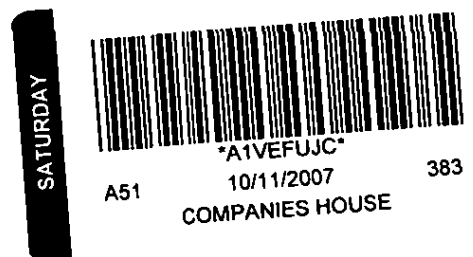


Internet Watch Foundation and subsidiary company

Trustees' Report and Consolidated Accounts

for the year ended 31 March 2007

Company Registration Number 3426366



Internet Watch Foundation

Officers and Professional Advisers

Directors & Trustees

Ms A Jordan OBE (Chair)
Miss E L Ascroft
Professor S M Livingstone
Mr H MacLeod
Mrs G J Palmer
Mr J M Reynolds
Ms C de Stempel
Professor I N Walden

Company Secretary and Chief Executive Officer

Mr P E T Robbins QPM

Registered Office

East View
5 Coles Lane
Oakington
Cambridge
CB24 3BA

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

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

Trustees' Report

Year ended 31 March 2007

The Trustees present their report and financial statements for the year ended 31 March 2007

STRUCTURE, GOVERNANCE AND MANAGEMENT

Governing document

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 year, who were also directors of the company were as follows:

Ms A Jordan OBE (Chair)
Miss E L Ascroft (appointed 16 January 2007)
Mrs C Atkinson (resigned 11 February 2007)
Dr M Elliott (resigned 31 December 2006)
Professor S M Livingstone
Mr H MacLeod
Mrs G J Palmer
Mr J M Reynolds
Ms C de Stempel (appointed 19 April 2006)
Mr N Truman (resigned 31 December 2006)
Professor I N Walden

Recruitment, training and induction of Trustees

Non-industry Board members are appointed by an open selection procedure managed by the Board Executive Committee comprising the Chair, the two Vice-chairs and an independent person. In making its choice, the committee will ensure that the Board has an appropriate balance of skills and experience. The industry Board members are appointed by the Funding Council in accordance with a procedure to be determined by the Council.

All new Board members are offered an induction programme which allows them to understand the role of IWF and their role as Directors and Trustees and in May 2006 all Board members participated in training on their role and responsibilities as Trustees.

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 consisting of the Chair, two Vice-chairs and the CEO which plans Board business and an Audit Sub-committee and Communications Sub-committee. The committees do not have delegated powers and all major decisions are made by the Board of Trustees. The Board of Trustees monitors, reviews and sets remit and strategy and delegates the operational management of the organisation to the CEO.

Trustees' Report (*continued*)**Year ended 31 March 2007**

Relationship with other organisations

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 Trustees and briefs its elected Trustees on industry views on relevant matters. The Board of Trustees commissioned an independent consultant to review governance and the Board's relationship with key stakeholders in the internet industry. As a result of the review recommendations, additional Board committees and meetings have been introduced and work is continuing on developing the Board of Trustees' relationship with the internet industry.

IWF works in partnership with representatives from the UK Internet industry, police, government departments and Hotlines in other countries in order to minimise the availability of specific potentially illegal content found online. Online content within our remit includes

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

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 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 has identified these in a Risk Matrix and through the 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 will consider risk issues and review policy through its Audit Sub-committee and will receive a report on significant matters. The systems of internal control are designed to provide reasonable, but not absolute, assurance against material misstatement or loss. They include a strategic plan, and an annual budget approved by the trustees, regular consideration by the trustees of financial results, variance from budgets, non-financial performance indicators and benchmarking reviews, delegation of authority and segregation of duties and identification and management of risks.

Trustees' Report (*continued*)

Year ended 31 March 2007

OBJECTIVES AND ACTIVITIES

Role

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 sexual 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 internet service providers 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 Section 46 Sexual 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. sexually abusive images of children and criminally obscene and incitement to racial hatred content
- Passing details of reports relating to potentially illegal child sexual 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

Trustees' Report (continued)**Year ended 31 March 2007**

ACHIEVEMENTS AND PERFORMANCE

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 2006, 31,776 reports were processed by the Hotline, 34% more than the previous year. 10,656 of the reports identified potentially illegal content included in our remit, an increase of 74% on the previous year. An updated report management system has been introduced and this allows a more detailed analysis of report data which can be used to identify trends and enable the targeting of resources and action. The successful policies with regard to minimising potentially illegal child sexual abuse content hosted in Usenet newsgroups have been maintained and many members make use of other IWF data to minimise potentially illegal online content or as part of their acceptable use policies. A dynamic list of URLs for websites which contain potentially illegal child sexual abuse content is supplied to companies that have voluntarily committed to implement a solution to block access to these URLs by the end of 2007, thereby protecting their customers from being inadvertently exposed to such content. The list is supplied to mobile and internet service providers, filtering companies and search providers and many companies have already implemented a blocking solution.

IWF ran successful campaigns and events which were aimed at raising public awareness of our work.

Child sexual abuse websites hosted on domains in the UK remains at less than 1% of the reports processed and IWF has continued to draw attention to those countries where such content appears to be hosted regularly.

A fuller review of IWF activities can be found in the IWF Annual Report.

Internet Watch Limited carries out work which the Board of IWF considers to be compatible with its aims and charitable objectives and includes income from two sources:

- Work carried out on behalf of a UK based ISP related to potentially illegal and inappropriate content hosted in their online community groups, and
- From licensees that pay the usage fee when they incorporate the IWF URL list into their product(s) for filtering access to websites.

FINANCIAL REVIEW**Reserves Policy**

The Board of Trustees has agreed to hold a reserve equivalent to six months running costs of IWF. This 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.

Principal funding

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

Investment 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 Sub-committee, will regularly review the policy to ensure it is fit for purpose.

Trustees' Report (*continued*)

Year ended 31 March 2007

PLANS FOR THE FUTURE

2006/7 was the third year of IWF's 3-year Corporate Plan and activities were focussed on the key objectives in the plan. Following the report by an independent consultant on governance and relationships with key stakeholders, the Board of Trustees approved a one-year transitional plan for 2007/8 and is gathering data in preparation for a 2008/2010 3-year Corporate Plan. The plan will identify the key activities in pursuance of our charitable objectives.

STATEMENT OF TRUSTEES RESPONSIBILITIES

The trustees are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom General Accepted Accounting Practice applicable to smaller charities.

Company and charity law applicable to charities in England and Wales 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 company and of the surplus or deficit of the company for that period. In preparing those financial statements the Trustees have

- selected suitable accounting policies and apply them consistently
- make judgements and estimates that are reasonable and prudent
- prepared the financial statements on the going concern basis (unless it is inappropriate to presume that the company 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 company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the detection and prevention of fraud and other irregularities.

So far as each of the Trustees is aware at the time the report is approved

- there is no relevant audit information of which the company's auditors are unaware, and
- the Trustees have all taken steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

AUDITORS

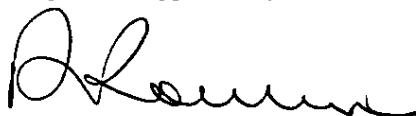
Peters, Elworthy & Moore have expressed their willingness to continue in office and a resolution for their reappointment will be proposed at the forthcoming Annual General Meeting.

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.

This report was approved by the Trustees on 18 9 07

and signed on its behalf, by



Mr P E T Robbins QPM
Secretary

Date. 18 9. 07

Independent Auditors' Report to the Trustees**Year ended 31 March 2007**

We have audited the financial statements of Internet Watch Foundation for the year ended 31 March 2007 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 2007

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 2007 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: 8 November 2007

Consolidated Statement of Financial Activities

Year ended 31 March 2007

	Notes	Restricted	Unrestricted	Total 2007	Total 2006 (restated)
		£	£	£	£
INCOMING RESOURCES					
Incoming resources from generated funds.					
Voluntary income					
Donations income		-	15,575	15,575	60,000
Sponsorship income		-	-	-	10,000
Investment income and interest	2	-	15,340	15,340	8,379
Incoming resources from charitable activities	3	335,837	710,214	1,046,051	823,033
Total incoming resources		335,837	741,129	1,076,966	901,412
RESOURCES EXPENDED					
Cost of charitable activities	4	244,938	611,424	856,362	807,732
Governance costs	5	-	19,725	19,725	14,374
Total resources expended	6,7	244,938	631,149	876,087	822,106
Net incoming resources for the year		90,899	109,980	200,879	79,306
Fund balances brought forward at 1 April 2006		-	412,132	412,132	332,826
Fund balances carried forward at 31 March 2007	13, 14	90,899	522,112	613,011	412,132

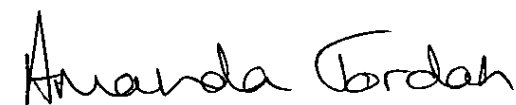
All amounts relate to continuing activities. There were no recognised gains or losses other than those included above.
The attached notes form part of these financial statements.

Balance Sheets

31 March 2007

	Notes	Consolidated 2007 £	2006 £	Parent Charity 2007 £	2006 £
Fixed Assets					
Tangible fixed assets	8	54,994	12,194	54,994	-
Investment in trading subsidiary	9	-	-	2	2
		54,994	12,194	54,996	2
Current Assets					
Debtors	10	197,776	278,863	216,173	231,105
Investments	11	575,251	-	575,251	-
Cash at bank and in hand		52,177	357,479	12,231	163,225
		825,204	636,342	803,655	394,330
Creditors: amounts due within one year	12	267,187	236,404	265,640	2,200
Net current assets		558,017	399,938	538,015	392,130
Total Assets Less Current Liabilities		613,011	412,132	593,011	392,132
Represented by:					
Funds					
Restricted Funds		90,899	-	90,899	-
Unrestricted Funds		522,112	412,132	502,112	392,132
Total Consolidated Funds	13, 14	613,011	412,132	593,011	392,132

Approved by the Board on 18 9.07 and signed on its behalf by:


Ms A Jordan OBE
Chair

Date: 18 9 07

The attached notes form part of these financial statements

Notes to the Financial Statements**Year ended 31 March 2007**

1 Accounting Policies**Basis of preparation**

The financial statements have been prepared under the historical cost convention and in accordance with the Statement of Recommended Practice Accounting and Reporting by Charities (SORP 2005) issued in March 2005, and in accordance with the Companies Act 1985

Group accounts

These financial statements consolidate the results of the charity and its wholly owned subsidiary Internet Watch Limited on a line by line basis. A separate Statement of Financial Activities for the charity itself is not presented because the charity has taken advantage of the exemptions afforded by section 230 of the Companies Act 1985 and paragraph 397 of the SORP

Fund accounting

Unrestricted funds 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

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

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 account period

Resources expended

All expenditure is accounted for on an accruals basis

Fixed assets

All fixed assets are initially recorded at cost. Fixed assets transferred between the subsidiary company and its charitable parent are reflected at net book value at the date of transfer

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
RMS development costs	40 00% straight line

Investment in trading subsidiary

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

Notes to the Financial Statements

Year ended 31 March 2007

1 Accounting Policies (continued)**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 differences are taken into account in arriving at the operating profit.

2 Investment income and interest

	2007 £	2006 £
Trading subsidiary (note 9)	3,122	8,087
Charitable parent company	12,218	292
	<u>15,340</u>	<u>8,379</u>

3 Incoming resources from charitable activities

Incoming resources from charitable activities are analysed as follows

	2007 £	2006 (restated) £
Subscription fee income	700,533	623,542
EU Grant income	320,837	165,486
ISP project income	15,000	18,000
Home Office income	-	14,502
CAI income	5,183	-
Other income	4,498	1,503
	<u>1,046,051</u>	<u>823,033</u>

4 Charitable activities

Charitable activities are analysed as follows

	2007 £	2006 £
Staff costs	486,497	506,943
Systems and communications	246,643	183,353
Premises	60,444	66,300
Finance and administration	62,778	51,136
	<u>856,362</u>	<u>807,732</u>

Following the transfer of charitable activities to the charitable parent company, as described in note 14 to the financial statements, the prior year figures, which were previously included within the results of the trading subsidiary, have been re-analysed to aid the comparability of data.

Notes to the Financial Statements

Year ended 31 March 2007

5 Governance costs

	2007	2006
	£	£
Cost of trustees' meetings	8,195	2,043
Consultancy	4,500	3,011
Legal and professional costs	-	4,340
Auditors remuneration - audit	4,405	2,490
- non-audit	2,625	2,490
	<u>19,725</u>	<u>14,374</u>

6 Total resources expended

	Salary costs	Depreciation	Other costs	Total	2006
	£	£	£	£	£
Cost of charitable activities	462,951	40,505	352,906	856,362	807,732
Governance costs	-	-	19,725	19,725	14,374
	<u>462,951</u>	<u>40,505</u>	<u>372,631</u>	<u>876,087</u>	<u>822,106</u>

Salary costs

	2007	2006
	£	£
Gross salaries	418,499	411,727
Social Security costs	44,452	43,316
	<u>462,951</u>	<u>455,043</u>

The number of employees whose emoluments as defined for taxation purposes amounted to over £50,000 in the year was 1 (2006 - 1)

The average number of employees analysed by function was

	2007	2006
	Number	Number
Charitable activities	14	12
	<u>14</u>	<u>12</u>

Trustees

The Chair received £20,760 from the company during the year in respect of her duties in this office (2006 £26,090 – two Chairs) 4 trustees (2006 2) were paid attendance allowances during the year in respect of their duties and these amounted to a total of £4,180 (2006 £1,760) Section 6 of the Memorandum of Association of the Internet Watch Foundation permits such payments

Notes to the Financial Statements

Year ended 31 March 2007

7 Net incoming resources is stated after charging:

	2007 £	2006 £
Auditors' remuneration		
- Audit	4,405	2,490
- Non-audit	6,040	2,490

8 Tangible Fixed Assets

Consolidated

	Office equipment £	Computer equipment £	Total £
Cost			
At 1 April 2006	15,947	71,275	87,222
Additions	9,815	73,553	83,368
Disposals	(276)	(13,644)	(13,920)
At 31 March 2007	25,486	131,184	156,670
Depreciation			
At 1 April 2006	13,077	61,951	75,028
Charge for the year	5,986	34,519	40,505
On disposals	(276)	(13,581)	(13,857)
At 31 March 2007	18,787	82,889	101,676
Net Book Value			
At 31 March 2007	6,699	48,295	54,994
At 31 March 2006	2,870	9,324	12,194

Notes to the Financial Statements

Year ended 31 March 2007

8 Tangible Fixed Assets (continued)

Charitable Parent Company

	Office equipment £	Computer equipment £	Total £
Cost			
At 1 April 2006	-	-	-
Transfers from trading subsidiary	2,870	9,324	12,194
Additions	9,815	73,553	83,368
Disposals	-	(63)	(63)
At 31 March 2007	12,685	82,814	95,499
Depreciation			
At 1 April 2006	-	-	-
Charge for the year	5,986	34,519	40,505
On disposals	-	-	-
At 31 March 2007	5,986	34,519	40,505
Net Book Value			
At 31 March 2007	6,699	48,295	54,994
At 31 March 2006	-	-	-

Notes to the Financial Statements

Year ended 31 March 2007

9 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 2007, its income was derived from two sources:

- Work carried out on behalf of a UK based ISP related to potentially illegal and inappropriate content hosted in their online community groups, and
- From licensees that pay the usage fee when they incorporate the IWF URL list into their product(s) for filtering access to websites

A summary of the results of the subsidiary is shown below

	2007 £	2006 £
Turnover	20,183	891,530
Administrative expenses	(3,408)	(809,972)
Deed of covenant payable to parent charity	(19,897)	(240,656)
Other operating income	-	1,503
Operating (loss)	(3,122)	(157,595)
Interest receivable	3,122	8,087
Interest payable and similar charges	-	(383)
(Loss) on ordinary activities before taxation	-	(149,891)
Tax on (loss) on ordinary activities	-	-
(Loss) on ordinary activities after taxation	-	(149,891)
Retained profit brought forward	20,000	169,891
Retained profit carried forward	20,000	20,000
Balance Sheet		
Fixed assets	-	12,194
Current assets	39,946	473,117
Current liabilities	(19,944)	(465,309)
Net assets	20,002	20,002
Share capital and reserves	20,002	20,002

Notes to the Financial Statements

Year ended 31 March 2007

10 Debtors

	Consolidated		Parent Charity	
	2007	2006	2007	2006
	£	£	£	£
Trade debtors	27,543	48,487	27,543	-
VAT recoverable	-	3,714	-	-
Other debtors	170,233	226,662	170,233	-
Amounts due from group undertakings	-	-	18,397	231,105
	<u>197,776</u>	<u>278,863</u>	<u>216,173</u>	<u>231,105</u>

11 Investments

	Consolidated		Parent Charity	
	2007	2006	2007	2006
	£	£	£	£
Short term deposits	575,251	-	575,251	-
	<u>575,251</u>	<u>-</u>	<u>575,251</u>	<u>-</u>

12 Creditors: amounts falling due within one year

	Consolidated		Parent Charity	
	2007	2006	2007	2006
	£	£	£	£
Trade creditors	54,990	70,907	54,693	-
Other taxes and social security	22,924	11,125	22,924	-
Other creditors	189,273	154,372	188,023	2,200
	<u>267,187</u>	<u>236,404</u>	<u>265,640</u>	<u>2,200</u>

Notes to the Financial Statements

Year ended 31 March 2007

13 Statement of Consolidated Funds

	Balance at 1 April 2006 £	Income £	Expenditure £	Balance at 31 March 2007 £
Restricted Funds				
- ISP Project Fund	-	15,000	15,000	-
- SIAP Grant Fund	-	320,837	229,938	90,899
	-	335,837	244,938	90,899
Unrestricted Funds	392,132	719,324	609,344	502,112
Total Charity Funds	392,132	1,055,161	854,282	593,011
Trading subsidiary	20,000	21,805	21,805	20,000
Total Consolidated Funds	412,132	1,076,966	876,087	613,011

ISP Project Fund This fund represents the income and associated expenditure of administering a specific project on behalf of a UK based ISP related to potentially illegal and inappropriate content hosted in their online community groups All income received to this fund was fully expended during the year

SIAP Grant Fund This fund represents the balance of a grant from the European Union, receivable over two years, in respect of assistance in meeting the costs of running the Hotline

14 Analysis of net assets between funds

	Tangible fixed assets £	Net current assets £	Total £
Restricted Funds	-	90,899	90,899
Unrestricted Funds	54,994	467,118	522,112
Total Charity Funds	54,994	558,017	613,011

15 Related Party Transactions

The core charitable activities of the wholly owned subsidiary company, Internet Watch Limited, together with the associated assets and liabilities were transferred to Internet Watch Foundation on 1 April 2006

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

During the prior year, Internet Watch Limited paid legal and professional costs on behalf of its parent company, Internet Watch Foundation, totalling £9,551. There has been no equivalent current year activity. The sum owed to Internet Watch Foundation at 31 March 2007 amounted to £18,397 (2006 £231,105), representing the balance of the gift aid payment (2006 net of professional costs described above)

During the prior year, Internet Watch Limited made payments amounting to £5,000 to Ms A Jordan OBE, a director of the company, in respect of her role as Chair. The equivalent current year expense, which was incurred in Internet Watch Foundation following the transfer of charitable activities described above, amounted to £20,760. There was no balance outstanding at 31 March 2007 or 31 March 2006