

NESTLÉ S.A.

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EXECUTIVE VICE PRESIDENT

Financial Accounting Standards Board  
F.a.o. Robert H. Herz – Chairman  
P.O. Box 5116  
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Letter of Comment No: 12  
File Reference: 1122-FPU

International Accounting Standards Board  
F.a.o. Sir David Tweedie – Chairman  
30 Cannon Street  
LONDON EC4M 6XH  
United Kingdom

Re. Joint Project on Performance Reporting/Reporting Comprehensive income

Dear Sirs,

The European CFO Task Force has been following the joint project on Performance Reporting with great interest. We understand that the objective of the project is to enhance the presentation of information in the financial statements in order to better assess financial performance. As there are no major inherent differences in the needs of users in different jurisdictions, we support the Boards' decision to address this project jointly and to issue a convergent standard on performance reporting. We are writing to express our concerns regarding the project's current direction and to offer our assistance to the Boards in identifying a way forward.

The central issues in this project are the form and content of the performance statements and the presentation of net income and comprehensive income within the proposed framework. The Boards appear to believe that these two measures have equal relevance and distinct, complementary meanings for financial statement users. Furthermore, there appears to be a presumption that net income should be presented only as a subtotal within a single performance statement that explains total comprehensive income. For reasons discussed below we do not believe that such a presentation is appropriate.

At this stage in the development of GAAP, we find use of the term Comprehensive Income to be a misnomer. Simply put, the varied elements that make up Comprehensive Income are neither comprehensive, in that they only include a small subset of assets or liabilities remeasured to fair value, nor are they income, since certain components like foreign currency translation adjustments do not represent a measure of performance. While the individual components of Other Comprehensive Income may have relevance to financial statement users, there is no cohesion or consistency among the elements in relation to the financial statements as a whole that would render this total meaningful. Accordingly, it would be premature to accord this measure the prominence that a single statement of comprehensive income would provide.

We further observe that net income is a key measure of performance and an essential part of our communication with users of our financial statements. We stipulate that the development of net income as a measure has occurred without the benefit of a framework for performance and that the creation of such a framework would be a useful deliverable from this project. While other measures also are important, we believe that any proposed presentation format under consideration needs to retain a prominent display of net income. Financial information presented externally to investors has more credibility and can be better explained to investors if it is closely aligned with performance measures that are used internally by management. In addition to being efficient, this symmetry between internal and external measures serves to align the goals of management and outside stakeholders. We note that there is a body of academic research that shows that net income has a high predictive value for determining future profitability and cash flows. If net income is obscured (e.g., included as a subtotal in a larger statement) or eliminated from the performance statement altogether, management will find it difficult to explain the performance of the company within the context of the traditional financial statements in discussions with investors. We are concerned that this could ultimately render the GAAP performance statement irrelevant and confuse less sophisticated users of financial statements.

We are concerned that the discussions at meetings of the International Working Group on Performance Reporting are not addressing what we believe are the most important issues in sufficient depth and there appears to be too much focus on accounting technical issues rather than utility and relevance. We believe that the essence of performance reporting is about clear, understandable, representationally faithful communication of financial results between companies and the financial markets. The form and content of this communication is not a matter that can be resolved satisfactorily by accounting technicians and will require the Boards to reach beyond its traditional sources of information (e.g., comment letters and working groups) for decision-making. Rather, the development of a robust and relevant framework for performance reporting will require the involvement of working CEOs and CFOs and the investors that follow their companies. Ideas about how to segment a performance statement should be considered in the context of a broad range of companies and across diverse industries. We urge the Boards to do that sooner rather than later as those discussions can usefully shape the principles of a proposed standard that would be exposed for public comment. Even with that level of involvement, the objective should be to identify principles of reporting rather than detailed rules and formats. The nature of performance reporting defies a one-size-fits-all solution.

Members of our Task Force would be pleased to serve as a resource for the Board and to provide a broader forum for consideration of the issues inherent in this important project.

Sincerely,



W.H. Reichenberger