

CARDNET MERCHANT SERVICES LIMITED

REPORT AND ACCOUNTS 2001



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CARDNET MERCHANT SERVICES LIMITED

REPORT AND ACCOUNTS 2001

Registered number: 735844

Registered office:

71 Lombard Street
London
EC3P 3BS.

Directors:

P. G. E. Ayliffe (Chairman)
G.E.R. Hawkins
P.J. Martin
R. Schimenz

Company Secretary:

S.N. O'Connor

Member of Lloyds TSB Group

CARDNET MERCHANT SERVICES LIMITED

REPORT OF THE DIRECTORS

Principal activities

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.

Results and dividends

The profit after taxation for the year ended 31 December 2001 amounted to £23,285,000 (2000: £19,812,000) as set out in the profit and loss account on page 4. An interim dividend of £9,855,000 was paid on 12 December 2001 (2000: £8,899,000) to the A & B shareholders. The directors recommend the payment of a further dividend of £13,430,000 (2000: £10,913,000) to the A & B shareholders.

Directors

The names of the directors of the company who served throughout the year are shown on page 1.

Reference is made on page 8 in note 7 to the directors' interests in the capital of Lloyds TSB Group plc, the ultimate parent company and its subsidiaries.

On behalf of the board



S N O'Connor
Secretary

Date 12 April 2002

CARDNET MERCHANT SERVICES LIMITED

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

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement and related notes which have been prepared under the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report, including, as described below, the financial statements. The United Kingdom Companies Act 1985 requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the year and of the profit and loss for that year. 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping 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.

Our responsibilities, as independent auditors, are established in the United Kingdom by statute, and the Auditing Standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions is not disclosed.

We read the directors' report contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.


Basis of audit opinion

We conducted our audit in accordance with auditing standards 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 judgements 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 of the state of affairs of the company as at 31 December 2001 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers
Chartered Accountants and Registered Auditors,
Southampton

Date 12 April 2002

CARDNET MERCHANT SERVICES LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2001

	Notes	2001 £'000	2000 £'000
Turnover	1	43,918	35,824
Administrative expenses		(13,676)	(9,048)
Operating profit		<u>30,242</u>	<u>26,776</u>
Interest receivable	2	3,023	1,527
Profit on ordinary activities before taxation	3	<u>33,265</u>	<u>28,303</u>
Taxation on profit on ordinary activities	6	(9,980)	(8,491)
Profit on ordinary activities after taxation		<u>23,285</u>	<u>19,812</u>
Dividends – paid		(9,855)	(8,899)
- proposed		(13,430)	(10,913)
Retained profits/(losses) transferred to profit and loss reserves		<u>0</u>	<u>0</u>

The company had no recognised gains or losses other than those disclosed in the profit and loss account, and therefore no separate statement of total recognised gains and losses has been presented.

All income and expenditure arose from continuing activities.

The company has no movement in shareholders' funds other than those included in the profit and loss account, and therefore no separate reconciliation of movement in shareholders' funds has been presented.

The notes on pages 7 to 11 form part of these accounts.

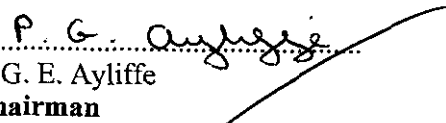
CARDNET MERCHANT SERVICES LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2001

	Notes	2001 £'000	2000 £'000
Fixed assets	8	<u>77</u>	<u>81</u>
Current assets			
Debtors	9	77,040	130,885
Cash at bank and in hand		2	1
		<u>77,042</u>	<u>130,886</u>
Creditors: amounts falling due within one year	10	(73,189)	(130,408)
Net current assets		<u>3,853</u>	<u>478</u>
Provisions for liabilities and charges	11	(3,927)	(556)
Total Assets		<u>3</u>	<u>3</u>
Capital and reserves			
Called up share capital	12	3	3
Profit and loss account		-	-
Total shareholders' funds		<u>3</u>	<u>3</u>

Analysis of shareholders' funds

Equity	12	2	2
Non-equity		1	1
		<u>3</u>	<u>3</u>


P. G. E. Ayliffe
Chairman

The notes on pages 7 to 11 form part of these accounts.

CARDNET MERCHANT SERVICES LIMITED**CASHFLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2001**

	2001 £'000	2000 £'000
Net cash outflow from operating activities	27,105	27,886
Dividend paid	(20,768)	(17,902)
Tax paid	(9,321)	(11,420)
Purchase of tangible fixed asset	(38)	(91)
Returns on investment and servicing of finance interest received	<u>3,023</u>	<u>1,527</u>
Increase in cash	<u>1</u>	<u>-</u>

Reconciliation of operating profit to net cash outflow from operating activities

	2001 £'000	2000 £'000
Operating profit	30,242	26,776
Decrease/(Increase) in debtors	53,845	(27,823)
(Decrease)/Increase in creditors and provisions	(57,024)	28,911
Other non cash items	42	22
Net cash outflow from continuing operating activities	<u>27,105</u>	<u>27,886</u>

Refer to Note 14 on page 11 for an explanation of the reconciliation of net cash flow to movement in net funds for the year ended 31 December 2001 and analysis of changes in net funds.

Notes to the accounts

1 Accounting policies

The accounts are prepared in accordance with applicable accounting standards and under the historical cost convention using the following accounting policies. Certain prior period amounts have been reclassified to conform with current year presentation.

a) Turnover

Turnover comprises merchant service charges and other fees receivable from merchants net of deductions for interchange payable to card issuers and costs of processing and settlement services.

b) Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. No material timing differences existed in the current or prior years.

c) Provision

Provisions for chargebacks are established when specific losses are identified with respect to merchants where recovery is at risk.

d) Interest Receivable

Interest income is recognised in the profit and loss account as it accrues.

e) Fixed Assets

Equipment is depreciated by equal annual instalments over the estimated useful lives of the assets, which are 3 - 8 years.

2 Interest receivable

	2001 £'000	2000 £'000
Interest receivable from group undertakings	<u>3,023</u>	<u>1,527</u>

3 Profit on ordinary activities before taxation

	2001 £'000	2000 £'000
Profit on ordinary activities before taxation is stated after charging:		
Auditors remuneration – audit services	20	18

4 Directors' emoluments

The aggregate of the emoluments of the directors directly attributable to services provided to Cardnet Merchant Services Limited was £125,140 (2000: £98,728). These comprise amounts paid by the parent undertaking to the directors for their services to that company which relate to the management of the affairs of this company.

Retirement benefits are accruing to one director under a defined benefit pension scheme (2000: one).

These costs are recharged to the company.

Three directors exercised share options in the parent company during the year (2000: one)

CARDNET MERCHANT SERVICES LIMITED

Notes to the accounts

5 Employee information

The company has no employees (2000: 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.

6 Taxation on profit on ordinary activities

	2001 £'000	2000 £'000
UK corporation tax on profit for the year at 30.00% (2000: 30.00%)	9,980	8,491

7 Directors' interests

The interests of the directors of the company at the end of the year in the capital of Lloyds TSB Group plc were:

Shares:		At 31 December 2001	At 1 January 2001	
P. G. E. Ayliffe		87,745	83,148	
G. E. R. Hawkins		124,790	99,589	
P. J. Martin		18,516	15,809	
R. Schimenz		-	-	
Options to acquire shares:	At 1 January 2001	During the Year		At 31 December 2001
		Granted	Exercised	
P.G.E. Ayliffe	110,393	61,475	25,811	146,057
G.E.R. Hawkins	66,815	-	24,518*	42,297
P.J. Martin	23,586	5,967	2,933	26,620
R. Schimenz	-	-	-	-

*This includes 722 share options, which lapsed during the year in accordance with the rules of the staff sharesave option scheme.

None of the directors had any other interest in the capital of Lloyds TSB Group plc or its subsidiaries.

CARDNET MERCHANT SERVICES LIMITED

Notes to the accounts

8. Fixed Assets

Equipment

£'000

Cost:

At 1 January 2001

116

Additions

38

Disposals

-

At 31 December 2001

154

Depreciation:

At 1 January 2001

35

Charge for the year

42

Disposals

-

At 31 December 2001

77

Balance Sheet amount at

31 December 2001

77

Balance Sheet amount at

At 31 December 2000

81

9 Debtors

2001

£'000

2000

£'000

Accrued Income

10,533

10,245

Amount owed by Lloyds TSB Bank plc

66,507

120,640

77,040

130,885

Amounts owed by group undertakings are unsecured and have no fixed date of repayment.

CARDNET MERCHANT SERVICES LIMITED

Notes to the accounts

10 Creditors: amounts falling due within one year

	2001 £'000	2000 £'000
Taxation	6,152	5,493
Accruals	2,534	2,220
Proposed dividend	13,430	10,913
Liability to merchants	51,073	111,782
	<u>73,189</u>	<u>130,408</u>

11 Provisions for liabilities and charges

	2001 £'000	2000 £'000
The movement in provisions is as follows:		
Balance brought forward 1 January	556	1,141
Amounts written off	(627)	(1,488)
Additional provisions made	3,998	903
Balance carried forward 31 December	<u>3,927</u>	<u>556</u>

Under the rules of the card schemes that govern the card industry, card issuers can seek reimbursement from the company for any amounts they have refunded to cardholders for goods and services paid for but not received. In turn, the company normally recovers from the merchants the value of these chargebacks. Provisions for chargebacks are based on an appraisal of specific merchants where this recovery is at risk. Charges for the year are included within administrative expenses.

12 Called up share capital and non-equity shareholder funds

	2001 £	2000 £
Authorised, issued and fully paid		
650 "A" ordinary shares of £1 each	650	650
651 "B" ordinary shares of £1 each	651	651
1,300 deferred shares of £1 each	1,300	1,300
	<u>2,601</u>	<u>2,601</u>

The ordinary shareholders (the holders of the 'A' ordinary shares and/or 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.

13 Related party disclosures

Financial Reporting Standard 8 requires disclosure of material transactions with related parties. As shareholders, Lloyds TSB Bank plc and FDR Limited are related parties to the company.

	2001 £'000	2000 £'000
Lloyds TSB Bank plc		
- expenses recharged by Lloyds TSB Bank plc	9,214	7,172
- interest receivable from Lloyds TSB Bank plc	3,023	1,527
- amounts owed by Lloyds TSB Bank plc	11,789	8,939
- cash held with Lloyds TSB Bank plc	2	1

CARDNET MERCHANT SERVICES LIMITED**Notes to the accounts****13 Related party disclosures (cont'd)**

Net income collected by Lloyds TSB Bank plc on behalf of the company amounted to £40.0m (2000: £35.8m). Turnover includes £3.87m from Lloyds TSB Bank plc relating to an adjustment for fees received and receivable for those cash disbursements to cardholders at counters of branches of Lloyds TSB Bank plc which are acquired by the company.

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 £15.2m at 31 December 2001.

	2001 £'000	2000 £'000
FDR Limited		
- expenses recharged by FDR Limited	893	1,304
- amounts owed to FDR Limited	1,856	855
- fees charged by FDR Limited	3,772	3,806

For certain merchants, the risk of irrecoverable chargebacks is underwritten by FDR Limited. Underwriting fees paid to FDR Limited during the year ended 31 December 2001 amounted to £0.36m (2000: Nil).

14 Cash flows**a) Reconciliation of net cash flow to movement in net funds**

	2001 £'000
Net funds at 1 January	1
Increase in cash in the year and change in net funds	<u>1</u>
Net funds at 31 December	<u>2</u>

b) Analysis of changes in net funds

	At 1 January 2001 £'000	Cashflows During 2001 £'000	At 31 December 2001 £'000
Cash in hand and at bank	<u>1</u>	<u>1</u>	<u>2</u>

15 Ultimate parent company

The company regarded by the directors as the ultimate parent company is Lloyds TSB Group plc, which is also the parent undertaking of the largest group of undertakings for which group accounts 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 accounts of both companies may be obtained from the company secretary's office, Lloyds TSB Group plc 71 Lombard Street, London, EC3P 3BS.

16 Date of approval

The directors approved the accounts on 17 April 2002.