Ladies and Gentlemen,

Please find below our answers to your invitation to comment on the above mentioned exposure draft. We outline some general comments below and answer the specific questions of the ED in the annex.

**GENERAL COMMENTS**

With sales of CHF 83.6 bio, 328'000 people employed and a market capitalisation of CHF 171 bio at the end of 2011, the Nestlé Group is the world’s leading Nutrition Health and Wellness Company. We welcome the revised exposure draft on revenue from contracts with customers (the ED). This is a welcome additional step towards the issue of a comprehensive standard on revenue recognition.

Compared to the Exposure Draft that the Board issued in 2010 and on which we commented on 26th October 2010, we consider that the Board has clarified a number of aspects related to the issue of a comprehensive high quality standard on Revenue and appreciate the Boards’ efforts in revising the original proposals based on the comments provided thereon. We believe that the current exposure draft presents a significant improvement over the proposed guidance in the original ED.

Nonetheless we consider that there are still some aspects and issues that require improvement before the publication of the future IFRS on revenue recognition, viz.:

- We do not agree with the Board’s proposal that expected losses on trade receivables should be presented as a separate line item adjacent to revenue as this presentation is rule based and does not add to the usefulness of the financial statements more specifically to the non financial services entities.
We do not agree with the Board's proposal to restrict onerous contract determination at the performance obligation level. In our view, the Onerous test determination should be at the overall contract level as some performance obligations could be deliberately priced differently than others in such a manner that some obligations are in losses while others are in profit at the inception of the contract itself as a part of the management strategy.

We do not agree with the Board's proposal of extensive disclosures more specifically the tabular reconciliations from the opening trade receivables / contract assets (liabilities) to the closing trade receivables / contract assets (liabilities) not only for the interim financial statements but also for the annual financial statements as well. These disclosure requirements were included in the original ED as well and have not been materially revised or reduced in the redeliberation process leading to the revised ED.

Thank you very much for your attention to the above.

Yours very truly,

NESTLE S.A.

H. Wirz
Senior Vice President
Head of Group Accounting and Reporting

Encl.
ANSWERS TO SPECIFIC QUESTIONS

Question 1

Paragraphs 35 and 36 specify when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognises revenue over time. Do you agree with that proposal? If not, what alternative do you recommend for determining when a good or service is transferred over time and why?

Yes, we agree with the principles for recognition of revenue over time. We also welcome the inclusion of risks and rewards as an indicator of a change of control, however, it would improve the guidance if some more examples related to the application of risks and rewards criteria are included in the ED to avoid ambiguity and lend more clarity on the underlying principles.

Question 2

Paragraphs 68 and 69 state that an entity would apply IFRS 9 (or IAS 39, if the entity has not yet adopted IFRS 9) or ASC Topic 310 to account for amounts of promised consideration that the entity assesses to be uncollectible because of a customer’s credit risk. The corresponding amounts in profit or loss would be presented as a separate line item adjacent to the revenue line item. Do you agree with those proposals? If not, what alternative do you recommend to account for the effects of a customer’s credit risk and why?

We do not agree with the proposal that losses associated with uncollectible receivables should be presented as a separate line item adjacent to the revenue line item. This presentation is totally rule based and we do not see how this presentation will improve the usefulness of the financial statements. The users are not likely to receive any additional useful information by overloading the income statement with more lines in presentation, especially when these lines are of limited significance for the management of the entity.

In addition a separate line item adjacent to revenue creates ambiguity. Users may refer to different measures when they use the term “revenue”. Some may refer to “gross revenue” when they use the term “revenue”, others may refer to “revenue net of credit risk related allowances”.

Also, the losses related to collectability of the trade receivables are not only in relation to the current periods’ revenue but also in relation to the sales made in the prior periods. Thus linking the same to the current period’s revenue alone will distort the usefulness of any decision making based on this information. It should be noted that for a non-financial services entity like Nestlé this information is not presented to the management for decision making on a regular basis i.e. management by exception is applied for this item of the income statement. In our case, we would not sell if we would have doubt about the credit standing of our customers (or we would sell to them on a cash basis). In our comment letter regarding the exposure draft on amortised cost and impairment, we said that we disagree to recognise trade receivables at their invoice amount less the initial estimate of credit losses.
In our view, any losses arising out of trade receivables should be continue to be treated as an operating expense (marketing and selling activities) because this loss is primarily linked to the cost of doing business rather than linked to the measurement of revenue. This has worked quite well in the past and continues to work quite well, and thus we see no need to apply a process / presentation that might be more relevant for financial institutions. However, we would agree that if these amounts are material for the entity, appropriate disclosures should be made in the notes to the financial statements.

Question 3

Paragraph 81 states that if the amount of consideration to which an entity will be entitled is variable, the cumulative amount of revenue the entity recognises to date should not exceed the amount to which the entity is reasonably assured to be entitled. An entity is reasonably assured to be entitled to the amount allocated to satisfied performance obligations only if the entity has experience with similar performance obligations and that experience is predictive of the amount of consideration to which the entity will be entitled. Paragraph 82 lists indicators of when an entity’s experience may not be predictive of the amount of consideration to which the entity will be entitled in exchange for satisfying those performance obligations. Do you agree with the proposed constraint on the amount of revenue that an entity would recognise for satisfied performance obligations? If not, what alternative constraint do you recommend and why?

Yes, we agree with the Boards’ proposal to recognise revenue only to the extent that the amount is reasonably assured.

Question 4

For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year, paragraph 88 states that the entity should recognise a liability and a corresponding expense if the performance obligation is onerous. Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why?

No, we do not agree with the Boards’ proposal of onerous contract determination at the individual performance obligation level when the overall contract is profitable.

What is the rationale for restricting the scope of the onerous test to performance obligations that are satisfied over time when these exceeds one year? If a contract is onerous, the provisions of IAS 37 should apply to the overall contract with no exceptions whether these are short term or long term contracts to ensure a consistent application of the underlying principles.

In addition, while we support the broad principles of allocating discounts to the various performance obligations, we are concerned that in some cases the mechanical allocation of discounts on the basis of stand-alone selling price may lead to outcomes that do not faithfully reflect the economics of the transaction. This would be especially true in multiple element arrangements where the entity provides a discount on the high margin component(s) to secure a low margin / less profitable business in such a manner that the overall contract is
profitable in line with the management expectations. Allocating the discount pro rata to all components in such a contract may result in the entity reporting a loss on other lower margin components, thus triggering onerous contract accounting and disclosure issues. We do not think that such a result would faithfully represent the economics of the transaction, as there is no intention by a seller to provide a discount on a lower margin component. Instead, in our view, the discounts should be allocated to the main component(s) of the sale transaction. In this respect the management approach could provide a valuable and robust indicator for the allocation of discounts.

**Question 5**

The boards propose to amend IAS 34 and ASC Topic 270 to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial reports. The disclosures that would be required (if material) are:

- **The disaggregation of revenue** (paragraphs 114 and 115);
- **A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period** (paragraph 117);
- **An analysis of the entity’s remaining performance obligations** (paragraphs 119–121);
- **Information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period** (paragraphs 122 and 123);
- **A tabular reconciliation of the movements of the assets recognised from the costs to obtain or fulfill a contract with a customer** (paragraph 128).

Do you agree that an entity should be required to provide each of those disclosures in its interim financial reports? In your response, please comment on whether those proposed disclosures achieve an appropriate balance between the benefits to users of having that information and the cost to entities to prepare and audit that information. If you think that the proposed disclosures do not appropriately balance those benefits and costs, please identify the disclosures that an entity should be required to include in its interim financial reports.

While we agree with the general purpose of the disclosures, we have concerns about the level of details that is required from the preparers. Our Group comprises a large number of reporting entities, which themselves enter into a considerable number of contracts. Therefore we do not see how we could retrieve the information in a meaningful manner without incurring significant costs on an ongoing basis. Such disclosures would either be meaningless or add several pages to our notes, the usefulness of which would not justify the costs in terms of systems, preparation and validation of the data, as well as audit.

Thus, the cost of providing this information far exceeds any benefits to the users of financial statements and we question the validity of having such disclosures both in the interim or annual financial statements.

We strongly recommend that the Board should clarify that the disclosures should be based on the business model of the entity and, if the users require specific structured information on top of that already requested in IFRS 8, then the Board should modify that standard accordingly.