Impax Environmental Markets plc

REPORT AND ACCOUNTS

for the year ended 31 December 2009

Registered in England and Wales No. 4348393

CONTENTS

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.

FINANCIAL INFORMATION

	At 31 December 2009	*At 31 December 2008*	*% change*
Net assets	£393.8m	*£304.9m*	+29.2%
Net asset value ("NAV") per Ordinary Share			
– Undiluted	129.2p	*99.8p*	+29.5%
– Diluted	127.2p	*99.6p*	+27.7%
NAV per Ordinary Share (excluding current year net revenue)			
– Undiluted	128.4p	*99.0p*	+29.7%
– Diluted	126.5p	*98.8p*	+28.0%
MSCI World Index (sterling)	n/a	*n/a*	+14.6%
MSCI World Small Cap Index (sterling)	n/a	*n/a*	+27.9%
Ordinary Share price (mid-market)	119.1p	*85.0p*	+40.1%
Warrant price (mid-market)	21.5p	*21.5p*	–
Ordinary Share price discount to diluted NAV	(6.4%)	*(14.7%)*	n/a

FINANCIAL CALENDAR

Annual General Meeting	11 May 2010, at 3.00 p.m. 145-157 St John Street London EC1V 4RU
Dividend	Ex-dividend date: 14 April 2010 Record date: 16 April 2010 Payment date: 18 May 2010 Amount: 0.75p per Ordinary Share

CHAIRMAN'S STATEMENT

I am pleased to report that Impax Environmental Markets plc ("IEM", or the "Company") has completed another strong year, posting a rise in diluted net asset value (excluding income) of 28.0%, its highest annual return since launch in 2002. Twelve months ago, the global economy and financial markets were in almost unprecedented levels of turmoil, and the outlook for investors was very uncertain. However, it appears that government policies to avert a slump have been successful, and prospects for markets have recovered dramatically.

Against this background, environmental markets have staged a significant recovery and have benefited from increased public sector expenditure and new environmental policy initiatives. Although December's climate change conference in Copenhagen attracted the most media attention, most of it negative, there were important positive developments in other areas as many countries announced challenging long-term targets for environmental markets, particularly in renewable energy, energy efficiency and the reduction of greenhouse gases.

Performance and Current Status

During the year, the Company's net asset value ("NAV") per Ordinary Share (excluding current year net revenue and taking into account the dilution effect of the warrants in issue) increased from 98.8p to 126.5p, a rise of 28.0%. The share price rose 40.1% from 85.0p to 119.1p reflecting a narrowing of the share price discount to diluted NAV over the period from 14.7% to 6.4%. Over the same period, the MSCI World and the MSCI World Small Cap Indices (priced in Pounds Sterling) rose by 14.6% and 27.9% respectively. The Company's five year performance track record remains impressive: during the five years to 31 December 2009, the diluted NAV (excluding income) of IEM rose 64.9% compared to 18.6% for the MSCI World Index and 26.3% for the MSCI World Small Cap Index.

The Company's investments in seven unquoted companies accounted for 4.1% of NAV at the end of the year. During the year ended 31 December 2008 several of the holdings were revalued downwards. After a challenging start to 2009, which resulted in further reduced valuations, this portion of the portfolio has made some good progress in the last quarter of the year with directors increasing their valuation of two unquoted holdings.

The current year has had a mixed start with generally positive results and outlook statements from portfolio companies being counterbalanced by concerns about high levels of sovereign debt particularly in European markets. As at 19 March 2010, the diluted NAV (excluding income) had risen 3.4% since the start of the year, while the share price had risen by 0.1%. The MSCI World Index (in Pounds Sterling) had risen 9.5% over the same period. The discount of the Company's share price to diluted NAV had increased to 9.4%.

Discount

After several years of generally trading at a premium, the Company's share price traded at an average discount to diluted NAV of 6.9% during the year in spite of the strong NAV performance. The Board responded to this situation by buying 907,005 shares during the year at an average discount of 11.1%.

Warrants

The final subscription date for the warrants will be 15 June 2010. At the date of this report there are 18,666,085 warrants outstanding. The warrants, issued to all shareholders on 22 December 2005 pursuant to the terms of the Company's first "C" share issue, entitle holders to subscribe for

Ordinary Shares on a one for one basis at a price of 96p per Ordinary Share. A separate circular on this subject will be sent to warrant holders in due course.

Continuation vote

In accordance with the Articles of Association of the Company, an ordinary resolution that the Company continue as an investment trust for a further three year period will be proposed at the forthcoming Annual General Meeting. Notwithstanding challenging market conditions, the Board considers the Company's performance over the last five years to have been excellent. We continue to believe that IEM offers an attractive opportunity for investors to obtain exposure to environmental markets and recommend that shareholders vote in favour of the resolution.

Dividend

The Company's net revenue return for the year was £2.4 million reflecting strong cash flow generation by a number of IEM's holdings. The directors recommend a dividend of 0.75p per Ordinary Share (0.85p per share in 2008), which, if approved at the Company's Annual General Meeting, will be paid to shareholders on the register as at the close of business on 16 April 2010. The primary objective of the Company is capital growth, therefore it should not be assumed that this level of dividend will be paid in future years.

Outlook

While risks undoubtedly remain, the environmental sector has recovered well, further assisted by global stimulus funding and longer term environmental policies. As explained further in the Manager's Report, given the positive newsflow from both governments and companies involved in the environmental sectors, together with the attractive valuations of the companies in the portfolio, the Manager and directors believe that the Company's shares offer a compelling opportunity for investors seeking to benefit from the long term growth potential of these dynamic markets.

Richard Bernays
24 March 2010

Against a backdrop of a stabilising global economy and financial markets, the recovery in the Company's performance noted in the interim report accelerated during the second half of 2009, resulting in a strong full year increase in diluted NAV.

The principal driver of performance was a reversal of the negative themes of 2008, namely the credit crisis, falling commodity prices and the decline of cyclical industries such as construction. Recovery in debt and equity markets allowed companies to raise capital and refinance or renegotiate debt facilities. Commodity prices also recovered, underpinning improved economics for energy efficiency and recycling businesses. The decline in construction markets lessened, driving share price performance as investors sought exposure to the next growth cycle. In addition, strong performance of Asian stocks and the re-emergence of merger and acquisition ("M&A") activity in Environmental Markets also made material contributions to the recovery.

We also chose to hold a relatively underweight exposure to the renewable energy sector. This benefited performance as these stocks suffered from a lack of project finance, regulatory uncertainty and, in some markets, falling power prices.

Drivers of Environmental Markets in 2009

The fundamental drivers of Environmental Markets remained in place during 2009. Despite the failure of the Copenhagen climate change conference to produce a legally binding global agreement, there were significant developments in environmental legislation at the national level, with the United States, China and India in particular engaging for the first time and establishing long term targets which should be translated into law in 2010.

The US$500 billion of global stimulus funding targeted at Environmental Markets has also started to flow, with US$100 billion disbursed during 2009 and US$200 billion forecast to flow in 2010. This is expected to complement legislative targets and to contribute to a resumption of secular growth in the sector.

Since the Company's launch, M&A activity has played a key role in generating long term performance as holdings have been acquired at attractive premiums and related stocks have been rerated. M&A was largely absent during the financial crisis but re-emerged during 2009, particularly during the second half, with three holdings bid for during the year. As larger, global companies see value and growth in Environmental Markets, M&A activity is expected to accelerate during 2010.

Development of Companies and Markets by Sub-Sector

In recent years, Impax Asset Management has been working in collaboration with FTSE to develop the comprehensive Environmental Markets Classification System ("EMCS"), which is now used to define the FTSE Environmental Opportunities Index Series. The classification system aims to enable investors globally to clearly identify and measure investment opportunities in Environmental Markets. The EMCS further breaks down the Impax classifications of Alternative Energy and Energy Efficiency (Energy); Water Treatment and Pollution Control (Water); Waste Technologies and Resource Management (Waste) and we have analysed key developments during the year using this more granular breakdown.

Alternative Energy and Energy Efficiency (47.4% portfolio weighting)

(i) Renewable and Alternative Energy ("RAE") – 21.8% weighting

The RAE sector underperformed the portfolio average for the second year in succession due to ongoing project finance scarcity, power price declines, and overcapacity in selected industries. Nevertheless, the overall legislative environment remains positive; in June 2010, European member states will present plans to attain the Union-wide 2020 renewables target. In the United States, climate change and energy legislation has been delayed as Congress has been preoccupied with healthcare and financial reform. However, President Obama has recently reiterated his commitment to the legislation and it seems likely that a bill including long-term support for renewable and energy efficiency will be under consideration in 2010.

In the wind sector, Global Wind Energy Council figures indicate that the world's wind power capacity grew by 31% in 2009, showing remarkable resilience despite numerous challenges. In the United States, the American Recovery and Reinvestment Act's emphasis on supporting renewable energy projects was successful in keeping the United States at world number one for cumulative installed wind power capacity. However, China became the world's largest wind power market in 2009, doubling its wind generation capacity over the year. The Chinese government took further steps in 2009 to limit CO_2 emissions, announcing a commitment to reduce carbon emissions intensity by 40-45% from 2005 levels by 2020, and introducing improved incentives for wind and solar power.

The European wind market grew to a lesser extent, and European wind-related stocks were some of the weakest contributors to performance with Gamesa (wind turbines, Spain) and Vestas (wind turbines, Denmark) underperforming. On the upside, key contributors were Canadian Hydro Developers (wind IPP, Canada), which was acquired by Transalta (utility, Canada) and China High Speed Transmission Equipment (wind components, Hong Kong) which benefited from strong growth in the Asian wind market.

In the solar sector, where we continue to maintain only a small exposure, the industry has experienced continued upheaval. European players have faced aggressive competition from lower-cost Chinese manufacturers, and regulatory uncertainty has been an issue, especially in major European markets such as Germany, Spain and Italy. Long-term, we believe that the sustainable growth prospects of the industry remain positive as the economics of the technology become increasingly attractive. We will consequently look to exploit share price weakness to add holdings in companies with significant long-term competitive advantages.

During the year we increased our holding in Vestas and added Hansen Transmissions (wind turbine gearboxes, UK) in anticipation of a recovery in wind markets in 2010/11. We sold out of Pyeong San (wind turbine components, Korea), switching into its competitor Taewoong (also Korean).

(ii) Energy Efficiency ("EE") – 25.6% weighting

EE markets recovered well in 2009 and made a strong contribution to performance during the year. Stocks in the United States benefited from the steady deployment of stimulus funds into initiatives such as the "smart grid" (technologies and techniques that make the grid work more efficiently), and energy efficient goods and appliances. In the European Union, lawmakers reached a compromise on the recast Energy Performance of Buildings Directive, agreeing that all new buildings will have to comply with high energy performance standards and source a significant share of their energy requirements from renewables from 2020. Although construction activity levels remain depressed, data show that the environment is improving, which has benefited Kingspan (buildings insulation, Ireland), a top performer for 2009.

In the transport sector, there was significant publicity surrounding the potential growth of the electric vehicle market following the listing of A123 (lithium ion batteries, United States) and a number of hybrid and electric model announcements from major automobile manufacturers. Investment in electric cars is being driven by tightening emissions regulations, concerns over energy security and enthusiasm for the technology in China, already the world's largest car market. Industry forecasts suggest that by 2020 about 10% of new cars could be either entirely battery driven vehicles or "plug-in" hybrids. As many of the businesses involved in electric vehicles are not yet profitable, we maintain a cautious approach to this market looking for proven technologies at a reasonable valuation.

Other key contributors to performance were Epistar (light-emitting diodes/"LEDs", Taiwan) benefiting from the adoption of LED technology in new markets, such as television backlights, and Power Integrations (power efficiency, United States) which benefited from tightening energy efficiency standards in the United States market, particularly California. Conversely, Itron (advanced metering, United States) disappointed due to increased competition in the smart grid technology space, concerns about the scalability of their technology and the speed of roll out of projects.

Portfolio movements included the addition of Zumtobel (LED's, Austria) who stand to benefit from current strong growth in LED lighting markets and an eventual recovery in commercial construction. We took profit in Regal Beloit (electric motors, US) following strong performance.

Waste Technologies and Resource management (portfolio weighting – 30.6%)

(i) Waste Management & Technologies ("WMT") – 26.8% weighting

The WMT sector slightly outperformed over the year, recovering from the impact of decreased waste volumes, volatile commodity prices and slowing industrial activity experienced in 2008. Vehicle 'scrappage' schemes continued to boost the automobile sector worldwide, notably in Germany, the United Kingdom, the United States and France. The schemes have continued to benefit vehicle recycling businesses, and to encourage the purchase of more fuel efficient vehicles, and LKQ (auto parts recycling, United States) was one of the top performers for 2009. Also in the United States, the prospect of tightening hazardous waste legislation related to coal ash (a by-product of combustion in power stations) has created investor interest in companies such as Clean Harbors (hazardous waste).

The recovery in global commodity prices helped metals recyclers Sims Group (Australia), and Metalico (US), as well as Lee and Man (recycled cartonboard, Hong Kong) which was the top performer in the portfolio for the year.

With strengthening credit markets, M&A has returned to the sector. For example, Energy Developments (waste-to-energy, Australia) received a conditional takeover offer from a private equity fund, and Shanks (waste management, United Kingdom) is currently subject to a bid by Carlyle Group, another private equity investor.

During the year we participated in the recapitalisation of Transpacific Industries (integrated waste management, Australia) alongside Warburg Pincus, a respected venture capital fund and took profit in Lee & Man following strong performance.

(ii) Environmental Support Services ("ESS") – 3.8% weighting

Global stimulus funding announcements were an important driver of the support services sector in 2009. However, delays in the deployment of funds in the United States have disappointed investors, and environmental consultancies in particular have suffered, contributing to ESS sector underperformance. We remain confident that much of this money will flow in the near future, and that portfolio holdings Stantec (Canada) and ICF International (United States) are well positioned to benefit.

The outcome of the United Nations Copenhagen conference in December 2009 left the future unclear for carbon markets post-2012, when the existing Kyoto Protocol expires. Although the European Union Emissions Trading Scheme will continue until 2020, the future of global demand for carbon credits and thus the carbon price remains uncertain.

Key portfolio movements included the addition of ICF International as a new holding, and a reduction in the weighting in Stantec.

Water Treatment and Pollution Control (22.0% portfolio weighting)

(i) Water Infrastructure & Technologies ("WIT") – 16.5% weighting

Water scarcity persisted as an important issue in 2009 following a study by the World Bank that predicted a need for US$50-60 billion of annual investment between now and 2030 in order to avoid global water shortages with serious economic and environmental consequences. In China, the government announced plans to use stimulus funding to speed up a water diversion scheme to ease chronic shortages in Beijing and other parts of northern China. Meanwhile, in California, a state of emergency was declared due to drought, and after years of gridlock California lawmakers reached an historic agreement to address the vulnerability of the state's water supply.

As predicted at the end of 2008, stimulus funding allocated to water infrastructure has taken some time to flow through to the revenues of investible companies, particularly in the United States, where stocks involved in this market such as Mueller Water (water infrastructure, United States) underperformed during the year. The Congressional Budget Office estimates that just 4% of the US$6 billion of "stimulus money" allocated to the water sector was spent in 2009. However, industry sources indicate that stimulus-related business activity rose in the fourth quarter, and municipal spending on water infrastructure is expected to increase with the start of the construction season in March 2010.

China Everbright International (waste and water infrastructure, Hong Kong) outperformed on a steady stream of project announcements that were supported by the Chinese stimulus focus on infrastructure development. In addition, BWT (water technology, Austria) and Amiad Filtration (water treatment, Israel/United Kingdom) outperformed during 2009. It was encouraging to see the return of M&A to the sector with the takeover of Christ Water (water treatment, Austria) by GLV (Canada).

During the year Nalco (water treatment chemicals, US) was added as a new holding while the holding in Kurita (water treatment technology, Japan) was reduced.

(ii) Pollution Control ("PC") – 5.5% weighting

The PC segment of the portfolio recovered in line with the portfolio average, supported by tightening environmental legislation. In the United States, the Environmental Protection Agency declared that CO_2 should be considered as "dangerous to human health" under the Clean Air Act, thus clearing the way for the Agency to regulate the gas itself and bypass Congress in the event that climate change legislation is delayed. In China, attempts to curb the country's drastic pollution problems continued with the adoption of government policy of shutting down outdated industrial plants and inefficient small-scale power plants.

The best performers during the year were Horiba (testing and monitoring, Japan) which benefited from an anticipated cyclical recovery in the automotive and semiconductor markets, and Dionex (testing and monitoring, United States) due to strong growth in Asian markets.

Changes to the portfolio included profit-taking in Dionex and adding to our holding in Horiba.

Portfolio Activity and Current Structure (excluding unquoted companies)

The Company started the year with 88 listed companies. Since that time we have sold out of 12 companies and we have invested in 11 new companies. As a result the Company had investments in a total of 87 listed companies on 31 December 2009.

We continue to favour profitable companies, which represented 93.0% of the portfolio at year end, a figure that is unchanged from last year. The portfolio remains diversified by subsector, with 21.8% invested in RAE, 25.6% in EE, 16.5% in WIT, 5.5% in PC, 26.8% in WMT and 3.8% in ESS. Notwithstanding the change in classification, the sector allocations remain consistent with last year's levels.

In terms of company size, at year end 6.0% of the portfolio was invested in micro caps with a market capitalisation of less than £100 million, 47.0% in companies between £100 million and £1 billion and 42.8% in companies above £1 billion. The Company has systematically increased its exposure to Asian markets over the last two years in order to take advantage of superior growth opportunities in this region. This is reflected in the increase in weighting in the Company's Rest of the World exposure from 14.0% last year to 20.1%. The remaining funds are invested 43.3% in Europe and 36.6% in North America.

Unquoted Companies

Investments in unquoted companies represented 4.2% of the portfolio as of 31 December 2009 (equal to £16.3 million). 2009 has seen the most challenging business climate for unquoted companies for a very long time, with normal markets for debt and new equity virtually closed. Our focus during the year was therefore to support portfolio companies through these extremely difficult funding conditions.

One portfolio company, RecovCo, was forced into administration with a loss to IEM during the year of £0.1 million (and a total loss of just under £1 million). The company recycled aluminium, selling largely to the French automotive market, and the collapse in both volume and price made it uneconomic to continue trading.

Despite these challenges, we are pleased to report a significant recovery in the unquoted investments during the 4th quarter of 2009, with New Earth Solutions (waste technology, United Kingdom), Emergya Wind Technologies ("EWT", Netherlands) and Nordic Windpower (United States) all raising new funds to support their business development. During the year, IEM completed follow-on investments into EWT, Nordic and Ensyn (a secondary purchase).

Outlook for 2010

Following the past two years of high volatility and unprecedented economic upheaval, we are encouraged by the resilience of the Company's long term investment thesis. Environmental policy and legislation continues to strengthen, the costs of key technologies in sectors such as renewable energy, energy efficiency and water recycling have fallen, and the ongoing trend towards liberalisation of basic services is now being extended to the Asia-Pacific region.

Over the last couple of years we have felt it appropriate to adjust the Company's exposure to different environmental sub-sectors depending on their sensitivity to the economic cycle. During 2008, IEM maintained a higher exposure to defensive areas while during 2009 we have benefitted from the strong performance of "early cycle" companies. In the current environment we feel that the cyclical exposure of companies is less important than the bottom-up stock-picking through the fundamental analysis that has always been our focus.

At the time of writing, the valuation of the Company's portfolio has stabilised at a level that is slightly below the historic range (18-22x earnings), while market analysts anticipate earnings expectations will recover quickly to the long-term average level of greater than 20%. The recent quarterly results season has seen our companies continuing to surpass earnings expectations and start to report a return to organic revenue growth, giving us a justifiably positive outlook for the Company.

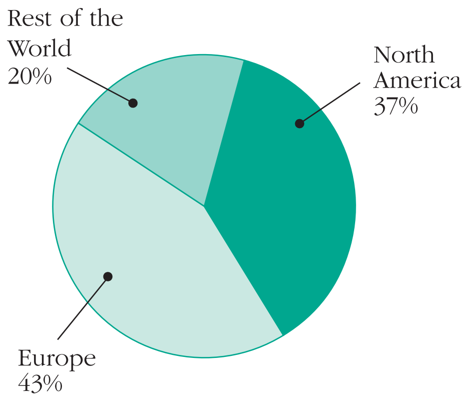
We will continue to post monthly updates on sector news and on the Company's performance at www.impax.co.uk.

Impax Asset Management Limited
24 March 2010

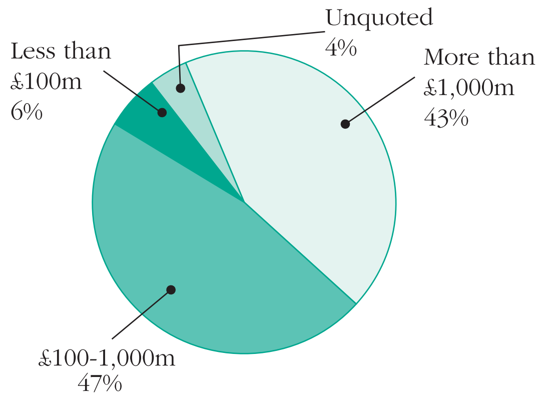
STRUCTURE OF THE PORTFOLIO

AS AT 31 DECEMBER 2009

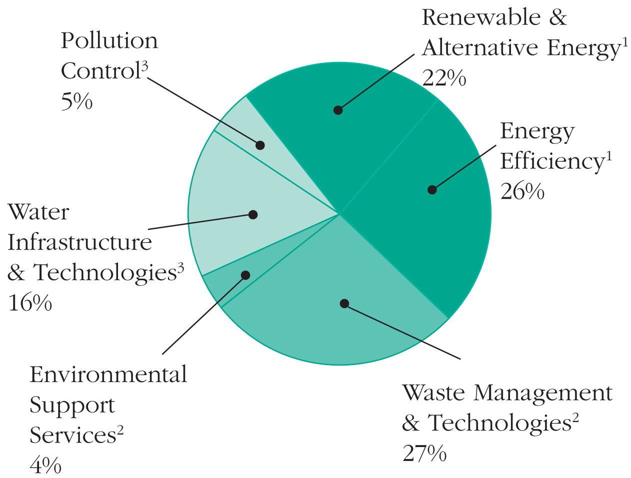
BREAKDOWN BY REGION



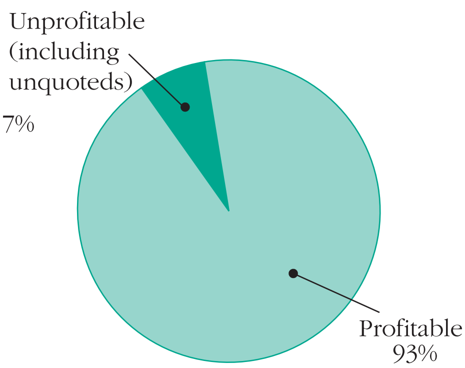
BREAKDOWN BY MARKET CAPITALISATION



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.

China Everbright International (Hong Kong) 2.5% (2008: 1.1%)

China Everbright International is primarily engaged in environmental protection project investments in China, such as waste-to-energy, solid waste disposal, and water treatment. Operations are structured around four segments: environmental energy, environmental water, environmental construction and environmental technology. China Everbright International has a sound track record in both the wastewater and waste-to-energy businesses, and as such is well positioned to secure new projects. The company continues to benefit from the Chinese government's strong commitment to tackle pollution in key provinces. http://www.ebchinaintl.com/

Telvent (United States) 2.5% (2008: 1.6%)

Telvent is a global IT solutions and business information services provider that helps to improve the efficiency, safety and security of the world's leading companies. Telvent serves the energy, transportation, agricultural and environmental sectors, helping to manage energy resources more efficiently, reduce traffic congestion, optimise the water cycle, and monitor critical infrastructures. In the United States, the company is well positioned to benefit from the smart grid stimulus programme. US$1.5 billion of the US$3.4 billion in funding already announced is going to Telvent's existing customers. Highway investment in the United States is also positive for the company's sustainable transport solutions division. Telvent is expanding in Europe, and seeking organic growth opportunities in Latin America. http://www.telvent.com/

Itron Inc. (United States) 2.4% (2008: 2.7%)

Itron is the world's leading provider of intelligent metering, data collection and utility software solutions. Nearly 8,000 utilities in more than 80 locations globally use the technology to optimise the delivery and use of energy and water. The company employs a number of key technologies including automated meter reading (AMR), energy management systems and transmission and distribution software. Itron has built up a strong position through organic growth and acquisitions, and has a 50% market share in the United States and Canada and a 30% share worldwide. The market opportunity in AMR alone is potentially huge; of the 2.65 billion meters installed worldwide, just 8% are automated. Funds from the US economic stimulus programme focused on the "smart grid" and water infrastructure, and legislation such as the EU directive to replace 80% of electric meters with smart meters by 2020, are benefiting the Company. http://www.itron.com/

Pall Corp (United States) 2.3% (2008: 2.8%)

Pall is a filtration and fluid management specialist, solving complex contamination, separations, purification and detection problems for diverse customers. These solutions enable customers to remove pathogens from water and food, minimise waste, and in some cases develop breakthrough technologies. Pall's business mix is considerably diversified, helping to protect it from exposure to any individual industry or economy. The company has a reputation for product innovation, aggressive geographical expansion and for targeting high value added niches. As with all filtration businesses, Pall has a substantial replacement parts business, which has defensive characteristics in times of economic uncertainty. Approximately 75% of company sales are of consumables and services, where margins are higher than for fixed equipment (remaining 25% sales). The company is well positioned to take advantage of global drivers such as increasing energy and water needs, environmental awareness, emerging pathogens, customer innovation and regulatory requirements. Pall continues to expand into higher-growth regions such as South America, Eastern Europe and Asia. http://www.pall.com/

Abengoa (Spain) 2.1% (2008: 1.9%)

Abengoa is a technology company that applies innovative solutions for sustainable development in the infrastructure, environment and energy sectors. The company is one of the global leaders in bioethanol and is the only producer present in the three key markets (Europe, US and Brazil). It is also a global technological leader in solar thermoelectric energy and desalination projects. Abengoa is geographically diversified, with a presence in over 70 countries, and in recent years has moved away from its traditional engineering business into bioenergy, environmental services, IT solutions and solar energy. The company's substantial research and development effort, coupled with its engineering capabilities, differentiate it from other renewable energy players and should help it consolidate its market position. With a strong management track record, and solid financial position Abengoa presents a compelling investment opportunity. http://www.abengoa.com/

Clean Harbors (United States) 2.1% (2008: 2.8%)

Clean Harbors is North America's leading provider of environmental and hazardous waste management services. With a presence in over 175 locations, including over 50 waste management facilities, the company provides services to over 50,000 corporate and public entities. The core United States business also benefits from a high market share of disposal facilities, which is expected to provide pricing power. The company should also profit from the gradual closure of industrial customers' in-house disposal facilities, which represent a significant proportion of the market today but are becoming uneconomical due to their inability to comply with increasingly stringent environmental regulations. Clean Harbors continues to look to expand market share in North America, and the recent acquisition of Eveready, a Canadian industrial services company, offers further growth potential. http://www.cleanharbors.com/

Ormat Technologies (United States/Israel) 2.1% (2008: 2.8%)

Ormat is a leading player in the geothermal power market. The company has a dual strategy of owning and operating power plants (with ca. 500 MW installed generating capacity and a sizeable development pipeline), and selling geothermal generation equipment to third parties. Geothermal power, which harnesses the heat of the earth, has huge potential. The company estimates an immediate global potential of 148,000 MW, compared to the current installed capacity of 9,500 MW. The Massachusetts Institute of Technology estimates that the potential of geothermal energy in the United States alone is 100,000 MW if the development of enhanced geothermal systems is successful. A largely untapped resource, the ability to deliver base load power, low technology risks and compelling economics, should drive strong growth in geothermal power. Legislative support is also strong; state renewable energy targets in the United States encourage geothermal development and Federal support has been increasingly favourable. As the market leader in this segment, Ormat should be a key beneficiary of this growth. http://www.ormat.com/

LKQ (United States) 2.0% (2008: 2.1%)

LKQ is the largest provider of recycled light vehicle original equipment manufacturer ("OEM") products in the United States, with a strategic distribution network across the country. It employs 9,600 people across 280 facilities and generated revenues of US$1.9 billion in 2008. The insurance industry's focus on reducing claim costs provides favourable industry dynamics for LKQ's business. This cost cutting initiative, plus the growing availability of recycled OEM parts has seen the market share of the alternative parts in the mechanical replacement market rise from 20% to 80% in the last 30 years. Collision replacement parts are poised for similar growth and have increased their market share by 1% per annum, reaching 32% of collision repair costs in 2008. LKQ is well positioned to take advantage of the trends supporting industry growth, including high frequency of collisions, high cost of vehicle repair and the desire of insurance companies to reduce their claims expenses. The business has benefited from good pricing power, the recovery in commodity prices and the United States' vehicle 'scrappage' scheme. http://www.lkqcorp.com/

Shanks Group (United Kingdom) 2.0% (2008: 0.9%)

Shanks is Europe's largest listed independent waste management company operating in the Netherlands, Belgium, United Kingdom and Canada. The company provides its customers with sustainable solutions to their waste and environmental obligations. Against a background of compelling European Union-wide legislative drivers, the market is shifting to better capitalized players such as Shanks that have the capacity to meet the high capital costs of recovery, recycling and treatment facilities. The company has a strong pipeline of Private Finance Initiative bids, and organic processing and recycling projects. Over recent years, many of Shanks' competitors have been acquired by private equity groups and infrastructure funds, and in December 2009 Shanks was approached by a private equity group with a potential takeover bid. Confidential discussions are continuing, which may lead to a formal offer being made. http://www.shanksplc.co.uk/

Chloride Group (United Kingdom) 2.0% (2008: 2.0%)

Chloride is the leading European specialist in the power protection marketplace. The company's range of uninterruptible power supplies ("UPS") and software protects mission-critical applications in a variety of sectors worldwide. As these UPS markets continue to grow, Chloride is also gaining market share through a combination of superior technology and an innovative service-oriented product offering. Asia represents a key area for growth and now represents just under 20% of sales. Chloride's strong technology and market position led to a bid approach by Emerson (the United States market leader) in 2008 at a significant premium. Although this bid was rejected, Chloride remains an attractive acquisition target, and, with M&A activity on the rise, the company may be subject to further bids. http://www.chloridepower.com/

DETAILS OF INDIVIDUAL HOLDINGS

AS AT 31 DECEMBER 2009

Company	Country	Holding	Current value £'000	% of total net assets
China Everbright International	Hong Kong	30,731,140	9,812	2.49%
Telvent GIT	United States	403,272	9,732	2.47%
Itron	United States	225,090	9,413	2.39%
Pall	United States	399,030	8,943	2.27%
Abengoa	Spain	416,499	8,350	2.12%
Clean Harbors	United States	223,010	8,227	2.09%
Ormat Technologies	United States	347,309	8,126	2.06%
LKQ	United States	649,300	7,877	2.00%
Shanks Group	United Kingdom	5,887,074	7,859	2.00%
Chloride Group	United Kingdom	4,321,720	7,779	1.98%
Transpacific Industries Group	Australia	9,777,250	7,308	1.86%
Regal Beloit	United States	219,975	7,077	1.80%
Nalco Holding	United States	448,110	7,076	1.80%
Pentair	United States	351,590	7,026	1.78%
NIBE Industrier	Sweden	1,178,046	6,987	1.77%
Taewoong	South Korea	174,665	6,958	1.77%
Vestas Wind Systems	Denmark	183,101	6,919	1.76%
Vacon	Finland	296,008	6,801	1.73%
Horiba	Japan	449,650	6,697	1.70%
New Earth (unquoted)	United Kingdom	n/a	6,693	1.70%
EDP Renovaveis	Spain	1,124,215	6,602	1.68%
Lassila & Tikanoja	Finland	462,794	6,560	1.67%
Stericycle	United States	190,152	6,497	1.65%
Epistar	Taiwan	2,792,669	6,477	1.64%
Covanta Holding	United States	563,650	6,300	1.60%
Lee & Man Paper	Hong Kong	14,755,720	6,290	1.60%
Gamesa	Spain	591,280	6,173	1.57%
Novozymes	Denmark	91,630	5,898	1.49%
SIMS Metal Management	United States	485,497	5,863	1.48%
RPS Group	United Kingdom	2,697,615	5,843	1.47%
Top thirty holdings			**218,163**	**55.39%**
Other holdings			**168,585**	**42.81%**
Total holdings in companies			**386,748**	**98.20%**
Cash			7,378	1.87%
Other net liabilities			(286)	(0.07%)
Grand total			**393,840**	**100.00%**

All the above holdings are quoted unless otherwise stated.

The Company also held unquoted warrants in Emergya, Ensyn, Turbo Power and Xebec with nil value as at 31 December 2009.

The Company held the following investments in unquoted companies:

Stock description	Country	Holding	Current value £'000	% of total net assets
Emergya Wind Technologies	Netherlands		2,035	0.52%
Ensyn	United States		1,744	0.44%
GSH Group	United Kingdom		93	0.02%
New Earth	United Kingdom		6,693	1.70%
Nordic Windpower	United States		3,730	0.95%
Pelamis Wave Power	United Kingdom		209	0.05%
Sterecycle	United Kingdom		1,794	0.46%
Total			**16,298**	**4.14%**

The Company also held an unquoted loan note in a quoted company, Turbo Power Systems, which was valued at £600,000 at the year end.

The directors present their report and accounts for the year ended 31 December 2009.

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 2009, the Company had investments totalling in aggregate £183m by value invested in this sub-sector representing 47.4% 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 2009, the Company had investments totalling in aggregate £118m by value invested in this sub-sector representing 30.6% of the Company's portfolio at that time.

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 2009, the Company had investments totalling in aggregate £85m by value invested in this sub-sector representing 22.0% 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 2009. The Company held investments in 94 companies as at 31 December 2009, the largest one being China Everbright which represented 2.5% 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.

(iv) Gearing

At present the Company does not have any long-term or short-term borrowings, and during the year ended 31 December 2009 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:

(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 undiluted 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 net asset value.

(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 and 4 incorporates a review of the highlights during the year. The Manager's report on pages 5 to 10 gives details on investments made during the year and how performance has been achieved.

The capital growth performance of the Company is shown below.

	Since launch	5 years to 31 December 2009	3 years to 31 December 2009	1 year to 31 December 2009
NAV (undiluted)[1] of the Company	+30.7%[2]	+67.4%	+14.8%	+29.7%
MSCI World Index	+9.5%	+18.6%	–4.6%	+14.6%
FTSE All-Share Index	+12.7%	+14.5%	–14.3%	+25.0%
FTSE ET50	+28.1%	+75.1%	+20.1%	+15.4%
MSCI World Small Cap	+28.1%	+26.3%	–2.5%	+27.9%

Note: Index numbers are in sterling terms and have been sourced from Bloomberg.
[1] Excluding current year net revenue.
[2] Based on opening NAV after share issue expenses of 98.25p per ordinary share.

The Company's shares traded at an average discount to NAV (diluted) of 6.9% during the year ended 31 December 2009.

Based on the Company's average net assets during the year ended 31 December 2009, the Company's annualised TER was 1.1% (2008: 1.2%).

RESULTS AND DIVIDEND

The Company's revenue return after tax for the year amounted to £2,376,000 (2008: £2,657,000). The directors expect the Company normally to generate returns in the form of capital gains rather 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 (2008: 0.85p per ordinary share) absorbing £2,282,694 (2008: £2,589,854) 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 18 May 2010 to shareholders on the register at the close of business on 16 April 2010.

The Company made a capital gain after tax of £89,457,000 (2008: £94,032,000, loss). Therefore the total gain after tax for the Company was £91,833,000 (2008: £91,375,000, loss).

PRINCIPAL RISKS AND UNCERTAINTIES

The Board considers that the risks faced by the Company fall into two main categories.

(i) *External 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 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.

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.

(ii) *Internal 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.

RISK CONTROLS

(i) *External risks*

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 94 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 external risk controls is provided in note 14 to the accounts.

(ii) *Internal risks*

The control of risks related to the Company's business areas is described in detail in the corporate governance report on pages 25 to 29.

OUTLOOK

The outlook for the Company is discussed in the Chairman's Statement on page 4.

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 842 of the Income and Corporation Taxes Act 1988 for the year ended 31 December 2009. 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 2008.

SHARE ISSUES

The authority to issue new shares for cash granted at the Annual General Meeting held on 11 May 2009 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 30,405,480 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 have the right to subscribe in cash for all or any of the Ordinary Shares in the capital of the Company to which the Warrantholder is 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.

Each Warrant carries the right to subscribe for one Ordinary Share in cash at a subscription price of 96p per Ordinary Share. The final subscription date will be on 15 June 2010. A separate reminder subscription notice will be sent out to Warrantholders at least 28 days before but not more than 56 days before the subscription date.

On 15 June 2009 the holders of 438,068 Warrants subscribed in cash for Ordinary Shares on a one Warrant for one Ordinary Share basis and at a subscription price of 96p per Ordinary Share. As a result 438,068 Ordinary Shares were issued. In aggregate, net proceeds of £420,545 were received for these Ordinary Shares. The new Ordinary Shares were admitted to trading on 22 June 2009.

At the year end 18,666,085 Warrants remained in issue.

RENEWAL OF AUTHORITY TO PURCHASE OWN SHARES

During the year ended 31 December 2009 the Company purchased 907,005 of its own Ordinary Shares and since the year end a further 577,032 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 2009 will expire at the conclusion of the forthcoming Annual General Meeting. The directors recommend that a new authority to purchase up to 45,623,451 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.

CANCELLATION OF SHARE PREMIUM ACCOUNT

As described in the circular dated 13 May 2009, the Company applied to the Court for the cancellation of its share premium in order to create additional distributable reserves which would be available for the buy back of its own Ordinary Shares. The cancellation was approved by shareholders on 4 June 2009, confirmed by the Court on 8 July 2009 and became effective on 15 July 2009. An amount of £246,486,789 was transferred from the share premium account to the share purchase reserve on the effective date.

CONTINUATION VOTE

The Articles require that an ordinary resolution be proposed at the Annual General Meeting of the Company to be held in 2010 and, thereafter, at every third Annual General Meeting of the Company that the Company should continue as an investment trust for a further three year period. 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.

Resolution 7 in the notice of meeting proposes the continuation of the Company as an investment trust for a further three year period. For the reasons mentioned in the Chairman's Statement, the directors recommend that shareholders vote in favour of this resolution.

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 and released daily to the London Stock Exchange.

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' HOLDINGS

At 31 December 2009 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 2009 and at the date of this report	Ordinary Shares At 1 January 2009	Warrants At 31 December 2009 and at the date of this report	Warrants At 1 January 2009
R Bernays	23,887	23,887	4,777	4,777
Dr R Arnott	7,500	7,500	1,500	1,500
W Brown	7,500	7,500	1,500	1,500
K Niven	15,693	15,693	3,138	3,138
C Berry	7,500	7,500	–	–

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 2009 (2008: £nil).

SECTION 992 COMPANIES ACT

The following disclosures are made in accordance with Section 992 of the Companies Act 2006.

(i) Capital structure and voting rights

At the year end the Company's issued share capital comprised 305,843,288 Ordinary Shares of 10p nominal value. Of these shares 907,005 were held in Treasury. There were also 18,666,085 Warrants in issue. 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, hold 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 577,032 of its own Ordinary Shares. These shares are held in Treasury and as such do not hold voting rights.

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

(ii) 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	29,569,832	9.7
Newton Investment Management Limited	24,102,153	7.9
AEGON UK Group of Companies	18,805,533	6.2
Rathbone Brothers plc	16,295,839	5.4
London Pension Fund Authority	14,063,342	4.6
Legal & General Group plc	12,174,931	4.0

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 12 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 12 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.

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 2009, the Company held £7m in cash and £370m in quoted investments. It is estimated that approximately 84% of the quoted investments held at the year end could be realised in one month. The total expenses (excluding taxation) for the year ended 31 December 2009 were £3.7m, 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 19 March 2010 were £407m.

Continuation vote

The Company will put forward a resolution for its continuation at the forthcoming Annual General Meeting. In the event that the 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. The Company's performance record over the last five years has been strong and the directors have recommended that shareholders vote in favour of the continuation of the Company. The directors, having consulted with the Company's advisers, have not had any indication that shareholders will not vote in favour of continuation.

AUDITOR

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 Section 418 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
Cavendish Administration Limited
Company Secretary

24 March 2010

Impax Environmental Markets plc is incorporated in England with registered number 4348393.

CORPORATE GOVERNANCE

INTRODUCTION

The Company applies the Combined Code of Corporate Governance, as issued by the Financial Reporting Council ("FRC") in 2008. The Company has always been committed to high standards of corporate governance. The Board has put in place a framework for corporate governance which is appropriate for the Company and enables it to comply with the updated Combined Code.

THE BOARD

Composition

The Board consists of five 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. All directors have served during the entire period since their appointment.

The Board believes that its composition is appropriate for an investment company of this nature and size. All the directors are independent of the investment 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 67) 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 52) 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 was recently appointed to the Board of Petroceltic International PLC and Spring Energy AS.

Charles Berry (aged 57) 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 47) 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. Mr Brown is a member of the AIM Advisory Group of the London Stock Exchange. He is a chartered accountant.

Keith Niven (aged 61) Mr Niven retired from Schroder Investment Management Limited ("SIM") in October 2001. He joined Schroders 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 Matrix Income & Growth 3 VCT PLC and a non-executive 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.

In accordance with the Company's Articles of Association, Dr Arnott and Mr Brown will retire by rotation and will offer themselves for re-election. The Board confirms that the performance of Dr Arnott and Mr Brown 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. The Board therefore recommends them for re-appointment.

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 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.

There were five full Board meetings during the year ended 31 December 2009. All the directors attended all of these meetings. There was one additional Board meeting to deal with the issue of new shares arising from the warrant subscription and two committee meetings to deal with the formal approval of documents.

BOARD COMMITTEES

The Board decides upon the membership and chairmanship of its committees. Other advisers or persons may be invited to attend those committee meetings.

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 2009. All the committee members attended both 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 pages 30 and 31 of these financial statements.

There was one meeting of the Remuneration and Management Engagement Committee during the year ended 31 December 2009. The meeting was attended by all the committee members.

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. New appointments to the Board are referred to 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 no meetings of the Nominations Committee during the year ended 31 December 2009.

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 2009 were positive and demonstrated that the composition of the Board was in keeping with the Company's objectives and that the directors showed the necessary commitment for the fulfilment of their duties.

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, including the investment manager, 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, 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 investment 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 24. The Report of the Independent Auditors is on pages 33 and 34.

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 investment 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 investment 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.

EXERCISE OF VOTING POWERS

The Company does not automatically follow a fixed policy always to vote on its holdings, but each case is treated on its merits having considered all the relevant information. The Company is opposed to mechanistic box ticking approaches to corporate governance.

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.

COMPLIANCE WITH THE COMBINED CODE

The Board considers that it has applied the Combined Code appropriately to the Company's circumstances. Notwithstanding this, departures from the Code together with reasons are detailed below.

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. (Breach of Combined Code rule A 3.3)

By order of the Board
Cavendish Administration Limited
Company Secretary

24 March 2010

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 has five non-executive directors. The Remuneration and Management Engagement Committee comprises the whole Board.

The fees of the Chairman are £25,000 per annum, of Mr Niven (Chairman of the Audit Committee) are £18,000 per annum and of the other directors are £16,000 per annum. Post year end, the Remuneration and Management Engagement Committee has recommended an increase in fees payable to the directors to reflect the increased size of the Company and the increasing responsibilities faced by directors. The Board of directors has agreed that with effect from 1 March 2010 the fees will be £30,000 per annum for the Chairman, £24,000 per annum for Mr Niven and £20,000 per annum for the other directors.

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 2010 and for subsequent years.

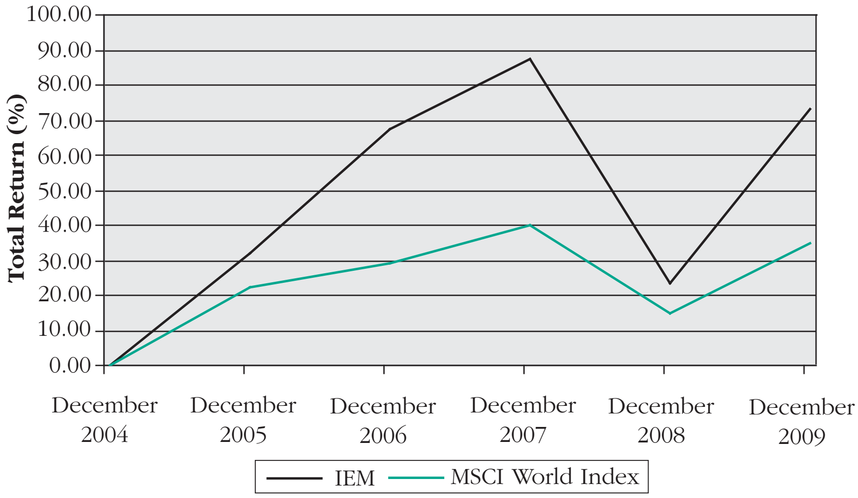
The maximum level of fees payable, in aggregate, to the directors of the Company is currently £125,000 per annum. The directors are proposing to increase this level to £150,000 and an ordinary resolution to this effect will be put at the forthcoming Annual General Meeting. They believe that this will give them the required flexibility when considering the future Board requirements of the Company.

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.

PERFORMANCE

The following chart shows the performance of the Company's shares by comparison to the MSCI World Index, 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 2009 £'000	*Fees 2008 £'000*
Richard Bernays	25	*25*
Keith Niven	18	*18*
Dr Robert Arnott	16	*16*
Bill Brown	16	*16*
Charles Berry	16	*16*
	91	*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
Cavendish Administration Limited
Company Secretary

24 March 2010

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 Practices (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
Richard Bernays
Chairman

24 March 2010

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 2009 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Reconciliation of Movements in Shareholders' Funds, 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 AUDITORS

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 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 2009 and of its net 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;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 25 to 29 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

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; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 24, in relation to going concern; and
- the part of the Corporate Governance Statement on pages 25 to 29 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Caroline Gulliver (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

24 March 2010

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

Notes		2009 Revenue £'000	2009 Capital £'000	2009 Total £'000	*2008 Revenue £'000*	*2008 Capital £'000*	*2008 Total £'000*
	Gains/(losses) on investments	–	91,687	91,687	*–*	*(92,089)*	*(92,089)*
3	Income	4,217	–	4,217	*4,878*	*–*	*4,878*
4	Investment management fees	(779)	(2,335)	(3,114)	*(824)*	*(2,473)*	*(3,297)*
4	VAT recovered on investment management fees	–	–	–	*86*	*257*	*343*
4	Other expenses	(582)	–	(582)	*(818)*	*–*	*(818)*
	Return on ordinary activities before taxation	**2,856**	**89,352**	**92,208**	***3,322***	***(94,305)***	***(90,983)***
6	Taxation	(480)	105	(375)	*(665)*	*273*	*(392)*
	Return on ordinary activities after taxation	**2,376**	**89,457**	**91,833**	***2,657***	***(94,032)***	***(91,375)***
7	Return per ordinary share – undiluted	0.78p	29.33p	30.11p	*0.88p*	*(30.99)p*	*(30.11)p*
7	Return per ordinary share – diluted	0.78p	29.31p	30.09p	*0.88p*	*(30.99)p*	*(30.11)p*

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

BALANCE SHEET

AT 31 DECEMBER 2009

Notes		2009 £'000	*2008 £'000*
	FIXED ASSETS		
9	Investments at fair value through profit and loss	386,748	*294,468*
	CURRENT ASSETS		
	Income receivable	136	*224*
	Sales – future settlements	187	*385*
	Taxation recoverable	5	*9*
	Other debtors	34	*414*
	Cash at bank and in hand	7,378	*10,374*
		7,740	*11,406*
	CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR		
	Purchases – future settlements	(219)	*(278)*
	Accrued liabilities	(429)	*(666)*
		(648)	*(944)*
	NET CURRENT ASSETS	7,092	*10,462*
	TOTAL NET ASSETS	393,840	*304,930*
	CAPITAL AND RESERVES: EQUITY		
10	Share capital	30,585	*30,541*
	Share premium account	–	*246,110*
	Share purchase reserve	289,858	*44,125*
11	Capital reserve	70,651	*(18,806)*
	Revenue reserve	2,746	*2,960*
	SHAREHOLDERS' FUNDS	393,840	*304,930*
12	Net assets per Ordinary Share – undiluted	129.15p	*99.84p*
12	Net assets per Ordinary Share – diluted	127.24p	*99.62p*

Approved by the Board of directors and authorised for issue on 24 March 2010 and signed on their behalf by:

R. Bernays
Director

Impax Environmental Markets plc is incorporated in England with registered number 4348393.

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

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 DECEMBER 2009

	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 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**

FOR THE YEAR ENDED 31 DECEMBER 2008

	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 2008	*30,125*	*242,024*	*44,125*	*75,226*	*1,212*	*392,712*
Shares issued during the year	*350*	*3,584*	–	–	–	*3,934*
Exercise of warrants	*66*	*567*	–	–	–	*633*
Share issue expenses	–	*(65)*	–	–	–	*(65)*
Dividend paid (May 2008)	–	–	–	–	*(909)*	*(909)*
Profit for the year	–	–	–	*(94,032)*	*2,657*	*(91,375)*
Closing shareholders' funds as at 31 December 2008	***30,541***	***246,110***	***44,125***	***(18,806)***	***2,960***	***304,930***

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

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 £'000	*2008* *£'000*
OPERATING ACTIVITIES		
Cash inflow from investment income and bank interest	4,339	*4,781*
Cash outflow from management expenses	(3,955)	*(4,599)*
Cash inflow from recovery of VAT on management fees	371	*–*
Cash inflow from disposal of investments	79,379	*95,199*
Cash outflow from purchase of investments	(79,354)	*(100,868)*
Cash (outflow)/inflow from foreign exchange costs	(478)	*177*
Cash outflow from taxation	(375)	*(385)*
NET CASH FLOW FROM OPERATING ACTIVITIES	(73)	*(5,695)*
EQUITY DIVIDENDS PAID	(2,590)	*(909)*
FINANCING		
Proceeds of share issues	420	*4,567*
Expenses of share issue	(5)	*(65)*
Share buy backs	(748)	*–*
NET CASH FLOW FROM FINANCING	(333)	*4,502*
DECREASE IN CASH	(2,996)	*(2,102)*
Opening balance at 1 January	10,374	*12,476*
Balance at 31 December	7,378	*10,374*

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 ("GAAP") and the Statement of Recommended Practice "Financial statements of investment trust companies" ("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. Unfranked income is grossed up at the appropriate rate of tax but franked 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 profits, except by way of redeeming or purchasing its own shares. Profits achieved in cash by selling investments are dealt with in the capital reserve. Changes in fair value arising upon the revaluation of investments that remain in the portfolio are dealt with through 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. 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.

3. INCOME

	2009 £'000	*2008 £'000*
Income from investments:		
Franked dividends from listed investments	886	*902*
Unfranked dividends from overseas investments	3,260	*3,549*
Loan note interest	6	*–*
Total	4,152	*4,451*
Other income:		
Interest receivable	34	*427*
Other income	31	*–*
Total income	4,217	*4,878*

4. ADMINISTRATION EXPENSES

	2009			*2008*		
	Revenue £'000	Capital £'000	Total £'000	*Revenue £'000*	*Capital £'000*	*Total £'000*
Investment management fees	779	2,335	3,114	*824*	*2,473*	*3,297*
VAT recovered on investment management fees	–	–	–	*(86)*	*(257)*	*(343)*
Total investment management fees	779	2,335	3,114	*738*	*2,216*	*2,954*
Secretary and administrator fees	131	–	131	*131*	*–*	*131*
Custodian's fees	119	–	119	*122*	*–*	*122*
Directors' fees	91	–	91	*91*	*–*	*91*
Directors' other employment costs	8	–	8	*8*	*–*	*8*
Auditors remuneration						
– for audit services	25	–	25	*25*	*–*	*25*
– for taxation	6	–	6	*6*	*–*	*6*
Broker fees	47	–	47	*321*	*–*	*321*
Miscellaneous expenses	155	–	155	*114*	*–*	*114*
	582	–	582	*818*	*–*	*818*
Total administration expenses	1,361	2,335	3,696	*1,556*	*2,216*	*3,772*

5. DIRECTORS' FEES

The fees of the Chairman are £25,000 per annum, Keith Niven (Chairman of the Audit Committee) £18,000 per annum and those of the other directors are £16,000 each per annum. 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.

6. TAXATION

(a) **Analysis of charge in the period:**

	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000	*2008 Revenue £'000*	*2008 Capital £'000*	*2008 Total £'000*
Current UK Corporation Tax	334	(105)	229	*665*	*(273)*	*392*
Double tax relief	(229)	–	(229)	*(392)*	–	*(392)*
UK Corporation Tax	105	(105)	–	*273*	*(273)*	–
Overseas taxation	375	–	375	*392*	–	*392*
Taxation	480	(105)	375	*665*	*(273)*	*392*

(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% (2008: 28.5% – pro rata 3 months at 30%, 9 months at 28%, due to the change in corporation tax rate reducing to 28% for the year commencing April 2008).

The differences are explained below:

	2009 £'000	*2008 £'000*
Total profit/(loss) before tax per accounts	92,208	*(90,983)*
Corporation tax at 28% (2008: 28.5%)	25,818	*(25,930)*
Effects of:		
Non-taxable UK dividend income	(248)	*(257)*
Non-taxable overseas dividend income	(259)	–
Movement in unutilised management expense	549	*359*
Movement in income accruals taxable on receipt	41	*(25)*
(Gains)/losses on investments not taxable	(25,672)	*26,245*
Overseas tax	375	*392*
Double tax relief	(229)	*(392)*
Total current tax charge for the year	375	*392*

Investment companies, which have been approved by the HM Revenue & Customs under s842 ICTA 1988, 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 £6,043,000 (2008: £4,050,000). 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.

7. RETURNS PER ORDINARY SHARE

Undiluted return per share is based on the net gain on ordinary activities after taxation of £91,833,000 comprising a revenue return of £2,376,000 and a capital return of £89,457,000 (2008: £91,375,000 loss, comprising a revenue return of £2,657,000 and a capital loss of £94,032,000) attributable to the weighted average of 305,015,304 (2008: 303,459,331) Ordinary Shares of 10p in issue during the year.

Diluted returns per share 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. There was no dilution to return per share in the year ended 31 December 2008.

8. DIVIDENDS

	2009 £'000	*2008 £'000*
Dividends reflected in the financial statements:		
Final dividend paid for the year ended 31 December 2008 of 0.85p (2007: 0.30p)	2,590	*909*
Dividends not reflected in the financial statements:		
Recommended ordinary dividend for the year ended 31 December 2009 of 0.75p (2008: 0.85p) per share	2,283	*2,590*

If approved at the Annual General Meeting, the dividend will be paid on 18 May 2010 to shareholders on the register as at the close of business on 16 April 2010.

9. INVESTMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS

	2009 £'000	*2008 £'000*
Analysis of closing balance:		
UK quoted securities	43,971	*36,431*
UK unquoted securities	9,389	*10,174*
Overseas securities	325,879	*241,451*
Overseas unquoted securities	7,509	*6,412*
Total investments	386,748	*294,468*
Movements during the year:		
Opening balance of investments, at cost	345,188	*322,938*
Additions, at cost	79,303	*98,817*
Disposals, at cost	(74,696)	*(76,567)*
Cost of investments at 31 December	349,795	*345,188*
Revaluation of investments to fair value:		
Opening balance of Capital reserve – investments held	(50,720)	*58,765*
Net movement	87,673	*(109,485)*
Balance of Capital reserve – investments held at 31 December	36,953	*(50,720)*
Fair value of investments at 31 December	386,748	*294,468*

During the year, the Company incurred transaction costs on purchases totalling in aggregate £176,898 (2008: £187,443) and on disposals totalling in aggregate £164,550 (2008: £91,636).

10. SHARE CAPITAL AND WARRANTS

At 31 December		2009		*2008*
Allotted, issued and fully paid				
Ordinary shares of 10p	Number	305,843,288	*Number*	*305,405,220*
	£'000	30,585	*£'000*	*30,541*
Warrants	Number	18,666,085	*Number*	*19,104,153*

At the year end 907,005 (2008: nil) of the above Ordinary Shares were held in Treasury.

(i) Exercise of Warrants

The Warrants are exercisable on 15 June in each of the years 2006 to 2010 inclusive. Each Warrant carries the right to subscribe for one Ordinary Share in cash at a subscription price of 96 pence.

On 15 June 2009 the holders of 438,068 Warrants subscribed in cash for Ordinary Shares on a one Warrant for one Ordinary Share basis and at a subscription price of 96p per Ordinary Share. As a result 438,068 Ordinary Shares were issued. In aggregate, net proceeds of £420,545 were received for these Ordinary Shares. The new Ordinary Shares were admitted to trading on 22 June 2009.

At the year end 18,666,085 Warrants remained in issue.

11. CAPITAL RESERVE

Disposal of Investments

	2009 £'000	*2008* *£'000*
Opening balance	31,914	*16,461*
Transfer from investments held	(5,870)	*11,332*
Gains on disposal of investments by reference to revalued book costs	10,354	*5,900*
Net foreign exchange (loss)/gain	(477)	*177*
Unquoted investment transaction rebates/(costs)	7	*(13)*
Investment management fees charged to capital	(2,335)	*(2,216)*
Allocation of tax relief to capital	105	*273*
Balance at 31 December	33,698	*31,914*

Investments held

	2009 £'000	*2008* *£'000*
Opening balance	(50,720)	*58,765*
Transfer to disposal of investments	5,870	*(11,332)*
Revaluation of investments	81,803	*(98,153)*
Balance at 31 December	36,953	*(50,720)*
Capital reserve balance at 31 December	70,651	*(18,806)*

12. NET ASSETS PER ORDINARY SHARE

Undiluted net assets per Ordinary Share is based on net assets of £393,840,000 (2008: £304,930,000) divided by 304,936,283 (2008: 305,405,220) Ordinary Shares in issue (excluding shares held in Treasury) at the Balance Sheet date.

Diluted net assets per Ordinary Share is based on net assets of £411,759,000 (2008: £323,270,000) divided by 323,602,368 (2008: 324,509,373) diluted Ordinary Shares in issue at the Balance Sheet date. The diluted figures are 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 22. Fees payable to the Investment Manager are detailed in note 4 on page 40; the relevant amount outstanding as an accrual at 31 December 2009 was £304,771 (2008: £243,167).

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 2009 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 investments were the Ensyn Corporation, Emergya and Turbo Power Systems but a very limited amount of income is receivable on these investments. 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 10%. The historic 3-year volatility of the Company to 31 December 2009 is 22%.

14. FINANCIAL INSTRUMENTS – RISK PROFILE (continued)

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 2009 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	–1.3	–2.0	–3.8
5 day return	–3.1	–4.6	–8.4
10 day return	–4.4	–7.1	–12.6
21 day return	–5.8	–9.5	–24.3

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 on 31 December 2009.

The results in the above table indicate, for example, that there is a 5% or less probability of the NAV falling by 4.6% or more over a 5 day period. Similarly, there is a 1% or less probability of the NAV falling by 3.8% or more on any given day.

Credit Risk

Cash at bank at 31 December 2009 included £6,902,000 (2008: £9,828,000) held at the Company's custodian, The Northern Trust Company. The Company also held £476,000 (2008: £546,000) at Lloyds TSB Bank plc.

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 three unquoted interest bearing investments.

Substantially all of the assets of the Company are held by The Northern Trust Company (the "custodian"). Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to securities held by the custodian to be delayed or limited.

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 2009, 6% 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 at 31 December 2009 and the results for different time bands are reported as follows:

Percentage of portfolio that could be liquidated in one month	84%
Percentage of portfolio that could be liquidated in three months	94%
Percentage of portfolio that could be liquidated in one year	97%
Percentage of portfolio that could 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 seven unquoted companies with an aggregate total value of £16,298,000 (2008: £15,986,000); these investments have been valued at fair value at the year end. The Company also held an unquoted loan note in a quoted company with a valuation at year end of £600,000 (2008: £600,000).

14. FINANCIAL INSTRUMENTS – RISK PROFILE (continued)

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:

		2009			*2008*	
	Level 1 £'000	Level 3 £'000	Total £'000	*Level 1 £'000*	*Level 3 £'000*	*Total £'000*
Investments at fair value through profit and loss						
– Quoted	369,850	–	369,850	*277,882*	*–*	*277,882*
– Unquoted	–	16,898	16,898	*–*	*16,586*	*16,586*
	369,850	16,898	386,748	*277,882*	*16,586*	*294,468*

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

	2009 £'000
Opening balance at 1 January	16,586
Additions during the year	1,611
Valuation adjustments	(1,299)
Closing balance at 31 December	16,898

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 carried at directors' estimate of the fair value of those assets. All liabilities are included at fair value.

The Company's financial assets and liabilities at 31 December 2009 comprised:

	2009 Interest Bearing £'000	2009 Non-interest Bearing £'000	2009 Total £'000	*2008 Interest Bearing £'000*	*2008 Non-interest Bearing £'000*	*2008 Total £'000*
Assets						
Investments						
– Sterling	–	62,917	62,917	*–*	*46,476*	*46,476*
– Sterling fixed rate	–	–	–	*130*	*–*	*130*
– US Dollar	–	146,175	146,175	*–*	*114,927*	*114,927*
– Canadian Dollar	–	15,508	15,508	*–*	*17,539*	*17,539*
– Euro	–	68,343	68,343	*–*	*57,970*	*57,970*
– Japanese Yen	–	14,682	14,682	*–*	*15,665*	*15,665*
– Australian Dollar	–	12,065	12,065	*–*	*6,241*	*6,241*
– Danish Kroner	–	12,817	12,817	*–*	*11,480*	*11,480*
– Norwegian Kroner	–	4,100	4,100	*–*	*4,729*	*4,729*
– Swedish Kroner	–	6,987	6,987	*–*	*4,614*	*4,614*
– Swiss Franc	–	6,783	6,783	*–*	*1,712*	*1,712*
– Hong Kong Dollar	–	22,936	22,936	*–*	*8,876*	*8,876*
– South Korean Won	–	6,958	6,958	*–*	*1,538*	*1,538*
– Taiwanese Dollar	–	6,477	6,477	*–*	*2,571*	*2,571*
	–	386,748	386,748	*130*	*294,338*	*294,468*
Cash at bank						
Floating rate – £ sterling	7,378	–	7,378	*10,374*	*–*	*10,374*
Short term debtors	–	362	362	*–*	*1,032*	*1,032*
Short term creditors	–	(648)	(648)	*–*	*(944)*	*(944)*
	7,378	386,462	393,840	*10,504*	*294,426*	*304,930*

Capital management

At 31 December 2009 there were 305,843,288 ordinary shares in issue (of these shares 907,005 were held in Treasury). At that time, the Company also had 18,666,085 warrants in issue to subscribe for ordinary shares at 96 pence on a one for one basis.

The Company bought back 907,005 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.

DIRECTORS, MANAGER AND ADVISERS

DIRECTORS
Richard Bernays (Chairman)
Dr Robert Arnott
Charles Berry
Bill Brown
Keith Niven

BROKERS
Collins Stewart
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 11 May 2010 at 3.00 p.m. for the following purposes:

To consider and if thought fit pass the following resolutions of which resolutions 1 to 9 will be proposed as ordinary resolutions and resolutions 10, 11 and 12 will be proposed as special resolutions.

1. To receive the Company's annual accounts for the year ended 31 December 2009, with the reports of the directors and auditors thereon.

2. To approve the directors' remuneration report included in the financial statements.

3. To re-elect Dr Arnott as a director of the Company, who retires by rotation.

4. To re-elect Mr Brown as a director of the Company, who retires by rotation.

5. To re-appoint Ernst & Young LLP as auditors to the Company and authorise the directors to fix their remuneration.

6. To declare a final dividend of 0.75p per Ordinary Share of the Company in respect of the year ended 31 December 2009.

7. That the Company be continued as an investment trust for a further three year period.

8. That the aggregate maximum directors' remuneration be increased to £150,000 per annum.

9. 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 £3,040,548 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 2011 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.

10. 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 45,623,451 (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 2011 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.

11. That, subject to the passing of resolution 9, 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 9 up to an aggregate nominal amount of £3,040,548 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).

12. 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
CAVENDISH ADMINISTRATION LIMITED
Company Secretary

24 March 2010

NOTES

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 9 May 2010; 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 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 9 May 2010 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 reverse of the Form of Proxy. As postage has been pre-paid no stamp is required. You may, if you prefer, return the Form of Proxy in a sealed envelope to the address shown above.

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 9 May 2010 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.

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 305,843,288 Ordinary Shares of 1p each. Of these 1,484,037 are held in Treasury. Therefore the total number of Ordinary Shares with voting rights is 304,359,251. 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.

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 11 May 2010 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 2009.				
2.	To approve the directors' remuneration report.				
3.	To re-elect Dr Arnott as a director.				
4.	To re-elect Mr Brown as a director.				
5.	To re-appoint Ernst & Young LLP as auditors to the Company and authorise the directors to fix their remuneration.				
6.	To declare a final dividend of 0.75p per Ordinary Share.				
7.	That the Company be continued as an investment trust for a further three year period.				
8.	That the aggregate maximum directors' remuneration be increased to £150,000 per annum.				
9.	To give authority to allot new shares.				
10.	To give authority for the Company to purchase its own shares.				
11.	To give authority to allot new shares free from pre-emption rights.				
12.	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 of 2010

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.

Third fold and tuck in

Business Reply
Licence Number
RSBH-UXKS-LRBC

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PXS
34 Beckenham Road
BECKENHAM
BR3 4TU

Second fold

First fold