IMPAX

Impax Environmental Markets plc

REPORT AND ACCOUNTS

for the year ended 31 December 2011

Registered in England and Wales No. 4348393

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INVESTMENT OBJECTIVE

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

HIGHLIGHTS OF THE YEAR

- Company outperformed environmental index (FTSE ET50)
- Environmental markets underperformed wider equity markets
- Company bought back 23,066,266 Ordinary Shares in response to widening discount to NAV

FINANCIAL INFORMATION

	At 31 December 2011	*At 31 December 2010*	*% change*
Net assets	£344.8m	*£453.4m*	–24.0%
Number of Ordinary Shares in issue[1]	294,734,070	*317,800,336*	–7.3%
Net asset value ("NAV") per Ordinary Share	117.0p	*142.7p*	–18.0%
NAV per Ordinary Share (excluding current year net revenue)	115.9p	*141.8p*	–18.3%
MSCI World Index[2]			–6.9%
MSCI World Small Cap Index[2]			–9.8%
FTSE ET50 Index[2]			–28.2%
Ordinary Share price (mid-market)	95.8p	*129.8p*	–26.2%
Ordinary Share price discount to NAV	18.1%	*9.0%*	**n/a**

[1] Excluding shares held in Treasury

[2] Capital return in pounds sterling

Further financial information can be found in the financial record on page 47.

CHAIRMAN'S STATEMENT

2011 was a difficult year for equity markets in general, dominated by the escalating European sovereign debt crisis and concerns about the sustainability of global growth. Although the Company outperformed the relevant environmental markets index (the FTSE ET50), environmental markets faced challenges and performed significantly less well than the MSCI World indices. The Company's investments in defensive subsectors and merger and acquisition activity made positive contributions, but the broad sell-off in environmental markets and especially in small cap Asian stocks, led to disappointing headline performance for the year.

Notwithstanding this recent period of underperformance, we believe the fundamental investment hypothesis of environmental markets appears to remain intact. In October, the United Nations announced that the global population had breached the seven billion mark, which will over time place extra demands on increasingly scarce natural resources, while catastrophic flooding in Thailand and the Fukushima Daiichi nuclear disaster highlighted the shortcomings of existing infrastructure. The global response to these issues continues to create powerful drivers for growth in environmental markets. Although support for renewables in Europe experienced setbacks, the overall momentum behind environmental policy remained positive, with a focus on Asia and energy efficiency. We believe that this, together with technology advances, will drive long term growth in environmental markets.

Investment Performance

During the year, the Company's net asset value ("NAV") per Ordinary Share decreased from 142.7p to 117.0p, a fall of 18.0%. This represented an outperformance of the FTSE ET50, an index of the 50 largest specialist environmental markets companies, which fell 28.2% during the year. However the Company underperformed the MSCI World and the MSCI World Small Cap Indices (capital return priced in pounds sterling), which fell by 6.9% and 9.8% respectively. Over the same period, IEM's share price fell 26.2% from 129.8p to 95.8p.

At the end of the year, the Company's investments in six unquoted companies accounted for 4.1% of NAV, approximately the same proportion as at the end of 2010. The Manager remains focused on securing exits, albeit supporting selective existing holdings with small additional investments.

Discount

During the year, the discount to NAV at which the Company's Ordinary Shares traded ranged between 8% and 23%, with an average for the year of 14%. The Ordinary Shares ended the year at a discount to NAV of 18%. While the Board remains confident that improved portfolio performance will help to narrow the discount in the longer term, it has sought to address its concerns as to the share rating more immediately through the use of share repurchases, buying in 23,066,266 of the Company's own Ordinary Shares over the course of the year at an average discount to NAV of 17%. The Board remains mindful of the discount and, accordingly, will continue to utilise its powers to buy back shares when it considers the circumstances to be appropriate; furthermore, it is exploring, in conjunction with the Manager and the Company's broker, means of widening the shareholder base through the identification of new avenues of demand for the Company's share capital.

Dividend

The Company's net revenue for the year was £3.1 million. As a result, the directors are recommending a slightly increased final dividend for the year ended 31 December 2011 of 0.9p per share. If approved at the Company's Annual General Meeting ("AGM"), this dividend will be paid on 24 May 2012 to shareholders on the register as at the close of business on 27 April 2012. As the primary objective of the Company is capital growth, it should not be assumed that this level of dividend will be paid in future years.

Board of Directors

As part of a programme of refreshment of the Board, Julia Le Blan and William Rickett were appointed to the Board on 27 January 2011 and Bill Brown stood down as a director at the AGM held in May 2011. Rob Arnott will retire at the forthcoming AGM to be held on 17 May 2012 and will not stand for re-election. My Board colleagues and I would like to thank Rob for his valuable contribution to the Company since its formation and we wish him every success in the future. All other directors will stand for re-election at the AGM.

The Board has agreed that Keith Niven will step down as chairman of the Audit Committee immediately following the AGM and that Julia Le Blan will be appointed in his place. We wish to thank Keith for his valuable contribution in this function.

In accordance with the recommendations of the UK Corporate Governance Code, the Board appointed a third party to conduct an external evaluation of the Board and this process was completed in March 2012.

Current Status and Outlook

The Company's NAV has had a reasonable start to 2012, as positive earnings momentum and a recovery in Asian holdings have helped performance. As at 30 March 2012, the NAV had risen 9.6% since the year end, while the share price had risen by 3.9%. The MSCI World, MSCI World Small Cap and FTSE ET50 indices (capital return in pounds sterling) had risen 7.9%, 10.0% and 4.3% respectively over the same period.

With strong long term fundamentals within environmental markets and with the current valuation appearing relatively inexpensive compared to the historical range and to global equity markets, the Manager and the Board continue to believe that IEM offers an attractive opportunity for long-term investors.

Richard Bernays
4 April 2012

The fragile state of the global economy and ongoing uncertainty over resolution of the European sovereign debt crisis provided a difficult backdrop to 2011. Asian markets were especially weak, creating a significant headwind to performance, which obscured some more positive trends. The Company's US and European holdings performed broadly in line with global indices, with more defensive sectors such as hazardous waste and filtration significantly outperforming.

Drivers of environmental markets in 2011

Developments in environmental policy and regulation were positive for the Company in 2011. The Chinese government implemented a plan to invest RMB 5 trn (US$ 770 bn) in low carbon energy by 2020 in order to cut annual carbon dioxide emissions by 1.2bn tonnes and sulphur dioxide emissions by 7.8m tonnes. In light of the catastrophic damage to Japan's Fukushima Daiichi reactors, Germany, Belgium and Switzerland decided to abandon nuclear power generation and increase the rate of adoption of renewable energy.

Corporate activity also accelerated during 2011, with four portfolio holdings taken over at full valuation, while a further three holdings made material acquisitions. We believe that the combination of strong long term growth prospects and cheap valuations will result in continued corporate activity in 2012.

Alternative Energy and Energy Efficiency (45% portfolio weighting at 31 December 2011)

(i) Renewable and Alternative Energy ("RAE") – 18% weighting

During 2011, the RAE sector continued to struggle with regulatory uncertainty, challenging power markets and reduced availability of project finance. Overcapacity and margin pressure remain significant issues for the wind and solar generation equipment sectors, and the sell-off of these stocks has continued.

In the solar segment, 50% declines in module prices led to a record 25 GW installations during 2011. However, ongoing subsidy cuts and substantial overcapacity led to earnings disappointments and an uncertain near term outlook. For this reason, the Company held only 2% exposure to the solar sector, with a focus on technology leaders and low cost manufacturers. In the longer term, dramatic price declines are expected to open up new markets that are less reliant on subsidy. Profitability is currently challenging, but we expect winners to emerge and added Trina Solar (China) to the portfolio during the year with this in mind.

The wind segment faced similar challenges to solar. IEM held an average position of about 3% in wind power generation equipment providers over the year, with a negative contribution to performance from Vestas (wind turbines, Denmark). The Company's wind and solar holdings benefitted from corporate activity, with Total taking a 60% stake in SunPower (solar, US) and Hansen Transmissions (wind gearboxes, Belgium) acquired by ZF Group, both at full valuations.

Given the problems faced by the renewable energy equipment suppliers, IEM has remained focussed on the renewable energy independent power producers that develop, own and operate renewable energy projects. These represent around half of our total renewables exposure and benefit from more defensive characteristics, together with attractive valuations with zero value attributed to pipeline projects. Long term value is supported by corporate activity, with Iberdrola and EDF both buying back their renewables businesses. We continue to favour this segment, adding Innergex (Canada) during the year.

(ii) Energy Efficiency ("EE") – 27% weighting

Energy efficiency remained a key theme in the portfolio during 2011. Policy momentum remains strong, as shown by the Better Buildings Initiative in the US, a ban on incandescent lighting in China, the announcement of draft energy efficiency legislation in the EU, and significant smart metering initiatives in the UK and France. Subsector performance was mixed, with investor concerns on the outlook for industrial and construction activity weighing on share prices and the Light Emitting Diode ("LED") sector experiencing temporary overcapacity.

M&A contributed positively to performance, with Schneider Electric of France acquiring top ten holding Telvent (automated meter reading, Spain). NIBE Industrier (ground source heat pumps, Sweden), another top ten holding, acquired Schulthess in a substantial deal that extended its geographic reach and product portfolio.

We remain positive on this subsector on the basis of policy momentum and strong commercial sales propositions offered by portfolio holdings. During the year we added Infineon (power electronics, Germany), the global market leader in power management for the automotive and industrial market and Spirax Sarco (steam-based energy efficiency, UK), a provider of consultation, service and products for the control and efficient management of steam and industrial fluids. We sold out of Active Power (flywheels, US) following a deterioration in its core business.

Water Treatment and Pollution Control (23% portfolio weighting at 31 December 2011)

(i) Water Infrastructure & Technologies ("WIT") – 17% weighting

Global demand for water continues to increase, driven especially by population growth and increasing industrialisation in emerging markets. This is resulting in substantial capital allocations, with the Chinese government allocating US$ 450bn in the current 5 year plan for water conservation, urban wastewater treatment and water recycling.

The Company's investments in the water treatment equipment subsector performed well in 2011, with Pall Corporation (filtration, US) making progress on restructuring and benefitting from lower economic sensitivity and Nalco (water treatment chemicals, US) being taken over by US peer Ecolab. The performance of water infrastructure companies was mixed. Asian names with relatively high capital requirements, such as Jain Irrigation (micro-irrigation systems, India) and IVRCL (water infrastructure, India) fared poorly, whilst conservatively-managed Hydro International (stormwater and wastewater management, UK) performed well.

During the year we added three new holdings. Xylem (water infrastructure, US) is a global leader in the provision of infrastructure and treatment technologies for both clean and waste water applications. Ecolab (water treatment equipment, US) recently acquired Nalco to become the world's largest global water treatment chemicals company, gaining significant access to non-US markets in the process. Finally, Kemira (water treatment equipment, Finland) is another leading water treatment chemicals business. We sold out of Bioteq (mining effluent treatment, Canada) and Mueller Water (water infrastructure, US).

(ii) Pollution Control ("PC") – 6% weighting

The economically resilient PC sector performed well in general over the year, driven by strong performance from defensive companies such as Clarcor (air pollution control, US) and Horiba (environmental and engine testing, Japan).

During the year we added Norma (pollution control, Germany), the market leading supplier of joining components to the automotive OEMs with growth coming from tightening emissions and fuel efficiency regulations. We sold out of TSO3 (ozone sterilisation, Canada) as it had reached its target price.

Waste Technologies and Resource Management (32% portfolio weighting at 31 December 2011)

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

The environmental policy ratchet continued to tighten in the WMT subsector, with the EU proposing stricter targets on electronic waste as lawmakers said they wanted member states to collect at least 85% of discarded electronics by 2016, compared with only 33% today.

Hazardous waste saw the strongest performance within the waste sector, as market leaders with good pricing power such as Clean Harbors and Stericycle (both US) experienced strong organic growth and made complementary acquisitions. Companies active in value-added waste processing saw mixed results. Exposure to softening commodity prices hurt the performance of Lee & Man (cartonboard manufacturing, China) and Sims (metals recycling, Australia), while companies with good competitive positions in niche businesses such as LKQ (automotive recycling, US) performed well.

Performance of the general waste management segment was muted by slow economic growth, impacting Lassila & Tikanoja (Finland) and Shanks (waste management, UK); nevertheless, given low valuations and early signs of corporate activity, we are optimistic that sentiment will improve in the near term. During the year we sold out of Headwaters (recycled materials, US) on concerns about its balance sheet strength.

(ii) Environmental Support Services ("ESS") – 5% weighting

Environmental consultants, our focus within the ESS subsector, are exposed to government expenditure and infrastructure and construction markets. Poor sentiment in these areas led to disappointing performance during the year. However, earnings releases from portfolio holdings have shown that government expenditure has remained largely intact and that commercial and industrial markets are recovering. With recovering organic growth, strong balance sheets for acquisitions and cheap valuations, we remain positive on this subsector.

We exited our position in Camco International (carbon trading, UK) early in the year. We are generally cautious on the prospects for carbon markets, although there was some positive news when Australia announced a fixed carbon price would be introduced from 1 July 2012 and an emissions trading scheme would be launched three years later.

Portfolio Activity and Current Structure (excluding unquoted companies)

The Company started the year with 78 listed holdings. By year end, this number had fallen to 76, as we sold out of 14 and invested in 12 new companies. The portfolio remains diversified by subsector, with a positive bias towards energy efficiency and low exposure to renewable energy. Regional exposure is relatively unchanged, with 42% in North America, 38% in Europe and 20% in Asia-Pacific. The focus remains on profitable companies which represented 98% of the portfolio, excluding the unquoted holdings. At year end, 4% of the portfolio was invested in unquoted companies, 15% in companies with a market capitalisation of less than US$ 500m, 44% in companies between US$ 500m and US$ 2bn, and 37% in companies above US$ 2bn. The median market cap was US$ 646m and the weighted average market cap was US$ 1.7bn.

Unquoted Companies

At 31 December 2011, the value of the Company's investments in unquoted companies stood at £14.1m, representing 4.1% of the portfolio. Movements in the year were as follows:

	£m
Valuation at 1 January 2011	**16.6**
Additional investments	1.4
Valuation and FX changes	(3.9)
Valuation at 31 December 2011	**14.1**

Market conditions remained challenging throughout the year, with all the usual sources of finance reluctant to commit capital to developing unquoted businesses. This resulted in a £500k net increase in the £3.4m net downward revaluations reported in the interim report. Whilst seeking to minimize additional exposure to this asset class, we worked with other shareholders to support selected holdings, resulting in incremental investments of £1.4m during the year.

Following the year end, further net aggregate write downs of £1.7m have been made in relation to the Company's existing holdings, all of which arose as a result of transactional events which took place in the first quarter of 2012. Our focus remains on nurturing our portfolio companies through to an exit event with the minimum of incremental investments.

Outlook for 2012

With early signs of stabilisation of the European sovereign debt crisis, we are cautiously optimistic on the prospects for equity markets. Risks remain, however, and against this backdrop, we are maintaining a well-balanced and diversified portfolio consisting of a balance of stocks with varying levels of sensitivity to economic cycles. The portfolio is composed of high quality companies with proven track records, successful management teams and solid balance sheets that are exposed to long term secular growth themes.

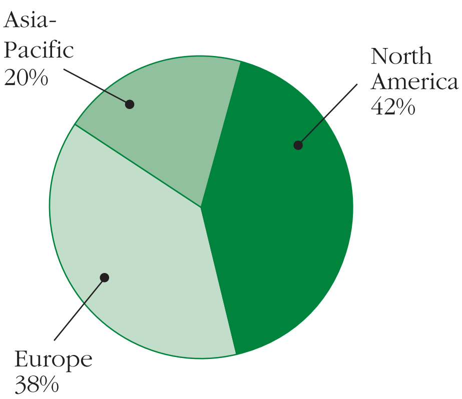
We believe that the long term fundamentals of environmental markets remain strong, earnings momentum is positive and valuation is compelling relative to both historical levels and global indices. With corporate activity set to continue, we continue to believe that the Company represents an attractive long term investment opportunity. We will continue to post monthly updates on sector news and on the Company's performance at www.impaxam.com.

Impax Asset Management Limited
4 April 2012

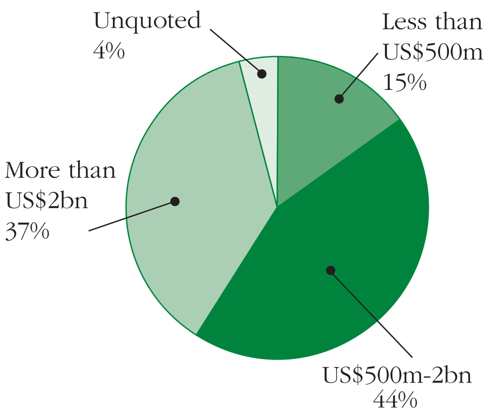
STRUCTURE OF THE PORTFOLIO

AS AT 31 DECEMBER 2011

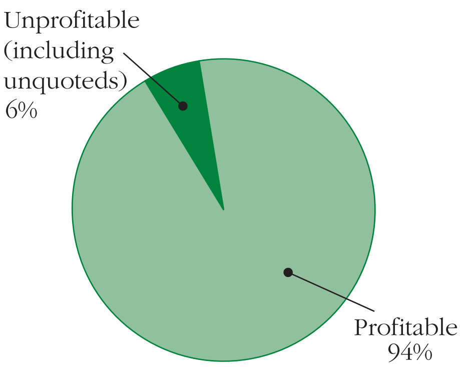
BREAKDOWN BY REGION



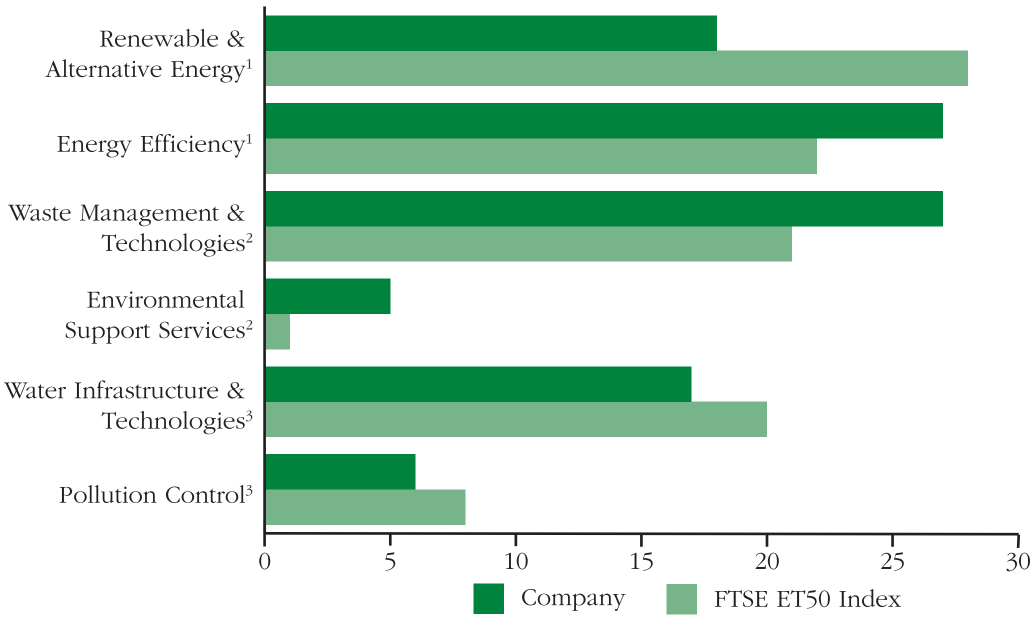
BREAKDOWN BY MARKET CAPITALISATION



BREAKDOWN BY PROFITABILITY



BREAKDOWN BY ENVIRONMENTAL MARKETS CLASSIFICATION SYSTEM



Investment policy classification

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

Nibe Industrier (Sweden) 3.6% of net assets

NIBE Industrier provides heating products such as ground source heat pumps, electric heating applications, and wood-burning stoves. It has an excellent track record, generating consistently high returns-on-equity over many years, and has grown strongly as it has expanded out of its Nordic home market into larger European markets such as Germany, France and the UK. http://www.nibe.com/

Pall Corp (United States) 3.5%

Pall is a filtration and fluid management specialist, providing solutions for complex contamination, separations, purification and detection. The company is executing well on its current strategic plan to increase margins and has an attractive defensive business model. In addition, Pall is a likely M&A target among the US industrial peer group. http://www.pall.com/

LKQ (United States) 3.4%

LKQ is the largest provider of recycled light vehicle original equipment manufacturer ("OEM") products in the United States. The company's growth is driven by the increased use of recycled parts that has resulted from insurance companies' desire to reduce costs of collision repair. LKQ has a nationwide distribution network and is complementing strong organic growth with acquisitions. http://www.lkqcorp.com/

Clean Harbors (United States) 3.1%

Clean Harbors is North America's leading provider of environmental and hazardous waste management services. The company is set to profit from the gradual closure of industrial customers' in-house disposal facilities, which are becoming uneconomical due to their inability to comply with increasingly stringent environmental regulations. http://www.cleanharbors.com/

Regal Beloit (United States) 2.9%

Regal Beloit is a leading global manufacturer of electric motors, ranging from HVAC (heating, ventilation and air conditioning) motors, electric generators and mechanical motion controls. The company benefits from the increasing emphasis being placed on energy efficiency as a means to reduce greenhouse gas emissions. It is an active acquirer of businesses and has been increasing its presence in the Asia-Pacific region and Brazil. http://www.regal-beloit.com/

EDP Renovaveis (Spain) 2.7%

EDP Renovaveis is the third largest wind farm operator globally with 7.3GW of capacity across 11 countries. Recent falling power prices and weakening regulatory support in selected key markets such as Spain and Germany have presented the company with a challenging environment in recent years. However, EDP Renovaveis will benefit from rising power prices and mandated renewable energy generation targets in selected regions. http://www.edprenovaveis.com/

CLARCOR (United States) 2.7%

CLARCOR is a global manufacturer of filtration products for the transportation, industrial and environmental markets. CLARCOR has strong growth potential from the introduction of new products and the further penetration of emerging markets with existing products, notably Brazil and China. http://www.clarcor.com/

Horiba (Japan) 2.3%

Horiba is a manufacturer of measuring instruments and systems for the automotive, environmental, medical and semiconductor industries. The company benefits from tightening regulations in the automotive sector space and is set to profit from a recovery in the semiconductor market and in car manufacturer's capex. Horiba has a strong management team and balance sheet and is well positioned to grow. http://www.horiba.com/

Kingspan (Ireland) 2.3%

Kingspan is an Ireland-based manufacturer of insulated panels and boards, and environmental housing solutions such as solar hot water and rainwater harvesting. In 2011 Kingspan acquired CIE Insulation which will provide Kingspan with a platform to penetrate further into the Continental European market. It remains a high quality business that is poised to benefit from increasing regulatory focus on energy efficiency buildings. http://www.kingspan.com/

Spirax-Sarco (United Kingdom) 2.2%

Spirax-Sarco provides knowledge, service and products world-wide for the control and efficient use of steam and other industrial fluids. The company focuses on environmentally friendly solutions for process efficiency and energy savings of as much as 8% in steam distribution and 7% in steam generation. Since 2007 Spirax-Sarco has increased its gross R&D investment by 50% in order to accelerate the flow of new products. http://www.spiraxsarco.com/

DETAILS OF INDIVIDUAL HOLDINGS

AS AT 31 DECEMBER 2011

Company	Country	Holding	Current value £'000	% of total net assets
Nibe Industrier	Sweden	1,295,111	12,313	3.6%
Pall	United States	326,490	12,027	3.5%
LKQ	United States	600,790	11,649	3.4%
Clean Harbors	United States	263,170	10,809	3.1%
Regal Beloit	United States	305,166	10,023	2.9%
EDP Renovaveis	Spain	2,427,195	9,399	2.7%
Clarcor	United States	287,434	9,261	2.7%
Horiba	Japan	417,970	8,086	2.3%
Kingspan	Ireland	1,515,879	7,956	2.3%
Spirax	United Kingdom	415,020	7,748	2.2%
Watts Water	United States	323,850	7,139	2.1%
Vacon	Finland	269,128	6,874	2.0%
China Longyuan	China & Hong Kong	13,568,400	6,827	2.0%
Itron	United States	295,110	6,804	2.0%
Stericycle	United States	131,352	6,597	1.9%
Pentair	United States	298,380	6,405	1.9%
Epistar	Taiwan	4,674,669	6,389	1.9%
Tomra Systems	Norway	1,444,123	6,247	1.8%
Power Integrations	United States	282,651	6,042	1.8%
RPS	United Kingdom	3,332,003	5,998	1.8%
Sims Metal Management	United States	721,953	5,982	1.7%
Tetra Tech	United States	428,700	5,968	1.7%
Transpacific Industries	Australia	10,978,270	5,915	1.7%
Ormat Technologies	United States	505,229	5,867	1.7%
Abengoa	Spain	427,307	5,850	1.7%
Top twenty five holdings			**194,175**	**56.4%**
Other quoted holdings			**133,882**	**38.8%**
Unquoted holdings			**14,156**	**4.1%**
Total holdings in companies			**342,213**	**99.3%**
Cash			1,162	0.3%
Other net assets			1,376	0.4%
Grand total			**344,751**	**100.0%**

All the above holdings are quoted unless otherwise stated.

The Company also held unquoted warrants in STE and Xebec with nil value as at 31 December 2011.

The Company held the following investments in unquoted companies:

Company	Country	Current value £'000	% of total net assets
Ensyn	United States	7,408	2.1%
New Earth Solutions	United Kingdom	5,020	1.5%
STE	United Kingdom	975	0.3%
Emergya Wind Technologies	Netherlands	467	0.1%
Pelamis Wave Power	United Kingdom	286	0.1%
Nordic Windpower	United States	–	–
Total		**14,156**	**4.1%**

The directors present their report and accounts for the year ended 31 December 2011.

Business Review

INVESTMENT POLICY

(i) Objective and policy

The Company's objective is to enable investors to benefit from growth 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 2011, the Company had investments totalling in aggregate £151m by value invested in this sub-sector representing 45% 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 2011, the Company had investments totalling in aggregate £110m by value invested in this sub-sector representing 32% 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 2011, the Company had investments totalling in aggregate £81m by value invested in this sub-sector representing 23% 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 five per cent 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 2011. The Company held investments in 76 quoted companies as at 31 December 2011, the largest one being Nibe Industrier which represented 3.6% of net assets at that time.

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

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

(iv) Gearing

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; and

(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.

At present the Company does not have any long-term or short-term borrowings, and during the year ended 31 December 2011 did not utilise any borrowings. The Company does not presently have any borrowing facilities in place.

OBJECTIVE AND KEY PERFORMANCE INDICATORS (KPIS)

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

(i) Achievement of capital growth over the long term. The Board monitors the net asset value ("NAV") and compares this with the MSCI World Index and other indices.

(ii) Maintenance of a reasonable level of discount or premium of share price to diluted NAV.

(iii) Maintenance of reasonable level of total expense ratio ("TER").

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 8 gives details on investments made during the year and how performance has been achieved.

The performance of the Company is shown below:

	Since launch	5 years to 31 December 2011	3 years to 31 December 2011	1 year to 31 December 2011
NAV[1] of the Company	+22.0%[2]	+8.4%[3]	+19.7%[3]	–17.2%
MSCI World Index	+39.1%	+11.7%	+27.0%	–4.8%
MSCI World Small Cap	+108.0%	+22.0%	+52.9%	–8.4%
FTSE ET50	–2.3%	–12.8%	–18.2%	–27.4%
FTSE Environmental Opportunities All-Share	+102.8%	+31.3%	+30.7%	–12.9%
FTSE All-Share Index	+63.9%	+6.2%	+43.9%	–3.5%

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

[1] Total return

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

[3] Based on diluted net asset value at 31 December 2006 and 31 December 2008.

The Company's shares traded at an average discount to NAV of 14% during the year ended 31 December 2011 and within a range of 8% to 23%. The year end discount to NAV was 18%.

Based on the Company's average net assets during the year ended 31 December 2011, the Company's annualised TER was 1.1% (2010: 1.1%).

RESULTS AND DIVIDEND

The Company's revenue return after tax for the year amounted to £3,136,000 (2010: £2,625,000). 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 0.9p per Ordinary Share (2010: 0.75p per ordinary share) absorbing £2,614,185 (2010: £2,369,613) based on the Ordinary Shares in issue (excluding shares held in Treasury) at 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 24 May 2012 to shareholders on the register at the close of business on 27 April 2012.

The Company made a capital loss after tax of £85,240,000 (2010: £48,122,000, gain). Therefore the total loss after tax for the Company was £82,104,000 (2010: £50,747,000, gain).

PRINCIPAL RISKS AND UNCERTAINTIES

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

(i) *Market risks*

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

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

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

There are inherent risks involved in stock selection. The Investment Manager is experienced and employs its expertise in selecting the stocks in which the Company invests. The Manager spreads the investment risk over a wide portfolio of investments in three main sectors and at the year end the Company held investments in 76 quoted companies plus 6 unquoted companies. The Company will not normally hedge against foreign currency movements affecting the value of its investments, but the Manager takes account of this risk when making investment decisions.

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

(ii) *Environmental Markets*

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

(iii) *Corporate governance and internal control risks*

The main risk areas are poor allocation of the Company's assets by the 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.

The control of risks related to the Company's business areas is described in detail in the corporate governance report on pages 22 to 28.

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 1158 of the Corporation Tax Act 2010 for the year ended 31 December 2011. 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 2010.

SHARE ISSUES

The authority to issue new shares for cash granted at the Annual General Meeting held on 10 May 2011 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 29,017,400 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.

RENEWAL OF AUTHORITY TO PURCHASE OWN SHARES

During the year ended 31 December 2011 the Company purchased 23,066,266 of its own Ordinary Shares and since the year end a further 4,269,000 Ordinary Shares have been bought back. These shares were purchased at a discount to net asset value and are being held in Treasury.

The authority for the Company to purchase its own shares granted by the Annual General Meeting held on 10 May 2011 will expire at the conclusion of the forthcoming Annual General Meeting. The directors recommend that a new authority to purchase up to 43,540,700 Ordinary Shares (subject to the condition that not more than 14.99% of the Ordinary Shares in issue, excluding

Treasury Shares, at the date of the Annual General Meeting are purchased) is granted and a resolution to that effect will be put to the Annual General Meeting.

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

POLICY ON SALE OF TREASURY SHARES

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

CONTINUATION VOTE

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

MARKET INFORMATION

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

BANKING ARRANGEMENTS

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

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

CUSTODY

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

DIRECTORS' HOLDINGS

At 31 December 2011 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 2011 and at the date of this report	Ordinary Shares At 1 January 2011
R Bernays	28,664	28,664
Dr R Arnott	9,000	9,000
C Berry	7,500	7,500
J Le Blan (appointed 27 January 2011)	–	–
K Niven	23,842	23,842
W Rickett (appointed 27 January 2011)	5,000	–

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 Board confirms that it has reviewed whether to retain IAM as the Manager of the Company. It has been concluded that, given the Manager's depth of knowledge in the sector and the overall performance of the Company within the environmental sector, 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 2011 (2010: £nil).

CAPITAL STRUCTURE AND VOTING RIGHTS

At the year end the Company's issued share capital comprised 324,509,373 Ordinary Shares of 10p nominal value. Of these shares 29,775,303 were held in Treasury. Each Ordinary Share held entitles the holder to one vote. However, Ordinary Shares held in Treasury do not hold voting rights. All shares, excluding those held in Treasury, carry equal voting rights and there are no restrictions on those voting rights. Voting deadlines are stated in the Notice of Meeting and Form of Proxy and are in accordance with the Companies Act 2006.

Since the year end, the Company has purchased 4,269,000 of its own Ordinary Shares. These shares are held in Treasury and as such do not carry voting rights.

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

SIGNIFICANT SHAREHOLDERS

The directors have been notified of, or have identified, as at 31 December 2011, the following shareholdings comprising 3 per cent or more of the issued share capital (excluding Treasury Shares) of the Company:

	Holding	%
Universities Superannuation Scheme	30,463,120	10.3
Newton Investment Management Limited	20,350,851	6.9
AEGON UK Group of Companies	16,745,494	5.7
East Riding of Yorkshire Council	14,928,369	5.1
Rathbone Brothers plc	14,136,921	4.8
Church Commissioners for England	10,481,666	3.6
Legal & General Group plc	10,187,445	3.5

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.

ANTI-BRIBERY AND CORRUPTION

It is the Company's policy to conduct all of its business in an honest and ethical manner. The Company takes a zero-tolerance approach to bribery and corruption and is committed to acting professionally, fairly and with integrity in all its business dealings and relationships wherever it operates. The Company's policy and the procedures that implement it are designed to support that commitment.

NOTICE OF GENERAL MEETINGS

Resolution 14 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 14 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.

CORPORATE GOVERNANCE

The Corporate Governance statement on pages 22 to 28 forms part of this report.

GOING CONCERN

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

Operational resources

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least twelve months from the date of approval of this document. In reaching this conclusion, the directors have considered the liquidity of the Company's portfolio of investments as well as its cash position, income and expense flows. As at 31 December 2011, the Company held £1.2m in cash and £328.1m in quoted investments. It is estimated that approximately 84.4% by value of the quoted investments held at the year end could be realised in one month under normal market conditions. The total expenses (excluding taxation) for the year ended 31 December 2011 were £4.5m, which represented approximately 1.1% of average net assets during the year. At the date of approval of this document, based on the aggregate of investments and cash held, the Company has in excess of fifty years operating expenses cover. The Company's net assets at 30 March 2012 were £372.5m.

Continuation vote

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

AUDITOR INFORMATION

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

(i) So far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and

(ii) The director has taken all steps that he ought to have taken as director to make himself aware of any relevant information and to establish that the Company's auditors are aware of that information.

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

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

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

4 April 2012

CORPORATE GOVERNANCE

INTRODUCTION

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

The Board has considered the principles and recommendations of the AIC Code of Corporate Governance ("AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies ("AIC Guide") as issued in October 2010. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide better information to shareholders.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as set out below.

The UK Corporate Governance Code includes provisions relating to:

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

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

THE BOARD

Composition

At the date of this report, the Board consists of six 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 Berry was appointed by the Board on 1 October 2007. Mrs Le Blan and Mr Rickett were appointed on 27 January 2011. All the directors have served during the entire period since their appointment. Mr Bernays is Chairman of the Company. Mrs Le Blan has been appointed as the Board's senior independent director.

The Board believes that during the year ended 31 December 2011 its composition was appropriate for an investment company of its nature and size. Mr Brown stood down as a director at the Annual General Meeting held in May 2011 and Dr Arnott will stand down at the next Annual General Meeting. As noted above, two new directors were appointed during the year ended 31 December 2011. 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) 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 Following a D. Phil. in geology he joined Shell International in 1983 and worked in exploration and as an economist for Shell Expro. In 1991 he joined Hoare Govett as an oil analyst, and subsequently worked for UBS Warburg, Goldman Sachs and Morgan Stanley Dean Witter. In October 2000 he joined HSBC Investment Bank plc as head of Global Energy Equity Research. In December 2001 Dr Arnott joined the Oxford Institute for Energy Studies where he is currently a Senior Research Adviser. Dr Arnott has written two books on the valuation of oil and gas companies. He is also a director of Petroceltic International PLC and Spring Energy AS.

Charles Berry Mr Berry is chairman of Drax Group plc. He is also a non-executive director of the Securities Trust of Scotland plc and a non-executive director and chairman designate of Senior plc. He is a past chairman of eaga plc, Thus Group plc and from 1999 to 2005 he was a Director of Scottish Power plc. Prior to joining ScottishPower in 1991, 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.

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

Keith Niven 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 a non-executive director of Schroder Income Growth Fund plc. Mr Niven is also an investment adviser to the Rolls Royce Pension Fund.

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

The Board does not believe that the service tenure of non-executive directors should be strictly limited to nine years. The Board recognises the benefits to the Company of having longer serving directors together with progressive refreshment of the Board. Mr Bernays, Dr Arnott and Mr Niven were appointed shortly before the Company's shares were listed on the London Stock Exchange in February 2002. The Board does not believe that the current length of service affects the independence of those directors and believes that they provide an appropriate level of experience and ability to the Company. Mr Berry was appointed in October 2007.

During the year ended 31 December 2011, upon the recommendation of the nominations committee, the Board appointed Mrs Le Blan and Mr Rickett as directors to the Company. A new director search was conducted with the assistance of a third party recruitment consultant. The process included a careful consideration of the future requirements of the Company and the necessary skills and experience required from prospective directors.

Dr Arnott will retire at the forthcoming Annual General Meeting and not put himself forward for re-election.

In line with the AIC Code, the Board has decided that each director should be subject to annual re-election by shareholders, although this is not required by the Company's Articles of Association. All of the directors with the exception of Dr Arnott will stand for re-election.

The Board recommends all the directors for re-election for the reasons highlighted above and in the performance appraisal section of this report.

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

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

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

There were five full Board meetings during the year ended 31 December 2011. Mr Bernays, Mr Berry, Mrs Le Blan, Mr Niven and Mr Rickett attended all the meetings. Dr Arnott attended four meetings. In addition, there were two Board meetings to deal with the purchase of the Company's own shares and three Board sub-committee meetings to deal with the formal approval of documents.

BOARD COMMITTEES

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

Audit Committee

All the directors except the Chairman of the Company are members of this committee. The Audit Committee meets formally at least twice a year for the purpose, amongst other things, of considering the appointment, independence and objectivity, and remuneration of the auditor and to review the annual accounts and half-yearly financial report. Where non-audit services are provided by the auditor, full consideration of the financial and other implications on the independence of the auditor arising from any such engagement are considered before proceeding. The Audit Committee has considered the non-audit work of the auditor this year and does not consider that this compromises its independence. Non-audit work consisted of tax assurance in preparing the Company's corporation tax return.

Mr Niven is chairman of the Audit Committee. Mr Niven will stand down as chairman of the Audit Committee at the next Annual General Meeting and Mrs Le Blan will be appointed in his place. 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.

Following a rotation during the year, the audit partner at Ernst & Young responsible for the audit is Julian Young.

There were two Audit Committee meetings during the year ended 31 December 2011. Mr Niven, Mr Berry, Mrs Le Blan and Mr Rickett attended both meetings. Dr Arnott attended one meeting.

Remuneration Committee

All the directors are members of this committee. The Remuneration and Management Engagement Committee was renamed the Remuneration Committee during the year. The Remuneration Committee has been established to meet formally on at least an annual basis to consider the fees of the non-executive directors and of other suppliers of services to the Company.

Dr Arnott is the chairman of the Remuneration Committee. Mr Rickett will replace Dr Arnott as chairman of the Remuneration Committee upon Dr Arnott's retirement as a director at the next Annual General Meeting. The Remuneration Committee has formal terms of reference and copies of these are available on request from the Company Secretary.

A directors' remuneration report is included on page 29 of these financial statements.

There was one meeting of the Remuneration Committee during the year ended 31 December 2011. The meeting was attended by all the committee members.

Management Engagement Committee

All the directors are members of this committee. The Management Engagement Committee has been established to conduct a formal annual review of the Manager assessing investment and other performance, the level and method of the Manager's remuneration and the continued appointment of the Manager as investment manager to the Company.

Mr Bernays is chairman of the Management Engagement Committee. The first meeting of the Management Engagement Committee was in March 2012. This meeting was attended by all the committee members. The duties of this committee were previously performed by the Remuneration and Management Engagement Committee.

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 Bernays is chairman of the Nominations Committee. The Nominations Committee considers job specifications and will assess whether candidates have the necessary skills and time available to devote to the job. The Company's policy is that the Board should have a broad range of skills and diversity.

There was one meeting of the Nominations Committee during the year ended 31 December 2011. The meeting was attended by all the committee members.

PERFORMANCE APPRAISAL

A formal annual performance appraisal process is performed on the Board, the committees, the individual directors and the Company's main service providers. The most recent Board appraisal was performed by a third party and is summarised below.

The external evaluation of the Board was commenced prior to the year end and the process was completed in March 2012. The evaluation was conducted by Egon Zehnder International. The results of the evaluation demonstrated that the Board has a number of strengths and that the directors bring a broad range of skills to the Company. The Board believes that the external review has been beneficial and has provided the directors with useful feedback on how to further enhance Board effectiveness.

INTERNAL CONTROL

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

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

Financial aspects of internal control

The directors are responsible for the internal financial control systems of the Company and for reviewing their effectiveness. These aim to ensure the maintenance of proper accounting records, the reliability of the financial information upon which business decisions are made and which is used for publication and that the assets of the Company are safeguarded. As stated above, the Board has contractually delegated to external agencies the services the Company requires, but they are fully informed of the internal control framework established by the Manager and the Administrator to provide reasonable assurance on the effectiveness of internal financial controls.

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

The Statement of Directors' Responsibilities in respect of the accounts is on page 31 and a Statement of Going Concern is on pages 20 and 21. The Report of the Independent Auditors is on pages 32 and 33.

Other aspects of internal control

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

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

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

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

SHAREHOLDER RELATIONS

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

EXERCISE OF VOTING POWERS

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

SOCIAL AND ENVIRONMENTAL POLICY

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

DIRECTORS' REMUNERATION REPORT

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

REMUNERATION COMMITTEE

The Company currently has six non-executive directors, two of whom were appointed during the year ended 31 December 2011. The Remuneration Committee comprises the whole Board.

During the year ended 31 December 2011, the fees payable to the directors were: £30,000 to the Chairman, £24,000 to the Chairman of the Audit Committee and £20,000 to the other directors. The Board believes that the current fee level is appropriate given the size of the Company and the responsibilities of the directors.

Further detail on the duties of the Remuneration Committee can be found in the Corporate Governance statement on page 25.

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 2012 and for subsequent years.

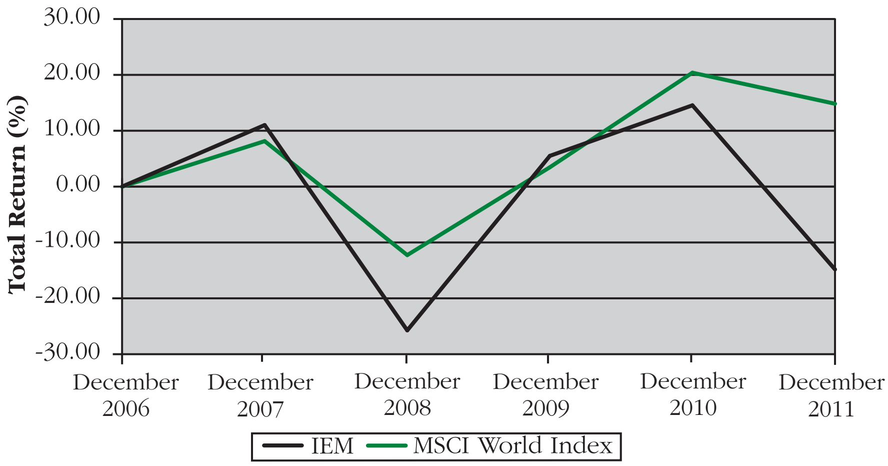
The maximum level of fees payable, in aggregate, to the directors of the Company is currently £150,000 per annum.

DIRECTORS' SERVICE CONTRACTS

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

PERFORMANCE

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



DIRECTORS' EMOLUMENTS FOR THE YEAR (AUDITED)

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

	Fees 2011 £'000	*Fees 2010 £'000*
Richard Bernays	30	*29*
Keith Niven	24	*23*
Dr Robert Arnott	20	*19*
Bill Brown (retired on 11 May 2011)	7	*19*
Charles Berry	20	*19*
Julia Le Blan	18	–
William Rickett	18	–
	137	*109*

SUMS PAYABLE TO THIRD PARTIES

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

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

4 April 2012

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

STATEMENT UNDER THE DISCLOSURE & TRANSPARENCY RULES 4.1.12

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

(a) the accounts, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and

(b) this Annual Report includes a fair review of the development and performance of the business and position of the Company, together with a description of the principal risks and uncertainties that it faces.

For and on behalf of the Board
William Rickett
Director

4 April 2012

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF IMPAX ENVIRONMENTAL MARKETS PLC

We have audited the Company's financial statements for the year ended 31 December 2011 which comprise the Income Statement, the Balance Sheet, the Reconciliation of Movements in the Shareholders' Funds, the Cashflow Statement, and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement set out on page 31, 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on pages 20 and 21, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to the shareholders by the Board on the directors' remuneration.

Julian Young (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

4 April 2012

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2011

Notes		2011 Revenue £'000	2011 Capital £'000	2011 Total £'000	*2010 Revenue £'000*	*2010 Capital £'000*	*2010 Total £'000*
	(Losses)/gains on investments	–	(82,442)	(82,442)	*–*	*50,929*	*50,929*
3	Income	5,246	–	5,246	*4,602*	*–*	*4,602*
4	Investment management fees	(933)	(2,798)	(3,731)	*(936)*	*(2,807)*	*(3,743)*
4	Other expenses	(764)	–	(764)	*(725)*	*–*	*(725)*
	Return on ordinary activities before taxation	**3,549**	**(85,240)**	**(81,691)**	***2,941***	***48,122***	***51,063***
6	Taxation	(413)	–	(413)	*(316)*	*–*	*(316)*
	Return on ordinary activities after taxation	**3,136**	**(85,240)**	**(82,104)**	***2,625***	***48,122***	***50,747***
7	Return per ordinary share	1.01p	(27.40p)	(26.39p)	*0.84p*	*15.36p*	*16.20p*

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 38 to 46 form part of these accounts

BALANCE SHEET

AT 31 DECEMBER 2011

Notes		2011 £'000	*2010 £'000*
	Fixed assets		
9	Investments at fair value through profit and loss	342,213	*439,766*
	Current assets		
	Income receivable	244	*171*
	Sales – future settlements	1,782	*58*
	Taxation recoverable	106	*10*
	Other debtors	32	*33*
	Cash at bank and in hand	1,162	*14,789*
		3,326	*15,061*
	Creditors: amounts falling due within one year		
	Purchases – future settlements	(359)	*(1,003)*
	Accrued liabilities	(429)	*(459)*
		(788)	*(1,462)*
	Net current assets	2,538	*13,599*
	Total net assets	**344,751**	***453,365***
	Capital and reserves: equity		
10	Share capital	32,451	*32,451*
	Share premium account	16,035	*16,035*
	Share purchase reserve	258,875	*283,016*
11	Capital reserve	33,533	*118,773*
	Revenue reserve	3,857	*3,090*
	Shareholders' funds	**344,751**	***453,365***
12	Net assets per Ordinary Share	116.97p	*142.66p*

Approved by the Board of directors and authorised for issue on 4 April 2012 and signed on their behalf by:

William Rickett
Director

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

The notes on pages 38 to 46 form part of these accounts

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 DECEMBER 2011

	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 2011	**32,451**	**16,035**	**283,016**	**118,773**	**3,090**	**453,365**
Share buy backs	–	–	(24,141)	–	–	(24,141)
Dividend paid (May 2011)	–	–	–	–	(2,369)	(2,369)
Profit for the year	–	–	–	(85,240)	3,136	(82,104)
Closing shareholders' funds as at 31 December 2011	**32,451**	**16,035**	**258,875**	**33,533**	**3,857**	**344,751**

FOR THE YEAR ENDED 31 DECEMBER 2010

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

The notes on pages 38 to 46 form part of these accounts

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2011

	2011 £'000	*2010* *£'000*
Operating activities		
Cash inflow from investment income and bank interest	5,173	*4,567*
Cash outflow from management and other expenses	(4,529)	*(4,440)*
Cash inflow from disposal of investments	117,718	*131,569*
Cash outflow from purchase of investments	(104,924)	*(132,352)*
Cash outflow from foreign exchange costs	(49)	*(394)*
Cash outflow from taxation	(506)	*(317)*
Net cash flow from operating activities	**12,883**	***(1,367)***
Equity dividends paid	**(2,369)**	***(2,281)***
Financing		
New share issues	–	*17,901*
Share buy backs	(24,141)	*(6,842)*
Net cash flow from financing	**(24,141)**	***11,059***
(Decrease)/Increase in cash	**(13,627)**	***7,411***
Opening balance at 1 January	**14,789**	***7,378***
Balance at 31 December	**1,162**	***14,789***

The notes on pages 38 to 46 form part of these accounts

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

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

(a) Basis of Accounting

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

(b) Investments

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

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

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

(c) Income from Investments

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

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

(d) Capital Reserves

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

(e) Investment Management Fees

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

(f) Deferred Taxation

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

(g) Foreign currency translation

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

2. INVESTMENT COMPANY STATUS

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

3. INCOME

	2011 £'000	*2010 £'000*
Income from investments:		
Dividends from UK listed investments	632	*902*
Dividends from overseas listed investments	4,513	*3,642*
Loan note interest	101	*55*
Total	5,246	*4,599*
Other income:		
Interest receivable	–	*3*
Total income	5,246	*4,602*

4. FEES AND EXPENSES

	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000	*2010 Revenue £'000*	*2010 Capital £'000*	*2010 Total £'000*
Investment management fees	933	2,798	3,731	*936*	*2,807*	*3,743*
Secretary and administrator fees	161	–	161	*155*	–	*155*
Custodian's fees	157	–	157	*168*	–	*168*
Directors' fees	137	–	137	*109*	–	*109*
Directors' other employment costs	18	–	18	*9*	–	*9*
Broker retainer	52	–	52	*54*	–	*54*
Auditors remuneration						
- for audit services	26	–	26	*28*	–	*28*
- for taxation	13	–	13	*7*	–	*7*
Association of Investment Companies	34	–	34	*38*	–	*38*
Registrar's fees	31	–	31	*40*	–	*40*
Marketing fees	28	–	28	–	–	–
Public relations fees	25	–	25	*22*	–	*22*
Legal fees	18	–	18	–	–	–
Consultant fees	–	–	–	*35*	–	*35*
Other expenses	64	–	64	*60*	–	*60*
	764	–	764	*725*	–	*725*
Total expenses	1,697	2,798	4,495	*1,661*	*2,807*	*4,468*

The main terms of the management agreement are summarised in the Directors' Report on page 19.

5. DIRECTORS' FEES

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

6. TAXATION

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

	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000	*2010 Revenue £'000*	*2010 Capital £'000*	*2010 Total £'000*
Overseas taxation	413	–	413	*316*	–	*316*
Taxation	413	–	413	*316*	–	*316*

(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 26.49% applicable to the year ended 31 December 2011 (2010: 28%).

The differences are explained below:

	2011 £'000	*2010 £'000*
Total (loss)/profit before tax per accounts	(81,691)	*51,063*
Corporation tax at 26.49% (2010: 28%)	(21,640)	*14,298*
Effects of:		
Non-taxable UK dividend income	(167)	*(253)*
Non-taxable overseas dividend income	(1,195)	*(1,020)*
Movement in unutilised management expenses	1,163	*1,235*
(Gains)/losses on investments not taxable	21,839	*(14,260)*
Overseas tax	413	*316*
Total current tax charge for the year	413	*316*

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

(c) The Company has unrelieved excess management expenses of £15,446,000 (2010: £11,052,000). It is unlikely that the Company will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised. The unrecognised deferred tax asset amounts to £4,016,000 (2010: £3,095,000).

7. RETURNS PER ORDINARY SHARE

Return per share is based on the net loss on ordinary activities after taxation of £82,104,000 comprising a revenue return of £3,136,000 and a capital loss of £85,240,000 (2010: £50,747,000 comprising a revenue return of £2,625,000 and a capital return of £48,122,000) attributable to the weighted average of 311,170,086 (2010: 313,164,696) Ordinary Shares of 10p in issue (excluding Treasury shares) during the year.

8. DIVIDENDS

	2011 £'000	*2010 £'000*
Dividends reflected in the financial statements:		
Final dividend paid for the year ended 31 December 2010 of 0.75p (2009: 0.75p)	2,369*	*2,281*
Dividends not reflected in the financial statements:		
Recommended ordinary dividend for the year ended 31 December 2011 of 0.9p (2010: 0.75p) per share	2,614	*2,374*

If approved at the Annual General Meeting, the dividend will be paid on 24 May 2012 to shareholders on the register as at the close of business on 27 April 2012.

* The difference between the recommended dividend for the year ended 31 December 2010 and the amount paid in 2011 was due to 600,000 Ordinary Shares being bought back following the date of approval of the Annual Report for the year ended 31 December 2010 but before the record date of the final dividend for that year.

9. INVESTMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS

	2011 £'000	*2010 £'000*
Analysis of closing balance:		
UK quoted securities	35,475	*29,631*
UK unquoted securities	5,306	*8,971*
Overseas securities	292,582	*393,494*
Overseas unquoted securities	8,850	*7,670*
Total investments	342,213	*439,766*
Movements during the year:		
Opening balance of investments, at cost	381,007	*349,795*
Additions, at cost	104,277	*133,117*
Disposals, at cost	(115,697)	*(101,905)*
Cost of investments at 31 December	369,587	*381,007*
Revaluation of investments to fair value:		
Opening balance of Capital reserve – investments held	58,759	*36,953*
Net movement	(86,133)	*21,806*
Balance of Capital reserve – investments held at 31 December	(27,374)	*58,759*
Fair value of investments at 31 December	342,213	*439,766*

During the year, the Company incurred transaction costs on purchases totalling in aggregate £216,000 (2010: £264,000) and on disposals totalling in aggregate £180,000 (2010: £211,000).

Since the year end there has been an aggregate net write down of £1.7 million on the valuation of the unquoted investments.

10. SHARE CAPITAL AND WARRANTS

At 31 December	2011 Number	2011 £'000	*2010 Number*	*2010 £'000*
Allotted, issued and fully paid				
Ordinary shares of 10p	324,509,373	32,451	*324,509,373*	*32,451*

At the year end 29,775,303 (2010: 6,709,037) of the above Ordinary Shares were held in Treasury.

Ordinary Share buy backs

During the year, the Company bought back 23,066,266 (2010: 5,802,032) Ordinary Shares to be held in Treasury for an aggregate cost of £24,141,000 (2010: £6,842,000). Since the year end a further 4,269,000 Ordinary Shares have been bought back to be held in Treasury.

11. CAPITAL RESERVE

Disposal of Investments

	2011 £'000	*2010 £'000*
Opening balance	60,014	*33,698*
Gains on disposal of investments	3,745	*29,535*
Net foreign exchange loss	(52)	*(393)*
Unquoted investment transaction costs	(2)	*(19)*
Investment management fees charged to capital	(2,798)	*(2,807)*
Balance at 31 December	60,907	*60,014*

Investments held

	2011 £'000	*2010 £'000*
Opening balance	58,759	*36,953*
Movement on valuation of investments held	(86,133)	*21,806*
Balance at 31 December	(27,374)	*58,759*
Capital reserve balance at 31 December	33,533	*118,773*

12. NET ASSETS PER ORDINARY SHARE

Net assets per Ordinary Share is based on net assets of £344,751,000 (2010: £453,365,000) divided by 294,734,070 (2010: 317,800,336) Ordinary Shares in issue (excluding shares held in Treasury) at the Balance Sheet date.

13. RELATED PARTY TRANSACTIONS

Details of the management contract can be found in the Directors' Report on page 19. Fees payable to the Manager are detailed in note 4 on page 39; the relevant amount outstanding as an accrual at the year end was £270,462 (2010: £344,415). The directors' fees are disclosed in note 5 and the Directors' Remuneration Report on page 30.

14. FINANCIAL RISK MANAGEMENT

The principle components of financial risk management cover the areas of market risks, credit risks, liquidity risks and capital management. Each risk and its management is summarised below.

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 2011 are detailed in the table at the end of this note.

14. FINANCIAL RISK MANAGEMENT (continued)

Currency sensitivity

The below table shows the strengthening/(weakening) of local currencies against Sterling over the financial year for the Company's financial assets and liabilities held at 31 December 2011.

	% change[1]
Australian Dollar	0.8%
Canadian Dollar	(1.7%)
Danish Kroner	(2.3%)
Euro	(2.5%)
Hong Kong Dollar	0.6%
Hungarian Forint	(14.0%)
Japanese Yen	6.0%
Norwegian Kroner	(1.9%)
Swedish Kroner	(1.8%)
Swiss Franc	0.0%
Taiwanese Dollar	(3.2%)
US Dollar	0.5%

[1] Percentage change against Sterling from 1 January 2011 to 31 December 2011

Based on the financial assets and liabilities at 31 December 2011 and all other things being equal, if Sterling had strengthened/(weakened) by the changes shown above, the impact on the profit after taxation for the year ended 31 December 2011 and the Company's net assets at 31 December 2011 would have been as follows:

	Potential effect £'000
Australian Dollar	(44)
Canadian Dollar	252
Danish Kroner	196
Euro	1,458
Hong Kong Dollar	(116)
Hungarian Forint	58
Japanese Yen	(1,011)
Norwegian Kroner	120
Swedish Kroner	221
Swiss Franc	(1)
Taiwanese Dollar	212
US Dollar	(777)
Total	568

(ii) Interest Rate Risk

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

Interest rate sensitivity

As described above, the Company had one interest bearing investment at 31 December 2011 which was valued at £975,000. The average interest rate on this investment is 14% per annum. Therefore, it generates annual income of £136,500. All other things being equal, in the event of non-payment of interest from this investment, profit would be negatively impacted by the amount of this income.

(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 had a tracking error of 7.8% since the inception of the Company. The historic 3-year (annualised) volatility of the Company to 31 December 2011 is 19.0%.

14. FINANCIAL RISK MANAGEMENT (continued)

Other price risk sensitivity

At the year end the Company held investments with an aggregate market value of £342,213,000. All other things being equal, the effect of a 10% increase or decrease in the fair values of the assets held at the year end would have been an increase or decrease of £34,221,000 in the profit after taxation for the year ended 31 December 2011 and the Company's net assets at 31 December 2011.

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 2011 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	–1.4	–2.0	–3.6
5 day return	–3.5	–4.8	–8.8
10 day return	–4.8	–6.9	–13.8
21 day return	–6.5	–10.2	–22.0

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

- The distribution of share price returns will be the same in the future as they were in the past.
- The portfolio weightings will remain as they were at 31 December 2011.

The above results suggest, for example, that there is a 5% or less chance of the NAV falling by 4.8% or more over a 5 day period. Similarly, there is a 1% or less chance of the NAV falling by 3.6% or more on any given day.

Credit Risks

Cash at bank at 31 December 2011 included £1,118,000 (2010: £4,157,000) held at the Company's custodian, The Northern Trust Company. The Company also held £44,000 (2010: £10,632,000) at Lloyds TSB Bank plc. The Board has established guidelines that, under normal circumstances, the maximum level of cash to be held at any one bank should be the lower of i) 5% of the Company's net assets and ii) £15 million. These are guidelines and there may be instances when this amount is exceeded for short periods of time.

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

There is a credit risk on the unquoted interest bearing investment in STE (Clean Recycling and Energy) which was valued at £975,000 at the year.

Substantially all of the assets of the Company are held by The Northern Trust Company (the "Custodian") or sub-custodians of the Custodian. Bankruptcy or insolvency of the Custodian or its sub-custodians may cause the Company's rights with respect to securities held by the Custodian to be delayed or limited. The Custodian segregates the Company's assets from its own assets and only uses sub-custodians on its approved list of sub-custodians. The Company's exposure to the Custodian amounts to £328.1 million in respect of quoted investments and £1.1 million in respect of cash.

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

Liquidity Risks

The Company 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 2011, 3.7% of the portfolio by value (excluding unquoted investments) may have taken more than three months to be realised.

14. **FINANCIAL RISK MANAGEMENT (continued)**

Quantitative Disclosures

As described above, the Manager has carried out a maturity analysis of the Company's quoted investments at 31 December 2011 and the results for different time bands are reported as follows:

Percentage of portfolio by value that could be liquidated in one month	84.4%
Percentage of portfolio by value that could be liquidated in three months	96.3%
Percentage of portfolio by value that could be liquidated in one year	99.6%
Percentage of portfolio by value that could be liquidated in five years	100.0%

The Company may invest up to 10% of its net assets into pre-IPO investments which are possible candidates for flotation. At the year end the Company held investments in six unquoted companies with an aggregate total value of £14,156,000 (2010: £16,641,000); these investments have been valued at fair value at the year end.

Classification of financial instruments

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

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

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

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

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

	2011				*2010*			
	Level 1 £'000	Level 2* £'000	Level 3 £'000	Total £'000	*Level 1 £'000*	*Level 2* £'000*	*Level 3 £'000*	*Total £'000*
Investments at fair value through profit and loss								
– Quoted	322,795	5,262	–	328,057	*412,389*	*10,736*	*–*	*423,125*
– Unquoted	–	–	14,156	14,156	*–*	*–*	*16,641*	*16,641*
	322,795	5,262	14,156	342,213	*412,389*	*10,736*	*16,641*	*439,766*

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

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

	2011 £'000	*2010 £'000*
Opening balance at 1 January	16,641	*16,898*
Additions during the year	1,365	*1,935*
Disposals at cost during the year	–	*(600)*
Valuation adjustments	(3,850)	*(1,592)*
Closing balance at 31 December	14,156	*16,641*

Financial assets and liabilities

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

14. FINANCIAL RISK MANAGEMENT (continued)

The Company's financial assets and liabilities at 31 December 2011 comprised:

	2011 Interest Bearing £'000	2011 Non-interest Bearing £'000	2011 Total £'000	*2010 Interest Bearing £'000*	*2010 Non-interest Bearing £'000*	*2010 Total £'000*
Assets						
Investments						
Australian Dollar	–	5,915	5,915	*–*	*8,658*	*8,658*
– Canadian Dollar	975	13,970	14,945	*703*	*18,685*	*19,388*
– Danish Kroner	–	8,317	8,317	*–*	*9,832*	*9,832*
– Euro	–	55,929	55,929	*–*	*69,446*	*69,446*
– Hong Kong Dollar	–	18,879	18,879	*–*	*27,621*	*27,621*
– Hungarian Forint	–	355	355	*–*	*–*	*–*
– Japanese Yen	–	17,818	17,818	*–*	*23,847*	*23,847*
– Norwegian Kroner	–	6,247	6,247	*–*	*4,754*	*4,754*
– South Korean Won	–	–	–	*–*	*4,294*	*4,294*
– Sterling	–	41,065	41,065	*–*	*49,987*	*49,987*
– Swedish Kroner	–	12,313	12,313	*–*	*12,189*	*12,189*
– Swiss Franc	–	8,079	8,079	*–*	*12,614*	*12,614*
– Taiwanese Dollar	–	6,389	6,389	*–*	*8,808*	*8,808*
– US Dollar	–	145,962	145,962	*–*	*188,328*	*188,328*
	975	341,238	342,213	*703*	*439,063*	*439,766*
Cash at bank						
Floating rate – £ sterling	1,162	–	1,162	*14,789*	*–*	*14,789*
Short term debtors	–	2,164	2,164	*–*	*272*	*272*
Short term creditors	–	(788)	(788)	*–*	*(1,462)*	*(1,462)*
	2,137	342,614	344,751	*15,492*	*437,873*	*453,365*

Capital management

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

At 31 December 2011 there were 324,509,373 Ordinary Shares in issue (of these shares 29,775,303 were held in Treasury).

The Company bought back 23,066,266 Ordinary Shares during the year.

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

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

The Company has no externally imposed capital requirements.

FINANCIAL RECORD

	2002[1] £'000	2003 £'000	2004 £'000	2005 £'000	2006 £'000	2007 £'000	2008 £'000	2009 £'000	2010 £'000	2011 £'000
As at 31 December										
Size of fund (£ millions)	*27*	*33*	*38*	*107*	*224*	*393*	*305*	*394*	*453*	345
Net asset value per Share[2]	*54.4p*	*66.3p*	*76.7p*	*92.6p*	*110.6p*	*128.3p*	*99.6p*	*127.2p*	*142.7p*	117.0p
Share price	*45.8p*	*55.5p*	*71.3p*	*94.0p*	*115.4p*	*128.9p*	*85.0p*	*119.1p*	*129.8p*	95.8p
Premium/(discount)[3]	*(15.8%)*	*(16.3%)*	*(7.0%)*	*1.5%*	*4.3%*	*0.5%*	*(14.7%)*	*(6.4%)*	*(9.0%)*	(18.1%)
Year ending 31 December										
Net asset value return[4]	*–44.6%*	*21.9%*	*15.7%*	*20.7%*	*19.4%*	*16.2%*	*–22.1%*	*28.4%*	*12.6%*	–17.2%
MSCI World index[5]	*–24.6%*	*19.7%*	*7.0%*	*22.4%*	*5.3%*	*7.2%*	*–17.9%*	*15.7%*	*15.3%*	–4.8%
MSCI World Small Cap[5]	*–22.0%*	*41.9%*	*15.9%*	*29.4%*	*2.8%*	*–0.9%*	*–19.5%*	*28.3%*	*30.1%*	–8.4%
FTSE ET50 Index[5]	*–40.7%*	*19.5%*	*6.1%*	*24.5%*	*19.7%*	*69.4%*	*–37.1%*	*15.2%*	*–2.2%*	–27.4%
Revenue return per Share	*0.0p*	*0.1p*	*0.1p*	*0.1p*	*0.2p*	*0.5p*	*0.9p*	*0.8p*	*0.8p*	1.0p
Dividends paid	–	–	–	–	–	*0.2p*	*0.3p*	*0.85p*	*0.75p*	0.75p
Total expense ratio	*1.8%*	*2.1%*	*1.6%*	*1.6%*	*1.4%*	*1.3%*	*1.2%*	*1.1%*	*1.1%*	1.1%

Notes

1. The Company's ordinary shares ("Shares") were listed on the London Stock Exchange on 22 February 2002. Yearly figures for 2002 are based on the period from 22 February 2002 to 31 December 2002.
2. Net asset value per Share is measured on a diluted basis in years 2005 to 2010 when warrants were in issue. Warrants were issued in the year ending 31 December 2005 with a subscription price of 96p per Share. The final subscription date was 15 June 2010.
3. Share price premium/(discount) to net asset value
4. Total return (discrete annual returns)
5. Net total return for MSCI indices and total return for FTSE ET50 index (discrete annual returns)

Total returns to 31 December 2011

	NAV	Share price	MSCI World Index	MSCI World Small Cap Index	FTSE ET 50 Index
1 year	–17.2%	–25.2%	–4.8%	–8.4%	–27.4%
2 year	–6.8%	–18.1%	9.7%	19.2%	–29.0%
3 year	19.7%	15.4%	27.0%	52.9%	–18.2%
4 year	–6.7%	–23.6%	4.2%	23.1%	–48.5%
5 year	8.4%	–14.5%	11.7%	22.0%	–12.8%
6 year	29.4%	4.9%	17.7%	25.4%	4.3%
7 year	56.3%	38.4%	44.1%	62.2%	29.9%
8 year	80.8%	77.7%	54.1%	88.0%	37.8%
9 year	120.3%	115.4%	84.5%	166.8%	64.8%
Since launch	22.0%	–1.4%	39.1%	108.0%	–2.3%

FINANCIAL CALENDAR

Annual General Meeting	17 May 2012 at 2:30 p.m. Norfolk House, 31 St. James's Square, London SW1Y 4JR
Dividend	Record date: 27 April 2012 Payment date: 24 May 2012 Amount: 0.9p per Ordinary Share

DIRECTORS, MANAGER AND ADVISERS

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

INVESTMENT MANAGER
Impax Asset Management Limited
Norfolk House
31 St James's Square
London SW1Y 4JR

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

REGISTERED OFFICE*
145-157 St John Street
London EC1V 4RU

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

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

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

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

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

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 Norfolk House, 31 St. James's Square, London SW1Y 4JR on 17 May 2012 at 2:30 p.m. for the following purposes:

To consider and if thought fit pass the following resolutions of which resolutions 1 to 11 will be proposed as ordinary resolutions and resolutions 12, 13 and 14 will be proposed as special resolutions.

1. To receive the Company's annual accounts for the year ended 31 December 2011, 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 Richard Bernays as a director of the Company.

4. To re-elect Charles Berry as a director of the Company.

5. To re-elect Julia Le Blan as a director of the Company.

6. To re-elect Keith Niven as a director of the Company.

7. To re-elect William Rickett as a director of the Company.

8. To re-appoint Ernst & Young LLP as auditors to the Company.

9. To authorise the directors to fix the remuneration of the auditors until the conclusion of the next Annual General of the Company.

10. To declare a final dividend of 0.9p per Ordinary Share of the Company in respect of the year ended 31 December 2011.

11. 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 £2,901,740 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 2013 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.

12. 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 43,540,700 (representing 14.99 per cent 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 per cent 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 2013 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.

13. That, subject to the passing of resolution 11, 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 11 up to an aggregate nominal amount of £2,901,740 as if section 561(1) of that Act did not apply to such allotment (subject to a maximum of 9.99 per cent. of the aggregate nominal value of the issued share capital at the date of this resolution).

14. That a general meeting of the Company other than an annual general meeting may be called on not less than 14 clear days' notice, provided that this authority shall expire at the conclusion of the Company's next annual general meeting after the date of the passing of this resolution.

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

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

4 April 2012

NOTES TO NOTICE OF ANNUAL GENERAL MEETING

Website address

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

Entitlement to attend and vote

2. Only those holders of Ordinary Shares registered on the Company's register of members at 6.00 pm on 15 May 2012; or, if this meeting is adjourned, at 6:00 p.m. on the day two days prior to the adjourned meeting, shall be entitled to attend and vote at the meeting.

Appointment of Proxies

3. Members entitled to attend, speak and vote at the meeting (in accordance with Note 2 above) are entitled to appoint one or more proxies to attend, speak and vote in their place. If you wish to appoint a proxy please use the Form of Proxy enclosed with this document or follow the instructions at note 7 below if you wish to appoint a proxy through the CREST electronic proxy appointment service. In the case of joint members, only one need sign the Form of Proxy. The vote of the senior joint member will be accepted to the exclusion of the votes of the other joint members. For this purpose, seniority will be determined by the order in which the names of the members appear in the register of members in respect of the joint shareholding. The completion and return of the Form of Proxy will not stop you attending and voting in person at the meeting should you wish to do so. A proxy need not be a member of the Company. You may appoint more than one proxy provided each proxy is appointed to exercise the rights attached to a different share or shares held by you. If you choose to appoint multiple proxies use a separate copy of this form (which you may photocopy) for each proxy, and indicate after the proxy's name the number of shares in relation to which they are authorised to act (which, in aggregate, should not exceed the number of Ordinary Shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and returned in the same envelope.

4. You can appoint the Chairman of the Meeting, or any other person, as your proxy. If you wish to appoint someone other than the Chairman, cross out the words "the Chairman of the Meeting" on the Form of Proxy and insert the full name of your appointee.

5. You can instruct your proxy how to vote on each resolution by ticking the "For" and "Against" boxes as appropriate (or entering the number of shares which you are entitled to vote). If you wish to abstain from voting on any resolution please tick the box which is marked "Vote Withheld". It should be noted that a vote withheld is not a vote in law and will not be counted in the calculation of the proportion of votes "For" and "Against" a resolution. If you do not indicate on the Form of Proxy how your proxy should vote, he/she can exercise his/her discretion as to whether, and if how so how, he/she votes on each resolution, as he/she will do in respect of any other business (including amendments to resolutions) which may properly be conducted at the meeting.

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

Appointment of Proxy using Hard Copy Form

6. The Form of Proxy and any power of attorney (or a notarially certified copy or office copy thereof) under which it is executed must be received by Capita Registrars, PXS, 34 Beckenham Road, Beckenham, BR3 4TU at 2:30 p.m. on 15 May 2012 in respect of the meeting. Any Forms of Proxy received before such time will be deemed to have been received at such time. In the case of an adjournment, the Form of Proxy must be received by Capita Registrars no later than 48 hours before the rescheduled meeting.

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

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 2:30 p.m. on 15 May 2012 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 324,509,373 Ordinary Shares of 10p each. Of these 34,044,303 are held in Treasury. Therefore the total number of Ordinary Shares with voting rights is 290,465,070. On a vote by a show of hands, every holder of Ordinary Shares who (being an individual) is present by a person, by proxy or (being a corporation) is present by a duly authorised representative, not being himself a member, shall have one vote. On a poll every holder of Ordinary Shares who is present in person or by proxy shall have one vote for every Ordinary Share held by him.

Communication

12. Except as provided above, members who have general queries about the meeting should use the following means of communication (no other methods of communication will be accepted):

    - calling Capita Registrar's shareholder helpline (lines are open from 8:30 a.m. to 5:30 p.m. Monday to Friday, excluding public holidays):

      (i) From UK: 0871 664 0300 (calls cost 10p per minute plus network extras);

      (ii) From Overseas: +44 208 639 3399 (calls from outside the UK are charged at applicable international rates); or
    - in writing to Capita Registrars.

    You may not use any electronic address provided either:

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

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

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FORM OF PROXY

Impax Environmental Markets plc

I/We ....

of ....
(BLOCK CAPITALS PLEASE)
being (a) member(s) of Impax Environmental Markets plc appoint the Chairman of the meeting, or

(*see note 1*) ....

of ....
as my/our proxy and, on a poll, to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at Norfolk House, 31 St. James Square, London SW1Y 4JR on 17 May 2012 at 2:30 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 2011.				
2.	To approve the directors' remuneration report.				
3.	To re-elect Richard Bernays as a director.				
4.	To re-elect Charles Berry as a director.				
5.	To re-elect Julia Le Blan as a director.				
6.	To re-elect Keith Niven as a director.				
7.	To re-elect William Rickett as a director.				
8.	To re-appoint Ernst & Young LLP as auditors to the Company.				
9.	To authorise the directors to fix the remuneration of the auditors.				
10.	To declare a final dividend of 0.9p per Ordinary Share.				
11.	To give authority to allot new shares.				
12.	To give authority for the Company to purchase own shares.				
13.	To give authority to allot new shares free from pre-emption rights.				
14.	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 2012

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.

Capita Registrars,
PXS,
34 Beckenham Road,
Beckenham,
BR3 4TU

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