



Impax Environmental Markets plc

REPORT AND ACCOUNTS

for the year ended 31 December 2010



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KEY FEATURES

INVESTMENT OBJECTIVE

The Company's objective is to enable investors to benefit from rapid and sustained growth anticipated by the directors in the markets for cleaner or more efficient delivery of basic services of energy, water and waste. Investments are made predominantly in quoted companies which provide, utilise, implement or advise upon technology-based systems, products or services in environmental markets, particularly those of alternative energy and energy efficiency, water treatment and pollution control, and waste technology and resource management.

HIGHLIGHTS OF THE YEAR

- Further expansion of net assets (up 15.1% to £453.4m)
- NAV per share increased by 12.2% over the year
- Strong five-year investment performance sustained
 - NAV (total return) per share up 56.4%
 - MSCI World Index (net total return) up 23.6%
- Strengthening drivers of environmental markets
 - Energy efficiency legislation in the US, the European Union and China
 - Water sector policy accelerating following widespread floods and droughts
 - High and rising commodity prices, particularly oil
 - Damage to Fukushima plant in Japan post year end has led to further investment interest in environmentally friendly energy
- Outstanding warrants were standing at a 19% premium at the final subscription date and fully subscribed
- Appointment of 2 new board directors post year end

FINANCIAL INFORMATION

	At 31 December 2010	At 31 December 2009	% change
Net assets	£453.4m	£393.8m	+15.1%
Number of Ordinary Shares in issue ²	317,800,336	304,936,283	+4.2%
Net asset value ("NAV") per Ordinary Share	142.7p	127.2p ¹	+12.2%
NAV per Ordinary Share (excluding current year net revenue)	141.8p	126.5p ¹	+12.1%
MSCI World Index ³ (sterling)			+13.0%
MSCI World Small Cap Index ³ (sterling)			+28.3%
Ordinary Share price (mid-market)	129.8p	119.1p	+9.0%
Ordinary Share price discount to NAV	(9.0%)	(6.4%)	n/a

¹ Diluted for 18,666,085 warrants in issue at 31 December 2009. All of these warrants were subsequently exercised during June 2010.

² Excluding shares held in treasury.

³ Capital return.

CHAIRMAN'S STATEMENT

After a volatile first six months, Impax Environmental Markets plc ("IEM" or the "Company") ended 2010 strongly to deliver a creditable net asset value ("NAV") return over the year as a whole. Against a backdrop of improving economic conditions, the Company benefited from its exposure to industrial companies in developed markets, businesses serving demand for clean products and services in Asia and rising commodity prices.

Energy efficiency markets were notably buoyant during the year as many governments introduced measures to curb energy use in the face of rising oil prices and mounting concerns over energy security and climate change. In contrast, companies active in the renewable energy sector generally disappointed shareholders as the Spanish government announced retrospective reductions in solar power tariffs, prompting concerns that other countries may follow suit.

Investment Performance

During the year, the Company's NAV per Ordinary Share (taking into account the dilution effect of the warrants in issue at 31 December 2009) increased from 127.2p to 142.7p, a rise of 12.2%. The share price rose 9.0% from 119.1p to 129.8p. Over the same period, the MSCI World and the MSCI World Small Cap Indices (capital return priced in Pounds Sterling) rose by 13.0% and 28.3% respectively. We have traditionally compared our performance against the MSCI World indices. During the past year, companies involved in environmental markets have generally performed less well than the MSCI World Small Cap index. The Company's five year performance track record remains compelling. During the five years to 31 December 2010, the NAV of IEM plus dividends paid returned 56.4% compared to net total returns in Sterling terms of 23.6% for the MSCI World Index and 36.8% for the MSCI World Small Cap Index.

The Company's investments in six unquoted companies accounted for 4% of NAV at the end of the year, approximately the same proportion as at the end of 2009. Since the end of the year, the valuation of two unquoted holdings has been written down to reflect specific events that are discussed in the Manager's Report.

Continuation Vote

In May 2010, the first continuation vote required by the Company's Articles of Association was passed by shareholders at the Company's Annual General Meeting ("AGM"). Henceforth, the Articles of Association require a continuation vote to be proposed at every third AGM of the Company, the next such vote being in 2013.

Discount

During the year under review, the Company's Ordinary Shares traded at an average discount to net asset value ("NAV") of 9.9%. The Board responded to widening of the discount by buying-in an aggregate of 5,802,032 of the Company's own Ordinary Shares at an average discount of 11.4%. The Ordinary Shares ended the year at a discount to NAV of 9.0%. The Board will continue to exercise its powers to buy back the Company's own shares when it considers the circumstances to be appropriate.

CHAIRMAN'S STATEMENT

CONTINUED

Warrants

As reported in the Half-yearly Financial Report, the final subscription of warrants was completed during June 2010. As a result 18,666,085 new Ordinary Shares were issued at a subscription price of 96p per Ordinary Share. The mid-market price of the Ordinary Shares at the close of business on the final subscription date of 15 June 2010 was 114.5p, representing a 19.2% premium to the subscription price.

Dividend

The Company's net revenue return for the year was £2.6 million. As a result, the directors are recommending an unchanged final dividend for the year ended 31 December 2010 of 0.75p per share. If approved at the Company's AGM, this dividend will be paid on 17 May 2011 to shareholders on the register as at the close of business on 15 April 2011. As the primary objective of the Company is capital growth, it should not be assumed that this level of dividend will be paid in future years.

Board of Directors

The Company was launched in February 2002, when four of the five directors serving during the year under review were appointed. During 2010, the Company's Nominations Committee conducted a review of the composition of the Board and it was agreed that it was an appropriate time to appoint two new directors.

Following completion of a search, Julia Le Blan and William Rickett were appointed to the Board on 27 January 2011. The new directors bring a strong set of skills and breadth of experience to the Board. Julia was a tax partner at Deloitte from 1990 until her retirement in 2009; and William was Director General, (Energy) in the Department of Energy & Climate Change and chairman of the Governing Board of the International Energy Agency until October 2009. Bill Brown will retire at the forthcoming AGM and will not stand for re-election. My Board colleagues and I would like to thank Bill for his valuable input and service since the Company's formation and we wish him every success for the future.

The directors have determined that, in line with current best practice, all directors of the Company will stand for re-election at the forthcoming AGM and at every AGM thereafter.

Current Status and Outlook

The start to 2011 has been challenging for the Company, with positive performance from many of its largest holdings offset by weakness in Asia and in companies unable to pass on rising costs to their customers. As at 25 March 2011, the NAV had fallen 0.6% since the start of the year, while the share price had fallen by 5.3%. The MSCI World Index (capital return in Pounds Sterling) had risen 0.8% over the same period.

CHAIRMAN'S STATEMENT

CONTINUED

At the time of writing, several geo-political events are drawing attention back towards environmental markets, with elevated political instability in the Middle East and North Africa renewing governments' focus on energy security and the need to reduce reliance on imported oil. Furthermore, the unfolding situation at the Fukushima nuclear power plant in Japan has led to a renewed debate about the long-term future of nuclear power. It is too early to accurately assess the long-term impact of these events, although they are undoubtedly positive for both the renewable energy and energy efficiency sectors, both of which are performing well. With a current price earnings ratio of 16x, the valuation of the IEM's portfolio remains at the bottom end of the historical range of 16-22x. Furthermore, the earnings of the Company's holdings are expected to grow at 25% over the next 12 months (on average). Therefore, the Manager and the Board continue to believe that IEM offers an attractive opportunity for investors.

Richard Bernays

1 April 2011

MANAGER'S REPORT

Following the global financial crisis of 2007 and 2008, the last two years have been particularly challenging for investors charged with interpreting rapidly changing macro-economic fundamentals. Investing in environmental markets has been no different, with these complexities compounded by significant developments in government policy affecting the sector.

In this context, although IEM marginally under-performed the MSCI World Index during 2010, we were encouraged by the year's result, which was significantly ahead of both the peer group and the FTSE ET50 Index, which was down 2.3% for the year¹.

Drivers of Environmental Markets in 2010

Environmental policy and regulation remained a key driver for the Company, as governments sought to improve the efficient use of resources, reduce geopolitical supply risks and lower the environmental impact of economic growth. The Asia-Pacific region saw ongoing implementation of new policies, as governments became increasingly concerned about the resource, infrastructure and environmental challenges faced by the region. However, investors were unnerved by statements from some European governments concerning retrospective changes to subsidies for renewable energy, and by the failure of the US government to progress material environmental policy in advance of the mid-term elections.

Signs of economic recovery were positive for the Company during 2010. Rising commodity prices, particularly for oil, paper and metals bolstered margins in energy efficiency and recycling markets, while anticipation of a recovery in construction activity also provided support, in particular for water infrastructure and buildings energy efficiency holdings. Finally, the superior growth of environmental markets has proved to be attractive to corporate as well as to private equity buyers. In this context, three companies held by IEM were taken over during 2010, and, as balance sheets of key consolidators are restored, we expect more corporate activity in 2011.

Alternative Energy and Energy Efficiency (42% portfolio weighting at 31 December 2010)

(i) Renewable and Alternative Energy ("RAE") – 17% weighting

The RAE sector continued to be weak during 2010. Power markets provided a challenging backdrop, with lower demand and increasing supply of gas leading to pressure on power prices. Regulatory uncertainty and overcapacity also contributed to negative performance.

In the solar sector, several European governments announced plans to reduce subsidies for new projects in line with falling equipment supply costs. However, the Spanish government, which, unusually, passes the subsidy burden to the taxpayer rather than to the consumer, took the unprecedented step of applying retrospective changes to subsidies awarded in 2008. Investors worried that other countries could follow suit, and there was a widespread sell-off of solar stocks such as Sunpower (US). In contrast, Asian solar companies outperformed in challenging markets due to the cost advantages of manufacturing in the region. Notable beneficiaries included Renesola and Trina Solar (both China). Nevertheless, we believe the outlook for the solar sector remains challenging, with a risk of oversupply and consequent pressure on margins.

In the wind sector, the lack of progress in developing new Federal renewable energy targets in the US, weak demand for power, reduced utility capital expenditure and industry overcapacity contributed to sluggish market growth. This negatively impacted both original equipment manufacturers ("OEMs") such as Vestas and Gamesa (wind turbines, Denmark and Spain) and independent power producers ("IPPs") such as EDP Renovaveis (Portugal). Although we believe

¹The FTSE ET50 Index comprises the 50 largest stocks in the universe of stocks that the Company can invest in.

MANAGER'S REPORT

CONTINUED

the long-term investment proposition for wind remains intact, we have consolidated the Company's holdings in this area and have shifted the focus in favour of IPPs, which we believe are better placed to take advantage of current market circumstances. We continue to closely monitor the RAE sector with a view to increasing our exposure as the sector recovers.

(ii) Energy Efficiency ("EE") – 25% weighting

Benefiting from rising oil prices and new government policy, energy efficiency generated the strongest sub-sector performance in 2010. The most notable development in this area was China's latest Five Year Plan, which singled out energy efficiency as a key area for strategic investment. In December, the UK introduced an Energy Bill with a focus on energy efficiency, including an innovative scheme known as the "Green Deal," which will provide attractive finance to support domestic energy efficiency investments.

The EE sector also benefited from a strong recovery in industrial activity and an anticipated recovery in construction activity. This led to strong performance by industrial energy efficiency holdings such as LEM (power electronics, Switzerland) and Regal Beloit (electric motors, US), as well as buildings energy efficiency holdings such as Nibe (heat pumps, Sweden). Increasing traction of LED technology in lighting applications led to strong performance of Dialight (LED, UK). As noted in the Half-yearly Financial Report, M&A activity made a positive contribution to performance, with Emerson acquiring Chloride (uninterruptible power supply, UK).

Waste Technologies and Resource Management (32% portfolio weighting at 31 December 2010)

(i) Waste Management & Technologies ("WMT") – 27% weighting

The WMT sector generally performed well during 2010, with mixed results at the stock level.

Under the umbrella of the European Union's Landfill Directive, the UK announced further increases to its landfill tax escalator, driving waste volumes to higher value disposal solutions; in addition, France made further progress in rolling out its five-year plan, "Grenelle Environnement", with a new set of stringent regulations expected to lead to further closures of non-compliant waste facilities, benefiting Séché Environnement (waste management, France).

The US hazardous waste segment generated strong performance, partly reflecting upgrades following the oil spill in the Gulf of Mexico, but also reflecting the strong market position and consequent pricing power of key holdings Stericycle (medical waste, US) and Clean Harbors (hazardous waste, US). Separately, the Environmental Protection Agency (EPA) announced proposals for rules that would designate coal combustion ash as a hazardous waste; if adopted, this would increase opportunities for Headwaters (recycled materials, United States).

The value added waste processing sub-sector was also strong, with high commodity prices and increased use of recycled parts leading to strong performance of LKQ (auto parts recycling, US). Rising commodity prices and continued industrial recovery also benefited Newalta (industrial waste recycling, Canada).

The diversified waste management segment was lack-lustre, due to continued uncertainty around the pace of economic growth and resulting waste volumes, and Lassila & Tikanoja (waste management, Finland) and Shanks (waste management, UK), were consequently weak.

MANAGER'S REPORT

CONTINUED

(ii) Environmental Support Services (“ESS”) – 5% weighting

We remain positive on the ESS sector, in particular on environmental consultants on the basis of compelling valuations and earnings that are showing early signs of recovery after three years of downgrades. Nevertheless, budget constraints in both the public and private sectors led to weak overall performance in this sector during 2010. Elsewhere in this sub-sector, uncertainty surrounding the carbon credit markets and carbon pricing following the UN Cancun conference in December 2010 impacted portfolio holding Camco (carbon consultancy, China).

Water Treatment and Pollution Control (26% portfolio weighting at 31 December 2010)

(i) Water Infrastructure & Technologies (“WIT”) – 20% weighting

Water scarcity remains a global theme, with increasingly uneven water distribution exacerbated by extreme weather patterns in 2010, including droughts in the US and China and flooding in Pakistan and Australia. Investment in the sector continues to be strong with China's 12th Five Year Plan aiming to double water infrastructure investments to a total of RMB 4 trillion over the next 10 years. Additionally, in the US the EPA recently issued a Clean Water and Drinking Water Infrastructure Sustainability Policy with the goal of increasing the sustainability of water and wastewater infrastructure in the United States.

Water treatment equipment companies performed strongly, with Nalco (water treatment chemicals, US) benefiting from the clean-up of the Gulf of Mexico oil spill and demonstrating strong organic growth. Pall Corporation (water filtration, US) also had a good year, delivering well against its strategic plan and benefiting from takeover speculation.

Water infrastructure companies saw mixed performance in 2010. Companies with value added products and strong market positions, such as Geberit (Switzerland), performed well in what are still challenging construction markets. Companies with commoditised products and limited pricing power fared less well, including Mueller Water (US). M&A activity was also a key theme in the sector, with the takeover of Spice (utility services, UK) by a private equity fund.

(ii) Pollution Control (“PC”) – 6% weighting

The PC segment continued to perform well, with policy makers continuing to set aggressive goals for emissions reduction. The European Commission called for a 60% cut in CO₂ emissions from transport by 2050, while in the US the EPA is moving to regulate CO₂ under the Clean Air Act, albeit against strong opposition.

M&A activity was also a key driver of performance in this sub-sector, for example as Dionex (environmental testing, US) was approached by Thermo Fisher in the US. Clarcor (engine filtration, US) performed well due to its exposure to the recovering automotive industry and status as a possible takeover target. Companies such as Horiba (testing and monitoring, Japan), that were able to quickly satisfy orders from customers expanding their manufacturing capacity, also contributed to performance.

Portfolio Activity and Current Structure (excluding unquoted companies)

The Company started the year with 84 listed companies. Since that time we have sold out of 12 companies and invested in 6 new companies. As a result the Company held a total of 78 listed companies as at 31 December 2010.

MANAGER'S REPORT

CONTINUED

We continue to focus on profitable companies, which represented 94% of the portfolio at year end. As highlighted above, the portfolio remains diversified by sub-sector. At year end, 3% of the portfolio was invested in micro caps with a market capitalisation of less than £100 million, 49% in companies between £100 million and £1 billion and 44% in companies above £1 billion. The median market cap was £504 million and the weighted average £1.4 billion.

The Company has systematically increased its exposure to Asia-Pacific markets over the last two years in order to take advantage of superior growth opportunities in this region, and exposure to this region now stands at 23%. The remaining funds are invested 39% in Europe and 38% in North America.

Unquoted Companies

At 31 December 2010, the value of the Company's investments in unquoted companies stood at £16.6 million, representing 4% of the portfolio. The tentative signs of improvement in the financing markets in late 2009 were not sustained, and the year continued to present challenging conditions for private companies seeking new funds, whether debt or equity. Consequently, during the year, we believed it was prudent to reduce the value of the unlisted portfolio by a net £1.6 million.

We continued to work with other shareholders to support our portfolio holdings, making five incremental investments totaling £1.9 million. Each investment provided essential funding to support business development and thereby raise the prospects for a successful exit when market circumstances allow.

Following the end of the period, further net aggregate write downs of £3.5 million have been made in response to specific events post the year end at two companies: fundraising at a discounted price by Nordic and an incident at one of Sterecycle's facilities. We are not currently intending to add any new unquoted companies to the IEM portfolio.

Outlook for 2011

As highlighted in the Chairman's Statement, recent international events have further reinforced several of the drivers behind environmental markets, and we are confident about the prospects for the portfolio, particularly in light of the current valuation. We continue to favour energy efficiency stocks as well as those in the water, pollution control, waste and support services sub-sectors. Although we are optimistic about the longer term prospects for renewable energy, we do not yet see sufficient positive catalysts to justify building up the Company's exposure to this sector.

The Company's portfolio valuation continues to be at the lower end of the normal historical range and is considered attractive in the light of accelerating earnings and the likely additional contribution from continued M&A activity. We will continue to post monthly updates on sector news and on the Company's performance at www.impax.co.uk.

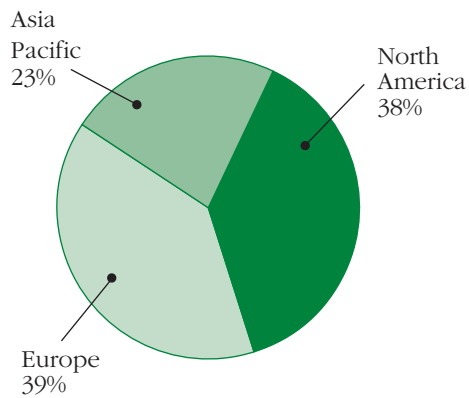
Impax Asset Management Limited

1 April 2011

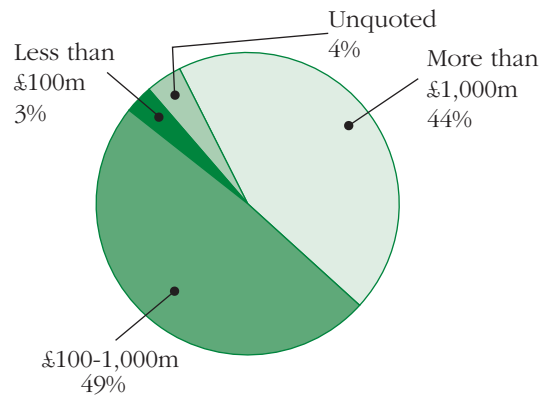
STRUCTURE OF THE PORTFOLIO

AS AT 31 DECEMBER 2010

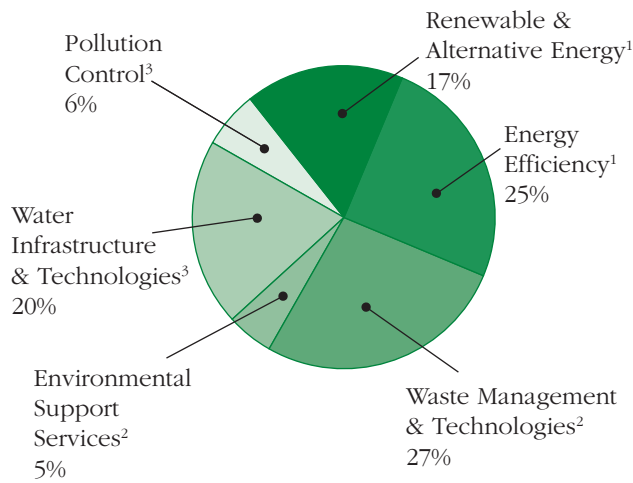
BREAKDOWN BY REGION



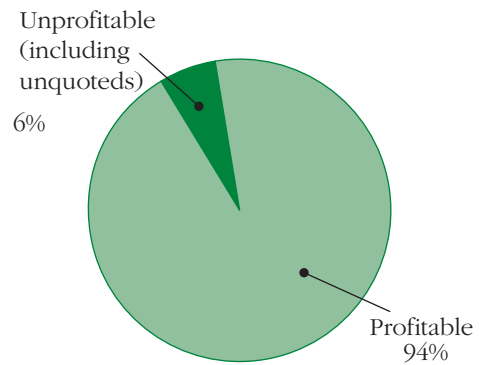
BREAKDOWN BY MARKET CAPITALISATION



BREAKDOWN BY ENVIRONMENTAL MARKETS CLASSIFICATION SYSTEM



BREAKDOWN BY PROFITABILITY



1. Alternative Energy and Energy Efficiency.
 2. Waste Technologies and Resource Management.
 3. Water Treatment and Pollution Control.

TEN LARGEST INVESTMENTS

AS AT 31 DECEMBER 2010

Regal Beloit (United States) 2.9% of portfolio (2009: 1.8%)

Regal Beloit is a leading global manufacturer of electric motors, ranging from HVAC (heating, ventilation and air conditioning) motors, electric generators and mechanical motion controls. The company benefits from the increasing emphasis being placed on energy efficiency as a means to reduce greenhouse gas emissions. Regal Beloit has recently announced multiple new product launches as well as a significant acquisition, and is well-placed to grow despite a challenging industrial environment. <http://www.regal-beloit.com/>

Clean Harbors (United States) 2.8% (2009: 2.1%)

Clean Harbors is North America's leading provider of environmental and hazardous waste management services to over 50,000 corporate and public entities. The company benefits from the gradual closure of industrial customers' in-house disposal facilities, which are becoming uneconomical due to their inability to comply with increasingly stringent environmental regulations. The company is set to grow through continued market share expansion in North America. <http://www.cleanharbors.com/>

NIBE Industrier (Sweden) 2.7% (2009: 1.8%)

NIBE Industrier is a market-leading Sweden-based provider of systems for electric heating applications, domestic heating products, and wood-burning stoves. NIBE has achieved a return-on-equity of more than 15% in each year since it listed on the Stockholm stock exchange in 1997. This success has been built on the successful integration of acquisitions, such as its recent purchase of the heating element division of Electrolux Professional in Switzerland. <http://www.nibe.com/>

LKQ (United States) 2.6% (2009: 2.0%)

LKQ is the largest provider of recycled light vehicle products in the United States. The US insurance industry's focus on reducing the costs of claims, and the rising market share of alternative parts in the mechanical replacement market, provides favourable industry dynamics for LKQ's business. <http://www.lkqcorp.com/>

Telvent (United States) 2.4% (2009: 2.5%)

Telvent is a global IT solutions and business information services provider for the energy, transportation, agricultural and environmental sectors. Telvent assists its clients in managing energy resources more efficiently, reducing traffic congestion, optimising water usage, and monitoring critical infrastructure. Telvent is expanding in Europe and seeking organic growth opportunities in Latin America. <http://www.telvent.com/>

Pall Corp (United States) 2.3% (2009: 2.3%)

Pall is a filtration and fluid management specialist with a substantial replacement parts business, which has defensive characteristics in times of economic uncertainty. The Company is well positioned to take advantage of increasing global energy and water needs, regulations to control emerging pathogens, customer innovation and increasingly stringent environmental legislation. <http://www.pall.com/>

TEN LARGEST INVESTMENTS

CONTINUED

Nalco (United States) 2.3% (2009: 1.8%)

Nalco is a global leader in water treatment and process improvement. Its services include providing water treatment solutions for a wide range of industries including pulp and papermaking, chemicals and pharmaceuticals. Nalco has strong growth potential in the dynamic emerging economies of China, India and Brazil. <http://www.nalco.com/>

Horiba (Japan) 2.1% (2009: 1.7%)

Horiba is a Japan-based manufacturer of measuring instruments and analysers. The company's main focus is the manufacture of automotive emissions analysers, but it also produces semiconductor systems equipment and medical systems equipment. Management recently announced a new medium-term plan (FY2011-2015) that targets a return-on-equity of at least 11%. <http://www.horiba.com/>

Lee & Man Paper (China & Hong Kong) 2.1% (2009: 1.6%)

Lee and Man Paper is the second largest containerboard producer in China, and uses only recycled paper as a feedstock for its products. The company's growth is driven by rising consumption and packaging demand, tightening environmental regulations and high capital investments. <http://www.leemanpaper.com/>

Kingspan (Ireland) 1.9% (2009: 1.5%)

Kingspan is an Ireland-based manufacturer of insulated panels and boards, and environmental housing solutions such as solar hot water and rainwater harvesting. The company was a major beneficiary of the pre-2008 construction boom, and has seen a significant decline in sales and earnings since. However, it remains a high quality business that is poised to benefit from increasing regulatory focus on energy efficient buildings. <http://www.kingspan.com/>

DETAILS OF INDIVIDUAL HOLDINGS

AS AT 31 DECEMBER 2010

Company	Country	Holding	Current value £'000	% of total net assets
Regal Beloit	United States	302,695	12,964	2.9%
Clean Harbors	United States	237,730	12,829	2.8%
NIBE Industrier	Sweden	1,253,236	12,189	2.7%
LKQ	United States	797,330	11,618	2.6%
Telvent GIT	Spain	652,012	11,027	2.4%
Pall Corp	United States	327,330	10,415	2.3%
Nalco Holding	United States	508,060	10,408	2.3%
Horiba	Japan	535,750	9,747	2.1%
Lee & Man Paper	China & Hong Kong	19,194,090	9,313	2.1%
Kingspan Group	Ireland	1,388,539	8,809	1.9%
Epistar	Taiwan	3,783,669	8,808	1.9%
Transpacific Industries Group	Australia	9,846,940	8,658	1.9%
Ormat Technologies	United States	446,879	8,484	1.9%
Watts Water Technologies	United States	344,660	8,093	1.8%
Itron	United States	225,150	8,007	1.8%
Vacon	Finland	238,808	7,947	1.8%
EDP Renovaveis	Spain	2,136,555	7,944	1.8%
RPS Group	United Kingdom	3,394,085	7,820	1.7%
Pentair	United States	330,910	7,749	1.7%
Clarcor	United States	280,834	7,727	1.7%
China Longyuan Power	China & Hong Kong	12,939,500	7,602	1.7%
SIMS Metal Management	United States	534,473	7,486	1.7%
Daiseki	Japan	551,670	7,387	1.6%
Shanks Group	United Kingdom	5,870,543	7,338	1.6%
Abengoa	Spain	447,015	7,041	1.5%
Top twenty five holdings			227,410	50.2%
Other holdings			212,356	46.8%
Total Holdings in companies			439,766	97.0%
Cash			14,789	3.3%
Other net liabilities			(1,190)	(0.3%)
Grand total			453,365	100.0%

All the above holdings are quoted unless otherwise stated.

The Company also held unquoted warrants in Ensyn, STE and Xebec with nil value as at 31 December 2010.

The Company held the following investments in unquoted companies:

Company	Country	Current value £'000	% of total net assets
New Earth Solutions	United Kingdom	6,693	1.5%
Ensyn	United States	2,938	0.6%
Nordic Windpower	United States	2,848	0.6%
STE	United Kingdom	2,772	0.6%
Emergya Wind Technologies	Netherlands	1,181	0.3%
Pelamis Wave Power	United Kingdom	209	0.1%
Total		16,641	3.7%

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 2010.

Business Review

INVESTMENT POLICY

(i) Objective and policy

The Company's objective is to enable investors to benefit from rapid and sustained growth anticipated by the directors in the markets for cleaner or more efficient delivery of basic services of energy, water and waste. Investments are made predominantly in quoted companies which provide, utilise, implement or advise upon technology-based systems, products or services in environmental markets, particularly those of alternative energy and energy efficiency, water treatment and pollution control, and waste technology and resource management.

(ii) Asset allocation

Investments are selected on an individual basis but each investment is categorised according to three primary environmental markets which are the focus of the Company's investment policy.

Alternative Energy and Energy Efficiency

In the alternative energy and energy efficiency sector, the Company may invest in businesses that are principally, but not exclusively, exposed to the following areas:

- wind turbine manufacturing
- solar panel manufacturing and integration
- renewable energy developers and independent power producers
- biofuels
- meters, utility software and demand side management
- industrial energy efficiency
- buildings energy efficiency
- transport energy efficiency
- businesses relating to the trading of carbon and other environmental assets
- fuel cells, flywheels, superconductors, supercapacitors and other new energy technologies

As at 31 December 2010, the Company had investments totalling in aggregate £186m by value invested in this sub-sector representing 42% of the Company's portfolio at that time.

Waste Technologies and Resource Management

In the waste technologies and resource management sector, the Company may invest in businesses that are principally, but not exclusively, exposed to the following areas:

- recycling equipment and systems
- recycling of commodities including metals, plastics, oils, paper and vehicles
- integrated waste management
- hazardous waste management
- environmental consultancy

As at 31 December 2010, the Company had investments totalling in aggregate £139m by value invested in this sub-sector representing 32% of the Company's portfolio at that time.

DIRECTORS' REPORT

CONTINUED

Water Treatment and Pollution Control

In the water treatment and pollution control sector, the Company may invest in businesses that are principally, but not exclusively, exposed to the following areas:

- water treatment technologies involved in filtration, purification and separation
- water infrastructure including pumps, valves and actuators
- environmental sensing, testing and monitoring
- air pollution control technologies

As at 31 December 2010, the Company had investments totalling in aggregate £114m by value invested in this sub-sector representing 26% of the Company's portfolio at that time.

(iii) Risk diversification

The Company has the following maximum exposures in place in order to ensure that there is a reasonable diversification of risk in the Company's portfolio:

- (a) Not more than 10% of the Company's Net Asset Value will be invested in any one company at the time of investment.
- (b) The Company will not make an investment if as a consequence of that investment individual holdings of 5% or more would in aggregate represent more than 40% of NAV.

The Company did not exceed either of the above maximum exposures during the year ended 31 December 2010. The Company held investments in 84 companies as at 31 December 2010, the largest one being Regal Beloit which represented 2.9% of net assets at that time.

The Company does not have prescriptive limits on the maximum amounts that can be invested in the sub-sectors listed above. The directors believe that the imposition of such limits could impact on efficient portfolio management.

To a limited extent, the Company invests in participatory notes providing economic exposure to underlying shares or securities when it is considered to be impracticable or not in the best interests of the Company to invest directly in those shares or securities. Participatory notes are equity linked notes issued by a third party broker providing long only exposure to underlying shares or securities. The Board has set a current maximum limit for investment into participatory notes at 5% of net assets, subject to a further limit of 2% of net assets per broker (in both cases at time of investment).

(iv) Gearing

At present the Company does not have any long-term or short-term borrowings, and during the year ended 31 December 2010 did not utilise any borrowings. The Board has authorised the Manager to utilise short-term borrowings of up to 10% of net assets in order to provide liquidity for efficient portfolio management where the Manager sees fit. While there is no current intention to utilise long-term borrowings, the Company retains the flexibility to do so in appropriate circumstances. Any long-term borrowings and any borrowings in excess of 10% of net assets would require the separate authorisation of the Board.

The borrowings of the Company shall not at any time, without the previous sanction of an ordinary resolution of the Company, exceed an amount equal to one third of the aggregate of:

DIRECTORS' REPORT

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- (i) the amount paid up on the share capital of the Company;
- (ii) the total of the capital and revenue reserves of the Company, including any share premium account, capital redemption reserve and credit balance on the profit and loss account as shown in the latest audited balance sheet and profit and loss account of the Company subject to certain adjustments detailed in the Company's Articles of Association.

OBJECTIVE AND KEY PERFORMANCE INDICATORS (KPIs)

The Board measures the Company's success in attaining its investment objective by reference to the following KPIs:

- (i) Achievement of capital growth over the long term. The Board monitors the net asset value ("NAV") and compares this with the MSCI World Index and other indices.
- (ii) Maintenance of a reasonable level of discount or premium of share price to diluted NAV.
- (iii) Maintenance of reasonable level of total expense ratio ("TER") compared with the Company's net assets.

Quantitative analysis of the above KPIs is shown in the next section below.

INVESTMENT PERFORMANCE

The Chairman's statement on pages 3 to 5 incorporates a review of the highlights during the year. The Manager's report on pages 6 to 9 gives details on investments made during the year and how performance has been achieved.

The performance of the Company is shown below:

	Since launch	5 years to 31 December 2010	3 years to 31 December 2010	1 year to 31 December 2010
NAV ¹ of the Company	+47.3% ²	+56.4% ³	+12.7% ³	+12.6% ³
MSCI World Index	+46.1%	+23.6%	+9.5%	+15.3%
MSCI World Small Cap	+127.1%	+36.8%	+34.3%	+30.1%
FTSE ET50	+34.4%	+43.5%	(29.2%)	(2.3%)
FTSE Environmental Opportunities				
All-Share	+132.9%	+72.5%	+19.0%	+21.9%
FTSE All-Share Index	+69.7%	+28.4%	+4.4%	+14.5%

Note: Index numbers are net total returns for the MSCI indices and total returns for the FTSE indices, in all cases in sterling terms.

¹ Including dividends paid.

² Based on opening NAV after share issue expenses of 98.25p per ordinary share.

³ Based on diluted net asset value at 31 December 2005, 31 December 2007 and 31 December 2009 respectively.

The Company's shares traded at an average discount to NAV (diluted) of 9.9% during the year ended 31 December 2010.

Based on the Company's average net assets during the year ended 31 December 2010, the Company's annualised TER was 1.1% (2009: 1.1%).

RESULTS AND DIVIDEND

The Company's revenue return after tax for the year amounted to £2,625,000 (2009: £2,376,000). The directors expect the Company normally to generate returns in the form of capital gains rather

DIRECTORS' REPORT

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than revenue. In order to meet the investment trust qualifying requirements, the directors are proposing that the Company will pay a final dividend of 0.75p per Ordinary Share (2009: 0.75p per ordinary share) absorbing £2,374,113 (2009: £2,282,694) based on the Ordinary Shares in issue (excluding shares held in Treasury) on the date of this report. It should not be assumed that this level of revenue return or dividend will be repeated in future years. If approved at the Annual General Meeting, the final dividend will be paid on 17 May 2011 to shareholders on the register at the close of business on 15 April 2011.

The Company made a capital gain after tax of £48,122,000 (2009: £89,457,000, gain). Therefore the total gain after tax for the Company was £50,747,000 (2009: £91,833,000, gain).

PRINCIPAL RISKS AND UNCERTAINTIES

The Board considers that the principal risks and uncertainties faced by the Company fall into the following main categories.

(i) *Market risks*

Price movements of the Company's investments are highly correlated to performance of global equities in general and small and mid cap equities in particular. Consequently falls in stock markets are likely to negatively affect the performance of the Company's investments.

The Company invests in companies with small market capitalisations, which are likely to be subject to higher valuation uncertainties and liquidity risks than larger capitalisation securities. The Company also invests in unquoted securities which generally have higher valuation uncertainties and liquidity risks than securities listed or traded on a regulated market.

The Company invests in securities which are not denominated or quoted in sterling. Movements of exchange rates between sterling and other currencies in which the Company's investments are denominated may have an unfavourable effect on the return in the investments made by the Company.

There are inherent risks involved in stock selection. The Investment Manager is experienced and employs its expertise in selecting the stocks in which the Company invests. The Manager spreads the investment risk over a wide portfolio of investments in three main sectors and at the year end the Company held investments in 84 companies. The Company will not normally hedge against foreign currency movements affecting the value of its investments, but the Manager takes account of this risk when making investment decisions.

Further detail on the financial implications of market risk is provided in note 14 to the accounts.

(ii) *Environmental Markets*

The Company invests in companies in Environmental Markets. Such companies carry risks that government liberalisation may not occur as expected, costs of technology may not fall, capital spending by their customers is reduced or deferred and their products or services are not adopted.

(iii) *Corporate governance and internal control risks*

The main risk areas are poor allocation of the Company's assets by the Investment Manager, poor governance by the Board and poor compliance or administration including the loss of investment trust status. These factors could potentially result in unacceptable returns for shareholders.

DIRECTORS' REPORT

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The control of risks related to the Company's business areas is described in detail in the corporate governance report on pages 23 to 29.

OUTLOOK

The outlook for the Company is discussed in the Chairman's Statement on page 5.

Other Information

LEGAL AND TAXATION STATUS

The Company is an investment company within the meaning of Section 833 of the Companies Act 2006.

In the opinion of the directors, the Company has conducted its affairs so as to be able to seek approved investment trust status from the HM Revenue & Customs under Section 1158 of the Corporation Tax Act 2010 for the year ended 31 December 2010. The Company will seek such approval when these accounts are submitted. Approval of investment trust status has been received for the year ended 31 December 2009.

SHARE ISSUES

The authority to issue new shares for cash granted at the Annual General Meeting held on 11 May 2010 will expire at the conclusion of the forthcoming Annual General Meeting.

The Board recommends that the Company is granted a new authority to issue up to a maximum of 31,623,178 Ordinary Shares (representing approximately 9.99% of the shares in issue, excluding Treasury Shares, at the date of this document) and to disapply pre-emption rights when issuing those Ordinary Shares. Resolutions to this effect will be put to shareholders at the Annual General Meeting. The maximum number of Ordinary Shares which can be admitted to trading on the London Stock Exchange without the publication of a prospectus is 10% of the Ordinary Share Capital on a rolling previous 12 month basis at the time of admission of the shares.

Under the terms of the Listing Rules of the Financial Services Authority relating to investment trust companies, the Company, being a closed-end investment trust, cannot make an issue of shares for cash in this way unless the price per share at which such shares are issued is not less than the net asset value of such shares.

WARRANTS

Warrantholders had the right to subscribe in cash for all or any of the Ordinary Shares in the capital of the Company to which the Warrantholder was entitled under the Warrants as follows:

- (a) on an annual basis, on 15 June in each of the years 2006 to 2010, (both inclusive), or if such day is not a business day, then on the next business day; and
- (b) under certain other circumstances as described in the circular to shareholders dated 20 October 2005.

On the final subscription date of 15 June 2010, 14,158,825 Warrants were exercised. A total of 4,507,260 Warrants were not exercised by Warrantholders on that date and a trustee was appointed to act on their behalf. The trustee subsequently exercised the Warrants and the Ordinary Shares arising from their exercise were sold in the market. The net proceeds of the sale of those Ordinary Shares less attributable costs were returned pro rata to the relevant Warrantholders. On 25 June 2010, the Company issued 18,666,085 new Ordinary Shares in respect of all the exercised Warrants at the subscription price of 96p per Ordinary Share.

DIRECTORS' REPORT

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RENEWAL OF AUTHORITY TO PURCHASE OWN SHARES

During the year ended 31 December 2010 the Company purchased 5,802,032 of its own Ordinary Shares and since the year end a further 1,252,000 Ordinary Shares have been bought back. These shares were purchased at a discount to net asset value and are being held in Treasury.

The authority for the Company to purchase its own shares granted by the Annual General Meeting held on 11 May 2010 will expire at the conclusion of the forthcoming Annual General Meeting. The directors recommend that a new authority to purchase up to 47,450,595 Ordinary Shares (subject to the condition that not more than 14.99% of the Ordinary Shares in issue, excluding Treasury Shares, at the date of the Annual General Meeting are purchased) is granted and a resolution to that effect will be put to the Annual General Meeting.

Any Ordinary Shares purchased will either be cancelled or, if the directors so determine, held in Treasury.

POLICY ON SALE OF TREASURY SHARES

Any Ordinary Shares held in Treasury will not be sold at less than net asset value.

CONTINUATION VOTE

The Articles of Association require that an ordinary resolution be proposed at every third Annual General Meeting of the Company that the Company should continue as an investment trust for a further three year period. The next continuation vote will be at the Annual General Meeting to be held in 2013. In the event that such a resolution is not passed, the directors are required to draw up proposals for Shareholders' approval for the voluntary liquidation or unitisation or other reorganisation of the Company, which would require a special resolution of Shareholders.

MARKET INFORMATION

The Company's share capital is listed on the London Stock Exchange. The market price is shown daily in the Financial Times. The NAV per share is calculated in sterling for each business day that the London Stock Exchange is open for business. The daily NAV per share is published through a regulatory information service.

BANKING ARRANGEMENTS

Lloyds TSB Bank plc was the Company's banker throughout the year.

The Company does not presently have any borrowing facilities in place and did not utilise any borrowings during the year.

CUSTODY

Custody of the Company's investments was contracted to The Northern Trust Company throughout the year.

DIRECTORS' REPORT

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DIRECTORS' HOLDINGS

At 31 December 2010 and at the date of this report the directors had the following holdings in the Company. All holdings were beneficially owned.

	Ordinary Shares At 31 December 2010 and at the date of this report	Ordinary Shares At 1 January 2010
R Bernays	28,664	23,887
Dr R Arnott	9,000	7,500
C Berry	7,500	7,500
W Brown	7,500	7,500
J Le Blan (appointed 27 January 2011)	–	–
K Niven	18,831	15,693
W Rickett (appointed 27 January 2011)	–	–

The increases in the above holdings during the year ended 31 December 2010 arose from the conversion of Warrants into Ordinary Shares in June 2010.

MANAGEMENT

The Manager is appointed under a contract subject to twelve months' notice.

Since its launch the management of the Company's investments has been contracted to Impax Asset Management Limited ("IAM"), which is regulated by the Financial Services Authority. The individuals primarily responsible for the management of the Company's investments are Ian Simm and Bruce Jenkyn-Jones.

The Manager is entitled to remuneration each month at a rate equivalent to one twelfth of one per cent on the net assets up to and including £200 million; plus one twelfth of 0.9 per cent on the net assets in excess of £200 million and up to £300 million; plus one twelfth of 0.825 per cent on the net assets in excess of £300 million and up to £400 million; plus one twelfth of 0.8 per cent on net assets in excess of £400 million.

MANAGEMENT ENGAGEMENT

In accordance with the Listing Rules, the Remuneration and Management Engagement Committee confirms that it has reviewed whether to retain IAM as the Manager of IEM. It has been concluded that, given the Manager's depth of knowledge in the sector and the overall performance of the Company, it is in the best interests of shareholders as a whole to continue with IAM's engagement.

COMPANY SECRETARY AND ADMINISTRATOR

Cavendish Administration Limited ("Cavendish") was the secretary of the Company for the entire year under review. Cavendish is also responsible for all administrative matters.

PAYMENT OF SUPPLIERS

It is the Company's payment policy to obtain the best possible terms for all business and therefore there is no consistent policy as to the terms used. The Company contracts with its suppliers the terms on which business will take place and abides by such terms; a high proportion of expenses, including management and administration fees, are paid within the month when invoiced. There were no invoices from trade creditors outstanding at 31 December 2010 (2009: £nil).

DIRECTORS' REPORT

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CAPITAL STRUCTURE AND VOTING RIGHTS

At the year end the Company's issued share capital comprised 324,509,373 Ordinary Shares of 10p nominal value. Of these shares 6,709,037 were held in Treasury. Each Ordinary Share held entitles the holder to one vote. However, Ordinary Shares held in Treasury do not hold voting rights. All shares, excluding those held in Treasury, carry equal voting rights and there are no restrictions on those voting rights. Voting deadlines are stated in the Notice of Meeting and Form of Proxy and are in accordance with the Companies Act 2006.

Since the year end, the Company has purchased 1,252,000 of its own Ordinary Shares. These shares are held in Treasury and as such do not carry voting rights.

There are no restrictions on the transfer of Shares nor are there any limitations or special rights associated with the Ordinary Shares.

SIGNIFICANT SHAREHOLDERS

The directors have been notified of, or have identified, at the date of this report the following shareholdings comprising 3% or more of the issued share capital (excluding Treasury Shares) of the Company:

	Holding	%
Universities Superannuation Scheme	30,463,120	9.6
Newton Investment Management Limited	17,301,109	5.5
AEGON UK Group of Companies	16,745,494	5.3
Rathbone Brothers plc	16,295,839	5.2
East Riding of Yorkshire Council	14,928,369	4.7
Church Commissioners for England	10,481,666	3.3
Legal & General Group plc	10,187,445	3.2

SETTLEMENT OF ORDINARY SHARE TRANSACTIONS

Ordinary share transactions in the Company are settled by the CREST share settlement system.

DONATIONS

The Company did not make any donations during the year under review.

NOTICE OF GENERAL MEETINGS

Resolution 15 in the notice to the Annual General Meeting is required to reflect the requirements of the Shareholder Rights Directive. The regulations in this Directive have generally increased the notice period for general meetings to 21 days. The Company is currently able to call General Meetings, other than an Annual General Meeting, on 14 clear days' notice and would like to preserve this ability. In order to be able to do so, shareholders must have approved the calling of meetings on 14 days' notice.

Resolution 15 seeks such approval. The approval would be effective until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed. The Company will ensure that it offers the facility for shareholders to vote by electronic means, and this facility is accessible to all shareholders, if it is to call general meetings on 14 days' notice.

DIRECTORS' REPORT

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CORPORATE GOVERNANCE

The Corporate Governance statement on pages 23 to 29 forms part of this report.

GOING CONCERN

The directors have adopted the going-concern basis in preparing the accounts. The following is a summary of the directors' assessment of the going-concern status of the Company.

Operational resources

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least twelve months from the date of approval of this document. In reaching this conclusion, the directors have considered the liquidity of the Company's portfolio of investments as well as its cash position, income and expense flows. As at 31 December 2010, the Company held £14.8m in cash and £423.1m in quoted investments. It is estimated that approximately 82% of the quoted investments held at the year end could be realised in one month under normal market conditions. The total expenses (excluding taxation) for the year ended 31 December 2010 were £4.5m, which represented approximately 1.1% of average net assets during the year. At the date of approval of this document, based on the aggregate of investments and cash held, the Company has in excess of fifty years operating expenses cover. The Company's net assets at 25 March 2011 were £449m.

Continuation vote

The Company will put forward a resolution for its continuation at the Annual General Meeting in 2013 and there is no indication at the present time that this vote will not be passed by shareholders.

AUDITOR INFORMATION

Each of the directors at the date of the approval of this report confirms that:

- (i) So far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- (ii) The director has taken all steps that he ought to have taken as director to make himself aware of any relevant information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

In accordance with Section 489 of the Companies Act 2006, a resolution to re-appoint Ernst & Young LLP as the Company's auditors will be put forward at the forthcoming Annual General Meeting.

By order of the Board
Anthony Lee
For and on behalf of
Cavendish Administration Limited
Company Secretary

1 April 2011

CORPORATE GOVERNANCE

INTRODUCTION

This Corporate Governance statement forms part of the Directors' Report.

The Board has considered the principles and recommendations of the AIC Code of Corporate Governance ("AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies ("AIC Guide") as issued in March 2009. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in Section 1 the Combined Code of Corporate Governance (the "Combined Code"), as issued by the Financial Reporting Council ("FRC") in 2008, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the Combined Code), will provide more appropriate information to shareholders.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of Section 1 of the Combined Code, except as set out below.

The Combined Code includes provisions relating to:

- the role of the chief executive
- executive directors' remuneration
- the need for an internal audit function

For the reasons set out in the AIC Guide, and in the preamble to the Combined Code, the Board considers these provisions are not relevant to the position of the Company, being an externally managed investment company. The Company has therefore not reported further in respect of these provisions.

The structure of the Board is such that it is considered unnecessary to identify a senior non-executive director other than the Chairman. All other directors are, however, available to shareholders if they have concerns over issues that they feel have not been dealt with through the normal mode of communication with the Chairman.

THE BOARD

Composition

At the date of this report, the Board consists of seven non-executive directors including the Chairman. Mr Bernays and Mr Niven were appointed as directors of the Company upon its incorporation. Dr Arnott was appointed as a director by the Board on 8 January 2002. Mr Brown was appointed as a director by the Board on 31 January 2002 and Mr Berry was appointed by the Board on 1 October 2007. Mrs Le Blan and Mr Rickett were appointed on 27 January 2011. All the directors have served during the entire period since their appointment.

The Board believes that during the year ended 31 December 2010 its composition was appropriate for an investment company of this nature and size. Notwithstanding this, the Board agreed on a programme of refreshment of the Board during the year under review which is detailed further below. As a result, two new directors have been appointed since the year end and one director will stand down at the Annual General Meeting. All the directors are independent of the investment

CORPORATE GOVERNANCE

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manager. The directors have a broad range of relevant experience to meet the Company's requirements and their biographies are given below.

Richard Bernays (Chairman, aged 68) Mr Bernays is chairman of Gartmore Global Trust plc and Throgmorton Trust plc and a director of Charter Pan-European Trust plc. Mr Bernays retired in March 2001 from the post of chief executive of Old Mutual International after 30 years in the financial services industry. Following a number of years in advertising, Richard Bernays joined Mercury Asset Management in 1971 and was responsible for the establishment and development of its unit trust arm from 1975 to 1985. He was vice chairman of Mercury Asset Management from 1987 to 1991 when he left to become chief executive of Hill Samuel Asset Management. He joined Old Mutual International in 1998. He is also a director of WNS Group, a New York Stock Exchange listed company.

Dr Robert Arnott (aged 53) Following a D. Phil. in geology he joined Shell International in 1983 and worked in exploration and as an economist for Shell Expro. In 1991 he joined Hoare Govett as an oil analyst, and subsequently worked for UBS Warburg, Goldman Sachs and Morgan Stanley Dean Witter. In October 2000 he joined HSBC Investment Bank plc as head of Global Energy Equity Research. In December 2001 Dr Arnott joined the Oxford Institute for Energy Studies where he is currently a Senior Research Adviser. Dr Arnott has written two books on the valuation of oil and gas companies. He is also a director of Petroceltic International PLC and Spring Energy AS.

Charles Berry (aged 58) Mr Berry is chairman of eaga plc and Drax Group plc. He is also a non-executive director of the Securities Trust of Scotland plc. Until September 2005 he was a Director of Scottish Power plc responsible for the UK energy businesses of Generation, Energy Management and Supply. He joined ScottishPower in November 1991 and was appointed to the Board in April 1999. Prior to joining ScottishPower, he was Group Development Director of Norwest Holst, a subsidiary of Compagnie Général des Eaux, and prior to that held management positions within subsidiaries of Pilkington plc. He holds a BSc (First Class Hons) in Electrical Engineering from the University of Glasgow and a Masters Degree in Management from the Massachusetts Institute of Technology.

Bill Brown (aged 48) Mr Brown is a founder and partner of Bluehone Investors, a specialist smaller companies investment boutique. He has been involved in the fund management sector since 1988, initially as a venture capitalist, and since 1995 has specialised in small publicly traded companies. He was responsible for the launch of four investment trusts including Active Capital Trust plc of which he remains manager. He is a chartered accountant.

Julia Le Blan (aged 56) Mrs Le Blan is a chartered accountant and has worked in the financial services industry for over 30 years. She retired from Deloitte in 2009, where she had been a Tax Partner since 1990. During that time, she acted as tax adviser to international financial institutions, including clients in banking, securities and fund management and she led the mergers and acquisitions function for financial services tax. She was also the firm's expert on the taxation of investment trust companies. Mrs Le Blan is also a non-executive director of Investors Capital Trust plc.

Keith Niven (aged 62) Mr Niven retired from Schroder Investment Management Limited ("SIM") in October 2001. He joined Schrodgers in 1973 and was appointed a director of SIM, its fund management arm, in 1985. Mr Niven held a number of posts in SIM, becoming joint vice chairman in 2000. He is non-executive chairman of Matrix Income & Growth VCT PLC and a non-executive

CORPORATE GOVERNANCE

CONTINUED

director of two other investment trusts: Schroder Income Growth Fund plc and Schroder UK Growth Fund plc. Mr Niven is also an investment adviser to the Rolls Royce Pension Fund.

William Rickett (aged 58) Mr Rickett, C.B. was Director General, Energy in the Department of Energy & Climate Change and chairman of the Governing Board of the International Energy Agency until October 2009. He had previously been a Director General in the Department for Transport and in the Cabinet Office. He started his civil service career in the Department of Energy in 1975 and, among other things, led the team privatising the electricity industry from 1987 to 1990. He was Private Secretary to the Prime Minister from 1981 to 1983 and also spent two periods on secondment to the private sector. He is now Senior Adviser to Cambridge Economic Policy Associates Ltd and a Director of the National Renewable Energy Centre Ltd and of Eggborough Power Ltd.

The Board does not believe that the service tenure of non-executive directors should be strictly limited to nine years. The Board recognises the benefits to the Company of having longer serving directors together with progressive refreshment of the Board. The Company has just entered its tenth year of operations. Mr Bernays, Dr Arnott, Mr Brown and Mr Niven were appointed shortly before the Company's shares were listed on the London Stock Exchange in February 2002. The Board does not believe that the current length of service affects the independence of those directors and believes that they provide an appropriate level of experience and ability to the Company. Mr Berry was appointed in October 2007 and Mrs Le Blan and Mr Rickett were appointed in January 2011. Mr Brown will retire at the forthcoming Annual General Meeting and not put himself forward for re-election.

The Board confirms that the performance of the directors was formally considered during the year. The evaluation concluded that they are effective in their roles and make significant contributions to the Board's decision making process.

As stated above, since the year end, the Board has appointed two new directors. A new director search was conducted with the assistance of a third party recruitment consultant. The process included a careful consideration of the future requirements of the Company and the necessary skills and experience required from prospective directors. Upon the recommendation of the nominations committee, the Board appointed Mrs Le Blan and Mr Rickett with effect from 27 January 2011.

In line with current best practice, the Board has decided that each director should be subject to annual re-election by shareholders, although this is not required by the Company's Articles of Association. All the directors of the Company will stand for re-election at the Annual General Meeting.

The Board recommends all the directors for re-election for the reasons highlighted above.

The directors have appointment letters which do not state any specific term. They are subject to re-election by shareholders at a maximum interval of three years. Copies of the directors' appointment letters are available on request from the Company Secretary.

A policy of insurance against directors' and officers' liabilities is maintained by the Company.

A procedure has been adopted for directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company.

CORPORATE GOVERNANCE

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There were six full Board meetings during the year ended 31 December 2010. Mr Bernays attended six meetings. Mr Berry, Mr Brown and Mr Niven attended five meetings. Dr Arnott attended four meetings. In addition, there were three Board sub-committee meetings to deal with the formal approval of documents.

Mrs Le Blan and Mr Rickett, having been appointed since the year end, did not attend the above meetings.

BOARD COMMITTEES

The Board decides upon the membership and chairmanship of its committees.

Audit Committee

All the directors except the Chairman of the Company are members of this committee. The Audit Committee meets formally at least twice a year for the purpose, amongst other things, of considering the appointment, independence and objectivity, and remuneration of the auditors and to review the annual accounts and half-yearly financial report. Where non-audit services are provided by the auditors, full consideration of the financial and other implications on the independence of the auditors arising from any such engagement are considered before proceeding. The Audit Committee has considered the non-audit work of the auditors this year and does not consider this compromises their independence. Mr Niven is the Chairman of the Audit Committee. The Audit Committee has formal written terms of reference and copies of these are available on request from the Company Secretary. All members of the audit committee have recent and relevant financial experience. The Audit Committee has considered the need for an internal audit function and considers that this is not appropriate given the nature and circumstances of the Company.

There were two Audit Committee meetings during the year ended 31 December 2010. Mr Niven and Mr Berry attended both meetings. Dr Arnott and Mr Brown attended one meeting.

Mrs Le Blan and Mr Rickett, having been appointed since the year end, did not attend the above meetings.

Remuneration and Management Engagement Committee

All the directors are members of this committee. The Remuneration and Management Engagement Committee meets formally on at least an annual basis for the purpose, amongst other things, of considering the appointment and remuneration of the investment manager and of suppliers of services to the Company, as well as the fees of non-executive directors. Dr Arnott is the chairman of the Remuneration and Management Engagement Committee. The Remuneration and Management Engagement Committee has formal terms of reference and copies of these are available on request from the Company Secretary.

A directors' remuneration report is included on page 30 of these financial statements.

There was one meeting of the Remuneration and Management Engagement Committee during the year ended 31 December 2010. The meeting was attended by all the committee members.

Mrs Le Blan and Mr Rickett, having been appointed since the year end, did not attend the above meetings.

CORPORATE GOVERNANCE

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Nominations Committee

All the directors are members of this committee. The Nominations Committee has been established for the purpose of identifying and putting forward candidates for the office of director of the Company. The Nominations Committee meets as and when required. Mr Brown is chairman of the Nominations Committee. The Nominations Committee considers job specifications and will assess whether candidates have the necessary skills and time available to devote to the job.

There were four meetings of the Nominations Committee during the year ended 31 December 2010. Mr Bernays and Mr Berry attended four meetings. Mr Niven attended three meetings. Mr Brown attended two meetings and Dr Arnott attended one meeting.

Mrs Le Blan and Mr Rickett, having been appointed since the year end, did not attend the above meetings.

PERFORMANCE APPRAISAL

A formal annual performance appraisal process is performed on the Board, the committees, the individual directors and its main service providers. A programme consisting of open and closed ended questions is used as the basis for the appraisals. The results are reviewed by the Chairman and are then discussed with the Board so that any necessary action can be considered and undertaken. A separate appraisal of the Chairman is carried out and the results are reviewed by Dr Arnott and reported back to the Chairman. The results of the performance appraisal carried out in 2010 were positive and demonstrated that the directors showed the necessary commitment for the fulfilment of their duties. Following the completion of the appraisal in 2010, the Board implemented a plan to refresh the Board to ensure that the composition of the Board going forward continues to be appropriate to meet with the Company's requirements.

INTERNAL CONTROL

The Combined Code requires the Board to review the effectiveness of the Company's system of internal controls. The Board recognises its ultimate responsibility for the Company's system of internal controls and for monitoring its effectiveness. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives. It can provide only reasonable assurance against material misstatement or loss. The Board has undertaken a review of the aspects covered by the guidance and has identified risk management controls in the key areas of business objectives, accounting, compliance, operations and secretarial as being matters of particular importance upon which it requires reports. The Board believes that the existing arrangements, set out below, represent an appropriate framework to meet the internal control requirements. By these procedures the directors have kept under review the effectiveness of the internal control system throughout the year and up to the date of this report.

The Board has contractually delegated to external agencies the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), the registration services and the accounting and company secretarial requirements. Each of these contracts was entered into after full and proper consideration of the quality and cost of services offered, including the financial control systems in operation in so far as they relate to the affairs of the Company.

Financial aspects of internal control

The directors are responsible for the internal financial control systems of the Company and for reviewing their effectiveness. These aim to ensure the maintenance of proper accounting records,

CORPORATE GOVERNANCE

CONTINUED

the reliability of the financial information upon which business decisions are made and which is used for publication and that the assets of the Company are safeguarded. As stated above, the Board has contractually delegated to external agencies the services the Company requires, but they are fully informed of the internal control framework established by the Manager and the Administrator to provide reasonable assurance on the effectiveness of internal financial controls.

The key procedures include monthly production of management accounts and NAV calculations, monitoring of performance at regular board meetings, supervision by directors of the valuation of securities, segregation of the administrative function from that of securities and cash custody and of both from investment management, maintenance of appropriate insurance and adherence to physical and computer security procedures. In addition, the Board keeps under its own direct control all material payments out of the Company other than for investment purposes. Payment of management and administration fees is authorised only by directors after they have studied the financial data upon which those fees are based.

The Statement of Directors' Responsibilities in respect of the accounts is on page 32 and a Statement of Going Concern is on page 22. The Report of the Independent Auditors is on page 33.

Other aspects of internal control

The Board holds at least four regular meetings each year, plus additional meetings as required. Between these meetings there is regular contact with the Manager and the Administrator.

The Manager reports in writing to the Board on operational and compliance issues prior to each meeting, and otherwise as necessary. The manager's compliance officer issues his own report directly to the Audit Committee concerning the internal controls applicable to the Manager's dealing, investment and general office procedures.

Directors receive and consider regular monthly reports from the Administrator, giving full details of all holdings in the portfolio and of all transactions and of all aspects of the financial position of the Company. The Administrator reports separately in writing to the Board concerning risks and internal control matters within its purview, including internal financial control procedures and secretarial matters. Additional ad hoc reports are received as required and directors have access at all times to the advice and services of the Corporate Company Secretary, which is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

This contact with the Manager and the Administrator enables the Board to monitor the Company's progress towards its objectives and encompasses an analysis of the risks involved. These matters are assessed on an ongoing basis through the year and again, formally, at year end.

SHAREHOLDER RELATIONS

The Company welcomes all shareholders to attend the Annual General Meeting and seeks to provide twenty working days' notice of that meeting. The Notice of Meeting sets out the business of the AGM and any item not of an entirely routine nature is explained in the Directors' Report. Separate resolutions are proposed for each substantive issue. The Manager has a programme of meetings with shareholders and reports back to the Board on its findings. The Board also welcomes feedback from the shareholders directly to them.

CORPORATE GOVERNANCE

CONTINUED

EXERCISE OF VOTING POWERS

The Company and the Manager believe that proxy voting is a key component in the ongoing dialogue with investee companies. As such, voting is an important aspect of the Manager's investment process. The Company and the Manager support the UK Stewardship Code issued by the Financial Reporting Council in July 2010. The Manager has published its proxy voting policy and statement of compliance with the principles of best practice of the Stewardship Code on its website.

SOCIAL AND ENVIRONMENTAL POLICY

The Company has no staff, premises, manufacturing or other operations. The Company only invests in companies which contribute to the cleaner or more efficient delivery of basic services of energy, water and waste. The Manager's core expertise is within the environmental sector and the Manager takes a close interest in ensuring effective governance of investee companies. The Company and the Manager believe that a thorough understanding of environmental, social and governance issues is likely to enhance perspectives on both the opportunities and risks offered by individual investments. The Manager's detailed policy on environmental, social and governance issues can be found on its website (www.impax.co.uk).

DIRECTORS' REMUNERATION REPORT

This report has been prepared in accordance with the requirements of the Companies Act 2006. An ordinary resolution for the approval of this report will be put forward at the forthcoming Annual General Meeting.

REMUNERATION AND MANAGEMENT ENGAGEMENT COMMITTEE

The Company currently has seven non-executive directors, two of whom were appointed since the year end. The Remuneration and Management Engagement Committee comprises the whole Board.

Since 1 March 2010, the fee of the Chairman has been £30,000 per annum, that of Mr Niven (Chairman of the Audit Committee) has been £24,000 per annum and the fees of the other directors have been £20,000 per annum. Prior to 1 March 2010 the fees were payable at a rate of £25,000 per annum for the Chairman, £18,000 per annum for Mr Niven and £16,000 per annum for the other directors. The fee increases followed a recommendation of the Remuneration and Management Engagement Committee. The Board believes that the current fee level is appropriate given the size of the Company and the responsibilities of the directors.

Further details on the duties of the Remuneration and Management Engagement Committee can be found in the Corporate Governance statement on page 26.

POLICY ON DIRECTORS' FEES

The Board's policy is that the remuneration of non-executive directors should be fair and should reflect the experience of the Board as a whole. The non-executive directors' fees are determined within the limits set out in the Company's Articles of Association and they are not eligible for bonuses, pension benefits, share benefits, share options, long-term incentive schemes or other benefits. It is intended that this policy will continue for the year ending 31 December 2011 and for subsequent years.

The maximum level of fees payable, in aggregate, to the directors of the Company is currently £150,000 per annum.

DIRECTORS' SERVICE CONTRACTS

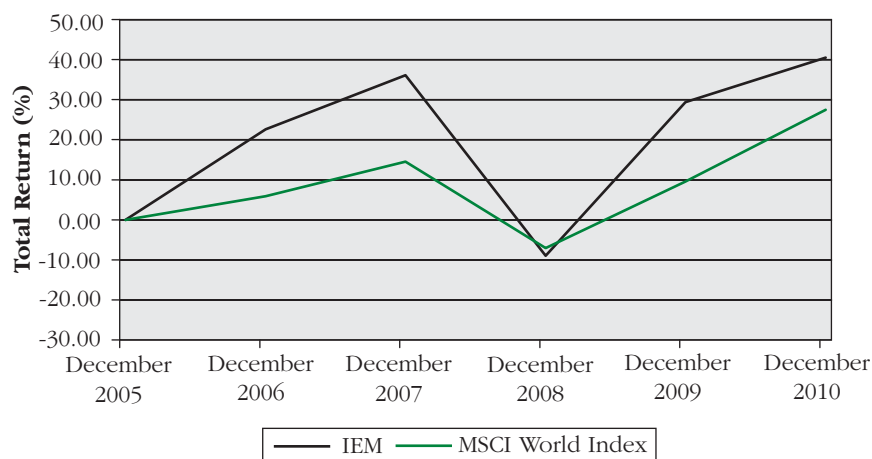
The directors do not have service contracts with the Company and no director is entitled to compensation on loss of office. The directors have appointment letters which do not state any specific term. However, they are subject to re-election by shareholders at a maximum interval of three years.

DIRECTORS' REMUNERATION REPORT

CONTINUED

PERFORMANCE

The following chart shows the performance of the Company's share price by comparison to the MSCI World Index (in sterling terms), both on a total return basis. The Company does not have a specific benchmark but has deemed the MSCI World Index to be the most appropriate comparator for this report.



DIRECTORS' EMOLUMENTS FOR THE YEAR (AUDITED)

The directors who served during the year received the following emoluments in the form of fees.

	Fees 2010 £'000	Fees 2009 £'000
Richard Bernays	29	25
Keith Niven	23	18
Dr Robert Arnott	19	16
Bill Brown	19	16
Charles Berry	19	16
	109	91

SUMS PAYABLE TO THIRD PARTIES

Fees for Bill Brown's services as a director of the Company were paid to Bluehone Investors LLP.

By order of the Board
 Anthony Lee
 For and on behalf of
 Cavendish Administration Limited
Company Secretary

1 April 2011

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare accounts for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company as at the end of the year and of the net return for the year. In preparing these accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates which are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The accounts are published on the www.impax.co.uk website which is maintained by the Company's Manager, Impax Asset Management Limited ("IAM"). The maintenance and integrity of the website maintained by IAM is, so far as it relates to the Company, the responsibility of IAM. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website and, accordingly, the auditors accept no responsibility for any changes that have occurred to the accounts since they were initially presented on the website. The accounts are prepared in accordance with UK legislation, which may differ from legislation in other jurisdictions.

STATEMENT UNDER THE DISCLOSURE & TRANSPARENCY RULES 4.1.12

The directors each confirm to the best of their knowledge that:

- (a) the accounts, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- (b) this Annual Report includes a fair review of the development and performance of the business and position of the Company, together with a description of the principal risks and uncertainties that it faces.

For and on behalf of the Board

William Rickett

Director

1 April 2011

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF IMPAX ENVIRONMENTAL MARKETS PLC

We have audited the financial statements of Impax Environmental Markets plc for the year ended 31 December 2010 which comprise the Income Statement, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds, the Cash Flow Statement, and the related notes 1 to 14. 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).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members 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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on page 32, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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 company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its return 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.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITORS' REPORT

CONTINUED

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 22, in relation to going concern;
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to the shareholders by the Board on directors' remuneration.

Caroline Gulliver (Senior statutory auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor
London

1 April 2011

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2010

Notes	2010			2009			
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	
	Gains on investments	–	50,929	50,929	–	91,687	91,687
3	Income	4,602	–	4,602	4,217	–	4,217
4	Investment management fees	(936)	(2,807)	(3,743)	(779)	(2,335)	(3,114)
4	Other expenses	(725)	–	(725)	(582)	–	(582)
	Return on ordinary activities before taxation	2,941	48,122	51,063	2,856	89,352	92,208
6	Taxation	(316)	–	(316)	(480)	105	(375)
	Return on ordinary activities after taxation	2,625	48,122	50,747	2,376	89,457	91,833
7	Return per ordinary share – undiluted	0.84p	15.36p	16.20p	0.78p	29.33p	30.11p
7	Return per ordinary share – diluted	n/a	n/a	n/a	0.78p	29.31p	30.09p

The total column of the Income Statement is the profit and loss account of the Company.

All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued during the year.

A Statement of Total Recognised Gains and Losses has not been presented as all gains and losses are recognised in the Income Statement.

The notes on pages 39 to 46 form part of these accounts

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 DECEMBER 2010

	Share Capital £'000	Share Premium Account £'000	Share Purchase Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Total £'000
Opening shareholders' funds						
as at 1 January 2010	30,585	-	289,858	70,651	2,746	393,840
Share buy backs	-	-	(6,842)	-	-	(6,842)
Exercise of warrants	1,866	16,035	-	-	-	17,901
Cancellation of share premium	-	-	-	-	-	-
Dividend paid (May 2010)	-	-	-	-	(2,281)	(2,281)
Profit for the year	-	-	-	48,122	2,625	50,747
Closing shareholders' funds						
as at 31 December 2010	32,451	16,035	283,016	118,773	3,090	453,365

FOR THE YEAR ENDED 31 DECEMBER 2009

	<i>Share</i> <i>Capital</i> £'000	<i>Share</i> <i>Premium</i> <i>Account</i> £'000	<i>Share</i> <i>Purchase</i> <i>Reserve</i> £'000	<i>Capital</i> <i>Reserve</i> £'000	<i>Revenue</i> <i>Reserve</i> £'000	<i>Total</i> £'000
Opening shareholders' funds						
as at 1 January 2009	30,541	246,110	44,125	(18,806)	2,960	304,930
Share buy backs	-	-	(748)	-	-	(748)
Exercise of warrants	44	377	(6)	-	-	415
Cancellation of share premium	-	(246,487)	246,487	-	-	-
Dividend paid (May 2009)	-	-	-	-	(2,590)	(2,590)
Profit for the year	-	-	-	89,457	2,376	91,833
Closing shareholders' funds						
as at 31 December 2009	30,585	-	289,858	70,651	2,746	393,840

The notes on pages 39 to 46 form part of these accounts

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 £'000	2009 £'000
Operating activities		
Cash inflow from investment income and bank interest	4,567	4,339
Cash outflow from management and other expenses	(4,440)	(3,955)
Cash inflow from recovery of VAT on management fees	–	371
Cash inflow from disposal of investments	131,569	79,379
Cash outflow from purchase of investments	(132,352)	(79,354)
Cash outflow from foreign exchange costs	(394)	(478)
Cash outflow from taxation	(317)	(375)
Net cash flow from operating activities	(1,367)	(73)
Equity dividends paid	(2,281)	(2,590)
Financing		
Proceeds of share issues	–	420
Expenses of share issue	–	(5)
New share issues	17,901	–
Share buy backs	(6,842)	(748)
Net cash flow from financing	11,059	(333)
Increase/(decrease) in cash	7,411	(2,996)
Opening balance at 1 January	7,378	10,374
Balance at 31 December	14,789	7,378

The notes on pages 39 to 46 form part of these accounts

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

The accounts have been prepared in accordance with applicable UK accounting standards. The particular accounting policies adopted are described below.

(a) Basis of Accounting

The accounts are prepared in accordance with UK Generally Accepted Accounting Practice (“UK GAAP”) and the Statement of Recommended Practice “Financial statements of investment trust companies and venture capital trusts” (“SORP”), issued by the Association of Investment Companies in January 2009.

(b) Investments

Securities of companies quoted on regulated stock exchanges have been classified as “fair value through profit or loss” and are initially recognised on the trade date and measured at fair value. Investments are measured at subsequent reporting dates at fair value by reference to their market bid prices. Any unquoted investments are measured at fair value which is determined by the directors in accordance with the International Private Equity and Venture Capital guidelines.

Changes in fair value are included in the Income Statement as a capital item.

Transaction costs incurred on the acquisition and disposal of investments are charged to the Income Statement as a capital item.

(c) Income from Investments

Investment income from shares is accounted for on the basis of ex-dividend dates. Overseas income is grossed up at the appropriate rate of tax but UK dividend income is not grossed up for tax credits.

Special Dividends are assessed on their individual merits and may be credited to the Income Statement as a capital item if considered to be closely linked to reconstructions of the investee company or other capital transactions. All other investment income is credited to the Income Statement as a revenue item. Interest receivable is accrued on a time apportionment basis and reflects the effective interest rate.

(d) Capital Reserves

The Company is precluded by its articles from distributing its capital profit, except by way of redeeming or purchasing its own shares. Profits achieved in cash by selling investments and changes in fair value arising upon the revaluation of investments that remain in the portfolio are all charged to the capital column of the Income Statement and allocated to the capital reserve.

(e) Investment Management Fees

In accordance with the Company’s stated policy and the directors’ expectation of the split of future returns, three quarters of investment management fees, net of attributable tax, are charged as a capital item in the Income Statement. If applicable, tax relief in respect of costs allocated to capital is credited to capital via the capital column of the Income Statement on the marginal basis.

(f) Deferred Taxation

Provision is made for deferred taxation, using the liability method, on all timing differences to the extent that it is probable that a liability will crystallise. Deferred tax is recorded in accordance with FRS19 ‘Deferred tax’. Deferred tax is provided on all timing differences that have originated but not reversed by the balance sheet date. A deferred tax asset is only recognised to the extent that it is regarded as recoverable.

(g) Foreign currency translation

All transactions and income in foreign currencies are translated into sterling at the rates of exchange on the dates of such transactions or income recognition. Foreign currency assets and liabilities at the balance sheet date are translated into sterling at the rates of exchange at the balance sheet date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the Income Statement as either a capital or revenue item depending on the nature of the gain or loss.

2. INVESTMENT COMPANY STATUS

The Company is an investment company within the meaning of Section 833 of the Companies Act 2006.

NOTES TO THE ACCOUNTS

CONTINUED

3. INCOME

	2010 £'000	2009 £'000
Income from investments:		
Franked dividends from listed investments	902	886
Unfranked dividends from overseas investments	3,642	3,260
Loan note interest	55	6
Total	4,599	4,152
Other income:		
Interest receivable	3	34
Other income	–	31
Total income	4,602	4,217

4. FEES AND EXPENSES

	2010			2009		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fees	936	2,807	3,743	779	2,335	3,114
Secretary and administrator fees	155	–	155	131	–	131
Custodian's fees	168	–	168	119	–	119
Directors' fees	109	–	109	91	–	91
Directors' other employment costs	9	–	9	8	–	8
Auditors remuneration						
– for audit services	28	–	28	25	–	25
– for taxation	7	–	7	6	–	6
Broker retainer	54	–	54	47	–	47
Registrar's fees	40	–	40	37	–	37
Association of Investment Companies	38	–	38	35	–	35
Consultant fees	35	–	35	–	–	–
Legal fees	–	–	–	30	–	30
Other expenses	82	–	82	53	–	53
	725	–	725	582	–	582
Total expenses	1,661	2,807	4,468	1,361	2,335	3,696

The main terms of the management agreement are summarised in the Directors' Report on page 20.

5. DIRECTORS' FEES

Since 1 March 2010, the fees of the Chairman have been £30,000 per annum, of Mr Niven (Chairman of the Audit Committee) have been £24,000 per annum and of the other directors have been £20,000 per annum. Prior to 1 March 2010 the fees were payable at a rate of £25,000 per annum for the Chairman, £18,000 per annum for Mr Niven and £16,000 per annum for the other directors. There were no other emoluments. Employers' National Insurance or VAT upon the fees is included as appropriate in directors' other employment costs under note 4.

NOTES TO THE ACCOUNTS

CONTINUED

6. TAXATION

(a) Analysis of charge in the period:

	2010			2009		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Current UK Corporation Tax	–	–	–	334	(105)	229
Double tax relief	–	–	–	(229)	–	(229)
UK Corporation Tax	–	–	–	105	(105)	–
Overseas taxation	316	–	316	375	–	375
Taxation	316	–	316	480	(105)	375

(b) Factors affecting current tax charge for the period:

The current taxation charge for the year is lower than the standard rate of corporation tax in the UK of 28% (2009: 28%).

The differences are explained below:

	2010 £'000	2009 £'000
Total profit/(loss) before tax per accounts	51,063	92,208
Corporation tax at 28% (2009: 28%)	14,298	25,818
Effects of:		
Non-taxable UK dividend income	(253)	(248)
Non-taxable overseas dividend income	(1,020)	(259)
Movement in unutilised management expenses	1,235	549
Movement in income accruals taxable on receipt	–	41
(Gains)/losses on investments not taxable	(14,260)	(25,672)
Overseas tax	316	375
Double tax relief	–	(229)
Total current tax charge for the year	316	375

Investment companies which have been approved by the HM Revenue & Customs under section 1158 of the Corporation Tax Act 2010 are exempt from tax on capital gains. Due to the Company's status as an Investment Trust, and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided for deferred tax on any capital gains or losses arising on the revaluation of investments.

- (c) The Company has unrelieved excess management expenses of £10,453,000 (2009: £6,043,000). It is unlikely that the Company will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised. The unrecognised deferred tax asset amounts to £2,717,000 (2009: £1,692,000).

7. RETURNS PER ORDINARY SHARE

Undiluted return per share is based on the net gain on ordinary activities after taxation of £50,747,000 comprising a revenue return of £2,625,000 and a capital return of £48,122,000 (2009: £91,833,000 comprising a revenue return of £2,376,000 and a capital return of £89,457,000) attributable to the weighted average of 313,164,696 (2009: 305,015,304) Ordinary Shares of 10p in issue during the year.

There was no dilution to return per share in the year ended 31 December 2010. Diluted returns per share for the year ended 31 December 2009 are based on the net returns on ordinary activities after taxation above attributable to the diluted weighted average of 305,177,359 Ordinary Shares in issue during the year.

NOTES TO THE ACCOUNTS

CONTINUED

8. DIVIDENDS

	2010	2009
	£'000	£'000
Dividends reflected in the financial statements:		
Final dividend paid for the year ended 31 December 2009 of 0.75p (2008: 0.85p)	2,281*	2,590
Dividends not reflected in the financial statements:		
Recommended ordinary dividend for the year ended 31 December 2010 of 0.75p (2009: 0.75p) per share	2,374	2,283*

If approved at the Annual General Meeting, the dividend will be paid on 17 May 2011 to shareholders on the register as at the close of business on 15 April 2011.

* The difference between the recommended dividend for the year ended 31 December 2009 and the amount paid in 2010 was due to 250,000 Ordinary Shares being bought back following the date of approval of the Annual Report for the year ended 31 December 2009 but before the record date of the final dividend for that year.

9. INVESTMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS

	2010	2009
	£'000	£'000
<i>Analysis of closing balance:</i>		
UK quoted securities	29,631	43,971
UK unquoted securities	8,971	9,389
Overseas securities	393,494	325,879
Overseas unquoted securities	7,670	7,509
Total investments	439,766	386,748
<i>Movements during the year:</i>		
Opening balance of investments, at cost	349,795	345,188
Additions, at cost	133,117	79,303
Disposals, at cost	(101,905)	(74,696)
Cost of investments at 31 December	381,007	349,795
<i>Revaluation of investments to fair value:</i>		
Opening balance of Capital reserve – investments held	36,953	(50,720)
Net movement	21,806	87,673
Balance of Capital reserve – investments held at 31 December	58,759	36,953
Fair value of investments at 31 December	439,766	386,748

During the year, the Company incurred transaction costs on purchases totalling in aggregate £263,598 (2009: £176,898) and on disposals totalling in aggregate £210,693 (2009: £164,550).

Following the year end, the Company has written down the value of its unquoted securities by an aggregate amount of £3.5 million.

10. SHARE CAPITAL AND WARRANTS

	2010		2009	
At 31 December				
<i>Allotted, issued and fully paid</i>				
Ordinary shares of 10p	Number	324,509,373	Number	305,843,288
	£'000	32,451	£'000	30,585
Warrants	Number	–	Number	18,666,085

At the year end 6,709,037 (2009: 907,005) of the above Ordinary Shares were held in Treasury.

NOTES TO THE ACCOUNTS

CONTINUED

10. SHARE CAPITAL AND WARRANTS (continued)

(i) Exercise of Warrants

Warrantholders had the right to subscribe in cash for all or any of the Ordinary Shares in the capital of the Company to which the Warrantholder was entitled under the Warrants as follows:

- on an annual basis, on 15 June in each of the years 2006 to 2010, (both inclusive), or if such day is not a business day, then on the next business day; and
- under certain other circumstances as described in the circular to shareholders dated 20 October 2005.

On the final subscription date of 15 June 2010, 14,158,825 Warrants were exercised. A total of 4,507,260 Warrants were not exercised by Warrantholders on that date and a trustee was appointed to act on their behalf. The trustee subsequently exercised the Warrants and the Ordinary Shares arising from their exercise were sold in the market. The net proceeds of the sale of those Ordinary Shares less attributable costs were returned pro rata to the relevant Warrantholders. On 25 June 2010, the Company issued 18,666,085 new Ordinary Shares in respect of all the exercised Warrants at the subscription price of 96p per Ordinary Share.

(ii) Ordinary Share buy backs

During the year, the Company bought back 5,802,032 Ordinary Shares to be held in treasury for an aggregate cost of £6,842,000. Since the year end a further 1,252,000 Ordinary Shares have been bought back to be held in treasury.

11. CAPITAL RESERVE

Disposal of Investments

	2010	2009
	£'000	£'000
Opening balance	33,698	31,914
Transfer from investments held	10,743	(5,870)
Gains on disposal of investments by reference to revalued book costs	18,792	10,354
Net foreign exchange (loss)/gain	(393)	(477)
Unquoted investment transaction rebates/(costs)	(19)	7
Investment management fees charged to capital	(2,807)	(2,335)
Allocation of tax relief to capital	–	105
Balance at 31 December	60,014	33,698

Investments held

	2010	2009
	£'000	£'000
Opening balance	36,953	(50,720)
Transfer to disposal of investments	(10,743)	5,870
Revaluation of investments	32,549	81,803
Balance at 31 December	58,759	36,953
Capital reserve balance at 31 December	118,773	70,651

12. NET ASSETS PER ORDINARY SHARE

Undiluted net assets per Ordinary Share is based on net assets of £453,365,000 (2009: £393,840,000) divided by 317,800,336 (2009: 304,936,283) Ordinary Shares in issue (excluding shares held in Treasury) at the Balance Sheet date.

There was no dilution to net assets per Ordinary Share at the year end as there were no Warrants remaining in issue. Diluted net assets per Ordinary Share at 31 December 2009 is based on net assets of £411,759,000 divided by 323,602,368 diluted Ordinary Shares at that date. The diluted figure is based on all warrants being converted in to Ordinary Shares at a price £0.96 per Ordinary Share.

13. RELATED PARTY TRANSACTIONS

Details of the management contract can be found in the Directors' Report on page 20. Fees payable to the Investment Manager are detailed in note 4 on page 40; the relevant amount outstanding as an accrual at the year end was £344,415 (2009: £304,771).

NOTES TO THE ACCOUNTS

CONTINUED

14. FINANCIAL INSTRUMENTS – RISK PROFILE

Market Risks

The potential market risks are (i) currency risk, (ii) interest risk, and (iii) other price risk. Each considered in turn below.

(i) Currency Risk

The Company invests in global equity markets and therefore is exposed to currency risks as it affects the value of the shares in the base currency. These currency exposures are not hedged. Currency exposures for the Company as at 31 December 2010 are detailed in the table at the end of this note.

(ii) Interest Rate Risk

The Company is typically fully invested in global equities but will from time to time hold interest bearing assets. These assets are cash balances that earn interest at a floating rate and UK Treasury Bills when large amounts of cash are held. At the year end the Company's only interest bearing investment was STE (Clean Recycling and Energy) but a very limited amount of income is receivable on this investment. The Company does not have interest bearing liabilities.

(iii) Other Price Risk

The principal price risk for the Company is the price volatility of shares that are owned by the Company. The Company is well diversified across different sub-sectors and geographies and has a volatility level similar to global stock market indices such as the MSCI World Index to which the Company has an expected tracking error of 9.5%. The historic 3-year (annualised) volatility of the Company to 31 December 2010 is 25.4%.

Overall Sensitivity

The Manager has used the value at risk ("VAR") methodology in UBS PAS (a proprietary investment banking model) to estimate the maximum expected loss from the portfolio held at 31 December 2010 over 1 day, 5 day, 10 day and 21 day time periods given the historical performance of the fund over the previous five years. The data in the previous five years is analysed under discrete periods to provide 1 in 10, 1 in 20 and 1 in 100 possible outcomes. The results of the analysis are shown below.

	Expected loss as percentage at limit		
	1 in 10 (90%)	1 in 20 (95%)	1 in 100 (99%)
1 day return	-1.2	-1.9	-3.5
5 day return	-3.4	-4.8	-7.9
10 day return	-4.9	-7.1	-12.2
21 day return	-6.4	-9.5	-23.3

The above analysis has been based on the following main assumptions:

- The distribution of share price returns will be the same in the future as they were in the past.
- The portfolio weightings will remain as they were at 31 December 2010.

The above results suggest, for example, that there is a 5% or less chance of the NAV falling by 4.8% or more over a 5 day period. Similarly, there is a 1% or less chance of the NAV falling by 3.5% or more on any given day.

Credit Risk

Cash at bank at 31 December 2010 included £4,157,000 (2009: £6,902,000) held at the Company's custodian, The Northern Trust Company. The Company also held £10,632,000 (2009: £476,000) at Lloyds TSB Bank plc. The Board has established guidelines that, under normal circumstances, the maximum level of cash to be held at any one bank should be the lower of i) 5% of the Company's net assets and ii) £15 million. These are guidelines and there may be instances when this amount is exceeded for short periods of time.

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered to be low as trading is almost always done on a delivery versus payment basis.

There is a significant credit risk on the unquoted interest bearing investment in STE (Clean Recycling and Energy) which was valued at £703,000 at the year.

Substantially all of the assets of the Company are held by The Northern Trust Company (the "Custodian") or sub-custodians of the Custodian. Bankruptcy or insolvency of the Custodian or its sub-custodians may cause the Company's rights with respect to securities held by the Custodian to be delayed or limited. The Custodian segregates the Company's assets from its own assets and only uses sub-custodians on its approved list of sub-custodians.

The Company invests in broker issued participatory notes to provide economic exposure to underlying shares or securities when it is impracticable to invest directly in those shares or securities. The Company may be exposed to risk of loss in the event of default or insolvency of any counter-party used to acquire such investments. The Board has set a maximum limit for investment through participatory notes at 5% of net asset value, subject to a further limit of 2% per broker (both limits at time of investment).

NOTES TO THE ACCOUNTS

CONTINUED

14. FINANCIAL INSTRUMENTS – RISK PROFILE (continued)

Liquidity Risk

The Fund invests in a range of global equities with different market capitalisations and liquidities and therefore needs to be conscious of liquidity risk. The Manager monitors the liquidity risk by carrying out a “Maturity Analysis” of the Company’s listed equities based on the 20 Day Average Liquidities of each investment and assuming one third (33.3%) of the daily traded volume.

As shown in the quantitative analysis below, on 31 December 2010, 4% of the portfolio (excluding unquoted investments) is held in positions which may have taken more than three months to be realised.

Quantitative Disclosures

As described above, the Manager has carried out a maturity analysis of the Company’s quoted investments at 31 December 2010 and the results for different time bands are reported as follows:

Percentage of portfolio that could be liquidated in one month	82%
Percentage of portfolio that could be liquidated in three months	96%
Percentage of portfolio that could be liquidated in one year	99%
Percentage of portfolio that could be liquidated in five years	100%

The Company may invest up to 10% of its net assets into pre-IPO investments which are possible candidates for flotation. At the year end the Company held investments in six unquoted companies with an aggregate total value of £16,641,000 (2009: £16,298,000); these investments have been valued at fair value at the year end.

Classification of financial instruments

FRS 29 requires that the classification of financial instruments be valued by reference to the source of inputs used to derive the fair value. The following classifications are used:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 – inputs for the asset or liability that are not based on observable market data.

The classification of the Company’s investments held at fair value is detailed in the table below:

	2010				2009			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000	Level 1 £'000	Level 2* £'000	Level 3 £'000	Total £'000
Investments at fair value through profit and loss								
– Quoted	412,389	10,736	–	423,125	369,850	–	–	369,850
– Unquoted	–	–	16,641	16,641	–	–	16,898	16,898
	<u>412,389</u>	<u>10,736</u>	<u>16,641</u>	<u>439,766</u>	<u>369,850</u>	<u>–</u>	<u>16,898</u>	<u>386,748</u>

* Level 2 investments detailed above are holdings in quoted companies held through broker participatory notes.

The movement on the Level 3 classified investments during the year is shown below:

	2010 £'000	2009 £'000
Opening balance at 1 January	16,898	16,586
Additions during the year	1,935	1,611
Valuation adjustments	(1,593)	(1,299)
Closing balance at 31 December	<u>16,641</u>	<u>16,898</u>

NOTES TO THE ACCOUNTS

CONTINUED

14. FINANCIAL INSTRUMENTS - RISK PROFILE (continued)

Financial assets and liabilities

The Company's investments are mainly in securities of companies quoted on recognised stock exchanges. These investments are carried in the balance sheet at fair value by reference to their market bid prices. Any unquoted securities are measured at fair value which is determined by the directors in accordance with the International Private Equity and Venture Capital guidelines. All liabilities are included at fair value.

The Company's financial assets and liabilities at 31 December 2010 comprised:

	2010			2009		
	Interest Bearing £'000	Non- interest Bearing £'000	Total £'000	<i>Interest Bearing £'000</i>	<i>Non- interest Bearing £'000</i>	<i>Total £'000</i>
Assets						
Investments						
- Sterling	-	49,987	49,987	-	62,917	62,917
- US Dollar	-	188,328	188,328	-	146,175	146,175
- Canadian Dollar	703	18,685	19,388	-	15,508	15,508
- Euro	-	69,446	69,446	-	68,343	68,343
- Japanese Yen	-	23,847	23,847	-	14,682	14,682
- Australian Dollar	-	8,658	8,658	-	12,065	12,065
- Danish Kroner	-	9,832	9,832	-	12,817	12,817
- Norwegian Kroner	-	4,754	4,754	-	4,100	4,100
- Swedish Kroner	-	12,189	12,189	-	6,987	6,987
- Swiss Franc	-	12,614	12,614	-	6,783	6,783
- Hong Kong Dollar	-	27,621	27,621	-	22,936	22,936
- South Korean Won	-	4,294	4,294	-	6,958	6,958
- Taiwanese Dollar	-	8,808	8,808	-	6,477	6,477
	<u>703</u>	<u>439,063</u>	<u>439,766</u>	<u>-</u>	<u>386,748</u>	<u>386,748</u>
Cash at bank						
Floating rate - £ sterling	14,789	-	14,789	7,378	-	7,378
Short-term debtors	-	272	272	-	362	362
Short-term creditors	-	(1,462)	(1,462)	-	(648)	(648)
	<u>15,492</u>	<u>437,873</u>	<u>453,365</u>	<u>7,378</u>	<u>386,462</u>	<u>393,840</u>

Capital management

The Company considers its capital to consist of Ordinary Shares of 10p each and its capital and revenue reserves.

At 31 December 2010 there were 324,509,373 Ordinary Shares in issue (of these shares 6,709,037 were held in Treasury).

The Company bought back 5,802,032 Ordinary Shares during the year.

The Company did not have any borrowings during the year. The Company's policy on borrowings is detailed in the Directors' Report.

The Manager and the Company's broker, monitor the demand for the Company's shares and the directors review the position at Board meetings. Further details on share issues during the year and the Company's policies for issuing further shares and buying back shares can be found in the Directors' Report.

The Company has no externally imposed capital requirements.

FINANCIAL RECORD

	2002 ¹	2003	2004	2005	2006	2007	2008	2009	2010
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 31 December									
Size of fund (£ millions)	27	33	38	107	224	393	305	394	453
Net asset value per Share ²	54.4p	66.3p	76.7p	92.6p	110.6p	128.3p	99.6p	127.2p	142.7p
Share price	45.8p	55.5p	71.3p	94.0p	115.4p	128.9p	85.0p	119.1p	129.8p
Premium/(discount) ³	(15.8%)	(16.3%)	(7.0%)	1.5%	4.3%	0.5%	(14.7%)	(6.4%)	(9.0%)
Year ending 31 December									
Net asset value return ⁴	(44.6%)	21.9%	15.7%	20.7%	19.4%	16.2%	(22.1%)	28.4%	12.6%
MSCI World index ⁵	(24.6%)	19.7%	7.0%	22.4%	5.3%	7.2%	(17.9%)	15.7%	15.3%
Revenue return per Share	(0.0p)	0.1p	0.1p	0.1p	0.2p	0.5p	0.9p	0.8p	0.8p
Dividends paid	–	–	–	–	–	0.2p	0.3p	0.85p	0.75p
Total expense ratio	1.8%	2.1%	1.6%	1.6%	1.4%	1.3%	1.2%	1.1%	1.1%

Notes

1. The Company's ordinary shares ("Shares") were listed on the London Stock Exchange on 22 February 2002. Yearly figures for 2002 are based on the period from 22 February 2002 to 31 December 2002.
2. Net asset value per Share is measured on a diluted basis in years 2005 to 2009 when warrants were in issue. Warrants were issued in the year ending 31 December 2005 with a subscription price of 96p per Share. The final subscription date was June 2010.
3. Share price premium/(discount) to net asset value.
4. Total return (discrete annual returns).
5. Net total return (discrete annual returns).

FINANCIAL CALENDAR

Annual General Meeting

10 May 2011, at 3.00 p.m.
145-157 St John Street
London EC1V 4RU

Dividend

Record date: 15 April 2011
Payment date: 17 May 2011
Amount: 0.75p per Ordinary Share

DIRECTORS, MANAGER AND ADVISERS

DIRECTORS

Richard Bernays (Chairman)
Dr Robert Arnott
Charles Berry
Bill Brown
Julia Le Blan (appointed 27 January 2011)
Keith Niven
William Rickett (appointed 27 January 2011)

BROKERS

Collins Stewart Europe Limited
9th Floor, 88 Wood Street
London EC2V 7QR

SOLICITOR

CMS Cameron McKenna LLP
Mitre House
160 Aldersgate Street
London EC1A 4DD

BANKER

Lloyds TSB Bank plc
Moorgate Branch
34 Moorgate
London EC2R 6PL

REGISTRARS

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

INVESTMENT MANAGER

Impax Asset Management Limited
Pegasus House
Mezzanine Floor
37-43 Sackville Street
London W1S 3EH

REGISTERED OFFICE*

145-157 St John Street
London EC1V 4RU

SECRETARY & ADMINISTRATOR

Cavendish Administration Limited
145-157 St John Street
London EC1V 4RU

AUDITORS

Ernst & Young LLP
1 More London Place
London SE1 2AF

CUSTODIAN

The Northern Trust Company
50 Bank Street
Canary Wharf
London E14 5NT

* Registered in England no. 4348393

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of Impax Environmental Markets plc will be held at 145-157 St John Street, London, EC1V 4RU on 10 May 2011 at 3 p.m. for the following purposes:

To consider and if thought fit, pass the following resolutions of which resolutions 1 to 12 will be proposed as ordinary resolutions and resolutions 13, 14 and 15 will be proposed as special resolutions.

1. To receive the Company's annual accounts for the year ended 31 December 2010, with the reports of the directors and auditors thereon.
2. To approve the directors' remuneration report included in the financial statements.
3. To elect Julia Le Blan as a director of the Company, having been appointed by the Board of directors.
4. To elect William Rickett as a director of the Company, having been appointed by the Board of directors.
5. To re-elect Robert Arnott as a director of the Company.
6. To re-elect Charles Berry as a director of the Company.
7. To re-elect Keith Niven as a director of the Company.
8. To re-elect Richard Bernays as a director of the Company.
9. To re-appoint Ernst & Young LLP as auditors to the Company.
10. To authorise the directors to fix the remuneration of the auditors until the conclusion of the next Annual General Meeting of the Company.
11. To declare a final dividend of 0.75p per Ordinary Share of the Company in respect of the year ended 31 December 2010.
12. That the directors be and are hereby generally and unconditionally authorised (in substitution for all subsisting authorities to the extent unused) to exercise all powers of the Company to allot relevant securities (as defined in section 551 of the Companies Act 2006) up to an aggregate nominal amount equal to £3,162,317.80 PROVIDED THAT the directors may not allot relevant securities of an aggregate nominal amount more than 9.99% of the nominal value of the issued share capital at the date of the Annual General Meeting and that this authority shall expire (unless previously varied, revoked or renewed by the Company in general meeting) at the conclusion of the Annual General Meeting of the Company to be held in 2012 or, if earlier, on the expiry of 15 months from the passing of this resolution (the "section 551 period") but so that the directors may, at any time prior to the expiry of the section 551 period, make an offer or agreement which would or might require relevant securities to be allotted after the expiry of the section 551 period and the directors may allot relevant securities in the pursuance of such an offer or agreement as if the authority granted by this resolution had not expired.

NOTICE OF MEETING

CONTINUED

13. That the Company be and is hereby generally and unconditionally authorised in accordance with section 701 of the Companies Act 2006 ("the Act") to make market purchases (within the meaning of section 693(4) of the Act) of its Ordinary Shares of 10p each, provided that:
- (a) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 47,450,595 (representing 14.99% of the Company's issued Ordinary Share capital (excluding shares held in treasury) at the date of the notice of this meeting);
 - (b) the minimum price (exclusive of any expenses) which may be paid for an Ordinary Share is 10p;
 - (c) the maximum price (excluding expenses) which may be paid for an Ordinary Share is not more than the higher of (i) 5% above the average of the middle market quotations for the Ordinary Shares for the five business days immediately before the day on which it purchases that share and (ii) the price stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation (EC 2273/2003);
 - (d) the authority hereby conferred shall expire at the conclusion of the annual general meeting of the Company in 2012 or, if earlier, on the expiry of 15 months from the passing of this resolution, unless such authority is renewed prior to such time; and
 - (e) the Company may make a contract to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority, which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary Shares pursuant to any such contract.
14. That, subject to the passing of resolution 12, in substitution for any existing power under section 570 of the Companies Act 2006 but without prejudice to the exercise of any such power prior to the date hereof, the directors be and are hereby empowered, pursuant to section 570 of that Act, to allot and make offers or agreements to allot equity securities (as defined in section 560 of that Act) and/or sell equity securities held as treasury shares pursuant to section 573 of that Act, in each case for cash pursuant to the authority and for the period of the authority conferred by resolution 12 up to an aggregate nominal amount of £3,162,317.80 as if section 561(1) of that Act did not apply to such allotment (subject to a maximum of 9.99% of the aggregate nominal value of the issued share capital at the date of this resolution).
15. That a general meeting of the Company other than an annual general meeting may be called on not less than 14 clear days' notice, provided that this authority shall expire at the conclusion of the Company's next annual general meeting after the date of the passing of this resolution.

Registered Office:
145-157 St John Street
London EC1V 4RU

By order of the Board
Anthony Lee
For and on behalf of
Cavendish Administration Limited
Company Secretary

1 April 2011

NOTICE OF MEETING

CONTINUED

NOTES TO NOTICE OF ANNUAL GENERAL MEETING

Website address

1. Information regarding the meeting, including the information required by section 311A of the Companies Act 2006, is available from www.impax.co.uk

Entitlement to attend and vote

2. Only those holders of Ordinary Shares registered on the Company's register of members at 6.00 p.m. on 8 May 2011; or, if this meeting is adjourned, at 6.00 p.m. on the day two days prior to the adjourned meeting, shall be entitled to attend and vote at the meeting.

Appointment of Proxies

3. Members entitled to attend, speak and vote at the meeting (in accordance with Note 2 above) are entitled to appoint one or more proxies to attend, speak and vote in their place. If you wish to appoint a proxy please use the Form of Proxy enclosed with this document or follow the instructions at note 7 below if you wish to appoint a proxy through the CREST electronic proxy appointment service. In the case of joint members, only one need sign the Form of Proxy. The vote of the senior joint member will be accepted to the exclusion of the votes of the other joint members. For this purpose, seniority will be determined by the order in which the names of the members appear in the register of members in respect of the joint shareholding. The completion and return of the Form of Proxy will not stop you attending and voting in person at the meeting should you wish to do so. A proxy need not be a member of the Company. You may appoint more than one proxy provided each proxy is appointed to exercise the rights attached to a different share or shares held by you. If you choose to appoint multiple proxies use a separate copy of this form (which you may photocopy) for each proxy, and indicate after the proxy's name the number of shares in relation to which they are authorised to act (which, in aggregate, should not exceed the number of Ordinary Shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and returned in the same envelope.
4. You can appoint the Chairman of the Meeting, or any other person, as your proxy. If you wish to appoint someone other than the Chairman, cross out the words "the Chairman of the Meeting" on the Form of Proxy and insert the full name of your appointee.
5. You can instruct your proxy how to vote on each resolution by ticking the "For" and "Against" boxes as appropriate (or entering the number of shares which you are entitled to vote). If you wish to abstain from voting on any resolution please tick the box which is marked "Vote Withheld". It should be noted that a vote withheld is not a vote in law and will not be counted in the calculation of the proportion of votes "For" and "Against" a resolution. If you do not indicate on the Form of Proxy how your proxy should vote, he/she can exercise his/her discretion as to whether, and if how so how, he/she votes on each resolution, as he/she will do in respect of any other business (including amendments to resolutions) which may properly be conducted at the meeting.

A company incorporated in England and Wales or Northern Ireland should execute the Form of Proxy under its common seal or otherwise in accordance with Section 44 of the Companies Act 2006 or by signature on its behalf by a duly authorised officer or attorney whose power of attorney or other authority should be enclosed with the Form of Proxy.

Appointment of Proxy using Hard Copy Form

6. The Form of Proxy and any power of attorney (or a notarially certified copy or office copy thereof) under which it is executed must be received by Capita Registrars, PXS, 34 Beckenham Road, Beckenham, BR3 4TU at 3.00 p.m. on 8 May 2011 in respect of the meeting. Any Forms of Proxy received before such time will be deemed to have been received at such time. In the case of an adjournment, the Form of Proxy must be received by Capita Registrars no later than 48 hours before the rescheduled meeting.

On completing the Form of Proxy, sign it and return it to Capita Registrars at the address shown on the Form of Proxy in the envelope provided. As postage has been pre-paid no stamp is required.

NOTICE OF MEETING

CONTINUED

Appointment of Proxies through CREST

7. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting to be held on the above date and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent (ID: RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies' appointee through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

All messages relating to the appointment of a proxy or an instruction to a previously appointed proxy, which are to be transmitted through CREST, must be lodged at 3.00 p.m. on 8 May 2011 in respect of the meeting. Any such messages received before such time will be deemed to have been received at such time. In the case of an adjournment, all messages must be lodged with Capita Registrars no later than 48 hours before the rescheduled meeting.

Termination of proxy appointments

8. In order to revoke a proxy instruction you will need to inform the Company. Please send a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Capita Registrars, PXS, 34 Beckenham Road, Beckenham, BR3 4TU.

In the case of a member which is a company, the revocation notice must be executed under its common seal or otherwise in accordance with section 44 of the Companies Act 2006 or by signature on its behalf by an officer or attorney whose power of attorney or other authority should be included with the revocation notice.

If you attempt to revoke your proxy appointment but the revocation is received after the time specified in note 2 above then, subject to the paragraph directly below, your proxy will remain valid.

If you submit more than one valid proxy appointment in respect of the same Ordinary Shares, the appointment received last before the latest time for receipt of proxies will take precedence.

Completion of a Form of Proxy will not preclude a member from attending and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will be automatically terminated.

NOTICE OF MEETING

CONTINUED

Nominated Persons

9. If you are a person who has been nominated under section 146 of the Companies Act 2006 to enjoy information rights:
- You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights (Relevant Member) to be appointed or to have someone else appointed as a proxy for the meeting.
 - If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights.
 - Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps, your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.

If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in the notes to the form of proxy.

Questions at the Meeting

10. Under section 319A of the Companies Act 2006, the Company must answer any question you ask relating to the business being dealt with at the meeting unless:
- answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
 - the answer has already been given on a website in the form of an answer to a question; or
 - it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

Issued Shares and total voting rights

11. The total number of shares in issue in the Company is 324,509,373 Ordinary Shares of 10p each. Of these 7,961,037 are held in Treasury. Therefore the total number of Ordinary Shares with voting rights is 316,548,336. On a vote by a show of hands, every holder of Ordinary Shares who (being an individual) is present by a person, by proxy or (being a corporation) is present by a duly authorised representative, not being himself a member, shall have one vote. On a poll every holder of Ordinary Shares who is present in person or by proxy shall have one vote for every Ordinary Share held by him.

Communication

12. Except as provided above, members who have general queries about the meeting should use the following means of communication (no other methods of communication will be accepted):
- calling Capita Registrar's shareholder helpline (lines are open from 8.30 a.m. to 5.30 p.m. Monday to Friday, excluding public holidays):
 - (i) From UK: 0871 664 0300 (calls cost 10p per minute plus network extras);
 - (ii) From Overseas: +44 208 639 3399 (calls from outside the UK are charged at applicable international rates); or
 - in writing to Capita Registrars.

You may not use any electronic address provided either:

- in this notice of meeting; or
- any related documents (including the Form of Proxy for this meeting)

to communicate with the Company for any purposes other than those expressly stated.

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FORM OF PROXY

Impax Environmental Markets plc

I/We

of
(BLOCK CAPITALS PLEASE)

being (a) member(s) of Impax Environmental Markets plc appoint the Chairman of the meeting, or
 (see note 1)

of
 as my/our proxy and, on a poll, to vote for me/us on my/our behalf at the Annual General Meeting
 of the Company to be held at 145-157 St John Street, London, EC1V 4RU on 10 May 2011 at
 3.00 p.m. and any adjournment thereof.

*Please indicate with an 'X' in the spaces provided how you wish your votes to be cast on the
 resolutions specified.*

	Resolution	For	Against	Withheld	Discretionary
1.	To receive and adopt the directors' report, the annual accounts and the auditors' report for the year ended 31 December 2010.				
2.	To approve the directors' remuneration report.				
3.	To elect Julia Le Blan as a director.				
4.	To elect William Rickett as a director.				
5.	To re-elect Robert Arnott as a director.				
6.	To re-elect Charles Berry as a director.				
7.	To re-elect Keith Niven as a director.				
8.	To re-elect Richard Bernays as a director.				
9.	To re-appoint Ernst & Young LLP as auditors to the Company.				
10.	To authorise the directors to fix the remuneration of the auditors.				
11.	To declare a final dividend of 0.75p per Ordinary Share.				
12.	To give authority to allot new shares.				
13.	To give authority for the Company to purchase its own shares.				
14.	To give authority to allot new shares free from pre-emption rights.				
15.	To authorise calling general meetings (other than annual general meetings) on 14 clear days' notice.				

Subject to any voting instructions so given the proxy will vote, or may abstain from voting, on any resolution as he may think fit.

Signature Dated this..... day of2011

NOTES

1. If any other proxy is preferred, strike out the words "Chairman of the Meeting" and add the name and address of the proxy you wish to appoint and initial the alteration. The proxy need not be a member.
2. If the appointer is a corporation this form must be completed under its common seal or under the hand of some officer or attorney duly authorised in writing.
3. A vote withheld is not a vote in law and will not be counted in the calculation of the proportion of the votes for or against a resolution.
4. The signature of any one of joint holders will be sufficient, but the names of all the joint holders should be stated.
5. To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
6. To be valid, this form and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power must reach the registrars of the Company Capita Registrars, PXS, 34 Beckenham Road, Beckenham, BR3 4TU not less than forty-eight hours before the time appointed for holding the General Meeting or adjournment as the case may be.
7. The completion of this form will not preclude a member from attending the Meeting and voting in person.
8. Any alteration of this form must be initialled.





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