CARDNET MERCHANT SERVICES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

Registered number:

735844

Registered office:

25 Gresham Street
London
EC2V 7HN

Directors:

C D Walsh (Chairman)
S D Bonham
P L Harrington
N R Leacock

Company secretary:

S Slattery

Member of Lloyds TSB Group

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DEMCEBER 2007

Principal activity

The company is a joint venture between Lloyds TSB Bank plc and FDR Limited The company's principal activity during the year was the provision of services to merchants enabling the acceptance, authorisation and clearing of plastic card transactions

Review of business and future developments

The profit for the financial year ended 31 December 2007 amounted to £32 9m (2006 £31 0m), as detailed in the income statement on page 5 The directors aim to continue the development of the business by recruiting new merchants and leveraging Lloyds TSB corporate relationships within the existing customer base

Dividends

A second interim dividend in respect of 2006 of £10,394 per share (2005 £12,301 per share) amounting to £13,523,199 (2005 £16,004,271) was paid in September 2007 to the A & B shareholders A further interim dividend in respect of 2006 of £2,103 per share (2005 nil) amounting to £2,736,334 (2005 nil) was paid in April 2008 to the A & B Shareholders

An interim dividend in respect of 2007 of £12,851 per share (2006 £11,313 per share) amounting to £16,719,030 (2006 £14,717,828) was paid in October 2007 A second interim dividend in respect of 2007 of £10,812 per share (2006 £10,394 per share) amounting to £14,066,315 (2006 £13,523,199) was paid in April 2008 to the A & B shareholders

Financial risk management

The directors consider that the principal area of risk is counter-party credit risk The company has counter-party credit risk management processes in place which are designed to prevent specific individual merchant loss

Full disclosure of the company's financial risk management objectives and policies is given in note 4 to the financial statements

Key performance indicators ('KPIs')

During the year ended 31 December 2007 the business processed £6,607m of credit card transactions (2006 £6,089m) and 147 7 million of debit card transactions (2006 123 4 million)

Directors

The names of the directors of the company are shown on page 1

During the year the following directors were appointed or resigned

	Appointed	Resigned
R Schmenz		7 December 2007
D G Yates		7 December 2007
S D Bonham	7 December 2007	
P L Harrington	7 December 2007	

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing those financial statements the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards (IFRS) as adopted by the European Union have been followed, subject to any material departures disclosed in the financial statements,
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business

The directors confirm that they have complied with the above requirements in preparing the financial statements

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Policy and practice on payment of creditors

The company follows "The Better Payment Practice Code" published by the Department for Business, Enterprise and Regulatory Reform (BERR) regarding the making of payments to suppliers A copy of the code and information about it may be obtained from the BERR Publications Orderline 0845 0150 010, quoting ref URN 04/606

The company's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated It is the policy of the company to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract

The number of days required to be shown on this report, to comply with the provisions of the Companies Act 1985, is 35 (2006 23) This bears the same proportion to the number of days in the year as the aggregate of the amounts owed to trade creditors at 31 December 2007 bears to the aggregate of the amounts invoiced by suppliers during the year

Auditors and audit information

Each person who was a director at the date of approval of this report confirms that, so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information This confirmation is given, and should be interpreted, in accordance with section 234ZA of the Companies Act 1985

On behalf of the board

Colin Walsh
Chairman and Director

30th June 2008

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CARDNET MERCHANT SERVICES LIMITED

We have audited the financial statements of Cardnet Merchant Services Limited for the year ended 31 December 2007 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes These financial statements have been prepared under the accounting policies set out therein

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Opinion
In our opinion

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2007 and of its profit and cash flows for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Bristol
30th June 2008

Income statement
for the year ended 31 December 2007

	Note	**2007 £'000**	2006 £'000
Finance income	5	4,548	4,127
Net finance income		4,548	4,127
Fees and commission income		158,758	136,042
Fees and commission expense		(98,448)	(81,413)
Net fees and commission income		60,310	54,629
Other operating income		36	143
Other operating expenses	6	(18,024)	(14,646)
Profit before tax		46,870	44,253
Taxation	7	(13,930)	(13,276)
Profit for the financial year		32,940	30,977

The results for the year are wholly attributable to continuing activities and equity shareholders

The accompanying notes are an integral part of the financial statements

Balance sheet
at 31 December 2007

	Note	**2007 £'000**	2006 £'000
Non current assets			
Property, plant and equipment	8	24	45
Deferred tax asset	11	97	28
		121	73
Current assets			
Other current receivables	10	67,528	95,461
Amounts owed by group companies	16	141,402	96,684
Amounts owed by related parties	16	2,134	-
Cash and cash equivalents	9	4,426	1,108
		215,490	193,253
Total assets		**215,611**	**193,326**
Current liabilities			
Other current payables	12	(188,685)	(170,040)
Amounts owed to related parties	16	-	(267)
Current tax liabilities		(6,729)	(6,323)
		(195,414)	(176,630)
Non current liabilities			
Provisions for liabilities and charges	13	(1,226)	(423)
		(1,226)	(423)
Total liabilities		**(196,640)**	**(177,053)**
Net assets		**18,971**	**16,273**
Equity			
Share capital	14	3	3
Retained earnings		18,968	16,270
Total shareholders' equity		**18,971**	**16,273**

The financial statements on pages 5 to 20 were approved by the board on 30th June 2008 and signed on its behalf by

COLIN WALSH
Chairman and Director

The accompanying notes are an integral part of the financial statements

Statement of changes in equity
for the year ended 31 December 2007

	Share capital £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2006	**3**	**16,015**	**16,018**
Profit for the financial year	-	30,977	30,977
Dividends (Note 15)	-	(30,722)	(30,722)
Balance at 31 December 2006 and 1 January 2007	**3**	**16,270**	**16,273**
Profit for the financial year	-	32,940	32,940
Dividends (Note 15)	-	(30,242)	(30,242)
Balance at 31 December 2007	**3**	**18,968**	**18,971**

The accompanying notes are an integral part of the financial statements

Cash flow statement
for the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
Cash flows from operating activities	17	42,619	40,932
Taxes paid		(13,593)	(13,640)
Net cash provided by operating activities		29,026	27,292
Cash flows from investing activities			
Purchases of property, plant and equipment	8	(14)	(12)
Finance income received	5	4,548	4,127
Net cash generated by investing activities		4,534	4,115
Cash flows from financing activities			
Dividends paid	15	(30,242)	(30,722)
Net cash used in financing activities		(30,242)	(30,722)
Change in cash and cash equivalents		3,318	685
Cash and cash equivalents at beginning of year		1,108	423
Cash and cash equivalents at end of year		4,426	1,108

The accompanying notes are an integral part of the financial statements

Notes to the financial statements

1. General information

Cardnet Merchant Services Limited is a limited company providing services to merchants enabling the acceptance, authorisation and clearing of plastic card transactions The company is incorporated and resident in England and Wales, and its immediate parent company is Lloyds TSB Bank plc

The company's ultimate parent company is Lloyds TSB Group plc, which is a limited liability company and is incorporated and resident in Scotland, which is also the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the company is a member Lloyds TSB Bank plc is the parent undertaking of the smallest such group of undertakings Copies of the group financial statements of both companies may be obtained from the company secretary's office, 25 Gresham Street, London, EC2V 7HN Lloyds TSB Group plc has a primary listing on the London Stock Exchange, with a further listing in New York

2. Accounting policies

These financial statements have been prepared using applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union, and in compliance with the requirements of the Companies Act 1985

The financial information has been prepared under the historical cost convention as modified by the revaluation of derivative financial instruments

The following IFRS pronouncements relevant to the company have been adopted in these financial statements

i IFRS 7 'Financial Instruments Disclosures' This standard, which was effective from 1 January 2007, requires more detailed qualitative and quantitative disclosures about exposure to risks arising from financial instruments As a disclosure standard, the application of this new standard has not had any impact on amounts recognised in the financial statements The IFRS 7 disclosures are set out in note 4 IFRS 7 supersedes IAS 30 'Disclosures in the Financial Statements of Banks and Similar Institutions' and the disclosure requirements previously contained in IAS 32 'Financial Instruments Presentation'

ii Amendment to IAS 1 'Presentation of Financial Statements – Capital Disclosures' This standard, which was effective from 1 January 2007, requires additional disclosures of the objectives, policies and processes for managing capital, quantitative data about what the company regards as capital, and compliance with capital requirements These new capital disclosures are set out in note 3

Details of those IFRS pronouncements which will be relevant to the company but which were not effective at 31 December 2007 and which have not been applied in preparing these financial statements are given in note 19

The principal accounting policies applied in the preparation of these financial statements are set out below The policies have been consistently applied to all the years presented, unless otherwise stated

a) Revenue recognition

Fees and commissions which are not an integral part of an effective interest rate are recognised when the service has been provided These services comprise of initialisation and ongoing fees for services delivered to merchants

Interest income is recognised in the income statement for all interest–bearing financial instruments, using the effective interest rate method

Notes to the financial statements (continued)

2. Accounting policies (continued)

b) Property, plant and equipment

Property, plant and equipment are included at historical cost less accumulated depreciation Depreciation is calculated using the straight-line method to allocate the difference between the historical cost and the residual value over their estimated economic useful lives, as follows

- Equipment 3-8 years

The assets' residual values and useful economic lives are reviewed, and adjusted if appropriate, at each balance sheet date

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable In the event that an asset's carrying amount is determined to be greater than its recoverable amount it is written down immediately

c) Taxation, including deferred taxation

Current income tax which is payable on taxable profits is recognised as an expense in the period in which the profits arise

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements Deferred tax is determined using tax rates that have been enacted or announced by the balance sheet date that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised

Deferred and current tax assets and liabilities are offset when they arise in the same tax reporting group and where there is a legal right of offset and the intention to settle on a net basis or to realise the assets and settle the liability simultaneously

d) Provisions

Provisions are recognised in respect of present obligations arising from past events where it is probable that outflows of resources will be required to settle the obligations and they can be reliably estimated

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably Contingent liabilities are not recognised on the financial statements but are disclosed unless they are remote

e) Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are paid

f) Cash and cash equivalents

For the purposes of the cash flow statement cash and cash equivalents comprise cash and amounts due from banks with a maturity of less than three months

Notes to the financial statements (continued)

3. Capital management

The company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, provide an adequate return to its shareholders through pricing products and services commensurately with the level of risk

The company's shareholders (Lloyds TSB Bank plc and FDR Limited) manage the company's capital structure and advise the board of directors to consider making adjustments to it in the light of changes to economic conditions and the risk characteristics of the underlying assets In order to maintain or adjust the capital structure, the board may adjust the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares, or sell assets

The company's capital comprises all components of equity, movements in which appear in the statement of changes of equity on page 7 The company received most of its funding requirements from its shareholders and does not raise funding externally

4. Financial risk management

The directors are responsible for establishing a framework for evaluating, measuring, monitoring and controlling risk They are responsible for ensuring that the risks within the business are identified, assessed, monitored and controlled These controls and procedures where relevant comply with Lloyds TSB Group policies and standards All company risk policies are reviewed and authorised by the company's board of directors, which is comprised of directors appointed by Lloyds TSB Bank plc and FDR Limited

a) Measurement basis of assets and liabilities

All assets and liabilities are held at amortised cost

b) Credit risk

The maximum credit risk exposure of the company in the event of other parties failing to perform their obligations is detailed below

	2007 **£'000**	2006 £'000
Amounts owed by group companies	141,402	96,684
Amounts owed by related parties	2,134	-
Other current receivables	67,528	95,461
Maximum credit risk exposure	211,064	192,145

Credit risk arises from extending credit in all forms, where there is a possibility that a counterparty may default The company is committed to a strong credit culture that recognises the need to ensure that risk assets are of high quality

The company maintains and adheres to a credit policy document in conjunction with Group Risk Management, Lloyds TSB Group

Every new Merchant is subject to a detailed credit check which includes a review of financial information (for example, audited financial statements, management accounts, projections and business plans), a credit reference agency search, review of terms and conditions, associated websites and site visit reports (as necessary) Full KYC and KYB is undertaken in line with the company's money laundering policies

Notes to the financial statements (continued)

4. Financial risk management (continued)

b) Credit risk (continued)

The prime risk for the business arises from the Card Schemes' Chargeback rules and if the financial strength of the Merchant is weak risk mitigation is considered This includes taking guarantees (including from Lloyds TSB Bank plc), cash security, property security and deferral of funds to the Merchant The company also takes into account the availability of bonding and insurance cover

The company adopts a prudent approach to the identification, definition, and control of bad and doubtful debts, including chargebacks Specific provisions are raised where there is clear evidence that any merchant has financial difficulties, or debts are overdue, which may impact its ability to repay any amounts owing to the company including future chargebacks

An analysis of the credit quality of the company's receivables is presented below The assessment of the risk level of other current receivables which are neither past due nor impaired is according to the information presented to the company's management

	2007 £'000	2006 £'000
Other current receivables which are neither past due nor impaired		
High quality	66,893	94,914
Good quality	-	-
Satisfactory	-	-
Lower quality	-	-
	66,893	94,914
Other current receivables which are past due but not impaired		
Past due up to 30 days	179	160
Past due 30 to 60 days	107	66
Past due 60 to 90 days	34	82
Past due 90 to 180 days	34	81
	354	389
Impaired other current receivables		
Impaired other current receivables assessed on an individual basis	281	158
	281	158
Total other current receivables gross of impairment allowances	67,528	95,461
Allowance for impairment losses	(220)	(401)
Total other current receivables	67,308	95,060

c) Liquidity risk

Liquidity risk is the risk that the company is unable to meet its obligations as they fall due However, as the company is primarily funded by shareholders Lloyds TSB Group plc and FDR Limited this is not considered to be a significant risk to the company

The table below analyses financial liabilities of the company on an undiscounted future cash flows basis according to contractual maturity into relevant maturity groupings based on the remaining period at the balance sheet date

Notes to the financial statements (continued)

4. Financial risk management (continued)

c) Liquidity risk (continued)

At 31 December 2007	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Total £'000
Amounts owed to Merchants	183,429	105	516	-	184,050
Amounts owed to Card Schemes	1,792	-	-	-	1,792
Other creditors and accruals	1,263	800	575	205	2,843
Total financial liabilities	186,484	905	1,091	205	188,685

At 31 December 2006	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Total £'000
Amounts owed to Merchants	166,307	-	-	-	166,307
Amounts owed to Card Schemes	1,050	-	-	-	1,050
Other creditors and accruals	1,090	922	653	18	2,683
Amounts owed to related parties	267	-	-	-	267
Total financial liabilities	168,714	922	653	18	170,307

The company has sufficient funding to meet liquidity needs as there is a current funding arrangement between LTSB Bank plc and Cardnet Merchant Services Limited

d) Currency risk

The currency risk that Cardnet runs is derived by operating the multi currency operations on the Omnipay platform Generally the risk is minimised because the liability to merchants is funded from receipts from payment schemes in the same currency or are swapped for GBP at a predetermined rate and paid to merchants in GBP

Where the risk remains, this is connected to the pre-funding of Merchant deposits in currency bank accounts by the selling of GBP and the purchase of EUR, USD and HKD There is also a residual risk where the currency in which the merchant is funded is different from that received from the scheme The resulting currency risk from both these exposures is not deemed to have material impact

e) Interest rate risk

Interest rate risk arises from the impact of interest rate changes stemming from the balance sheet mismatch positions inherent in the balance sheet structure The company is not subject to any significant interest rate risk

Exposure to interest rate risk within the company's activities is managed within the policies laid down by Group Balance Sheet Management, Lloyds TSB Group The company's policy operates within guidelines set by the parent company

f) Geographical and sector concentrations of risk

The company operates primarily within the UK There is an exposure to particular sectors arising where there is a long period of time elapsing between payment and the provision of goods/services The resulting risk is closely monitored and controlled with agreed parameters set by the company's credit policy

5 Net finance income

	2007 £'000	2006 £ 000
Interest income earned from other group companies	4 548	4,127

Notes to the financial statements (continued)

6. Other operating expenses

	2007 £'000	2006 £'000
Recharges relating to salary and other related costs	6,340	5,821
Other administrative expenses		
Card scheme fees	4,573	2,730
Processing costs	2,087	999
Depreciation	35	45
Marketing	398	314
Bad debts, operational losses and fraud	977	1,225
Communications	753	731
Charges in	1,538	1,566
Other	1,323	1,215
	11,684	8,825
Total other operating expenses	18,024	14,646
During the year the auditors' remuneration comprised		
Statutory audit fees and other audit related fees	48	24

During the year, the company undertook a review of the categorisation of other operating expenses The company has restated the 2006 categorisation of other operating expenses based on this internal review

The company has no employees (2006 nil) All activities of the company are carried out by the joint venture partners Lloyds TSB Bank plc and FDR Limited, for which the company is recharged These costs are recharged to the company and included within expenses recharged in Note 16 to the accounts

Pensions and share-based payments
Full disclosure in respect of pensions and share-based payments in accordance with IAS19 and IFRS2 respectively can be found in the financial statements of Lloyds TSB Bank plc, the parent company

Directors Emoluments
The aggregate of the emoluments of the Directors directly attributable to services provided to Cardnet Merchant Services Limited was £294,427 (2006 £147,867) These comprise amounts paid by the parent undertaking to the Directors for their services to this company, which relate to the management of the affairs of the company

Retirement benefits are accruing to two Directors under a defined benefit pension scheme operated by Lloyds TSB Bank plc (2006 one)

7. Taxation

a) Analysis of charge for the year

	2007 £'000	2006 £'000
UK corporation tax		
- Current tax on profits for the year	14,068	13,280
- Adjustments in respect of prior years	(70)	7
Current tax charge	13 998	13,287
Deferred tax		
- credit in respect of current year	34	(2)
- Adjustments in respect of prior years	(102)	(9)
	13,930	13 276

The charge for tax on the profit for the year is based on a UK corporation tax rate of 30 per cent (2006 30 per cent) The standard rate of UK Corporation Tax has reduced from 30% to 28% with effect from 1 April 2008

Notes to the financial statements (continued)

7. Taxation (continued)

b) Factors affecting the tax charge for the year

A reconciliation of the charge that would result from applying the standard UK corporation tax rate to profit before tax to the tax charge for the year in given below

	2007 £'000	2006 £'000
Profit before tax	46,870	44,253
Tax charge thereon at UK corporation tax rate of 30% (2006 30%)	14,061	13,276
Factors affecting charge		
Disallowed and non-taxable items	34	2
Reduction in deferred rate to 28%	7	-
Adjustments in respect of prior years	(172)	(2)
Tax on profit on ordinary activities	13,930	13,276
Effective rate	29 7%	30%

8 Property, plant and equipment

	Equipment £'000
Cost	
At 1 January 2006	190
Additions	12
At 31 December 2006 and 1 January 2007	202
Additions	14
At 31 December 2007	**216**
Accumulated depreciation	
At 1 January 2006	112
Depreciation charge	45
At 31 December 2006 and 1 January 2007	157
Depreciation charge	35
At 31 December 2007	**192**
Net book value	
At 31 December 2007	**24**
At 31 December 2006	45

9. Cash and cash equivalents

Cash and cash equivalents are non-interest bearing and their fair values are equal to their carrying amounts

10. Other current receivables

	2007 £'000	2006 £'000
Amounts owed by Card Schemes	45 116	76,197
Amounts owed by Merchants	11 045	5,725
Other receivables	4,464	3,078
Accrued income	6 903	10,461
	67 528	95,461

No interest is receivable on these balances The fair values of other current receivables are equal to their carrying amounts

Notes to the financial statements (continued)

11. Deferred taxation

The movement in the net deferred tax balance is as follows

	2007 £'000	2006 £'000
At 1 January	28	21
Charged to income statement	69	7
At 31 December	97	28

The deferred tax charge in the income statement comprises the following temporary differences

	2007 £'000	2006 £'000
Accelerated depreciation allowances	-	2
Short-term timing differences	69	5
	69	7

Deferred tax asset is comprised as follows

	2007 £'000	2006 £'000
Accelerated capital allowances	19	19
Other temporary differences	78	9
	97	28

12. Other current payables

	2007 £'000	2006 £'000
Amounts owed to Merchants	184,050	166,307
Amounts owed to Card Schemes	1,792	1,050
Other creditors and accruals	2,843	2,683
	188,685	170,040

13. Provisions for liabilities and charges

	2007 £'000	2006 £'000
At 1 January	423	191
Provisions made during the year	1,819	1,078
Amounts written off during the year	(1,010)	(827)
Amounts written back during the year	(6)	(19)
At 31 December	1,226	423

Provision is for irrecoverable amounts in relation to merchants

Notes to the financial statements (continued)

14. Share capital

	2007 £	2006 £
Authorised, issued and fully paid		
650 "A" ordinary shares of £1 each (2006 650)	**650**	650
651 "B" ordinary shares of £1 each (2006 651)	**651**	651
1,300 deferred shares of £1 each (2006 1,300)	**1,300**	1,300
	2,601	2,601

The ordinary shareholders (the holders of the 'A' ordinary shares and the 'B' ordinary shares) have priority over the deferred shareholders (the holders of the deferred shares) to receive dividends distributed up to the 'deferred share threshold' as defined in the company's articles of association Dividends above the threshold are distributed as follows 99% amongst the ordinary shareholders and 1% amongst the deferred shareholders On winding up, the deferred shareholders have priority over the ordinary shareholders to receive repayment of capital The ordinary shareholders have equal voting rights and the deferred shareholders have no voting rights

15. Ordinary dividends

	2007 £'000	2006 £'000
The dividends paid in the year were as follows		
Second interim dividend in respect of the preceding year	13,523	16,004
Interim dividend	16,719	14,718
	30,242	30,722

	2007 £ per share	2006 £ per share
The dividend per ordinary share was as follows		
Second interim dividend in respect of preceding year	10,394	12,301
Interim dividend	12,851	11,313
	23,245	23,614

The directors approved a second interim dividend of £14,066,315 (2006 £13,523,199) after the year end which was paid in April 2008 (2006 September 2007) This amounts to a second interim dividend per ordinary share of £10,812 (2006 £10,394) A further interim dividend in respect of 2006 of £2,736,334 was paid in April 2008 (2005 nil) This amounts to an interim dividend per ordinary share of £2,103 (2005 nil)

16. Related party transactions

The company's related parties include parent companies, fellow subsidiaries, pension schemes of the company's ultimate parent company and the company's key management personnel Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the company, which is determined to be the company's directors

Transactions with key management personnel

Directors' emoluments information is disclosed in note 6

There were no other transactions between the company and key management personnel during the current or preceding year

Notes to the financial statements (continued)

16. Related party transactions (continued)

Amounts owed by group companies

The company's related parties are its shareholders FDR Limited holds 650 "A" ordinary shares Lloyds TSB Bank plc holds 637 "B" ordinary shares Lloyds Bank Subsidiaries Limited holds 14 "B" ordinary shares Lloyds TSB Group plc holds 1,300 deferred shares

	2007 £'000	2006 £'000
Lloyds TSB Bank plc		
Amounts receivable at 1 January	96,684	83,466
Expenses recharged	(16,712)	(13,283)
Dividend	(15,133)	(15,373)
Net cash flows including settlement transactions	76,563	41,874
Amounts receivable at 31 December	141,402	96,684

The dividend includes a dividend of £325,000 (2006 £331,000) in relation to Lloyds Bank Subsidiaries Limited

Amounts owed by Lloyds TSB Bank plc are interest-bearing and the average rate of net interest earned was 4 72% (2006 4 92%) The fair value of amounts owed is equal to their carrying amounts No provisions have been recognised in respect of these amounts

Certain management costs of the company are paid by Lloyds TSB Bank plc and recharged

For certain merchants, the risk of irrecoverable chargebacks is underwritten by Lloyds TSB Bank plc The credit risk underwritten by Lloyds TSB Bank plc amounted to £41,000,000 at 31 December 2007 (2006 £29,100,000)

	2007 £'000	2006 £'000
FDR Limited		
Amounts (payable) at 1 January	(267)	(3,251)
Expenses recharged	(1,313)	(1,363)
Fees charged	(9,414)	(9,942)
Dividend	(15,109)	(15,349)
Net payments during the year	28,237	29,638
Amounts receivable/(payable) at 31 December	2,134	(267)

Fees charged by FDR Limited include contractual credits received of £4,500,000 (2006 £4,000,000)

For certain merchants, the risk of irrecoverable chargebacks is underwritten by FDR Limited The credit risk underwritten FDR Limited amounted to nil at 31 December 2007 (2006 nil) Underwriting fees paid to FDR Limited during the year ended 31 December 2007 amount to nil (2006 £1,800,000)

Amounts owing are non-interest bearing The fair value of amounts owed is equal to their carrying amounts

Notes to the financial statements (continued)

17. Reconciliation of profit before tax to net cash flow from operations

	2007 **£'000**	2006 £'000
Profit before tax	46 870	44,253
Finance income received	(4,548)	(4,127)
Depreciation	35	45
Increase in amounts owed by group companies	(44,718)	(13,218)
Decrease/(increase) in other current receivables	27,933	(25,515)
Increase in other current payables	18,645	42,246
Decrease in amounts owed to related parties	(2 401)	(2,984)
Increase in provisions for liabilities and charges	803	232
	(4,251)	(3,321)
Net cash generated from operations	42,619	40,932

18. Contingent liabilities and commitments

There were no contracted capital commitments or contingencies at the balance sheet date (2006 £nil)

19 Future developments

The following pronouncements will be relevant to the company but were not effective at 31 December 2007 and have not been applied in preparing these financial statements

Pronouncement	Nature of change	Effective date
IAS 1 Presentation of Financial Statements[1,2]	Revises the overall requirements for the presentation of financial statements, guidance for their structure and minimum content requirements The revised standard requires the presentation of all non-owner changes in equity within a statement of comprehensive income	Annual periods beginning on or after 1 January 2009
Amendment to IAS 23 Borrowing Costs [1,2]	Requires interest and other costs incurred in connection with the borrowing of funds to be recognised as an expense, except that those which are directly attributable to the acquisition, construction or production of assets that take a substantial period of time to get ready for their intended use or sale must be capitalised as part of the cost of those assets	Annual periods beginning on or after 1 January 2009

Notes to the financial statements (continued)

19 Future developments (continued)

Pronouncement	Nature of change	Effective date
IFRS 3 Business Combinations[1,2]	The revised standard continues to apply the acquisition method to business combinations, however, all payments to purchase a business are to be recorded at fair value at the acquisition date, some contingent payments are subsequently re-measured at fair value through income, goodwill may be calculated based upon the parent's share of net assets or it may include goodwill related to the minority interest, and all transaction costs are expensed	Annual periods beginning on or after 1 January 2009
IAS 27 Consolidated and Separate Financial Statements[1,2]	Requires the effect of all transactions with non-controlling interests to be recorded in equity if there is no change in control, any remaining interest in an investee is re-measured to fair value in determining the gain or loss recognised in profit or loss where control over the investee is lost	Annual periods beginning on or after 1 July 2009

[1] At the date of this report, these pronouncements are awaiting EU endorsement
[2] Subject to any EU endorsement, the company has not yet made a final decision as to whether it will apply these pronouncements in the 2008 financial statements

The full impact of these pronouncements is being assessed by the company However, the initial view is that none of these pronouncements are expected to cause any material adjustments to the reported numbers in the financial statements