
ECOFIN WATER & POWER OPPORTUNITIES PLC

In October, the total net assets of the Company, including those attributable to the Company's Zero Dividend Preference Shares, rose 3.1% and the net asset value per share of the Company's Ordinary Shares rose 3.7%. The price of an Ordinary Share did not reflect this increase in the Company's net asset value and actually fell by 0.4%.

In comparison, and after several months of weakness in markets worldwide, the MSCI World index of developed markets rose 6.8% in sterling terms in October and the FTSE All-Share index rose 7.8%. The MSCI World Utilities index lagged the overall market indices considerably in October, falling 0.6%.

Volatility continued to characterise the currency markets also and by month end sterling had strengthened by 3.2% against the US dollar and fallen by 0.3% against the Euro.

PERFORMANCE OF THE COMPANY'S NET ASSETS AND ORDINARY SHARES¹

	As at 31 October, 2011	1 month	3 months	12 months	Since launch²
NET ASSETS	£413,917,913	3.1%	-4.7%	-2.8%	163.6%
Of ZDP shares	£69,230,442				
Of Ordinary shares	£344,687,471				
ORDINARY SHARES³					
Ordinary share NAV ⁴	114.50p	3.7%	-5.9%	-4.5%	n/a
Ordinary share price	163.86p	-0.4%	-7.0%	-12.8%	n/a
Premium / Discount	(30.13%)				
Dividend yield ⁵	5.70%				

¹ Adjusted for a £50 million capital increase in June 2005, a £108.2 million capital increase in January 2007, tender offers in July 2007 and April 2009, and the launch of £60 million nominal value of Zero Dividend Preference shares (ZDP shares) in July 2009

² Company launched on 28 February, 2002. Ordinary shares were created on 29 June, 2005

³ First issued on 29 June, 2005 at 100p per share and an initial NAV per share of 104.91p

⁴ Not fully diluted

⁵ Total dividends paid or declared over the last 12 months divided by the share price

THE COMPANY'S CAPITAL STRUCTURE AS AT 31 OCTOBER, 2011

	As Reported (£)	As Adjusted (£)
Total Assets (less Cash at Bank)	496,331,000	476,227,000
Cash at Bank	11,808,000	31,913,000
Total Assets	508,139,000	508,139,000
Bank Debt	15,148,000	15,148,000
Convertible Unsecured Loan Stock	79,074,000	79,074,000
Zero Dividend Preference Shares	69,230,000	69,230,000
Net Assets attributable to Ordinary Shares	344,687,000	344,687,000
	£508,139,000	£508,139,000
Gearing (Net Debt / Ordinary Shareholders' Funds)	44.0%	38.2%
Gearing (Net Debt less Convertible Unsecured Loan Stock / Ordinary Shareholders' Funds plus Convertible Unsecured Loan Stock)	17.1%	12.4%

Net Debt is Bank Debt, the Convertible Unsecured Loan Stock and the Zero Dividend Preference Shares, less Cash at Bank. The assets of the company include approximately £49.4m in bonds, and options representing approximately £4.6m on a delta adjusted basis. Adjusting the Total Assets less Cash at Bank ('As Adjusted') for these two components, the total equity exposure of the Company was 125.2% of Ordinary Shareholders' net assets.

The Total Assets of the Company include an equity investment of £20.7million in EIH Cyprus Group which is a joint venture between the Company and other funds managed by the Investment Manager, Ecofin Limited. 97.0% of the assets of EIH Cyprus are in cash which represents the proceeds of the sale of one of the Company's investments, Solel Limited. The figures in the 'As Adjusted' column of the table above have been adjusted to include this cash in the Cash at Bank figure.

TOP 10 INVESTMENTS AS AT 31 OCTOBER, 2011

Company	Country	Activity	% of Portfolio
Texas International Energy Partners Inc*	US	Gas	10.0%
Ecofin China Power & Infrastructure Fund	China	Infrastructure	5.4%
Williams Companies	US	Gas	3.6%
Exelon Corp	US	Power	2.3%
FirstEnergy	US	Power	2.0%
ITC Holdings Corp	US	Power	1.9%
El Paso	US	Gas	1.9%
Fortum Oyj	Finland	Power	1.9%
BG Group	UK	Gas	1.9%
Water Property Investments*	US	Water	1.9%

Excludes EIH Cyprus, a liquidating cash vehicle, which is 4.06% of the portfolio

Total 32.9%

*Unquoted

PORTFOLIO AS AT 31 OCTOBER, 2011*

BY SECTOR / TYPE		BY GEOGRAPHY		BY MARKET CAP	
As % of the Portfolio		As % of the Portfolio		As % of the Portfolio	
Non-regulated Utilities	22.9%	North America	47.6%	More than £10,000 million	32.7%
Regulated Utilities	9.6%	United Kingdom	8.7%	£5,000 to £10,000 million	5.1%
Energy	15.4%	Continental Europe	24.3%	£1,000 to £5,000 million	17.9%
Bonds	9.8%	Emerging Markets	14.9%	£200 to £1,000 million	5.0%
Unquoted	16.0%	Other Developed	4.5%	Less than £200 million	13.5%
Infrastructure	10.7%	Markets		Unquoted	16.0%
Alternative Energy	5.9%			Bonds	9.8%
Ecofin Funds	8.3%				
Other	1.3%				

*Totals may not add to 100% due to rounding

HISTORIAL PERFORMANCE OF NET ASSETS AND EQUITY INDICES

	1 month	3 months	12 months	Since launch*
Net Assets of the Company	3.1%	-4.7%	-2.8%	163.6%
MSCI World index	6.8%	-4.8%	-0.7%	11.9%
MSCI World Utility index	-0.6%	-0.7%	-7.5%	27.1%
MSCI World Energy index	13.4%	-5.8%	9.8%	83.2%
WilderHill New Energy Global Innovation index	8.2%	-20.2%	-29.0%	10.6%
FTSE All Share index	7.8%	-5.5%	-2.6%	15.4%
Euro Stoxx index	8.7%	-12.9%	-15.9%	10.7%
S&P 500 index	7.3%	-1.0%	5.6%	-0.5%
FTSE Utilities index	0.3%	2.0%	4.0%	89.0%
Euro Stoxx Utilities index	1.7%	-13.0%	-23.2%	31.1%
US S&P 500 Utilities index	0.3%	7.3%	9.6%	16.5%
GBP per USD	3.2%	-2.1%	0.3%	13.5%
GBP per EUR	-0.3%	1.7%	0.9%	-29.2%

* on 26 February, 2002

MARKET COMMENTARY

After several poor months for equity markets worldwide, participants in October took great comfort from the Eurozone agreement reached on a restructuring of Greek debt, the use of EFSF resources for stabilization purposes in the bond markets, the suggestion of enhanced fiscal coordination, and hopes for further reform measures to be taken by Italy and Spain.

In the US, macroeconomic data turned mildly positive for the first time since April and corporate earnings, for the most part, were not disappointing against a backdrop of limited economic growth domestically.

In emerging markets, the Chinese markets rebounded especially strongly in October as confidence increased that a soft landing for the economy would be achieved with inflation moderating along with economic growth. Chinese export growth slowed to 15.9% (year-on-year) in October from 17.1% in September. The Hong Kong Stock Exchange China Enterprises index (HSCEI) rose 17.9% during the month on hopes that the Chinese government may reduce interest rates in response to these economic developments.

In the sectors in which the Company invests, utilities markedly underperformed the rising market indices in October in almost equal measure (about 7% in the UK, Europe and the US. Notwithstanding October, utilities have performed in line with the overall market averages this year (2011 to date) as they fared relatively well in the weakest months for markets, with the notable exception of European utilities. In October, energy-related companies performed especially well and the MSCI World Energy index rose 13.4% as oil prices in particular rose strongly.

The renewable energy sector, although continuing to suffer from excess supply and fierce competition among suppliers, reductions in subsidised feed-in tariffs in a number of countries and uncertainty about government policies, rebounded strongly along with the broader markets in October.

PERFORMANCE

The Company's investment portfolio under-performed the broader equity market indices in October although it comfortably out-performed world markets during the two preceding months. The Company's energy holdings generated the most added-value for the portfolio, rising 12% over the month. The performance of the Company's utility holdings was more muted but outperformed the regional benchmark utility indices.

- The North American equity portfolio, which accounted for 47.6% of the Company's portfolio at month end, contributed positively to overall performance, benefitting from our large position in El Paso whose share price rose 57% on the news of its acquisition by Kinder Morgan. This was also supportive for valuations in the midstream sector where we believe growth and return prospects are strong. Williams Companies, whose shares had suffered in September on investor concerns that it would increase its offer for Southern Union, another gas pipeline operator, rebounded strongly (+25%) after withdrawing from the contest and reporting better than expected results. Stronger energy prices in October were also supportive for the sector.
- Amongst UK and Continental European holdings, International Power Plc and Weir Group, a supplier of pumps and equipment to the energy and power sectors, reported very good results in October and added significant value over the course of the month. On the other hand, Veolia Environnement, the French water supply and waste management company, performed poorly as the deep restructuring of management and the business continues and analysts cut their earnings and dividend forecasts. Suez Environnement, which added value over the month after selling its 70% stake in Bristol Water thereby accelerating its deleveraging, has been weak since late October when it announced a Euro 200 million write-down on its water desalination plant in Australia.
- The bond portfolio, which accounts for 9.8% of the Company's portfolio and comprises almost exclusively US corporate names in the utility and energy sectors, was helpful in adding value to overall portfolio returns this month and is generally a useful contributor to diversification and income generation. The bond portfolio returned 6.3% in October, representing a significant outperformance relative to the broader high yield index which we use as a benchmark.
- Amongst the special situations, the Company's largest investment (\$74.4 million) is in Texas International Energy Partners Inc (TxIEP), an unquoted company operating in the US shale gas and oil industry. TxIEP is making good progress with its three principal properties, the largest of which is experiencing strong cash flows as early drilling results are exceeding expectations and production flow rates on the six new wells are amongst the top decile of the 20,000 wells producing in the Barnett basin in north Texas. TxIEP has lined up a \$100mn borrowing facility and is preparing to draw on that to fund its acquisition and drilling activities around a property which has now been brought

into production in south Texas. Meanwhile, early indications from the potentially transformational property in Montana are encouraging, but it is still early days.

- The Company's second largest holding, Ecofin China Power & Infrastructure Fund, was the third largest contributor to added value this month as Chinese equity indices rose strongly. While economic indicators pointed to slower growth in October, we saw signs of a soft landing and of selective monetary easing by the government.
- Other portfolio companies that gained in October include NovaTek, a Russian gas company, on rumours that Qatar may take a stake in the company and in its Yamal liquid natural gas project. Gazprom also rebounded strongly after publishing very strong quarterly results, and benefitting from strengthening gas prices in Europe. There have also been discussions between Russia and China about supplying gas into China which would clearly benefit Gazprom. These two companies were prominent performers in the energy book.

OUTLOOK

Sentiment, direction and risk appetite in financial markets continue to be dominated by the European debt crisis and the news flow about global growth prospects. As we write, equity markets this month are weaker again and volatility in most security markets remains exceptionally high and this pattern seems set to continue.

In Continental Europe, where we have an ongoing underweight position in the portfolio, we continue to be selective as we are concerned about the macroeconomic context and sovereign risks, and share prices of companies in the utility sector are currently highly correlated with the European market indices. Some of the proceeds of lowering our European exposure are being reinvested in the US where we favour gas pipeline and integrated power companies.

In recent months, we have taken profits on UK utility holdings which have outperformed their Continental counterparts by about 25% year-to-date and are now becoming fairly valued. The cash received at the end of October from the takeovers of two of our largest holdings, Hansen Transmissions and Northumbrian Water, also triggered a reduction in market exposure. This has resulted in a very timely reduction in the leverage of the portfolio allowing the manager to reallocate these proceeds prudently following the correction seen in markets over the past three months.

In the energy markets, we are adding to some positions on share price weakness and we are generally bullish on earnings and multiples of emerging market stocks.

Against this background and following a period of pronounced strength, our current capital allocation to bonds reflects a more conservative approach as of late. The average credit rating of our bond portfolio is currently B and more than one-third of our positions are Senior Secured notes.