

MINUTES-BOARD OF
DIRECTORS MTC.
MARCH 21, 1996

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MasterCard International
2000 Purchase Street
Purchase, NY 10577-2509
914 249-2000
Internet Home Page:
<http://www.mastercard.com>

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Minutes of the Meeting of the
Board of Directors of
MasterCard International Incorporated
Purchase, New York
March 21, 1996

A meeting of the Board of Directors of MasterCard International Incorporated (hereinafter referred to as the "Corporation" or "MasterCard") was held, commencing at 8:00 A.M., local time, on Thursday, March 21, 1996, at the MasterCard offices in Purchase, New York. The following directors were present: Messrs. Boylan, Cooperman, Field, Garcia, Grether, Hoch, Ledru, Lockhart, Lucas, McGuinn, Martinez, Nissen (part of the meeting), Oh, Ribourdouille, Richolt, Rogers, Saunders, Tice, Tsujino, van der Wall, Wall, Walsh, Williams, Wright, and Ziegler, thereby constituting a quorum. The following staff members participated in the meeting or a portion thereof: Messrs. Cassin, Child, Heuer, Hogan, and Jacobs, Ms. Johnsson, Ms. Linquito, Messrs. McElhatton, McMillan, Mundt, and Orrell, Ms. Rigione, Ms. Rush, and Messrs. Selander, Thom, Timko, Tripodi and Verdi. Mr. Joly of Europay International, Mr. Fujimoto of UC Card Co., and Mr. Aaker of the University of California also participated in the meeting. Mr. Tice, Chairman of the Corporation, and Mr. Saunders, the successor to Mr. Tice as Chairman, each chaired a portion of the meeting, and Mr. Norton, Secretary of the Corporation, kept the Minutes thereof.

Introductory Remarks

Mr. Tice called the meeting to order and informed the directors that they had each been elected as directors at the Corporation's Annual Meeting of Members held earlier that morning. He welcomed Messrs. Cooperman, Garcia, Tsujino and Wright to their first Board meeting. He noted that his term as Chairman of the Corporation had expired, and he thanked the directors for their support.

Items for Decision

There was a motion and second to approve Agenda Items 1 through 6, and Mr. Tice asked if there was any discussion of those items. Mr. Lockhart asked Messrs. Ribourdouille and Richolt to propose a European director to be a member of the Audit Committee, and Messrs. Ribourdouille and Richolt said that they would do so

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in the near future. There being no further discussion, the following resolution was approved.

RESOLUTION OF THE BOARD OF DIRECTORS

RESOLVED, that, the actions proposed in Agenda Items 1, 2, 3, 4, 5, and 6 be, and hereby are, approved and adopted in accordance with the resolutions set forth in each such Agenda Item.

Report on Executive Committee Meeting of March 20, 1996

Mr. Tice reported that the Executive Committee had met the previous day. He reported that many of the matters considered by the Executive Committee were scheduled to be considered at this meeting, but that one significant new matter had been addressed by the Executive Committee. He reported that Mr. Selander had updated the Executive Committee on MasterCard negotiations with the four U.K. banks that own the Access brand. Mr. Tice reported that the negotiations were for the purpose of entering into a collaborative marketing agreement and an asset transfer agreement pursuant to which the Access banks would convert all Access branding - both issuing and acquiring - to MasterCard branding exclusively and transfer ownership of the Access brand to MasterCard. He reported that MasterCard and the four U.K. banks had signed non-binding letters of intent the previous day, and that the Executive Committee had authorized MasterCard management to complete the deal in accordance with the terms of the letters of intent.

At this point in the meeting Mr. Tice asked Mr. Saunders to assume the Chair. Mr. Saunders expressed his appreciation for the leadership Mr. Tice had provided.

President's Report

Mr. Lockhart directed the Board's attention to the written report appearing in Agenda Item 7 and offered to answer questions about the report. There being no questions, Mr. Lockhart stated that he would briefly comment on the Corporation's 1995 performance. He reported the Corporation had generally performed well and that much time had been devoted to infrastructure matters, such as the Corporate Governance Project, technology refreshment, adding strength to the Corporation's balance sheet, and local processing center capabilities. He stated it is now time for MasterCard to turn its energies to competing more effectively in the marketplace.

Mr. Lockhart cited three priorities for MasterCard in 1996. First, he said that MasterCard needs to stem its loss of U.S. market share. Second, based on the premise that the MasterCard family of brands should be, first and foremost,

acceptance marks, the Corporation must invest heavily in the brand to ensure quality of acceptance. Finally, Mr. Lockhart said the Corporation must selectively invest by targeting areas in which the MasterCard family of brands can be positioned as the acceptance marks of choice.

A director asked Mr. Lockhart whether he considered market share competition with Visa an important measure of performance. Mr. Lockhart replied that performance comparisons against Visa will remain a standard by which to measure MasterCard performance; however, MasterCard must compete against all payments products, not only Visa products, and MasterCard should measure success not just by market share versus Visa, but by market share against all payments products.

There being no additional discussion, the Regional Presidents commenced their presentations of regional status reports.

Asia/Pacific Region Status Report

Mr. Cassin provided an update of the Asia/Pacific region's progress against objectives for 1995 and identified key issues facing the region in 1996. See Attachment A to Agenda Item 8. He reported that MasterCard remains the market share leader in the region, that gross dollar credit card volume growth had exceeded plan by 6.9%, and that 431 new affinity/co-branded programs were approved during 1995, including programs with companies such as Honda, Suzuki and Toyota.

Mr. Cassin reported that over 80 financial institutions in the region are now committed to Maestro, that the number of Cirrus ATMs in the region has reached nearly 10,000, that the region has achieved self-funding status for full-year 1995, and that operating revenues in 1995 exceeded budget by 12%. Mr. Cassin reported that key issues facing the region in 1996 include stemming Visa market share gains in China and India, and improving acceptance quality and market share in Japan.

Europe Region Status Report

Mr. Selander provided an update of the Europe region's progress against objectives for 1995 and identified key issues facing the region in 1996. See Attachment C to Agenda Item 8. He reported that MasterCard revenue in the region is based on interregional volume, and that healthy volume growth in the region, particularly in France and the U.K., resulted in five million dollars excess revenue to the region over the prior year. Mr. Selander reported that an advertising and public relations campaign had caused brand awareness in the U.K. to increase by 15%.

Middle East/Africa Region Status Report

Mr. Selander provided an update of the Middle East/Africa region's progress against objectives for 1995 and identified key issues facing the region in 1996. See Attachment E to Agenda Item 8. He explained that South Africa statistically dominates the region's MasterCard business, and that, during 1995, MasterCard opened an office in Johannesburg. He reported that a Saudi Arabia brand awareness campaign had resulted in a 415% increase in MasterCard cards in that country. He said that the campaign has now been rolled out to other Gulf countries.

Mr. Selander said that he expected the remaining staff situated in Paris to migrate to offices in the region. He reported that the regional board is now acting in compliance with the delegated authorities and has implemented a new pricing structure. He reported that key issues for 1996 include building acceptance excellence, increasing consumer preference for the MasterCard brands, and increasing member profitability.

Canada Region Status Report

Mr. Selander provided an update of the Canada region's progress against objectives for 1995 and identified key issues facing the region in 1996. See Attachment B to Agenda Item 8. Mr. Selander reported gross dollar volume on MasterCard credit products in Canada rebounded after several quarters of negative growth, and that the region has signed three new significant members. He reported that, during 1995, the region had adopted MasterCard systems for authorization and settlement and had implemented its first revised interchange structure in 25 years. He also reported that the region has accepted the delegations authorized by the Board.

Mr. Selander reported that full-year 1995 regional revenue had increased, and that the region had exceeded pay later targets for both gross dollar volume share and account share. He reported that the year-end numbers of live Maestro cards, live Maestro terminals, Cirrus cards and ATMs had all exceeded targets.

Latin America Region Status Report

Mr. Child provided an update of the Latin America region's progress against objectives for 1995 and identified key issues facing the region in 1996. See Attachment D to Agenda Item 8. He reported that 1995 was a banner year for the region, with regional revenue exceeding plan by over 11%. He reported that resources had been increased for the Venezuela, Chile, Colombia and Mexico offices, and that an office in Brazil is being staffed. He reported that the region provided specialized support to members implementing large co-branding programs

with such partners as Renault, Fiat, Avon, American Airlines, Hertz, Esso, Shell and Holiday Inn Hotels.

Mr. Child reported that MasterCard will become increasingly involved in local processing solutions, as it did in Argentina and Brazil during 1995. He reported that key issues going forward include support of chip technology, enhancing acceptance and enhancing fraud management and control functions.

U.S. Region Status Report

Mr. Heuer provided an update of the U.S. region's progress against objectives for 1995 and identified key issues facing the region in 1996. See Attachment F to Agenda Item 8. He reported that 1995 was generally a very good year for the region, with a new pricing structure implemented, positive U.S. Member Survey results, and continued leadership in affinity and co-branding programs. He reported on MasterCard penetration into the warehouse club and home improvement center sectors, the roll-out of Post Office acceptance and the implementation of an integrated promotions and sponsorships strategy.

Mr. Heuer stated that the exception to excellent 1995 performance was the region's loss of gross dollar volume share to Visa, and he reported that improved share is the region's top priority for 1996. He reported that 1995 U.S. region financial performance was strong, with revenue exceeding plan by over \$2 million. He said that U.S. Board rules have been amended to incorporate the newly delegated authorities, and he described new alliances forged with Ticketmaster and ITT Sheraton designed to increase consumer preference for MasterCard. Mr. Heuer stated that, in 1996, the U.S. region will refocus attention and resources on the core credit business, with particular concentration on gold card performance.

At the conclusion of the regional status reports, a director suggested that operations and marketing expenses be distinguished so that brand support can be measured on an intraregional and interregional basis.

MasterCard/Europay Alliance Agreement Update

Mr. Lockhart provided an update on the negotiations between MasterCard and Europay regarding a new agreement between them. See Agenda Item 9. He reported that open issues had been discussed by the Executive Committee at its meetings of February 22, 1996 and March 20, 1996, and that both the Executive Committee and Europay Board had supported continuing negotiations.

Mr. Lockhart described the three significant open issues. He said the first issue is whether to allow members to use an optional, alternative acceptance mark. He

reported that MasterCard will soon meet with members in key countries in Europe to discuss this issue. The second issue concerns Maestro governance and the ability of Europay to veto Maestro decisions made by the MasterCard Global Board. The third issue had only recently arisen when U.K. members inquired as to their right to "opt out" of the agreement under certain conditions. A director stated that a fourth issue concerning marketing support for rebranding efforts had arisen at the prior day's Executive Committee meeting.

Implementation of New Frame Relay System

Mr. Lockhart, with the participation of Mr. McElhatton, reported and answered questions regarding MasterCard's plan to implement a new virtual private network (hereinafter referred to as the "VPN"). See Agenda Item 10. He reported the VPN will provide the platform for much of MasterCard's future telecommunications and systems capabilities and development. Mr. Lockhart reported the VPN will be built, operated, maintained and managed on MasterCard's behalf by AT&T at a significant cost savings to MasterCard.

Sale of MasterCard Point-of-Sale Program (MAPP)

Mr. Lockhart directed the Board's attention to Agenda Item 11, advising of the sale of the MAPP business unit to National Data Corporation. Mr. Jacobs advised that the transaction is on schedule to close April 1, 1996. A director asked whether MasterCard's equity interest could increase over time. Mr. Lockhart replied that, while the value of the interest will hopefully grow, MasterCard's percentage of ownership interest in the new company will not increase. A director asked what the sale revenue will be used for and Mr. Lockhart responded that the revenue will be used to improve the Corporation's capital adequacy, build the brand, and refresh core systems and local processing technologies. In response to a question, Mr. Lockhart stated that service quality standards were built into the sale agreement.

At this point Mr. Nissen joined the meeting.

Company Purpose and Vision (Preliminary)

Mr. Lockhart said that he would initiate what will be an ongoing discussion of what MasterCard's purpose and vision is. See Agenda Item 12. He reported that his dealings with members have led him to reflect on what the MasterCard mark does and should represent, and what the purpose of the association should be. Mr. Lockhart stated that, while his thoughts are preliminary, he believes that the MasterCard brand serves primarily as an acceptance mark, and that acceptance excellence drives the company's purpose and vision. If this precept is true, MasterCard's foremost obligation is to broaden acceptance and utility.

Mr. Lockhart discussed the implications of such an obligation, particularly with regard to the company's relationships with its members. Mr. Lockhart said he did not believe the company's purpose was to compete with members, or to interfere with members' relationships with their customers. He stated that MasterCard's core value is to enhance member profitability by building and broadening acceptance through point-of-interaction connections and service. He described obligations he preliminarily identified as necessary in order for MasterCard to achieve a purpose and vision founded on broadened acceptance and utility. Those obligations included "best-in-class" acceptance, "best-in-class" brand visibility, high acceptance mark recognition, strong partnerships with members, and a "non-compete with members" mentality. The Board then discussed MasterCard's purpose and vision, including the implications regarding chip, stored value, and account access.

Global Acceptance Branding Strategy

Mr. Tripodi presented a joint MasterCard and Europay preliminary recommendation for a strategic approach to migrating to a consolidated branding scheme at the point of interaction. See Agenda Item 13. Mr. Tripodi first asked Mr. Aaker to describe alternative branding strategies, and the basis upon which MasterCard should determine its branding strategy. Mr. Aaker described the "superbrand-descriptor brand" strategy and contrasted it to the "multibrand" strategy. He said that a superbrand strategy has the advantage of developing and leveraging synergy among the descriptor brands.

Mr. Tripodi then provided a situation assessment. He reported that MasterCard has moderate penetration of traditional merchant categories in some regions and suffers from inconsistent signage at the point of sale, that there is inconsistent merchant understanding of MasterCard acceptance, and that the MasterCard brand mark can be significantly enhanced to aid recognition and legibility. He reported that the overall objective of the project is to develop a long-term global branding strategy that enhances acceptance quality, and he reported on the status of consumer and merchant research, including the focus of and conclusions drawn from such research. With regard to consumer research, Mr. Tripodi reported that the MasterCard brand can stand for multi-payment functions and that verbal descriptor or icon models communicate functionality best.

Ms. Linquito distributed material illustrating acceptance branding models tested in consumer research. Mr. Lockhart pointed out that the branding models were for research purposes only, and did not necessarily indicate interest in adopting any of the models tested. Ms. Linquito also displayed a proposed enhanced MasterCard mark, with the word MasterCard appearing in larger size than on the current mark, a blue background, fewer "teeth" between the interlocking circles, and a brighter yellow. Mr. Tripodi described the process by which the business of MasterCard can

be transformed into a synergistic group of business offerings under one superbrand.

Mr. Lockhart thanked the directors for their suggestions and said that staff would conduct additional research and analysis, and work with a newly formed brand subcommittee of the Executive Committee chaired by Mr. Rogers before proposing branding recommendations.


Mr. Lockhart suggested that consideration of Agenda Item 14, Global Brand Positioning Development, be deferred.

American Express Activity Worldwide

The next matter addressed was the discussion of recent American Express worldwide activity, Agenda Item 15.

Adjournment

There being no further business to come before the meeting, upon motion duly made and seconded, the meeting was adjourned.



Robert E. Norton, Jr.
Corporate Secretary