ENERGY & WATER

Premier Energy and Water Trust PLC

annual report & accounts

for the year ended

31 December 2009

2009

PREMIER

ASSET MANAGEMENT

Investment objectives

The Company's investment objectives are to achieve a high income from its portfolio and to realise long-term growth in the capital value of the portfolio. The Company will seek to achieve these objectives by investing principally in the equity and equity related securities of companies operating primarily in the energy and water sectors, as well as other infrastructure investments.

WINNER OF THE BEST HIGH INCOME SECURITY AWARD IN THE MONEY OBSERVER INVESTMENT TRUST AWARDS 2009

Contents

Registered in England No. 4897881

A member of the Association of Investment Companies

Company highlights

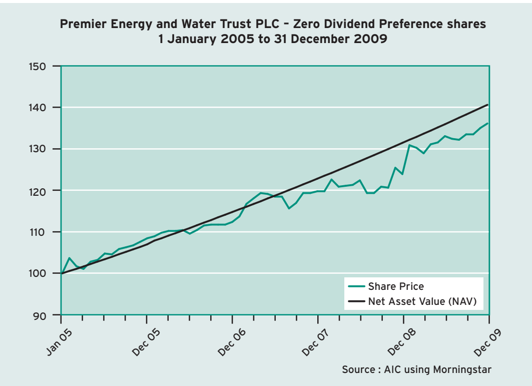
Total return performance

	% change
Total assets[1]	**+12.7%**
FTSE Global Utilities Total Return Index[2] (£)	**-1.8%**
FTSE All World Total Return Index[2] (£)	**+21.2%**
FTSE 100 Total Return Index[2]	**+27.3%**

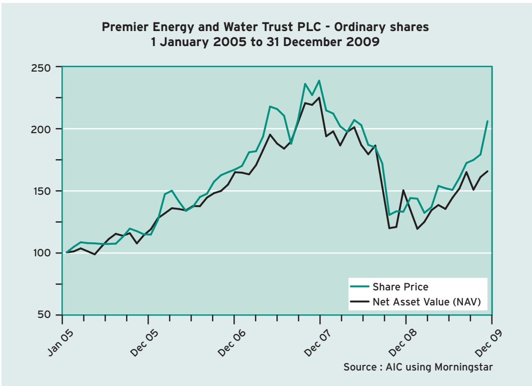
Share price and NAV[3] returns

		31 December 2009	31 December 2008	% change
Zero Dividend Preference share	NAV	**151.73p**	141.86p	**+7.0%**
	Mid price	**156.25p**	142.25p	**+9.8%**
Ordinary share	NAV	**192.87p**	180.78p	**+6.7%**
	Mid price	**187.25p**	126.00p	**+43.8%**
Net revenue per Ordinary share		**9.63p**	8.46p	
Net dividends declared per Ordinary share	Base	**7.70p**	7.35p	
	Special	**1.70p**	–	
	Total	**9.40p**	7.35p	

Zero Dividend Preference shares
5 Year Performance to 31 December 2009 (rebased to 100)



Ordinary shares
5 Year Performance to 31 December 2009 (rebased to 100)



Source: Fundamental Data (all rights reserved).

[1] *Total return performance, adjusted for any dividends distributed and for the tender offers and associated costs in 2009.*

[2] *Source: Bloomberg.*

[3] *Calculated in accordance with FRS21.*

Company summary

Launch Date	4 November 2003	
Domiciled	UK	
Year-end	31 December	
Shareholders' Funds	£50.06 million	
Market Capitalisation	£50.06 million	
Bank Loan	Nil	
Zero Dividend Preference shares	16,336,396: aiming to redeem at 221.78p on 31 December 2015	
Ordinary shares	13,103,065	
Dividends	Paid on Ordinary shares	
Dividend History	In respect of year ended 31 December	Total dividends declared
	2009	9.40p#
	2008	7.35p
	2007	7.00p
	2006	6.90p
	2005	6.75p
	2004	7.875p*
Investment Manager	Premier Fund Managers Limited	
Management Fee	1.0% per annum, charged 100% to revenue, plus performance fee, allocated between capital and revenue based on the out-performance attributable to capital and revenue respectively	
AIC	Member of the Association of Investment Companies	

** This dividend was for the 14 month period from launch, representing an annualised dividend of 6.75p.*

 # Includes a special dividend of 1.70p.

Financial Calendar

Company's year-end	31 December
Annual results announced	early March
Annual General Meeting	21 April 2010
Company's half-year end	30 June
Half-year results announced	early August
Dividend payments	quarterly at the end of March, June, September and December

Chairman's statement

for year to 31 December 2009

Overview of the year

The year ended 31 December 2009 has been one of the most difficult periods for the global economy in recent times. The weakening of global demand together with an unprecedented level of fiscal stimulus has caused short term interest rates to fall virtually to zero while the rescue of the global banking sector has drained public coffers. The UK's rescue package will raise domestic debt levels to over 50% of GDP and there has been speculation – ill founded we believe – that this could threaten Britain's triple A credit rating. During the course of the crisis the UK economy contracted by around 3.2% while the UK budget deficit has grown to around 11% of GDP. It is clear that recovery from recession will take many years and will place an enormous burden on the public and private sectors.

Despite this ongoing stream of negative economic news, global stock markets fared relatively well during 2009, albeit from a very low base. However, the Utility sectors lagged the main markets' performance, as they are generally late beneficiaries of economic recovery.

For the second year running the Company has been voted the winner of the Best High Income Security Award in the Money Observer Investment Trust Awards.

Performance

This report deals with the performance of the Company from the 1 January 2009 to 31 December 2009. The performance figures have been adjusted for the reorganisation of the Company, successfully undertaken towards the end of the year. Over this period the total asset return of your Company increased by 12.7% to £50.1m (adjusted for the tender offers and associated costs in 2009). Your Company does not have any formal benchmarks but rather provides investors with a range of indices against which performance may be assessed. Over the same period the FTSE 100 Index total return was 27.3% whilst the FTSE All World Index total return was 21.2%. By contrast the FTSE Global Utilities Index total return was a negative of 1.8%. The mid price of the Company's Ordinary shares at 31 December 2009 was 187.25p compared to 126.00p at 31 December 2008, an increase of 43.8%.

The Company's capital structure is comprised of Ordinary and Zero Dividend Preference ("ZDP") shares. The ZDP shares are entitled to a predetermined capital sum of 221.78p at the anticipated wind up date of the Company being 31 December 2015. As a consequence the rise or fall in assets attributable to the Ordinary shares is geared by this prior entitlement. Over the period net assets attributable to Ordinary shares rose from £24.2m to £25.3m after allowing for the costs of the capital reorganisation. As a result net asset value per Ordinary share rose from 180.78p to 192.87p, an increase of 6.7%. Net asset value per ZDP share rose from 141.86p to 151.73p.

Since the Company's inception on 3 November 2003 to 31 December 2009 the FTSE 100 Index has produced a total return of 52.26% (source: Bloomberg). Over the same period the total assets of your Company have produced a total return of 102.85% whilst total return on your Company's Ordinary shares (measured by increase in net asset value together with dividends paid) is 147.0%.

Tender Offer and life extension

On 18 December 2009 your Company announced that its shareholders had voted in favour of a tender offer and life extension. Thus your Company will continue, to 31 December 2015, with a broadly similar capital structure to that which was put in place at launch in November 2003. The new final entitlement per ZDP share will be 221.78p representing an accrual rate of 6.53%, one of the lowest in the split capital investment trust sector. Total assets of your Company following the reconstruction were just under £50m.

Chairman's statement

continued

Dividends

During the course of the year total income from the Company's investment portfolio together with interest on cash deposits totalled £2.6m which compares to total income received last year of £2.8m. In addition, in 2009 the Company recovered VAT on past management fees (including interest) of £0.6m, and £0.3m of this amount has been allocated to revenue.

The tender and matching purchase facility completed in December 2009 has resulted in a reduction in the number of Ordinary shares in issue which has increased the earnings per share in the final quarter of 2009. This, together with the VAT recovery, has enabled the Board to pay a special dividend of 1.70p (2009: nil) per Ordinary share as part of the fourth interim dividend for the year ended 31 December 2009 in addition to the base dividend of 3.20p (2009: 2.85p) per Ordinary share making a total of 4.90p per Ordinary share. This dividend will be paid on 31 March 2010 to shareholders on the register as at the close of business on 12 March 2010.

The shares will be marked ex-dividend on 10 March 2010. This means total dividends paid in respect of the year ended 31 December 2009 will be 7.70p per Ordinary share plus the special dividend of 1.70p (2009: nil) per Ordinary share making a total of 9.20p (2008: 7.35p). This represents an increase in the base dividend of 4.8%.

Shareholder relations

The Board and our Investment Manager welcome contact with both the Company's existing shareholders and with potential new shareholders. The Investment Manager has met with the Company's larger shareholders during the process of change of capital structure and life extension. However, the Company's AGM is on 21 April 2010 and it is hoped that shareholders will be able to attend on this date.

Outlook

For the remainder of 2010 it is likely that world economic recovery will be maintained from a low base. Growth will be erratic, against a background of continued low interest rates and other measures such as quantitative easing. The rescue of the banking sector has left governments and ultimately taxpayers with a debt legacy that, without a period of inflation, will take a generation to clear. In this environment energy and water stocks look well placed, particularly those in emerging markets where economic growth has been more sustained. Demand for power in many of these economies has remained high – in China and India for example – whilst in Western economies the sector's growth will accelerate as a result of the move to a low carbon economy. Balance sheets are in reasonable health and able to fund this growth. In addition dividends from these companies should continue to rise, albeit more modestly than in the past. Therefore while the structural imbalances present in many developed economies have still to be fully addressed, the sectors in which your Company invests are well placed to sustain future growth.

Geoffrey Burns
Chairman
8 March 2010

Investment manager's report

for the period 1 January to 31 December 2009

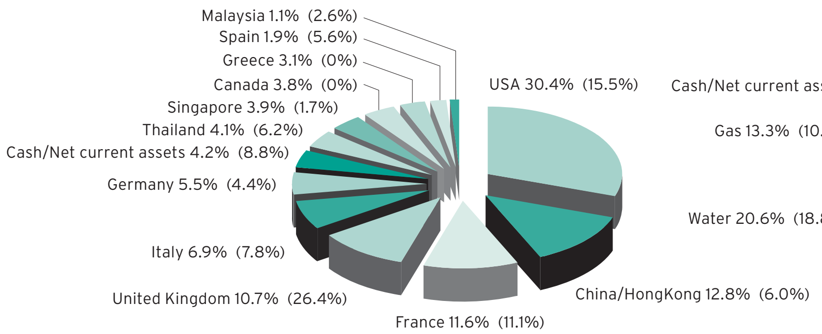
Overview

Utilities lagged the wider stock market recovery during 2009 primarily because of falling power prices and reduced demand for electricity. As a result the Global Utilities Index returned a negative 1.8% in sterling terms over the period, compared with a positive total return of 27.3% from the FTSE100. However, energy demand is now stabilising and power prices are coming off their lows. While there is little evidence of actual power demand recovery in the US or Europe to date, both China and India continue to show strong advances in line with their continued economic growth. Against a background of significant underperformance by the utilities sector, the Company's total asset return, due largely to stock selection, was a positive 12.7%.

Portfolio Activity

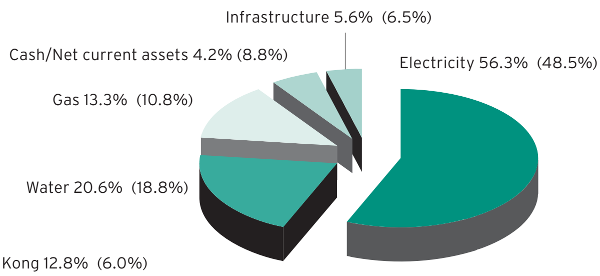
The geographic weightings within the portfolio have shifted markedly over the period under review, from the UK (which has more than halved to just over 10%) to the US and China in particular (which have both more than doubled to 30.4% and 12.8% respectively). The European portion of the portfolio has remained broadly unchanged, although there have been some shifts in country emphasis within the region, most notably a reduction in the weighting in Spain. This followed the sale of **Iberdrola**, in light of the increasing competition in Iberian thermal generation, partly the result of weak demand.

Geographical allocation at 31 December 2009



2008 comparative % figures shown in brackets.

Asset allocation at 31 December 2009



2008 comparative % figures shown in brackets.

In terms of sub sectors, electricity, water and gas were all increased as the portfolio's legacy position in telecoms was completely wound down. Infrastructure holdings (Asian toll roads) were increased at the end of the period – the Company now holds four toll roads – to take advantage of the growing availability of funding for large capital projects, as the credit markets open up again. The most recent additions were **Hopewell Highway** (which operates the Guangdong-Shenzhen superhighway and is bidding for a stake in the Hong Kong-Zhuhai-Macau Bridge) and **Zheijang Expressway**. These two stocks yield 7% and 5% respectively and complement the Company's existing holdings in **Jiangsu Expressway** and **Bangkok Expressway**.

Another key long term theme for the portfolio is the provision of water, where ageing infrastructure in developed countries and growing demand for water resource in emerging economies mean that immense opportunities exist for specialist companies in this area. In the US the Company now has holdings in **Aqua America**, which has recently undergone two favourable rate cases (reviews), and should also be a beneficiary of a stabilising US housing market, and the **York Water Company**, a small water supply company operating in central Pennsylvania, with a long track record of steady growth of both earnings and dividends and a good relationship with its regulator.

A new holding in **Sinomem Technology** increases the fund's exposure to the Chinese water market, for which it develops proprietary membrane materials for use in purification/separation processes. Following a shift in focus, its Chinese water business looks set to be the key earnings driver in the next 3-5 years. **Thai Tap Water** has also seen encouraging water sales over the period, and economic recovery should continue both to support growing tap water demand and further to accelerate the indices to which the water tariff is linked. **Epure**, which has performed very strongly over the last twelve months, is a further beneficiary of Asian infrastructure expenditure. It has continued to win major wastewater contracts in China, and higher margin contracts outside its home region, in Saudi Arabia, for example, and its share price has increased threefold as a result. It has also announced its intention to seek a dual primary listing in Hong Kong that is likely to stimulate further interest in the stock through favourable valuation comparisons with its Hong Kong peers.

Meanwhile an increased position in **Northeast Utilities** and new holdings in regulated utilities such as **UIL** (Connecticut) and **PG&E** (Northern California) should enable the fund to benefit from low risk investments in transmission and distribution in the US. Like Aqua America, UIL has high earnings visibility following recent rate case decisions, while PG&E has substantial hydroelectric capacity, and growing solar, waste and geothermal capabilities.

Renewable energy will be a beneficiary of government investment plans in many parts of the world. A major geographic focus of buying activity for the portfolio over the period that also exploits this theme has been India, which remains an extremely attractive market for power, both fossil fuel and renewable, given the sub-continent's significant power supply-demand imbalance. Previously held as an unquoted stock, the fund's position in **Indian Energy** – currently the only independent pure wind power producer in India – was increased at IPO to complement the existing renewable holding in **Greenko** (hydroelectric and biomass). **Mudajaya Group**, although quoted in Malaysia, brings further exposure to the Indian power market through its stake in a special purpose vehicle undertaking a 1,400MW coal fired IPP Project in the State of Chhattisgarh. Towards the end of the period, Greenko reported a 20% tariff increase in two long term Power Purchase Agreements (PPAs) for biomass plants also in the State of Chhattisgarh and believes that there is further potential for tariff increases under long term PPAs across all States. The shares have almost doubled over the period, but there is significant scope for a further share price improvement.

Outlook

We believe that the global utilities universe of companies is an attractive area for investors. Cheap valuations supported by high dividend yields in many situations mean we are optimistic about the prospects for the Company in 2010 and beyond. We welcome contact with existing and potential new investors. Further details of the Company may be found at **www.premierfunds.co.uk**.

Kevin Scutt
Andrew Whalley
Claire Burgess
Premier Fund Managers Limited

8 March 2010

Investment portfolio

at 31 December 2009

Holdings by value in descending order as at 31 December 2009

	Company	Activity	Country	2009 £000	Valuation % of total	2008# £000
1	E.ON	Electricity generation & supply	Germany	**2,738**	**5.8%**	2,585
2	Northeast Utilities	Electricity & gas distribution	USA	**1,916**	**4.1%**	1,672
3	Gaz de France	Gas production and transmission	France	**1,876**	**4.0%**	1,366
4	Entergy	Electricity generation & supply	USA	**1,875**	**4.0%**	-
5	UIL Holdings	Electricity generation & supply	USA	**1,790**	**3.8%**	-
6	Snam Rete Gas	Gas production and transmission	Italy	**1,533**	**3.3%**	1,529
7	Aqua America	Water & waste services	USA	**1,516**	**3.2%**	-
8	Public Power	Electricity generation & supply	Greece	**1,502**	**3.2%**	-
9	EDF	Electricity generation & supply	France	**1,475**	**3.1%**	2,731
10	Guangdong Investment	Water supply	Hong Kong	**1,444**	**3.1%**	1,530
11	Epure International	Water treatment	Singapore	**1,426**	**3.0%**	382
12	Pacific Gas and Electric Company	Electricity & gas distribution	USA	**1,382**	**2.9%**	-
13	China Power New Energy	Renewable electricity generation	Hong Kong	**1,318**	**2.8%**	706
14	SUEZ	Water & waste services and electricity generation	France	**1,318**	**2.8%**	233
15	Public Service Enterprise Group	Electricity generation & supply	USA	**1,235**	**2.6%**	-
16	Altagas Income Trust	Gas production and transmission	Canada	**1,220**	**2.6%**	-
17	Huaneng Power International	Electricity generation & supply	Hong Kong	**1,187**	**2.5%**	-
18	Exelon Corp	Electricity generation & supply	USA	**1,089**	**2.3%**	-
19	Enel	Electricity generation & supply	Italy	**1,079**	**2.3%**	3,084
20	Veolia Environnement	Water & waste services	France	**1,027**	**2.2%**	2,246
21	National Grid	Electricity & gas distribution	UK	**1,016**	**2.2%**	-
22	ITC Holdings Corporation	Electricity distribution	USA	**967**	**2.1%**	908
23	Greenko Group	Renewable electricity generation	UK	**964**	**2.0%**	325
24	Electricity Generating	Electricity generation & supply	Thailand	**954**	**2.0%**	1,370
25	Gas Natural	Gas production and transmission	Spain	**938**	**2.0%**	-
26	Indian Energy	Renewable electricity generation	UK	**936**	**2.0%**	1,000
27	PPL Corp	Electricity generation & supply	USA	**900**	**1.9%**	-
28	York Water	Water & waste services	USA	**895**	**1.9%**	-
29	Thai Tap Water	Water treatment	Thailand	**825**	**1.7%**	518
30	A2A	Electricity & gas distribution	Italy	**776**	**1.6%**	-
31	Sabesp	Water supply & water treatment facilities	USA	**725**	**1.5%**	-
32	Jiangsu Expressway	Toll roads	China	**722**	**1.5%**	-
33	Hong Kong Electric	Electricity generation & supply	Hong Kong	**674**	**1.4%**	-
34	Korea Electric Power ADR	Electricity generation & supply	USA	**674**	**1.4%**	-
35	Transcanada Corp	Gas transmission	Canada	**641**	**1.4%**	-
36	Zhejiang Expressway	Toll roads	China	**573**	**1.2%**	-
37	Mudajaya Group	Infrastructure	Malaysia	**538**	**1.1%**	-
38	ITI Energy*	Renewable electricity generation	UK	**504**	**1.1%**	504
39	Sinomem Technology	Water treatment	Singapore	**494**	**1.0%**	-
40	Pennon Group	Water & waste services	UK	**481**	**1.0%**	1,493
41	Freepower*	Renewable electricity generation	UK	**420**	**0.9%**	420
42	Hopewell Highway	Toll roads	Hong Kong	**377**	**0.8%**	-
43	Premier Renewable	Renewable electricity generation	UK	**376**	**0.8%**	263
44	Independent Resources	Gas storage	UK	**316**	**0.7%**	500
45	Bangkok Expressway	Toll roads	Thailand	**268**	**0.6%**	1,751
46	Energybuild Group	Coal production	UK	**259**	**0.6%**	336
	Total portfolio			**47,159**	**100.0%**	

** Unquoted investment.*

 # Values have been provided for holdings in the portfolio at both 31 December 2009 and 31 December 2008. Valuation movements between the two dates will reflect market price changes and transactions.

Company details

HISTORY

The Company was incorporated on 12 September 2003 and commenced its activities on 4 November 2003. The Company was established in connection with the scheme of reconstruction of LeggMason Investors International Utilities Trust Plc with 18,143,433 Ordinary shares and 19,143,433 Zero Dividend Preference shares being allotted at launch. On 18 December 2009 shareholders approved special resolutions to implement tender offers for Ordinary shares and Zero Dividend Preference ("ZDP") shares, to extend the life of the Company until 31 December 2015 and to amend the final entitlement per ZDP share to 221.78p on 31 December 2015 (a gross redemption yield of 6.53% on the ZDP Net Asset Value ("NAV") of 151.39p at 17 December 2009).

CAPITAL STRUCTURE

Bank Loan	The Company's policy is not to employ any long-term gearing.
16,336,396	Zero Dividend Preference shares of 1p each. The Zero Dividend Preference shares will have a final capital entitlement of 221.78p on 31 December 2015 subject to there being sufficient capital in the Company. The Zero Dividend Preference shares are not entitled to any dividends. The Zero Dividend Preference shareholders have the right to receive notice of, to attend and to vote at all general meetings of the Company.
13,103,065	Ordinary shares of 1p each. The Ordinary shares are entitled to all of the Company's net income available for distribution by way of dividends. On a winding-up, they will be due any undistributed revenue reserves and any surplus assets of the Company after the Zero Dividend Preference shares have been paid in full. The Ordinary shareholders have the right to receive notice of, to attend and to vote at all general meetings of the Company.
Wind-up date	31 December 2015.

EXPENSE RECOGNITION POLICY

Expenses are charged wholly to revenue except when they directly relate to the acquisition or disposal of an investment, in which case they are charged to capital as investment transaction costs. The performance fee is allocated between capital and revenue based on the out-performance attributable to capital and revenue respectively.

Company details

continued

RISK FACTORS

The Company concentrates on investments in the utility sector and may be regarded as representing a higher risk than that of a generalist fund.

Securities listed on a recognised stock exchange have been valued at bid-market prices and exchange rates ruling at the close of business. In certain circumstances, the market prices at which investments may be valued may not represent the realisable value of those investments taking into account both the size of the Company's holding and the frequency with which such investments are traded.

The Company may invest up to 15% of its gross assets in unquoted securities which may have limited liquidity and be difficult to realise.

The income and capital value of the Company's investments can be affected, favourably or unfavourably, by currency movements as a proportion of the Company's assets and income is denominated in currencies other than sterling.

The dividend on the Ordinary shares depends on receipt of interest payments and dividends from securities in which the Company invests.

If on a wind-up of the Company the gross assets are insufficient to cover the capital entitlement of the prior ranking Zero Dividend Preference shares, the terminal asset value of the Ordinary shares could be zero and an investor could lose all of the capital invested in those shares.

The Zero Dividend Preference shares rank ahead of the Ordinary shares for repayment on a winding-up of the Company. A decline in the gross assets could result in the Zero Dividend Preference shares failing to receive their full redemption value on wind-up and if gross assets were equal to or less than the amount required to pay liquidation costs, an investor would lose all of the capital invested in the Zero Dividend Preference shares.

TOTAL NET ASSETS AND MARKET CAPITALISATION

As at 31 December 2009, the Company had a market capitalisation of £50.06 million (2008: £50.09 million) and assets attributable to shareholders amounted to £50.06 million (2008: £59.96 million).

The figures at 31 December 2009 are after the tender offers for shares that were completed on 18 December 2009.

Company details

continued

MANAGEMENT FEE

During the year, the management fee was 0.0833% per month of the gross assets (total assets less current liabilities). From 1 October 2008 no VAT has been charged on the management fee. Until 31 December 2009, 100% of the management fee was charged to revenue, from 1 January 2010 it has been decided to allocate the management fees 60% to capital and 40% to revenue.

In addition, the Manager ("Premier Fund Managers Limited") is entitled to a performance fee if in each Company year:

(i) the dividends paid are at least 6.75p; and

(ii) the gross assets at the end of the year exceed the highest level of gross assets at the end of any previous Company year or the initial gross assets (if higher) by more than 7.5% (on annualised basis). In that event the performance fee will be equivalent to 15% of the excess.

The management contract is terminable by one year's written notice to expire at any time.

ISA STATUS

The Company's Ordinary shares and Zero Dividend Preference shares are qualifying investments for Individual Savings Accounts ("ISAs"). Full details can be obtained from Premier Fund Managers Limited.

Financial summary

CAPITAL

	31 December 2009	31 December 2008	% change	Premium/ (discount) % 31 December 2009
Total Assets (£000)*	**50,059**	59,955	**+12.7**	–
Net Asset Value per Zero Dividend Preference share **	**151.73p**	141.86p	**+7.0**	–
Mid-market price per Zero Dividend Preference share	**156.25p**	142.25p	**+9.8**	**3.0**
Net Asset Value per Ordinary share **	**192.87p**	180.78p	**+6.7**	–
Mid-market price per Ordinary share	**187.25p**	126.00p	**+43.8**	**3.0**

REVENUE

		31 December 2009	31 December 2008	% change
Return per Ordinary share		**21.88p**	(87.83)p	**+124.9**
Net dividend per Ordinary share:	Base	**7.70p**	7.35p	**+4.8**
	Special	**1.70p**	–	
	Total	**9.40p**	7.35p	

** Total assets less current liabilities, adjusted for any dividends distributed and for the tender offers and associated costs in 2009.*

*** Net asset values calculated in accordance with Articles of Association.*

HURDLE RATES†

	31 December 2009
Zero Dividend Preference shares:	
Hurdle rate to redemption share price of 221.78p on 31 December 2015	**-4.6%**
Ordinary shares:	
Hurdle rate return to current share price of 187.25p	**+3.3%**

Source: Cazenove.

† See page 56 for definition of hurdle rate.

Financial summary

continued

TOTAL RETURN

	Year to 31 December 2009	Year to 31 December 2008
Total return on gross assets[1]	**+12.7%**	-20.5%
FTSE Global Utilities Total Return Index[2] (£)	**-1.8%**	-6.2%
FTSE All World Total Return Index[2] (£)	**+21.2%**	-19.4%
FTSE 100 Total Return Index[2]	**+27.3%**	-28.3%
Total expense ratio/cost of running the Company[3]	**1.96%**	1.85%

	At 31 December 2009	At 31 December 2008
£/$ exchange rate	**1.6148**	1.4378
£/€ exchange rate	**1.1255**	1.0343

[1] *Total return performance calculated, adjusted for any dividends distributed and adjusted for the tender offers and associated costs in 2009.*

[2] *Source: Bloomberg.*

[3] *The expense ratio, excluding any performance management fee and VAT recovered from HMRC in 2009, based on average monthly net asset value.*

Directors

Geoffrey Burns – Chairman

Geoffrey Burns (56) has worked in the investment fund industry for over twenty years. From 1997 to 2000 he was a director of and head of investment trusts at Murray Johnstone Limited. Mr Burns is an adviser to a number of government or multilateral agencies who make investments in private equity funds in emerging markets, including CDC Group plc, the Swiss Investment Fund for Emerging Markets and the Asian Development Bank. Mr Burns is Chairman of City Natural Resources High Yield Trust PLC.

Adam Cooke

Adam Cooke (50) was a global partner of INVESCO PLC (formerly AMVESCAP PLC), one of the world's largest independent investment management organisations where he worked for INVESCO UK. His experience includes the UK institutional business, investment trusts and collective investments. Mr Cooke is a member of the Chartered Institute of Bankers and is a non executive director of City Natural Resources High Yield Trust PLC and Midas Income and Growth Trust PLC.

Ian Graham

Ian Graham (56) has over 20 years experience as an investment analyst, more than half of which were spent covering utilities, having worked at Scrimgeour Kemp-Gee, Simon & Coates, Nat West Securities and Merrill Lynch until 2001.

Michael Wigley

Michael Wigley (70) is a director of The Conygar Investment Company plc. He was formerly a director of Matheson Investment Limited and a non-executive director of Development Securities PLC. He was deputy chairman of LeggMason Investors International Utilities Trust Plc, the predecessor company.

Investment Manager and Secretary

Investment Manager: Premier Fund Managers Limited

Premier Fund Managers Limited is a subsidiary of Premier Asset Management Limited. Premier Asset Management Limited had just under £2.5 billion of funds under management at 31 December 2009. Premier Fund Managers Limited is authorised and regulated by the Financial Services Authority. The Company's portfolio is managed by Andrew Whalley, Kevin Scutt and Claire Burgess.

Secretary: Premier Asset Management Limited

Premier Asset Management Limited provides the company secretarial and administrative services.

Directors' report

The Directors have pleasure in submitting their Business Review, Report and Financial Statements for the year ended 31 December 2009.

BUSINESS REVIEW

UK listed companies are required to include a business review within their directors' reports or, should they prefer, a more detailed operating financial review. Having considered the regulations and in view of the nature and the size of the Company, the Board has chosen to include a business review in its report to shareholders, rather than an operating financial review. This business review is intended to enhance shareholders' understanding of the development, performance and position of the Company through a combination of narrative and financial performance measures.

Extension of the life of the Company, Tender Offers, Matching Purchase Facility and Placing and adoption of New Articles of Association

The Company was launched in 2003 as a successor Company to LeggMason Investors International Utilities Trust PLC, with total assets of £36.8 million. The Zero Dividend Preference ("ZDP") shares were issued with a redemption yield of 7.0 per cent, and a fixed life to 31 December 2010. Under the Company's Articles of Association, the Directors were obliged to put a winding up proposal to shareholders on 31 December 2010.

On 24 November 2009 the Company published a circular, which also incorporated a prospectus ("Prospectus"), in which the Board sought shareholders approval for the following proposals ("Proposals"):

- the extension of the life of the Company to 31 December 2015 by releasing the Directors of the Company from the obligation to put forward winding up proposals on 31 December 2010;
- a revision of the rights attaching to the ZDP Shares, such that their life will continue until 31 December 2015 and their yield to redemption will also be changed;
- effecting the tender offers for Ordinary shares and ZDP shares (as explained below); and
- operating a matching purchase facility and placing to enable shareholders to purchase shares tendered under the tender offers.

On 18 December 2009 the Board announced that shareholders had voted in favour of each of the special resolutions put at the Class Meeting of ZDP shareholders, the Class Meeting of Ordinary shareholders and the General Meeting of the Company and that each resolution had been duly passed. The life of the Company has therefore been extended to 31 December 2015.

The result of the Ordinary Share Tender Offer was as follows:

The Ordinary Share Tender Price at the Calculation Date (17 December 2009) was 182.38p and the total number of Ordinary shares validly tendered was 5,860,342. The total number of Ordinary shares validly purchased under the Matching Purchase Facility and Placing was 819,974 and the total number of Ordinary shares repurchased by the Company was 5,040,368. The total number of Ordinary shares in issue following the Proposals was 13,103,065.

Directors' report
continued

The result of the ZDP Share Tender Offer was as follows:

The ZDP Share Tender Price at the Calculation Date (17 December 2009) was 156.00p. In accordance with the methodology for setting the Gross Redemption Yield ("GRY") of the ZDP shares set out in part 3 of the Prospectus, the resulting GRY was to be 6 per cent per annum. The total number of ZDP shares validly purchased at a GRY level of 6 per cent per annum under the Matching Purchase Facility and Placing was 662,707 and the total number of ZDP shares repurchased by the Company was 2,807,037. The total number of ZDP shares in issue following the Proposals was 16,336,396. The revised final capital entitlement per ZDP share on 31 December 2015 will be 221.78 pence.

Business and tax status

The Company is an investment company as defined in Section 833 of the Companies Act 2006. The Company operates as an investment trust and directs its affairs so as to enable it to seek approval as such by HM Revenue & Customs under Section 842 of the Income and Corporation Taxes Act 1988. Approval has been obtained for the year ended 31 December 2008, which is subject to there being no subsequent enquiry under Corporate Self Assessment. In the opinion of the Directors, the Company has conducted its affairs for the year ended 31 December 2009 so as to enable it to continue to seek such approval.

The Company's status as an investment trust allows it to obtain an exemption from paying taxes on the profits made from the sale of its investments. Investment trusts offer a number of other advantages for investors, including access to investment opportunities that might not be open to private investors and to professional stock selection skills at low cost.

Investment objectives

The Company's investment objectives are to achieve high income from its portfolio and to realise long-term growth in the capital value of the portfolio. The Company will seek to achieve these objectives by investing principally in equity and equity related securities of companies operating primarily in the energy and water sectors, as well as other infrastructure investments.

Investment policy

The policy of the Directors is that, in normal market conditions, the portfolio of the Company should consist primarily of a diversified portfolio of equity and equity-related securities of companies operating in the energy and water sectors, as well as other infrastructure investments. There are no restrictions on the proportion of the portfolio of the Company which may be invested in any one geographical area or asset class but no more than 15% of the Company's assets, at the time of acquisition, will be invested in a single security. The Company may also invest up to 15% of its gross assets in investment companies provided they themselves invest in utilities and infrastructure. However, not more than 10% of the Company's gross assets may be invested in other UK listed closed-ended investment funds unless such funds themselves have published investment policies to invest not more than 15% of their total assets in other UK listed closed-ended investment funds (provided they themselves invest in utilities and infrastructure). The Company may invest up to 15% of its gross assets in unquoted securities. There are no borrowings under financial instruments or the equivalent of financial instruments but investors should be aware of the gearing effect of the ZDP shares within the capital structure.

Directors' report
continued

The Company will manage and invest its assets in accordance with its published investment policy. Any material change to this policy will only be made with the approval of Shareholders by ordinary resolution unless otherwise permitted by the Listing Rules.

Investment Restrictions

In accordance with the Prospectus Rules and Listing Rules applicable to the Company, the Company will not:

(i) invest more than 10%, in aggregate, of the value of its gross assets at the time the investment is made in other listed closed-ended funds, provided that this restriction does not apply to investments in any such closed-ended funds which themselves have stated investment policies to invest no more than 15% of their total assets in other listed closed-ended funds;

(ii) invest more than 15% of its gross assets in listed closed-ended funds;

(iii) invest more than 20% (calculated at the time of any relevant investment) of its gross assets in other collective investment undertakings (open-ended or closed-ended);

(iv) expose more than 20% of its gross assets to the creditworthiness or solvency of any one counterparty (including the counterparty's subsidiaries or affiliates);

(v) invest in physical commodities;

(vi) cross-finance between the businesses forming part of its investment portfolio including provision of undertakings or security for borrowings by such businesses for the benefit of another;

(vii) operate common treasury functions as between the Company and an investee company; or

(viii) conduct any significant trading activity.

In addition to the above restriction on investment in a single company the Board seeks to achieve a spread of risk in the portfolio through monitoring the country and sector weightings of the portfolio.

There will be a minimum of 20 stocks in the portfolio.

The Company is geared through zero dividend preference shares but does not use other gearing.

Going concern

The Directors believe that the Company has adequate resources to continue in operational existence for the foreseeable future. The use of the going concern basis is appropriate because there are no material uncertainties relating to events or conditions that may cast significant doubt about the ability of the Company to continue as a going concern.

Performance

An outline of the performance, market background, investment activity and portfolio strategy during the period under review, as well as the investment outlook, is provided in the Chairman's Statement and Investment Manager's report.

Directors' report

continued

Dividends

During the year the following dividends were paid:

	Payment date	Dividend pence (net per share)
Fourth Interim for the year ended 31 December 2008	31 March 2009	2.85p
First Interim for the year ended 31 December 2009	30 June 2009	1.5p
Second Interim for the year ended 31 December 2009	30 September 2009	1.5p
Third Interim for the year ended 31 December 2009	31 December 2009	1.5p

Subsequent to the year-end but in respect of the year ended 31 December 2009, the Directors have declared a fourth interim dividend of 4.9p (which includes a special dividend of 1.7p), payable on 31 March 2010 to members on the register at the close of business on 12 March 2010. The shares were marked ex-dividend on 10 March 2010. This dividend relates to the year ended 31 December 2009 but in accordance with the Company's accounting policies, it is recognised in the period in which it is paid.

Principal risks associated with the Company (see note 20)

Structure of the Company and gearing

The Company is a split-capital investment trust with two separate classes of share, each with different characteristics. Returns generated by the Company's underlying portfolio are apportioned in accordance with the respective entitlements of each class of share. As the Ordinary shares and Zero Dividend Preference shares have different rights both during the life of the Company and on a winding-up, shareholders and prospective investors are advised to give careful consideration to their choice of class or classes of share (see pages 8 to 9 for details of these entitlements).

The Company employs no gearing in the form of a bank loan. The Ordinary shares are geared by the payment of the prior ranking Zero Dividend Preference shares.

Dividend levels

Dividends paid on the Company's Ordinary shares rely on receipt of interest payments and dividends from the securities in which the Company invests. The Company's revenue levels are monitored on a monthly basis by the Board and the Investment Manager.

Currency risk

The Company invests in overseas securities and its assets are therefore subject to currency exchange rate fluctuations.

Liquidity risk

The Company may invest up to 15% of its gross assets in unquoted securities. These securities may have limited liquidity and be difficult to realise.

Market price risk

Since the Company invests in financial instruments, market price risk is inherent in these investments. In order to minimise this risk, a detailed analysis of the risk/reward relationship of each investee company is undertaken by the Investment Manager prior to making investments.

Discount volatility
Being a closed-end fund, the Company's shares may trade at a discount to their net asset value. The magnitude of this discount fluctuates daily and can vary significantly. Thus, for a given period of time, it is possible that the market price could decrease despite an increase in the Company's shares' net asset value. The Directors review the discount levels regularly. The Investment Manager actively communicates with the Company's major shareholders and potential new investors, with the aim of managing discount levels.

Operational
Like most other investment trust companies, the Company has no employees. The Company therefore relies upon the services provided by third parties and is dependent on the control systems of the Investment Manager and the Company's service providers. The security, for example, of the Company's assets, dealing procedures, accounting records and maintenance of regulatory and legal requirements, depend on the effective operation of these systems.

Accounting, legal and regulatory
In order to qualify as an investment trust, the Company must comply with Section 842 of the Income and Corporation Taxes Act 1988 ("Section 842"). A breach of Section 842 could lead to the Company being subject to capital gains tax on gains within the Company's portfolio. Section 842 qualification criteria are continually monitored by Premier Fund Managers Limited and the results reported to the Board at its regular meetings. The Company must also comply with the Companies Act and the UKLA Listing Rules. The Board relies on the services of the administrator, Premier Asset Management Limited and its professional advisers to ensure compliance with the Companies Act and the UKLA Listing Rules.

Analysis of the Company's performance

At each Board meeting, the Directors consider a number of performance measures to assess the Company's success in achieving its objectives.

The key performance indicators used to measure the progress and performance of the Company over time are as follows:

1) The performance against a set of reference points. The Investment Manager's performance is not assessed against a formal benchmark but rather against a set of reference points which are more general in nature and intended to be representative of the broad spread of assets in which the portfolio invests. These references include the FTSE Global Utilities Total Return Index, FTSE All World Total Return Index and FTSE 100 Total Return Index (see financial summary on page 12).

2) The performance against the peer group. The assessment of the Investment Manager's performance against companies which invest in similar, but not necessarily the same, securities allows the Board to evaluate the effectiveness of the Company's investment strategy.

3) The performance of the Company at the net asset level. This shows how the assets attributable to shareholders as a whole have performed.

4) The performance of the individual share classes, both in terms of share price total return (i.e. accounting for dividends received) and in terms of net asset value total return. The share price performance is the measure of the return that shareholders have actually received and will reflect the impact of widening or narrowing of discounts to NAV (see graphs on page 1).

5) Total Expense Ratio ("TER"). The TER is an expression of the Company's management fees and other operating expenses as a percentage of average net assets over the year. The TER for the year ended 31 December 2009 was 1.96% excluding performance fee and VAT recovered from HMRC in 2009 (2008: 1.85%).

Future prospects

The Board's main focus is the achievement of a high income from the portfolio together with the generation of long-term capital growth. The future of the Company is dependent upon the success of the investment strategy. The investment outlook is discussed in both the Chairman's statement on page 4 and the Investment Manager's report on page 6.

DIRECTORS

Directors serving throughout the year ended 31 December 2009 were as follows:

Geoffrey Burns
Adam Cooke
Ian Graham
Michael Wigley

None of the Directors, nor any persons connected with them, had a material interest in any of the Company's transactions, arrangements or agreements during the year. None of the Directors has, or has had, any interest in any transaction which is, or was, unusual in its nature or conditions or significant to the business of the Company, and which was effected by the Company during the current financial year.

At the date of this report, there are no outstanding loans or guarantees between the Company and any Director.

In accordance with the Articles of Association Mr Michael Wigley retires by rotation and, being eligible, offers himself for re-election.

DIRECTORS' BENEFICIAL AND FAMILY INTERESTS

The interests of the Directors and their families in the shares of the Company are as follows:

	Ordinary shares at 31 December 2009	Zero Dividend Preference shares at 31 December 2009	Ordinary shares at 1 January 2009	Zero Dividend Preference shares at 1 January 2009
Geoffrey Burns	**80,411**	–	69,500	–
Adam Cooke	**37,000**	–	32,000	–
Ian Graham	**18,309**	–	10,126	–
Michael Wigley	**124,183**	–	116,000	–

There have been no changes in any of the above holdings up to the date of this report.

SUBSTANTIAL SHAREHOLDINGS

As at the date of this report the Company had been notified of the following substantial interests in the Ordinary and Zero Dividend Preference share capital of the Company.

Ordinary shares	Number of shares	% of total voting rights
Premier Fund Managers Limited*	1,845,314	6.3
NCL Smith & Williamson	1,416,180	4.8
Charles Stanley Group PLC	1,414,649	4.8
Armstrong Investments Limited	1,000,000	3.4
Philip J Milton & Company PLC	833,272	2.8
Rensberg Sheppards PLC	173,532	0.59
Deutsche Bank AG/Tilney Group Limited	8,498	0.03
Zero Dividend Preference shares		
Deutsche Bank AG/Tilney Group Limited	3,893,354	13.2
Rensburg Sheppards PLC	3,037,959	10.3

** This includes 1,789,036 Ordinary shares that are held in the ISA scheme that is administered by Premier Fund Managers Limited on behalf of individual shareholders.*

NET ASSET VALUE

The net asset value per Ordinary share, including revenue reserve, at 31 December 2009 was 192.87p (31 December 2008: 180.78p). The cumulative net asset value of the Zero Dividend Preference share at 31 December 2009 was 151.73p (31 December 2008: 141.86p).

MANAGEMENT, SECRETARIAL AND ADMINISTRATION AGREEMENTS

The Company's portfolio is managed by Premier Fund Managers Limited under an Investment Management Agreement dated 26 September 2003.

The management fee is 0.0833% per month of the gross assets (from 1 October 2008 no VAT has been charged).

In addition, the Investment Manager is entitled to a performance fee if in each Company year:

(i) the dividends paid are at least 6.75p, and

(ii) the gross assets at the end of the year exceed the highest level of gross assets at the end of any previous Company year or the initial gross assets (if higher) by more than 7.5% (on annualised basis). In that event the performance fee will be equivalent to 15% of the excess.

The Management Agreement is currently terminable on 12 months' notice.

Under the Administration Agreement dated 26 September 2003, company secretarial services and the general administration of the Company are undertaken by Premier Asset Management Limited. The Administration Agreement is currently terminable on 12 months' notice.

The Board as a whole regularly reviews the terms of the management and secretarial contracts.

Directors' report
continued

CORPORATE GOVERNANCE

The Board is accountable to the Company's shareholders for the governance of the Company's affairs and this statement describes how the principles of the Combined Code on Corporate Governance issued in 2008 ("the Code") have been applied to the affairs of the Company. In applying the principles of the Code, the Directors have also taken account of the Code of Corporate Governance published by the Association of Investment Companies ("the AIC Code"), which has established a framework of best practice specifically for the Boards of investment trust companies. There is some overlap in the principles laid down by the two Codes and there are some areas where the AIC Code is more flexible for investment trust companies.

Board of Directors

The Board currently consists of four non-executive Directors all of whom are independent of the Investment Manager. Their biographies are set out on page 13. Collectively the Board has the requisite range of business and financial experience which enables it to provide clear and effective leadership and proper stewardship of the Company.

The number of meetings of the Board, the Audit Committee and the Nomination Committee held during the financial year and the attendance of individual Directors are shown below:

	Board	Audit Committee	Nomination Committee
Number of meetings in the year	**7**	**2**	**1**
Geoffrey Burns	7	2	1
Adam Cooke	7	2	1
Ian Graham	7	2	1
Michael Wigley	7	2	1

All of the Directors attended the Annual General Meeting held in April 2009.

The Board deals with the Company's affairs, including the setting of gearing and investment policy parameters, the monitoring of gearing and investment policy and the review of investment performance. The Investment Manager takes decisions as to asset allocation and the purchase and sale of individual investments. The Board papers circulated before each meeting contain full information on the financial condition of the Company. Key representatives of the Investment Manager attend most of the Board meetings, enabling Directors to probe further or seek clarification on matters of concern.

Matters specifically reserved for discussion by the full Board have been defined and a procedure adopted for the Directors to take independent professional advice if necessary at the Company's expense.

The Chairman of the Company is a non-executive Director. A senior non-executive Director has not been identified as the Board is comprised entirely of non-executive Directors.

In accordance with the Articles of Association, new Directors stand for election at the first Annual General Meeting following their appointment. The Articles require that one third of the Directors retire by rotation each year and seek re-election at the Annual General Meeting. In addition, all Directors are required to submit themselves for re-election at least every three years and will seek annual re-election if they have already served for more than nine years.

Performance evaluation/re-election of Directors

An appraisal process has been established in order to review the effectiveness of the Board, the Committees and individual Directors. This process involves the consideration by the Chairman and the Board of responses from individual Directors to a questionnaire which is completed on an annual basis. In addition, the other Directors meet collectively once a year to evaluate the performance of the Chairman. As a result of this appraisal process the Nomination Committee recommends the re-election of Mr Michael Wigley who retires by rotation.

The performance of the Company is considered in detail at each Board meeting.

Committees

The Board believes that the interests of shareholders in an investment trust company are best served by limiting its size such that all Directors are able to participate fully in all the activities of the Board. It is for this reason that the membership of the Audit and Nomination Committees is the same as that for the Board as a whole.

Audit Committee

Mr Cooke is the Chairman of the Audit Committee which operates within defined terms of reference. The Audit Committee meets at least twice a year and is responsible for reviewing the annual and interim reports, the nature and scope of the external audit and the findings therefrom, and the terms of appointment of the auditors, including their remuneration and the provision of any non-audit services by them. The Audit Committee has considered the independence of the auditors and the objectivity of the audit process and is satisfied that Ernst & Young LLP is independent and has fulfilled its obligations to shareholders. The Audit Committee meets representatives of the Investment Manager and its Compliance Officer who report as to the proper conduct of business in accordance with the regulatory environment in which both the Company and the Investment Manager operate and reviews the Investment Manager's internal controls. The Company's external auditors also attend this Committee at its request and report on their findings in relation to the Company's statutory audit.

Nomination Committee

Mr Burns is the Chairman of the Nomination Committee which is responsible for the Board appraisal process, and reviews the Board's size and structure and is responsible for succession planning. The Nomination Committee meets at least annually.

Remuneration Committee

The Board as a whole considers Directors' remuneration and therefore has not appointed a separate remuneration committee. As the Company is an investment trust and all Directors are non-executive the Company is not required to comply with the Code in respect of executive Directors' remuneration. Directors' fees are detailed in the Directors' Remuneration Report on page 31.

Directors' report
continued

Internal controls
The Board acknowledges that it is responsible for the Company's system of internal controls and has established a process for identifying, evaluating and managing significant risks faced by the Company. The process is subject to regular review by the Board and accords with "Internal Control: Guidance for Directors on the Combined Code" ("The Turnbull guidance") which was issued in September 1999.

These internal control systems are designed to safeguard shareholders' investment and the Company's assets. It should be recognised that such systems provide reasonable but not absolute assurance against material misstatement or loss.

Internal control process
The Turnbull guidance recommends a risk-based approach to the assessment of internal controls. The Board has completed a risk map for the Company and established procedures for the monitoring and review of the risks identified. The Board as a whole is primarily responsible for the monitoring and review of risks associated with investment matters and the Audit Committee is primarily responsible for other risks.

As the Board has contractually delegated to other companies the investment management, the custodial services and the day-to-day accounting and company secretarial requirements, the Company relies significantly upon the internal controls operated by those companies. Therefore, the Directors have concluded that the Company should not establish its own internal audit function. Investment management is performed by Premier Fund Managers Limited and administration services by Premier Asset Management Limited. Details of the agreement with the Investment Manager and the administrator are given on page 20 and in notes 3 and 19 to the financial statements. The custodian is Northern Trust Company Limited.

The risk map has been considered at all regular meetings of the Board and Audit Committee. As part of the risk review process, regular reports are received from the Investment Manager on all investment-related matters including compliance with the investment mandate, the performance of the portfolio compared with relevant indices and compliance with investment trust status requirements. The Board also receives and reviews reports from the custodian on its internal controls and their operation.

The Board confirms that appropriate procedures to review the effectiveness of the Company's system of internal control have been in place, throughout the year and up to the date of this report, which cover all controls including financial, operational and compliance controls and risk management. An assessment of internal control, which includes a review of the Company's risk map, an assessment of the quality of reports on internal control from the service providers and the effectiveness of the Company's reporting process, is carried out on an annual basis.

Evaluation of Investment Manager's performance

The investment performance is reviewed at each regular Board meeting at which representatives of the Investment Manager are required to provide answers to any questions raised by the Board. The Board has instigated an annual formal review of the Investment Manager which includes consideration of:

- performance compared with relevant indices;
- investment resources dedicated to the Company;
- investment management fee arrangements and notice period compared with the peer group; and
- marketing effort and resources provided to the Company.

The Board believes that Premier Fund Managers Limited has served the Company well in terms of investment performance and has no hesitation in continuing its appointment.

The Company Secretary

The Board has direct access to the advice and services of the Company Secretary, Premier Asset Management Limited, which is responsible for ensuring that Board and Committee procedures are followed and that applicable regulations are complied with. The Secretary is also responsible to the Board for ensuring timely delivery of information and reports and that statutory obligations of the Company are met.

Individual Directors may take independent professional advice on any matter concerning them in the furtherance of their duties at the Company's expense. The Company also maintains Directors' and Officers' liability insurance to cover legal defence costs.

Relations with shareholders

Communication with shareholders is given a high priority by both the Board and the Investment Manager and all Directors are available to enter into dialogue with shareholders. Major shareholders of the Company are offered the opportunity to meet with the Board. The Board regularly reviews any contact with the Company's shareholders and monitors its shareholder register.

All shareholders are encouraged to attend and vote at the Annual General Meeting, during which the Board and the Investment Manager are available to discuss issues affecting the Company and shareholders have the opportunity to address questions to the Investment Manager, the Board and the Chairmen of the Board's standing committees.

Any shareholder who would like to lodge questions in advance of the Annual General Meeting is invited to do so in writing to the Company Secretary at the address detailed inside the back cover. The Company always responds to letters from individual shareholders.

The Annual and Interim Reports of the Company are prepared by the Board and its advisers to present a full and readily understandable review of the Company's performance. Copies are dispatched to shareholders by mail and are also available for downloading from the Investment Manager's website.

A monthly fact sheet is produced by the Investment Manager and is also available via their website.

If a shareholder would like to contact the Board directly, they should write to the Chairman at c/o Premier Asset Management Limited, Eastgate Court, High Street, Guildford, Surrey GU1 3DE, marking their letter "Private and confidential".

Statement of compliance

The Board believes that it has complied with all the material provisions, in so far as they apply to the Company's business, of the Code throughout the year under review. It did not, however, comply with the following provisions, as explained previously:

- due to the small size of the Board and nature of the business a separate remuneration committee has not been established; and
- a senior non-executive Director has not been identified.

The Board has adhered to the principles of the AIC Code in all material respects.

SOCIALLY RESPONSIBLE INVESTMENT

The Board has delegated the investment management function to Premier Fund Managers Limited. The Investment Manager's primary objective is to produce superior financial returns to investors. It believes that over the long-term sound social, environmental and ethical policies make good business sense and takes these issues into account, when, in its view, they have a material impact on either the investment risk or the expected return from an investment.

PROXY VOTING AS AN INSTITUTIONAL INVESTOR

Responsibility for actively monitoring the activities of companies in which the Company is invested has been delegated by the Board to the Investment Manager. The Investment Manager is responsible for reviewing, on a regular basis, the annual reports, circulars and other publications produced by the investee companies. The Investment Manager, in the absence of explicit instructions from the Board, is empowered to exercise discretion in the use of the Company's voting rights. Wherever practicable, the Investment Manager's policy is to vote all shares held by the Company.

VAT ON MANAGEMENT FEES

On 5 August 2009, the Company received the repayment of £531,000 of VAT on management fees incurred since its launch in November 2003 and subsequently received a further amount of £51,000 in respect of interest.

PAYMENT OF SUPPLIERS

It is the Company's payment policy to obtain the best possible terms for all business and therefore there is no consistent policy as to the terms used. The Company agrees with its suppliers the terms on which business will take place and it is our policy to abide by these terms. There were no trade creditors at 31 December 2009 (2008: nil).

ANNUAL GENERAL MEETING

THIS SECTION IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action you should take or about the contents of this document, you should immediately consult an independent financial adviser authorised under the Financial Services and Markets Act 2000 (or in the case of recipients outside the United Kingdom, a stockbroker, bank manager, solicitor, accountant or other independent financial adviser).

If you have sold or otherwise transferred all of your shares in Premier Energy and Water Trust PLC, please pass this document, together with the accompanying Form of Proxy, as soon as possible to the purchaser or transferee or to the stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The notice of the Annual General Meeting sets out the ordinary business and special business to be conducted at the Meeting. The following explains the resolutions to be considered at the Meeting as special business.

RESOLUTION 5, 6 & 7: Authority to allot shares

Under Resolution 5 of the Annual General Meeting ("AGM"), the Directors seek a general power from shareholders to allot new shares up to an aggregate par value of £29,439 representing approximately 10% of the issued Ordinary share capital of the Company and approximately 10% of the issued Zero Dividend Preference share capital, in each case as at 5 March 2010.

Resolution 6 of the AGM will, if passed, permit the Directors to allot Ordinary shares at a discount to the then prevailing net asset value of the Ordinary shares. The Directors will only utilise this authority to issue new shares provided that the aggregate value of new Ordinary shares and new Zero Dividend Preference shares to be issued is at an overall premium to net asset value. In any event, any new issue of shares would only be made in accordance with the provisions of the Company's Articles of Association which require existing Zero Dividend Preference shares to have a cover of not less than 1.5 times immediately following the issue of the new shares if any new shares are to rank ahead of, or *parri passu* with, the existing Zero Dividend Preference shares.

Resolution 7 of the AGM will, if passed, empower the Directors to make allotments of Ordinary shares for cash on a non pre-emptive basis up to an aggregate of £13,103, being approximately 10% of the issued Ordinary share capital of the Company.

These Resolutions will provide the Directors with flexibility to act in the best interests of shareholders.

These authorities, if granted, will expire at the conclusion of the next Annual General Meeting.

RESOLUTION 8: Purchase by the Company of its own shares

At an Annual General Meeting held on 22 April 2009 a special resolution was passed, giving the Directors authority until the conclusion of the earlier of the 2010 Annual General Meeting and 22 October 2010, to make market purchases of up to a maximum of 2,719,700 Ordinary shares and 2,869,600 Zero Dividend Preference shares. This authority was updated at the General Meeting held on 18 December 2009 when a special resolution was passed giving the Directors authority until 31 March 2010, to make market purchases up to a maximum of 7,257,373 Ordinary shares and 7,657,373 Zero Dividend Preference shares. This was to facilitate the tender offers and is explained in the Directors' Report on pages 14 and 15. The tender offers were implemented on 18 December 2009 and 5,040,368 Ordinary shares and 2,807,037 Zero Dividend Preference shares were purchased for cancellation (year ended 31 December 2008: no shares were purchased).

The Board proposes that the Company should be given renewed general authority to purchase Ordinary shares and Zero Dividend Preference shares in the market for cancellation in accordance with the Companies Act 2006 but subject to the provisos set out below. Resolution 8 of the Annual General Meeting, which is a special resolution, is being proposed for this purpose.

It is proposed that the Company be authorised to purchase on the London Stock Exchange up to 1,964,149 Ordinary shares and 2,448,826 Zero Dividend Preference shares (representing 14.99% of each class of the Company's issued share capital as at 5 March 2010) provided that:

(a) Ordinary shares will only be repurchased at a purchase price which is below the prevailing Net Asset Value per Ordinary share and where the cover on the Zero Dividend Preference shares is 1.5 times or above and, as a consequence of the proposed repurchase, the cover on the Zero Dividend Preference shares will not reduce to below 1.5 times (having taking account of any Zero Dividend Preference shares to be purchased at or about the same time); and/or

(b) Ordinary shares and Zero Dividend Preference shares are only repurchased in the ratio of Ordinary shares to Zero Dividend Preference shares of 0.802:1; and/or

(c) Zero Dividend Preference shares are purchased at a purchase price which is below their prevailing accrued capital entitlement (as at the business day immediately preceding the day on which the Zero Dividend Preference share is purchased).

Repurchases of shares will be made at the discretion of the Board within guidelines set from time to time by the Board and only when market conditions are considered by the Board to be appropriate and in accordance with the Listing Rules. Repurchases will only be made when they result in an increase in the fully diluted Net Asset Value per Ordinary share. The Board remains committed to exploring methods by which shareholder value can be enhanced. The purchase for cancellation by the Company of its shares at a cost below the net asset value of those shares enhances the net asset value of the remaining shares. This additional demand for shares may reduce the discount at which the shares trade. Any shares repurchased by the Company will be cancelled and will not be held in treasury for resale.

Under London Stock Exchange rules, the maximum price to be paid on any exercise of the authority in respect of Ordinary shares must not exceed the higher of (i) 105% of the average of the middle market quotations for a share for the five business days immediately preceding the date of purchase and (ii) the higher of the price of the last independent trade and the highest current bid. Separately we have chosen to restrict our authority to purchase Zero Dividend Preference shares to a maximum price equivalent to their accrued capital entitlement at the time of purchase. The minimum price paid for an Ordinary share or Zero Dividend Preference share may not be below 1p per share.

The authority to purchase shares will last until the Annual General Meeting of the Company in 2011, or 20 October 2011, whichever is the earlier. The authority may be renewed by shareholders at a General Meeting.

Purchases will be funded either by using available cash resources, debt or by selling investments.

Recommendation

Your Board considers that resolutions 1 to 8 are in the best interests of the Company and its members as a whole and are likely to promote the success of the Company for the benefit of its members as a whole. Accordingly, your Board unanimously recommends that shareholders should vote in favour of the resolutions as they intend to do in respect of their own beneficial shareholdings amounting to 259,903 Ordinary shares.

COMPANIES ACT 2006 DISCLOSURES

In accordance with Section 992 of the Companies Act 2006 the Directors disclose the following information:

- the Company's capital structure is summarised on page 2, voting rights are summarised on page 8, and there are no restrictions on voting rights nor any agreement between holders of securities that result in restrictions on the transfer of securities or on voting rights;
- there exist no securities carrying special rights with regard to the control of the Company;
- details of the substantial shareholders in the Company are listed on page 20;
- the Company does not have an employees' share scheme;
- the rules concerning the appointment and replacement of Directors, amendment of the Articles of Association and powers to issue or buy back the Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006;
- there exist no agreements to which the Company is party that may affect its control following a takeover bid; and
- there exist no agreements between the Company and its Directors providing for compensation for loss of office that may occur because of a takeover bid.

Directors' report

continued

AUDITORS

Ernst & Young LLP have expressed their willingness to continue in office as Auditor and a resolution proposing their reappointment and to authorise the Board to determine their remuneration will be submitted at the Annual General Meeting.

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditors are unaware; and each Director has taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

By Order of the Board

Premier Asset Management Limited
Secretary
8 March 2010

Directors' remuneration report

The Board has prepared this report, in accordance with Section 421 of the Companies Act 2006. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires your Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditors' opinion is included in their report on page 35.

Remuneration Committee

The Board as a whole fulfils the function of a Remuneration Committee. The Company Secretary, Premier Asset Management Limited, will be asked to provide advice when the Directors consider the level of Directors' fees.

Policy on Directors' fees

The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole and be fair and comparable to that of other investment trusts that are similar in size, have a similar capital structure and have a similar investment objective.

The fees for the non-executive Directors are determined within the limits of £150,000 set out in the Company's Articles of Association. The Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

Directors' service contracts

It is the Board's policy that none of the Directors have a service contract. The terms of their appointment provide that a Director shall retire and be subject to re-election at the first Annual General Meeting after his/her appointment, and at least every three years and will seek re-election if they have already served for more than nine years. The terms also provide that a Director may be removed without notice and that compensation will not be due on leaving office.

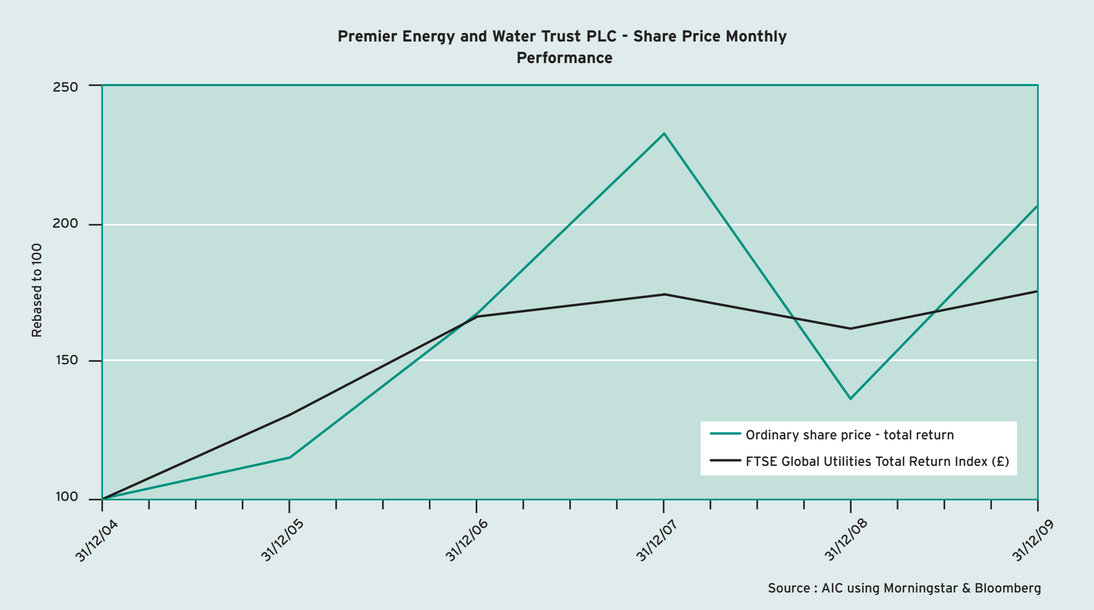
Your Company's performance

For the purpose of this report the Board is required to select an index against which the Company's performance can be measured. Although performance is not measured against a single benchmark the FTSE Global Utilities Total Return Index (sterling based) has been selected for this purpose. The graph overleaf shows the 5 year share price total return (assuming all dividends are reinvested) to Ordinary shareholders against the FTSE Global Utilities Total Return Index on a total return basis from 31 December 2004 until 31 December 2009.

Directors' remuneration report

continued

5 year share price performance



Directors' emoluments for the year (audited)

The Directors who served in the year received the following emoluments in the form of fees:

	Year ended 31 December 2009	**Year ended 31 December 2008**
Geoffrey Burns	**22,000**	22,000
Adam Cooke	**15,000**	15,000
Ian Graham	**15,000**	15,000
Michael Wigley	**15,000**	15,000
Total	**67,000**	67,000

Approval

A resolution for the approval of the Directors' Remuneration Report for the year ended 31 December 2009 will be proposed at the Annual General Meeting.

By Order of the Board

Premier Asset Management Limited
Secretary
8 March 2010

Statement of Directors' responsibilities in respect of the annual report and the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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

Statement of Directors' responsibilities in respect of the annual report and the financial statements

continued

Statement under the Disclosure & Transparency Rules 4.1.12

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

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

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

For and on behalf of the Board.

Adam Cooke
Director
8 March 2010

Independent auditor's report

to the members of Premier Energy and Water Trust PLC

We have audited the financial statements of Premier Energy and Water Trust PLC for the year ended 31 December 2009 which comprise the Income Statement, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds, the Cash Flow Statement and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on pages 32 to 33, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its net return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Independent auditor's report
continued

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' Statement, set out on page 16, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Caroline Gulliver (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London
8 March 2010

Income statement
for the year ended 31 December 2009

	Notes	Year ended 31 December 2009 Revenue £000	Capital £000	Total £000	Year ended 31 December 2008 Revenue £000	Capital £000	Total £000
Gains/(losses) on investments – held at fair value through profit or loss	13	**-**	**3,691**	**3,691**	-	(15,828)	(15,828)
Income	2	**2,679**	**-**	**2,679**	2,798	-	2,798
Investment management and performance fee	3	**(561)**	**-**	**(561)**	(636)	(15)	(651)
VAT recovered from HMRC on management and performance fees	3	**247**	**284**	**531**	-	-	-
Other expenses	4	**(297)**	**-**	**(297)**	(296)	-	(296)
Return before finance costs and taxation		**2,068**	**3,975**	**6,043**	1,866	(15,843)	(13,977)
Finance costs	5	**(1)**	**(2,005)**	**(2,006)**	(1)	(1,777)	(1,778)
Return on ordinary activities before taxation		**2,067**	**1,970**	**4,037**	1,865	(17,620)	(15,755)
Taxation on ordinary activities	6	**(238)**	**-**	**(238)**	(330)	150	(180)
Return on ordinary activities after taxation attributable to equity shares		**1,829**	**1,970**	**3,799**	1,535	(17,470)	(15,935)
Return per Ordinary share (pence) - basic	15			**21.16**			(87.83)
Return per Zero Dividend Preference share (pence)	15			**9.87**			9.28

The total column of this 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.

The notes on pages 40 to 55 form part of these financial statements.

The supplementary revenue and capital columns are both prepared under guidance published by the Association of Investment Companies.

A Statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above statement.

Balance sheet
as at 31 December 2009

Company registration number 4897881

	Notes	2009 £000	2008 £000
Non current assets			
Investments at fair value through the profit or loss	8	**47,159**	53,868
Current assets			
Debtors	9	**244**	328
Cash at bank		**6,001**	5,880
		6,245	6,208
Current liabilities			
Creditors: amounts falling due within one year	10	**(3,345)**	(121)
Net current assets		**2,900**	6,087
Total assets less current liabilities		**50,059**	59,955
Creditors: amounts falling due after more than one year	11	**(24,787)**	(27,156)
Total net assets		**25,272**	32,799
Capital and reserves			
Share capital	12	**131**	181
Redemption reserve		**88**	10
Capital reserve	13	**16,107**	14,137
Special reserve		**7,454**	17,474
Revenue reserve		**1,492**	997
Total equity shareholders' funds		**25,272**	32,799
Net asset value per Zero Dividend Preference share (pence) (Zero Dividend Preference shares are classified as financial liabilities)	16	**151.73**	141.86
Net asset value per Ordinary share (pence)	16	**192.87**	180.78

The financial statements on pages 36 to 55 were approved by the Board and authorised for issue on 8 March 2010 and were signed on its behalf by:

Adam Cooke
Director

The notes on pages 40 to 55 form part of these financial statements.

Reconciliation of movements in shareholders' funds

for the year ended 31 December 2009

	Share capital £000	Redemption reserve £000	Capital reserve £000	Special reserve £000	Revenue reserve £000	Total £000
For the year ended 31 December 2009						
Balance at 31 December 2008	**181**	**10**	**14,137**	**17,474**	**997**	**32,799**
Return on ordinary activities after taxation	**-**	**-**	**1,970**	**-**	**1,829**	**3,799**
Tender for Ordinary shares for cancellation	**(50)**	**50**	**-**	**(9,992)**	**-**	**(9,992)**
Cancellation of Zero Dividend Preference shares	**-**	**28**	**-**	**(28)**	**-**	**-**
Dividends paid	**-**	**-**	**-**	**-**	**(1,334)**	**(1,334)**
Balance at 31 December 2009	**131**	**88**	**16,107**	**7,454**	**1,492**	**25,272**
For the year ended 31 December 2008						
Balance at 31 December 2007	181	10	31,607	17,474	732	50,004
Return on ordinary activities after taxation	-	-	(17,470)	-	1,535	(15,935)
Dividends paid	-	-	-	-	(1,270)	(1,270)
Balance at 31 December 2008	181	10	14,137	17,474	997	32,799

The notes on pages 40 to 55 form part of these financial statements.

Cash flow statement

for the year ended 31 December 2009

	Notes	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
Net cash inflow from operating activities	17	**2,595**	170
Servicing of finance			
Interest paid		**(1)**	(1)
Taxation			
Overseas tax paid		**(289)**	(215)
Financial investments			
Purchases of investments		**(40,634)**	(46,219)
Sales of investments		**54,150**	47,276
Net cash inflow from financial investments		**13,516**	1,057
Equity dividends paid	7	**(1,334)**	(1,270)
Net cash inflow/(outflow) before financing		**14,487**	(259)
Financing			
Tender for Ordinary shares and associated costs		**(9,992)**	-
Tender for Zero Dividend Preference shares		**(4,374)**	-
Net cash outflow from financing		**(14,366)**	-
Increase/(decrease) in cash	18	**121**	(259)

Reconciliation of net cash flow to movements in net debt

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
Increase/(decrease) in cash as above	**121**	(259)
Net change in debt due in more than one year	**2,369**	(1,777)
Movements in net debt for year	**2,490**	(2,036)
Net debt as at 1 January	**(21,276)**	(19,240)
Net debt as at 31 December	**(18,786)**	(21,276)

The notes on pages 40 to 55 form part of these financial statements.

Notes to the financial statements

1. ACCOUNTING POLICIES

A summary of the principal accounting policies, all of which have been consistently applied throughout the year and the preceding year is set out below:

(a) Basis of accounting

The financial statements have been prepared in accordance with the applicable UK Accounting Standards and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" (issued in January 2009). The adoption of the January 2009 SORP has had no effect on the financial statements of the Company, other than:

- the requirement to separately disclose capital reserves that relate to the revaluation of investments held at the reporting date. These are disclosed in note 8. This new requirement replaces the previous requirement to disclose the value of the capital reserve that was unrealised; and
- the requirement to present tax reconciliations based on the total column of the Income Statement rather than the revenue column as was previously recommended. The reconciliation is disclosed in note 6.

They have also been prepared on the assumption that approval as an investment trust will continue to be granted. The financial statements have been prepared on a going concern basis. The Directors believe this is appropriate for the reasons outlined in the Directors' Report on page 16.

The financial statements, and the net asset value per share figures, have been prepared in accordance with UK Generally Accepted Accounting Practice ("UK GAAP").

(b) VALUATION OF INVESTMENTS

Upon initial recognition investments are designated by the Company "at fair value through profit or loss". They are accounted for on the date they are traded and are included initially at fair value which is taken to be their cost including expenses incidental to purchase. Subsequently investments are valued at fair value which is the bid market price for listed investments. Unquoted investments are valued at fair value by the Board which is established with regard to the International Private Equity and Venture Capital Valuation Guidelines by using where appropriate latest dealing prices, valuations from reliable sources and other relevant factors. Where no reliable fair value can be estimated for such unquoted investments, they are carried at cost, subject to any provision for impairment.

Changes in the fair value of investments held at fair value through profit or loss and gains or losses on disposal are included in the capital column of the income statement within "gains/(losses) on investments held at fair value through profit or loss".

Profits and losses on realisation of fixed asset investments have been taken to capital reserve.

(c) FOREIGN CURRENCY

Transactions denominated in foreign currencies are translated into sterling at actual exchange rates as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. 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 capital reserve. Foreign exchange movements on investments are included in the Income Statement within gains on investments.

1. ACCOUNTING POLICIES continued

(d) INCOME

Investment income, which includes related taxation, has been accounted for on an ex-dividend basis or when the Company's right to the income is established. Special dividends are credited to capital or revenue in the Income Statement, according to the circumstances. UK dividends are accounted for net of any tax credits. Overseas dividends are included gross of witholding tax.

Interest receivable on deposits is accounted for on an accruals basis.

(e) EXPENSES

All expenses are accounted for on an accruals basis and are charged as follows:

- the basic investment management fee is charged wholly to revenue;
- any performance fee earned is allocated between capital and revenue based on the out-performance attributable to capital and revenue respectively;
- investment transactions costs are included within the book cost of the investments; and
- other expenses are charged wholly to revenue.

(f) ZERO DIVIDEND PREFERENCE SHARES

The Company's Zero Dividend Preference shares are classified as a financial liability and shown as a liability in the balance sheet.

The Directors have allocated 100% of the finance costs relating to the Zero Dividend Preference shares to capital. Accordingly, a capital reserve has been set up to provide for the repayment entitlements attached to the Zero Dividend Preference shares which accrue on a daily basis to the date of the Company's winding up on 31 December 2015. Following the approval of the Proposals by shareholders on 18 December 2009 (see Directors' Report on pages 14 and 15) these shares are entitled to a repayment of 221.78p on 31 December 2015, equivalent to a redemption yield of 6.53% on the Zero Dividend Preference share net asset value of 151.39p at 17 December 2009. The provision for compound growth entitlement of the Zero Dividend Preference shares is recognised through the income statement and analysed under the capital return as a finance cost (as shown in note 5).

(g) SPECIAL RESERVE

The special reserve is available for the repurchase by the Company of its own Ordinary shares.

(h) TAXATION

The charge for taxation is based upon the net revenue for the year. The tax charge is allocated to the revenue and capital accounts according to the marginal basis whereby revenue expenses are first matched against taxable income arising in the revenue account; the effect of this for the year ended 31 December 2009 was that all the deductions for tax purposes went to the revenue account.

Deferred taxation will be recognised as an asset or a liability if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in the future, or a right to pay less taxation in the future. An asset will not be recognised to the extent that the transfer of economic benefit is uncertain.

Due to the Company's status as an Investment Company, 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 and losses arising on the revaluation or disposal of Investments.

2. INCOME

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
Income from investments:		
UK franked investment income	**523**	820
Overseas dividends	**2,088**	1,729
Deposit income	**17**	249
Interest on VAT recovered from HMRC	**51**	-
	2,679	2,798

3. INVESTMENT MANAGEMENT FEE

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
Charged to Revenue:		
Investment management fee	**561**	636
	561	636

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
Charged to Capital:		
Under accrual of performance fee for the year ended 31 December 2007	**-**	15
	-	15

The Company's Investment Manager is Premier Fund Managers Limited under an agreement terminable by either party giving not less than 12 months written notice. Under the investment management agreement, the Investment Manager is entitled to receive from the Company a management fee, payable monthly in arrears, of 1% per annum of the gross assets of the Company. This fee is charged to revenue.

In addition the Investment Manager is entitled to a performance fee in respect of each accounting year of the Company commencing with the period ended 31 December 2004 if (i) the dividends paid or proposed to be paid on each Ordinary share in respect of that accounting year (on an annualised basis in respect of the first accounting period) equals at least 6.75p and (ii) the gross assets at the end of the year exceed the highest level of gross assets at the end of any previous accounting year or (if higher) the initial gross assets by more than 7.5% (again on an annualised basis). In that event, the performance fee will be equal to 15% of the excess.

3. INVESTMENT MANAGEMENT FEE continued

VAT recovered from HMRC on management fees:

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
Recovered in respect of basic management fees – Revenue	**247**	-
Recovered in respect of performance fees – Capital	**284**	-
	531	-

On 5 August 2009 the Company received £531,000 of VAT on management fees invoiced since its launch in November 2003 which has been credited to the Company's revenue and capital accounts in accordance with the Board's policy for allocation of management fees and finance costs.

4. OTHER EXPENSES

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
Charged to Revenue:		
Secretarial services	**75**	81
Administration expenses	**132**	127
Auditor's remuneration – audit services	**21**	21
– non audit	**2**	-
Directors' fees	**67**	67
	297	296

The auditors were also paid £33,350, including VAT of £4,350, for services in connection with the Prospectus issued by the Company on 24 November 2009 and associated tender offer costs (see pages 14 and 15). These have been charged to special reserve.

5. FINANCE COSTS

	Year ended 31 December 2009			Year ended 31 December 2008		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Bank interest	**1**	**-**	**1**	1	-	1
Provision for compound growth entitlement of the Zero Dividend Preference shares	**-**	**2,005**	**2,005**	-	1,777	1,777
	1	**2,005**	**2,006**	1	1,777	1,778

Notes to the financial statements
continued

6. TAXATION

(a) ANALYSIS OF CHARGE IN THE YEAR:

	Year ended 31 December 2009			Year ended 31 December 2008		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Current tax	**-**	**-**	**-**	150	(150)	-
Overseas tax	**238**	**-**	**238**	180	-	180
Current tax charge for the year (see note 6 (b))	**238**	**-**	**238**	330	(150)	180

(b) FACTORS AFFECTING THE CURRENT TAX CHARGE FOR THE YEAR:

The current taxation charge for the year is different from the standard rate of corporation tax in the UK.

The differences are explained below:

	Year ended 31 December 2009			Year ended 31 December 2008		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Return on ordinary activities before taxation	**2,067**	**2,099**	**4,166**	1,865	(17,620)	(15,755)
Return on ordinary activities multiplied by the standard rate of corporation tax of 28% (2008: 29%)	**578**	**588**	**1,166**	532	(5,022)	(4,490)
Effects of:						
Non-taxable UK dividends	**(146)**	**-**	**(146)**	(234)	-	(234)
Non-taxable overseas dividends (from 1 July 2009)	**(226)**	**-**	**(226)**	-	-	-
Capital gains not subject to tax	**-**	**(1,033)**	**(1,033)**	-	4,511	4,511
Finance costs of ZDP shares	**-**	**525**	**525**	-	506	506
Capital costs of performance fee and VAT recovered from HMRC	**-**	**(80)**	**(80)**	-	5	5
Expenses not deductable for tax purposes	**1**	**-**	**1**	1	-	1
Movement in overseas dividends taxable on receipt	**-**	**-**	**-**	31	-	31
Overseas tax	**238**	**-**	**238**	180	-	180
Double tax relief	**(207)**	**-**	**(207)**	(180)	-	(180)
Tax transfer capital/ income	**-**	**-**	**-**	-	(150)	(150)
Revenue current tax charge for the year (see note 6 (a))	**238**	**-**	**238**	330	(150)	180

The Company is not liable to tax on capital gains due to its status as an investment trust.

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 and losses arising on the revaluation or disposal of investments.

6. TAXATION continued

After claiming relief against accrued income taxable on receipt, the Company has a deferred tax asset of approximately £130,000 (31 December 2008: £90,000) relating to excess expenses. It is unlikely that the Company will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset in respect of these expenses has been recognised.

7. DIVIDEND

	Per Ordinary share	Year ended 31 December 2009 £000
First interim dividend – paid on 30 June 2009	**1.50p**	**272**
Second interim dividend – paid on 30 September 2009	**1.50p**	**272**
Third interim dividend – paid on 31 December 2009	**1.50p**	**272**
Fourth interim dividend – payable on 31 March 2010*	**4.90p**	**642**
	9.40p	**1,458**

** Not included as a liability in the year ended 31 December 2009 accounts.*

The fourth interim dividend will be paid on 31 March 2010 to members on the register at the close of business on 12 March 2010. The shares were marked ex-dividend on 10 March 2010.

In accordance with FRS21 the fourth interim dividend has not been included as a liability in these accounts.

Dividends relating to the year ended 31 December 2008 are detailed below:

	Per Ordinary share	Year ended 31 December 2008 £000
First interim dividend – paid on 30 June 2008	1.50p	272
Second interim dividend – paid on 30 September 2008	1.50p	272
Third interim dividend – paid on 31 December 2008	1.50p	272
Fourth interim dividend – paid on 31 March 2009*	2.85p	518
	7.35p	1,334

** Not included as a liability in the year ended 31 December 2008 accounts.*

8. INVESTMENTS

(a) SUMMARY OF VALUATION

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
Investments listed on a recognised investment exchange:		
– UK	**4,349**	13,849
– Overseas	**41,886**	37,567
	46,235	51,416
Unquoted investment – UK	**924**	1,452
Unquoted investment – Overseas	**-**	1,000
	47,159	53,868

8. INVESTMENTS continued

(b) MOVEMENTS

(i) In the year ended 31 December 2009

	Quoted UK £000	Quoted Overseas £000	Unquoted UK £000	Unquoted Overseas £000	Total 2009 £000
Book cost at beginning of year	**18,729**	**36,440**	**1,729**	**1,000**	**57,898**
Gains/(losses) on investments held at beginning of year	**(4,880)**	**1,127**	**(277)**	**-**	**(4,030)**
Valuation at beginning of year	**13,849**	**37,567**	**1,452**	**1,000**	**53,868**
Purchases at cost	**5,811**	**37,939**	**-**	**-**	**43,750**
Transfer to quoted in year	**375**	**1,000**	**(375)**	**(1,000)**	**-**
Sales:					
- proceeds	**(18,113)**	**(36,037)**	**-**	**-**	**(54,150)**
- losses on investments sold in the year	**(2,934)**	**(67)**	**-**	**-**	**(3,001)**
Gains/(losses) on investments held at end of year	**5,361**	**1,484**	**(153)**	**-**	**6,692**
Valuation at end of year	**4,349**	**41,886**	**924**	**-**	**47,159**

(ii) In the year ended 31 December 2008

	Quoted UK £000	Quoted Overseas £000	Unquoted UK £000	Unquoted Overseas £000	Total 2008 £000
Book cost at beginning of year	17,325	38,759	725	1,000	57,809
Gains on investments held at beginning of year	1,078	12,690	181	-	13,949
Valuation at beginning of year	18,403	51,449	906	1,000	71,758
Purchases at cost	13,024	31,186	1,004	-	45,214
Sales:					
- proceeds	(12,241)	(35,035)	-	-	(47,276)
- gains on investments sold in year	3	2,148	-	-	2,151
Losses on investments held at end of year	(5,340)	(12,181)	(458)	-	(17,979)
Valuation at end of year	13,849	37,567	1,452	1,000	53,868

Comprising:

	Total year ended 31 December 2009 £000	Total year ended 31 December 2008 £000
Book cost at end of year	**44,499**	57,898
Gains/(losses) on investments held at year end	**2,660**	(4,030)
Valuation at end of year	**47,159**	53,868

Transaction costs on purchases for the year ended 31 December 2009 amounted to £133,000 (2008: £142,000) and on sales for the year they amounted to £124,000 (2008: £107,000).

8. INVESTMENTS continued

(c) GAINS/(LOSSES) ON INVESTMENTS

	Total year ended 31 December 2009 £000	Total year ended 31 December 2008 £000
(Loses)/gains on investments sold in year	**(3,001)**	2,151
Gains/(losses) on investments held at year end	**6,692**	(17,979)
Total gains/(losses) on investments	**3,691**	(15,828)

A list of the Company's investments is shown on page 7, a sector breakdown and a geographical allocation is shown on page 5.

9. DEBTORS

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
Accrued income and prepayments	**144**	279
Overseas tax recoverable	**100**	49
	244	328

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
Purchases for future settlement	**3,116**	-
Other creditors	**229**	121
	3,345	121

11. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	31 December 2009 £000	31 December 2008 £000
16,336,396 Zero Dividend Preference shares of £0.01	**163**	191
Capital reserve	**9,889**	8,013
Allocation of special reserve	**14,735**	18,952
	24,787	27,156

The allotted, issued and fully paid number of Zero Dividend Preference shares of £0.01 as at 31 December 2009 is 16,336,396 (31 December 2008: 19,143,433). On 18 December 2009 the Company repurchased 2,807,037 Zero Dividend Preference shares at 156.00p per share. The accrued capital entitlement at that date was 151.39p per share.

12. SHARE CAPITAL

	Year ended 31 December 2009 Number of shares	Year ended 31 December 2009 £000	Year ended 31 December 2008 Number of shares	Year ended 31 December 2008 £000
Allotted, issued and fully paid:				
Ordinary shares of £0.01	**13,103,065**	**131**	18,143,433	181
	13,103,065	**131**	18,143,433	181

Under the tender offer (see pages 14 and 15) 5,040,368 Ordinary shares were bought back for cancellation for £9,992,000 in the year to 31 December 2009 (31 December 2008: nil).

13. CAPITAL RESERVE

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
Opening balance	**14,137**	31,607
Gains/(losses) on investments – held at fair value through profit or loss	**3,691**	(15,828)
Provision for premium on redemption of Zero Dividend Preference shares	**(2,005)**	(1,777)
Tax relief on expenses charged to capital	**-**	150
Performance fee	**-**	(15)
VAT received from HMRC in respect of performance fees	**284**	-
Closing balance	**16,107**	14,137

14. FINANCIAL COMMITMENTS

At 31 December 2009 there were no commitments in respect of unpaid calls and underwritings (31 December 2008: nil).

15. RETURN PER SHARE- BASIC

Ordinary shares

Total return per Ordinary share is based on the net total return on ordinary activities after taxation of £3,799,000 (31 December 2008: £(15,935,000)).

These calculations are based on the weighted number of 17,950,104 Ordinary shares in issue during the year to 31 December 2009 (2008: 18,143,433 Ordinary shares).

The return per Ordinary share can be further analysed between revenue and capital as below:

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
Net revenue return	**1,829**	1,535
Net capital return/(loss)	**1,970**	(17,470)
Net total return/(loss)	**3,799**	(15,935)

15. RETURN PER SHARE- BASIC continued

Ordinary shares continued

	Year ended 31 December 2009	Year ended 31 December 2008
Weighted average number of Ordinary shares in issue during the year	**17,950,104**	18,143,433
Revenue return per Ordinary share	**10.19p**	8.46p
Capital return/(loss) per Ordinary share	**10.97p**	(96.29)p
Total return/(loss) per Ordinary share	**21.16p**	(87.83)p

Zero Dividend Preference shares

The return per Zero Dividend Preference share is based on the annualised gross redemption yield of 6.35% (2008: 7.0%). This calculation is based on the weighted average number of 19,035,765 Zero Dividend Preference shares in issue during the year to 31 December 2009 (2008: 19,143,433 Zero Dividend Preference shares).

The Company does not have any dilutive securities.

16. NET ASSET VALUE PER SHARE

The net asset value per share and the net assets available to each class of share, are as follows:

	Net asset value per share 31 December 2009 Pence	Net assets available 31 December 2009 £000	Net asset value per share 31 December 2008 Pence	Net assets available 31 December 2008 £000
13,103,065 Ordinary shares (2008: 18,143,433) in issue	**192.87**	**25,272**	180.78	32,799
16,336,396 Zero Dividend Preference shares* (2008: 19,143,433) in issue	**151.73**	**24,787**	141.86	27,156

** Classified as a liability.*

17. RECONCILIATION OF TOTAL RETURN BEFORE FINANCE COSTS AND TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
Total return on ordinary activities before finance costs and taxation	**6,043**	(13,977)
Capital return before finance costs and taxation	**(3,975)**	15,843
Other debtors	**5**	(2)
Accrued income and prepayments	**130**	122
Other creditors	**108**	(1,801)
Performance fee capitalised	**-**	(15)
VAT recovered from HMRC in respect of performance fees capitalised	**284**	-
Net cash inflow from operating activities	**2,595**	170

18. ANALYSIS OF CHANGES IN NET DEBT

	Year ended 31 December 2008 £000	Cashflow £000	Non-cash movements £000	Year ended 31 December 2009 £000
Cash at bank	5,880	121	-	**6,001**
Debt due after more than one year	(27,156)	4,374	(2,005)	**(24,787)**
	(21,276)	4,495	(2,005)	**(18,786)**

19. TRANSACTIONS WITH THE INVESTMENT MANAGER

Details of the investment management fee charged by Premier Fund Managers Limited is set out in note 3. In addition, Premier Asset Management Limited acts as Company Secretary and the fee for secretarial services is set out in note 4. At 31 December 2009 £48,688 (31 December 2008: £56,358) of these fees remained outstanding.

20. RISK MANAGEMENT POLICIES AND PROCEDURES

As an investment trust the Company invests in equities and other investments for the long-term so as to secure its investment objectives stated on page 15. In pursuing its investment objectives, the Company is exposed to a variety of risks that could result in either a reduction in the Company's net assets or a reduction of the profits available for dividends.

These risks, include market risk (comprising currency risk, interest rate risk, and other price risk), liquidity risk, and credit risk, and the Directors' approach to the management of them are set out below.

The objectives, policies and processes for managing the risks, and the methods used to measure the risks, that are set out below, have not changed from the previous accounting period.

(a) MARKET RISK

The fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. This market risk comprises three elements – currency risk (see (b) below), interest rate risk (see (c) below) and other price risk (see (d) below). The Board of Directors reviews and agrees policies for managing these risks, which have remained substantially unchanged from those applying in the year ended 31 December 2008. The Company's Investment Manager assesses the exposure to market risk when making each investment decision, and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

(b) CURRENCY RISK

Certain of the Company's assets, liabilities, and income, are denominated in currencies other than sterling (the Company's functional currency, and in which it reports its results). As a result, movements in exchange rates may affect the sterling value of those items.

Management of the risk

The Investment Manager monitors the Company's exposure and reports to the Board on a regular basis.

The Investment Manager does not intend to deploy active hedging against exchange rate fluctuations.

Income denominated in foreign currencies is converted to sterling on receipt. The Company does not use financial instruments to mitigate the currency exposure in the period between the time that income is included in the financial statements and its receipt.

20. RISK MANAGEMENT POLICIES AND PROCEDURES continued

Foreign currency exposures

There were no monetary items that have foreign currency exposure at 31 December 2009 (31 December 2008: nil). An analysis of the Company's equity investments that are priced in a foreign currency is:

	As at 31 December 2009 Investments £000	As at 31 December 2008 Investments £000
Canadian Dollar	**1,220**	-
Euro	**14,261**	17,096
Hong Kong Dollar	**5,107**	3,538
Japanese Yen	**-**	1,281
Malaysian Ringgit	**538**	1,561
Singapore Dollar	**1,920**	977
Thailand Bhats	**2,687**	3,639
US Dollar	**15,253**	9,150
	40,986	37,242

Foreign currency sensitivity

The following table illustrates the sensitivity of the return on ordinary activities after taxation for the year and the equity in regard to the Company's monetary financial assets to changes in the exchange rates for the portfolio's significant currency exposures, these being Sterling/US Dollar and Sterling/Euro.

It assumes the following changes in exchange rates:

Sterling/US Dollar +/- 9% (2008: 8%)

Sterling/Euro +/- 9% (2008: 8%)

These percentages have been determined based on the average market volatility in exchange rates, in the previous 12 months.

If sterling had strengthened against the currencies shown, this would have had the following effect:

	2009 US Dollar £000	2009 Euro £000	2008 US Dollar £000	2008 Euro £000
Projected change	**9%**	**9%**	8%	8%
Impact on revenue return	**54**	**23**	23	77
Impact on capital return	**1,373**	**1,283**	732	1,368
Total return after taxation for the year	**1,427**	**1,306**	755	1,445
Equity	**1,427**	**1,306**	755	1,445

20. RISK MANAGEMENT POLICIES AND PROCEDURES continued

If sterling had weakened against the currencies shown, this would have had the following effect:

	2009 US Dollar £000	2009 Euro £000	2008 US Dollar £000	2008 Euro £000
Projected change	**9%**	**9%**	8%	8%
Impact on revenue return	**(54)**	**(23)**	(23)	(77)
Impact on capital return	**(1,373)**	**(1,283)**	(732)	(1,368)
Total return after taxation for the year	**(1,427)**	**(1,306)**	(755)	(1,445)
Equity	**(1,427)**	**(1,306)**	(755)	(1,445)

In the opinion of the Directors, the above sensitivity analyses are not representative of the year as a whole, since the level of exposure changes frequently as part of the currency risk management process used to meet the Company's objectives.

(c) INTEREST RATE RISK

Interest rate movements may affect the level of income receivable on cash deposits. The Company, generally, does not hold significant cash balances, but when it does it seeks to limit exposure to any one bank to 10% of net assets.

Cash at bank at 31 December 2009 (and 31 December 2008) was held at floating interest rates, linked to current short-term market rates.

(d) OTHER PRICE RISK

Other price risks (i.e. changes in market prices other than those arising from interest rate risk or currency risk) may affect the value of the quoted and unquoted equity investments.

Management of the risk

The Board of Directors manages the market price risks inherent in the investment portfolios by ensuring full and timely access to relevant information from the Investment Manager. The Board meets regularly and at each meeting reviews investment performance. The Board monitors the Manager's compliance with the Company's objectives.

When appropriate, the Company manages its exposure to risk by using futures contracts or by buying put options on indices and on quoted equity investments in its portfolio.

Concentration of exposure to other price risks

A sector breakdown and geographical allocation of the portfolio is contained in the Investment Manager's Report on page 5.

Other price risk sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and the equity to an increase or decrease of 10% in the fair values of the Company's equities (including equity through options). This level of change is considered to be reasonably possible based on observation of current market conditions. The sensitivity analysis is based on the Company's equities and equity exposure through options at each balance sheet date, with all other variables held constant.

20. RISK MANAGEMENT POLICIES AND PROCEDURES continued

	Increase in fair value 2009 £000	Decrease in fair value 2009 £000	Increase in fair value 2008 £000	Decrease in fair value 2008 £000
Income statement – return after taxation:				
Capital return – increase/(decrease)	**4,716**	**(4,716)**	5,387	(5,387)
Total return after taxation – increase/(decrease)	**4,716**	**(4,716)**	5,387	(5,387)
Equity	**4,716**	**(4,716)**	5,387	(5,387)

(e) LIQUIDITY RISK

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

Management of the risk
Liquidity risk is not significant as the majority of the Company's assets are investments in quoted equities that are readily realisable. The Company does not have any borrowing facilities.

The investments in unquoted securities may have limited liquidity and be difficult to realise. At 31 December 2009 unquoted securities represented 2.0% of the total investment portfolio (31 December 2008: 4.6%).

The Board gives guidance to the Investment Manager as to the maximum amount of the Company's resources that should be invested in any one holding. The policy is that the Company should remain fully invested in normal market conditions and that short-term borrowing be used to manage short-term cash requirements.

(f) CREDIT RISK

The failure of the counterparty to a transaction to discharge its obligations under that transaction could result in the Company suffering a loss.

Management of the risk
This risk is not significant, and is managed as follows:

- investment transactions are carried out with a large number of brokers, whose credit-standing is reviewed periodically by the Investment Manager, and limits are set on the amount that may be due from any one broker; and
- cash at bank is held only with reputable banks with high quality external credit ratings.

None of the Company's financial assets are secured by collateral or other credit enhancements.

20. RISK MANAGEMENT POLICIES AND PROCEDURES continued

(g) FAIR VALUE MEASUREMENTS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The fair values of the financial assets and liabilities are either carried in the balance sheet at their fair value (investments and derivatives), or the balance sheet amount is a reasonable approximation of fair value (due from brokers, dividends receivable, accrued income, due to brokers, accruals and cash balances).

The table below sets out fair value measurements using the FRS29 fair value hierarchy.

Financial assets at fair value through profit or loss at 31 December 2009

	Level 1 £000	Level 3 £000	Total £000
Equity investments	**46,235**	**924**	**47,159**
Total	**46,235**	**924**	**47,159**

Categorisation within the hierachy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset as follows:

Level 1 – valued using quoted prices in active markets for identical assets

Level 2 – valued by reference to valuation techniques using observable inputs other than quoted prices included within Level 1 (there are no Level 2 investments at 31 December 2009)

Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data

The valuation techniques used by the Company are explained in the accounting policies note on page 40.

A reconciliation of fair value measurements in Level 3 is set out below:

Level 3 financial assets at fair value through profit or loss at 31 December 2009

	Equity investments £000	Total £000
Opening balance	**2,452**	**2,452**
Transfers out of Level 3	**(1,375)**	**(1,375)**
Total gains or losses included in profit or loss for assets held at the end of year	**(153)**	**(153)**
Closing balance	**924**	**924**

Transfers out of Level 3 relate to investments which have obtained a stock exchange listing during the year, having previously been unquoted.

Financial liabilities

The listed bid price has been used to determine the fair value of the Zero Dividend Preference shares:

	As at 31 December 2009		As at 31 December 2008	
	Book value £m	Level 1 £m	Book value £m	Level 1 £m
Zero Dividend Preference shares	**24.8**	**25.5**	27.1	27.2

20. RISK MANAGEMENT POLICIES AND PROCEDURES continued

(h) CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Company's capital management objectives are:

- to ensure that the Company will be able to continue as a going concern; and
- to maximise the income and capital return to its equity shareholders through an appropriate balance of equity capital and debt.

The Company's capital at 31 December comprises:

	2009 £000	2008 £000
Debt:		
Zero Dividend Preference shares	**(24,787)**	(27,156)
Equity:		
Equity share capital	**131**	181
Retained earnings and other reserves	**25,141**	32,618
	25,272	32,799
Total Capital	**50,059**	59,955
Debt as a pecentage of total capital	**49.5%**	45.3%

The Company's objectives, policies and processes for managing capital are unchanged from the preceding accounting period.

The Company is subject to several externally imposed capital requirements:

- As a public company, the Company has to have a minimum share capital of £50,000.
- In order to be able to pay dividends out of profits available for distribution by way of dividends, the Company has to be able to meet one of the two capital restriction tests imposed on investment companies by company law.

These requirements are unchanged since last year and the Company has complied with them.

Glossary of terms

DISCOUNT/PREMIUM
If the share price of an investment trust is lower than the NAV per share, the shares are said to be trading at a discount. The size of the discount is calculated by subtracting the share price from the NAV per share and is usually expressed as a percentage of the NAV per share. If the share price is higher than the NAV per share, the shares are said to be trading at a premium.

GEARING
Also known as leverage, particularly in the USA. Gearing is introduced when a company borrows money to buy additional investments. The objective is to enhance returns to shareholders but there is the risk of the opposite effect if the additional investments fall in value.

GROSS REDEMPTION YIELD
The return on a fixed-interest security, or any investment with a known life, expressed as an annual percentage and without any deduction for tax. Redemption yield measures the capital as well as income return on investments with a fixed life.

HURDLE RATE
The compound rate of growth of the total assets required each year until the wind-up date for shareholders to receive either a predetermined redemption price or, in some cases, a return of the amount originally invested. Any class of share ranking for prior payment should be taken into account in this calculation.

NET ASSET VALUE ("NAV")
The NAV is the assets attributable to shareholders expressed as an amount per individual share. The assets attributable to shareholders is the total value of all a companies assets, at current market value, having deducted all prior charges at their par value (or at their asset value).

SPLIT CAPITAL INVESTMENT TRUST
An investment trust with two or more classes of share in issue, each class having specified entitlements to income or capital. Typical classes of share include ordinary shares, capital shares, zero dividend preference shares and income and residual capital (or geared ordinary) shares.

TOTAL RETURN
The combined effect of any dividends paid, together with the rise or fall in the share price or NAV. Total return statistics enable the investor to make performance comparisons between companies with different dividend policies. Any dividends (after tax) received by a shareholder are assumed to have been reinvested in either additional shares of the company at the time the shares go ex-dividend (the share price total return) or in the assets of the company at its NAV per share (the NAV total return).

Shareholder information

FINANCIAL CALENDAR

Company's year-end	31 December
Annual results announced	early March
Annual General Meeting	21 April 2010
Company's half-year end	30 June
Half-year results announced	early August
Dividend payments	quarterly at the end of March, June, September and December

SHARE PRICE AND PERFORMANCE INFORMATION

The Ordinary shares and Zero Dividend Preference shares are listed on the London Stock Exchange. The mid-market prices are quoted daily in the *Financial Times* and *The Daily Telegraph*.

Information about the Company can be obtained directly via www.premierassetmanagement.co.uk. Any enquiries can also be e-mailed to premier@premierfunds.co.uk.

SHARE DEALING

A share dealing service is available through Premier on 01296 390408, or alternatively shares can be purchased through your usual stockbroker.

Information on the Premier ISA can be obtained by contacting Premier on 01483 400400.

SHARE REGISTER ENQUIRIES

The register for the Ordinary shares and Zero Dividend Preference shares is maintained by Capita Registrars. In the event of queries regarding your holding, please contact the Registrar on 0871 664 0300 (calls cost 10p per minute plus network extras, lines are open Monday to Friday 8.30 a.m. to 5.30 p.m.); overseas +44 208 639 3399; or e-mail shareholder.services@capitaregistrars.com. Changes of name and/or address must be notified in writing to the Registrar.

PREMIER FUND MANAGERS LIMITED

Other investment companies managed by Premier are:

Acorn Income Fund Limited
Premier Renewable Energy Fund Limited
Global Special Opportunities Trust PLC

Further details of these funds can be obtained from Premier on 01483 400400.
E-mail: premier@premierfunds.co.uk
www.premierassetmanagement.co.uk

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The Association of
Investment Companies

A member of the Association of Investment Companies.

Notice of annual general meeting

to the members of Premier Energy and Water Trust PLC

Notice is hereby given that the Annual General Meeting of the Company will be held at the offices of Premier Asset Management Limited, Eastgate Court, High Street, Guildford, Surrey GU1 3DE on Wednesday, 21 April 2010, at 2.00 p.m. to consider and, if thought fit, pass the following resolutions, which will be proposed as to resolutions 1, 2, 3, 4, 5 and 6 as ordinary resolutions and as to resolutions 7 and 8 as special resolutions:

ORDINARY RESOLUTIONS

1. **To approve the Directors' Remuneration Report for the year ended 31 December 2009.**

2. **To receive the Directors' Report and Financial Statements for the year ended 31 December 2009.**

3. **To re-elect Mr Michael Wigley as a Director of the Company.**

4. **To re-appoint Ernst & Young LLP as Auditors of the Company and to authorise the Board to determine their remuneration.**

5. **Authority to allot new shares:**

   THAT, the Directors be and they are hereby generally and unconditionally authorised, in accordance with section 551 of the Companies Act 2006, to allot shares in the Company and to grant rights ("relevant rights") to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £29,439, representing 1,310,300 Ordinary shares of 1p each and 1,633,600 ZDP shares of 1p each, (being approximately 10% of the issued Ordinary share capital and 10% of the issued ZDP share capital of the Company as at 5 March 2010 being the latest practicable date prior to the publication of this Notice of Meeting) PROVIDED THAT this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may, at any time prior to the expiry of such authority, make an offer or agreement which would or might require shares to be allotted or relevant rights to be granted after the expiry of such authority and the Directors may allot shares or grant relevant rights in pursuance of such an offer or agreement as if such authority had not expired.

6. **Authority to allot Ordinary shares at a discount:**

   THAT, subject to and conditional upon the passing of resolution 5 above (the "Resolution"), the Directors be and they are hereby generally and unconditionally authorised, in accordance with LR 15.4.11 of the United Kingdom Listing Rules to allot Ordinary shares for cash pursuant to the Resolution at a price which represents a discount to the net asset value attributable to the Ordinary shares as at the date of such issue.

SPECIAL RESOLUTIONS

7. **Authority to disapply pre-emption rights:**

   THAT, subject to the passing of resolution numbered 5 above ("Section 551 Resolution"), the Directors of the Company be empowered pursuant to section 570 of the Companies Act 2006 (the "Act") to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the Section 551 Resolution as if section 561(1) of the Act did not apply to such allotment, provided that this power shall be limited to:

   (a) the allotment of equity securities (otherwise than pursuant to sub-paragraph (b) below) up to an aggregate nominal amount of £13,103; and

(b) the allotment of equity securities to (a) all holders of ordinary shares of 1p each in the capital of the Company ("Ordinary shares") in proportion (as nearly as may be) to the respective numbers of such Ordinary Shares held by them and (b) to holders of other equity securities as required by the rights of those securities (but subject to such exclusions, limits or restrictions or other arrangements as the Directors of the Company may consider necessary or appropriate to deal with fractional entitlements, record dates or legal, regulatory or practical problems in or under the laws of, or requirements of, any regulatory body or any stock exchange in any territory or otherwise howsoever); and

such power shall expire at the conclusion of the next Annual General Meeting of the Company to be held in 2011, but so that this power shall enable the Company to make an offer or agreement before such expiry which would or might require equity securities to be allotted after such expiry and the Directors of the Company may allot equity securities in pursuance of any such offer or agreement as if such expiry had not occurred.

8. Authority to repurchase the Company's shares:

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 Ordinary shares of 1p each and of Zero Dividend Preference shares of 1p each in the capital of the Company (together the "Shares"), provided that:

(a) the maximum number of Shares hereby authorised to be purchased shall be 1,964,149 Ordinary shares and 2,448,826 Zero Dividend Preference shares;
(b) the minimum price which may be paid for a Share is 1 pence;
(c) the maximum price which may be paid for an Ordinary share is an amount equal to the highest of (i) 105% of the average of the middle market quotation for an Ordinary share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary share is purchased and (ii) the higher of the price of the last independent trade and the highest current bid;
(d) the maximum price which may be paid for a Zero Dividend Preference share is its accrued capital entitlement as at the business day immediately preceding the day on which the Zero Dividend Preference share is purchased;
(e) the authority hereby conferred shall expire at the earlier of the conclusion of the Annual General Meeting of the Company in 2011, or 20 October 2011 unless such authority is renewed prior to such time; and
(f) the Company may make a contract to purchase Shares under the authority hereby conferred prior to expiry of such authority which will be or may be executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract.

Any shares so purchased will be cancelled in accordance with the provisions of the Act.

By order of the Board

Premier Asset Management Limited
Secretary
8 March 2010

Notes to the notice of annual general meeting

1. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A shareholder may not appoint more than one proxy to exercise the rights attached to any one share. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. If you do not have a proxy form and believe that you should have one, or if you require additional forms, please contact the Company's registrars, Capita Registrars (contact details can be found on page 63).
2. To be valid any proxy form or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand at the offices of the Company's registrars, Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU no later than 2.00 p.m. on Monday, 19 April 2010.
3. The return of a completed proxy form, other such instrument or any CREST Proxy Instruction (as described in paragraph 9 below) will not prevent a shareholder attending the Annual General Meeting and voting in person if he/she wishes to do so.
4. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
5. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 1 and 2 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.
6. To be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast), Shareholders must be registered in the Register of Members of the Company at 2.00 p.m. on Monday, 19 April 2010 (or, in the event of any adjournment, on the date which is two days before the time of the adjourned meeting for the purposes of which no account is to be taken of any part of a day that is not a working day). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
7. As at 5 March 2010 (being the last business day prior to the publication of this Notice) the Company's issued share capital consisted of 13,103,065 Ordinary shares and 16,336,396 Zero Dividend Preference shares, carrying one vote each. Therefore, the total voting rights in the Company as at 5 March 2010 are 29,439,461.
8. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so 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 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.

Notes to the notice of annual general meeting

continued

9. 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 instruction, as described in the CREST Manual (available via www.euroclear.com/CREST). The message, regardless of whether it constitutes the appointment of a proxy or is 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 issuer's agent (ID RA10) by 2.00 p.m. on Monday, 19 April 2010. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

10. 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 message. 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, to procure that his or her 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 system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

11. 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.

12. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

13. Under section 527 of the Companies Act 2006 members meeting the threshold requirements set out in that section have the right to require the company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.

Notes to the notice of annual general meeting

continued

14. Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

15. A copy of this notice, and other information required by s311A of the Companies Act 2006, is available at the Investment Manager's website www.premierassetmanagement.co.uk

Directors and advisers

Directors	Geoffrey Burns (Chairman) Adam Cooke Ian Graham Michael Wigley
Investment Manager	Premier Fund Managers Limited Eastgate Court High Street Guildford Surrey GU1 3DE Telephone: 01483 306 090 www.premierassetmanagement.co.uk Authorised and regulated by the Financial Services Authority
Secretary and Registered Office	Premier Asset Management Limited Eastgate Court High Street Guildford Surrey GU1 3DE Telephone: Mike Nokes 020 7982 1260
Company Number	4897881
Website	www.premierassetmanagement.co.uk
Registrars	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0GA Telephone: 0871 664 0300 (calls cost 10p per minute plus network extras, lines are open Monday to Friday 8.30 a.m. to 5.30 p.m.) Overseas: +44 208 639 3399 E-mail: shareholder.services@capitaregistrars.com
Auditors	Ernst & Young LLP 1 More London Place London SE1 2AF
Stockbroker and Financial Adviser	J.P. Morgan Cazenove 10 Aldermanbury London EC2V 7RF Telephone: 020 7325 1000 www.jpmorgan.com/cazenove

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