GlaxoSmithKline

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Dear Lord Sharman, Dear Colin

GOING CONCERN AND LIQUIDITY RISKS: LESSONS FOR COMPANIES AND AUDITORS

Further to your recent call for evidence, please see below our responses to your questions. Unless otherwise indicated, we have prepared our answers specifically with GSK in mind, and draw to your attention the fact that GSK believes it complies with, and in many respects, exceeds the requirements of, the current reporting standards relating to going concern and liquidity risk.

The question of going concern and liquidity risk varies considerably between business sectors, in particular between cash generative trading companies and those companies in the financial services sector whose business models create a large exposure to the credit markets. In fact it varies even between companies operating at different levels within our own business sector, the pharmaceutical industry. Accordingly, we do not believe that a "one size fits all" solution is practical or indeed desirable, and the flexibility of the current reporting regime should be maintained to ensure that the amount of information to be reported by an issuer remains proportionate to the overall risks which it faces.

The attached schedule provides our responses to the questions raised in your consultation.

We are grateful for the opportunity to inform the debate on this matter. If you wish to discuss any of these matters further with me, please do not hesitate to contact Victoria Whyte our Company Secretary (Tel: +44 208 047 4509 or Email victoria.a.whyte@gsk.com) who will be able to make the necessary arrangements.

Yours sincerely,

Tom de Swaan

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RESPONSE FROM GLAXOSMITHKLINE PLC

GOING CONCERN AND LIQUIDITY RISKS: LESSONS FOR COMPANIES AND AUDITORS

Transparency of going concern and liquidity risk

1. **What combination of information about:**
   - **the robustness of a company's capital;**
   - **the adequacy of that capital to withstand potential losses arising from future risks;and**
   - **the company's liability to finance and develop its business model,**

   would best enable investors and other stakeholders to evaluate the going concern and liquidity risks that a company is exposed to? How effectively do current disclosures provide this information?

   A company should give, either in its financial statements or in the Operating and Financial Review, details of loan repayment dates, major debt covenants and headroom on those covenants, and committed undrawn facilities. The liquidity section of the Operating and Financial Review should also give information about cash generation and utilisation, and sensitivity to changes either to the wider market/environment or its specific business (particularly if its cash inflow is irregular) that could potentially cause issues in the future. You are referred specifically to the disclosures on pages 44 to 46 of the our 2010 Annual Report, as well as note 41 which can be found on page 162 at http://www.gsk.com/investors/reps10/GSK-Annual-Report-2010.pdf

2. **What type of disclosures (if any) have been made into the market place outside annual and interim corporate reports about current stresses being experienced by the company and about the management of those stresses? How do these disclosures interact with the requirement to disclose principal risks and uncertainties in the Business Review and the required disclosure on-going concern and liquidity risk in the annual and interim financial statements?**

   In accordance with the United Kingdom Listing Authority's Listing Rules and Disclosure and Transparency Rules, the Company would be obligated to disclose to the market on a timely basis any price sensitive information in its possession. As an example, the Company made an announcement in January 2011 concerning a provision for legal charges.

3. **Are there any barriers within the current corporate reporting environment to companies providing full disclosure of risks associated with going concern and liquidity both within and outside the company's annual and interim reporting? Are there any changes that might be made to encourage companies to give fuller and more transparent disclosures in this respect.**

We do not believe there are any such barriers. The current reporting framework of the Operating and Financial Review allows issuers to disclose as much information as they wish to on risks associated with going concern and liquidity.

4. **Given the current measurement, recognition and disclosure requirement of International Financial Reporting Standards (IFRS), how effective are IFRS financial statements in enabling stakeholders to evaluate the robustness of a company's capital in the context of the going concern assessment? Are there any changes that could be made to these requirements that would better enable them to do so?**

   We believe that the disclosure requirements set out in the International Financial Reporting Standards are adequate, given the range of entities they have to cater for. The really valuable information on liquidity and going concern will come from a company's cash flow statement and the narrative reporting contained in the Operating and Financial Review, and this is, of course, dependent on how open and transparent a company is prepared to be in this area. GSK's own cash flow statement shows a reconciliation from movements in cash to movements in net debt.

Company assessment of going concern and liquidity risk

5. **What processes are undertaken by directors in making their assessment of whether the company is a going concern when preparing annual and half-yearly financial statements?**
   - **Which records and information are referred to in making this assessment?**
   - **What type of model does the company use to develop scenarios to stress-test the assumptions that have been made when making this assessment?**
   - **What types of risks are included in the going concern assessment: financial, strategic, operational, other? How are these presented in the assessment?**
   - **What is the role of the audit committee and risk management committee (where one exists) in this process and what inputs do they receive in order to carry out this role?**
   - **What impact has undertaking the going concern assessment had on the planning and management of the company?**
   - **How has the assessment of going concern and liquidity risks been incorporated into other aspects of company stewardship and reporting?**
   - **How effective is this assessment in addressing the robustness and adequacy of a company's capital and its ability to continue financing and developing its business model? What, if any, improvements could be made?**

   Our Board reviews the latest budget and forecast information, which includes information on cash generation. Given the substantially cash generative nature of our business, this does not need to be an in-depth exercise.

6. **What is different about the review of going concern when raising capital compared to the annual going concern assessment undertaken for accounting**

purposes? Could some of the different procedures be used in the annual accounting or audit assessments?

We do not believe there to be a significant difference between the review of going concern when raising capital compared to the annual process for accounting purposes.

7. **Does the company assess future cash flows and liquidity on a regular basis throughout the year? If so, how regularly is this done and is the information used any different to that used in the annual and half-yearly assessment for the purpose of preparing financial statements?**

   This is performed periodically throughout the year. There is no significant difference between the information reviewed for this purpose and the reviews performed for quarterly and annual financial reporting purposes.

8. **To what extent and how do directors assess the viability of a company over the course of its natural business cycle?**

   Our business due to its very nature operates on a very long cycle. Accordingly, liquidity and going concern are reviewed throughout each financial year, independently of specific business driven events.

9. **The current model of disclosure identifies three categories of company[1]. What sort of behaviours does this model drive? Is there a different model that might be useful? Would more guidance on the application of the current model be helpful?**

   Please see our response to question 3. All reporting companies will naturally want to report that the going concern basis of accounting remains appropriate, and that the company is not subject to material uncertainties which might cast significant doubt over this. We recognise that there is potentially a risk relating to a company disclosing that material uncertainties exist which might cast doubt over the appropriateness of the going concern basis of accounting, as the disclosure itself may be a catalyst to the company being unable to continue as a going concern in the future. Therefore there is a risk that the going concern disclosures for companies that are struggling financially may not be as transparent as they could be.

10. **In your experience, what issues have resulted in a heightened focus on the assessment of going concern? What was the nature of the risks that gave rise to these circumstances? Had these risks been identified in advance, and if so, how?**

    The current economic environment has resulted in GSK looking more carefully at the issue of going concern and cash, but this has not been driven by any specific event or risk that has given us any particular concern.

The auditor's approach to going concern and liquidity risk

11. **How does the auditor approach the assessment of going concern and liquidity risk? To what extent does this involve the testing of the company's processes and what other work is carried out? Is there any specific reporting on the work done by the auditor on-going concern and liquidity risk to Audit Committees? Does the assessment of going concern involve different processes in certain industry sectors? Are there different processes used where this is overseas reporting in addition to UK reporting?**

    Our auditors plan their audit after carrying out a thorough annual risk analysis of our business and present their proposed audit approach to our Audit & Risk Committee. After consideration by the Committee the audit plan is approved. Our auditors generally review our liquidity reports to the Audit & Risk Committee, along with the going concern statements contained in our external financial reports in accordance with the relevant auditing requirements, and based upon their own knowledge and understanding of our Group and of the Pharmaceuticals sector in which we operate. Given their greater exposure to the credit markets, banks and other financial institutions in the financial services sector, need to adopt a far more rigorous approach to their audits as their business models create a significantly larger exposure to the credit markets as this represents their core business.

Feedback on the Guidance for Directors of UK Companies in respect of going concern and liquidity risk

12. **Do you believe that amendments to the Guidance for Directors of UK Companies in respect of going concern and liquidity risk would be helpful? For example:**
    - **Guidance for directors on disclosure does not specify the language to be used, whereas auditors use more standardised wording. Is this helpful?**
    - **Is there a need for a clear boundary between the three types of company?**

    For the reasons set out above we believe that disclosures <u>must</u> be considered on a case by case basis, taking into account the specific circumstances of each company with regard to its own business and the sector in which it operates. Therefore we do not believe that standardised guidance or proforma disclosures would be appropriate.

13. **Are there any other views that you would like the Panel of Inquiry to take into account?**

    We have no other views on this subject.