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Impax Environmental Markets plc

Annual Report and Accounts 2016

Contents

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 (which includes sustainable food, agriculture and forestry).

Financial information

At 31 December 2016

Net assets	£465.3m
Net asset value ('NAV') per Ordinary Share	243.4p
Ordinary Share price	218.0p
Ordinary Share price discount to NAV	10.4%

Performance summary

% Change[1]

Share price total return per Ordinary Share	+37.4%
NAV total return per Ordinary Share[2]	+37.3%
FTSE ET100 Index	+21.9%
MSCI AC World Index	+28.7%

1. Total returns in sterling for the year to 31 December 2016.

2. Source: Morningstar.

Further financial information can be found in the financial record on page 46.

Financial calendar

Annual General Meeting	16 May 2017 at 2:30 p.m. Norfolk House, 31 St James's Square, London SW1Y 4JR
Dividend	Record date: 28 April 2017 Payment date: 23 May 2017 Amount: 1.95p per Ordinary Share

Chairman's Statement

John Scott
Chairman

Impax Environmental Markets plc ('IEM' or 'the Company') passed its fifteenth anniversary at the end of February 2017. Since launch, environmental markets have grown rapidly. Consumer demand for products and services that address environmental problems has increased significantly. The investment universe has expanded from approximately 250 companies in 2002 to a current total of some 1,100. During this period, IEM has become an established market leader and the Company's net assets have grown from £50 million at inception to £465 million at the end of 2016.

We have had an excellent year and it is pleasing to report that IEM delivered its strongest annual returns since inception for the year to 31 December 2016 (the 'Period'), outperforming both its global and environmental comparator indices by considerable margins.

During the Period, market sentiment has been dominated by Brexit and the election of President Trump in the US, and these events have given rise to significant volatility. With approximately 94% of the portfolio invested in companies outside the UK, IEM has benefitted from the post Brexit fall in the value of Sterling which accounts for almost half of the Company's reported increase in NAV per share in the Period. The results of the US election surprised global equity and currency markets, and there is still much uncertainty around what the Trump Administration will be able to achieve. However, a Trump presidency could well prove positive for global investors given his stated commitment to cutting corporate taxes and implementing growth-friendly policies. The Manager reviews the sectors and companies most likely to benefit, and those that may prove to be less well-positioned, in more detail later in this Report.

Performance

For the 12 months ended 31 December 2016, the net asset value per share ('NAV') of IEM achieved a total return of +37.3% and ended the year at 243.4p. During the year, IEM's share price total return was +37.4%, and the share price ended the year at 218p.

The Company outperformed its global comparator index, the MSCI All Countries World Index ('ACWI'), which rose 28.7% (total return, GBP) over the Period. IEM's environmental comparator index, the FTSE ET100, returned 21.9% over the Period. An explanation of performance and a breakdown of the absolute contributors and detractors are covered in the Manager's Report.

Discount and share buybacks

During the Period, the Company's shares traded at an 11% average discount to NAV. The Company bought back 16,978,525 Ordinary Shares in the Period at an average discount to NAV of 13%. The buybacks enhanced the NAV per Ordinary Share by approximately 2.2p, equivalent to 0.9% of the NAV per Ordinary Share at the Period end. Following a period of excellent investment performance, we have seen some profit taking from investors. However, we believe that our attractive investment opportunities will continue to appeal to a broad investor audience and we note growing interest, in particular from private banks and wealth advisers. The Manager is increasingly focused on these investors with the aim of broadening the shareholder base.

Gearing

The Company's £30 million multi-currency, revolving credit facility with The Royal Bank of Scotland plc was due to expire on 8 January 2016. Having reviewed the Company's financing options, the Board decided to renew the facility for a further three years on materially the same terms. The loan was fully drawn down throughout the Period. As at 31 December 2016 the Company's net gearing was 4% and our gearing added nearly 3% to NAV over the Period.

Dividend

The Company's net revenue return for the year was £3.9 million, equivalent to 1.99p per Ordinary Share. Shareholders will be aware that it has been the Board's practice to pay out substantially all earnings by way of dividends and we see no need to vary this. As a result, the directors are recommending a dividend for the year ended 31 December 2016 of 1.95p per share (2015: 1.45p). If approved by shareholders at the Company's Annual General Meeting, this dividend will be paid on 23 May 2017 to shareholders on the register as at the close of business on 28 April 2017. As the primary objective of the Company is capital growth, it should not necessarily be assumed that this level of earnings, and hence our ability to pay a similar dividend, will be available in future years.

Board

On 10 November we were pleased to announce the appointment of Aine Kelly as a Director of IEM; this followed a series of interviews with candidates for the position and we were assisted in this process by an independent external recruitment agency. Aine is an independent consultant specialising in impact investing. She has more than 25 years' experience in financial markets across investment banking, private banking and, since 2013, social impact investing.

Continuation vote

At the half year we reported that over 99% of votes cast at the Company's Annual General Meeting on 17 May 2016 were in favour of IEM continuing as an investment trust for a further three-year period. The Board is pleased to have secured such strong support for the Company's investment mandate.

Shareholder communications

The Board and the Manager are committed to the continuous improvement of the Company's digital communications. We have recently upgraded the content and functionality of IEM's website which is a useful source of information about the Company and environmental markets. Please do make use of the alerts service on the home page of our website (www.impaxenvironmentalmarkets.co.uk) where you can elect to receive information including press releases, regulatory news, financial calendar details and Reports & Accounts as soon as they are published. You may also like to follow us on Twitter (@IEMplc). We print a small number of Annual and Interim Reports for shareholders who prefer to receive hard copies, and these are available on request from the Company Secretary.

Outlook

At the time of writing, global equity markets are trading around their all-time highs. Although the outlook for the global economy is strong, political uncertainties mean that investors are likely to have to contend with more volatility in the future. Environmental markets are underpinned by many powerful long-term drivers that are independent of politics, so we are confident that they will maintain both their resilience and expansion and that the Company remains well positioned to deliver outperformance, while directing capital to sectors which are in sympathy with the environment. IEM remains an attractive channel for investors looking to access diversified exposure to the high growth prospects in global environmental markets.

John Scott
Chairman

6 April 2017

Manager's Report

Jon Forster

Bruce Jenkyn-Jones

IEM has an established record of delivering superior earnings growth compared with broader global equities (MSCI ACWI). 2016 was no exception, with generally solid earnings delivery across the portfolio driving relative performance of IEM, rather than a re-rating of the portfolio.

IEM's performance was delivered against a backdrop of uncertainties and surprises around the world, with heightened volatility in currencies and in developing country equities. However, equity markets in developed countries proved remarkably resilient, with several ending the year at or around their all-time highs.

Impact of Brexit

In the immediate aftermath of the UK's referendum vote, and again more recently with the rising probability of a 'hard Brexit', the fall in Sterling drove a rotation into exporters, with domestic UK stocks out of favour. However, with approximately 94% of IEM's portfolio companies located and listed outside the UK, weaker Sterling was a positive contributor to the Company's performance. Over the longer term, management teams of companies may modify their strategic decisions, particularly related to end markets and production locations.

The US election

President Trump's announcements have altered investor sentiment in many areas targeted by the Company. However, the underlying drivers advancing environmental technologies are increasingly beyond most regulatory intervention. The last few years have seen dramatic falls in the cost of many environmental technologies which no longer rely on subsidies or regulatory support. President Trump's stated commitment to infrastructure improvements across water, transport and real estate should be positive for the Company. The President has stressed his support for domestic energy production and independence. This outlook should strengthen the investment case for areas such as hazardous waste management, water treatment and environmental testing and consultants.

Global commitment to environmental regulation

The COP22 climate conference took place in Marrakesh in November 2016, and the mood from most countries was defiantly optimistic. The response from the international community to President Trump's pre-election threat to 'cancel' the 2015 Paris Climate Agreement and his subsequent changes to the structure and powers of US Environmental Protection Agency, has been to redouble support for the climate treaty, with China, crucially, reiterating its commitment to addressing climate change. Early in 2016 China released more details of its 13th Five Year Plan, with heavy emphasis on improving environmental health, tackling air, water and land pollution, and investing further in renewable energy and energy efficiency.

Key developments

Digitalisation drives higher returns in environmental markets

We have noted for several years the rise of data, acceleration of digitalisation and deployment of software-based models in environmental markets, and are encouraged by the growth and high returns on capital that these businesses offer to investors. The smart use of data and optimisation tools is enabling enhanced efficiency of processes and networks in rail, water, electricity, agriculture, construction, lighting and building controls. IEM holdings with software solutions that benefit from the digitalisation trend include Trimble Navigation (US – agriculture, construction), Hollysys (China – rail, renewable energy) and Itron (US – water, electricity, gas).

Sustainable forestry

The Food, Agriculture and Forestry sector was added to our universe in 2013. During the Period we made our first investment in the Sustainable Forestry area. Timber is an important sustainable resource and, if produced sustainably, is relatively disease resistant and helps to prevent the destruction of natural forests. During the Period we added a position in Rayonier (US) which manages large areas of sustainable timberlands (Forest Stewardship Council (FSC) certified) in the US and New Zealand. The strategic positioning of Rayonier's timberlands ensures premium product pricing and exposure to key market trends such as the recovery in domestic housing, restricted Canadian lumber supply, strong Chinese housing demand and wood pellet exports.

Electrification of the automotive industry

In the last Annual Report, we discussed the interesting investment opportunities arising from the disruption in the transport sector, in particular the increase in the electrification of vehicles. We continue to seek compelling opportunities in companies which increase the efficacy of fuel consumption and reduce pollution from internal combustion engines. We hold several companies in this area including LEM and Sensata, and during the Period we added to the portfolio Delta Electronics Thailand, a manufacturer of power supplies and electronic components to the motor industry.

Absolute performance contributors and detractors

Contributors

Companies across the portfolio largely delivered robust earnings. The Sustainable Food & Agriculture and Water Infrastructure and Technologies sub-sectors contributed particularly strong performance.

Sustainable Food & Agriculture benefits from the same core drivers of other environmental markets, namely rising demand due to population expansion and higher living standards, and a need to find more resource efficient means to satisfy these basic needs. The sub-sector has proved to be a rich area for stock picking, with particular strength from a range of holdings including fibre specialist Lenzing (Austria), sustainable aquaculture company Leroy Seafood Group (Norway) and 'connected farm' software company Trimble Inc (US). We are seeking additional opportunities in this area, which offers strong growth potential and additional diversification benefits for the portfolio.

Water Infrastructure & Technologies companies maintained their robust performance. Xylem and Watts Water (both US) benefited from recovering construction markets and municipal spending to upgrade aged water networks. Water utilities also provided opportunities, with American Water (US) advancing as a result of strong execution, a positive regulatory backdrop and consolidation potential in a fragmented market.

M&A continues to be a contributor to portfolio performance. During the second half of the Period two holdings (Hydro International and Ovivo) were acquired and a further two acquisitions announced and pending completion (ClarCor and Trina Solar). With strong exit multiples generally achieved, we expect M&A to continue to contribute to IEM's performance.

Detractors

The majority of portfolio companies performed well and there were relatively few significant detractors over the Period. However, Solar Energy Generation Equipment remains an area of weakness as solar markets continue to face supply and demand side challenges. Sunpower (US) was the main detractor in this area. We believe that short term headwinds are priced into stocks and, while our exposure is modest at around 3%, we are confident that additional opportunities will emerge. Long term prospects remain strong given falling costs of technology and incremental opportunities from combining solar generation with energy storage. IEM's environmental consultancy holdings (Arcadis, (NL) and RPS (UK)) also had a more challenging year, reflecting a combination of weakness across emerging markets and issues around exposure to oil and gas markets. Conditions appear to have stabilised and valuations remain attractive in this area.

STRATEGIC REPORT GOVERNANCE FINANCIALS OTHER INFORMATION

Portfolio Positioning and Current Activity

The portfolio remains well diversified by geography and sub-sector and comprised 60 listed holdings at the end of the Period.

The sub-sector breakdown for IEM is set out on page 11, together with the comparison to the FTSE ET100. Exposure to Sustainable Food and Agriculture has increased by 4% over the Period through outperformance and the addition of new holdings including Rayonier (Sustainable Forestry & Plantations, US). Renewable & Alternative Energy and Waste Management & Technology exposure decreased.

IEM remains underweight North America and overweight Europe compared with MSCI ACWI. We are comfortable with this positioning on the basis of relative valuation and growth prospects. Looking at economic cyclicality, the portfolio remains approximately 5% less 'defensive' than the MSCI ACWI.

Unquoted companies

At 31 December 2016, the Company held only one significant unquoted company in its portfolio with a valuation of £10.9 million, representing 2.3% of net assets. This valuation is reviewed regularly and we are working towards a timely exit.

Movements in the year were as follows:

	£m
Valuation at 1 January 2016	£9.1
Foreign exchange gain	£1.8
Valuation at 31 December 2016	£10.9

Outlook

During the Period, the Company has maintained its established trend of delivering higher profit growth compared to global equities, and we expect this to persist.

Our investment universe also continues to expand and we are seeing interesting new opportunities in developing markets and in emerging technologies. The drivers of environmental markets strengthen further, driving future growth. Meanwhile investors are increasingly seeking access to higher growth opportunities as economic growth rates around the world look set to slow. IEM has had a strong start to 2017. We are optimistic that the long term prospects for environmental markets and the Company will continue to strengthen.

Impax Asset Management (AIFM) Limited
6 April 2017

Measuring our positive environmental impact

In 2016, we continued to develop our impact measurement project. We have collected and analysed impact data following the same principles as last year. Our analysis has again been independently assured by Ernst & Young LLP (engaged by Impax Asset Management). The analysis shows that, once again, the Company delivered a net carbon benefit to investors.

In 2016, a £10 million investment in IEM produced:

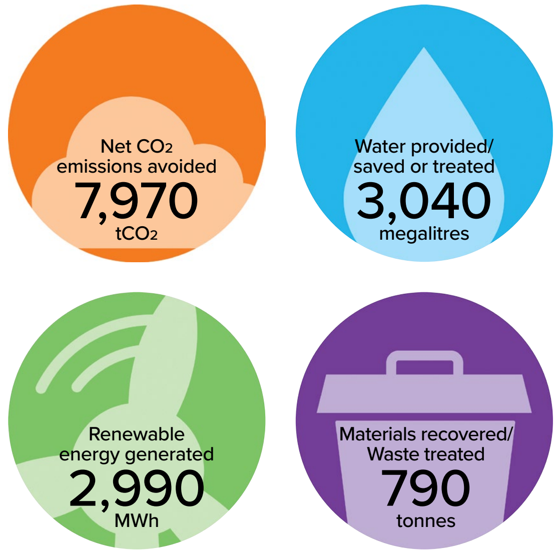
- a net carbon reduction of 7,970 tonnes of CO_2;
- 2,990MWh of renewable energy;
- 3,040 megalitres of water treated or saved; and
- 790 tonnes of materials recovered or treated.

The fall in the value of Sterling versus the US Dollar and the Euro during the year has negatively affected the 'per £10m' impact metrics. In addition, the continued move to more defensively positioned investments has resulted in IEM having a lower exposure to renewable energy companies last year, and as a consequence less renewable energy was generated and CO_2 emissions avoided. However, the volume of water treated and saved has increased for the Period.

The transparency of company reporting has improved since last year, although some smaller companies within the supply chain for the electrification of vehicles have yet to disclose their environmental metrics. We are continuing our proactive engagement with these companies to try to improve future disclosure in this area.

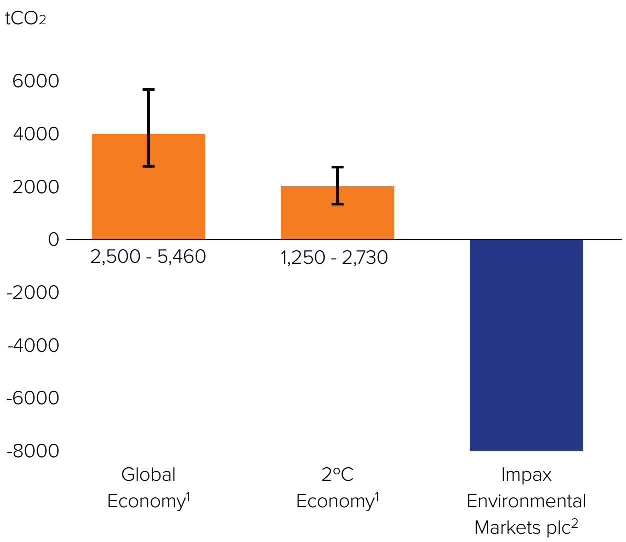
While our primary investment objective is long term investment growth, these additional environmental impact metrics can help investors gain a better understanding of the positive environmental outcome of their allocation.

Environmental impact of £10m investment



For further explanation of our impact methodology (which is based on equity value) please see www.impaxenvironmentalmarkets.co.uk/about-trust/environmental-impact

Net CO_2 impact per £10m invested



In order to understand the significance of this positive impact better, we have considered the Company's CO_2 avoidance metric in the context of the low carbon transition of the global economy.

- Capital invested in the global economy is producing an unsustainable level of CO_2 emissions (left hand column).
- A '2°C economy' still emits CO_2, but at a significantly lower level than we produce today (middle column).
- IEM has significant exposure to 'low carbon transition' technologies, resulting in a meaningful contribution to CO_2 avoidance per £10m investment (right hand column).

1. Source: United Nations Framework Convention on Climate Change (UNFCCC), 2016. Aggregate effect of the intended nationally determined contributions: an update – synthesis report by the secretariat, McKinsey Global Institute, Haver, BIS, Deutsche Bank estimates, 2014, and IMF, National Central Banks and Statistical Offices, Thomson Reuters, 2014. Bar reflects the range of estimates of value invested.

2. Impax Asset Management, 2017.

Investment Policy, Results and Other Information

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 (which includes sustainable food, agriculture and forestry).

(ii) Asset allocation

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

Alternative energy and energy eficiency

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; and
- fuel cells, flywheels, superconductors, supercapacitors and other new energy technologies.

*As at 31 December 2016, the Company had investments totalling in aggregate £203m (2015: £168m) by value invested in this sub-sector representing 42% (2015: 42%) of the Company's investments 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;
- sustainable food, agriculture and forestry; and
- environmental consultancy.

*As at 31 December 2016, the Company had investments totalling in aggregate £135m (2015: £102m) by value invested in this sub-sector representing 28% (2015: 26%) of the Company's investments 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; and
- air pollution control technologies.

*As at 31 December 2016, the Company had investments totalling in aggregate £145m (2015: £129m) by value invested in this sub-sector representing 30% (2015: 32%) of the Company's investments 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 assets 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 net assets.

*The Company did not exceed either of the exposures during the year ended 31 December 2016.**

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). As at 31 December 2016, the Company held one investment, Thermax (India), through a participatory note.**

(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. The Company has the flexibility to enable it to take out long-term borrowings in appropriate circumstances. Any long-term borrowings and any borrowings in excess of 10% of net assets 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.

*The Company has a £30 million multi-currency revolving credit facility which expires in January 2019.**

*The above disclosures do not form part of the investment policy.

Results and dividend

The Company's revenue return after tax for the year amounted to £3,920,000 (2015: £3,132,000). The directors expect the Company normally to generate returns in the form of capital gains rather than revenue. The directors are proposing that the Company will pay a final dividend of 1.95p per Ordinary Share (2015: 1.45p per Ordinary Share) absorbing £3,540,000 (2015: £2,874,000) 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 23 May 2017 to shareholders on the register at the close of business on 28 April 2017.

The Company made a capital return after tax of £122,002,000 (2015: £16,131,000). Therefore the total return after tax for the Company was £125,922,000 (2015: £19,263,000).

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 net asset value and share price growth over the long term
The Board monitors the net asset value ('NAV') and share price and compares with various other indices on a total return basis. A review of performance is undertaken at each quarterly Board meeting and the reasons for relative under and over performance against various comparators is discussed.

The Chairman's statement on pages 1 and 2 incorporates a review of the highlights during the year. The Manager's report on pages 3 to 10 gives details on investments made during the year and how performance has been achieved.

(ii) Maintenance of a reasonable level of discount or premium of share price to net asset value
The Manager and the Company's Broker monitor the discount on an ongoing basis and keep the Board updated as and when appropriate. At quarterly Board meetings the Board reviews the discount level and the impact of share buybacks. The Board has issued a statement on the discount level at which it is targeting the Company's shares to trade during normal market conditions (see page 15). The Board sets parameters under which the Company's shares can be bought and each share buyback is reported to the Board when conducted.

(iii) Maintenance of reasonable level of ongoing charges
The Board receives monthly management accounts which contain analysis of expenditure and are reviewed at quarterly Board meetings. The Management Engagement Committee formally reviews the fees payable to the Company's main service providers on an annual basis.

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

Investment performance

The performance of the Company is shown below:

	1 year to 31 December 2016	3 years to 31 December 2016	5 years to 31 December 2016	10 years to 31 December 2016
NAV of the Company[1]	37.3%	48.0%	115.5%	132.2%
Share price of the Company[1]	37.4%	49.0%	137.4%	102.4%
MSCI AC World	28.7%	47.0%	96.8%	124.8%
FTSE ET100/ET50[2]	21.9%	33.3%	91.3%	66.8%

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

1. Total return.

2. ET50 data up until 31 December 2013 and then ET100 thereafter.

Discount

The Company's shares traded at an average discount to NAV of 11% during the year ended 31 December 2016 and within a range of 7% to 15%. The year end discount to NAV was 10.4%.

Ongoing charges

Based on the Company's average net assets during the year ended 31 December 2016, the Company's ongoing charges figure calculated in accordance with the AIC methodology was 1.13% (2015: 1.11%).

Principal risks and uncertainties

Together with the issues discussed in the Chairman's Statement and the Manager's Report, 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 greater valuation uncertainties and liquidity risks than securities listed or traded on a regulated market.

Risk mitigation

There are inherent risks involved in stock selection. The 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 61 quoted companies. The Company also held 4 unquoted companies of which 3 were valued at nil at the year end.

Further detail on the financial implications of market risks is provided in note 16 to the accounts.

(ii) Environmental markets

The Company invests in companies in environmental markets. Such companies carry risks that governments may alter the regulatory and financial support for environmental improvement, costs of technology may not fall, capital spending by their customers is reduced or deferred and their products or services are not adopted.

Risk mitigation

The Company invests in a broad portfolio of assets which are spread amongst several environmental market sectors. The Manager has a rigorous investment process which takes into account relevant factors prior to investment decisions taking place. As well as reviews of the portfolio and relevant industry matters at quarterly Board meetings, the Board has an annual strategy day at which the overall strategy of the Company is discussed.

(iii) Corporate governance and internal control risks

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.

The main risk areas arising from the above contracts relate to allocation of the Company's assets by the Manager, and the performance of administrative, registration and custodial services. These could lead to various consequences including the loss of the Company's assets, inadequate returns to shareholders and loss of investment trust status.

Risk mitigation

Each of the above 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. All of the above services are subject to ongoing oversight of the Board and the performance of the principal service providers is reviewed on a regular basis. The Board monitors key person risks as part of its oversight of the Manager.

The control of risks related to the Company's business areas is described in detail in the corporate governance report on pages 17 to 20.

(iv) Regulatory risks

Breaches of Section 1158 of the Corporation Tax Act could result in loss of investment trust status. Loss of investment trust status would lead to the Company being subject to tax on any gains on the disposal of its investments. Breaches of the FCA's rules applicable to listed entities could result in financial penalties or suspension of trading of the Company's shares on the London Stock Exchange. Breaches of the Companies Act 2006 could result in financial penalties or legal proceedings against the Company or its directors. Failure of the Manager to meet its regulatory obligations could have adverse consequences on the Company.

Risk mitigation

The Company has contracted out relevant services to appropriately qualified professionals. The Manager reports on regulatory matters to the Board on a quarterly basis. The assessment of regulatory risks forms part of the Board's risk assessment programme.

(v) Level of share price discount to net asset value

Returns to shareholders may be affected by the level of discount at which the Company's shares trade.

Risk mitigation

The Board has made a statement on discount control. The Company utilises its powers to buy back the Company's own shares when circumstances are appropriate. The Board monitors the level of discount and share buybacks at Board meetings and receives regular shareholder feedback from the Company's Manager and Broker.

(vi) Financial risks

The Company's investment activities expose it to a variety of financial risks which include foreign currency risk and interest rate risk.

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 on the investments made by the Company.

Risk mitigation

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 details on financial risks and risk mitigation are disclosed in note 16 to the accounts.

Viability statement

The continuation of the Company is subject to the approval of shareholders every three years, with the next vote at the AGM in May 2019. The directors have assessed the viability of the Company for the five years to 31 December 2021 taking into account the long-term nature of the Company's investment strategy, the principal risks outlined above and its gearing. Based on this assessment, the directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to December 2021.

In their assessment of the prospects of the Company, the directors have considered each of the principal risks and uncertainties set out above and have focussed on the level of discount at which the Company's shares trade, and the liquidity and solvency of the Company. The directors have considered the Company's income and expenditure projections and the fact that the Company's investments comprise readily realisable securities, which could, if necessary, be sold to meet the Company's funding requirements including buying back shares in order for the Company's discount control policy to be achieved. Portfolio changes, market developments, level of discount and share buybacks are discussed at quarterly Board meetings. The internal control framework of the Company is subject to a formal review on at least an annual basis.

The directors do not expect there to be any material increase in the annual ongoing charges of the Company over the Period and as the Company grows the annual ongoing charges ratio is expected to decrease. The Company's income from investments and cash realisable from the sale of its investments provide substantial cover to the Company's operating expenses, and any other costs likely to be faced by the Company over the period of their assessment. Proceeds from the sale of the Company's investments could be used to repay the Company's bank loans which at the date of this report represented, in aggregate, less than 10% of the Company's investments.

Environmental matters

The Company is an investment company. The Company makes a statement on its social and environmental policy in the Corporate Governance Statement and the Manager's detailed policy on environmental, social and governance issues can be found on its website (www.impaxam.com).

The Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

The Company invests in companies to enable investors to benefit from growth in the markets for cleaner or more efficient delivery of basic services of energy, water and waste.

Employees

The Company has no employees. As at 31 December 2016 the Company had five directors of whom two are male and three are female. The Board's policy on diversity is contained in the corporate governance report (see page 19).

Social, community and human rights issues

The Manager proactively screens the Company's investable universe as part of the Environmental Social and Governance analysis for any breaches of the principles of the UN Global Compact, including human rights, labour rights, environmental breaches and corruption. Any non-compliant companies are excluded from investment.

Outlook

The outlook for the Company is discussed in the Chairman's Statement on page 3.

Strategic Report

The Strategic Report set out on pages 1 to 13 of this Annual Report was approved by the Board of Directors on 6 April 2017.

For and on behalf of the Board

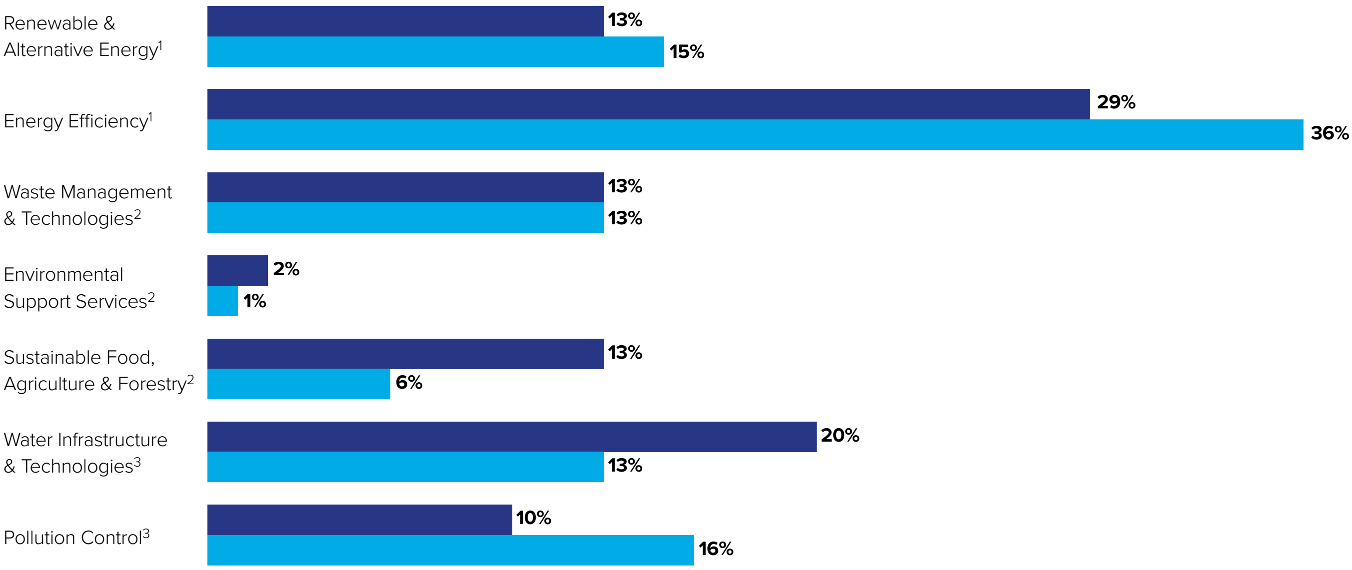
Julia Le Blan
Director

6 April 2017

Structure of the Portfolio

Breakdown by environmental markets classification system

- IEM plc
- FTSE ET100 Index

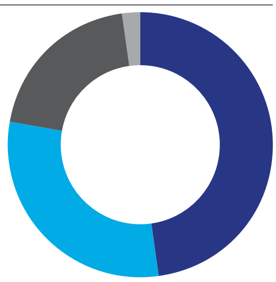


Investment policy classification

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

Breakdown by region

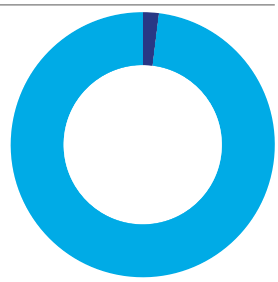
- North America: **48%**
- Europe: **30%**
- Asia Pacific: **20%**
- Rest of World: **2%**



Breakdown by company profitability*

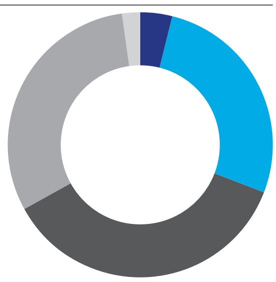
- Unprofitable (including unquoted): **2%**
- Profitable: **98%**

*based on next 12 month's earnings' estimates



Breakdown by market capitalisation

- Less than US$500m: **4%**
- US$500m-2bn: **27%**
- US$2bn-5bn: **36%**
- More than US$5bn: **31%**
- Unquoted: **2%**



Ten Largest Investments

1 Clean Harbors – United States
3.2% of net assets (2015: 2.7%)

Clean Harbors is North America's leading provider of environmental, energy and industrial services to a diverse customer base including a majority of the Fortune 500 companies. Its core hazardous waste business has high barriers to entry against competition with significant regulatory costs and difficulty in adding new facilities. Investments to expand capacity and efficiency programmes have strengthened the company's position, with further growth from numerous adjacent acquisitions that allow it to cross-sell new and existing services.

www.cleanharbors.com

2 United Natural Foods – United States
2.9% of net assets (2015: 1.9%)

United Natural Foods is a leading distributor of natural, organic and specialty foods and non-food products in the United States and Canada. Its 33 distribution centres represent the largest capacity in North America, allowing the company to offer more than 100,000 products to more than 43,000 customer locations. It has been the primary distributor to the retailer Whole Foods Market for more than 18 years.

www.unfi.com

3 Horiba – Japan
2.7% of net assets (2015: 3.5%)

Horiba is a manufacturer of measuring instruments and systems for the automotive, environmental, medical and semi-conductor industries. It has a dominant 80% market share for automobile emissions and is set to benefit from increasing focus on this issue as a result of the Volkswagen emissions scandal.

www.horiba.com

4 Lenzing – Austria
2.7% of net assets (2015: 1.7%)

Lenzing is a market leader in the supply of cellulose fibres to the global textile and non-woven fabric industry. The production of cotton requires large amounts of water and land, and can lead to significant environmental degradation. Cellulose fibres are less environmentally damaging, which is increasingly important to retailers and consumers and is helping to drive solid growth. The company is expanding production to meet this growing demand.

5 EDP Renovaveis – Portugal
2.6% of net assets (2015: 3.1%)

EDP Renovaveis is a leading global wind farm operator with close to 10GW of capacity. Its regional diversification allows it to deploy capital to where it will create the best value for shareholders. It is the third largest operator in the US, which impacted sentiment after the US Presidential election, but the Production Tax Credits have bipartisan support and are set to underpin growth in that market over the next few years.

www.edpr.com

6 Trimble Navigation – United States
2.5% of net assets (2015: 1.6%)

Trimble is a leading provider of advanced location-based solutions that maximize productivity and enhance profitability. It serves a variety of industries including agriculture, engineering and construction, transportation and wireless communications infrastructure. Trimble integrates its positioning expertise in Global Positioning System (GPS), laser, optical and inertial technologies with application software, wireless communications, and services to provide complete commercial solutions. Its portfolio of over 1,100 patents is the basis for the broadest positioning solutions range in the industry. Trimble is targeting low double digit revenue growth over the long-term from a combination of increased penetration into existing end markets and expansion into adjacent end markets.

www.trimble.com

7 Ormat Technologies – United States
2.5% of net assets (2015: 2.2%)

Ormat is a leading geothermal company and the only vertically integrated company solely engaged in geothermal and recovered energy generation, with the objective of becoming a leading global provider of renewable energy. The company has over five decades of experience in the development of state-of-the-art, environmentally sound power solutions including designing, developing, building, owning and operating the power plants. It has been delivering solid earnings growth through execution on its order book and cost controls.

www.ormat.com

8 Itron – United States
2.5% of net assets (2015: 2.1%)

Itron provides comprehensive solutions that measure, manage and analyse energy and water use. Its solutions enable electric and natural gas utilities to build smart grids to manage assets, secure revenue, lower operational costs, improve customer service and enable demand response. These solutions include standard meters and next-generation smart metering products as well as services such as meter data management and analytics software. In addition to benefiting from its position as a leader player in the advanced metering space, activist investors continue to work collaboratively with management to unlock value for shareholders.

www.itron.com

9 Xylem – United States
2.4% of net assets (2015: 3.3%)

Xylem is a leading global water technology provider, enabling customers to transport, treat, test and efficiently use water in public utility, residential and commercial building services, industrial and agricultural settings. The company does business in more than 150 countries through a number of market-leading product brands, and its people bring broad applications expertise with a strong focus on finding local solutions to the world's most challenging water and wastewater problems. Xylem benefits from the secular trend of increasing global water consumption and is well positioned to grow faster than this due to its market positions, installed base and customer penetration.

www.xyleminc.com

10 Power Integrations – United States
2.4% of net assets (2015: 2.1%)

Power Integrations is a supplier of high-performance electronic components used in high-voltage power-conversion systems. Its products enable compact, energy-efficient AC-DC power supplies for a vast range of electronic products including mobile devices, TVs, PCs, appliances, smart utility meters and LED lights, and enhance the efficiency, reliability and cost of high-power applications such as industrial motor drives, solar and wind energy systems, electric vehicles and high-voltage DC transmission. It continues to deliver above-industry growth with new products and is diversified across four end markets.

www.power.com

Details of Individual Holdings

As at 31 December 2016 Company	Sector	Country of main listing	Current value £'000	% of net assets
Clean Harbors	Waste Management & Technologies	United States	14,949	3.2%
United Natural Foods	Sustainable Food, Agriculture & Forestry	United States	13,582	2.9%
Horiba	Pollution Control	Japan	12,491	2.7%
Lenzing	Sustainable Food, Agriculture & Forestry	Austria	12,452	2.7%
EDP Renovaveis	Renewable & Alternative Energy	Portugal	12,097	2.6%
Trimble	Sustainable Food, Agriculture & Forestry	United States	11,742	2.5%
Ormat Technologies	Renewable & Alternative Energy	United States	11,644	2.5%
Itron	Energy Efficiency	United States	11,439	2.5%
Xylem	Water Infrastructure & Technologies	United States	11,307	2.4%
Power Integrations	Energy Efficiency	United States	11,103	2.4%
Ensyn (unquoted)	Renewable and Alternative Energy	Unlisted	10,858	2.3%
Watts Water Technologies	Water Infrastructure & Technologies	United States	10,496	2.3%
Franklin Electric	Water Infrastructure & Technologies	United States	10,472	2.3%
Sensata Technologies	Energy Efficiency	United States	10,251	2.2%
Brambles	Waste Management & Technologies	Australia	9,965	2.1%
Smith (A.O.)	Energy Efficiency	United States	9,901	2.1%
American Water Works	Water Infrastructure & Technologies	United States	9,806	2.1%
Advantech	Energy Efficiency	Taiwan	9,743	2.1%
Coway	Water Infrastructure & Technologies	South Korea	9,330	2.0%
Eurofins Scientific	Sustainable Food, Agriculture & Forestry	France	9,109	2.0%
LKQ Corporation	Waste Management & Technologies	United States	9,005	1.9%
Beijing Enterprises Water	Water Infrastructure & Technologies	Hong Kong	8,963	1.9%
Tomra Systems	Waste Management & Technologies	Norway	8,987	1.9%
Lem Holding	Energy Efficiency	Switzerland	8,817	1.9%
Kemira	Water Infrastructure & Technologies	Finland	8,629	1.9%
Top twenty five holdings			**264,675**	**57.4%**
Other holdings			207,833	46.5%
Other unquoted holdings (see below)			–	0%
Total holdings in companies			**483,366**	**103.9%**
Cash			13,099	2.8%
Other net assets			(31,210)	(6.7%)
Total net assets			**465,255**	**100.0%**

All the above holdings are quoted unless otherwise stated. The Company held one investment via a participatory note at the year end with a value at 31 December 2016 of £5.6m (2015: £5.8m).

At 31 December 2016, the Company held the following investments in unquoted companies:

Company	Current value £'000	% of total net assets
Ensyn	10,858	2.3%
Emergya Wind Technologies	–	0.%
New Earth Recycling & Renewable	–	0%
Pelamis Wave Power	–	0%

Directors' Report

Impax Environmental Markets plc Board

John Scott

Vicky Hastings

Julia Le Blan

Aine Kelly

William Rickett

The directors present their report and accounts for the year ended 31 December 2016.

Strategic report

The Directors' Report should be read in conjunction with the Strategic Report on pages 1 to 13.

Corporate governance

The Corporate Governance Statement on pages 17 to 20 forms part of this report.

Legal and taxation status

The Company is an investment company within the meaning of Section 833 of the Companies Act 2006. The Company conducts its affairs in order to meet the requirements for approval as an investment trust under section 1158 of the Corporation Tax Act 2010. The Company has received initial approval as an investment trust and the Company must meet eligibility conditions and ongoing requirements in order for investment trust status to be maintained. In the opinion of the directors, the Company has met the conditions and requirements for approval as an investment trust for the year ended 31 December 2016.

Alternative Investment Fund Managers Directive ('AIFMD')

The Company is classified as an Alternative Investment Fund under AIFMD and is therefore required to have an Alternative Investment Fund Manager. Impax Asset Management (AIFM) Limited (the 'AIFM') received its authorisation as an Alternative Investment Fund Manager from the FCA with effect from 3 July 2014.

The AIFM must ensure that an annual report containing certain information on the Company is made available to investors for each financial year. The investment funds sourcebook of the FCA (the 'Sourcebook') details the requirements of the annual report. All the information required by those rules is included in this Annual Report or is or will be made available on the AIFM's website (www.impaxam.com).

The AIFM is required to make certain disclosures on its remuneration in respect of the AIFM's relevant reporting period which is the year ended 30 September 2016. These disclosures are available on the AIFM's website or are available on request from the AIFM.

Leverage (under AIFMD)

The AIFM is required to set leverage limits as a percentage of net assets for the Company utilising methods prescribed under AIFMD. These methods are known as the gross method and the commitment method. Under both methods the AIFM has set current maximum limits of leverage for the Company of 130%. A leverage percentage of 100% equates to nil leverage. The Company's leverage under each of these methods at its year end is shown below:

	Gross method	Commitment method
Maximum leverage limit	130%	130%
Actual leverage at 31 December 2016	104%	107%

Share issues

The authority to issue new shares for cash granted at the Annual General Meeting held on 17 May 2016 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 18,137,560 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.

Discount control

The Board remains fully committed to addressing the discount to net asset value at which the Company's shares currently trade in a proactive and decisive manner. To that end, the Board makes use of its share buyback powers to seek to narrow the discount, initially targeting in the near term (and in normal market conditions) a discount level of 10% or less.

Share buybacks and renewal of authority to purchase own shares

During the year ended 31 December 2016 the Company purchased 16,978,525 of its own Ordinary Shares and since the year end a further 9,565,249 Ordinary Shares have been bought back. These shares were purchased at a discount to net asset value.

The authority for the Company to purchase its own shares granted by the Annual General Meeting held on 17 May 2016 will expire at the conclusion of the forthcoming Annual General Meeting. The directors recommend that a new authority to purchase up to 27,215,431 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. At the date of this report, the company holds 45,698,109 Ordinary Shares in Treasury.

Policy on sale of treasury shares and issue of new shares

Unless otherwise authorised by shareholders, Ordinary Shares will not be issued at less than net asset value and 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 vote for the continuation of the company will be proposed at the Annual General Meeting to be held in May 2019. 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

The Royal Bank of Scotland plc is the Company's banker.

Bank loan

On 8 January 2014, the Company entered into a two year multi-currency revolving credit facility with The Royal Bank of Scotland plc. This facility has been extended for a further three years until January 2019. Under the terms of the facility the Company may draw down loans of, in aggregate, up to £30 million at point of drawdown. As at 31 December 2016, the facility was fully drawn down and the Company's loans outstanding totalled, in aggregate, £30.4million. Loans have been drawn down in Sterling and US Dollars. The breakdown of the loans drawn down at the year end and details of the facility charges can be found in note 11 to the accounts.

Depositary and custodian

BNP Paribas Securities Services has been appointed as the Company's depositary and custodian since 3 July 2014.

Retail distribution of investment company shares via financial advisers and other third party promoters

Under the Financial Conduct Authority ('FCA') rules determining which investment products can be promoted to retail investors have been effective since 1 January 2014. As a result of the rules, certain investment products are classified as 'non-mainstream pooled investment products' and face restrictions on their promotion to retail investors.

The Company has concluded that the distribution of its shares, being shares in an investment trust, is not restricted as a result of the FCA rules described above.

The Company currently conducts its affairs so that the shares issued by the Company can be recommended by financial advisers to retail investors and intends to continue to do so for the foreseeable future.

Management

Impax Asset Management (AIFM) Limited ('IAM') has been appointed as the Company's investment manager (the 'Manager').

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

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 was acquired by the PraxisIFM Fund Services (UK) Limited in November 2015. The UK Administration Services contract with Cavendish Administration Limited has been novated to PraxisIFM Fund Services (UK) Limited with effect from 1 July 2016.

Capital structure and voting rights

At the year end the Company's issued share capital comprised 236,820,604 Ordinary Shares of 10p nominal value including 45,698,109 Ordinary Shares held in Treasury. Each Ordinary Share held entitles the holder to one vote. 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 9,565,249 of its own Ordinary Shares.

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 2016, the following shareholdings comprising 3 per cent or more of the issued share capital (excluding Treasury Shares) of the Company:

	Holding	%
East Riding of Yorkshire Council	14,928,368	7.8
Church Commissioners for England	13,551,666	7.1
1607 Capital Partners LLC	13,473,167	7.0
Rathbone Brothers PLC	12,844,788	6.7
Kames Capital plc	10,508,804	5.5
Wells Capital Management Inc	6,685,646	3.5

There are no significant changes since the year end of which the Board is aware.

Settlement of ordinary share transactions

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

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 for the notice period for general meetings is 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 that this facility is accessible to all shareholders, if it is to call general meetings on 14 days' notice.

Going concern

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

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 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 2016, the Company held £13.1m in cash and £472.5m in quoted investments. It is estimated that approximately 90% 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 finance costs taxation) for the year ended 31 December 2016 were £4.6m, 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 substantial operating expenses cover. The Company's audited net assets at 31 December 2016 were £465.3m.

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 Section 418 of the Companies Act 2006.

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

By order of the Board

Anthony Lee
For and on behalf of

PraxisIFM Fund Services (UK) Limited
Company Secretary

6 April 2017

Corporate Governance

Introduction

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

The Listing Rules and the Disclosure Rules and Transparency Rules of the UK Listing Authority require listed companies to disclose how they have applied the principles and complied with the provisions of the UK Corporate Governance Code (the 'UK Code'), as issued by the Financial Reporting Council ('FRC'). The UK Code can be viewed at www.frc.org.uk.

The related AIC Corporate Governance Guide for Investment Companies issued in February 2016 (the 'AIC Code') provides specific corporate governance guidelines to investment trusts. The FRC has confirmed that AIC member companies who follow and report against the AIC Code will be meeting their obligations in relation to the UK Code. The AIC Code can be viewed at www.theaic.co.uk.

The Board has considered the principles and recommendations of the AIC Code by reference to the AIC Corporate Governance Guide for Investment Companies ('AIC Guide'). The AIC Code, as explained by the AIC Guide, addresses the principles set out in the UK 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 Code, except as set out below.

The UK Code includes provisions relating to:

- the role of the chief executive (UK Code provision A2.1);
- executive directors' remuneration (UK Code various provisions of section D); and
- the need for an internal audit function (UK Code provision C3.6).

For the reasons set out in the AIC Guide, and as explained in the UK 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 five non-executive directors including the Chairman. Mrs Le Blan and Mr Rickett were appointed as directors on 27 January 2011. Mr Scott was appointed on 7 February 2013. Mrs Hastings was appointed on 21 May 2013. Ms Kelly was appointed on 15 November 2016. The process of appointing Ms Kelly as a director during the year involved the use of an external search consultancy. All the directors have served during the entire period since their appointment. Mr Scott was appointed as Chairman of the Company on 21 May 2015. Mrs Le Blan has been appointed as the Board's senior independent director.

The Board believes that during the year ended 31 December 2016 its composition was appropriate for an investment company of the Company's nature and size. All of the directors are independent of the investment manager. All of the directors are able to allocate sufficient time to the Company to discharge their responsibilities effectively.

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

John Scott (Chairman)

Mr Scott is a former investment banker who spent 20 years with Lazard and is currently a director of several investment trusts, and has been Chairman of Scottish Mortgage Investment Trust since 2010 and Chairman of Alpha Insurance Analysts since April 2013. Until March 2013 he was Deputy Chairman of Endace Ltd. of New Zealand and in November 2012 he retired after 12 years as a non-executive director of Miller Insurance.

In addition to those stated above, Mr Scott holds other public company directorships in Bluefield Solar Investment Fund Limited, CC Japan Income & Growth Trust plc and JP Morgan Claverhouse Investment Trust plc.

Vicky Hastings

Mrs Hastings has worked for over 25 years in the investment management industry. Her roles have included being an Investment Director at JO Hambro Capital Management; Chief Investment Officer at Merrill Lynch Private Investors and a fund manager in the Merrill Lynch European Equity team. She is a director of Edinburgh Investment Trust plc, Moorfields Eye Charity, JP Morgan Asset Management UK Ltd and JP Morgan Asset Management International Ltd.

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 a non-executive director of JPMorgan US Smaller Companies Investment Trust plc, F&C UK High Income Trust plc, Aberforth UK Smaller Companies Trust plc and The Biotech Growth Trust plc.

Aine Kelly

Ms Kelly is a retained consultant to Big Society Capital, having been head of Financial Sector and Investor Engagement from January 2013 until August 2016. She previously worked for Barclays Wealth where she spent four years as a private banker working with high net worth and key clients. Prior to that she worked 16 years in investment banking, at Kleinwort Benson, J.P. Morgan and Citigroup. Aine has a wide experience of introducing new investment opportunities to investors and has covered UK, European and Asian equity markets.

William Rickett, C.B.

Mr Rickett 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 Chairman of Cambridge Economic Policy Associates Ltd and a director of Greencoat UK Wind plc and Smart DCC 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.

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.

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 provide for 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. Upon joining the Board, any new directors receive an induction and relevant training is available to directors on an ongoing basis.

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.

Board committees

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

Audit Committee

A report on page 24 provides details of the role, composition and meetings of the Audit Committee together with a description of the work of the Audit Committee in discharging its responsibilities.

Remuneration Committee

All of the directors are members of this committee. The Remuneration Committee has been established to meet formally on at least an annual basis to consider the fees of the non-executive directors.

Mr Rickett is the chairman of the Remuneration Committee. The Remuneration Committee has formal terms of reference and copies of these are available on the Company's website or on request from the Company Secretary.

The Directors' Remuneration Implementation Report is included on page 22 of these financial statements.

Management Engagement Committee

All of 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. The Management Engagement Committee also reviews the fees payable to the other main service providers to the Company.

Mr Scott is chairman of the Management Engagement Committee. The Management Engagement Committee has formal terms of reference and copies of these are available on the Company's website or on request from the Company Secretary.

Nominations Committee

All of 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. The Nominations Committee considers job specifications and assesses whether candidates have the necessary skills and time available to devote to the job. As described in the Chairman's Statement, Aine Kelly was appointed as a director during the year.

Mr Scott is chairman of the Nominations Committee. The Nominations Committee has formal terms of reference and copies of these are available on the Company's website or on request from the Company Secretary.

Meeting attendance

	Quarterly Board	Other Board	Audit Committee	Remuneration Committee	Management Engagement Committee	Nominations Committee
Number held	4	2	2	1	1	2
John Scott	4	2	2	1	1	2
Vicky Hastings	4	2	2	1	1	2
Julia Le Blan	4	2	2	1	1	2
William Rickett	4	2	2	1	1	2

All of the above meetings were held prior to the appointment of Aine Kelly as a director.

In addition, there were two Board sub-committee meetings to deal with the formal approval of documents.

Board diversity

The Company's policy is that the Board should have a broad range of skills. Consideration is given to the recommendations of the AIC Code and other guidance on boardroom diversity.

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 latest external evaluation of the Board was completed by Lintstock Limited in March 2017. Lintstock does not have any other relationship with the Company. A programme consisting of open and closed ended questions was used as the basis for the appraisal. The results were reviewed by the Chairman and discussed with the Board. A separate appraisal of the Chairman was carried out and the Senior Independent Director reported the results back to the Chairman. The results of the most recent performance evaluation were positive and demonstrated that the directors showed the necessary commitment for the fulfilment of their duties.

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.

Financial aspects of internal control

These are detailed in the Report of the Audit Committee.

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 Company's secretary and administrator (the 'Administrator').

The Board has agreed policies with the Manager on key operational issues. 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 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. The effectiveness of the Company's risk management and internal controls systems is monitored regularly and a formal review, utilising a detailed risk assessment programme, takes place at least annually. This includes consideration of relevant service provider internal controls report. There are no significant findings to report from the review.

Principal risks

The directors confirm that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. The principal risks and how they are being managed is set out in the Strategic Report.

Shareholder relations

The Company encourages 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 direct feedback from shareholders. The Chairman is available to meet shareholders and may be contacted by email at chairman@impaxenvironmentalmarkets.co.uk.

Exercise of voting powers and stewardship code

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. 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. The Board regularly reviews the voting decisions made by the Manager on the Company's behalf.

Social and environmental policy

The Company has no staff, premises, manufacturing or other operations. The Company 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.impaxam.com).

Directors' Remuneration Policy

The Remuneration Policy was approved by shareholders at the AGM held on 19 May 2015. The provisions set out in this policy apply until they are next put forward for shareholder approval. The Remuneration Policy must be put forward for shareholder approval at a maximum interval of three years. In the event of any proposed material variation to the policy, shareholder approval will be sought for the proposed new policy prior to its implementation.

All the directors are non-executive directors and the Company has no other employees.

Service contracts

The directors do not have service contracts with the Company. The directors have appointment letters and, following initial election by shareholders, are subject to re-election by shareholders at a maximum interval of three years although in line with best practice the directors put themselves forward for re-election by shareholders voluntarily on an annual basis.

Fees

The 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. The directors' fees will be paid at fixed annual rates and do not have any variable elements. The maximum level of fees payable, in aggregate, to the directors of the Company is currently £150,000 per annum.

The non-executive directors shall be entitled to fees at such rates as determined by the Board subject to the current aggregate maximum of £150,000 per annum.

The directors shall also be entitled to be reimbursed for all expenses incurred in performance of their duties. These expenses are unlikely to be of a significant amount.

Fees are payable from the date of appointment as a director of the Company and cease on date of termination of appointment. The directors are not entitled to compensation for loss of office.

The Board will not pay any incentive fees to any person to encourage them to become a director of the Company. The Board may, however, pay fees to external agencies to assist the Board in the search and selection of directors.

Statement of consideration of conditions elsewhere in the Company

As stated above the Company has no employees. Therefore the process of consulting with employees on the setting of the Remuneration Policy is not applicable.

Review of the Remuneration Policy

The Remuneration Policy will be reviewed on an annual basis by the Remuneration Committee and any changes are subject to approval by the Board. The remuneration payable to the directors will take into account a number of factors, inter alia, the experience of the directors, the complexity of the Company and prevailing market rates for the investment trust sector.

Effective date

This Remuneration Policy has been effective since its approval by shareholders on 19 May 2015.

Current and future policy

Component	Director	Current annual rate[1]	Purpose of reward	Operation
Annual fee	Chairman of the Board	See note 1 below	For services as Chairman of a plc	Determined by the Board
Annual fee	Other directors	See note 1 below	For services as non-executive directors of a plc	Determined by the Board
Additional fee	Chairman of the Audit Committee	See note 1 below	For additional responsibility and time commitment	Determined by the Board
Expenses	All directors	Not applicable	Reimbursement of expenses incurred in the performance of duties	Submission of appropriate supporting documentation

1. Annual rates are at the discretion of the Board subject to aggregate maximum payable to all directors of £150,000.

Directors' Remuneration Implementation Report

This report has been prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. An ordinary resolution for the approval of this report will be put forward at the forthcoming Annual General Meeting.

The Remuneration Report contains a separate Policy Report which must be approved by a vote of Shareholders held, at a minimum, every three years, or less if the Company wishes to change its remuneration policy. The Policy Report sets out the principles the Company follows in remunerating Directors and the result of the Shareholder vote on the Policy Report is binding on the Company.

The Directors' Remuneration Implementation Report is put forward for approval by shareholders on an annual basis. The result of the shareholder resolution on the Implementation Report is non-binding on the Company, although it gives shareholders an opportunity to express their views, which will be taken into account by the Board and the Remuneration Committee.

The law requires the Company's auditor to audit certain of the disclosures provided. Where disclosures are audited they are indicated as such. The auditor's opinion is on page 27.

Remuneration Committee

The Company currently has five non-executive directors.

During the year ended 31 December 2016, directors' fees were payable at an annual rate of £33,000 for the Chairman, £22,000 to the other directors of the Company with an additional annual amount of £4,500 payable to the Chairman of the Audit Committee.

Following the year end, a review of directors' remuneration has been performed. The Remuneration Committee has taken into account independent analysis of current market rates of directors' fees for investment trust companies and has recommended, and the Board has approved, that, with effect from 1 April 2017, annual directors' fees should be increased to £34,500 for the Chairman, £23,000 to the other directors of the Company with an additional annual amount of £5,000 payable to the Chairman of the Audit Committee. The Remuneration Committee believes that these fees appropriately reflect prevailing market rates for an investment trust of the Company's complexity and size, and will also enable the Company to attract appropriately experienced additional directors in the future.

The Remuneration Committee comprises the whole Board. Further detail on the duties of the Remuneration Committee can be found in the Corporate Governance statement on page 18.

Directors' service contracts

The directors do not have service contracts with the Company. The directors are not entitled to compensation on loss of office. The directors have appointment letters which do not provide for any specific term. However, they are subject to re-election by shareholders at a maximum interval of three years. There are no restrictions on transfers of the Company's shares held by the directors or any special rights attached to such shares.

Directors' indemnities

Subject to the provisions of the Companies Act 2006 and certain provisions contained in the deeds of indemnity issued by the Company, the Company has indemnified each of the directors against all liabilities which each director may suffer or incur arising out of or in connection with any claim made or proceedings taken against him/her, or any application made under sections 661(3), 661(4) or 1157 of the Companies Act 2006 by him/her, on the grounds of his/her negligence, default, breach of duty or breach of trust, in relation to the Company or any Associated Company. The indemnities would provide financial support from the Company after the level of cover provided by the Company's Directors' and Officers' insurance policy has been fully utilised.

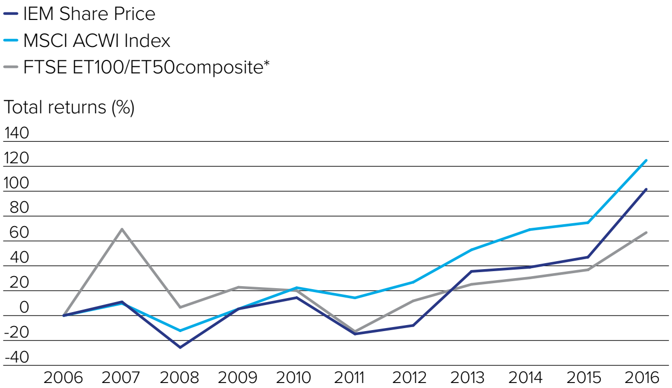
Director search and selection fees

Director search and selection fees of £17,500 were incurred during the year.

Performance

The following chart shows the performance of the Company's share price by comparison to two relevant indices, both on a total return basis. The Company does not have a specific benchmark but has deemed the MSCI ACWI Index and the FTSE ET100 Index to be the most appropriate comparators for this report.

Share price performance



*FTSE ET50 Index until 31 December 2013 and then FTSE ET100 Index.

Directors' emoluments for the year (Audited)

The directors who served during the year received the following remuneration for qualifying services.

	Fees and taxable benefits 2016 £'000	Fees and taxable benefits 2015 £'000
John Scott	33	32
Vicky Hastings	22	22
Julia Le Blan	27	26
William Rickett	22	22
Aine Kelly (Appointed 15 November 2016)	3	–
	107	**102**

There are no other taxable benefits payable by the Company other than certain expenses which may be deemed to be taxable. None of the above fees was paid to third parties.

A non-binding ordinary resolution to approve the Directors' Remuneration Implementation Report contained in the Annual Report for the year ended 31 December 2015 was put forward at the Annual General Meeting held on 17 May 2016. The resolution was passed with proxies representing 100% of the shares voted being in favour of the resolution.

The Directors' Remuneration Policy was last put forward at the Annual General Meeting held on 19 May 2015. The resolution was passed with proxies representing 100% of the shares voted being in favour of the resolution.

Relative importance of spend on pay

The following table sets out the total level of directors' remuneration compared to the distributions to shareholders by way of dividends and share buybacks, and the management fees and other expenses incurred by the Company.

	2016 £'000	2015 £'000	Difference £'000
Income receivable	6,360	5,258	1,102
Spend on Directors' fees	107	102	5
Management fees and other expenses	4,552	4,141	398
Share buybacks	29,404	18,322	11,082
Dividends paid to shareholders	2,874	3,043	(169)

The information in the table above is required by the regulations, with the exception of management fees and other expenses which have been included to show the total operating expenses of the Company.

Directors' holdings (Audited)

At 31 December 2016 and at the date of this report the directors had the following holdings in the Company. All holdings were beneficially owned.

	Ordinary Shares As at 31 December 2016*	Ordinary Shares As at 1 January 2016
V Hastings	19,500	19,500
A Kelly	–	n/a
J Le Blan	14,907	14,907
W Rickett	5,000	5,000
J Scott	35,087	35,087

*Since 31 December 2016, John Scott's holding has increased to 45,087 ordinary shares and Aine Kelly's holding has increased to 10,000 ordinary shares.

Statement

On behalf of the Board and in accordance with Part 2 of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, I confirm that the above Report on Remuneration Policy and Remuneration Implementation summarises, as applicable, for the year to 31 December 2016:

(a) the major decisions on directors' remuneration;

(b) any substantial changes relating to directors' remuneration made during the year; and

(c) the context in which the changes occurred and decisions have been taken.

William Rickett
Chairman of the Remuneration Committee

6 April 2017

Report of the Audit Committee

Role of the Audit Committee

The AIC Code of Corporate Governance (the 'Code') recommends that Boards should establish audit committees consisting of at least three, or in the case of smaller companies, two independent non-executive directors. The Board is required to satisfy itself that the audit committee has recent and relevant financial experience. The main role and responsibilities of the audit committee should be set out in written terms of reference covering certain matters described in the Code. The Company complies with the Code.

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. The Audit Committee also reviews the Company's internal financial controls and its internal control and risk management systems. 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.

Composition

All of the directors of the Company are members of the Audit Committee. Mrs Le Blan is chairman of the Audit Committee. The Audit Committee has formal written terms of reference and copies of these are available on the Company's website or 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. The Audit Committee keeps the needs for an internal function under periodic review. The Chairman of the Company is a member of the Audit Committee. The Board and the Audit Committee believe that this is appropriate as he has recent and relevant financial experience and was independent on his appointment as Chairman and remains so.

Meetings

There were two Audit Committee meetings during the year ended 31 December 2016. Mrs Le Blan, Mrs Hastings, Mr Rickett and Mr Scott attended both meetings.

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, the Administrator and the Company's custodian 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 Audit Committee receives control reports from the Company's Depository, Administrator and Registrar which contain reporting accountants reports.

The Statement of Directors' Responsibilities in respect of the accounts is on page 26 and a Statement of Going Concern is on page 16. The Report of the Independent Auditor is on pages 27 and 30.

Financial statements and significant accounting matters

The Audit Committee considered the following significant accounting issues in relation to the Company's financial statements for the year ended 31 December 2016;

Valuation and existence of investments

The Company holds virtually all of its assets in quoted investments. The valuation and existence of these investments is the most material matter in the production of the financial statements. The Audit Committee reviewed the procedures in place for ensuring accurate valuation and existence of investments and discussed the valuation and existence of the Company's investments at the year end with the Manager and the Administrator. Investments are valued using independent pricing sources and the holding quantities at the year end were agreed to the Company's custodian's records.

The Company holds a small proportion of the portfolio in unquoted companies. The Manager provided valuation recommendations for the investments in unquoted companies held at the year end and these were discussed and approved by the Audit Committee.

Recognition of income
Income may not be accrued in the correct period and/or incorrectly allocated to revenue or capital. The Audit Committee reviewed the Administrator's procedures for recognition of income and reviewed the treatment of any special dividends receivable in the year.

Financial statement presentation
The Audit Committee reviewed the financial statements and obtained assurances from the Manager and the Secretary that the financial statements had been prepared appropriately.

Calculation of management fees
Incorrect amounts may be paid to the Manager and recognised in the accounts if the fees are not calculated correctly. Management fee calculations are circulated to the directors prior to payment. The Audit Committee reviewed the procedures in place for the calculation of management fees.

Allocation of management fees and finance costs to capital
Amounts may be incorrectly allocated to revenue or capital. The Audit Committee reviewed the basis of allocating management fees and finance costs to capital and agreed that allocating 75% of such costs to capital remained an appropriate basis. The assessment involved an analysis of the expected split of the Company's future long-term returns as well as a review of past returns.

Tax status
The Company may suffer tax on gains on the realisation of investments if investment trust status is not maintained. The Audit Committee reviewed the compliance of the Company during the year with the eligibility conditions and ongoing requirements in order for investment trust status to be maintained.

Going concern
The Accounts could be prepared on an incorrect accounting basis which might result in an incorrect valuation of financial assets and liabilities. The Audit Committee reviewed the Company's financial resources and considered the forthcoming continuation vote, and concluded that it is appropriate for the Company's financial statements to be prepared on a going concern basis as described in the Directors' Report on page 16.

Conclusion with respect to the annual report and financial statements
The Audit Committee has concluded that the annual report for the year ended 31 December 2016, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's business model, strategy and performance. The Audit Committee has reported its conclusions to the Board of directors. The Audit Committee reached this conclusion through a process of review of the document and enquiries to the various parties involved in the production of the annual report.

Audit tender
Ernst & Young LLP has been appointed as external auditor to the Company since its launch in February 2002. In line with good corporate governance practice, a tender of the audit was conducted during the financial year ended 31 December 2013. The incumbent auditor and two other firms were invited to participate in the tender. The Audit Committee concluded that the continuing appointment of Ernst & Young LLP was in the best interests of the Company.

Effectiveness of external audit
The Audit Committee is responsible for reviewing the effectiveness of the external audit process. The Audit Committee received a presentation of the audit plan from the external auditor prior to the commencement of the audit and a presentation of the results of the audit following completion of the main audit testing. The Audit Committee performed a review of the external auditor following the presentation of the results of the audit. The review included a discussion of the audit process and the ability of the external auditor to fulfil its role. Following the above review and tender process, the Audit Committee has agreed that the re-appointment of the Auditors should be recommended to the Board and the shareholders of the Company.

Provision of non-audit services
The Audit Committee has put a policy in place on the supply of any non-audit services provided by the external auditor. Such services are considered on a case-by-case basis and may only be provided to the Company if the provision of such services is at a reasonable and competitive cost and does not constitute a conflict of interest or potential conflict of interest which would prevent the auditor from remaining objective and independent. Following recent rule changes, the Company can no longer use the Company's auditor for tax compliance services.

Julia Le Blan
Audit Committee Chairman

6 April 2017

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, including FRS 102 The Financial Reporting Standard applicable in the UK and the Republic of Ireland. 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.impaxenvironmentalmarkets.co.uk and www.impaxam.com websites which are maintained by the Company's Manager, Impax Asset Management (AIFM) Limited ('IAM'). The work carried out by the auditors does not involve consideration of the maintenance and integrity of these websites and, accordingly, the auditors accept no responsibility for any changes that have occurred to the accounts since being initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Directors' confirmation statement

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 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.

Having taken advice from the Audit Committee, the Directors consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

For and on behalf of the Board

Julia Le Blan
Director

6 April 2017

Independent Auditor’s Report to the members of Impax Environmental Markets plc

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 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practices, including FRS 102, the Financial Reporting Standard in the United Kingdom and Republic of Ireland (“FRS 102”); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

Impax Environmental Markets plc’s financial statements comprise:

Company
Income Statement for the year then ended
Balance Sheet as at 31 December 2016
Statement of Changes in Equity for the year then ended
Statement of Cash Flows for the year then ended
Related notes 1 to 17 to the financial statements

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally accepted Accounting Practices) including FRS 102 the financial reporting standard applicable in the United Kingdom and Republic of Ireland.

Overview of our audit approach

Risks of material misstatement	• Incorrect valuation of the unquoted investment portfolio. • Incomplete or inaccurate income recognition through failure to recognise proper income entitlements or to apply the appropriate accounting treatment for recognition of dividends and fixed interest income.
Audit scope	• We performed an audit of the complete financial information of Impax Environmental Markets Plc.
Materiality	• Overall materiality of £4,653,000 represents 1% of net assets.

Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Risk	Our response to the risk	Key observations we communicated to the Audit Committee
Incorrect valuation of the quoted and unquoted/illiquid investment portfolio The investment portfolio at the year-end comprised of quoted equity investments (level 1 and 2) of £472.5 million and unquoted investments of £10.8 million. The valuation of the assets held in the investment portfolio is the key driver of the Company's investment return. Incorrect asset pricing or a failure to maintain proper legal title of the assets held by the company could have a significant impact on portfolio valuation and, therefore, the return generated for shareholders.	**We performed the following procedures:** We compared all the year-end prices of quoted investments to an independent source. We have reviewed the applied methodologies on the valuation of the material unlisted investment to confirm it is consistent with FRS102 fair valuation principles. The one material unquoted investment is valued based on the price of a recent third party investment into the investee Company. We obtained evidence to support this price and considered whether it was indicative of fair value as at the year-end. We also obtained a third party valuation report that supports the valuation of this investment as at 31 December 2016. We agreed the number of shares held for each security to confirmations of legal title received from the Company's custodian BNP Paribas Securities Services and third party evidence.	We confirmed to the Audit Committee that we had not identified any variances greater than our tolerable error in agreeing the valuation of quoted investments to an independent pricing source. We confirmed that the valuation of the one material unquoted investment was within a reasonable range and the basis of valuing the investment was in accordance with valuation guidelines. With the exception of the above matters we had no other matters to report to the Audit Committee.
Incomplete or inaccurate revenue recognition The Company's investment income for the year amounted to £6.4m. The investment income receivable by the Company during the year directly drives the Company's ability to make dividend payments to shareholders. If the Company is not entitled to receive the income recognised in the financial statements, or the income recognised does not relate to the current financial year this will impact the extent of profits available to fund distributions to shareholders.	**We performed the following procedures:** We agreed a sample of dividends to the corresponding announcements made by the investee company and agreed cash received to bank statements. For the sample selected we confirmed that this sample did not include any special dividends and that these dividends had correctly been classified as revenue items. We agreed a sample of dividends paid by investee companies from an independent pricing source to the income report to test completeness. For a sample of dividends accrued at year end, we reviewed the investee company announcements to assess whether the dividend obligation arose prior to 31 December 2016. We agreed a sample of dividends to post year end bank statements to assess the recoverability of these amounts.	Based on the work performed we had no matters to report to the Audit Committee.

The scope of our audit

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determines our audit scope for the Company. Taken together, this enables us to form an opinion on the financial statements. We take into account size, risk profile, changes in the business environment, the organisation of the Company and effectiveness of company-wide controls, and other factors such as recent Service Organisation Control ('SOC') reporting when assessing the level of work to be performed.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the entity to be £4.6m (2015: £3.7m), which is 1% (2015: 1%) of Total Equity. We have used total equity as the basis for setting materiality since it is the basis for the key measurement of the Company's performance.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2015: 75%) of our planning materiality, namely £3.5m (2015: £2.8m). We have set performance materiality at this percentage due to our past experience of the audit that indicates a lower risk of misstatements, both corrected and uncorrected.

Given the importance of the distinction between revenue and capital for the Company we have also applied a separate testing threshold of £229k (2015: £188k) for the revenue column of the Statement of Comprehensive Income, being 5% of the return on ordinary activities before taxation.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit and Management Engagement Committee that we would report to them all uncorrected audit differences in excess of £232k (2015: £189k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 26, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

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.
- Based on the work undertaken in the course of the audit:
  - the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
  - the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Independent Auditor's Report to the members of Impax Environmental Markets plc continued

Matters on which we are required to report by exception

ISAs (UK and Ireland) reporting	We are required to report to you if, in our opinion, financial and non-financial information in the annual report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or • otherwise misleading. In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the annual report appropriately addresses those matters that we communicated to the audit committee that we consider should have been disclosed.	We have no exceptions to report.
Companies Act 2006 reporting	In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report. 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.	We have no exceptions to report.
Listing Rules review requirements	We are required to review: • the directors' statement in relation to going concern set out on page 16, and longer-term viability, set out on page 10; and • the part of the Corporate Governance Statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review.	We have no exceptions to report.

Statement on the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the entity

ISAs (UK and Ireland) reporting	We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to: • the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity; • the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated; • the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and • the directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Sue Dawe (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London

6 April 2017

Notes

1. The maintenance and integrity of the Impax Environmental Markets plc's web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income Statement

	Notes	Year ended 31 December 2016 Revenue £'000	Capital £'000	Total £'000	Year ended 31 December 2015 Revenue £'000	Capital £'000	Total £'000
Gains/(losses) on investments	13	–	125,251	125,251	–	19,167	19,167
Income	2	6,360	–	6,360	5,258	–	5,258
Investment management fees	3	(955)	(2,866)	(3,821)	(872)	(2,619)	(3,491)
Other expenses	3	(731)	–	(731)	(650)	–	(650)
Return on ordinary activities before finance costs and taxation		**4,674**	**122,385**	**127,059**	**3,736**	**16,548**	**20,284**
Finance costs	5	(128)	(383)	(511)	(139)	(417)	(556)
Return on ordinary activities before taxation		**4,546**	**122,002**	**126,548**	**3,597**	**16,131**	**19,728**
Taxation	6	(626)	–	(626)	(465)	–	(465)
Return on ordinary activities after taxation		**3,920**	**122,002**	**125,922**	**3,132**	**16,131**	**19,263**
Return per Ordinary Share	7	1.99p	61.91p	63.90p	1.45p	7.46p	8.91p

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.

'Return on ordinary activities after taxation' is also the 'Total comprehensive income for the period'.

The notes on pages 35 to 45 form part of these accounts.

Balance Sheet

	Notes	As at 31 December 2016 £'000	As at 31 December 2015 £'000
Fixed assets			
Investments at fair value through profit and loss	9	483,366	399,045
Current assets			
Income receivable		97	124
Sales awaiting settlement		–	99
Taxation recoverable		129	214
Other debtors		5	85
Cash at bank and in hand		13,099	3,294
		13,330	**3,816**
Creditors: amounts falling due within one year			
Purchases awaiting settlement		(414)	–
Accrued liabilities	10	(593)	(906)
		(1,007)	**(906)**
Net current assets		**12,323**	**2,910**
Total assets less current liabilities		**495,689**	**401,955**
Creditors: amounts falling due after more than one year			
Bank loan	11	(30,434)	(30,357)
Total net assets		**465,255**	**371,598**
Capital and reserves: equity			
Share capital	12	23,682	25,380
Share premium account		16,035	16,035
Capital redemption reserve		8,769	7,071
Share purchase reserve		120,597	149,988
Capital reserve	13	289,608	167,606
Revenue reserve		6,564	5,518
Shareholders' funds		**465,255**	**371,598**
Net assets per Ordinary Share	14	243.43p	178.57p

Approved by the Board of directors and authorised for issue on 6 April 2017 and signed on their behalf by:

Julia Le Blan
Director

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

The notes on pages 35 to 45 form part of these accounts.

Statement of Changes in Equity

For the year ended 31 December 2016	Notes	Share Capital £'000	Share Premium Account £'000	Capital Redemption Reserve £'000	Share Purchase Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Total £'000
Opening equity as at 1 January 2016		**25,380**	**16,035**	**7,071**	**149,988**	**167,606**	**5,518**	**371,598**
Share buybacks	12	(1,698)	–	1,698	(29,391)	–	–	(29,391)
Dividend paid	8	–	–	–	–	–	(2,874)	(2,874)
Profit for the year		–	–	–	–	122,002	3,920	125,922
Closing equity as at 31 December 2016		**23,682**	**16,035**	**8,769**	**120,597**	**289,608**	**6,564**	**465,255**

For the year ended 31 December 2015	Notes	Share Capital £'000	Share Premium Account £'000	Capital Redemption Reserve £'000	Share Purchase Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Total £'000
Opening equity as at 1 January 2015		**26,577**	**16,035**	**5,874**	**168,310**	**151,475**	**5,429**	**373,700**
Share buybacks	12	(1,197)	–	1,197	(18,322)	–	–	(18,322)
Dividend paid	8	–	–	–	–	–	(3,043)	(3,043)
Profit for the year		–	–	–	–	16,131	3,132	19,263
Closing equity as at 31 December 2015		**25,380**	**16,035**	**7,071**	**149,988**	**167,606**	**5,518**	**371,598**

The notes on pages 35 to 45 form part of these accounts.

Statement of Cash Flows

	Notes	As at 31 December 2016 £'000	As at 31 December 2015 £'000
Operating activities			
Return on ordinary activities before finance costs and taxation*		127,059	20,284
Less: Tax deducted at source on income from investments		(626)	(465)
Add: Realisation of investments at book cost		93,453	130,394
Less: Purchase of investments		(87,844)	(138,980)
Adjustment for (gains)/losses on investments held		(89,930)	7,640
Foreign exchange non cash flow losses		2,394	876
Decrease/(increase) in debtors		327	(197)
Increase/(decrease) in creditors		428	(4)
Net cash flow from operating activities		**45,261**	**19,548**
Financing activities			
Bank loan repaid		(2,353)	(1,494)
Finance costs paid		(838)	(575)
Share buybacks		(29,391)	(18,322)
Equity dividends paid	8	(2,874)	(3,043)
Net cash flow used in financing		**(35,456)**	**(23,434)**
Increase/(decrease) in cash		**9,805**	**(3,886)**
Opening balance at 1 January		**3,294**	**7,180**
Balance at 31 December		**13,099**	**3,294**

*Cash inflow from dividends was £6,471,000.

The notes on pages 35 to 45 form part of these accounts.

Notes to the Financial Statements

1 Accounting policies

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

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') including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' 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 November 2014.

Amounts in the accounts have been rounded to the nearest £'000 unless otherwise stated.

(b) Investments

Securities of companies quoted on regulated stock exchanges and the Company's holdings in unquoted companies have been classified as 'at fair value through profit or loss' and are initially recognised on the trade date and measured at fair value in accordance with sections 11 and 12 of FRS 102. 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.

(c) Reporting currency

The accounts are presented in sterling which is the functional currency of the Company. Sterling is the reference currency for this UK registered and listed company.

(d) 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.

(e) Capital reserves

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.

Foreign exchanges gains and losses and expenses which are attributable to capital are charged to the capital column of the Income Statement and allocated to the capital reserve.

(f) Expenses

All expenses are accounted for on an accruals basis. Expenses are recognised through the Income Statement as revenue items except as follows:

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 are charged as a capital item in the Income Statement.

Finance costs

Finance costs include interest payable and direct loan costs. In accordance with Directors' expectation of the split of future returns, three quarters of finance costs are charged as capital items in the Income Statement. Loan arrangement costs are amortised over the term of the loan.

Transaction costs

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

(g) Taxation

Irrecoverable taxation on dividends is recognised on an accruals basis in the Income Statement.

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the financial reporting date, where transactions or events that result in an obligation to pay more tax in the future or right to pay less tax in the future have occurred at the financial reporting date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the timing differences can be deducted. Deferred tax assets and liabilities are measured at the rates applicable to the legal jurisdictions in which they arise.

1 Accounting policies continued

(h) 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. Monetary assets and liabilities and financial instruments carried at fair value denominated in foreign currency 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.

(i) Financial liabilities

Bank loans and overdrafts are measured at amortised cost. They are initially recorded at the proceeds received net of direct issue costs.

(j) Estimates and assumptions

The preparation of financial statements requires the directors to make estimates and assumptions that affect items reported in the Balance Sheet and Income Statement. Although these estimates are based on management's best knowledge of current facts, circumstances and, to some extent, future events and actions, the Company's actual results may ultimately differ from those estimates, possibly significantly.

The assumptions regarding the valuation of unquoted financial instruments are disclosed in note 16.

2 Income

	2016 £'000	2015 £'000
Income from investments		
Dividends from UK listed investments	611	800
Dividends from overseas listed investments	5,749	4,458
Total income	**6,360**	**5,258**

3 Fees and expenses

	2016			2015		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fees	955	2,866	3,821	872	2,619	3,491
Secretary and administrator fees	185	–	185	180	–	180
Depositary and custody fees	151	–	151	115	–	115
Directors' fees	107	–	107	102	–	102
Directors' other employment costs	13	–	13	15	–	15
Broker retainer	19	–	19	34	–	34
Auditor's remuneration						
– for audit services	29	–	29	27	–	27
– other assurance services*	–	–	–	7	–	7
Association of Investment Companies	21	–	21	12	–	12
Registrar's fees	34	–	34	30	–	30
Marketing fees	52	–	52	35	–	35
FCA and listing fees	25	–	25	22	–	22
Other expenses	95	–	95	71	–	71
	731	–	731	650	–	650
Total expenses	**1,686**	**2,866**	**4,552**	**1,522**	**2,619**	**4,141**

*Fees payable to the Auditor, no fees were payable for other services. In the year ended 31 December 2015 £7,000 was payable to the Auditor in relation to taxation compliance services.

The main terms of the management agreement are summarised in the Directors' Report on page 15.

4 Directors' fees

Fees payable to the directors were: £33,000 to the Chairman, £26,500 to the Chairman of the Audit Committee and £22,000 to the other directors. There were no other emoluments. Employers' National Insurance upon the fees is included as appropriate in directors' other employment costs under note 3.

Further detail on directors' fees in the year is provided in the Directors' Remuneration Implementation Report on page 22.

5 Finance costs

	2016			2015		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Interest charges	123	365	488	135	406	541
Direct loan costs	5	18	23	4	11	15
	128	**383**	**511**	**139**	**417**	**556**

6 Taxation

(a) Analysis of charge in the year:

	2016			2015		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Overseas taxation	626	–	626	465	–	465
Taxation	626	–	626	465	–	465

(b) Factors affecting total tax charge for the year:

The total taxation charge for the year is lower than the standard rate of corporation tax in the UK of 20% applicable to the year ended 31 December 2016 (2015: 20.25%). These 2015 corporation tax rate is a blended rate as a result of changes in the standard rates of UK corporation tax during the years ended 31 December 2015. The standard rate UK corporation tax rate at 31 December 2016 was 20% (2015: 21%).

The differences are explained below:

	2016 £'000	2015 £'000
Total profit before tax per accounts	126,548	19,728
Corporation tax at 20% (2015: 20.25%)	25,310	3,994
Effects of:		
Non-taxable UK dividend income	(122)	(162)
Non-taxable overseas dividend income	(1,150)	(903)
Movement in unutilised management expenses	910	838
Movement on non-trade relationship deficits	102	113
Gains on investments not taxable	(25,050)	(3,881)
Overseas tax	626	465
Total tax charge for the year	**626**	**465**

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 and non-trade relationship deficits of £37,963,000 (2015: £32,900,000). 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 calculated using a tax rate of 18% (2015: 20%) amounts to £6,833,000 (2015: £6,580,000).

7 Return per share

Return per share is based on the net gain on ordinary activities after taxation of £125,922,000 comprising a revenue return of £3,920,000 and a capital return of £122,002,000 (2015: gain of £19,263,000 comprising a revenue return of £3,132,000 and a capital return of £16,131,000) attributable to the weighted average of 197,055,871 (2015: 216,297,621) Ordinary Shares of 10p in issue (excluding Treasury shares) during the year.

There is no dilution to return per share as the Company only has Ordinary Shares in issue.

8 Dividends

	2016 £'000	2015 £'000
Dividends reflected in the financial statements:		
Final dividend paid for the year ended 31 December 2015 of 1.45p (2014: 1.4p)	2,874	3,043
Dividends not reflected in the financial statements:		
Recommended ordinary dividend for the year ended 31 December 2016 of 1.95p (2015: 1.45p) per share	3,540	2,897

If approved at the Annual General Meeting, the dividend will be paid on 23 May 2017 to shareholders on the register as at the close of business on 28 April 2017.

9 Investments at fair value through profit and loss

	2016 £'000	2015 £'000
Analysis of closing balance:		
UK quoted securities	35,444	36,951
Overseas quoted securities	437,064	352,997
Overseas unquoted securities	10,858	9,097
Total investments	**483,366**	**399,045**
Movements during the year:		
Opening balance of investments, at cost	343,512	334,926
Additions, at cost	87,844	138,980
Disposals, at cost	(93,453)	(130,394)
Cost of investments at 31 December	**337,903**	**343,512**
Revaluation of investments to fair value:		
Opening balance of capital reserve – investments held	55,533	63,173
Gains/(Losses) on investments held	89,930	(7,640)
Balance of capital reserve – investments held at 31 December	145,463	55,533
Fair value of investments at 31 December	**483,366**	**399,045**

During the year, the Company incurred transaction costs on purchases totalling in aggregate £153,000 (2015: £190,000) and on disposals totalling in aggregate £163,000 (2015: £179,000). Transaction costs are recorded in the capital column of the Income Statement.

10 Accrued liabilities

	2016 £'000	2015 £'000
Finance costs payable	106	433
Other accrued expenses	487	473
Purchases awaiting settlement	414	–
	1,007	**906**

11 Bank loan

	2016 £'000	2015 £'000
Bank loan		
Between two and five years	30,434	30,357

The Company has a multi-currency revolving credit facility with The Royal Bank of Scotland plc. Under the terms of the facility the Company may draw down loans of, in aggregate, up to £30 million. As at 31 December 2016 loans of US$19,000,000 (2015: US$22,000,000) and £15,042,000 (2015: £15,425,000) were outstanding. The facility expires on 8 January 2019.

Interest is payable on amounts drawn down under the facility computed at the rate of LIBOR plus a margin of 1.00% per annum. A commitment fee computed at the rate of 0.25% per annum is payable on any amounts not drawn down under the facility.

12 Share capital

	As at 31 December 2016		As at 31 December 2015	
	Number	Authorised, issued and fully paid £'000	Number	Authorised, issued and fully paid £'000
Ordinary Shares of 10p:				
Opening Balance	253,799,129	25,380	265,765,373	26,577
Shares bought back in year	(16,978,525)	(1,698)	(11,966,244)	(1,197)
Closing balance	**236,820,604**	**23,682**	**253,799,129**	**25,380**

At the year end 45,698,109 (2015: 45,698,109) of the above Ordinary Shares were held in Treasury. The number of shares in issue (excluding shares held in Treasury) as at 31 December 2016 was 191,122,495 Ordinary Shares (2015: 208,101,020).

Ordinary Share buybacks

During the year, the Company bought back for cancellation 16,978,525 (2015: 11,966,244) Ordinary Shares for an aggregate cost of £29,391,000 (2015: £18,322,000).

Since the year end a further 9,565,249 Ordinary Shares have been bought back and cancelled.

Other than in respect of shares held in Treasury there are no restrictions on the transfer of Ordinary Shares, nor are there any limitations or special rights associated with the Ordinary Shares.

13 Capital reserve

Disposal of investments

	2016 £'000	2015 £'000
Opening balance	112,073	88,302
Gains on disposal of investments	38,234	27,649
Net foreign exchange loss	(2,912)	(841)
Investment management fees charged to capital	(2,866)	(2,619)
Finance costs charged to capital	(383)	(417)
Balance at 31 December	**144,146**	**112,073**

Investments held

	2016 £'000	2015 £'000
Opening balance	55,533	63,173
Movement on valuation of investments held	89,929	(7,640)
Balance at 31 December	**145,462**	**55,533**
Capital reserve balance at 31 December	**289,608**	**167,606**

Gains on investments in year (per Income Statement)

	2016 £'000	2015 £'000
Gains on disposal of investments	38,234	27,649
Net foreign exchange loss	(2,912)	(841)
Movement of valuation of investments held	89,929	(7,640)
Gains on investments	**125,251**	**19,167**

14 Net asset value per Ordinary Share

Net asset value per Ordinary Share is based on net assets of £465,255,000 (2015: £371,598,000) divided by 191,122,495 (2015: 208,101,020) Ordinary Shares in issue (excluding shares held in Treasury) at the Balance Sheet date.

There is no dilution to net asset value per Ordinary Share as the Company has only Ordinary Shares in issue.

15 Related party transactions

Details of the management contract can be found in the Directors' Report on page 15. Fees payable to the Manager are detailed in note 3 on page 36; the relevant amount outstanding as an accrual at the year end was £354,000 (2015: £289,000). The directors' fees are disclosed in note 4 and the Directors' shareholdings are disclosed in the Directors' Remuneration Implementation Report on page 22.

The Manager's group has a holding in Ensyn which is an unquoted investment in the Company's portfolio. The Manager has procedures in place to mitigate any conflicts of interest from this investment.

16 Financial risk management

The principal components of financial risk management cover the areas of market risks, credit risks, liquidity risks and capital management. These metrics are monitored by the AIFM. Each risk and its management is summarised below.

Market risks

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

(i) Currency risk

The Company invests in global equity markets and therefore is exposed to currency risk as it affects the value of the shares in the base currency. These currency exposures are not hedged. The Manager monitors currency exposure as part of its investment process. Currency exposures for the Company as at 31 December 2016 are detailed in the table at the end of this note.

Currency sensitivity

The below table shows the strengthening/(weakening) of sterling against the local currencies over the financial year for the Company's financial assets and liabilities held at 31 December 2016.

	2016 % change[1]	2015 % change[1]
Australian Dollar	(18.2%)	5.6%
Canadian Dollar	(22.7%)	11.2%
Danish Krone	(16.2%)	5.3%
Euro	(15.8%)	5.0%
Hong Kong Dollar	(19.3%)	(5.8%)
Japanese Yen	(23.0%)	(5.4%)
Korean Won	(16.3%)	1.8%
Norwegian Krone	(22.5%)	10.5%
Swedish Krona	(11.1%)	2.5%
Swiss Franc	(17.3%)	(5.1%)
Thai Baht	(22.3%)	(1.1%)
Taiwanese Dollar	(20.0%)	(1.1%)
US Dollar	(19.4%)	(5.8%)

1. Percentage change of Sterling against local currency from 1 January 2016 to 31 December 2016.

16 Financial risk management continued

Based on the financial assets and liabilities at 31 December 2016 and all other things being equal, if sterling had strengthened against the local currencies by 10%, the impact on the profit after taxation for the year ended 31 December 2016 and the Company's net assets at 31 December 2016 would have been as follows:

	2016 Potential effect £'000	2015 Potential effect £'000
Australian Dollar	(997)	(669)
Canadian Dollar	(536)	(334)
Danish Krone	(551)	(426)
Euro	(6,950)	(5,525)
Hong Kong Dollar	(2,937)	(2,446)
Japanese Yen	(2,766)	(2,605)
Korean Won	(933)	(491)
Norwegian Krone	(1,628)	(1,590)
Swedish Krona	(773)	(788)
Swiss Franc	(882)	(674)
Taiwanese Dollar	(974)	(578)
Thai Baht	(785)	–
US Dollar	(24,080)	(20,085)
Total	**(44,792)**	**(36,211)**

Based on the financial assets and liabilities at 31 December 2016 and all other things being equal, if sterling had weakened against the local currencies by 10%, the impact on the profit after taxation for the year ended 31 December 2016 and the Company's net assets at 31 December 2016 would have been as follows:

	2016 Potential effect £'000	2015 Potential effect £'000
Australian Dollar	997	669
Canadian Dollar	536	334
Danish Krone	551	426
Euro	6,950	5,525
Hong Kong Dollar	2,937	2,446
Japanese Yen	2,766	2,605
Korean Won	933	491
Norwegian Krone	1,628	1,590
Swedish Krona	773	788
Swiss Franc	882	674
Taiwanese Dollar	974	578
Thai Baht	785	–
US Dollar	24,080	20,085
Total	**44,792**	**36,211**

16 Financial risk management continued

(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, typically, UK Treasury Bills when large amounts of cash are held.

The Company had two bank loans in place during the year. The loan interest is based on a variable rate. A change of 25 basis points in interest rates at the reporting date would have increased/(decreased) the profit or loss by the amounts shown below. The analysis assumes that all other variables remain constant:

	Profit or loss	
	25 bps increase	25 bps decrease
31 December 2016		
USD bank loan	(£38,477)	£38,477
GBP bank loan	(£38,563)	£36,563

The interest rate on the loan is typically fixed for a period of 3 months. Prevailing interest rates are taken into account when deciding on the length of interest period.

(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 ACWI Index to which the Company has had an annualised tracking error of 8.2% over the ten year period to 31 December 2016. The historic 3-year (annualised) volatility of the Company to 31 December 2016 is 12.1%.

At the year end the Company held investments with an aggregate market value of £483,366,000 (2015: £399,045,000). All other things being equal, the effect of a 10% increase or decrease in the share prices of the investments held at the year end would have been an increase or decrease of £48,336,600 (2015: £39,904,500) in the profit after taxation for the year ended 31 December 2016 and the Company's net assets at 31 December 2016.

Overall sensitivity

The Manager has used the Axioma World-Wide Fundamental Equity Risk Model to calculate value at risk ('VAR'). This model has been used to estimate the maximum expected loss from the portfolio held at 31 December 2016 over 1 day, 5 day, 10 day and 21 day 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	1.0	1.3	1.9
5 day return	2.3	2.9	4.1
10 day return	3.2	4.1	5.9
21 day return	4.7	6.0	8.5

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 2016.

The above results suggest, for example, that there is a 5% or less chance of the NAV falling by 2.9% or more over a 5 day period. Similarly, there is a 1% or less chance of the NAV falling by 1.9% or more on any given day.

16 Financial risk management continued

Credit risks

BNP Paribas Securities Services (the 'Depositary') has been appointed as custodian and depositary to the Company.

Cash at bank at 31 December 2016 included £3,199,000 (2015: £2,741,000) held in its bank accounts at the Depositary. The Company also held £9,900,000 (2015: £553,000) in its accounts with The Royal Bank of Scotland 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 credit risk on dividends receivable during the time between recognition of the income entitlement and actual receipt of dividend.

Substantially all of the assets of the Company at the year end were held by the Depositary or sub-custodians of the Depositary. Bankruptcy or insolvency of the Depositary or its sub-custodians may cause the Company's rights with respect to securities held by the Depositary to be delayed or limited. The Depositary segregates the Company's assets from its own assets and only uses sub-custodians on its approved list of sub-custodians. At the year end, the Depository held £472,508,000 in respect of quoted investments and £13,099,000 in respect of cash on behalf of the Company.

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 counterparty 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 3 Month Average Liquidities of each investment and assuming 20% of the daily traded volume.

As shown in the quantitative analysis below, on 31 December 2016, 4.9% of the portfolio by value (excluding unquoted investments) might have taken more than three months to be realised.

Quantitative disclosures

As described above, the Manager has carried out a maturity analysis of the Company's quoted investments at 31 December 2016 and the results for different time bands are reported as follows:

Percentage of portfolio by value that could be liquidated in one week	71%
Percentage of portfolio by value that could be liquidated in one month	90%
Percentage of portfolio by value that could be liquidated in three months	95%
Percentage of portfolio by value that could be liquidated in one year	97%

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 4 unquoted companies with an aggregate total value of £10,858,000 (2015: £9,097,000); these investments have been valued at fair value at the year end.

Financial liabilities by maturity at the year end are shown below:

	2016 £'000	2015 £'000
Less than one year	1,007	906
Between one and two years	–	–
Between two and five years*	30,434	30,357
	31,441	**31,263**

*Bank loans.

16 Financial risk management continued

Classification of financial instruments

FRS 102 (see note 13) requires that the classification of financial instruments be valued by reference to the source of inputs used to derive the fair value. The Company has early adopted the fair value hierarchy disclosures as set out in the March 2016 amendment to FRS 102 classifications and their descriptions are below:

Level 1

The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2

Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3

Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

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

	2016				2015			
	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	466,921	5,587	–	472,508	384,138	5,810	–	389,948
– Unquoted	–	–	10,858	10,858	–	–	9,097	9,097
	466,921	**5,587**	**10,858**	**483,366**	**384,138**	**5,810**	**9,097**	**399,045**

*Level 2 investments detailed above are holdings in companies with no quoted prices. There are held through broker participatory notes. As at 31 December 2016 and 31 December 2015 the Company held one investment, Thermax (India), through a participatory note.

The valuation of level 3 investments is based on unobservable inputs.

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

	2016 £'000	2015 £'000
Opening balance at 1 January	9,097	10,913
Additions during the year	–	–
Disposals during the year	–	–
Foreign exchange movement	1,761	(1,816)
Closing balance at 31 December	**10,858**	**9,097**

Unquoted investments are valued using relevant financial data available on those investments and applying International Private Equity and Venture Capital guidelines. This includes, where appropriate, consideration of price of recent market transactions, earnings multiples, discounted cash flows, net assets and liquidity discounts. The value of the Company's holding in Ensyn has been valued at a discount to a recent transaction and translated into sterling at 31 December 2016.

16 Financial risk management continued

Financial assets and liabilities

All liabilities carrying amount approximates fair value.

The Company's financial assets and liabilities at 31 December 2016 comprised:

	2016			2015		
	Interest bearing £'000	Non-interest bearing £'000	Total £'000	Interest bearing £'000	Non-interest bearing £'000	Total £'000
Investments						
Australian Dollar	–	9,965	9,965	–	6,688	6,688
Canadian Dollar	–	5,359	5,359	–	3,336	3,336
Danish Kroner	–	5,512	5,512	–	4,264	4,264
Euro	–	69,502	69,502	–	55,249	55,249
Hong Kong Dollar	–	29,371	29,371	–	24,455	24,455
Japanese Yen	–	27,664	27,664	–	26,046	26,046
Korean Won	–	9,330	9,330	–	4,907	4,907
Norwegian Kroner	–	16,282	16,282	–	15,895	15,895
Sterling	–	35,444	35,444	–	36,950	36,950
Swedish Kroner	–	7,732	7,732	–	7,877	7,877
Swiss Franc	–	8,817	8,817	–	6,743	6,743
Taiwanese Dollar	–	9,743	9,743	–	5,782	5,782
Thai Baht	–	7,846	7,846	–	–	–
US Dollar	–	240,799	240,799	–	200,853	200,853
	–	**483,366**	**483.366**	**–**	**399,045**	**399,045**
Cash at bank						
Floating rate – £ sterling	13,099	–	13,099	3,294	–	3,294
Short term debtors	–	231	231	–	522	522
Short term creditors	–	(1,007)	(1,007)	–	(906)	(906)
Long term creditors	–	(30,434)	(30,434)	–	(30,357)	(30,357)
	–	**452,156**	**465,255**	**3,294**	**368,304**	**371,598**

Capital management

The Company considers its capital to consist of its share capital of Ordinary Shares of 10p each, its distributable reserves and its bank loan.

At 31 December 2016 there were 236,820,604 Ordinary Shares in issue (of these shares 45,698,109 were held in Treasury at the year end). (2015: 253,799,129 Ordinary Shares were in issue of these shares 45,698,109 were held in Treasury.)

The Company has a stated discount control policy. 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 (including the Company's discount control policy) can be found in the Directors' Report.

The Company bought back 16,978,525 (2015: 11,966,244) Ordinary Shares during the year.

Use of distributable reserves is disclosed in note 17.

The Company's policy on borrowings is detailed in the Directors' Report.

On 8 January 2014, the Company entered into a two year £30 million multi-currency revolving credit facility with The Royal Bank of Scotland plc. The facility has been extended to 8 January 2019. The Company is required to comply with various covenants contained in the facility agreement. In particular the loan to value ratio must not exceed 20% of the Company's adjusted portfolio value as described in the loan agreement with the bank. At 31 December 2016 the loan to value ratio was 6.3% (2015: 7.7%).

17 Distributable reserves

The Company's distributable reserves consist of the share purchase reserve, capital reserve and revenue reserve.

The Company currently pays dividends from the revenue reserve. Share buybacks are funded from the share purchase reserve.

10 Year Financial Record

As at 31 December	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net assets (£ millions)	393	305	394	453	345	341	386	374	372	465
Net asset value per Share[1]	128.3p	99.6p	127.2p	142.7p	117.0p	126.0p	167.9p	169.8p	178.6p	243.4p
Share price	128.9p	85.0p	119.1p	129.8p	95.8p	102.9p	150.0p	152.8p	160.0p	218.0p
Premium / (discount)[2]	0.5%	(14.7%)	(6.4%)	(9.0%)	(18.1%)	(18.3%)	(10.7%)	(10.2%)	(10.4%)	(10.4%)

Year ending 31 December	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net asset value return[3]	16.2%	-22.1%	28.4%	12.6%	-17.2%	8.5%	34.1%	1.7%	6.0%	37.3%
MSCI ACWI Index[4]	9.8%	-20.0%	19.9%	16.2%	-6.7%	11.0%	20.5%	10.6%	3.3%	28.7%
FTSE ET100[4,5]	69.4%	-37.1%	15.2%	-2.2%	-27.4%	1.2%	41.9%	4.1%	5.0%	21.9%
Revenue return per Share	0.5p	0.9p	0.8p	0.8p	1.0p	0.9p	1.3p	1.5p	1.5p	2.0p
Dividends paid	0.2p	0.3p	0.85p	0.75p	0.75p	0.9p	0.9p	1.2p	1.4p	1.45p
Ongoing charges[6]	1.3%	1.2%	1.1%	1.1%	1.1%	1.2%	1.1%	1.1%	1.1%	1.1%

Notes

1. Net asset value per Share is measured on a diluted basis in years 2006 to 2010 when warrants were in issue. Warrants were issued in the year ended 31 December 2005 with a subscription price of 96p per Share. The final subscription date was 15 June 2010.
2. Share price premium/(discount) to net asset value.
3. Total return (discrete annual returns) – source: Morningstar.
4. Net total return for MSCI indices and total return for FTSE indices (discrete annual returns).
5. ET50 data up until 31 December 2013 and then ET100 thereafter.
6. Total expense ratio up to and including 2011.

Total returns to 31 December 2016

	NAV	Share price	MSCI ACWI Index	FTSE ET100 Index[1]
1 year	37.3%	37.4%	28.7%	21.9%
2 years	45.5%	43.0%	32.9%	28.0%
3 years	48.0%	49.0%	47.0%	33.3%
4 years	98.5%	112.7%	77.2%	89.1%
5 years	115.5%	137.4%	96.8%	91.3%
6 years	77.2%	68.3%	83.7%	38.9%
7 years	99.9%	81.7%	113.4%	35.8%
8 years	158.4%	155.7%	155.8%	56.4%
9 years	100.0%	70.7%	104.7%	-1.55%
10 years	132.2%	102.4%	124.8%	66.8%

Notes

1. ET50 data up until 31 December 2013 and then ET100 thereafter.

All the above return figures are in sterling terms.

Glossary

AIC	Association of Investment Companies
Alternative Investment Fund or 'AIF'	An investment vehicle under AIFMD. Under AIFMD (see below) the Company is classified as an AIF.
Alternative Investment Fund Managers Directive or 'AIFMD'	A European Union directive which came into force on 22 July 2013 and has been implemented in the UK.
Annual General Meeting or 'AGM'	A meeting held once a year which shareholders can attend and where they can vote on resolutions to be put forward at the meeting and ask directors questions about the company in which they are invested.
Custodian	An entity that is appointed to safeguard a company's assets.
Discount	The amount, expressed as a percentage, by which the share price is less than the net asset value per share.
Depositary	Certain AIFs must appoint depositaries under the requirements of AIFMD. A depositary's duties include, inter alia, safekeeping of the Company's assets and cash monitoring. Under AIFMD the depositary is appointed under a strict liability regime.
Dividend	Income receivable from an investment in shares.
Ex-dividend date	The date from which you are not entitled to receive a dividend which has been declared and is due to be paid to shareholders.
Financial Conduct Authority or 'FCA'	The independent body that regulates the financial services industry in the UK.
Gearing	A way to magnify income and capital returns, but which can also magnify losses. A bank loan is a common method of gearing.
Index	A basket of stocks which is considered to replicate a particular stock market or sector.
Investment company	A company formed to invest in a diversified portfolio of assets.
Investment Trust	An investment company which is based in the UK and which meets certain tax conditions which enables it to be exempt from UK corporation tax on its capital gains. The Company is an investment trust.
Leverage	An alternative word for 'Gearing'. Under AIFMD, leverage is any method by which the exposure of an AIF is increased through borrowing of cash or securities or leverage embedded in derivative positions. Under AIFMD, leverage is broadly similar to gearing, but is expressed as a ratio between the assets (excluding borrowings) and the net assets (after taking account of borrowing). Under the gross method, exposure represents the sum of the Company's positions after deduction of cash balances, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash balances and after certain hedging and netting positions are offset against each other.
Liquidity	The extent to which investments can be sold at short notice.
Net assets	An investment company's assets less its liabilities.
Net asset value (NAV) per Ordinary Share	Net assets divided by the number of Ordinary shares in issue (excluding any shares held in treasury).
Ongoing charges	A measure, expressed as a percentage of average net assets, of the regular, recurring annual costs of running an investment company.
Ordinary Shares	The Company's ordinary shares in issue.
Portfolio	A collection of different investments held in order to deliver returns to shareholders and to spread risk.
Premium	The amount, expressed as a percentage, by which the share price is more than the net asset value per share.
Share buyback	A purchase of a company's own shares. Shares can either be bought back for cancellation or held in treasury.
Share price	The price of a share as determined by a relevant stock market.
Total return	A measure of performance that takes into account both income and capital returns.
Tracking error	A measure, expressed as a percentage, of how closely a portfolio follows an index over a period of time.
Treasury shares	A company's own shares which are available to be sold by a company to raise funds.
Value at Risk	A statistical technique used to measure and quantify the level of financial risk within a portfolio over a specific time frame.
Volatility	A measure of how much a share moves up and down in price over a period of time.

Notice of Annual General 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 16 May 2017 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 to 14 will be proposed as special resolutions.

1. To receive the Company's annual accounts for the year ended 31 December 2016, with the reports of the directors and auditors thereon.

2. To approve the Directors' Remuneration Implementation Report included in the Annual Report for the year ended 31 December 2016.

3. To elect Aine Kelly as a director of the Company, having been appointed by the Board of directors.

4. To re-elect Vicky Hastings as a director of the Company.

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

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

7. To re-elect John Scott 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 Meeting of the Company.

10. To approve a final dividend of 1.95p per Ordinary Share of the Company in respect of the year ended 31 December 2016.

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 £1,813,756 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 (excluding Treasury Shares) 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 2018 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 27,215,431 (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 2018 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 £1,813,756 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 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.

By order of the Board

Anthony Lee
Company Secretary

For and on behalf of

PraxisIFM Fund Services (UK) Limited
Registered Office:
Mermaid House
2 Puddle Dock
London, EC4V 3DB

6 April 2017

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.impaxenvironmentalmarkets.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 14 May 2017 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 Asset Services, PXS1, 34 Beckenham Road, Beckenham, BR3 4ZF at 2:30 p.m. on 14 May 2017 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 Asset Services no later than 48 hours before the rescheduled meeting.

On completing the Form of Proxy, sign it and return it to Capita Asset Services 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 proxy 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 a proxy's 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 14 May 2017 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 Asset Services 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 Asset Services, PXS1, 34 Beckenham Road, Beckenham, BR3 4ZF.

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.

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.

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.

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; or
- 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 227,255,355 Ordinary Shares of 10p each. Of these 45,698,109 are held in Treasury. Therefore the total number of Ordinary Shares with voting rights is 181,557,246. 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 Asset Services' shareholder helpline (lines are open from 9:00 a.m. to 5:30 p.m. Monday to Friday, excluding public holidays):

  (i) From UK: 0871 664 0300 (calls cost 12p per minute plus network extras);

  (ii) From Overseas: +44 371 664 0300 (calls from outside the UK are charged at applicable international rates); or
- in writing to Capita Asset Services.

You may not use any electronic address provided either in this notice of meeting or in any related documents (including the Form of Proxy for this meeting) to communicate with the Company for any purposes other than those expressly stated.

Form of Proxy

Impax Environmental Markets plc

I/We .... of .... (BLOCK CAPITALS PLEASE)

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

.... of ....

as my/our proxy and, on a poll, to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at Norfolk House, 31 St James Square, London SW1Y 4JR on 16 May 2017 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 2016.	☐	☐	☐	☐
2. To approve the directors' remuneration implementation report.	☐	☐	☐	☐
3 To elect Aine Kelly as a director.	☐	☐	☐	☐
4. To re-elect Vicky Hastings as a director.	☐	☐	☐	☐
5. To re-elect Julia Le Blan as a director.	☐	☐	☐	☐
6. To re-elect William Rickett as a director.	☐	☐	☐	☐
7. To re-elect John Scott 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 approve a final dividend of 1.95p per Ordinary Share.	☐	☐	☐	☐
11. To give authority to allot new shares.	☐	☐	☐	☐
12. To give authority for the Company to purchase its 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 2017

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 Asset Services, PXS1, 34 Beckenham Road, Beckenham, BR3 4ZF 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.

Your completed and signed proxy form should be posted, in the enclosed reply paid envelope, to the Company's Registrars, Capita Asset Services, PXS1, 34 Beckenham Road, Beckenham BR3 4ZF, so as to arrive before 2.30 p.m. on 14 May 2017 (48 hours prior to the Annual General Meeting).

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Directors, Manager and Advisers

Directors
John Scott, DL (Chairman)
Vicky Hastings
Julia Le Blan
Aine Kelly
William Rickett, CB

Broker
Canaccord Genuity Limited
9th Floor
88 Wood Street
London EC2V 7QR

Depositary and custodian
BNP Paribas Securities Services
10 Harewood Avenue
London NW1 6AA

Registrar
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Banker
The Royal Bank of Scotland Plc
280 Bishopsgate
London EC2M 4RB

Investment Manager
Impax Asset Management (AIFM) Limited
Norfolk House
31 St James's Square
London SW1Y 4JR

Registered office*
Mermaid House
2 Puddle Dock
London EC4V 3DB

Secretary and administrator
PraxisIFM Fund Services (UK) Limited
Mermaid House
2 Puddle Dock
London EC4V 3DB

Auditors
Ernst & Young LLP
25 Churchill Place
Canary Wharf
London E14 5EY

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