

NESTLÉ S.A.

HERMANN WIRZ
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**INTERNATIONAL ACCOUNTING
STANDARDS BOARD**
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Attn : The Improvement Project Manager

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IMPROVEMENTS TO IFRS

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 16 – SALES OF LEASED ASSETS

We consider that the issue of sales of leased assets goes beyond the case of an entity that "routinely sells items of property plant and equipment" because certain group of companies do not necessarily routinely sell items of property plant and equipment but would accept to sell such items if the lessee would make an offer. In other circumstances, leased items taken back from the lessees at the end of the lease term are refurbished and re-leased - or sometimes sold. It is therefore very difficult to draw a line between a mere disposal of property plant and equipment and "routine sales" of such items.

While the Board was correct in addressing the issue of sales of previously leased items, we consider that this requires further research. Therefore we recommend that this issue should be taken out of the improvement project and that it should then be exposed as a distinct amendment of IAS 16, IAS 17 and IAS 18 in order to cover the different cases the IASB constituents may encounter.

IAS 17 - CLASSIFICATION OF LAND AND BUILDING LEASES

We agree with the simplification of the classification of land and building leases by stating that they should simply be classified in accordance with the criteria stipulated in §§ 7 to 13 of IAS 17.

We support the Board's arguments that the requirement of IAS 17 § 14 stating that land leases are operating leases unless there is a transfer of property at the end of the lease term conflicts with the general lease classification criteria. In addition, we consider that the requirement of § 14 is rule-based, does not reflect the substance of the agreements and may cause application problems in practice when a contract is entered into for both a land and a building.

However we recommend that this amendment be applied prospectively because the review of all the land and building leases would cause undue cost and effort.

We would also like to take the opportunity to comment on the requirements of § 19A of the proposed amendment (formerly part of § 14). Whilst we agree that in many, perhaps most, cases payments made upon entering a leasehold that is accounted for as an operating lease will in substance be prepaid lease payments. However, we have experience of cases in certain jurisdictions where the payment is made to the previous lessee of the property, and there is a reasonable expectation that a similar payment will be received from the next lessee when the entity surrenders the leasehold. We consider that in these cases the payment represents in fact the purchase of the pre-existing foot-traffic, which constitutes an intangible asset with an indefinite useful life.

We consider that the treatment specified in § 19A should be restricted to cases where the payment is made either to the lessor or (if made to the previous lessee) there is, at inception, no expectation that a similar payment will be received from the subsequent lessee.

IAS 17 - CONTINGENT RENTS

We also welcome the simplification in the treatment of contingent rents by stating that they should be recognised as they are incurred. In addition to removing the inconsistency with finance leases this would remove complexity in the accounts of the preparers.

Nevertheless for the same reasons as those stated above for land and building leases, we propose that this amendment be applied prospectively.

IAS 39 - MEASUREMENT, RECLASSIFICATIONS

We support the addition of § 50A stating that reclassifications to or from fair value to profit or loss are not covered by the prohibition of reclassification as per § 50 when they result from a hedging de-designation or designation. We consider that the proposed clarification is very useful to preparers that follow dynamic hedging strategies.

We thank you for your attention to the above.

Yours very truly,

NESTLE S.A.

H. Wirz

Senior Vice President

Head of Group Accounting and Reporting