
INTERNET WATCH FOUNDATION
(A company limited by guarantee)

TRUSTEES' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2010

INTERNET WATCH FOUNDATION
(A company limited by guarantee)

CONTENTS

| | Page |
|---|---------|
| Reference and administrative details of the charity, its trustees and advisers | 1 - 2 |
| Trustees' report | 3 - 7 |
| Independent auditors' report | 8 - 9 |
| Consolidated statement of financial activities | 10 |
| Consolidated balance sheet | 11 |
| Company balance sheet | 12 |
| Notes to the financial statements | 13 - 22 |

The following pages do not form part of the statutory financial statements:

INTERNET WATCH FOUNDATION
(A company limited by guarantee)

REFERENCE AND ADMINISTRATIVE DETAILS OF THE CHARITY, ITS TRUSTEES AND ADVISERS
FOR THE YEAR ENDED 31 MARCH 2010

Trustees

Ms E Salomon, Chair (appointed 1/4/2009)
Miss E.L Ascroft¹
Sir R.G. Brooke²
Ms N.E. Cohen²
Professor A.A. Gillespie (appointed 1/1/2010)²
Mr M.J. Gracey¹
Mr S.A. Locke²
Mr H. MacLeod¹
Ms M MacLeod (appointed 1/1/2010)²
Mrs G.J. Palmer (resigned 31/12/2009)²
Professor I.N Walden (resigned 31/12/2009)²
Dr S.N. Walton²

Key

- ¹ Industry Trustee
² Independent Trustee

Company registered number

3426366

Charity registered number

1112398

Registered office

East View
5 Coles Lane
Oakington
Cambridge
CB24 3BA

Company secretary and Chief executive officer

Mr P.E.T. Robbins OBE QPM

Auditors

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

INTERNET WATCH FOUNDATION
(A company limited by guarantee)

**REFERENCE AND ADMINISTRATIVE DETAILS OF THE CHARITY, ITS TRUSTEES AND ADVISERS
FOR THE YEAR ENDED 31 MARCH 2010**

Advisers (continued)

Bankers

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

INTERNET WATCH FOUNDATION
(A company limited by guarantee)

TRUSTEES' REPORT
FOR THE YEAR ENDED 31 MARCH 2010

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 2010. 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.

INTERNET WATCH FOUNDATION
(A company limited by guarantee)

TRUSTEES' REPORT (continued)
FOR THE YEAR ENDED 31 MARCH 2010

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. 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 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

INTERNET WATCH FOUNDATION
(A company limited by guarantee)

TRUSTEES' REPORT (continued)
FOR THE YEAR ENDED 31 MARCH 2010

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 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 2009, the Hotline team processed 38,173 reports, a 12% increase compared to 2008. 23% of all reports concerned content which was assessed as criminal child sex abuse material. There were 40 instances of child sexual abuse content on websites hosted in the UK, all of which were taken down within one day of notice from IWF. The IWF took action to report 8,844 instances of child sexual abuse content around the world.

A full review of IWF activities can be found in the IWF Annual and Charity Report 2009.

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.

INTERNET WATCH FOUNDATION
(A company limited by guarantee)

TRUSTEES' REPORT (continued)
FOR THE YEAR ENDED 31 MARCH 2010

FINANCIAL REVIEW

RESERVES POLICY

The Board of Trustees has agreed to hold a reserve equivalent to six months total resources expended for running the IWF.

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.

MATERIAL INVESTMENTS POLICY

The agreed level of reserves ensures IWF could continue during a period of unforeseen difficulty and takes into account the impact of IWF reducing or winding up its operation. Therefore, the Board of Trustees has agreed that the reserve should be held in a readily realisable form in high interest bank accounts. The Trustees, through their Audit Committee, regularly review the policy to ensure it is fit for purpose. Additionally, the Board has agreed that all funds should be held in FSA regulated accounts within the UK.

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 will commence 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.

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 proper 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.

INTERNET WATCH FOUNDATION
(A company limited by guarantee)

TRUSTEES' REPORT (continued)
FOR THE YEAR ENDED 31 MARCH 2010

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 27 July 2010 and signed on their behalf, by:

Ms E Salomon

INTERNET WATCH FOUNDATION
(A company limited by guarantee)

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF INTERNET WATCH FOUNDATION

We have audited the financial statements of Internet Watch Foundation for the year ended 31 March 2010 set out on pages 10 to 22. These financial statements have been prepared under the accounting policies set out therein and the requirements of the Financial Reporting Standard for Smaller Entities (effective April 2008).

RESPECTIVE RESPONSIBILITIES OF TRUSTEES AND AUDITORS

The Trustees' (who are also the directors of the company for the purposes of company law) responsibilities 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), and for being satisfied that the financial statements give a true and fair view, are set out in the statement of Trustees' responsibilities.

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 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, have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and have been prepared in accordance with the Companies Act 2006 and the Charities Act 1993. We also report to you whether in our opinion the information given in the Trustees' report is consistent with those financial statements.

In addition we report to you if, in our opinion, the company has not kept adequate accounting records, if the company's financial statements are not in agreement with these accounting records and returns, if we have not received all the information and explanations we require for our audit, or if certain disclosures of trustees' remuneration specified by law are not made.

We read the Trustees' report and consider the implications for our report if we become aware of any apparent misstatements within it.

BASIS OF AUDIT 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 judgments made by the Trustees in the preparation of the financial statements and of whether the accounting policies are appropriate to the charitable group'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.

INTERNET WATCH FOUNDATION
(A company limited by guarantee)

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF INTERNET WATCH FOUNDATION

OPINION

In our opinion:

- the financial statements give a true and fair view of the state of the charitable group's and the parent company's affairs as at 31 March 2010 and of the group's incoming resources and application of resources, including its income and expenditure, for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities;
- the financial statements have been prepared in accordance with the Companies Act 2006 and the Charities Act 1993; and
- the information given in the Trustees' report is consistent with the financial statements.

PETERS ELWORTHY & MOORE

Chartered Accountants
Statutory Auditors

Salisbury House
Station Road
Cambridge
CB1 2LA

10 September 2010

INTERNET WATCH FOUNDATION
(A company limited by guarantee)

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES
(incorporating income and expenditure account)
FOR THE YEAR ENDED 31 MARCH 2010

| | Note | Restricted funds 2010 £ | Unrestricted funds 2010 £ | Total funds 2010 £ | Total funds 2009 £ |
|---|------|----------------------------------|------------------------------------|-----------------------------|-----------------------------|
| INCOMING RESOURCES | | | | | |
| Incoming resources from generated funds: | | | | | |
| Voluntary income | 2 | - | 21,597 | 21,597 | 20,366 |
| Investment income | 3 | - | 4,868 | 4,868 | 30,817 |
| Incoming resources from charitable activities | 4 | 374,780 | 859,048 | 1,233,828 | 1,026,633 |
| TOTAL INCOMING RESOURCES | | 374,780 | 885,513 | 1,260,293 | 1,077,816 |
| RESOURCES EXPENDED | | | | | |
| Charitable activities | 5 | 319,520 | 651,154 | 970,674 | 938,009 |
| Governance costs | 6 | - | 95,588 | 95,588 | 91,965 |
| TOTAL RESOURCES EXPENDED | 7 | 319,520 | 746,742 | 1,066,262 | 1,029,974 |
| MOVEMENT IN TOTAL FUNDS FOR THE YEAR - NET INCOME FOR THE YEAR | | 55,260 | 138,771 | 194,031 | 47,842 |
| Total funds at 1 April 2009 | | - | 678,048 | 678,048 | 630,206 |
| TOTAL FUNDS AT 31 MARCH 2010 | | 55,260 | 816,819 | 872,079 | 678,048 |

The notes on pages 13 to 22 form part of these financial statements.

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

CONSOLIDATED BALANCE SHEET
AS AT 31 MARCH 2010

| | Note | £ | 2010 £ | £ | 2009 £ |
|---|------|------------------|-------------------------|------------------|----------------|
| FIXED ASSETS | | | | | |
| Tangible fixed assets | 10 | | 6,209 | | 24,459 |
| CURRENT ASSETS | | | | | |
| Debtors | 12 | 27,620 | | 89,733 | |
| Investments | 13 | 1,079,318 | | 808,303 | |
| Cash at bank and in hand | | 114,454 | | 84,535 | |
| | | | <u>1,221,392</u> | | <u>982,571</u> |
| CREDITORS: amounts falling due within one year | 14 | (355,522) | | (328,982) | |
| NET CURRENT ASSETS | | | <u>865,870</u> | | <u>653,589</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | <u>872,079</u> | | <u>678,048</u> |
| CHARITY FUNDS | | | | | |
| Restricted funds | 15 | | 55,260 | | - |
| Unrestricted funds | 15 | | 816,819 | | 678,048 |
| | | | <u>872,079</u> | | <u>678,048</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 27 July 2010 and signed on their behalf, by:

Ms E Salomon

The notes on pages 13 to 22 form part of these financial statements.

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

COMPANY BALANCE SHEET
AS AT 31 MARCH 2010

| | Note | £ | 2010 £ | £ | 2009 £ |
|---|------|-------------------------|-------------------------|------------------|----------------|
| FIXED ASSETS | | | | | |
| Tangible fixed assets | 10 | | 6,209 | | 24,459 |
| Fixed asset investments | | | 2 | | 2 |
| | | | <u>6,211</u> | | <u>24,461</u> |
| CURRENT ASSETS | | | | | |
| Debtors | 12 | 93,888 | | 136,391 | |
| Investments | 13 | 1,079,318 | | 808,303 | |
| Cash at bank and in hand | | 19,410 | | 14,103 | |
| | | <u>1,192,616</u> | | <u>958,797</u> | |
| CREDITORS: amounts falling due within one year | 14 | | <u>(346,749)</u> | <u>(325,211)</u> | |
| NET CURRENT ASSETS | | | <u>845,867</u> | | <u>633,586</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | <u>852,078</u> | | <u>658,047</u> |
| CHARITY FUNDS | | | | | |
| Restricted funds | 15 | | 55,260 | | - |
| Unrestricted funds | | | 796,818 | | 658,047 |
| | | | <u>852,078</u> | | <u>658,047</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 27 July 2010 and signed on their behalf, by:

Ms E Salomon

The notes on pages 13 to 22 form part of these financial statements.

INTERNET WATCH FOUNDATION
(A company limited by guarantee)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2010

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.

INTERNET WATCH FOUNDATION
(A company limited by guarantee)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2010

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.

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 £200 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:

| | |
|------------------------------------|----------------------|
| Plant, machinery and other assets- | 33.33% straight line |
| RMS Development costs | - 40% straight line |

1.8 INVESTMENTS

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

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.

INTERNET WATCH FOUNDATION
(A company limited by guarantee)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2010**

1. ACCOUNTING POLICIES (continued)

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

| | Restricted funds 2010 £ | Unrestricted funds 2010 £ | Total funds 2010 £ | Total funds 2009 £ |
|-----------|--|--|---------------------------------------|---------------------------------------|
| Donations | - | 21,597 | 21,597 | 20,366 |

3. INVESTMENT INCOME

| | Unrestricted funds 2010 £ | Total funds 2010 £ | Total funds 2009 £ |
|---------------------------|--|---------------------------------------|---------------------------------------|
| Charitable parent company | 4,863 | 4,863 | 30,255 |
| Trading subsidiary | 5 | 5 | 562 |
| | 4,868 | 4,868 | 30,817 |

4. INCOMING RESOURCES FROM CHARITABLE ACTIVITIES

| | 2010 £ | 2009 £ |
|-------------------------|-------------------|-------------------|
| Subscription fee income | 781,183 | 741,427 |
| EU grant income | 324,780 | 228,452 |
| CAI income | 76,568 | 53,194 |
| Miscellaneous | 1,297 | 3,560 |
| NOMINET grant income | 50,000 | - |
| Total | 1,233,828 | 1,026,633 |

INTERNET WATCH FOUNDATION
(A company limited by guarantee)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2010

5. CHARITABLE ACTIVITIES

Charitable activities are analysed as follows:

| | Internet Watch £ | Total 2010 £ | Total 2009 £ |
|----------------------------|------------------------|--------------------|--------------------|
| Systems and communications | 194,899 | 194,899 | 188,840 |
| Premises | 60,647 | 60,647 | 57,722 |
| Finance and administration | 37,037 | 37,037 | 66,134 |
| Other staff costs | 28,186 | 28,186 | 19,487 |
| Wages and salaries | 549,828 | 549,828 | 496,820 |
| National insurance | 59,428 | 59,428 | 54,274 |
| Pension cost | 21,605 | 21,605 | 18,205 |
| Depreciation | 19,044 | 19,044 | 36,527 |
| | <u>970,674</u> | <u>970,674</u> | <u>938,009</u> |

6. GOVERNANCE COSTS

| | Unrestricted funds 2010 £ | Total funds 2010 £ | Total funds 2009 £ |
|-----------------------------------|------------------------------------|-----------------------------|-----------------------------|
| Auditors' remuneration | 4,840 | 4,840 | 4,900 |
| Auditors' non audit costs | 4,635 | 4,635 | 3,560 |
| Costs of trustees' meetings | 21,495 | 21,495 | 17,597 |
| Legal and professional fees | 1,915 | 1,915 | 3,472 |
| Recruitment | 25,103 | 25,103 | 21,875 |
| Funding Council secretariat costs | 17,600 | 17,600 | 18,000 |
| Chair's fees | 20,000 | 20,000 | 22,561 |
| | <u>95,588</u> | <u>95,588</u> | <u>91,965</u> |

7. ANALYSIS OF RESOURCES EXPENDED BY EXPENDITURE TYPE

| | Staff costs 2010 £ | Depreciation 2010 £ | Other costs 2010 £ | Total 2010 £ | Total 2009 £ |
|-------------------------------|--------------------------|---------------------------|--------------------------|--------------------|--------------------|
| Cost of Charitable Activities | 630,861 | 19,044 | 320,769 | 970,674 | 938,009 |
| Governance | - | - | 95,588 | 95,588 | 91,965 |
| | <u>630,861</u> | <u>19,044</u> | <u>416,357</u> | <u>1,066,262</u> | <u>1,029,974</u> |

INTERNET WATCH FOUNDATION
(A company limited by guarantee)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2010

8. NET INCOME

This is stated after charging:

| | 2010 | 2009 |
|--|---------------|--------------|
| | £ | £ |
| Depreciation of tangible fixed assets: | | |
| - owned by the charitable group | 19,044 | 42,056 |
| Auditors' remuneration | 4,840 | 4,900 |
| Pension costs | 21,605 | 18,205 |
| | ===== | ===== |

The Chair (2009: 2 Chairs) in office during the year received £20,000 (2009: £22,561) 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 5 (2009: 4) trustees were paid in respect of their duties and these amounted to a total of £7,410 (2009: £6,060)

4 (2009: 3) 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 £8,138 (2009: £5,863).

8 (2009: 10) trustees received reimbursements of expenses amounting to £3,417 (2009: £3,090). At 31 March 2010, £474 (2009: £Nil) was outstanding to 4 (2009: 0) trustees.

INTERNET WATCH FOUNDATION
(A company limited by guarantee)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2010

9. STAFF COSTS

Staff costs were as follows:

| | 2010 | 2009 |
|-----------------------|-----------------------|----------------|
| | £ | £ |
| Wages and salaries | 549,828 | 496,820 |
| Social security costs | 59,428 | 54,274 |
| Other pension costs | 21,605 | 18,205 |
| | <u>630,861</u> | <u>569,299</u> |

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

| | 2010 | 2009 |
|-----------------------|-------------|------|
| | No. | No. |
| Charitable activities | 15 | 14 |

The number of higher paid employees was:

| | 2010 | 2009 |
|---------------------------------|-----------------|----------|
| | No. | No. |
| In the band £60,001 - £70,000 | 1 | 1 |
| In the band £100,001 - £200,000 | 1 | 1 |
| | <u>2</u> | <u>2</u> |

INTERNET WATCH FOUNDATION
(A company limited by guarantee)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2010**

10. TANGIBLE FIXED ASSETS

| GROUP | Office equipment £ | Computer equipment £ | Total £ |
|-----------------------|-----------------------------------|-------------------------------------|--------------------|
| COST | | | |
| At 1 April 2009 | 36,003 | 156,789 | 192,792 |
| Additions | - | 794 | 794 |
| | <hr/> | <hr/> | <hr/> |
| At 31 March 2010 | 36,003 | 157,583 | 193,586 |
| | <hr/> | <hr/> | <hr/> |
| DEPRECIATION | | | |
| At 1 April 2009 | 31,371 | 136,962 | 168,333 |
| Charge for the year | 3,506 | 15,538 | 19,044 |
| | <hr/> | <hr/> | <hr/> |
| At 31 March 2010 | 34,877 | 152,500 | 187,377 |
| | <hr/> | <hr/> | <hr/> |
| NET BOOK VALUE | | | |
| At 31 March 2010 | 1,126 | 5,083 | 6,209 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| At 31 March 2009 | 4,632 | 19,827 | 24,459 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| COMPANY | Office equipment £ | Computer equipment £ | Total £ |
| COST | | | |
| At 1 April 2009 | 23,202 | 108,419 | 131,621 |
| Additions | - | 794 | 794 |
| | <hr/> | <hr/> | <hr/> |
| At 31 March 2010 | 23,202 | 109,213 | 132,415 |
| | <hr/> | <hr/> | <hr/> |
| DEPRECIATION | | | |
| At 1 April 2009 | 18,570 | 88,592 | 107,162 |
| Charge for the year | 3,506 | 15,538 | 19,044 |
| | <hr/> | <hr/> | <hr/> |
| At 31 March 2010 | 22,076 | 104,130 | 126,206 |
| | <hr/> | <hr/> | <hr/> |
| NET BOOK VALUE | | | |
| At 31 March 2010 | 1,126 | 5,083 | 6,209 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| At 31 March 2009 | 4,632 | 19,827 | 24,459 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

INTERNET WATCH FOUNDATION
(A company limited by guarantee)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2010

11. 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 2010, 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. In the year ended 31 March 2009, income was additionally derived from fees for speaking and participating in conferences.

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:

| | 2010 | 2009 |
|--|-----------------|-------------|
| | £ | £ |
| Turnover | 76,568 | 54,194 |
| Other operating income | - | 335 |
| Administrative expenses | (12,555) | (8,434) |
| Deed of covenant payable to parent charity | (64,018) | (46,657) |
| | <hr/> | <hr/> |
| Operating (loss) | (5) | (562) |
| Interest receivable | 5 | 562 |
| | <hr/> | <hr/> |
| Retained in subsidiary | - | - |
| | <hr/> <hr/> | <hr/> <hr/> |
| Balance Sheet | | |
| Current assets | 95,043 | 70,432 |
| Current liabilities | (75,041) | (50,430) |
| | <hr/> | <hr/> |
| Net Assets | 20,002 | 20,002 |
| | <hr/> | <hr/> |
| Share capital and reserves | 20,002 | 20,002 |
| | <hr/> <hr/> | <hr/> <hr/> |

12. DEBTORS

| | GROUP | | COMPANY | |
|------------------------------------|---------------|-------------|----------------|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| | £ | £ | £ | £ |
| Trade debtors | 4,462 | 13,038 | 4,462 | 13,039 |
| Amounts owed by group undertakings | - | - | 66,268 | 46,657 |
| Prepayments and accrued income | 23,158 | 76,695 | 23,158 | 76,695 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 27,620 | 89,733 | 93,888 | 136,391 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

INTERNET WATCH FOUNDATION
(A company limited by guarantee)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2010

13. CURRENT ASSET INVESTMENTS

| | <u>GROUP</u> | | <u>COMPANY</u> | |
|---------------------|------------------|-----------|------------------|-----------|
| | 2010 £ | 2009 £ | 2010 £ | 2009 £ |
| Short term deposits | 1,079,318 | 808,303 | 1,079,318 | 808,303 |

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

| | <u>GROUP</u> | | <u>COMPANY</u> | |
|---------------------------------|----------------|-----------|----------------|-----------|
| | 2010 £ | 2009 £ | 2010 £ | 2009 £ |
| Trade creditors | 94,821 | 64,755 | 94,823 | 64,757 |
| Social security and other taxes | 27,394 | 25,485 | 25,644 | 25,485 |
| Accruals and deferred income | 233,307 | 238,742 | 226,282 | 234,969 |
| | 355,522 | 328,982 | 346,749 | 325,211 |

15. STATEMENT OF FUNDS

| | Brought Forward £ | Incoming resources £ | Resources Expended £ | Transfers in/out £ | Carried Forward £ |
|---------------------------|-------------------------|----------------------------|----------------------------|--------------------------|-------------------------|
| DESIGNATED FUNDS | | | | | |
| Designated Fund | - | - | - | 75,060 | 75,060 |
| GENERAL FUNDS | | | | | |
| General Funds - all funds | 678,048 | 885,513 | (746,742) | (75,060) | 741,759 |
| Total Unrestricted funds | 678,048 | 885,513 | (746,742) | - | 816,819 |
| RESTRICTED FUNDS | | | | | |
| NOMINET Grant | - | 50,000 | (1,619) | - | 48,381 |
| SIAP Grant | - | 324,780 | (317,901) | - | 6,879 |
| | - | 374,780 | (319,520) | - | 55,260 |
| Total of funds | 678,048 | 1,260,293 | (1,066,262) | - | 872,079 |

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.

INTERNET WATCH FOUNDATION
(A company limited by guarantee)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2010

15. STATEMENT OF FUNDS (continued)

| | |
|--------------------|---|
| 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. |
| Designated Fund | The designated fund has been established to provide funds in order to purchase a new RMS system. |

16. ANALYSIS OF NET ASSETS BETWEEN FUNDS

| | Restricted funds 2010 £ | Unrestricted funds 2010 £ | Total funds 2010 £ | Total funds 2009 £ |
|-------------------------------|--|--|---------------------------------------|---------------------------------------|
| Tangible fixed assets | - | 6,209 | 6,209 | 24,460 |
| Current assets | 55,260 | 1,166,132 | 1,221,392 | 982,571 |
| Creditors due within one year | - | (355,522) | (355,522) | (328,983) |
| | <u>55,260</u> | <u>816,819</u> | <u>872,079</u> | <u>678,048</u> |

17. OPERATING LEASE COMMITMENTS

At 31 March 2010 the Group had annual commitments under non-cancellable operating leases as follows:

| GROUP AND COMPANY | 2010 £ | 2009 £ |
|--------------------------|-------------------|-------------------|
| EXPIRY DATE: | | |
| Within 1 year | - | 624 |
| Between 2 and 5 years | 19,413 | 19,413 |
| | <u>19,413</u> | <u>19,413</u> |

18. 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 2010 by Internet Watch Limited amounted to £66,268 (2009: £46,657), representing the balance of the gift aid payment, the annual management charge and the annual licence fee.