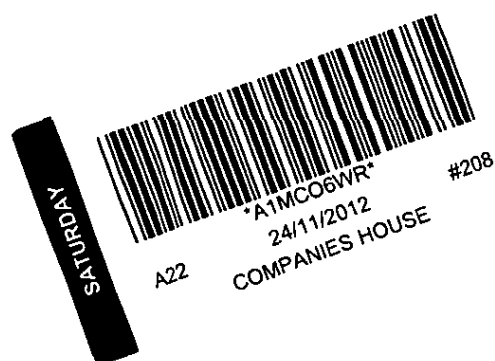


Registered number 03426366
Charity number 1112398

INTERNET WATCH FOUNDATION
(A company limited by guarantee)

TRUSTEES' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012



INTERNET WATCH FOUNDATION
(A company limited by guarantee)

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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 2012**

Trustees

Ms E Salomon, Chair (resigned 31 December 2011)
Sir R Tilt, Chair (appointed 1 January 2012)
Sir R G Brooke²
Ms N E Cohen²
Mr P J Geering (appointed 1 January 2012)²
Mr A E Leadley-Yoward (appointed 24 May 2011)¹
Mr S A Locke (resigned 1 October 2011)²
Ms M MacLeod²
Mr P W Neyroud (appointed 1 January 2012)²
Mr J E Shipp¹
Dr S N Walton²
Mr B W Webb (appointed 1 August 2011)¹

¹ Industry Trustee

² Independent Trustee

Company registered number

03426366

Charity registered number

1112398

Registered office

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

Company secretary

Ms D McGovern

Chief executive officer

Ms S E Hargreaves

Auditors

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

Bankers

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

Investment advisors

Schroder Investments Limited, 31 Gresham Street, London, EC2V 7QA

INTERNET WATCH FOUNDATION
(A company limited by guarantee)

TRUSTEES' REPORT
FOR THE YEAR ENDED 31 MARCH 2012

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 2012. 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.

Subscribing organisations who support the Internet Watch Foundation nominate a representative to the Funding Council. The Funding Council meet six times a year to discuss Internet Watch Foundation & member business. The role of the Funding Council is to

- to consider policy issues affecting Internet Watch Foundation in order to brief Board representatives with members' views,
- to contribute funds and ensure renewal of funds for the operation of Internet Watch Foundation,
- to advise on the annual Internet Watch Foundation budget, significant changes and the use of material unbudgeted surpluses,
- to select three industry members for the Internet Watch Foundation board,
- to advise on and approve the members' code of practice.

The Funding Council Constitution describes how the Council conducts its business. Funding Council determines its own constitution and terms of membership and elects three Board members to represent industry views on the main IWF Board.

The independent Chair is appointed by the Board through an open selection procedure managed by the Nominations committee, comprising the two Vice-chairs and an independent person.

POLICIES ADOPTED FOR THE INDUCTION AND TRAINING OF TRUSTEES

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

INTERNET WATCH FOUNDATION
(A company limited by guarantee)

TRUSTEES' REPORT (continued)
FOR THE YEAR ENDED 31 MARCH 2012

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.

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,
- Our welfare arrangements were reviewed by a Consultant Forensic Psychiatrist, who made a number of recommendations as to how they could be improved. These have been taken forward and a new welfare system will be put in place next year.
- Potential liabilities which have been indemnified through appropriate insurances,
- Information security, hardware and operational risks to comply with ISO 27001 standards,
- Property and assets where IWF has audited procedures in place.

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

OBJECTIVES AND ACTIVITIES

PUBLIC BENEFIT

The Charity's declared objects are the promotion of the care and protection of the health and welfare of the public, in particular children and young people, by working to minimise the availability of offences involving exposure to illegal content on the internet and the prevention of crime relating to offences involving exposure to illegal content on the internet. 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.

INTERNET WATCH FOUNDATION
(A company limited by guarantee)

TRUSTEES' REPORT (continued)
FOR THE YEAR ENDED 31 MARCH 2012

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
- 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 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

INTERNET WATCH FOUNDATION
(A company limited by guarantee)

TRUSTEES' REPORT (continued)
FOR THE YEAR ENDED 31 MARCH 2012

ACHIEVEMENTS AND PERFORMANCE

REVIEW OF ACTIVITIES

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

During 2011, the Hotline team processed 41,877 reports. 31% of these were assessed as containing criminal content. 90% of all reports made to the Hotline were believed to contain child sexual abuse images, and 35% were confirmed as such. There were 66 notices regarding 214 instances of child sexual abuse material on websites hosted in the UK, which were removed within hours. The IWF took action regarding 12,966 instances of publicly available child sexual abuse content around the world.

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

FINANCIAL REVIEW

RESERVES AND INVESTMENTS POLICY

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

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

The following principles remain relevant despite the current financial situation

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

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

Income for the financial year 2011/12 for IWF and IWL was healthy. 11 new Members and 2 licensees were recruited which led to predicted income being exceeded, despite 11 resignations and the merger of 2 companies.

Restricted reserves mainly represent the Safe to Go Grant, 40% of which is received in advance with the balance payable at the end of the funding period.

INTERNET WATCH FOUNDATION
(A company limited by guarantee)

TRUSTEES' REPORT (continued)
FOR THE YEAR ENDED 31 MARCH 2012

Expenditure for the year was within approved limits. Special projects were the acquisition of a new report management system (RMS), and a move to new premises. Both projects were achieved from designated funds and within approved budgets.

PRINCIPAL FUNDING

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

STRATEGIC PROGRAMME PLANS FOR THE FUTURE

The Board of Trustees approved a three year Strategic Plan for 2011-2014. The plan identifies the key activities in pursuance of our charitable objectives. This is the first year of the plan, and progress is reported twice yearly to the Board. With the commencement of a new Chair and new Chief Executive, the Strategic Plan was revisited and a new three year plan was developed for 2012-2015. During this year the risk process was redesigned, the KPIs changed and the Learning & Development strategy re-launched.

TRUSTEES' RESPONSIBILITIES STATEMENT

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

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

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

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

PROVISION OF INFORMATION TO AUDITORS

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

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

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

INTERNET WATCH FOUNDATION
(A company limited by guarantee)

TRUSTEES' REPORT (continued)
FOR THE YEAR ENDED 31 MARCH 2012

This report was approved by the Trustees on 17/7/12 and signed on their behalf, by

R.R. Tilt
Sir R Tilt 7/8/12

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 2012 set out on pages 10 to 24. The financial reporting framework that has been applied in their preparation is applicable law and the Financial Reporting Standard for Smaller Entities (effective April 2008) (United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities).

RESPECTIVE RESPONSIBILITIES OF TRUSTEES AND AUDITORS

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

We have been appointed as auditors under the Companies Act 2006 and section 151 of the Charities Act 2011 and report to you in accordance with those Acts. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

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

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent charitable company's affairs as at 31 March 2012 and of the group's incoming resources and application of resources, including its income and expenditure, for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities, and
- have been prepared in accordance with the requirements of the Companies Act 2006 and the Charities Act 2011.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

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

INTERNET WATCH FOUNDATION
(A company limited by guarantee)

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF INTERNET WATCH FOUNDATION

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 and the Charities Act 2011 requires us to report to you if, in our opinion

- the parent charitable company has not kept adequate and sufficient accounting records, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent charitable company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of trustees' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit, or
- the Trustees were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption in preparing the Trustees' report

Judith Coplowe (senior statutory auditor)

for and on behalf of

Peters Elworthy & Moore

Chartered Accountants
Statutory Auditors

Salisbury House
Station Road
Cambridge
CB1 2LA
29 August 2012

Peters Elworthy & Moore are eligible to act as auditors in terms of section 1212 of the Companies Act 2006

INTERNET WATCH FOUNDATION
(A company limited by guarantee)

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES
(incorporating income and expenditure account)
FOR THE YEAR ENDED 31 MARCH 2012

	Note	Restricted funds 2012 £	Unrestricted funds 2012 £	Total funds 2012 £	Total funds 2011 £
INCOMING RESOURCES					
Incoming resources from generated funds					
Voluntary income	2	-	25,373	25,373	28,764
Investment income	3	-	17,583	17,583	11,963
Incoming resources from charitable activities	4	209,697	1,018,715	1,228,412	1,487,548
Other incoming resources	5	-	-	-	61,313
TOTAL INCOMING RESOURCES		209,697	1,061,671	1,271,368	1,589,588
RESOURCES EXPENDED					
Charitable activities	6	429,569	821,465	1,251,034	1,054,057
Governance costs	7	-	156,001	156,001	71,036
TOTAL RESOURCES EXPENDED	8	429,569	977,466	1,407,035	1,125,093
MOVEMENT IN TOTAL FUNDS FOR THE YEAR - NET INCOME/(EXPENDITURE) FOR THE YEAR		(219,872)	84,205	(135,667)	464,495
Total funds at 1 April 2011		219,872	1,116,702	1,336,574	872,079
TOTAL FUNDS AT 31 MARCH 2012		-	1,200,907	1,200,907	1,336,574

The notes on pages 13 to 24 form part of these financial statements

INTERNET WATCH FOUNDATION
(A company limited by guarantee)
REGISTERED NUMBER 03426366

CONSOLIDATED BALANCE SHEET
AS AT 31 MARCH 2012

	Note	£	2012 £	£	2011 £
FIXED ASSETS					
Tangible assets	11		130,078		79,477
CURRENT ASSETS					
Debtors	13	386,044		425,444	
Investments	14	934,451		1,085,785	
Cash at bank and in hand		117,073		116,407	
		<u>1,437,568</u>		<u>1,627,636</u>	
CREDITORS amounts falling due within one year	15	(366,739)		(370,539)	
NET CURRENT ASSETS			<u>1,070,829</u>		<u>1,257,097</u>
NET ASSETS			<u><u>1,200,907</u></u>		<u><u>1,336,574</u></u>
CHARITY FUNDS					
Restricted funds	17		-		219,872
Unrestricted funds	17		<u>1,200,907</u>		<u>1,116,702</u>
			<u><u>1,200,907</u></u>		<u><u>1,336,574</u></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 behalf, by

17/7/12

and signed on their

✓ Sir R. Tilt
16/10/12

Sir R Tilt

The notes on pages 13 to 24 form part of these financial statements

INTERNET WATCH FOUNDATION
(A company limited by guarantee)
REGISTERED NUMBER 03426366

COMPANY BALANCE SHEET
AS AT 31 MARCH 2012

	Note	£	2012 £	£	2011 £
FIXED ASSETS					
Tangible assets	11		130,078		79,477
Investments			2		2
			<u>130,080</u>		<u>79,479</u>
CURRENT ASSETS					
Debtors	13	444,052		497,313	
Investments	14	934,451		1,085,785	
Cash at bank and in hand		19,046		10,096	
		<u>1,397,549</u>		<u>1,593,194</u>	
CREDITORS amounts falling due within one year	15	(346,722)		(356,098)	
NET CURRENT ASSETS			<u>1,050,827</u>		<u>1,237,096</u>
NET ASSETS			<u>1,180,907</u>		<u>1,316,575</u>
CHARITY FUNDS					
Restricted funds	17		-		219,872
Unrestricted funds	17		1,180,907		1,096,703
			<u>1,180,907</u>		<u>1,316,575</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 behalf, by

17/7/12

and signed on their

Sir R Tilt

R.R. Tilt
26/8/12

The notes on pages 13 to 24 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 2012

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 2006.

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 408 of the Companies Act 2006 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 2012

1. ACCOUNTING POLICIES (continued)

1.5 INCOMING RESOURCES

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

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

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

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

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

1.6 RESOURCES EXPENDED

All expenditure is accounted for on an accruals basis.

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

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

1.7 TANGIBLE FIXED ASSETS AND DEPRECIATION

All assets costing more than £500 are capitalised.

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

Leasehold improvements	-	Over the life of the lease
Office equipment	-	33 33% straight line
Computer equipment	-	33 33% straight line
RMS	-	40% straight line

INTERNET WATCH FOUNDATION
(A company limited by guarantee)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012

1. ACCOUNTING POLICIES (continued)

1.8 INVESTMENTS

Investments are stated at market value at the balance sheet date. The statement of financial activities includes the net gains and losses arising on revaluations and disposals throughout the year.

Investments in subsidiaries are valued at cost less provision for impairment.

1.9 CURRENT ASSET INVESTMENTS

Current asset investments present cash deposits held.

1.10 OPERATING LEASES

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

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

1.11 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 consolidated statement of financial activities.

1.12 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 2012 £	Unrestricted funds 2012 £	Total funds 2012 £	Total funds 2011 £
Donations	-	25,373	25,373	28,764

INTERNET WATCH FOUNDATION
(A company limited by guarantee)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012

3. INVESTMENT INCOME

	Unrestricted funds 2012 £	Total funds 2012 £	Total funds 2011 £
Charitable parent company	17,575	17,575	11,955
Trading subsidiary	8	8	8
	<u>17,583</u>	<u>17,583</u>	<u>11,963</u>

4. INCOMING RESOURCES FROM CHARITABLE ACTIVITIES

	2012 £	2011 £
Subscription fee income	866,758	819,549
EU grant income	209,697	506,681
IWL income	151,957	161,318
Total	<u>1,228,412</u>	<u>1,487,548</u>

5. OTHER INCOMING RESOURCES

	Restricted funds 2012 £	Unrestricted funds 2012 £	Total funds 2012 £	Total funds 2011 £
Foreign exchange gain	-	-	-	61,313

INTERNET WATCH FOUNDATION
(A company limited by guarantee)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012

6. CHARITABLE ACTIVITIES

Charitable activities are analysed as follows

	Internet Watch £	Total 2012 £	Total 2011 £
Systems and communications	243,146	243,146	182,818
Premises	93,198	93,198	59,283
Finance and administration	85,008	85,008	58,082
Recruitment	25,620	25,620	12,343
Other staff costs	34,613	34,613	17,223
Wages and salaries	628,039	628,039	634,032
National insurance	53,400	53,400	57,786
Pension cost	32,535	32,535	23,925
Depreciation	55,475	55,475	8,565
	<u>1,251,034</u>	<u>1,251,034</u>	<u>1,054,057</u>

7. GOVERNANCE COSTS

	Unrestricted funds 2012 £	Total funds 2012 £	Total funds 2011 £
Auditors' remuneration	5,145	5,145	5,145
Auditors' non audit costs	5,636	5,636	5,046
Costs of trustees' meetings	27,933	27,933	21,051
Governance review	9,500	9,500	-
Recruitment - Trustee and New Chair	60,955	60,955	-
Funding Council secretariat costs	21,200	21,200	17,800
Chair's fees	20,000	20,000	20,000
Trustee training	5,632	5,632	1,994
	<u>156,001</u>	<u>156,001</u>	<u>71,036</u>

8. ANALYSIS OF RESOURCES EXPENDED BY EXPENDITURE TYPE

	Staff costs 2012 £	Depreciation 2012 £	Other costs 2012 £	Total 2012 £	Total 2011 £
Cost of Charitable Activities	713,974	55,475	481,585	1,251,034	1,054,057
Governance	-	-	156,001	156,001	71,036
	<u>713,974</u>	<u>55,475</u>	<u>637,586</u>	<u>1,407,035</u>	<u>1,125,093</u>

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FOR THE YEAR ENDED 31 MARCH 2012

9. NET INCOME / (EXPENDITURE)

This is stated after charging

	2012	2011
	£	£
Depreciation of tangible fixed assets		
- owned by the charitable group	55,475	8,565
Auditors' remuneration	5,145	5,145
Auditors' remuneration - non-audit	5,636	5,046
Pension costs	32,535	23,925
	<hr/> <hr/>	<hr/> <hr/>

The 2 (2011 - 1) Chairs in office during the year received £20,000 (2011 - £20,000) in respect of their duties in this office. This sum is included within Governance Costs.

Section 6 of the Memorandum of Association of Internet Watch Foundation permits payments to a maximum of three trustees attending each board meeting. During the year, a total of 3 (2011 - 3) trustees were paid in respect of their duties and these amounted to a total of £5,700 (2011 - £7,200).

5 (2011 - 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 £7,500 (2011 - £8,400).

8 (2011 - 6) trustees received reimbursements of expenses amounting to £5,418 (2011 - £3,901). At 31 March 2012, £NIL (2011 - £NIL) was outstanding to any trustees.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012

10 STAFF COSTS

Staff costs were as follows

	2012	2011
	£	£
Wages and salaries	628,039	634,032
Social security costs	53,400	57,786
Other pension costs	32,535	23,925
	<u>713,974</u>	<u>715,743</u>

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

	2012	2011
	No.	No
Charitable activities	<u>18</u>	<u>17</u>

The number of higher paid employees was

	2012	2011
	No.	No
In the band £60,001 - £70,000	2	1
In the band £70,001 - £80,000	1	0
In the band £80,001 - £90,000	1	0
In the band £110,000 - £120,000	0	1
	<u>4</u>	<u>2</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012**

11. TANGIBLE FIXED ASSETS

GROUP	Leasehold Improvements £	Office equipment £	Computer equipment £	Total £
COST				
At 1 April 2011	-	36,383	239,036	275,419
Additions	97,735	-	8,341	106,076
Disposals	-	(19,303)	(151,013)	(170,316)
At 31 March 2012	97,735	17,080	96,364	211,179
DEPRECIATION				
At 1 April 2011	-	36,131	159,811	195,942
Charge for the year	27,149	128	28,198	55,475
On disposals	-	(19,303)	(151,013)	(170,316)
At 31 March 2012	27,149	16,956	36,996	81,101
NET BOOK VALUE				
At 31 March 2012	70,586	124	59,368	130,078
At 31 March 2011	-	252	79,225	79,477
COMPANY				
COST				
At 1 April 2011	-	23,582	215,183	238,765
Additions	97,735	-	8,341	106,076
Disposals	-	(10,935)	(127,160)	(138,095)
At 31 March 2012	97,735	12,647	96,364	206,746
DEPRECIATION				
At 1 April 2011	-	23,330	135,958	159,288
Charge for the year	27,149	128	28,198	55,475
On disposals	-	(10,935)	(127,160)	(138,095)
At 31 March 2012	27,149	12,523	36,996	76,668
NET BOOK VALUE				
At 31 March 2012	70,586	124	59,368	130,078
At 31 March 2011	-	252	79,225	79,477

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12. INVESTMENT IN TRADING SUBSIDIARY

The principal activity of the company is to undertake trading activities on behalf of Internet Watch Foundation, its parent charity, which are considered to be compatible with its aims and charitable objectives. During the year ended 31 March 2012, its income was derived from licensees that pay the usage fee when they incorporate the IWF URL list into their products(s) for filtering access to websites. Income was derived from the same sources during the year ended 31st March 2011.

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:

	2012 £	2011 £
Turnover	151,957	161,318
Administrative expenses	(12,171)	(15,284)
Deed of covenant payable to parent charity	(139,794)	(146,042)
	<u>(8)</u>	<u>(8)</u>
Operating (loss)	8	8
Interest receivable	<u>-</u>	<u>-</u>
Retained in subsidiary	<u><u>-</u></u>	<u><u>-</u></u>
 Balance Sheet		
Current assets	182,064	182,733
Current liabilities	(162,062)	(162,731)
	<u>20,002</u>	<u>20,002</u>
Net Assets	<u>20,002</u>	<u>20,002</u>
	<u>20,002</u>	<u>20,002</u>
Share capital and reserves	<u><u>20,002</u></u>	<u><u>20,002</u></u>

13. DEBTORS

	GROUP		COMPANY	
	2012 £	2011 £	2012 £	2011 £
Trade debtors	60,275	42,492	43,245	24,898
Amounts owed by group undertakings	-	-	142,045	148,292
Prepayments and accrued income	325,769	382,952	258,762	324,123
	<u>386,044</u>	<u>425,444</u>	<u>444,052</u>	<u>497,313</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012**

14. CURRENT ASSET INVESTMENTS

	GROUP		COMPANY	
	2012	2011	2012	2011
	£	£	£	£
Short term deposits	934,451	1,085,785	934,451	1,085,785

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

	GROUP		COMPANY	
	2012	2011	2012	2011
	£	£	£	£
Trade creditors	77,696	81,508	77,699	81,509
Social security and other taxes	27,524	22,313	24,524	20,313
Accruals and deferred income	261,519	266,718	244,499	254,276
	366,739	370,539	346,722	356,098

16. ANALYSIS OF NET ASSETS BETWEEN FUNDS

	Restricted funds 2012 £	Unrestricted funds 2012 £	Total funds 2012 £	Total funds 2011 £
Tangible fixed assets	-	130,078	130,078	79,477
Current assets	-	1,437,568	1,437,568	1,627,636
Creditors due within one year	-	(366,739)	(366,739)	(370,539)
	-	1,200,907	1,200,907	1,336,574

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012**

17 STATEMENT OF FUNDS

	Brought Forward £	Incoming resources £	Resources Expended £	Transfers in/out £	Carried Forward £
DESIGNATED FUNDS					
RMS Fund	75,060	-	(17,980)	(15,127)	41,953
Office Move Fund	101,000	-	(54,615)	24,201	70,586
	<u>176,060</u>	<u>-</u>	<u>(72,595)</u>	<u>9,074</u>	<u>112,539</u>
GENERAL FUNDS					
General Funds - all funds	920,640	909,706	(892,700)	130,720	1,068,366
Subsidiary company	20,002	151,965	(12,171)	(139,794)	20,002
	<u>940,642</u>	<u>1,061,671</u>	<u>(904,871)</u>	<u>(9,074)</u>	<u>1,088,368</u>
Total Unrestricted funds	<u>1,116,702</u>	<u>1,061,671</u>	<u>(977,466)</u>	<u>-</u>	<u>1,200,907</u>
RESTRICTED FUNDS					
NOMINET Grant	18,501	-	(18,501)	-	-
Safe to Go Grant	201,371	209,697	(411,068)	-	-
	<u>219,872</u>	<u>209,697</u>	<u>(429,569)</u>	<u>-</u>	<u>-</u>
Total of funds	<u>1,336,574</u>	<u>1,271,368</u>	<u>(1,407,035)</u>	<u>-</u>	<u>1,200,907</u>

NOMINET Grant Fund	This fund 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. This grant ended in April 2011.
Safe to Go Grant Fund	This fund represents a grant from the European Union, covering an 18 month period from 1 January 2011 with 40% of the monies due paid in advance with the balance payable on submission of the final claim. This is in respect of assistance in meeting the costs of running the Hotline.
RMS Fund	This designated fund was established to provide funds in order to purchase a new RMS system. The expenditure in the year relates to the depreciation charged on the RMS III system.
Office Move Fund	This designated fund was established to provide funds for the office move that occurred in the year. The remaining balance represents the net book value of the leasehold improvements at 31 March 2012.

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NOTES TO THE FINANCIAL STATEMENTS
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18. PENSION COMMITMENTS

The group operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The pension cost charge represents contributions payable by the group to the fund and amounted to £32,535 (2011 - £23,925). No amounts were outstanding at the period end (2011 - £NIL).

19. OPERATING LEASE COMMITMENTS

At 31 March 2012 the Group had annual commitments under non-cancellable operating leases as follows

	Land and buildings			Other
	2012	2011	2012	2011
GROUP AND COMPANY	£	£	£	£
EXPIRY DATE:				
Within 1 year	-	19,413	-	-
Between 2 and 5 years	54,081	-	1,068	-

20. 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 2012 by Internet Watch Limited amounted to £142,045 (2011 - £148,292), representing the balance of the gift aid payment, the annual management charge and the annual licence fee.