Question and Answer

Marko Bogoievski
CEO & Director

No. We've got a shy room. So maybe we go straight the phones. I hope there are a few people there that were listening through the presentation. Sheryl, have you got any questions for us?

Operator

First question comes from Geoff Zame of Craigs Investment Partners.

Geoff Zame
Deutsche Bank AG, Research Division

I had a couple of questions for you. I mean, the first one was just really around the operating growth in the business. And the CapEx profile sort of suggests that there's quite a bit of free cash flow to come over the next sort of year or two. Can you talk about sort of how shareholders are going to sort of participate in this outside of the rising share price? How the board is sort of thinking about the dividend? And I guess, the other thing is just a little bit of an update. You just sort of touched on the -- where you sort of see the external deal flow and opportunities of the market? And finally, look, it's a very positive presentation. I just wondered if you know -- if you could touch on sort of what you see as the sort of the key risks across the businesses, where you see the biggest risk to earnings on a sort of 12- to 24-month period?

Marko Bogoievski
CEO & Director

Geoffrey [Geoff], that was a comprehensive set of questions, I think. Just turning with that first one, which is a pretty good question, really asking, I think, how do you balance capital growth with current returns to investors and sort of demonstrable -- demonstration really that valuation is actually there. Look, if I was being cynical, the best way to prove to you guys that the NTA number is real is to have a systematic program of periodic realizations. Most of the guys in the room and on the call probably won't do anything other than discount our NTA until they see assets being liquidated and cash generated and either returned or redeploy to another tangible asset. And this is not our business. Our business is fundamentally long-term investing in assets where we see strong valuation growth. Obviously, we get -- we make good decisions. We're going to make plenty of good decisions and an occasional poor decision, and we'll executive the poor decision and remove them from the portfolio where we have to. And so I think we start with our material businesses like we have in this strategy discussion today and presentation. We make sure we've got access to capital to fund the business strategies, particularly if they've got returns that generate the sort of high total returns we're targeting. We work with people on the capital markets to make sure we've got access to capital. And then I guess you think about what your free cash flow really is available for distributions then. So I speak, Geoff, the DPS estimates for this business should just track really the earnings projections that you have for our business, the fundamental earnings projections I'm talking about. I don't expect to change from being a capital valuation total return investment to a yield story anytime soon. Because the way, I think, you should be clear about that sort of stuff. In terms of external deal flow, I mean, maybe I'll get my friends to add a bit in a minute. What we're finding out, Morrison & Co. is much more proactive, I think, in fundamental research that's driving principal ideas that business units can either build on or new positions that can be created. We're still not straying very far from our core because I don't think you can claim really to be a serious operator and be a part of 4 different industries. So Energy, broadly speaking; Transport, broadly speaking on Australia and New Zealand fundamentally. But also I think we'd back ourselves on any airport situation, globally would be a good example. We've talked about waste management, waste services in the past, because we've had investments; ports; tankage and storage now is a new area that's come out of our investment in Greenstone. And that's a lot for people to work on. It's not like that's a short list of origination ideas and I think we're still in the flow such that any, and certainly in this part of the world, Australia or New Zealand, in those sectors, you tend to get -- I mean it wouldn't be a transaction going on. I think we're not well across or well over. I don't know -- I mean Bruce, in Australia, do you think about -- I mean the focus, really, is internal CapEx, isn't it?

Bruce Emson
Former Member of the Management of Morrison & Co Infrastructure Management Limited

Yes, we've got quite a lot in front of us organically within our own businesses, so reliant on the external deal flow is not that high. But we're certainly in the spaces where those opportunities are there. I think within New Zealand, we've earned a seat at the table at discussions whether it be how do we get productivity gains based on irrigation and I think we've earned a seat at the table on that. And there's a strong optionality in TrustPower's development. So I think deal flow and opportunities, eventually, we've never had more of them within the spaces I'm familiar with.

Marko Bogoievski
CEO & Director

So just important to emphasize, I think the internal pipeline, it matches sort of things happening in the origination field. And we talked about -- I think the final question is about key risks. Geoff, I mean, I would highlight a couple even though I think generically, there's always risks around things like the regulatory environment for example. I mean it had to be an infrastructure base and not have to deal with either central or local government. But I think about 2, really, the most more than anything else, the industry structure in New Zealand electricity market and whether that supports privately owned operators like TrustPower. So hence, we've got be as mixed ownership, partial privatization, should enable those new entities to make more disciplined decisions either around pricing or capital investment. I think that's good for us. The flip side is that doesn't occur and that remains a risk -- and it's a risk we've been dealing with for a number of years but it's a fundamental one that sits out there. And I think even with Z, we've got a cautious outlook in that business. I mean you can see that a combination of prices and events can change profitability at least on a current cost basis quite quickly, which is why we invest so much in the risk management parts of our business. So at the same time, TrustPower was working its way through March 26 and not panicking, they've got a slight up slope. Greenstone, at the time, worked through September and February earthquakes as part of crisis management drills. They had it practiced carefully and it's fair to say I think they went according to plan, right? So I think we've got a handle on the risks and especially the ones that we can control. And either the ones we don't control, I think we handle that having a diversified defensive set of assets operating in this part of the world.

Operator

The next question comes from Rob Bode of First NZ Capital.

Robert Bode
Jarden Limited, Research Division

Just a few questions. Firstly, just to clarify, just the comments on dividend, you talked about dividend tracking EPS. Is that kind of adjusted EPS or reported EPS? And what would you believe your kind of account payout rate was at this time? If you can just comment on that. And then on Z Energy, just some clarification there. Mike talked about the cost of Christchurch being absorbed. I think you mentioned a figure about $5.9 million. Presumably, there were restructuring and transition costs absorbed also, can we get an idea of the quantum of that? The other areas we're just looking at, they seem to be more upbeat forecasts cost of capital at current cost, EBITDAF forecast of Z Energy in this presentation probably -- previously at the March presentation was kind of flatty but that was talked about, now we're talking $170 million to $190 million, which is $10 million to $30 million above the current position. What's driving that when the volume projections are more cautious? And finally, just as a last item, where are we in terms of distribution policy from Z Energy? You're extracting interest on your shareholders' advances. Is there going to be dividend extraction as well?

Marko Bogoievski
CEO & Director

Just, look, I'll ask Kevin to talk about the first, the way we think about dividends at the Infratil parent in a moment. And Mike can tackle the Z question, just on the distribution policy at Z. I mean, effectively, if you look at their CapEx program for next 2 or 3 years, in terms of net cash flow back to shareholders, we're not expecting too much. So I think, mechanically, we might declare dividends and reinvest in certain securities to finance the investment program provided we're satisfied with the business case and the returns. But we didn't buy Z to earn an immediate yield out of the sink particularly when there's high value-accretive project sitting inherent in the portfolio. But Kevin, do you want to just comment on that EPS question that Rob hit, please?

Kevin Maxwell Baker
Chair of NZ Bus and Director of Canberra Data Centres & Infratil Infrastructure Property

Yes, Rob, I can probably only add a little bit more to what Marko said earlier, that if you look at our EPS this year on a reported basis, I think we're just under $0.11. Obviously, were paying $0.0675 of dividend interim and final, which is about over 60% on that basis. If you look at Infratil parent's and wholly-owned subsidiaries' operating cash flow, then the dividend payout is more like getting towards 100% of this year's operating cash flow. But as operating cash flow increases in future years, then there's the opportunity to look at that. And then if you look at sort of an underlying earnings basis, in terms of this year, when we take out some of the exceptional mark-to-market valuations, impairments, revaluation of assets, we actually get back to a net earnings number, which is not that dissimilar to the reported. So therefore, about EPS on that basis, about $0.10 per share. So you can compare the $0.067 with that and get an idea of how we look going forward. I guess, it's very difficult to predict mark-to-market valuations. So when we look at our forecast going forward, we obviously know how current derivative positions are going to unwind. So the liabilities we had last year in the energy markets you've seen some under winding of energy derivatives this year, that will occur next year as well. But as we get into '13 and '14, those become unpredictable. So normalized earnings out to those years become pretty difficult, and therefore, will align much more towards a reported basis.

Marko Bogoievski
CEO & Director

Thank you. And Mike, those Z questions?

Michael John Bennetts
Chief Executive Officer of Z Energy

So we spent about $9 million on transition costs as a one-off, if you like. We delivered $6.4 million in benefits against that at a run rate of $12.7 million. When we think about the future earnings, next year or the next few years, they're much more around margin than they are around volume. That comes in 2 parts. We are predicting a relatively steady volume but we expect to have a reasonable amount of churn in our commercial activity. So there are some customers there that are either lower-valued to us. We think we can tune those out those out to someone who sees greater value for themselves and attract other customers in that are a better match for us. I think the important point here I'd make is about actually decision making on an integrated basis. So let me give an example. Most people think about a refinery like a baker shop. You buy flour and sugar and all the other things and you bake croissants, loaves, et cetera. It's not a bakery. It's like a butcher shop. You bring in so many pieces in the front end and you get so many cuts of meat out the back end. And we've had situations where we've been taking [indiscernible] and turning it into mint [ph], because from a marketing perspective, we're selling, we've got so much mints demand, that when we come back to our manufacturer, we have to go back and say, We need more mints so please don't sell anymore [indiscernible]. I'll turn into mint. Now, clearly, that destroys value. So we see better margins coming -- again, this is in a way that doesn't affect the consumer, that's how we actually choose to make decisions by being much more mindful of the -- and there's only a handful of products that we sell, but optimizing those across the whole value chain. So that we sell as much mints as we comfortably make, that when we put things into the refinery, we want to get as much bot [indiscernible] out as we can. So we focus on [indiscernible] and any mints that we have, we just sell the mints that we have. We don't try to create any more mints demand.

Marko Bogoievski

CEO & Director

Thank you, Mike. Sheryl, I think we've got time for one more question and we're going to have to wrap things up.

Operator

The next question comes from Wade Gardiner of UBS.

Wade Gardiner
UBS Investment Bank, Research Division

Just in regard to your revaluation of the European airports. Can you just give a bit of color on how that was -- I mean, how did you get to that number given the seems to be very little worth? Any clarity as to what the earnings forecasts are going to be or when is going to be a turnaround from a loss banking position?

Marko Bogoievski
CEO & Director

Well, I might hand that to Kevin as well.

Kevin Maxwell Baker
Chair of NZ Bus and Director of Canberra Data Centres & Infratil Infrastructure Property

Look, as for previous years, we've had the valuation updated by Drivers Jonas Deloitte in the U.K. Obviously, management in the U.K. got their own views around both passenger traffic growth and freight growth. It's fair to say that in terms of looking at previous valuations, we've probably been a little bit optimistic in terms of this sort of the changes in the market and the dynamic which is occurring both because of changes of patents of routes by [indiscernible] and also obviously, the drop off in demand. So I think we put together a reasonable state of cautious valuations that we provided to drive [indiscernible] to reaffirm the valuation over them taking a view in terms of being the local experts around airport valuations. Obviously, the growth in traffic at Glasgow Prestwick is probably going to be relatively muted over the next couple of years but we do see it returning to something like those where passenger traffic levels have had 2 or 3 years ago. Perhaps getting out and sort of years 5, 6, 7 and 8. And obviously, in terms of Manston, we have introduced a new route this year with flybe. We're working off a very low base. We still see strong prospects for that airport in the long term. Both of those factors have obviously weighed on this year's valuation. And so we've compared those 2 assets down by NZD $35 million. So you put that together with the impairment we took last year, I think we've got a pretty reasonably low conservative valuation on those airports now. I think it provides a track to do better than that in the next few years and obviously, there's a bit of action happening in the airport sector in the U.K. with BAA moves as well. So I think we're in a conservative position from a valuation perspective. And there's a few options going forward.

Marko Bogoievski
CEO & Director
Thank you, Kevin. Well, you've been very patient. Thank you for listening to the story. I hope you picked up one or two bits of new information. And we will call it a wrap there. We're also happy to have questions after the presentation, the formal part of it finished. So thank you, again.