

**Internet Watch Foundation**  
**Financial Statements**  
**for the year ended 31 March 2005**

# Internet Watch Foundation

## Officers and Professional Advisers

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### **Directors & Trustees**

Mr R. A. Darlington (Chairman)  
Mrs C. Atkinson  
Dr M. Elliot  
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

### **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 2005**

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The Trustees present their report and financial statements for the year ended 31 March 2005.

**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:

Mr R. A. Darlington (Chairman)  
Mrs C. Atkinson  
Dr M. Elliot  
Mr M. J. Gracey  
Mr H. Lamb (resigned 31 December 2004)  
Professor S. M. Livingstone  
Mr H. MacLeod  
Mrs G. J. Palmer  
Mr J. M. Reynolds  
Mr N. Truman (appointed 1 January 2005)  
Dr I. N. Walden

**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.
- criminally racist content hosted in the UK.

**Trustees' Report (*continued*)****Year ended 31 March 2005**

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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 racist 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 racist content
- passing details of reports relating to potential 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 illegal online content. If the 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 2004, 17255 reports were received by the Hotline, 12% fewer than the previous year. 3438 of the reports identified illegal content, a rise of 17% on the previous year. The successful policies with regard to illegal content hosted in Usenet newsgroups have been maintained and most major UK ISPs are developing or examining how they can apply IWF's database to block illegal content. Expenditure on raising the profile of IWF has increased during 2004 in order to ensure that the public are aware of IWF's role and how to report illegal content. The Corporate Plan for 2004/5 mapped out all the planned activities and developments and the 2005/6 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 2005**

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**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 2004/5, IWF operated a group reserves policy. However in 2005/06, it is the Board's intention, bearing in mind existing trading conditions, to covenant 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.

**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 BS7799
- Property and assets where IWF has audited procedures in place

IWF will establish a procedure for reporting risk analysis to the Board of Trustees and periodically review the risk analysis process 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: 21 December 2005**

**Independent Auditors' Report to the Trustees****Year ended 31 March 2005**

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We have audited the financial statements of Internet Watch Foundation for the year ended 31 March 2005 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.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 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 United Kingdom Auditing Standards 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**

**Year ended 31 March 2005**

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**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Charity and the group as at 31 March 2005 and of its incoming resources and application of resources including the income and expenditure, of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**PETERS ELWORTHY & MOORE**  
**Chartered Accountants and**  
**Registered Auditor**

**CAMBRIDGE**

**Date: 13 January 2006**

## Consolidated Statement of Financial Activities

Year ended 31 March 2005

	Notes	2005 £	2004 £
<b>Incoming Resources</b>			
Activities to further the Charity's objects			
Subscription and grant income - trading subsidiary	5	875,914	699,477
Investment income and interest – trading subsidiary	5	5,529	859
<b>Total incoming resources</b>		881,443	700,336
<b>Resources expended</b>			
Charitable expenditure			
Costs of trading subsidiary		735,234	563,392
<b>Total resources expended</b>	<b>2, 3</b>	735,234	563,392
<b>Net incoming resources for the year</b>		146,209	136,944
Fund balances brought forward at 1 April 2004		186,617	49,673
<b>Fund balances carried forward at 31 March 2005</b>		332,826	186,617

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 2005

	Notes	Consolidated		Parent Charity	
		2005	2004	2005	2004
		£	£	£	£
<b>Fixed Assets</b>					
Tangible fixed assets	4	18,547	23,576	-	-
Investment in trading subsidiary	5	-	-	2	2
		<u>18,547</u>	<u>23,576</u>	<u>2</u>	<u>2</u>
<b>Current Assets</b>					
Debtors	6	235,728	82,159	164,185	-
Cash at bank and in hand		338,931	255,949	-	-
		<u>574,659</u>	<u>338,108</u>	<u>164,185</u>	<u>-</u>
<b>Creditors: amounts due within one year</b>	7	<u>260,380</u>	<u>172,023</u>	<u>1,252</u>	<u>2</u>
<b>Net current assets/(liabilities)</b>		<u>314,279</u>	<u>166,085</u>	<u>162,933</u>	<u>(2)</u>
<b>Total Assets Less Current Liabilities</b>		<u>332,826</u>	<u>189,661</u>	<u>162,935</u>	<u>-</u>
<b>Provision for Liabilities and Charges</b>					
Deferred taxation		-	3,044	-	-
<b>Net Assets</b>		<u>332,826</u>	<u>186,617</u>	<u>162,935</u>	<u>-</u>
<b>Represented by:</b>					
<b>Funds</b>					
General Fund		<u>332,826</u>	<u>186,617</u>	<u>162,935</u>	<u>-</u>
<b>Total funds</b>		<u>332,826</u>	<u>186,617</u>	<u>162,935</u>	<u>-</u>

Approved by the Board on 2<sup>nd</sup> December 2005 and signed on its behalf by:Mr R A Darlington  
Chair

Date: 21 December 2005

The attached notes form part of these financial statements.

**Notes to the Financial Statements****Year ended 31 March 2005**

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**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 by Charities" (issued October 2000) and applicable accounting standards.

**Group accounts**

These financial statements consolidate the results of the Charity and its wholly owned subsidiary Internet Watch Foundation 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 paragraph 304 of SORP.

**Fund accounting**

All income is classified within general funds which, are available for use at the discretion of the Trustees in furtherance of the general objective of the Charity.

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
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**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.

## Notes to the Financial Statements

Year ended 31 March 2005

**2 Net Incoming Resources is stated after charging:**

	<b>2005</b>	<b>2004</b>
	<b>£</b>	<b>£</b>
Auditors' remuneration		
- Audit fee	2,485	1,985
	<u>2,485</u>	<u>1,985</u>

**3 Total Resources Expended**

	<b>Staff costs</b>	<b>Depreciation</b>	<b>Other costs</b>	<b>Total</b>	<b>2004</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Cost of non-charitable trading	406,369	16,425	312,440	735,234	563,392
	<u>406,369</u>	<u>16,425</u>	<u>312,440</u>	<u>735,234</u>	<u>563,392</u>

**Staff costs**

	<b>2005</b>	<b>2004</b>
	<b>£</b>	<b>£</b>
Wages and salaries	361,864	263,928
Social Security costs	44,505	28,735
	<u>406,369</u>	<u>292,663</u>

The number of employees whose emoluments as defined for taxation purposes amounted to over £50,000 in the year was 1 (2004 – 1).

The average number of employees analysed by function was:

	<b>2005</b>	<b>2004</b>
	<b>Number</b>	<b>Number</b>
Trading subsidiary	14	13
	<u>14</u>	<u>13</u>

**Trustees**

The Chairman received £27,038 from the trading subsidiary company during the year in respect of his duties in this office (2004 - £nil). Two trustees were paid attendance allowances during the year in respect of their duties and these amounted to a total of £1700 (2004 - £nil). Section 6 of the Memorandum of Association of the Internet Watch Foundation permits such payments.

## Notes to the Financial Statements

Year ended 31 March 2005

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**4 Tangible Fixed Assets - Consolidated**

	<b>Plant, Machinery and Other Assets £</b>
<b>Cost</b>	
At 1 April 2004	69,483
Additions	11,396
<b>At 31 March 2005</b>	<hr/> 80,879 <hr/>
<b>Depreciation</b>	
At 1 April 2004	45,907
Charge for the year	16,425
<b>At 31 March 2005</b>	<hr/> 62,332 <hr/>
<b>Net Book Value</b>	
<b>At 31 March 2005</b>	<hr/> 18,547 <hr/>
At 31 March 2004	<hr/> 23,576 <hr/>

## Notes to the Financial Statements

Year ended 31 March 2005

**5 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 2005. 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:

	<b>2005</b>	<b>2004</b>
	<b>£</b>	<b>£</b>
Turnover	871,421	691,722
Administrative expenses	(737,028)	(530,146)
Deed of covenant payable to parent charity	(164,185)	-
Other operating income	4,493	7,755
<b>Operating (loss) / profit</b>	<b>(25,299)</b>	<b>169,331</b>
Interest receivable	5,529	859
<b>(Loss) / profit on ordinary activities before taxation</b>	<b>(19,770)</b>	<b>170,190</b>
Tax on (loss) / profit on ordinary activities	(3,044)	33,246
<b>(Loss) / profit on ordinary activities after taxation</b>	<b>(16,726)</b>	<b>136,944</b>
Retained profit brought forward	186,617	49,673
<b>Retained profit carried forward</b>	<b>169,891</b>	<b>186,617</b>
<b>Balance Sheet</b>		
Fixed assets	18,547	23,576
Current assets	574,661	338,110
Current liabilities	(423,315)	(172,023)
Provisions for liabilities and charges	-	(3,044)
<b>Net assets</b>	<b>169,893</b>	<b>186,619</b>
<b>Share capital and reserves</b>	<b>169,893</b>	<b>186,619</b>

## Notes to the Financial Statements

Year ended 31 March 2005

6	Debtors	Consolidated		Parent Charity	
		2005	2004	2005	2004
		£	£	£	£
	Trade debtors	51,120	66,647	-	-
	VAT recoverable	5,961	12,408	-	-
	Other debtors	178,647	3,104	-	-
	Amounts due from group undertakings	-	-	164,185	-
		235,728	82,159	164,185	-
7	Creditors: amounts falling due within one year	Consolidated		Parent Charity	
		2005	2004	2005	2004
		£	£	£	£
	Trade creditors	85,833	48,745	-	-
	Corporation tax	-	30,202	-	-
	Other taxes and social security	13,073	-	-	-
	Other creditors	161,474	93,076	1,252	2
		260,380	172,023	1,252	2
8	Financial commitments	Consolidated		Parent Charity	
		2005	2004	2005	2004
		£	£	£	£
	<b>Capital commitments</b>				
	Authorised by the Trustees, but not contracted for	70,000	-	70,000	-
		70,000	-	70,000	-
9	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 their size with subscription levels ranging between £500 and up to £40,000.			