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DIRECT DIALING:

YOUR REF. OUR REF. VEVEY, 12th December 2007

Ladies and Gentlemen,

Comments on PAAinE Discussion Paper on Revenue Recognition

As a group with total sales of CHF 98.5 billions, of which CHF 91.8 billions in food and beverages and about one third of them in geographical Europe, we welcome the research work of EFRAG on Revenue Recognition in your PAAinE Discussion Paper (the DP).

Unfortunately we have difficulties to follow the conclusions of the DP that the continuous approach should be used for the recognition of all revenue. In our industry sector, we do not consider that the continuous approach would bring any benefits but would just create complexity in our multiple element transactions that the we have in our Nestlé Professional (Foodservice and vending) and Ice Cream businesses (sales of products and performance of a service for the rental and maintenance of vending machines, water coolers and ice cream freezers). The continuous approach would force us to determine, as the DP says, "the measure that best reflects progress of the contract" (item 4.4), which is defined in as being "supplier oriented" whereas critical event approaches are "customer oriented". We also have concerns about the fact that the passage of time is not always appropriate for rental contracts (example of a rental car based on mileage in item 4.14, which in our case could be converted into cups sold for a coffee machine maintenance contract).

Despite the so-called "balance sheet approach", standard setters should not lose sight that revenue consists of billions of transactions that are first recognised in such in the transactional accounting systems of the entities and that then generate assets and liabilities. Nonetheless we fully agree that such assets and liabilities that stem from the recognition of revenue should fully comply with the definitions of the Framework. However, to achieve this, we do not believe that it is necessary to fundamentally change current accounting standards regarding revenue recognition and to implement one single revenue recognition method. Moreover financial accounting is a communication exercise between preparers and users, which should allow the latter to make decisions based on facts. From this standpoint, we have difficulties in believing that one single revenue recognition method would be useful.

Standard setters tend to take the consistency principle to the extreme and not to consider that different principles should apply to different situations. Therefore we would favour an approach that should determine what is wrong with IAS 18 and IAS 11, for example the lack of guidance concerning multiple element sales as well as inadequate principles for measurement of revenue, and then amend existing standards from an evolutionary standpoint rather than trying to implement impracticable and costly concepts and methods that would satisfy only theoreticians.

Another problem that we have is that the authors of the DP considers that it is possible to deal with recognition of revenue without addressing the measurement of it – apart from reducing it to the separation of multiple element sales in the appendix III. In items 2.14 and 2.15, the authors consider that revenue should be "some sort of gross number" and that the costs of obtaining revenue should be presented separately. We no doubt agree that the costs of obtaining revenue should be recorded as expenses because it is what the Framework is telling us but the problem is to define what is an expense and what is a reduction from revenue when services are provided to a vendor by its customer. This is very common in the consumer goods industry and leads to measurement issues. Guidance exits only in US GAAP literature (EITF 01-9) which stipulates that if an entity receives an identifiable separable benefit from its customer, the payment to the customer is treated as a reduction of revenue unless the fair value of this service can be reasonably estimated. In such a case, the service should be recognised as an expense. While we could agree with the identifiable benefit, we do not believe that fair value is always the best practicable method for determining the benefit. This point needs to be clarified given the importance of the top line of the income statement for the users, whom may not be well served by "some kind of a gross number".

We thank you for having allowed the opportunity to comment on your PAAinE DP. Should you have any questions, please do not hesitate to contact the undersigned.

Best regards,

NESTEC LTD

Philippe Gaberell
Assistant Vice President
Head of Financial Reporting Guidelines

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