Jeff Bell, Group Chief Financial Officer

Financial performance:

The Group delivered robust financial performance in 2016, against a commodity price environment that was lower in 2016 than it was in 2015. We delivered 4% growth in operating profit and in earnings. And in our customer facing businesses we saw 9% operating growth, primarily driven by strong trading performance in our energy, marketing and trading business and a return to profitability in UK business.

Our key financial metric, adjusted operating cash flow, was up 19% compared to 2015 and even adjusting for the one-time recovery of working capital from UK business and making foreign exchange and commodity prices on a like-for-like basis we saw underlying adjusted operating cash flow up 14%, well above our long term 3% to 5% annual average growth target.

As a result, along with strong capital discipline we saw net debt fall by £1.3 billion, or just over 25%, leaving net debt at the end of the year just below £3.5 billion, and a much stronger balance sheet as a result. So overall, a strong and robust financial performance in 2016.

Turning to 2017, we would continue to expect to target greater than £2 billion of adjusted operating cash flow in the year and with continued progress on our disposal program would be more than sufficient to meet our uses of cash and, indeed, we would expect to continue to strengthen the balance sheet and reduce net debt by the end of 2017.

We would expect by the end of the year to be targeting net debt in the range of £2.5 billion to £3 billion, consistent with the financial metrics that the rating agencies are looking for, to support our strong investment grade credit ratings and also to support a return to a progressive dividend.

We would expect to also make further continued efficiency gains in 2017 and are targeting an additional £250 million towards our £750 million program.

It is too early in the year to have a forecast of where earnings per share will turn out, but we would expect by the middle of the year at our interim announcement to be able to give better guidance.

Balance sheet guidance:

One of our key financial objectives has been to strengthen our balance sheet, giving us the financial flexibility to invest behind the strategy and realise our strategic ambitions. We've made good progress in 2016 against that goal. We saw net debt reduce by just over 25%, by £1.3 billion, to just below £3.5 billion in total.

Of that £1.3 billion, about two-thirds of it was from our own organic cash flow generation and working capital management and the remaining third was the net of our equity placing, less the cost we invested in our two material acquisitions, ENER-G Cogen and Neas Energy.

As a result, we've made good progress against the rating agency financial metrics that would be consistent with the strong investment grade credit ratings that we're targeting. This has been particularly important in 2016, not only with the uncertainty that we saw around the lower commodity price environment and the regulatory uncertainty related to the CMA process and the Brexit referendum, but as a result of the lower interest rates following the Brexit referendum, we like many others, saw our pension liabilities and the accounting for those increase significantly. That has created some additional headwinds in terms of our overall balance sheet strength.

We are continuing to target net debt reduction in 2017 and would expect in the current environment to be in the £2.5 billion to £3 billion range by the end of the year.

Efficiency programme:

We delivered a little over £380 million in 2016 of efficiencies, against our like-for-like target of £750 million that we were targeting at over five years. That has required an enormous amount of effort from across the Group in all business units and functions.

In our energy supply and services businesses, for instance, we saw a reorganisation and a simplification of our management layers. In our E&P business we saw dramatic reductions in our lifting and other cash production costs, both from lower supply chain cost but also from changing the way we run that business.

In our Group functions, IT, finance, HR, procurement, we reorganised our functions on a global basis in 2016, which has allowed us to, again, standardise and simplify and unlock further efficiencies. With respect to third-party cost, we've been able to leverage our global scale and significantly drive down those areas of cost in particular.

We announced in July 2015 as part of our strategic review that we would be targeting £0.5 billion to £1 billion of disposal proceeds out to the end of 2017. A key component of that was our windfarm joint ventures. We've now realised the proceeds from disposing of both of the wind farm joint ventures we had, the GLID Wind Farm and the Lincs Wind Farm. That has delivered, in aggregate, around £350 million.

In addition, the second area that we were focused on was in our exploration and production business, where we have announced the disposal of our Trinidad and Tobago operations, as well as some smaller fields in the North Sea.

With respect to our Canadian E&P business, that disposal process is ongoing and we continue to target to complete that by the end of 2017.