

Registered number: 3426366  
Charity number: 1112398

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**INTERNET WATCH FOUNDATION**  
(A company limited by guarantee)

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**TRUSTEES' REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2011**

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**INTERNET WATCH FOUNDATION**  
**(A company limited by guarantee)**

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**INTERNET WATCH FOUNDATION**  
**(A company limited by guarantee)**

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**REFERENCE AND ADMINISTRATIVE DETAILS OF THE CHARITY, ITS TRUSTEES AND ADVISERS**  
**FOR THE YEAR ENDED 31 MARCH 2011**

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**Trustees**

Ms E Salomon, Chair  
Miss E.L. Ascroft (resigned 28 March 2011)<sup>1</sup>  
Sir R.G. Brooke<sup>2</sup>  
Ms N.E. Cohen<sup>2</sup>  
Professor A.A. Gillespie (resigned 23 March 2011)<sup>2</sup>  
Mr M.J. Gracey (resigned 25 March 2011)<sup>1</sup>  
Mr S.A. Locke<sup>2</sup>  
Mr H. MacLeod (resigned 8 June 2010)<sup>1</sup>  
Ms M MacLeod<sup>2</sup>  
Mr J.E. Shipp<sup>1</sup>  
Dr S.N. Walton<sup>2</sup>  
Mr B.W. Webb (appointed 24 May 2011)<sup>1</sup>  
Mr A. Yoward (appointed 24 May 2011)<sup>1</sup>

**Key**

- <sup>1</sup> Industry Trustee
- <sup>2</sup> Independent Trustee

**Company registered number**

3426366

**Charity registered number**

1112398

**Registered office**

Suite 7310, First Floor Building, 7300 Cambridge Business Park, Waterbeach, Cambridge, CB25 9TN

**Company secretary and Chief executive officer**

Mr P.E.T. Robbins OBE QPM

**Auditors**

Peters Elworthy & Moore, Salisbury House, Station Road, Cambridge, CB1 2LA

**Bankers**

Santander, Business Banking Centre, 301 St Vincent Street, Glasgow, G2 5NB

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**INTERNET WATCH FOUNDATION**  
**(A company limited by guarantee)**

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**TRUSTEES' REPORT**  
**FOR THE YEAR ENDED 31 MARCH 2011**

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The Trustees (who are also directors of the charity for the purposes of the Companies Act) present their annual report together with the audited financial statements of Internet Watch Foundation (the company and the group) for the year ended 31 March 2011. The Trustees confirm that the annual report and financial statements of the company and the group comply with the current statutory requirements, the requirements of the company and the group's governing document and the provisions of the Statement of Recommended Practice (SORP) "Accounting and Reporting by Charities" issued in March 2005.

## **STRUCTURE, GOVERNANCE AND MANAGEMENT**

### **CONSTITUTION**

Internet Watch Foundation is an independent registered charity (number 1112398) and is also a company limited by guarantee (registered company number 3426366). The company was incorporated on 29 August 1997 and charitable status was gained on 16 December 2004. Internet Watch Foundation is governed by its Memorandum and Articles of Association as approved on 16 December 2004 and amended on 16 September 2005 and 23 September 2008.

### **METHOD OF APPOINTMENT OR ELECTION OF TRUSTEES**

Independent Board members are appointed by the Board through a fair and open selection procedure managed by the Board Executive Committee. This Committee is also known as the Board Nominations Committee and comprises the Chair, the two Vice-chairs of the Board and an independent person. In making its choice, the Committee will ensure that the Board has an appropriate balance of skills and experience. All recommendations of the Committee for Board appointments are subject to Board approval

Industry Board members are appointed by the Funding Council in accordance with a procedure determined by the Council.

### **POLICIES ADOPTED FOR THE INDUCTION AND TRAINING OF TRUSTEES**

All new Board members are offered an induction process and training which allows them to understand the role of IWF and their role as Directors and Trustees.

### **ORGANISATIONAL STRUCTURE AND DECISION MAKING**

In order to facilitate a better understanding of issues and to enable more effective decision making, the Board operates three Committees: an Executive Committee comprising the Chair, two Vice-chairs and the CEO which plans Board business, an Audit Committee and a Remuneration Committee. The Committees have no delegated powers and all major decisions are made by the Board of Trustees. The Board sets, monitors and reviews strategy and delegates the operational management of the organisation to the Chief Executive.

### **RELATED PARTY RELATIONSHIPS**

All major decisions are made by the Board of Trustees. The industry members of the Charity are members of the Funding Council which in itself considers various policy matters relating to the IWF, elects three of the Trustees and briefs all its elected Trustees on industry views on relevant matters.

IWF works in partnership with representatives from the UK internet industry, police, government departments in order to minimise the availability of the specific potentially criminal content found online in the UK and in the case of child sexual abuse material hosted outside the UK, with other hotlines abroad. Online content within remit includes:

- Images of child sexual abuse hosted anywhere in the world;
- Criminally obscene adult content hosted in the UK;
- Incitement to racial hatred content hosted in the UK.
- Non-photographic child sexual abuse images hosted in the UK.

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**INTERNET WATCH FOUNDATION**  
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**TRUSTEES' REPORT (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2011**

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**RISK MANAGEMENT**

Risk review is an integral part of the planning, budget, forecasting and management cycle of IWF and takes into account:

- Variations in income streams and expenditure which is addressed through budgeting and expenditure controls;
- Staff welfare which has been addressed through the staff welfare policy and is included in the Staff Handbook;
- Potential liabilities which have been indemnified through appropriate insurances;
- Information security, hardware and operational risks to comply with ISO 27001 standards;
- Property and assets where IWF has audited procedures in place

IWF Executive regularly reviews all potential risks faced and identifies these in a Risk Matrix and through an Information Security Management System. Information Security Incident forms have been introduced and the senior management team has a standing agenda item on risk issues and ISO non-compliance. The Board of Trustees considers risk issues and reviews policy through its Audit Committee. The systems of internal control are designed to provide reasonable, but not absolute, assurance against material misstatement or loss. They include a strategic plan, an annual plan, an annual budget approved by the Trustees, regular consideration by the Trustees of financial results, variances from budgets, non-financial performance indicators and benchmarking reviews, delegation of authority and segregation of duties and identification of management of risks.

**OBJECTIVES AND ACTIVITIES**

**PUBLIC BENEFIT**

The Charity's declared objects are: the promotion of the care and protection of the health and welfare of the public, in particular children and young people, by working to minimise the availability of offences involving exposure to illegal content on the internet and the prevention of crime relating to offences involving exposure to illegal content on the internet. Our principal roles aim to further these objects for the public benefit and these are detailed below. In the exercise of our powers to that end we have paid due regard to the published guidance from the Charity Commission on the operation of the Public Benefit requirement under the Charities Act 2006.

**REMIT**

To minimise the availability of potentially criminal internet content specifically:

- Images of child sexual abuse hosted anywhere in the world.
- Criminally obscene adult content hosted in the UK.
- Incitement to racial hatred content hosted in the UK.
- Non-photographic child sexual abuse images hosted in the UK.

**ROLE**

To foster public trust and confidence in the internet by:

- Operating a national hotline to enable the public to report instances of potentially criminal online content within remit.
- Promoting awareness of its remit and role, and the assistance provided to industry and law enforcement

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**INTERNET WATCH FOUNDATION**  
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**TRUSTEES' REPORT (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2011**

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partners.

- Promoting awareness of its self-regulatory function, and the role of other key stakeholders in making the internet safer.

To assist service providers to combat the abuse of their systems by:

- Operating a 'notice and take-down' service to remove potentially criminal online content at source by alerting hosting companies to content within remit on their servers.
- Providing a list of newsgroups related to child sexual abuse content to enable service providers to disrupt the distribution of this content via such groups.
- Providing a list of specific URLs hosted abroad with child sexual abuse content to enable service providers to prevent inadvertent access to this content.
- Acting as a relevant authority and point of expertise as regards the reporting, handling, assessment, and tracing of content within remit.

To assist law enforcement in the fight against potentially criminal online content by:

- Disrupting the online distribution and accessing of content within remit.
- Working with law enforcement agencies to remove online content within remit.
- Supporting investigations to trace those responsible for such criminal activity.
- Providing details of online child sexual abuse content hosted outside the UK to international Hotlines.
- Sharing expertise, experience, and intelligence with law enforcement and other relevant organisations.

## **ACHIEVEMENTS AND PERFORMANCE**

### **REVIEW OF ACTIVITIES**

IWF continues to provide a Hotline which receives reports from members of the public when they have been exposed to potentially criminal online content within our remit. If this content appears to be in the UK, the police are informed and takedown notices are issued to the hosting company. This process has reduced the proportion of child sexual abuse content known to the IWF hosted in the UK from 18% in 1997 to less than 1% since 2003. Where the content appears to be outside of the UK, the information is passed to the relevant Hotline or law enforcement agency or trusted partner for that country. Whilst it is being assessed under that country's legislation, the URL is added to a dynamic list provided to member companies to help disrupt access to the images, and to prevent inadvertent access by innocent consumers. The list fluctuates but averages around 500 URLs a day, and is updated twice a day.

During 2010, the Hotline team processed 48,702 reports, a 27.6% increase compared to 2009. 34% of all reports concerned content which was assessed as criminal child sex abuse material. There were 72 notices regarding 178 instances of child sexual abuse material on websites hosted in the UK, which were removed within hours. The IWF took action to report 16,739 instances of child sexual abuse content around the world.

Internet Watch Limited carries out work which the Board of IWF considers to be compatible with its aims and objectives and includes income from Licensees that pay a usage fee when they incorporate the IWF list into their products for filtering access to websites.

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**INTERNET WATCH FOUNDATION**  
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**TRUSTEES' REPORT (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2011**

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**FINANCIAL REVIEW**

The financial year 2010/11 for IWF and IWL was healthy. 11 new Members and 2 licensees were recruited which led to predicted income being exceeded, despite 11 resignations and the merger of 2 companies. Expenditure for the year was under approved limits. Special projects were the acquisition of a new resource management system, and a move to new premises. Both projects were achieved from designated funds and within approved budgets.

**RESERVES AND INVESTMENTS POLICY**

IWF's objective is to maintain the value of its investment and take into account:

- an appropriate level of liquidity which enables the smoothing of cash flow and unexpected changes in income or operations;
- the timescales and commitments in winding up the operations of the IWF; and
- minimising risk and avoiding speculative investments;

The following principles remain relevant despite the current financial situation:

- A sum equivalent to 50% of the running costs of IWF should be set aside as a reserve and should be appropriately invested;
- The investments are to be held in such a way as to maintain their value to IWF and are not held specifically to generate on-going income;
- They should be mindful of the advice received with regard to investment options and that equity investment is currently not appropriate;
- IWF will not look to hold investments for the long term and the charity will request any donated portfolios be liquidated prior to transfer to IWF;
- No deposits will be made in offshore or overseas accounts;

During the year 2010/11, the decision was taken within the principles above, to move all reserves to Schroeder's, thus delegating them day to day responsibility for safeguarding the funds. The return on investment is a KPI which will be monitored at Board level.

**PRINCIPAL FUNDING**

Our principal funding is received via subscriptions from industry members, the European Union via their Safer Internet Plan and the UK Cards Association. The key objective is running the Hotline and all of the expenditure incurred is directly in pursuance of our charitable objectives.

**STRATEGIC PROGRAMME PLANS FOR THE FUTURE**

The Board of Trustees approved a three year Strategic Plan for 2008/9-2010/11. The plan identifies the key activities in pursuance of our charitable objectives. This is the final year of the plan, and progress is reported annually to the Board. Work commenced during 2010 to develop a new Strategic Plan for 2011/12-2013/2014. To support the delivery of this plan, there will be a review of the risk policy, the performance monitoring framework and the Learning & Development strategy.

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**INTERNET WATCH FOUNDATION**  
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**TRUSTEES' REPORT (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2011**

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**STATEMENT OF TRUSTEES' RESPONSIBILITIES**

The Trustees (who are also directors of Internet Watch Foundation for the purposes of company law) are responsible for preparing the Trustees' report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Company and charity law requires the Trustees to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the charitable company and the group and of the incoming resources and application of resources, including the income and expenditure, of the charitable group for that period. In preparing these financial statements, the Trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP;
- make judgments and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charitable group will continue in operation.

The Trustees are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the charitable group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the charitable company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**PROVISION OF INFORMATION TO AUDITORS**

Each of the persons who are Trustees at the time when this Trustees' report is approved has confirmed that:

- so far as that Trustee is aware, there is no relevant audit information of which the company and the group's auditors are unaware, and
- each Trustee has taken all the steps that ought to have been taken as a Trustee in order to be aware of any information needed by the company and the group's auditors in connection with preparing their report and to establish that the company and the group's auditors are aware of that information.

In preparing this report, the Trustees have taken advantage of the small companies exemptions provided by section 415A of the Companies Act 2006.

This report was approved by the Trustees on 19 July 2011 and signed on their behalf, by:

**Ms E Salomon**



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**INTERNET WATCH FOUNDATION**  
**(A company limited by guarantee)**

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**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF INTERNET WATCH FOUNDATION**

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We have audited the financial statements of Internet Watch Foundation for the year ended 31 March 2011 set out on pages 9 to 23. The financial reporting framework that has been applied in their preparation is applicable law and the Financial Reporting Standard for Smaller Entities (effective April 2008) (United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities).

**RESPECTIVE RESPONSIBILITIES OF TRUSTEES AND AUDITORS**

As explained more fully in the statement of Trustees' responsibilities, the Trustees (who are also the directors of the charitable company for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

We have been appointed as auditors under the Companies Act 2006 and section 43 of the Charities Act 1993 and report to you in accordance with those Acts. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Trustees; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Trustees' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**OPINION ON FINANCIAL STATEMENTS**

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent charitable company's affairs as at 31 March 2011 and of the group's incoming resources and application of resources, including its income and expenditure, for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and the Charities Act 1993.

**OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006**

In our opinion the information given in the Trustees' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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**INTERNET WATCH FOUNDATION**  
**(A company limited by guarantee)**

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**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF INTERNET WATCH FOUNDATION**

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**MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

We have nothing to report in respect of the following matters where the Companies Act 2006 and the Charities Act 1993 requires us to report to you if, in our opinion:

- the parent charitable company has not kept adequate and sufficient accounting records, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent charitable company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of trustees' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Roger Webster (Senior statutory auditor)

for and on behalf of

**Peters Elworthy & Moore**

Chartered Accountants  
Statutory Auditors

Salisbury House  
Station Road  
Cambridge  
CB1 2LA  
9 August 2011

**INTERNET WATCH FOUNDATION**  
(A company limited by guarantee)

**CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES**  
(incorporating income and expenditure account)  
**FOR THE YEAR ENDED 31 MARCH 2011**

	Note	Restricted funds 2011 £	Unrestricted funds 2011 £	Total funds 2011 £	Total funds 2010 £
<b>INCOMING RESOURCES</b>					
Incoming resources from generated funds:					
Voluntary income	2	-	28,764	28,764	21,597
Investment income	3	-	11,963	11,963	4,868
Incoming resources from charitable activities	4	506,681	980,867	1,487,548	1,233,828
Other incoming resources	5	-	61,313	61,313	-
<b>TOTAL INCOMING RESOURCES</b>		<b>506,681</b>	<b>1,082,907</b>	<b>1,589,588</b>	1,260,293
<b>RESOURCES EXPENDED</b>					
Charitable activities	6	342,069	711,988	1,054,057	970,674
Governance costs	7	-	71,036	71,036	95,588
<b>TOTAL RESOURCES EXPENDED</b>	8	<b>342,069</b>	<b>783,024</b>	<b>1,125,093</b>	1,066,262
<b>MOVEMENT IN TOTAL FUNDS FOR THE YEAR - NET INCOME FOR THE YEAR</b>		<b>164,612</b>	<b>299,883</b>	<b>464,495</b>	194,031
Total funds at 1 April 2010		55,260	816,819	872,079	678,048
<b>TOTAL FUNDS AT 31 MARCH 2011</b>		<b>219,872</b>	<b>1,116,702</b>	<b>1,336,574</b>	872,079

The notes on pages 12 to 23 form part of these financial statements.

**INTERNET WATCH FOUNDATION**  
**(A company limited by guarantee)**  
**REGISTERED NUMBER: 3426366**

**CONSOLIDATED BALANCE SHEET**  
**AS AT 31 MARCH 2011**

	Note	£	2011 £	£	2010 £
<b>FIXED ASSETS</b>					
Tangible assets	11		79,477		6,209
<b>CURRENT ASSETS</b>					
Debtors	13	425,444		27,620	
Investments	14	1,085,785		1,079,318	
Cash at bank and in hand		116,407		114,454	
			<u>1,627,636</u>		<u>1,221,392</u>
<b>CREDITORS:</b> amounts falling due within one year	15	<b>(370,539)</b>		<b>(355,522)</b>	
<b>NET CURRENT ASSETS</b>			<u><b>1,257,097</b></u>		<u>865,870</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<u><b>1,336,574</b></u>		<u>872,079</u>
<b>CHARITY FUNDS</b>					
Restricted funds	17		219,872		55,260
Unrestricted funds	17		1,116,702		816,819
			<u><b>1,336,574</b></u>		<u>872,079</u>

The financial statements have been prepared in accordance with the special provisions relating to companies subject to the small companies regime within Part 15 of the Companies Act 2006 and in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008).

The financial statements were approved by the Trustees on 19 July 2011 and signed on their behalf, by:

**Ms E Salomon**

The notes on pages 12 to 23 form part of these financial statements.

**INTERNET WATCH FOUNDATION**  
**(A company limited by guarantee)**  
**REGISTERED NUMBER: 3426366**

**COMPANY BALANCE SHEET**  
**AS AT 31 MARCH 2011**

	Note	£	2011 £	£	2010 £
<b>FIXED ASSETS</b>					
Tangible assets	11		<b>79,477</b>		6,209
Investments			<b>2</b>		2
			<u>79,479</u>		<u>6,211</u>
<b>CURRENT ASSETS</b>					
Debtors	13	<b>497,313</b>		93,888	
Investments	14	<b>1,085,785</b>		1,079,318	
Cash at bank and in hand		<b>10,096</b>		19,410	
		<u>1,593,194</u>		<u>1,192,616</u>	
<b>CREDITORS:</b> amounts falling due within one year	15		<b>(356,098)</b>	(346,749)	
<b>NET CURRENT ASSETS</b>			<u>1,237,096</u>		<u>845,867</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<u>1,316,575</u>		<u>852,078</u>
<b>CHARITY FUNDS</b>					
Restricted funds	17		<b>219,872</b>		55,260
Unrestricted funds	17		<b>1,096,703</b>		796,818
			<u>1,316,575</u>		<u>852,078</u>

The financial statements have been prepared in accordance with the special provisions relating to companies subject to the small companies regime within Part 15 of the Companies Act 2006 and in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008).

The financial statements were approved by the Trustees on 19 July 2011 and signed on their behalf, by:

**Ms E Salomon**

The notes on pages 12 to 23 form part of these financial statements.

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**INTERNET WATCH FOUNDATION**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2011**

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**1. ACCOUNTING POLICIES**

**1.1 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS**

The financial statements have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2007). The financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP), "Accounting and Reporting by Charities" published in March 2005, applicable accounting standards and the Companies Act 1985.

**1.2 BASIS OF CONSOLIDATION**

The statement of financial activities (SOFA) and balance sheet consolidate the financial statements of the company and its subsidiary undertaking. The results of the subsidiary are consolidated on a line by line basis.

No separate SOFA has been presented for the company alone as permitted by section 230 of the Companies Act 1985 and paragraph 397 of the SORP.

**1.3 COMPANY STATUS**

The company is a company limited by guarantee. The members of the company are the Trustees named on page 1. In the event of the company being wound up, the liability in respect of the guarantee is limited to £1 per member of the company.

**1.4 FUND ACCOUNTING**

General funds are unrestricted funds which are available for use at the discretion of the Trustees in furtherance of the general objectives of the company and which have not been designated for other purposes.

Designated funds comprise unrestricted funds that have been set aside by the Trustees for particular purposes. The aim and use of each designated fund is set out in the notes to the financial statements.

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by donors which have been raised by the company for particular purposes. The cost of raising and administering such funds are charged against the specific fund. The aim and use of each restricted fund is set out in the notes to the financial statements.

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**INTERNET WATCH FOUNDATION**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2011**

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**1. ACCOUNTING POLICIES (continued)**

**1.5 INCOMING RESOURCES**

All incoming resources are included in the Statement of Financial Activities when the company is legally entitled to the income and the amount can be quantified with reasonable accuracy. Where subscriptions have been invoiced for a period beyond the accounting date, the income relating to the period after each year end is treated as deferred income and carried forward to the next accounting period.

Voluntary income: Donations are accounted for as received. Sponsorship income represents amounts receivable. Gifts in kind to the charity are included at the value specified by the donor or, if this is not available, at estimated cost to the charity.

Grants: Grants are included as incoming resources when these are received / receivable.

Capital grants: Capital grants received for specific purposes are initially treated as restricted income and are transferred to unrestricted reserves upon completion of the project to which they relate.

IWL income: Licence fees to non-members of Internet Watch Foundation are spread over the period to which they relate with income relating to the period after each year treated as deferred income and carried forward to the next accounting period. Unit charges to members of Internet Watch Foundation are invoiced in arrears once the number of units has been ascertained and notified by the member to the company. The charges are spread over the period to which they relate with income relating to the period up to the year end treated as accrued income.

**1.6 RESOURCES EXPENDED**

All expenditure is accounted for on an accruals basis.

Charitable activities: Resources expended on charitable activities includes all costs of running the hotline.

Governance costs: Governance costs include legal and professional fees relating to the statutory management of the charity.

**1.7 TANGIBLE FIXED ASSETS AND DEPRECIATION**

All assets costing more than £500 are capitalised.

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Office equipment	-	33.33% straight line
Computer equipment	-	33.33% straight line
RMS	-	40% straight line

**1.8 INVESTMENTS**

The investment in the trading subsidiary is valued at cost less provision for impairment.

**INTERNET WATCH FOUNDATION**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2011**

**1. ACCOUNTING POLICIES (continued)**

**1.9 OPERATING LEASES**

Rentals under operating leases are charged to the statement of financial activities on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate.

**1.10 FOREIGN CURRENCIES**

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date.

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction.

Exchange gains and losses are recognised in the statement of financial activities.

**1.11 PENSIONS**

The company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the company to the fund in respect of the year.

**2. VOLUNTARY INCOME**

	<b>Restricted funds 2011 £</b>	<b>Unrestricted funds 2011 £</b>	<b>Total funds 2011 £</b>	<b>Total funds 2010 £</b>
Donations	-	<b>28,764</b>	<b>28,764</b>	21,597

**3. INVESTMENT INCOME**

	<b>Unrestricted funds 2011 £</b>	<b>Total funds 2011 £</b>	<b>Total funds 2010 £</b>
Charitable parent company	<b>11,955</b>	<b>11,955</b>	4,863
Trading subsidiary	<b>8</b>	<b>8</b>	5
	<b>11,963</b>	<b>11,963</b>	4,868



**INTERNET WATCH FOUNDATION**  
(A company limited by guarantee)

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2011**

**4. INCOMING RESOURCES FROM CHARITABLE ACTIVITIES**

	2011 £	2010 £
Subscription fee income	819,549	781,183
EU grant income	506,681	324,780
IWL income	161,318	76,568
Miscellaneous	-	1,297
NOMINET grant income	-	50,000
Total	<u>1,487,548</u>	<u>1,233,828</u>

**5. OTHER INCOMING RESOURCES**

	Restricted funds 2011 £	Unrestricted funds 2011 £	Total funds 2011 £	Total funds 2010 £
Foreign exchange gain	-	61,313	61,313	-
	<u>-</u>	<u>61,313</u>	<u>61,313</u>	<u>-</u>

**6. CHARITABLE ACTIVITIES**

Charitable activities are analysed as follows:

	Internet Watch £	Total 2011 £	Total 2010 £
Systems and communications	182,818	182,818	194,899
Premises	59,283	59,283	60,647
Finance and administration	58,082	58,082	37,037
Other staff costs	29,566	29,566	28,186
Wages and salaries	634,032	634,032	549,828
National insurance	57,786	57,786	59,428
Pension cost	23,925	23,925	21,605
Depreciation	8,565	8,565	19,044
	<u>1,054,057</u>	<u>1,054,057</u>	<u>970,674</u>

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**7. GOVERNANCE COSTS**

	Unrestricted funds 2011 £	Total funds 2011 £	Total funds 2010 £
Auditors' remuneration	5,145	5,145	4,840
Auditors' non audit costs	5,046	5,046	4,635
Costs of trustees' meetings	21,051	21,051	21,495
Legal and professional fees	-	-	1,915
Recruitment	-	-	25,103
Funding Council secretariat costs	17,800	17,800	17,600
Chair's fees	20,000	20,000	20,000
Trustee training	1,994	1,994	-
	<u>71,036</u>	<u>71,036</u>	<u>95,588</u>

**8. ANALYSIS OF RESOURCES EXPENDED BY EXPENDITURE TYPE**

	Staff costs 2011 £	Depreciation 2011 £	Other costs 2011 £	Total 2011 £	Total 2010 £
Cost of Charitable Activities	715,743	8,565	329,749	1,054,057	970,674
Governance	-	-	71,036	71,036	95,588
	<u>715,743</u>	<u>8,565</u>	<u>400,785</u>	<u>1,125,093</u>	<u>1,066,262</u>

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**9. NET INCOME**

This is stated after charging:

	<b>2011</b>	2010
	<b>£</b>	£
Depreciation of tangible fixed assets: - owned by the charitable group	<b>8,565</b>	19,044
Auditors' remuneration	<b>5,145</b>	4,840
Auditors' non audit costs	<b>5,046</b>	4,635
Pension costs	<b>23,925</b>	21,605
	<b>=====</b>	<b>=====</b>

The Chair in office during the year received £20,000 (2010: £20,000) in respect of their duties in this office. This sum is included within Governance Costs.

Section 6 of the Memorandum of Association of Internet Watch Foundation permits payments to a maximum of three trustees attending each board meeting. During the year, a total of 3 (2010: 5) trustees were paid in respect of their duties and these amounted to a total of £7,200 (2010: £7,410)

3 (2010: 4) directors of Internet Watch Limited were paid by Internet Watch Limited during the year in respect of their duties as directors of Internet Watch Limited and these amounted to a total of £8,400 (2010: £8,138).

6 (2010: 8) trustees received reimbursements of expenses amounting to £3,901 (2010: £3,417). At 31 March 2011, £Nil (2010: £474) was outstanding to any (2010: 4) trustees.

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**10. STAFF COSTS**

Staff costs were as follows:

	<b>2011</b>	2010
	<b>£</b>	£
Wages and salaries	<b>634,032</b>	549,828
Social security costs	<b>57,786</b>	59,428
Other pension costs	<b>23,925</b>	21,605
	<hr/> <b>715,743</b> <hr/>	<hr/> 630,861 <hr/>

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

	<b>2011</b>	2010
	<b>No.</b>	No.
Charitable activities	<b>17</b>	15
	<hr/> <b>17</b> <hr/>	<hr/> 15 <hr/>

The number of higher paid employees was:

	<b>2011</b>	2010
	<b>No.</b>	No.
In the band £60,001 - £70,000	<b>1</b>	1
In the band £100,001 - £110,000	<b>0</b>	1
In the band £110,000 - £120,000	<b>1</b>	0
	<hr/> <b>2</b> <hr/>	<hr/> 2 <hr/>

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**11. TANGIBLE FIXED ASSETS**

<b>GROUP</b>	<b>Office equipment £</b>	<b>Computer equipment £</b>	<b>Total £</b>
<b>COST</b>			
At 1 April 2010	36,003	157,583	193,586
Additions	380	81,453	81,833
At 31 March 2011	<u>36,383</u>	<u>239,036</u>	<u>275,419</u>
<b>DEPRECIATION</b>			
At 1 April 2010	34,877	152,500	187,377
Charge for the year	1,254	7,311	8,565
At 31 March 2011	<u>36,131</u>	<u>159,811</u>	<u>195,942</u>
<b>NET BOOK VALUE</b>			
At 31 March 2011	<u>252</u>	<u>79,225</u>	<u>79,477</u>
At 31 March 2010	<u>1,126</u>	<u>5,083</u>	<u>6,209</u>
<b>COMPANY</b>			
<b>COST</b>			
At 1 April 2010	23,202	133,730	156,932
Additions	380	81,453	81,833
At 31 March 2011	<u>23,582</u>	<u>215,183</u>	<u>238,765</u>
<b>DEPRECIATION</b>			
At 1 April 2010	22,076	128,647	150,723
Charge for the year	1,254	7,311	8,565
At 31 March 2011	<u>23,330</u>	<u>135,958</u>	<u>159,288</u>
<b>NET BOOK VALUE</b>			
At 31 March 2011	<u>252</u>	<u>79,225</u>	<u>79,477</u>
At 31 March 2010	<u>1,126</u>	<u>5,083</u>	<u>6,209</u>

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**12. INVESTMENT IN TRADING SUBSIDIARY**

The principal activity of the company is to undertake trading activities on behalf of Internet Watch Foundation, its parent charity, which are considered to be compatible with its aims and charitable objectives. During the year ended 31 March 2011, its income was derived from licensees that pay the usage fee when they incorporate the IWF URL list into their products(s) for filtering access to websites. Income was derived from the same sources during the year end 31st March 2010.

Within the charitable company balance sheet, the investment in the subsidiary is held at a cost of £2.

A summary of the results of the subsidiary is shown below:

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Turnover	<b>161,318</b>	76,568
Administrative expenses	<b>(15,284)</b>	(12,555)
Deed of covenant payable to parent charity	<b>(146,042)</b>	(64,018)
	<hr/>	<hr/>
Operating (loss)	<b>(8)</b>	(5)
Interest receivable	<b>8</b>	5
	<hr/>	<hr/>
<b>Retained in subsidiary</b>	<b>-</b>	<b>-</b>
	<hr/> <hr/>	<hr/> <hr/>
 <b>Balance Sheet</b>		
Current assets	<b>182,733</b>	95,043
Current liabilities	<b>(162,731)</b>	(75,041)
	<hr/>	<hr/>
<b>Net Assets</b>	<b>20,002</b>	20,002
	<hr/>	<hr/>
	<hr/>	<hr/>
<b>Share capital and reserves</b>	<b>20,002</b>	20,002
	<hr/> <hr/>	<hr/> <hr/>

**13. DEBTORS**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2011</b>	2010	<b>2011</b>	2010
	<b>£</b>	£	<b>£</b>	£
Trade debtors	<b>42,492</b>	4,462	<b>24,898</b>	4,462
Amounts owed by group undertakings	-	-	<b>148,292</b>	66,268
Prepayments and accrued income	<b>382,952</b>	23,158	<b>324,123</b>	23,158
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>425,444</b>	27,620	<b>497,313</b>	93,888
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**14. CURRENT ASSET INVESTMENTS**

	<b>GROUP</b>		<b>COMPANY</b>	
	2011 £	2010 £	2011 £	2010 £
Short term deposits	<b>1,085,785</b>	1,079,318	<b>1,085,785</b>	1,079,318

**15. CREDITORS:  
AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>GROUP</b>		<b>COMPANY</b>	
	2011 £	2010 £	2011 £	2010 £
Trade creditors	<b>81,508</b>	94,821	<b>81,509</b>	94,823
Social security and other taxes	<b>22,313</b>	27,394	<b>20,313</b>	25,644
Accruals and deferred income	<b>266,718</b>	233,307	<b>254,276</b>	226,282
	<b>370,539</b>	355,522	<b>356,098</b>	346,749

**16. ANALYSIS OF NET ASSETS BETWEEN FUNDS**

	Restricted funds 2011 £	Unrestricted funds 2011 £	Total funds 2011 £	Total funds 2010 £
Tangible fixed assets	-	79,477	79,477	6,209
Current assets	219,872	1,407,764	1,627,636	1,221,392
Creditors due within one year	-	(370,539)	(370,539)	(355,522)
	<b>219,872</b>	<b>1,116,702</b>	<b>1,336,574</b>	872,079

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**17. STATEMENT OF FUNDS**

	Brought Forward £	Incoming resources £	Resources Expended £	Transfers in/out £	Carried Forward £
<b>DESIGNATED FUNDS</b>					
RMS Fund	75,060	-	-	-	75,060
Office Move Fund	-	-	-	101,000	101,000
	<u>75,060</u>	<u>-</u>	<u>-</u>	<u>101,000</u>	<u>176,060</u>
<b>GENERAL FUNDS</b>					
General Funds - all funds	741,759	1,082,907	(783,024)	(101,000)	940,642
Total Unrestricted funds	<u>816,819</u>	<u>1,082,907</u>	<u>(783,024)</u>	<u>-</u>	<u>1,116,702</u>
<b>RESTRICTED FUNDS</b>					
NOMINET Grant	48,381	-	(29,880)	-	18,501
SIAP Grant	6,879	235,305	(242,184)	-	-
Safe to Go Grant	-	271,376	(70,005)	-	201,371
	<u>55,260</u>	<u>506,681</u>	<u>(342,069)</u>	<u>-</u>	<u>219,872</u>
Total of funds	<u><u>872,079</u></u>	<u><u>1,589,588</u></u>	<u><u>(1,125,093)</u></u>	<u><u>-</u></u>	<u><u>1,336,574</u></u>

SIAP Grant Fund This fund represents a grant from the European Union, receivable over two years, in respect of assistance in meeting the costs of running the Hotline. This grant ended on 31 December 2010

NOMINET Grant Fund This funds represents a grant from the Nominet Charitable Foundation, to fund a position to research global / international Notice & Take Down best practice, relating to child sexual abuse content.

Safe to Go Grant Fund This fund represents a grant from the European Union, receivable over 18 months, in respect of assistance in meeting the costs of running the Hotline.

RMS Fund This designated fund has been established to provide funds in order to purchase a new RMS system. This RMS system is currently underdevelopment and as such no depreciation has yet been charged.

Office Move Fund This designated fund has been established to provide funds for the office move that will occur in the year ended 31st March 2012.



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**18. OPERATING LEASE COMMITMENTS**

At 31 March 2011 the Group had annual commitments under non-cancellable operating leases as follows:

<b>GROUP AND COMPANY</b>	<b>2011</b>	<b>2010</b>
<b>EXPIRY DATE:</b>	<b>£</b>	<b>£</b>
Within 1 year	<b>19,413</b>	-
Between 2 and 5 years	-	19,413
	<u><u>          </u></u>	<u><u>          </u></u>

**19. RELATED PARTY TRANSACTIONS**

IWF works in partnership with the UK Internet industry, police, government departments and Hotlines in other countries in order to minimise the availability of specific illegal content found online. Member companies subscribe to the IWF with subscriptions levels ranging from £500 to in excess of £20,000.

The sum owed to Internet Watch Foundation at 31 March 2011 by Internet Watch Limited amounted to £148,292 (2010: £66,268), representing the balance of the gift aid payment, the annual management charge and the annual licence fee.