MASTERCARD INC
Form S-1/A
November 14, 2005
Table of Contents

As filed with the Securities and Exchange Commission on November 10, 2005.

Registration No. 333-128337

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO.1 TO

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

MASTERCARD INCORPORATED

(Exact name of Registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**7389** **(Primary Standard Industrial Classification Code Number)**	**13-4172551** **(I.R.S. Employer Identification No.)**

2000 Purchase Street

Purchase, New York 10577

Telephone: (914) 249-2000

(Address, including zip code, and telephone number,

including area code, of Registrant s principal executive offices)

Noah J. Hanft, Esq.

General Counsel

MasterCard Incorporated

2000 Purchase Street

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Telephone: (914) 249-2000

(Name, address, including zip code, and telephone number,

including area code, of agent for service)

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Approximate date of commencement of the proposed sale of the securities to the public: As soon as practicable after the Registration Statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ¨

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. ¨

CALCULATION OF REGISTRATION FEE

Title Of Each Class Of Securities To Be Registered	**Proposed Maximum Aggregate Offering Price(1)(2)**	**Amount of Registration Fee**
Class A common stock, par value $.0001 per share	$2,450,000,000	$288,365(3)

(1) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(o) under the Securities Act.
(2) Includes shares subject to the underwriters option to purchase additional shares.
(3) Previously paid.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion. Dated November 10, 2005.

61,535,098 Shares

MasterCard Incorporated

Class A Common Stock

This is an initial public offering of shares of Class A common stock of MasterCard Incorporated. MasterCard is offering all of the 61,535,098 shares of Class A common stock to be sold in this offering.

Prior to this offering, there has been no public market for the Class A common stock. It is currently estimated that the initial public offering price per share will be between $ and $. MasterCard intends to apply for listing of the Class A common stock on the New York Stock Exchange under the symbol MA.

Subject to limited exceptions, our certificate of incorporation will prohibit any person from beneficially owning more than 15% of the Class A common stock. See Description of Capital Stock Common Stock Beneficial Ownership Limitations on page 127 to read about these and other limitations applicable to the Class A common stock.

See Risk Factors on page 13 to read about factors you should consider before buying shares of Class A common stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Initial public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to MasterCard	$	$

To the extent that the underwriters sell more than 61,535,098 shares of Class A common stock, the underwriters have the option to purchase up to an additional 4,615,132 shares of Class A common stock from MasterCard at the initial public offering price less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on , .

Goldman, Sachs & Co.

Sole Global Coordinator

Goldman, Sachs & Co.	Citigroup	HSBC	JPMorgan
Joint Bookrunner	*Joint Bookrunner*	*Joint Bookrunner*	*Joint Bookrunner*

Bear, Stearns & Co. Inc. **Deutsche Bank Securities** **Harris Nesbitt**

KeyBanc Capital Markets **Santander Investment** **SG Cowen & Co.**

Prospectus dated , .

Table of Contents

SUMMARY

This summary does not contain all the information you should consider before investing in our Class A common stock. You should read this entire prospectus carefully, including the section entitled Risk Factors and our consolidated financial statements and the notes to those statements, before you decide to invest in our Class A common stock.

In this prospectus, references to the Company, MasterCard, we, us or our refer to the MasterCard brand generally, and to the business conducted by MasterCard Incorporated and its consolidated subsidiaries, including our principal operating subsidiary, MasterCard International Incorporated. We use the term card to refer to the plastic cards carrying our brands or those of our competitors, together with the underlying credit, charge, deposit or other account.

MasterCard

MasterCard is a leading global payment solutions company that provides a variety of services in support of the credit, debit and related payment programs of nearly 25,000 financial institutions. We manage a family of well-known, widely accepted payment card brands, including MasterCard®, MasterCard Electronic, Maestro® and Cirrus®, which we license to these financial institutions. As part of managing these brands, we also provide our financial institution customers with a sophisticated set of information and transaction processing services and establish and enforce rules and standards surrounding the use of our payment card system. We generate revenues from the fees that we charge our customers for providing these transaction processing and other payment-related services (operations fees) and by assessing our customers based on the dollar volume of activity on the cards that carry our brands (assessments).

A typical transaction processed over our system involves four parties in addition to ourselves: the cardholder, the merchant, the issuer (the cardholder s bank) and the acquirer (the merchant s bank). Our customers are the financial institutions that act as issuers and acquirers. Using our transaction processing services, issuers and acquirers facilitate payment transactions between cardholders and merchants throughout the world, providing merchants with an efficient and secure means of receiving payment, and consumers and businesses with a convenient payment method accepted worldwide. We guarantee the settlement of many of these transactions among our customer financial institutions to ensure the integrity of our payment system. In addition, we undertake a variety of marketing activities designed to maintain and enhance the value of our brands. However, cardholder and merchant relationships are managed principally by our customers. Accordingly, we do not issue cards, extend credit to cardholders, determine the interest rates (if applicable) or other fees charged to cardholders by issuers, or establish the merchant discount charged by acquirers in connection with the acceptance of cards that carry our brands.

Our business has a global reach and has experienced significant growth. Gross dollar volume on cards carrying the MasterCard brand as reported by our customers (GDV) was $1.5 trillion in 2004, a 15% increase in U.S. dollar terms over the GDV reported in 2003. For the first nine months of 2005, GDV was $1.2 trillion, a 14% increase in U.S. dollar terms over the GDV reported in the first nine months of 2004. In 2004, we processed 12.2 billion transactions (including 2.3 billion PIN-based online debit transactions), a 23% increase over the transactions processed in 2003.

Table of Contents

We believe there is a trend within the global payments industry from paper-based forms of payment such as cash and checks toward electronic forms of payment such as cards, which creates significant opportunities for continued growth in our business. We believe this trend is driven by the following elements:

Increasing Usage of Electronic Forms of Payment. Credit and debit card usage has grown at significant rates and is displacing cash and checks, the traditional forms of payment. Consumers are migrating to card-based forms of payment, motivated in part by the convenience, enhanced services and reward programs that cards offer. Corporations, small businesses and governments have also increased their usage of card-based forms of payment for travel, purchasing and fleet management in order to gain better transaction information, more efficiently manage their supply chains and reduce administrative costs. Other forms of electronic payments, including pre-paid cards, chip-based cards and mobile commerce, offer opportunities for further usage and growth.

Increasing Acceptance of Electronic Forms of Payment. Merchants of all sizes have increased their acceptance of electronic payments as a way to augment their sales and increase consumer convenience. Electronic forms of payment are gaining wider acceptance in corporate payment applications and in important merchant categories such as supermarkets, gas stations, convenience stores, utilities and fast-food restaurants. In addition, governments have begun accepting electronic payments in order to reduce their administrative costs. Payment cards and other electronic forms of payment continue to be the preferred method of payment in certain higher growth channels of commerce, such as the Internet.

Innovation in the Payments Industry. Innovation at the point of sale, including the incorporation of new technologies such as smart cards and contactless cards, continues to reduce transaction times and otherwise enhance the attractiveness of payment cards to both consumers and merchants. In addition, issuers are making payment cards more attractive to cardholders through value-adding initiatives such as rewards and co-branding programs.

Favorable Trends in Global Commerce. A wide range of factors has increased global commerce, particularly cross-border business and leisure travel. This trend benefits card-based forms of payment, which afford cardholders increased convenience and efficiency when making international transactions compared with cash and checks. In addition, in many emerging markets, increased consumer card usage is being driven by the growth of middle-class consumer populations and the development of modern payment systems to serve them. Globalization is also encouraging the replacement of domestic payment solutions with payment solutions that have a worldwide reach.

Competitive Strengths

We believe the following key strengths enhance our ability to compete successfully in the global payments industry:

Leading Worldwide Payments System. We believe that the strong worldwide recognition of our brands, our long-standing relationships with our issuers and acquirers and the extensive global reach of our payment card system are valuable corporate assets that provide us with a strong platform from which we can deliver value to our customers, merchants and cardholders.

Global Brand. Through our global brand-building initiatives, we have established strong worldwide recognition for MasterCard and our other brands. We believe that our brands are valuable strategic assets that drive card acceptance and usage and facilitate our ability to successfully introduce new service offerings and access new markets.

Table of Contents

Long-Standing Customer Relationships. Our business originated in 1966 when a number of banks in the United States formed the Interbank Card Association and, over time, we have grown into a global organization that serves nearly 25,000 financial institutions in 210 countries and territories. We believe that the breadth and depth of our relationships with our issuers and acquirers provide us with valuable insights into their businesses. These insights, in turn, facilitate our ability to pursue additional opportunities with these customers in connection with both our core transaction processing business and the related value-added services we provide, such as the consulting services provided by MasterCard Advisors.

Worldwide Acceptance. Based on information from our customers, as of September 30, 2005, cards carrying the MasterCard brand were accepted at over 22 million merchant locations around the world. We believe that the extensive global acceptance of cards carrying our brands is unsurpassed by any of our competitors, which is a significant competitive strength that facilitates the use of our cards and contributes to the growth of our business globally.

Global, Branded Processing Platform. We operate a proprietary, worldwide computer and telecommunications system that links issuers and acquirers around the globe for transaction processing services and permits cardholders to use their cards at millions of merchants worldwide. This system, in which we have made significant recent investments, is a highly reliable, scalable asset that we believe provides us with the flexibility to provide additional transaction processing services to both new and existing customers with relatively low incremental costs. We also believe that the strength of our global brands and our processing experience enhance our ability to compete for new processing business.

Global Reach of Business. We have offices in 38 countries worldwide and a senior management team with extensive international experience. Through these resources, we have developed substantial knowledge of local customer practices and cardholder behavior in the key markets in which we operate. In addition, we believe that our integrated corporate structure and worldwide presence enables us to provide globally coordinated payment solutions to multinational customers more effectively than our competitors whose businesses are limited in geographic scope or organized principally as separate regional operating companies. As customers continue to consolidate, we believe our structure will enhance our ability to support their differing needs. We also believe that our global operations and worldwide customer base moderate our exposure to the varying economic conditions of different regions.

Business Strategy

Our strategy is to drive growth by further penetrating our existing customer base and by expanding our role in targeted areas of the global payments industry. Primary elements in implementing our strategy include:

Focus on Key Customers. We are committed to providing our key customers with coordinated services through integrated, dedicated account teams in a manner that allows us to leverage our expertise in payment programs, brand marketing, product development, technology, processing and consulting services for these customers. We have historically applied this customer-focused model to our largest global customers and are now expanding this approach to include customers around the world representing a substantial majority of our revenue. Through MasterCard Advisors, we seek to leverage our deep functional expertise in many important areas of the payments industry for our customers. By further investing in strong relationships over the long term with our key customers, we believe that we can increase our volume of business with them over time.

Continued Expansion in Targeted Geographies and Higher-Growth Programs. We believe that there are significant opportunities to expand our role in targeted geographies and higher-growth programs. For example, while we process a large majority of the domestic MasterCard- branded card transactions in the United States, Canada, the United Kingdom and Australia, the proportion of domestic MasterCard-branded card transactions that we process outside these markets is significantly lower. Accordingly, we believe that there are substantial opportunities for us to capture additional operations fees through transaction processing arrangements in selected markets. We are also focused on expanding the role of MasterCard in higher-growth segments of the global payments industry, such as commercial, debit and pre-paid cards. Among other initiatives, we intend to expand our business in these segments by continuing to invest in developing new payment solutions and customized services applicable to them. For example, MasterCard PayPass, a contactless payment solution that enables consumers simply to tap or wave their payment card on a specially equipped terminal, is designed to help our customers further grow their businesses by enhancing the functionality of MasterCard cards in fast throughput environments.

Enhance Merchant Relationships and Maintain Unsurpassed Acceptance. We recognize that merchants are important stakeholders for the growth of our business, and we are focused on strengthening our merchant relationships by providing merchants with direct input into our business via merchant advisory boards and other initiatives. We intend to maintain the unsurpassed acceptance of MasterCard-branded programs by focusing on three core initiatives. First, we seek to increase the number of categories of merchants that accept cards carrying our brands. We are presently focused on expanding acceptance in electronic commerce environments, in fast food restaurants and convenience stores, and in public sector payments, such as those involving taxes, fees, fines and tolls, among other categories. Second, we seek to increase the number of payment channels where MasterCard programs are accepted, such as by expanding MasterCard acceptance in connection with recurring payment applications. Third, we seek to increase usage of our programs at selected merchants through a range of business development programs on a global basis.

Continued Investment in our Brands. We are committed to maintaining and enhancing our brands and image through advertising and marketing efforts on a global scale. Our approach to marketing activities combines advertising, sponsorships, promotions, interactive media and public relations as part of an integrated package designed to increase MasterCard brand awareness and preference and usage of MasterCard cards. Among numerous other initiatives, we intend to continue our award-winning Priceless® advertising campaign, which has run in 106 countries and 49 languages.

Risks Related to our Business and Industry

The operation of our business involves a number of risks. For example:

Increased Legal and Regulatory Scrutiny of Interchange Fees. Interchange fees, which represent a sharing of payment system costs among acquirers and issuers, have been the subject of increased regulatory scrutiny and litigation as they have increased in recent years and as card-based forms of payment have become relatively more important to local economies. Although we establish interchange fees and collect and remit them on behalf of those of our customers entitled to receive them, we do not generally earn revenues in connection with interchange fees. However, if issuers cannot collect or are forced to reduce interchange fees, this could reduce the number of financial institutions willing to participate in a four-party payment card system such as ours, lower overall transaction volumes, and/or make proprietary end-to-end networks or other forms of payment more attractive. Issuers could also charge higher fees to consumers, thereby making our card programs less desirable and reducing our transaction volumes and profitability, or attempt to decrease the expense of their card programs by seeking a reduction in the fees that we charge.

Litigation. We are exposed to a variety of significant lawsuits in addition to those relating to interchange fees, including federal antitrust claims, claims under state unfair competition statutes and claims relating to our currency conversion practices. If we are found liable in any of these lawsuits, we may, among other things, be forced to pay damages and/or change our business practices and pricing structure, which could have a material adverse effect on our revenue and profitability and result in significant reduction in the value, or the loss of your investment. Except with respect to currency conversion litigations, we have not established reserves for any of the significant legal proceedings in which we are currently involved.

Heightened Competition. Competition and pricing pressure within the global payments industry is increasing, due in part to consolidation within the banking sector. These risks and pressures are heightened by the growing power of merchants within the payments industry.

Expected Credit Ratings Downgrade. Due to the loss of MasterCard International s right to impose special assessments upon its members in connection with this offering, Standard & Poor s Rating Services expects to lower our credit ratings.

Expected Net Loss for the First Quarter of 2006. At the time of this offering, we intend to donate 13,500,047 newly-issued shares of our Class A common stock and cash to The MasterCard Foundation, a private charitable foundation to be incorporated in Canada. In connection with this donation we expect to record an expense that is equal to the aggregate value of the cash and shares we are donating, which expense will generally not be deductible for tax purposes. As a result of this expense, we expect to record a significant net loss in the quarter and year in which the offering is completed.

Substantial Portion of Offering Proceeds Unavailable. We intend to use all but $650 million of our net proceeds from this offering (including any proceeds received pursuant to the underwriters option to purchase additional shares) to redeem shares from our existing stockholders, who include affiliates of the underwriters. Accordingly, we will not have those proceeds available to us to invest in and grow our business.

Additional Offering of Class A Common Stock. In the event that the underwriters do not exercise in full their option to purchase additional shares of Class A common stock from us in connection with this offering, our certificate of incorporation will require us, prior to the time of our 2007 annual meeting of stockholders, to issue additional shares of Class A common stock in a public offering and to use the proceeds from such offering to redeem additional shares from our existing stockholders so that, immediately following such subsequent offering and redemption, our existing stockholders own approximately 41% of our equity. This additional issuance may depress the market price of our Class A common stock.

Adverse Effect of New Ownership and Governance Structure on our Customer Relationships. In connection with this offering, our certificate of incorporation will be amended to provide that our members may own only Class B common stock, which has no voting power, and Class M common stock, which is generally non-voting except that it provides the right to elect up to three directors (but not more than one-quarter of all directors) and approve specified

Table of Contents

significant corporate actions. In addition, with the exception of directors elected by the Class M common stockholders, persons affiliated with our customers will not be permitted to serve as directors of MasterCard. If our members are dissatisfied with these changes to our corporate governance structure, it could have a material adverse effect on our business relationships with them and they may elect to instead do business with a competitor with a different governance structure. In addition, our members ownership in our company will be reduced substantially in connection with this offering, which may reduce their interest in the continued success of our business.

See Risk Factors for a discussion of factors you should carefully consider before deciding to invest in shares of our Class A common stock.

The Offering Transactions

We are currently owned by the principal members of MasterCard International, who are our customers. Prior to this offering of shares of our newly-authorized Class A common stock, we will reclassify all of our 100,000,348 outstanding shares of common stock, causing each of our existing stockholders to receive 1.35 shares of our Class B common stock for each share of common stock that they held prior to the reclassification and a single share of our Class M common stock. In addition, at the time of this offering, we will issue 13,500,047 shares of our Class A common stock as a donation to The MasterCard Foundation, a private charitable foundation to be incorporated in Canada that will be controlled by directors who are independent of us and our members. The Class A common stock and the Class B common stock will have the same economic rights, although the Class B common stock will be non-voting (except as may be required by Delaware law). The Class M common stock will have no economic rights. The holders of the Class M common stock will, however, have the right to elect up to three of our directors (but no more than one-quarter of all directors) and approve specified significant corporate transactions. See Description of Capital Stock.

We intend to use all but $650 million of our net proceeds from this offering (including any proceeds received pursuant to the underwriters option to purchase additional shares) to redeem a number of shares of Class B common stock from our existing stockholders that is equal to the aggregate number of shares of Class A common stock that we issue to investors in this offering (including any shares sold pursuant to the underwriters option to purchase additional shares) and to The MasterCard Foundation. We intend to use the remaining proceeds to increase our capital, defend ourselves against legal and regulatory challenges, expand our role in targeted geographies and higher growth segments of the global payment industry and for other general corporate purposes. See Use of Proceeds.

Following the reclassification, the issuance of shares of our Class A common stock as a donation to The MasterCard Foundation and in this offering and the subsequent redemption of shares of our Class B common stock from our existing stockholders, which we refer to collectively as the offering transactions, investors in this offering will own 61,535,098 shares of Class A common stock representing 46% of our equity and 82% of our general voting power (or 66,150,230 shares representing 49% of our equity and 83% of our general voting power if the underwriters exercise their option to purchase additional shares in full), The MasterCard Foundation will own 13,500,047 shares of Class A common stock representing 10% of our equity and 18% of our general voting power (or 17% of our general voting power if the underwriters exercise their option to purchase additional shares in full) and our existing stockholders will own 59,965,325 shares of Class B common stock representing 44% of our equity (or 55,350,193 shares representing 41% of our equity if the underwriters exercise their

Table of Contents

option to purchase additional shares in full) and shares of Class M common stock that entitle them to elect up to three of our directors and approve specified significant corporate actions but are otherwise non-voting. In the event that the underwriters do not exercise in full their option to purchase up to an additional 4,615,132 shares of Class A common stock from us in connection with this offering, our certificate of incorporation will require us, subject to applicable law and to the board of directors fiduciary duties, prior to the time of our 2007 annual meeting of stockholders, to issue additional shares of Class A common stock in a public offering and to use the proceeds from such offering to redeem additional shares of Class B common stock so that, immediately following such subsequent offering and redemption, our existing stockholders will own approximately 41% of the aggregate number of shares of Class A common stock and Class B common stock outstanding at that time.

We believe that the new ownership and governance structure that we will achieve through the offering transactions will enhance our business over the long term in various ways. In particular, we believe that perceived conflicts of interest in our business will be addressed by transitioning to a board of directors that includes a majority of directors who are independent of us and of our customers and through the broader diversity of our share ownership. As a result, we believe that we will be competitively advantaged as compared with other four-party payment card systems as customers will view our new structure as a more stable base upon which to build, manage and grow their payments businesses. We also believe that the new structure will benefit our business by providing us with publicly traded equity that we may use as a tool to better align the incentives of our management with those of our stockholders and to attract, retain and motivate our employees and as a currency with which to effect acquisitions, as well as by providing us with enhanced access to the public markets to raise capital. See Business Reasons for Transition to New Ownership and Governance Structure.

Our principal executive offices are located at 2000 Purchase Street, Purchase, New York 10577 and our telephone number is (914) 249-2000.

Table of Contents

The Offering

Class A common stock offered	61,535,098 shares
Class A common stock and Class B common stock outstanding after the offering transactions:	
Class A common stock	75,035,145 shares
Class B common stock	59,965,325 shares
	135,000,470 shares
Common stock	Following this offering, we will have three classes of common stock outstanding: Class A common stock, all of the outstanding shares of which will have been issued in this offering or to The MasterCard Foundation; and Class B common stock and Class M common stock, all of the outstanding shares of which will be held by our existing stockholders.
Voting rights	Each share of Class A common stock will entitle its holder to one vote per share. Except as may be required by Delaware law, holders of Class B common stock will not be entitled to vote and will have no voting power. Although the Class M common stock is generally non-voting, the holders of the Class M common stock will have the right to elect up to three of our directors (but not more than one-quarter of all directors) and approve specified significant corporate actions.
Dividend rights	The Class A common stock and Class B common stock will share equally in any dividends declared by our board of directors, subject to any preferential or other rights of any outstanding preferred stock. Holders of Class M common stock will not be entitled to receive dividends.
Liquidation rights	Upon liquidation, dissolution or winding up, holders of Class A common stock and Class B common stock will be entitled to receive ratably the assets available for distribution to the stockholders after payment of our liabilities and the preferential or other amounts, if any, payable on any outstanding preferred stock. Holders of Class M common stock will not be entitled to receive any assets upon a liquidation, dissolution or winding up.

Conversion rights	Subject to the provisions of our amended and restated certificate of incorporation that prohibit our members, former members and certain other persons from beneficially owning Class A common stock and other conditions, any holder of Class B common stock may at any time and from time to time commencing on the fourth anniversary of the consummation of this offering, at such holder s option, convert all or any portion of such holder s shares of Class B common stock into an equal number of shares of Class A common stock in connection with a transfer of these shares to a permitted owner.

Table of Contents

	In addition, in the event that the number of shares of Class B common stock outstanding is less than 41% of the aggregate number of shares of Class A common stock and Class B common stock outstanding, our members will in certain circumstances be permitted to acquire shares of Class A common stock in the open market or otherwise, which acquired shares would thereupon convert into an equal number of shares of Class B common stock.
	Shares of Class M common stock are not convertible into any other class of our capital stock.
	See Description of Capital Stock.
Use of proceeds	We intend to use all but $650 million of our net proceeds from this offering (including any proceeds received pursuant to the underwriters option to purchase additional shares) to redeem a number of shares of Class B common stock from our existing stockholders that is equal to the aggregate number of shares of Class A common stock that we issue to investors in this offering (including any shares sold pursuant to the underwriters option to purchase additional shares) and to The MasterCard Foundation. We intend to use the remaining proceeds to increase our capital, defend ourselves against legal and regulatory challenges, expand our role in targeted geographies and higher growth segments of the global payments industry and for other general corporate purposes. Approximately % of the aggregate redemption price in connection with the redemption of the shares of Class B common stock will be received by affiliates of the underwriters. See Use of Proceeds.
Risk factors	See Risk Factors beginning on page 13 of this prospectus for a discussion of risks you should carefully consider before deciding to invest in shares of our Class A common stock.
Proposed New York Stock Exchange symbol	MA
Dividend policy	Upon completion of this offering, our board of directors currently intends to adopt a policy of declaring, subject to legally available funds, a quarterly cash dividend at an annual rate initially equal to $ per share of Class A common stock and Class B common stock, unless our board of directors, in its sole discretion, determines otherwise, commencing with the quarter of 2006. See Dividend Policy.

Table of Contents

Unless indicated otherwise, the information included in this prospectus gives effect to the reclassification of our outstanding shares of common stock and assumes no exercise by the underwriters of their option to purchase up to an additional 4,615,132 shares from us and that the shares to be sold in this offering are sold at $ per share, which is the midpoint of the range indicated on the front cover of this prospectus.

In addition, shares outstanding and other information based thereon do not reflect 5,300,000 shares of Class A common stock reserved for issuance under our long term incentive plan. See Management MasterCard Long Term Incentive Plan.

Table of Contents

Summary Consolidated Financial and Other Data

The statement of operations data presented below for the years ended December 31, 2004, 2003 and 2002, and the balance sheet data as of December 31, 2004 and 2003, were derived from the audited consolidated financial statements of MasterCard Incorporated included in this prospectus. The statement of operations data presented below for the years ended December 31, 2001 and 2000, and balance sheet data as of December 31, 2002, 2001 and 2000, were derived from the audited consolidated financial statements of MasterCard Incorporated and MasterCard International not included in this prospectus. The summary consolidated financial data presented below as of and for the nine months ended September 30, 2005 and September 30, 2004 have been derived from the unaudited consolidated financial statements of MasterCard Incorporated included in this prospectus and, in the opinion of management, contain all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of our financial position and results of operations for such periods. Interim results for the nine months ended September 30, 2005 are not necessarily indicative of, and are not projections for, the results to be expected for the full year ending December 31, 2005. The results of MasterCard Europe s operations have been included in our consolidated statements of operations from June 28, 2002 to the present. The data set forth below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the notes to those statements included in this prospectus.

	Year Ended December 31,					Nine Months Ended September 30,	
	2000	2001	2002(1)	2003	2004	2004	2005(2)
	(In thousands, except per share and operating data)						
Statement of Operations Data:							
Revenue	$ 1,445,409	$ 1,611,334	$ 1,891,811	$ 2,230,851	$ 2,593,330	$ 1,909,426	$ 2,221,710
General and Administrative	737,259	813,927	965,299	1,098,552	1,185,837	846,417	975,867
Advertising and Market Development	470,733	505,732	694,010	851,150	915,851	586,398	622,447
U.S. Merchant Lawsuit and Other Legal Settlements				763,460	21,653	18,008	48,188
Depreciation and Amortization	59,397	69,973	90,505	119,551	123,317	92,119	83,366
Operating Income (Loss)	178,020	221,702	141,997	(601,862)	346,672	366,484	491,842
Other Income (Expense)	22,211	11,237	16,391	(9,658)	(22,972)	(21,814)	3,704
Income (Loss) before cumulative effect of accounting change	118,149	142,061	116,429	(390,742)	238,060	236,790	319,627
Net Income (Loss)	118,149	142,061	116,429	(385,793)	238,060	236,790	319,627
Net Income (Loss) Per Share before cumulative effect of accounting change (Basic and Diluted)(3)	1.65	1.98	1.35	(3.91)	2.38	2.37	3.20
Net Income (Loss) Per Share (Basic and Diluted)(3)	1.65	1.98	1.35	(3.86)	2.38	2.37	3.20
Pro forma Net Income Per Share (Basic and Diluted)(4)					1.76	1.75	2.37
Balance Sheet Data (at period end):							
Cash and Cash Equivalents	$ 125,503	$ 165,943	$ 218,575	$ 248,119	$ 328,996	$ 309,602	$ 530,988
Investment Securities current	439,266	504,443	653,349	662,391	808,893	806,626	860,570
Total Assets	1,187,060	1,486,305	2,260,875	2,900,905	3,264,670	3,177,200	3,670,362
Long-Term Debt	82,992	80,065	80,107	229,574	229,569	229,508	229,460
Obligations under U.S. Merchant Lawsuit and Other Legal Settlements, Long-term				516,686	468,547	555,353	503,470
Stockholders /Members Equity	462,408	606,661	1,023,406	698,721	974,952	926,136	1,235,425

Operating Data:							
GDV (in billions)(5)	$ 865	$ 986	$ 1,161	$ 1,281	$ 1,467	$ 1,063	$ 1,215
Processed Transactions (in millions)(6)	5,699	7,639	8,792	9,962	12,214	8,857	10,096

11

Table of Contents

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(1) On June 28, 2002, we converted from a membership to a stock company through the creation of MasterCard Incorporated, a new holding company. Also on June 28, 2002, MasterCard Incorporated directly and indirectly acquired all of the outstanding stock of Europay International S.A. In 2002, Europay International was renamed and reorganized in Belgium as MasterCard Europe sprl. Note 18 to our annual consolidated financial statements more fully describes these transactions.

(2) MasterCard is party to a number of currency conversion litigations. See Business Legal Proceedings. Based upon litigation developments and settlement negotiations in these cases and pursuant to Statement of Financial Accounting Standards No. 5, Accounting for Contingencies, MasterCard recorded an additional $48,188 of legal reserves in September 2005. Based on future developments, this estimate may be revised.

(3) As more fully described in Summary The Offering Transactions, prior to this offering we will reclassify all of our 100,000 outstanding shares of existing common stock so that our existing stockholders will receive 1.35 shares of our Class B common stock for each share of common stock that they held prior to the reclassification and a single share of our Class M common stock. Accordingly, shares and per share data will be retroactively restated in the financial statements subsequent to the reclassification to reflect the reclassification as if it were effective at the start of the first period being presented in the financial statements.

(4) Pro forma amounts give effect to the reclassification described above as if it were in place for the latest fiscal year and interim periods presented.

(5) GDV represents the aggregate dollar amount of purchases made and cash disbursements obtained with MasterCard-branded cards and includes the impact of balance transfers and convenience checks. PIN-based online debit transactions and other branded transactions are not included. The data set forth for GDV is derived from information provided by MasterCard members and includes information with respect to MasterCard-branded transactions that are not processed by MasterCard and for which MasterCard does not earn significant revenues. All data is subject to revision and amendment by MasterCard s members subsequent to the date of its release, which revisions and amendments may be material.

(6) The data set forth for processed transactions represents all transactions processed by MasterCard, including PIN-based online debit transactions, except for the year ended December 31, 2000, which does not include online debit transactions. The data for the years ended December 31, 2000, 2001, 2002, 2003, and 2004 and for the nine months ended September 30, 2004 have been restated to exclude specific transactions previously classified as processed transactions which are no longer deemed processed transactions for the nine months ended September 30, 2005.

Table of Contents

RISK FACTORS

An investment in our Class A common stock involves a number of risks. You should carefully consider the following information about these risks, together with the other information contained in this prospectus, before investing in our Class A common stock. The following risks could materially adversely affect our business, financial condition or operating results. In that case, the trading price of our Class A common stock could decline and you could lose all or part of your investment.

Risks Related to Our Business

Legal and Regulatory Risks

Interchange fees are subject to increasingly intense legal and regulatory scrutiny worldwide, which may have a material adverse impact on our revenue, our prospects for future growth and our overall business.

Interchange fees, which represent a sharing of payment system costs among the financial institutions participating in a four-party payment card system such as ours, are generally the largest component of the costs that acquirers charge merchants in connection with the acceptance of payment cards. Typically, interchange fees are paid by the merchant bank (the acquirer) to the cardholder bank (the issuer) in connection with transactions initiated with our payment system s cards. Interchange fees, including MasterCard s multilateral interchange fees (MIFs), are subject to increasingly intense regulatory scrutiny worldwide as they have increased in recent years and as card-based forms of payment have become relatively more important to local economies. Regulators are seeking to reduce these costs through regulatory action. For example:

- In the European Union, the European Commission has issued a Statement of Objections challenging MasterCard s cross-border MIF under European Union competition rules and has recently stated that it intends to issue a supplemental statement of objections in the near future. If we do not obtain a favorable ruling, the European Commission could order us to change the manner in which MasterCard calculates its cross-border MIF.

- In the United Kingdom the Office of Fair Trading (OFT) issued a decision on September 6, 2005 concluding that MasterCard s U.K. MIFs contravene U.K. and European Union competition law. If this decision is upheld on appeal, it could have a significant adverse impact on the revenues of MasterCard s U.K. members and on MasterCard s competitive position and overall business in the U.K. In addition, the OFT has stated that it will commence a new investigation of MasterCard s current U.K. MIFs and, if it determines that they contravene U.K. and European Union competition law, it will issue a new decision and possibly levy fines accruing from the date of its first decision. This new investigation will examine whether the new methodology for setting U.K. MIFs adopted by MasterCard in November 2004 in connection with which MasterCard withdrew the authority of the U.K. members to set domestic MIFs and related fees and conferred such authority exclusively on MasterCard s President and Chief Executive Officer contravenes applicable law.

- In Australia, the Reserve Bank of Australia has enacted regulations controlling the costs that can be considered in setting interchange fees for four-party payment card systems such as ours, but do not regulate the merchant discount charged by proprietary end-to-end networks (such as those offered by American Express or Discover), which have already benefited from these regulations.

Interchange fees are also being reviewed in a number of other jurisdictions, including Colombia, Mexico, New Zealand, Poland, Portugal, Brazil, South Africa, Hungary, Spain and Switzerland. In the United States, interchange fees have also been the topic of increased Congressional and regulatory interest. In particular, the U.S. House of Representatives has passed a bill that would commission a study by the Federal Trade Commission of the role of interchange in alleged price gouging at gas stations. Also, the general topic of interchange fees has been raised in hearings and other forums,

Table of Contents

including conferences held by various Federal Reserve banks. We believe that regulators are increasingly adopting a coordinated approach to interchange matters and, as a result, developments in any one jurisdiction may influence regulators approach to interchange in other jurisdictions.

In addition, merchants are seeking to reduce interchange fees through litigation. In the United States, merchants have filed over forty class-action suits alleging that our interchange fees violate federal antitrust laws. These suits allege, among other things, that MasterCard s purported setting of interchange fees violates Section 1 of the Sherman Act. The suits seek treble damages in an unspecified amount, attorney s fees and injunctive relief. See Business Legal Proceedings Global Interchange Proceedings. We are devoting substantial management and financial resources to the defense of MIFs and to the other legal and regulatory challenges we face.

If issuers cannot collect or are forced to reduce interchange fees, they may be unable to recoup a portion of the costs incurred for their services. This could reduce the number of financial institutions willing to participate in a four-party payment card system, lower overall transaction volumes, and/or make proprietary end-to-end networks or other forms of payment more attractive. Issuers could also charge higher fees to consumers, thereby making our card programs less desirable and reducing our transaction volumes and profitability, or attempt to decrease the expense of their card programs by seeking a reduction in the fees that we charge. If we are less successful than Visa in defending interchange fees, we could also be competitively disadvantaged against Visa. If we are ultimately unsuccessful in our defense of interchange fees, such regulation may have a material adverse impact on our revenue, our prospects for future growth, and our overall business.

If we are found liable in any of the cases brought by American Express or Discover, we may be forced to pay substantial damages.

In 1998, the U.S. Department of Justice filed suit against MasterCard International, Visa U.S.A., Inc. and Visa International Corp. in the U.S. District Court for the Southern District of New York alleging that certain aspects of the governance of MasterCard and Visa were unlawful, and that MasterCard s Competitive Programs Policy (CPP) and a similar Visa bylaw provision that prohibited financial institutions participating in the respective systems from issuing competing proprietary payment cards (such as American Express or Discover) acted to restrain competition. Although we successfully defended the relevant aspects of our governance structure at trial, the Second Circuit Court of Appeals affirmed the trial court judge s ruling that our CPP and Visa s bylaw constituted unlawful restraints of trade under the U.S. federal antitrust laws. Based on the final judgment in this matter, we repealed our CPP in October 2004. Thereafter, Discover and American Express each filed suit against us, Visa U.S.A., Inc. and Visa International Services Association alleging that the CPP and Visa s bylaw provision caused each injury by unlawfully restraining trade under the U.S. federal antitrust laws. Discover also alleges that it suffered injury by reason of our rules, which required merchants in the United States to accept our debit cards if they accepted other MasterCard-branded cards, before these rules were modified as part of the U.S. merchant lawsuit described below. The American Express claim names a number of member banks as co-defendants. In connection with their respective claims, American Express and Discover each requested that the district court give collateral estoppel effect to its findings in its judgment in the Department of Justice litigation. Although the district court has denied that request at this stage in the litigation, the court indicated that American Express and Discover may refile a motion for collateral estoppel after discovery. If the court were to give effect to collateral estoppel on one or more issues in the future, then significant elements of plaintiffs claims would be established, thereby making it more likely that we would be found liable.

Neither American Express nor Discover has specified the amount of damages sought and, due to the considerable uncertainty associated with these proceedings, it is currently not reasonably possible to estimate the amount or range of any potential liability. However, each of these cases, which would involve joint and several liability among the defendants, allege unquantified damages. In addition, each

14

of American Express and Discover has conveyed their belief that these damages are substantial. Moreover, because these actions have been brought under the U.S. federal antitrust laws, we may be required to pay treble damages if liability is established, which could significantly magnify the adverse effect upon us of any adverse judgment. If we are unsuccessful in defending against either or both of these lawsuits, the ultimate liability for MasterCard could have a material adverse effect on our results of operations, financial position and cash flows in the quarterly and annual period when such losses are recognized, could have a material adverse effect on our overall financial position, and result in the significant reduction in value, or the loss, of your investment. Similarly, if we decide to settle either or both lawsuits or if we establish provisions in connection with them (which will depend on our continuing reconsideration of the progress of the litigation), such a settlement or the establishment of such provisions could also have such a material adverse effect. See   Risk Factors Risks Related to Our Business Legal and Regulatory Risks If we determine in the future that we are required to establish reserves or we incur liabilities for any litigation that has been or may be brought against us, our results of operations, cash flow and financial condition could be materially and adversely affected and you could lose your investment   and   Business Legal Proceedings.

If we are ultimately unsuccessful in any of our various lawsuits relating to our currency conversion practices, our business may be materially and adversely affected.

We generate significant revenue from processing foreign currency transactions for members. However, we are defendants in several state and federal lawsuits alleging that our currency conversion practices are deceptive, anti-competitive or otherwise unlawful. In particular, a trial judge in California found that our currency conversion practice is deceptive under California state law, and ordered us to mandate that members disclose the currency conversion process to cardholders in cardholder agreements, applications, solicitations and monthly billing statements. The judge also ordered unspecified restitution to California cardholders. The final judgment and restitution process have been stayed pending MasterCard s appeal. In addition, we have been served with similar complaints in several state courts seeking to, in effect, extend the judge s decision to our cardholders outside of California. We have succeeded in having several of these cases dismissed or transferred to the U.S. District Court for the Southern District of New York and combined with putative federal class actions. The class actions allege that our currency conversion practices violate federal antitrust laws. See   Business Legal Proceedings.   If we are unsuccessful in defending against these lawsuits, we may have to pay restitution to cardholders who make claims that they used their cards in another country, or may be required to modify our currency conversion practices.

Based upon litigation developments and settlement negotiations in these cases and pursuant to Statement of Financial Accounting Standards No. 5,   Accounting for Contingencies,   MasterCard recorded an additional $48 million of legal reserves in September 2005. As a result of this additional reserve, we have now established total legal reserves of $62 million in connection with these currency conversion cases. Based on future developments, this estimate may be revised. The amount of damages sought has not been specified in any of these cases.

If we are found liable in any of the other litigations that have been brought against us or in any other litigation to which we may be subject in the future, we may be forced to pay damages and/or change our business practices or pricing structure, any of which could have a material adverse effect on our revenue and profitability.

There are currently actions against MasterCard International in a number of state courts and the District of Columbia. In a number of these state courts, there are multiple complaints against MasterCard International brought under state unfair competition statutes on behalf of putative classes of consumers. The claims in these actions mirror the allegations made in the U.S. merchant lawsuit, which was brought on behalf of a class of U.S. merchants against MasterCard International and Visa

15

and alleged, among other things, that our Honor All Cards rule (and a similar Visa rule), which required merchants who accept MasterCard cards to accept for payment every validly presented MasterCard card, constituted an illegal tying arrangement in violation of Section 1 of the Sherman Act. The plaintiffs also asserted that we and Visa conspired to monopolize what they characterized as the point-of-sale debit card market. In June 2003, MasterCard International entered into a settlement agreement that resolved the U.S. merchant lawsuit and contract disputes with certain customers. The settlement agreement required, among other things, that we pay $125 million in 2003 and $100 million annually each December from 2004 through 2012. See Business Legal Proceedings U.S. Merchant Opt Out and Consumer Litigations for a description of the settlement agreement. The putative consumer class actions are not covered by the terms of the June 2003 settlement agreement. These actions assert that merchants, faced with excessive merchant discount fees, have passed these overcharges to consumers in the form of higher prices on goods and services sold. In addition to these litigations, we are also being sued in several other state and federal courts under both federal antitrust laws and state common and statutory law in connection with certain of our rules, including those related to chargeback transactions. Chargebacks refer to the situation where a transaction is returned, or charged back, to an acquirer by an issuer at the request of the cardholder or for some other reason. None of the putative consumer class actions specifies the amount of damages sought and, except for one lawsuit in which the plaintiff seeks $60 million in compensatory damages as well as $180 million in punitive damages, none of the lawsuits relating to chargeback transactions specifies the amount of damages sought. See Business Legal Proceedings. We may also be sued in the future in the United States or in other jurisdictions by our customers, merchants or consumers for substantial damages or injunctive relief in connection with our business practices. If we are unsuccessful in our defense against the consumer class actions, the merchant chargeback litigations, or any other litigation, we may be forced to pay damages and/or change our business practices and pricing structure, any of which could have a material adverse effect on our revenue and profitability.

If we determine in the future that we are required to establish reserves or we incur liabilities for any litigation that has been or may be brought against us, our results of operations, cash flow and financial condition could be materially and adversely affected and you could lose your investment.

Except with respect to currency conversion litigations, we have not established reserves for any of the legal proceedings in which we are currently involved and we are unable to estimate at this time the amount of charges, if any, that may be required to provide reserves for these matters in the future. We may determine in the future that a charge for all or a portion of any of our legal proceedings is required, including charges related to legal fees. In addition, we may be required to record an additional charge if we incur liabilities in excess of reserves that we have previously recorded. Such charges, particularly in the event we may be found liable in a large class-action lawsuit or on the basis of an antitrust claim entitling the plaintiff to treble damages or under which we were jointly and severally liable, could be significant and could materially and adversely affect our results of operations, cash flow and financial condition and result in a significant reduction in the value, or the loss, of your investment. A plaintiff in one of our antitrust litigations has asserted in a written communication that the damages it believes it is likely to recover in its lawsuit will exceed our capital and ability to pay and that the damages in such lawsuit and in our other pending litigations are likely to be in the billions of dollars before trebling. See Business Legal Proceedings.

Limitations on our business and other penalties resulting from litigation or litigation settlements may materially and adversely affect our revenue and profitability.

As a result of antitrust litigation that was brought against us by the U.S. Department of Justice, until October 15, 2006, we are required to permit issuers with which we have entered into business agreements in the United States before October 15, 2004 to terminate those agreements without penalty in order to enter into agreements with American Express or Discover. See Business Legal

Table of Contents

Proceedings Department of Justice Antitrust Litigation and Related Private Litigation. In addition, as a result of the settlement agreement in connection with the U.S. merchant lawsuit, merchants have the right to reject our debit cards in the United States while still accepting other MasterCard-branded cards, and vice versa. See Business Legal Proceedings U.S. Merchant Opt Out and Other Consumer Litigations. These limitations and any future limitations on our business resulting from litigation or litigation settlements could reduce the volume of business that we do with our customers, which may materially and adversely affect our revenue and profitability.

The payments industry is generally the subject of increasing global regulatory focus, which may impose costly new compliance burdens on us and our customers and lead to decreased transaction volumes through our systems.

We are subject to regulations that affect the payment industry in the many countries in which our cards are used. In particular, our customers are subject to numerous regulations applicable to banks and other financial institutions in the United States and abroad, and, consequently, MasterCard is at times affected by such regulations. Regulation of the payments industry, including regulation applicable to us and our customers, has increased significantly in recent years. For example, in 2002 MasterCard became subject to the regulatory requirements of Section 352(a) of the USA PATRIOT Act, which has required our customers and us to create and implement comprehensive anti-money laundering programs. Increased regulatory focus in this area could result in additional obligations or restrictions with respect to the types of products that we may offer to consumers, the countries in which our cards may be used, and the types of cardholders and merchants who can obtain or accept our cards.

We are also subject to regulations imposed by the U.S. Treasury Office of Foreign Assets Control (OFAC). While MasterCard has no business operations, subsidiaries or affiliated entities in Syria, Iran, Sudan, North Korea, Cuba or Libya, a limited number of financial institutions are licensed by MasterCard to issue cards or acquire merchant transactions in certain of these countries, which have each been identified by the U.S. State Department as terrorist-sponsoring states and are subject to OFAC restrictions. Our reputation may suffer due to our association with these countries, which in turn could have a material adverse effect on the valuation of our stock. Further, certain U.S. states have recently enacted legislation regarding investments by pension funds and other retirement systems in companies that have business activities or contacts with countries that have been identified as terrorist-sponsoring states and similar legislation may be pending in other states. As a result, pension funds and other retirement systems may be subject to reporting requirements with respect to investments in companies such as ours or may be subject to limits or prohibitions with respect to those investments that may materially and adversely affect our stock price.

The U.S. Congress is also presently considering regulatory initiatives in the areas of Internet gambling, Internet prescription drug purchases, copyright and trademark infringement and interchange fees, among others, that could impose additional compliance burdens on us and/or our customers. Most U.S. states are considering a variety of similar legislation. If implemented, these initiatives may require us or our customers to monitor, filter, restrict, or otherwise oversee various categories of payment card transactions, thereby increasing our costs or decreasing our transaction volumes. Various regulatory agencies are also considering regulations covering identity theft, account management guidelines, disclosure rules, security, and marketing that would impact our customers directly, in part due to increased scrutiny of our customers underwriting standards. These new requirements may restrict our customers ability to extend credit through the use of payment cards, which could decrease our transaction volumes. In some circumstances, new regulations could have the effect of limiting our customers ability to offer new types of payment programs or restricting their ability to offer existing programs such as stored value cards, which could materially and adversely reduce our revenues and revenue growth.

In addition, in 2004 and 2005, a number of regulations were issued implementing the Fair and Accurate Credit Transactions Act which, among other things, makes permanent the preemptive effect

17

Table of Contents

of several key provisions of the Fair Credit Reporting Act that could have a material impact on our customers businesses. Additional implementing regulations are anticipated later this year. One such regulation pertaining to risk-based pricing could have a significant impact on the application process for credit cards, resulting in increased costs of issuance and/or a decrease in the flexibility of card issuers to set the price of credit. Regulators and Congress have also increased their scrutiny of our customers pricing of credit. Any legislative or regulatory restrictions on our customers ability to price credit freely could result in reduced amounts of credit available to consumers, which could materially and adversely affect our transaction volume and revenues.

Increased regulatory focus on us, such as in connection with the matters discussed above, may increase our costs, which could materially and adversely impact our financial performance. Similarly, increased regulatory focus on our customers may cause them to reduce the volume of transactions processed through our systems, which would reduce our revenues materially and adversely impact our financial performance.

Existing and proposed regulation in the areas of consumer privacy and data use and security could decrease the number of payment cards issued and could increase our costs.

We and our customers are also subject to regulations related to privacy and data use and security in the jurisdictions in which we do business, and we and our customers could be negatively impacted by these regulations. For example, in the United States, we and our customers are subject to the Federal Trade Commission s information safeguards rule under the Gramm-Leach-Bliley Act. The rule requires that each financial institution (including us) develop, implement and maintain a written, comprehensive information security program containing safeguards that are appropriate to the financial institution s size and complexity, the nature and scope of the financial institution s activities, and the sensitivity of any customer information at issue. In 2005, there has been a heightened legislative and regulatory focus on data security, including requiring consumer notification in the event of a data breach. In the United States, there are a number of bills pending in Congress and there have been several congressional hearings to address these issues. Congress will likely consider data security/data breach legislation in 2005 or 2006 which, if implemented, could affect us and our customers. In addition, a number of states have enacted security breach legislation, requiring varying levels of consumer notification in the event of a security breach, and several other states are considering similar legislation.

In Europe, the European Parliament and Council have passed the European Directive 95/46/EC on the protection of individuals with regard to the processing of personal data and on the free movement of such data, which obligates the controller of an individual s personal data to take the necessary technical and organizational measures to protect personal data. The Directive has been implemented through local laws regulating data protection in European Union member states to which we and our customers are subject.

Regulation of privacy and data use and security in these and other jurisdictions may increase the costs of our customers to issue payment cards, which may decrease the number of our cards that they issue. Any additional regulations in these areas may also increase our costs to comply with such regulations, which could materially and adversely affect our profitability. Finally, failure to comply with the privacy and data use and security laws and regulations to which we are subject could result in fines, sanctions or other penalties, which could materially and adversely affect our results of operations and overall business.

Business Risks

We face increasingly intense competitive pressure on the prices we charge our customers, which may materially and adversely affect our revenue and profitability.

We generate revenue from the fees that we charge our customers for providing transaction processing and other payment-related services and from assessments on the dollar volume of activity on cards carrying our brands. In order to increase transaction volumes, we seek to enter into business

Table of Contents

agreements with customers through which we offer incentives, pricing discounts and other support to issue and promote our cards. In order to stay competitive, we may have to increase the amount of these incentives and pricing discounts. Over the past several years, we experienced continued pricing reductions. The demand from our customers for better pricing arrangements and greater rebates and incentives moderates our growth. We may not be able to continue our expansion strategy, to process additional transaction volumes or to provide additional services to our customers at levels sufficient to compensate for such lower fees or increased costs in the future, which could materially and adversely affect our revenue and profitability. In addition, increased pressure on prices enhances the importance of cost containment and productivity initiatives in areas other than those relating to customer incentives. We may not succeed in these efforts.

Our strategy is to grow our business by, among other things, focusing on our key customers and entering into customized business agreements with key customers around the globe. We may in the future not be able to enter into such agreements on terms that we consider favorable, and we may be required to modify existing agreements in order to maintain relationships and to compete with others in the industry. Some of our competitors are larger or have greater financial resources than we do. In addition, to the extent that we offer discounts or incentives under such agreements, we will need to further increase transaction volumes or the amount of services provided thereunder in order to benefit incrementally from such agreements and to increase revenue and profit. Furthermore, a number of customers from which we earn substantial revenue are principally aligned with one of our competitors. A significant loss of revenue or transaction volumes from these customers could have a material adverse impact on our business.

Consolidation or other changes affecting the banking industry could result in a loss of business for MasterCard and may create pressure on the prices we charge our customers, which may materially and adversely affect our revenue and profitability.

Over the last several years, the banking industry has undergone rapid consolidation, and we expect this trend to continue in the future. Consolidation represents a competitive threat to us because our strategy contemplates entering into business agreements with our largest customers in exchange for significant business commitments. Significant ongoing consolidation in the banking industry may result in a financial institution with a substantial MasterCard portfolio being acquired by an institution that has a strong relationship with a competitor, resulting in the loss of business for MasterCard. For example, Bank of America has recently announced its intention to acquire MBNA Corp., an issuer with a larger proportion of its card portfolio devoted to MasterCard than Bank of America. In addition, one or more of our customers could seek to merge with, or acquire, one of our competitors, and any such transaction could have a material adverse impact on our business and prospects.

The continued consolidation in the banking industry also produces a smaller number of larger customers, which generally have a greater ability to negotiate pricing discounts with MasterCard. In addition, consolidations could prompt our customers to renegotiate our business agreements to obtain more favorable terms. This pressure on the prices we charge our customers could materially and adversely affect our revenue and profitability.

In addition, changing regulatory environments in certain regions may lead us to change our pricing arrangements and could reduce our overall revenues.

Our revenue would decline significantly if we lose one or more of our most significant customers, which could have a material adverse impact on our business.

Most of our customer relationships are not exclusive and in certain circumstances may be terminated by our customers. Our customers can reassess their commitments to us at any time in the future and/or develop their own competitive services. Until October 15, 2006, we are required to permit issuers with which we have entered into business agreements in the United States before October 15, 2004 to terminate those agreements without penalty in order to enter into agreements with American Express or Discover as a result of the antitrust litigation that was brought against us by the U.S. Department of Justice. See Business Legal Proceedings Department of Justice Antitrust Litigation and Related Private Litigation. Accordingly, our business agreements with customers may not reduce the risk inherent in our business that customers may terminate their relationships with us in favor of our competitors, or for other reasons, or might not meet their contractual obligations to us.

In addition, a significant portion of our revenue is concentrated among our five largest customers. In 2004, these customers represented an aggregate of approximately $928 million, or 36%, of total revenue. For the first nine months of 2005, these customers represented an aggregate of approximately $742 million, or 33%, of total revenue. One of our large customers, JPMorgan Chase Bank and its affiliates, generated 12% of our consolidated revenue in 2004 and 10% in the first nine months of 2005. JPMorgan Chase Bank also acts as our U.S. settlement bank and has a significant commitment under our revolving credit facility. Loss of business from JPMorgan Chase Bank or any of our other large customers could have a material adverse impact on our business.

Merchants are increasingly focused on the costs of accepting card-based forms of payment, which may lead to additional litigation and regulatory proceedings and may increase the costs of our incentive programs, which could materially and adversely affect our profitability.

We rely on merchants and their relationships with our customers to expand the acceptance of our cards. We believe that consolidation in the retail industry is producing a set of larger merchants with increasingly global scope. These merchants are having a significant impact on all participants in the global payments industry, including MasterCard. For instance, as a result of the settlement agreement in connection with the U.S. merchant lawsuit, merchants have the right to reject our debit cards in the United States while still accepting other MasterCard-branded cards, and vice versa. See Business Legal Proceedings U.S. Merchant Opt Out and Consumer Litigations. In addition, some large merchants are supporting many of the legal and regulatory threats to interchange fees that MasterCard is now defending, since interchange fees represent a significant component of the costs that merchants pay to accept payment cards. See Interchange fees are subject to increasingly intense legal and regulatory scrutiny worldwide, which may have a material adverse impact on our revenue, our prospects for future growth and our overall business. The increasing focus of merchants on the costs of accepting cash-based forms of payment may lead to additional litigation and regulatory proceedings. Large merchants are also able to negotiate pricing discounts and other incentives from us and our customers in order to accept our payment cards. As merchants consolidate and become even larger, we may have to increase the amount of incentives that we provide to certain merchants, which could materially and adversely affect our revenues and profitability.

Our operating results may suffer because of substantial and increasingly intense competition worldwide in the global payments industry.

The global payments industry is highly competitive. Our payment programs compete against all forms of payment, including paper-based transactions (principally cash and checks), electronic transactions such as wire transfers and Automated Clearing House payments and other electronic forms of payment, including card-based payment systems. See Business Competition. Some of our competitors have developed, or may develop, substantially greater financial and other resources than we have, may offer a wider range of programs and services than we offer or may use more effective advertising and marketing strategies to achieve broader brand recognition or merchant acceptance than we have. We may not continue to be able to compete effectively against these threats. In addition, our competitors may be more efficient in introducing innovative programs and services than we are. As a result, our revenue or profitability may decline.

20

Table of Contents

We have repealed our Competitive Programs Policy as a result of a final judgment in our litigation with the U.S. Department of Justice, and our business may suffer as a result.

Based on a final judgment of our litigation with the U.S. Department of Justice, in October 2004 we repealed our CPP, which prohibited financial institutions participating in our system from issuing competing proprietary payment cards. See Business Legal Proceedings Department of Justice Antitrust Litigation and Related Private Litigation. As a result, our issuers are now permitted to issue general purpose credit or debit cards in the United States on any other general purpose card network (such as American Express or Discover). This may cause our members to issue fewer cards with our brand and to enter into arrangements with our competitors to issue cards, thereby reducing the volume of transactions that we process, decreasing our revenues. A number of our large customers, including MBNA Corporation, Citibank and GE Finance, have announced that they will issue American Express or Discover-branded cards. Accordingly, the repeal of the CPP may have a material adverse affect on our business, revenue and profitability.

We depend significantly on our relationships with our customers to manage our payment system. If we are unable to maintain those relationships, or if our customers are unable to maintain their relationships with cardholders or merchants that accept our cards for payment, our business may be materially and adversely affected.

We are, and will continue to be, significantly dependent on our relationships with our issuers and acquirers and their further relationships with cardholders and merchants to support our programs and services. We do not issue cards, extend credit to cardholders or determine the interest rates (if applicable) or other fees charged to cardholders using cards that carry our brands. Each issuer determines these and most other competitive card features. In addition, we do not solicit merchants to process transactions or establish the discount rate that merchants are charged for card acceptance, which are responsibilities of our acquirers. As a result, our business significantly depends on the continued success and competitiveness of our issuer and acquirer customers. In turn, our customers success depends on a variety of factors over which we have little or no influence. If our customers become financially unstable, we may lose revenue or we may be exposed to settlement risk as described below.

With the exception of the United States and a select number of other jurisdictions, most in-country (as opposed to cross-border) transactions conducted using MasterCard, Maestro and Cirrus cards are authorized, cleared and settled by our customers or other processors without involving our central processing systems. Because we do not provide domestic processing services in these countries and do not, as described above, have direct relationships with cardholders or merchants, we depend on our close working relationships with our customers to effectively manage our brands, together with the perception of our payment system, among regulators, merchants and consumers in these countries. From time to time, our customers may take actions that we do not believe to be in the best interests of our payment system overall, which may materially and adversely impact our business. In addition, our competitors may process a greater percentage of domestic transactions in jurisdictions outside the United States than we do. As a result, our inability to control the end-to-end processing on cards carrying our brands in many markets may put us at a competitive disadvantage by limiting our ability to introduce value-added programs and services that are dependent upon us processing the underlying transactions.

We rely on the continuing expansion of merchant acceptance of our brands and programs. Although our business strategy is to invest in strengthening our brands and expanding our acceptance network, there can be no guarantee that our efforts in these areas will continue to be successful. If the rate of merchant acceptance growth slows or reverses itself, our business could suffer.

If we are unable to grow our debit business, particularly in the United States, we may fail to maintain and increase our revenue growth.

In recent years, we believe that industry-wide offline and online debit transactions have grown more rapidly than credit or charge transactions. However, in the United States, we believe that transactions involving our brands account for a smaller share of all offline, signature-based debit transactions than they do credit or charge transactions. In addition, many of our competitors process a greater number of online, PIN-based debit transactions at the point of sale than we do, since our Maestro brand has relatively low market penetration in the United States. We may not be able to increase our market penetration for debit transactions in the United States since many of our competitors have long-standing and strong market positions. We may also be impacted adversely by any tendency among U.S. consumers or financial institutions to migrate from offline, signature-based debit transactions to online, PIN-based transactions, because the latter types of transactions are more likely to be processed by other ATM/debit point-of-sale networks. In addition, we generally earn higher revenues on point-of-sale purchase transactions than on cash access transactions, and on domestic credit and offline debit transactions than on comparable online debit transactions.

Furthermore, in June 2003, following the settlement of the U.S. merchant lawsuit, Visa enacted a bylaw requiring its 100 largest issuers of debit cards in the United States to pay a so-called settlement service fee if these issuers reduce their debit Visa volume by more than 10%. This bylaw was later modified to clarify that the settlement service fee would only be imposed if an issuer shifted its portfolio of debit cards to MasterCard. See Business Legal Proceedings Department of Justice Antitrust Litigation and Related Private Litigation for a description of our response to this bylaw provision. If Visa is permitted to impose this settlement service fee on issuers of debit cards according to this bylaw, it would penalize Visa members seeking to do debit business with MasterCard and would effectively prohibit them from converting their debit card programs to our programs.

Any of these factors may inhibit the growth of our debit business, which could materially and adversely affect our revenues and overall prospects for future growth.

The changes to our governance structure in connection with this offering could have a material adverse effect on our business relationship with our members.

A number of our key customers are currently represented on our board of directors. Upon the consummation of this offering, the organization and composition of our board of directors will be substantially restructured. In particular, our certificate of incorporation will be amended to provide that, with the exception of the directors to be elected by the holders of our Class M common stock, any person who is or has been during the prior three years a director, officer, employee, agent or representative of, or otherwise has any business relationship that is material to such person with, a member or former member of MasterCard International, or of an operator, member, or licensee of any competing general purpose payment card system, or any affiliate of such person, may not serve as a director of MasterCard. In addition, our members will be able to own only Class B common stock, which has no voting power, and Class M common stock, which is generally non-voting except that it provides the right to elect up to three directors (but not more than one-quarter of all directors) and approve specified significant corporate actions. If certain of our members are dissatisfied with these changes to our corporate governance structure, this could have a material adverse effect on our business relationship with them and they may elect to instead do business with a competitor with a different governance structure. In addition, our members ownership in our company will be reduced substantially in connection with this offering. The reduced ownership may reduce their interest in the continued success of our business. A significant loss of revenue or transaction volumes from our members could have a material adverse effect on our business.

Table of Contents

Global economic, political and other conditions may adversely affect trends in consumer spending and in cross-border travel, which may materially and adversely impact our revenue and profitability.

The global payments industry depends heavily upon the overall level of consumer, business and government spending. A sustained deterioration in general economic conditions, particularly in the United States or Europe, or increases in interest rates in key countries in which we operate, may adversely affect our financial performance by reducing the number or average purchase amount of transactions involving payment cards carrying our brands. In addition, a significant portion of the volume generated on cards carrying our brands (and a significant portion of the revenue we earn outside the United States) are associated with cross-border business and leisure travel, which may be adversely affected by world geopolitical, economic and other conditions, including the threat of terrorism and outbreak of diseases such as SARS and avian flu. In particular, revenue from processing foreign currency transactions for our customers fluctuates with cross border travel and our customers need for transactions to be converted into their base currency.

As a guarantor of certain obligations of principal members and affiliate debit licensees, we are exposed to risk of loss or illiquidity if any of our members default on their MasterCard, Cirrus or Maestro settlement obligations.

We may incur liability in connection with transaction settlements if an issuer or acquirer fails to fund its daily settlement obligations due to technical problems, liquidity shortfall, insolvency or other reasons. If a principal member or affiliate debit licensee is unable to fulfill its settlement obligations to other members, we may bear the loss even if we do not process the transaction. In addition, although we are not contractually obligated to do so, we may elect to keep merchants whole if an acquirer defaults on its merchant payment obligations, in order to maintain the integrity and acceptance of our brands. Our estimated gross legal settlement exposure, which is calculated using the average daily card charges made during the quarter multiplied by the estimated number of days to settle, was approximately $14.6 billion as of September 30, 2005. We have a revolving credit facility in the amount of $2.25 billion to provide liquidity in the event of one or more settlement failures by our members. While we believe that we have sufficient liquidity to cover a settlement failure by any of our largest customers on their peak day, concurrent settlement failures of more than one of our largest customers or of several of our smaller customers may exceed our available resources and could materially and adversely affect our business and financial condition. In addition, even if we have sufficient liquidity to cover a settlement failure, we may not be able to recover the cost of such a payment and may therefore be exposed to significant losses, which could materially and adversely affect our results of operations, cash flow and financial condition. For more information on our settlement exposure as of September 30, 2005, see Note 15 to our interim consolidated financial statements.

Upon completion of this offering, we will no longer have the right to impose special assessments upon the members of MasterCard International, which could leave us exposed to significant losses that could materially and adversely affect our results of operations, cash flow and financial condition.

In connection with this offering, the certificate of incorporation and the bylaws of MasterCard International will be amended to eliminate the right of MasterCard International to impose special assessments upon its members. This special assessment right allows MasterCard International to recover all or a portion of its expenses and liabilities arising out of extraordinary events, such as settlements or judgments in major litigations and catastrophic occurrences that may cause significant risk or damage to MasterCard. The loss of this special assessment right accordingly leaves us exposed to significant risks and losses from these types of extraordinary events and could materially and adversely affect our results of operations, cash flow and financial condition.

Table of Contents

Standard and Poor s Rating Services has announced that they will downgrade our credit rating upon completion of this offering, which will result in an increase of our interest expense for borrowings under our credit facility. Further downgradings of our credit ratings could materially and adversely affect our future ability to obtain funding or materially increase the cost of any additional funding.

Due to the loss of MasterCard International s right to impose special assessments upon its members in connection with this offering, Standard & Poor s Rating Services expects to lower our counterparty credit ratings from A-/A-2 with negative outlook to BBB+/A-2 with stable outlook and our subordinated debt rating from BBB+ with negative outlook to BBB with stable outlook. Until the completion of this offering, our existing ratings will remain on credit watch with negative outlook. The expected downgrading will result in an increase of our interest expense if borrowings were necessary under our credit facility. In addition, further downgradings of our credit ratings by Standard & Poor s Rating Services or by any other rating agency could materially and adversely affect our future ability to obtain funding or materially increase the cost of any additional funding.

If our transaction processing systems are disrupted or we are unable to process transactions efficiently or at all, our revenue or profitability would be materially reduced.

Our transaction authorization, clearing and settlement systems may experience service interruptions as a result of fire, natural disasters, power loss, disruptions in long distance or local telecommunications access, fraud, terrorism or accident. Most of our transaction processing systems are controlled by a single facility, supported by a separate smaller co-processing facility. A natural disaster or other problem at our primary and/or back-up facilities or our other owned or leased facilities could interrupt our services. Additionally, we rely on third-party service providers, such as AT&T, for the timely transmission of information across our global data transportation network. If a service provider fails to provide the communications capacity or services we require, as a result of natural disaster, operational disruption, terrorism or any other reason, the failure could interrupt our services, adversely affect the perception of our brands reliability and materially reduce our revenue or profitability.

Account data breaches involving card data stored by us or third parties could adversely affect our reputation and revenue.

We, our customers, and other third parties store cardholder account information in connection with our payment cards. In addition, our customers may sponsor third-party processors to process transactions generated by cards carrying our brands. Breach of the systems on which sensitive cardholder data and account information are stored could lead to fraudulent activity involving our cards, damage the reputation of our brands and lead to claims against us. For example, in 2005, a third-party processor that held account information for card payment companies, including us, was subject to a security breach in connection with card and account information for approximately 40 million cards, approximately 10.1 million of which were MasterCard cards. As a result, we have been named in a lawsuit claiming unspecified damages and may be subject to additional lawsuits in connection with data security breaches involving payment cards carrying our brands. If we are unsuccessful in defending lawsuits involving such data security breaches, we may be forced to pay damages, which could materially and adversely affect our profitability. In addition, any damage to our reputation or that of our brands resulting from an account data breach could decrease the use and acceptance of our cards, which could have a material adverse impact on our transaction volumes, revenue and future growth prospects, or increase our costs by leading to additional regulatory burdens being imposed upon us.

An increase in fraudulent activity using our cards could lead to reputational damage to our brands and could reduce the use and acceptance of our cards

Criminals are using increasingly sophisticated methods to capture cardholder account information to engage in illegal activities such as fraud and identity theft. As outsourcing and specialization become

Table of Contents

a more acceptable way of doing business in the payments industry, there are more third parties involved in processing transactions using our cards. If fraud levels involving our cards were to rise, it could lead to regulatory intervention (such as mandatory card reissuance) and reputational and financial damage to our brands, which could reduce the use and acceptance of our cards or increase our compliance costs, and thereby have a material adverse impact on our business.

If we are not able to keep pace with the rapid technological developments in our industry to provide customers, merchants and cardholders with new and innovative payment programs and services, the use of our cards could decline, which would reduce our revenue and income.

The payment card industry is subject to rapid and significant technological changes, including continuing developments of technologies in the areas of smart cards, radio frequency and proximity payment devices (such as contactless cards), electronic commerce and mobile commerce, among others. We cannot predict the effect of technological changes on our business. We rely in part on third parties, including some of our competitors and potential competitors, for the development of and access to new technologies. We expect that new services and technologies applicable to the payments industry will continue to emerge, and these new services and technologies may be superior to, or render obsolete, the technologies we currently use in our card programs and services. In addition, our ability to adopt new services and technologies that we develop may be inhibited by a need for industry-wide standards or by resistance from customers or merchants to such changes. Our future success will depend, in part, on our ability to develop or adapt to technological changes and evolving industry standards.

Adverse currency fluctuations and foreign exchange controls could decrease revenue we receive from our international operations.

During 2004 and the first nine months of 2005, approximately 42% and 46% of our revenue, respectively, was generated from activities outside the United States. Some of the revenue we generate outside the United States is subject to unpredictable and indeterminate fluctuations if the values of other currencies change relative to the U.S. dollar. Resulting exchange gains and losses are included in our net income. Our risk management activities provide protection with respect to adverse changes in the value of only a limited number of currencies. Furthermore, we may become subject to exchange control regulations that might restrict or prohibit the conversion of our other revenue currencies into U.S. dollars. The occurrence of any of these factors could decrease revenues we receive from our international operations and have a material adverse impact on our business.

Competing dynamic currency conversion services could reduce the volume of foreign currency transactions we process or force us to change our pricing or practices, which may materially and adversely affect our business.

Some of our members and competitors provide currency conversion services at the point of sale, known as dynamic currency conversion. Dynamic currency conversion services could, if significant numbers of cardholders choose to use them, replace our own currency conversion processing services or could force us to change our pricing or practices for these services. If we process fewer transactions or are forced to change our pricing or practices for our currency conversion processing because of competing dynamic currency conversion services or otherwise, our revenue may be materially and adversely affected.

Table of Contents

Our assessment revenues that are based on quarterly GDV are recorded utilizing an estimate of our customers performance. Material changes in our customers performance compared to estimates could require us to restate our financial statements for prior periods, which could have a material adverse impact on our results of operations and stock price.

Our assessment revenues that are based on quarterly GDV are recorded utilizing an estimate of our customers performance. Such estimates are subsequently validated against actual performance as reported by our customers, and differences are ordinarily adjusted in the period in which the customer reports actual results. Rebates and incentives, which are recorded as contra-revenue, are also estimated based on customer performance. Material changes in our customers performance compared to estimates, or revisions to performance information subsequently reported by our customers in accordance with the MasterCard rules, could require us to restate our financial statements for prior periods. Any such restatements could have a material adverse impact on our results of operations and on the price of our Class A common stock.

Any acquisitions that we make could disrupt our business and harm our financial condition.

We may evaluate or make strategic acquisitions of complementary businesses, products or technologies. We may not be able to successfully finance or integrate any such businesses, products or technologies. Furthermore, the integration of any acquisition may divert management s time and resources from our core business and disrupt our operations. We may spend time and money on projects that do not increase our revenue. To the extent we pay the purchase price of any acquisition in cash, it would reduce our cash reserves, including the proceeds from this offering available to us for other uses, and to the extent the purchase price is paid with our stock, it could be dilutive to our stockholders. While we from time to time evaluate potential acquisitions of businesses, products and technologies, and anticipate continuing to make these evaluations, we have no present understandings, commitments or agreements with respect to any material acquisitions.

We expect to record a significant net loss for the first quarter of 2006 as a result of the donation of shares of our Class A common stock and cash to The MasterCard Foundation.

At the time of this offering, we intend to donate 13,500,047 newly-issued shares of the new Class A common stock, representing approximately 10% of our equity, to The MasterCard Foundation, a private charitable foundation to be incorporated in Canada. We also expect to donate an estimated $40 million in cash to the Foundation in support of its operating expenses and charitable giving for the first four years of its operations, and we may make additional cash contributions to the Foundation after this period. Because the Foundation s operations are currently being established, the overall size and timing of our expected initial cash donation have not been finally determined. This donation may be paid proportionally over the first four years of the Foundation s operations. After four years, the Foundation will be permitted to sell Class A common stock to the extent necessary to satisfy its charitable giving requirements.

We expect to make an application to the Canadian tax authorities to allow the Foundation s annual charitable giving requirements to be delayed for a period of up to 10 years. If this application is not granted, the amount of cash to be contributed to the Foundation may need to be increased in order to permit the Foundation to satisfy its annual charitable giving requirements during the first four years of its existence, to the extent such requirements cannot otherwise be satisfied from dividends, if any, paid on the Class A common stock. For a description of our proposed dividend policy, see Dividend Policy. Absent approval of MasterCard s application, Canadian tax law would require the Foundation to distribute 3.5% of its assets not used directly in its charitable activities or administration per year in qualified charitable giving. For purposes of determining asset value, the Class A common stock held by the Foundation is expected to be valued on the basis of the average market price of the stock over a 24 month period, discounted by an appropriate factor to account for the resale limitations imposed on the Class A common stock held by the Foundation.

Table of Contents

In connection with the donation of shares of the Class A common stock, we expect to record an expense that is equal to the value of the shares we are donating, which expense will generally not be deductible for tax purposes. The value of the shares of Class A common stock we donate will be determined based on the initial public offering price per share of Class A common stock in this offering less a marketability discount of %. This marketability discount will be determined by independent valuation consultants to be retained by MasterCard. Based on an initial public offering price per share of $ (the mid-point of the price range set forth on the cover page of this prospectus), we expect to record an expense of $. As a result of this expense, we expect to record a significant net loss for the three months ended March 31, 2006 and may record a net loss for the 2006 fiscal year. As a result of the difference between the financial statement treatment and tax treatment of the donation, we expect there to be a significant increase to our effective tax rate in the period in which the transaction closes and for that fiscal year. We also expect to record an expense equal to the value of any cash we donate in the period or periods in which such donation or donations are made. See Management s Discussion and Analysis of Financial Condition and Results of Operations Impact of Offering Transactions.

Changes in the regulatory environment may adversely affect our benefit plans.

We provide certain retirement benefits to our U.S. employees through the MasterCard Accumulation Plan (MAP), a cash balance benefit plan. In 2003, a U.S. federal district court ruled that IBM cash balance pension plan violated the age discrimination provisions of ERISA. If this decision is upheld on appeal and applied to cash balance plans generally, we may be required to amend the MAP and, like other U.S. companies with cash balance plans, may be exposed to claims from plan participants. These developments could have a material adverse impact on our results of operations.

Risks Related to Our Class A Common Stock and This Offering

There may not be an active trading market for shares of our Class A common stock, which may cause our Class A common stock to trade at a discount from its initial offering price and make it difficult to sell the shares you purchase.

Prior to this offering, there has been no public trading market for shares of our Class A common stock. Although we intend to apply to list our Class A common stock on the NYSE, it is possible that, after this offering, an active trading market will not develop or continue. The initial public offering price per share of our Class A common stock will be determined by agreement among us and the representative of the underwriters, and may not be indicative of the price at which the shares of our Class A common stock will trade in the public market after this offering.

Future sales of our shares of Class A common stock could depress the market price of our Class A common stock.

The market price of our Class A common stock could decline as a result of sales of a large number of shares in the market after the offering or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us or you to sell equity securities in the future. Upon completion of this offering, we will have 75,035,145 outstanding shares of Class A common stock (or 79,650,277 shares if the underwriters exercise their option to purchase additional shares in full), of which 61,535,098 shares (or 66,150,230 shares if the underwriters exercise their option to purchase additional shares in full) will have been sold in this offering and may be resold immediately in the public market and 13,500,047 shares will have been issued as a donation to The MasterCard Foundation and, under the terms of the donation, may be resold by The MasterCard Foundation commencing on the fourth anniversary of the consummation of this offering to the extent necessary to comply with charitable giving requirements. In addition, The MasterCard Foundation will be permitted to sell all of the remaining shares held by it starting twenty years and eleven months after the consummation of this offering.

Table of Contents

Also, in the event that the underwriters do not exercise in full their option to purchase up to an additional 4,615,132 shares of Class A common stock from us in connection with this offering, our certificate of incorporation will require us, subject to applicable law and to the board of directors fiduciary duties, prior to the time of our 2007 annual meeting of stockholders, to issue additional shares of Class A common stock in a public offering and to use the proceeds from such offering to redeem additional shares of Class B common stock so that, immediately following such subsequent offering and redemption, our existing stockholders will own approximately 41% of the aggregate number of shares of Class A common stock and Class B common stock at that time. Accordingly, if the underwriters do not exercise their option to purchase additional shares from us and we neither issue nor repurchase any shares following the offering transactions, we would be required to issue an additional 4,615,132 shares of Class A common stock (and to redeem an equivalent number of shares of Class B common stock) in connection with such subsequent offering.

In addition, immediately following the offering transactions, our existing stockholders will hold 59,965,325 shares of our Class B common stock (or 55,350,193 shares if the underwriters exercise their option to purchase additional shares in full), each of which will, commencing on the fourth anniversary of the consummation of this offering, be convertible for shares of our Class A common stock on a one-for-one basis, subject to certain rights of first refusal by the other holders of Class B common stock. All of the shares of Class A common stock issuable upon conversion of such shares will be freely tradable without restriction or registration under the Securities Act by persons other than our affiliates. These future sales, or the perception that such sales may occur, could depress the market price of our Class A common stock.

We and our directors and executive officers have agreed with the underwriters not to dispose of or hedge any of our Class A common stock or securities convertible into or exchangeable for shares of our Class A common stock, subject to specified exceptions, during the period from the date of this prospectus continuing through the date 180 days after the date of this prospectus, except with the prior written consent of Goldman, Sachs & Co. Subject to these agreements, we may issue and sell in the future additional shares of Class A common stock.

Because a substantial portion of the proceeds from this offering will be used to redeem shares of Class B common stock, we will not have any of those proceeds available to invest in our business.

We estimate that our proceeds from this offering (based on an initial public offering price of $ per share), after deducting underwriting discounts and estimated offering expenses, will be approximately $, or $ if the underwriters exercise their option to purchase additional shares in full. We intend to use all but $650 million of our net proceeds from this offering (including any proceeds received pursuant to the underwriters option to purchase additional shares) to redeem a number of shares of Class B common stock from our existing stockholders that is equal to the aggregate number of shares of Class A common stock that we issue to investors in this offering (including any shares sold pursuant to the underwriters option to purchase additional shares) and to The MasterCard Foundation. We intend to use the remaining proceeds to increase our capital. We will not have any of the proceeds from this offering that we use to redeem shares of our Class B common stock available to us to invest in and grow our business. See Use of Proceeds.

Anti-takeover provisions in our charter documents and Delaware law could delay or prevent entirely a takeover attempt or a change in control.

Provisions contained in our amended and restated certificate of incorporation and bylaws and Delaware law could delay or prevent entirely a merger or acquisition that our stockholders consider favorable. These provisions may also discourage acquisition proposals or have the effect of delaying or preventing entirely a change in control, which could harm our stock price. For example, subject to

Table of Contents

limited exceptions, our amended and restated certificate of incorporation will prohibit any person from beneficially owning more than 15% of any of the Class A common stock, the Class B common stock or any other class or series of our stock with general voting power, or more than 15% of our total voting power. Further, no member or former member of MasterCard International, or any operator, member or licensee of any competing general purpose payment card system, or any affiliate of any such person, may beneficially own any share of Class A common stock or any other class or series of our stock entitled to vote generally in the election of directors. In addition,

- our board of directors will be divided into three classes, with approximately one-third of our directors elected each year;
- up to three of our directors (but no more than one-quarter of all directors) will be elected by the holders of our Class M common stock;
- any representative of a competitor of MasterCard or of The MasterCard Foundation will be disqualified from service on our board of directors;
- our directors, other than the directors elected by the holders of our Class M common stock (who may be removed without cause by the holders of the Class M common stock), may be removed only for cause and only upon the affirmative vote of at least 80% in voting power of all the shares of stock then entitled to vote at an election of directors, voting together as a single class;
- our stockholders are not entitled to the right to cumulate votes in the election of directors;
- holders of our Class A common stock are not entitled to act by written consent;
- our stockholders must provide timely notice for any stockholders proposals and director nominations;
- we have adopted limited liability provisions that eliminate the personal liability of directors and the members of our European Board for monetary damages for actions taken as a director or member, with certain exceptions; and
- a vote of 80% or more of all of the outstanding shares of our stock then entitled to vote is required to amend certain sections of our amended and restated certificate of incorporation and for stockholders to amend any provision of our bylaws.

See Description of Capital Stock Anti-Takeover Effects of Certain Provisions of Our Amended and Restated Certificate of Incorporation and Bylaws and Delaware Law Anti-Takeover Statute.

A substantial portion of our voting power will be held by The MasterCard Foundation, which will be restricted from selling shares for an extended period of time and may therefore not have the same incentive to approve a corporate action that may be favorable to the other public stockholders. In addition, the ownership of Class A common stock by The MasterCard Foundation and the restrictions on transfer could discourage or make more difficult acquisition proposals favored by the other holders of the Class A common stock.

Following completion of this offering, The MasterCard Foundation is expected to own 13,500,047 shares of Class A common stock, representing approximately 10% of our equity and 18% of our general voting power (or 17% of our general voting power if the underwriters exercise their option to purchase additional shares in full). Under the terms of the donation, The MasterCard Foundation may not sell or otherwise transfer its shares of Class A common stock prior to the date which is twenty years and eleven months following the consummation of this offering, except to the extent necessary to satisfy its charitable giving requirements starting on the fourth anniversary of the consummation of this offering. The five initial directors of The MasterCard Foundation will be selected by a three-member blue ribbon panel subject to certain limited veto rights of the Nominating and Corporate Governance

Table of Contents

Committee of our new board of directors. The blue ribbon panel will be selected by Messrs. Boudreau and Falcones, two of our current directors, and Mr. Selander, our Chief Executive Officer, and be comprised of individuals who satisfy the independence requirements for service on our board of directors. Thereafter, the continuing directors of the Foundation will, in consultation with, but not under the control of, the Nominating and Corporate Governance Committee, select successors to become directors of the Foundation at the end of any director s term of office or to fill any vacancy. The directors of the Foundation will be required to be independent of us and our members.

The ownership of Class A common stock by The MasterCard Foundation, together with the restrictions on transfer, could discourage or make more difficult acquisition proposals favored by the other holders of the Class A common stock. In addition, because The MasterCard Foundation will be restricted from selling its shares for an extended period of time, it may not have the same interest in short or medium-term movements in our stock price as, or incentive to approve a corporate action that may be favorable to, our other stockholders.

The holders of our Class M common stock have the right to elect up to three of our directors and to approve significant corporate transactions, and their interests in our business may be different than yours.

Our amended and restated certificate of incorporation will require us to obtain the approval of the holders of our Class M common stock, voting separately as a class, for a variety of enumerated items. For example, the approval of the holders of our Class M common stock will be required to make certain amendments to our certificate of incorporation, to approve the sale, lease or exchange of all or substantially all of our assets, to approve the consummation of mergers or consolidations of MasterCard or for us to cease to engage in the business of providing core network authorization, clearing and settlement services for branded payment card transactions. In addition, the holders of our Class M common stock will have the right to elect up to three of our directors. Because shares of the Class M common stock do not have any economic rights, the holders of the Class M common stock may not have the same incentive to approve a corporate action that may be favorable for the holders of Class A common stock, or their interests may otherwise conflict with yours. See Description of Capital Stock Common Stock Voting Rights. In addition, several of the underwriters in this offering are affiliated with our existing stockholders, which could present a conflict of interest since those underwriters may have an interest in the successful completion of this offering in addition to receiving underwriting discounts and commissions.

Certain aspects of our European operations will be managed by a European Board that will be elected by the European holders of Class M common stock and which may reach different decisions than our Global Board of Directors.

Certain aspects of our European operations, including review of membership applications, levying of fines and certain assessments and fees applicable to European members, establishment of intraregional operating rules, approval of the European annual expense budget, surplus funds, and implementation of certain intraregional product and enhancement developments and affinity and co-branding rules will be managed by or under the direction of our European Board. The European Board will be elected by holders of our Class M common stock who have their principal operations in Europe, and is expected to consist of representatives of our European members. Although our board of directors may, through a majority or a two-thirds vote depending on the circumstances, override decisions or temporarily assume any authority granted to the European Board, the European Board may reach different decisions than our board of directors would have reached on the same matter.

Table of Contents

Our ability to pay regular dividends to our holders of Class A common stock is subject to the discretion of our board of directors and will be limited by our ability to generate sufficient earnings and cash flows.

After consummation of this offering, we intend to pay cash dividends on a quarterly basis on our shares of Class A common stock and Class B common stock. Our board of directors may, in its discretion, decrease the level of dividends or discontinue the payment of dividends entirely. The payment of dividends will be dependent upon our ability to generate earnings and cash flows so that we may pay our obligations and expenses and pay dividends to our stockholders. However, sufficient cash may not be available to pay such dividends. Payment of future dividends, if any, would be at the discretion of our board of directors after taking into account various factors, including our financial condition, settlement guarantees, operating results and current and anticipated cash needs. If, as a consequence of these various factors, we are unable to generate sufficient earnings and cash flows from our business, we may not be able to make or may have to reduce or eliminate the payment of dividends on our shares of Class A common stock and Class B common stock.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements include, in particular, statements about our plans, strategies and prospects under the headings Summary, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Business. You can identify these forward-looking statements by the use of words such as outlook, believes, anticipates, expects, potential, continues, may, will, should, seeks, approximately, predicts, estimates, anticipates, or the negative version of these words or variations on these words and similar expressions. Such forward-looking statements are subject to various risks and uncertainties and are not guarantees of future performance. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe that these factors include, but are not limited to, those described under Risk Factors. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

Table of Contents

USE OF PROCEEDS

We estimate that our net proceeds from this offering of shares of Class A common stock (based on an assumed initial public offering price of $ per share), after deducting underwriting discounts and estimated offering expenses, will be approximately $ million (or $ million if the underwriters exercise their option to purchase additional shares in full). We intend to use all but $650 million of our net proceeds from this offering (including any proceeds received pursuant to the underwriters option to purchase additional shares) to redeem a number of shares of Class B common stock from our existing stockholders that is equal to the aggregate number of shares of Class A common stock that we issue to investors in this offering (including any shares sold pursuant to the underwriters option to purchase additional shares) and to The MasterCard Foundation. We intend to use the remaining proceeds to increase our capital, defend ourselves against legal and regulatory challenges, expand our role in targeted geographies and higher growth segments of the global payments industry and for other general corporate purposes.

Certain of the underwriters, including J.P. Morgan Securities Inc., Citigroup Global Markets Inc., HSBC Securities (USA) Inc., Harris Nesbitt Corp., Santander Investment Services S.A., KeyBanc Capital Markets and Deutsche Bank Securities Inc., are members or affiliates of members of MasterCard International and collectively will receive approximately % of the proceeds used for the redemption of Class B common stock described above. See Underwriting.

DIVIDEND POLICY

Upon completion of this offering, our board of directors currently intends to adopt a policy of declaring, subject to legally available funds, a quarterly cash dividend at an annual rate initially equal to $ per share unless our board of directors, in its sole discretion, determines otherwise, commencing with the quarter of 2006. However, sufficient cash may not be available to pay such dividends. Payment of future dividends, if any, would be at the discretion of our board of directors after taking into account various factors, including our financial condition, settlement guarantees, operating results and current and anticipated cash needs.

Table of Contents

CAPITALIZATION

The following table sets forth our consolidated capitalization as of September 30, 2005:

- on an actual basis; and
- on a pro forma as adjusted basis to give effect to:
  - the reclassification of our existing common stock into Class B common stock and Class M common stock;
  - the issuance and sale by us of 61,535,098 shares of Class A common stock in this offering, at an assumed initial public offering price of $ per share and after deducting estimated underwriting discounts, commissions and offering expenses;
  - the donation by us of 13,500,047 newly-issued shares of Class A common stock to The MasterCard Foundation; and
  - the redemption by us of 75,035,145 shares of Class B common stock, as described in Use of Proceeds.

You should read this table together with the other information contained in this prospectus, including Management s Discussion and Analysis of Financial Condition and Results of Operations and our unaudited interim consolidated financial statements and the notes to those statements.

	September 30, 2005	
	Actual	Pro forma as adjusted
	(in thousands)	
Cash and cash equivalents	$ 530,998	
Long-term debt	$ 229,460	
Stockholders equity:		
Class A redeemable common stock, $.01 par value	1,000	
Class A common stock, $.0001 par value		
Class B common stock, $.0001 par value		
Class M common stock, $.0001 par value		
Additional paid-in capital	973,619	
Retained earnings	198,423	
Accumulated other comprehensive income, net of tax	62,383	

Total stockholders equity	1,235,425	
Total Capitalization	$ 1,464,885	$

33

Table of Contents

SELECTED CONSOLIDATED FINANCIAL DATA

The statement of operations data presented below for the years ended December 31, 2004, 2003 and 2002, and balance sheet data as of December 31, 2004 and 2003, were derived from the audited consolidated financial statements of MasterCard Incorporated included in this prospectus. The statement of operations data presented below for the years ended December 31, 2001 and 2000, and balance sheet data as of December 31, 2002, 2001 and 2000, were derived from the audited consolidated financial statements of MasterCard International not included in this prospectus. The selected consolidated financial data presented below for the nine months ended September 30, 2005 and September 30, 2004 have been derived from the unaudited consolidated financial statements of MasterCard Incorporated included in this prospectus and, in the opinion of management, contain all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of our financial position and results of operations for such periods. Interim results for the nine months ended September 30, 2005 are not necessarily indicative of, and are not projections for, the results to be expected for the full year ending December 31, 2005. The results of MasterCard Europe s operations have been included in our consolidated statements of operations from June 28, 2002 to present. The data set forth below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the notes to those statements included in this prospectus.

	Year Ended December 31,					Nine Months Ended September 30,	
	2000	2001	2002(1)	2003	2004	2004	2005(2)
	(In thousands, except per share)						
Statement of Operations Data:							
Revenue	$ 1,445,409	$ 1,611,334	$ 1,891,811	$ 2,230,851	$ 2,593,330	$ 1,909,426	$ 2,221,710
General and Administrative	737,259	813,927	965,299	1,098,552	1,185,837	846,417	975,867
Advertising and Market Development	470,733	505,732	694,010	851,150	915,851	586,398	622,447
U.S. Merchant Lawsuit and Other Legal Settlements				763,460	21,653	18,008	48,188
Depreciation and Amortization	59,397	69,973	90,505	119,551	123,317	92,119	83,366
Operating Income (Loss)	178,020	221,702	141,997	(601,862)	346,672	366,484	491,842
Other Income (Expense)	22,211	11,237	16,391	(9,658)	(22,972)	(21,814)	3,704
Income (Loss) before cumulative effect of accounting change	118,149	142,061	116,429	(390,742)	238,060	236,790	319,627
Net Income (Loss)	118,149	142,061	116,429	(385,793)	238,060	236,790	319,627
Net Income (Loss) Per Share before cumulative effect of accounting change (Basic and Diluted)(3)	1.65	1.98	1.35	(3.91)	2.38	2.37	3.20
Net Income (Loss) Per Share (Basic and Diluted)(3)	1.65	1.98	1.35	(3.86)	2.38	2.37	3.20
Pro Forma Net Income Per Share (Basic and Diluted)(4)					1.76	1.75	2.37
Balance Sheet Data (at period end):							
Cash and Cash Equivalents	$ 125,503	$ 165,943	$ 218,575	$ 248,119	$ 328,996	$ 309,602	$ 530,988
Investment Securities current	439,266	504,443	653,349	662,391	808,893	806,626	860,570
Total Assets	1,187,060	1,486,305	2,260,875	2,900,905	3,264,670	3,177,200	3,670,362
Long-Term Debt	82,992	80,065	80,107	229,574	229,569	229,508	229,460
Obligations under U.S. Merchant Lawsuit and Other Legal Settlements, Long-term				516,686	468,547	555,353	503,470
Stockholders /Members Equity	462,408	606,661	1,023,406	698,721	974,952	926,136	1,235,425

Table of Contents

(1) On June 28, 2002, we converted from a membership to a stock company through the creation of MasterCard Incorporated, a new holding company. Also on June 28, 2002, MasterCard Incorporated directly and indirectly acquired all of the outstanding stock of Europay International S.A. In 2002, Europay International was renamed and reorganized in Belgium as MasterCard Europe sprl. Note 18 to our annual consolidated financial statements more fully describes these transactions.

(2) MasterCard is party to a number of currency conversion litigations. See Business Legal Proceedings. Based upon litigation developments and settlement negotiations in these cases and pursuant to Statement of Financial Accounting Standards No. 5, Accounting for Contingencies, MasterCard recorded an additional $48,188 of legal reserves in September 2005. Based on future developments, this estimate may be revised.

(3) As more fully described in Summary The Offering Transactions, prior to this offering we will reclassify all of our 100,000 outstanding shares of existing common stock so that our existing stockholders will receive 1.35 shares of our Class B common stock for each share of common stock that they held prior to the reclassification and a single share of our Class M common stock. Accordingly, shares and per share data will be retroactively restated in the financial statements subsequent to the reclassification to reflect the reclassification as if it were effective at the start of the first period being presented in the financial statements.

(4) Pro forma amounts give effect to the reclassification described above as if it were in place for the last fiscal year and interim periods presented.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements of MasterCard Incorporated and its consolidated subsidiaries, including MasterCard International and MasterCard Europe and the notes to those statements included elsewhere in this prospectus.

Overview

We are a global payment solutions company that provides a variety of services in support of our customers credit, debit and related payment programs. We manage a family of well-known, widely accepted payment card brands including MasterCard®, MasterCard Electronic, Maestro® and Cirrus®, which we license to our financial institution customers. As part of managing these brands, we also provide our customers with information and transaction processing services and establish and enforce rules and standards surrounding the use of our payment card system by customers and merchants. We generate revenues from the fees that we charge our customers for providing these transaction processing and other payment-related services (operations fees) and by charging assessments to our customers based on the gross dollar volume (GDV) of activity on the cards that carry our brands (assessments). Operations fees are typically transaction-based and include authorization, settlement and switch, connectivity, currency conversion, warning bulletins, and other fees for a variety of additional services. Assessments are based on GDV for a specific time period and the rates vary depending on the nature of the transactions that generate GDV. GDV includes the aggregated dollar amount of usage (purchases, cash disbursements, balance transfers and convenience checks) on MasterCard-branded cards. Our revenues are based upon transactional information accumulated by our systems or reported by our customers. Our operating expenses are comprised primarily of general and administrative expenses such as personnel, professional fees, data processing, telecommunications, travel and advertising and marketing expenses to promote our brands, including promotions and sponsorships.

Our liquidity and capital position are strong. We had $1.4 billion in cash, cash equivalents and available-for-sale securities, and $1.2 billion in stockholders equity as of September 30, 2005.

We achieved double-digit revenue growth of 16% in 2004 and in the first nine months of 2005 from each of the comparable periods in 2003 and 2004, respectively. Favorable foreign currency fluctuation from the euro to U.S. dollar in 2004 and the first nine months in 2005 contributed 2% and 1%, respectively, to revenue growth. The increases in revenues are due to higher gross usage on cards carrying our brands for goods and services, a larger number of transactions processed by MasterCard, higher cross-border travel by cardholders using our cards and certain pricing changes that went into effect on April 1, 2005. The pricing changes included implementing new fees, increasing existing fees or modifying our fee calculation methodology and accounted for approximately 5% of revenue growth in the nine months ended September 30, 2005.

Operating expenses, excluding the impact of the U.S. merchant lawsuit and other legal settlements, increased 7% in 2004 and 10% in the first nine months of 2005 from the comparable periods in 2003 and 2004, respectively. Foreign currency fluctuations from the euro to U.S. dollar in 2004 and the first nine months in 2005 contributed 2% and 1%, respectively, to the increase in operating expenses. In addition, 1% of the increase in operating expenses in 2004 was due to the impact of acquisitions. During 2004, we continued to realign our operations and limit the growth of our operating expenses through successful vendor negotiations. Total operating expenses decreased 21% in 2004, primarily due to the U.S. merchant lawsuit settlement in 2003.

36

Table of Contents

In June 2002, we acquired Europay International S.A. (now MasterCard Europe). In 2004 we acquired a research firm and a consulting firm, both of which were immaterial. The results of operations for these acquisitions are included from their respective acquisition dates.

We successfully complied with Sarbanes-Oxley Section 404 testing two years ahead of the U.S. Securities and Exchange Commission s deadline for non-accelerated filers. We concluded, based on our assessment, that our internal controls over financial reporting were effective as of December 31, 2004.

We believe the trend within the global payments industry from paper-based forms of payment such as cash and checks toward electronic forms of payment such as cards creates significant opportunities for the continued growth in our business. Our strategy is to drive growth by further penetrating our existing customer base and by expanding our role in targeted geographies and higher-growth segments of the global payments industry (such as corporate payments, prepaid cards and chip based cards), enhancing our merchant relationships, maintaining unsurpassed acceptance and continuing to invest in our brands. We intend to expand our role in targeted geographies by, among other things, pursuing incremental payment processing opportunities in the European Union in connection with the implementation of the Single European Payment Area initiative and in Latin America and Asia/Pacific countries. We are committed to providing our key customers with coordinated services through integrated, dedicated account teams in a manner that allows us to leverage our expertise in payment programs, brand marketing, product development, technology, processing and consulting services for these customers. By investing in strong customer relationships over the long-term, we believe that we can increase our volume of business with key customers over time, and in support of this strategy, we are hiring additional resources and developing sales and other personnel.

There is increased regulatory scrutiny of interchange fees in the payments industry generally and, in addition to regulatory actions, we face exposure to antitrust and other types of litigation. In addition, competition and pricing pressure within the global payments industry is increasing, due in part to consolidation within the banking sector and the growing power of merchants. In addition, changing regulatory environments in certain regions may lead us to change our pricing arrangements and could reduce our overall revenues. See Risk Factors.

We are party to a number of currency conversion litigations as discussed in Note 14 to our interim consolidated financial statements herein. Based upon litigation developments and settlement negotiations in these cases and pursuant to Statement of Financial Accounting Standards No. 5, Accounting for Contingencies , MasterCard recorded an additional $48 million of legal reserves in September 2005. As a result of this additional reserve, we have now established total legal reserves of $62 million in connection with these currency conversion cases. This estimate may be revised based on future developments in these cases.

Impact of Offering Transactions

At the time of this offering, we will issue 13,500,047 shares of our Class A common stock as a donation to The MasterCard Foundation, a private charitable foundation to be incorporated in Canada that will be controlled by directors who are independent of us and our members. The Foundation will build on MasterCard s existing charitable giving commitments by continuing to support programs and initiatives that help children and youth to access education, understand and utilize technology and develop the skills necessary to succeed in a diverse and global work force. In addition, the Foundation will support organizations that provide microfinance programs and services to financially disadvantaged persons and communities in order to enhance local economies and develop entrepreneurs. We also expect to donate approximately $40 million in cash to the Foundation in support of its operating expenses and charitable giving for the first four years of its operations, and we

37

Table of Contents

may make additional cash contributions to the Foundation after this period. Because the Foundation s operations are currently being established, the overall size and timing of our expected initial cash donation have not been finally determined. In connection with the donation of the Class A common stock we expect to record an expense that is equal to the aggregate value of the shares we are donating, which expense will generally not be deductible for tax purposes. The value of the shares of Class A common stock we donate will be determined based on the initial public offering price per share of Class A common stock in this offering less a marketability discount of %. This marketability discount will be determined by independent valuation consultants to be retained by Mastercard. Based on an initial public offering price per share of $ (the mid-point of the price range set forth on the cover page of this prospectus), we expect to record an expense of $. As a result of this expense, we expect to record a significant net loss for the three months ended March 31, 2006 and may record a net loss for the 2006 fiscal year. As a result of this difference between the financial statement treatment and tax treatments of the donation, we expect there to be a significant increase to our effective tax rate for both the three months ended March 31, 2006 and the 2006 fiscal year compared to the same periods in 2005. We also expect to record expense equal to the value of any cash we donate in the period or periods in which such donation or donations are made.

We intend to use all but $650 million of our net proceeds from this offering (including any proceeds received pursuant to the underwriters option to purchase additional shares) to redeem a number of shares of Class B common stock from our existing stockholders that is equal to the aggregate number of shares of Class A common stock that we issue to investors in this offering (including any shares sold pursuant to the underwriters option to purchase additional shares) and to The MasterCard Foundation. We intend to use the remaining proceeds to increase our capital, defend ourselves against legal and regulatory challenges, expand our role in targeted geographies and higher growth segments of the global payments industry and for other general corporate purposes. See Use of Proceeds.

In addition, in connection with our new ownership and governance structure we intend to implement equity based compensation plans. The implementation date of these plans has not been determined as the underlying transactions remain subject to approval by the Company s stockholders. We expect to convert our existing long term incentive cash award plans into an equity based compensation plan. Based on the proposal for this conversion, we may recognize $12 million additional personnel expense in future periods based on vesting within the plans. There may also be additional personnel expense related to a proposed one time stock grant to MasterCard employees.

Impact of Foreign Currency Rates

Our operations are impacted by changes in foreign currency exchange rates. Assessment fees are calculated based on local currency volume, which is converted to U.S. dollar volume using average exchange rates for the quarter. As a result, assessment revenues increased in each period due to the devaluation of the U.S. dollar. In 2004 and for the first nine months of 2005, a 15% and 14% increase in GDV on a U.S. dollar converted basis, respectively, exceeded local currency GDV growth of 11% and 12%, respectively, compared to the same periods in the prior year. In addition, consumer behavior, particularly international travel and purchases, may vary with changes in foreign currency exchange rates.

We are especially impacted by the movements of the euro relative to the U.S. dollar since the functional currency of MasterCard Europe, our principal European operating subsidiary, is the euro.

Table of Contents

The devaluation of the U.S. dollar against the euro and the impact of the translation of MasterCard Europe s operating results into U.S. dollar amounts are summarized as follows:

	For the Years Ended December 31,			Nine Months Ended September 30,	
	2004	2003	2002	2005	2004
Euro to U.S. dollar average exchange rate	$ 1.24	$ 1.13	$ .99(1)	$ 1.26	$ 1.22
Devaluation of U.S. dollar to euro	10%	14%		3%	
Revenue growth attributable to translation of MasterCard Europe revenues to U.S. dollars	2%	2%		1%	
Operating expense growth attributable to translation of MasterCard Europe expenses to U.S. dollars	2%	1%		1%	

(1) Average in 2002 is calculated from June 28, 2002, the date of our acquisition of Europay International S.A. (now MasterCard Europe).

Revenues

We earned approximately 63% and 64% of our revenues from operations fees and approximately 37% and 36% of our revenues from assessments in 2004 and in the nine months ended September 30, 2005, respectively. Operations fees are user fees for facilitating the processing of payment transactions and information management among our customers. MasterCard s system for transaction processing involves four participants in addition to us: issuers (the cardholders banks), acquirers (the merchants banks), merchants and cardholders.

Operations fees are charged to issuers, acquirers or their delegated processors for transaction processing services, specific programs to promote MasterCard branded card acceptance and additional services to assist our customers in managing their businesses. The significant components of operation fees are as follows:

Authorization occurs when a merchant requests approval for a cardholder s transaction. We charge a fee for routing the authorization for approval by the issuer or in certain circumstances, such as when the issuer s systems are unavailable, for approval by us or others on behalf of the issuer in accordance with the issuer s instructions. Our rules, which may vary across regions, establish the circumstances under which merchants and acquirers must seek authorization of transactions. These fees are primarily paid by issuers.

Settlement refers to the process in which we determine the amounts due between issuers and acquirers for payment transactions and associated fees. Once quantified we transfer the relevant funds among issuers, acquirers or their designated third-party processors. We charge a fee for these settlement services. These fees are primarily paid by issuers.

Switch fees are fees for the use of the MasterCard Debit Switch (MDS), our debit processing system. The MDS transmits financial messages between acquirers and issuers and provides transaction and statistical reporting and performs settlement between members and other debit transaction processing networks.

Connectivity fees are charged to issuers and acquirers for network access and equipment used in the transmission of authorization and settlement messages. The methodology for calculating these fees was changed on April 1, 2005 so that they are based on the volume of information being transmitted through our systems and the number of connections to our systems. Until the first quarter 2005, these fees were calculated solely based on the number of connections.

Table of Contents

Currency conversion fees are volume-based fees charged to issuers for foreign currency conversion. We process transactions denominated in more than 160 currencies. As a result of our global system, cardholders have the ability to pay for transactions in the local currency of a merchant and for the charge to appear on the cardholders statement in their own home currency. Accordingly currency conversion is required for cross-border transactions to complete the settlement between issuers and acquirers.

Warning bulletin fees are charged to issuers and acquirers for listing invalid or fraudulent accounts either electronically or in paper form and for distributing this listing to merchants.

Acceptance development fees are charged to issuers based on GDV and support our focus on developing merchant relationships and promoting acceptance at the point of sale. These fees are primarily U.S. based.

Consulting and research fees as well as outsourcing services fees are primarily generated by MasterCard Advisors, our professional advisory services group. We provide a wide range of consulting, information and outsourcing services associated with our customers payment activities and programs. Research includes revenues from subscription-based services, access to research inquiry, and peer networking services generated by our independent financial and payments industry research group. We do not anticipate research becoming a significant percentage of our business. MasterCard Advisors revenues, of which consulting and research are components, are less than 10% of our consolidated revenues.

Other operations fees are primarily user-pay services including the sale of manuals, publications, holograms, information and reports, as well as compliance programs, to assist our customers in managing their businesses. In addition, other operations fees include fees for cardholder services in connection with the benefits provided with MasterCard branded cards, such as insurance, telecommunications assistance for lost cards or locating automated teller machines.

Generally we process all MasterCard branded domestic transactions in the U.S. and in a few international markets based on a market s processing infrastructure. We also process all cross-border, MasterCard, Maestro and Cirrus transactions. We charge relatively higher rates for settlement, authorization and switch fees on cross-border transactions and earn currency conversion fees if the transactions require conversion between two different currencies. Offline debit transactions are generally signature-based debit transactions and are processed and priced similar to credit transactions. Online debit transactions (Maestro and Cirrus transactions), for which we charge switch fees, are priced similar to offline debit and credit transactions.

Assessments are calculated based on our customers GDV. Assessment rates vary by region. Most of our assessment rates are tiered and rates decrease when customers meet incremental volume hurdles. These rates also vary by the type of transaction. We generally assess at higher rates for cross-border volumes compared to domestic volumes. We also assess at higher rates for retail purchases versus cash withdrawals. Credit and offline transactions are assessed at higher rates than online debit transactions. In addition, from time to time the Company may introduce assessments for specific purposes such as market development programs. These assessments are often introduced at the request of customers in a particular region or country. Assessments that are based on quarterly GDV are estimated utilizing aggregate transaction information and projected customer performance. A component of our revenue growth in the nine months ended September 30, 2005 was the result of implementing new fees and changes to existing fees charged to our customers on April 1, 2005.

We believe revenue growth in recent years has been positively impacted by a worldwide trend in which payments are migrating from paper-based forms such as cash and checks to electronic forms such as payment cards and the growth in cross-border transactions. However, this growth is being moderated by the demand from our customers for better pricing arrangements and greater rebates and

incentives. Accordingly, we have entered into business agreements with certain customers and merchants to provide GDV and other performance-based support incentives. Rebates and incentives as a percentage of gross revenues were approximately 19% in the nine months ended September 30, 2005, compared to 16% in the same period in 2004. These pricing arrangements reflect enhanced competition in the global payments industry and the continued consolidation and globalization of our key customers and merchants. The rebates and incentives are calculated on a monthly basis based upon estimated performance and the terms of the related business agreements. Rebates and incentives are recorded as a reduction of revenue in the same period that performance occurs.

We establish standards and procedures for the acceptance and settlement of our customer s transactions on a global basis. Our customers may choose to engage third parties for transaction processing and are responsible to ensure that these third parties comply with our standards. Cardholder and merchant relationships are managed principally by our customers. Accordingly, we do not issue cards, extend credit to cardholders, determine the interest rates (if applicable) or other fees charged to cardholders by issuers, or establish the merchant discount charged by acquirers in connection with the acceptance of cards that carry our brands.

The United States remains our largest geographic market based on revenues. However, international revenues grew at a faster rate than U.S. revenues in 2004, particularly in the European region. The growth in the European region in 2004 was primarily due to new assessment revenue streams and increased transactions. Accordingly, revenue generated in the United States was approximately 58%, 63% and 61% of total revenues in 2004, 2003 and 2002, respectively, and 54% and 58% of total revenues in the nine months ended September 30, 2005 and 2004, respectively. No individual country, other than the United States, generated more than 10% of total revenues in any period.

Our business is dependent on certain world economies and consumer behaviors. In the past, our revenues have been impacted by specific events such as the war in Iraq, the SARS outbreak and the September 11, 2001 terrorist attack. Consumer behavior can be impacted by a number of factors, including confidence in the MasterCard brand.

Table of Contents

Results of Operations for the Nine Months Ended September 30, 2005 and 2004

	Nine Months Ended September 30,		Percent Increase (Decrease)
	2005	2004	2005 vs. 2004
	(In millions, except per share, percent and GDV amounts)		
Operations fees	$ 1,414	$ 1,188	19.0%
Assessments	808	722	11.9
Revenue	2,222	1,910	16.3
General and administrative	976	846	15.4
Advertising and market development	623	587	6.1
U.S. merchant lawsuit and other legal settlements	48	18	166.7
Depreciation and amortization	83	92	(9.8)
Total operating expenses	1,730	1,543	12.1
Operating income	492	367	34.1
Total other income (expense)	4	(22)	118.2
Income before income tax expense	496	345	43.8
Income tax expense	176	108	63.0
Net income	$ 320	$ 237	35.0
Net income per share (basic and diluted)(1)	$ 3.20	$ 2.37	35.0
Pro forma net income per share (basic and diluted)(2)	$ 2.37	$ 1.75	35.4
Weighted average shares outstanding (basic and diluted)	100	100	
Pro forma weighted average shares outstanding (basic and diluted)(2)	135	135	
Effective income tax rate	35.5%	31.3%	
GDV on a U.S. dollar converted basis (in billions)	$ 1,215	$ 1,063	14
Processed transactions(3)	10,096	8,857	14

(1) As more fully described in Summary The Offering Transactions, prior to this offering we will reclassify all of our 100 outstanding shares of existing common stock so that our existing stockholders will receive 1.35 shares of our Class B common stock for each share of common stock that they held prior to the reclassification and a single share of our Class M common stock. Accordingly, shares and per share data will be retroactively restated in the financial statements subsequent to the reclassification to reflect the reclassification as if it were effective at the start of the first period being presented in the financial statements.

(2) Pro forma amounts give effect to the reclassification described above as if it were in place for the interim periods presented.

(3) 2004 amounts have been restated to conform to the methodology utilized in calculating processed transactions in 2005 to exclude specific transactions previously classified as processed transactions which are no longer deemed processed transactions for the nine months ended September 30, 2005.

Table of Contents

Revenues

Operations Fees

Operations fees increased $226 million, or 19%, in the nine months ended September 30, 2005 compared to the same period in 2004. The significant changes in operations fees were as follows:

	Change in Revenue Increase (Decrease) Nine Months Ended September 30, 2005 vs. 2004 (In millions)
Authorization, settlement and switch	$ 96
Acceptance development fees	56
Currency conversion	35
Consulting and research fees	19
Connectivity	17
Other operations fees	34
Gross operations fees change	257
Increase in rebates	(31)
Net change in operations fees	$ 226

Authorization, settlement and switch revenues increased $96 million, or 15%, in the nine months ended September 30, 2005 compared to the same period in 2004. These revenues were driven by the number of transactions processed through our systems, which increased 14% in the nine months ended September 30, 2005 compared to the same period in 2004. In addition, these revenues increased due to the pricing of a component of these revenues being restructured on April 1, 2005.

Acceptance development fees increased $56 million, or 86%, in the nine months ended September 30, 2005 compared to the same period in 2004. New fees were implemented and the pricing on existing fees was increased on April 1, 2005.

Currency conversion revenues increased $35 million, or 17%, in the nine months ended September 30, 2005 compared to the same period in 2004. These revenues fluctuate with the level of cross-border transactions and our customers need for transactions to be converted into their base currency.

Consulting and research fees increased $19 million, or 77%, in the nine months ended September 30, 2005 compared to the same period in 2004. This increase was primarily due to new engagements with our customers and the acquisition of a research firm in the first quarter of 2004.

Connectivity revenues increased $17 million, or 64%, in the nine months ended September 30, 2005 compared to the same period in 2004. Connectivity revenues increased primarily due to a change in the connectivity fee structure on April 1, 2005.

Other operations fees in the table above include warning bulletins, system services, cardholder services, fees for non-compliance with MasterCard s standards, and the sales of holograms, manuals, publications and other reporting requests. Other operations fees increased $34 million, or 12%, in the nine months ended September 30, 2005 compared to the same period in 2004. The change in any individual component of this revenue category is not considered material.

Rebates relating to operations fees are primarily based on transactions and volumes and, accordingly, increase as these variables increase. Rebates have been increasing due to agreements with new customers, renewals of existing agreements, ongoing consolidation of our customers and competition. Rebates as a percentage of gross operations fees were 8% in the nine months ended September 30, 2005, compared to 7% during the same period in 2004.

Assessments

Assessments are revenues that are calculated based on our customers GDV. In the nine months ended September 30, 2005, assessments revenue, net of rebates and incentives, increased $86 million or 12% compared to the same period in 2004. GDV increased 14% (on a U.S. dollar converted basis) and 12% (on a local currency basis) in the nine months ended September 30, 2005, in comparison to the same period in 2004. Assessment rates vary based on the nature of the transactions that generate the GDV.

Assessments for marketing programs and other specific purposes increased slightly in the nine months ended September 30, 2005. In 2005, we introduced new or increased assessments for market development programs in specific countries or regions within Europe and Latin America. Offsetting these increases was the elimination of an assessment for the promotion of soccer in the European region, which became a component of the core assessment rates in 2005.

Rebates and incentives provided to customers and merchants relating to assessments increased $134 million in the nine months ended September 30, 2005 compared to the same period in 2004. These rebates and incentives reduce revenue, moderate assessments growth and are generally based on GDV, as well as a fixed component for the issuance of new cards or the launch of new programs. Rebates and incentives as a percentage of gross assessments were 33% in the nine months ended September 30, 2005 compared to 27% during the same period in 2004. The increase in the percentage of rebates and incentives compared to gross assessments was the result of new or revised pricing arrangements with certain large customers and merchants in 2004. We expect our agreements with our customers and merchants to moderate net revenue growth in 2005 and subsequent years.

Operating Expenses

Our operating expenses are comprised of general and administrative, advertising and market development, legal settlements and depreciation and amortization expenses. For the nine months ended September 30, 2005 our operating expenses as a percentage of total revenues were 78% compared to 81% for the same period in 2004. Operating expenses increased 12%, or $187 million in the nine months ended September 30, 2005 compared to the same period in the prior year. Excluding legal settlements, there would have been an increase of 10% or $157 million in the nine months ended September 30, 2005 compared to the same period in the prior year.

Table of Contents

General and Administrative

General and administrative expenses consist primarily of personnel, professional fees, data processing, telecommunications and travel. General and administrative expenses increased $130 million, or 15%, in the nine months ended September 30, 2005 compared to the same period in 2004. In the nine months ended September 30, 2005, general and administrative expenses as a percentage of net revenues were approximately 44%, compared to 44% in the same period in 2004. The components of changes in general and administrative expenses were as follows:

	Change Increase (Decrease)
	Nine months ended September 30, 2005 vs. 2004
	(In millions)
Personnel	$ 109
Professional fees	6
Telecommunications	(3)
Data processing	4
Travel	14
Other	
General and administrative expense change	$ 130

Personnel expense increased in 2005 primarily due to additional staff to support our strategic initiatives and increased performance-based compensation expense. As we continue to expand our customer-focused approach and expand our relationships with merchants, additional personnel are required. Performance-based compensation increased due to better performance against company objectives than anticipated. In addition, in September 2005, MasterCard changed its method of recognizing the cost of cash award executive incentive plans, as more fully described in Note 7 to our interim consolidated financial statements included herein, and recorded a catch-up adjustment of $19 million in the nine months ended September 30, 2005.

Professional fees increased in the nine months ended September 30, 2005 primarily due to legal fees and consulting services being utilized to develop and implement our strategic initiatives.

Telecommunications expense in the nine months ended September 30, 2005 decreased as a result of our ongoing evaluation of telecommunication needs, including renegotiation of certain contracts with service providers.

Data processing consists of expenses to operate and maintain MasterCard s computer systems. These expenses vary with business volume growth, system upgrades and usage.

Travel expenses are incurred primarily for travel to customer and regional meetings. More travel in the nine months ended September 30, 2005 than in the comparable period in 2004 was necessary to maintain and enhance our relationships with customers and merchants.

Other includes rental expense for our facilities, foreign exchange gains and losses and other miscellaneous administrative expenses. Increases in other general and administrative expenses during the nine months ended September 30, 2005 were offset by $1 million in foreign exchange gains.

Advertising and Market Development

Advertising and market development consists of expenses associated with advertising, marketing, promotions and sponsorships, which promote our brand and assist our customers in achieving their goals by raising consumer awareness and usage of cards carrying our brands. Advertising and market development expenses increased $36 million, or 6%, in the nine months ended September 30, 2005 compared to the same period in 2004. In the nine months ended September 30, 2005, advertising and market development expenses as a percentage of net revenues were approximately 28% of total revenues compared to 31% in the same period in 2004.

Our brands, principally MasterCard, are valuable strategic assets that drive card acceptance and usage and facilitate our ability to successfully introduce new service offerings and access new markets. Our approach to marketing activities combines advertising, sponsorships, promotions, interactive media and public relations as part of an integrated package designed to increase MasterCard brand awareness and preference and usage of MasterCard cards. We are committed to maintaining and enhancing our brands and image through advertising and marketing efforts on a global scale.

Legal Settlements

We are party to a number of currency conversion litigations which are more fully described in Note 14 to the interim consolidated financial statements included herein. Based upon litigation developments and settlement negotiations in these currency conversion cases and pursuant to Statement of Financial Accounting Standards No. 5, Accounting for Contingencies , we recorded a $48 million reserve in September 2005. As a result of this additional reserve we have now established total legal reserves of $62 million in connection with these currency convertion cases. This estimate may need to be revised based on future developments.

Depreciation and Amortization

Depreciation and amortization expenses decreased $9 million in the nine months ended September 30, 2005 versus the comparable period in 2004. These decreases are primarily related to the maturity of certain capital leases and certain assets becoming fully depreciated.

Other Income and Expense

Other income and expense is comprised primarily of investment income, interest expense and miscellaneous non-operating income and expense. In the nine months ended September 30, 2005, we recognized $17 million in other income relating to a settlement of a dispute of a customer business agreement. In addition, investment income increased $7 million in the nine months ended September 30, 2005 over the same period in 2004 due to an increase in interest rates and higher investment balances.

Income Taxes

The effective tax rate for the nine months ended September 30, 2005 was 35.5% compared to 31.3% for the nine months ended September 30, 2004. The lower effective tax rate in the nine months ended September 30, 2004 was attributed to the reassessment during this period of tax issues under examination in the IRS audit for the years 1998 through 2000. In addition, in the course of this audit affirmative refund claims were filed and the related tax benefits were recognized.

Table of Contents

Results of Operations for the Years Ended December 31, 2004, 2003 and 2002

Our acquisition of MasterCard Europe (formerly Europay International S.A.) on June 28, 2002 affects the comparability of our financial data. The results of MasterCard Europe s operations have been included in our consolidated statements of operations from June 28, 2002. However, MasterCard Europe s GDV and transactions are included in all periods, since MasterCard Europe operated a MasterCard branded business prior to the acquisition.

	For the Years Ended December 31,			Percent Increase (Decrease)	
	2004	2003	2002	2004 vs. 2003	2003 vs. 2002
	(In millions, except per share, percent and GDV amounts)				
Operations fees	$ 1,637	$ 1,431	$ 1,232	14.4%	16.2%
Assessments	956	800	660	19.5	21.2
Revenue	2,593	2,231	1,892	16.2	17.9
General and administrative	1,186	1,099	965	7.9	13.9
Advertising and market development	916	851	694	7.6	22.6
U.S. merchant lawsuit and other legal settlements	22	763		(97.1)	**
Depreciation and amortization	122	120	91	1.7	31.9
Total operating expenses	2,246	2,833	1,750	(20.7)	61.9
Operating income (loss)	347	(602)	142	157.6	(523.9)
Total other income (expense)	(23)	(10)	16	(130.0)	(162.5)
Income (loss) before income tax expense (benefit) and cumulative effect of accounting change	324	(612)	158	152.9	(487.3)
Income tax expense (benefit)	86	(221)	42	138.9	(626.2)
Cumulative effect of accounting change, net of tax		5		(100.0)	**
Net income (loss)	$ 238	$ (386)	$ 116	161.7	(432.8)
Net income (loss) per share (basic and diluted)(1)	$ 2.38	$ (3.86)	$ 1.35	161.7	(385.9)
Pro Forma net income per share (basic and diluted)(2)	1.76				
Weighted average shares outstanding (basic and diluted)	100	100	86		16.3
Pro forma weighted average shares outstanding (basic and diluted)(2)	135				
Effective income tax (benefit) rate	26.5%	(36.1)%	26.5%	**	**
GDV on a US dollar converted basis (in billions)	1,467	1,281	1,161	15	10
Processed transactions(3)	12,214	9,962	8,792	23	13

** Not meaningful

(1) As more fully described in Summary-The Offering Transactions, prior to this offering, we will reclassify all of our 100 outstanding shares of existing common stock so that our existing stockholders will receive 1.35 shares of our Class B

common stock for each share of common stock that they held prior to the reclassification and a single share of our Class M common stock. Accordingly, shares and per share data will be retroactively restated in the financial statements subsequent to the reclassification to reflect the reclassification as if it were effective at the start of the first period being presented in the financial statements.

(2) Pro forma amounts give effect to the reclassification described above as if it were in place for the period presented.

(3) The data for the years ended December 31, 2004, 2003 and 2002 has been restated to conform with the methodology utilized in calculating processed transactions in 2005 to exclude specific transactions previously classified as processed transactions which are no longer deemed processed transactions in 2005.

Table of Contents

Revenues

Operations Fees

Operations fees increased $206 million, or 14%, in 2004 and $199 million, or 16%, in 2003, in each case compared to the prior year. The acquisition of MasterCard Europe accounted for $111 million, or 56%, of the increase in operations fees in 2003. The significant changes in operations fees were as follows:

	Change in Revenue Increase (Decrease)	
	2004	2003
	(In millions)	
Authorization, settlement and switch	$ 128	$ 172
Currency conversion	47	30
Consulting	19	
Customer/Cardholder services	17	6
Research subscriptions	8	
Excessive chargeback penalties	(12)	15
Other operations fees	25	(8)
Gross operations fees change	232	215
Increase in rebates	(26)	(16)
Net operations fees change	$ 206	$ 199

Authorization, settlement and switch revenues increased $128 million, or 16%, in 2004 and $172 million, or 28%, in 2003. These revenues are driven by the number of transactions processed through our systems, which increased 23% and 13% in 2004 and 2003, respectively. In the third quarter 2003, MasterCard began processing transactions related to the Switch brand, a domestic U.K. debit brand, which significantly impacted processed transactions growth and accordingly contributed to the increase in revenues. Excluding Switch transactions, processed transaction growth would have been 13% and 10% in 2004 and 2003, respectively. In 2003, a significant portion of the increase in these revenues was due to the acquisition of MasterCard Europe. In 2004 and 2003, the volatility of exchange rates contributed to increased trading settlement revenue of $16 million and $33 million, respectively.

Currency conversion revenues increased $47 million in 2004 and $30 million in 2003. These revenues fluctuate with the level of cross-border transactions and our customers   need for transactions to be converted into their base currency. While the conflict in Iraq, threat of terrorism and outbreak of SARS negatively impacted cross-border travel in the beginning of 2003, travel increased significantly in the latter part of 2003 and in 2004. In 2003, the increase was principally due to the acquisition of MasterCard Europe.

Consulting fees are primarily generated by MasterCard Advisors, our advisory services group. During 2004, the incremental consulting revenue was primarily the result of the acquisition of a research firm and a consulting firm.

Customer/Cardholder services include revenue earned for providing enhanced services to our customers or their cardholders. Examples of these services are telecommunication assistance, ATM locator and concierge programs. These revenues increased due to an overall increase in the demand for our programs and services.

Research subscriptions are generated by MasterCard Advisors. This represented a new revenue stream that resulted from the acquisition of a research firm in 2004.

Excessive chargeback fees are charged to acquirers with merchants that experience a high level of disputed claims from cardholders. During 2004 and 2003, customers were assessed fees of $13 million and $25 million, respectively, for excessive chargebacks in accordance with

Table of Contents

MasterCard rules. The decrease in excessive chargeback fees in 2004 was the result of the imposition of such fees on one large acquiring customer in 2003 in connection with its merchant activity, in accordance with the MasterCard rules.

Other operations fees represent various revenue streams including system services, compliance, sales of holograms, and sales of manuals and publications. The change in any individual revenue line is not considered material.

Rebates to certain customers continued to increase in 2004, particularly in the United States, due to ongoing consolidation of our customers and increasingly intense competition. Accordingly, rebates as a percentage of gross operations fees increased to 7% in 2004 compared to 6% in 2003.

Assessments

In 2004 and 2003, assessments, net of rebates and incentives, grew $156 million, or 20%, and $140 million, or 21%, respectively. GDV growth was 11% and 6% in 2004 and 2003, respectively, when measured in local currency terms, and 15% and 10%, respectively, when measured on a U.S. dollar converted basis. The acquisition of MasterCard Europe accounted for $94 million, or 68%, of the increase in assessments in 2003; excluding MasterCard Europe, assessments growth was 8% in 2003.

In addition to the increase in GDV, assessments grew due to the following factors:

In certain countries in Europe and Latin America, our customers are charged a marketing assessment fee based on volume. These fees are used by MasterCard to expand new and existing market development programs to promote our brand in these countries. These fees, which were extended to additional countries in 2003 and 2004, increased $28 million, or 37%, in 2004 and $49 million, or 185%, in 2003. Depending on new programs and growth within these programs these increases may not continue.

Assessment rates vary based on the nature of the transactions that generate the GDV. In 2004, there was stronger growth in international volumes and purchase volumes, which are assessed at higher rates than domestic volumes and cash volumes, respectively.

As described above, rebates and incentives provided to our customers and merchants relating to assessments increased in 2004 and 2003. These rebates and incentives reduce revenue, moderate assessments growth and are generally based on GDV, as well as a fixed component for the issuance of new cards or the launch of new programs. Rebates and incentives increased $29 million and $72 million in 2004 and 2003, respectively. Rebates and incentives as a percentage of gross assessments were 29%, 31% and 30% in 2004, 2003 and 2002, respectively. During 2004 and 2003, we increased the incentives offered to certain customers and merchants to promote usage and acceptance of our brands. Additionally, the increase in rebates in 2003 can be attributed to the addition of new member contracts by MasterCard Europe subsequent to its acquisition by MasterCard. We expect our agreements with customers and merchants to moderate net revenue growth in 2005 and subsequent years.

Operating Expenses

Our operating expenses are comprised of general and administrative, advertising and market development, U.S. merchant lawsuit and other legal settlements and depreciation and amortization expenses. We reduced our operating expenses, excluding the impact of the U.S. merchant lawsuit and other legal settlements, as a percentage of total revenues to 86% in 2004 from 93% in 2003 and 92% in 2002. In 2004, there was a decrease in operating expenses of $587 million, or 21%, compared to the prior year. Excluding the charges to earnings related to the U.S. merchant lawsuit and other legal settlements, there would have been an increase in operating expenses of $154 million, or 7%, in 2004 compared to the prior year. Operating expenses increased in 2004 by $31 million in connection with the acquisition of a research firm and a consulting firm. In 2003, there was an increase in operating

Table of Contents

expenses of $1.1 billion, or 62%, compared to the prior year, of which $763 million, or 70%, was a result of the U.S. merchant lawsuit and other legal settlements and $197 million, or 18%, was due to the acquisition of MasterCard Europe.

General and Administrative

General and administrative expenses consist primarily of personnel, professional fees, data processing, telecommunications and travel. In 2004, 2003 and 2002, these activities accounted for approximately 46%, 49% and 51% of total revenues, respectively. General and administrative expenses increased $87 million in 2004 and $134 million in 2003, primarily due to increases in personnel expenses. The acquisition of MasterCard Europe accounted for $110 million, or 82%, of the increase in general and administrative expenses in 2003. The major components of changes in general and administrative expenses were as follows:

	Change Increase (Decrease)	
	2004	2003
	(In millions)	
Personnel	$ 52	$ 98
Professional fees	30	10
Telecommunications	(13)	1
Data processing	5	10
Travel	5	2
Other	8	13
Net general and administrative change	$ 87	$ 134

Personnel expense increased in 2004 primarily due to performance and merit increases resulting from better than anticipated performance against company objectives and the acquisition of two consulting firms. In 2003, the increase was primarily due to a full year of salaries and benefits as compared to six months in 2002 resulting from the acquisition of MasterCard Europe.

Professional fees increased in 2004 primarily due to consulting services utilized in developing our strategic initiatives and services related to compliance with Section 404 of the Sarbanes-Oxley Act.

Telecommunications expense decreased in 2004 as a result of our ongoing evaluation of telecommunication needs, including renegotiation of certain contracts with service providers.

Data processing consists of expenses to operate and maintain MasterCard s computer systems. These expenses vary with business volume growth, system upgrades and usage.

Travel expenses are incurred primarily for travel to customer and regional meetings and accordingly vary with business activity.

Other includes rental expense for our facilities, foreign exchange gains and losses, impairment expense and other miscellaneous administrative expenses.

Advertising and Market Development

Advertising and market development consists of expenses associated with advertising, marketing, promotions and sponsorships, which promote our brands and assist our customers in achieving their goals by raising consumer awareness and usage of cards carrying our brands. In 2004, 2003 and 2002 these activities accounted for approximately 35%, 38% and 37% of total revenues, respectively. Advertising and market development expenses increased $65 million, or 8%, in 2004 and $157 million, or 23%, in 2003. The acquisition of MasterCard Europe accounted for $70 million or 45% of the increase in advertising and market development expenses in 2003.

MasterCard implemented a four-year plan in 2002 to accelerate our growth and enhance the global position of MasterCard and our customers by significantly expanding our spending in advertising and market development. For the year ended December 31, 2004, 2003 and 2002 we spent $192 million, $152 million and $87 million, respectively, on advertising and marketing relating to this plan. The primary focus of these initiatives is to build brand recognition, promote brand acceptance and enhance the development of our programs and services in certain markets. We will continue to evaluate the extent of these initiatives in light of changing market conditions.

Merchant Lawsuit and Other Legal Settlements

In the first quarter of 2003, we recorded a pre-tax charge of $721 million ($469 million after-tax) consisting of (i) the monetary amount of the U.S. merchant lawsuit settlement (discounted at 8 percent over the payment term), (ii) certain additional costs in connection with, and in order to comply with, other requirements of the U.S. merchant lawsuit settlement, and (iii) costs to address the merchants who opted not to participate in the plaintiff class in the U.S. merchant lawsuit. The $721 million pre-tax charge amount was an estimate, which was subsequently revised based on the approval of the U.S. merchant lawsuit settlement agreement by the court, and other factors. In addition, other legal settlements were made in 2004 and 2003. Total liabilities for the U.S. merchant lawsuit and other legal settlements changed as follows:

Balance as of December 31, 2002	$
U.S. merchant lawsuit and other legal settlements	763
Interest accretion	43
Payments	(134)
Balance as of December 31, 2003	672
Currency conversion court award of plaintiff attorney s fees	14
Other legal settlements and revisions of U.S. merchant lawsuit opt-out estimate	8
Interest accretion	51
Payments	(149)
Other	2
Balance as of December 31, 2004	$ 598

Depreciation and Amortization

Depreciation and amortization expenses increased $2 million in 2004 and $29 million in 2003. In 2003, depreciation and amortization expense increased significantly due to the acquisition of MasterCard Europe as well as additional capitalized computer software. The acquisition of MasterCard Europe accounted for $17 million, or 59%, of the increase in depreciation and amortization in 2003.

Our business is dependent on the technology that we use to process transactions. This technology is continuously updated and improved. Therefore, our investment in capitalized software and related amortization also continues to increase. In recent years we have made the following significant changes to our technology and technology centers, which have caused an increase in our depreciation and amortization:

During 2003, our co-processing technology center was moved from Lake Success, New York to Kansas City, Missouri. Our Lake Success co-processing facility would have required a significant investment to rehabilitate its aging infrastructure and improve security. Kansas City, Missouri was selected as the new location for the co-processing facility due its relative proximity to our other processing facility in St. Louis, Missouri. The cost of the new facility and equipment was $36 million.

During 2004 and 2003, we continued to invest in our System Enhancement Strategy, an upgrade of all of MasterCard s core systems to improve productivity and lower overall processing costs.

Table of Contents

Other Income and Expense

Other income (expense) is comprised primarily of investment income and interest expense. Investment income decreased $8 million in 2004 and increased $31 million in 2003. The decrease in 2004 resulted from a decline in the market value of our trading securities portfolio. The increase in 2003 was primarily due to the consolidation of a variable interest entity and appreciation of the market value of our trading securities portfolio. Interest expense increased $7 million and $53 million in 2004 and 2003, respectively, primarily due to interest expense of $51 million and $43 million, respectively, related to imputed interest on the U.S. merchant lawsuit settlement. In addition, in 2003, the consolidation of a variable interest entity increased interest expense.

Income Taxes

The effective income tax expense (benefit) rate for years ended December 31, 2004, 2003 and 2002 was 26.5%, (36.1)% and 26.5%, respectively. The effective tax rate in 2004 is attributable to the reassessment, during 2004, of tax issues under examination in the U.S. Internal Revenue Service (IRS) audit for the years 1998 through 2000 and issues under examination in Japan for the years 2000 through 2003. In the course of the IRS audit, affirmative refund claims were filed and the related tax benefits were recognized. In addition, MasterCard favorably settled a foreign tax audit in India for the years 1996 through 2001. The 2003 tax benefit was primarily driven by the U.S. merchant lawsuit settlement. The amount of the litigation settlement and its impact on pretax income was so large that the permanent differences for 2003, which are shown in the table below, did not significantly affect the tax rate, resulting in a tax benefit at the highest marginal tax rate. The increase in the rate from 2002 to 2003 was primarily attributable to a one-time revaluation in 2002 of MasterCard Europe s deferred tax liabilities due to the reduction in the Belgium statutory tax rate from 40.2% to 34.0% in December 2002. The components impacting the effective tax rate are:

	For the Years Ended December 31,					
	2004		2003		2002	
	Dollar Amount	Percent	Dollar Amount	Percent	Dollar Amount	Percent
	(In millions)		(In millions)		(In millions)	
Income (loss) before income tax expense (benefit) and cumulative effect of accounting change	$ 324		$ (612)		$ 158	
Federal statutory tax (benefit)	$ 113	35.0%	$ (214)	(35.0)%	$ 55	35.0%
State tax effect, net of Federal benefit	4	1.3	2	0.3	6	3.9
Foreign tax effect, net of Federal benefit	4	1.2	(4)	(0.6)	(3)	(1.7)
Non-deductible expenses and other differences	4	1.0	2	0.3	5	2.7
Tax exempt income	(7)	(2.1)	(7)	(1.1)	(7)	(4.4)
Adjustment to deferred tax for change in tax rate:						
United States state	(8)	(2.6)				
Foreign					(11)	(6.9)
Refund claims and settlement of audit matters:						
United States	(11)	(3.4)				

Foreign	(13)	(3.9)			(3)	(2.1)
Income tax expense (benefit)	$ 86	26.5%	$ (221)	(36.1)%	$ 42	26.5%

Table of Contents

Liquidity

We need capital resources and liquidity to fund our global development, to provide for credit and settlement risk, to finance capital expenditures and any future acquisitions and to service the payments of principal and interest on our outstanding debt and the settlement of the U.S. merchant lawsuit. At September 30, 2005 and December 31, 2004, we had $1.4 billion and $1.1 billion, respectively, of cash, cash equivalents and available-for-sale securities with which to manage operations. We expect that the cash generated from operations and our borrowing capacity will be sufficient to meet our operating, working capital and capital needs in 2005. However, our liquidity could be negatively impacted by the outcome of any of the legal or regulatory proceedings to which we are a party. See Risk Factors Risks Related to Our Business Legal and Regulatory Risks.

				Percent Change		Nine Months Ended September 30,		Percent Change
	2004	2003	2002	2004 vs. 2003	2003 vs. 2002	2005	2004	September 30, 2005 vs. September 30, 2004
		(In millions)				(In millions)		
Cash Flow Data:								
Net cash provided by operating activities	$ 344	$ 190	$ 310	81.1%	(38.7)%	$ 348	$ 294	18.4%
Net cash provided by investing activities	(275)	(170)	(213)	(61.8)%	20.2%	(127)	(239)	46.9%
Net cash provided by (used in) financing activities			(35)	**	**		8	**
Balance Sheet Data:								
Current assets	$ 1,903	$ 1,610	$ 1,456	18.2%	10.6%	$ 2,252	$ 1,872	20.3%
Current liabilities	1,301	1,189	930	9.4%	27.8%	1,431	1,198	19.4%
Long-term liabilities	984	1,009	307	(2.5)%	228.7%	1,000	1,049	(4.7)%
Stockholders equity	975	699	1,023	39.5%	(31.7)%	1,235	926	33.4%

** Not meaningful

For the nine months ended September 30, 2005, our operations provided $348 million of cash, net of $25 million in voluntary contributions to our qualified pension plan, compared to $294 million for the nine months ended September 30, 2004. The increase in cash from operations in the nine months ended September 30, 2005 from the respective 2004 period was principally due to stronger operating performance and timing of income tax payments and personnel costs associated with the Company s employee incentive plans. These items were offset by the timing of revenue collections and significant prepayments made in accordance with new customer incentive agreements. The use of cash from investing activities in the nine months ended September 30, 2005 and 2004 was primarily due to purchases exceeding sales of available-for-sale securities. In addition, in the nine months ended September 30, 2004, the acquisition of businesses was a use of cash from investing activities.

For the year ended December 31, 2004, our operations provided $344 million of cash, net of $149 million in payments related to the U.S. merchant lawsuit and other legal settlements, and a $15 million voluntary contribution to our qualified pension plan. The increase in cash from operations in 2004 from 2003 was primarily due to stronger operating performance in 2004 compared to 2003.

For the year ended December 31, 2003, our operations provided $190 million of cash, net of $134 million in payments related to the U.S. merchant lawsuit and other legal settlements. The decrease in cash from operations in 2003 from 2002 was due to the merchant lawsuit payment, timing of receivable collections and increased prepayments.

The utilization of cash for investing activities in 2004 was primarily due to purchases of available-for-sale securities and the acquisition of certain businesses. In 2004 and 2003, we also invested in the internal development of capitalized software and purchase of fixed assets to support our business. Our capitalized software is essential to providing payment card transaction processing to our customers through our proprietary global computer and telecommunications system. Our investing activities in 2003 included funding for a co-processing facility in Kansas City, Missouri, and associated equipment.

Under the terms of the U.S. merchant lawsuit agreement, the Company is required to pay $100 million annually each December through the year 2012. Additionally, in accordance with the Company s employee incentive plans, certain payouts to participants are made in the first quarter of each year.

In addition to our liquid investments, on June 17, 2005, we entered into a committed unsecured $2.25 billion revolving credit facility (the Credit Facility) with Citigroup Global Markets Inc., as sole lead arranger, Citibank, N.A. and JPMorgan Chase Bank, N.A., as co-administrative agents, J.P. Morgan Securities, Inc., as co-arranger, HSBC Bank (USA), N.A., Lloyds TSB Bank, plc and Royal Bank of Scotland, as co-syndication agents, and certain other lenders. The Credit Facility, which expires on June 16, 2006, replaced MasterCard Incorporated s prior $1.95 billion credit facility which expired on June 17, 2005. Borrowings under the facility are available to provide liquidity in the event of one or more settlement failures by MasterCard International members and, subject to a limit of $300 million, for general corporate purposes. Interest on borrowings under the Credit Facility is charged at the London Interbank Offered Rate (LIBOR) plus 28 basis points or an alternative base rate. An additional 10 basis points would be applied if the aggregate borrowings under the Credit Facility exceed 33% of the commitments. MasterCard agreed to pay a facility fee which varies based on MasterCard s credit rating and is currently equal to 7 basis points on the total commitment, or approximately $1.6 million annually. MasterCard was in compliance with the Credit Facility covenants as of September 30, 2005. There were no borrowings under the Credit Facility at September 30, 2005. The majority of Credit Facility lenders are members or affiliates of members of MasterCard International.

Due to Standard & Poor s Ratings Services (S&P) assessment of MasterCard s vulnerability to legal risk, on May 16, 2003, S&P lowered MasterCard s counterparty credit rating to A-/A-2, subordinated debt rating to BBB+ and placed MasterCard on negative outlook. Following the announcement of this offering, S&P placed us on credit watch with negative implications. Pending completion of this offering, S&P expects to lower our counterparty credit ratings to BBB+/A-2 and our subordinated debt rating to BBB, both with stable outlook. Until such time, the existing ratings will remain on credit watch with negative implications. Once the lower ratings are in effect, the facility fee for our Credit Facility will increase to 8 basis points on the total commitment, or approximately $1.8 million annually, and interest on borrowings thereunder would increase to LIBOR plus 37 basis points (or 47 basis points if aggregate borrowings exceed 33% of the commitments) or an alternative base rate.

MasterCard Europe and European Payment System Services sprl, a subsidiary of MasterCard, have a 1 million euro overdraft facility for MasterCard Europe and European Payment System Services sprl and a 1 million euro guarantee facility for MasterCard Europe. Interest on borrowings under the overdraft facility is charged at 50 basis points over the relevant market index and interest for the guarantee facility is paid at a rate of 1.5% per annum on outstanding guarantees. There were no material borrowings under these facilities at September 30, 2005 and December 31, 2004. Deutsche Bank AG is the lender of these facilities.

Table of Contents

MasterCard Europe has one additional uncommitted credit agreement totaling 100 million euros. The interest rate under this facility is Euro LIBOR plus 50 basis points per annum for amounts below 100 million euros and Euro LIBOR plus 250 basis points for amounts over the 100 million euro limit. For drawings in currencies other than the euro, interest will be charged at the above margins over the relevant currency base rate. There were no borrowings under this agreement at September 30, 2005 and December 31, 2004. HSBC Bank plc is the lender of this facility.

In connection with this offering, we intend to adopt a policy of declaring, subject to legally available funds, a quarterly cash dividend at an annual rate initially equal to $ per share of Class A common stock and Class B common stock, unless our board of directors, in its sole discretion, determines otherwise, commencing with the quarter of 2006.

Future Obligations

Future Obligations as of December 31, 2004

The following table summarizes, as of December 31, 2004, our contractual non-cancelable obligations that are expected to impact liquidity and cash flow in future periods. We believe we will be able to fund these obligations through cash generated from operations and our existing cash balances.

	Payments Due by Period				
	Total	Less Than 1 Year	2-3 Years	4-5 Years	More Than 5 Years
			(In millions)		
Capital leases(a)	$ 63	$ 9	$ 8	$ 4	$ 42
Operating leases(b)	123	37	55	29	2
Sponsorship, licensing & other(c)	570	254	251	52	13
U.S. merchant lawsuit and other legal settlements(d)	829	129	200	200	300
Debt(e)	250	5	11	234	
Total	$ 1,835	$ 434	$ 525	$ 519	$ 357

(a) Most capital leases relate to certain property, plant and equipment used in our business. Our largest capital lease relates to our Kansas City, Missouri co-processing facility.

(b) We enter into operating leases in the normal course of business, including the lease on our facility in St. Louis, Missouri. Substantially all lease agreements have fixed payment terms based on the passage of time. Some lease agreements provide us with the option to renew the lease or purchase the leased property. Our future operating lease obligations would change if we exercised these renewal options and if we entered into additional lease agreements.

(c) Amounts primarily relate to sponsorships with certain organizations to promote the MasterCard brand. The amounts included are fixed and non-cancelable. In addition, these amounts include purchase obligations for software licenses, media purchases and other service agreements. Obligations under our performance based customer and merchant agreements have been excluded from the table due to their contingent nature. As of December 31, 2004, we accrued $173 million relating to these performance based agreements.

(d)

Represents amounts due in accordance with legal settlements entered into during 2003 and refined in 2004, including the settlement agreement in the U.S. merchant lawsuit.

(e) Debt primarily represents principal and interest owed on our subordinated notes due June 2008 and the principal owed on our Series A Senior Secured Notes due September 2009. See Note 11 to our annual consolidated financial statements herein. We also have various credit facilities for which there were no outstanding balances at December 31, 2004 that, among other things, would provide liquidity in the event of settlement failures by our members. Our debt obligations would change if one or more of our members failed and we borrowed under these credit facilities to settle on our members behalf or for other reasons.

Table of Contents

Future Obligations as of September 30, 2005

The following table summarizes, as of September 30, 2005, our contractual non-cancelable obligations that are expected to impact liquidity and cash flow in future periods.

	Payments Due by Period				
	Total	Remaining of 2005	2006 and 2007	2008 and 2009	Thereafter
	(In millions)				
Capital leases(a)	$ 58	$ 1	$ 9	$ 4	$ 44
Operating leases(b)	101	10	59	30	2
Sponsorship, licensing and other(c)	630	174	333	116	7
U.S. merchant lawsuit and other legal settlements(d)	862	162	200	200	300
Debt(e)	248	3	11	234	
Total	$ 1,899	$ 350	$ 612	$ 584	$ 353

(a) Most capital leases relate to certain property, plant and equipment used in our business. Our largest capital lease relates to our Kansas City, Missouri co-processing facility.

(b) We enter into operating leases in the normal course of business, including the lease on our facility in St. Louis, Missouri. Substantially all lease agreements have fixed payment terms based on the passage of time. Some lease agreements provide us with the option to renew the lease or purchase the leased property. Our future operating lease obligations would change if we exercised these renewal options and if we entered into additional lease agreements.

(c) Amounts primarily relate to sponsorships with certain organizations to promote the MasterCard brand. The amounts included are fixed and non-cancelable. In addition, these amounts include purchase obligations for software licenses, media purchases and other service agreements. Obligations under our performance based customer and merchant agreements have been excluded from the table due to their contingent nature. As of September 30, 2005, we accrued $198 million relating to these performance based agreements.

(d) Represents amounts due in accordance with legal settlements entered into during 2003 and refined in 2004, including the settlement agreement in the U.S. merchant lawsuit.

(e) Debt primarily represents principal and interest owed on our subordinated notes due June 2008 and the principal owed on our Series A Senior Secured Notes due September 2009. See Note 11 to our annual consolidated financial statements herein. We also have various credit facilities for which there were no outstanding balances at September 30, 2005 that, among other things, would provide liquidity in the event of settlement failures by our members. Our debt obligations would change if one or more of our members failed and we borrowed under these credit facilities to settle on our members behalf or for other reasons.

Related Parties

We have approximately 1,400 existing stockholders who are also our customers. See Related Party Transactions for a description of certain agreements between us and our principal stockholders.

A significant portion of our revenue is concentrated among our five largest customers. In 2004, the net fees from these customers were approximately $928 million, or 36%, of total revenue. For the first nine months of 2005, revenues from these customers were approximately $742 million, or 33%, of total revenue. One of these customers entered into an agreement in 2005 to purchase another of our key customers (not among our top five revenue contributors) and is expected to close this transaction in the first quarter of 2006. Accordingly, the amounts for the first nine months of 2005 for this customer include the revenues of the other customer to be acquired. The loss of any of these members could

Table of Contents

adversely impact our revenues and net income. See Risk Factors Risks Related to Our Business Business Risks Consolidation or other changes affecting the banking industry could result in a loss of business for MasterCard and may create pressure on the prices we charge our customers, which may materially and adversely affect our revenue and profitability. In addition, as part of our business strategy, MasterCard, among other efforts, enters into business agreements with customers. These agreements can be terminated in a variety of circumstances. See Risk Factors Risks Related to Our Business Business Risks We face increasingly intense competitive pressure on the prices we charge our customers, which may materially and adversely affect our revenue and profitability.

Seasonality

Portions of our business are seasonal. Our revenue is favorably affected by progressively increased card purchasing volume throughout the year, particularly in the fourth quarter during the holiday shopping period. However, advertising, holiday promotions and incentives also increase correspondingly, generally causing our profitability to decline in the fourth quarter.

Critical Accounting Estimates

Our accounting policies are integral to understanding our results of operations and financial condition. We are required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. We have established detailed policies and control procedures to ensure that the methods used to make estimates and assumptions are well controlled and are applied consistently from period to period. The following is a brief description of our current accounting policies involving significant management judgments.

Financial Statement Caption/Critical Accounting Estimate	Assumptions/Approach Used	Effect if Actual Results Differ from Assumptions
Revenue Recognition		
Our assessment revenues that are based on quarterly GDV are recorded utilizing an estimate of our customers performance. Our revenue recognition policies are fully described in our consolidated financial statements.	Our assessment revenues that are based on quarterly GDV are recorded utilizing an estimate of our customers performance. Such estimates are subsequently validated against performance reported by our customers. Differences are adjusted in the period the customer reports. Customers performance is estimated by using historical performance, member reported information, transactional information accumulated from our systems and discussions with our customers.	If our customers actual performance is not consistent with our estimates of their performance, revenues may be materially different than initially recorded. Historically, our estimates have only differed from the actual performance by less than 5% of the estimates on a quarterly basis.

57

Table of Contents

Financial Statement Caption/Critical Accounting Estimate	Assumptions/Approach Used	Effect if Actual Results Differ from Assumptions
Rebates and incentives are estimated.	Rebates and incentives are generally recorded as contra- revenue based on our estimate of each customer s performance in a given period and according to the terms of the related customer agreements.	If our customers actual performance is not consistent with our estimates of their performance, contra-revenues may be materially different than initially recorded.
Legal and Regulatory Matters		
We are party to legal and regulatory proceedings with respect to a variety of matters.	We evaluate the likelihood of an unfavorable outcome of the legal or regulatory proceedings to which we are party in accordance with SFAS No. 5, Accounting for Contingencies. Our judgments are subjective based on the status of the legal or regulatory proceedings, the merits of our defenses and consultation with in-house and outside legal counsel.	Due to the inherent uncertainties of the legal and regulatory process in the multiple jurisdictions in which we operate, our judgments may be materially different than the actual outcomes.
Discount Rate for Merchant Lawsuit Settlement		
We have entered into a settlement agreement in connection with the U.S. merchant lawsuit. This settlement was discounted over the ten year payment term of the settlement.	We estimated the discount rate we used to calculate the present value of our obligations under the Settlement Agreement in the U.S. merchant lawsuit to be 8 percent for the year ended December 31, 2003. The discount rate used was a matter of management judgment at the time of the settlement, which considered our expected post-settlement credit rating and rates for sources of credit that could be used to finance the payment of obligations with similar terms.	A 1 percent increase in the discount rate would increase annual interest expense by approximately $4 million in 2005, and declining amounts thereafter. The reverse impact would be experienced for a 1 percent decrease in the discount rate. In addition, a 1 percent change in the discount rate would have impacted the amount we recorded as an after-tax charge for the year ended December 31, 2003 by approximately $20 million.

58

Table of Contents

Financial Statement Caption/Critical Accounting Estimate	Assumptions/Approach Used	Effect if Actual Results Differ from Assumptions
Goodwill and Intangible Assets (except Capitalized Software)		
We perform analyses of goodwill and intangible assets on an annual basis or if indicators of impairment exist. This evaluation utilizes a two-step approach. The first step is to identify a potential impairment and the second step measures the amount of the impairment loss, if any. Impairment is measured as the excess of the carrying amount over fair value.	In performing the analyses, we primarily utilize independent valuation experts. The test methods employed involve assumptions concerning interest and discount rates, growth projections and other assumptions of future business conditions. The assumptions employed are based on management s judgment using internal and external data.	During 2004, we identified and recorded impairment losses of approximately $7 million for one of the acquisitions completed in 2004. We completed our annual impairment testing for all other goodwill and intangibles using the methodology described herein, and determined there was no impairment.
		If actual results are not consistent with our assumptions and estimates, we may be exposed to an additional impairment charge associated with goodwill and/or intangible assets. The carrying value of goodwill and intangible assets, excluding capitalized software, was $385 million, including $176 million of unamortized customer relationships, as of September 30, 2005.
Income Taxes		
In calculating our effective tax rate we need to make decisions regarding certain tax positions, including the timing and amount of deductions and allocation of income among various tax jurisdictions. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized.	We have various tax filing positions, including the timing and amount of deductions and credits, the establishment of reserves for audit matters and the allocation of income among various tax jurisdictions.	Although we believe that our estimates and judgments discussed herein are reasonable, actual results may differ by a material amount.
	We considered projected future taxable income and ongoing tax planning strategies in assessing the need for the valuation allowance.	If we realize a deferred tax asset in excess of the net deferred tax asset or we are unable to realize a net deferred tax asset, an adjustment to the deferred tax asset would increase or decrease earnings, respectively, in the period.

Table of Contents

Financial Statement Caption/Critical Accounting Estimate	Assumptions/Approach Used	Effect if Actual Results Differ from Assumptions
Capitalized Software		
Our capitalized software, which includes internal and external costs incurred in developing or obtaining computer software for internal use, is included in other intangible assets.	We are required to make judgments to determine if each project will satisfy its intended use. In addition, we estimate the average internal costs incurred for payroll and payroll related expenses by department for the employees who directly devote time relating to the design, development and testing phases of the project. On an ongoing basis, we perform impairment analyses on various technologies. If the carrying value of the various technologies exceeds the fair value, impairment charges are recorded.	During the year, no significant impairment charges were recorded. However, if actual results are not consistent with our judgments, we may be exposed to an impairment charge. The net carrying value of capitalized software as of September 30, 2005 was $101 million.
Pensions		
Certain assumptions are used in the determination of our annual pension costs and the disclosure of the funded position of our pension plans. Key assumptions include the discount rate used to measure the plans projected benefit obligation and the expected rate of return on plan assets.	We utilized a discount rate of 5.75 percent in measuring the projected pension benefit obligation at December 31, 2004, 6.25 percent in calculating the net periodic pension cost and an expected return on plan assets of 8.5 percent.	A quarter of a percentage point decrease in our discount rate would increase our projected benefit obligation by $1.5 million, and would have a negligible effect on our annual pension expense. An equal but opposite effect would be experienced for a quarter of a percentage point increase in the discount rate. A quarter of a percentage point increase or decrease in the expected rate of return on plan assets would decrease or increase the annual pension costs by $0.3 million.

Recent Accounting Pronouncements

In December 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 132 (revised 2003), Employers Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88, and 106 (SFAS 132). This Statement revises employers disclosures about pension plans and other postretirement benefit plans. It does not change the measurement or recognition of those plans required by SFAS No. 87, Employers Accounting for Pensions , SFAS No. 88, Employers

Table of Contents

Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits and SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions. SFAS 132 requires additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans. We have fully implemented SFAS 132 for the year ended December 31, 2004.

In March 2004, the Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 03-01, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (EITF 03-01). EITF 03-01 provides guidance to determine whether an other-than-temporary impairment exists for available-for-sale or held-to-maturity investments under SFAS No. 115, Accounting for Certain Investments in Debt and Equity Investments and investments accounted for under the cost method or the equity method. EITF 03-01 also requires certain disclosures related to investments that are in an unrealized loss position at the balance sheet date. The FASB has indefinitely deferred the recognition and measurement guidance in EITF 03-01, through FASB Staff Position (FSP) No. EITF Issue 03-1-1. We have fully implemented all of the required disclosures for the year ended December 31, 2004.

In December 2004, the FASB issued FSP No. FAS 109-2 (FSP 109-2), Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004 (the Act). FSP 109-2 provides enterprises more time (beyond the financial-reporting period during which the Act took effect) to evaluate the Act s impact on the enterprise s plan for reinvestment or repatriation of certain foreign earnings for purposes of applying SFAS 109, Accounting for Income Taxes. We are not presently intending to repatriate any foreign earnings as defined under the Act. Therefore, FSP 109-2 is not expected to have an impact on our financial position or results of operations.

In December 2004, the FASB issued FAS 123 (revised 2004) (SFAS 123R), Share-Based Payment. SFAS 123R provides guidance on accounting for transactions in which an entity obtains employee services in exchange for share-based payments. The Company intends to adopt SFAS 123R in connection with the implementation of equity based compensation plans as part of the Company s new ownership and governance structure. The implementation date of these plans has not been determined and the underlying transactions remain subject to approval by the Company s stockholders. Accordingly, we are currently in the process of assessing the impact of the adoption of SFAS 123R.

In May 2005, the FASB issued SFAS No. 154 Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3 (SFAS 154). SFAS 154 requires retrospective application to prior periods financial statements for changes in accounting principles, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate affected by a change in accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The implementation of SFAS 154 is not expected to have a material impact on our financial position or results of operations.

Quantitative and Qualitative Disclosures About Market Risk

Market risk is the potential for economic losses to be incurred on market risk sensitive instruments arising from adverse changes in market factors such as interest rates, foreign currency exchange rates, and equity price risk. We have exposure to market risk from changes in interest rates, foreign exchange rates and equity price risk. Management establishes and oversees the implementation of policies, which have been approved by the board of directors, governing our funding, investments, and use of derivative financial instruments. We monitor aggregate risk exposures on an ongoing basis. There have been no material changes in our market risk exposures at September 30, 2005 as compared to December 31, 2004.

61

Table of Contents

Foreign Exchange Risk

We enter into forward exchange contracts to minimize risk associated with anticipated receipts and disbursements denominated in foreign currencies. We also enter into contracts to offset possible changes in value due to foreign exchange fluctuations of assets and liabilities denominated in foreign currencies. The objective of this activity is to reduce our exposure to transaction gains and losses resulting from fluctuations of foreign currencies against the U.S. dollar and euro. The terms of the forward currency contracts are generally less than 18 months.

At December 31, 2004 and 2003, forward currency contracts against the U.S. dollar were both purchased (with notional amounts of $41 million and $64 million, respectively) and sold (with notional amounts of $20 million and $60 million, respectively). Based on the year-end 2004 and 2003 foreign exchange positions, the effect of a hypothetical 10 percent strengthening of the U.S. dollar is estimated to create a loss valued at $2.0 million and $0.4 million at December 31, 2004 and 2003, respectively.

At December 31, 2004 and 2003, forward currency contracts against the euro were purchased (with notional amounts of $128 million and $178 million, respectively). Based on the year-end 2004 and 2003 foreign exchange positions, the effect of a hypothetical 10 percent strengthening of the euro is estimated to create a loss valued at $11 million and $16 million at December 31, 2004 and 2003, respectively.

Our settlement activities are subject to foreign exchange risk resulting from foreign exchange rate fluctuations. This risk is limited to the extent that the timeframe between setting the foreign exchange rates and clearing the financial transactions is typically one business day and by limiting the supported settlement currencies to the U.S. dollar or one of seventeen other stable transaction currencies. The remaining 143 transaction currencies are settled in one of the supported settlement currencies or require local settlement netting arrangements that minimize our foreign exchange exposure.

Interest Rate Risk

Our interest rate sensitive assets are fixed income instruments, which we hold as available-for-sale investments. They are rated AA or above and primarily consist of fixed rate short and medium-term instruments. With respect to fixed maturities, our general policy is to invest in high quality securities, while providing adequate liquidity and maintaining diversification to avoid significant exposure. Based on the net present value of expected future cash flows, a 100 basis point increase in interest rates, assuming a parallel shift of the yield curve, would have resulted in fair value changes and an unrealized pretax loss recorded in other comprehensive income of $17 million for each of 2004 and 2003, respectively. Our held-to-maturity investments are not subject to interest rate movements.

Our interest rate sensitive liabilities consist of subordinated debt securities. A 100 basis point decrease in rates would have resulted in a fair value pretax loss of $9 million and $12 million for December 31, 2004 and 2003, respectively.

At September 30, 2005, we had various credit facilities to provide liquidity in the event of material member settlement failures, and for settlement service operations and other operational needs. These credit facilities have variable rates, which are applied to the borrowing based on terms and conditions set forth in each agreement. There were no amounts outstanding at September 30, 2005 under these credit facilities. See Note 11 to our annual consolidated financial statements and Note 10 to our interim consolidated financial statements.

Equity Price Risk

We own trading securities, which are comprised of equity securities selected to offset obligations in connection with an executive compensation plan. The effect of a hypothetical 10 percent decline in market value would have resulted in a pretax loss of $3 million in each of the years ended December 31, 2004 and 2003, respectively. To the extent the executive compensation plan remains in a net appreciation position, an offsetting gain would be recorded in general and administrative expense.

62

Table of Contents

THE GLOBAL PAYMENTS INDUSTRY

The global payments industry consists of all forms of payment including:

- Paper personal checks, cash, money orders, official checks, travelers cheques and other paper-based means of transferring value;
- Cards credit cards, charge cards, debit cards (including ATM cards), stored value cards and other types of cards; and
- Other Electronic wire transfers, electronic benefits transfers and Automated Clearing House payments, among others.

The most common card-based forms of payment are general purpose cards, which are payment cards carrying logos that permit widespread usage of the cards within countries, regions or around the world. General purpose cards have different attributes depending on the type of accounts to which they are linked:

- pay later cards, such as credit or charge cards, typically access a credit account that either requires payment of the full balance within a specified period (a charge card) or that permits the cardholder to carry a balance in a revolving credit account (a credit card);
- pay now cards, such as offline and online debit cards, typically access a demand deposit or current account maintained by the cardholder; and
- pay before cards, such as pre-paid or electronic purse cards, typically access a pool of value previously funded by the cardholder.

The primary general purpose card brands include MasterCard, Visa, American Express, JCB, Diners Club and Discover. Historically, these brands including MasterCard were principally associated with pay later (credit or charge) cards in the United States and other major international markets. Today, MasterCard (and Visa) cards may be issued in any of the pay later, pay now or pay before categories.

Pay now cards may be further categorized into several sub-segments:

- Offline debit cards, such as MasterCard-branded debit cards, are cards where the primary means of cardholder validation at the point of sale is for the cardholder to sign a sales receipt and where transaction data is exchanged in two discrete messages (one for authorization and again for clearing);
- Online debit cards, such as Maestro-branded debit cards, are cards in connection with which cardholders generally enter a personal identification number (PIN) at a point of sale terminal for validation and where transaction data is exchanged through a single message with the initial authorization; and

Cash access cards, such as Cirrus-branded cards, are cards which permit cardholders to obtain cash principally at ATMs by entering a PIN.

MasterCard- and Visa-branded cards comprise the primary offline debit cards. In addition to Maestro, the primary online debit card brands are Electron and Interlink (owned by Visa) and various regional or country-specific online debit networks brands, such as Star, Pulse, NYCE and others in the United States, Interac in Canada and EFTPOS in Australia. In addition to Cirrus, the primary cash access card brands are Plus (owned by Visa) and the online debit network brands referenced above. Local domestic online debit brands are the primary brands in many countries. In these markets, issuers have historically relied on the Maestro and Cirrus brands (and Visa s Plus and Interlink brands) to enable cross-border transactions, which typically constitute a small portion of overall volume.

In addition to general purpose cards, private label cards comprise a significant portion of all card-based forms of payment. Typically, private label cards are issued by a merchant (such as a department store or gasoline (petroleum) retailer) and can be used only at the issuing merchant s locations.

The table below provides an overview of the gross dollar volume and transactions for the year ended December 31, 2004 for all general purpose cards, as reported by The Nilson Report.

	All General Purpose Cards Gross Dollar Volume and Transactions for the Year Ended December 31, 2004		
	Dollar Volume (in billions)	Year-Ago Growth in US$(1)	Transactions (in millions)
All Credit, Charge, Debit (offline and online)(2)			
United States	$ 2,687	14%	38,823
Europe	2,795	14	30,040
Worldwide	7,503	13	92,052

(1) Year-ago growth is reported on a U.S. dollar converted basis.

(2) Data includes results for all principal brands in the credit, charge and offline debit categories, including the MasterCard and Visa families of brands, American Express, Discover, JCB and Diner s Club. Data includes results for most principal brands in the online debit category, including other online debit networks in the United States and domestic debit brands elsewhere.

Table of Contents

BUSINESS

Overview

MasterCard is a leading global payment solutions company that provides a variety of services in support of the credit, debit and related payment programs of nearly 25,000 financial institutions. We manage a family of well-known, widely accepted payment card brands, including MasterCard®, MasterCard Electronic, Maestro® and Cirrus®, which we license to these financial institutions. As part of managing these brands, we also provide our financial institution customers with a sophisticated set of information and transaction processing services and establish and enforce rules and standards surrounding the use of our payment card system. We generate revenues from the fees that we charge our customers for providing these transaction processing and other payment-related services (operations fees) and by assessing our customers based on the dollar volume of activity on the cards that carry our brands (assessments).

A typical transaction processed over our system involves four parties in addition to ourselves: the cardholder, the merchant, the issuer (the cardholder s bank) and the acquirer (the merchant s bank). Our customers are the financial institutions that act as issuers and acquirers. Using our transaction processing services, issuers and acquirers facilitate payment transactions between cardholders and merchants throughout the world, providing merchants with an efficient and secure means of receiving payment, and consumers and businesses with a convenient payment method accepted worldwide. We guarantee the settlement of many of these transactions among our customer financial institutions to ensure the integrity of our payment system. In addition, we undertake a variety of marketing activities designed to maintain and enhance the value of our brands. However, cardholder and merchant relationships are managed principally by our customers. Accordingly, we do not issue cards, extend credit to cardholders, determine the interest rates (if applicable) or other fees charged to cardholders by issuers, or establish the merchant discount charged by acquirers in connection with the acceptance of cards that carry our brands.

MasterCard Incorporated was incorporated as a Delaware stock corporation in May 2001. We conduct our business principally through MasterCard Incorporated s principal operating subsidiary, MasterCard International, a Delaware membership corporation that was formed in November 1966.

Our business has a global reach and has experienced significant growth.

- Gross dollar volume on cards carrying the MasterCard brand as reported by our customers (GDV) was $1.5 trillion in 2004, a 15% increase in U.S. dollar terms over the GDV reported in 2003;

- For the first nine months of 2005, GDV was $1.2 trillion, a 14% increase in U.S. dollar terms over the GDV reported in the first nine months of 2004;

- In 2004, we processed 12.2 billion transactions (including 2.3 billion PIN-based online debit transactions), a 23% increase over the transactions processed in 2003.

We believe there is a trend within the global payments industry from paper-based forms of payment such as cash and checks toward electronic forms of payment such as cards, which creates significant opportunities for continued growth in our business. We believe this trend is driven by the following elements:

Increasing Usage of Electronic Forms of Payment. Credit and debit card usage has grown at significant rates and is displacing cash and checks, the traditional forms of payment.

Consumers are migrating to card-based forms of payment, motivated in part by the convenience, enhanced services and reward programs that cards offer. Corporations, small businesses and governments have also increased their usage of card-based forms of payment for travel, purchasing and fleet management in order to gain better transaction information, more efficiently manage their supply chains and reduce administrative costs. Other forms of electronic payments, including pre-paid cards, chip-based cards and mobile commerce, offer opportunities for further usage and growth.

Increasing Acceptance of Electronic Forms of Payment. Merchants of all sizes have increased their acceptance of electronic payments as a way to augment their sales and increase consumer convenience. Electronic forms of payment are gaining wider acceptance in corporate payment applications and in important merchant categories such as supermarkets, gas stations, convenience stores, utilities and fast-food restaurants. In addition, governments have begun accepting electronic payments in order to reduce their administrative costs. Payment cards and other electronic forms of payment continue to be the preferred method of payment in certain higher growth channels of commerce, such as the Internet.

Innovation in the Payments Industry. Innovation at the point of sale, including the incorporation of new technologies such as smart cards and contactless cards, continues to reduce transaction times and otherwise enhance the attractiveness of payment cards to both consumers and merchants. In addition, issuers are making payment cards more attractive to cardholders through value-adding initiatives such as rewards and co-branding programs.

Favorable Trends in Global Commerce. A wide range of factors has increased global commerce, particularly cross-border business and leisure travel. This trend benefits card-based forms of payment, which afford cardholders increased convenience and efficiency when making international transactions compared with cash and checks. In addition, in many emerging markets, increased consumer card usage is being driven by the growth of middle-class consumer populations and the development of modern payment systems to serve them. Globalization is also encouraging the replacement of domestic payment solutions with payment solutions that have a worldwide reach.

Competitive Strengths

We believe the following key strengths enhance our ability to compete successfully in the global payments industry:

Leading Worldwide Payments System

We believe that the strong worldwide recognition of our brands, our long-standing relationships with our issuers and acquirers and the extensive global reach of our payment card system are valuable corporate assets that provide us with a strong platform from which we can deliver value to our customers, merchants and cardholders.

Global Brand. Through our global brand-building initiatives, we have established strong worldwide recognition for MasterCard and our other brands. We believe that our brands are valuable strategic assets that drive card acceptance and usage and facilitate our ability to successfully introduce new service offerings and access new markets.

Long-Standing Customer Relationships. Our business originated in 1966 when a number of banks in the United States formed the Interbank Card Association and, over time, we have grown into a global organization that serves nearly 25,000 financial institutions in 210 countries and territories. We believe that the breadth and depth of our relationships with our issuers and acquirers provide us with valuable insights into their businesses. These insights, in turn, facilitate our ability to pursue additional

66

Table of Contents

opportunities with these customers in connection with both our core transaction processing business and the related value-added services we provide, such as the consulting services provided by MasterCard Advisors.

Worldwide Acceptance. Based on information from our customers, as of September 30, 2005, cards carrying the MasterCard brand were accepted at over 22 million merchant locations around the world. We believe that the extensive global acceptance of cards carrying our brands is unsurpassed by any of our competitors, which is a significant competitive strength that facilitates the use of our cards and contributes to the growth of our business globally.

Global, Branded Processing Platform

We operate a proprietary, worldwide computer and telecommunications system that links issuers and acquirers around the globe for transaction processing services and permits cardholders to use their cards at millions of merchants worldwide. Our platform operates at 70% capacity on peak days and can scale substantially beyond this capacity upon demand, and we consistently maintain core systems availability for our global processing systems at a rate in excess of 99%. This system, in which we have made significant recent investments, is a highly reliable, scalable asset that we believe provides us with the flexibility to provide additional transaction processing services to both new and existing customers with relatively low incremental costs. We also believe that the strength of our global brands and our processing experience enhance our ability to compete for new processing business.

Global Reach of Business

We have offices in 38 countries worldwide and a senior management team with extensive international experience. Through these resources, we have developed substantial knowledge of local customer practices and cardholder behavior in the key markets in which we operate. In addition, we believe that our integrated corporate structure and worldwide presence enables us to provide globally coordinated payment solutions to multinational customers more effectively than our competitors whose businesses are limited in geographic scope or organized principally as separate regional operating companies. As customers continue to consolidate, we believe our structure will enhance our ability to support their differing needs. We also believe that our global operations and worldwide customer base moderate our exposure to the varying economic conditions of different regions.

Business Strategy

Our strategy is to drive growth by further penetrating our existing customer base and by expanding our role in targeted areas of the global payments industry. Primary elements in implementing our strategy include:

Focus on Key Customers

We are committed to providing our key customers with coordinated services through integrated, dedicated account teams in a manner that allows us to leverage our expertise in payment programs, brand marketing, product development, technology, processing and consulting services for these customers. We have historically applied this customer-focused model to our largest global customers and are now expanding this approach to include customers around the world representing a substantial majority of our revenue. Through MasterCard Advisors, which provides a wide range of consulting services and information and other products associated with our customers payments activities and programs, we seek to leverage our deep functional expertise in many important areas of the payments industry for our customers. By further investing in strong relationships over the long term with our key customers, we believe that we can increase our volume of business with them over time.

67

Table of Contents

Continued Expansion in Targeted Geographies and Higher-Growth Programs

We believe that there are significant opportunities to expand our role in targeted geographies and higher-growth programs. For example, while we process a large majority of the domestic MasterCard-branded card transactions in the United States, Canada, the United Kingdom and Australia, the proportion of domestic MasterCard-branded card transactions that we process outside these markets is significantly lower. Accordingly, we believe that there are substantial opportunities for us to capture additional operations fees through transaction processing arrangements in selected markets. For example, the Single European Payments Area initiative, which will create a more integrated payments market in the European Union, is an opportunity for MasterCard to further expand its role in domestic debit processing. We are also focused on expanding the role of MasterCard in higher-growth segments of the global payments industry, such as commercial, debit and pre-paid cards. Among other initiatives, we intend to expand our business in these segments by continuing to invest in developing new payment solutions and customized services applicable to them. For example, MasterCard PayPass, a contactless payment solution that enables consumers simply to tap or wave their payment card on a specially equipped terminal, is designed to help our customers further grow their businesses by enhancing the functionality of MasterCard cards in fast throughput environments.

Enhance Merchant Relationships and Maintain Unsurpassed Acceptance

We recognize that merchants are important stakeholders for the growth of our business, and we are focused on strengthening our merchant relationships by providing merchants with direct input into our business via merchant advisory boards and other initiatives. We intend to maintain the unsurpassed acceptance of MasterCard-branded programs by focusing on three core initiatives. First, we seek to increase the number of categories of merchants that accept cards carrying our brands. We are presently focused on expanding acceptance in electronic commerce environments, in fast food restaurants and convenience stores, and in public sector payments, such as those involving taxes, fees, fines and tolls, among other categories. Second, we seek to increase the number of payment channels where MasterCard programs are accepted, such as by expanding MasterCard acceptance in connection with recurring payment applications. Third, we seek to increase usage of our programs at selected merchants through a range of business development programs on a global basis.

Continued Investment in our Brands

We are committed to maintaining and enhancing our brands and image through advertising and marketing efforts on a global scale. Our approach to marketing activities combines advertising, sponsorships, promotions, interactive media and public relations as part of an integrated package designed to increase MasterCard brand awareness and preference and usage of MasterCard cards. Among numerous other initiatives, we intend to continue our award-winning Priceless® advertising campaign, which has run in 106 countries and 49 languages.

Reasons for Transition to New Ownership and Governance Structure

We compete in a dynamic marketplace that is being shaped by several important trends. These include the migration of consumers and businesses to electronic forms of payment such as cards, the consolidation and globalization of our customer financial institutions, the growing role of merchants as important stakeholders in payment systems such as ours, and increased competition. See Overview, Competition and Risk Factors Risks Related to Our Business Business Risks. In particular, we have faced heightened regulatory scrutiny and legal challenges in recent years. See Legal Proceedings and Risk Factors Risks Related to Our

Business Legal and Regulatory Risks. Our customer-focused strategy seeks to proactively address these trends, and we believe that, as discussed below, our new ownership and governance structure will provide us with a stronger, more stable base from which to execute our strategy.

Table of Contents

Many of the legal and regulatory challenges we face are in part directed at our current ownership and governance structure, in which our customers our member financial institutions own all of our common stock and are involved in our governance by having representatives serve on our global and regional boards of directors. While we strongly dispute these challenges, we believe that a more open ownership and governance structure following the offering transactions should leave us less prone to challenges and provide us with additional defenses to the challenges we may face by:

- ensuring that our members own a minority of the equity rights in our company and no voting rights, except over a limited range of matters that are not competitively sensitive;
- transitioning to a board of directors that includes a significant majority of directors who are independent of us and of our members; and
- limiting the continued participation of our members in governance at a regional level to advisory bodies only or, in the case of Europe, to a regional board that is overseen by our independent board of directors.

Through these means, we believe that the offering transactions will address perceived conflicts of interest in our ownership structure and will be recognized as increasing the openness and transparency of our governance. We believe our new structure will place our business in a stronger position as we will be better able to defend ourselves against legal and regulatory challenges involving our ownership and governance. As a result, we believe that we will be competitively advantaged as compared with other four-party payment systems as customers will view our new structure as a more stable base upon which to build, manage and grow their payments businesses.

In addition, through the establishment of The MasterCard Foundation, we will be able to make a significant contribution to the societies in which we operate. We also believe that our new ownership and governance structure will benefit our business by providing us with publicly traded equity that we may use as a tool to better align the incentives of our management with those of our stockholders and to attract, retain and motivate our employees and as a currency with which to effect acquisitions, as well as by providing us with enhanced access to the public markets to raise capital.

Payment Services

We provide transaction processing and other payment-related services to our customers. In connection with these services we also deploy dedicated customer relationship management teams to our key customers to bring them customized solutions built upon our expertise in payment programs, brand marketing, product development, technology, processing and consulting.

GDV and Processed Transactions

We generate revenues from the fees we charge our customers for providing transaction processing and other payment-related services. These fees are typically transaction-based and include fees for authorization and settlement. We also earn revenues by charging our customers assessments based on the gross dollar volume (GDV) of activity on the cards that carry our brands. Accordingly, our revenues are impacted by the number of transactions that we process and the use of cards carrying our brands. The tables below provide some information regarding these key drivers of our revenues.

69

Table of Contents

The Processed Transactions table below includes information for all transactions processed by MasterCard, including Maestro and Cirrus online debit transactions, for the nine months ended September 30, 2005 and for the year ended December 31, 2004.

Processed Transactions

(Transactions in millions)

	Nine Months Ended September 30, 2005	Year-Ago Growth	Year Ended December 31, 2004	Three Year Compound Annual Growth Rate(1)
All Processed Transactions	10,096	14%	12,214	17%
Offline Signature-based Processed Transactions	8,279	16	9,880	13
Online PIN-based Processed Transactions	1,818	7	2,334	46

(1) Information in the online PIN-based processed transaction line includes POS and ATM transactions and reflects the migration of the Switch® brand to Maestro in the United Kingdom and the acquisition of the Redeshop® brand in Brazil in 2002. We believe that without the Switch migration the compound annual growth rate would have been 12% instead of 17% for all processed transactions and 9% instead of 46% for online PIN-based transactions. Redeshop transactions have been processed over our system principally commencing in 2005. We do not believe the Redeshop acquisition has had a material impact on the three year compound annual growth rate.

The MasterCard-Branded GDV table below provides information regarding the GDV for all MasterCard-branded card programs and MasterCard credit and charge card programs in each of the United States, Europe and globally for the nine months ended September 30, 2005 and for the year ended December 31, 2004. Growth rates are provided on both a U.S. dollar and local currency basis for the periods indicated. GDV represents the aggregate dollar amount of purchases made and cash disbursements obtained with MasterCard-branded cards and includes the impact of balance transfers and convenience checks.

MasterCard-Branded GDV(1)

($ in billions)

	Nine Months Ended September 30, 2005	Year-Ago Growth		Year Ended December 31, 2004	Three Year Compound Annual Growth	
		U.S. $	Local Currency(2)		U.S. $	Local Currency(2)
All MasterCard Branded Programs						
United States	$ 561	10%	10%	$699	11%	11%

Europe	334	17	13	398	25	14
Worldwide	1,215	14	12	1,467	14	11
All MasterCard Credit and Charge Programs(3)						
United States	$ 421	5%	5%	$548	9%	9%
Europe	260	16	13	310	28	17
Worldwide	961	11	9	1,188	13	10

(1) Maestro and Cirrus online debit transactions and other branded transactions are not included. The data set forth for GDV is derived from information provided by MasterCard members and includes information with respect to MasterCard-branded transactions that are not processed by

Table of Contents

MasterCard and for which MasterCard does not earn significant revenues. All data is subject to revision and amendment by MasterCard s members subsequent to the date of its release, which revisions and amendments may be material.

(2) Local currency growth eliminates the impact of currency fluctuations and represents local market performance.

(3) MasterCard offline debit transactions are not included.

Transaction Processing

Introduction. We operate a system that links issuers and acquirers around the globe for transaction processing services and, through them, permits MasterCard cardholders to use their cards at millions of merchants worldwide. A typical transaction processed over our system involves four participants in addition to ourselves: issuers (the cardholders banks), acquirers (the merchants banks), merchants and cardholders. Consequently, the payment system we operate is often referred to as a four-party payment system. The following diagram depicts a typical point-of-sale card transaction.

In a typical transaction, a cardholder (A) purchases goods or services from a merchant (B) using a card. After the transaction is authorized by the issuer (D) using our network, the acquirer (C) pays the amount of the purchase, net of a discount, to the merchant. This discount, which we refer to as the merchant discount, takes into consideration the amount of the interchange fee described below. The issuer pays the acquirer an amount equal to the value of the transaction minus any interchange fee and posts the transaction to the cardholder s account. Our rules generally guarantee the payment of MasterCard transactions and certain Cirrus and Maestro transactions between issuers and acquirers.

For participants in a four-party payment system, the economics of a card transaction vary widely depending on such factors as whether the transaction is domestic (and, if it is domestic, the country in which it takes place) or cross-border, whether it is a point-of-sale purchase transaction or cash-withdrawal, and whether the transaction is processed over a network such as MasterCard s or is handled solely by a financial institution that is both the acquirer for the merchant and the issuer to the cardholder (an on-us transaction).

A significant portion of the merchant discount is generally paid from the acquirer to the issuer in the form of an interchange fee. The balance of the merchant discount is retained by the acquirer to cover its costs and profit margin. Acquirers may charge merchants processing and related fees in addition to the merchant discount. Issuers may also charge cardholders fees for the transaction, including, for example, fees for extending revolving credit. As described below, we charge issuers and acquirers operational fees and assessments for the services we provide them.

Table of Contents

Interchange fees represent a sharing of a portion of payment system costs among the financial institutions participating in a four-party payment card system such as ours. Generally, interchange fees are collected from acquirers and passed to issuers to reimburse the issuers for a portion of the costs incurred by them in providing services which benefit all participants in the system, including acquirers and merchants. In some circumstances, such as cash withdrawal transactions, this situation is reversed and interchange fees are paid by issuers. We establish multilateral interchange fees (MIFs) in certain circumstances as default fees that apply when there are no other interchange fee arrangements in place between an issuer and an acquirer. We administer the collection and remittance of MIFs through the settlement process; however, we generally do not earn revenues from them. As noted above, MIFs are a significant component of the costs that merchants pay to accept payment cards and are subject to regulatory or legal challenges in a number of jurisdictions. We are devoting substantial management and financial resources to the defense of MIFs and to the other legal and regulatory challenges we face. See Risk Factors Risks Related to Our Business Legal and Regulatory Risks.

MasterCard Revenue Sources. MasterCard generates revenues by charging transaction processing and related fees and GDV and card-based assessments to both issuers and acquirers. On an aggregate basis, we earned approximately 63% of our revenues in connection with operations fees and approximately 37% of our revenues in connection with assessments in 2004 and approximately 64% of our revenues in connection with operations fees and approximately 36% of our revenues in connection with assessments in the first nine months of 2005. Operations fees are typically transaction-based and include core authorization, clearing and settlement fees, currency conversion fees, switch fees, connectivity fees, fees for warning bulletins and related compliance programs, other operations fees such as hologram and acceptance development fees, and user-pay fees for a variety of services. Rebates and incentives are recorded as contra-revenues in accordance with U.S. GAAP. See Management s Discussion and Analysis of Financial Condition and Results of Operations Revenues.

On a global basis, we generate a majority of our revenue from issuers. The allocation of our revenues between operations fees and assessments and among issuers and acquirers varies materially across our regions. Issuers typically pay operations fees and assessments. Acquirers principally pay assessments on GDV or cards and to a lesser extent certain operations fees.

Generally we process all MasterCard branded domestic transactions in the U.S. and in a few international markets based on a market s processing infrastructure. We also process all cross-border MasterCard, Maestro and Cirrus transactions. We charge relatively higher rates for settlement, authorization and switch fees on cross-border transactions and earn currency conversion fees if the transactions require conversion between two different currencies. Offline debit transactions are generally signature-based debit transactions and are processed and priced similar to credit transactions. Online debit transactions (Maestro and Cirrus transactions), for which we charge switch fees, are priced similar to offline debit and credit transactions.

Assessments are calculated based on our customers GDV. Assessment rates vary by region. Most of our assessment rates are tiered and rates decrease when customers meet incremental volume hurdles. These rates also vary by the type of transaction. We generally assess at higher rates for cross-border volumes compared to domestic volumes. We also assess at higher rates for retail purchases versus cash withdrawals. Credit and offline transactions are assessed at higher rates than online debit transactions. In addition, from time to time we may introduce assessments for specific purposes such as market development programs. These assessments are often introduced at the request of customers in a particular region or country.

Table of Contents

We generate a significant amount of revenue from foreign currency conversion. On a global scale, we have the ability to process transactions denominated in more than 160 currencies. These revenues are the result of cross-border transactions by cardholders that require currency conversion to settle the transactions between issuers and acquirers. MasterCard generally uses a wholesale rate increased by a certain percentage or a government-mandated rate to convert transactions in foreign currencies into U.S. dollars. Revenues from processing currency conversion transactions fluctuate with cross-border travel.

Authorization, Clearing and Settlement. We facilitate the authorization, clearing and settlement of the transactions described above and similar transactions through our proprietary, worldwide computer and telecommunications network.

Authorization refers to the process by which a transaction is approved by the issuer or, in certain circumstances such as when the issuer s systems are unavailable or cannot be contacted, by MasterCard or others on behalf of the issuer in accordance with the issuer s instructions. MasterCard s network provides for the transmission of authorization requests and results among issuers, acquirers and other transaction processors or networks. Our rules, which may vary across regions, establish the circumstances under which merchants and acquirers must seek authorization of transactions.

Clearing refers to the exchange of financial transaction information between issuers and acquirers after a transaction has been completed. MasterCard clears transactions among customers through our central processing systems.

Once transactions have been authorized and cleared, MasterCard provides services in connection with the settlement of the transactions that is, the exchange of funds along with associated fees. Settlement is provided through our Settlement Account Management system. Once clearing is completed, a daily reconciliation is provided to each customer involved in settlement, detailing the net amounts by clearing cycle and a final settlement position. The actual exchange of funds takes place between a clearing bank chosen by the customer and approved by MasterCard, and a settlement bank chosen by MasterCard. Customer settlement occurs in U.S. dollars or in a limited number of other selected currencies, in accordance with MasterCard s established rules.

Credit and Offline Debit Processing. Our transaction processing services are managed principally through our Global Technology and Operations headquarters in O Fallon, Missouri, a state-of-the-art worldwide network control facility with over 52,000 square feet of white computer room environment. Our core processing systems are large and highly scalable. We have the capacity to handle over 3.8 billion instructions per second but operate at only 70% capacity at a peak day, and we can substantially scale this capacity upon demand. MasterCard processes transactions in 160 currencies from 210 countries.

MasterCard-branded transactions (credit and offline debit transactions) are generally cleared through our centralized processing system, known as the Global Clearing Management System (GCMS), and the related information is typically routed among customers via our data transport network, which we refer to as Banknet. Both GCMS and Banknet have benefited from significant recent investments as a result of our five year, $160 million system enhancement strategy. As part of this strategy, we migrated Banknet to a virtual private network in 1997, a first for our industry. Since that time, our virtual private network has significantly reduced transaction processing times and enhanced data security for our customers. Our systems route transactions flow between nearly 1,000 endpoints throughout the world, rather than coming to a central location. This approach enhances the reliability of MasterCard transactions by providing several levels of redundancy.

GCMS has helped us to improve our time-to-market in introducing new programs and services. More importantly, using GCMS, we can partner with our customers to provide value-added services to merchants and cardholders. For example, issuers can use GCMS to develop promotions for segments of their card portfolios without investing in their own systems development. We believe that GCMS and our other recent systems enhancements position us well to pursue incremental processing opportunities. See Business Strategy.

Our transaction processing services are available 24 hours per day, every day of the year. In the event that our main processing facility in O Fallon, Missouri, becomes disabled, we have a co-processing facility in Kansas City, Missouri. Our transaction processing systems have redundant power supplies and back-up processes to ensure continued operation in the event of a fault. We have consistently maintained core systems availability for our global processing systems at a rate in excess of 99%.

Online Debit Processing. We also operate the MasterCard Debit Switch (MDS), which principally supports the processing of Cirrus and Maestro online debit transactions. The MDS switches financial messages, provides transaction and statistical reporting, and performs clearing and settlement between customers and other debit transaction processing networks. Unlike the authorization and clearing processes described above, which involve the exchange of transaction data in two discrete messages (one for authorization and again for clearing), the MDS generally operates as a single message system in which clearing occurs simultaneously with the initial authorization request.

In addition to continued investment in the MDS, MasterCard is enhancing its position in online debit processing through a series of initiatives. Since 2004, MasterCard has worked with issuers and acquirers to increase the routing priority of MasterCard s systems for the processing of PIN point-of-sale transactions, and has begun to establish direct processing connections to major U.S. merchants. In addition, MasterCard has entered into an agreement with eFunds Corporation to provide end-to-end debit processing services for mid-sized to large issuers. As part of this agreement, MasterCard provides network services and eFunds provides card issuer processing, ATM, risk management and other support services to our customers.

Regional Transaction Processing. We provide transaction processing (authorization, clearing and settlement) services for customers in the Europe region through our subsidiary MasterCard Europe. These services allow European customers to facilitate payment transactions between cardholders and merchants throughout Europe. Recently, we have substantially completed a multi-year technical convergence project to fully integrate our European authorization clearing and settlement systems with our global clearing and settlement systems. We also operate a separate regional processing facility for the Asia/Pacific region in Australia. This facility processes a majority of the MasterCard-branded transaction volumes in Australia and New Zealand.

Outside of the United States and a select number of other jurisdictions, most intra-country (as opposed to cross-border) transaction activity conducted with MasterCard, Maestro and Cirrus cards is authorized, cleared and/or settled by our customers or other processors without the involvement of our central processing systems. We do not earn transaction processing fees for such activity. Accordingly, we derive a significant portion of our non-U.S. revenues from processing cross-border transactions. As part of our strategy, we are developing and promoting domestic processing solutions for our customers that are designed to leverage our significant investments in our global and regional processing systems. For example, during 2003, MasterCard Europe began authorizing and clearing transactions for the members of S2 Limited, formerly known as Switch Card Services Limited, which operate an electronic domestic debit card network in the United Kingdom under the Switch® brand, as part of an agreement to migrate Switch branding to Maestro by 2007. In Brazil, we acquired the local debit brand Redeshop® in 2002. The Switch migration and Redeshop acquisition have resulted in significant increases in our local processing debit volume in the United Kingdom and Brazil, respectively.

Table of Contents

Customer Relationship Management

We are committed to providing our key customers with coordinated services through integrated, dedicated account teams in a manner that allows us to leverage our expertise in payment programs, brand marketing, product development, technology, processing and consulting services for these customers. We have implemented an internal process to identify our key customers on a global and regional basis based on what we consider to be appropriate business opportunities and to organize our relationships with them to ensure that their priorities are consistently identified and incorporated into MasterCard s project, brand, processing, technology and related strategies. To achieve this, we undertake an integrated customer planning process with key customers on an annual basis.

We also seek to enter into business agreements with key customers through which we offer financial incentives and other financial support to issue and promote our cards. These incentives often consist of a reduction in our volume-based fees and assessments for certain customers based on the achievement of GDV hurdles or other performance metrics. We believe that our business agreements with key customers have contributed to our strong volume and revenue growth in recent years. See Related Party Transactions for a description of the business arrangements with certain of our largest customers.

The pricing terms and duration of the agreements with our customers vary significantly. Most of our customer relationships are not exclusive, and may be terminated in a variety of circumstances. See Risk Factors Risks Related to Our Business Business Risks We face increasingly intense competitive pressure on the prices we charge our customers, which may materially and adversely affect our revenue and profitability and Our revenue would decline significantly if we lose one or more of our most significant customers, which could have a material adverse impact on our business. In addition to our key customer agreements, we have standard licensing arrangements with all our customers that permit them to use our trademarks and subject them to the rules governing our payment programs. Those customers with whom we do not have customized agreements are generally subject to standardized pricing arrangements.

MasterCard Programs

MasterCard offers a wide range of payment solutions to enable our customers to design, package and implement programs targeted to the specific needs of their customers. Our principal payment programs, which are facilitated through our brands, include consumer credit and debit programs, commercial payment solutions and stored value programs. Our issuers determine the competitive features for the cards issued under our programs, including interest rates and fees. We determine other aspects of our card programs such as required services and marketing strategy in order to ensure that a consistent value proposition is provided to cardholders and/or merchants by our customers in connection with these programs.

Consumer Programs Credit and Charge

Overview. MasterCard offers a number of consumer credit and charge (pay later) programs that are designed to meet the needs of our customers. For the first nine months of 2005, our consumer credit and charge programs have generated approximately $868 billion in GDV globally, representing 71% of our total GDV for the period. As of September 30, 2005, the MasterCard brand mark appeared on approximately 592 million cards worldwide, representing 8% growth from the same period in 2004.

United States. We offer customized programs to address specific consumer segments. Our consumer credit programs include Standard, Gold, Platinum and World MasterCard cards. Standard MasterCard cards are general purpose credit cards targeted to consumers with basic needs for a credit

75

card. Gold MasterCard cards are targeted to consumers typically requiring a higher line of credit or spending limit and one or more card enhancement services, such as loyalty reward programs, associated with a card. Platinum MasterCard cards are offered with still higher credit lines or spending limits and also provide a full range of card enhancement services. World MasterCard cards, which are aimed at affluent households, have no preset spending limit and the option to revolve a designated portion of the charges made and to choose the categories in which reward points are received.

International. In addition to the programs offered in the United States, MasterCard also offers a variety of other consumer card programs in selected markets throughout the world. For example, MasterCard Electronic cards offer additional control and risk management features by requiring 100% issuer authorization. The MasterCard Electronic program is designed to curb fraud and control exposure in high risk markets. The MasterCard Unembossed program encourages merchants to submit transactions electronically for authorization while providing cardholders with a global acceptance network. MasterCard has also created innovative, alternate card forms to help our customers differentiate their programs. For example, MasterCard mc(2) cards are generally chip-enabled, which provides security and additional functionality, and feature a distinctive cutaway corner card design. MasterCard has launched MasterCard mc(2) programs in the Europe, Latin America/Caribbean and Asia/Pacific regions.

General Services. The services provided in connection with all MasterCard credit cards and for which we charge issuers include lost/stolen card reporting, emergency card replacement and emergency cash advance. Optional services, such as emergency travel assistance, are also available on many MasterCard cards. These services are generally provided through third-party service providers arranged by MasterCard, including a licensed insurance company retained by MasterCard to provide insurance services.

Consumer Programs Deposit Access

Overview. MasterCard supports a range of payment solutions that allow our customers to provide consumers with convenient access to funds on deposit in checking, demand deposit and other accounts. Our deposit access (pay now) programs may be branded with the MasterCard, Maestro and/or Cirrus marks, and can be used to obtain cash in bank branches or at ATMs. In addition, MasterCard- and Maestro-branded debit cards may be used to make purchases at the point of sale. Like our consumer credit programs, we support debit Gold MasterCard programs and debit Platinum MasterCard programs that issuers can offer as premium services to cardholders. Issuers may also provide enhancement services and loyalty rewards programs in connection with debit cards carrying our brands. In recent years we have increased the size of our debit programs in key countries through our acquisition of the Redeshop® brand in Brazil in 2002 and through our agreement with S2 Limited to shift branding and processing from the Switch® brand to Maestro in the United Kingdom by 2007.

Offline Debit Card Programs. We offer MasterCard-branded offline debit card programs in the United States and other countries. In 2004, Associated Bank, Bank of the West and Washington Mutual, which collectively issue an estimated 10 million offline debit cards, selected MasterCard for their offline debit card programs. Through our agreement with eFunds Corporation, a provider of electronic payments software and processing solutions, we market eFunds processing services as an integrated component of our debit programs. The agreement is intended to add a flexible, end-to-end debit transaction processing solution to the package of services and products already available to our customers.

As a result of the settlement agreement in the U.S. merchant lawsuit, MasterCard has taken a number of actions to modify its MasterCard-branded offline debit card programs in the United States. Among other things, MasterCard has adopted rules that allow merchants to reject MasterCard-branded

Table of Contents

debit cards issued in the United States, while still accepting other MasterCard-branded cards, and vice versa. However, U.S. merchants who choose to accept MasterCard-branded debit cards must accept all MasterCard-branded debit cards. See Risk Factors Risks Related to Our Business Business Risks We have repealed our Competitive Programs Policy as a result of a final judgment in our litigation with the U.S. Department of Justice, and our business may suffer as a result.

Maestro. Maestro is MasterCard s global online debit program. Based on information from our customers, we estimate that, at September 30, 2005, the Maestro brand mark appeared on approximately 582 million cards worldwide, including 37 million MasterCard-branded cards, representing 3% growth versus the third quarter of 2004. Based on the same information, we also believe that Maestro was accepted for purchases at more than 9 million merchant locations globally. We believe that our Maestro brand has a leading position among online debit brands in many markets throughout the world, particularly in Europe. We believe that the strong presence of Maestro in Europe will position us well when the Single European Payments Area initiative, which will create a more integrated payment market in Europe, is implemented. We believe that the global acceptance of Maestro contributes to the growth of our debit business and adds value to the services that we provide to our customers. Maestro cards are issued, and Maestro transactions are processed, pursuant to a set of rules and procedures that are separate from the rules applicable to MasterCard credit and offline debit transactions.

Cirrus. We make the Cirrus brand available to customers to provide global cash access for our customers proprietary ATM cards. We believe the Cirrus brand provides cash access at more than 1 million participating ATMs and other cash dispensing locations around the globe, making it one of the world s largest cash access brands. Generally, cardholders with cards bearing the MasterCard, Maestro or Cirrus logo may use a network ATM to access funds on deposit in their accounts (if a debit card is used) or to obtain a cash advance (if a credit card is used). Typically, ATM cards contain multiple cash access logos and the Cirrus brand enables a transaction (which will then be processed by the MDS) only if there is no regional or domestic cash access brand that is capable of doing it.

Commercial Payment Solutions

MasterCard offers commercial payment solutions that help large corporations, mid-sized companies, small businesses and public sector organizations to streamline their payment processes, manage information and reduce administrative costs. In the first nine months of 2005, our commercial credit and charge programs generated approximately $93 billion in GDV globally, representing 8% of our total GDV for that period. GDV from commercial credit and charge programs grew globally by nearly 26% on a U.S. dollar basis for the first nine months of 2005, compared to the same period last year.

We offer various corporate payment products, including corporate cards, corporate executive cards, corporate purchasing cards and fleet cards that allow our customers to manage travel and entertainment expenses and provide customers with additional transactional detail. The MasterCard Corporate Multi Card® is an integrated card program that combines the functionality of one or more of our MasterCard corporate programs travel, purchasing and fleet into a single card or account, thereby reducing the costs of managing multiple card programs. Our Multinational Corporate Program allows issuers to manage and consolidate these corporate card programs for multinational organizations that require commercial cards in more than one country. We also offer a variety of payment programs for public sector entities that are similar to the travel, purchasing, fleet and Multi Card programs offered to corporations. The MasterCard BusinessCard® and Executive BusinessCard are targeted at the small-business segment, offering business owners the ability to gain access to working capital, extend payments and separate business expenses from personal expenses.

Table of Contents

MasterCard has also developed programs that offer benefits to organizations ranging from small businesses to large corporations by integrating payment transaction data into financial systems. Such programs, which aim to facilitate paperless end-to-end corporate purchasing for our customers, include MasterCard e-P3 (accounts payable re-engineering), MasterCard ExpenSys (expense reporting), MasterCard Smart Data (management reporting) and MasterCard SmartLink (enterprise reporting systems).

Stored Value Programs

Stored value (pay before) programs involve a balance account that is funded with monetary value prior to use. Holders can access funds in the account via a traditional magnetic stripe or chip-enabled payment card (prepaid cards) or paper-based travelers cheques.

MasterCard s customers may implement prepaid payment programs using any of the MasterCard family of brands (MasterCard, MasterCard Electronic, Maestro or Cirrus). MasterCard provides processing services, including authorization, clearing and settlement, in support of either magnetic stripe or chip-enabled prepaid card programs and can maintain card account balance information. Prepaid card programs can be customized to meet the needs of unique corporate and consumer segments and can be issued in connection with various programs such as gift, teen, employee benefit, payroll, travel, incentive and project management programs.

Consulting, Information and Related Services

Our MasterCard Advisors group provides our customers with a wide range of consulting services and information and other products associated with their payments activities and programs. In 2004, MasterCard Advisors expanded existing services in the areas of research, customer relationship management, database marketing and researching, information and risk management consulting, and outsourcing. Such expansion included the acquisitions of The Tower Group, Inc., a research and advisory firm, in February 2004 and Watch Hill Partners, Inc., a customer relationship management consultancy, in May 2004. In addition, MasterCard Advisors introduced new services in the area of database researching, including the launch of the SpendingPulse national retail data service, which aggregates and analyzes MasterCard s transaction processing data in the United States to produce estimates of U.S. retail sales. In the second quarter of 2005, MasterCard Advisors launched MasterCard Rewards Services, a fully integrated end-to-end rewards program in Europe. MasterCard Advisors charges our customers and others fees for its professional services. MasterCard Advisors does not make a significant contribution to our revenues.

Emerging Technologies

MasterCard contributes to innovation in the payments industry through several initiatives, including developments in the areas of electronic commerce, smart cards and mobile commerce. MasterCard encourages new initiatives in the area of electronic commerce by researching and developing a range of emerging technologies designed to offer business opportunities to MasterCard and our customers. MasterCard manages smart card development by working with our customers to help them replace traditional payment cards relying solely on magnetic stripe technology with chip-enabled payment cards that offer additional point-of-sale functionality and the ability to capture more consumer data. As of September 30, 2005, almost 250 million smart cards bearing our brands had been issued worldwide. We are also involved in a number of organizations that facilitate the development and use of smart cards globally, including a smart cards standards organization with other participants in the industry that maintains specifications designed to ensure interoperability and acceptance of chip-based payment applications on a worldwide basis.

MasterCard also encourages new initiatives in the area of mobile commerce and wireless payment development by working with customers and leading technology companies. Finally, MasterCard is working to develop standards and programs that will allow consumers to conduct their financial transactions securely using a variety of new point of interaction devices.

Marketing

We manage and promote our brands for the benefit of all customers through umbrella advertising, promotional and sponsorship initiatives. We strive to have our consumers associate the MasterCard brand with The Best Way to Pay for Everything that Matters®. Our marketing activities combine advertising, sponsorships, promotions, interactive media and public relations as part of an integrated package designed to increase consumer awareness of MasterCard and usage of MasterCard cards. We also seek to tailor our global marketing messages by customizing them in individual countries, while maintaining a common global theme. Our brand-building initiatives are conducted for our benefit as well as for the benefit of our customers.

Our advertising plays an important role in building brand visibility, usage and loyalty among cardholders globally. Our award-winning Priceless® advertising campaign, launched in the United States in 1997, has run in 49 languages across 106 countries. The Priceless campaign promotes MasterCard s acceptance and usage benefits that permit cardholders to pay for what they need, when they need it. It also provides MasterCard with a consistent, recognizable message that supports our brand positioning. In order to promote usage of our cards, we also sponsor frequent promotions on a regional and national basis, often in conjunction with merchants or our customers.

We also seek to increase MasterCard brand awareness and preference, and to encourage card usage and loyalty, by sponsoring a variety of sporting and entertainment properties that support the Priceless campaign and MasterCard brand positioning. In soccer, MasterCard is the exclusive payment system sponsor of the FIFA World Cup. We also sponsor other leading soccer events, including the Union of European Football Associations (UEFA) European Championship and the UEFA Champions League in Europe. In golf, we are a sponsor and the preferred card of the PGA Tour, the Champions Tour, the PGA of America, the LPGA, the European PGA Tour, the PGA Tour of Australasia, and other events. In baseball, we are the exclusive payments brand sponsor of Major League Baseball and have also established separate marketing and sponsorship arrangements with over half of the Major League Baseball teams. In football, we have established sponsorship arrangements with the majority of the National Football League teams. Finally, as part of our marketing strategy in family entertainment, we have a long-term sponsorship arrangement with certain business units of NBC Universal that entitles MasterCard to marketing and promotional programs with certain of Universal s motion picture, theme park, music and video properties.

Merchant Acceptance Initiatives

We estimate that, at September 30, 2005, cards carrying the MasterCard brand were accepted at over 22 million merchant locations around the world. As of the same date, we believe that MasterCard-branded cards were also accepted at over 1.5 million ATMs and manual cash access locations. Information on ATM and manual cash access locations is reported by our customers and is partly based on publicly-available reports of payment industry associations, government agencies and independent analysts in Australia, Canada and the United States.

Merchants are an important constituency in the MasterCard payment system and we are working to further develop our relationships with them. We believe that consolidation in the retail industry is producing a set of larger merchants with increasingly global scope. These merchants are having a significant impact on all participants in the global payments industry, including

MasterCard. We believe

79

Table of Contents

that the growing role of merchants in the payments system represents both an opportunity and a challenge for MasterCard. On the one hand, large merchants are supporting many of the legal and regulatory threats to interchange fees against which MasterCard is now defending, since interchange fees represent a significant component of the costs that merchants pay to accept payment cards. See Risk Factors Risks Related to Our Business Legal and Regulatory Risks and Risk factors Risks Related to Our Business Business Risks Merchants are increasingly focused on the costs of accepting card-based forms of payment, which may lead to additional litigation and regulatory proceedings and may increase the costs of our incentive programs, which could materially and adversely affect our profitability. In addition, we may be required to increase the amount and scope of incentives that we provide to merchants to encourage the acceptance and usage of our cards, which may adversely affect our business. On the other hand, we believe there are many opportunities to enhance our relationships with merchants and to continue to expand acceptance of our cards. For example, in 2004 we made available directly to merchants those portions of our rules that apply to card acceptance and related activities, thereby increasing the level of transparency and predictability of our payment system for merchants. We have also begun to hold meetings with merchant advisory groups that have been established in key global markets including the United States, Canada and Australia.

We aim to maintain the unsurpassed acceptance of MasterCard-branded programs by focusing on three core initiatives. First, we seek to increase the categories of merchants that accept cards carrying our brands. We are presently focused on expanding acceptance in electronic commerce environments, in fast through put businesses such as fast food restaurants, and in public sector payments, such as those involving taxes, fees, fines and tolls, among other categories. Second, we seek to increase the number of payment channels where MasterCard programs are accepted, such as by introducing MasterCard acceptance in connection with recurring payment applications. Third, we seek to increase usage of our programs at selected merchants by sponsoring a wide range of promotional programs on a global basis. We also enter into arrangements with selected merchants under which these merchants provide incentives or discounts for the use of MasterCard-branded programs or otherwise indicate a preference for MasterCard-branded programs when accepting payments from consumers.

We also support technical initiatives designed to make MasterCard card acceptance more attractive for specific merchants, such as our Quick Payment Service for fast food restaurants and other merchants where rapid transactions are required. In addition, MasterCard PayPass, a contactless payment solution that enables consumers simply to tap or wave their payment card on a specially equipped terminal, is designed to help our customers further grow their businesses by capturing a portion of transactions that were previously cash-based and increasing card activity on underutilized card accounts. In 2004, McDonald s agreed to accept PayPass at thousands of its locations in the United States. PayPass pilot programs have been expanded to include customers and merchants in the Asia/Pacific region and Canada. As of September 30, 2005, more than 700,000 PayPass Cards were issued in the United States, largely in Atlanta, Denver and New York.

We also view recurring payments as a significant opportunity to expand MasterCard card acceptance and usage, and we are working with customers to encourage consumers to make recurring bill payments in a variety of categories including telephone, cable, utilities and insurance on their MasterCard-branded cards.

In addition, we provide research, marketing support and financial assistance to our customers and their marketing partners in connection with the launch and marketing of co-branded and affinity card programs. Co-branded cards are payment cards bearing the logos or other insignia of an issuer and a marketing partner, such as an airline or retail merchant. Affinity cards are similar to co-branded cards except that the issuer s marketing partner is typically a charity, educational or similar organization.

Table of Contents

Membership Standards

We establish and enforce rules and standards surrounding membership in MasterCard International and the use and acceptance of cards carrying our brands.

Rule Making and Enforcement

Membership in MasterCard International and its affiliates is generally open only to banks and other regulated and supervised financial institutions. Applicants for membership must meet specified membership eligibility requirements, which may vary between regions.

In general, MasterCard grants licenses by territory to applicants able to perform all obligations required of members. Licenses convey intellectual property rights to members, including access to the network and usage of our brands. Risk management reviews and anti-money laundering due diligence reviews are conducted on all new members prior to admission, as well as on existing members. All applicants and members must meet the requirements of MasterCard s anti-money laundering program. As a condition of our licenses, members agree to comply with our bylaws, policies, rules and operating regulations (Standards). MasterCard International and certain of its affiliates are the governing bodies that establish and enforce the Standards, which relate to such matters as membership eligibility and financial soundness criteria; the standards, design and features of cards and card programs; the use of MasterCard trademarks; merchant acquiring activities (including acceptance standards applicable to merchants); and guaranteed settlement, member failures and allocation of losses. In Europe, certain of these standards will be established and enforced by our European Board (as described below).

To help ensure that members conform to the Standards, we run a number of compliance programs including reviewing card programs proposed by members and requiring members to undergo an annual audit by an independent certified public accountant (or similar examination by a regulatory authority). To tailor MasterCard s programs and services to the needs of local markets, we have approved a number of variations to the Standards applicable to specific regions.

Member Risk Management

As a guarantor of certain card obligations of principal members, we are exposed to member credit risk arising from the potential financial failure of any of our approximately 2,200 principal members of MasterCard, Maestro and Cirrus, and approximately 3,000 affiliate debit licensees. Our estimated gross legal settlement risk exposure for MasterCard branded transactions, which is calculated using the average daily card charges made during the quarter multiplied by the estimated number of days to settle, was approximately $14.6 billion as of September 30, 2005. Principal members participate directly in MasterCard programs and are responsible for the settlement and other activities of their sponsored affiliate members (approximately 22,700).

To minimize the contingent risk to MasterCard of a failure, we monitor principal members and affiliate debit licensees financial health, economic and political operating environments and compliance with our rules and standards. If the financial condition of a member or the state of a national economy in which it operates indicates that it may not be able to satisfy its obligations to us or other MasterCard members or its payment obligations to MasterCard merchants, we may require the member to post collateral, typically in the form of letters of credit and bank guarantees. As of September 30, 2005, we have required our members to post $1.4 billion in collateral held for legal settlement exposure for MasterCard-branded transactions. If a member becomes unable or unwilling to meet its obligations to us or other members, we are able to draw upon such member s collateral, if provided, in order to minimize any potential loss to our members or ourselves. In addition to obtaining collateral from members, in situations where a member is potentially unable to meet its obligations to us or other members, we can block authorization and settlement of transactions and ultimately terminate membership. However, MasterCard has never terminated a member due to the member s risk profile.

Table of Contents

For liquidity protection in the event of member settlement failure, we have established a $2.25 billion committed credit facility, which is subject to renewal. See Risk Factors Risks Related to Our Business Business Risks As a guarantor of certain obligations of principal members and affiliate debit licensees, we are exposed to risk of loss or illiquidity if any of our members default on their MasterCard, Cirrus or Maestro settlement obligations. Following the offering transactions, we will no longer have the right to impose special assessments on members, including in connection with member settlement failures. See Risk Factors Risks Related to Our Business Business Risks Upon completion of this offering, we will no longer have the right to impose special assessments upon the members of MasterCard International, which could leave us exposed to significant losses that could materially and adversely affect our results of operations, cash flow and financial condition .

Payment System Integrity

The integrity of our payment system is affected by fraudulent activity and other illegal uses of our system. Fraud is most often committed in connection with lost, stolen or counterfeit cards or stolen account information resulting from security breaches of systems that store cardholder account data. See Risk Factors Risks Related to Our Business Business Risks Account data breaches involving card data stored by us or third parties could adversely affect our reputation and revenue. Fraud is also more likely to occur in transactions where the card is not present, such as electronic commerce, mail order and telephone order transactions. Security and cardholder authentication for these remote channels are particularly critical issues facing our customers and merchants who engage in these forms of commerce, where a signed cardholder sales receipt is generally unavailable.

We monitor areas of risk exposure and enforce our rules and standards to combat fraudulent activity. We also operate several compliance programs to ensure that the integrity of our payment system is maintained. Key compliance programs include excessive chargeback, merchant audit and account data compromise programs. Our members are also required under our rules to report instances of fraud to us in a timely manner.

Our customers are responsible for fraud losses associated with the cards they issue or the merchants from whom they acquire transactions. However, we have implemented a series of programs and systems to aid them in detecting and preventing the fraudulent use of cards carrying our brands. We provide education programs and various risk management tools to help detect fraud including MasterCard SecureCode, a global Internet authentication solution that permits cardholders to authenticate themselves to their issuer using a unique, personal code, and Site Data Protection, a program that assists customers and on-line merchants in protecting electronic commerce sites from hacker intrusions and subsequent account data compromises. Generally, we charge our customers fees for these anti-fraud programs and services.

Enterprise Risk Management

MasterCard faces a number of risks in operating its business. For a description of material risks, see Risk Factors. The degree to which MasterCard manages risk is vital to its financial condition and profitability. Managing risk is the responsibility of our business units and is an integral component of our business activities. A dedicated Enterprise Risk Management (ERM) group has been formed to provide risk management analysis, support, coordination and oversight across MasterCard. Through ERM, we are identifying, assessing, mitigating and monitoring key business risks in a consistent manner.

Some of our key ERM activities have included: developing an ERM framework, policy and risk governance structure; identifying and categorizing key internal and external risks; creating preliminary risk reporting; determining mitigating activities and action plans; and providing a risk-weighted decision-making methodology for the 2006 strategic planning process.

Table of Contents

Intellectual Property

We own a number of valuable trademarks that are essential to our business, including MasterCard®, Maestro® and Cirrus®, through one or more affiliates. We also own numerous other trademarks covering various brands, programs and services offered by MasterCard to support our payment programs. Through license agreements with our customers, we authorize the use of our trademarks in connection with our customers card issuing and merchant acquiring businesses. In addition, we own a number of patents and patent applications relating to payments solutions, transaction processing, smart cards, security systems and other matters, some of which may be important to our business operations.

Competition

MasterCard programs compete against all forms of payment, including paper-based transactions (principally cash and checks), electronic transactions such as wire transfers and Automated Clearing House payments and other electronic forms of payment, including card-based payment systems. As a result of a global trend in which electronic forms of payment such as payment cards are increasingly displacing paper forms of payment, we have gained market share versus cash and checks in recent years. However, cash and checks still capture the largest overall percentage of worldwide transaction volume.

Within the general purpose payment card industry, we face substantial and increasingly intense competition worldwide from systems such as Visa (including Plus, Electron and Interlink), American Express and JCB, among others. In specific countries, we face significant competition from other competitors such as Discover/Novus in the United States. Within the global general purpose card industry, Visa has significantly greater volume than we do. In certain countries, other competitors also have leading positions, such as JCB in Japan. Our deposit access programs also encounter substantial and increasingly intense competition from ATM and point-of-sale debit networks in various countries, such as Star, NYCE and Pulse in the United States, Interac in Canada and EPTPOS in Australia. We also compete against businesses that issue their own payment cards such as retail stores and petroleum (gasoline) companies. New competitors may also enter our marketplace from time to time. For example, China Union Pay has been established as the predominant domestic card acceptance brand in the People s Republic of China, and may seek to expand its acceptance and cash access network internationally.

Our competitors include operators of proprietary end-to-end payment networks that have direct acquiring relationships with merchants and direct issuing relationships with cardholders, such as American Express and Discover. These competitors have certain advantages that we do not enjoy. Among other things, these competitors do not require formal interchange fees to balance payment system costs among issuers and acquirers, because they have direct relationships with both merchants and cardholders. Interchange fees, which are a characteristic of four-party payments systems such as ours, are subject to increased regulatory scrutiny worldwide. See Risk Factors Risks Related to Our Business Legal and Regulatory Risks Interchange fees are subject to increasingly intense legal and regulatory scrutiny worldwide, which may have a material adverse impact on our revenue, our prospects for future growth and our overall business. Because they do not utilize formal interchange fees, operators of end-to-end payment networks to date have generally avoided the same regulatory scrutiny we face and, accordingly, may enjoy a competitive advantage over four-party payment systems.

In addition, ongoing litigation has and may continue to affect our ability to compete in the global payments industry. For example, under the settlement agreement in the U.S. merchant lawsuit, U.S. merchants now have the right to reject MasterCard-branded debit cards issued in the United States while still accepting other MasterCard-branded cards, which may adversely affect our ability to

maintain and grow our debit business in the United States. In addition, as a result of the court s decision in our litigation with the U.S. Department of Justice concerning our Competitive Programs Policy, some of our customers may now do business with American Express or Discover in the United States, which could adversely affect our business. A number of our large customers, including MBNA Corporation, Citibank and GE Finance have announced that they will issue American Express or Discover-branded cards. See Risk Factors Risks Related to Our Business Business Risks We have repealed our Competitive Programs Policy as a result of a final judgment in our litigation with the U.S. Department of Justice, and our business may suffer as a result. Finally, we are being sued in several state and federal courts because of our currency conversion practices. The outcome of these lawsuits potentially could require us to change our currency conversion practices, which may have a material adverse effect on our business. We cannot predict what the final outcome will be of our various litigations and other regulatory proceedings. For a description of these and other matters, see Legal Proceedings.

We compete intensely with other bankcard associations, principally Visa, for the loyalty of our customers. In most countries throughout the world, including the United States, financial institutions typically issue both MasterCard- and Visa-branded payment cards. As a result of this structure, known as duality , we compete with Visa for business on the basis of individual card portfolios or programs. In some countries, particularly Canada, card issuers are non-dual, meaning that they issue either MasterCard or Visa payment cards, but not both. Issuance of MasterCard and Visa debit cards is generally non-dual in the United States as well, due to Visa s historical debit exclusivity rule. As a result of the litigation with the U.S. Department of Justice, Visa s debit exclusivity rule is no longer enforceable. However, Visa enacted a bylaw that imposes a fee on its 100 largest issuers of debit cards in the United States if they reduce their Visa debit volume by more than 10% which, if enforced, may prevent us from acquiring business from current Visa customers. In non-dual countries, we compete with Visa for the entire book of a customer s business.

We face increasingly intense competitive pressure on the prices we charge our customers. In order to stay competitive, we may have to increase the amount of incentives we provide to our customers, including possible pricing discounts. Over the past several years, we have experienced continued pricing reductions. We seek to enter into business agreements with customers through which we offer incentives and other support to issue and promote our cards. However, our customers can terminate their business agreements with us in a variety of circumstances. See Risk Factors Risks Related to Our Business Business Risks We face increasingly intense competitive pressure on the prices we charge our customers, which may materially and adversely affect our revenue and profitability.

Over the last several years, the banking industry has undergone rapid consolidation, and we expect this trend to continue in the future. Consolidation represents a competitive threat for MasterCard because our business strategy contemplates entering into business agreements with our largest customers in exchange for significant business commitments to MasterCard. Significant ongoing consolidation in the banking industry may result in a financial institution with a substantial MasterCard portfolio being acquired by an institution that has a strong relationship with a competitor, resulting in a loss of business for MasterCard. See Risk Factors Risks Related to Our Business Business Risks Consolidation or other changes affecting the banking industry could result in a loss of business for MasterCard and may create pressure on the prices we charge our customers, which may materially and adversely affect our revenue and profitability.

In addition, we face competition with respect to particular segments of the payment card industry. In the United States, for example, MasterCard-branded transactions account for a smaller share of all offline, signature-based debit transactions than they do credit or charge transactions. In addition, many of our competitors process a greater number of online, PIN-based debit transactions at the point of

Table of Contents

sale than we do, since our Maestro brand has relatively low market penetration in the United States. See Risk Factors Risks Related to Our Business Business Risks If we are unable to grow our debit business, particularly in the United States, we may fail to maintain and increase our revenue growth. In addition, our business and revenues could be impacted adversely by any tendency among U.S. consumers or financial institutions to migrate from offline, signature-based debit transactions to online, PIN-based transactions, because the latter types of transactions are more likely to be processed by ATM/debit point-of-sale networks as opposed to us.

We also face competition from transaction processors such as First Data Corporation, some of which are seeking to build networks that link issuers directly with point-of-sale devices for payment card transaction authorization and processing services. Certain of these transaction processors (including First Data) have significantly greater scale than we do, which may provide them with a cost advantage. If these processors grow their transaction volumes more quickly than we do, their scale advantages over us may accelerate and they could capture some of our core processing business. Similarly, some of our competitors provide currency conversion services at the point-of-sale through dynamic currency conversion. Dynamic currency conversion occurs when a transaction is converted at the individual merchant location in real time from the currency of the merchant into the cardholder s billing currency, thereby bypassing MasterCard s currency conversion processes. When MasterCard performs currency conversion centrally, the transaction is submitted to MasterCard in the currency of the merchant and is converted by MasterCard into the cardholder s billing currency. The growth of dynamic currency conversion services could reduce our transaction processing volumes, which could adversely affect our revenues.

We also compete against new entrants that have developed alternative payment systems such as PayPal and payments across mobile devices. Among other things, these competitors provide Internet currencies that can be used to buy and sell goods on-line, virtual checking programs that permit the direct debit of consumer checking accounts for on-line payments, and services that support payments to and from proprietary accounts for Internet, mobile commerce and other applications. A number of these new entrants rely principally on the Internet to support their services, and may enjoy lower costs than we do. In mobile commerce, we also face competition from established network operators. Whereas the MasterCard approach to mobile commerce centers on the use of the consumer s payment account as established by their card issuer, network operators may apply mobile consumer payments directly to the customer s monthly bill.

We believe that the principal factors affecting our competitive position in the global payments industry are:

- pricing;
- customer relationships;
- the impact of existing litigations, legislation and government regulation;
- the impact of globalization and consolidation of financial institutions and merchants;
- the acceptance base, reputation and brand recognition of payment cards;
- the quality and integrity of transaction processing;

the relative value of services and products offered;

the success and scope of marketing and promotional campaigns; and

the ability to develop and implement new card programs, systems and technologies in both physical and virtual environments.

Table of Contents

Government Regulation

Government regulation impacts key aspects of our business. We are subject to regulations that affect the payment industry in the many countries in which our cards are used. In recent years the regulatory environment in which we operate has become increasingly stringent. In particular, interchange fees associated with four-party payment systems like ours are being reviewed or challenged in various jurisdictions. See Legal Proceedings.

Furthermore, MasterCard customers are subject to numerous regulations applicable to banks and other financial institutions in the United States and elsewhere, and as a consequence MasterCard is impacted by such regulations. Certain of our operations are periodically reviewed by the federal Financial Institutions Examination Council to ensure our compliance with applicable data security requirements, for example. In recent years, the federal banking regulators have adopted a series of regulatory measures intended to require more conservative accounting, greater risk management and higher capital requirements for bank credit card activities, particularly in the case of banks that focus on subprime cardholders. In addition, MasterCard Europe operates a retail payment system in Europe and is subject to oversight by the National Bank of Belgium pursuant to standards published by the European Central Bank that are principally targeted at managing financial, legal and operations risk.

In addition, aspects of our operations or business are subject to privacy regulation in the United States, the European Union and elsewhere, as well as regulations imposed by the U.S. Treasury s Office of Foreign Assets Control. For example, in the United States, we and our customers are subject to the information safeguards rule under the Gramm-Leach-Bliley Act and applicable regulations thereunder. The implementing regulations require all financial institutions (including us under the Federal Trade Commission safeguards rule) to develop, implement and maintain a written, comprehensive information security program that contains administrative, technical, and physical safeguards that are appropriate to the financial institution s size and complexity, the nature and scope of the financial institution s activities, and the sensitivity of any customer information at issue. In addition, a number of U.S. states have enacted security breach legislation, requiring varying levels of consumer notification in the event of a security breach, and several other states are considering similar legislation. In Europe, the European Parliament and Council passed the European Directive 95/46/EC on the protection of individuals with regard to the processing of personal data and on the free movement of such data. The directive has been implemented through local laws regulating data protection in European Union member states to which we and our customers are subject. The directive establishes general principles with regard to the processing of personal data, including the legal grounds for processing, the rights of individuals with regard to their personal data, restrictions on transfers of the personal data outside the European Economic Area, and the obligation of the controller of that information to take the necessary technical and organizational measures to protect personal data.

MasterCard and other participants in the payment industry are also subject to the regulatory requirements of Section 352(a) of the USA PATRIOT Act, which has required MasterCard to create and implement a comprehensive anti-money laundering program and has imposed similar requirements on some of our customers. Our anti-money laundering program must, at a minimum, include the designation of a compliance officer, provide for the training of employees regarding anti-money laundering responsibilities, provide internal policies, procedures, and controls to mitigate money laundering risks, and be independently audited.

We are also subject to regulations imposed by the U.S. Treasury Office of Foreign Assets Control (OFAC). While MasterCard has no business operations, subsidiaries or affiliated entities in Syria, Iran, Sudan, North Korea, Cuba or Libya, a limited number of financial institutions are licensed by MasterCard to issue cards or acquire merchant transactions in certain of these countries, which have each been identified by the U.S. State Department as terrorist-sponsoring states and are subject to OFAC restrictions. Our reputation may suffer due to our association with these countries, which in turn

86

Table of Contents

could have a material adverse effect on the valuation of our stock. Further, certain U.S. states have recently enacted legislation regarding investments by pension funds and other retirement systems in companies that have business activities or contacts with countries that have been identified as terrorist-sponsoring states and similar legislation may be pending in other states. As a result, pension funds and other retirement systems may be subject to reporting requirements with respect to investments in companies such as ours or may be subject to limits or prohibitions with respect to those investments that may materially and adversely affect our stock price.

In addition, in 2004, regulations implementing the Fair and Accurate Credit Transactions Act, were issued that, among other things, make permanent the preemptive effect of several provisions of the Fair Credit Reporting Act that could have a material impact on our customers businesses. Additional implementing regulations are anticipated later this year. One such regulation pertaining to risk-based pricing could have a significant impact on the application process for credit cards, resulting in increased costs of issuance and/or a decrease in the flexibility of card issuers to set the price of credit. There is also increasing scrutiny among regulators and Congress with respect to our customers pricing of credit and their underwriting standards. Any legislative or regulatory restrictions on our customers ability to price credit freely could result in reduced amounts of credit available to consumers, and therefore potentially reduce our transaction volume and revenues.

The U.S. Congress is also presently considering regulatory initiatives in the areas of Internet gambling, Internet prescription drug purchases, copyright and trademark infringement, and privacy, among others, that could impose additional compliance burdens on us or our customers. Most U.S. states are considering a variety of similar legislation. If implemented, these initiatives could require us or our customers to monitor, filter, restrict, or otherwise oversee various categories of payment card transactions, thereby increasing our costs or decreasing our transaction volumes. Various regulatory agencies are also considering regulations covering identity theft, account management guidelines, privacy, disclosure rules, security, and marketing that would impact our customers directly. Many of these topics are a result of increased scrutiny of the underwriting standards of our customers. These new requirements may restrict the ability of our customers to extend credit through the use of payment cards, which could decrease the number of transactions using our cards. In some circumstances, new regulations could have the effect of limiting our customers ability to offer new types of payment programs or restricting their ability to offer our existing programs such as stored value cards, which could materially and adversely reduce our revenues and revenue growth.

In addition to the review of interchange fees, regulators in the United States and elsewhere are considering a variety of proposals to address such matters as privacy, data use, disclosure rules that, if implemented, could adversely impact our business and our prospects, or the businesses of our customers. For a discussion of certain risks associated with these and other regulatory initiatives, see Risk Factors Risks Related to Our Business Legal and Regulatory Risks The payments industry is generally the subject of increasing global regulatory focus, which may impose costly new compliance burdens and costs on us and our customers and lead to decreased transaction volumes through our systems and Risk Factors Risks Related to Our Business Legal and Regulatory Risks Existing and proposed regulation in the areas of consumer privacy and data use and security could decrease the number of payment cards and could increase our costs.

Outside of the United States, a number of jurisdictions have implemented legal frameworks to regulate their domestic payments systems. For example, regulators in Mexico, Colombia, Singapore and Malaysia have been given statutory authority to regulate certain aspects of the payments systems in those countries. In the case of Singapore and Malaysia, one of the main policies behind the regulations is to protect the stability of the financial systems of those countries. In Malaysia, there is presently no further requirement other than registration and the supply of information. In Singapore, MasterCard does not fall into the ambit of active regulation at present but we may be required to supply information to the regulators in the future.

Table of Contents

Employees

As of September 30, 2005, we employed approximately 4,200 persons, of which approximately 1,400 were employed outside the United States. We consider our relationship with our employees to be good.

Properties

As of September 30, 2005, MasterCard and its subsidiaries owned or leased 57 properties. We own our corporate headquarters, a three-story, 472,600 square foot building located in Purchase, New York. There is no outstanding debt on this building. Our principal technology and operations center is a 528,000 square foot leased facility located in O Fallon, Missouri, known as Winghaven. The term of the lease on this facility is 10 years, which commenced on August 31, 1999. See Note 12 to our annual consolidated financial statements for a description of the lease arrangement. Our leased properties in the United States are located in 11 states and in the District of Columbia. We also lease properties in 37 other countries. These facilities primarily consist of corporate and regional offices, as well as our operations centers.

We believe that our facilities are suitable and adequate for the business that we currently conduct. However, we periodically review our space requirements and may acquire new space to meet the needs of our business, or consolidate and dispose of facilities that are no longer required.

Legal Proceedings

We are a party to legal proceedings with respect to a variety of matters in the ordinary course of business. Some of these proceedings involve complex claims that are subject to substantial uncertainties and unspecified damages, therefore, the probability of loss and an estimation of damages are difficult to ascertain. Accordingly, we have not established reserves for any of these proceedings other than for the currency conversion litigations. Except for those matters described below, we do not believe that any legal proceedings to which we are a party would have a material impact on our results of operations, financial position, or cash flows. Although we believe that we have strong defenses for the litigations described below, we could in the future incur judgments or enter into settlements of claims that could have a material adverse effect on our results of operations, financial position or cash flows. Such charges, particularly in the event we may be found liable in a large class-action lawsuit or on the basis of a claim entitling the plaintiff to treble damages or under which we were jointly and severally liable, could be significant and could materially and adversely affect our results of operations, cash flow and financial condition and result in a significant reduction in the value, or the loss, of your investment. See Risk Factors Risks Related to Our Business Legal and Regulatory Risks.

Department of Justice Antitrust Litigation and Related Private Litigation

In October 1998, the U.S. Department of Justice (DOJ) filed suit against MasterCard International, Visa U.S.A., Inc. and Visa International Corp. in the U.S. District Court for the Southern District of New York alleging that both MasterCard s and Visa s governance structure and policies violated U.S. federal antitrust laws. First, the DOJ claimed that dual governance the situation where a financial institution has a representative on the board of directors of MasterCard or Visa while a portion of its card portfolio is issued under the brand of the other association was anti-competitive and acted to limit innovation within the payment card industry. Second, the DOJ challenged MasterCard s Competitive Programs Policy (CPP) and a Visa bylaw provision that prohibited financial institutions participating in the respective associations from issuing competing proprietary payment cards (such as American Express or Discover). The DOJ alleged that MasterCard s CPP and Visa s bylaw provision acted to restrain competition.

Table of Contents

On October 9, 2001, the District Court judge issued an opinion upholding the legality and pro-competitive nature of dual governance. However, the judge also held that MasterCard s CPP and the Visa bylaw constituted unlawful restraints of trade under the federal antitrust laws.

On November 26, 2001, the judge issued a final judgment that ordered MasterCard to repeal the CPP insofar as it applies to issuers and enjoined MasterCard from enacting or enforcing any bylaw, rule, policy or practice that prohibits its issuers from issuing general purpose credit or debit cards in the United States on any other general purpose card network. The final judgment also provides that from the effective date of the final judgment (October 15, 2004) until October 15, 2006, MasterCard is required to permit any issuer with which it entered into such an agreement prior to the effective date of the final judgment to terminate that agreement without penalty, provided that the reason for the termination is to permit the issuer to enter into an agreement with American Express or Discover. The final judgment imposes parallel requirements on Visa.

MasterCard appealed the judge s ruling with respect to the CPP. On September 17, 2003, a three-judge panel of the Second Circuit issued its decision upholding the District Court s decision. On October 4, 2004, the Supreme Court denied MasterCard s petition for certiorari, thereby exhausting all avenues for further appeal in this case. Thereafter, the parties agreed that October 15, 2004 would serve as the effective date of the final judgment.

In addition, on September 18, 2003, MasterCard filed a motion before the District Court judge in this case seeking to enjoin Visa, pending completion of the appellate process, from enforcing a newly-enacted bylaw requiring Visa s 100 largest issuers of debit cards in the United States to pay a so-called settlement service fee if they reduce their Visa debit volume by more than 10%. This bylaw was later modified to clarify that the settlement service fee would only be imposed if an issuer shifted its portfolio of debit cards to MasterCard. Visa implemented this bylaw provision following the settlement of the U.S. merchant lawsuit described under the heading U.S. Merchant Opt Out and Consumer Litigations below. MasterCard believes that this bylaw is punitive and inconsistent with the final judgment in the DOJ litigation. On January 10, 2005, MasterCard moved before the District Court to enforce the terms of the final judgment and sought an order enjoining Visa from enforcing or maintaining its settlement service fee bylaw. In addition, MasterCard requested that the Court permit Visa s largest 100 debit issuers to rescind any debit issuance agreements they entered into with Visa while the settlement service fee was in effect. The motion was fully briefed on June 3, 2005. On August 18, 2005, the Court issued an order appointing a special master to conduct an evidentiary hearing and then issue a report and recommendation as to whether the settlement service fee violates the Court s final judgment. The special master has scheduled a hearing on this motion for December 5, 2005. If MasterCard is unsuccessful and Visa is permitted to impose this settlement service fee on issuers of debit cards according to this bylaw, it could inhibit the growth of our debit business. At this time it is not possible to determine the ultimate resolution of this matter.

On October 4, 2004, Discover Financial Services, Inc. filed a complaint against MasterCard, Visa U.S.A., Inc. and Visa International Incorporated. The complaint was filed in the U.S. District Court for the Southern District of New York and was designated as a related case to the DOJ litigation, and was assigned to the same judge who issued the DOJ decision described above. The complaint alleges that the implementation and enforcement of MasterCard s CPP and Visa s bylaw provision as well as MasterCard s Honor All Cards rule (and a similar Visa rule), which require merchants who accept MasterCard cards to accept for payment every validly presented MasterCard card, violated Sections 1 and 2 of the Sherman Act as well as California s Unfair Competition Act in an alleged market for general purpose card network services and a debit card market. The complaint also challenged MasterCard s no surcharge rule (and a similar Visa rule) under the same statutes. On December 10, 2004, MasterCard moved to dismiss the complaint in its entirety for failure to state a claim. In lieu of filing its opposition papers to MasterCard s motion, Discover filed an amended complaint on January 7,

Table of Contents

2005. In the amended complaint, Discover dropped some of its claims, including its challenge against the no surcharge rule and its claims under California s Unfair Competition Act, but continued to allege that the implementation and enforcement of MasterCard s CPP, Visa s bylaw provision and the Honor All Cards rule violated Sections 1 and 2 of the Sherman Act. Discover requested that the District Court apply collateral estoppel with respect to its final judgment in the DOJ litigation and enter an order that the CPP and Visa s bylaw provision have injured competition and caused injury to Discover. Discover seeks treble damages in an amount to be proved at trial along with attorneys fees and costs. On February 7, 2005, MasterCard moved to dismiss Discover s amended complaint in its entirety for failure to state a claim. On April 14, 2005, the Court denied, at this stage in the litigation, Discover s request to give collateral estoppel effect to the findings in the DOJ litigation. However, the Court indicated that Discover may refile a motion for collateral estoppel after discovery. Under the doctrine of collateral estoppel, a court has the discretion to preclude one or more issues from being relitigated in a subsequent action but only if (1) those issues are identical to issues actually litigated and determined in the prior action, (2) the issues were necessary to the prior judgment, and (3) the party to be estopped had a full and fair opportunity to litigate those issues in the prior action. Accordingly, if the Court were to give effect to collateral estoppel on one or more issues in the future, then significant elements of plaintiff s claims would be established, thereby making it more likely that we would be found liable. In addition, that same day and in subsequent rulings, with respect to the market for general purpose card network services, the Court denied MasterCard s motion to dismiss Discover s Section 1 conspiracy to restrain trade and Section 2 conspiracy to monopolize or maintain a monopoly claims that were based upon the conduct described above. On October 24, 2005, the Court granted MasterCard s motion to dismiss Discover s Section 2 monopolization and attempted monopolization claims against MasterCard. On November 9, 2005, the Court denied MasterCard s motion to dismiss Discover s claims based upon effects in an alleged debit market. The parties will now submit discovery proposals to the Court in the matter. At this time it is not possible to determine the ultimate resolution of, or estimate the liability related to, the Discover litigation. No provision for losses has been provided in connection with this matter.

On November 15, 2004, American Express filed a complaint against MasterCard, Visa and eight member banks, including JP Morgan Chase & Co., Bank of America Corp., Capital One Financial Corp., U.S. Bancorp, Household International Inc., Wells Fargo & Co., Providian Financial Corp. and USAA Federal Savings Bank. The complaint, which was filed in the U.S. District Court for the Southern District of New York, was designated as a related case to the DOJ litigation and was assigned to the same judge. The complaint alleges that the implementation and enforcement of MasterCard s CPP and Visa s bylaw provision violated Sections 1 and 2 of the Sherman Act in an alleged market for general purpose card network services and a market for debit card network services. American Express seeks treble damages in an amount to be proved at trial, along with attorneys fees and costs. On January 14, 2005, MasterCard filed a motion to dismiss the complaint for failure to state a claim. On April 14, 2005, the District Court denied, at this stage in the litigation, American Express request to give collateral estoppel effect to the findings in the DOJ litigation. However, the Court indicated that American Express may refile a motion for collateral estoppel after discovery. American Express also requested that the Court apply collateral estoppel with respect to its final judgment in the DOJ litigation. As with the lawsuit brought by Discover that is described in the preceding paragraph, if the Court were to give effect to collateral estoppel on one or more issues in the future, then significant elements of plaintiff s claims would be established, thereby making it more likely that we would be found liable. In addition, that same day and in subsequent rulings, the Court denied MasterCard s motion to dismiss American Express Section 1 conspiracy to restrain trade claims and Section 2 conspiracy to monopolize claims that were based upon the conduct described above. On November 9, 2005, the Court denied MasterCard s motion to dismiss American Express conspiracy to restrain trade claims in the alleged market for debit card network services. The parties will now submit discovery proposals to the Court in the matter. At this time it is not possible to determine the ultimate resolution of, or estimate the liability related to, this matter. No provision for losses has been provided in connection with the American Express litigation.

Currency Conversion Litigations

MasterCard International, together with Visa U.S.A., Inc. and Visa International Corp., are defendants in a state court lawsuit in California. The lawsuit alleges that MasterCard and Visa wrongfully imposed an asserted one percent currency conversion fee on every credit card transaction by U.S. MasterCard and Visa cardholders involving the purchase of goods or services in a foreign country, and that such alleged fee is unlawful. This action, titled *Schwartz v. Visa Int l Corp., et al.*, was brought in the Superior Court of California in February 2000, purportedly on behalf of the general public. Trial of the Schwartz matter commenced on May 20, 2002 and concluded on November 27, 2002. The Schwartz action claims that the alleged fee grossly exceeds any costs the defendants might incur in connection with currency conversions relating to credit card purchase transactions made in foreign countries and is not properly disclosed to cardholders. MasterCard denies these allegations.

On April 8, 2003, the trial court judge issued a final decision in the Schwartz matter. In his decision, the trial judge found that MasterCard s currency conversion process does not violate the Truth in Lending Act or regulations, nor is it unconscionably priced under California law. However, the judge found that the practice is deceptive under California law, and ordered that MasterCard mandate that members disclose the currency conversion process to cardholders in cardholder agreements, applications, solicitations and monthly billing statements. As to MasterCard, the judge also ordered restitution to California cardholders. The judge issued a decision on restitution on September 19, 2003, which requires a traditional notice and claims process in which consumers have approximately six months to submit their claims. The court issued its final judgment on October 31, 2003. On December 29, 2003, MasterCard appealed the judgment. The final judgment and restitution process have been stayed pending MasterCard s appeal. On August 6, 2004 the court awarded plaintiff s attorneys fees in the amount of $28.2 million to be paid equally by MasterCard and Visa. Accordingly, during the three months ended September 30, 2004, MasterCard accrued amounts totaling $14.1 million which are included in U.S. Merchant Lawsuit and Other Legal Settlements in the Consolidated Statements of Operations (see Note 12 to our interim consolidated financial statements). MasterCard subsequently filed a notice of appeal on the attorneys fee award on October 1, 2004. With respect to restitution, MasterCard believes that it is likely to prevail on appeal. In February 2005, MasterCard filed an appeal regarding the applicability of Proposition 64, which amended sections 17203 and 17204 of the California Business and Professions Code, to this action. Oral argument on the Proposition 64 appeal took place on July 18, 2005 and on September 28, 2005, the appellate court reversed the trial court, finding that the plaintiff lacked standing to pursue the action in light of Proposition 64. The case will be returned to the trial court to determine whether further proceedings are appropriate. Plaintiff filed a petition for review with the California Supreme Court on November 7, 2005.

In addition, MasterCard has been served with complaints in state courts in New York, Arizona, Texas, Florida, Arkansas, Illinois, Tennessee, Michigan, Pennsylvania, Ohio, Minnesota and Missouri seeking to, in effect, extend the judge s decision in the Schwartz matter to MasterCard cardholders outside of California. Some of these cases have been transferred to the U.S. District Court for the Southern District of New York and combined with the federal complaints in MDL No. 1409 discussed below. In other state court cases, MasterCard has moved to dismiss the claims. On February 1, 2005 a Michigan action was dismissed with prejudice and on April 12, 2005, the plaintiff agreed to withdraw his appeal of that decision. On June 24, 2005, a Minnesota action was dismissed with prejudice; however, plaintiff filed an amended complaint on September 15, 2005. On August 31, 2005, an Illinois action was dismissed with prejudice; plaintiff filed a notice of appeal. On September 7, 2005, a Texas state court granted MasterCard s motion to arbitrate, and plaintiff subsequently filed notice that he was withdrawing his lawsuit against MasterCard for all claims. MasterCard has also been served with complaints in state courts in California, Texas and New York alleging it wrongfully imposed an asserted one percent currency conversion fee in every debit card transaction by U.S. MasterCard cardholders involving the purchase of goods or services in a foreign country and that such alleged fee is unlawful. Visa USA, Inc. and Visa International Corp. have been named as co-defendants in the California cases. One such Texas case was dismissed voluntarily by plaintiffs.

MasterCard International, Visa U.S.A., Inc., Visa International Corp., several member banks including Citibank (South Dakota), N.A., Citibank (Nevada), N.A., Chase Manhattan Bank USA, N.A., Bank of America, N.A. (USA), MBNA, and Diners Club are also defendants in a number of federal putative class actions that allege, among other things, violations of federal antitrust laws based on the asserted one percent currency conversion fee. Pursuant to an order of the Judicial Panel on Multidistrict Litigation, the federal complaints have been consolidated in MDL No. 1409 before Judge William H. Pauley III in the U.S. District Court for the Southern District of New York. In January 2002, the federal plaintiffs filed a Consolidated Amended Complaint (MDL Complaint) adding MBNA Corporation and MBNA America Bank, N.A. as defendants. This pleading asserts two theories of antitrust conspiracy under Section 1 of the Sherman Act: (i) an alleged inter-association conspiracy among MasterCard (together with its members), Visa (together with its members) and Diners Club to fix currency conversion fees allegedly charged to cardholders of no less than 1% of the transaction amount and frequently more; and (ii) two alleged intra-association conspiracies, whereby each of Visa and MasterCard is claimed separately to have conspired with its members to fix currency conversion fees allegedly charged to cardholders of no less than 1% of the transaction amount and to facilitate and encourage institution and collection of second tier currency conversion surcharges. The MDL Complaint also asserts that the alleged currency conversion fees have not been disclosed as required by the Truth in Lending Act and Regulation Z.

Defendants have moved to dismiss the MDL Complaint. On July 3, 2003, Judge Pauley issued a decision granting MasterCard s motion to dismiss in part. Judge Pauley dismissed the Truth in Lending claims in their entirety as against MasterCard, Visa and several of the member bank defendants. Judge Pauley did not dismiss the antitrust claims. Fact and expert discovery in this matter have closed. On November 12, 2003 plaintiffs filed a motion for class certification, which was granted on October 15, 2004. On March 9, 2005, Judge Pauley issued a decision on defendants motion to reconsider the class certification decision. The Judge ruled that the arbitration provisions in the cardholder agreements of member bank defendants, Bank One, MBNA, Providian, Household and Bank of America are valid as to those respective banks and MasterCard and, consequently, cardholders of those banks can no longer participate in the class action certified in his earlier decision and must pursue any claims through arbitration. Plaintiffs moved for further reconsideration, which was denied by Judge Pauley on June 16, 2005. In addition, Judge Pauley declined to give effect to the arbitration clauses in the Citibank and Chase cardholder agreements; both banks have appealed that decision. Briefing on the appeal is still ongoing. The trial date has been set for May 15, 2006.

Based upon litigation developments and settlement negotiations in these currency conversion cases and pursuant to Statement of Financial Accounting Standards No. 5, Accounting for Contingencies, MasterCard recorded an additional $48 million of legal reserves in September 2005. As a result of this additional reserve, MasterCard has now established total legal reserves of $62 million in connection with these currency conversion cases. Based on future developments, this estimate may be revised. At this time, it is not possible to determine the ultimate resolutions of these matters.

Merchant Chargeback-Related Litigations

On May 12, 2003, a complaint alleging violations of federal and state antitrust laws, breach of contract, fraud and other theories was filed in the U.S. District Court for the Central District of California (Los Angeles) against MasterCard by a merchant aggregator whose customers include businesses selling adult entertainment content over the Internet. The complaint s allegations focus on MasterCard s past and potential future assessments on the plaintiff s merchant bank (acquirer) for exceeding excessive chargeback standards in connection with the plaintiff s transaction activity as well as the effect of MasterCard s chargeback rules and other practices on card-not-present merchants. Chargebacks refer to a situation where a transaction is returned, or charged back, to an acquirer by an issuer at the request of cardholders or for other reasons. Prior to MasterCard filing any motion or

Table of Contents

responsive pleading, the plaintiff filed a voluntary notice of dismissal without prejudice on December 5, 2003. On the same date, the plaintiff filed a complaint in the U.S. District Court for the Eastern District of New York making similar allegations to those made in its initial California complaint. MasterCard moved to dismiss all of the claims in the complaint for failure to state a cause of action. On March 30, 2005 the judge granted MasterCard s motion and dismissed all of the claims in the complaint. On April 11, 2005, the plaintiff filed a notice of appeal of the district court s order. The Second Circuit has scheduled oral argument on the appeal for November 22, 2005.

In addition, on June 6, 2003, an action titled *California Law Institute v. Visa U.S.A., et al*. was initiated against MasterCard and Visa U.S.A., Inc. in the Superior Court of California, purportedly on behalf of the general public. Plaintiff seeks disgorgement, restitution and injunctive relief for unlawful and unfair business practices in violation of California Unfair Trade Practices Act Section 17200, et. seq. Plaintiff purportedly alleges that MasterCard s (and Visa s) chargeback fees are unfair and punitive in nature. Plaintiff seeks injunctive relief preventing MasterCard from continuing to engage in its chargeback practices and requiring MasterCard to provide restitution and/or disgorgement for monies improperly obtained by virtue of them. On June 10, 2005, MasterCard filed a motion requesting that the Court bifurcate and decide certain dispositive issues to be tried separately. On October 17, 2005, MasterCard and the other defendants notified the court that they had discovered that plaintiff had been suspended by the California Secretary of State s office, apparently for failure to pay taxes, and, therefore, is not authorized to transact any business, including participating in litigation. On October 18, 2005, the court determined that it could not proceed with the bifurcated trial proceeding while plaintiff is suspended. MasterCard and the other defendants notified the court of their intention to move for judgment on the pleadings based on the suspension, and the court scheduled a hearing on this issue for December 8, 2005.

On September 20, 2004, MasterCard was served with a complaint titled *PSW Inc. v. Visa U.S.A., Inc*, MasterCard International Incorporated, et. al., No. 04-347, in the District Court of Rhode Island. The plaintiff, as alleged in the complaint, provided credit card billing services primarily for adult content web sites. The plaintiff alleges defendants excessive chargeback standards, exclusionary rules, merchant registration programs, cross-border acquiring rules and interchange pricing to internet merchants violate federal and state antitrust laws as well as state contract and tort law. The plaintiff seeks $60 million in compensatory damages as well as $180 million in punitive damages. On November 24, 2004, MasterCard moved to dismiss the complaint. Prior to the court ruling on MasterCard s motion to dismiss, plaintiff filed an amended complaint on April 6, 2005. This complaint generally mirrors the original complaint but includes additional causes of action based on the purported deprivation of plaintiff s rights under the First Amendment of the U.S. Constitution. On May 20, 2005, MasterCard moved to dismiss all of PSW s claims in the complaint for failure to state a claim and argument on the motion was held on November 2, 2005. The parties are awaiting a ruling on the motion.

At this time it is not possible to determine the outcome of, or, except as indicated above in the PSW litigation, estimate the liability related to, the merchant chargeback-related litigations. No provision for losses has been provided in connection with these litigations.

U.S. Merchant Opt Out and Consumer Litigations

Commencing in October 1996, several class action suits were brought by a number of U.S. merchants against MasterCard International and Visa U.S.A., Inc. challenging certain aspects of the payment card industry under U.S. federal antitrust law. Those suits were later consolidated in the U.S. District Court for the Eastern District of New York. The plaintiffs claimed that MasterCard s Honor All Cards rule (and a similar Visa rule), which required merchants who accept MasterCard cards to accept for payment every validly presented MasterCard card, constituted an illegal tying arrangement in violation of Section 1 of the Sherman Act. Plaintiffs claimed that MasterCard and Visa unlawfully tied

93

Table of Contents

acceptance of debit cards to acceptance of credit cards. The plaintiffs also claimed that MasterCard and Visa conspired to monopolize what they characterized as the point-of-sale debit card market, thereby suppressing the growth of regional networks such as ATM payment systems. On June 4, 2003, MasterCard International signed a settlement agreement to settle the claims brought by the plaintiffs in this matter, which the Court approved on December 19, 2003. For a description of the settlement agreement, see Note 12 to our interim consolidated financial statements. A number of class members have appealed the District Court s approval of the settlement. These appeals largely focused on the court s attorneys fees award as well on the court s ruling on the scope of the release set forth in the settlement agreement. On January 4, 2005, the Second Circuit Court of Appeals issued an order affirming the District Court s approval of the settlement agreement. Accordingly, the settlement is now final.

Several lawsuits were commenced by merchants who opted not to participate in the plaintiff class in the U.S. merchant lawsuit, including Best Buy Stores, CVS, Giant Eagle, Home Depot, Toys R Us and Darden Restaurants (collectively, the Opt Out Plaintiffs). The majority of these cases were filed in the U.S. District Court for the Eastern District of New York. MasterCard has entered into separate settlement agreements with each of the Opt Out Plaintiffs resolving their claims against MasterCard. The District Court has entered orders dismissing with prejudice each of the Opt Out Plaintiff s complaints against MasterCard.

In addition, individual or multiple complaints have been brought in 19 different states and the District of Columbia under state unfair competition statutes against MasterCard International (and Visa) on behalf of putative classes of consumers. The claims in these actions largely mirror the allegations made in the U.S. merchant lawsuit and assert that merchants, faced with excessive merchant discount fees, have passed these overcharges to consumers in the form of higher prices on goods and services sold. While these actions are in their early stages, MasterCard has filed motions to dismiss the complaints in a number of state courts for failure to state a cause of action. Courts in Arizona, Iowa, New York, Michigan, Minnesota, Nebraska, Maine, North Dakota, Kansas, North Carolina, South Dakota, Vermont, Wisconsin and the District of Columbia have granted MasterCard s motions and dismissed the complaints with prejudice. Plaintiffs have appealed several of these decisions. The plaintiffs in Minnesota have filed an amended complaint on behalf of a purported class of Minnesota consumers who made purchases with debit cards rather than on behalf of all consumers. On July 12, 2005, the court granted MasterCard s motion to dismiss the Minnesota complaint for failure to state a claim and dismissed the complaint with prejudice. The time in which the plaintiffs may appeal this decision has run. In addition, the courts in Tennessee and California have granted MasterCard s motion to dismiss the respective state unfair competition claims but have denied MasterCard s motions with respect to unjust enrichment claims in Tennessee and Section 17200 claims for unlawful, unfair, and/or fraudulent business practices in California. Both parties have appealed the Tennessee decisions. On October 14, 2005, the West Virginia Circuit Court denied MasterCard s motion for summary judgment. On November 3, 2005, the Court denied MasterCard s motion for reconsideration and/or request for permission to seek an appeal of that decision to the West Virginia Supreme Court of Appeals. The time is running for MasterCard to file a petition for a Writ of Prohibition with the West Virginia Supreme Court of Appeals, which would request that the Court of Appeals accept for review the West Virginia Circuit Court s denial of MasterCard s motion for summary judgment. MasterCard is awaiting decisions on its motions to dismiss in the other state courts.

On March 14, 2005, MasterCard was served with a complaint that was filed in Ohio state court on behalf of a putative class of consumers under Ohio state unfair competition law. The claims in this action mirror those in the consumer actions described above but also name as co-defendants a purported class of merchants who were class members in the U.S. merchant lawsuit. Plaintiffs allege that Visa, MasterCard and the class members of the U.S. merchant lawsuit conspired to attempt to monopolize the debit card market by tying debit card acceptance to credit card acceptance. On October 7, 2005, plaintiffs filed a voluntary notice of dismissal of their complaint.

Table of Contents

On April 29, 2005, a complaint was filed in California state court on behalf of a putative class of consumers under California unfair competition law and the Cartwright Act. The claims in this action seek to piggyback on the portion of the DOJ antitrust litigation in which the United States District Court for the Southern District of New York found that MasterCard s CPP and Visa s bylaw constitute unlawful restraints of trade under the federal antitrust laws. See Department of Justice Antitrust Litigation and Related Private Litigation. On July 15, 2005, MasterCard and Visa jointly moved to dismiss plaintiffs claims for failure to state a claim. On November 2, 2005, the court dismissed the complaint but provided plaintiffs until December 2, 2005 to file an amended complaint.

At this time, it is not possible to determine the outcome of, or estimate the liability related to, these consumer cases and no provision for losses has been provided in connection with them. The consumer class actions are not covered by the terms of the settlement agreement in the U.S. merchant lawsuit.

Global Interchange Proceedings

Interchange fees represent a sharing of payment system costs among the financial institutions participating in a four-party payment card system such as MasterCard s. Typically, interchange fees are paid by the merchant bank (the acquirer) to the cardholder bank (the issuer) in connection with transactions initiated with the payment system s cards. These fees reimburse the issuer for a portion of the costs incurred by it in providing services which are of benefit to all participants in the system, including acquirers and merchants. MasterCard or its members establish a multilateral interchange fee (MIF) in certain circumstances as a default fee that applies when there is no other interchange fee arrangement between the issuer and the acquirer. MasterCard establishes a variety of MIF rates depending on such considerations as the location and the type of transaction, and collects the MIF on behalf of the institutions entitled to receive it and remits the MIF to eligible institutions. As described more fully below, MasterCard or its members MIFs are subject to regulatory or legal review and/or challenges in a number of jurisdictions. At this time, it is not possible to determine the ultimate resolution of, or estimate the liability related to, any of the interchange proceedings described below. No provision for losses has been provided in connection with them. See Risk Factors Risks Related to Our Business Legal and Regulatory Risks Interchange fees are subject to increasingly intense legal and regulatory scrutiny worldwide, which may have a material adverse impact on our revenue, our prospects for future growth and our overall business.

European Union. In September 2000, the European Commission issued a Statement of Objections challenging Visa International s cross-border MIF under European Community competition rules. On July 24, 2002, the European Commission announced its decision to exempt the Visa MIF from these rules based on certain changes proposed by Visa to its MIF. Among other things, in connection with the exemption order, Visa agreed to adopt a cost-based methodology for calculating its MIF similar to the methodology employed by MasterCard, which considers the costs of certain specified services provided by issuers, and to reduce its MIF rates for debit and credit transactions to amounts at or below certain specified levels.

On September 25, 2003, the European Commission issued a Statement of Objections challenging MasterCard Europe s cross-border MIF. MasterCard Europe filed its response to this Statement of Objections on January 5, 2004. On June 13, 2005 the European Commission announced a sector inquiry into the financial services industry, which MasterCard understands includes an investigation of interchange fees. The sector inquiry is ongoing.

The European Commission recently informed MasterCard Europe that it intends to issue a supplemental Statement of Objections in the near future. Following this, the European Commission could issue a prohibition decision ordering MasterCard to change the manner in which it calculates its cross-border MIF. MasterCard Europe could appeal such a decision to the European Court of Justice. Because the cross-border MIF constitutes an essential element of MasterCard Europe s operations,

95

Table of Contents

changes to it could significantly impact MasterCard International s European members and MasterCard Europe s business. In addition, a negative decision by the European Commission could lead to the filing of private actions against MasterCard Europe by merchants seeking substantial damages.

United Kingdom Office of Fair Trading. On September 25, 2001, the Office of Fair Trading of the United Kingdom (OFT) issued a Rule 14 Notice under the U.K. Competition Act 1998 challenging the MasterCard MIF, the fee paid by acquirers to issuers in connection with point of sale transactions, and multilateral service fee (MSF), the fee paid by issuers to acquirers when a customer uses a MasterCard-branded card in the United Kingdom either at an ATM or over the counter to obtain a cash advance. Until November 2004, the MIF and MSF were established by MasterCard U.K. Members Forum Limited (MMF) (formerly MasterCard Europay U.K. Ltd. (MEPUK)) for domestic credit card transactions in the United Kingdom. The notice contained preliminary conclusions to the effect that the MasterCard U.K. MIF and MSF may infringe U.K. competition law and do not qualify for an exemption in their present forms. On February 11, 2003, the OFT issued a supplemental Rule 14 Notice, which also contained preliminary conclusions challenging MasterCard s U.K. MIF under the Competition Act. On November 10, 2004, the OFT issued a third notice (now called a Statement of Objections) claiming that the MIF infringes U.K. and European Union competition law.

On November 18, 2004, MasterCard s board of directors adopted a resolution withdrawing the authority of the U.K. members to set domestic MasterCard MIFs and MSFs and conferring such authority exclusively on MasterCard s President and Chief Executive Officer.

On September 6, 2005, the OFT issued its decision, concluding that MasterCard s U.K. MIFs contravene U.K. and European Union competition law. The OFT decided not to impose penalties on MasterCard or MMF. On November 4, 2005, MasterCard and MMF appealed the OFT s decision to the U.K. Competition Appeals Tribunal. In addition, referencing the November 18, 2004 change described above, the OFT has stated that it will commence a new investigation of MasterCard s current U.K. MIFs and, if it determines that they contravene U.K. and European Union competition law, it will issue a new decision and possibly levy fines accruing from the date of its first decision. MasterCard would likely appeal a negative decision by the OFT in any future proceeding to the Competition Appeals Tribunal.

Because the MIF constitutes an essential element of MasterCard s U.K. operations, the OFT s decision, if it is upheld on appeal, could have a significant adverse impact on MasterCard s U.K. members and on MasterCard s competitive position and overall business in the U.K. In addition, the OFT s decision could lead to the filing of private actions against MasterCard by merchants which, if our anticipated appeal of the OFT s decision fails, could result in an award of substantial damages.

United States. In July 2002, a purported class action lawsuit was filed by a group of merchants in the U.S. District Court for the Northern District of California against MasterCard International, Visa U.S.A., Inc., Visa International Corp. and several member banks in California alleging, among other things, that MasterCard s and Visa s interchange fees contravene the Sherman Act. The suit seeks treble damages in an unspecified amount, attorneys fees and injunctive relief, including the divestiture of bank ownership of MasterCard and Visa, and the elimination of MasterCard and Visa marketing activities. On March 4, 2004, the court dismissed the lawsuit with prejudice in reliance upon the approval of the settlement agreement in the U.S. merchant lawsuit by the U.S. District Court for the Eastern District of New York, which held that the settlement and release in that case extinguished the claims brought by the merchant group in the present case. The plaintiffs have appealed the U.S. District Court for the Eastern District of New York s approval of the U.S. merchant lawsuit settlement and release to the Second Circuit Court of Appeals and have also appealed the U.S. District Court for the Northern District of California s dismissal of the present lawsuit to the Ninth Circuit Court of Appeals. On January 4, 2005, the Second Circuit Court of Appeals issued an order affirming the District Court s approval of the U.S. merchant lawsuit settlement agreement, including the District

96

Table of Contents

Court s finding that the settlement and release extinguished such claims. Plaintiffs did not seek certiorari of the Second Circuit s decision with the U.S. Supreme Court. The appeal to the Ninth Circuit is currently pending and oral argument has been scheduled for December 7, 2005.

On October 8, 2004, a purported class action lawsuit was filed by a group of merchants in the U.S. District Court for the Northern District of California against MasterCard International, Visa U.S.A., Inc., Visa International Corp. and several member banks in California alleging, among other things, that MasterCard s and Visa s interchange fees contravene the Sherman Act and the Clayton Act. The complaint contains similar allegations to those brought in the interchange case described in the preceding paragraph, and plaintiffs have designated it as a related case. The plaintiffs seek damages and an injunction against MasterCard (and Visa) setting interchange and engaging in joint marketing activities, which plaintiffs allege include the purported negotiation of merchant discount rates with certain merchants. On November 19, 2004, MasterCard filed an answer to the complaint. The plaintiffs filed an amended complaint on April 25, 2005. MasterCard moved to dismiss the claims in the complaint for failure to state a claim and, in the alternative, also moved for summary judgment with respect to certain of the claims. On July 25, 2005, the court issued an order granting MasterCard s motion to dismiss and dismissed the complaint with prejudice. On August 10, 2005, the plaintiffs filed a notice of appeal. Plaintiffs opening appeal brief is currently scheduled to be filed on November 28, 2005.

On June 22, 2005, a purported class action lawsuit was filed by a group of merchants in the U.S. District Court of Connecticut against MasterCard International Incorporated, Visa U.S.A., Inc. Visa International Service Association and a number of member banks alleging, among other things, that MasterCard s and Visa s purported setting of interchange fees violates Section 1 of the Sherman Act. In addition, the complaint alleges MasterCard s and Visa s purported tying and bundling of transaction fees also constitutes a violation of Section 1 of the Sherman Act. The suit seeks treble damages in an unspecified amount, attorneys fees and injunctive relief. Since the filing of this complaint, there have been approximately forty similar complaints (the majority styled as class actions although a few complaints are on behalf of individual plaintiffs) filed on behalf of merchants against MasterCard and Visa (and in some cases, certain member banks) in federal courts in California, New York, Wisconsin, Pennsylvania, New Jersey, Ohio, Kentucky and Connecticut. The claims in these complaints are generally brought under Sections 1 and 2 of the Sherman Act. Specifically, the complaints contain some or all of the following claims: (i) that MasterCard s and Visa s interchange fees violate Section 1 of the Sherman Act; (ii) that MasterCard and Visa have enacted and enforced various rules, including the no surcharge rule, in violation of Section 1 or 2 of the Sherman Act; (iii) that MasterCard s and Visa s purported bundling of the acceptance of premium credit cards to standard credit cards constitutes an unlawful tying arrangement; (iv) that MasterCard s and Visa s purported bundling of the acceptance of commercial cards to consumer credit cards constitutes an unlawful tying arrangement; and (v) that MasterCard and Visa have unlawfully tied and bundled transaction fees. In addition to the claims brought under federal antitrust law, some of these complaints contain certain state law consumer protection and common law claims based upon the same conduct described above, and some of the complaints allege that the claims in these actions are not barred by the settlement agreement in the U.S. merchant lawsuit. See Note 12 to our interim consolidated financial statements. These interchange-related litigations also seek treble damages in an unspecified amount (although several of the complaints allege that the plaintiffs expect that damages will range in the tens of billions of dollars), as well as attorneys fees and injunctive relief. On October 19, 2005, the Judicial Panel on Multidistrict Litigation issued an order transferring these cases to Judge Gleeson of the U.S. District Court for the Eastern District of New York for coordination of pre-trial proceedings. MasterCard currently has until December 19, 2005 to respond to the complaints.

At this time it is not possible to determine the outcome of, or estimate the liability related to, these interchange-related litigations. No provisions for losses have been provided in connection with these litigations.

Table of Contents

Other Jurisdictions. In Spain, the Competition Tribunal issued a decision in April 2005 denying the interchange fee exemption applications of two of the three domestic credit and debit card processing systems and beginning the process to revoke the exemption it had previously granted to the third such system. The interchange fees set by these three processors apply to MasterCard transactions in Spain and consequently, MasterCard has appealed this decision. In addition, the Tribunal expressed views as to the appropriate manner for setting domestic interchange fees which, if implemented, would result in substantial reductions in credit and debit card interchange fees in Spain. This could have a material impact on MasterCard s business in Spain. MasterCard is aware that regulatory authorities and/or central banks in certain other jurisdictions, including Poland, New Zealand, Portugal, Mexico, Colombia, Brazil, South Africa, Hungary and Switzerland are reviewing MasterCard s and/or its members interchange fees and/or related practices and may seek to regulate the establishment of such fees and/or such practices.

Recent Plaintiff Communication

One of the plaintiffs in MasterCard s antitrust litigations has asserted in a written communication that the damages it believes it is likely to recover in its lawsuit will exceed MasterCard s capital and ability to pay, and that MasterCard has failed to adequately disclose to public investors in the proposed initial public offering the possibility of substantial damages judgments against MasterCard in such lawsuit and the other pending litigations against MasterCard, which the plaintiff has asserted are likely to be in the billions of dollars before trebling. The plaintiff has also requested that MasterCard not relinquish its right to assess its member banks, which the plaintiff alleged would shift the liability to public investors, and increase MasterCard s litigation reserves to an appropriate (but unspecified) amount. MasterCard has responded to this plaintiff indicating that it disagrees with the plaintiff s characterization of both its lawsuit and MasterCard s financial position following the closing of the proposed initial public offering. Contrary to the plaintiff s claims, MasterCard also believes that its litigation disclosure is materially accurate and complete and in accord with all applicable laws and regulations.

Table of Contents

MANAGEMENT

Directors and Executive Officers

The following table sets forth the names, ages and positions of our current directors and executive officers. Our current directors are officers of, or otherwise affiliated with, our member financial institutions. Prior to the consummation of this offering, our certificate of incorporation and bylaws will be amended to, among other things, provide that, with the exception of the directors to be elected by the holders of our Class M common stock, any person who is or has been during the prior three years a director, officer, employee, agent or representative of, or otherwise has any business relationship that is material to such person with, a member or former member of MasterCard International, or an operator, member, or licensee of any competing general purpose payment card system, or any affiliate of such person, may not serve as a director of MasterCard. Accordingly, we expect that a number of our current directors will resign. We intend to reduce the size of our board of directors and otherwise replace these directors with a geographically diverse group of persons who are independent under the rules of the New York Stock Exchange and the U.S. Securities and Exchange Commission and who have no affiliation with any of our members or any affiliate of a member. See Our Board of Directors After the Offering below.

Name	Age	Position
William F. Aldinger	58	Director (U.S. Representative)
Silvio Barzi	57	Director (Europe Representative)
Donald L. Boudreau	65	Director (U.S. Representative)
Augusto M. Escalante	56	Director (Latin America and the Caribbean Representative)
Baldomero Falcones Jaquotot	59	Chairman of the Board and Director (Europe Representative)
Richard D. Fairbank	55	Director (U.S. Representative)
Bernd M. Fieseler	45	Director (Europe Representative)
Iwao Iijima	61	Director (Asia/Pacific Representative)
Michel Lucas	66	Director (Europe Representative)
Norman C. McLuskie	61	Director (Europe Representative)
Siddharth N. Mehta	47	Director (U.S. Representative)
Robert W. Pearce	50	Director (Canada Representative)
Michael T. Pratt	52	Director (Asia/Pacific Representative)
Robert W. Selander	55	President and Chief Executive Officer and Director
Tan Teong Hean	62	Director (Asia/Pacific Representative)
Jac Verhaegen	65	Director (Europe Representative)
Lance L. Weaver	51	Director (U.S. Representative)
Robert B. Willumstad	60	Vice Chairman and Director (U.S. Representative)
W. Roy Dunbar	44	President, Global Technology & Operations
Noah J. Hanft	52	General Counsel and Secretary
Alan J. Heuer	64	Chief Operating Officer
Chris A. McWilton	46	Chief Financial Officer
Michael W. Michl	60	Chief Administrative Officer
Christopher D. Thom	57	Chief Risk Officer

All of our officers are appointed by and serve at the discretion of our board of directors. There are no family relationships among any of our directors or executive officers.

Set forth below is a brief description of the business experience of our directors and executive officers. We sometimes refer to the board of directors of MasterCard as the Global Board of Directors to distinguish it from our regional boards.

William F. Aldinger, age 58, is the former Chairman and Chief Executive Officer of HSBC North America Holdings Inc. Mr. Aldinger has served on the Global Board of Directors since June 2002 and

Table of Contents

was elected to the MasterCard International board of directors in 1998. He is a former member of MasterCard s U.S. region board. Mr. Aldinger joined Household International in 1994, and prior to that time served in various positions at Wells Fargo Bank, including Vice Chairman. HSBC Holdings plc acquired Household International Inc. in 2003. Mr. Aldinger is a member of the boards of directors of Illinois Tool Works, Inc., AT&T, Charles Schwab Corporation and KKR Financial. He is a member of the combined boards of directors of Children s Memorial Medical Center/Children s Memorial Hospital and the Children s Memorial Foundation located in Chicago. Mr. Aldinger is also a member of the board of trustees of the J.L. Kellogg Graduate School of Management and the Baruch College Fund.

Silvio Barzi, age 57, is Deputy General Manager of Unicredito Italiano and founder and Chief Executive Officer of Clarima Banca, a bank specializing in credit cards and consumer credit. Mr. Barzi was first elected to the Global Board of Directors in 2003 and serves on MasterCard s Europe region board. Prior to joining Unicredito Italiano in 2000, Mr. Barzi was a Vice President at Booz Allen & Hamilton. From 1995 until 1998, he worked for the Credit Suisse-Winterthur Group, where he was responsible for the merger and integration of six Italian-based insurance companies. From 1981 to 1995, Mr. Barzi was a partner in the Italian office and a leader within the European Financial Institutions and Information Technology practices of McKinsey & Company. Mr. Barzi currently serves as a director at CartaSì and SinSys.

Donald L. Boudreau, age 65, is a director of the Company. Mr. Boudreau served as Chairman Emeritus and a non-voting advisory director of MasterCard from June 2002 until November 2004. He served on the MasterCard International board of directors since 1997 and was the Chairman of the MasterCard International board of directors from April 1998 to March 2001. Mr. Boudreau retired from his position as Vice Chairman of The Chase Manhattan Corporation and The Chase Manhattan Bank in December 2000, where he was a member of the Executive Committee. Mr. Boudreau served in a variety of positions during his 40 year career at Chase, and most recently was responsible for all of Chase s consumer and middle market businesses. Previously, Mr. Boudreau was at various times responsible for Chase s international businesses, was Chief Administrative Officer of Chase s corporate business, and was responsible for establishing and managing various risk management and compliance functions at Chase. Earlier in his career, Mr. Boudreau served as chief financial officer of Chase s consumer business. Mr. Boudreau is a member of the board of trustees of the New York Presbyterian Hospital and of New York Presbyterian Hospital System, Inc and serves as chairman of both of their audit committees.

Augusto M. Escalante, age 56, is Deputy President, Consumer Products and Marketing Areas, Banco Nacional de Mexico, S.A. Mr. Escalante has been a member of the Global Board of Directors since June 2002 and was elected to the MasterCard International board of directors in 2001 after having previously served on the board from April 1998 to March 1999. He is also member of MasterCard s Latin America and Caribbean region board, for which he formerly served as Chairman. Mr. Escalante joined Banco Nacional de Mexico in 1991 and has served as Deputy President of Banco Nacional de Mexico since January 2000. At Banco Nacional de Mexico, Mr. Escalante is responsible for all consumer products, both deposit and credit, and all marketing and advertising for the Financial Group of Banco Nacional de Mexico. He was previously Deputy President, Bank Card and Electronic Services Area, and Deputy President, Consumer Loans Area of Banco Nacional de Mexico.

Baldomero Falcones Jaquotot, age 59, is Chairman of Europay España, S.A. and Chairman of the Global Board of Directors of MasterCard. He has been a member of the Global Board of Directors since June 2002 and the MasterCard International board of directors since 1997, and is a member of MasterCard s Europe region board. Mr. Falcones joined Banco Urquijo, a predecessor of Banco Santander Central Hispano, in 1979 and has served as Senior Executive Vice President and a member of the Executive Committee of Banco Santander Central Hispano for fifteen years. Mr. Falcones also serves as Chairman of Sociedad Española de Tarjetas Inteligentes and Santander Central Hispano, Seguros y Reaseguros, S.A. He is a director of Sistema 4B.

Table of Contents

Richard D. Fairbank, age 55, is Chairman, Chief Executive Officer and President of Capital One Financial Corporation. Capital One, headquartered in McLean, Virginia, provides credit cards and a variety of other consumer lending and banking products through its subsidiaries in the United States and internationally. Mr. Fairbank founded Capital One in 1988 as part of Virginia-based Signet Bank. He has served as Chairman and Chief Executive Officer of Capital One since it was spun off from Signet as an independent, public company in 1994. In addition, Mr. Fairbank serves as Chairman and Chief Executive Officer of Capital One Bank and Chairman of Capital One F.S.B., two of Capital One s primary lending subsidiaries. Mr. Fairbank was first elected to the Global Board of Directors in 2003 and has served on MasterCard s U.S. region board since 1995. He served as Chairman of MasterCard s U.S. region board from 2002 to 2004.

Bernd M. Fieseler, age 45, is Managing Director and Member of the Executive Board of Deutscher Sparkassen- und Giroverband and is responsible for operating strategy. Mr. Fieseler has been a member of the Global Board of Directors since March 2004 and serves as a member of MasterCard s Europe Region board and its executive committee. Before joining Deutscher Sparkassen- und Giroverband, he served as Director for Information and Operations for CC-Bank and was a member of the Executive Board of CC-Holding from 1997 until 2001. From 1995 to 1997, Mr. Fieseler was Director and Head of Organisation of BHF Bank. Mr. Fieseler also serves as Chairman of the Board of EURO Kartensysteme Gmbh.

Iwao Iijima, age 61, is Chairman of Orient Corporation. Mr. Iijima has been a member of the Global Board of Directors since March 2004 and serves on MasterCard s Asia/Pacific region board. From 1998 until 2003, Mr. Iijima served as Executive Vice President of the Orient Corporation. Prior to joining the Orient Corporation, Mr. Iijima served as Board Managing Director of Dai-ichi Kangyo Bank (currently Mizuho Corporate Bank & Mizhuho Bank) from June 1997.

Michel Lucas, age 66, is Général Manager of Banque Federative du Crédit Mutuel, Chairman and Chief Executive Officer of Credit Industriel et Commercial and Vice Chairman of Europay France S.A. Mr. Lucas has been a member of the Global Board of Directors since March 2004 and serves as Vice Chairman of MasterCard s Europe region board. Mr. Lucas joined Confédération Nationale du Crédit Mutuel in 1971 and has held various positions since that time in political, technical and development areas. He is also a General Manager of Caisse Centrale du Crédit Mutuel and Groupe de Crédit Mutuel Centre Est Europe, and Chairman and General Manager of the Assurances du Crédit Mutuel. Mr. Lucas is a board member of Banque de Tunisie, BMCE, Caisses Dejardins and Banque Transaltantique.

Norman C. McLuskie, age 61, is Chairman, Retail Direct of the Royal Bank of Scotland Group. Mr. McLuskie has been a member of the Global Board of Directors since June 2002 and was first elected to the MasterCard International board of directors in 2000. He also serves on MasterCard s Europe region board. Mr. McLuskie joined Royal Bank of Scotland in 1982. Following the acquisition of Natwest by the Royal Bank of Scotland in March 2000, he was appointed Chief Executive of Retail Direct, a division of the Royal Bank of Scotland Group encompassing its card and consumer finance businesses, among others. Mr. McLuskie s other directorships include: Deputy Chairman of Tesco Personal Finance, Director of RBS Insurance and a member of the Institute of Chartered Accountants of Scotland. Mr. McLuskie is also a fellow of the Chartered Institute of Bankers in Scotland.

Siddharth N. Mehta, age 47, is Chief Executive Officer of HSBC North America Holdings Inc. and Chairman and Chief Executive Officer of HSBC Finance Corporation, which positions he has held since April 2005. Mr. Mehta was elected to the Global Board of Directors on March 17, 2005. Mr. Mehta oversees HSBC s North American businesses (Canada and U.S.) and, as Group Managing Director of HSBC Holdings plc, has responsibility for the strategic management of credit cards and the consumer finance customer group throughout the HSBC Group. Prior to April 2005, Mr. Mehta served as Vice Chairman of HSBC Finance Corporation. He joined Household International in 1998, which

101

Table of Contents

was acquired by HSBC Holdings plc in 2003. Prior to joining Household, Mr. Mehta served as a Senior Vice President at The Boston Consulting Group. He has served on MasterCard s U.S. region board since March 2000. Mr. Mehta serves on the board of international advisors for the Monterey, California, Institute of International Studies and is a member of the Financial Services Roundtable. He also serves on the board of advisors for the Myelin Repair Foundation.

Robert W. Pearce, age 50, is President and Chief Executive Officer of the Personal and Commercial Client Group for Bank of Montreal, where he has worked for over twenty years. He has served on the Global Board of Directors since June 2002 and the MasterCard International board of directors since 1999. He previously served as Executive Vice President of North American Electronic Banking Services for Bank of Montreal and was responsible for Bank of Montreal s MasterCard Cardholder and Merchant Services lines of business, Debit Card business, and Electronic Banking.

Michael T. Pratt, age 52, is Group Executive, Business and Consumer Banking, Westpac Banking Corporation. Mr. Pratt was first elected to the Global Board of Directors in 2003 and also serves on MasterCard s Asia/Pacific region board. He is responsible for all of Westpac s consumer and business banking business in Australia and for all operations of the Bank of Melbourne. Prior to joining Westpac in 2002, Mr. Pratt served as Chief Executive Officer, Australian Financial Services for National Australia Bank, where he was responsible for all retail operations in Australia. From 1998 to 2000, he served as Managing Director and Chief Executive Officer of Bank of New Zealand. He is a Fellow of the Australian Institute of Banking and Finance, a member of the Australian Institute of Company Directors, and a Fellow of the Australian Institute of Management.

Robert W. Selander, age 55, is President and Chief Executive Officer of the Company. Mr. Selander has served on the Global Board of Directors since June 2002 and the MasterCard International board of directors since 1997. Mr. Selander also serves on the Company s Policy and Operating Committees. Prior to his election as President and Chief Executive Officer of MasterCard in April 1997, Mr. Selander was an Executive Vice President and President of the MasterCard International Europe, Middle East/Africa and Canada regions. Before joining MasterCard in 1994, Mr. Selander spent two decades with Citicorp/Citibank, N.A. He currently serves as a director of Hartford Financial Services Group.

Tan Teong Hean, age 62, is Chief Executive of Southern Bank Berhad in which capacity he has served since 1983. Mr. Tan has been a member of the Global Board of Directors since March 2004. He is Chairman of MasterCard s Asia/Pacific region board and has been a member of the Asia/Pacific region board since July 1997. Mr. Tan serves as a board member of Cagamas Berhad (the National Mortgage Corporation, Malaysia). He is a Fellow and Council member of the Institute of Bankers Malaysia, a Fellow of the Malaysian Institute of Directors and a Trustee of the Malaysian Institute of Economic Research.

Jac Verhaegen, age 65, formerly a senior executive of Rabobank and a member of its Executive Board, has been a member of the Global Board of Directors since June 2002 and serves on MasterCard s Europe region board. He joined Rabobank in 1979. He served as Deputy General Manager of Retail Banking until 1984 when he was appointed General Manager of the System Development Department. From 1989 to 1993, he was General Manager of Operations for Rabobank International. From 1993 to 1998, Mr. Verhaegen served as General Manager of Payment Services. From 1998 to 2001, Mr. Verhaegen was a member of the Managing Board, Local Banks Division of Rabobank.

Lance L. Weaver, age 51, is Vice Chairman of MBNA America Bank, N.A. Mr. Weaver has served on the Global Board of Directors since June 2002 and was elected to the MasterCard International board of directors in 1997, where he served as Chairman from 2001 to 2003. Before joining MBNA America Bank in 1991, Mr. Weaver held various management positions with Wells Fargo and Citicorp/Citibank. He is a director of MBNA America Bank and MBNA Information Services. He is a member of the Georgetown University Board of Directors and the Tower Hill School Board of Trustees.

Robert B. Willumstad, age 60, is the former President and Chief Operating Officer of Citigroup. Mr. Willumstad retired from his position as President and Chief Operating Officer of Citigroup in September 2005. Mr. Willumstad served as Chairman and Chief Executive Officer of Citigroup s Global Consumer Group from December 2000 to August 2003 and, as such, led all of Citigroup s global consumer businesses including Credit Cards, Consumer Finance, and Retail Banking. Mr. Willumstad is Vice Chairman of the Global Board of Directors and has served on the Global Board of Directors and the MasterCard International board of directors since June 2002 and 1999, respectively. Mr. Willumstad was Chairman and CEO of Travelers Group Consumer Finance Services prior to the merger between Citicorp and Travelers Group in 1998. Mr. Willumstad joined Commercial Credit, now CitiFinancial, in 1987. Prior to joining Citigroup s predecessor companies, Mr. Willumstad served in various positions with Chemical Bank for twenty years, last holding the position of President of Chemical Technologies Corporation.

W. Roy Dunbar, age 44, is President, Global Technology & Operations of the Company and a member of the Policy and Operating Committees. Before joining the Company in September 2004, Mr. Dunbar served as president of Eli Lilly s Intercontinental Region, with responsibility for operations in Africa, the Middle East, the Commonwealth of Independent States, Asia, Latin America and the Caribbean. Prior to that time, he was Vice President Information Technology and Chief Information Officer of Eli Lilly, where he worked since 1990. Mr. Dunbar currently serves as a director of EDS Corporation. Mr. Dunbar also serves as a director of Humana Inc.

Noah J. Hanft, age 52, is General Counsel and Secretary of the Company and a member of the Policy Committee. Mr. Hanft was appointed as General Counsel and Secretary of the Company in October 2000 and has served in various increasingly senior legal positions at the Company since 1984, except for 1990 to 1993, when Mr. Hanft was Senior Vice President and Assistant General Counsel at AT&T Universal Card Services. Prior to joining MasterCard, Mr. Hanft was associated with the intellectual property law firm of Ladas & Parry in New York. Mr. Hanft serves as a member of the board of directors of the Legal Aid Society.

Alan J. Heuer, age 64, is Chief Operating Officer of the Company, the Chairman of the Operating Committee and a member of the Policy Committee. Mr. Heuer is responsible for the Company s Customer Group, which encompasses member relations, global marketing and consulting/cardholder services functions, as well as the Company s regional activities. Mr. Heuer was appointed head of the Customer Group in February 1999 and as Chief Operating Officer in March 2004. Mr. Heuer joined MasterCard International in 1995. Prior to that time, Mr. Heuer served as Executive Vice President, Retail Banking, for the Bank of New York.

Chris A. McWilton, age 46, is Chief Financial Officer of the Company and a member of the Policy Committee. Prior to Mr. McWilton s appointment as Chief Financial Officer in October 2003, he served as Senior Vice President and Controller of the Company. Prior to joining the Company in January 2003, Mr. McWilton was a partner at KPMG LLP, an international accounting and tax firm where he specialized in financial and SEC reporting matters. Mr. McWilton joined KPMG LLP in 1980 and was elected to the partnership in 1992. He is a certified public accountant.

Michael W. Michl, age 60, is Chief Administrative Officer of the Company and a member of the Policy Committee. Prior to becoming Chief Administrative Officer of the Company in 2004, Mr. Michl was Executive Vice President, Central Resources. Mr. Michl is responsible for the Company s Central Resources unit, encompassing the Company s global human resources and corporate services functions. Mr. Michl joined MasterCard International in 1998 from Avon Products, where he was Vice President of Human Resources.

Christopher D. Thom, age 57, is the Chief Risk Officer of the Company and a member of the Policy Committee. Mr. Thom is responsible for the Risk Management Group and is accountable for

Table of Contents

introducing enterprise risk management into the Company. Prior to assuming his position as Chief Risk Officer in October 2004, Mr. Thom served as Senior Executive Vice President, Global Development, from May 2001 until October 2004 and as Senior Executive Vice President, Central Resources from March 1999 until April 2001. Mr. Thom manages franchise management, security and risk management and fraud management functions at the Company. Prior to joining MasterCard International in 1995, Mr. Thom served in a variety of positions at HSBC Group in the United Kingdom, including as general manager, Strategic Development and general manager, Retail.

Our Board of Directors After the Offering

Prior to the consummation of this offering the organization and composition of our board of directors will be substantially restructured.

In particular, our certificate of incorporation and bylaws will be amended to provide that, with the exception of the directors to be elected by the holders of our Class M common stock, any person who is or has been during the prior three years a director, officer, employee or representative of, or otherwise has any business relationship that is material to such person with, a member or former member of MasterCard International, or any person that is an operator, member or licensee of any competing general purpose payment card system, or any affiliate of any such person may not serve as a director of MasterCard. Accordingly, we expect that a substantial majority of our current directors will resign. We intend to transition to a board of directors consisting of twelve members, of which nine directors will be elected by the holders of our Class A common stock and three directors will be elected by the holders of our Class M common stock, voting separately as a class. We expect that our chief executive officer will continue to serve as one of the nine directors to be elected by the holders of the Class A common stock, with the remaining eight directorships to be filled with a geographically diverse group of directors who meet the criteria for independence set forth in our certificate of incorporation as well as those established by the New York Stock Exchange and the Securities and Exchange Commission.

We expect that, upon consummation of this offering, our board of directors will consist of at least three independent directors and our CEO, Mr. Selander, and include at least one Class M director. We expect that our transition to a board of directors with twelve members will be completed within twelve months after the consummation of this offering. To select the initial directors, three of our current directors, Messrs. Boudreau, Falcones and Selander, our CEO, will appoint two individuals who would satisfy the independence requirements for service on our new board of directors and who will in turn, together with Mr. Selander, select two initial independent directors. These two independent directors will then select the additional six independent directors. We expect that the initial Class M directors will be selected from among those of our existing directors who satisfy the qualifications described in the following paragraph.

Our certificate of incorporation and bylaws will establish the following qualifications for service as a member of our board of directors:

- except for the up to three directors (but no more than one-quarter of all directors) to be elected by the holders of our Class M common stock, no director shall be a person who is or has been during the prior three years a director, officer, employee, agent or representative of, or otherwise has any business relationship that is material to such person with, a member or former member of MasterCard International, or of an operator, member, or licensee of any competing general purpose payment card system, or any affiliate of any such person;

no director shall be a trustee, officer, employee or agent of, or represent, The MasterCard Foundation, or have been a director, officer, employee or agent of, or represented, The MasterCard Foundation during the prior three years or otherwise have a business relationship with The MasterCard Foundation that is material to such director; and

[Table of Contents](#)

no director shall be a director, regional board director, officer, employee or agent of, or represent (1) an entity that owns and/or operates a payment card program that is competitive with any of the Company s card programs, as determined by the Board (a competitor) or (2) an institution that is represented on any board of a competitor.

In addition, each of our directors must also serve as a director of MasterCard International.

Further, our certificate of incorporation will be amended to divide our board of directors into three classes. The members of each class will serve for a staggered, three-year term. Upon the expiration of the term of a class of directors, directors in that class will be elected for three-year terms at the annual meeting of stockholders in the year in which their term expires. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of our directors. No more than one Class M director shall be allocated to any single class of directors.

A majority of the total number of directors then in office (but not less than one-third of the number of directors constituting the entire board) will constitute a quorum for the transaction of business, as long as a majority of the directors that are present are neither Class M directors nor officers of MasterCard.

The holders of the Class M common stock will have the right to elect up to three of our directors, provided that the total number of Class M directors shall not exceed one-fourth of the total number of directors that will be in office immediately following such election. To the extent practicable and subject to the board of directors fiduciary duties, we expect that the directors nominated by the board of directors for election by the holders of our Class A common stock (other than the chief executive officer) will reflect the geographic diversity and global profile of MasterCard and that the citizenships and residencies of these directors will reflect the geographic regions in which we operate in a manner approximately proportionate to our business activity as reflected in the global proxy calculation formula. Similarly, we expect that, to the extent practicable and subject to the board of directors fiduciary duties, the directors nominated by the board of directors for election by the holders of our Class M common stock will include one citizen and resident of a country in, or director, officer, employee, agent or representative of, a member of MasterCard International designated as belonging to our Americas region, one citizen and resident of a country in, or director, officer, employee, agent or representative of a member of MasterCard International designated as belonging to our European region and one citizen and resident of a country in, or director, officer, employee, agent or representative of, a member of MasterCard International designated as belonging to our Asia/Pacific-Middle East/Africa region. No more than one Class M director may be a director, officer, employee, agent or representative of any single member of MasterCard International or any affiliate thereof. No Class M director may serve as Chairman of our board of directors, and no officer may serve as Chairman of our board of directors unless the election or appointment of such officer to so serve is approved by the affirmative vote of at least 75% of the entire board of directors. In addition, no more than one Class M director may serve on our Audit Committee, our Compensation Committee or our Nominating and Corporate Governance Committee (or any Executive Committee), and no Class M director shall participate in the process of nominating any person to serve as a director of the Company (unless such person is being nominated to serve as a Class M director or is the Chief Executive Officer of the Company) or as a director of The MasterCard Foundation.

In addition, under our certificate of incorporation, the board of directors may appoint one person, who has previously served on our board of directors and who is not a director, officer, employee or other representative of a member, to be a non-voting advisor to our board of directors. Our board of directors will also appoint a director elected by the holders of our Class A common stock to serve as a liaison between our board of directors and the board of directors of The MasterCard Foundation to coordinate and facilitate communications with The MasterCard Foundation.

Table of Contents

Committees of the Board of Directors

We have an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee.

Audit. The Audit Committee assists our board of directors in fulfilling its oversight responsibilities. Among other things, it reviews the activities, results and effectiveness of internal and external auditors, and appoints and confirms the independence of the external auditors. The Audit Committee also reviews the Company s key risks and controls and its quarterly and annual financial statements. The current members of the Audit Committee are Messrs. McLuskie (Chairman), Falcones, Boudreau, Fieseler, and Pearce. Following this offering the Audit Committee will be comprised of newly-appointed directors selected from among the independent directors to be elected by the holders of our Class A common stock.

Compensation. The Compensation Committee establishes the compensation policies and criteria of our President and Chief Executive Officer and other executive officers. The current members of the Compensation Committee are Messrs. Boudreau (Chairman), Falcones, Aldinger, Pearce and Weaver. Following this offering, the Compensation Committee will be comprised of newly-appointed directors selected from among the independent directors to be elected by the holders of our Class A common stock.

Nominating and Corporate Governance. The Nominating and Corporate Governance Committee considers and nominates individuals for election as directors of the Company and performs the other functions set forth in its charter. The members of the Nominating and Corporate Governance Committee are Messrs. Falcones (Chairman), Boudreau, Tan, Verhaegen, Weaver and Willumstad. Following this offering, we expect that the Nominating and Corporate Governance Committee will be comprised of newly-appointed directors selected from among the independent directors to be elected by the holders of our Class A common stock.

European Board

As a global business, we have structured our organization to be sensitive to the requirements of the regions and countries in which we operate. Historically, our board of directors has delegated authority over a variety of matters, including certain rulemaking, enforcement and fee-setting decisions, to regional boards of directors covering each of Asia/Pacific, Canada, Europe, Latin America and the Caribbean, South Asia/Middle East/Africa, and the United States. Following this offering, however, our regional boards (with the exception of a regional board in Europe) will no longer exercise any authority over our business, although we do expect that representatives of our members will continue to serve on regional and global panels that will act in an advisory capacity to us. In Europe, our certificate of incorporation will allocate primary authority over these types of matters to a European Board comprised of representatives of our European members elected by the holders of our Class M common stock with their principal operations in Europe. No member of the European Board may be a director, regional board director, officer, employee or agent of, or represent a competitor or an institution that is represented on any board of a competitor. The Nominating and Corporate Governance Committee of the Global Board of Directors will nominate individuals for election as members of the European Board. The initial members of the European Board will be members of our existing Europe regional board that satisfy the preceding eligibility requirements.

Our certificate of incorporation will provide that the following specified aspects of our operations in Europe will be managed by or under the direction of the European Board:

(1) review of applications for membership (subject to guidelines established by our board of directors from time to time);

(2) fines (subject to guidelines established by our board of directors from time to time);

Table of Contents

(3) intraregional operating rules (subject to guidelines established by our board of directors from time to time);

(4) assessments and fees to the extent that such assessments and fees do not have an exclusionary effect (subject to guidelines established by the board of directors from time to time);

(5) intraregional product and enhancement development to the extent that the development initiatives do not relate to competitively sensitive matters;

(6) annual expense budget;

(7) surplus funds; and

(8) affinity and co-branding rules.

Our certificate incorporation will also provide, however, that our board of directors, acting with at least a 75% majority, may withdraw the authority granted to the European Board in its entirety and may terminate the existence of the European Board if the holders of our Class M common stock with their principal operations in our European region approve such withdrawal and termination by a majority of votes cast. In addition, our board of directors, acting with at least a 75% majority, may permanently withdraw from the European Board any specific authority granted to the European Board. In addition, the board of directors, acting with at least a two-thirds majority, may override any decision or otherwise temporarily assume any authority granted to the European Board. Finally, our board of directors, acting with a simple majority, may override any decision or otherwise temporarily assume any authority granted to the European Board if, in our board of directors sole judgment and discretion, any action or failure to take action by the European Board (1) could subject us to risk of legal or regulatory liability, (2) would be contrary to the our global strategy, (3) would be reasonably likely to have an effect outside Europe or on U.S. commerce or (4) relates to any matter outside of the authority granted to the European Board.

Any director on our board of directors elected by the holders of our Class M common stock who is designated as a director from our European region will be a member of the European Board. The remaining members of the European Board will be elected by the holders of our Class M common stock with their principal operations in our European region at every second annual meeting of stockholders, to hold office for two year terms.

Compensation of Directors

In the year ended December 31, 2004, directors who were not employees of the Company were paid an annual retainer of $45,000. The Chairman of the Global Board of Directors received an annual retainer of $50,000. Non-employee directors also received an annual retainer of $5,000 for serving as a chairperson of a standing committee; a $1,500 meeting fee for attendance at board meetings; a $1,000 meeting fee for attendance at committee meetings and a $500 meeting fee for telephonic meetings. In addition, customary expenses for attending board and committee meetings were reimbursed.

Under the MasterCard Deferral Plan, up to 100% of non-employee director s meeting fees and annual retainer may be deferred and invested among several investment return options. In general, deferred amounts are not paid until after the director retires from the board. The amounts are then paid, at the director s option, either in a lump sum or in five or ten annual installments.

Following this offering, we expect to establish directors compensation practices customary for a publicly traded company.

Compensation Committee Interlocks and Insider Participation

None of the current members of the Compensation Committee has ever served as an officer or employee of the Company. Mr. Boudreau is a former executive officer of Chase Manhattan Bank USA,

Table of Contents

N.A, an affiliate of one of the Company s stockholders with which it has a business relationship more fully described below under Certain Relationships and Related Transactions. For a description of JPMorgan Chase & Co. s stockholdings in the Company, see Principal Stockholders. All current members of the Compensation Committee are officers or former officers of stockholders of the Company, which are principal members of MasterCard International and significant customers of the Company.

Employment Agreements and Change-in-Control Agreements

Employment Agreements

The Company is party to an employment agreement with each of the President and Chief Executive Officer and the four next highest paid executive officers (the Named Executive Officers).

Mr. Selander

Under the terms of Mr. Selander s employment agreement, Mr. Selander s employment will automatically terminate if he: (i) retires; (ii) dies; or (iii) becomes disabled. In addition, both he and the Company can terminate the agreement for any reason upon 90 days prior written notice. During the employment term, Mr. Selander is eligible to participate in the Company s total rewards plans and arrangements on a level commensurate with his position. The agreement provides that if Mr. Selander s employment is terminated either by the Company other than for cause or by him for certain specified reasons, in addition to any earned, but unpaid base salary and vested entitlements under any Company plans, he would be entitled to:

- A pro rata portion of his target bonus;
- Severance pay in the form of base salary continuation and his average annual incentive bonus, received over the prior three years, for a period of 36 months;
- Continued participation in the Company s health, life insurance and disability plans and Company payment of COBRA premiums;
- Immediate vesting under the Supplemental Executive Retirement Plan (SERP) and an additional SERP benefit equal to the amount of benefits he would have accrued under any Company tax-qualified pension and savings plans until he is eligible to retire;
- Continued vesting of any long-term incentive awards; and
- Outplacement assistance.

For terminations by reason of death or disability, Mr. Selander would be entitled to his target annual bonus (pro rated in the case of disability).

Mr. Selander would be subject to non-competition and non-solicitation covenants for a minimum period of 12 months, up to the full length of the severance period.

On February 28, 2005, the Company entered into an addendum agreement with Mr. Selander, which modified his employment agreement. The addendum agreement provides for a retention payment of $10,000,000 to Mr. Selander provided that he remains employed by the Company in good standing until a date to be established by our board of directors no earlier than April 9, 2010, but no later than April 9, 2011 (the Retention Date), meets certain performance standards and provides requested assistance in identifying his successor and transitioning his responsibilities to such person. Under certain circumstances Mr. Selander may be entitled to a pro rata portion of the retention payment if his employment is terminated prior to the Retention Date. Mr. Selander s receipt of the retention payment is further conditioned upon his agreement to generally applicable 36 month non- compete and non-solicitation covenants, subject to shorter periods if he is terminated for cause or if he resigns as a result of a change in the strategic direction of the Company to which he objects, and his execution of a release of liability in favor of the Company.

Table of Contents

Messrs. Heuer, McElhatton, Thom and Hanft

Mr. McElhatton was formerly the President, Global Technological Operations of the Company. He retired in March 2005 and was succeeded by W. Roy Dunbar. Mr. McElhatton s employment agreement and compensation are discussed herein because he was among the Company s five most highly compensated executive officers in 2004.

Under the terms of Messrs. Heuer s, McElhatton s, Thom s and Hanft s agreements, the applicable executive s employment will automatically terminate if he: (i) dies; or (ii) becomes disabled. In addition, both the executive and the Company can terminate the agreement for any reason upon 90 days prior written notice. During the employment term, the executive is eligible to participate in the Company s total rewards plans and arrangements on a level commensurate with his position. The agreement provides that if the executive s employment is terminated prior to retirement (March 31, 2005 for Mr. McElhatton and age 65 for Messrs. Heuer, Thom and Hanft) either by the Company other than for cause or by the applicable executive for certain specified reasons, in addition to any earned, but unpaid base salary and vested entitlements under any Company plans, the applicable executives would be entitled to:

- A pro rata portion of his target bonus;
- Severance pay in the form of base salary continuation and his average annual incentive bonus, received over the prior two years, for a period (through March 31, 2005 for Mr. McElhatton and 24 months for Messrs. Heuer, Thom and Hanft), subject, in Mr. Hanft s case, to him being retained on the payroll until retirement and paid additional pay in lieu of severance over the period until he is eligible to retire (without any increase in the amount otherwise payable);
- Continued participation in the Company s health, life insurance and disability plans and Company payment of COBRA premiums;
- Immediate SERP vesting;
- Immediate vesting of any special awards grants and continued vesting of any other long-term incentive awards; and
- Relocation assistance for Mr. McElhatton and Mr. Thom.

For terminations by reason of death, disability or retirement, and certain voluntary terminations, the executive (or his estate and/or beneficiary in the case of death) would be entitled to unpaid base salary, vested entitlements under any Company plans, a pro rata portion of his target bonus, and relocation assistance (for Mr. Thom only).

The executive would be subject to non-competition and non-solicitation covenants for a minimum period of 12 months, up to the full length of the severance period.

Change-in-Control Agreements

The Company has approved a Change-in-Control Agreement for certain of its executive officers, including all of the Named Executive Officers. Under the Change-in-Control Agreement, if an executive officer s employment is terminated without cause or for good reason (as defined in the Change-in-Control Agreement) during the six-month period preceding or the two-year period following a change in control of the Company, the executive will be entitled to the following:

A severance payment equal to two times the average base salary and bonus (three times in the case of the President and Chief Executive Officer), payable through March 31, 2005 for Mr. McElhatton and over a 24-month period for Messrs. Heuer, Thom and Hanft (36 months in the case of the President and Chief Executive Officer), subject, in Mr. Hanft s case, to him being retained on the payroll until retirement and paid additional pay in lieu of severance until the executive is eligible to retire (without any increase in the amount otherwise payable);

Table of Contents

Continued coverage under the executive s individual long-term disability plan for the applicable period referenced above;

Continued coverage in the medical, dental, hospitalization and vision care plans for up to 18 months;

Accelerated vesting of performance units including special grants awarded prior to the change-in-control under the Executive Incentive Plan, with payout at 125% of target;

Accelerated vesting of special grants awarded pursuant to the Executive Incentive Plan, nonqualified retirement and deferred compensation benefits;

Lump sum payment equal to the value of unvested qualified plan benefits;

Outplacement assistance; and

An excise tax gross-up for any taxes incurred as a result of Section 4999 of the Internal Revenue Code.

The executive would be subject to a covenant not to compete and not to solicit employees for the period through March 31, 2005 for Mr. McElhatton and for up to 24 months for Messrs. Heuer, Thom and Hanft (36 months in the case of the President and Chief Executive Officer).

The Company expects to enter into revised Change-in-Control Agreements with the Named Executive Officers in connection with the completion of the offering transactions.

Summary Compensation Table

The following table shows the before-tax compensation for the Named Executive Officers of the Company in respect of the years ended December 31, 2004, 2003 and 2002.

		Annual Compensation			Long-term Compensation	
Name and Principal Position	**Year**	**Salary**	**Bonus**	**Other Annual Compensation(1)**	**LTIP Payouts(2)**	**All Other Compensation(3)**
Robert W. Selander	2004	$ 800,000	$ 2,500,000	$ 246,804	$ 4,827,025	$ 892,431
President & CEO	2003	800,000	1,900,000	280,231	4,899,490	1,343,973
	2002	800,000	3,100,000	271,342	3,986,500	1,723,330
Alan J. Heuer	2004	650,000	1,200,000	172,307	3,088,050	168,321

Chief Operating Officer	2003	650,000	600,000	189,187	4,556,100	1,654,461
	2002	643,750	1,150,000	193,431	2,989,000	176,018
Jerry McElhatton(4)	2004	625,000	525,000	144,572	2,541,525	156,855
President Global	2003	625,000	525,000	164,190	3,521,310	1,487,020
Technology and Operations	2002	620,833	900,000	175,646	2,292,500	721,720
Christopher D. Thom	2004	575,000	725,000	154,506	2,616,425	921,808
Chief Risk Officer	2003	575,000	500,000	145,940	2,534,300	519,186
	2002	568,750	700,000	149,034	2,166,500	563,432
Noah J. Hanft	2004	375,000	500,000	123,390	719,775	210,022
General Counsel and	2003	350,000	250,000	118,086	480,155	252,031
Corporate Secretary	2002	350,000	450,000	90,780	325,500	320,892

(1) Amounts represent payments in lieu of perquisites (for fiscal years 2004, 2003, and 2002 respectively: Mr. Selander $56,000, $56,000, $56,000; Mr. Heuer $45,000, $45,000, $45,000; Mr. McElhatton $45,000, $45,000, $45,000; Mr. Thom $45,000, $45,000, $45,000; Mr. Hanft $45,000, $45,000, $35,000) and reimbursement for tax obligations (for fiscal years 2004, 2003, and 2002, respectively: Mr. Selander $190,804, $224,231, $215,342; Mr. Heuer $127,307,

Table of Contents

$144,187, $148,431; Mr. McElhatton $99,572, $119,190, $130,646; Mr. Thom $109,506, $100,940, $104,034; Mr. Hanft $78,390, $73,086, $55,781).

(2) Includes payments under the Executive Incentive Plan as follows: the final 20% of the award earned for the 2000-2002 performance period and the first 80% of the award earned for the 2002-2004 performance period (the remaining 20% for the 2002-2004 performance period will vest and be released to participants in January 2007).

(3) Includes for fiscal 2004, a special bonus for services related to the Europay conversion and integration (Mr. Selander $333,333; Mr. Thom $100,000; Mr. Hanft $125,000); payouts under the Company s discontinued Value Appreciation Plan related to the exercise of vested rights tied to (i) value appreciation of a portfolio of member bank stocks through September 30, 2004 and, (ii) beginning October 1, 2004, earnings on investments in third-party investment vehicles (Mr. Selander $279,615; Mr. Thom $398,755); matching contributions under the Company s Shared Profit and Savings Plan (Mr. Selander $12,300; Mr. Heuer $12,300; Mr. McElhatton $12,300; Mr. Thom $12,300; Mr. Hanft $12,300); profit sharing contributions under the Company s Shared Profit and Savings Plan (Mr. Selander $20,500; Mr. Heuer $20,500; Mr. McElhatton $20,500; Mr. Thom $20,500; Mr. Hanft $20,500); Company contributions to both a non-qualified defined benefit and defined contribution plan the Annuity Bonus Plan (Mr. Selander $209,884; Mr. Heuer $132,401; Mr. McElhatton $120,531; Mr. Thom $107,596; Mr. Hanft $51,198); the dollar value of the benefit of premiums paid for a split-dollar life insurance policy projected on an actuarial basis (Mr. Thom $281,425); the full amount of all premiums paid by the Company for Execut