

4897881

# Premier Energy and Water Trust PLC

**annual report & accounts**

for the year ended

31 December 2011

WEDNESDAY



\*A15NWRM1\*

A30

28/03/2012

#250

COMPANIES HOUSE

## 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 2010

Contents			
Investment objectives		Independent auditor's report	32
Company highlights	1	Income statement	34
Company summary	2	Balance sheet	35
Financial calendar	2	Reconciliation of movements in shareholders' funds	36
Chairman's statement	3	Cash flow statement	37
Investment manager's report	5	Notes to the financial statements	38
Investment portfolio	8	Glossary of terms	54
Company details	9	Shareholder information	55
Financial summary	12	Notice of annual general meeting	56
Directors	14	Notes to the notice of annual general meeting	59
Investment manager and secretary	14	Directors and advisers	61
Directors' report	15		
Directors' remuneration report	29		
Statement of directors' responsibilities in respect of the financial statements	31		

## Company highlights

### Total return performance

	% change
Total Assets Total Return <sup>1</sup>	-11.3%
FTSE All World Total Return Index <sup>2</sup> (£)	-6.6%
Bloomberg World Utilities Total Return Index <sup>2</sup> (£)	-8.6%
FTSE 100 Total Return Index <sup>2</sup>	-2.2%

### Share price and NAV<sup>3</sup> returns

		31 December 2011	31 December 2010	% change
Zero Dividend Preference share	NAV <sup>3</sup>	172.16p	161.64p	+6.5%
	Mid price	168.25p	173.50p	-3.0%
Ordinary share	NAV <sup>3</sup>	126.20p	190.81p	-33.9%
	Mid price	104.50p	155.75p	-32.9%
Revenue return per Ordinary share		10.90p	9.33p	
Net dividends declared per Ordinary share		8.90p	8.10p	

**Zero Dividend Preference shares**  
5 Year Performance to 31 December 2011 (rebased to 100)

**Ordinary shares**  
5 Year Performance to 31 December 2011 (rebased to 100)

**GRAPHIC REMOVED**

**GRAPHIC REMOVED**

<sup>1</sup> Total return performance, adjusted for any dividends distributed and declared

<sup>2</sup> Source Bloomberg

<sup>3</sup> Calculated in accordance with the Articles of Association (see note 17 on page 47)

---

## Company summary

Launch Date	4 November 2003																		
Domiciled	UK																		
Year-end	31 December																		
Shareholders' Funds	£58.84 million†																		
Market Capitalisation	£53.47 million																		
Bank Loan	Nil																		
Zero Dividend Preference shares	21,180,373 aiming to redeem at 221.78p on 31 December 2015																		
Ordinary shares	17,068,480																		
Dividends	Paid on Ordinary shares																		
Dividend History	<table><thead><tr><th>In respect of year ended 31 December</th><th>Total dividends declared</th></tr></thead><tbody><tr><td>2011</td><td>8.90p</td></tr><tr><td>2010</td><td>8.10p</td></tr><tr><td>2009</td><td>9.40p*</td></tr><tr><td>2008</td><td>7.35p</td></tr><tr><td>2007</td><td>7.00p</td></tr><tr><td>2006</td><td>6.90p</td></tr><tr><td>2005</td><td>6.75p</td></tr><tr><td>2004</td><td>7.875p*</td></tr></tbody></table>	In respect of year ended 31 December	Total dividends declared	2011	8.90p	2010	8.10p	2009	9.40p*	2008	7.35p	2007	7.00p	2006	6.90p	2005	6.75p	2004	7.875p*
In respect of year ended 31 December	Total dividends declared																		
2011	8.90p																		
2010	8.10p																		
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 40% to revenue and 60% to capital, 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																		

† Adjusted for any dividends distributed

\* Includes a special dividend of 1.70p

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

## Financial Calendar

Company's year-end	31 December
Annual results announced	mid March
Annual General Meeting	25 April 2012
Company's half-year end	30 June
Half-year results announced	early August
Dividend payments – 2012	at the end of March, June, September and December

---

# Chairman's statement

for year to 31 December 2011

## Overview of the year

2011 provided a number of challenges to the global economy. Overall debt levels remain excessively high (unsustainably so in many countries) whilst austerity programmes, intended to stabilise debt levels, threaten to choke the feeble economic growth still remaining. Debt levels will only be addressed by a prolonged period of higher national savings, or severe restructuring. The alternative is monetary expansion and currency devaluation, and western economies appear to have chosen this path, although Europe has come late to this particular party, and via the back door. The eventual consequence of quantitative easing, however it occurs, is likely to be inflation, which will pose a whole new challenge.

Over the course of the last twelve months the global energy and water sectors, generally, performed poorly, a result of the gloomy outlook for electricity, coupled with reduced regulatory returns notably in Europe.

## Performance

The gross assets of Premier Energy and Water Trust PLC ("the Company") declined by 13.2% over the year. When income generated over the period is taken into account the fall in total return over the period was 11.3%. This compared with a decline in the Bloomberg World Utilities Total Return Index of 8.6% while the FTSE All World Total Return Index fell by 6.6% and the FTSE 100 Total Return Index by 2.2%. Your Company does not have any formal benchmarks, however, we have provided a range of indices against which performance over the period may be assessed. These are shown on page 1 of the report and accounts. The Company invests predominantly in the global energy and water sectors which, while perceived as defensive, may not be well correlated with overall equity markets.

The Company's capital structure is comprised of Ordinary and Zero Dividend Preference shares ("ZDP shares"). The ZDP shares are entitled to a predetermined capital sum of 221.78p at the planned wind up date of 31 December 2015. As a consequence the assets attributable to the Company's Ordinary shares are geared through this prior capital entitlement such that relatively small rises and falls in the Company's total assets can lead to significantly greater rises or falls in assets attributable to Ordinary shareholders. Thus the decline in total assets of 11.3% (on a total return basis) led to a fall of 33.9% in Ordinary share assets.

Since the Company commenced its activities on the 4 November 2003 the FTSE 100 Index has produced a total return of 72.2% (source Bloomberg). Over the same period the total assets of your Company have produced a total return of 87.3% and the ordinary shares have produced a total return of 68.8%.

---

## Chairman's statement

continued

### Dividends

Despite the difficult overall investment environment, the global energy and water sectors provided healthy dividend income. The Company benefited from this and generated a revenue return of 10.90p per Ordinary share (2010 9.33p per share). Your Board has declared a fourth interim dividend of 4.0p per Ordinary share which will be paid on 30 March 2012 to shareholders on the register as at the close of business on 2 March 2012. The shares were marked ex dividend on 29 February 2012. Total dividends paid in respect of the year were 8.9p per share, an increase of 9.9% over the 8.1p per Ordinary paid in the previous year. The 8.9p per share dividend represents a yield of 8.5% on the closing Ordinary share price on 31 December 2011. Your Board and Investment Manager are committed to maintaining a progressive dividend policy.

### Shareholder relations

The Board and the Investment Manager welcome contact both with the Company's existing investors and with potential new shareholders. The Investment Manager has met with the Company's larger shareholders during the year. The Company's Annual General Meeting is on Wednesday 25 April 2012 at the offices of Premier Asset Management Limited in Guildford and will commence at 2pm. It is hoped that shareholders will be able to attend the meeting on this date.

### Outlook

It would be satisfying to foresee a radical change in the fortunes of the global energy and water sectors, but with growth expectations in emerging markets in decline, and conditions at best stagnant in the mature world, the vital component of demand is not there. With Western debt unsustainably high, and sovereign defaults remaining a possibility, your Company continues to face challenging conditions. In the light of this your Board and Investment Manager have endeavoured to provide some relief through an ongoing emphasis on income generation. With corporate balance sheets in reasonable health, we believe the defensive and income producing qualities of utility companies should provide relative attractions in a low growth, low income environment.

**Geoffrey Burns**

Chairman

*13 March 2012*

# Investment manager's report

for the period 1 January to 31 December 2011

## Overview

Stock markets generally performed poorly during 2011 as the European debt crisis gathered momentum causing considerable uncertainty to the growth outlook. The global energy and water sectors, generally a safe haven in times of uncertainty, were not immune from this weakness although there was a wide disparity in performance between US and European stocks.

## Portfolio Activity

Following another period of poor performance by the European energy sector we decided, towards the end of the period, to substantially increase investment here. It seemed to us that the negative impact of political interference and poor economic growth prospects were now outweighed by attractive long term valuations and sustainable dividend yields. We added a new investment in Enagas, the regulated Spanish utility, to the portfolio. Enagas pays a sustainable dividend yield of 8% backed by a strong balance sheet and attractive regulatory regime. We also substantially increased the Company's exposure to the French electricity and gas company GDF Suez, now the Company's largest investment. Like Enagas, GDF Suez pays a high and sustainable dividend and through its acquisition of International Power in 2010 should provide growth from its internationally diversified portfolio.

We also increased the Company's investment in the UK's National Grid. Changes to regulation in the UK together with substantial increases to the investment required to support new UK power plants should provide substantial growth over the next few years.

## Geographical allocation at 31 December 2011

USA 16.2% (26.8%)  
China/HongKong 12.2% (15.2%)  
France 11.1% (7.9%)  
United Kingdom 10.7% (8.0%)  
Australia 6.7% (3.2%)  
Thailand 6.3% (5.9%)  
Cash/Net current assets 5.0% (9.2%)  
Spain 4.7% (1.1%)  
Italy 4.4% (3.9%)  
Brazil 3.8% (0%)  
Finland 3.7% (2.7%)  
Singapore 2.4% (2.4%)  
Malaysia 2.4% (1.1%)  
Czech Republic 2.4% (0%)  
Germany 2.3% (1.6%)  
Canada 1.3% (6.4%)  
Portugal 1.4% (1.2%)  
South Korea 1.3% (0%)  
Qatar 1.0% (0%)  
Austria 0.7% (0%)  
Ireland 0% (1.8%)  
India 0% (1.6%)

2010 comparative % figures shown in brackets

## Asset allocation at 31 December 2011

Electricity 51.3% (48.6%)  
Water 22.0% (21.3%)  
Gas 17.8% (10.7%)  
Infrastructure 3.9% (10.2%)  
Cash/Net current assets 5.0% (9.2%)

2010 comparative % figures shown in brackets

---

## Investment manager's report

continued

One of the portfolio's most successful investments over the period proved to be EDP in Portugal. The sale of a 20% stake in the company to Three Gorges, the Chinese hydro electric company, prompted a significant rise in EDP's share price. We took this opportunity to reduce the investment securing a sound profit in so doing.

The performance of the portfolio's investments in the world's largest water and sewerage companies, Suez Environment and Veolia Environment, have proved disappointing. Cost competition in their domestic French market, exacerbated by a lack of strategic focus, has adversely affected earnings, in turn causing dividends to come under significant pressure. However, we think the decline in share prices overdone and increased exposure to Veolia towards the end of the period. This proved a sound investment as news of a strategic restructuring has prompted a sharp revival in Veolia's share price post the end of the period.

Growth estimates for Latin America appear attractive compared with much of the rest of the world, whilst the general political outlook for the region is more stable than for some considerable time. We have added two of the most highly regulated utility stocks in the region. CIA de Transmissao de Energia Eletrica Paulista which transmits electricity within the state of Sao Paulo, and CIA de Saneamento de Minas Gerais, which supplies water to the state of Minas Gerais. Since making these investments the shares of both companies have performed well.

The Chilean economy is forecast to grow strongly over the next few years and we added Empresa Nacional de Electricidad, a hydroelectric generator. The stock should benefit from the anticipated better rainfall in Chile during 2012 as La Nina subsides.

We remain positive on the outlook for the Thai market where the Company has investments totalling just over 6% of total assets in Thai Tap Water, EGCO and Bangkok Expressway. Inflation in the country has peaked and interest rates are being cut, an encouraging environment for these stocks. In Hong Kong and China the Company's holdings are little changed, with the exception of some profits taken in Guangdong investments following a strong share price performance. Just after the year end we visited most of our holdings in Hong Kong and China, and it is clear that, despite some short term uncertainty, the longer term opportunities, particularly in waste water and sewerage, are significant.

In the US we continue to prefer defensive stocks remaining biased towards the network operators over pure generators and integrated plays. The sale of Portland General Electric towards the end of the period under review was driven by the announcement of changes to the regulatory regime in Oregon, which we felt increased the risks to the company's growth profile.

---

## **Investment manager's report**

continued

### **Outlook**

With global recovery looking increasingly precarious, the defensive qualities of energy and water shares remain very attractive. The significant sector underperformance of the last few years has reduced valuations to levels where, notwithstanding anaemic short term economic growth, sound long term value exists. Additionally, the changes we have made to the Company's investment portfolio have increased income for an already healthy revenue account. Therefore we remain positive for both income and capital returns over the next few years.

Premier Fund Managers Limited

*13 March 2012*

## Investment portfolio

at 31 December 2011

Thirty largest holdings by value in descending order as at 31 December 2011

	Company	Activity	Country	2011 £000	Valuation % of total	2010* £000
1	GDF Suez	Gas & electricity supply	France	3,512	6.6%	1,610
2	Enagas	Gas producing and transmission	Spain	2,621	4.9%	-
3	Fortum	Electricity generation & supply	Finland	2,065	3.9%	1,834
4	Duet Group	Electricity generation & supply	Australia	1,732	3.3%	-
5	National Grid	Electricity & gas transmission	UK	1,685	3.2%	-
6	China Resources Power	Electricity generation & supply	Hong Kong	1,605	3.0%	1,159
7	UIL Holdings	Electricity generation & supply	USA	1,592	3.0%	1,340
8	PPL	Electricity generation & supply	USA	1,515	2.8%	1,009
9	Huaneng Power International	Electricity generation & supply	Hong Kong	1,502	2.8%	1,280
10	Veolia Environnement	Water & waste services	France	1,415	2.7%	1,049
11	Terna Rete Elettrica	Electricity transmission	Italy	1,400	2.6%	-
12	Sound Global	Water treatment	Singapore	1,351	2.5%	1,613
13	CEZ	Electricity generation	Czech Rep	1,354	2.5%	-
14	Thai Tap Water	Water supply	Thailand	1,318	2.5%	1,521
15	E.ON	Electricity generation & supply	Germany	1,316	2.5%	-
16	First Energy	Electricity generation & supply	USA	1,310	2.5%	946
17	Suez Environnement	Water & waste services	France	1,301	2.4%	1,218
18	EGCO	Electricity generation & supply	Thailand	1,276	2.4%	1,419
19	CIA de Transmissao de Energia	Electricity transmission	Brazil	1,231	2.3%	-
20	PG&E	Gas & electricity supply	USA	1,224	2.3%	-
21	China Water Affairs	Water supply	Hong Kong	1,160	2.2%	1,206
22	United Utilities	Electricity & Water distribution	UK	1,150	2.2%	-
23	York Water	Water supply	USA	1,129	2.1%	1,099
24	Severn Trent	Water & waste services	UK	1,119	2.1%	1,433
25	Snam Rete Gas	Gas production and transmission	Italy	1,042	2.0%	1,594
26	ENN Energy	Gas distribution	Hong Kong	1,025	1.9%	-
27	China Power New Energy	Electricity generation	Hong Kong	968	1.8%	1,735
28	Nextera Energy	Electricity generation	USA	940	1.8%	-
29	CIA de Saneamento de Minas Gerais	Water treatment	Brazil	922	1.7%	-
30	Bangkok Expressway	Toll roads	Thailand	919	1.7%	1,033
				<b>42,699</b>	<b>80.2%</b>	
	Other holdings			<b>10,549</b>	<b>19.8%</b>	
	<b>Total portfolio</b>			<b>53,248</b>	<b>100.0%</b>	

\* Values have been provided for holdings in the portfolio at both 31 December 2011 and 31 December 2010  
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). On 15 December 2010 shareholders approved proposals to issue new shares in connection with the reconstruction of Premier Renewable Energy Fund Limited.

### CAPITAL STRUCTURE

<b>Bank Loan</b>	The Company's policy is not to employ any long-term gearing through bank loans.
<b>21,180,373</b>	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.
<b>17,068,480</b>	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.
<b>Wind-up date</b>	31 December 2015

---

## Company details

continued

### **EXPENSE RECOGNITION POLICY**

The basic management fee is charged 40% to revenue and 60% to capital, all other 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.

### **RISK FACTORS**

The Company concentrates on investments in the energy and water sectors 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 2011, the Company had a market capitalisation of £53.47 million (2010: £63.33 million) and assets attributable to shareholders amounted to £58.84 million (2010: £66.36 million). The figures at 31 December 2010 are after the issue of new shares on 17 December 2010.

---

## 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. From 1 January 2010 it was 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) and adjusted for any repurchase of shares and any issue of new shares. 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 from either party 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

### TOTAL RETURN PERFORMANCE

	31 December 2011	31 December 2010	% change	Premium/ (discount) % 31 December 2011
Total Assets Total Return (£000)*	58,842	66,360	-11.3%	–

### SHARE PRICES AND NAVS

Net Asset Value per Zero Dividend Preference share**	172.16p	161.64p	+6.5%	–
Mid-market price per Zero Dividend Preference share	168.25p	173.50p	-3.0%	(2.3%)
Net Asset Value per Ordinary share**	126.20p	190.81p	-33.9%	–
Mid-market price per Ordinary share	104.50p	155.75p	-32.9%	(17.2%)

### TOTAL RETURN PER ORDINARY SHARE\*\*\*

	Year ended 31 December 2011	Year ended 31 December 2010
Net Asset Value	-34.3%	+8.7%
Share Price	-30.7%	-10.1%

### REVENUE AND DIVIDENDS

	31 December 2011	31 December 2010	% change
Revenue return per Ordinary share	10.90p	9.33p	+16.8%
Net dividend per Ordinary share	8.90p	8.10p	+9.9%

\* Total assets less current liabilities, adjusted for any dividends distributed

\*\* Net asset values calculated in accordance with Articles of Association (see note 17 on page 47)

\*\*\* Source AIC (using Morningstar)

# Financial summary

continued

## HURDLE RATES<sup>†</sup>

	31 December 2011
Zero Dividend Preference shares	
Hurdle rate to redemption share price of 221.78p on 31 December 2015	-4.1%
Ordinary shares	
Hurdle rate to return the share price of 104.50p at 31 December 2011	3.1%

Source JP Morgan Cazenove

<sup>†</sup> See page 54 for definition of hurdle rate

## TOTAL RETURN

	Year to 31 December 2011	Year to 31 December 2010
FTSE All World Total Return Index <sup>1</sup> (£)	-6.6%	+16.7%
Bloomberg World Utilities Total Return Index <sup>1</sup> (£)	-8.6%	+1.6%
FTSE 100 Total Return Index <sup>1</sup>	-2.2%	+12.6%
Total expense ratio/cost of running the Company <sup>2</sup>	1.89%	1.91%

<sup>1</sup> Source Bloomberg

<sup>2</sup> The expense ratio is based on average monthly total assets less current liabilities over the year

## EXCHANGE RATES

	At 31 December 2011	At 31 December 2010
£/\$ exchange rate	1.5541	1.5656
£/€ exchange rate	1.1972	1.1670

---

## Directors

### Geoffrey Burns - Chairman

Geoffrey Burns 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. Mr Burns was appointed as a non-executive director of the Company on 12 September 2003.

### Adam Cooke

Adam Cooke 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. Mr Cooke was appointed as a non-executive director of the Company on 26 July 2005.

### Ian Graham

Ian Graham 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. Mr Graham was appointed as a non-executive director of the Company on 12 September 2003.

### Michael Wigley

Michael Wigley 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 Legg Mason Investors International Utilities Trust PLC, the predecessor company. Mr Wigley was appointed as a non-executive director of the Company on 12 September 2003.

### Charles Wilkinson

Charles Wilkinson is a solicitor and a resident of Guernsey. Until March 2005 he was a partner with Lawrence Graham LLP specialising in investment trusts and funds. He is a non-executive director of Landore Resources Limited, which is quoted on the AIM Market of the London Stock Exchange and of Doric Nimrod Air One Limited and Doric Nimrod Air Two Limited both of which are listed on the Specialist Funds Market of the London Stock Exchange. Mr Wilkinson was appointed as a non-executive director of the Company on 23 February 2011.

## 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 £2.0 billion of funds under management at 31 December 2011. Premier Fund Managers Limited is authorised and regulated by the Financial Services Authority. The Company's portfolio is managed by Andrew Whalley 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 2011

### **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.

#### 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 1158 of the Corporation Tax Act 2010 for the year ended 31 December 2011. Approval has been obtained for the year ended 31 December 2010, 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 2011 so as to enable it to continue to seek such approval under Section 1158 of the Corporation Tax Act 2010.

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%

## Directors' report

continued

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. The Company's policy is not to employ any gearing through long-term bank borrowing. The Company can, however, employ gearing through the issue of ZDP shares.

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

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 having considered the Company's investment objectives (shown on the inside front cover) risk management policies and procedures (pages 48 to 53), nature of portfolio and income and expense projections, that the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future. For these reasons, they consider that the use of the going concern basis is appropriate.

# Directors' report

continued

## 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

## Dividends

During the year the following dividends were paid

	Payment date	Dividend pence (net per share)
Fourth Interim for the year ended 31 December 2010	31 January 2011	3 40p
First Interim for the year ended 31 December 2011	28 April 2011	1 60p
Second Interim for the year ended 31 December 2011	31 August 2011	1 60p
Third Interim for the year ended 31 December 2011	30 December 2011	1 70p

Subsequent to the year end but in respect of the year ended 31 December 2011 the Directors have declared a fourth interim dividend of 4 0p, payable on 30 March 2012 to members on the register at the close of business on 2 March 2012. The shares were marked ex-dividend on 29 February 2012. This dividend relates to the year ended 31 December 2011 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 21)

### *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 page 9 for details of these entitlements).

The Company employs no gearing in the form of bank loans. 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.

---

## Directors' report

continued

### *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-ended company, 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 other 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 1158 of the Corporation Tax Act 2010. A breach of Section 1158 could lead to the Company being subject to capital gains tax on gains within the Company's portfolio. Section 1158 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 Bloomberg World Utilities Total Return Index, FTSE All World Total Return Index and FTSE 100 Total Return Index (see financial summary on pages 12 and 13).

---

## Directors' report

continued

- 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 total assets less current liabilities over the year The TER for the year ended 31 December 2011 was 1.89% (2010 1.91%)

### 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 3 and the Investment Manager's report on page 5

### DIRECTORS

The Directors, all of whom served throughout the year ended 31 December 2011, apart from Mr Wilkinson who was appointed on 23 February 2011, were as follows

Geoffrey Burns  
Adam Cooke  
Ian Graham  
Michael Wigley  
Charles Wilkinson

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 Adam Cooke and Mr Ian Graham retire by rotation and, being eligible, offer themselves for re-election

## Directors' report

continued

### DIRECTORS' BENEFICIAL AND FAMILY INTERESTS

The interests of the Directors and their families in the Ordinary shares of the Company were as follows (there were no interests in the Zero Dividend Preference shares of the Company)

	Ordinary shares at 12 March 2012 <sup>†</sup>	Ordinary shares at 31 December 2011	Ordinary shares at 1 January 2011 or date of appointment if later
Geoffrey Burns	80,411	80,411	80,411
Adam Cooke	37,000	37,000	37,000
Ian Graham	22,032	22,032	18,309
Michael Wigley	125,150	125,150	124,183
Charles Wilkinson*	31,223	31,223	31,223

\* Appointed on 23 February 2011

<sup>†</sup> The latest practicable date prior to the publication 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

	Number of shares at date of this report	% of total voting rights	Number of shares at 31 December 2011	% of total voting rights
<b>Ordinary shares</b>				
Premier Fund Managers Limited*	3,431,287	9.0	3,431,287	9.0
Philip J Milton & Company Plc	1,752,715	4.6	1,269,063	3.3
Investec Wealth & Investment Limited	367,389	1.0	367,389	1.0
<b>Zero Dividend Preference shares</b>				
Deutsche Bank AG	3,384,195	8.8	3,616,345	9.5
Investec Wealth & Investment Limited	3,432,917	9.0	3,432,917	9.0
CG Asset Management Limited	1,928,365	5.0	1,928,365	5.0
Premier Fund Managers Limited*	360,522	0.9	360,522	0.9

\* This includes 2,880,968 Ordinary shares and 85,137 Zero Dividend Preference 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 2011 was 126.20p<sup>†</sup> (31 December 2010 190.81p<sup>†</sup>). The cumulative net asset value of a Zero Dividend Preference share at 31 December 2011 was 172.16p<sup>†</sup> (31 December 2010 161.64p<sup>†</sup>).

### 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 VAI has been charged).

<sup>†</sup> Net asset values calculated in accordance with Articles of Association (see note 17 on page 47)

## Directors' report

continued

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.

### 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 Financial Reporting Council's UK Corporate Governance Code issued in 2010 ("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") by reference to the AIC Corporate Governance Guide for Investment Companies ("the AIC Guide") issued in October 2010, 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 five non-executive Directors all of whom are independent of the Investment Manager. Their biographies are set out on page 14. 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
<b>Number of meetings in the year</b>	<b>5</b>	<b>2</b>	<b>1</b>
Geoffrey Burns	4	2	1
Adam Cooke	4	2	1
Ian Graham	5	2	1
Michael Wigley	5	2	1
Charles Wilkinson	5	2	-

All of the Directors attended the Annual General Meeting held in April 2011.

---

## Directors' report

continued

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 Adam Cooke and Mr Ian Graham who retire by rotation.

### Committees

The Board believes that the interests of shareholders in an investment trust company are best served by limiting the size of the Board 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 available from the Company Secretary. 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 auditor, including their remuneration and the provision of any non-audit services by them. The Audit Committee has considered the independence of the auditor 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

---

## Directors' report

continued

Company's external auditor also attends 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 pages 29 and 30.

### 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 pages 20 and 21 and in notes 3 and 20 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.

---

## Directors' report

continued

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.

---

## Directors' report

continued

The Annual and Interim Reports of the Company 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.

### **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 2011 (2010: nil).

# Directors' report

continued

## **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 6, 7 & 8 Authority to allot shares**

Under Resolution 6 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 £38,249 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 12 March 2012

Resolution 7 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 ("ZDP") 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 ZDP 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 *pari passu* with, the existing ZDP shares, or those ZDP shares in issue immediately thereafter would have a cover of not less than the cover of the ZDP shares in issue prior to the issue of new shares

Resolution 8 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 £17,068, 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 9 Purchase by the Company of its own shares**

At the Annual General Meeting held on 27 April 2011 a special resolution was passed, giving the Directors authority until the conclusion of the earlier of the 2012 Annual General Meeting and 26 October 2012, to make market purchases of up to a maximum of 1,964,149 Ordinary shares and 2,448,826 Zero Dividend Preference shares. During the year to 31 December 2011 no shares were purchased (during the year ended 31 December 2010 no shares were purchased)

## Directors' report

continued

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 9 of the AGM, 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 2,558,565 Ordinary shares and 3,174,937 Zero Dividend Preference shares (representing 14.99% of each class of the Company's issued share capital as at 12 March 2012) 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 2013, or 26 October 2013, 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.

# Directors' report

continued

## Recommendation

Your Board considers that the above resolutions 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 295,816 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 9, 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

## AUDITOR

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 Auditor is 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 Auditor is aware of that information

By Order of the Board



Premier Asset Management Limited

Secretary

13 March 2012

## 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 auditor to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditor's opinion is included in their report on pages 32 and 33.

### 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. Following a review of Director's fees it was agreed, with effect from 1 April 2011, to increase the annual fees to £26,000 for the Chairman, £20,000 for the Chairman of the Audit Committee and £18,000 for other Directors. This represents the first increase in Director's fees since the Company's launch in November 2003.

### 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 similar investment objectives. It is intended that this policy will continue in subsequent years.

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. Letters confirming 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 annual 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. The performance of the FTSE Global Utilities Index has previously been provided as one of the indices against which the Company's performance may be assessed. This index has, however, been withdrawn and following discussions with the Investment Manager, the Board has decided it should be replaced with the Bloomberg World Utilities Total Return Index. The graph overleaf shows the 5 year share price total return (assuming all dividends are reinvested) to Ordinary shareholders against the Bloomberg World Utilities Total Return Index on a total return basis from 31 December 2006 until 31 December 2011.

# Directors' remuneration report

continued

5 year share price performance

**GRAPHIC REMOVED**

## 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 2011	Year ended 31 December 2010
Geoffrey Burns	25,000	22,000
Adam Cooke	18,750	15,000
Ian Graham	17,250	15,000
Michael Wigley	17,250	15,000
Charles Wilkinson ( <i>appointed on 23 February 2011</i> )	15,020	–
Total	<u>93,270</u>	<u>67,000</u>

## Approval

A resolution for the approval of the Directors' Remuneration Report for the year ended 31 December 2011 will be proposed at the Annual General Meeting

By Order of the Board



Premier Asset Management Limited

Secretary

13 March 2012

## 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 adequate accounting records which are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and which 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.premierfunds.co.uk](http://www.premierfunds.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 auditor does not involve consideration of the maintenance and integrity of this website and, accordingly, the auditor accepts 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 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

13 March 2012

---

## **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 2011 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 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

### **Respective responsibilities of Directors and auditor**

As explained more fully in the Statement of Directors' Responsibilities set out on page 31, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its 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,
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review, and
- certain elements of the report to the shareholders by the Board on directors' remuneration

*Ernst & Young LLP*

Caroline Gulliver (Senior Statutory Auditor)

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

London

13 March 2012

## Income statement

for the year ended 31 December 2011

	Notes	Year ended 31 December 2011			Year ended 31 December 2010		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
(Losses)/gains on investments - held at fair value through profit or loss	8	-	(9,005)	(9,005)	-	1,984	1,984
Revenue	2	2,780	-	2,780	1,969	-	1,969
Investment management fee	3	(247)	(371)	(618)	(201)	(303)	(504)
Other expenses	4	(400)	-	(400)	(323)	-	(323)
<b>Return before finance costs and taxation</b>		<b>2,133</b>	<b>(9,376)</b>	<b>(7,243)</b>	<b>1,445</b>	<b>1,681</b>	<b>3,126</b>
Finance costs	5	-	(2,171)	(2,171)	(1)	(1,637)	(1,638)
<b>Return on ordinary activities before taxation</b>		<b>2,133</b>	<b>(11,547)</b>	<b>(9,414)</b>	<b>1,444</b>	<b>44</b>	<b>1,488</b>
Taxation on ordinary activities	6	(272)	-	(272)	(208)	-	(208)
<b>Return on ordinary activities after taxation attributable to equity shares</b>		<b>1,861</b>	<b>(11,547)</b>	<b>(9,686)</b>	<b>1,236</b>	<b>44</b>	<b>1,280</b>
<b>Return per Ordinary share (pence) - basic</b>	16	<b>10 90</b>	<b>(67.65)</b>	<b>(56.75)</b>	<b>9 33</b>	<b>0 33</b>	<b>9 66</b>

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 38 to 53 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.

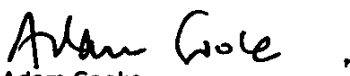
# Balance sheet

as at 31 December 2011

Company registration number 4897881

	Notes	2011 £000	2010 £000
<b>Non current assets</b>			
Investments at fair value through the profit or loss	8	<u>53,248</u>	60,561
<b>Current assets</b>			
Debtors	9	406	737
Cash at bank		<u>5,213</u>	6,427
		5,619	7,164
<b>Current liabilities</b>			
Creditors amounts falling due within one year	10	<u>(862)</u>	(920)
<b>Net current assets</b>		<u>4,757</u>	6,244
<b>Total assets less current liabilities</b>			
		58,005	66,805
Creditors amounts falling due after more than one year - Zero dividend preference shares	11	<u>(36,737)</u>	(34,566)
<b>Total net assets</b>		<u>21,268</u>	32,239
<b>Capital and reserves</b>			
Share capital	12	171	171
Share premium	13	6,884	6,887
Redemption reserve		88	88
Capital reserve	14	4,604	16,151
Special reserve		7,472	7,472
Revenue reserve		<u>2,049</u>	1,470
<b>Total equity shareholders' funds</b>		<u>21,268</u>	32,239
<b>Net asset value per Ordinary share (pence) - UK Accounting Standards basis</b>	17	<u>124.60</u>	188.88
<b>Net asset value per Ordinary share (pence) - Articles of Association basis</b>	17	<u>126.20</u>	190.81

The financial statements on pages 34 to 53 were approved by the Board and authorised for issue on 13 March 2012 and were signed on its behalf by

  
Adam Cooke  
Director

The notes on pages 38 to 53 form part of these financial statements

## Reconciliation of movements in shareholders' funds

for the year ended 31 December 2011

	Share capital £000	Share premium reserve £000	Redemption reserve £000	Capital reserve £000	Special reserve £000	Revenue reserve £000	Total £000
<b>For the year ended</b>							
<b>31 December 2011</b>							
Balance at 31 December 2010	171	6,887	88	16,151	7,472	1,470	32,239
Return on ordinary activities after taxation	-	-	-	(11,547)	-	1,861	(9,686)
Under accrued costs on issue of Ordinary shares in prior year	-	(3)	-	-	-	-	(3)
Dividends paid	-	-	-	-	-	(1,282)	(1,282)
<b>Balance at 31 December 2011</b>	<b>171</b>	<b>6,884</b>	<b>88</b>	<b>4,604</b>	<b>7,472</b>	<b>2,049</b>	<b>21,268</b>
<b>For the year ended</b>							
<b>31 December 2010</b>							
Balance at 31 December 2009	131	-	88	16,107	7,454	1,492	25,272
Return on ordinary activities after taxation	-	-	-	44	-	1,236	1,280
Issue of Ordinary shares	40	6,887	-	-	-	-	6,927
Over accrued Tender transition costs	-	-	-	-	18	-	18
Dividends paid	-	-	-	-	-	(1,258)	(1,258)
<b>Balance at 31 December 2010</b>	<b>171</b>	<b>6,887</b>	<b>88</b>	<b>16,151</b>	<b>7,472</b>	<b>1,470</b>	<b>32,239</b>

The notes on pages 38 to 53 form part of these financial statements

# Cash flow statement

for the year ended 31 December 2011

		Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
<b>Net cash inflow from operating activities</b>	18	<b>1,560</b>	1,042
<b>Servicing of finance</b>			
Interest paid		-	(1)
<b>Taxation</b>			
Overseas tax paid		(279)	(159)
<b>Financial Investments</b>			
Purchases of investments		<b>(39,373)</b>	(34,486)
Sales of investments		<b>38,163</b>	29,573
Net cash outflow from financial investments		(1,210)	(4,913)
<b>Equity dividends paid</b>	7	<b>(1,282)</b>	(1,258)
<b>Net cash outflow before financing</b>		<b>(1,211)</b>	(5,289)
<b>Financing</b>			
Issue of Ordinary and Zero Dividend Preference shares		-	5,715
Costs on issue of Ordinary shares in prior year		(3)	-
Net cash (outflow)/inflow from financing		(3)	5,715
<b>(Decrease)/increase in cash</b>	19	<b>(1,214)</b>	426

## Reconciliation of net cash flow to movements in net debt

		Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
(Decrease)/increase in cash as above		(1,214)	426
Net change in debt due in more than one year		(2,171)	(9,779)
Movements in net debt for year		<b>(3,385)</b>	(9,353)
Net debt as at 1 January	19	<b>(28,139)</b>	(18,786)
Net debt as at 31 December	19	<b>(31,524)</b>	(28,139)

The notes on pages 38 to 53 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)

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

### (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. 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.

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"

Gains and losses on sales of investments have been taken to the 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 the capital or revenue reserve as appropriate. Foreign exchange movements on investments are included in the Income Statement within gains on investments.

### (d) INCOME

Investment income 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 surrounding the payment of the dividend. UK dividends are accounted for net of any tax credits. Overseas dividends are included gross of withholding tax.

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

# Notes to the financial statements

continued

## 1. ACCOUNTING POLICIES continued

### (e) EXPENSES

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

- the basic investment management fee is charged 40% to revenue and 60% to capital,
- 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 allocated to capital, 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 provision for compound growth entitlement of the Zero Dividend Preference shares is recognised through the income statement and analysed under the capital column as a finance cost (as shown in note 5) The premium (net of expenses) arising on the issue of the Zero Dividend Preference shares will be amortised over the life of the Company and allocated 100% to capital

### (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 2011 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

## Notes to the financial statements

continued

### 2. INCOME

	Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
Income from investments		
UK franked investment income	303	152
Overseas dividends	2,314	1,814
Overseas Bond interest	65	-
Loan interest	97	-
Deposit income	1	3
	<b>2,780</b>	<b>1,969</b>

### 3. INVESTMENT MANAGEMENT FEE

	Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
Charged to Revenue		
Investment management fee (40%)	247	201
	<b>247</b>	<b>201</b>

	Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
Charged to Capital		
Investment management fee (60%)	371	303
	<b>371</b>	<b>303</b>

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.

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) and adjusted for any repurchase of shares and any issue of new shares. In that event, the performance fee will be equal to 15% of the excess. Any performance fee earned is allocated between capital and revenue based on the out-performance attributable to capital and revenue respectively. No performance fee is payable in respect of the year ended 31 December 2011 (2010: nil).

## Notes to the financial statements

continued

### 4. OTHER EXPENSES

	Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
Charged to Revenue		
Secretarial services	79	75
Administration expenses	204	159
Auditor's remuneration - audit services	22	21
- other services relating to taxation	2	1
Directors' fees	93	67
	<b>400</b>	<b>323</b>

For the year ended 31 December 2010 the auditors were also paid £24,675, including VAT of £3,675, for services in connection with the Prospectus issued by the Company on 30 November 2010 and the associated issue of new shares. These have been charged to the share premium reserve.

### 5. FINANCE COSTS

	Year ended 31 December 2011			Year ended 31 December 2010		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Bank interest	-	-	-	1	-	1
Provision for compound growth entitlement of the Zero Dividend Preference shares	-	2,171	2,171	-	1,637	1,637
	-	<b>2,171</b>	<b>2,171</b>	1	<b>1,637</b>	<b>1,638</b>

## Notes to the financial statements

continued

### 6. TAXATION

#### (a) ANALYSIS OF CHARGE IN THE YEAR:

	Year ended 31 December 2011			Year ended 31 December 2010		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Current tax	-	-	-	-	-	-
Overseas tax	272	-	272	208	-	208
Current tax charge for the year (see note 6 (b))	272	-	272	208	-	208

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

The current taxation charge for the year is lower than the standard rate of corporation tax in the UK

The differences are explained below

	Year ended 31 December 2011			Year ended 31 December 2010		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Return on ordinary activities before taxation	2,133	(11,605)	(9,472)	1,444	44	1,488
Return on ordinary activities multiplied by the standard rate of corporation tax of 26.49% (2010 28%)	565	(3,075)	(2,510)	404	12	416
Effects of Non-taxable UK dividends	(80)	-	(80)	(43)	-	(43)
Non-taxable overseas dividends	(600)	-	(600)	(464)	-	(464)
Capital gains not subject to tax	-	2,385	2,385	-	(555)	(555)
Finance costs of ZDP shares	-	590	590	-	458	458
Overseas tax	272	-	272	208	-	208
Unrelieved expenses and charges	115	100	215	103	85	188
Revenue current tax charge for the year (see note 6 (a))	272	-	272	208	-	208

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

# Notes to the financial statements

continued

## 6. TAXATION continued

After claiming relief against accrued income taxable on receipt, the Company has a deferred tax asset of approximately £614,000 (31 December 2010 £461,000) relating to excess expenses of £2,452,000 (31 December 2010 £1,707,000). It is unlikely that the Company will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset in respect of these expenses has been recognised.

## 7. DIVIDEND

Dividends relating to the year ended 31 December 2011 are detailed below

	Per Ordinary share	Year ended 31 December 2011 £000
First interim dividend - paid on 28 April 2011	1.60p	273
Second interim dividend - paid on 31 August 2011	1.60p	273
Third interim dividend - paid on 30 December 2011	1.70p	291
Fourth interim dividend - payable on 30 March 2012*	4.00p	683
	<b>8.90p</b>	<b>1,520</b>

\* Not included as a liability in the year ended 31 December 2011 accounts

The fourth interim dividend will be paid on 30 March 2012 to members on the register at the close of business on 2 March 2012. The shares were marked ex-dividend on 29 February 2012.

Dividends relating to the year ended 31 December 2010 are detailed below

	Per Ordinary share	Year ended 31 December 2010 £000
First interim dividend - paid on 30 June 2010	1.50p	198
Second interim dividend - paid on 30 September 2010	1.60p	209
Third interim dividend - paid on 31 December 2010	1.60p	209
Fourth interim dividend - declared on 2 December 2010 and paid on 31 January 2011†	3.40p	445
	<b>8.10p</b>	<b>1,061</b>

† Not included as a liability in the year ended 31 December 2010 accounts

## Notes to the financial statements

continued

### 8. INVESTMENTS

#### (a) SUMMARY OF VALUATION

	Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
Investments listed on a recognised investment exchange		
- UK	4,430	3,778
- Overseas	47,787	55,292
	<u>52,217</u>	<u>59,070</u>
Unquoted investment - UK	343	701
Unquoted investment - Overseas	688	790
	<u>53,248</u>	<u>60,561</u>

#### (b) MOVEMENTS

##### In the year ended 31 December 2011

	Quoted UK £000	Quoted Overseas £000	Unquoted UK £000	Unquoted Overseas £000	Total 2011 £000
Book cost at beginning of year	3,222	53,481	1,485	684	58,872
Gains/(losses) on investments held at beginning of year	556	1,811	(784)	106	1,689
Valuation at beginning of year	3,778	55,292	701	790	60,561
Purchases at cost	6,956	32,347	44	-	39,347
Sales					
- proceeds	(5,138)	(32,517)	-	-	(37,655)
- losses on investments sold in the year	(133)	(699)	-	-	(832)
Losses on investments held at end of year	(1,033)	(6,636)	(402)	(102)	(8,173)
Valuation at end of year	<u>4,430</u>	<u>47,787</u>	<u>343</u>	<u>688</u>	<u>53,248</u>

Comprising

	Total year ended 31 December 2011 £000	Total year ended 31 December 2010 £000
Book cost at end of year	59,732	58,872
(Losses)/gains on investments held at year end	(6,484)	1,689
Valuation at end of year	<u>53,248</u>	<u>60,561</u>

Transaction costs on purchases for the year ended 31 December 2011 amounted to £81,000 (2010 £84,000) and on sales for the year amounted to £79,000 (2010 £66,000)

# Notes to the financial statements

continued

## 8. INVESTMENTS continued

### (c) GAINS/(LOSSES) ON INVESTMENTS

	Total year ended 31 December 2011 £000	Total year ended 31 December 2010 £000
(Losses)/gains on investments sold in year	(832)	2,955
Losses on investments held at year end	(8,173)	(971)
Total (losses)/gains on investments	<u>(9,005)</u>	<u>1,984</u>

A list of the Company's 30 largest investments is shown on page 8, a sector breakdown and a geographical allocation is shown on page 5

## 9. DEBTORS

	Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
Amounts due from brokers	-	508
Accrued income and prepayments	348	178
Overseas tax recoverable	58	51
	<u>406</u>	<u>737</u>

## 10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
Purchases for future settlement	731	757
Other creditors	131	163
	<u>862</u>	<u>920</u>

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

	31 December 2011 £000	31 December 2010 £000
21,180,373 Zero Dividend Preference shares of £0.01	<u>36,737</u>	<u>34,566</u>

The allotted, issued and fully paid number of Zero Dividend Preference shares of £0.01 as at 31 December 2011 is 21,180,373 (31 December 2010 21,180,373 Zero Dividend Preference shares of £0.01)

On 17 December 2010 the Company issued 2,779,377 Zero Dividend Preference shares at 172.25p per share and 2,064,600 Zero Dividend Preference shares at 168.00p per share. The accrued capital entitlement at that date was 161.25p per share. The premium (net of expenses) of £330,000 will be amortised over the life of the Company and allocated to capital.

## Notes to the financial statements

continued

### 12. SHARE CAPITAL

	Year ended 31 December 2011 Number of shares	Year ended 31 December 2011 £000	Year ended 31 December 2010 Number of shares	Year ended 31 December 2010 £000
Allotted, issued and fully paid				
Ordinary shares of £0.01	<b>17,068,480</b>	<b>171</b>	17,068,480	171
	<b>17,068,480</b>	<b>171</b>	17,068,480	171

The allotted issued and fully paid Zero Dividend Preference shares of the Company at 31 December 2011 are disclosed in note 11

### 13. SHARE PREMIUM

	Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
Opening balance	<b>6,887</b>	-
Premium arising on issue of 3,965,415 Ordinary shares	-	6,991
Cost associated with the issue of Ordinary shares	-	(104)
Under accrued costs on the issue of Ordinary shares in 2010	<b>(3)</b>	-
Closing balance	<b>6,884</b>	6,887

### 14. CAPITAL RESERVE

	Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
Opening balance	<b>16,151</b>	16,107
(Losses)/gains on investments - held at fair value through profit or loss	<b>(9,005)</b>	1,984
Provision for premium on redemption of Zero Dividend Preference shares	<b>(2,171)</b>	(1,637)
Investment management fee charged to capital	<b>(371)</b>	(303)
Closing balance	<b>4,604</b>	16,151

### 15. FINANCIAL COMMITMENTS

At 31 December 2011 there were no commitments in respect of unpaid calls and underwritings (31 December 2010 nil)

## Notes to the financial statements

continued

### 16. RETURN PER SHARE - BASIC

Total return per Ordinary share is based on the net total return on ordinary activities after taxation of £(9,744,000) (31 December 2010 £1,280,000)

These calculations are based on the number of 17,068,480 Ordinary shares in issue during the year to 31 December 2011 (2010 13,255,163 weighted average number of Ordinary shares)

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

	Year ended 31 December 2011 Pence	Year ended 31 December 2011 £000	Year ended 31 December 2010 Pence	Year ended 31 December 2010 £000
Net revenue return per Ordinary share	10 90p	1,861	9 33p	1,236
Net capital return per Ordinary share	(67 65p)	(11,547)	0 33p	44
Net total return per Ordinary share	<b>(56 75p)</b>	<b>(9,686)</b>	9 66p	1,280

The Company does not have any dilutive securities

### 17. NET ASSET VALUE PER SHARE

The difference between the figures reported below arises from the treatment of the premium (net of expenses) from the issue of Zero Dividend Preference ("ZDP") shares in December 2010 of £330,000. In accordance with UK Accounting Standards this has been included with the ZDP liability and will be amortised over the life of the Company. In accordance with the Articles of Association the premium has been included with shareholders equity and the ZDP liability reflects their accrued capital entitlement at 31 December 2011 and 30 December 2010.

The net asset value per share and the net assets available to each class of share calculated in accordance with UK Accounting Standards, are as follows

	Net asset value per share 31 December 2011 Pence	Net assets available 31 December 2011 £000	Net asset value per share 31 December 2010 Pence	Net assets available 31 December 2010 £000
17,068,480 Ordinary shares (2010 17,068,480) in issue	<b>124.60</b>	<b>21,268</b>	188 88	32,239
21,180,373 Zero Dividend Preference shares* (2010 21,180,373) in issue	<b>173 45</b>	<b>36,737</b>	163 20	34,566

\* Classified as a liability

The net asset value per share and the net assets available to each class of share calculated in accordance with the Articles of Association, are as follows

	Net asset value per share 31 December 2011 Pence	Net assets available 31 December 2011 £000	Net asset value per share 31 December 2010 Pence	Net assets available 31 December 2010 £000
17,068,480 Ordinary shares (2010 17,068,480) in issue	<b>126 20</b>	<b>21,540</b>	190 81	32,569
21,180,373 Zero Dividend Preference shares* (2010 21,180,373) in issue	<b>172 16</b>	<b>36,465</b>	161 64	34,236

\* Classified as a liability

# Notes to the financial statements

continued

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

	Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
Total return on ordinary activities before finance costs and taxation	(7,243)	3,126
Capital return before finance costs and taxation	9,376	(1,681)
Increase in other debtors	(5)	(22)
Increase in accrued income and prepayments	(165)	(12)
Decrease in other creditors	(32)	(66)
Investment management fee capitalised	(371)	(303)
Net cash inflow from operating activities	<u>1,560</u>	<u>1,042</u>

## 19. ANALYSIS OF CHANGES IN NET DEBT

	Year ended 31 December 2010 £000	Cashflow £000	Non-cash movements £000	Year ended 31 December 2011 £000
Cash at bank	6,427	(1,214)	-	5,213
Debt due after more than one year (ZDP's)	(34,566)	-	(2,171)	(36,737)
	<u>(28,139)</u>	<u>(1,214)</u>	<u>(2,171)</u>	<u>(31,524)</u>

## 20. 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 2011 £55,375 (31 December 2010 £63,044) of these fees remained outstanding.

## 21. 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 2010. 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.

# Notes to the financial statements

continued

## 21. RISK MANAGEMENT POLICIES AND PROCEDURES continued

### (b) CURRENCY RISK

Certain of the Company's assets, liabilities, and income, are denominated in currencies other than sterling (the Company's functional currency, 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.

#### *Foreign currency exposures*

An analysis of the Company's equity investments that are priced in a foreign currency is

	As at 31 December 2011 Investments £000	As at 31 December 2010 Investments £000
Australian Dollar	3,810	2,116
Brazilian Real	2,153	-
Canadian Dollar	716	4,708
Chinese Yuan	-	791
Czech Koruna	1,354	-
Euro	15,880	12,388
Hong Kong Dollar	7,833	9,346
Indian Rupee	-	1,044
Malaysian Ringgit	1,338	1,584
Qatari Riyal	570	1,220
Singapore Dollar	1,351	823
Thailand Baht	3,513	3,972
US Dollar	9,957	17,982
	<b>48,475</b>	<b>55,974</b>

#### *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 non-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 +/- 4% (2010: 4%)

Sterling/Euro +/- 4% (2010: 4%)

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

## Notes to the financial statements

continued

### 21. RISK MANAGEMENT POLICIES AND PROCEDURES continued

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

	2011 US Dollar £000	2011 Euro £000	2010 US Dollar £000	2010 Euro £000
Projected change	4%	4%	4%	4%
Impact on revenue return	21	36	25	26
Impact on capital return	421	635	719	684
Total return after taxation for the year	<b>442</b>	<b>671</b>	744	710
Equity	<b>442</b>	<b>671</b>	744	710

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

	2011 US Dollar £000	2011 Euro £000	2010 US Dollar £000	2010 Euro £000
Projected change	4%	4%	4%	4%
Impact on revenue return	(21)	(36)	(25)	(26)
Impact on capital return	(421)	(635)	(719)	(684)
Total return after taxation for the year	<b>(442)</b>	<b>(671)</b>	(744)	(710)
Equity	<b>(442)</b>	<b>(671)</b>	(744)	(710)

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 has no direct exposure to investments exposed to interest rate fluctuations.

Cash at bank at 31 December 2011 (and 31 December 2010) was held at floating interest rates, linked to current short-term market rates.

Due to the insignificant impact of fluctuations in interest rates no sensitivity analysis is shown.

#### (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 portfolio 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 Investment 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.

# Notes to the financial statements

continued

## 21. RISK MANAGEMENT POLICIES AND PROCEDURES continued

### *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.

	Increase in fair value 2011 £000	Decrease in fair value 2011 £000	Increase in fair value 2010 £000	Decrease in fair value 2010 £000
Income statement - return after taxation				
Revenue return - increase/(decrease)	21	(21)	24	(24)
Capital return - increase/(decrease)	5,325	(5,325)	6,093	(6,093)
Total return after taxation - increase/(decrease)	5,346	(5,346)	6,117	(6,117)
Equity	5,346	(5,346)	6,117	(6,117)

### (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 2011 unquoted securities represented 19% of the total investment portfolio (31 December 2010: 2.5%).

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. 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.

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

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

The financial assets and liabilities are either carried in the balance sheet at their fair value, 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).

# Notes to the financial statements

continued

## 21. RISK MANAGEMENT POLICIES AND PROCEDURES continued

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

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 2011*

	Level 1 £000	Level 3 £000	Total £000
Equity investments	52,217	1,031	53,248
Total	52,217	1,031	53,248

*Financial assets at fair value through profit or loss at 31 December 2010*

	Level 1 £000	Level 3 £000	Total £000
Equity investments	59,070	1,491	60,561
Total	59,070	1,491	60,561

Categorisation within the hierarchy 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 2011 and at 31 December 2010)

**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 38

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 2011*

	Equity investments £000	Total £000
Opening balance	1,491	1,491
Purchases at cost	44	44
Net losses included in profit or loss for assets held at the end of the year	(504)	(504)
Closing balance	1,031	1,031

*Level 3 financial assets at fair value through profit or loss at 31 December 2010*

	Equity investments £000	Total £000
Opening balance	924	924
Purchases at cost	815	815
Net losses included in profit or loss for assets held at the end of the year	(248)	(248)
Closing balance	1,491	1,491

*Financial liabilities*

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

	As at 31 December 2011		As at 31 December 2010	
	Book value £m	Level 1 £m	Book value £m	Level 1 £m
Zero Dividend Preference shares	36.7	35.6	34.6	36.7

# Notes to the financial statements

continued

## 21. 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 achieve a high income from its portfolio and to realise long-term growth in the capital value of the portfolio

The Company's capital at 31 December on a UK Accounting Standards basis comprises

	2011 £000	2010 £000
Debt		
Zero Dividend Preference shares	<b>(36,737)</b>	(34,566)
Equity		
Equity share capital	171	171
Retained earnings and other reserves	<b>21,097</b>	32,068
	<b>21,268</b>	32,239
Total Capital	<b>58,005</b>	66,805
Debt as a percentage of total capital	<b>63.33%</b>	51.74%

Contractual maturities of the financial liabilities at the year end, based on the earliest date on which payment can be required are as follows

	As at 31 December 2011			As at 31 December 2010		
	Three months or less £000	More than one year £000	Total £000	Three months or less £000	More than one year £000	Total £000
Creditors amounts falling due within one year						
Purchases for future settlement	731	-	731	757	-	757
Other creditors	131	-	131	163	-	163
Creditors amounts falling due after more than one year						
Accrued capital entitlement of the Zero Dividend Preference shares	-	36,465	36,465	-	34,236	34,236
Premium (net of expenses on placing of Zero Dividend Preference shares)	-	272	272	-	330	330
	<b>862</b>	<b>36,737</b>	<b>37,599</b>	920	34,566	35,486

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 company's assets, at current market value, having deducted all prior charges at their par value (or at their asset value). The difference between the figures reported arises from the treatment of the premium (net of expenses) from the issue of Zero Dividend Preference ("ZDP") shares in December 2010 of £330,000. In accordance with UK Accounting Standards this has been included with the ZDP liability and will be amortised over the life of the Company. In accordance with the Articles of Association the premium has been included with shareholders' equity and the ZDP liability reflects their accrued capital entitlement at 31 December 2011 and 30 December 2010.

### 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	mid March
Annual General Meeting	25 April 2012
Company's half-year end	30 June
Half-year results announced	early August
Dividend payments – 2012	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

Information about the Company including current share prices, can be obtained directly via [www.premierfunds.co.uk](http://www.premierfunds.co.uk). Any enquiries can also be e-mailed to [premier@premierfunds.co.uk](mailto:premier@premierfunds.co.uk)

### SHARE DEALING

Shares can be purchased through a 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](mailto:shareholder.services@capitaregistrars.com). Changes of name and/or address must be notified in writing to the Registrar

### PREMIER FUND MANAGERS LIMITED

The other investment company managed by Premier is

Acorn Income Fund Limited

Further details of this fund can be obtained from Premier on 01483 400400

E-mail [premier@premierfunds.co.uk](mailto:premier@premierfunds.co.uk)

[www.premierfunds.co.uk](http://www.premierfunds.co.uk)

### GRAPHIC REMOVED

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, 25 April 2012, 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, 6 and 7 as ordinary resolutions and as to resolutions 8 and 9 as special resolutions

## **ORDINARY RESOLUTIONS**

- 1 To receive the Directors' Report and Financial Statements for the year ended 31 December 2011**
- 2. To approve the Directors' Remuneration Report for the year ended 31 December 2011**
- 3. To re-elect Mr Adam Cooke as a Director of the Company**
- 4. To re-elect Mr Ian Graham as a Director of the Company**
- 5. To re-appoint Ernst & Young LLP as Auditor of the Company and to authorise the Board to determine their remuneration**

### **6. 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 £38,249, representing 1,706,848 Ordinary shares of 1p each and 2,118,037 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 12 March 2012 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

### **7. Authority to allot Ordinary shares at a discount**

THAT, subject to and conditional upon the passing of resolution 6 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 PROVIDED THAT (i) such issue is simultaneous with an issue of new Zero Dividend Preference shares and (ii) the aggregate issue price shall represent a premium to the aggregate net asset value attributable to the new Ordinary shares and new Zero Dividend Preference shares as at the date of issue

# Notice of annual general meeting

continued

## **SPECIAL RESOLUTIONS**

### **8 Authority to disapply pre-emption rights**

THAT, subject to the passing of resolution numbered 6 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 £17,068, 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 2013, 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

### **9. 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 2,558,565 Ordinary shares and 3,174,937 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,

---

## Notice of annual general meeting

continued

- (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 2013, or 24 October 2013 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

13 March 2012

---

## 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 61).
- 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, 23 April 2012.
- 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 6.00 p.m. on Monday, 23 April 2012 (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 12 March 2012 (being the last business day prior to the publication of this Notice) the Company's issued share capital consisted of 17,068,480 Ordinary shares and 21,180,373 Zero Dividend Preference shares, carrying one vote each. Therefore, the total voting rights in the Company as at 12 March 2012 are 38,248,853.
- 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.
- 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

## Notes to the notice of annual general meeting

continued

such instruction, as described in the CREST Manual (available via [www.euroclear.com/CREST](http://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, 23 April 2012. 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.
- 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.premierfunds.co.uk](http://www.premierfunds.co.uk).

---

## Directors and advisers

<b>Directors</b>	Geoffrey Burns (Chairman) Adam Cooke Jan Graham Michael Wigley Charles Wilkinson
<b>Investment Manager</b>	Premier Fund Managers Limited Eastgate Court High Street Guildford Surrey GU1 3DE Telephone 01483 306 090 www.premierfunds.co.uk Authorised and regulated by the Financial Services Authority
<b>Secretary and Registered Office</b>	Premier Asset Management Limited Eastgate Court High Street Guildford Surrey GU1 3DE Telephone Mike Nokes 020 7982 1260
<b>Company Number</b>	4897881
<b>Website</b>	www.premierfunds.co.uk
<b>Registrars</b>	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU 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 <a href="mailto:ssd@capitaregistrars.com">ssd@capitaregistrars.com</a>
<b>Auditor</b>	Ernst & Young LLP 1 More London Place London SE1 2AF
<b>Joint stockbrokers</b>	J P Morgan Cazenove 10 Aldermanbury London EC2V 7RF Telephone 020 7325 1000 Fairfax IS PLC 46 Berkeley Square Mayfair London W1J 5AT Telephone 020 7598 5368