Suncor Energy Second Quarter 2018 Financial Results Call

Thursday, 26th July 2018

Operator: Good day, ladies and gentlemen, and welcome to the Suncor Energy Second Quarter 2018 Financial Results Call. (Operator Instructions) As a reminder, this call maybe recorded. I'd now like to turn call over to Trevor Bell, Vice President of Investor Relations. You may begin.

Introduction

Trevor Bell

Vice President of Investor Relations, Suncor Energy Inc.

Welcome

Thank you operator, and good morning, everyone. Welcome to Suncor Energy second quarter earnings call. With me here in Calgary this morning are Steve Williams, President and Chief Executive Officer; Mark Little, Chief Operating Officer; and Alister Cowan, Chief Financial Officer.

Please note that today's comments contain forward-looking information. Actual results may differ materially from the expected results because of various risk factors and assumptions that are described in our second quarter earnings release, as well as our current Annual Information Form, and both of those are available on SEDAR, EDGAR, and our website suncor.com. Certain financial measures referred to in these comments are not prescribed by Canadian GAAP. For a description of these financial measures, please see our second quarter earnings release.

After our formal remarks, we'll open the call to questions first from members of the investment community, and then time permitting, to members of the media.

I'll now hand it over to Steve Williams for his comments.

Quarter Highlights

Steve Williams

President, Chief Executive Officer, Suncor Energy Inc.

Good morning and thank you for joining us. Our strong second quarter financial results show the earnings potential of our assets. Although, we experienced some operational challenges, we were able to post the best ever second quarter funds flow in our company's history. During the quarter, the business environment had a rise in commodity prices, supported by decreasing global inventory levels.

There was also significant volatility in relation to differentials and pipeline egress across North America. This was particularly the case in Canada, where short-term impacts of operational disruptions and extensive turnarounds during the quarter created significant volatility for Western heavy and synthetic barrels. However, with industry turnarounds in the region complete and operations ramping up to normal levels, we expect the longer-term fundamentals of a wider light/heavy differential to emerge with continued near-to-medium term pipeline access restrictions.

For Suncor, our tightly integrated strategy coupled with our strong logistics capability, allow us to minimize downside and capture value in volatile markets, while positioning us to maximize the value of our oil production over the long-term.

Our results this quarter underscore the strength of our business model and we delivered the best second quarter cash flow ever with funds from operations of $2.9 billion and produced operating earnings of $1.2 billion, even with the largest turnaround activity in our history.

We also mitigated the light/heavy differential with minimal impact on our quarterly earnings or cash flow. And we're able to provide pipeline market access to accommodate all of our Oil Sands production including all of the Fort Hills barrels.

Turning to our operations, Fort Hills and Hebron ramped up ahead of our expectations and delivered production that exceeded our guidelines in the quarter.

Both operations became free funds flow positive in the quarter and that's a significant accomplishment. I do want to take just a moment to recognize the teams involved for their dedication, careful planning and execution in achieving this remarkable result.

We completed, as I said the most significant turnaround maintenance schedule in our history, and while this had a short-term impact on production and cost, our base plant and refineries are now running at full rates positioning us for strong results over the second half of 2018 and into the future.

Late in the quarter, Syncrude experienced a site wide disruption, which resulted in a complete shutdown of all processing units. Working with the operator, we outlined a restart plan earlier this month and Syncrude is on target to meet that plan.

The first coker with a capacity of 150,000 barrels per day started to produce finished product on the 16th of July. The second coker with an additional 100,000 barrels per day of capacity is expected to return to service in the first half of August and full production with the last coker online is expected in early to mid-September.

We were disappointed with the outage and to be frank, I'm not satisfied with the assets' operational performance. We continue to engage with the Syncrude owners on the need to accelerate the necessary strategic initiatives, which we believe, will drive long-term reliability of this plant. Progress has been made and I continue to believe that all of the operational challenges observed are items that can and will be fixed.

We were on this journey with our base plant reliability in the early part of the decade and we learned the path to operational excellence is never a straight line. We set targets for Syncrude's sustainable utilization rate of 90% and cash costs of $30 per barrel or less.

I remain convinced that these targets are achievable. However, this recent event emphasizes the need to accelerate Syncrude's strategic plan to ensure reliability. We continue to aggressively pursue the necessary improvements, but this does require the full cooperation of the other owners. With the majority of the short-term production issues in the rear view mirror, we're into the second half of the year and what we see in the longer term is a very positive business and operational environment for our business.

We remain confident; we've made the right and sometimes difficult business decisions. These decisions have positioned the company to provide strong and increasing returns to shareholders, whilst maintaining a healthy balance sheet and investing in future value creation.

Our confidence is grounded in the fact that our major growth projects which were constructed in a low price environment are now ramping up ahead of schedule and doing so in a stronger price environment.

Fort Hills and Hebron operations are free funds flow positive in the quarter, ahead of our expectations and the contribution will increase as they continue to ramp-up. We had a series of projects in 2020 to 2023 that we believe will grow our free cash flow from our existing assets by $500 million annually, which is $2 billion cumulatively. We have no market access challenges as we have pipeline access for all of our Oil Sands production, including the Fort Hills barrels. And our Downstream business and strong logistics capability will continue to capture value in the long term with light/heavy differentials widening and strengthening diesel demand expected as IMO 2020 standards come into force. We believe that the impacts of IMO 2020 will benefit Suncor.

Reflecting our confidence in the second half of 2018 and the anticipated increase in free funds flow, our board has authorized an increase to our existing annual NCIB program to a total of $3 billion. We are also increasing our capital guidance to $5.2 billion to $5.5 billion, as we accelerate growth investments and reflect some increased costs from the recent operational issues.

In closing, I want to emphasize that our business model and philosophy, irrespective of short-term volatility, will remain laser-focused on operational excellence, capital discipline, long-term shareholder value creation and returning that value to our shareholders. I'm now going to ask Mark to provide some colour on our operational performance in the second quarter.

Operational Highlights

Mark Little

Chief Operating Officer, Suncor Energy Inc.

Great. Thanks Steve and good morning everybody. As Steve mentioned, the second quarter operational results were mixed and notably we continued with the successful ramp-up of our major growth projects. We also saw a strong production from our in situ and offshore assets, however, those accomplishments were tempered by the recent challenges coming out of our planned turnarounds and Syncrude.

As noted in our release last month, we completed a 7-day test of the Fort Hills facility running the asset in excess of 90% capacity and successfully proving out the gross nameplate capacity of 194,000 barrels a day. Fort Hills has produced 131,000 gross barrels per day in the quarter and that’s 71,000 barrels per day in net to Suncor, significantly exceeding our second quarter guidance of 30,000 to 50,000 barrels per day.

Fort Hills also achieved cash operating costs of $28.55 per barrel, which was well below Q2 guidance of $40 to $50 per barrel. With the plant ramping up earlier than anticipated, the team is working now to accelerate the pace of the mine and expects to enter the fourth quarter at 90% utilization. So our target is to achieve 90% utilization for the whole quarter, fourth quarter. That timing has been reflected in our updated full-year production and cash cost guidance.

I also want to take a minute just to acknowledge the Fort Hills team including our major projects and the operating team and the development functions and all of our contractors. So far at least from my experience, in my career this has been the best start up we've seen, although, it's not over and we got to get it fully ramped up and get to our 90%.

Our in situ assets continued to perform extremely well during the quarter, producing 236,000 barrels per day of bitumen. They also achieved cash operating costs of $7.90 per barrel, which marks the fourth quarter in a row, where our costs were below $10 a barrel. What's more, this is, was accomplished while advancing MacKay River planned maintenance that had been originally scheduled for the third quarter.

Suncor's offshore assets contributed 114,000 barrels per day to our upstream production and continue to demonstrate their value with our diversified portfolio of assets. In fact, they generated $545 million of funds from operations, while other segments of our business were undergoing significant turnarounds.

The strong performance from our offshore assets was consistent with the first quarter. Natural declines for some assets and planned maintenance of White Rose were almost entirely offset by the ongoing ramp-up of Hebron, which averaged 13,500 barrels per day during the quarter.

In the downstream crude throughput was 344,000 barrels per day or 75% of nameplate capacity, reflecting the impact of significant maintenance across our refineries. However, as we've discussed in the first quarter, we've built refined product inventories to support this planned maintenance.

During the second quarter, we completed significant planned maintenance, which impacted both our upstream production and downstream throughput. This was the first 5-year turnaround cycle for the U1 upgrader at our base plant and the first time we did a full planned Edmonton refinery turnaround at one-time for all of the assets.

There are a couple of items that extended our turnarounds. First unseasonably cold weather at the beginning of April delayed timelines and impacted productivity. And secondly, we found additional work that exceeded our expectations and given our focus on reliable operations, good decisions were made to address these items before returning to normal operations. With that considered oil sands operations produced 359,000 barrels a day.

Finally, I wanted to spend some time discussing Syncrude, which had a utilization of 58% and produced an average of 118,000 barrels per day to Suncor during the second quarter. This reflects the impacts of planned maintenance as well as the power disruption that occurred on June 20, which has been included in the narrowing of our full production guidance, cash operating costs and royalty's guidance.

While the investigation into this incident is ongoing, we continue to work closely with Syncrude and the other owners to assist in meeting the return to service plan, which was outlined in our news release on July 9 and Steve summarized at the start of this. Suncor has contributed numerous senior personnel and resources to support Syncrude with Suncor's VP of Montreal refinery coal leading the investigation.

To date, Suncor has accounted a total of 8 people into Syncrude, including the new Vice President of Production upgrading. As a result of the incident, he is now on site assisting with the restart. We are supporting Syncrude to improve the asset performance, building on our experience at base plant and we continue to work with the other owners to get better alignments and accelerate the improvement plan.

Looking beyond these short term challenges, we have confidence in the ability of our assets to run reliably. We plan to remain within our production guidance and realize that we need to make up for some of the operational upsets that occurred in the first half of the year.

Looking forward, we will continue to research and invest in strategic process – in projects such as the autonomous haul trucks, digitalization, new in situ technology and co-gen opportunities. That work will be focused on the optimization of all of our assets, reducing our carbon footprint and generating additional sustainable cash flow for our shareholders.

So with that, I'll turn it over to Alister to provide some context on our financial results.

Financial Highlights

Alister Cowan
Chief Financial Officer, Suncor Energy Inc.

Thanks Mark and good morning everyone. The business environment, as we know, continue to strengthen in the second quarter with Brent increasing USD 7.60 per barrel and both the WTI and New York Harbour 3:2:1 benchmarks increasing USD 5 per barrel compared to the first quarter. Realizations were also positively impacted by the weakening Canadian dollar, resulting in the average price of oil sands crude basket and our offshore E&P assets both increasing by approximately 15% versus Q1.

This translated into more than $500 million of additional upstream funds from operations when compared to the first quarter results, even though production was almost 30,000 barrels per day lower, demonstrating our leverage to increasing oil prices.

In the first half of the year the WTI-WCS spread widened by USD 7 per barrel, but as Steve mentioned earlier, this location differential continues to have minimal impact on our results.

Downstream achieved strong funds from operations of $884 million, which as Mark noted, benefited from the sale of refined product inventories strategically built in advance of the turnarounds. An additional profit of $35 million after-tax on the sale of inventory related to the strategy was also recorded in the corporate segment during the quarter.

Suncor also successfully resolved some outstanding historical tax issues during the quarter and recognized after-tax interest income of $44 million and $235 million of prepaid taxes that will be refunded to us in the third quarter.

In total, Suncor generated funds from operations of $2.9 billion, operating earnings of $1.2 billion, and a return on capital employed excluding major projects is just under 10%. Together, they contribute to one of the strongest second quarter results on record, which we achieved despite undertaking, as Mark and Steve Williams have said, a significant planned maintenance schedule.

Our confidence in the performance of Suncor's integrated model for the remainder of the year and the strengthening business environment are expected to result in significant additional funds from operations to return to shareholders, advance some capital projects and also strengthening of the balance sheet.

In the first 3 months of the current NCIB, our stock buyback program, we've repurchased approximately 15.8 million shares for $830 million. With this pace in mind and our confidence in our structural free funds flow growth, we've received board approval to increase our share repurchase program by just under 50% from $2.15 billion to $3 billion, over the period May 2018 to April 2019. This underscores the strength of our integrated model and our bias to return that increased value to our shareholders. But we've also allocated some of increasing free funds flow to capital projects and have increased our capital guidance modestly to $5.2 billion to $5.5 billion.

As we've stated in Q1, working interest -- additional working interest acquired in Syncrude and Sarnia combined with the capital versus operating costs treatment of the 3-week delay in commissioning Fort Hills, took us to the high-end of our guidance range of $5 billion.

Increasing some spend on growth capital including advancing the purchases of autonomous haul trucks for the Fort Hills mine and pre-sanctioning work at Meadow Creek and Buzzard too in the later part of this year contributed to another $200 million to $250 million.

And finally, the productivity issues and additional work found was, as Mark referred to during our turnaround audit, an additional $150 million to $200 million to the capital, which I consider to be one-off costs and not indicative of general cost increases.

In addition to increasing share repurchases and advancing growth projects, we also expect to further strengthen the balance sheet in the second half of the year.

Our financial health remains robust and we continue to attract a strong investment-grade rating. However, the ramp-up of major growth projects combined with of heavy turnaround activity and acquisitions in the first half of the year have temporarily impacted our balance sheet metrics.

I remain confident however, that with both growth projects and our generating free cash flow and the heavy turnaround activity out of the way, we are well positioned to generate strong funds from operations for the remainder of the year.

And with that, I'll hand you back to Trevor.

Q&A

Trevor Bell: Thank you, Alister, Mark and Steve. There's a couple of items to note before we take questions. We saw the crude price continued to rise during the second quarter. And as a result, we recorded an after-tax foreign exchange gain of $151 million, making the year-to-date gain $204 million after-tax.

Share-based compensation expense during the quarter was $117 million after-tax, bringing the full year after-tax expense to $199 million. We also saw the Canadian dollar weakened by $0.02 in the quarter, which resulted in a non-cash after-tax foreign exchange loss of $218 million. The full year non-cash after-tax foreign exchange loss is $547 million.

While Mark and Alister addressed the tightening of our production guidance, cash cost and capital guidance, we have also adjusted the business environment to reflect the actual pricing for the first half of the year and the forward curve pricing through the end of the year. This has resulted in increases in our cash taxes, as well as our Oil Sands operations and Fort Hills royalty ranges.

With that, I'll turn the call back to the operator to take questions; first from the analyst community, then if time permits from the media.

Operator: Thank you. Ladies and gentlemen, if you have a question at this time, please press star, then the number one on your touch tone telephone. If your question has been answered or you wish to remove yourself from the queue, please press the pound key.

Our first question comes from Neil Mehta of Goldman Sachs. Your line is open.

Neil Mehta (Goldman Sachs): Congrats on the good quarter here. First question was related to Syncrude, just curious, the team -- how you think about what the lessons learned are from the Syncrude outage and as an investment community, how do we get comfortable that we shouldn't be capitalizing a lower availability or utilization rate beyond 2018 as there have been issues over the last couple of years with the asset?

Steve Williams: Yes, let me try and context the whole of the Syncrude journey because I can tell and your question, and similarly I'm frustrated with performance of Syncrude. Overall, we're not seeing any great surprises and what's happened there. We've done a -- been on a very similar journey with our Base Plant, that's why we forecast the 90% utilization and $30 for 2020 and not so earlier. When I think there were some questions all of us to why we put that back into 2020. I'll give you a few specific examples, if you like, all things that we were working through; things like winterization standards, we actually had the electrical and distribution system as part of our program as we were working forward. And so disappointment, no great surprises, and if you recall, we bought Canadian Oil Sands at a discounted price knowing full well, there was a potential for improvement, but we've to put some hard work in to get that. I've been pleased with the commitments of the partners on that underlying maintenance and reliability program. I am not so pleased on the aggressive plans that we put forward in the support we're getting for that. So the most -- the easiest example is, we know we'll get a step change in the performance of Syncrude, when we put these pipelines between Syncrude and our Base Plant, and we will put that pipeline in. We're not getting the sense of urgency or support we'd like from our partners at the moment. So we're working hard to try and get that, but there are some areas where we're having to push the partners because of its governance structure to start thinking differently. You can tell from the tone of our script, we're confident we're going to get there. It is taking us a little bit longer than we expected. So, we fully expect to get to 90% and $30 by 2020, but we do need their help and cooperation. So all the things we've seen so far would have been picked up. Of course, the interesting thing about -- an investigation is not fully complete yet. The most interesting thing about this electrical failure as it's nothing really to do with Oil Sands. It's not, normally we're talking about wearing characteristics of bitumen, the difficulty of the process up there. This is about electrical distribution, and it's the same there as is, it is in most other locations where we've similar facilities around the world. So these are solvable problems, I'm comfortable we're getting to them. I know -- but you know, that's why we advise we put in 2020 not earlier in 2019.

Neil Mehta: And then where are the places relative to our forecast that the quarter beat was just the strength on operating costs; Fort Hills, Oil Sands, even Syncrude to some extent given the higher turnaround activity we thought, you'd see a higher dollar per barrel operating costs. You talk about some of the things that you're seeing on the ground and again, how do we take what's happened in the second quarter, the better performance on costs and think about extrapolating that going forward?

Steve Williams: You really saw, nailed in that question. It is -- there is some great underlying news here. Net-net, we're not seeing the inflationary pressures you might have anticipated at this time. Not to say there weren't some areas where we're seeing some movement, but our overall program has been able to mitigate that and get that trend continuing down. So if you look at Fort Hills, which is operated a better than we expected. If you look at MacKay River or Firebag, what we're seeing is, we're continuing to be able to reduce those costs. The only thing which has pushed the headline number up on the base plant and Syncrude is largely to do with the service factor in the way we were able to distribute the fixed cost. So, overall the trends there, are, in the right direction as well. So that is very encouraging for the mid and long-term, bit frustrating in the second quarter, which has been noisy, but the underlying direction and trend is very encouraging. And of course, a big piece of that $500 million a year building up to the $2 billion we've been talking about, is to do with that program of cost management and cost focus that we've been working on. So we are greatly encouraged by where costs are at the moment.

Neil Mehta: And last question, Steve. You and I were talking last month a little bit about IMO 2020 and talking about the WCS differential which at that point was tight and your view was that it was going to widen out and that certainly has. Can you just talk about where you think we are from a WCS differential environment, recognizing that you're agnostic to it that certainly has a big implication for the overall Canadian oil industry?

Steve Williams: Yes, I mean I'll offer a comment. As you said, we are largely agnostic because we can mitigate that through the integrated model. We just think the fundamentals will work Neil, that you know, as Syncrude is coming back on, as Fort Hills ramps up to its 90% by -- as Mark said, we're going to average we think 90% for the fourth quarter. We're going to start to take up a lot of that pipeline capacity that we have. We've been -- the others in the industry have been able to take advantage of. So, our feeling is that as the industry comes back from turnaround also in particular, then that market will --that differential will start to increase again and I think we're starting to see that. And then we could have to base about that level is, but I think we'll get back to the sorts of levels we would expect it to be given the volumes will be coming out of the region.

Operator: Our next question comes from Phil Gresh of JPMorgan.

Phil Gresh (JP Morgan): My first question was around the capital allocation framework update you provided in the slides, where you went through a higher price level and gave some new thoughts around return of capital and capital spending. As -- I was hoping maybe you could highlight what you would characterize is some of the differences versus the old framework. And I'm thinking around some of the capital spending numbers at the higher price levels. Shall I attribute that to an expectation of in situ replication coming on or Alister maybe some of the factors you're talking about in your prepared remarks, just any colour would help?

Steve Williams: Let me start and I'll let Alister pick it up if he has any more detail. I mean, what I would say is, first of all, let's come into 2018 and I think what we've seen is a little bit of pressure for a number of reasons. So we've seen -- we've bought the Fenja share, we've bought some -- an extra share in Syncrude and so, yes, a portion of capital comes with those. There was a specific event on Fort Hills that most people and Alister said in the script, it didn’t come across as clearly as we would have liked it, because we have -- but the -- because of the 3-week delay, accounting rules cause us to classify that expense up to February from expense to capital. So the costs never went up. We've just transferred them from one section to another. And Alister gave a good explanation as to -- we haven't told that story too much in the past. So it's really just a reclassification. It's not extra funds, but it shows up in that CapEx number. And then the rest of it, I would view as would buy an option. We're more encouraged about medium and long-term prices. We are not making final investment decisions at the moment on any of these projects. But what we have done is, we're going to take the project through its early development stages and you can think of that as Rosebank as the in situ projects and so that we have the option to make a call on those projects next year and the following year. So that's what that modest CapEx increase is about. What I would say, don't think for one second, this is a move away from our capital discipline; we are committed to returning money to shareholders. In fact we have a bias to move to return that money to shareholders. You've seen a significant increase in the share buyback and we are executing against it, so that commitment to the $3 billion. And we've talked over a long period fell back what would get the dividends moving, of course, what gets the dividend moving is the underlying long-term cash generative capability of the business. So as this production has been coming on, then our ability -- and we've talked about testing that sort $40, $45 a barrel type level for affordability. So we're very comfortable, you're going to pick it up, of course it's a board decision, but you'll be seeing some significant movement in dividend as we take our dividend review in the new year.

Phil Gresh: Okay. If I guess -- I guess I can just maybe clarify that there was a slide where you said and a higher price level with the capital spending could be up to $7 billion going forward versus $5.5 billion in a prior slide deck. And so just to clarify that --

Steve Williams: Yes, let me just comment on that and then Alister is chomping it a bit to get in here. Yes -- really what we were asked to do was to start to look at the framework because we don't have that chart, the one you're referencing, on just looking for the page number there, on Page 7 in our new investor deck. We've always had the -- so a mid range then we wanted to take up to a higher level. What this is -- is a commitment that we're spending that money, but really talking about from an affordability and a priority point of view, we have vast reserves and projects and the capability to grow the business. What we're trying to demonstrate there is you're going to say -- your model will show you the cash generation of the corporation in that sort of price and we're starting to see it and it's really just arithmetic from where we are today. So if we were to view that long-term sustained price tag book, what we're trying to say is you'll see -- we're actually trying to look at it the other way, you'll see some caps coming in there. It's not that we go into that level. You'll see us restricting capital and still continuing to do significant buybacks and move dividend. Alister?

Alister Cowan: Yes. Just a comment there, Phil. I mean the last person, this is a response to lots of questions regarding the road as Steve said, that people begin to think that prices may be slightly higher. I really wanted you to point out that the last slide, I think was capped off to $65 WTI and that has a good bit of $5.5 billion in capital. So you raised a question, $7 billion or the $7 billion number, I say goes with around about an $80 of WTI number, which will be another $3.5 billion of free cash flow. I've repeated in the context of -- if you think we're going to spend $7 billion, we're generating $15 billion-plus in our cash flow. So that's the context, you really need to think about that number in, not of spending $7 billion and generating $12 billion.

Phil Gresh: And then my second question, I guess to be for Mark just on Syncrude. If I look at the guidance for the year and if I think I kind of roll in the numbers that you've described for the third quarter. It looks like you're assuming a very high level of utilization for the fourth quarter, correct me if I'm wrong on that, but was there -- I believe there is also maybe some consideration of pulling forward some maintenance at Syncrude's, so just any thoughts on that, both elements? Thanks.

Mark Little: There is some work that was scheduled here for the fall that is getting accelerated into this time frame. So the focus here is to mitigate this outage as much as possible. We're also looking at -- the team is actually looking at what work is going on in '19, although, we haven't sorted all that out at this stage of the game. But they're looking at -- trying to see whether some of the '19 work could also get accelerated into this period. So with that, we are assuming that -- and as I mentioned in my comments, we're kind of have to make up some ground here, but we're assuming that it runs at high utilizations primarily because planned maintenance is out. And so we're expecting this to run fairly with really no headwinds in there. So the focus now is to get it up and get it reliable and cranking away. And Syncrude's history has been that we've seen those periods and we're counting on that happening here as we go into the end of the year.

Operator: Our next question comes from Greg Pardy of RBC Capital Markets. Your line is open.

Greg Pardy (RBC Capital Markets): A couple of questions, most of them have been answered, but Steve, you alluded to the bidirectional pipeline in 2020. And then the just -- I guess the game plan around improved reliability and so on. But is there anything else that you think needs to be -- other actions that need to be taken at Syncrude in order to get it where you want it?

Steve Williams: Greg, I'd say there's like a multi-pronged plan in place. So some of that is what everyone thinks of is excellent maintenance practice and a lot of that has been a part of a program that's being done for some while and still continues to progress. So Imperial's focus on that over the last few years has been good and strong and is making progress, and we believe will yield results. We got some things we were adding from our expertise in the industry, so the example was the winterization when we've different winterization standards, we've taken those standards across to the plant and a lot of that works have been executed. So those programs, I'm very comfortable with. There is -- some of these commercial ones through the joint venture which is -- struggles to work quickly. So we're asking the partners to work with us to focus on that, get through those commercial debates quickly, so that we can start to get the hardware in. And I'm encouraged in the mid, long-term, we'll get to that. I'd like to see a little bit more focus on those projects now. We've also got, if you can imagine a -- what I'd call a cultural employee program in place where we've been moving some of our practices that we've learned over our 50 years in. And Mark talked about a number of senior people going across genuinely to try and help and share some of their experience. We've also done the same in the opposite direction, so we've taken some of the Syncrude leadership and taken them across into Suncor, so they can start to see how we address those issues and we're appropriate to take some of those practices back in. So I'd say it is multi-pronged attack, getting lots of attention and we'd like to see it get a bit more. Mark, just wanted to make another comment.

Mark Little: Thanks, Greg. Maybe, I'll just add to that is one of the opportunities as these operations of existed literally across the street from each other for decades. And so one of the opportunities that we're really encouraged about is to see people that are in the region, working on the same aspect of the business, getting together and collaborating to try and understand where are the opportunities, because in some cases we're working on the same things but finding we're getting different results or different cost structures and stuff. We've seen some really interesting opportunities coming out of that, where it's worker-to-worker sharing their ideas and practices. And so there is some great things coming out of it, it just, it's takes time and what we don't know is, we don't know what we don't know. Right, like -- and part of that comes with it is what is it that we haven't yet uncovered, the focus is this we have a quite a comprehensive program in place and we continue to aggressively pursue it as Steve said so.

Greg Pardy: Well, I'll be patient there. And then second one is, I mean 2018 just been a big, big year in terms of maintenance turnarounds, et cetera. So is it fair to say that next year, the capital you typically allocate towards turnarounds is presumably is going to beat the lower end. Like it didn't sound like '19 is going to be a big maintenance year at all.

Steve Williams: We were having a discussion earlier this morning, Greg, and context it for ourselves, we think that our 2018 is the biggest maintenance year we've had in the last 10 years. And will be the biggest maintenance event, we've had for the next 10 years as well. So, and you know part of that was by design as we tried to synchronize the turnaround schedules on these longer run. So the first 5-year run on Unit 1 at the Base Plant was important to us and then get in sync. So absolutely, you'll see 2019 is significantly less than 2018.

Operator: Our next question comes from Dennis Fong of Canaccord Genuity. Your line is open.

Dennis Fong (Canaccord Genuity): Just -- firstly, just kind of carrying on from a couple of my predecessors' questions there. With respect to -- you've definitely had a few kind of interesting quarters with respect to production. I was just hoping to understand kind of the level and the reasons for your confidence in hitting at the very least, the lower end of your 2018 production guidance from a like more of an operational kind of standpoint. Understand individuals into the group is going to help, maybe over a more medium-term environment, but just over the next 6 months?

Steve Williams: All I'd say is nothing needs to happen in the 6 months -- next 6 months that we haven't seen happened in the past. So we've tightened our production guidance to the lower end, but we still believe we can hit it. We got a high degree of confidence in -- the Base Plant is up and operating very, very well. And I think that's a testament to what Mark said that we didn't rush. We did take the time to do the maintenance of items we found during the turnaround and it's operating very well. So we're encouraged, Syncrude is progressing well. I talked about the first -- the biggest of the 3 units was up and actually producing finished product on 16th of July, we actually had feed in there on the 12th of July. And so we're encouraged by where it's going, but we still have to deliver it. So I'd say reasonable confidence, but we still have to deliver and that's what we're focusing on.

Dennis Fong: And then secondarily, just on returning value to shareholders, obviously with the board approval of going to $3 billion of NCI -- on the NCIB this year. How should we think of next year as you guys alluded to that this 2018 is a very significant year with respect to turnarounds, we'll call it a production downtime as well as maintenance capital. And given again that the Slide 7 to kind of illustrate your ability to both increase dividend as well as return value back in share buybacks. How should we think about the $3 billion number characterize next year and presumably a better run time environment with potentially lower maintenance CapEx?

Steve Williams: Yes, I'd say, I'll make a few comments. Firstly, I do take your point. The first half has been very noisy and very difficult to extrapolate from. What I'd say is and it was sort of the opening comment I made in my prepared words is, in spite of all of that we still generate incredible cash. So even with that noise around the plants turnarounds and some operational issues, we still generated just under $3 billion cash, which gives you an indication of the capability of the machine, and why we're confident going forward. And if you like -- in a sense and I know we've had some discussions about it. We -- based on our long-term sustainable cash generation in that $40, $45 a barrel crude region, we pay, we set our dividend. We've had a substantial increase in that capability through the year and we haven't moved on it yet. So -- with Fort Hills has come on, as Hebron has come on, the Base Plant is in great shape. And Syncrude, although it's not where we wanted to be, it is not far from where we expected it to be. So the cash generation of the company is coming up significantly, and that's what we base the dividend increase. So you'll see us reflecting very hard and probably moving dividend next year. Beyond that, what we used to share buybacks for then is, if the additional free cash above and beyond that. And you've seen us not sure, we moved on the $2 billion and we've actually been spending at that rate. We've been spending and our plan is to spend at that rate. So I think what you'll see is, now we've got this, we always said we had 10% growth in the underlying production of the company this year and 10% next year. Actually in terms of capability, we probably front-end that a bit because Fort Hills has come up a little bit more quickly than we anticipated. So we're very confident as we move forward.

Dennis Fong: If you just indulge me at one last one there. Just on the tour at Fort Hills, it was mentioned that part of some of the CapEx is going towards the purchase of additional trucks to kind of help with balancing the -- I guess the feedstock and so forth. And given kind of that through the start-up procedures you guys have been testing the various pieces of equipment, what's maybe a good kind of time frame or call it may be like check boxes in terms of what do you guys need for understanding of the capabilities of Fort Hills and to really trying to relate that back to the street only that thing?

Steve Williams: Let me start and then Mark will come in if we need any more detail. Fort Hills is doing extremely well. The simple version of where we are is that we anticipated every plant that started up has started up at certain rates. And we predicted the rate of this plant would come up and that would be -- the rates of ramp-up would be set effectively by the fixed facilities at the back end of the plant, it's the solvent extraction itself. In practice, we've not found that, the plant has come up very well faster than we expected. When literally this layman's version of it is when you're developing a mine, you a have small hole to start, will then gets bigger. And when you develop that first hole, your ability to get down to the bottom of the pit is related to the speed with which you start to ramp the back end of the plant up. In this -- and that becomes important because if you imagine I should go down through the Oil Sands itself, it's soft. And then when you hit the bottom, it's harder and on the hard road you can run the trucks, you can run them full and faster. So all that happened here is we've gone through -- with the back end of the plant has been able to take everything we've put at it and we've tested it up now to its full capability. So all we're having to do is accelerate that front end piece of getting developing the pit, getting the tailings ready and getting the mine down to the floor of they reserve itself. That's going extremely well, that's a business where we know a lot about, we've got contractors in there, we're using our own trucks. What it says is, you need -- you can use more trucks more quickly. So we're just bringing those trucks in quicker that we would have brought in slightly later. So all of that is a great news. The other bit of good news is that as we're starting to see, still got to run the plant a little bit more to see exactly where it is. We're starting to see that there will be some debottleneck capability here because we haven't hit limits on the plant yet. I don't know Mark if you want to add anything to that?

Mark Little: Yes, I think the only thing is -- and Steve mentioned in the first quarter earnings call that we are at a 150,000 barrels a day with or over a 150,000 barrels a day with 2 trains on. And so we know that there's aspects of the plant that can run in the 220 to 230-ish range. So we're expecting that likely we will find a debottleneck of 20,000 to 40,000 barrels a day. It just going to take some time to do it. We want to get the plant fully up. We want to see it in a variety of how it operates in cold weather conditions and warm weather conditions to understand heat constraints those sorts of things. So it'll take a few years to sort it out and do the measurements and plan the project and get it launched, but we do think that within a few years here we'll figure out a debottleneck on it and at we're very excited about it. And in fact, the way we've been starting it up, we've been measuring specific components of the facility to help us understand exactly that. So we've been intentionally moving the constraints around the plant during the start up to understand performance of specific units to help us in that assessment. So we're very optimistic about that potential.

Operator: Our next question comes from Jason Frew of Credit Suisse.

Jason Frew (Credit Suisse): Hi Steve, I was wondering if you could give us some colour on your new Board Member Brian MacDonald. Just what skill set he might bring to the organization that isn't already there?

Steve Williams: What we've been trying to do just in general around the board is as we've had members retiring from the board, we've been replacing them with what we see is the skills needed in the future. So you've seen a few new board members come on. We've had Dennis Houston come on, a long-term Senior Executive with excellence. He brings with him detailed understanding of refining in North American Logistics. In Brian's case, we were very keen to bring somebody on who is very technology and IT savvy, a big part of our program going forward is going to be about what we call within the company's digitalization, which is all of the aspects of artificial intelligence, machine learning and our ability to move those tools into place quickly. So Mark has been leading a program of digitalization quietly in the background over the last year. We'll start to expose some of the details of that. I guess the first part you've seen, which was the automation of a mine and the truck fleet. That's gone exceptionally well, it's gone -- the results we've seen have exceeded our expectation. We're really confidently talking about a $1 a barrel now as we bring those automated trucks in. It's a continuation of that program and matching his skills. Brian joined us this week and was able to add some great value.

Operator: Our next question comes from Asit Sen of Bank of America Merrill Lynch.

Asit Sen (Bank of America Merrill Lynch): So I have a quick follow-up question on some earlier answers. So going back to Slide 7, if oil price trend continues, could we see the replication projects start sooner, since 2 have already been approved or is 2023 a fairly fixed timeline for first oil?

Steve Williams: I would take it as a fixed, fairly fixed and probably the earliest. I mean one of the lessons we've learned through time is that the orderly development and progression of projects is really important. We set some tough guidelines for the economics of these projects and kudos to the group that got these projects to work a much lower crude price now because of the extra effort that's been put into the design and the construction philosophy. So really what we're doing with this -- with our 2018 CapEx is buying that option to start up in within 2023. It's unlikely you will see that significantly brought forward, that's not part of our plan. We have a program of other small projects and operational excellence of focused initiatives which gives this $500 million a year adding up to the $2 billion by '23, which we think gives us cash flow growth without necessarily growing the production of the company at the same rate, some of that will be about production, but most of it isn't. So it's unlikely you'll see it come forward.

Asit Sen: Alister, so just wanted to go back to your earlier comments on cost inflation and you alluded to you guys are doing the right job in managing the supply chain, et cetera. But as we look to 2019, '20 are there any particular areas where cost inflation should be watched closely. What are you watching?

Steve Williams: I mean we watch it closely. We watch labour, we look to watch materials, we watch gas, there is no red -- there's no red alarms coming up there. We're seeing some types of labour or seeing some pressure, but we've been able to mitigate that. We're not -- we haven't seen anything significant on materials, because one of our biggest costs is the price of gas itself. And we think gas prices will be relatively low for a very long period. So we keep an eye on it, it's a big area of focus for us, it's part of the operational excellence program. But as we net it we think overall you can just continue to see cost come down in the region. And part of that we've been helped with because could levels of construction have been down, so that been of -- our own firestorm of inflation that we had experienced 10 years ago has gone. And we're operating much more within the constraints of the labour and contractor capability here. So overall, we still see prices coming down, not going up.

Asit Sen: Great. And one quick one, Alister on, appreciate the increased share buyback, but wondering if you could update us on your thought process on balance sheet gearing, are we -- is there a desire to drive it lower?

Alister Cowan: Yes, I think as we've laid out there. We'll continue to see as manage the balance sheet towards the lower end of the range of prices go up, so -- but I will take some time. I am very comfortable with where our balance sheet is today, but over the next 2 to 3 years, I'd expect to see that drift towards the bottom end of the range.

Operator: That concludes our question-and-answer session. I will turn the call back over to Trevor Bell for any closing remarks.

Trevor Bell: Great. Thank you, Michelle. So I'd just like to thank everyone again, who attended our call this morning. I know it's a busy morning in the market, so really appreciate it. And just I'll let everyone know that our IR team is around all day-to-day for those who didn't or weren't able to ask your questions or have additional questions to take those. So thanks again, and we're signing off.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone, have a great day.