

**Valuation of uncertain tax positions, including transfer pricing**

**Accounts impacted: Corporation tax payable, Deferred tax liabilities and Taxation charge**

**Refer to Note 14 to the financial statements**

***Critical Audit Matter Description***

The Group operates in numerous jurisdictions and there are open tax and transfer pricing matters and exposures with UK, US and overseas tax authorities that give rise to uncertain tax positions. There is a wide range of possible outcomes for provisions and contingencies. Certain judgements in respect of estimates of tax exposures and contingencies are required in order to assess the adequacy of tax provisions, which are sometimes complex as a result of the considerations required over multiple tax laws and regulations.

At 31 December 2022, the Group has recorded provisions of £858 million in respect of uncertain tax positions.

***How the Critical Audit Matter Was Addressed in the Audit***

With the support of tax specialists, we assessed the appropriateness of the uncertain tax provisions by performing the following audit procedures amongst others:

- Assessed and challenged provisions for uncertain tax positions through the evaluation of possible outcomes. Our procedures were focused on those jurisdictions where the Group has the greatest potential exposure and where the highest level of judgement is required;
- Assessed the assumptions and judgements that are required to determine the range of possible outcomes for recognition and measurement of uncertain tax positions in compliance with the requirements of IFRIC 23;
- Involved our transfer pricing specialists to evaluate the transfer pricing methodology of the Group and associated approach to provision recognition and measurement;
- Considered evidence such as the actual results from the recent tax authority audits and enquiries, third-party tax advice obtained by the Group and our tax specialists' own knowledge of market practice in relevant jurisdictions; and
- Tested key controls over preparation, review and reporting of judgmental tax balances and transactions, which include provisions for uncertain tax provisions.

## **Consumer Healthcare Demerger**

**Accounts impacted:** Profit after taxation from discontinued operations and all balance sheet accounts

Refer to Note 41 to the financial statements

### **Critical Audit Matter Description**

On 18 July 2022, GSK plc separated its Consumer Healthcare business from the GSK Group to form Haleon, an independent listed company. The separation was effected by way of a demerger of 80.1% of GSK's 68% holding in the Consumer Healthcare business to GSK shareholders. GSK retained 13.5% of Haleon (7.5% are held by Scottish Limited Partnership structures (SLPs)) which are recognised as an equity investment as set out in Note 22. The Group derecognised net assets and liabilities of £12.9bn and recognised a gain on demerger of £10.1bn.

The Consumer Healthcare trading results to the demerger date have been presented as a part of discontinued operations and the comparative results have been restated on a consistent basis. At the demerger date the assets and liabilities of the Consumer business have been derecognised from the balance sheet, with the difference between the value of the net assets and the fair value of the demerged business recognised in the consolidated income statement as a gain on demerger. The cumulative exchange differences arising on translation of those Consumer Healthcare foreign currency net assets, previously included in other comprehensive income, have also been recognised in the consolidated income statement.

We identified the demerger of Consumer Healthcare as a critical audit matter because of the significant estimates related to calculating the gain on demerger and remeasuring the retained stake upon demerger, assessing the perimeters of the demerged business, validating the cumulative exchange differences arising on translation of the foreign currency net assets of the divested businesses, evaluating the Group's tax treatment of the demerger and assessing the impact on relevant IT systems prior to the demerger. This required a high degree of auditor judgment and an increased extent of effort, including the need to involve our technical accounting, tax, and IT specialists, when performing audit procedures.

The matter is also discussed in the Audit & Risk Committee report within the Corporate Governance section of the Annual Report.

### **How the Critical Audit Matter Was Addressed in the Audit**

We performed the following audit procedures, amongst others, related to the Consumer Healthcare demerger:

- Consulted with technical accounting specialists to evaluate the entity's accounting conclusions in respect of the relevant accounting standards for the demerger steps including:
  - o the presentation of Consumer Healthcare results as a part of discontinued operations;
  - o the calculation of the gain on demerger; and
  - o the retained stake upon demerger.
- Recalculated the gain on demerger and the fair value of the Consumer Healthcare business at the demerger date;
- Tested the accuracy and completeness of the perimeters of the demerged business by inspecting legal agreements and recalculating the cumulative exchange differences arising on translation of the foreign currency net assets;
- Engaged tax specialists to assess the impact of the demerger on the Group tax balances;
- Engaged IT specialists to assess the impact on the relevant IT systems prior to the demerger of Consumer Healthcare; and
- Tested key controls over IT and the reporting of the Consumer Healthcare Demerger including the review and approval of the accounting considerations, accuracy and completeness of transactions to the demerger date, the cumulative exchange reserve and the adjustments required in relation to the classification between continued and discontinued operations.

**Valuation of the contingent liabilities and significant legal proceedings**

**Accounts impacted:** Contingent liabilities and Other operating expense

**Refer to Notes 35 and 47 to the financial statements**

***Critical Audit Matter Description***

The Group operates in an environment where it is subject to significant legal and administrative proceedings, including product liability, intellectual property, tax, anti-trust, consumer fraud and governmental regulations.

The Group is currently exposed to a number of regulatory and litigation matters. In the current year, the Group classified the Zantac litigation as a significant legal matter due to the increase in cases. The Group's provision for these matters is £218m at 31 December 2022. Other matters are disclosed as contingent liabilities where the criteria for recognising a provision under IAS 37 Provisions, Contingent Liabilities and Contingent Assets are not met.

We identified contingent liabilities and significant legal proceedings as a critical audit matter because of the significant judgement required by the Group in determining whether, under IAS 37, in particular in relation to the Zantac matter, as to:

- Whether the outcome will result in a probable outflow, particularly where the outcome of litigation is uncertain and subject to additional court proceedings;
- The determination of a reliable estimate can be made of the amounts of the obligation; and

The nature and extent of any contingent liabilities and underlying significant estimation uncertainties disclosed.

***How the Critical Audit Matter Was Addressed in the Audit***

We performed the following audit procedures:

- Tested the Group's controls over the completeness of provisions, the robustness of the provision against the requirements of IAS 37, the appropriateness of judgements used to determine a 'best estimate' and completeness and accuracy of data used in the process;
- Evaluated the assessment of the provisions, associated probabilities, and potential outcomes in accordance with IAS 37;
- Evaluated the methodology, data and significant judgements and assumptions used in the valuation of the provisions are appropriate in the context of the applicable financial reporting framework;
- Inquired with and inspected correspondence from the Group's internal and external counsel to assess the litigation matter and evaluate the Group's significant judgements and assumptions;
- Where no provision was made, we critically evaluated the Group's conclusion supportive and contradictory evidence and the requirements of IAS 37, particularly with respect to the Zantac matter;
- In respect of the Zantac matter, we inspected the evidence presented in relevant scientific studies and the outcomes of other product liability litigation in the same jurisdictions alongside the entity's assessment of possible outcomes of each ongoing and future trials; and
- Evaluated whether the disclosures made in the financial statements appropriately reflect the facts and critical accounting judgements.

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