ANNUAL CHAIRMAN'S STATEMENT REGARDING DC GOVERNANCE

ANNUAL GOVERNANCE STATEMENT FOR THE YEAR ENDING 31 DECEMBER 2020

Specific governance rules apply to defined contribution pension arrangements like the BP Retailing Pension & Life Assurance Scheme, which was open to new joiners as at 31 December 2020, and the BPFM Pension Scheme, which is closed to new joiners and has no active members (collectively "the Schemes"). The Schemes were designed to help members achieve a good outcome from their pension savings.

As the Trustee Chairman, I am required by law to provide an annual statement which explains what steps have been taken by the Trustee, with help from its professional advisers, to meet the governance standards. The law sets out what information has to be included in my statement and this is covered below.

The Trustee is committed to having high governance standards to help it meet its strategic, fiduciary and administrative responsibilities. More information about its governance structure is on pages 5 to 7 of the Annual Report and Financial Statements.

Default investment arrangement

A default scheme arrangement is provided for members of the Schemes who do not choose an investment option for their contributions. Members can also choose to invest in the default investment arrangement which is set up by the Trustee.

The Trustee is responsible for investment governance. This includes setting and monitoring the investment strategy for the Schemes' default arrangement. We have chosen Legal and General Investment Management ('LGIM') as the investment manager for the Schemes' default arrangement. Details of the investment strategy and investment objectives of the default arrangement are recorded in the "Statement of Investment Principles (DC Section)", ('the SIP') included as an appendix to the Annual Report and Financial Statements.

The Trustee is expected to:

- review the investment strategy and objectives of the default investment arrangement at regular intervals, and at least once every three years; and
- take into account the needs of the membership when designing the default arrangement.

The Trustee will review the investment objectives of the default arrangement at least once every three years and on the advice of its investment advisers. A review of the default investment arrangement was undertaken in early 2020. This review included a high-level assessment to identify any significant changes to the membership profile, consideration of the aims and objectives for the default arrangement to confirm whether they remained appropriate and an assessment of the funds underlying the default strategy against the funds now available in the market. The membership analysis undertaken supported offering flexibility to members at retirement, and therefore it was concluded that a default lifestyle strategy targeting drawdown at retirement remained appropriate. This was agreed by the Trustee at the Board meeting on 16 July 2020.

The performance of the default arrangement relative to its benchmark is monitored on a regular basis. Performance has been consistent with the aims and investment objectives as described in the SIP.

Core financial transactions

The Trustee is required to report on the processes and controls in place in relation to the "core financial transactions". The law specifies that these include the following:

- investing contributions paid into the Schemes;
- transferring assets related to members into or out of the Schemes;
- transferring assets between different investments within the Schemes; and
- making payments from the Schemes to or on behalf of members.

We must ensure that these important financial transactions are processed promptly and accurately. In practice, we delegate the bulk of this activity to the Schemes' administrator under an Administration Services Agreement which details the required service standards and associated reporting. Administration is provided by BP Pensions Limited (BPPL), with certain aspects relevant to the Schemes and the core financial transactions subcontracted to Capita Employee Benefits Limited (Capita). BP p.l.c. is responsible for ensuring that contributions are paid to the Schemes promptly. The timing of such payments and the performance of the administrator against agreed service levels for all transaction types is monitored by the Trustee via monthly administration reports.

In each quarter of 2020, transactions were completed by Capita within the agreed timescales for at least 95% of cases. The Trustee is satisfied that this represents a reasonable and stable level of service especially given the operational challenges from the COVID-19 pandemic. Cases which are not completed within agreed timescales are disclosed individually each quarter, including the cause and the extent to which timescales were breached, with any remedial measures discussed and agreed as required.

The Trustee has reviewed the processes and controls used by BPPL and considers them to be suitably designed to achieve these objectives.

The Trustee reviewed the independent assurance report on Capita's internal controls for the year ended 31 December 2019 referred to in last year's governance statement and is satisfied that it identified no material issues specific to the Schemes requiring resolution. The equivalent report for 2020 has also been reviewed and no material issues specific to the Schemes requiring resolution were identified.

Having considered the limited operations performed by Capita on behalf of the Trustee, and the controls in place at BPPL, there have been no material administration service issues which need to be reported here by the Trustee. To the best of our knowledge and belief, the processes and controls in place with the administrator (for example, checks in place to ensure there is a record of each investment sold, the date sold and the amount realised) are robust and will ensure that the financial transactions which are important to members are dealt with properly.

Member-borne charges and transaction costs

We are required to monitor regularly the level of charges which are paid by members. These charges comprise:

- explicit charges, such as the annual management charge, and additional expenses that are disclosed by fund managers as part of the Total Expense Ratio ('TER');
- implicit charges, such as the transaction costs borne within a fund for activities such as buying and selling particular securities within the fund's portfolio. Transaction costs are incurred on an ongoing basis and are implicit within the performance of each fund.

Other costs of providing the Schemes (e.g. administration, communication, and adviser costs) are not charged to members.

The default arrangement uses a blend of several of the funds shown in the table below (each fund included in the default arrangement is denoted with an asterisk), with the allocation to specific funds changing as members approach retirement. The TER paid by members at any point in time depends on the underlying fund allocation and, for all members, ranges from 0.129% p.a. to 0.139% p.a. of assets under management.

The Trustee also makes available the range of funds shown below which may be chosen by members as an alternative to the default arrangement. These funds attract TERs of between 0.075% p.a. and 0.207% p.a. for members who choose them.

The table below also shows transaction costs incurred for each of the funds available to members, calculated using the standardised method set by the Financial Conduct Authority. Transaction costs are largely the result of buying and selling investments in a fund. Certain transaction costs are calculated as the difference between the actual price paid (execution price) and the quoted 'mid-market price' at the time the order was placed. This can result in a volatile measure from one year to another and can even result in a profit, known as 'negative costs'. This can happen, for example when buying an asset, if the actual price paid is lower than the mid-market price at the time of placing the order, because something has happened in the market that pushed the price of the asset down.

In previous years, where there have been negative transaction costs in the period, these have been included for the purpose of the member illustrations (shown later in this Statement). However, following industry discussion regarding the disclosure of costs and charges information, we believe the use of negative transaction costs in the illustrations can be misleading. We have therefore introduced a floor of zero for all transaction costs. We expect this change to be immaterial but more intuitive in terms of the impact of cost and charge illustrations to our members.

Fund	TER (%) during 2020	Transaction costs during 2020 (%)
All World Equity Index Fund*	0.139	0.000**
Asia Pacific (ex-Japan) Developed Equity Index Fund	0.148	0.009
Cash Fund*	0.125	0.000**
Ethical UK Equity Index Fund	0.207	0.018
Europe (ex-UK) Equity Index Fund	0.127	0.008
Global Equity Fixed Weights (50:50) Index Fund	0.118	0.009
Investment Grade Corporate Bonds All Stocks Index Fund*	0.111	0.000**
Japan Equity Index Fund	0.121	0.005
Multi-asset Fund*	0.186	0.044
North America Equity Index Fund	0.121	0.000**
Over 5 Year Index-Linked Gilt Index Fund*	0.075	0.102
Pre-Retirement Fund	0.121	0.025
UK Equity Index Fund	0.080	0.000**
Default arrangement	0.129 to 0.139	0.000 to 0.031

* fund incorporated within the default arrangement
** where transaction costs are negative within our calculations, we have assumed those costs to be zero

There are also some legacy fund options in which assets for certain members remain invested, but which are not part of the default arrangement or available for further investment. These attract annual management charges between 0% and 1.5% for members invested in them.

When assessing the charges and transaction costs which are payable by members, the Trustee is required to consider the extent to which the investment options and the benefits offered by the Schemes represent good value for members when this is compared to other options available in the market.

There is no legal definition of "good value" and so the process of determining good value for members is a subjective one. We have received advice on how to assess good value from our advisers and considered regulatory guidance.

As a starting point to assessing good value, we have compared the level of charges in each fund with the levels of charges for similar funds and found them to be competitive. We have also considered how the charges and transaction costs borne by members (the costs of membership) compare against the services and benefits provided by the Schemes (the benefits of membership). The benefits of membership include: the design of the default arrangement and how this reflects the interests of members, the range of investment options and strategies, the efficiency of administration processes, the quality of communications delivered to members, and the governance oversight provided by the Trustee. Based on our assessment, we have concluded that the Schemes represent good value for members.

Member Illustrations

Most members invest in the default arrangement. The tables below show the illustrative cumulative effect of member-borne costs and charges at different ages on members' accumulated fund values. This has been shown for both the youngest active member within the Schemes and a typical deferred member of the Schemes invested in the default arrangement.

For comparative purposes, additional illustrations show the cumulative effect of member-borne costs and charges for the same representative members, but instead assuming an investment in the UK Equity Index Fund (one of the funds which has the highest assumed return) or the Cash Fund (one of the funds which has the lowest assumed return).

ANNUAL CHAIRMAN'S STATEMENT REGARDING DC GOVERNANCE (continued)

Illustrations for the youngest active member

For the youngest active member invested in the default arrangement, the estimated impact of costs and charges on their accumulated fund value is shown in the table below. The amounts shown relate to a member aged 28, with a current fund value of £5,000 and current annual salary of £30,000. Total contributions are assumed to be 10% p.a. of pensionable salary to a retirement age of 65. This broadly reflects the youngest active member based on the Schemes' current membership. Values are shown in today's money terms.

Age	Default (before charges) £	Default (after actual charges) £	Effect of charges £	UK Equity Index Fund (before charges) £	UK Equity Index Fund (after actual charges) £	Effect of charges £	Cash Fund (before charges) £	Cash Fund (after actual charges) £	Effect of charges £
28	5,000	5,000	0	5,000	5,000	0	5,000	5,000	0
30	11,400	11,380	20	11,400	11,380	20	10,660	10,640	20
35	29,100	28,940	160	29,100	29,010	90	23,970	23,850	120
40	49,560	49,090	470	49,560	49,290	270	36,190	35,900	290
45	73,180	72,220	960	73,180	72,630	550	47,400	46,880	520
50	100,470	98,760	1,710	100,470	99,480	990	57,690	56,890	800
55	128,910	126,180	2,730	132,000	130,390	1,610	67,120	66,020	1,100
60	154,480	150,520	3,960	168,420	165,950	2,470	75,780	74,340	1,440
65	174,270	169,010	5,260	210,490	206,880	3,610	83,730	81,930	1,800

Illustrations for a typical deferred member

For a typical deferred member invested in the default arrangement, the estimated impact of costs and charges on their accumulated fund values is shown in the table below. The amounts shown relate to a member aged 50, with a current fund value of £20,000 and a retirement age of 65. This reflects a typical deferred member, based on the Schemes' current membership. Values are shown in today's money terms.

Age	Default (before charges) £	Default (after TER and TCs) £	Effect of charges £	UK Equity Index Fund (before charges) £	UK Equity Index Fund (after TER and TCs) £	Effect of charges £	Cash Fund (before charges) £	Cash Fund (after TER and TCs) £	Effect of charges £
50	20,000	20,000	0	20,000	20,000	0	20,000	20,000	0
55	22,540	22,390	150	23,100	23,020	80	18,350	18,230	120
60	24,330	23,990	340	26,690	26,490	200	16,840	16,620	220
65	25,090	24,570	520	30,830	30,480	350	15,450	15,160	290

Assumptions used in the illustrations

1. Accumulated fund values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. Inflation is assumed to be 2.5% each year.
3. No allowance has been made for real salary growth above assumed earnings inflation of 2.5% p.a.
4. Values shown are estimates and are not guaranteed. No allowance is made for investment risks, and so the illustrations do not provide an indication of the range of possible outcomes.
5. The transaction costs used in the illustrations, as defined in regulation 2(1) of the Occupational Pension Schemes (Charges and Governance) Regulations 2015, should be based on an average of the previous 5 years' transaction costs or, where data is available for fewer than 5 years, an average of transactions costs over the years for which data is available. Currently, less than 5 years of transaction cost information is available from providers, however we expect data provision to improve over time. For all funds, 3 years of transaction costs information is available and as such, the transaction costs used in producing the above

illustrations reflect the average over the last 3 years. Where transaction costs are negative, we have assumed those costs to be zero and this has been applied for all of the 3 years.

6. Assumed growth rates (gross of costs and charges) are as follows:
   - UK Equity Index Fund = 5.5% p.a.
   - All World Equity Index Fund = 5.5% p.a.
   - Multi-Asset Fund = 3.47% p.a.
   - Investment Grade Corporate Bond All Stocks Index Fund = 1.75% p.a.
   - Over 5 Year Index-Linked Gilt Index Fund = 0.75% p.a.
   - Cash Fund = 0.75% p.a.

Trustee knowledge and understanding

The Trustee is required by law to possess, or have access to, sufficient knowledge and understanding to allow it to exercise its function as trustee properly and to run the Schemes effectively. The Trustee is supported by an in-house executive team as well as a range of professional advisers.

The Trustee directors have arrangements in place for ensuring that they take personal responsibility for keeping themselves up to date with relevant developments in the industry. The Trustee company secretary maintains an annual training log for each member of the Trustee board which records training received and helps to identify any knowledge gaps. The Trustee company secretary also arranges for training to be made available to individual directors or to the whole Trustee board as appropriate, both so that the Trustee directors are receiving regular training, and also to address any specific knowledge gaps which have been identified. The Trustee directors also receive regular training from professional firms or the Trustee board's professional advisers. During 2020, the Trustee board received training on the Pension Schemes Bill and the Investment Committee received training on climate change risk, its potential impact on different asset classes, and associated modelling. Trustee directors may seek advice from independent experts, including professional advice on matters relating to their responsibilities and the affairs of the Trustee. The Trustee board evaluates its performance and effectiveness regularly. A detailed review was completed in 2019 and no material issues were highlighted.

All new Directors are required to complete the Trustee toolkit within six months of their appointment. The Trustee toolkit is an online programme from The Pensions Regulator aimed at trustees of occupational pension schemes, developed to help trustees meet the level of knowledge and understanding required by law. There is a further induction programme of adviser meetings and training, which includes developing knowledge of key Fund governing documents and Trustee policies. This induction programme involves one-to-one meetings with the in-house executive leadership team and all the Trustee's key advisers and service providers with bespoke training. All new Trustee directors must complete this induction programme within six months of appointment. Two new Trustee directors were appointed during 2020 and both have successfully completed the induction programme, including the Trustee toolkit.

During 2020, in addition to the ongoing training noted above, the Trustee reviewed and adopted a revised SIP for the Schemes as part of the development of its Responsible Investment policy. This was done with appropriate professional support and advice, which helped maintain the Trustee board's ongoing knowledge and awareness of the SIP.

As a result of the training activities which have been completed by the Trustee directors individually and collectively as a Trustee board, and taking into account the support provided by the in-house executive team and the professional advice available, I am confident that the combined knowledge and understanding of the Trustee board enables the Trustee to exercise properly its duties as Trustee of the Schemes.

Signed for and on behalf of the Trustee

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Sir Ian Prosser
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Sir Ian Prosser

Date

7 July 2021