,990 | £13,368,153 | £14,028,467 |
| Margin | £3,500,161 | £3,759,242 | £4,009,221 | £4,274,743 | £4,556,738 |
| Margin % | 31% | 31% | 31% | 32% | 32% |
| Direct costs | (£253,366) | (£257,040) | (£262,181) | (£267,424) | (£272,773) |
| People costs | (£2,560,133) | (£2,668,320) | (£2,721,686) | (£2,776,120) | (£2,831,643) |
| Overheads (inc. systems and premises) | (£1,408,493) | (£1,333,200) | (£1,358,904) | (£1,385,122) | (£1,411,865) |
| Foundation | (£111,015) | (£111,015) | - | - | - |
| Operating profit | (£832,846) | (£610,333) | (£333,551) | (£153,923) | £40,458 |
| Headcount | 79 | 79 | 79 | 79 | 79 |
| FTEs (Full Time Equivalents) | 68 | 68 | 68 | 68 | 68 |
| Contractually Guaranteed Margin* | £0 | £0 | £0 | £0 | £0 |
| Residential customers | 20,555 | 21,583 | 22,662 | 23,795 | 24,985 |
| VSME/SOHO customers | 2,299 | 2,402 | 2,511 | 2,624 | 2,742 |

Strategy 2018 – 22

| Our Financial Year: Sept – Aug | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Revenue | £11,361,484 | £13,301,105 | £17,094,990 | £21,414,153 | £27,744,467 |
| Margin | £3,514,560 | £4,084,490 | £5,228,901 | £6,527,623 | £8,465,798 |
| Margin % | 31% | 31% | 31% | 30% | 31% |
| Direct Costs | (£253,366) | (£257,040) | (£262,181) | (£267,424) | (£272,773) |
| People costs | (£2,677,832) | (£3,175,602) | (£3,692,578) | (£4,352,490) | (£5,069,411) |
| Overheads (inc. systems and premises) | (£1,458,493) | (£1,453,200) | (£1,478,904) | (£1,505,122) | (£1,531,865) |
| Foundation | (£111,015) | (£111,015) | - | - | - |
| Operating profit | (£986,146) | (£912,366) | (£204,762) | £402,587 | £1,591,749 |
| Headcount | 82 | 88 | 100 | 116 | 138 |
| FTEs (Full Time Equivalents) | 71 | 77 | 89 | 105 | 127 |
| Contractually Guaranteed Margin* | £186,000 | £1,612,000 | £3,906,000 | £6,386,000 | £13,640,000 |
| Residential customers | 20,555 | 21,583 | 22,662 | 23,795 | 24,985 |
| VSME/SOHO customers | 2,299 | 2,402 | 2,511 | 2,624 | 2,742 |
| B2B mid-market customers | 6 | 60 | 156 | 282 | 468 |
| Target market size approx. | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 |
| TPC mid-market share | 0.01% | 0.12% | 0.31% | 0.56% | 0.94% |

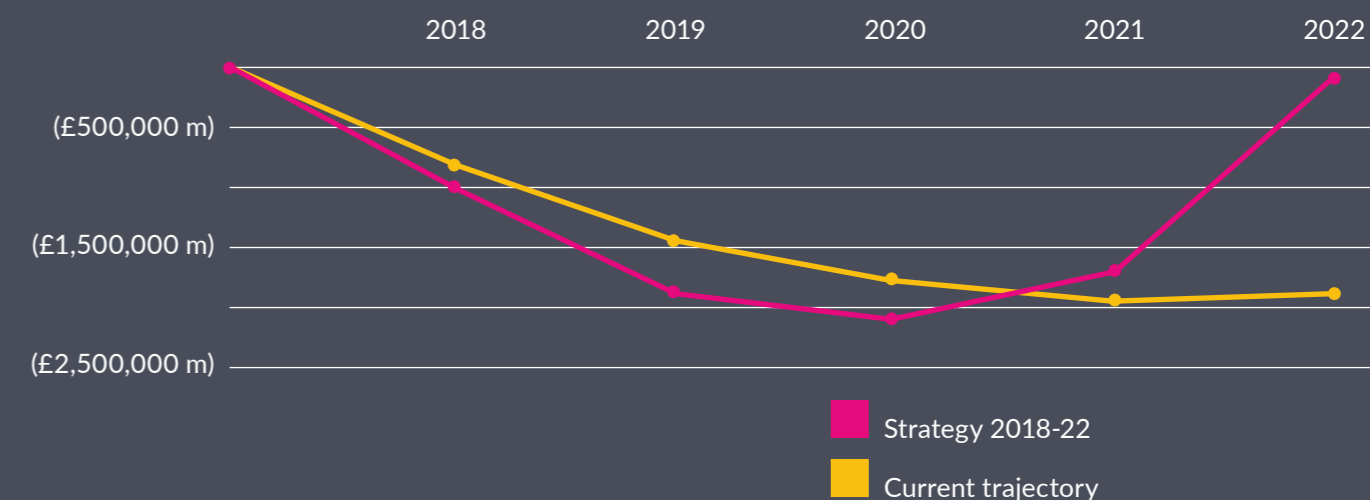
Key assumptions and sensitivities

- Residential growth projected at 5% pa
- VSME/SOHO growth projected at 4.5%
- B2B mid-market growth strategy acquires 468 customers over 5 years
- This represents <1% of the target market
- B2B mid-market revenue model is based on per-seat charging

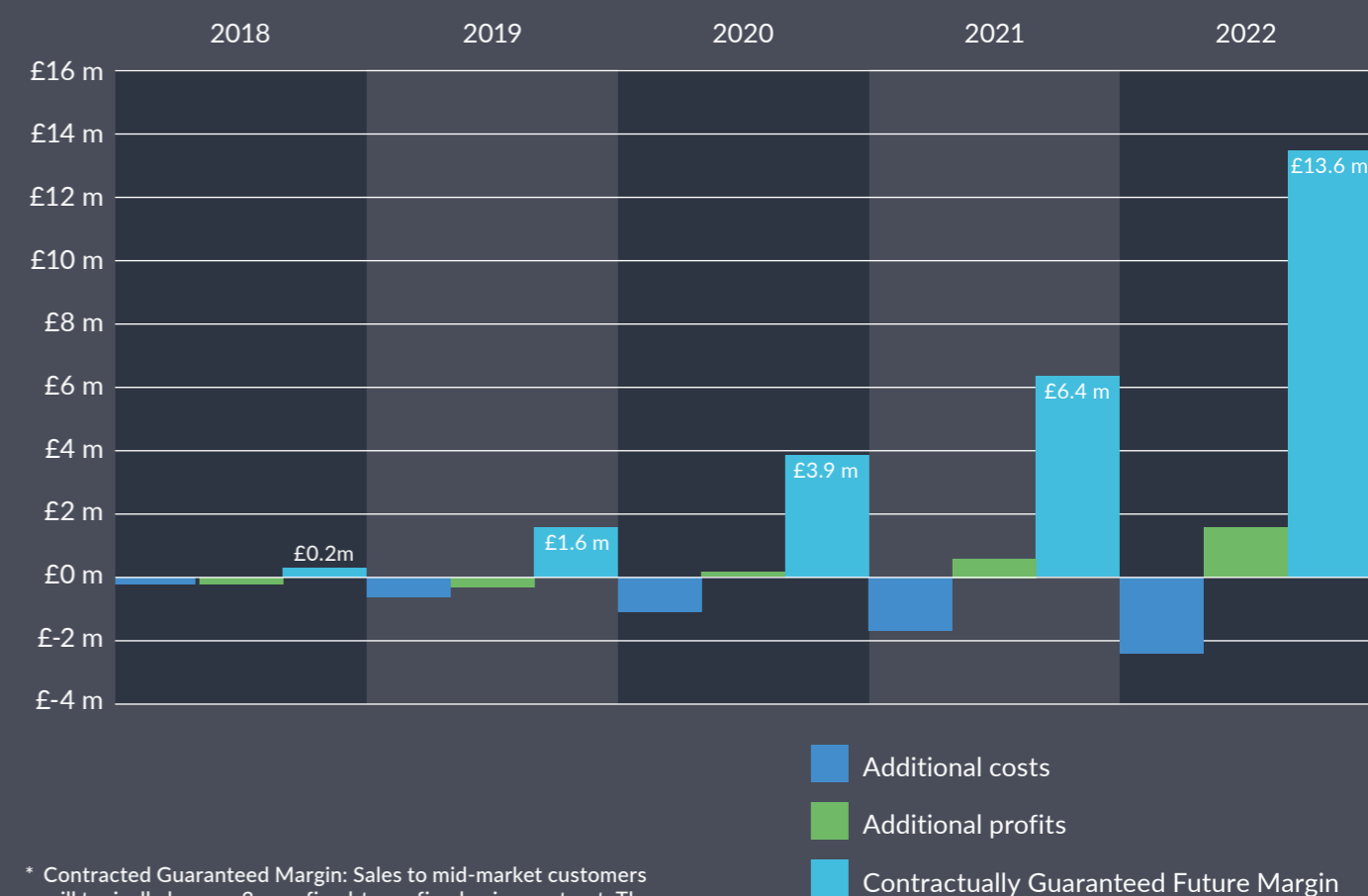
- B2B mid-market typical customer projected at 100 seats (1 seat = 1 connected employee)
- Revenue per seat hits 70% of potential by year 5
- Key sensitivity is sales per person per month and is a Key Performance Measure
- Sales recruitment includes an allowance for 1 in 3 of hires not succeeding

Annual summary

Impact on reserves of this strategy compared with the current trajectory



Mid-market (30-300 connected employees) strategy investment and associated returns



* Contracted Guaranteed Margin: Sales to mid-market customers will typically be on a 3 year fixed-term, fixed-price contract. These revenues and margins have an extremely high probability of recurring each month throughout the contract. Once such predictable margins have started to be booked, we can make decisions to invest with a far higher degree of confidence, which means a lower risk of failure.

Growth Strategy

The first question you might ask is why do we need a growth strategy at all? The Phone Co-op is doing brilliantly, isn't it?

Unfortunately, the sad truth is no, it isn't. That's nothing that we've done; simply that the market has changed.

When The Phone Co-op began life twenty years ago, thanks to your vision and enthusiasm, we had 2G mobile services. Everyone was texting and using dial up broadband and Unified Communications was unheard of. Then, you had to be in the office to use the best technology.

The Residential Business

Our residential business remains of key importance to us but we are limited to the rate of growth possible in this highly penetrated marketplace. Our strategy is to build a set of residential products that deliver our objectives of digital and social inclusion, maintaining and enhancing our core service to our residential customers.

Residential customers require self-service, which could be an app or increased website functionality. A self-service offer enables a cost reduction to The Phone Co-op. Calls into Customer Services average £15 per call, twice the monthly margin for a typical customer.

The tech revolution

In three years, everything changed: firstly with the iPhone in 2007, and then again in 2010 when the iPad came along.

With those launches, consumer technology leapfrogged business technology, and suddenly home technology was better than the tech you had at work.

The business had to catch up, but as is always the case, the corporate

world has the money to solve the problem, and today the business market occupies three broad groupings.

The enterprise market encompasses huge multi-national businesses and starts at around 1,000 connected employees (employees who work at a workstation or on mobile devices).

This is a fiercely competitive space, with corporate giants such as BT, EE, Vodafone, Colt, Deutsche Telecom, Hong Kong Telecom and Virgin. In this space, solutions are invariably bespoke designs.

At the other end of the market is what is called VSE (Very Small Enterprises) or SOHO (Small Office Home Office), defined as 1-10 connected employees. This space is brutally competitive, with well over 100 providers who invariably choose to compete on price, forsaking service to simply sign up customers.

It is the space in the middle – the mid-market – that is interesting to us and, we believe, our members at The Phone Co-op.

Organisations with between 20 and 300 connected employees and, specifically, in the sectors we identified within our strategy, are normally ethically owned and managed, and community focused. The mid-market is usually too small for enterprise businesses to be bothered with, and too big for the VSMB/SOHO businesses to serve well.

In this mid-market group there are four clearly defined sectors: social housing, ethical businesses, co-operative societies and third sector organisations, who normally use different suppliers to meet their requirements for individual telephone calls, broadband, connectivity and, increasingly, cloud services.



12,000 members support The Phone Co-op and our target is to double membership in the next 5 years.

BT's IP (Internet Protocol) Migration

At the same time BT's system exchange, (which runs our national telephone networks) is at the end of its life. From 2020 – 2025, and maybe both earlier and later, BT is migrating our national telephone network to an IP system.

This means that, essentially, everything will be tracked as data. It will affect businesses and homes up and down the UK and runs the risk of creating a broken market. But no one is talking about it and, of course, BT doesn't want anyone to know.

We believe it is our duty, and opportunity, to ensure businesses in our target market are ready and prepared.

Our plan is to offer an integrated solution of cloud services, Office 365 (Word, Excel, PowerPoint), connectivity (ultra- fast connected uncontented fibre optic circuits) and calls (landline, mobile and unified communications inclusive of all minutes) allowing our

customers to focus on what they do best whilst we ensure they have all the digital services they need to operate.

To do this we will scale up with increasing customer numbers in customer support and sales. One of the most frequent complaints we hear from mid-market customers is that they never know who they are talking to. We will build support teams of four: a senior, two executives and a junior, around groups of 125 customers (c12,500 seats), and they will own support service end to end.

In sales, we will add two carefully selected sales people each year. (In fact, we will recruit three, to allow for one not to make the grade.) We will provide the best available coaching to help them develop as people and co-operators.

Our marketing energy will be focused on what is known as 'content strategy'. In short, we will tell businesses what is going to happen and how we can help to smooth their path.



Can we guarantee success with this strategy?

There are no guarantees of success with any strategy. But what I can guarantee is that businesses are already feeling the pain of the current broken market, and when I ran a proof of concept of this strategy in my last business, it was unanimously welcomed by customers in the mid-market sector.

What are the sensitivities?

The two acute sensitivities are the sales team's capacity and our service capacity. The acquisition rate assumed in the strategy is, in my view, judicious and conservative. We invest more when we reach set customer numbers and, if we don't achieve these numbers, we don't invest.

Equally if we don't sell anything, we scale back to the structure required for our current activity.

Regardless of whether we adopt this strategy or carry on with the current business, five things are certain:

1. We have to invest in improving the obsolete systems we have been nursing for too long. Without new systems, the business will slowly die.
2. We have to invest in new premises. Quite simply, our Chipping Norton premises are unsafe. Equally, I am convinced we should remain in Chipping Norton.
3. We need to invest in our people.
4. We need to further improve our services to existing customers and members.
5. We need to focus on telecoms technology products that allow us to serve our members and customers now and tomorrow across their full spectrum of communication needs.

I look forward to discussing the strategy with you at the SGM.

**Nick Thompson
Chief Executive**

The Phone Co-op is proud of the telecoms services we provide to homes and businesses, charities, social enterprises and other co-operatives. We offer broadband, phone and mobile services, along with a wide range of other services that are essential in a modern working environment.

Uniquely in our industry, we are committed to the principles of co-operation. They drive our business and make us what we are. We want to deliver mutual benefit and contribute towards a more sustainable and a fairer world. Our members are vital to achieving that objective.

In an increasingly competitive world, The Phone Co-op is reliant on a market where the underlying technologies change at a rapid pace. However, we have not moved with the times.

Despite a growing turnover, the decline in our profitability needs to be halted. More than ever before, we need to work together, to co-operate and invest to make the most of the opportunities that lie ahead.

We invested in the Fairphone revolution in its early days, and we are investing in our own business now. Because there's so much more we can still do together.

**Jane Watts
Chair of The Board**

500 new socially responsible customers joined from our Affinity and Partner programmes.



To receive the full strategy, please email members@thephone.coop

Our vision

The Phone Co-op is 100% owned by our members.

We believe that the principles of co-operation can drive business success while delivering mutual benefit; contributing towards a more sustainable and fairer world.

- we seek to make a positive and lasting impact
- we look to develop strong, trusting and long-term relationships
- we demonstrate openness, accountability and integrity
- we aim to achieve excellence

Our Board:

Jane Watts – Chair
Shelagh Young – Vice Chair
Robert Denbeigh
John Goodman
Helen Grayshan
Karen McArthur
Simon Richards

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