

Internet Watch Foundation
Financial Statements
for the year ended 31 March 2006

Company Registration Number 3426366



Internet Watch Foundation

Officers and Professional Advisers

Directors & Trustees

Ms A. Jordan OBE (Chair)
Mrs C. Atkinson
Ms C. de Stempel
Dr M. Elliott
Professor S. M. Livingstone
Mr H. MacLeod
Mrs G. J. Palmer
Mr J. M. Reynolds
Mr N. Truman
Dr I. N. Walden

Company Secretary

Mr P. E. Robbins

Registered Office

East View
5 Coles Lane
Oakington
Cambridge
CB4 5BA

Registered Company Number

3426366

Registered Charity Number

1112398

Auditors

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

Bankers

Barclays Bank PLC
Bene't Street
Cambridge
CB2 3PZ

Trustees' Report**Year ended 31 March 2006**

The Trustees present their report and financial statements for the year ended 31 March 2006.

Status

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.

Trustees

The trustees who served in the period, who were also directors of the company were as follows:

Ms A. Jordan (Chair) (appointed 1 January 2006)
Mr R. A. Darlington (resigned 31 December 2005)
Mrs C. Atkinson
Dr M. Elliott
Mr M. J. Gracey
Professor S. M. Livingstone
Mr H. MacLeod
Mrs G. J. Palmer
Mr J. M. Reynolds
Mr N. Truman
Dr I. N. Walden

Mr M. J. Gracey resigned as a director and Ms C. de Stempel was appointed a director on 19 April 2006.

Statement of Trustees Responsibilities

The trustees, who are also the directors of the charitable company, are responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the Charity and of the surplus or deficit of the Charity for that period. In preparing those financial statements the trustees are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to assume that the Charity will be able to continue to meet its objectives.

The trustees are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Charity and to enable them to ensure that the financial statements comply with company and charity legislation. They are also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Objectives

Internet Watch Foundation aims to:

Minimise the availability of potentially illegal internet content specifically;

- images of child abuse hosted anywhere in the world.
- criminally obscene content hosted in the UK.
- incitement to racial hatred content hosted in the UK.

Trustees' Report (*continued*)**Year ended 31 March 2006**

Internet Watch Foundation works in partnership with the police, the UK Internet industry, the government and Hotlines in other countries in order:

To foster trust and confidence in the Internet among current and future fixed and mobile internet users by;

- operating a hotline to enable the public to report instances of potentially illegal child abuse images hosted anywhere in the world and criminally obscene and incitement to racial hatred content hosted in the UK, for example via websites, newsgroups, mobile services or other on-line services
- promoting wider education and awareness of its functions and role and those of other key players such as government departments, law enforcement and consumer bodies

To assist service providers to combat the abuse of their systems for the dissemination of criminal content by;

- operating a notice and take down service to alert hosting service providers of criminal content found on their servers
- recommending that ISPs should not carry certain newsgroups in accordance with policy guidelines adopted by the IWF Board
- acting as a relevant authority in accordance with the Memorandum of Understanding concerning S46 Sex Offences Act 2003

To assist law enforcement in the fight against criminal content on the Internet by;

- combating the dissemination on the Internet of potentially illegal content i.e. abusive images of children and criminally obscene and incitement to racial hatred content
- passing details of reports relating to potentially illegal child abuse images hosted on servers outside the UK to the relevant national hotline or appropriate UK law enforcement agency
- working closely with the police, lending its expertise to help trace the individuals responsible for such criminal activity online

Relationship with Related Parties

All major decisions are made by the Board of Trustees. The industry members of the charity form the Funding Council which considers all major reports and issues, elects three of the ten Trustees and briefs its elected Trustees on industry views on relevant matters.

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.

Review of Activities

IWF continues to run a Hotline which receives reports from members of the public where they have been exposed to specific types of potentially illegal online content (see objectives above). If the potentially illegal content appears to be based in the UK, takedown notifications are issued to the hosting Internet service provider (ISP) and the police informed. Where the content is hosted outside the UK, Interpol is informed and where appropriate, Hotlines in the relevant country. During the calendar year 2005, 23658 reports were received by the Hotline, 37% more than the previous year. 6128 of the reports identified potentially illegal content, an increase of 78% on the previous year. The successful policies with regard to potentially illegal content hosted in Usenet newsgroups have been maintained and many members make use of other IWF data to minimise potentially illegal content. Most major UK ISPs are using the child abuse content database to filter out this potentially illegal content and IWF is working to ensure as many ISPs as possible can take the database.

The Corporate Plan for 2005/6 mapped out all the planned activities and developments and the 2006/7 Corporate Plan identifies the priorities and targets for the next year. A fuller review of IWF activities can be found in the IWF Annual Report.

Trustees' Report (*continued*)

Year ended 31 March 2006

Reserves Policy

The Board of Trustees has agreed to hold a reserve of approximately £300,000, equivalent to six months running costs for IWF. The interim reserve was based upon an initial assessment of risk and liability, and the Trustees will carry out further work which sets out the IWF Reserves Policy in more detail. In 2005/6, Board covenanted up sufficient profits from its trading subsidiary to establish the agreed level of reserve within IWF.

Investment Policy

The agreed level of reserve 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 in the interim the reserve should be held in a readily realisable form in high interest bank accounts. In 2005/6, IWF reviewed banking arrangements in order to ensure the best available interest rates.

Risk Review

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

- Income streams and expenditure varying from forecast which is addressed through the reserves policy
- Staff welfare which has been addressed through the staff welfare policy
- Potential liabilities which have been indemnified through appropriate insurances
- Information security where IWF is working towards achieving ISO 27001
- Property and assets where IWF has audited procedures in place

IWF executive has completed a major review of all potential risks faced and the Board of Trustees is in the process of establishing a procedure for completing and reviewing risk analysis and the reporting procedures.

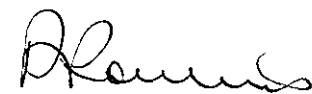
Auditors

Peters, Elworthy & Moore have expressed their willingness to continue in office and a resolution for their reappointment will be proposed at the forthcoming Annual General Meeting.

Small Company Provisions

This report has been prepared in accordance with the special provisions for small companies under Part VII of the Companies Act 1985.

On behalf of the Board



Mr P E Robbins
Secretary

Date: 8/11/06

Independent Auditors' Report to the Trustees**Year ended 31 March 2006**

We have audited the financial statements of Internet Watch Foundation for the year ended 31 March 2006 which comprise the consolidated Statement of Financial Activities, the Balance Sheets and the related notes. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the charity's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken for no purpose other than to draw to the attention of the charity's members those matters which we are required to include in an auditors' report addressed to them. To the fullest extent permitted by law, we do not accept or assume responsibility to any party other than the charity and the charity's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Trustees and Auditors

The trustees' (who are the directors of Internet Watch Foundation 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 are set out in the Statement of Trustees' Responsibilities on page 1.

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 and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Trustees' Report is not consistent with the financial statements, if the charity has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding trustees' remuneration and transactions with the charity is not disclosed.

We are not required to consider whether the statement in the Trustees' Report concerning the major risks to which the charity is exposed covers all existing risks and controls, or to form an opinion on the effectiveness of the charity's risk management and control procedures.

We read other information contained in the Trustees' Report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of 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 judgements made by the trustees in the preparation of the financial statements, and of whether the accounting policies are appropriate to the charity'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 the information in the financial statements.

Independent Auditors' Report to the Trustees (*continued*)

Year ended 31 March 2006

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the charity and the group as at 31 March 2006 and of its 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 the Companies Act 1985; and
- the information given in the Trustees' Report is consistent with the financial statements.



PETERS ELWORTHY & MOORE
Chartered Accountants and
Registered Auditor

CAMBRIDGE

Date: 24/11/2006

Consolidated Statement of Financial Activities

Year ended 31 March 2006

	Notes	2006 £	2005 As restated £
INCOMING RESOURCES			
Incoming resources from charitable activities:			
Subscription and grant income - trading subsidiary	7	893,033	875,914
Investment income and interest	2	8,379	5,529
Total incoming resources		901,412	881,443
RESOURCES EXPENDED			
Charitable activities - trading subsidiary		807,732	719,250
Governance costs	5	14,374	15,984
Total resources expended	3, 4	822,106	735,234
Net incoming resources for the year		79,306	146,209
Fund balances brought forward at 1 April 2005		332,826	186,617
Fund balances carried forward at 31 March 2006		412,132	332,826

All amounts relate to continuing activities. There were no recognised gains or losses other than those included above.
The attached notes form part of these financial statements.

Balance Sheets

31 March 2006

	Notes	Consolidated 2006 £	2005 £	Parent Charity 2006 £	2005 £
Fixed Assets					
Tangible fixed assets	6	12,194	18,547	-	-
Investment in trading subsidiary	7	-	-	2	2
		<u>12,194</u>	<u>18,547</u>	<u>2</u>	<u>2</u>
Current Assets					
Debtors	8	278,863	235,728	231,105	164,185
Cash at bank and in hand		357,479	338,931	163,225	-
		<u>636,342</u>	<u>574,659</u>	<u>394,330</u>	<u>164,185</u>
Creditors: amounts due within one year	9	236,404	260,380	2,200	1,252
Net current assets		<u>399,938</u>	<u>314,279</u>	<u>392,130</u>	<u>162,933</u>
Total Assets Less Current Liabilities		<u>412,132</u>	<u>332,826</u>	<u>392,132</u>	<u>162,935</u>
Represented by:					
Funds					
General Fund		<u>412,132</u>	<u>332,826</u>	<u>392,132</u>	<u>162,935</u>
Total Charity funds		<u>412,132</u>	<u>332,826</u>	<u>392,132</u>	<u>162,935</u>

Approved by the Board on 3/10/06 and signed on its behalf by:

Amanda Jordan

Ms A Jordan OBE
Chair

Date: 8/11/06

The attached notes form part of these financial statements.

Basis of preparation

Group accounts

Fund accounting

All income and expenditure is shown in the Statement of Financial Activities.

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is calculated so as to write off the cost of an asset over the useful economic life of that asset as follows:

Plant, machinery and other assets	33.33% straight line
-----------------------------------	----------------------

Investment in trading subsidiary

The investment in the trading subsidiary is included at cost at the balance sheet date.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange difference are taken into account in arriving at the operating profit.

2 Investment income and interest

	2006 £	2005 £
Trading subsidiary (note 7)	8,087	5,529
Charitable parent company	292	-
	<hr/> 8,379	<hr/> 5,529

Notes to the Financial Statements

Year ended 31 March 2006

3 Net Incoming Resources is stated after charging:

	2006 £	2005 £
Auditors' remuneration		
- Audit	2,490	1,950
- Non-audit	2,490	1,945

4 Total Resources Expended

	Staff costs £	Depreciation £	Other costs £	Total £	2005 £
Cost of non-charitable trading	455,043	16,863	350,200	822,106	735,234
	455,043	16,863	350,200	822,106	735,234

Staff costs

	2006 £	2005 £
Wages and salaries	411,727	361,864
Social Security costs	43,316	44,505
	455,043	406,369

The number of employees whose emoluments as defined for taxation purposes amounted to over £50,000 in the year was 1 (2005 - 1).

The average number of employees analysed by function was:

	2006 Number	2005 Number
Trading subsidiary	14	14
	14	14

Trustees

The Chairs received £26,090 from the trading subsidiary during the year in respect of their duties in this office (2005: £27,038). Two trustees were paid attendance allowances during the year in respect of their duties and these amounted to a total of £1,760 (2005: £1,700). Section 6 of the Memorandum of Association of the Internet Watch Foundation permits such payments.

Notes to the Financial Statements

Year ended 31 March 2006

5 Governance Costs

	2006	2005
	£	As restated £
Cost of trustees' meetings	2,043	2,219
Consultancy	3,011	6,760
Legal and professional costs	4,340	3,110
Auditors remuneration - audit	2,490	1,950
- non-audit	2,490	1,945
	<u>14,374</u>	<u>15,984</u>

6 Tangible Fixed Assets - Consolidated

	Plant, Machinery and Other Assets £
Cost	
At 1 April 2005	80,879
Additions	12,592
Disposals	(6,249)
At 31 March 2006	<u>87,222</u>
Depreciation	
At 1 April 2005	62,332
Charge for the year	16,863
On disposals	(4,167)
At 31 March 2006	<u>75,028</u>
Net Book Value	
At 31 March 2006	<u>12,194</u>
At 31 March 2005	<u>18,547</u>

Notes to the Financial Statements

Year ended 31 March 2006

7 Investment in Trading Subsidiary

The charity owns the whole of the issued share capital of Internet Watch Limited which has been included at cost at 31 March 2006. The company is registered in England and Wales. The company's principal activity is that of that of implementing proposals to foster trust and confidence in the Internet among current and future fixed and mobile internet users; assist service providers to combat the abuse of their systems for the dissemination of criminal content; assist law enforcement in the fight against criminal content on the Internet.

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

	2006 £	2005 £
Turnover	891,530	871,421
Administrative expenses	(809,972)	(737,028)
Deed of covenant payable to parent charity	(240,656)	(164,185)
Other operating income	1,503	4,493
Operating (loss)	(157,595)	(25,299)
Interest receivable	8,087	5,529
Interest payable and similar charges	(383)	-
(Loss) on ordinary activities before taxation	(149,891)	(19,770)
Tax on (loss) on ordinary activities	-	(3,044)
(Loss) on ordinary activities after taxation	(149,891)	(16,726)
Retained profit brought forward	169,891	186,617
Retained profit carried forward	20,000	169,891
Balance Sheet		
Fixed assets	12,194	18,547
Current assets	473,117	574,661
Current liabilities	(465,309)	(423,315)
Net assets	20,002	169,893
Share capital and reserves	20,002	169,893

Notes to the Financial Statements

Year ended 31 March 2006

8 Debtors

	Consolidated		Parent Charity	
	2006	2005	2006	2005
	£	£	£	£
Trade debtors	48,487	51,120	-	-
VAT recoverable	3,714	5,961	-	-
Other debtors	226,662	178,647	-	-
Amounts due from group undertakings	-	-	231,105	164,185
	<u>278,863</u>	<u>235,728</u>	<u>231,105</u>	<u>164,185</u>

9 Creditors: amounts falling due within one year

	Consolidated		Parent Charity	
	2006	2005	2006	2005
	£	£	£	£
Trade creditors	70,907	85,833	-	-
Other taxes and social security	11,125	13,073	-	-
Other creditors	154,372	161,474	2,200	1,252
	<u>236,404</u>	<u>260,380</u>	<u>2,200</u>	<u>1,252</u>

10 Financial commitments

	Consolidated		Parent Charity	
	2006	2005	2006	2005
	£	£	£	£
Capital commitments				
Authorised by the trustees, but not contracted for	70,000	70,000	70,000	70,000
	<u>70,000</u>	<u>70,000</u>	<u>70,000</u>	<u>70,000</u>

11 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 depending on their size with subscription levels ranging between £500 and up to £20,000.