



IWF
Internet
Watch
Foundation

**Trustees' Report & Financial Statements
For the year ended 31 March 2017**



Internet Watch Foundation

An incorporated charity, limited by guarantee.
Registered in England.
Charity No. 1112398
Company Reg. 3426366
Registered office: Discovery House, Vision Park, Chivers Way,
Histon, Cambridge CB24 9ZR, UK

Contents

| | |
|---|----|
| Our Members..... | 4 |
| Welcome..... | 6 |
| Chair’s Foreword..... | 7 |
| Funding Council Chair’s Foreword..... | 8 |
| Caring for our staff..... | 9 |
| Senior Management Personnel..... | 10 |
| Reference and administrative details..... | 12 |
| Trustees’ Report | |
| Objectives & Activities..... | 13 |
| Financial Review..... | 17 |
| IWF 2016-2020 Strategy..... | 18 |
| Structure, governance and management..... | 20 |
| Governance and Our Board of Trustees..... | 24 |
| Independent Auditors’ Report..... | 28 |
| Consolidated statement of financial activities..... | 31 |
| Consolidated balance sheet..... | 32 |
| Charitable company balance sheet..... | 33 |
| Consolidated statement of cash flows..... | 34 |
| Notes to the financial statements..... | 35 |



The Rt Hon Amber Rudd

Home Secretary

“In celebrating its 20th anniversary the IWF’s mission is as important as ever in delivering a real world impact against those making and sharing images showing the sexual abuse of children.

It’s a sobering fact that every nine minutes, in the course of their work, the IWF’s analysts encounter a webpage which shows children being sexually abused. A huge debt of gratitude is owed to these committed individuals who carry out this unenviable task. The IWF brings together law enforcement and industry to facilitate the removal of webpages containing child sexual abuse imagery and this work continues to have a real effect in stopping the re-victimisation of those who have been abused.

This is a global crime which requires a global response and the IWF has been at the centre of a ground-breaking piece of work providing industry with hashes - digital fingerprints - of known abuse images which originate from UK law enforcement’s Child Abuse Image Database (CAID).

So far, around 35,000 hashes have been shared leading to webpages containing child sexual abuse imagery being blocked or removed.

The IWF is a critical player in the WePROTECT Global Alliance to end child sexual exploitation online. I think we can all be proud that other countries look to the IWF as a model of good practice for their own reporting hotlines.”

Home Secretary, The Rt Hon Amber Rudd MP

Our Members





Welcome

Susie Hargreaves OBE, CEO & Company Secretary

Every five minutes we assess a webpage.

Every nine minutes that webpage shows a child being sexually abused.

Through the support of our Members, who are international internet companies and our collaboration with 51 hotlines in 45 countries, and law enforcement partners globally, we excel in finding and removing child sexual abuse images and videos wherever they are hosted.

It's vital that we all acknowledge that the children in these horrific pictures and videos are real. Not only are they robbed of their childhood but knowing that their suffering has been captured and shared online can haunt a victim for life. This is why we are committed to doing whatever we can to eliminate these images even if we have to do it one

image, or one video, at a time, because every time we remove an image we stop that child from being revictimised.

Internet companies are constantly being asked to demonstrate their leadership by creating a safer online world. Our Members fund our hotline and also use our unique technical services to make sure their networks are safer. By working hand in hand with us, they make it harder for criminals to share, host and sell images of children being sexually abused.

Representing the IWF as CEO continues to be a huge privilege, working with a team of real life super-heroes who are not just highly trained and excel at what they do, but genuinely care about doing everything they can to eliminate online child sexual abuse imagery.

Chair's Foreword

Sir Richard Tilt, Chair

I was proud to Chair the IWF as it celebrated its 20th anniversary. Since it started, the IWF has established itself as the global experts at tackling child sexual abuse images on the internet, wherever they are hosted in the world. The IWF offers a safe and anonymous place for anyone to report these images and videos.

2016 was important as it marked the global launch of the IWF brand. Our headquarters is in Cambridge, UK, with IWF reporting portals based in 16 countries.

I have never failed to be impressed about how the IWF seeks to improve its performance year on year in the fight to eliminate online child sexual abuse imagery. This is achieved by use of the latest technology to develop services to fight the problem and by expanding our

geographical reach across the globe. This can only be done by working hand in hand with our partners, from industry to law enforcement to government and most importantly the public who generally share with us a zero-tolerance approach to this issue.

An example of this is that a major focus of our work in 2016 was the development of the IWF Hash List. This is a list of digital fingerprints of images of children being sexually abused which is used to stop these images being uploaded in the first place and to search for duplicates. To develop the list, the team worked closely with law enforcement and the Home Office and assessed 293,818 individual images to create 122,972 quality assured unique images. This meant that our analysts reviewed 26,711 images each. The list continues to grow daily and in October the IWF won the

CloudHosting Awards Innovation of the Year 2016.

We also completed a major restructure of the Hotline including bringing all technology in-house and creating two new Quality Assurance Officer positions.

I must also pay tribute to the IWF staff, particularly our hotline team, a group of ordinary people doing an extraordinary job. These are the people who spend every single working day viewing and removing some of the worst images and videos imaginable and they do this because they believe passionately in our cause.

My term of office as Chair comes to an end in December 2017 after six challenging and thoroughly fulfilling years. I would like to wish my successor every success for the future.





Funding Council Chair's Foreword

Matthew Eltringham, Executive Editor, BBC

As newly elected chair of Funding Council it is my role to continue the great work of my predecessors, collaborating with fellow industry members in their support of the IWF. There are now more than 130 members from every sector of the industry who work with the IWF to tackle the issue of child sexual abuse material emerging on the internet.

The Funding Council is the forum where members come together to agree the rights and responsibilities we have in relation to the services we get from the IWF.

In essence our work falls into five key areas:

Firstly, we see our role as bringing industry together to consider policy issues around the elimination of internet images of child sexual abuse. We make sure we stay within the IWF remit and we work hard to achieve

consensus.

Secondly, we regulate ourselves using a procedure known as Notice and Takedown – it is part of our Code of Practice that every Full Member agrees to take down an image if notified by the IWF. We provide [best practice recommendations](#) for [splash pages](#), [self-certification](#) and how we structure our funding for the IWF as well as a host of other measures to regulate our corporate behaviour in relation to the IWF's efforts.

Thirdly, we provide three representatives to the IWF Board of Trustees thereby an important channel of communication through which the Funding Council, the Board and the IWF can collaborate on matters of policy and oversight. By sharing good governance practices we ensure that checks and balances operate effectively, particularly where there is pressure from external

influences.

Fourthly, we help the IWF and the Board by providing examples of industry best practice and by contributing our experience to reports and consultations.

And finally, we help get the message across by publicising the Hotline and the work of the IWF to internal and external customers and stakeholders.

Since its foundation in 1996 the landscape in which the IWF operates has changed dramatically – and there is no doubt it will continue to do so. Funding, government policy and emerging technologies will all raise challenges for the IWF.

What won't change though is our commitment to the fight against the spread of child sexual abuse imagery on the internet.

Caring for our staff

Heidi Kempster, Director of Business Affairs

Heidi leads our recruitment and welfare programme.

People who want to be IWF analysts come from all walks of life and span a broad age range. We have a gold standard, and regularly reviewed, welfare system in place to support these exceptional people.

Every analyst applicant has a personal interview with two trained counsellors. This delves into candidates' personal lives, their views and their support networks. If successful, this is followed up with a 'normal' job interview. We then show candidates progressively extreme or criminal content. They can stop the process at any time. After this, we ask them to take time to carefully consider if they can do the job.

Every staff member, whether they work as an analyst or not,

undergoes an enhanced criminal background check and we check again every three months.

New analysts go through a specially developed training programme to help them mentally process and cope with exposure to abusive images. During the working day, all analysts take regular, timetabled breaks. Every month, they attend compulsory individual counselling sessions. All employees who see content have an annual full psychological assessment and we offer counselling support to all our employees.



Senior Management Team



Susie Hargreaves OBE

CEO



Susie has worked in the charity sector for more than 25 years in a range of senior positions.

Susie is a Clore Fellow and was a finalist for a European Woman of Achievement Award in 2004 and PA Magazine’s ‘Best Boss of 2014’. She was awarded an OBE in the Queen’s Birthday Honours in 2016 for ‘Services to Child Online Safety’.

Susie is a Director in the UK Safer Internet Centre, a Board member at the UK Concil for Child Internet Safety, a member of the International Advisory Board of WeProtect, and sits on [several other Boards and working groups](#).

Fred Langford

Deputy CEO



Fred has over 25 years’ experience in the internet industry gained through positions with internet service providers, the Ministry of Defence and the US Air Force prior to joining the IWF.

Fred has been instrumental in the design and delivery of IWF services to industry that are utilised globally to ensure access to illegal child sexual abuse material is disrupted and minimised.

Fred is Chair of the UK Council for Child Internet Safety Technical Working Group and a member of [several Boards and working groups](#).

Heidi Kempster

Director of Business Affairs



Heidi is responsible for all finance, HR and quality assurance functions, including managing the welfare programme for staff, business strategy and managing performance and risk.

Heidi started her career in Local Government Finance and has worked in a number of positions and departments, including education, audit and property. Before joining IWF she was part of the Senior Management Team of two large academy schools, managing a large team of staff in finance, administrative, and HR functions.

Emma Hardy

Director of External Relations



Emma is responsible for the media relations, marketing and membership of the IWF as well as engaging with communications teams in member companies and stakeholder organisations.

She has a Multi-Media Journalism degree, is a qualified senior reporter and holds a Public Relations Diploma from the Chartered Institute of Public Relations (CIPR), where she is an Accredited Member.

Kristof Claesen

Director of Public Affairs



Kristof is responsible for delivering IWF’s public affairs strategy. Kristof takes part in various policy platforms at UK, EU and international level and represents the IWF among national and international decision makers. He is a regular speaker at conferences and events relevant for the IWF.

Kristof holds several Master degrees in political studies. He has experience in working at the European Commission and for a public affairs consultancy.





Reference and administrative details

| | |
|-------------------------------|--|
| Charity Registration Number | 1112398 |
| Company Registration Number | 03426366 |
| Principal / Registered Office | Discovery House Chivers Way Histon Cambridge CB24 9ZR |
| Independent Auditors | Price Bailey LLP Chartered Accountants & Statutory Auditors Tennyson House Cambridge Business Park Cambridge CB4 0WZ |
| Bankers | Barclays Bank Plc Mortlock House Vision Park Cambridge CB24 9DE |

Trustees’ Report - Objectives & Activities

The Trustees present their report and the audited financial statements of the charity for the year ended 31 March 2017. The trustees have adopted the provisions of the Statement of Recommended Practice (SORP) “Accounting and Reporting by Charities” (FRS 102) in preparing the annual report and financial statements of the charity.

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 use its expertise to work with partners to:

- Disrupt the availability of child sexual abuse content hosted anywhere in the world

- Protect children who are victims of sexual abuse from repeat victimisation and public identification.
- Prevent internet users from accidentally stumbling across child sexual abuse content
- Delete criminally obscene adult, and non-photographic child sexual abuse content hosted in the UK.

To make the internet free of child sexual abuse images by:

- Providing world renowned and trusted Hotline services;
- Researching emerging technological solutions and trends to be used to target the disruption and removal of images;
- Developing innovative tactics and services to minimise the global availability of child sexual abuse images and videos;
- Researching, analysing and disseminating relevant trends data;
- Working with partners to speed up the removal and to minimise the availability of child sexual abuse imagery globally;
- Using our intelligence to actively

seek out child sexual abuse content.

Keeping the UK internet free of criminally obscene adult content and non-photographic child sexual abuse images by:

- Providing an excellent and responsive national Hotline reporting service;
- Working with partners to ensure criminal content in the UK is taken down.

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, 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.

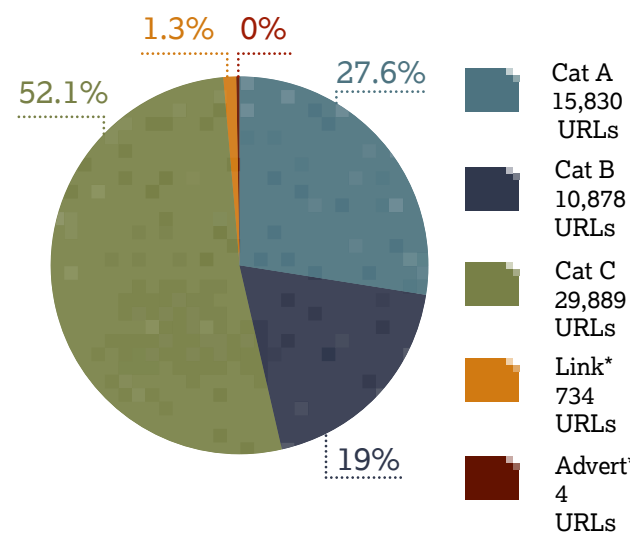


Trustees' Report - Objectives & Activities

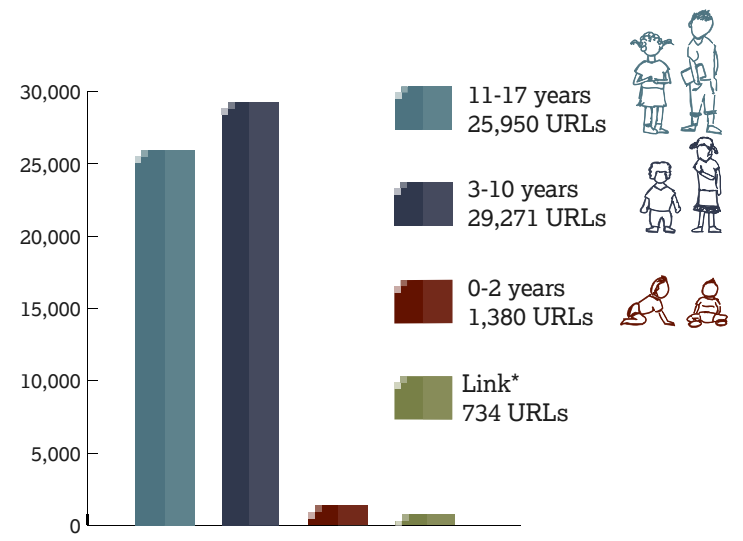
Achievements and Performance

In 2016 IWF assessed
57,335
reports as child sexual abuse webpages

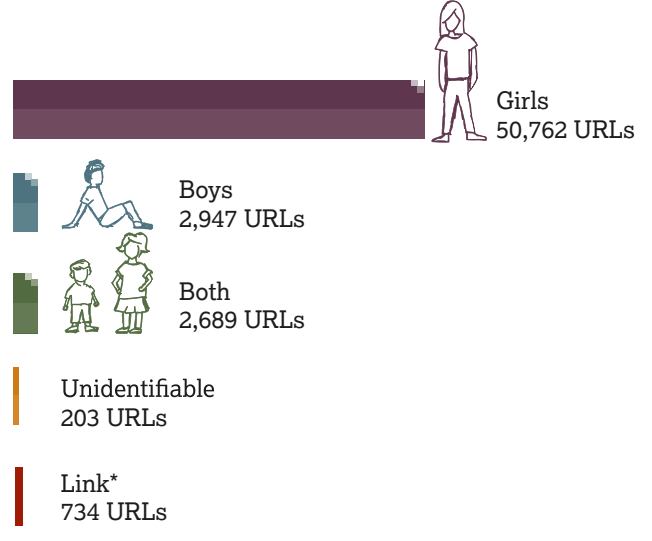
Severity of abuse



Ages of the children



Gender split of the abuse



| Category | Description |
|----------|--|
| A | Images involving penetrative sexual activity; images involving sexual activity with an animal or sadism. |
| B | Images involving non-penetrative sexual activity. |
| C | Other indecent images not falling within categories A or B. |

Link*: Link to child sexual abuse material
Advert*: Advert for child sexual abuse material

Trustees' Report - Objectives & Activities

Review of activities

As part of the IWF's commitment of constant improvement, we undertake a rolling programme looking at the trends, patterns and key developments on the internet. We also provide a range of unique services to industry to help them prevent the viewing and sharing of child sexual abuse images and videos. What follows is an example of our work. For a fuller breakdown visit our [annual report](#).

Research

We share our research findings with our sister hotlines, law enforcement and our Members to help disrupt the distribution of child sexual abuse imagery. We also act on any illegal content we find as part of our research activities.

Commercial child sexual abuse material

Of the 57,335 webpages we confirmed as containing child sexual abuse imagery in 2016, 5,452 (10%)

were commercial in nature (behind a payment wall) compared to 14,708 (21%) in 2015. This was a decrease of 62%.

Disguised websites

In 2016 we uncovered 1,572 examples of commercial child sexual abuse websites which only display this imagery when accessed by people following a 'digital pathway' of links, making it easier to hide the content. This was an increase of 112% on the 743 disguised websites identified in 2015.

Bitcoin payments for child sexual abuse

We have seen a gradual increase in Bitcoin being accepted by commercial distributors of child sexual abuse. In 2015 we identified 4 websites accepting Bitcoin. In 2016 this has risen to 42 websites.

Web brands

Our Website Brands Project started in 2009 and since then we have been tracking the different "brands"

of dedicated child sexual abuse websites. Since the project began we have identified 2,771 unique brands. In 2016, the most prolific group accounted for 27% of our total commercial child sexual abuse content reports.

Services:

Notice and Take down

The most effective way to eliminate online child sexual abuse content is to remove it at source. The UK is one of the most hostile territories in the world for hosting child sexual abuse imagery. In 2016 this figure was just 0.1% of the global total, down from 0.2% in 2015. When we started in 1996, that figure was 18%. In 2016 we sent 3 takedown notices to IWF Members and in each case the content was removed within 120 minutes. In one case, it took just six minutes.

URL List

We provide a list of webpages (URLs) with child sexual abuse





Trustees’ Report - Objectives & Activities

hosted outside the UK for internet companies to use to protect their customers. The list is updated twice a day and deployed by companies across the globe. In 2016, on average, 211 new URLs were added each day and the list contained an average of 1,951 URLs.

Hash List

Each image can be given a unique code, a ‘digital fingerprint’ which is called a “Hash”. The IWF list of hashes can be used to find duplicate images. In 2016 we assessed 293,818 individual images of which we added 122,972 to our Hash List. Of these hashes, 60,821 relate to the worst forms of abuse – images of rape and sexual torture.

Keywords List

Each month we give our Members a list of unique keywords that are used by people looking for child sexual abuse. In December 2016, the keywords list held 422 words. Our Members use this improve the quality of search returns to reduce the abuse of their networks.

Newgroups

The IWF is one of only a handful of hotlines in the world that deals with newsgroups and the two biggest global companies are Members. A newsgroup is an internet discussion group dedicated to a specific subject, sometimes known as ‘Usenet’. Whilst is generally regarded as “old” technology, we have seen a huge increase in newsgroups posting child sexual abuse content. In 2016 we removed 60,466 posts from public access. This was a 193% increase on the 2015 figure of 20,604. We recommended to our Members that they did not carry 305 newsgroups.

Financial Review

Income

Our principal funding is received via subscriptions from industry members and the European Union via their Safer Internet Programme.

While total income at £2,887k was in line with the previous year there was an increase in the value of membership subscriptions due to the full year effect of the changes in the membership funding model in introduced in 2014/15. At the end of 2016/17 the IWF had 128 members (2015/16 122). Retaining and developing membership is critical to being able to fund our activities.

We have also benefited from a grant from Google, £250k in each of the last three financial years, but this programme has now come to an end.

Expenditure on charitable activities

Our key objective is running the Hotline and removing illegal content.

With additional income we were able to increase the number of analysts and total expenditure of charitable activities at £2,539k represented an increase of 11% over the previous year

Reserves

IWF generated a surplus of £348k in 2016/17. As a result the Trustees have been able to designate funds of £200k to updating our IT infrastructure and to Membership development.

IWF’s policy is to maintain a level of reserves which takes into account unexpected changes in income or operations, fluctuations in cash flow, and the timescales and commitments in the event of winding up our operations. The Trustees deem it appropriate to maintain unrestricted general funds equivalent to 50% of the expected annual running costs of IWF.

Unrestricted general funds increased

by £263k to £1,931k at the end of the 2016/17 financial year, which is in line with our policy.

Reserves are invested to maintain their value to IWF, minimising risk and not specifically to generate ongoing income.

Investments

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

The following principles apply:

- 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;
- IWF will not look to hold

investments for the long term and no deposits will be made in offshore or overseas accounts.

- No deposits will be made in offshore or overseas accounts.

The Investment Policy is currently under review.

Going concern

After making appropriate enquiries, the trustees have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.



IWF 2016-2020 Strategy

Online child sexual abuse imagery is a global problem, which demands a global solution. The internet does not respect geographical borders, so we work in close cooperation with partners worldwide.

Our aims are to:

- eliminate child sexual abuse images and videos online
- help victims by removing their images of child sexual abuse from the internet
- help make the internet a safer place for children and adults to use.

We achieve this by:

- delivering the global standard for Hotlines as described in the IWF Hotline Manual in which we identify, assess, report and remove illegal child sexual abuse images and videos
- providing a global resource for anyone to securely and anonymously report child sexual abuse images and videos
- working closely with the internet industry worldwide, partnering with law enforcement agencies, governments, charities and other hotlines, in the fight against online child sexual abuse images and videos
- developing and using emerging technologies to improve the identification and removal of images and videos
- researching and analysing trends and data to help our Members and global policy makers combat child sexual abuse imagery online
- playing an active role in the UK Safer Internet Centre
- ensuring that we are open, transparent and accountable
- creating a safe and caring environment for all our staff.

We have a number of strategic objectives and these are supported by a detailed business plan with clear targets and key performance indicators. We also maintain a detailed Risk Register. As we are ISO27001 accredited, we have an annual audit to maintain this accreditation. Our Hotline is also audited on a biennial basis by an independent team chaired by Independent Inspector, Sir Mark Hedley, a High Court Judge.

The main focus of our future strategy is to deliver excellence in our core operations, particularly the hotline and the technical services we deliver. We also have a number of projects and here are two examples:

IWF International Reporting Portals

Many countries have nowhere to report online child sexual abuse imagery and cannot afford to set up their own hotline. The IWF offers them a low cost, sustainable option whereby we establish a locally-hosted reporting page which links

directly to the IWF Hotline in the UK where our analysts assess and take action as appropriate. To date we have set up 16 Portals including India, Uganda and the UK Overseas Territories. With a grant from the 'Global Fund to End Violence Against Children' we will be establishing a further 30 Portals in some of the least developed countries in the world by 2020.

Game On – an internet twist on sex & relationships

During the 2016/2017 football season, we worked closely with Everton FC on a pilot programme of workshops for young men aged 16-24 tackling sexual behaviour in the online world. In 2017 the pilot included a campaign in the stadium, called 'See it Report It', encouraging young men to report online child sexual abuse imagery. Following its success we plan to roll out the programme to other football and sporting clubs.





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, 23 September 2008 and 5 October 2010.

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 and 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.

Organisational structure and decision making

In order to facilitate a better understanding of issues and to enable more effective decision making, the Board operates an Audit Committee. The Audit Committee has no delegated power 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.

[IWF's organisational structure can be viewed here.](#)

Ethics Committee

The Ethics Committee is a sub-committee of the Board. It has delegated authority from the Board to consider the ethics of aspects of IWF's work, research, campaigning or policy development that the Board or Executive refer to it; and to offer guidance to the Board and the staff on matters that come before it. Mary Macleod OBE is the Independent Chair of the Committee.

In 2016 the Committee advised on a number of issues including proposing criteria for working with individual countries; appointment of an academic partner to undertake research into existing and potential performance indicators; and analysis of the benefits and risks of working more closely with the adult industry.

Remuneration of key management personnel

The key management personnel consist of the Trustees, the Chief

Executive Officer, the deputy Chief Executive Officer, the Director of Business Affairs, the Director of External Relations and the Director of Policy and Public Affairs. The Board undertakes regular reviews of salaries of key management personnel, drawing upon market data available for the charity sector, and will continue to monitor and review salaries of key management as necessary.

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 one (2016: 2) trustees were paid in respect of their duties, and the Chair was also remunerated for his role. Further details can be found in note 9 of these accounts.

Related party relationships

All major decisions are made by the Board of Trustees. The industry Members of the Charity are members



Structure, governance and management

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 and government departments in order to minimise the availability of the specific 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;
- Potential liabilities which have been indemnified through

appropriate insurances;

- Information security, hardware and operational risks to comply with ISO27001 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.

Statement of Trustees' Responsibilities

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

Company 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 of the incoming resources and application of resources, including the income and expenditure, of the charitable company 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 2015 (FRS 102);
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charitable company 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 company 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Trustees are responsible for the maintenance and integrity of the corporate and financial information included on the charitable company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditors


In so far as the Trustees are aware:

- there is no relevant audit information of which the charitable company's auditor is unaware; and
- the trustees have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The Board recommend to the AGM that the Price Bailey LLP should continue to be engaged as auditors for the forthcoming financial year.

This report has 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.

This report was approved by the Board on 03/10/17 and signed on its behalf by:


.....
Sir R Tilt



Governance

Our Board

Our Board of 11 Trustees comprises an Independent Chair, six independent Trustees, three industry Trustees and one co-opted Trustee.

The Board elects two Vice-Chairs, one from the Industry Trustees and one from the Independent Trustees. The Independent Trustee also carries out the role of Senior Independent Director. The Board monitors, reviews and directs the IWF's remit, strategy, policy, and budget to help us achieve our objectives.

All [IWF policies](#) are subject to approval by the Board of Trustees. All of our Members nominate representatives to a [Funding Council](#). The Funding Council elects three of its members to represent industry views on the Board. Our Independent Board members are chosen by an open selection procedure following national advertising. No Trustee may serve more than six years.

All our Trustees are subject to [IWF vetting policy](#) and their responsibilities are described in the [Board Members' Handbook](#).

We became a registered charity in December 2004 to improve our structure and accountability. In 2007, we engaged in an overhaul of our governance and consultation processes to ensure our Board of Trustees direct strategy in the best possible way and that other relevant stakeholder views are fairly represented. All of these processes are ongoing and consistent with maintaining our independent status.

Our governance arrangements are strengthened by a regular cycle of [Board meetings](#) and Executive meetings as well as an audit committee and an ethics committee reporting to the main Board. We continue to review and improve our governance and during 2009 we revised our constitutional documents in accordance with the provisions in the Companies and Charities Acts 2006. We regularly review and improve our governance documentation to ensure it meets current legislation and accurately reflects our independent status.

Sir Richard Tilt

Independent Chair



Sir Richard had a distinguished career in the prison service, retiring as Director General in 1999. The same year he was appointed a Knight Bachelor. He was a member of the Sentencing Advisory Panel, the Social Fund Commissioner for Great Britain and Northern Ireland (between 2000 and 2009), and has previously held Chair roles for NHS bodies, the Social Security Advisory Committee and the Portman Group's Independent Complaints Panel. Between 2001 and 2010, he was a Governor of De Montfort University.

Peter Neyroud CBE QPM

Independent Vice-Chair



Peter is a Lecturer in Evidence-based policing at the Institute of Criminology, University of Cambridge. He teaches and researches on evidence-based policing, after a 30 year career as a police officer in Hampshire, West Mercia, Thames Valley (as Chief Constable) and the National Policing Improvement Agency (as CEO). He has been a member of the Sentencing Guidelines Council, Parole Board, National Policing Board and National Criminal Justice Board. Throughout his career, he has worked tirelessly to reduce the harm caused by the sexual abuse of children.

Jonny Shipp

Industry Vice-Chair



Industry Vice-Chair from 2011 – 2016.

Jonny is Director of Public Affairs at Telefónica SA. Telefónica's support for the work of the IWF is an essential part of its strategy to connect and empower people across the 21 countries in Europe and Latin America in which it operates.

Jonny's term of office ended on 30 April 2016 and his role as Industry Vice-Chair has been taken over by Brian Webb.

Brian Webb

Industry Vice-Chair



Brian is Chief Security Officer for BT Consumer, EE and BT Group. A security leader with 30 years' experience across a range of security disciplines including Secure Design, Cyber Security, Crisis Management, International Travel Security, Criminal & Internal Enquiries and Anti-Bribery & Corruption Operations worldwide.

Helen Dent CBE

Independent Trustee



Helen's career has included lecturing in social policy, social work practitioner and management posts and then Director for Planning in health and social care at Cambridgeshire County Council. Helen has held a number of trustee posts in the voluntary sector and public appointments. She moved to the voluntary sector as Director of External Affairs at Action for Children and was then appointed Chief Executive at Family Action.

Helen was awarded CBE for services to Children and Families in 2010 New Year Honours.

Prof. Jonathan Drori CBE

Independent Trustee



Jon is Chairman of Ravensbourne College, Visiting Industrial Professor at Bristol University, specialising in educational technology and was Chairman of the UK Parliament's Advisory Council on Public Engagement. Jon was Director of Culture Online, a UK Government programme to use new technologies in the arts and Head of Commissioning for BBC Online.

Becky Foreman

Industry Trustee



Becky is UK Corporate Affairs Director for Microsoft where she leads the team responsible for delivering a regulatory and reputational environment in which the business can flourish. She is accountable for building and maintaining effective connections with policy-makers and influencers, making a contribution to Britain which meets the goals of both the business and society, improving the company's reputation among policy-makers and driving the business' wider policy goals.

Philip Geering

Independent Trustee



Philip is currently a Chair and panellist on a number of professional Regulatory and Disciplinary bodies, a Parole Board Member and he also sits on the Parole Board's Audit and Risk Committee. A Barrister, he joined the Crown Prosecution Service. Following a secondment to the Attorney General's Office, he became CPS Director of Policy and CPS Board member and later the Director of Strategy and Communications and Board member at the Independent Police Complaints Commission.

Uta Kohl

Co-opted Trustee



Uta was appointed as Human Rights co-opted Trustee in August 2014. She is a Senior Lecturer in law at Aberystwyth Law School. She's presented and published extensively on internet governance and regulation, including online child protection. Uta studied in Leipzig and Glasgow, before completing a BA/LLB at the University of Tasmania in Hobart. She obtained her PhD at the University of Canberra. She's also qualified as a Barrister and Solicitor of the Supreme Court of the Australian Capital Territory.

Jonathan Lea

Independent Trustee



Jonathan has wide international experience as a Finance Director in both the private and the not-for-profit sectors. He was previously the Group Finance Director of a FTSE 250 business, Coats Plc and CFO of the Waste and Resources Action Programme (WRAP). He is a Fellow of the Chartered Institute of Management Accountants. He is also Treasurer of the Galapagos Conservation Trust.

Jonathan is currently Chair of the IWF Audit Committee.

Katie O'Donovan

Industry Trustee



Katie is Public Policy Manager for Google responsible for economic and skills policy for the UK.

Prior to working at Google, Katie developed wide ranging experience, working in government and politics as a special advisor to Prime Minister Tony Blair and for David Miliband, in the corporate sector for Coca-Cola and at an online start-up establishing the press and policy team of Mumsnet.

Sue Pillar

Independent Trustee



Sue was the Director Volunteers Operations with Soldiers, Sailors, Airman and Families Association (SSAFA), a world-wide welfare charity supporting the Armed Forces, Veterans and their families. She was a serving army officer, retiring as Lieutenant Colonel, the Commanding Officer of 3 Military Intelligence Battalion. Commissioned from Sandhurst in 1994, Sue has served on operational tours across the globe.





Indpendent Auditors' Report to the Members and Trustees of Internet Watch Foundation

We have audited the financial statements of Internet Watch Foundation for the year ended 31 March 2017 which comprise the Group Statement of Financial Activities, the Group and the Parent Charitable Company Balance Sheet, the Group Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the charitable company's Members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and to the charitable company's Trustees, as a body, in accordance with regulations made under section 154 of the Charities Act 2011. Our audit work has been undertaken so

that we might state to the charitable company's Members and its Trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charitable company and the charitable company's Members and its Trustees as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Trustees and auditor

As explained more fully in the Trustees' Responsibilities Statement (set out on page 22), 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 auditor under the Companies Act 2006 and section 151 of the Charities Act 2011 and report 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 charitable 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2017, 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; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and the Charities Act 2011.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion based on the work undertaken in the course of the audit:

- the information given in the Trustees' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Trustees Report has been prepared in accordance with applicable legal requirements.

Cont. on page 30





Independent Auditors' Report to the Members and Trustees of Internet Watch Foundation

Matters on which we are required to report by exception

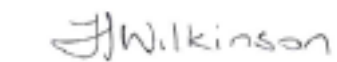
In the light of our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Trustees Report.

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.

- 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 directors' report and take advantage of the small companies exemption from the requirement to prepare a strategic report.


.....
Helena Wilkinson BSc FCA DChA
(Senior Statutory Auditor)

for and on behalf of
PRICE BAILEY LLP
Chartered Accountants
Statutory Auditors

Tennyson House
Cambridge Business Park
Cambridge
CB4 0WZ

Price Bailey LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006.

Date: 31/10/17

Internet Watch Foundation

Consolidated statement of financial activities (incl. income and expenditure account)

For the year ended 31 March 2017

| | | Note | Unrestricted £ | Restricted £ | 2017 Total £ | 2016 Total £ |
|---|--|------|--------------------|------------------|--------------------|--------------------|
| INCOME | | | | | | |
| Donations | | 2 | 1,030 | - | 1,030 | 11,040 |
| Charitable activities | | 3 | 2,288,256 | 587,553 | 2,875,809 | 2,866,080 |
| Other trading activities | | 4 | 8,283 | - | 8,283 | 5,287 |
| Investment income | | 5 | 2,176 | - | 2,176 | 2,949 |
| Total income | | | 2,299,745 | 587,553 | 2,887,298 | 2,885,356 |
| EXPENDITURE | | | | | | |
| Charitable activities | | 6 | (1,613,446) | (925,106) | (2,538,552) | (2,288,960) |
| Total expenditure | | | (1,613,446) | (925,106) | (2,538,552) | (2,288,960) |
| Net income / (expenditure) in the year | | | 686,299 | (337,553) | 348,746 | 596,396 |
| Transfer between funds | | 18a | (337,553) | 337,553 | - | - |
| Net movement in funds | | | 348,746 | - | 348,746 | 596,396 |
| Reconciliation of funds: | | | | | | |
| Total funds brought forward | | 18b | 1,782,686 | - | 1,782,686 | 1,186,290 |
| Total funds carried forward | | 18a | 2,131,432 | - | 2,131,432 | 1,782,686 |

All amounts relate to continuing activities of the company. The Statement of Financial Activities includes all gains and losses recognised in the year. The notes to the accounts are shown on pages 35 to 53.



| | Notes | 2017 £ | 2016 £ |
|--|-------|------------------|------------------|
| FIXED ASSETS | | | |
| Tangible fixed assets | 13a | 124,274 | 165,283 |
| TOTAL FIXED ASSETS | | 124,274 | 165,283 |
| CURRENT ASSETS | | | |
| Debtors | 15 | 914,103 | 922,809 |
| Investments - cash deposits | | 210,160 | 764,538 |
| Cash at bank and in hand | | 2,996,515 | 1,203,261 |
| TOTAL CURRENT ASSETS | | 4,120,778 | 2,890,608 |
| LIABILITIES | | | |
| Creditors: amounts falling due within one year | 16 | (2,113,620) | (1,273,205) |
| NET CURRENT ASSETS | | 2,007,158 | 1,617,403 |
| TOTAL NET ASSETS | | 2,131,432 | 1,782,686 |
| FUNDS OF THE CHARITY: | | | |
| Unrestricted funds: | | | |
| General funds: | 18 | 1,931,432 | 1,782,686 |
| Designated funds: | 18 | 200,000 | |
| Restricted funds: | 18 | - | - |
| TOTAL FUNDS | | 2,131,432 | 1,782,686 |

32

| | Notes | 2017 £ | 2016 £ |
|--|-------|------------------|------------------|
| FIXED ASSETS | | | |
| Tangible fixed assets | 13b | 124,274 | 165,283 |
| Investments | 14 | 2 | 2 |
| TOTAL FIXED ASSETS | | 124,276 | 165,285 |
| CURRENT ASSETS | | | |
| Debtors | 15 | 914,103 | 922,809 |
| Investments - cash deposits | | 210,160 | 764,538 |
| Cash at bank and in hand | | 2,996,515 | 1,072,958 |
| TOTAL CURRENT ASSETS | | 4,120,778 | 2,760,305 |
| LIABILITIES | | | |
| Creditors: amounts falling due within one year | 16 | (2,113,620) | (1,276,841) |
| NET CURRENT LIABILITIES | | 2,007,158 | 1,483,464 |
| TOTAL NET ASSETS | | 2,131,434 | 1,648,749 |
| FUNDS OF THE CHARITY: | | | |
| Unrestricted funds: | | | |
| General funds | 18 | 1,931,434 | 1,648,749 |
| Designated funds | 18 | 200,000 | - |
| Restricted funds | 18 | - | - |
| TOTAL FUNDS | | 2,131,434 | 1,648,749 |

33

Internet Watch Foundation - Registered company number 03426366

Consolidated statement of cash flows for the year ended 31 March 2017

| | Notes | 2017 £ | 2016 £ |
|---|-----------|------------------|------------------|
| Cash Flows from Operating Activities | | | |
| Net cash provided by/used in operating activities | 20 | 1,268,291 | 590,898 |
| Cash Flows from Investing Activities | | | |
| Purchase of property, plant and equipment | | (31,591) | (2,922) |
| Bank interest received | | 2,176 | 2,949 |
| Change in cash and cash equivalents in the reporting period | | 1,238,876 | 590,925 |
| Cash and cash equivalents at the beginning of the reporting period | | 1,967,799 | 1,376,874 |
| Cash and cash equivalents at the end of the reporting period | 21 | 3,206,675 | 1,967,799 |

The attached notes on pages 35 to 53 form part of these financial statements.

Internet Watch Foundation

Notes to the financial statements for the year ended 31 March 2017

1 - Accounting policies

The principal accounting policies adopted, judgements and key sources of estimation uncertainty in the preparation of the financial statements are as follows:

a) Basis of preparation and consolidation

The financial statements have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) (effective 1 January 2015) - (Charities SORP (FRS 102)), the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) and the Companies Act 2006. The financial statements are prepared on a going

concern basis and are presented in sterling, which is the functional currency of the charity.

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. The surplus for the year for Companies Act purposes was £348,746 (2016: surplus £596,396). The charitable company's own income for the year was £3,145,942 (2016: £2,880,874) and it had expenditure of £2,538,485 (2016: £2,284,479).

The charity meets the definition of a public benefit entity under FRS 102. Assets and liabilities are initially recognised at historical cost or transaction value unless otherwise

stated in the relevant accounting policy notes.

b) Going Concern

The Trustees have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

c) Reconciliation with previous Generally Accepted Accounting Practice

In preparing these accounts, the Trustees have considered whether in applying the accounting policies required by FRS 102 and the Charities SORP FRS 102 if the restatement of comparative items was required. The date of transition was 29 November 2013. No such restatement was necessary



Internet Watch Foundation

Notes to the financial statements for the year ended 31 March 2017 cont.

other than the reclassification of governance costs as support costs in the prior year and short term deposit balances have been reclassified to cash.

d) Legal status of the Charity

There is no share capital as the company is limited by guarantee. Each member has guaranteed an amount, not exceeding £1, towards the company's liabilities in the event of a winding up, provided that a member has not ceased to be a member one year prior to any winding up order. The company is registered in the United Kingdom (England and Wales).

e) Fund accounting

Unrestricted funds are available for use at the discretion of the Trustees in furtherance of the general

objectives of the charity and which have not been designated for other purposes.

Designated funds are unrestricted funds of the charity which the Trustees have decided at their discretion to set aside to use for a specific purpose. The aim and purpose 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 or which have been raised by the charity 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.

f) Income

Income is recognised when the charity has entitlement to the funds,

any performance conditions attached to the items of income have been met, it is probable that the income will be received and the amount can be measured reliably.

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. Donated facilities and donated professional services are recognised in income at their fair value when their economic benefit is probable, it can be measured reliably and the charity has control over the item. Fair value is determined on the basis of the value of the gift to the charity. For example the amount the charity would be willing to pay in the open market for such facilities and services. A corresponding amount is recognised in expenditure.

Grants – Grants are included as

incoming resources when these are received / receivable.

Income from trading activities includes income earned from activities to raise funds for the charity. Income is received in exchange for supplying goods and services in order to raise funds and is recognised when entitlement has occurred.

The charity receives grants in order to pursue its charitable objects and minimise criminal content on the internet. Income from grants are recognised at fair value when the charity has entitlement after any performance conditions have been met. It is probable that the income will be received and the amount can be measured reliably. If entitlement is not met then these amounts are deferred.

The subscription fees are renewed annually at various dates throughout the year based on the anniversary of their initial subscription start date. As such, these subscription fees are apportioned over the calendar year, with fees in advance included in deferred income in creditors and

release to income in the following year.

g) Expenditure

Expenditure is recognised once there is a legal or constructive obligation to make a payment to a third party, it is probable that settlement will be required and the amount of the obligation can be measured reliably. All expenditure is accounted for on an accruals basis.

Where costs cannot be directly attributed to particular headings they have been allocated to activities on a basis consistent with use of the resources.

h) Tangible fixed assets and depreciation

All assets costing more than £500 are capitalised at their historical cost when purchased.

Depreciation is provided on all tangible fixed assets at rates calculated to write each asset down to its estimated cost, on a straight line basis over their expected useful economic life as follows:

- Leasehold improvements:
over the life of the lease
- Office equipment:
33.33% straight line
- Computer equipment:
33.33% - 40% straight line

Assets are reviewed for any indications of impairment at each balance sheet date.

i) Investments

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

j) Debtors

Trade and other debtors are recognised at the settlement amount due after any trade discount offered. Prepayments are valued at the amount prepaid net of any trade discounts due. Accrued income and tax recoverable is included at the best estimate of the amounts receivable at the balance sheet date.



Internet Watch Foundation

Notes to the financial statements for the year ended 31 March 2017 cont.

k) Cash at bank and In hand

Cash at bank and cash in hand includes cash and short term highly liquid investments with a short maturity of three months or less from the date of acquisition or opening of the deposit or similar account.

l) Creditors

Creditors are recognised where the charity has a present obligation resulting from a past event that will probably result in the transfer of funds to a third party and the amount due to settle the obligation can be measured or estimated reliably. Creditors are normally recognised at their settlement amount after allowing for any trade discounts due. Concessionary loans received at below market rates are received in order to further the charitable objects of the organisation and are therefore included at the amount received and are not discounted.

m) Financial instruments

The charity only has financial assets and financial liabilities of a kind that qualify as basic financial instruments. Basic financial instruments are initially recognised at transaction value and subsequently measured at their settlement value. Fixed assets are recorded at depreciated historical cost.

n) Pensions

Employees of the charity are entitled to join a defined contribution pension scheme. The charity contribution is restricted to the contributions disclosed in note 10.

o) Operating leases

Operating leases are recognised over the period of which the lease falls due.

p) 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.

q) Taxation

The company is considered to pass the tests set out in Paragraph 1 Schedule 6 of the Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the company is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 of the Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

2 - Donations

| | 2017 £ | 2016 £ |
|---------------|--------------|---------------|
| Donations | 1,030 | 4,280 |
| Gifts in kind | - | 6,760 |
| | <u>1,030</u> | <u>11,040</u> |

All donations received in 2017 and 2016 relate to unrestricted funds

3 - Income from Charitable Activities

| | 2017 £ | 2016 £ |
|-------------------------|------------------|------------------|
| Subscription fee income | 2,231,102 | 2,112,595 |
| EU grant income | 337,553 | 403,200 |
| FCO income | - | 49,900 |
| IWL income | - | 26,235 |
| International services | 56,816 | 15,000 |
| Miscellaneous income | 338 | 9,150 |
| Google grant income | 250,000 | 250,000 |
| | <u>2,875,809</u> | <u>2,866,080</u> |

Income from charitable activities was £2,875,809 (2016 - £2,866,080) of which £587,553 (2016 - £703,100) was attributable to restricted and £2,288,256 (2016 - £2,162,980) was attributable to unrestricted funds.



Internet Watch Foundation

Notes to the financial statements for the year ended 31 March 2017 cont.

4 - Other trading activities

| | 2017 £ | 2016 £ |
|---------------|--------------|--------------|
| Car park rent | 6,833 | 5,046 |
| Other | 1,450 | 241 |
| | <u>8,283</u> | <u>5,287</u> |

All trading income received in 2017 and 2016 relates to unrestricted funds.

5 - Investment income

| | 2017 £ | 2016 £ |
|---------------|--------------|--------------|
| Bank interest | 2,176 | 2,949 |
| | <u>2,176</u> | <u>2,949</u> |

6a - Analysis of resources expended by activity

| | Direct costs £ | Support costs £ | 2017 costs £ |
|------------------------------------|-------------------|--------------------|------------------|
| Charitable activities: | | | |
| Minimise criminal internet content | 1,745,514 | 793,038 | 2,538,552 |
| | <u>1,745,514</u> | <u>793,038</u> | <u>2,538,552</u> |

6b - Analysis of resources expended by activity

| | Direct costs £ | Support costs £ | 2016 costs £ |
|------------------------------------|-------------------|--------------------|------------------|
| Charitable activities: | | | |
| Minimise criminal internet content | 1,503,696 | 785,264 | 2,288,960 |
| | <u>1,503,696</u> | <u>785,264</u> | <u>2,288,960</u> |

7 - Analysis of support costs

| | 2017 £ | 2016 £ |
|----------------------|----------------|----------------|
| Finance and legal | 54,871 | 22,685 |
| Human resources | 362,565 | 375,619 |
| IT | 48,990 | 69,623 |
| Premises | 142,169 | 143,872 |
| General office costs | 118,253 | 93,970 |
| Other | 7,670 | 4,482 |
| Governance | 58,520 | 75,013 |
| | <u>793,038</u> | <u>785,264</u> |



Internet Watch Foundation

Notes to the financial statements for the year ended 31 March 2017 cont.

8 - Analysis of governance costs

| | 2017 | 2016 |
|----------------------------------|---------------|---------------|
| | £ | £ |
| Audit fees | 7,000 | 6,890 |
| Accountancy fees paid to auditor | 3,070 | 1,450 |
| Costs of Trustees' meetings | 15,042 | 22,395 |
| Chair's fees | 22,408 | 21,948 |
| Trustee recruitment and training | 11,000 | 22,330 |
| | <u>58,520</u> | <u>75,013</u> |

9 - Analysis of staff costs and key management personnel

| | 2017 | 2016 |
|-----------------------|------------------|------------------|
| | £ | £ |
| Wages and salaries | 1,139,376 | 1,079,041 |
| Social security costs | 119,436 | 115,913 |
| Pension | 153,277 | 126,648 |
| | <u>1,412,089</u> | <u>1,321,602</u> |

The Chair received £22,408 (2016: £21,948) during the year in respect of his duties in 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 3 Trustees attending each board meeting. During the year, a total of 1 (2016: 2) Trustees were paid in respect of their duties and these amounted to a total of £2,460 (2016: £6,535).

In 2017, 5 Trustees (2016 – 5) received reimbursements of expenses amounting to £9,492 (2016: £12,753).

The charity considers its key management personnel to comprise of 5 people. During the year, the total employment benefits of these 5 key management personnel, including social security and pension was £452,482 (2016: £369,409).

The average monthly head count was as follows:

| | 2017 | 2016 |
|-----------------------|--------|--------|
| | Number | Number |
| Charitable activities | 31 | 30 |

The number of employees whose total employee benefits excluding pension contributions earning over £60,000, classified within bands of £10,000 is as follows:

| | 2017 | 2016 |
|---------------------|----------|----------|
| | Number | Number |
| £60,000 - £70,000 | 1 | 1 |
| £70,001 - £80,000 | - | - |
| £80,001 - £90,000 | 1 | 1 |
| £90,001 - £100,00 | - | - |
| £100,001 - £110,000 | - | - |
| £110,000 - £120,000 | 1 | 1 |
| | <u>3</u> | <u>3</u> |

10 - Pension costs

The charity operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the charitable company in an independently administered fund. Contributions payable by Internet Watch Foundation amounted to £153,277 (2016: £126,648). There were no outstanding contributions payable to the pension fund at the balance sheet date (2016: £Nil).

11 - Net income

| | 2017 £ | 2016 £ |
|--|--------------|--------------|
| Net income is stated after charging: | | |
| Depreciation of charitable assets owned by group | 72,600 | 70,942 |
| Auditors remuneration: | | |
| - for audit services | 7,000 | 6,890 |
| - for non-audit services | <u>3,070</u> | <u>1,450</u> |

12 - Taxation

The company is a registered charity and as such is exempt from taxation on its income and gains falling within section 505 of the Taxes Act 1988 or section 252 of the Taxation of Chargeable Gains Act 1992 to the extent that these are applied for charitable purposes.

13a - Tangible fixed assets - group

| | Leasehold improvements £ | Office equipment £ | Computer equipment £ | Total £ |
|------------------------|--------------------------------|--------------------------|----------------------------|----------------|
| Cost or valuation: | | | | |
| At 31 March 2016 | 250,857 | 20,524 | 157,548 | 428,929 |
| Additions | - | - | 31,591 | 31,591 |
| Disposals | - | - | - | - |
| | <u>250,857</u> | <u>20,524</u> | <u>189,139</u> | <u>460,520</u> |
| At 31 March 2017 | | | | |
| Depreciation: | | | | |
| At 31 March 2016 | 99,986 | 20,524 | 143,136 | 263,646 |
| Charge for the year | 50,290 | - | 22,310 | 72,600 |
| Eliminated on disposal | - | - | - | - |
| | <u>150,276</u> | <u>20,524</u> | <u>165,446</u> | <u>336,246</u> |
| At 31 March 2017 | | | | |
| Net book value: | | | | |
| At 31 March 2016 | 150,871 | - | 14,412 | 165,283 |
| At 31 March 2017 | <u>100,581</u> | <u>-</u> | <u>23,693</u> | <u>124,274</u> |

13b - Tangible fixed assets - charity

| | Leasehold improvements | Office equipment | Computer equipment | Total |
|-------------------------|---------------------------|---------------------|-----------------------|---------|
| Cost or valuation: | £ | £ | £ | £ |
| At 31 March 2016 | 250,857 | 16,092 | 157,548 | 424,497 |
| Additions | - | - | 31,591 | 31,591 |
| Disposals | - | - | - | - |
| | | | | |
| At 31 march 2017 | 250,857 | 16,092 | 189,139 | 456,088 |
| | | | | |
| Depreciation: | | | | |
| At 31 March 2016 | 99,986 | 16,092 | 143,136 | 259,214 |
| Charge for the year | 50,290 | - | 22,310 | 72,600 |
| Eliminated on disposals | - | - | - | - |
| | | | | |
| At 31 March 2017 | 150,276 | 16,092 | 165,446 | 331,814 |
| | | | | |
| Net book value: | | | | |
| | | | | |
| At 31 March 2016 | 150,871 | - | 14,412 | 165,283 |
| | | | | |
| At 31 March 2017 | 100,581 | - | 23,693 | 124,274 |

14 - Investment in Trading Subsidiary

Internet Watch Limited is incorporated in England and Wales (company number 03257468) and is a wholly owned subsidiary of Internet Watch Foundation. During the year the subsidiary company transferred it's trade and assets to the parent, and the bank account was closed after the year end. The principal activity of the subsidiary is to undertake trading activities on behalf of Internet Watch Foundation, its parent charity and these activities were considered to be compatible with the aims and charitable objectives of Internet Watch Foundation.

Within the charitable company balance sheet, the investment in the subsidiary is held at a cost of £2 (2016: £2).

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

| | 2017 £ | 2016 £ |
|---|-----------|-----------|
| Profit and Loss Account | | |
| | | |
| Turnover: | - | 26,664 |
| Administrative expenses | (67) | (25,336) |
| | | |
| Operating profit | (67) | 1,328 |
| Interest receivable | 73 | 100 |
| Interest payable | - | - |
| Deed of covenant payable to the charity | (133,942) | (1,428) |
| | | |
| Profit for the year | (133,936) | - |
| | | |
| Balance Sheet | | |
| | | |
| Current assets | 2 | 133,938 |
| Current liabilities | - | - |
| | | |
| Net assets | 2 | 133,938 |

15 - Debtors

| | Group 2017 £ | Group 2016 £ | Company 2017 £ | Company 2016 £ |
|-----------------------------------|-----------------------------|-----------------------------|-------------------------------|-------------------------------|
| Trade debtors | 683,214 | 359,022 | 683,214 | 359,022 |
| Other debtors | 106,444 | 102,748 | 106,444 | 102,748 |
| Prepayments and accrued income | 124,445 | 461,039 | 124,445 | 461,039 |
| | <u>914,103</u> | <u>922,809</u> | <u>914,103</u> | <u>922,809</u> |

16 - Creditors: amount falling due within one year

| | Group 2017 £ | Group 2016 £ | Company 2017 £ | Company 2016 £ |
|---------------------------------------|-----------------------------|-----------------------------|-------------------------------|-------------------------------|
| Trade creditors | 143,262 | 107,763 | 143,262 | 107,763 |
| Amounts owed by group undertakings | - | - | - | 3,636 |
| Social security and other taxes | - | 71,821 | - | 71,821 |
| Other creditors | 9,162 | 9,162 | 9,162 | 9,162 |
| Accruals and deferred income | 1,961,196 | 1,084,459 | 1,961,196 | 1,084,459 |
| | <u>2,113,620</u> | <u>1,273,205</u> | <u>2,113,620</u> | <u>1,276,841</u> |

16 - Creditors: amount falling due within one year - cont.**Deferred income - current year**

| | Group £ | Company £ |
|--------------------------------------|--------------------|----------------------|
| Deferred income at 1 April 2016 | 1,021,494 | 1,021,494 |
| Resources deferred during the year | 1,727,568 | 1,727,568 |
| Amounts released from previous years | (1,021,494) | (1,021,494) |
| | <u>1,727,568</u> | <u>1,727,568</u> |
| Deferred income at 31 March 2017 | | |

Deferred income - prior year

| | Group £ | Company £ |
|--------------------------------------|--------------------|----------------------|
| Deferred income at 1 April 2015 | 793,298 | 766,634 |
| Resources deferred during the year | 1,021,494 | 1,021,494 |
| Amounts released from previous years | (793,298) | (766,634) |
| | <u>1,021,494</u> | <u>1,021,494</u> |
| Deferred income at 31 March 2016 | | |

Deferred income relates to subscriptions, license fees and rentals.

17 - Leases

Total future minimum lease payments under non-cancellable operating leases are as follows:

| | Land and Buildings 2017 £ | 2016 £ | Other 2017 £ | 2016 £ |
|---|--|-------------------|-----------------------------|-------------------|
| No later than one year | 203,625 | 203,625 | 2,588 | 2,588 |
| Later than one year and no later than five years | 220,594 | 424,219 | 10,352 | 12,940 |
| | <u>424,219</u> | <u>627,844</u> | <u>12,940</u> | <u>15,528</u> |

Internet Watch Foundation

Notes to the financial statements for the year ended 31 March 2017 cont.

18a - Fund analysis - current year

| | Balance at 1/4/2016 £ | Income £ | Expenditure £ | Transfers £ | Balance at 31/3/17 £ |
|---------------------------------|-----------------------------|-------------|------------------|----------------|----------------------------|
| Unrestricted funds | | | | | |
| General funds | 1,782,686 | 2,299,745 | (1,613,446) | (537,553) | 1,931,432 |
| Total general funds | 1,782,686 | 2,299,745 | (1,613,446) | (537,553) | 1,931,432 |
| Designated funds | | | | | |
| IT replacement fund | - | - | - | 100,000 | 100,000 |
| Membership development fund | - | - | - | 100,000 | 100,000 |
| Total designated funds | - | - | - | 200,000 | 200,000 |
| Total unrestricted funds | 1,782,686 | 2,299,745 | (1,613,446) | (337,553) | 2,131,432 |
| Restricted funds | | | | | |
| EU SIC UK IV | - | 272,202 | (544,404) | 272,202 | - |
| EU SIC III | - | 65,351 | (130,702) | 65,351 | - |
| Google Donation | - | 250,000 | (250,000) | - | - |
| Total Restricted funds | - | 587,553 | (925,106) | 337,553 | - |
| Total funds | 1,782,686 | 2,887,298 | (2,538,552) | - | 2,131,432 |

18b - Fund analysis - prior year

| | Balance at 1/4/2015 £ | Income £ | Expenditure £ | Transfers £ | Balance at 31/3/16 £ |
|---------------------------------|-----------------------------|-------------|------------------|----------------|----------------------------|
| Unrestricted funds | | | | | |
| General funds | 1,186,290 | 2,182,256 | (1,285,835) | (300,025) | 1,782,686 |
| Total unrestricted funds | 1,186,290 | 2,182,256 | (1,285,835) | (300,025) | 1,782,686 |
| Restricted funds | | | | | |
| EU SIC III Grant | - | 403,200 | (703,225) | 300,025 | - |
| FCO Grant | - | 49,900 | (49,900) | - | - |
| Google Donation | - | 250,000 | (250,000) | - | - |
| Total restricted funds | - | 703,100 | (1,003,125) | 300,025 | - |
| Total funds | 1,186,290 | 2,885,356 | (2,288,960) | - | 1,782,686 |

18c - Funds analysis - description of funds

Designated funds

IT replacement fund – This is specifically for asset replacement as current assets become worn out or obsolete. The Trustees have identified maintenance of effective IT as a key focus.

Membership development fund – This is specifically for activities aimed at increasing the membership and income raised from this.

Restricted funds

EU SC III Grant – These funds represent a grant from the European Union in respect of assistance in meeting the costs of running the Hotline. A transfer was made from unrestricted funds to ensure that the EU SIC III grant fund does not go into deficit. The project completed on 30 June 2016. There are no unfulfilled conditions or contingencies relating to amounts recognised during the year.

EU SIC UK IV Grant – These funds represent a grant from the European Union in respect of assistance in meeting the costs of running the Hotline. This took over from the EU SIC III Grant above. There are no unfulfilled conditions or contingencies relating to amounts recognised during the year.

FCO Grant – These funds were received from the Foreign Commonwealth Office to assist with the cost of implementing international portals. The project completed on 31 March 2016. There are no unfulfilled conditions or contingencies relating to amounts recognised during the year.

Google donation – This fund represents a donation from Google in respect of the support of analyst positions.

19 - Related party transactions

Internet Watch Foundation 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 Internet Watch Foundation with subscription levels ranging from £1,000 to in excess of £75,000.

Internet Watch Limited, the wholly owned subsidiary company, paid a management charge of £Nil (2016: £20,854) a licence fee of £Nil (2016: £Nil) and a gift aid payment of £133,944 (2016: £1,428) during the year. As at the year end a balance of £Nil was due to the parent company (2016: £3,635). During the year, the subsidiary's trade was transferred to the parent company and shortly after the year end, all cash and net assets were transferred from the subsidiary to Internet Watch Foundation.

20 - Reconcillation of net expenditure to net cash flow from operating activities

| | 2017 £ | 2016 £ |
|---|------------------|----------------|
| Net income for the reporting period (as per the statement of financial activities) | 348,746 | 596,396 |
| Adjustments for: | | |
| Depreciation charges | 72,600 | 70,942 |
| (Increase)/decrease in debtors | 8,706 | (399,403) |
| Increase/(decrease) in creditors | 840,415 | 325,912 |
| Bank interest received | (2,176) | (2,949) |
| Net cash provided by/(used in) operating activities | 1,268,291 | 590,898 |

21 - Analysis of cash and cash equivalent

| | 2017 £ | 2016 £ |
|---------------------------------------|------------------|------------------|
| Cash in hand | 2,996,515 | 1,203,261 |
| Investments - short term deposits | 210,160 | 764,538 |
| Total cash and cash equivalent | 3,206,675 | 1,967,799 |



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