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INTERNATIONAL ACCOUNTING STANDARDS BOARD
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DIRECT DIALING:

YOUR REF. OUR REF. VEVEY, 7 November 2008

IMPROVEMENTS TO IFRS 2008

Ladies and Gentlemen,

We welcome the possibility to comment on this Exposure Draft and, in this letter, we discuss only the consequences of the improvements that are relevant to our Group.

IAS 18 - Revenue

We agree with the features that indicate that an entity is acting as a principal but we would suggest to slightly amend the wording of lit (b) by saying "the entity has inventory risk until the risks are transferred to the customer in accordance with the terms of the sale agreement". We believe that the words "during shipping or on return" are not valid in all the transactions, depending at which point in time the transfer of risks to the buyer occurs, for example when using the Incoterms Ex Works, Free Carrier, Free On Board, Cost and Freight.

IAS 36 - Impairment of Assets

We disagree to rule out the aggregation of segments (as defined in IFRS 8 § 12) because if such aggregation is reported to the chief operating decision maker and reflects the way an entity monitors the goodwill in accordance with IAS 36 § 80 (a), we consider that the aggregation is valid. Therefore we agree with the other view expressed in the last sentence of BC1, if aggregated information is reported to the chief operating decision maker.

IAS 38 - Intangible Assets

In § 36 the Board has deleted useful examples about magazine titles and spring water. While the revised text added at the end of the paragraph, which is written in more general terms, would not prevent preparers to continue to apply their current practices, we consider that the examples that resulted from the field tests of IAS 38 need not to be deleted and could well be left and moved after the revised text, as was done in the example at the end of § 37.

Bifurcation of an Embedded Foreign Currency Derivative under IAS 39

We disagree with the proposed amendment because the revised language of IAS 39 AG33 (d) (iii) with a reference to having "the characteristics of a functional currency" is more restrictive than that of the current standard. We note that the requirement to consider the actual functional currency of either partner is already addressed in AG33 (d) (i), and we consider that the Board will not achieve the objective of clarifying when currencies are integral to the contractual arrangement with the proposed change. Rather, there is a risk that embedded derivatives will be artificially extracted from contract arrangements to which they are integral. Therefore, we consider that the deleted text of AG33 (d) (iii) should be re-instated and that possibly the examples (c) to (f) in the paragraph BC19 could be integrated into the end of this sentence.

Scope Exemption of Business Combination Contracts under IAS 39

We strongly disagree with the proposal which would restrict the circumstances under which the acquirer and the acquiree in a business combination would be able to apply the scope exemptions under IAS 39. We consider that options to acquire a business do not have the same characteristics as options to acquire shares on the financial markets because, in the first case, the buyer and the seller have agreed to defer the transaction pending the evolution of certain parameters defined as in the contract. This is more akin to an executory contract than to a financial instrument even though the contract will result in the delivery of cash. If the amendment were to be accepted, there would be a discrepancy between a forward contract that would be excluded from the scope and an option that would be included whereas in both cases the intention of the parties are to enter into a deferred sale of business that is firm in the first case and conditional in the second one. This does not address the faithful representation qualitative characteristics defined in § 33 ss. of the Framework.

If, despite our disagreement, the Board would nevertheless decide to implement the proposed change, then we would strongly recommend that it is applied prospectively to new transactions occurring on or after 1 January 2010. Since the change would be fundamental, we consider that transactions entered into in accordance with the current standard should be "grandfathered".

We thank your for your attention to the above.

Yours very truly,

NESTEC LTD

Gaberell

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Head of Financial Reporting Guidelines

cc. Mr. Hermann Wirz, Senior Vice President, Head of Group Accounting and Reporting, Nestlé S.A.