PTT Public Co Ltd

Thailand, Oil & Gas

Accounting		Climate Assumptions		Audit		Date of analysis: March 31 2021
Judgements	Consistency with other reporting	Visibility	Paris alignment	Visibility in KAMs	Consistency check	Year end: December 2020 Report date: March 15 2021 AGM: April 9 2021
Significant concerns	Significant concerns	Significant concerns	Significant concerns	Significant concerns	Some concerns	CA 100+ company, so seen by investors as key to driving global net zero emissions

Summary view:

- A national oil and gas business with only limited emission reduction ambitions, which should be reached through its shift to favour gas, without any reduction in fossil fuel investment.
- The limited scale of announced impairments for 2020 indicate that assumed long-term oil and gas prices remain high, risking stranded asset investments. There is no apparent incorporation of climate change issues in the financials.

Background

The Business

- PTT is Thailand's national fossil fuel company, with exploration and production assets across oil, natural gas and (to a much lesser extent) coal, and also petrochemical operations.
- More than 50% of its shares are held by the Thai Ministry of Finance on behalf of the nation, and it is supervised by the Ministry of Energy.
- PTT has made some small investments in renewables (mainly solar), though these are very limited in comparison with the ongoing capital expenditure in the fossil fuel operations.

Approach to climate change

- PTT's greenhouse gas emission targets focus on its Scope 1 and 2 emissions, even though as a fossil fuel company its Scope 3 emissions are around 4 times as great. The target for Scopes 1 and 2 is for 2030 emissions to be 27% below an (unspecified) BAU scenario. There is also an intensity target to reduce Scope 1, 2 and 3 emissions per barrel of oil equivalent sold. The increasing emphasis on gas assets should readily deliver this target.
- The company reports that it applies a shadow carbon price of $20 per tonne of CO2 within its strategic investment decision-making process. However, this appears to be applied only to encourage emission reduction investments, not to add a hurdle to investment in new oil and gas assets.
- There is a contrast between these apparently limited actions and the greater action of the more progressive oil and gas operators.

Accounting: judgements and consistency with other reporting

Accounting judgements	Significant concerns

- PTT is subject to Thai Financial Reporting Standards (substantially converged with IFRS).
- Petroleum exploration and production assets are depreciated over 5-30 years, or by unit of production; mining assets by unit of production. There is no apparent alignment of these implied lives of the company's assets with realistic climate scenarios.
- Buildings and machinery are depreciated on a straight-line basis over 2-40 years, potentially placing lives of assets well into periods of uncertainty from a climate change perspective. At the current rate of depreciation, both appear to have estimated remaining useful lives of over 12 years[1]. Some 14% of total PP&E is construction in progress, worth around $5.8 billion after doubling in the last two years (in local currency terms).

[1] In the absence of better information, estimated using current year depreciation and year-end values.

- The notes to the accounts reference a single Thai court case injuncting certain company projects at least in part on the basis of climate change concerns, but the outcome of the case was uncertain at year-end, and it does not appear that any provision has been made nor that there is any other company response in hand.

Consistency with other reporting		Significant concerns

- The Annual Report on Form 56-1 and the annual financial statements are published alongside each other as a reporting package.
- The only apparent discussion of climate change in this reporting package is within the 56-1 report, and then only in the sustainability discussion. The potential impacts of climate change for the strategy and operations of the business are not discussed within those sections of the annual reporting. There is no discussion of climate change within the financials.
- The climate change emissions targets, both the absolute Scope 1 and 2 one and the intensity one that also includes Scope 3, do not seem stretching ambitions given the move of the business into a portfolio more heavily weighted to gas. This leaves the company risking making stranded asset investments.

Climate assumptions in accounts: visibility and Paris alignment

Visibility of climate assumptions in accounts		Significant concerns

- There are no apparent climate-related assumptions. There is thus no sensitivity analysis.
- Though the company impaired both oil and coal assets in the year because of reasons including "the volatility of oil prices in the global market, [and] a decline in future coal prices" the only disclosed specific assumption was discount rates of 4%-10.91%. The value of coal assets has more than halved in the year, but the impairment of oil assets was less than 2% of the total at the start of the year, and is more than replaced by additions during the year. This implies that long-term oil and gas price assumptions remain high.

Paris alignment		Significant concerns

- With no visibility, there can be no alignment with the goals of the Paris Agreement.

Audit: visibility in KAMs and consistency check

Audit firm: EY	Responsible partner: Waraporn Prapasirikul
Audit standards: Thai Standards on Auditing	

Visibility in Key Audit Matters		Significant concerns

- There is no explicit reference to climate change in the auditor's report.
- There is only one KAM identified: judgments and estimates in the light of the Covid-19 pandemic and global oil price volatility. It is extremely rare for the auditor of an oil and gas company's accounts not to include KAMs on reserves and decommissioning provisions (indeed both were included last year by the previous auditor).
- While other oil companies (notably the European majors) have used the pandemic-induced oil price volatility to reassess long-term oil price assumptions, PTT does not appear to have done so and there is no apparent application of climate change considerations by the auditor in its assessment of these assumptions under this KAM.
- There is no reference to the use of experts on oil prices or climate change issues.

Consistency check		Some concerns

- The auditor is obliged to read the company's annual report and identify if there are any material inconsistencies or material misstatements. It identifies none.

The Climate Accounting Project is an independent investor-led project to reinforce the statements of the IASB and IAASB that material climate change issues are incorporated within their standards. This analysis seeks to understand the extent to which companies and auditors are delivering against this aspect of these standards and similar local standards.		**Key**
		Good practice
		Few concerns
		Some concerns
		Significant concerns

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