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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**Form 10-Q**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2019

Or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from            to

Commission file number: 001-32877



**Mastercard Incorporated**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)  
  
2000 Purchase Street  
Purchase, NY  
(Address of principal executive offices)

13-4172551  
(IRS Employer  
Identification Number)  
  
10577  
(Zip Code)

(914) 249-2000  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class   | Trading Symbol | Name of each exchange of which registered |
|-----------------------|----------------|---|
| Class A Common Stock  | MA             | New York Stock Exchange                   |
| 1.100% Notes due 2022 | MA22           | New York Stock Exchange                   |
| 2.100% Notes due 2027 | MA27           | New York Stock Exchange                   |
| 2.500% Notes due 2030 | MA30           | New York Stock Exchange                   |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check One):

|                         |                                     |                           |                          |
|-------------------------|-------------------------------------|---------------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer         | <input type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/>            | Smaller reporting company | <input type="checkbox"/> |
|                         |                                     | Emerging growth company   | <input type="checkbox"/> |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13 (a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

As of July 25, 2019, there were 1,003,110,553 shares outstanding of the registrant’s Class A common stock, par value\$0.0001 per share; and 11,448,914 shares outstanding of the registrant’s Class B common stock, par value \$0.0001 per share.

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**MASTERCARD INCORPORATED**  
**FORM 10-Q**

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*In this Report on Form 10-Q ("Report"), references to the "Company," "Mastercard," "we," "us" or "our" refer to the business conducted by Mastercard Incorporated and its consolidated subsidiaries, including our operating subsidiary, Mastercard International Incorporated, and to the Mastercard brand.*

## Forward-Looking Statements

This Report contains forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts may be forward-looking statements. When used in this Report, the words "believe", "expect", "could", "may", "would", "will", "trend" and similar words are intended to identify forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements that relate to the Company's future prospects, developments and business strategies.

Many factors and uncertainties relating to our operations and business environment, all of which are difficult to predict and many of which are outside of our control, influence whether any forward-looking statements can or will be achieved. Any one of those factors could cause our actual results to differ materially from those expressed or implied in writing in any forward-looking statements made by Mastercard or on its behalf, including, but not limited to, the following factors:

- regulation directly related to the payments industry (including regulatory, legislative and litigation activity with respect to interchange rates, surcharging and the extension of current regulatory activity to additional jurisdictions or products)
- the impact of preferential or protective government actions
- regulation of privacy, data protection, security and the digital economy
- regulation that directly or indirectly applies to us based on our participation in the global payments industry (including anti-money laundering, counter terrorist financing, economic sanctions and anti-corruption; account-based payment systems; issuer practice regulation; and regulation of internet and digital transactions)
- the impact of changes in tax laws, as well as regulations and interpretations of such laws or challenges to our tax positions
- potential or incurred liability and limitations on business related to any litigation or litigation settlements
- the impact of competition in the global payments industry (including disintermediation and pricing pressure)
- the challenges relating to rapid technological developments and changes
- the challenges relating to operating real-time account-based payment system and to working with new customers and end users
- the impact of information security incidents, account data breaches, fraudulent activity or service disruptions
- issues related to our relationships with our financial institution customers (including loss of substantial business from significant customers, competitor relationships with our customers and banking industry consolidation)
- the impact of our relationships with other stakeholders, including merchants and governments
- exposure to loss or illiquidity due to our role as guarantor, as well as other contractual obligations
- the impact of global economic, political, financial and societal events and conditions
- reputational impact, including impact related to brand perception
- the inability to attract, hire and retain a highly qualified and diverse workforce, or maintain our corporate culture
- issues related to acquisition integration, strategic investments and entry into new businesses
- issues related to our Class A common stock and corporate governance structure

Please see a complete discussion of these risk factors in Part I, Item 1A - Risk Factors of the Company's Annual Report on Form 10-K for the year ended December 31, 2018. We caution you that the important factors referenced above may not contain all of the factors that are important to you. Our forward-looking statements speak only as of the date of this Report or as of the date they are made, and we undertake no obligation to update our forward-looking statements.

# PART I — FINANCIAL INFORMATION

## ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

### MASTERCARD INCORPORATED CONSOLIDATED BALANCE SHEET (UNAUDITED)

|  | June 30, 2019                        | December 31, 2018 |
|--|--------------------------------------|-------------------|
|  | (in millions, except per share data) |                   |
| ASSETS   |                                      |                   |
| Cash and cash equivalents  | \$ 5,691                             | \$ 6,682          |
| Restricted cash for litigation settlement  | 662                                  | 553               |
| Investments  | 809                                  | 1,696             |
| Accounts receivable  | 2,607                                | 2,276             |
| Settlement due from customers  | 1,549                                | 2,452             |
| Restricted security deposits held for customers  | 1,061                                | 1,080             |
| Prepaid expenses and other current assets  | 1,786                                | 1,432             |
| Total Current Assets   | 14,165                               | 16,171            |
| Property, equipment and right-of-use assets, net of accumulated depreciation of \$970 and \$847, respectively                                  | 1,348                                | 921               |
| Deferred income taxes  | 478                                  | 570               |
| Goodwill   | 3,524                                | 2,904             |
| Other intangible assets, net of accumulated amortization of \$1,250 and \$1,175, respectively  | 1,232                                | 991               |
| Other assets   | 3,984                                | 3,303             |
| Total Assets   | \$ 24,731                            | \$ 24,860         |
| LIABILITIES, REDEEMABLE NON-CONTROLLING INTERESTS AND EQUITY   |                                      |                   |
| Accounts payable   | \$ 432                               | \$ 537            |
| Settlement due to customers  | 1,330                                | 2,189             |
| Restricted security deposits held for customers  | 1,061                                | 1,080             |
| Accrued litigation   | 935                                  | 1,591             |
| Accrued expenses   | 4,752                                | 4,747             |
| Current portion of long-term debt  | —                                    | 500               |
| Other current liabilities  | 987                                  | 949               |
| Total Current Liabilities  | 9,497                                | 11,593            |
| Long-term debt   | 7,806                                | 5,834             |
| Deferred income taxes  | 95                                   | 67                |
| Other liabilities  | 2,224                                | 1,877             |
| Total Liabilities  | 19,622                               | 19,371            |
| Commitments and Contingencies  |                                      |                   |
| Redeemable Non-controlling Interests   |                                      |                   |
|  | 74                                   | 71                |
| Stockholders' Equity   |                                      |                   |
| Class A common stock, \$0.0001 par value; authorized 3,000 shares, 1,389 and 1,387 shares issued and 1,005 and 1,019 outstanding, respectively | —                                    | —                 |
| Class B common stock, \$0.0001 par value; authorized 1,200 shares, 11 and 12 issued and outstanding, respectively                              | —                                    | —                 |
| Additional paid-in-capital   | 4,675                                | 4,580             |
| Class A treasury stock, at cost, 385 and 368 shares, respectively  | (29,454)                             | (25,750)          |
| Retained earnings  | 30,517                               | 27,283            |
| Accumulated other comprehensive income (loss)  | (730)                                | (718)             |
| Total Stockholders' Equity   | 5,008                                | 5,395             |
| Non-controlling interests  | 27                                   | 23                |
| Total Equity   | 5,035                                | 5,418             |
| Total Liabilities, Redeemable Non-controlling Interests and Equity   | \$ 24,731                            | \$ 24,860         |

The accompanying notes are an integral part of these consolidated financial statements.

**MASTERCARD INCORPORATED**  
**CONSOLIDATED STATEMENT OF OPERATIONS**  
**(UNAUDITED)**

|   | Three Months Ended June 30,          |                 | Six Months Ended June 30, |                 |
|---|--------------------------------------|-----------------|---------------------------|-----------------|
|   | 2019                                 | 2018            | 2019                      | 2018            |
|   | (in millions, except per share data) |                 |                           |                 |
| <b>Net Revenue</b>                          | \$ 4,113                             | \$ 3,665        | \$ 8,002                  | \$ 7,245        |
| <b>Operating Expenses</b>                   |                                      |                 |                           |                 |
| General and administrative                  | 1,369                                | 1,184           | 2,736                     | 2,505           |
| Advertising and marketing                   | 225                                  | 205             | 417                       | 402             |
| Depreciation and amortization               | 122                                  | 115             | 239                       | 235             |
| Provision for litigation                    | —                                    | 225             | —                         | 342             |
| Total operating expenses                    | 1,716                                | 1,729           | 3,392                     | 3,484           |
| Operating income                            | 2,397                                | 1,936           | 4,610                     | 3,761           |
| <b>Other Income (Expense)</b>               |                                      |                 |                           |                 |
| Investment income                           | 24                                   | 31              | 51                        | 48              |
| Gains (losses) on equity investments, net   | 143                                  | —               | 148                       | —               |
| Interest expense                            | (51)                                 | (48)            | (97)                      | (91)            |
| Other income (expense), net                 | 6                                    | 3               | 10                        | 7               |
| Total other income (expense)                | 122                                  | (14)            | 112                       | (36)            |
| Income before income taxes                  | 2,519                                | 1,922           | 4,722                     | 3,725           |
| Income tax expense                          | 471                                  | 353             | 812                       | 664             |
| <b>Net Income</b>                           | <u>\$ 2,048</u>                      | <u>\$ 1,569</u> | <u>\$ 3,910</u>           | <u>\$ 3,061</u> |
| <b>Basic Earnings per Share</b>             | <u>\$ 2.01</u>                       | <u>\$ 1.50</u>  | <u>\$ 3.82</u>            | <u>\$ 2.92</u>  |
| Basic weighted-average shares outstanding   | <u>1,020</u>                         | <u>1,043</u>    | <u>1,023</u>              | <u>1,047</u>    |
| <b>Diluted Earnings per Share</b>           | <u>\$ 2.00</u>                       | <u>\$ 1.50</u>  | <u>\$ 3.80</u>            | <u>\$ 2.91</u>  |
| Diluted weighted-average shares outstanding | <u>1,025</u>                         | <u>1,049</u>    | <u>1,028</u>              | <u>1,053</u>    |

The accompanying notes are an integral part of these consolidated financial statements.

**MASTERCARD INCORPORATED**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**(UNAUDITED)**

|  | Three Months Ended June 30, |                 | Six Months Ended June 30, |                 |
|--|-----------------------------|-----------------|---------------------------|-----------------|
|  | 2019                        | 2018            | 2019                      | 2018            |
|  | (in millions)               |                 |                           |                 |
| <b>Net Income</b>  | \$ 2,048                    | \$ 1,569        | \$ 3,910                  | \$ 3,061        |
| Other comprehensive income (loss):   |                             |                 |                           |                 |
| Foreign currency translation adjustments   | (34)                        | (352)           | (23)                      | (191)           |
| Income tax effect  | —                           | 7               | 3                         | 5               |
| Foreign currency translation adjustments, net of income tax effect               | (34)                        | (345)           | (20)                      | (186)           |
| Translation adjustments on net investment hedge                                  | (28)                        | 113             | 8                         | 68              |
| Income tax effect  | 6                           | (27)            | (2)                       | (15)            |
| Translation adjustments on net investment hedge, net of income tax effect        | (22)                        | 86              | 6                         | 53              |
| Defined benefit pension and other postretirement plans                           | (1)                         | —               | (1)                       | (1)             |
| Income tax effect  | —                           | —               | —                         | —               |
| Defined benefit pension and other postretirement plans, net of income tax effect | (1)                         | —               | (1)                       | (1)             |
| Investment securities available-for-sale   | —                           | —               | 4                         | (1)             |
| Income tax effect  | —                           | —               | (1)                       | —               |
| Investment securities available-for-sale, net of income tax effect               | —                           | —               | 3                         | (1)             |
| Other comprehensive income (loss), net of tax                                    | (57)                        | (259)           | (12)                      | (135)           |
| <b>Comprehensive Income</b>  | <u>\$ 1,991</u>             | <u>\$ 1,310</u> | <u>\$ 3,898</u>           | <u>\$ 2,926</u> |

The accompanying notes are an integral part of these consolidated financial statements.

**MASTERCARD INCORPORATED**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**(UNAUDITED)**

|   | Stockholders' Equity                 |         |                            |                        |                   |   |    |          | Non-Controlling Interests | Total Equity |    |       |    |     |    |         |
|---|--------------------------------------|---------|----------------------------|------------------------|-------------------|---|----|----------|---------------------------|--------------|----|-------|----|-----|----|---------|
|   | Common Stock                         |         | Additional Paid-In Capital | Class A Treasury Stock | Retained Earnings | Accumulated Other Comprehensive Income (Loss) |    |          |                           |              |    |       |    |     |    |         |
|   | Class A                              | Class B |                            |                        |                   |   |    |          |                           |              |    |       |    |     |    |         |
|   | (in millions, except per share data) |         |                            |                        |                   |   |    |          |                           |              |    |       |    |     |    |         |
| Balance at December 31, 2018  | \$                                   | —       | \$                         | —                      | \$                | 4,580   | \$ | (25,750) | \$                        | 27,283       | \$ | (718) | \$ | 23  | \$ | 5,418   |
| Net income  |                                      | —       |                            | —                      |                   | —   |    | —        |                           | 1,862        |    | —     |    | —   |    | 1,862   |
| Activity from non-controlling interests                                       |                                      | —       |                            | —                      |                   | —   |    | —        |                           | —            |    | —     |    | (1) |    | (1)     |
| Other comprehensive income, net of tax  |                                      | —       |                            | —                      |                   | —   |    | —        |                           | —            |    | 45    |    | —   |    | 45      |
| Cash dividends declared on Class A and Class B common stock, \$0.33 per share |                                      | —       |                            | —                      |                   | —   |    | —        |                           | (339)        |    | —     |    | —   |    | (339)   |
| Purchases of treasury stock   |                                      | —       |                            | —                      |                   | —   |    | (1,790)  |                           | —            |    | —     |    | —   |    | (1,790) |
| Share-based payments  |                                      | —       |                            | —                      |                   | (11)  |    | 6        |                           | —            |    | —     |    | —   |    | (5)     |
| Balance at March 31, 2019   |                                      | —       |                            | —                      |                   | 4,569   |    | (27,534) |                           | 28,806       |    | (673) |    | 22  |    | 5,190   |
| Net income  |                                      | —       |                            | —                      |                   | —   |    | —        |                           | 2,048        |    | —     |    | —   |    | 2,048   |
| Activity from non-controlling interests                                       |                                      | —       |                            | —                      |                   | —   |    | —        |                           | —            |    | —     |    | 5   |    | 5       |
| Other comprehensive income, net of tax  |                                      | —       |                            | —                      |                   | —   |    | —        |                           | —            |    | (57)  |    | —   |    | (57)    |
| Cash dividends declared on Class A and Class B common stock, \$0.33 per share |                                      | —       |                            | —                      |                   | —   |    | —        |                           | (337)        |    | —     |    | —   |    | (337)   |
| Purchases of treasury stock   |                                      | —       |                            | —                      |                   | —   |    | (1,920)  |                           | —            |    | —     |    | —   |    | (1,920) |
| Share-based payments  |                                      | —       |                            | —                      |                   | 106   |    | —        |                           | —            |    | —     |    | —   |    | 106     |
| Balance at June 30, 2019  | \$                                   | —       | \$                         | —                      | \$                | 4,675   | \$ | (29,454) | \$                        | 30,517       | \$ | (730) | \$ | 27  | \$ | 5,035   |

The accompanying notes are an integral part of these consolidated financial statements.



**MASTERCARD INCORPORATED**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - (Continued)**  
**(UNAUDITED)**

|   | Stockholders' Equity                 |         |                            |                        |                   |   |       |          | Non-Controlling Interests | Total Equity |
|---|--------------------------------------|---------|----------------------------|------------------------|-------------------|---|-------|----------|---------------------------|--------------|
|   | Common Stock                         |         | Additional Paid-In Capital | Class A Treasury Stock | Retained Earnings | Accumulated Other Comprehensive Income (Loss) |       |          |                           |              |
|   | Class A                              | Class B |                            |                        |                   |   |       |          |                           |              |
|   | (in millions, except per share data) |         |                            |                        |                   |   |       |          |                           |              |
| Balance at December 31, 2017  | \$ —                                 | \$ —    | \$ 4,365                   | \$ (20,764)            | \$ 22,364         | \$ (497)                                      | \$ 29 | \$ 5,497 |                           |              |
| Adoption of revenue standard  | —                                    | —       | —                          | —                      | 366               | —   | —     | 366      |                           |              |
| Adoption of intra-entity asset transfers standard                             | —                                    | —       | —                          | —                      | (183)             | —   | —     | (183)    |                           |              |
| Net income  | —                                    | —       | —                          | —                      | 1,492             | —   | —     | 1,492    |                           |              |
| Activity related to non-controlling interests                                 | —                                    | —       | —                          | —                      | —                 | —   | (1)   | (1)      |                           |              |
| Other comprehensive income, net of tax  | —                                    | —       | —                          | —                      | —                 | 124   | —     | 124      |                           |              |
| Cash dividends declared on Class A and Class B common stock, \$0.25 per share | —                                    | —       | —                          | —                      | (262)             | —   | —     | (262)    |                           |              |
| Purchases of treasury stock   | —                                    | —       | —                          | (1,383)                | —                 | —   | —     | (1,383)  |                           |              |
| Share-based payments  | —                                    | —       | 2                          | 4                      | —                 | —   | —     | 6        |                           |              |
| Balance at March 31, 2018   | —                                    | —       | 4,367                      | (22,143)               | 23,777            | (373)   | 28    | 5,656    |                           |              |
| Net income  | —                                    | —       | —                          | —                      | 1,569             | —   | —     | 1,569    |                           |              |
| Activity from non-controlling interests                                       | —                                    | —       | —                          | —                      | —                 | —   | (6)   | (6)      |                           |              |
| Other comprehensive income, net of tax  | —                                    | —       | —                          | —                      | —                 | (259)   | —     | (259)    |                           |              |
| Cash dividends declared on Class A and Class B common stock, \$0.25 per share | —                                    | —       | —                          | —                      | (260)             | —   | —     | (260)    |                           |              |
| Purchases of treasury stock   | —                                    | —       | —                          | (1,507)                | —                 | —   | —     | (1,507)  |                           |              |
| Share-based payments  | —                                    | —       | 86                         | —                      | —                 | —   | —     | 86       |                           |              |
| Balance at June 30, 2018  | \$ —                                 | \$ —    | \$ 4,453                   | \$ (23,650)            | \$ 25,086         | \$ (632)                                      | \$ 22 | \$ 5,279 |                           |              |

The accompanying notes are an integral part of these consolidated financial statements.

**MASTERCARD INCORPORATED**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**(UNAUDITED)**

|  | Six Months Ended June 30, |          |
|--|---------------------------|----------|
|  | 2019                      | 2018     |
|  | (in millions)             |          |
| <b>Operating Activities</b>  |                           |          |
| Net income   | \$ 3,910                  | \$ 3,061 |
| Adjustments to reconcile net income to net cash provided by operating activities:                          |                           |          |
| Amortization of customer and merchant incentives   | 623                       | 578      |
| Depreciation and amortization  | 239                       | 235      |
| (Gains) losses on equity investments, net  | (148)                     | —        |
| Share-based compensation   | 130                       | 98       |
| Deferred income taxes  | 65                        | (107)    |
| Other  | 12                        | 5        |
| <b>Changes in operating assets and liabilities:</b>  |                           |          |
| Accounts receivable  | (327)                     | (195)    |
| Settlement due from customers  | 903                       | (158)    |
| Prepaid expenses   | (1,015)                   | (843)    |
| Accrued litigation and legal settlements   | (641)                     | 231      |
| Restricted security deposits held for customers  | (19)                      | (93)     |
| Accounts payable   | (105)                     | (86)     |
| Settlement due to customers  | (858)                     | (109)    |
| Accrued expenses   | (13)                      | 81       |
| Net change in other assets and liabilities   | 92                        | (174)    |
| Net cash provided by operating activities  | 2,848                     | 2,524    |
| <b>Investing Activities</b>  |                           |          |
| Purchases of investment securities available-for-sale  | (386)                     | (705)    |
| Purchases of investments held-to-maturity  | (124)                     | (242)    |
| Proceeds from sales of investment securities available-for-sale  | 935                       | 412      |
| Proceeds from maturities of investment securities available-for-sale                                       | 219                       | 171      |
| Proceeds from maturities of investments held-to-maturity   | 237                       | 646      |
| Purchases of property and equipment  | (174)                     | (172)    |
| Capitalized software   | (150)                     | (79)     |
| Purchases of equity investments  | (386)                     | (21)     |
| Acquisition of businesses, net of cash acquired  | (723)                     | —        |
| Other investing activities   | (2)                       | (16)     |
| Net cash used in investing activities  | (554)                     | (6)      |
| <b>Financing Activities</b>  |                           |          |
| Purchases of treasury stock  | (3,741)                   | (2,881)  |
| Dividends paid   | (677)                     | (525)    |
| Proceeds from debt   | 1,980                     | 991      |
| Payment of debt  | (500)                     | —        |
| Contingent consideration paid  | (199)                     | —        |
| Tax withholdings related to share-based payments   | (120)                     | (73)     |
| Cash proceeds from exercise of stock options   | 91                        | 67       |
| Other financing activities   | 6                         | 5        |
| Net cash used in financing activities  | (3,160)                   | (2,416)  |
| Effect of exchange rate changes on cash, cash equivalents, restricted cash and restricted cash equivalents | (26)                      | 74       |
| Net (decrease) increase in cash, cash equivalents, restricted cash and restricted cash equivalents         | (892)                     | 176      |
| Cash, cash equivalents, restricted cash and restricted cash equivalents - beginning of period              | 8,337                     | 7,592    |
| Cash, cash equivalents, restricted cash and restricted cash equivalents - end of period                    | \$ 7,445                  | \$ 7,768 |

The accompanying notes are an integral part of these consolidated financial statements.

**MASTERCARD INCORPORATED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**Note 1. Summary of Significant Accounting Policies**

**Organization**

Mastercard Incorporated and its consolidated subsidiaries, including Mastercard International Incorporated ("Mastercard International" and together with Mastercard Incorporated, "Mastercard" or the "Company"), is a technology company in the global payments industry that connects consumers, financial institutions, merchants, governments, digital partners, businesses and other organizations worldwide, enabling them to use electronic forms of payment instead of cash and checks.

**Consolidation and Basis of Presentation**

The consolidated financial statements include the accounts of Mastercard and its majority-owned and controlled entities, including any variable interest entities ("VIEs") for which the Company is the primary beneficiary. At June 30, 2019 and December 31, 2018, there were no significant VIEs which required consolidation. The Company consolidates acquisitions as of the date in which the Company has obtained a controlling financial interest. Intercompany transactions and balances have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the 2019 presentation. The Company follows accounting principles generally accepted in the United States of America ("GAAP").

The balance sheet as of December 31, 2018 was derived from the audited consolidated financial statements as of December 31, 2018. The consolidated financial statements for the three and six months ended June 30, 2019 and 2018 and as of June 30, 2019 are unaudited, and in the opinion of management, include all normal recurring adjustments that are necessary to present fairly the results for interim periods. The results of operations for the three and six months ended June 30, 2019 are not necessarily indicative of the results to be expected for the full year.

The accompanying unaudited consolidated financial statements are presented in accordance with the U.S. Securities and Exchange Commission ("SEC") requirements for Quarterly Reports on Form 10-Q. Reference should be made to the Mastercard Incorporated Annual Report on Form 10-K for the year ended December 31, 2018 for additional disclosures, including a summary of the Company's significant accounting policies.

Non-controlling interest amounts are included in the consolidated statement of operations within other income (expense). For the three and six months ended June 30, 2019 and 2018, activity from non-controlling interests was not material to the respective period results.

**Recently adopted accounting pronouncements**

*Comprehensive income* - In February 2018, the Financial Accounting Standards Board (the "FASB") issued accounting guidance that allows for a one-time reclassification from accumulated other comprehensive income (loss) to retained earnings for stranded tax effects resulting from U.S. tax reform. The Company adopted this guidance effective January 1, 2019, electing to retain the stranded tax effects in accumulated other comprehensive income (loss). The adoption did not result in a material impact on the Company's consolidated financial statements.

*Leases* - In February 2016, the FASB issued accounting guidance that changed how companies account for and present lease arrangements. This guidance requires companies to recognize lease assets and liabilities for both financing and operating leases on the consolidated balance sheet. The Company adopted this guidance effective January 1, 2019, under the modified retrospective transition method with the available practical expedients.

**MASTERCARD INCORPORATED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)**

The following table summarizes the impact of the changes made to the January 1, 2019 consolidated balance sheet for the adoption of the new accounting standard pertaining to leases. The prior periods have not been restated and have been reported under the accounting standard in effect for those periods.

|  | Balance at December 31,<br>2018 | Impact of lease standard | Balance at<br>January 1, 2019 |
|--|---------------------------------|--------------------------|-------------------------------|
|  | (in millions)                   |                          |                               |
| <b>Assets</b>                                    |                                 |                          |                               |
| Property, equipment and right-of-use assets, net | \$ 921                          | \$ 375                   | \$ 1,296                      |
| <b>Liabilities</b>                               |                                 |                          |                               |
| Other current liabilities                        | 949                             | 72                       | 1,021                         |
| Other liabilities                                | 1,877                           | 303                      | 2,180                         |

For a more detailed discussion on lease arrangements, refer to Note 8 (Property, Equipment and Right-of-Use Assets).

**Recent accounting pronouncements not yet adopted**

*Implementation costs incurred in a hosting arrangement that is a service contract* - In August 2018, the FASB issued accounting guidance which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This guidance is effective for periods beginning after December 15, 2019. Companies are required to adopt this guidance either retrospectively or by prospectively applying the guidance to all implementation costs incurred after the date of adoption. The Company expects to adopt this guidance effective January 1, 2020 by applying the prospective approach as of the date of adoption and is in the process of evaluating the potential effects this guidance will have on its consolidated financial statements and, at this time, does not expect the impacts to be material.

*Disclosure requirements for fair value measurement* - In August 2018, the FASB issued accounting guidance which modifies disclosure requirements for fair value measurements by removing, modifying and adding certain disclosures. This guidance is effective for periods beginning after December 15, 2019. Companies are required to adopt the guidance for certain added disclosures prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption and all other amendments retrospectively to all periods presented upon their effective date. The Company expects to adopt this guidance effective January 1, 2020 and does not expect the impacts to be material.

**Note 2. Acquisitions**

During the six months ended June 30, 2019, the Company entered into commitments to acquire businesses for total consideration of \$1.2 billion, primarily in cash, all of which have closed as of the filing date of this Report. These acquisitions are expected to complement the Company's current suite of products and technologies and support the execution of its strategy. Refer to Note 1 (Summary of Significant Accounting Policies) to the consolidated financial statements included in Part II, Item 8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2018, for the valuation techniques Mastercard utilizes to fair value the respective components of business combinations. The residual value allocated to goodwill is primarily attributable to the synergies expected to arise after the acquisition date and is not expected to be deductible for local tax purposes.

**MASTERCARD INCORPORATED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)**

During the six months ended June 30, 2019, the Company acquired several businesses for total consideration of \$784 million. The Company is evaluating and finalizing the purchase accounting. The preliminary estimated fair values of the purchase price allocations in aggregate, as of the acquisition dates, are noted below:

|                            | (in millions) |
|----------------------------|---------------|
| <b>Assets:</b>             |               |
| Cash and cash equivalents  | \$ 10         |
| Other current assets       | 16            |
| Other intangible assets    | 213           |
| Goodwill                   | 619           |
| Other assets               | 12            |
| <b>Total assets</b>        | <b>870</b>    |
| <b>Liabilities:</b>        |               |
| Other current liabilities  | 11            |
| Deferred income taxes      | 52            |
| Other liabilities          | 23            |
| <b>Total liabilities</b>   | <b>86</b>     |
| <b>Net assets acquired</b> | <b>\$ 784</b> |

The following table summarizes the identified intangible assets acquired:

|                                | Acquisition Date<br>Fair Value | Weighted-Average Useful<br>Life |
|--------------------------------|--------------------------------|---------------------------------|
|                                | (in millions)                  | (in years)                      |
| Developed technologies         | \$ 127                         | 8.6                             |
| Customer relationships         | 80                             | 13.3                            |
| Other                          | 6                              | 1.7                             |
| <b>Other intangible assets</b> | <b>\$ 213</b>                  | <b>10.2</b>                     |

Pro forma information related to the acquisitions was not included because the impact on the Company's consolidated results of operations was not considered to be material.

**MASTERCARD INCORPORATED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)**

**Note 3. Revenue**

The Company's disaggregated net revenue by source and geographic region were as follows:

|   | Three Months Ended June 30, |          | Six Months Ended June 30, |          |
|---|-----------------------------|----------|---------------------------|----------|
|   | 2019                        | 2018     | 2019                      | 2018     |
| (in millions)                           |                             |          |                           |          |
| Revenue by source:                      |                             |          |                           |          |
| Domestic assessments                    | \$ 1,680                    | \$ 1,537 | \$ 3,285                  | \$ 2,995 |
| Cross-border volume fees                | 1,374                       | 1,198    | 2,637                     | 2,355    |
| Transaction processing                  | 2,053                       | 1,830    | 3,975                     | 3,537    |
| Other revenues                          | 962                         | 785      | 1,804                     | 1,533    |
| Gross revenue                           | 6,069                       | 5,350    | 11,701                    | 10,420   |
| Rebates and incentives (contra-revenue) | (1,956)                     | (1,685)  | (3,699)                   | (3,175)  |
| Net revenue                             | \$ 4,113                    | \$ 3,665 | \$ 8,002                  | \$ 7,245 |
| Net revenue by geographic region:       |                             |          |                           |          |
| North American Markets                  | \$ 1,430                    | \$ 1,334 | \$ 2,777                  | \$ 2,581 |
| International Markets                   | 2,629                       | 2,288    | 5,135                     | 4,590    |
| Other <sup>1</sup>                      | 54                          | 43       | 90                        | 74       |
| Net revenue                             | \$ 4,113                    | \$ 3,665 | \$ 8,002                  | \$ 7,245 |

<sup>1</sup> Includes revenues managed by corporate functions.

Receivables from contracts with customers of \$2.5 billion and \$2.1 billion as of June 30, 2019 and December 31, 2018, respectively, are recorded within accounts receivable on the consolidated balance sheet. The Company's customers are billed quarterly or more frequently dependent upon the nature of the performance obligation and the underlying contractual terms. The Company does not typically offer extended payment terms to customers.

Contract assets are included in prepaid expenses and other current assets and other assets on the consolidated balance sheet at June 30, 2019 in the amounts of \$51 million and \$115 million, respectively. The comparable amounts included in prepaid expenses and other current assets and other assets at December 31, 2018 were \$40 million and \$92 million, respectively.

Deferred revenue is included in other current liabilities and other liabilities on the consolidated balance sheet at June 30, 2019 in the amounts of \$344 million and \$104 million, respectively. The comparable amounts included in other current liabilities and other liabilities at December 31, 2018 were \$218 million and \$101 million, respectively. Revenue recognized from performance obligations satisfied during the three and six months ended June 30, 2019 and 2018 was \$182 million and \$367 million and \$207 million and \$368 million, respectively.

**MASTERCARD INCORPORATED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)**

**Note 4. Earnings Per Share**

The components of basic and diluted earnings per share (“EPS”) for common shares were as follows:

|  | Three Months Ended June 30, |          | Six Months Ended June 30, |          |
|--|-----------------------------|----------|---------------------------|----------|
|  | 2019                        | 2018     | 2019                      | 2018     |
| (in millions, except per share data)                     |                             |          |                           |          |
| <b>Numerator</b>   |                             |          |                           |          |
| Net income   | \$ 2,048                    | \$ 1,569 | \$ 3,910                  | \$ 3,061 |
| <b>Denominator</b>                                       |                             |          |                           |          |
| Basic weighted-average shares outstanding                | 1,020                       | 1,043    | 1,023                     | 1,047    |
| Dilutive stock options and stock units                   | 5                           | 6        | 5                         | 6        |
| Diluted weighted-average shares outstanding <sup>1</sup> | 1,025                       | 1,049    | 1,028                     | 1,053    |
| <b>Earnings per Share</b>                                |                             |          |                           |          |
| Basic  | \$ 2.01                     | \$ 1.50  | \$ 3.82                   | \$ 2.92  |
| Diluted  | \$ 2.00                     | \$ 1.50  | \$ 3.80                   | \$ 2.91  |

<sup>1</sup> For the periods presented, the calculation of diluted EPS excluded a minimal amount of anti-dilutive share-based payment awards.

**Note 5. Cash, Cash Equivalents, Restricted Cash and Restricted Cash Equivalents**

The following table provides a reconciliation of cash, cash equivalents, restricted cash and restricted cash equivalents reported on the consolidated balance sheet that total to the amounts shown on the consolidated statement of cash flows.

|   | December 31, |          |
|---|--------------|----------|
|   | 2018         | 2017     |
| (in millions)   |              |          |
| Cash and cash equivalents   | \$ 6,682     | \$ 5,933 |
| Restricted cash and restricted cash equivalents   |              |          |
| Restricted cash for litigation settlement   | 553          | 546      |
| Restricted security deposits held for customers   | 1,080        | 1,085    |
| Prepaid expenses and other current assets   | 22           | 28       |
| Cash, cash equivalents, restricted cash and restricted cash equivalents - beginning of period | \$ 8,337     | \$ 7,592 |
|   |              |          |
|   | June 30,     |          |
|   | 2019         | 2018     |
| (in millions)   |              |          |
| Cash and cash equivalents   | \$ 5,691     | \$ 6,210 |
| Restricted cash and restricted cash equivalents   |              |          |
| Restricted cash for litigation settlement   | 662          | 549      |
| Restricted security deposits held for customers   | 1,061        | 992      |
| Prepaid expenses and other current assets   | 31           | 17       |
| Cash, cash equivalents, restricted cash and restricted cash equivalents - end of period       | \$ 7,445     | \$ 7,768 |

**MASTERCARD INCORPORATED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)**

**Note 6. Fair Value and Investment Securities**

**Financial Instruments – Recurring Measurements**

The Company classifies its fair value measurements of financial instruments into a three-level hierarchy (the “Valuation Hierarchy”). There were no transfers made among the three levels in the Valuation Hierarchy during the six months ended June 30, 2019.

The distribution of the Company’s financial instruments measured at fair value on a recurring basis within the Valuation Hierarchy were as follows:

|  | June 30, 2019                                      |   |  |         | December 31, 2018                                  |   |  |        |
|--|--|---|--|---------|--|---|--|--------|
|  | Quoted Prices<br>in Active<br>Markets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total   | Quoted Prices<br>in Active<br>Markets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total  |
| (in millions)                                      |  |   |  |         |  |   |  |        |
| <b>Assets</b>                                      |  |   |  |         |  |   |  |        |
| <b>Investment securities available for sale 1:</b> |  |   |  |         |  |   |  |        |
| Municipal securities                               | \$ —   | \$ 3  | \$ —   | \$ 3    | \$ —   | \$ 15   | \$ —   | \$ 15  |
| Government and agency securities                   | 69   | 52  | —  | 121     | 65   | 92  | —  | 157    |
| Corporate securities                               | —  | 431   | —  | 431     | —  | 1,043   | —  | 1,043  |
| Asset-backed securities                            | —  | 103   | —  | 103     | —  | 217   | —  | 217    |
| <b>Derivative instruments 2:</b>                   |  |   |  |         |  |   |  |        |
| Foreign currency derivative assets                 | —  | 12  | —  | 12      | —  | 35  | —  | 35     |
| <b>Marketable equity investments 3:</b>            |  |   |  |         |  |   |  |        |
| Equity securities                                  | 487  | —   | —  | 487     | —  | —   | —  | —      |
| <b>Deferred compensation plan 4:</b>               |  |   |  |         |  |   |  |        |
| Deferred compensation assets                       | 64   | —   | —  | 64      | 54   | —   | —  | 54     |
| <b>Liabilities</b>                                 |  |   |  |         |  |   |  |        |
| <b>Derivative instruments 2:</b>                   |  |   |  |         |  |   |  |        |
| Foreign currency derivative liabilities            | \$ —   | \$ (19)   | \$ —   | \$ (19) | \$ —   | \$ (6)  | \$ —   | \$ (6) |
| <b>Deferred compensation plan 5:</b>               |  |   |  |         |  |   |  |        |
| Deferred compensation liabilities                  | (65)   | —   | —  | (65)    | (54)   | —   | —  | (54)   |

1 The Company’s U.S. government securities are classified within Level 1 of the Valuation Hierarchy as the fair values are based on unadjusted quoted prices for identical assets in active markets. The fair value of the Company’s available-for-sale municipal securities, government and agency securities, corporate securities and asset-backed securities are based on observable inputs such as quoted prices, benchmark yields and issuer spreads for similar assets in active markets and are therefore included in Level 2 of the Valuation Hierarchy.

2 The Company’s foreign currency derivative asset and liability contracts have been classified within Level 2 of the Valuation Hierarchy as the fair value is based on observable inputs such as broker quotes relating to foreign currency exchange rates for similar derivative instruments. See Note 17 (Foreign Exchange Risk Management) for further details.

3 The Company’s marketable equity securities are publicly held and classified within Level 1 of the Valuation Hierarchy as the fair values are based on unadjusted quoted prices in active markets for identical assets.

4 The Company has a nonqualified deferred compensation plan where assets are invested primarily in mutual funds held in a rabbi trust, which is restricted for payments to participants of the plan. The Company has elected to use the fair value option for these mutual funds, which are measured using quoted prices of identical instruments in active markets and are included in prepaid expenses and other current assets on the consolidated balance sheet.

5 The deferred compensation liabilities are measured at fair value based on the quoted prices of identical instruments to the investment vehicles selected by the participants. These are included in other liabilities on the consolidated balance sheet.



**MASTERCARD INCORPORATED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)**

*Marketable Equity Investments*

During the second quarter of 2019, the Company invested \$348 million in certain marketable equity securities. Marketable equity securities have readily determinable fair values with changes in fair value recorded in gain (losses) on equity investments, net on the consolidated statement of operations. These marketable equity investments are included in other assets on the consolidated balance sheet.

*Settlement and Other Guarantee Liabilities*

The Company estimates the fair value of its settlement and other guarantees using market assumptions for relevant though not directly comparable undertakings, as the latter are not observable in the market given the proprietary nature of such guarantees. At June 30, 2019 and December 31, 2018, the carrying value and fair value of settlement and other guarantee liabilities were not material and accordingly are not included in the Valuation Hierarchy table above. Settlement and other guarantee liabilities are classified within Level 3 of the Valuation Hierarchy as their valuation requires substantial judgment and estimation of factors that are not observable in the market. See Note 16 (Settlement and Other Risk Management) for additional information regarding the Company's settlement and other guarantee liabilities.

**Financial Instruments - Non-Recurring Measurements***Held-to-Maturity Securities*

Investments on the consolidated balance sheet include both available-for-sale and short-term held-to-maturity securities. Held-to-maturity securities are not measured at fair value on a recurring basis and are not included in the Valuation Hierarchy table above. At June 30, 2019 and December 31, 2018, the Company held \$151 million and \$264 million, respectively, of held-to-maturity securities due within one year. The cost of these securities approximates fair value.

*Nonmarketable Equity Investments*

The Company's nonmarketable equity investments are accounted for under the equity method or measurement alternative method. The Company's share of net earnings or losses of equity method investments is included in other income (expense), net on the consolidated statement of operations. Measurement alternative investments do not have readily determinable fair values, and therefore are measured at cost, less any impairment and adjusted for changes resulting from identifiable price changes in orderly transactions for the identical or similar investments of the same issuer. Fair value adjustments of measurement alternative investments are included in gain (losses) of equity investments, net on the consolidated statement of operations. Nonmarketable equity investments are classified within Level 3 of the Valuation Hierarchy due to the absence of quoted market prices, the inherent lack of liquidity and unobservable inputs used to measure fair value that require management's judgment. The Company uses discounted cash flows and market assumptions to estimate the fair value of its nonmarketable equity investments when certain events or circumstances indicate that impairment may exist. Nonmarketable equity investments are included in other assets on the consolidated balance sheet.

At June 30, 2019, the carrying value of measurement alternative and equity method investments was \$265 million and \$115 million, respectively. At December 31, 2018, the carrying value of measurement alternative and equity method investments was \$232 million and \$105 million, respectively.

*Debt*

The Company estimates the fair value of its long-term debt based on market quotes. These debt instruments are not traded in active markets and are classified as Level 2 of the Valuation Hierarchy. At June 30, 2019, the carrying value and fair value of total long-term debt outstanding was \$7.8 billion and \$8.4 billion, respectively. At December 31, 2018, the carrying value and fair value of total long-term debt outstanding (including the current portion) was \$6.3 billion and \$6.5 billion, respectively.

*Other Financial Instruments*

Certain financial instruments are carried on the consolidated balance sheet at cost, which approximates fair value due to their short-term, highly liquid nature. These instruments include cash and cash equivalents, restricted cash, accounts receivable, settlement due from customers, restricted security deposits held for customers, accounts payable, settlement due to customers and other accrued liabilities.

**MASTERCARD INCORPORATED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)**

*Gains (Losses) on Equity Investments*

Gains (losses) on equity investments consists of realized and unrealized gains or losses on marketable equity investments and fair value adjustments, including impairments, of nonmarketable equity investments. During the three and six months ended June 30, 2019, the Company recorded a gain of \$143 million and \$148 million, respectively, primarily related to unrealized gains in certain marketable equity securities.

**Contingent Consideration**

The contingent consideration attributable to acquisitions made in 2017 was primarily based on the achievement of 2018 revenue targets and was measured at fair value on a recurring basis. This contingent consideration liability of \$219 million was included in other current liabilities on the consolidated balance sheet at December 31, 2018. This liability was classified within Level 3 of the Valuation Hierarchy due to the absence of quoted market prices and unobservable inputs used to measure fair value that require management's judgment. During the six months ended June 30, 2019, the Company paid \$219 million to settle the contingent consideration.

**Amortized Costs and Fair Values – Available-for-Sale Investment Securities**

The major classes of the Company's available-for-sale investment securities, for which unrealized gains and losses are recorded as a separate component of other comprehensive income (loss) on the consolidated statement of comprehensive income, and their respective amortized cost basis and fair values as of June 30, 2019 and December 31, 2018 were as follows:

|                                  | June 30, 2019  |                       |                       |               | December 31, 2018 |                       |                       |                 |
|----------------------------------|----------------|-----------------------|-----------------------|---------------|-------------------|-----------------------|-----------------------|-----------------|
|                                  | Amortized Cost | Gross Unrealized Gain | Gross Unrealized Loss | Fair Value    | Amortized Cost    | Gross Unrealized Gain | Gross Unrealized Loss | Fair Value      |
|                                  | (in millions)  |                       |                       |               |                   |                       |                       |                 |
| Municipal securities             | \$ 3           | \$ —                  | \$ —                  | \$ 3          | \$ 15             | \$ —                  | \$ —                  | \$ 15           |
| Government and agency securities | 121            | —                     | —                     | 121           | 157               | —                     | —                     | 157             |
| Corporate securities             | 430            | 1                     | —                     | 431           | 1,044             | 1                     | (2)                   | 1,043           |
| Asset-backed securities          | 102            | 1                     | —                     | 103           | 217               | —                     | —                     | 217             |
| <b>Total</b>                     | <b>\$ 656</b>  | <b>\$ 2</b>           | <b>\$ —</b>           | <b>\$ 658</b> | <b>\$ 1,433</b>   | <b>\$ 1</b>           | <b>\$ (2)</b>         | <b>\$ 1,432</b> |

The Company's available-for-sale investment securities held at June 30, 2019 and December 31, 2018 primarily carried a credit rating of A- or better. The municipal securities are primarily comprised of state tax-exempt bonds. Government and agency securities include U.S. government bonds, U.S. government sponsored agency bonds and foreign government bonds with similar credit quality to that of the U.S. government bonds. Corporate securities are comprised of commercial paper and corporate bonds. The asset-backed securities are investments in bonds which are collateralized primarily by automobile loan receivables.

*Investment Maturities*

The maturity distribution based on the contractual terms of the Company's investment securities at June 30, 2019 was as follows:

|                                  | Available-For-Sale |               |
|----------------------------------|--------------------|---------------|
|                                  | Amortized Cost     | Fair Value    |
|                                  | (in millions)      |               |
| Due within 1 year                | \$ 216             | \$ 217        |
| Due after 1 year through 5 years | 440                | 441           |
| <b>Total</b>                     | <b>\$ 656</b>      | <b>\$ 658</b> |

**MASTERCARD INCORPORATED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)**

*Investment Income*

Investment income primarily consists of interest income generated from cash, cash equivalents and debt securities. Gross realized gains and losses are recorded within investment income on the consolidated statement of operations. The gross realized gains and losses from the sales of available-for-sale securities for the three and six months ended June 30, 2019 and 2018 were not significant.

**Note 7. Prepaid Expenses and Other Assets**

Prepaid expenses and other current assets consisted of the following:

|   | June 30,<br>2019 | December 31,<br>2018 |
|---|------------------|----------------------|
|   | (in millions)    |                      |
| Customer and merchant incentives                | \$ 874           | \$ 778               |
| Prepaid income taxes                            | 218              | 51                   |
| Other   | 694              | 603                  |
| Total prepaid expenses and other current assets | <u>\$ 1,786</u>  | <u>\$ 1,432</u>      |

Other assets consisted of the following:

|                                  | June 30,<br>2019 | December 31,<br>2018 |
|----------------------------------|------------------|----------------------|
|                                  | (in millions)    |                      |
| Customer and merchant incentives | \$ 2,572         | \$ 2,458             |
| Equity investments               | 867              | 337                  |
| Income taxes receivable          | 294              | 298                  |
| Other                            | 251              | 210                  |
| Total other assets               | <u>\$ 3,984</u>  | <u>\$ 3,303</u>      |

Customer and merchant incentives represent payments made to customers and merchants under business agreements. Costs directly related to entering into such an agreement are generally deferred and amortized over the life of the agreement.

Equity investments represent the Company's marketable equity securities and nonmarketable equity investments. See Note 6 (Fair Value and Investment Securities) for further details on the Company's investments in certain marketable equity securities made during the second quarter of 2019.

**MASTERCARD INCORPORATED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)**

**Note 8. Property, Equipment and Right-of-Use Assets**

Property, equipment and right-of-use assets consisted of the following:

|  | June 30,<br>2019 | December 31,<br>2018 |
|--|------------------|----------------------|
|  | (in millions)    |                      |
| Building, building equipment and land            | \$ 493           | \$ 481               |
| Equipment  | 1,080            | 987                  |
| Furniture and fixtures                           | 86               | 85                   |
| Leasehold improvements                           | 239              | 215                  |
| Operating lease right-of-use assets              | 420              | —                    |
| Property, equipment and right-of-use assets      | 2,318            | 1,768                |
| Less accumulated depreciation and amortization   | (970)            | (847)                |
| Property, equipment and right-of-use assets, net | \$ 1,348         | \$ 921               |

The increase in property, equipment and right-of-use assets at June 30, 2019 from December 31, 2018 was primarily due to the impact from the adoption of the new accounting standard pertaining to lease arrangements. See Note 1 (Summary of Significant Accounting Policies) for additional information on the impact of the adoption of this standard.

The Company determines if a contract is, or contains, a lease at contract inception. The Company's right-of-use ("ROU") assets are primarily related to operating leases for office space, automobiles and other equipment. Leases are included in property, equipment and right-of-use assets, other current liabilities and other liabilities on the consolidated balance sheet.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. In addition, ROU assets include initial direct costs incurred by the lessee as well as any lease payments made at or before the commencement date, and exclude lease incentives. As most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. Lease terms include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Leases with a term of one year or less are generally included in ROU assets and liabilities.

The Company excludes variable lease payments in measuring ROU assets and lease liabilities, other than those that depend on an index, a rate or are in substance fixed payments. Lease and nonlease components are generally accounted for separately. When available, consideration is allocated to the separate lease and nonlease components in a lease contract on a relative standalone price basis using observable standalone prices.

Operating lease ROU assets and operating lease liabilities are recorded on the consolidated balance sheet as follows:

|  | June 30,<br>2019 |
|--|------------------|
|  | (in millions)    |
| <i>Balance sheet location</i>                    |                  |
| Property, equipment and right-of-use assets, net | \$ 377           |
| Other current liabilities                        | 82               |
| Other liabilities                                | 336              |

Operating lease amortization expense for the three and six months ended June 30, 2019 was \$22 million and \$43 million, respectively, and recorded within general and administrative expenses on the consolidated statement of operations. As of June 30, 2019, weighted-average remaining lease term of operating leases was 6.5 years and weighted-average discount rate for operating leases was 3.2%.

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The following table summarizes the maturity of the Company's operating lease liabilities at June 30, 2019 based on lease term:

|  | <b>Operating Leases</b> |      |
|--|-------------------------|------|
|  | (in millions)           |      |
| Remainder of 2019                            | \$                      | 47   |
| 2020   |                         | 89   |
| 2021   |                         | 67   |
| 2022   |                         | 60   |
| 2023   |                         | 54   |
| Thereafter                                   |                         | 146  |
| Total operating lease payments               |                         | 463  |
| Less: Interest                               |                         | (45) |
| Present value of operating lease liabilities | \$                      | 418  |

As of June 30, 2019, the Company has entered into additional operating leases as a lessee, primarily for real estate. These leases have not yet commenced and will result in ROU assets and corresponding lease liabilities of approximately \$315 million. These operating leases are expected to commence between fiscal years 2019 and 2020, with lease terms between one and sixteen years.

The following disclosures relate to periods prior to adoption of the new lease accounting standard, including those operating leases entered into during 2018, but not yet commenced:

At December 31, 2018, the Company had the following future minimum payments due under non-cancelable leases:

|            | <b>Operating Leases</b> |     |
|------------|-------------------------|-----|
|            | (in millions)           |     |
| 2019       | \$                      | 72  |
| 2020       |                         | 75  |
| 2021       |                         | 76  |
| 2022       |                         | 68  |
| 2023       |                         | 58  |
| Thereafter |                         | 327 |
| Total      | \$                      | 676 |

Consolidated rental expense for the Company's leased office space was \$94 million for the year ended December 31, 2018. Consolidated lease expense for automobiles, computer equipment and office equipment was \$20 million for the year ended December 31, 2018.

**Note 9. Accrued Expenses and Accrued Litigation**

Accrued expenses consisted of the following:

|                                  | June 30,<br>2019 | December 31,<br>2018 |
|----------------------------------|------------------|----------------------|
|                                  | (in millions)    |                      |
| Customer and merchant incentives | \$ 3,425         | \$ 3,275             |
| Personnel costs                  | 404              | 744                  |
| Income and other taxes           | 358              | 158                  |
| Other                            | 565              | 570                  |
| Total accrued expenses           | \$ 4,752         | \$ 4,747             |

Customer and merchant incentives represent amounts to be paid to customers under business agreements. As of June 30, 2019 and December 31, 2018, the Company's provision for litigation was \$935 million and \$1,591 million, respectively. These amounts are not included in the accrued expenses table above and are separately reported as accrued litigation on the consolidated

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balance sheet. See Note 15 (Legal and Regulatory Proceedings) for additional information regarding the Company's accrued litigation.

**Note 10. Debt**

Long-term debt consisted of the following at June 30, 2019 and December 31, 2018:

| Notes  | Issuance Date | Interest Payment Terms | Maturity Date | Aggregate Principal Amount | Stated Interest Rate | Effective Interest Rate | June 30, 2019 | December 31, 2018 |
|--|---------------|------------------------|---------------|----------------------------|----------------------|-------------------------|---------------|-------------------|
| (in millions, except percentages)                  |               |                        |               |                            |                      |                         |               |                   |
| 2019 USD Notes                                     | May 2019      | Semi-annually          | 2029          | \$ 1,000                   | 2.950%               | 3.030%                  | \$ 1,000      | \$ —              |
|  |               |                        | 2049          | 1,000                      | 3.650%               | 3.689%                  | 1,000         | —                 |
|  |               |                        |               | <u>\$ 2,000</u>            |                      |                         |               |                   |
|  |               |                        |               |                            |                      |                         |               |                   |
| 2018 USD Notes                                     | February 2018 | Semi-annually          | 2028          | \$ 500                     | 3.500%               | 3.598%                  | 500           | 500               |
|  |               |                        | 2048          | 500                        | 3.950%               | 3.990%                  | 500           | 500               |
|  |               |                        |               | <u>\$ 1,000</u>            |                      |                         |               |                   |
|  |               |                        |               |                            |                      |                         |               |                   |
| 2016 USD Notes                                     | November 2016 | Semi-annually          | 2021          | \$ 650                     | 2.000%               | 2.236%                  | 650           | 650               |
|  |               |                        | 2026          | 750                        | 2.950%               | 3.044%                  | 750           | 750               |
|  |               |                        | 2046          | 600                        | 3.800%               | 3.893%                  | 600           | 600               |
|  |               |                        |               | <u>\$ 2,000</u>            |                      |                         |               |                   |
|  |               |                        |               |                            |                      |                         |               |                   |
| 2015 Euro Notes                                    | December 2015 | Annually               | 2022          | € 700                      | 1.100%               | 1.265%                  | 797           | 801               |
|  |               |                        | 2027          | 800                        | 2.100%               | 2.189%                  | 910           | 916               |
|  |               |                        | 2030          | 150                        | 2.500%               | 2.562%                  | 171           | 172               |
|  |               |                        |               | <u>€ 1,650</u>             |                      |                         |               |                   |
|  |               |                        |               |                            |                      |                         |               |                   |
| 2014 USD Notes                                     | March 2014    | Semi-annually          | 2019          | \$ 500                     | 2.000%               | 2.178%                  | —             | 500               |
|  |               |                        | 2024          | 1,000                      | 3.375%               | 3.484%                  | 1,000         | 1,000             |
|  |               |                        |               | <u>\$ 1,500</u>            |                      |                         |               |                   |
|  |               |                        |               |                            |                      |                         | 7,878         | 6,389             |
| Less: Unamortized discount and debt issuance costs |               |                        |               |                            |                      |                         | (72)          | (55)              |
| Total debt outstanding                             |               |                        |               |                            |                      |                         | 7,806         | 6,334             |
| Less: Current portion <sup>1</sup>                 |               |                        |               |                            |                      |                         | —             | (500)             |
| Long-term debt                                     |               |                        |               |                            |                      |                         | \$ 7,806      | \$ 5,834          |

<sup>1</sup> Relates to the 2014 USD Notes, which was classified in current liabilities as of December 31, 2018, matured and was paid during the second quarter of 2019

In May 2019, the Company issued \$1.0 billion principal amount of notes due June 2029 and \$1.0 billion principal amount of notes due June 2049 (collectively the "2019 USD Notes"). The net proceeds from the issuance of the 2019 USD Notes, after deducting the original issue discount, underwriting discount and offering expenses, were \$1.980 billion.

The net proceeds, after deducting the original issue discount, underwriting discount and offering expenses, from the issuance of the 2018 USD Notes, 2016 USD Notes, the 2015 Euro Notes and the 2014 USD Notes, were \$991 million, \$1.969 billion, \$1.723 billion and \$1.484 billion, respectively.

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The outstanding debt, described above, is not subject to any financial covenants and it may be redeemed in whole, or in part, at the Company's option at any time for a specified make-whole amount. These notes are senior unsecured obligations and would rank equally with any future unsecured and unsubordinated indebtedness. The proceeds of the notes are to be used for general corporate purposes.

**Note 11. Stockholders' Equity**

The Company's Board of Directors have approved share repurchase programs authorizing the Company to repurchase shares of its Class A Common Stock. These programs become effective after the completion of the previously authorized share repurchase program.

The following table summarizes the Company's share repurchase authorizations of its Class A common stock through June 30, 2019, as well as historical purchases:

| Board authorization dates  | December<br>2018 | December<br>2017 | December<br>2016 |           |
|--|------------------|------------------|------------------|-----------|
| Date program became effective  | January<br>2019  | March<br>2018    | April<br>2017    | Total     |
| (in millions, except average price data)                                     |                  |                  |                  |           |
| Board authorization  | \$ 6,500         | \$ 4,000         | \$ 4,000         | \$ 14,500 |
| Dollar value of shares repurchased during the six months ended June 30, 2018 | \$ —             | \$ 1,647         | \$ 1,234         | \$ 2,881  |
| Remaining authorization at December 31, 2018                                 | \$ 6,500         | \$ 301           | \$ —             | \$ 6,801  |
| Dollar value of shares repurchased during the six months ended June 30, 2019 | \$ 3,440         | \$ 301           | \$ —             | \$ 3,741  |
| Remaining authorization at June 30, 2019                                     | \$ 3,060         | \$ —             | \$ —             | \$ 3,060  |
| Shares repurchased during the six months ended June 30, 2018                 | —                | 9.0              | 7.2              | 16.2      |
| Average price paid per share during the six months ended June 30, 2018       | \$ —             | \$ 183.84        | \$ 171.11        | \$ 178.16 |
| Shares repurchased during the six months ended June 30, 2019                 | 14.8             | 1.6              | —                | 16.4      |
| Average price paid per share during the six months ended June 30, 2019       | \$ 232.42        | \$ 188.38        | \$ —             | \$ 228.13 |
| Cumulative shares repurchased through June 30, 2019                          | 14.8             | 20.6             | 28.2             | 63.6      |
| Cumulative average price paid per share                                      | \$ 232.42        | \$ 194.27        | \$ 141.99        | \$ 179.98 |

The following table presents the changes in the Company's outstanding Class A and Class B common stock for the six months ended June 30, 2019:

|   | Outstanding Shares |         |
|---|--------------------|---------|
|   | Class A            | Class B |
| (in millions)                                 |                    |         |
| Balance at December 31, 2018                  | 1,018.6            | 11.8    |
| Purchases of treasury stock                   | (16.4)             | —       |
| Share-based payments                          | 2.4                | —       |
| Conversion of Class B to Class A common stock | 0.3                | (0.3)   |
| Balance at June 30, 2019                      | 1,004.9            | 11.5    |

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**Note 12. Accumulated Other Comprehensive Income (Loss)**

The changes in the balances of each component of accumulated other comprehensive income (loss), net of tax, for the six months ended June 30, 2019 and 2018 were as follows:

|   | Foreign Currency<br>Translation<br>Adjustments <sup>1</sup> | Translation<br>Adjustments on<br>Net Investment<br>Hedge | Defined Benefit Pension<br>and Other Postretirement<br>Plans | Investment<br>Securities Available-<br>for-Sale | Accumulated Other<br>Comprehensive Income<br>(Loss) |
|---|---|--|--|---|---|
|   | (in millions)   |  |  |   |   |
| Balance at December 31, 2018                                  | \$ (661)  | \$ (66)  | \$ 10  | \$ (1)  | \$ (718)  |
| Other comprehensive income (loss) for the period <sup>2</sup> | (20)  | 6  | (1)  | 3   | (12)  |
| Balance at June 30, 2019                                      | <u>\$ (681)</u>   | <u>\$ (60)</u>   | <u>\$ 9</u>  | <u>\$ 2</u>                                     | <u>\$ (730)</u>                                     |
| Balance at December 31, 2017                                  | \$ (382)  | \$ (141)   | \$ 25  | \$ 1  | \$ (497)  |
| Other comprehensive income (loss) for the period <sup>2</sup> | (186)   | 53   | (1)  | (1)   | (135)   |
| Balance at June 30, 2018                                      | <u>\$ (568)</u>   | <u>\$ (88)</u>   | <u>\$ 24</u>   | <u>\$ —</u>                                     | <u>\$ (632)</u>                                     |

<sup>1</sup> During the six months ended June 30, 2019, the increase in other comprehensive loss related to foreign currency translation adjustments was driven primarily by the depreciation of the euro and British pound. During the six months ended June 30, 2018, the increase in other comprehensive loss related to foreign currency translation adjustments was driven primarily by the depreciation of the euro and British pound.

<sup>2</sup> During the six months ended June 30, 2019 and 2018, gains and losses reclassified from accumulated other comprehensive income (loss) to the consolidated statement of operations were not significant.

**Note 13. Share-Based Payments**

During the six months ended June 30, 2019, the Company granted the following awards under the Mastercard Incorporated 2006 Long Term Incentive Plan, as amended and restated as of June 5, 2012 (the "LTIP"). The LTIP is a stockholder-approved plan that permits the grant of various types of equity awards to employees.

|                             | Grants in 2019 | Weighted-Average<br>Grant-Date<br>Fair Value |
|-----------------------------|----------------|--|
|                             | (in millions)  | (per option/unit)                            |
| Non-qualified stock options | 0.9            | \$53   |
| Restricted stock units      | 0.9            | \$224  |
| Performance stock units     | 0.1            | \$231  |

Stock options generally vest in four equal annual installments beginning one year after the date of grant and expire ten years from the date of grant. The Company used the Black-Scholes option pricing model to determine the grant-date fair value of stock options and calculated the expected life and the expected volatility based on historical Mastercard information. The expected life of stock options granted in 2019 was estimated to be six years, while the expected volatility was determined to be 19.6%.

Vesting of the shares underlying the restricted stock units and performance stock units ("PSUs") will generally occur three years after the date of grant. For all PSUs granted on or after March 1, 2019, shares issuable upon vesting are subject to a mandatory one-year deferral period, during which vested PSUs are eligible for dividend equivalents. The fair value of restricted stock units is determined and fixed on the grant date based on the Company's Class A common stock price, adjusted for the exclusion of dividend equivalents. The Monte Carlo simulation valuation model was used to determine the grant-date fair value of performance stock units granted.

Compensation expense is recorded net of estimated forfeitures over the shorter of the vesting period or the date the individual becomes eligible to retire under the LTIP. The Company uses the straight-line method of attribution over the requisite service period for expensing equity awards.



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**Note 14. Income Taxes**

The effective income tax rates were 18.7% and 17.2% for the three and six months ended June 30, 2019, respectively, versus 18.3% and 17.8% for the comparable periods in 2018. The higher effective tax rate for the three months, versus the comparable period in 2018, was primarily the result of discrete tax items, notably a reduction in the Company's 2018 liability for uncertain tax positions due to a favorable court decision. The lower effective tax rate for the six months, versus the comparable period in 2018, was primarily due to a more favorable geographic mix of earnings and a discrete tax benefit arising from a reduction to the Company's transition tax liability resulting from final U.S. Department of Treasury and Internal Revenue Service regulations issued on January 15, 2019. These benefits were partially offset by the reduction in the 2018 liability previously mentioned.

The Company is subject to tax in the United States, Belgium, Singapore, the United Kingdom and various other foreign jurisdictions, as well as state and local jurisdictions. Uncertain tax positions are reviewed on an ongoing basis and are adjusted after considering facts and circumstances, including progress of tax audits, developments in case law and closing of statutes of limitation. Within the next twelve months, the Company believes that the resolution of certain federal, foreign and state and local examinations is reasonably possible and that a change in estimate, reducing unrecognized tax benefits, may occur. While such a change may be significant, it is not possible to provide a range of the potential change until the examinations progress further or the related statutes of limitation expire. The Company has effectively settled its U.S. federal income tax obligations through 2011. With limited exception, the Company is no longer subject to state and local or foreign examinations by tax authorities for years before 2010.

**Note 15. Legal and Regulatory Proceedings**

Mastercard is a party to legal and regulatory proceedings with respect to a variety of matters in the ordinary course of business. Some of these proceedings are based on complex claims involving substantial uncertainties and unascertainable damages. Accordingly, except as discussed below, it is not possible to determine the probability of loss or estimate damages, and therefore, Mastercard has not established reserves for any of these proceedings. When the Company determines that a loss is both probable and reasonably estimable, Mastercard records a liability and discloses the amount of the liability if it is material. When a material loss contingency is only reasonably possible, Mastercard does not record a liability, but instead discloses the nature and the amount of the claim, and an estimate of the loss or range of loss, if such an estimate can be made. Unless otherwise stated below with respect to these matters, Mastercard cannot provide an estimate of the possible loss or range of loss based on one or more of the following reasons: (1) actual or potential plaintiffs have not claimed an amount of monetary damages or the amounts are unsupportable or exaggerated, (2) the matters are in early stages, (3) there is uncertainty as to the outcome of pending appeals or motions, (4) there are significant factual issues to be resolved, (5) the existence in many such proceedings of multiple defendants or potential defendants whose share of any potential financial responsibility has yet to be determined and/or (6) there are novel legal issues presented. Furthermore, except as identified with respect to the matters below, Mastercard does not believe that the outcome of any individual existing legal or regulatory proceeding to which it is a party will have a material adverse effect on its results of operations, financial condition or overall business. However, an adverse judgment or other outcome or settlement with respect to any proceedings discussed below could result in fines or payments by Mastercard and/or could require Mastercard to change its business practices. In addition, an adverse outcome in a regulatory proceeding could lead to the filing of civil damage claims and possibly result in significant damage awards. Any of these events could have a material adverse effect on Mastercard's results of operations, financial condition and overall business.

**Interchange Litigation and Regulatory Proceedings**

Mastercard's interchange fees and other practices are subject to regulatory, legal review and/or challenges in a number of jurisdictions, including the proceedings described below. When taken as a whole, the resulting decisions, regulations and legislation with respect to interchange fees and acceptance practices may have a material adverse effect on the Company's prospects for future growth and its overall results of operations, financial position and cash flows.

*United States.* In June 2005, the first of a series of complaints were filed on behalf of merchants (the majority of the complaints were styled as class actions, although a few complaints were filed on behalf of individual merchant plaintiffs) against Mastercard International, Visa U.S.A., Inc., Visa International Service Association and a number of financial institutions. Taken together, the claims in the complaints were generally brought under both Sections 1 and 2 of the Sherman Act, which prohibit monopolization and attempts or conspiracies to monopolize a particular industry, and some of these complaints contain unfair competition law claims under state law. The complaints allege, among other things, that Mastercard, Visa, and certain financial institutions conspired to set the price of interchange fees, enacted point of sale acceptance rules (including the no surcharge rule) in violation

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of antitrust laws and engaged in unlawful tying and bundling of certain products and services. The cases were consolidated for pre-trial proceedings in the U.S. District Court for the Eastern District of New York in MDL No. 1720. The plaintiffs filed a consolidated class action complaint that seeks treble damages.

In July 2006, the group of purported merchant class plaintiffs filed a supplemental complaint alleging that Mastercard's initial public offering of its Class A Common Stock in May 2006 (the "IPO") and certain purported agreements entered into between Mastercard and financial institutions in connection with the IPO: (1) violate U.S. antitrust laws and (2) constituted a fraudulent conveyance because the financial institutions allegedly attempted to release, without adequate consideration, Mastercard's right to assess them for Mastercard's litigation liabilities. The class plaintiffs sought treble damages and injunctive relief including, but not limited to, an order reversing and unwinding the IPO.

In February 2011, Mastercard and Mastercard International entered into each of: (1) an omnibus judgment sharing and settlement sharing agreement with Visa Inc., Visa U.S.A. Inc. and Visa International Service Association and a number of financial institutions; and (2) a Mastercard settlement and judgment sharing agreement with a number of financial institutions. The agreements provide for the apportionment of certain costs and liabilities which Mastercard, the Visa parties and the financial institutions may incur, jointly and/or severally, in the event of an adverse judgment or settlement of one or all of the cases in the merchant litigations. Among a number of scenarios addressed by the agreements, in the event of a global settlement involving the Visa parties, the financial institutions and Mastercard, Mastercard would pay 12% of the monetary portion of the settlement. In the event of a settlement involving only Mastercard and the financial institutions with respect to their issuance of Mastercard cards, Mastercard would pay 36% of the monetary portion of such settlement.

In October 2012, the parties entered into a definitive settlement agreement with respect to the merchant class litigation (including with respect to the claims related to the IPO) and the defendants separately entered into a settlement agreement with the individual merchant plaintiffs. The settlements included cash payments that were apportioned among the defendants pursuant to the omnibus judgment sharing and settlement sharing agreement described above. Mastercard also agreed to provide class members with a short-term reduction in default credit interchange rates and to modify certain of its business practices, including its "no surcharge" rule. The court granted final approval of the settlement in December 2013, and objectors to the settlement appealed that decision to the U.S. Court of Appeals for the Second Circuit. In June 2016, the court of appeals vacated the class action certification, reversed the settlement approval and sent the case back to the district court for further proceedings. The court of appeals' ruling was based primarily on whether the merchants were adequately represented by counsel in the settlement. As a result of the appellate court ruling, the district court divided the merchants' claims into two separate classes - monetary damages claims (the "Damages Class") and claims seeking changes to business practices (the "Rules Relief Class"). The court appointed separate counsel for each class.

Prior to the reversal of the settlement approval, merchants representing slightly more than 25% of the Mastercard and Visa purchase volume over the relevant period chose to opt out of the class settlement. Mastercard had anticipated that most of the larger merchants who opted out of the settlement would initiate separate actions seeking to recover damages, and over 30 opt-out complaints have been filed on behalf of numerous merchants in various jurisdictions. Mastercard has executed settlement agreements with a number of opt-out merchants. Mastercard believes these settlement agreements are not impacted by the ruling of the court of appeals. The defendants have consolidated all of these matters in front of the same federal district court that approved the merchant class settlement. In July 2014, the district court denied the defendants' motion to dismiss the opt-out merchant complaints for failure to state a claim.

In September 2018, the parties to the Damages Class litigation entered into a class settlement agreement to resolve the Damages Class claims. Mastercard increased its reserve by \$237 million during 2018 to reflect both its expected financial obligation under the Damages Class settlement agreement and the filed and anticipated opt-out merchant cases. In January 2019, the district court issued an order granting preliminary approval of the settlement and authorized notice of the settlement to class members. Damages Class members will now have the opportunity to opt out of the class settlement agreement. If more than 25% of the merchant purchase volume opts out of the settlement, the defendants would have the option to terminate the settlement agreement. The court has scheduled a final approval hearing in November 2019. The settlement agreement does not relate to the Rules Relief Class claims. Separate settlement negotiations with the Rules Relief Class are ongoing.

As of June 30, 2019 and December 31, 2018, Mastercard had accrued a liability of \$916 million and \$915 million, respectively, as a reserve for both the merchant class litigation and the filed and anticipated opt-out merchant cases. As of June 30, 2019 and December 31, 2018, Mastercard had \$662 million and \$553 million, respectively, in a qualified cash settlement fund related to

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the merchant class litigation and classified as restricted cash on its consolidated balance sheet. During the first quarter of 2019, Mastercard increased its qualified cash settlement fund by \$108 million in accordance with the January 2019 preliminary approval of the settlement. Mastercard believes the reserve for both the merchant class litigation and the filed and anticipated opt-out merchants represents its best estimate of its probable liabilities in these matters. The portion of the accrued liability relating to both the opt-out merchants and the merchant class litigation settlement does not represent an estimate of a loss, if any, if the matters were litigated to a final outcome. Mastercard cannot estimate the potential liability if that were to occur.

*Canada.* In December 2010, a proposed class action complaint was commenced against Mastercard in Quebec on behalf of Canadian merchants. The suit essentially repeated the allegations and arguments of a previously filed application by the Canadian Competition Bureau to the Canadian Competition Tribunal (dismissed in Mastercard's favor) concerning certain Mastercard rules related to point-of-sale acceptance, including the "honor all cards" and "no surcharge" rules. The Quebec suit sought compensatory and punitive damages in unspecified amounts, as well as injunctive relief. In the first half of 2011, additional purported class action lawsuits were commenced in British Columbia and Ontario against Mastercard, Visa and a number of large Canadian financial institutions. The British Columbia suit sought compensatory damages in unspecified amounts, and the Ontario suit sought compensatory damages of \$5 billion on the basis of alleged conspiracy and various alleged breaches of the Canadian Competition Act. Additional purported class action complaints were commenced in Saskatchewan and Alberta with claims that largely mirror those in the other suits. In June 2017, Mastercard entered into a class settlement agreement to resolve all of the Canadian class action litigation. The settlement, which requires Mastercard to make a cash payment and modify its "no surcharge" rule, has received court approval in each Canadian province. Objectors to the settlement have sought to appeal the approval orders. In 2017, Mastercard recorded a provision for litigation of \$15 million related to this matter.

*Europe.* In July 2015, the European Commission ("EC") issued a Statement of Objections related to Mastercard's interregional interchange fees and central acquiring rule within the European Economic Area (the "EEA"). The Statement of Objections, which followed an investigation opened in 2013, included preliminary conclusions concerning the alleged anticompetitive effects of these practices. In December 2018, Mastercard announced the anticipated resolution of the EC's investigation. With respect to interregional interchange fees, Mastercard made a settlement proposal whereby it would make changes to its interregional interchange fees. The EC issued a decision accepting the settlement in April 2019, with changes to interregional interchange fees going into effect in the fourth quarter of 2019. In addition, with respect to Mastercard's historic central acquiring rule, the EC issued a negative decision in January 2019. The EC's negative decision covers a period of time of less than two years before the rule's modification. The rule was modified in late 2015 to comply with the requirements of the EEA Interchange Fee Regulation. The decision does not require any modification of Mastercard's current business practices but included a fine of €571 million, which was paid in April 2019. Mastercard incurred a charge of \$654 million in 2018 in relation to this matter.

Since May 2012, a number of United Kingdom ("U.K.") retailers filed claims or threatened litigation against Mastercard seeking damages for alleged anti-competitive conduct with respect to Mastercard's cross-border interchange fees and its U.K. and Ireland domestic interchange fees (the "U.K. Merchant claimants"). In addition, Mastercard, has faced similar filed or threatened litigation by merchants with respect to interchange rates in other countries in Europe (the "Pan-European Merchant claimants"). In aggregate, the alleged damages claims from the U.K. and Pan-European Merchant claimants were in the amount of approximately €3 billion (approximately \$4 billion as of June 30, 2019). Mastercard has resolved over £2 billion (approximately \$3 billion as of June 30, 2019) of these damages claims through settlement or judgment. Since June 2015, Mastercard has recorded litigation provisions for settlements, judgments and legal fees relating to these claims, including charges of \$237 million in 2018. As detailed below, Mastercard continues to litigate with the remaining U.K. and Pan-European Merchant claimants and it has submitted statements of defense disputing liability and damages claims.

In January 2017, Mastercard received a liability judgment in its favor on all significant matters in a separate action brought by ten of the U.K. Merchant claimants. Three of the U.K. Merchant claimants appealed the judgment, and these appeals were combined with Mastercard's appeal of a 2016 judgment in favor of one U.K. merchant. In July 2018, the U.K. appellate court ruled against both Mastercard and Visa on two of the three legal issues being considered, concluding that U.K. interchange rates restricted competition and that they were not objectively necessary for the payment networks. The appellate court sent the cases back to trial for reconsideration on the remaining issue concerning the "lawful" level of interchange. Mastercard and Visa have been granted permission to appeal the appellate court ruling to the U.K. Supreme Court. Mastercard expects the litigation process to be delayed pending the resolution of its appeal to the U.K. Supreme Court.

In September 2016, a proposed collective action was filed in the United Kingdom on behalf of U.K. consumers seeking damages for intra-EEA and domestic U.K. interchange fees that were allegedly passed on to consumers by merchants between 1992 and

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2008. The complaint, which seeks to leverage the European Commission's 2007 decision on intra-EEA interchange fees, claims damages in an amount that exceeds £14 billion (approximately \$18 billion as of June 30, 2019). In July 2017, the trial court denied the plaintiffs' application for the case to proceed as a collective action. In April 2019, the U.K. appellate court granted the plaintiffs' appeal of the trial court's decision and sent the case back to the trial court for a re-hearing on the plaintiffs' collective action application. Mastercard has been granted permission to appeal the appellate court ruling to the U.K. Supreme Court and expects oral argument on that appeal to occur in 2020.

**ATM Non-Discrimination Rule Surcharge Complaints**

In October 2011, a trade association of independent Automated Teller Machine ("ATM") operators and 13 independent ATM operators filed a complaint styled as a class action lawsuit in the U.S. District Court for the District of Columbia against both Mastercard and Visa (the "ATM Operators Complaint"). Plaintiffs seek to represent a class of non-bank operators of ATM terminals that operate in the United States with the discretion to determine the price of the ATM access fee for the terminals they operate. Plaintiffs allege that Mastercard and Visa have violated Section 1 of the Sherman Act by imposing rules that require ATM operators to charge non-discriminatory ATM surcharges for transactions processed over Mastercard's and Visa's respective networks that are not greater than the surcharge for transactions over other networks accepted at the same ATM. Plaintiffs seek both injunctive and monetary relief equal to treble the damages they claim to have sustained as a result of the alleged violations and their costs of suit, including attorneys' fees. Plaintiffs have not quantified their damages although they allege that they expect damages to be in the tens of millions of dollars.

Subsequently, multiple related complaints were filed in the U.S. District Court for the District of Columbia alleging both federal antitrust and multiple state unfair competition, consumer protection and common law claims against Mastercard and Visa on behalf of putative classes of users of ATM services (the "ATM Consumer Complaints"). The claims in these actions largely mirror the allegations made in the ATM Operators Complaint, although these complaints seek damages on behalf of consumers of ATM services who pay allegedly inflated ATM fees at both bank and non-bank ATM operators as a result of the defendants' ATM rules. Plaintiffs seek both injunctive and monetary relief equal to treble the damages they claim to have sustained as a result of the alleged violations and their costs of suit, including attorneys' fees. Plaintiffs have not quantified their damages although they allege that they expect damages to be in the tens of millions of dollars.

In January 2012, the plaintiffs in the ATM Operators Complaint and the ATM Consumer Complaints filed amended class action complaints that largely mirror their prior complaints. In February 2013, the district court granted Mastercard's motion to dismiss the complaints for failure to state a claim. On appeal, the Court of Appeals reversed the district court's order in August 2015 and sent the case back for further proceedings. Mastercard expects briefing on class certification to be completed before the end of 2019 in both actions.

**U.S. Liability Shift Litigation**

In March 2016, a proposed U.S. merchant class action complaint was filed in federal court in California alleging that Mastercard, Visa, American Express and Discover (the "Network Defendants"), EMVCo, and a number of issuing banks (the "Bank Defendants") engaged in a conspiracy to shift fraud liability for card present transactions from issuing banks to merchants not yet in compliance with the standards for EMV chip cards in the United States (the "EMV Liability Shift"), in violation of the Sherman Act and California law. Plaintiffs allege damages equal to the value of all chargebacks for which class members became liable as a result of the EMV Liability Shift on October 1, 2015. The plaintiffs seek treble damages, attorney's fees and costs and an injunction against future violations of governing law, and the defendants have filed a motion to dismiss. In September 2016, the court denied the Network Defendants' motion to dismiss the complaint, but granted such a motion for EMVCo and the Bank Defendants. In May 2017, the court transferred the case to New York so that discovery could be coordinated with the U.S. merchant class interchange litigation described above. The plaintiffs have filed a renewed motion for class certification, following the district court's denial of their initial motion.

**MASTERCARD INCORPORATED**  
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**Telephone Consumer Protection Class Action**

Mastercard is a defendant in a Telephone Consumer Protection Act (“TCPA”) class action pending in Florida. The plaintiffs are individuals and businesses who allege that approximately 381,000 unsolicited faxes were sent to them advertising a Mastercard co-brand card issued by First Arkansas Bank (“FAB”). The TCPA provides for uncapped statutory damages of \$500 per fax. Mastercard has asserted various defenses to the claims, and has notified FAB of an indemnity claim that it has (which FAB has disputed). In June 2018, the court granted Mastercard’s motion to stay the proceedings until the Federal Communications Commission makes a decision on the application of the TCPA to online fax services.

**Note 16. Settlement and Other Risk Management**

Mastercard’s rules guarantee the settlement of many of the transactions between its customers (“settlement risk”). Settlement exposure is the settlement risk to customers under Mastercard’s rules due to the difference in timing between the payment transaction date and subsequent settlement. While the term and amount of the guarantee are unlimited, the duration of settlement exposure is short term and typically limited to a few days.

Gross settlement exposure is estimated using the average daily payment volume during the three months ended June 30, 2019 multiplied by the estimated number of days of exposure. The Company has global risk management policies and procedures, which include risk standards, to provide a framework for managing the Company’s settlement risk and exposure. In the event of a failed customer, Mastercard may pursue one or more remedies available under the Company’s rules to recover potential losses. Historically, the Company has experienced a low level of losses from customer failures.

As part of its policies, Mastercard requires certain customers that are not in compliance with the Company’s risk standards to post collateral, typically in the form of cash, letters of credit, or guarantees. This requirement is based on a review of the individual risk circumstances for each customer. Mastercard monitors its credit risk portfolio on a regular basis and the adequacy of collateral on hand. Additionally, from time to time, the Company reviews its risk management methodology and standards. As such, the amounts of estimated settlement exposure are revised as necessary.

The Company’s estimated settlement exposure was as follows:

|  | June 30,<br>2019 | December 31,<br>2018 |
|--|------------------|----------------------|
|  | (in millions)    |                      |
| Gross settlement exposure                | \$ 51,653        | \$ 49,666            |
| Collateral held for settlement exposure  | (5,084)          | (4,711)              |
| Net uncollateralized settlement exposure | <u>\$ 46,569</u> | <u>\$ 44,955</u>     |

Mastercard also provides guarantees to customers and certain other counterparties indemnifying them from losses stemming from failures of third parties to perform duties. This includes guarantees of Mastercard-branded travelers cheques issued, but not yet cashed of \$372 million and \$377 million at June 30, 2019 and December 31, 2018, respectively, of which \$294 million and \$297 million at June 30, 2019 and December 31, 2018, respectively, is mitigated by collateral arrangements. In addition, the Company enters into agreements in the ordinary course of business under which the Company agrees to indemnify third parties against damages, losses and expenses incurred in connection with legal and other proceedings arising from relationships or transactions with the Company. Certain indemnifications do not provide a stated maximum exposure. As the extent of the Company’s obligations under these agreements depends entirely upon the occurrence of future events, the Company’s potential future liability under these agreements is not determinable. Historically, payments made by the Company under these types of contractual arrangements have not been material.

**Note 17. Foreign Exchange Risk Management**

The Company monitors and manages its foreign currency exposures as part of its overall risk management program which focuses on the unpredictability of financial markets and seeks to reduce the potentially adverse effects that the volatility of these markets may have on its operating results. A primary objective of the Company’s risk management strategies is to reduce the financial impact that may arise from volatility in foreign currency exchange rates principally through the use of both foreign currency derivative contracts (Derivatives) and foreign currency denominated debt (Net Investment Hedge).

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)**

*Derivatives*

The Company enters into foreign currency derivative contracts to manage risk associated with anticipated receipts and disbursements which are valued based on currencies other than the functional currencies of the entity. The Company may also enter into foreign currency derivative contracts to offset possible changes in value due to foreign exchange fluctuations of earnings, assets and liabilities. The objective of these activities is to reduce the Company's exposure to gains and losses resulting from fluctuations of foreign currencies against its functional currencies.

As of June 30, 2019 and December 31, 2018, the majority of derivative contracts to hedge foreign currency fluctuations had been entered into with customers of Mastercard. Mastercard's derivative contracts are summarized below:

|  | June 30, 2019 |                      | December 31, 2018 |                      |
|--|---------------|----------------------|-------------------|----------------------|
|  | Notional      | Estimated Fair Value | Notional          | Estimated Fair Value |
| (in millions)  |               |                      |                   |                      |
| Commitments to purchase foreign currency               | \$ 204        | \$ (2)               | \$ 34             | \$ (1)               |
| Commitments to sell foreign currency                   | 1,347         | (7)                  | 1,066             | 26                   |
| Options to sell foreign currency                       | 18            | 2                    | 25                | 4                    |
| <i>Balance sheet location</i>                          |               |                      |                   |                      |
| Prepaid expenses and other current assets <sup>1</sup> |               | 12                   |                   | 35                   |
| Other current liabilities <sup>1</sup>                 |               | (19)                 |                   | (6)                  |

<sup>1</sup> The derivative contracts are subject to enforceable master netting arrangements, which contain various netting and setoff provisions.

The amount of gain (loss) recognized on the consolidated statement of operations for the contracts to purchase and sell foreign currency is summarized below:

|                                       | Three Months Ended June 30, |       | Six Months Ended June 30, |       |
|---------------------------------------|-----------------------------|-------|---------------------------|-------|
|                                       | 2019                        | 2018  | 2019                      | 2018  |
| (in millions)                         |                             |       |                           |       |
| Foreign currency derivative contracts |                             |       |                           |       |
| General and administrative            | \$ (15)                     | \$ 56 | \$ (20)                   | \$ 35 |

The fair value of the foreign currency derivative contracts generally reflects the estimated amounts that the Company would receive (or pay), on a pre-tax basis, to terminate the contracts. The terms of the foreign currency derivative contracts are generally less than 18 months. The Company had no deferred gains or losses related to foreign exchange contracts in accumulated other comprehensive income as of June 30, 2019 and December 31, 2018, as these contracts were not accounted for under hedge accounting.

The Company's derivative financial instruments are subject to both market and counterparty credit 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 foreign currency exchange rates, interest rates and other related variables. The effect of a hypothetical 10% adverse change in U.S. dollar forward rates could result in a fair value loss of approximately \$129 million on the Company's foreign currency derivative contracts outstanding at June 30, 2019. Counterparty credit risk is the risk of loss due to failure of the counterparty to perform its obligations in accordance with contractual terms. To mitigate counterparty credit risk, the Company enters into derivative contracts with a diversified group of selected financial institutions based upon their credit ratings and other factors. Generally, the Company does not obtain collateral related to derivatives because of the high credit ratings of the counterparties.

*Net Investment Hedge*

The Company uses foreign currency denominated debt to hedge a portion of its net investment in foreign operations against adverse movements in exchange rates, with changes in the value of the debt recorded within currency translation adjustment in accumulated other comprehensive income (loss). In 2015, the Company designated its €1.65 billion euro-denominated debt as a net investment hedge for a portion of its net investment in European operations. As of June 30, 2019, the Company had a

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net foreign currency transaction pre-tax loss of \$112 million in accumulated other comprehensive income (loss) associated with hedging activity.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following supplements management's discussion and analysis of Mastercard Incorporated for the year ended December 31, 2018 as contained in the Company's Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission on February 13, 2019. It also should be read in conjunction with the consolidated financial statements and notes of Mastercard Incorporated and its consolidated subsidiaries, including Mastercard International Incorporated (together, "Mastercard" or the "Company"), included elsewhere in this Report. Percentage changes provided throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations" were calculated on amounts rounded to the nearest thousand.

### Financial Results Overview

The following table provides a summary of our key operating results, as reported:

|   | Three Months Ended June 30, |       |    | Increase/(Decrease) | Six Months Ended June 30, |      |       | Increase/(Decrease) |       |           |
|---|-----------------------------|-------|----|---------------------|---------------------------|------|-------|---------------------|-------|-----------|
|   | 2019                        | 2018  |    |                     | 2019                      | 2018 |       |                     |       |           |
| (\$ in millions, except per share data)     |                             |       |    |                     |                           |      |       |                     |       |           |
| Net revenue                                 | \$                          | 4,113 | \$ | 3,665               | 12%                       | \$   | 8,002 | \$                  | 7,245 | 10%       |
| Operating expenses                          | \$                          | 1,716 | \$ | 1,729               | (1)%                      | \$   | 3,392 | \$                  | 3,484 | (3)%      |
| Operating income                            | \$                          | 2,397 | \$ | 1,936               | 24%                       | \$   | 4,610 | \$                  | 3,761 | 23%       |
| Operating margin                            |                             | 58.3% |    | 52.8%               | 5.4 ppt                   |      | 57.6% |                     | 51.9% | 5.7 ppt   |
| Income tax expense                          | \$                          | 471   | \$ | 353                 | 34%                       | \$   | 812   | \$                  | 664   | 22%       |
| Effective income tax rate                   |                             | 18.7% |    | 18.3%               | 0.4 ppt                   |      | 17.2% |                     | 17.8% | (0.6) ppt |
| Net income                                  | \$                          | 2,048 | \$ | 1,569               | 31%                       | \$   | 3,910 | \$                  | 3,061 | 28%       |
| Diluted earnings per share                  | \$                          | 2.00  | \$ | 1.50                | 33%                       | \$   | 3.80  | \$                  | 2.91  | 31%       |
| Diluted weighted-average shares outstanding |                             | 1,025 |    | 1,049               | (2)%                      |      | 1,028 |                     | 1,053 | (2)%      |

The following table provides a summary of our key non-GAAP operating results<sup>1,2</sup>, adjusted to exclude the impact of gains and losses on our equity investments, special items (which represent litigation judgments and settlements and certain one-time items) and the related tax impacts on our non-GAAP adjustments. In addition, we have presented growth rates, adjusted for the impact of foreign currency:

|  | Three Months Ended June 30, |          | Increase/(Decrease) |                  | Six Months Ended June 30, |          | Increase/(Decrease) |                  |
|--|-----------------------------|----------|---------------------|------------------|---------------------------|----------|---------------------|------------------|
|  | 2019                        | 2018     | As adjusted         | Currency-neutral | 2019                      | 2018     | As adjusted         | Currency-neutral |
| (\$ in millions, except per share data)          |                             |          |                     |                  |                           |          |                     |                  |
| Net revenue                                      | \$ 4,113                    | \$ 3,665 | 12%                 | 15%              | \$ 8,002                  | \$ 7,245 | 10%                 | 14%              |
| Adjusted operating expenses                      | \$ 1,716                    | \$ 1,504 | 14%                 | 17%              | \$ 3,392                  | \$ 3,142 | 8%                  | 11%              |
| Adjusted operating margin                        | 58.3%                       | 59.0%    | (0.7) ppt           | (0.4) ppt        | 57.6%                     | 56.6%    | 1.0 ppt             | 1.4 ppt          |
| Adjusted effective income tax rate <sup>2</sup>  | 18.5%                       | 18.8%    | (0.3) ppt           | (0.1) ppt        | 17.7%                     | 18.2%    | (0.6) ppt           | (0.3) ppt        |
| Adjusted net income <sup>2</sup>                 | \$ 1,937                    | \$ 1,744 | 11%                 | 15%              | \$ 3,765                  | \$ 3,325 | 13%                 | 18%              |
| Adjusted diluted earnings per share <sup>2</sup> | \$ 1.89                     | \$ 1.66  | 14%                 | 17%              | \$ 3.66                   | \$ 3.16  | 16%                 | 20%              |

Note: Tables may not sum due to rounding.

<sup>1</sup> See "Non-GAAP Financial Information" for further information on our non-GAAP adjustments and the reconciliation to GAAP reported amounts.

<sup>2</sup> For the three and six months ended June 30, 2019, we updated our non-GAAP methodology to exclude the impact of gains and losses on our equity investments. Prior year periods were not restated as the impact of the change was de minimis in relation to our non-GAAP results.



Key highlights for the three and six months ended June 30, 2019 were as follows:

- Net revenue increased 12% and 10%, or 15% and 14% on a currency-neutral basis, respectively, versus the comparable periods in 2018 primarily driven by:
  - Switched transaction growth of 18% and 17%, respectively
  - Cross-border volume growth of 16% and 15% on a local currency basis, respectively
  - Gross dollar volume growth of 13% and 12% on a local currency basis, respectively
  - Other revenues growth of 23% and 18%, or 24% and 19%, on a currency-neutral basis, respectively, driven by our Cyber & Intelligence and Data & Services solutions
  - These increases were partially offset by higher rebates and incentives, which increased 16% and 17%, or 20% and 21% on a currency-neutral basis, respectively.
- Operating expenses decreased 1% and 3%, respectively, versus the comparable periods in 2018. Adjusted operating expenses increased 14% and 8%, respectively. On a currency-neutral basis the increase was 17% and 11%, respectively, primarily driven by:
  - 2 and 1 percentage points of growth, respectively, from acquisitions,
  - 5 and 2 percentage points of growth, respectively, from the impact of losses associated with foreign exchange activity for derivative contracts, as compared to gains in the prior year comparable periods.

The remaining 10 and 8 percentage points of respective growth was primarily related to our continued investment in strategic initiatives.

- The effective income tax rates were 18.7% and 17.2%, versus 18.3% and 17.8%, respectively, for the comparable periods in 2018. Adjusted effective income tax rates were 18.5% and 17.7%, versus 18.8% and 18.2%, for the comparable periods in 2018, primarily due to a more favorable geographic mix of earnings.

Other financial highlights for the six months ended June 30, 2019 were as follows:

- We generated net cash flows from operations of \$2.8 billion.
- We completed the acquisitions of businesses for total consideration of \$784 million in the second quarter of 2019.
- We repurchased 16.4 million shares of our common stock for \$3.7 billion and paid dividends of \$677 million.
- We completed a debt offering for an aggregate principal amount of \$2.0 billion and separately paid \$500 million of principal that matured related to our 2014 USD Notes in the second quarter of 2019.

## Non-GAAP Financial Information

Non-GAAP financial information is defined as a numerical measure of a company's performance that excludes or includes amounts so as to be different than the most comparable measure calculated and presented in accordance with accounting principles generally accepted in the United States ("GAAP"). Our non-GAAP financial measures exclude the impact of gains and losses on our equity investments which includes mark-to-market fair value adjustments, impairments and gains and losses upon disposition and the related tax impacts. Our non-GAAP financial measures also exclude the impact of special items which represent litigation judgments and settlements and certain one-time items, as well as the related tax impacts ("Special Items"). Our non-GAAP financial measures for the comparable periods exclude the impact of the following:

### Gains and Losses on Equity Investments

- For the three and six months ended June 30, 2019, we recorded net gains of \$143 million (\$111 million after tax, or \$0.11 per diluted share) and \$148 million (\$116 million after tax, or \$0.11 per diluted share), respectively, primarily related to unrealized fair market value adjustments on marketable equity securities.

### Special Items

#### *Tax act*

- In the first quarter of 2019, we recorded a \$30 million tax benefit (\$0.03 per diluted share) related to a reduction to our transition tax liability, resulting from final transition tax regulations issued in January 2019.

#### *Litigation provisions*

- In the second quarter of 2018, we recorded provisions for litigation of \$225 million (\$175 million after tax, or \$0.17 per diluted share) related to the U.S. merchant class litigation, the filed and anticipated opt-out U.S. merchant cases and litigation settlements with U.K. merchants.
- In the first quarter of 2018, we recorded provisions for litigation of \$117 million (\$89 million after tax, or \$0.08 per diluted share) related to litigation settlements with Pan-European and U.K. merchants and an increase in the reserve for our U.S. merchant opt-out cases.

See Note 6 (Fair Value and Investment Securities), Note 14 (Income Taxes) and Note 15 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part I, Item 1 for further discussion. We excluded these items because management evaluates the underlying operations and performance of the Company separately from these recurring and nonrecurring items.

In addition, we present growth rates adjusted for the impact of foreign currency, which is a non-GAAP financial measure. Currency-neutral growth rates are calculated by remeasuring the prior period's results using the current period's exchange rates for both the translational and transactional impacts on operating results. The impact of foreign currency translation represents the effect of translating operating results where the functional currency is different than our U.S. dollar reporting currency. The impact of the transactional foreign currency represents the effect of converting revenue and expenses occurring in a currency other than the functional currency. We believe the presentation of currency-neutral growth rates provides relevant information to facilitate an understanding of our operating results.

We believe that the non-GAAP financial measures presented facilitate an understanding of our operating performance and provide a meaningful comparison of our results between periods. We use non-GAAP financial measures to, among other things, evaluate our ongoing operations in relation to historical results, for internal planning and forecasting purposes and in the calculation of performance-based compensation.

Net revenue, operating expenses, operating margin, other income (expense), effective income tax rate, net income and diluted earnings per share adjusted for the impact of gains and losses on our equity investments, Special Items and/or the impact of foreign currency, are non-GAAP financial measures and should not be relied upon as substitutes for measures calculated in accordance with GAAP.

The following tables reconcile our reported financial measures calculated in accordance with GAAP to the respective non-GAAP adjusted financial measures:

| Three Months Ended June 30, 2019        |                    |                  |                        |                           |            |                            |
|---|--------------------|------------------|------------------------|---------------------------|------------|----------------------------|
|   | Operating expenses | Operating margin | Other Income (Expense) | Effective income tax rate | Net income | Diluted earnings per share |
| (\$ in millions, except per share data) |                    |                  |                        |                           |            |                            |
| Reported - GAAP                         | \$ 1,716           | 58.3%            | \$ 122                 | 18.7 %                    | \$ 2,048   | \$ 2.00                    |
| (Gains) losses on equity investments    | **                 | **               | (143)                  | (0.2)%                    | (111)      | (0.11)                     |
| Non-GAAP                                | \$ 1,716           | 58.3%            | \$ (21)                | 18.5 %                    | \$ 1,937   | \$ 1.89                    |

  

| Six Months Ended June 30, 2019          |                    |                  |                        |                           |            |                            |
|---|--------------------|------------------|------------------------|---------------------------|------------|----------------------------|
|   | Operating expenses | Operating margin | Other Income (Expense) | Effective income tax rate | Net income | Diluted earnings per share |
| (\$ in millions, except per share data) |                    |                  |                        |                           |            |                            |
| Reported - GAAP                         | \$ 3,392           | 57.6%            | \$ 112                 | 17.2 %                    | \$ 3,910   | \$ 3.80                    |
| (Gains) losses on equity investments    | **                 | **               | (148)                  | (0.1)%                    | (116)      | (0.11)                     |
| Tax act                                 | **                 | **               | **                     | 0.6 %                     | (30)       | (0.03)                     |
| Non-GAAP                                | \$ 3,392           | 57.6%            | \$ (36)                | 17.7 %                    | \$ 3,765   | \$ 3.66                    |

  

| Three Months Ended June 30, 2018        |                    |                  |                        |                           |            |                            |
|---|--------------------|------------------|------------------------|---------------------------|------------|----------------------------|
|   | Operating expenses | Operating margin | Other Income (Expense) | Effective income tax rate | Net income | Diluted earnings per share |
| (\$ in millions, except per share data) |                    |                  |                        |                           |            |                            |
| Reported - GAAP                         | \$ 1,729           | 52.8%            | \$ (14)                | 18.3%                     | \$ 1,569   | \$ 1.50                    |
| Litigation provisions                   | (225)              | 6.2%             | **                     | 0.5%                      | 175        | 0.17                       |
| Non-GAAP                                | \$ 1,504           | 59.0%            | \$ (14)                | 18.8%                     | \$ 1,744   | \$ 1.66                    |

  

| Six Months Ended June 30, 2018          |                    |                  |                        |                           |            |                            |
|---|--------------------|------------------|------------------------|---------------------------|------------|----------------------------|
|   | Operating expenses | Operating margin | Other Income (Expense) | Effective income tax rate | Net income | Diluted earnings per share |
| (\$ in millions, except per share data) |                    |                  |                        |                           |            |                            |
| Reported - GAAP                         | \$ 3,484           | 51.9%            | \$ (36)                | 17.8%                     | \$ 3,061   | \$ 2.91                    |
| Litigation provisions                   | (342)              | 4.7%             | **                     | 0.4%                      | 264        | 0.25                       |
| Non-GAAP                                | \$ 3,142           | 56.6%            | \$ (36)                | 18.2%                     | \$ 3,325   | \$ 3.16                    |

Note: Tables may not sum due to rounding.

\*\* Not applicable

The following tables represent the reconciliation of our growth rates reported under GAAP to our non-GAAP growth rates:

| Three Months Ended June 30, 2019 as compared to the Three Months Ended June 30, 2018 |                     |                    |                  |                           |            |                            |
|--|---------------------|--------------------|------------------|---------------------------|------------|----------------------------|
|  | Increase/(Decrease) |                    |                  |                           |            |                            |
|  | Net revenue         | Operating expenses | Operating margin | Effective income tax rate | Net income | Diluted earnings per share |
| Reported - GAAP  | 12%                 | (1)%               | 5.4 ppt          | 0.4 ppt                   | 31%        | 33%                        |
| (Gains) losses on equity investments <sup>1</sup>                                    | **                  | **                 | **               | (0.2) ppt                 | (7)%       | (7)%                       |
| Litigation provisions  | **                  | 15%                | (6.2) ppt        | (0.4) ppt                 | (12)%      | (12)%                      |
| Non-GAAP   | 12%                 | 14%                | (0.7) ppt        | (0.3) ppt                 | 11%        | 14%                        |
| Foreign currency <sup>2</sup>  | 3%                  | 2%                 | 0.3 ppt          | 0.2 ppt                   | 4%         | 4%                         |
| Non-GAAP - currency-neutral  | 15%                 | 17%                | (0.4) ppt        | (0.1) ppt                 | 15%        | 17%                        |

  

| Six Months Ended June 30, 2019 as compared to the Six Months Ended June 30, 2018 |                     |                    |                  |                           |            |                            |
|--|---------------------|--------------------|------------------|---------------------------|------------|----------------------------|
|  | Increase/(Decrease) |                    |                  |                           |            |                            |
|  | Net revenue         | Operating expenses | Operating margin | Effective income tax rate | Net income | Diluted earnings per share |
| Reported - GAAP  | 10%                 | (3)%               | 5.7 ppt          | (0.6) ppt                 | 28%        | 31%                        |
| (Gains) losses on equity investments <sup>1</sup>                                | **                  | **                 | **               | (0.2) ppt                 | (4)%       | (4)%                       |
| Tax act  | **                  | **                 | **               | 0.6 ppt                   | (1)%       | (1)%                       |
| Litigation provisions  | **                  | 11%                | (4.7) ppt        | (0.4) ppt                 | (10)%      | (10)%                      |
| Non-GAAP   | 10%                 | 8%                 | 1.0 ppt          | (0.6) ppt                 | 13%        | 16%                        |
| Foreign currency <sup>2</sup>  | 4%                  | 3%                 | 0.4 ppt          | 0.2 ppt                   | 4%         | 5%                         |
| Non-GAAP - currency-neutral  | 14%                 | 11%                | 1.4 ppt          | (0.3) ppt                 | 18%        | 20%                        |

Note: Tables may not sum due to rounding.

\*\* Not applicable

<sup>1</sup> For the three and six months ended June 30, 2019, we updated our non-GAAP methodology to exclude the impact of gains and losses on our equity investments. Prior year periods were not restated as the impact of the change was de minimis in relation to our non-GAAP results.

<sup>2</sup> Represents the foreign currency translational and transactional impact.

## Impact of Foreign Currency Rates

Our primary revenue functional currencies are the U.S. dollar, euro, Brazilian real and the British pound. Our overall operating results are impacted by foreign currency translation, which represents the effect of translating operating results where the functional currency is different than our U.S. dollar reporting currency.

Our operating results can also be impacted by transactional foreign currency. The impact of the transactional foreign currency represents the effect of converting revenue and expense transactions occurring in a currency other than the functional currency. Changes in foreign currency exchange rates directly impact the calculation of gross dollar volume ("GDV") and gross euro volume ("GEV"), which are used in the calculation of our domestic assessments, cross-border volume fees and volume-related rebates and incentives. In most non-European regions, GDV is calculated based on local currency spending volume converted to U.S. dollars using average exchange rates for the period. In Europe, GEV is calculated based on local currency spending volume converted to euros using average exchange rates for the period. As a result, our domestic assessments, cross-border volume fees and volume-related rebates and incentives are impacted by the strengthening or weakening of the U.S. dollar versus non-European local currencies and the strengthening or weakening of the euro versus other European local currencies. For example, our billing in Australia is in the U.S. dollar, however, consumer spend in Australia is in the Australian dollar. The foreign currency transactional impact of converting Australian dollars to our U.S. dollar billing currency will have an impact on the revenue generated. The strengthening or weakening of the U.S. dollar is evident when GDV growth on a U.S. dollar-converted basis is compared to GDV growth on a local currency basis. For the three and six months ended June 30, 2019, GDV on a U.S. dollar-converted basis increased 8% and 7%, respectively, while GDV on a local currency basis increased 13% and 12%, respectively, versus the comparable periods in 2018. Further, the impact from transactional foreign currency occurs in transaction processing revenue, other revenue and operating expenses when the local currency of these items is different than the functional currency.

We incur foreign currency gains and losses from remeasuring monetary assets and liabilities that are in a currency other than the functional currency and from remeasuring foreign exchange derivative contracts ("Foreign Exchange Activity"). The impact of Foreign Exchange Activity has not been eliminated in our currency-neutral results (see "Non-GAAP Financial Information") and is recorded in general and administrative expenses on the consolidated statement of operations. We manage foreign currency balance sheet remeasurement and cash flow risk through our foreign exchange risk management activities, which are discussed further in Note 17 (Foreign Exchange Risk Management) to the consolidated financial statements included in Part I, Item 1. Since we do not designate foreign currency derivatives as hedging instruments pursuant to the accounting standards for derivative instruments and hedging activities, we record gains and losses on foreign exchange derivatives immediately in current period earnings, with the related hedged item being recognized as the exposures materialize.

We are exposed to currency devaluation in certain countries. In addition, we are subject to exchange control regulations that restrict the conversion of financial assets into U.S. dollars. While these revenues and assets are not material to us on a consolidated basis, we can be negatively impacted should there be a continued and sustained devaluation of local currencies relative to the U.S. dollar and/or a continued and sustained deterioration of economic conditions in these countries.

## Financial Results

### Revenue

In the three and six months ended June 30, 2019, gross revenue increased 13% and 12%, or 17% and 16% on a currency-neutral basis, respectively, versus the comparable periods in 2018. Gross revenue growth in the three and six months ended June 30, 2019 was driven by an increase in transactions, dollar volume of activity on cards carrying our brands and other payment-related products and services.

Rebates and incentives, in the three and six months ended June 30, 2019, increased 16% and 17%, or 20% and 21% on a currency-neutral basis, respectively, versus the comparable periods in 2018, primarily due to new and renewed deals and increased volumes.

Our net revenue for the three and six months ended June 30, 2019, increased 12% and 10%, or 15% and 14% on a currency-neutral basis, respectively, versus the comparable periods in 2018.

The components of net revenue were as follows:

|   | Three Months Ended June 30, |          | Increase<br>(Decrease) | Six Months Ended June 30, |          | Increase<br>(Decrease) |
|---|-----------------------------|----------|------------------------|---------------------------|----------|------------------------|
|   | 2019                        | 2018     |                        | 2019                      | 2018     |                        |
|   | (\$ in millions)            |          |                        |                           |          |                        |
| Domestic assessments                    | \$ 1,680                    | \$ 1,537 | 9%                     | \$ 3,285                  | \$ 2,995 | 10%                    |
| Cross-border volume fees                | 1,374                       | 1,198    | 15%                    | 2,637                     | 2,355    | 12%                    |
| Transaction processing                  | 2,053                       | 1,830    | 12%                    | 3,975                     | 3,537    | 12%                    |
| Other revenues                          | 962                         | 785      | 23%                    | 1,804                     | 1,533    | 18%                    |
| Gross revenue                           | 6,069                       | 5,350    | 13%                    | 11,701                    | 10,420   | 12%                    |
| Rebates and incentives (contra-revenue) | (1,956)                     | (1,685)  | 16%                    | (3,699)                   | (3,175)  | 17%                    |
| Net revenue                             | \$ 4,113                    | \$ 3,665 | 12%                    | \$ 8,002                  | \$ 7,245 | 10%                    |

The following table summarizes the primary drivers of net revenue growth in the three and six months ended June 30, 2019, versus the comparable periods in 2018:

|   | Three Months Ended June 30, 2019 |              |                    |                  |       |
|---|----------------------------------|--------------|--------------------|------------------|-------|
|   | Volume                           | Acquisitions | Foreign Currency 1 | Other 2          | Total |
| Domestic assessments                    | 13%                              | —%           | (4)%               | —% <sup>3</sup>  | 9%    |
| Cross-border volume fees                | 15%                              | —%           | (5)%               | 4%               | 15%   |
| Transaction processing                  | 13%                              | —%           | (3)%               | 2%               | 12%   |
| Other revenues                          | **                               | 2%           | (2)%               | 23% <sup>4</sup> | 23%   |
| Rebates and incentives (contra-revenue) | 10%                              | —%           | (3)%               | 10% <sup>5</sup> | 16%   |
| Net revenue                             | 12%                              | —%           | (3)%               | 3%               | 12%   |

  

|   | Six Months Ended June 30, 2019 |              |                    |                  |       |
|---|--------------------------------|--------------|--------------------|------------------|-------|
|   | Volume                         | Acquisitions | Foreign Currency 1 | Other 2          | Total |
| Domestic assessments                    | 12%                            | —%           | (5)%               | 2% <sup>3</sup>  | 10%   |
| Cross-border volume fees                | 14%                            | —%           | (5)%               | 3%               | 12%   |
| Transaction processing                  | 14%                            | —%           | (3)%               | 2%               | 12%   |
| Other revenues                          | **                             | 1%           | (2)%               | 19% <sup>4</sup> | 18%   |
| Rebates and incentives (contra-revenue) | 10%                            | —%           | (4)%               | 10% <sup>5</sup> | 17%   |
| Net revenue                             | 12%                            | —%           | (4)%               | 2%               | 10%   |

Note: Table may not sum due to rounding.

\*\* Not applicable.

<sup>1</sup> Represents the foreign currency translational and transactional impact versus the comparable periods in 2018.

<sup>2</sup> Includes impact from pricing and other non-volume based fees.

<sup>3</sup> Includes impact of the allocation of revenue to service deliverables, which are primarily recorded in other revenue when services are performed.

<sup>4</sup> Includes impacts from safety and security fees, Advisors fees and other payment-related products and services.

<sup>5</sup> Includes the impact from timing of new, renewed and expired agreements.

The following table provides a summary of the trend in volume and transaction growth. The cross-border volume and switched transactions growth rates are adjusted for the effects of differing switching days between periods. Additionally, we adjusted the switched transactions growth rate in the prior period for the deconsolidation of our Venezuelan subsidiaries in 2017. For a more detailed discussion of the deconsolidation of our Venezuelan subsidiaries, refer to Note 1 (Summary of Significant Accounting Policies) in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2018.

|                                     | Three Months Ended June 30, |                |              |                | Six Months Ended June 30, |                |              |                |
|-------------------------------------|-----------------------------|----------------|--------------|----------------|---------------------------|----------------|--------------|----------------|
|                                     | 2019                        |                | 2018         |                | 2019                      |                | 2018         |                |
|                                     | Growth (USD)                | Growth (Local) | Growth (USD) | Growth (Local) | Growth (USD)              | Growth (Local) | Growth (USD) | Growth (Local) |
| Mastercard-branded GDV <sup>1</sup> | 8%                          | 13%            | 15%          | 14%            | 7%                        | 12%            | 17%          | 14%            |
| Asia Pacific/Middle East/Africa     | 5%                          | 11%            | 17%          | 14%            | 5%                        | 10%            | 18%          | 14%            |
| Canada                              | 4%                          | 8%             | 14%          | 9%             | 2%                        | 7%             | 14%          | 9%             |
| Europe                              | 10%                         | 19%            | 22%          | 20%            | 8%                        | 18%            | 26%          | 19%            |
| Latin America                       | 10%                         | 16%            | 9%           | 17%            | 6%                        | 15%            | 13%          | 17%            |
| United States                       | 10%                         | 10%            | 9%           | 9%             | 9%                        | 9%             | 10%          | 10%            |
| Cross-border volume <sup>1</sup>    | 10%                         | 16%            | 24%          | 19%            | 8%                        | 15%            | 27%          | 20%            |
| Switched Transactions               |                             | 18%            |              | 17%            |                           | 17%            |              | 16%            |

<sup>1</sup> Excludes volume generated by Maestro and Cirrus cards.

### Operating Expenses

Operating expenses decreased 1% and 3% for the three and six months ended June 30, 2019, respectively, versus the comparable periods in 2018. Adjusted operating expenses increased 14% and 8%, or 17% and 11% on a currency-neutral basis, respectively, versus the comparable periods in 2018.

The components of operating expenses were as follows:

|   | Three Months Ended June 30, |          |                     | Six Months Ended June 30, |          |                     |
|---|-----------------------------|----------|---------------------|---------------------------|----------|---------------------|
|   | 2019                        | 2018     | Increase (Decrease) | 2019                      | 2018     | Increase (Decrease) |
|   | (\$ in millions)            |          |                     |                           |          |                     |
| General and administrative  | \$ 1,369                    | \$ 1,184 | 16%                 | \$ 2,736                  | \$ 2,505 | 9%                  |
| Advertising and marketing   | 225                         | 205      | 9%                  | 417                       | 402      | 4%                  |
| Depreciation and amortization   | 122                         | 115      | 5%                  | 239                       | 235      | 2%                  |
| Provision for litigation  | —                           | 225      | **                  | —                         | 342      | **                  |
| Total operating expenses  | 1,716                       | 1,729    | (1)%                | 3,392                     | 3,484    | (3)%                |
| Special Items <sup>1</sup>  | —                           | (225)    | **                  | —                         | (342)    | **                  |
| Adjusted total operating expenses (excluding Special Items <sup>1</sup> ) | \$ 1,716                    | \$ 1,504 | 14%                 | \$ 3,392                  | \$ 3,142 | 8%                  |

Note: Table may not sum due to rounding

\*\* Not meaningful.

<sup>1</sup> See "Non-GAAP Financial Information" for further information on our non-GAAP adjustments and the reconciliation to GAAP reported amounts.

The following table summarizes the primary drivers of changes in operating expenses for the three and six months ended June 30, 2019 versus the comparable periods in 2018:

|                               | Three Months Ended June 30, 2019 |                 |              |                    |       |
|-------------------------------|----------------------------------|-----------------|--------------|--------------------|-------|
|                               | Operational                      | Special Items 1 | Acquisitions | Foreign Currency 2 | Total |
| General and administrative    | 16%                              | —%              | 2%           | (2)%               | 16%   |
| Advertising and marketing     | 13%                              | —%              | —%           | (4)%               | 9%    |
| Depreciation and amortization | 2%                               | —%              | 5%           | (2)%               | 5%    |
| Provision for litigation      | **                               | **              | **           | **                 | **    |
| Total operating expenses      | 15%                              | (15)%           | 2%           | (2)%               | (1)%  |

  

|                               | Six Months Ended June 30, 2019 |                 |              |                    |       |
|-------------------------------|--------------------------------|-----------------|--------------|--------------------|-------|
|                               | Operational                    | Special Items 1 | Acquisitions | Foreign Currency 2 | Total |
| General and administrative    | 11%                            | —%              | 1%           | (2)%               | 9%    |
| Advertising and marketing     | 8%                             | —%              | —%           | (4)%               | 4%    |
| Depreciation and amortization | 1%                             | —%              | 3%           | (2)%               | 2%    |
| Provision for litigation      | **                             | **              | **           | **                 | **    |
| Total operating expenses      | 10%                            | (11)%           | 1%           | (3)%               | (3)%  |

Note: Tables may not sum due to rounding.

\*\* Not meaningful.

1 See “Non-GAAP Financial Information” for further information on our non-GAAP adjustments and the reconciliation to GAAP reported amounts.

2 Represents the foreign currency translational and transactional impact versus the prior period.

#### General and Administrative

The significant components of our general and administrative expenses were as follows:

|  | Three Months Ended June 30, |                 |                     | Six Months Ended June 30, |                 |     | Increase<br>(Decrease) |
|--|-----------------------------|-----------------|---------------------|---------------------------|-----------------|-----|------------------------|
|  | 2019                        | 2018            | Increase (Decrease) | 2019                      | 2018            |     |                        |
|  | (\$ in millions)            |                 |                     |                           |                 |     |                        |
| Personnel                              | \$ 853                      | \$ 797          | 7%                  | \$ 1,664                  | \$ 1,549        | 7%  |                        |
| Professional fees                      | 102                         | 84              | 21%                 | 188                       | 165             | 14% |                        |
| Data processing and telecommunications | 162                         | 142             | 14%                 | 317                       | 283             | 12% |                        |
| Foreign exchange activity <sup>1</sup> | 13                          | (59)            | **                  | 14                        | (31)            | **  |                        |
| Other                                  | 239                         | 220             | 11%                 | 553                       | 539             | 3%  |                        |
| General and administrative expenses    | <u>\$ 1,369</u>             | <u>\$ 1,184</u> | 16%                 | <u>\$ 2,736</u>           | <u>\$ 2,505</u> | 9%  |                        |

Note: Table may not sum due to rounding.

\*\* Not meaningful.

<sup>1</sup> Foreign exchange activity includes gains and losses on foreign exchange derivative contracts and the impact of remeasurement of assets and liabilities denominated in foreign currencies. See Note 17 (Foreign Exchange Risk Management) to the consolidated financial statements included in Part I, Item 1 for further discussion.

The primary drivers of general and administrative expenses for three and six months ended June 30, 2019 versus the comparable periods in 2018 were as follows:

- Personnel expenses increased 7% for both periods, or 9% and 10% on a currency-neutral basis, respectively. The increase was due to a higher number of employees to support our continued investment in the areas of digital infrastructure, safety and security platforms and data analytics as well as geographic expansion. Acquisitions contributed 1 percentage point to personnel expense growth for both periods.



- Data processing and telecommunication expenses increased 14% and 12%, or 16% and 14% on a currency-neutral basis, respectively, primarily due to higher software licensing costs as well as software and hardware maintenance. Acquisitions contributed 1 percentage point to expense growth for the three months ended June 30, 2019.
- Foreign exchange activity contributed 6 and 2 percentage points to growth, respectively. For the three and six months ended June 30, 2019, we recorded losses from our foreign exchange derivative contracts compared to net gains from our foreign exchange derivative contracts and balance sheet remeasurement in the prior year comparable periods.
- Other expenses increased 11% and 3%, or 14% and 6% on a currency-neutral basis, respectively, primarily due to costs to support our strategic development efforts. Other expenses include charitable contribution costs, travel and meeting expenses, costs to provide value added service offerings, rental expense for our facilities and other costs associated with our business.

#### **Advertising and Marketing**

Advertising and marketing expenses for the three and six months ended June 30, 2019, increased 9% and 4%, or 13% and 8% on a currency-neutral basis, respectively, versus the comparable periods in 2018, primarily due to timing of spending on certain marketing initiatives.

#### **Depreciation and Amortization**

Depreciation and amortization expenses for the three and six months ended June 30, 2019, increased 5% and 2%, or 7% and 4% on a currency-neutral basis, respectively, versus the comparable periods in 2018, primarily due to the impact of acquisitions.

#### **Provision for Litigation**

In the three and six months ended June 30, 2019, there were no litigation provisions recorded versus \$225 million and \$342 million, respectively, in provisions for various litigation settlements recorded in the comparable periods in 2018.

#### **Other Income (Expense)**

Total other income (expense) is comprised primarily of investment income, gains (losses) on equity investments, interest expense and our share of income (losses) from equity method investments. Total other income (expense) increased \$136 million and \$148 million for the three and six months ended June 30, 2019, respectively, versus the comparable periods in 2018, primarily due to net unrealized gains recorded on marketable equity securities.

#### **Income Taxes**

The effective income tax rates were 18.7% and 17.2% for the three and six months ended June 30, 2019, respectively, versus 18.3% and 17.8% for the comparable periods in 2018. The higher effective tax rate for the three months, versus the comparable period in 2018, was primarily the result of discrete tax items, notably a reduction in our 2018 liability for uncertain tax positions due to a favorable court decision. The lower effective tax rate for the six months, versus the comparable period in 2018, was primarily due to a more favorable geographic mix of earnings and a discrete tax benefit arising from a reduction to our transition tax liability resulting from final U.S. Department of Treasury and Internal Revenue Service regulations issued on January 15, 2019. These benefits were partially offset by the reduction in the 2018 liability previously mentioned.

#### **Liquidity and Capital Resources**

We rely on existing liquidity, cash generated from operations and access to capital to fund our global operations, credit and settlement exposure, capital expenditures, investments in our business and current and potential obligations. The following table summarizes the cash, cash equivalents, investments and credit available to us at June 30, 2019 and December 31, 2018:

|   | June 30,<br>2019 | December 31,<br>2018 |
|---|------------------|----------------------|
|   | (in billions)    |                      |
| Cash, cash equivalents and investments <sup>1</sup> | \$ 6.5           | \$ 8.4               |
| Unused line of credit                               | 4.5              | 4.5                  |

<sup>1</sup> Investments include available-for-sale securities and short-term held-to-maturity securities. This amount excludes restricted cash and restricted cash equivalents of \$1.8 billion and \$1.7 billion at June 30, 2019 and December 31, 2018, respectively.

Our liquidity and access to capital could be negatively impacted by global credit market conditions. We guarantee the settlement of many of the transactions between our customers. See Note 16 (Settlement and Other Risk Management) to the consolidated financial statements in Part I, Item 1 for a description of these guarantees. Historically, payments under these guarantees have not been significant; however, historical trends may not be an indication of potential future losses. The risk of loss on these guarantees is specific to individual customers, but may also be driven by regional or global economic conditions, including, but not limited to the health of the financial institutions in a country or region.

Our liquidity and access to capital could also be negatively impacted by the outcome of any of the legal or regulatory proceedings to which we are a party. For additional discussion of these and other risks facing our business, see Part I, Item 1A - Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2018 and Note 15 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part I, Item 1.

### Cash Flow

The table below shows a summary of the cash flows from operating, investing and financing activities for the six months ended June 30, 2019 and 2018:

|   | Six Months Ended June 30, |          |
|---|---------------------------|----------|
|   | 2019                      | 2018     |
|   | (in millions)             |          |
| Cash Flow Data:                           |                           |          |
| Net cash provided by operating activities | \$ 2,848                  | \$ 2,524 |
| Net cash used in investing activities     | (554)                     | (6)      |
| Net cash used in financing activities     | (3,160)                   | (2,416)  |

Net cash provided by operating activities increased \$324 million for the six months ended June 30, 2019, versus the comparable period in 2018, primarily due to higher net income adjusted for non-cash items and the timing of settlement activity, partially offset by the decrease in accrued litigation provisions driven by the payment of the European Commission fine in the current period.

Net cash used in investing activities increased \$548 million for the six months ended June 30, 2019, versus the comparable period in 2018, primarily due to acquisitions and purchases of equity investments, partially offset by higher net proceeds from our investments in available-for-sale and held-to-maturity securities.

Net cash used in financing activities increased \$744 million for the six months ended June 30, 2019, versus the comparable period in 2018, primarily due to higher repurchases of our Class A common stock, the settlement of the contingent consideration attributable to our 2017 acquisitions and dividends paid, partially offset by higher net debt proceeds in the current period.

The table below shows a summary of select balance sheet data at June 30, 2019 and December 31, 2018:

|                            | June 30,<br>2019 | December 31,<br>2018 |
|----------------------------|------------------|----------------------|
|                            | (in millions)    |                      |
|                            |                  |                      |
| <b>Balance Sheet Data:</b> |                  |                      |
| Current assets             | \$ 14,165        | \$ 16,171            |
| Current liabilities        | 9,497            | 11,593               |
| Long-term liabilities      | 10,125           | 7,778                |
| Equity                     | 5,035            | 5,418                |

We believe that our existing cash, cash equivalents and investment securities balances, cash flow generating capabilities, borrowing capacity and access to capital resources are sufficient to satisfy our future operating cash needs, capital asset purchases, outstanding commitments and other liquidity requirements associated with our existing operations and potential obligations.

### **Debt and Credit Availability**

In May 2019, we issued \$1.0 billion principal amount of notes due June 2029 and \$1.0 billion principal amount of notes due June 2049. Additionally, during the second quarter of 2019, \$500 million of principal related to the 2014 USD Notes matured and was paid. Our total debt outstanding (including the current portion) was \$7.8 billion and \$6.3 billion at June 30, 2019 and December 31, 2018, respectively.

We have a commercial paper program (the "Commercial Paper Program"), under which we are authorized to issue up to \$4.5 billion in outstanding notes, with maturities up to 397 days from the date of issuance. In conjunction with the Commercial Paper Program, we entered into a committed unsecured \$4.5 billion revolving credit facility (the "Credit Facility") which expires in November 2023.

Borrowings under the Commercial Paper Program and the Credit Facility are to provide liquidity for general corporate purposes, including providing liquidity in the event of one or more settlement failures by our customers. In addition, we may borrow and repay amounts under these facilities for business continuity purposes. We had no borrowings outstanding under the Commercial Paper Program or the Credit Facility at June 30, 2019 and December 31, 2018.

See Note 10 (Debt) to the consolidated financial statements included in Part I, Item I for further discussion of long-term debt.

### **Dividends and Share Repurchases**

We have historically paid quarterly dividends on our outstanding Class A common stock and Class B common stock. Subject to legally available funds, we intend to continue to pay a quarterly cash dividend. However, the declaration and payment of future dividends is at the sole discretion of our Board of Directors after taking into account various factors, including our financial condition, operating results, available cash and current and anticipated cash needs.

Aggregate payments for quarterly dividends totaled \$677 million for the six months ended June 30, 2019.

On December 4, 2018, our Board of Directors declared a quarterly cash dividend of \$0.33 per share paid on February 8, 2019 to holders of record on January 9, 2019 of our Class A common stock and Class B common stock. The aggregate amount of this dividend was \$340 million.

On February 5, 2019, our Board of Directors declared a quarterly cash dividend of \$0.33 per share payable on May 9, 2019 to holders of record on April 9, 2019 of our Class A common stock and Class B common stock. The aggregate amount of this dividend was \$337 million.

On June 25, 2019, our Board of Directors declared a quarterly cash dividend of \$0.33 per share payable on August 9, 2019 to holders of record on July 9, 2019 of our Class A common stock and Class B common stock. The aggregate amount of this dividend will be \$335 million.

Repurchased shares of our common stock are considered treasury stock. The timing and actual number of additional shares repurchased will depend on a variety of factors, including the operating needs of the business, legal requirements, price and economic and market conditions. In December 2018 and 2017, our Board of Directors approved share repurchase programs authorizing us to repurchase up to \$6.5 billion and \$4 billion, respectively, of our Class A common stock under each plan. The program approved in 2018 became effective in January 2019 after completion of the share repurchase program authorized in 2017.

The following table summarizes our share repurchase authorizations of our Class A common stock through June 30, 2019, under the plans approved in 2018 and 2017:

|  | (in millions, except average price data) |        |
|--|--|--------|
| Remaining authorization at December 31, 2018                                 | \$                                       | 6,801  |
| Dollar value of shares repurchased during the six months ended June 30, 2019 | \$                                       | 3,741  |
| Remaining authorization at June 30, 2019                                     | \$                                       | 3,060  |
| Shares repurchased during the six months ended June 30, 2019                 |  | 16.4   |
| Average price paid per share during the six months ended June 30, 2019       | \$                                       | 228.13 |

See Note 11 (Stockholders' Equity) to the consolidated financial statements included in Part I, Item 1 for further discussion.

#### ***Off-Balance Sheet Arrangements***

There was no off-balance sheet debt, other than lease arrangements and other commitments presented in the future obligations table in Part II, Item 7 - Liquidity and Capital Resources of our Annual Report on Form 10-K for the year ended December 31, 2018. As of June 30, 2019, lease arrangements that have commenced are recognized on the consolidated balance sheet and leases entered into but not yet commenced are disclosed in Note 8 (Property, Equipment and Right-of-Use Assets). For a more detailed discussion on lease arrangements, refer to Note 1 (Summary of Significant Accounting Policies) and Note 8 (Property, Equipment and Right-of-Use Assets) to the consolidated financial statements included in Part I, Item 1.

#### ***Recent Accounting Pronouncements***

Refer to Note 1 (Summary of Significant Accounting Policies) to the consolidated financial statements included in Part I, Item 1.

### **ITEM 3. 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 and foreign currency exchange rates. Our exposure to market risk from changes in interest rates and foreign exchange rates is limited. Management establishes and oversees the implementation of policies governing our funding, investments and use of derivative financial instruments. We monitor risk exposures on an ongoing basis. The effect of a hypothetical 10% adverse change in foreign exchange rates could result in a fair value loss of approximately \$129 million on our foreign currency derivative contracts outstanding at June 30, 2019 related to the hedging program. A 100 basis point adverse change in interest rates would not have a material impact on our investments at June 30, 2019.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### ***Evaluation of Disclosure Controls and Procedures***

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) are designed to ensure that information that is required to be disclosed in the reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and to ensure that information required to be disclosed is accumulated and communicated to management, including our President and Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding disclosure. The President and Chief Executive Officer and the Chief Financial Officer, with assistance from other members of management, have reviewed the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Report and, based on their evaluation, have concluded that the disclosure controls and procedures were effective as of such date.

#### ***Changes in Internal Control over Financial Reporting***

There was no change in Mastercard's internal control over financial reporting that occurred during the three months ended June 30, 2019 that has materially affected, or is reasonably likely to materially affect, Mastercard's internal control over financial reporting.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

Refer to Note 15 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part I, Item 1.

### ITEM 1A. RISK FACTORS

For a discussion of our risk factors, see Part I, Item 1A - Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2018.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

#### ISSUER PURCHASES OF EQUITY SECURITIES

During the second quarter of 2019, we repurchased a total of approximately 7.7 million shares for \$1.9 billion at an average price of \$249.82 per share of Class A common stock. See Note 11 (Stockholders' Equity) to the consolidated financial statements included in Part I, Item 1 for further discussion with respect to our share repurchase programs. Our repurchase activity during the second quarter of 2019 is summarized in the following table:

| Period       | Total Number of Shares Purchased | Average Price Paid per Share (including commission cost) | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Dollar Value of Shares that may yet be Purchased under the Plans or Programs <sup>1</sup> |
|--------------|----------------------------------|--|--|---|
| April 1 - 30 | 2,276,713                        | \$ 239.03  | 2,276,713  | \$ 4,432,723,177  |
| May 1 - 31   | 2,718,974                        | \$ 249.94  | 2,718,974  | \$ 3,753,140,111  |
| June 1 - 30  | 2,678,354                        | \$ 258.87  | 2,678,354  | \$ 3,059,782,259  |
| Total        | 7,674,041                        | \$ 249.82  | 7,674,041  |   |

<sup>1</sup> Dollar value of shares that may yet be purchased under the repurchase programs is as of the end of the period.

### ITEM 5. OTHER INFORMATION

Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012, we hereby incorporate by reference herein the disclosure contained in Exhibit 99.1.

### ITEM 6. EXHIBITS

Refer to the Exhibit Index included herein.

## EXHIBIT INDEX

| Exhibit Number        | Exhibit Description   |
|-----------------------|---|
| <a href="#">4.1</a>   | <a href="#">Officer's Certificate of the Company, dated as of May 31, 2019 (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed on May 31, 2019 (Filed No. 001-32877)).</a>  |
| <a href="#">4.2</a>   | <a href="#">Form of Global Note representing the Company's 2.950% Notes due 2029 (included in Officer's Certificate of the Company, dated as of May 31, 2019) (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed on May 31, 2019 (Filed No. 001-32877)).</a>                           |
| <a href="#">4.3</a>   | <a href="#">Form of Global Note representing the Company's 3.650% Notes due 2049 (included in Officer's Certificate of the Company, dated as of May 31, 2019) (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed on May 31, 2019 (Filed No. 001-32877)).</a>                           |
| <a href="#">10.1*</a> | <a href="#">Schedule of Non-Employee Directors' Annual Compensation effective as of June 25, 2019.</a>  |
| <a href="#">10.2*</a> | <a href="#">Form of Deferred Stock Unit Agreement for awards under 2006 Non-Employee Director Equity Compensation Plan, amended and restated effective June 5, 2012 (effective for awards granted on and subsequent to June 25, 2019).</a>  |
| <a href="#">10.3*</a> | <a href="#">Form of Restricted Stock Agreement for awards under 2006 Non-Employee Director Equity Compensation Plan, amended and restated effective June 5, 2012 (effective for awards granted on and subsequent to June 25, 2019).</a>   |
| <a href="#">10.4*</a> | <a href="#">First Amendment to \$4,500,000,000 Amended and Restated Credit Agreement, dated as of November 15, 2018, among Mastercard Incorporated, the several lenders and agents from time to time party thereto, Citibank, N.A., as managing administrative agent and JPMorgan Chase Bank, N.A. as administrative agent.</a> |
| <a href="#">31.1*</a> | <a href="#">Certification of Ajay Banga, President and Chief Executive Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>   |
| <a href="#">31.2*</a> | <a href="#">Certification of Sachin Mehra, Chief Financial Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>   |
| <a href="#">32.1*</a> | <a href="#">Certification of Ajay Banga, President and Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>   |
| <a href="#">32.2*</a> | <a href="#">Certification of Sachin Mehra, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>   |
| <a href="#">99.1*</a> | <a href="#">Disclosure pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012.</a>   |
| 101.INS               | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.   |
| 101.SCH*              | XBRL Taxonomy Extension Schema Document   |
| 101.CAL*              | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF*              | XBRL Taxonomy Extension Definition Linkbase Document  |
| 101.LAB*              | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE*              | XBRL Taxonomy Extension Presentation Linkbase Document  |

\* Filed or furnished herewith.

The agreements and other documents filed as exhibits to this Report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and should not be relied upon for that purpose. In particular, any representations and warranties made by the Company in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MASTERCARD INCORPORATED  
(Registrant)

Date: July 30, 2019

By: \_\_\_\_\_ /S/ AJAY BANGA  
Ajay Banga  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: July 30, 2019

By: /S/ SACHIN MEHRA  
Sachin Mehra  
Chief Financial Officer  
(Principal Financial Officer)

Date: July 30, 2019

By: \_\_\_\_\_ /S/ SANDRA ARKELL  
Sandra Arkell  
Corporate Controller  
(Principal Accounting Officer)