UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2021

-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 001-33647

MercadoLibre, Inc.
(Exact name of Registrant as specified in its Charter)

Delaware	**98-0212790**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

Pasaje Posta 4789, 6th Floor
Buenos Aires, Argentina, C1430EKG
(Address of registrant's principal executive offices)

(+5411) 4640-8000
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.001 par value per share	MELI	Nasdaq Global Select Market
2.375% Sustainability Notes due 2026	MELI26	The Nasdaq Stock Market LLC
3.125% Notes due 2031	MELI31	The Nasdaq Stock Market LLC

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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 Exchange Act). Yes ☐ No ☒

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

49,711,650 shares of the issuer's common stock, $0.001 par value, outstanding as of August 3, 2021.

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MercadoLibre, Inc.
Interim Condensed Consolidated Balance Sheets
As of June 30, 2021 and December 31, 2020
(In thousands of U.S. dollars, except par value)
(Unaudited)

	June 30, 2021		December 31, 2020	
Assets				
Current assets:				
Cash and cash equivalents	$	1,069,909	$	1,856,394
Restricted cash and cash equivalents		361,180		651,830
Short-term investments (707,885 and 636,949 held in guarantee - see Note 4)		898,367		1,241,306
Accounts receivable, net		69,844		49,691
Credit cards receivable and other means of payments, net		1,189,802		863,073
Loans receivable, net		547,183		385,036
Prepaid expenses		58,143		28,378
Inventory		169,449		118,140
Other assets		203,774		152,959
Total current assets		4,567,651		5,346,807
Non-current assets:				
Long-term investments		181,411		166,111
Loans receivable, net		23,269		16,619
Property and equipment, net		618,997		391,684
Operating lease right-of-use assets		396,253		303,214
Goodwill		85,165		85,211
Intangible assets, net		23,894		14,155
Deferred tax assets		132,618		134,916
Other assets		113,436		67,615
Total non-current assets		1,575,043		1,179,525
Total assets	$	6,142,694	$	6,526,332
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	$	857,622	$	767,336
Funds payable to customers and amounts due to merchants		1,839,209		1,733,095
Salaries and social security payable		204,174		207,358
Taxes payable		232,090		215,918
Loans payable and other financial liabilities		579,786		548,393
Operating lease liabilities		80,597		55,246
Other liabilities		75,812		108,534
Total current liabilities		3,869,290		3,635,880
Non-current liabilities:				
Salaries and social security payable		18,929		49,852
Loans payable and other financial liabilities		1,788,481		860,876
Operating lease liabilities		313,479		243,601
Deferred tax liabilities		48,529		64,354
Other liabilities		22,956		20,191
Total non-current liabilities		2,192,374		1,238,874
Total liabilities	$	6,061,664	$	4,874,754
Commitments and Contingencies (Note 9)				
Equity				
Common stock, $0.001 par value, 110,000,000 shares authorized, 49,711,650 and 49,869,727 shares issued and outstanding at June 30, 2021 and December 31, 2020	$	50	$	50
Additional paid-in capital		455,206		1,860,502
Treasury stock		(276,220)		(54,805)
Retained earnings		348,298		314,115
Accumulated other comprehensive loss		(446,304)		(468,284)
Total Equity		81,030		1,651,578
Total Liabilities and Equity	$	6,142,694	$	6,526,332

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

MercadoLibre, Inc.
Interim Condensed Consolidated Statements of Income
For the six and three-month periods ended June 30, 2021 and 2020
(In thousands of U.S. dollars, except for share data)
(Unaudited)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2021	2020	2021	2020
Net service revenues	$ 2,735,624	$ 1,485,774	$ 1,504,720	$ 845,882
Net product revenues	345,567	44,686	198,030	32,487
Net revenues	3,081,191	1,530,460	1,702,750	878,369
Cost of net revenues	(1,735,894)	(790,474)	(948,830)	(451,197)
Gross profit	1,345,297	739,986	753,920	427,172
Operating expenses:				
Product and technology development	(273,020)	(146,689)	(146,985)	(73,254)
Sales and marketing	(621,266)	(390,583)	(333,107)	(184,076)
General and administrative	(194,002)	(132,970)	(107,663)	(70,404)
Total operating expenses	(1,088,288)	(670,242)	(587,755)	(327,734)
Income from operations	257,009	69,744	166,165	99,438
Other income (expenses):				
Interest income and other financial gains	49,236	55,566	24,165	18,782
Interest expense and other financial losses (*)	(130,631)	(50,561)	(39,342)	(26,977)
Foreign currency losses	(27,180)	(2,089)	(12,091)	(1,903)
Net income before income tax expense	148,434	72,660	138,897	89,340
Income tax expense	(114,251)	(37,822)	(70,702)	(33,393)
Net income	$ 34,183	$ 34,838	$ 68,195	$ 55,947

(*) Includes $49,247 thousands of loss on debt extinguishment and premium related to the 2028 Notes repurchase recognized in January 2021. See Note 11 to these unaudited interim condensed consolidated financial statements for further detail on 2028 Notes repurchase.

	Six Months Ended June 30,		Three Months Ended June 30,	
	2021	2020	2021	2020
Basic EPS				
Basic net income				
Available to shareholders per common share	$ 0.69	$ 0.66	$ 1.37	$ 1.11
Weighted average of outstanding common shares	49,844,823	49,709,964	49,822,272	49,709,973
Diluted EPS				
Diluted net income				
Available to shareholders per common share	$ 0.69	$ 0.66	$ 1.37	$ 1.11
Weighted average of outstanding common shares	49,844,823	49,709,964	49,822,272	49,709,973

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

MercadoLibre, Inc.
Interim Condensed Consolidated Statements of Comprehensive Income
For the six and three-month periods ended June 30, 2021 and 2020
(In thousands of U.S. dollars)
(Unaudited)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2021	2020	2021	2020
Net income	$ 34,183	$ 34,838	$ 68,195	$ 55,947
Other comprehensive income (loss), net of income tax:				
Currency translation adjustment	24,147	(100,650)	66,016	(6,052)
Unrealized (losses) gains on hedging activities	(371)	4,978	(4,041)	997
Unrealized net gains (losses) on available for sale investments	—	1,061	—	(1,207)
Less: Reclassification adjustment for gains from accumulated other comprehensive income (loss)	1,796	4,079	2,216	2,375
Net change in accumulated other comprehensive income (loss), net of income tax	21,980	(98,690)	59,759	(8,637)
Total Comprehensive income (loss)	$ 56,163	$ (63,852)	$ 127,954	$ 47,310

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

MercadoLibre, Inc.
Interim Condensed Consolidated Statements of Equity
For the six and three-month periods ended June 30, 2021 and 2020
(In thousands of U.S. dollars)
(Unaudited)

	Common stock		Additional paid-in capital	Treasury Stock	Retained Earnings	Accumulated other comprehensive loss	Total Equity
	Shares	Amount					
Balance as of December 31, 2020	49,870	$ 50	$ 1,860,502	$ (54,805)	$ 314,115	$ (468,284)	$ 1,651,578
Stock-based compensation — restricted shares issued	—	—	178	—	—	—	178
Capped Call	—	—	(100,769)	—	—	—	(100,769)
Repurchase of 2028 Notes Conversion Option	—	—	(1,484,279)	—	—	—	(1,484,279)
Common Stock repurchased	(18)	—	—	(25,321)	—	—	(25,321)
Net loss	—	—	—	—	(34,012)	—	(34,012)
Other comprehensive loss	—	—	—	—	—	(37,779)	(37,779)
Balance as of March 31, 2021	49,852	$ 50	$ 275,632	$ (80,126)	$ 280,103	$ (506,063)	$ (30,404)
Stock-based compensation — restricted shares issued	—	—	179	—	—	—	179
Common Stock repurchased	(84)	—	—	(116,642)	—	—	(116,642)
Common Stock issued - Restricted shares	1	—	—	—	—	—	—
Exercise of Convertible Notes	—	—	(2,439)	—	—	—	(2,439)
Unwind Capped Call	(57)	—	181,834	(79,452)	—	—	102,382
Net income	—	—	—	—	68,195	—	68,195
Other comprehensive income	—	—	—	—	—	59,759	59,759
Balance as of June 30, 2021	49,712	$ 50	$ 455,206	$ (276,220)	$ 348,298	$ (446,304)	$ 81,030

	Common stock		Additional paid-in capital	Treasury Stock	Retained Earnings	Accumulated other comprehensive loss	Total Equity
	Shares	Amount					
Balance as of December 31, 2019	49,710	$ 50	$ 2,067,869	$ (720)	$ 322,592	$ (406,671)	$ 1,983,120
Changes in accounting standards	—	—	—	—	(4,570)	—	(4,570)
Balance as of December 31, 2019 Restated	49,710	$ 50	$ 2,067,869	$ (720)	$ 318,022	$ (406,671)	$ 1,978,550
Stock-based compensation — restricted shares issued	—	—	179	—	—	—	179
Net loss	—	—	—	—	(21,109)	—	(21,109)
Redeemable convertible preferred stock dividend distribution ($9.99 per share)	—	—	—	—	(1,000)	—	(1,000)
Other comprehensive loss	—	—	—	—	—	(90,053)	(90,053)
Balance as of March 31, 2020	49,710	$ 50	$ 2,068,048	$ (720)	$ 295,913	$ (496,724)	$ 1,866,567
Stock-based compensation — restricted shares issued	1	—	187	—	—	— —	187
Common Stock repurchased	(1)	—	—	(720)	—	—	(720)
Capped Call	—	—	(104,095)	—	—	—	(104,095)
Redeemable convertible preferred stock dividend distribution ($9.99 per share)	—	—	—	—	(1,000)	—	(1,000)
Net income	—	—	—	—	55,947	—	55,947
Other comprehensive loss	—	—	—	—	—	(8,637)	(8,637)
Balance as of June 30, 2020	49,710	$ 50	$ 1,964,140	$ (1,440)	$ 350,860	$ (505,361)	$ 1,808,249

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

MercadoLibre, Inc.
Interim Condensed Consolidated Statements of Cash Flows
For the six-month periods ended June 30, 2021 and 2020
(In thousands of U.S. dollars)
(Unaudited)

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Cash flows from operations:		
Net income	$ 34,183	$ 34,838
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Unrealized devaluation loss, net	45,046	29,348
Impairment of digital assets	7,175	—
Depreciation and amortization	84,525	44,202
Accrued interest	(9,395)	(28,933)
Non cash interest, convertible notes amortization of debt discount and amortization of debt issuance costs and other charges	48,053	11,932
Bad debt charges	165,999	63,636
Financial results on derivative instruments	10,799	(21,826)
Stock-based compensation expense — restricted shares	357	366
LTRP accrued compensation	50,925	51,907
Deferred income taxes	16,411	(31,145)
Changes in assets and liabilities:		
Accounts receivable	(30,010)	23,147
Credit cards receivables and other means of payments	(301,289)	(343,229)
Prepaid expenses	(29,497)	20,807
Inventory	(47,125)	(14,270)
Other assets	(91,488)	(6,965)
Payables and accrued expenses	10,364	170,100
Funds payable to customers and amounts due to merchants	83,233	606,307
Other liabilities	(64,072)	(73,134)
Interest received from investments	14,847	27,597
Net cash (used in) provided by operating activities	(959)	564,685
Cash flows from investing activities:		
Purchase of investments	(5,207,862)	(2,326,013)
Proceeds from sale and maturity of investments	5,574,560	1,910,311
Receipts from settlements of derivative instruments	3,570	8,624
Payment for acquired businesses, net of cash acquired	—	(6,937)
Payment for settlements of derivative instruments	(11,141)	—
Purchases of intangible assets	(19,543)	(87)
Changes in principal of loans receivable, net	(333,363)	(39,092)
Purchases of property and equipment	(262,780)	(94,834)
Net cash used in investing activities	(256,559)	(548,028)
Cash flows from financing activities:		
Proceeds from loans payable and other financial liabilities	3,502,009	1,781,040
Payments on loans payable and other financial liabilities	(2,239,681)	(1,353,658)
Payments on repurchase of the 2028 Notes	(1,865,076)	—
Payment of finance lease obligations	(9,117)	(1,064)
Purchase of convertible note capped call	(100,769)	(104,095)
Unwind of convertible note capped call	102,382	—
Common Stock repurchased	(141,963)	(720)
Exercise of Convertible Notes	(3,137)	—
Dividends paid of preferred stock	—	(2,000)
Net cash (used in) provided by financing activities	(755,352)	319,503
Effect of exchange rate changes on cash, cash equivalents, restricted cash and cash equivalents	(64,265)	(124,226)
Net (decrease) increase in cash, cash equivalents, restricted cash and cash equivalents	(1,077,135)	211,934
Cash, cash equivalents, restricted cash and cash equivalents, beginning of the period	$ 2,508,224	$ 1,451,424
Cash, cash equivalents, restricted cash and cash equivalents, end of the period	$ 1,431,089	$ 1,663,358

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

1. Nature of Business

MercadoLibre, Inc. ("MercadoLibre" or the "Company") was incorporated in the state of Delaware, in the United States of America, in October 1999. MercadoLibre is the largest online commerce ecosystem in Latin America, serving as an integrated regional platform and as a provider of necessary digital and technology tools that allow businesses and individuals to trade products and services in the region.

The Company enables commerce through its marketplace platform, which allows users to buy and sell in most of Latin America. Through Mercado Pago, the fintech solution, MercadoLibre enables individuals and businesses to send and receive digital payments; through Mercado Envios, MercadoLibre facilitates the shipping of goods from the Company and sellers to buyers; through the advertising products, MercadoLibre facilitates advertising services for large retailers and brands to promote their product and services on the web; through Mercado Shops, MercadoLibre allows users to set-up, manage, and promote their own on-line web-stores under a subscription-based business model; through Mercado Credito, MercadoLibre extends loans to certain merchants and consumers; and through Mercado Fondo, MercadoLibre allows users to invest funds deposited in their Mercado Pago accounts.

As of June 30, 2021, MercadoLibre, through its wholly-owned subsidiaries, operated online e-commerce platforms directed towards Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Peru, Mexico, Panama, Honduras, Nicaragua, El Salvador, Uruguay, Bolivia, Guatemala, Paraguay and Venezuela. Additionally, MercadoLibre operates its FinTech solution in Argentina, Brazil, Mexico, Colombia, Chile, Peru and Uruguay, and extends loans through Mercado Credito in Argentina, Brazil and Mexico. It also offers a shipping solution directed towards Argentina, Brazil, Mexico, Colombia, Chile and Uruguay.

2. Summary of significant accounting policies

Basis of presentation

The accompanying unaudited interim condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and include the accounts of the Company, its wholly-owned subsidiaries and consolidated Variable Interest Entities ("VIE"). These interim condensed consolidated financial statements are stated in U.S. dollars, except where otherwise indicated. Intercompany transactions and balances with subsidiaries have been eliminated for consolidation purposes.

Substantially all net revenues, cost of net revenues and operating expenses are generated in the Company's foreign operations. Long-lived assets, intangible assets and goodwill located in the foreign jurisdictions totaled $714,037 thousands and $490,464 thousands as of June 30, 2021 and December 31, 2020, respectively.

These interim condensed consolidated financial statements reflect the Company's consolidated financial position as of June 30, 2021 and December 31, 2020. These consolidated financial statements include the Company's consolidated statements of income, comprehensive income and equity for the six and three-month periods ended June 30, 2021 and 2020 and statements of cash flows for the six-month periods ended June 30, 2021 and 2020. These interim condensed consolidated financial statements include all normal recurring adjustments that Management believes are necessary to fairly state the Company's financial position, operating results and cash flows.

Since the quarter ended March 31, 2021 the Company has disclosed Net product revenues as a separate line of Net revenues following its growth in significance relative to Net service revenues. As a result, the Company has reclassified the corresponding amount for the six and three-month periods ended June 30, 2020 to the line Net product revenues for an amount of $44,686 thousands and $32,487 thousands, respectively, for comparative purposes.

Because all of the disclosures required by U.S. GAAP for annual consolidated financial statements are not included herein, these unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto for the year ended December 31, 2020, contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC"). The Company has evaluated all subsequent events through the date these condensed consolidated financial statements were issued. The condensed consolidated statements of income, comprehensive income, equity and cash flows for the periods presented herein are not necessarily indicative of results expected for any future period. For a more detailed discussion of the Company's significant accounting policies, see note 2 to the financial statements in the Company's Form 10-K for the year ended December 31, 2020. During the six-month period ended June 30, 2021, there were no material updates made to the Company's significant accounting policies.

Revenue recognition

Revenue recognition criteria for the services provided and goods sold by the Company are described in note 2 to the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

Contract Balances

Timing of revenue recognition may differ from the timing of invoicing to customers. Receivables represent amounts invoiced and revenue recognized prior to invoicing when the Company has satisfied the performance obligation and has the unconditional right to payment. Receivables are presented net of allowance for doubtful account and chargebacks of $284,371 thousands and $126,661 thousands as of June 30, 2021 and December 31, 2020, respectively.

Deferred revenue consists of fees received related to unsatisfied performance obligations at the end of the period in accordance with ASC 606. Due to the generally short-term duration of contracts, the majority of the performance obligations are satisfied in the following reporting period. Deferred revenue as of December 31, 2020 and 2019 was $32,519 thousands and $16,590 thousands, respectively, of which $16,956 thousands and $8,475 thousands were recognized as revenue during the six-month periods ended June 30, 2021 and 2020, respectively.

As of June 30, 2021, total deferred revenue was $21,800 thousands, mainly due to fees related to listing and optional feature services billed and loyalty programs that are expected to be recognized as revenue in the coming months.

Digital Assets

As of June 30, 2021, the Company had purchased an aggregate amount of $19,480 thousands in cryptocurrencies. The Company accounts for its digital assets—cryptocurrencies—as indefinite-lived intangible assets, in accordance with Accounting Standards Codification ("ASC") 350, Intangibles—Goodwill and Other. The Company has ownership of and control over its digital assets and uses third-party custodial services to store its digital assets. The Company's digital assets are initially recorded at cost. Subsequently, they are measured at cost, net of any impairment losses incurred since acquisition.

The Company performs an analysis each quarter to identify whether events or changes in circumstances, principally decreases in the quoted prices on the active exchange, indicate that any decrease in the fair values of the digital assets below the carrying values for such assets subsequent to their acquisition will result in a recognition of impairment charges. The Company considers the lowest price of the digital asset on the active exchange since the acquisition of the asset to perform the impairment analysis. MercadoLibre determines the fair value of its digital assets in accordance with ASC 820, Fair Value Measurement.

Impairment losses are recognized in the period in which the impairment is identified. The impaired digital assets are written down to their fair value at the time of impairment and this new cost basis will not be adjusted upward for any subsequent increase in fair value. Gains (if any) are not recorded until realized upon sale. In determining the gain to be recognized upon sale, the Company calculates the difference between the sales price and carrying value of the digital assets sold immediately prior to sale.

Repurchase of 2.00% Convertible Senior Notes due 2028 - Extinguishment of debt

The derecognition of a convertible debt is based on the principle that an entity is extinguishing the liability component and reacquiring the equity component that was recognized at issuance. This approach is applied whether the debt was settled in cash, shares, other assets (or any combination), or at maturity upon conversion or upon early extinguishment. The settlement consideration is first allocated to the extinguishment of the liability component equal to the fair value of that component immediately prior to extinguishment. Any difference between that allocated amount and the net carrying amount of the liability component and unamortized debt issuance costs should be recognized as a gain or loss on debt extinguishment. Any remaining consideration is allocated to the reacquisition of the equity component and recognized as a reduction of stockholders' equity. Any paid premium included in the repurchase price should be recognized as a loss when the debt is extinguished.

Foreign currency translation

All of the Company's consolidated foreign operations use the local currency as their functional currency, except for Argentina, which has used the U.S. dollar as its functional currency since July 1, 2018. Accordingly, the foreign subsidiaries with local currency as functional currency translate assets and liabilities from their local currencies into U.S. dollars by using year-end exchange rates while income and expense accounts are translated at the average monthly rates in effect during the year, unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the date of the transaction are used. The resulting translation adjustment is recorded as a component of other comprehensive loss.

Argentine currency status

As of July 1, 2018, the Company transitioned its Argentinian operations to highly inflationary status in accordance with U.S. GAAP, and changed the functional currency for Argentine subsidiaries from Argentine Pesos to U.S. dollars, which is the functional currency of their immediate parent company.

Since the second half of 2019, the Argentine government instituted certain foreign currency exchange controls, which may restrict or partially restrict access to foreign currency, like the US dollar, to make payments abroad, either for foreign debt or the importation of goods or services, dividend payments and others, without prior authorization. Those regulations have continued to evolve, sometimes making them more or less stringent depending on the Argentine government´s perception of availability of sufficient national foreign currency reserves. The above has led to the existence of an informal foreign currency market where foreign currencies quote at levels significantly higher than the official exchange rate. However, the only exchange rate available for external commerce and financial payments is the official exchange rate, which as of June 30, 2021 was 95.72.

The Company uses Argentina's official exchange rate to record the accounts of Argentine subsidiaries. The following table sets forth the assets, liabilities and net assets of the Company's Argentine subsidiaries and consolidated VIEs, before intercompany eliminations, as of June 30, 2021 and December 31, 2020:

	June 30, 2021	December 31, 2020
	(In thousands)	
Assets	$ 1,615,444	$ 1,470,885
Liabilities	1,204,037	1,230,326
Net Assets	$ 411,407	$ 240,559

Income taxes

The Company is subject to U.S. and foreign income taxes. The Company accounts for income taxes following the liability method of accounting which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred tax assets are also recognized for tax loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets or liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company's income tax expense consists of taxes currently payable, if any, plus the change during the period in the Company's deferred tax assets and liabilities.

A valuation allowance is recorded when, based on the available evidence, it is more likely than not that all or a portion of the Company's deferred tax assets will not be realized. Accordingly, Management periodically assesses the need to establish a valuation allowance for deferred tax assets considering positive and negative objective evidence related to the realization of the deferred tax assets. In connection with this assessment, Management considers, among other factors, the nature, frequency and magnitude of current and cumulative losses on an individual subsidiary basis, projections of future taxable income, the duration of statutory carryforward periods, as well as feasible tax planning strategies that would be employed by the Company to prevent tax loss carryforwards from expiring unutilized. Based on Management's assessment of available objective evidence and considering the future effect of the Company's initiatives to capture long-term business opportunities, the Company accounted for a valuation allowance in certain subsidiaries in its Mexican operations of $33,091 thousands and $20,915 thousands for the six and three-month periods ended June 30, 2021, respectively, and $17,311 thousands and $3,125 thousands for the six and three-month periods ended June 30, 2020, respectively.

On June 10, 2019, the Argentine government enacted Law No. 27,506 (knowledge-based economy promotional regime), which established a regime that provides certain tax benefits for companies that meet specific criteria, such as companies that derive at least 70% of their revenues from certain specified activities related to the knowledge-based economy. The regime was suspended on January 20, 2020 until new rules for the application of the knowledge-based economy promotional regime were issued.

On June 25, 2020, the Chamber of Deputies passed changes to the knowledge-based economy promotional regime. The Chamber of Senates proposed further amendments, which were returned to the Chamber of Deputies and finally approved on October 7, 2020. The approved regime is effective as of January 1, 2020 until December 31, 2029.

Based on the amended promotional regime, companies that meet new specified criteria shall be entitled to: i) a reduction of the income tax burden of 60% (60% for micro and small enterprises, 40% for medium-sized enterprises and 20% for large enterprises) over the promoted activities for each fiscal year, applicable to both Argentine source income and foreign source income, ii) stability of the benefits established by the knowledge-based economy promotional regime (as long as the beneficiary is registered and in good standing), iii) a non-transferable tax credit bond amounting to 70% (which can be up to 80% in certain specific cases) of the Company's contribution to the social security regime of every employee whose job is related to the promoted activities (caps on the number of employees are applicable). Such bonds can be used within 24 months from their issue date (which period can be extended for an additional 12 months in certain cases) to offset certain federal taxes, such as value-added tax, but they cannot be used to offset income tax.

On December 20, 2020, Argentina's Executive Power issued Decree No. 1034/2020, which set the rules to implement the provisions of the knowledge-based economy promotional regime. Eligible companies must enroll in a registry according to the terms and conditions to be established by the Application Authority, which will verify compliance with the requirements. The Decree also set the mechanism for calculating the level of investment in research and development, the level of employee retention, exports, among others. It also establishes that exports of services from companies participating in this regime will not be subject to export duties.

On January 13, 2021, Argentina's Ministry of Productive Development –current Application Authority of the knowledge-based economy promotional regime- issued Resolution No. 4/2021 which was followed by Disposition N° 11/2021 issued by the Under Secretariat of Knowledge Economy on February 12, 2021. Both rules establish further details on the requirements, terms, conditions, application, and compliance procedures to be eligible under the promotional regime.

MercadoLibre S.R.L. has submitted the application to be eligible to the knowledge-based economy promotional regime; such eligibility remains subject to Argentine government approval.

In June 2021, Argentine Congress enacted Law 27,630, which increases corporate income tax rate for tax years beginning January 1, 2021 and onwards. The law replaced the 30% fixed tax rate with a progressive tax scale that applies as follows: a) for accumulated net taxable income up to 5,000 thousands Argentine Pesos (roughly $52.2 thousands): 25% tax rate on net taxable income, b) for accumulated net taxable income from 5,000 thousands Argentine Pesos to 50,000 thousands Argentine Pesos (roughly $522.4 thousands): a tax payment of 1,250 thousands Argentine Pesos (roughly $13.1 thousands) plus a 30% tax rate on accumulated net taxable income on any amount exceeding 5,000 thousands Argentine Pesos, c) for accumulated net taxable income exceeding 50,000 thousands Argentine Pesos: a tax payment of 14,750 thousands Argentine Pesos (roughly $154.1 thousands) plus a 35% tax rate on accumulated net taxable income on any amount exceeding 50,000 thousands Argentine Pesos. In addition, the new law permanently extended the 7% withholding tax currently in force to dividend distributions.

Fair value option applied to certain financial instruments

Under ASC 825, U.S. GAAP provides an option to elect fair value with impact on the statement of income as an alternative measurement for certain financial instruments and other items on the balance sheet.

The Company has elected to measure certain financial assets at fair value with impact on the statement of income from January 1, 2019 for several reasons including to avoid the mismatch generated by the recognition of certain linked instruments / transactions, separately, in consolidated statement of income and consolidated statement of other comprehensive income and to better reflect the financial model applied for selected instruments.

The Company's election of the fair value option applies to the: i) Brazilian federal government bonds and ii) U.S. treasury notes. As result of the election of the fair value option, the Company recognized gains in interest income and other financial gains of $2,911 thousands and $11,047 thousands as of June 30, 2021 and 2020, respectively.

Accumulated other comprehensive loss

The following table sets forth the Company's accumulated other comprehensive loss as of June 30, 2021 and December 31, 2020:

	June 30, 2021	December 31, 2020
	(In thousands)	
Accumulated other comprehensive loss:		
Foreign currency translation	$ (442,422)	$ (466,569)
Unrealized losses on hedging activities	(5,752)	(2,469)
Estimated tax benefit on unrealized losses	1,870	754
	$ (446,304)	$ (468,284)

The following tables summarize the changes in accumulated balances of other comprehensive loss for the six-months ended June 30, 2021:

	Unrealized (Losses) on hedging activities, net	Foreign Currency Translation	Estimated tax benefit (expense)	Total
		(In thousands)		
Balances as of December 31, 2020	$ (2,469)	$ (466,569)	$ 754	$ (468,284)
Other comprehensive income (loss) before reclassifications	(562)	24,147	191	23,776
Amount of (gains) loss reclassified from accumulated other comprehensive income (loss)	(2,721)	—	925	(1,796)
Net current period other comprehensive income (loss)	(3,283)	24,147	1,116	21,980
Ending balance	$ (5,752)	$ (442,422)	$ 1,870	$ (446,304)

Details about Accumulated Other Comprehensive Loss Components	Amount of (Loss) Gain Reclassified from Accumulated Other Comprehensive Loss	Affected Line Item in the Statement of Income
	(In thousands)	
Unrealized gains on hedging activities	$ 2,721	Cost of net revenues
Estimated tax expense on unrealized gains	(925)	Income tax expense
Total reclassifications for the period	$ 1,796	Total, net of income taxes

Use of estimates

The preparation of interim condensed consolidated financial statements in conformity with U.S. GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for, but not limited to, accounting for allowances for doubtful accounts and chargeback provisions, allowance for loans receivables, inventories valuation reserves, recoverability of goodwill, intangible assets with indefinite useful lives and deferred tax assets, impairment of short-term and long-term investments, impairment of long-lived assets, compensation costs relating to the Company’s long term retention plan, fair value of convertible debt, fair value of investments, fair value of derivative instruments, income taxes and contingencies and determination of the incremental borrowing rate at commencement date of lease operating agreements. Actual results could differ from those estimates.

Recently Adopted Accounting Standards

On December 18, 2019 the FASB issued the ASU 2019-12 “Income taxes (Topic 740)—Simplifying the accounting for income taxes”. The amendments in this update simplify the accounting for income taxes by removing certain exceptions to the general principles and also improve consistent application by clarifying and amending existing guidance, such as franchise taxes and interim recognition of enactment of tax laws or rate changes. The amendments in this update are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. The adoption of this standard did not have a material impact on the Company´s financial statements.

Recently issued accounting pronouncements not yet adopted

On August 5, 2020 the FASB issued the ASU 2020-06 “Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging— Contracts in Entity’s Own Equity (Subtopic 815-40)”. The amendments in this update address issues identified as a result of the complexity associated with applying generally accepted accounting principles for certain financial instruments with characteristics of liabilities and equity. For convertible instruments, accounting models for specific features are removed and amendments to the disclosure requirements are included. For contracts in an entity’s own equity, simplifies the settlement assessment by removing some requirements. Additionally, the amendments in this update affect the diluted EPS calculation for instruments that may be settled in cash or shares and for convertible instruments. The amendments in this update are effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. The Company is assessing the effects that the adoption of this accounting pronouncement may have on its financial statements.

3. Net income per share

Basic earnings per share for the Company's common stock is computed by dividing, net income available to common shareholders attributable to common stock for the period by the weighted average number of common shares outstanding during the period.

On August 24, 2018 and August 31, 2018 the Company issued an aggregate principal amount of $880 million of 2.00% Convertible Senior Notes due 2028 (see Note 11 to these interim condensed consolidated financial statements). The conversion of these notes are included in the calculation for diluted earnings per share utilizing the "if converted" method. Accordingly, conversion of these Notes is not assumed for purposes of computing diluted earnings per share if the effect is antidilutive. Additionally, on March 29, 2019 the Company issued Preferred Stock. The conversion of Preferred Stock was included in the calculation for diluted earnings per share utilizing the "if converted" method. Accordingly, conversion of the redeemable convertible preferred stock was not assumed for purposes of computing diluted earnings per share if the effect was antidilutive.

The denominator for diluted net income per share for the six and three-month periods ended June 30, 2021 and 2020 does not include any effect from the 2028 Notes Capped Call Transactions (as defined in Note 11) because it would be antidilutive. In the event of conversion of any or all of the 2028 Notes, the shares that would be delivered to the Company under the Capped Call Transactions (as defined in Note 11) are designed to partially neutralize the dilutive effect of the shares that the Company would issue under the Notes. See Note 11 to these interim condensed consolidated financial statements and Note 16 to the financial statements for the year ended December 31, 2020, contained in the Company's Annual Report on Form 10-K filed with the SEC for more details. For the six and three-month periods ended June 30, 2021 and 2020, the effects of the conversion of the Notes and the redeemable convertible preferred stock would have been antidilutive and, as a consequence, they were not factored into the calculation of diluted earnings per share.

Net income per share of common stock is as follows for the six and three-month periods ended June 30, 2021 and 2020:

	Six Months Ended June 30, (In thousands)				Three Months Ended June 30, (In thousands)			
	2021		2020		2021		2020	
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
Net income per common share	$ 0.69	$ 0.69	$ 0.66	$ 0.66	$ 1.37	$ 1.37	$ 1.11	$ 1.11
Numerator:								
Net income	$ 34,183	$ 34,183	$ 34,838	$ 34,838	$ 68,195	$ 68,195	$ 55,947	$ 55,947
Dividends on preferred stock	—	—	(2,000)	(2,000)	—	—	(1,000)	(1,000)
Net income corresponding to common stock	$ 34,183	$ 34,183	$ 32,838	$ 32,838	$ 68,195	$ 68,195	$ 54,947	$ 54,947
Denominator:								
Weighted average of common stock outstanding for Basic earnings per share	49,844,823	—	49,709,964	—	49,822,272	—	49,709,973	—
Adjusted weighted average of common stock outstanding for Diluted earnings per share	—	49,844,823	—	49,709,964	—	49,822,272	—	49,709,973

4. Cash, cash equivalents, restricted cash and cash equivalent and investments

The composition of cash, cash equivalents, restricted cash and cash equivalents, short-term and long-term investments is as follows:

	June 30, 2021	December 31, 2020
	(In thousands)	
Cash and cash equivalents	$ 1,069,909	$ 1,856,394
Restricted cash and cash equivalents		
Securitization Transactions	$ 138,271	$ 249,872
Sovereign Debt Securities (Central Bank of Brazil Mandatory Guarantee)	—	144,249
Bank account (Argentine Central Bank regulation)	200,546	237,511
Bank collateral account (Secured lines of credit guarantee)	—	574
Money Market Funds (Secured lines of credit guarantee)	22,262	19,469
Cash in bank account	101	155
Total restricted cash and cash equivalents	$ 361,180	$ 651,830
Total cash, cash equivalents, restricted cash and cash equivalents (*)	$ 1,431,089	$ 2,508,224
Short-term investments		
Time Deposits	$ 38,771	$ 158,818
Sovereign Debt Securities (Central Bank of Brazil Mandatory Guarantee)	707,885	565,705
Sovereign Debt Securities (Secured lines of credit guarantee)	—	71,244
Sovereign Debt Securities	151,711	445,539
Total short-term investments	$ 898,367	$ 1,241,306
Long-term investments		
Sovereign Debt Securities	$ 160,949	$ 150,054
Securitization Transactions	2,550	—
Other Investments	17,912	16,057
Total long-term investments	$ 181,411	$ 166,111

(*) Cash, cash equivalents, restricted cash and cash equivalents as reported in the consolidated statements of cash flow.

Regulation issued by Central Bank of Argentina ("CBA")

a) In January 2020, the CBA enacted regulations related to payment service providers that applies to Fintech companies that are not financial institutions, but nevertheless provide payment services in at least one of the processes of the payments system. On July 7, 2020, the CBA approved the registration of the Argentine subsidiary in the registry for payment service providers. These regulations sets forth certain rules that require payment services providers to, among other things, (i) deposit and maintain users' funds in specific banks' accounts, payable on demand; (ii) implement a monthly reporting regime with the CBA; (iii) segregate information related to users' investments funds; (iv) maintain different bank accounts to segregate the Company's funds from users' funds; and (v) introduce clarifications on advertising and documents about the standard terms and conditions of the payment service provider. As of June 30, 2021, in accordance with the regulation, the Company held $200,546 thousands in a bank account, payable on demand.

b) In October 2020, the CBA issued a regulation that applies to non-financial loan providers. In accordance with this regulation, the Company was registered in the "Registry of other non-financial loan providers" on December 1, 2020 and complied with a periodic information report within the framework of a monthly information regime as from March 1, 2021. In turn, the CBA established that the Company must comply with the obligations established by CBA rules, regarding, among other things: (i) interest rates in loan operations; (ii) protection of users of financial services; (iii) communication by electronic means for the care of the environment.

Sovereign Debt Securities (Central Bank of Brazil Mandatory Guarantee)

On November 1, 2018, the Company obtained approval from the Central Bank of Brazil to operate as an authorized payment institution. With this authorization, Mercado Pago in Brazil is subject to the supervision of the Central Bank of Brazil and must fully comply with all obligations established by current regulations. Among other obligations, the regulations require authorized payment institutions to hold any electronic balance in a payment institution account in either a specific account of the Central Bank of Brazil that does not pay interest or Brazilian federal government bonds registered with the "Sistema Especial de Liquidacao e Custodia." 100% of electronic funds were required to be deposited as of June 30, 2021 and December 31, 2020, respectively. As of June 30, 2021 and December 31, 2020, in accordance with the regulation, the Company held $707,885 thousands and $709,954 thousands deposited in Brazilian federal government bonds, respectively, as a mandatory guarantee (the "Central Bank of Brazil Mandatory Guarantee").

5. Loans receivable, net

The Company manages loans receivable as "On-line merchant", "Consumer", "In-store merchant" and "Credit Cards". As of June 30, 2021 and December 31, 2020, Loans receivable, net were as follows:

	June 30, 2021	December 31, 2020
	(In thousands)	
On-line merchant	$ 252,410	$ 180,063
Consumer	427,061	237,956
In-store merchant	120,711	61,452
Credit Cards	9,594	—
Loans receivable	809,776	479,471
Allowance for uncollectible accounts	(239,324)	(77,816)
Loans receivable, net	$ 570,452	$ 401,655

The credit quality analysis of loans receivable was as follows:

	June 30, 2021 (1)	December 31, 2020
	(In thousands)	
1-30 days past due	$ 47,183	$ 34,706
31-60 days past due	27,125	16,977
61 -90 days past due	25,539	13,239
91 -120 days past due	27,905	10,632
121 -150 days past due	31,785	5,315
151 -180 days past due	28,919	3,649
181 -210 days past due	19,938	—
211 -240 days past due	16,908	—
241 -270 days past due	14,032	—
Total past due	239,334	84,518
To become due	570,442	394,953
Total	$ 809,776	$ 479,471

(1) As from April 1, 2021, the Company writes off loans when customer balance becomes 360 days past due.

The following table summarizes the allowance for uncollectible accounts activity during the six-month period ended June 30, 2021 and 2020:

	June 30, 2021	June 30, 2020
	(In thousands)	
Balance at beginning of year	$ 77,816	$ 20,444
Adoption of ASC 326 (1)	—	4,977
Charged/credited to Net Income	167,025	34,614
Charges/Utilized /Currency translation adjustments/Write-offs (2)	(5,517)	(34,204)
Balance at end of period	$ 239,324	$ 25,831

(1)Cumulative pre-tax adjustments recorded to retained earnings as of January 1, 2020.
(2)As from April 1, 2021, the Company writes off loans when customer balance becomes 360 days past due.

6. Business combinations, goodwill and intangible assets

Business combinations

Acquisition of a software development company

In March 2020, the Company, through its subsidiary Meli Participaciones S.L., completed the acquisition of 100% of the equity interest of Kiserty S.A. and its subsidiaries, which is a software development company located and organized under the law of Uruguay. The objective of the acquisition was to enhance the capabilities of the Company in terms of software development.

The aggregate purchase price for the acquisition was $10,899 thousands, measured at its fair value amount, which included: (i) the total cash payment of $8,500 thousands at the time of closing; (ii) an escrow of $225 thousands and (iii) a contingent additional cash consideration up to $2,174 thousands.

The Company's consolidated statement of income includes the results of operations of the acquired business as from March 9, 2020. The net income before intercompany eliminations of the acquired Company included in the Company's consolidated statement of income amounted to $1,967 thousands for the period ended June 30, 2021.

In addition, the Company incurred in certain direct costs of the business combination which were expensed as incurred.

The purchase price was allocated based on the measurement of the fair value of assets acquired and liabilities assumed considering the information available as of the initial accounting date. The valuation of identifiable intangible assets acquired reflects Management's estimates based on the use of established valuation methods.

The Company recognized goodwill for this acquisition based on Management's expectation that the acquired business will improve the Company's business. Arising goodwill was allocated to each of the segments identified by the Company's Management, considering the synergies expected from this acquisition and it is expected that the acquisition will contribute to the earnings generation process of such segments. Goodwill arising from this acquisition is not deductible for tax purposes.

The results of operations for periods prior to the acquisitions, individually and in the aggregate, were not material to the Company's consolidated statements of income and, accordingly, pro forma information has not been presented.

Goodwill and intangible assets

The composition of goodwill and intangible assets is as follows:

	June 30, 2021	December 31, 2020
	(In thousands)	
Goodwill	$ 85,165	$ 85,211
Intangible assets with indefinite lives		
- Trademarks	7,507	7,751
- Digital assets (1)	12,305	—
Amortizable intangible assets		
- Licenses and others	4,804	4,932
- Non-compete agreement	3,448	3,426
- Customer list	13,905	14,010
- Trademarks	7,939	7,879
Total intangible assets	$ 49,908	$ 37,998
Accumulated amortization	(26,014)	(23,843)
Total intangible assets, net	$ 23,894	$ 14,155

(1) Digital assets are net of $7,175 thousands of impairment losses accounted for in General and Administrative expenses during the six-month period ended June 30, 2021.

Goodwill

The changes in the carrying amount of goodwill for the six-month period ended June 30, 2021 and the year ended December 31, 2020 are as follows:

	Six Months Ended June 30 2021						
	Brazil	Argentina	Mexico	Chile	Colombia	Other Countries	Total
	(In thousands)						
Balance, beginning of the period	$ 19,762	$ 10,594	$ 31,697	$ 16,996	$ 4,390	$ 1,772	$ 85,211
Effect of exchange rates changes	602	—	77	(333)	(333)	(59)	(46)
Balance, end of the period	$ 20,364	$ 10,594	$ 31,774	$ 16,663	$ 4,057	$ 1,713	$ 85,165

	Year Ended December 31, 2020						
	Brazil	Argentina	Mexico	Chile	Colombia	Other Countries	Total
	(In thousands)						
Balance, beginning of the year	$ 29,072	$ 6,991	$ 32,196	$ 14,872	$ 3,312	$ 1,166	$ 87,609
Business Acquisitions	—	3,603	1,062	1,241	1,246	748	7,900
Disposals	(3,480)	—	—	—	—	—	(3,480)
Effect of exchange rates changes	(5,830)	—	(1,561)	883	(168)	(142)	(6,818)
Balance, end of the year	$ 19,762	$ 10,594	$ 31,697	$ 16,996	$ 4,390	$ 1,772	$ 85,211

Intangible assets with definite useful life

Intangible assets with definite useful life are comprised of customer lists, non-compete and non-solicitation agreements, acquired software licenses and other acquired intangible assets including developed technologies and trademarks. Aggregate amortization expense for intangible assets totaled $1,320 thousands and $1,711 thousands for the three-month periods ended June 30, 2021 and 2020, respectively, while aggregate amortization expense for intangible assets for the six-month periods ended June 30, 2021 and 2020 amounted to $2,638 thousands and $2,519 thousands, respectively.

The following table summarizes the remaining amortization of intangible assets (in thousands of U.S. dollars) with definite useful life as of June 30, 2021:

For year ended 12/31/2021	$ 1,273
For year ended 12/31/2022	1,422
For year ended 12/31/2023	985
For year ended 12/31/2024	347
Thereafter	55
	$ 4,082

7. Segment reporting

Reporting segments are based upon the Company's internal organizational structure, the manner in which the Company's operations are managed and resources are assigned, the criteria used by Management to evaluate the Company's performance, the availability of separate financial information and overall materiality considerations.

Segment reporting is based on geography as the main basis of segment breakdown in accordance with the criteria, as determined by Management, used to evaluate the Company's performance. The Company's segments include Brazil, Argentina, Mexico and other countries (which includes Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Honduras, Nicaragua, El Salvador, Bolivia, Guatemala, Panama, Paraguay, Peru, Uruguay and the United States of America).

Direct contribution consists of net revenues from external customers less direct costs, which include costs of net revenues, product and technology development expenses, sales and marketing expenses and general and administrative expenses over which segment managers have direct discretionary control, such as advertising and marketing programs, customer support expenses, allowances for doubtful accounts, payroll and third-party fees. All corporate related costs have been excluded from the Company's direct contribution.

Expenses over which segment managers do not currently have discretionary control, such as certain technology and general and administrative costs are monitored by Management through shared cost centers and are not evaluated in the measurement of segment performance.

The following tables summarize the financial performance of the Company's reporting segments:

	Six Months Ended June 30, 2021				
	Brazil	Argentina	Mexico	Other Countries	Total
			(In thousands)		
Net revenues	$ 1,719,813	$ 663,301	$ 488,573	$ 209,504	$ 3,081,191
Direct costs	(1,338,507)	(421,145)	(482,330)	(155,568)	(2,397,550)
Direct contribution	381,306	242,156	6,243	53,936	683,641
Operating expenses and indirect costs of net revenues					(426,632)
Income from operations					257,009
Other income (expenses):					
Interest income and other financial gains					49,236
Interest expense and other financial losses					(130,631)
Foreign currency losses					(27,180)
Net income before income tax expense					$ 148,434

	Six Months Ended June, 2020				
	Brazil	Argentina	Mexico	Other Countries	Total
	(In thousands)				
Net revenues	$ 862,745	$ 372,079	$ 220,703	$ 74,933	$ 1,530,460
Direct costs	(647,382)	(272,433)	(225,315)	(62,547)	(1,207,677)
Direct contribution	215,363	99,646	(4,612)	12,386	322,783
Operating expenses and indirect costs of net revenues					(253,039)
Income from operations					69,744
Other income (expenses):					
Interest income and other financial gains					55,566
Interest expense and other financial losses					(50,561)
Foreign currency losses					(2,089)
Net income before income tax expense					$ 72,660

	Three Months Ended June, 2021				
	Brazil	Argentina	Mexico	Other Countries	Total
	(In thousands)				
Net revenues	$ 951,090	$ 366,065	$ 258,076	$ 127,519	$ 1,702,750
Direct costs	(720,470)	(232,176)	(261,424)	(91,258)	(1,305,328)
Direct contribution	230,620	133,889	(3,348)	36,261	397,422
Operating expenses and indirect costs of net revenues					(231,257)
Income from operations					166,165
Other income (expenses):					
Interest income and other financial gains					24,165
Interest expense and other financial losses					(39,342)
Foreign currency losses					(12,091)
Net income before income tax expense					$ 138,897

	Three Months Ended June 30, 2020				
	Brazil	Argentina	Mexico	Other Countries	Total
	(In thousands)				
Net revenues	$ 465,298	$ 239,204	$ 125,950	$ 47,917	$ 878,369
Direct costs	(324,754)	(171,408)	(110,553)	(34,943)	(641,658)
Direct contribution	140,544	67,796	15,397	12,974	236,711
Operating expenses and indirect costs of net revenues					(137,273)
Income from operations					99,438
Other income (expenses):					
Interest income and other financial gains					18,782
Interest expense and other financial losses					(26,977)
Foreign currency losses					(1,903)
Net income before income tax expense					$ 89,340

The following table summarizes the allocation of property and equipment, net based on geography:

	June 30, 2021	December 31, 2020
	(In thousands)	
US property and equipment, net	$ 1,714	$ 586
Other countries		
Argentina	148,233	123,589
Brazil	283,866	171,409
Mexico	146,233	73,315
Other countries	38,951	22,785
	$ 617,283	$ 391,098
Total property and equipment, net	$ 618,997	$ 391,684

The following table summarizes the allocation of the goodwill and intangible assets based on geography:

	June 30, 2021	December 31, 2020
	(In thousands)	
US intangible assets	$ 12,305	$ —
Other countries goodwill and intangible assets		
Argentina	11,429	12,617
Brazil	20,429	19,958
Mexico	35,139	35,338
Chile	23,577	24,707
Other countries	6,180	6,746
	$ 96,754	$ 99,366
Total goodwill and intangible assets	$ 109,059	$ 99,366

Consolidated net revenues by similar products and services for the six and three-month periods ended June 30, 2021 and 2020 were as follows:

	Six Months Ended June 30,		Three Months Ended June 30,	
Consolidated Net Revenues	2021	2020	2021	2020
	(In thousands)		(In thousands)	
Commerce	$ 2,052,950	$ 962,413	$ 1,142,326	$ 581,703
Fintech	1,028,241	568,047	560,424	296,666
Total	$ 3,081,191	$ 1,530,460	$ 1,702,750	$ 878,369

8. Fair value measurement of assets and liabilities

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2021 and December 31, 2020:

Description	Balances as of June 30, 2021	Quoted Prices in active markets for identical Assets (Level 1)	Significant other observable inputs (Level 2)	Unobservable inputs (Level 3)	Balances as of December 31, 2020	Quoted Prices in active markets for identical Assets (Level 1)	Significant other observable inputs (Level 2)	Unobservable inputs (Level 3)
				(In thousands)				
Assets								
Cash and Cash Equivalents:								
Money Market Funds	$ 279,202	$ 279,202	$ —	$ —	$ 166,483	$ 166,483	$ —	$ —
Sovereign Debt Securities	—	—	—	—	37,654	37,654	—	—
Restricted Cash and cash equivalents:								
Money Market Funds	121,417	121,417	—	—	257,695	257,695	—	—
Sovereign Debt Securities (Central Bank of Brazil Mandatory Guarantee)	—	—	—	—	144,249	144,249	—	—
Investments:								
Sovereign Debt Securities (Central Bank of Brazil Mandatory Guarantee)	707,885	707,885	—	—	565,705	565,705	—	—
Sovereign Debt Securities	315,210	315,210	—	—	666,837	666,837	—	—
Other Assets:								
Derivative Instruments	280	—	—	280	199	—	—	199
Total Financial Assets	$ 1,423,994	$ 1,423,714	$ —	$ 280	$ 1,838,822	$ 1,838,623	$ —	$ 199
Liabilities:								
Contingent considerations	$ 4,722	$ —	$ —	$ 4,722	$ 4,622	$ —	$ —	$ 4,622
Long-term retention plan	80,789	—	80,789	—	136,816	—	136,816	—
Derivative Instruments	20,266	—	—	20,266	13,964	—	—	13,964
Total Financial Liabilities	$ 105,777	$ —	$ 80,789	$ 24,988	$ 155,402	$ —	$ 136,816	$ 18,586

As of June 30, 2021 and December 31, 2020, the Company's financial assets valued at fair value consisted of assets valued using i) Level 1 inputs: unadjusted quoted prices in active markets (Level 1 instrument valuations are obtained from observable inputs that reflect quoted prices (unadjusted) for identical assets in active markets); ii) Level 2 inputs: obtained from readily-available pricing sources for comparable instruments as well as instruments with inactive markets at the measurement date; and iii) Level 3 inputs: valuations based on unobservable inputs reflecting Company assumptions. Fair value of derivative instruments are determined considering the prevailing risk free interest rate and spot exchange rate.

As of June 30, 2021 and December 31, 2020, the Company's liabilities were valued at fair value using Level 2 inputs and Level 3 inputs (valuations based on unobservable inputs reflecting Company assumptions). Fair value of contingent considerations are determined based on the probability of achievement of the performance targets arising from each acquisition, as well as the Company's historical experience with similar arrangements. Fair value of derivative instruments are determined considering the prevailing risk free interest rate and spot exchange rate.

As of June 30, 2021 and December 31, 2020, the carrying value of the Company's financial assets and liabilities measured at amortized cost approximated their fair value mainly because of their short-term maturity. These assets and liabilities included cash, cash equivalents, restricted cash and cash equivalents and short-term investments (excluding money markets funds and debt securities), accounts receivable, credit cards receivable and other means of payment, loans receivable, funds payable to customers and amounts due to merchants, other assets (excluding derivative instruments), accounts payable, salaries and social security payable (excluding variable LTRP), taxes payable, provisions and other liabilities (excluding contingent considerations and derivative instruments). As of June 30, 2021 and December 31, 2020, the estimated fair value of the 2028 Notes (liability component), which is based on Level 2 inputs, is $322,281 thousands and $672,345 thousands, respectively, and were determined based on market interest rates. The rest of the loans payable and other financial liabilities approximate their fair value because the effective interest rates are not materially different from market interest rates.

The following table summarizes the fair value level for those financial assets and liabilities of the Company measured at amortized cost as of June 30, 2021 and December 31, 2020:

	Balances as of June 30, 2021	Significant other observable inputs (Level 2)	Balances as of December 31, 2020	Significant other observable inputs (Level 2)
	(In thousands)			
Assets				
Time Deposits	$ 38,771	$ 38,771	$ 158,818	$ 158,818
Accounts receivable, net	69,844	69,844	49,691	49,691
Credit Cards receivable and other means of payment, net	1,189,802	1,189,802	863,073	863,073
Loans receivable, net	570,452	570,452	401,655	401,655
Other assets	334,842	334,842	236,432	236,432
Total Assets	$ 2,203,711	$ 2,203,711	$ 1,709,669	$ 1,709,669
Liabilities				
Accounts payable and accrued expenses	$ 857,622	$ 857,622	$ 767,336	$ 767,336
Funds payable to customers and amounts due to merchants	1,839,209	1,839,209	1,733,095	1,733,095
Salaries and social security payable	142,314	142,314	120,394	120,394
Taxes payable	232,090	232,090	215,918	215,918
Loans payable and other financial liabilities (*)	2,368,267	2,382,950	1,409,269	1,479,165
Other liabilities	73,780	73,780	110,139	110,139
Total Liabilities	$ 5,513,282	$ 5,527,965	$ 4,356,151	$ 4,426,047

(*) The fair value of the 2028 Notes (including the equity component) is disclosed in Note 11.

As of June 30, 2021 and December 31, 2020, the Company held no direct investments in auction rate securities and does not have any non-financial assets or liabilities measured at fair value.

As of June 30, 2021 and December 31, 2020, the fair value of money market funds and sovereign debt securities classified as available for sale securities are as follows:

	June 30, 2021			
	Cost	Financial Gains	Financial Losses	Estimated Fair Value
	(In thousands)			
Cash and cash equivalents				
Money Market Funds	$ 279,202	$ —	$ —	$ 279,202
Total Cash and cash equivalents	$ 279,202	$ —	$ —	$ 279,202
Restricted cash and cash equivalents				
Money Market Funds	$ 121,417	$ —	$ —	$ 121,417
Total Restricted cash and cash equivalents	$ 121,417	$ —	$ —	$ 121,417
Short-term investments				
Sovereign Debt Securities (Central Bank of Brazil Mandatory Guarantee) (1)	$ 706,223	$ 1,662	$ —	$ 707,885
Sovereign Debt Securities (1)	151,693	18	—	151,711
Total Short-term investments	$ 857,916	$ 1,680	$ —	$ 859,596
Long-term investments				
Sovereign Debt Securities (1)	$ 162,268	$ 1,235	$ (4)	$ 163,499
Total Long-term investments	$ 162,268	$ 1,235	$ (4)	$ 163,499
Total	$ 1,420,803	$ 2,915	$ (4)	$ 1,423,714

(1) Measured at fair value with impact on the consolidated statement of income for the application of the fair value option. (See Note 2 – Fair value option applied to certain financial instruments.)

	December 31, 2020		
	Cost	Financial Gains	Estimated Fair Value
	(In thousands)		
Cash and cash equivalents			
Money Market Funds	$ 166,483	$ —	$ 166,483
Sovereign Debt Securities (1)	37,595	59	37,654
Total Cash and cash equivalents	$ 204,078	$ 59	$ 204,137
Restricted Cash and cash equivalents			
Money Market Funds	$ 257,695	$ —	$ 257,695
Sovereign Debt Securities (1)	144,098	151	144,249
Total Restricted Cash and cash equivalents	$ 401,793	$ 151	$ 401,944
Short-term investments			
Sovereign Debt Securities (Central Bank of Brazil Mandatory Guarantee)(1)	$ 559,487	$ 6,218	$ 565,705
Sovereign Debt Securities (1)	514,894	1,889	516,783
Total Short-term investments	$ 1,074,381	$ 8,107	$ 1,082,488
Long-term investments			
Sovereign Debt Securities (1)	$ 149,938	$ 116	$ 150,054
Total Long-term investments	$ 149,938	$ 116	$ 150,054
Total	$ 1,830,190	$ 8,433	$ 1,838,623

(1) Measured at fair value with impact on the consolidated statement of income for the application of the fair value option. (See Note 2 – Fair value option applied to certain financial instruments.)

As of June 30, 2021, the estimated fair values (in thousands of U.S. dollars) of money market funds and sovereign debt securities classified by their effective maturities are as follows:

One year or less		1,260,215
One year to two years		150,205
Two years to three years		645
Three years to four years		6,718
Four years to five years		2,878
More than five years		3,053
Total	$	1,423,714

9. Commitments and Contingencies

Litigation and Other Legal Matters

The Company is subject to certain contingent liabilities with respect to existing or potential claims, lawsuits and other proceedings. The Company accrues liabilities when it considers probable that future costs will be incurred and such costs can be reasonably estimated. Proceeding-related liabilities are based on developments to date and historical information related to actions filed against the Company. As of June 30, 2021, the Company had accounted for estimated liabilities involving proceeding-related contingencies and other estimated contingencies of $10,181 thousands to cover legal actions against the Company in which its Management has assessed the likelihood of a final adverse outcome as probable. Expected legal costs related to litigations are accrued when the legal service is actually provided.

In addition, as of June 30, 2021, the Company and its subsidiaries are subject to certain legal actions considered by the Company's Management and its legal counsels to be reasonably possible for an estimated aggregate amount up to $66,634 thousands. No loss amounts have been accrued for such reasonably possible legal actions.

Brazilian preliminary injunction against the Brazilian tax authorities

On November 6, 2014, the Brazilian subsidiaries, Mercadolivre.com Atividades de Internet Ltda., Ebazar.com.br Ltda., Mercado Pago.com Representações Ltda. and the Argentine subsidiary, Mercado Libre S.R.L., filed a writ of mandamus and requested a preliminary injunction with the Federal Court of Osasco against the federal tax authority to avoid the IR (income tax) withholding over payments remitted by the Brazilian subsidiaries to MercadoLibre S.R.L. for the provision of IT support and assistance services by the latter, and requested reimbursement of the amounts improperly withheld over the course of the preceding five (5) years. The preliminary injunction was granted on the grounds that such withholding violated the convention signed between Brazil and Argentina that prevents double taxation. In August 2015, the injunction was revoked by the first instance judge in an award favorable to the federal tax authority. The Company appealed the decision and deposited with the court the disputed amounts. As of June 30, 2021 the total amount of the deposits were $94,393 thousands (which includes $6,408 thousands of interest). Such amounts are included in non-current other assets of the consolidated balance sheet. In June 2020, the Company's appeal was dismissed. The Company submitted a new remedy before the same court in July 2020, which was dismissed on February 17, 2021. On March 18, 2021 the Company filed an appeal with the superior courts, which is now pending. Management's opinion, based on the opinion of external legal counsel, is that the risk of losing the case is reasonably possible but not probable based on the technical merits of the Company's tax position and the existence of favorable decisions issued by the Federal Regional Courts. For that reason, the Company has not recorded any expense or liability for the disputed amounts.

Administrative tax claims

On October 30, 2020 and November 9, 2020, MercadoPago.com Representações Ltda. and Ebazar.com.br Ltda., respectively, received tax assessments claiming income tax payments for the 2016 fiscal year, with respective penalties and fines. In these assessments, the tax authorities do not recognize certain expenses incurred by the Brazilian subsidiaries, such as technology services imported from MercadoLibre S.R.L., Meli Uruguay S.R.L., and MercadoLibre Inc., as deductible for income tax purposes. The tax authorities concluded that the Brazilian entities failed to submit sufficient evidence during the tax assessment that these services were necessary and effectively hired and paid by the Brazilian subsidiaries. The tax assessments that MercadoPago.com Representações Ltda. and Ebazar.com.br Ltda. received amounted to a total of $15,126 thousands and $12,502 thousands, respectively. The subsidiaries filed their defenses on December 1, 2020 and December 8, 2020, respectively, arguing that the agreements and other documentation were submitted as evidence during the tax assessment. The defenses were also complemented by specific descriptions for each project that was impacted by such services to justify the necessity of all the expenses in dispute. On May 25, 2021, MercadoPago.com received an unfavorable decision from the administrative court in the first instance. We will appeal to the administrative court's second instance. Ebazar.com.br Ltda. is currently awaiting the decision from the administrative court's first instance. For both cases, the Management's opinion, based on the opinion of external legal counsel, is that the Company's position is more likely than not to succeed in court, based on the technical merits of the tax position. For that reason, the Company has not recorded any expense or liability for the disputed amounts.

Other claims

Other third parties have from time to time claimed, and others may claim in the future, that the Company was responsible for fraud committed against them, or that the Company has infringed their intellectual property rights. The underlying laws with respect to the potential liability of online intermediaries like the Company are unclear in the jurisdictions where the Company operates. Management believes that additional lawsuits alleging that the Company has violated copyright or trademark laws will be filed against the Company in the future.

Intellectual property and regulatory claims, whether meritorious or not, are time consuming and costly to resolve, require significant amounts of management time, could require expensive changes in the Company's methods of doing business, or could require the Company to enter into costly royalty or licensing agreements. The Company may be subject to patent disputes, and be subject to patent infringement claims as the Company's services expand in scope and complexity. In particular, the Company may face additional patent infringement claims involving various aspects of the payments businesses.

From time to time, the Company is involved in other disputes or regulatory inquiries that arise in the ordinary course of business. The number and significance of these disputes and inquiries are increasing as the Company's business expands and the Company grows larger.

Buyer protection program

The Company provides consumers with a buyer protection program ("BPP") for all transactions completed through the Company's online payment solution ("Mercado Pago"). This program is designed to protect buyers in the Marketplace from losses due primarily to fraud or counterparty non-performance. The Company's BPP provides protection to consumers by reimbursing them for the total value of a purchased item and the value of any shipping service paid if it does not arrive or does not match the seller's description. The Company is entitled to recover from the third-party carrier companies performing the shipping service certain amounts paid under the BPP. Furthermore, in some specific circumstances (i.e. Black Friday, Hot Sale), the Company enters into insurance contracts with third-party insurance companies in order to cover contingencies that may arise from the BPP.

The maximum potential exposure under this program is estimated to be the volume of payments on the Marketplace, for which claims may be made under the terms and conditions of the Company's BPP. Based on historical losses to date, the Company does not believe that the maximum potential exposure is representative of the actual potential exposure. The Company records a liability with respect to losses under this program when they are probable and the amount can be reasonably estimated.

As of June 30, 2021 and December 31, 2020, Management's estimate of the maximum potential exposure related to the Company's buyer protection program is $2,648,328 thousands and $2,535,041 thousands, respectively, for which the Company recorded an allowance of $5,274 thousands and $8,364 thousands, respectively.

Commitments

The Company entered into a purchase commitment with two U.S. suppliers in relation to the purchase of cloud platform services as follows:

a) for a total amount of $240,500 thousands to be fully paid off between June 1, 2020 and May 31, 2024. As of June 30, 2021, the Company paid $114,444 thousands in relation thereto; and
b) for a total amount of $30,000 thousands to be fully paid off between November 24, 2019 and March 23, 2023. As of June 30, 2021, the Company paid $11,016 thousands in relation thereto.

10. Long term retention program (“LTRP”)

The following table summarizes the 2012, 2014, 2015, 2016, 2017, 2018, 2019, 2020 and 2021 long term retention program accrued compensation expense for the six and three-month periods ended June 30, 2021 and 2020, which are payable in cash according to the decisions made by the Board of Directors:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2021	2020	2021	2020
	(In thousands)		(In thousands)	
LTRP 2012	—	69	—	—
LTRP 2014	—	125	—	(1)
LTRP 2015	178	4,885	—	3,613
LTRP 2016	1,390	10,055	1,928	7,620
LTRP 2017	2,113	10,560	2,821	7,854
LTRP 2018	1,418	5,363	1,628	3,807
LTRP 2019	15,220	10,320	6,844	6,657
LTRP 2020	17,492	10,530	7,840	6,693
LTRP 2021	13,114	—	6,948	—
Total LTRP	$ 50,925	$ 51,907	$ 28,009	$ 36,243

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11. Loans payable and other financial liabilities

The following table summarizes the Company's Loans payable and other financial liabilities as of June 30, 2021 and December 31, 2020:

Type of instrument	Currency	Interest	Weighted Average Interest Rate	Maturity	Book value as of June 30, 2021	Book value as of December 31, 2020
					(In thousands)	
Current loans payable and other financial liabilities:						
Loans from banks						
Chilean Subsidiary	Chilean Pesos	Fixed	1.47 %	July 2021	$ 70,502	$ 92,895
Brazilian Subsidiary	Brazilian Reais	—	— %	—	—	70,267
Brazilian Subsidiary	Brazilian Reais	Variable	CDI + 0.98 %	December 2021	39,982	42,693
Brazilian Subsidiary	Brazilian Reais	Variable	CDI + 0.8 %	December 2021	30,301	29,218
Mexican Subsidiary	Mexican Peso	Variable	TIIE + 2.20 %	May 2022	34,261	18,418
Mexican Subsidiary	Mexican Peso	Variable	TIIE + 2.20 %	September 2021	18,417	—
Argentine Subsidiary	Argentine Pesos	Fixed	38.75 %	October 2021	21,138	14,400
Argentine Subsidiary	Argentine Pesos	Fixed	38.50 %	October 2021	21,115	—
Uruguayan Subsidiary	Uruguayan Pesos	Fixed	6.25 %	September 2021	8,161	—
Uruguayan Subsidiary	Uruguayan Pesos	Fixed	5.98 %	October 2021	2,042	13,406
Uruguayan Subsidiary	Uruguayan Pesos	Fixed	6.31 %	October 2021	5,128	—
Secured lines of credit						
Argentine Subsidiary	Argentine Pesos	Fixed	34.36 %	July 2021	47,163	18,311
Argentine Subsidiary	Argentine Pesos	Fixed	36.67 %	July 2021	11,870	—
Brazilian Subsidiary	Brazilian Reais	—	— %	—	—	58,437
Mexican Subsidiary	Mexican Peso	Fixed	10.08 %	June 2022	3,124	—
Unsecured lines of credit						
Uruguayan Subsidiary	Uruguayan Pesos	Fixed	6.57 %	July 2021	32,635	20,055
Argentine Subsidiary	Argentine Pesos	—	— %	—	—	116,140
Deposit Certificates						
Brazilian Subsidiary	Brazilian Reais	Variable	CDI + 0.69 to 0.80 %	September 2021	32,068	—
Brazilian Subsidiary	Brazilian Reais	Variable	103% to 129% of CDI	July 2021 - June 2022	142,400	—
2028 Notes					3,318	6,649
2026 Sustainability Notes					4,381	—
2031 Notes					10,087	—
Finance lease obligations					8,132	7,394
Credit card collateralized debt					6,333	12,920
Collateralized debt					27,122	25,342
Other lines of credit					106	1,848
					$ 579,786	$ 548,393
Non Current loans payable and other financial liabilities:						
2028 Notes					304,280	595,800
2026 Sustainability Notes					396,465	—
2031 Notes					693,491	—
Finance lease obligations					25,465	16,261
Collateralized debt					351,936	248,815
Secured lines of credit						
Mexican Subsidiary	Mexican Peso	Fixed	10.08 %	July 2026	16,844	—
					$ 1,788,481	$ 860,876

See Notes 12 and 13 to these interim condensed consolidated financial statements for details regarding the Company's collateralized debt securitization transactions and finance lease obligations, respectively.

2.375% Sustainability Senior Notes Due 2026 and 3.125% Senior Notes Due 2031

On January 14, 2021, the Company closed a public offering of $400,000 thousands aggregate principal amount of 2.375% Sustainability Notes due 2026 (the "2026 Sustainability Notes") and $700,000 thousands aggregate principal amount of 3.125% Notes due 2031 (the "2031 Notes", and together with the 2026 Sustainability Notes, the "Notes"). The Company will pay interest on the Notes on January 14 and July 14 of each year, beginning on July 14, 2021. The 2026 Sustainability Notes will mature on January 14, 2026, and the 2031 Notes will mature on January 14, 2031. In connection with the Notes, the Company capitalized $10,647 thousands of debt issuance costs, which are amortized during the term of the Notes.

Certain of the Company's subsidiaries (the "Subsidiary Guarantors") fully and unconditionally guarantee the payment of principal, premium, if any, interest, and all other amounts in respect of each of the Notes (the "Subsidiary Guarantees"). The initial Subsidiary Guarantors are MercadoLibre S.R.L., Ibazar.com Atividades de Internet Ltda., eBazar.com.br Ltda., Mercado Envios Servicos de Logistica Ltda., MercadoPago.com Representações Ltda., MercadoLibre Chile Ltda., MercadoLibre, S. de R.L. de C.V., DeRemate.com de México, S. de R.L. de C.V. and MercadoLibre Colombia Ltda.

The Notes rank equally in right of payment with all of the Company's other existing and future senior unsecured debt obligations from time to time outstanding. Each Subsidiary Guarantee will rank equally in right of payment with all of the Subsidiary Guarantor's other existing and future senior unsecured debt obligations from time to time outstanding, except for statutory priorities under applicable local law.

2.00% Convertible Senior Notes Due 2028

On August 24, 2018, the Company issued $800,000 thousands of 2.00% Convertible Senior Notes due 2028 and issued an additional $80,000 thousands of notes on August 31, 2018 pursuant to the partial exercise of the initial purchasers' option to purchase such additional notes, for an aggregate principal amount of $880,000 thousands of 2.00% Convertible Senior Notes due 2028 (collectively, the "2028 Notes"). The 2028 Notes are unsecured, unsubordinated obligations of the Company, which pay interest in cash semi-annually, on February 15 and August 15 of each year, at a rate of 2.00% per annum. The 2028 Notes will mature on August 15, 2028 unless earlier redeemed, repurchased or converted in accordance with their terms prior to such date. The 2028 Notes may be converted, under specific conditions, based on an initial conversion rate of 2.2553 shares of common stock per $1,000 principal amount of the 2028 Notes (equivalent to an initial conversion price of $443.40 per share of common stock), subject to adjustment as described in the indenture governing the 2028 Notes. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election. For additional information regarding the 2028 Notes please refer to Note 2 and Note 16 to the audited consolidated financial statements for the year ended December 31, 2020, contained in the Company's Annual Report on Form 10-K filed with the SEC.

During the six-month period ended June 30, 2021, 901 Notes were converted, for a total amount of $901 thousands. The determination of whether or not the Notes are convertible must continue to be performed on a quarterly basis. The Company reconfirmed during the second quarter of 2021 that the conversion threshold was met and the Notes remain eligible for conversion. As of the date of issuance of these interim condensed consolidated financial statements, the Company did not receive additional requests for conversion.

The Company has entered into capped call transactions with respect to shares of its common stock with certain financial institutions (the "2028 Notes Capped Call Transactions"). The 2028 Notes Capped Call Transactions are expected generally to reduce the potential dilution upon conversion of the 2028 Notes in the event that the market price of the Company's common stock is greater than the strike price and lower than the cap price of the 2028 Notes Capped Call Transactions. The amounts the Company has paid, including transaction expenses, are $91,784 thousands (August 2018), $11,472 thousands (November 2018), $88,362 thousands (June 2019), $104,095 thousands (June 2020), $82,682 thousands (August 2020), $120,012 thousands (November 2020) and $100,769 thousands (January 2021). In addition, the Company paid $8,005 thousands in November 2019 to amend the strike and cap prices of the capped call transaction purchased in November 2018. The cost of the 2028 Notes Capped Call Transactions is included as a net reduction to additional paid-in capital in the stockholders' equity section of the consolidated balance sheets. In June 2021, the Company terminated certain of its 2028 Notes Capped Call Transactions and received as consideration $102,382 thousands in cash and 57,047 shares of Common Stock. Cash proceeds of terminating certain of the 2028 Notes Capped Call Transactions were used to repurchase 71,175 shares of Common Stock.

In January 2021, the Company repurchased $440,000 thousands principal amount of the outstanding of the 2028 Notes. The total amount paid amounted to $1,865,076 thousands, which includes principal, interest accrued and premium. The settlement consideration was first allocated to the extinguishment of the liability component of the 2028 Notes repurchased. The difference of $29,953 thousands between the fair value of the liability component and the net carrying amount of the liability component and unamortized debt issuance costs was recognized as a loss on debt extinguishment; in addition, $19,294 thousands paid as a premium was recognized as a loss in Interest expense and other financial losses line in the consolidated statement of income in January 2021. The remaining consideration of $1,484,279 thousands (net of income tax effects) was allocated to the reacquisition of the equity component and recognized as a reduction of stockholders' equity.

The total estimated fair value of the 2028 Notes was $1,560,076 thousands and $3,416,819 thousands as of June 30, 2021 and December 31, 2020, respectively. The fair value was determined based on the closing trading price per $100 principal amount of the 2028 Notes as of the last day of trading for the period. The Company considered the fair value of the 2028 Notes as of June 30, 2021 and December 31, 2020 to be a Level 2 measurement. The fair value of the 2028 Notes is primarily affected by the trading price of the Company's common stock and market interest rates. Based on the $1,557.79 closing price of the Company's common stock on June 30, 2021, the if-converted value of the 2028 Notes exceeded their principal amount by $1,103,563 thousands.

The following table presents the carrying amounts of the liability and equity components related to the 2028 Notes as of June 30, 2021 and December 31, 2020:

	June 30, 2021	December 31, 2020
	(In thousands)	
Amount of the equity component (1)	$ 163,653	$ 327,305
2.00% Convertible Senior Notes due 2028	$ 439,092	$ 879,993
Unamortized debt discount (2)	(130,540)	(275,299)
Unamortized transaction costs related to the debt component	(4,276)	(8,894)
Contractual coupon interest accrual	46,442	41,409
Contractual coupon interest payment	(43,120)	(34,760)
Net carrying amount	$ 307,598	$ 602,449

(1) Net of $3,082 thousands of transaction costs related to the equity component of the 2028 Notes.
(2) As of June 30, 2021, the remaining period over which the unamortized debt discount will be amortized is 7.2 years.

The following table presents the interest expense for the contractual interest, the accretion of debt discount and the amortization of debt issuance costs:

	Six month periods ended June 30,		Three month periods ended June 30,	
	2021	2020	2021	2020
	(In thousands)		(In thousands)	
Contractual coupon interest expense	$ 5,033	$ 8,800	$ 2,197	$ 4,400
Amortization of debt discount	7,804	12,727	3,449	6,420
Amortization of debt issuance costs	184	275	82	140
Total interest expense related to the 2028 Notes	$ 13,021	$ 21,802	$ 5,728	$ 10,960

12. Securitization Transactions

The process of securitization consists of the issuance of securities collateralized by a pool of assets through a special purpose entity, often under a VIE.

The Company securitizes financial assets associated with its credit cards and loans receivable portfolio. The Company's securitization transactions typically involve the legal transfer of financial assets to bankruptcy remote special purpose entities ("SPEs") or the acquisition of loans receivable portfolios through SPEs. The Company generally retains economic interests in the collateralized securitization transactions, which are retained in the form of subordinated interests. For accounting purposes, the Company is precluded from recording the transfers of assets in securitization transactions as sales or is required to consolidate the SPE.

The Company securitizes certain credit cards receivable related to user's purchases through Argentine SPEs. According to the SPE contracts, the Company has determined that it has no obligation to absorb losses or the right to receive benefits of the SPE that could be significant because it does not retain any equity certificate of participation or subordinated interest in the SPEs. As the Company does not control the vehicle, its assets, liabilities, and related results are not consolidated in the Company's financial statements.

Additionally, the Company intends to securitize certain credit cards receivable related to user's purchases through Brazilian SPE. According to the SPE contract in place, the Company has determined that it has the obligation to absorb losses or the right to receive benefits of the SPE that could be significant because it retains subordinated interest in the SPEs. As the Company controls the vehicle, the assets, liabilities, and related results are consolidated in its financial statements.

The Company securitizes certain loans receivable through Brazilian, Argentine and Mexican SPEs, formed to securitize loans receivable provided by the Company to its users or purchased from financial institutions that grant loans to the Company's users through Mercado Pago. According to the SPE contracts, the Company has determined that it has both the power to direct the activities of the entity that most significantly impact the entity's performance and the obligation to absorb losses or the right to receive benefits of the entity that could be significant because it retains the equity certificates of participation, and would therefore also be consolidated. When the Company controls the vehicle, it accounts the securitization transactions as if they were secured financing and therefore the assets, liabilities, and related results are consolidated in its financial statements.

The following table summarizes the Company's collateralized debt as of June 30, 2021:

SPEs	Collateralized debt as of June 30, 2021	Interest rate	Currency	Maturity
Mercado Crédito I Brasil Fundo de Investimento Em Direitos Creditórios Não Padronizados	90,489	DI plus 2.5%	Brazilian Reais	May 2024
Fundo de Investimento Em DireitosCreditórios Arandu	198,208	DI plus 1.75%	Brazilian Reais	June 2023
Mercado Crédito Consumo II	789	Badlar rates plus 200 basis points with a min 27% and a max 37%	Argentine Pesos	July 2021
Mercado Crédito VIII	351	Badlar rates plus 200 basis points with a min 29% and a max 39%	Argentine Pesos	July 2021
Mercado Crédito Consumo III	3,350	Badlar rates plus 200 basis points with a min 29% and a max 41%	Argentine Pesos	August 2021
Mercado Crédito IX	4,385	Badlar rates plus 200 basis points with a min 30% and a max 44%	Argentine Pesos	February 2022
Mercado Crédito X	11,019	Badlar rates plus 200 basis points with a min 30% and a max 45%	Argentine Pesos	June 2022
Mercado Crédito Consumo IV	6,672	Badlar rates plus 200 basis points with a min 30% and a max 44%	Argentine Pesos	January 2022
Fideicomiso de administración y fuente de pago CIB/3369	63,795	The equilibrium interbank interest rate published by Banco de Mexico in the Diario Oficial plus 3.0%	Mexican Pesos	April 2024

This secured debt is issued by the SPEs and includes collateralized securities used to fund Mercado Credito business. The third-party investors in the securitization transactions have legal recourse only to the assets securing the debt and do not have recourse to the Company. Additionally, the cash flows generated by the SPEs are restricted to the payment of amounts due to third-party investors, but the Company retains the right to residual cash flows.

The assets and liabilities of the SPEs are included in the Company's interim condensed consolidated financial statements as of June 30, 2021 and December 31, 2020 as follows:

	June 30, 2021	December 31, 2020
Assets	(In thousands)	
Current assets:		
Restricted cash and cash equivalents	$ 138,271	$ 249,872
Credit cards receivable and other means of payments, net	158,181	—
Loans receivable, net	245,469	113,846
Other assets	196	—
Total current assets	542,117	363,718
Non-current assets:		
Long-term investments	2,550	—
Loans receivable, net	13,148	9,581
Total non-current assets	15,698	9,581
Total assets	**$ 557,815**	**$ 373,299**
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	$ 208	$ 100
Loans payable and other financial liabilities	27,122	25,342
Total current liabilities	27,330	25,442
Non-current liabilities:		
Loans payable and other financial liabilities	351,936	248,815
Total non-current liabilities	351,936	248,815
Total liabilities	**$ 379,266**	**$ 274,257**

13. Leases

The Company leases certain fulfillment, cross-docking and services centers, office space, machines and vehicles in the various countries in which it operates. The lease agreements do not contain any residual value guarantees or material restrictive covenants.

Supplemental balance sheet information related to leases was as follows:

	June 30, 2021	December 31, 2020
	(In thousands)	
Operating Leases		
Operating lease right-of-use assets	$ 396,253	$ 303,214
Operating lease liabilities	$ 394,076	$ 298,847
Finance Leases		
Property and equipment, at cost	50,027	29,798
Accumulated depreciation	(8,143)	(4,086)
Property and equipment, net	$ 41,884	$ 25,712
Loans payable and other financial liabilities	$ 33,597	$ 23,655

The following table summarizes the weighted average remaining lease term and the weighted average incremental borrowing rate for operating leases and the weighted average discount rate for finance leases at June 30, 2021:

Weighted average remaining lease term	
Operating leases	7 Years
Finance leases	4 Years
Weighted average discount rate (*)	
Operating leases	8 %
Finance leases	13 %

(*) Includes discount rates of leases in local currency and U.S dollar.

The components of lease expense were as follows:

	Six months ended June 30,	
	2021	2020
	(In thousands)	
Operating lease cost	$ 34,174	$ 18,721
Finance lease cost:		
Depreciation of property and equipment	3,979	1,030
Interest on lease liabilities	1,965	896
Total finance lease cost	$ 5,944	$ 1,926

Supplemental cash flow information related to leases was as follows:

	Six months ended June 30,	
	2021	2020
Cash paid for amounts included in the measurement of lease liabilities:	(In thousands)	
Operating cash flows from operating leases	$ 31,632	$ 17,540
Financing cash flows from finance leases	9,117	1,064
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 110,233	$ 28,823
Finance leases	16,930	790

The following table summarizes the fixed, future minimum rental payments, excluding variable costs, which are discounted by the Company's incremental borrowing rates to calculate the lease liabilities for the operating and finance leases:

Period Ending June 30, 2021	Operating Leases	Finance Leases
	(In thousands)	
One year or less	$ 83,675	$ 11,936
One year to two years	82,703	11,832
Two years to three years	79,110	10,734
Three years to four years	71,133	6,294
Four years to five years	52,907	2,360
Thereafter	131,611	—
Total lease payments	$ 501,139	$ 43,156
Less imputed interest	(107,063)	(9,559)
Total	$ 394,076	$ 33,597

14. Derivative instruments

The Company designates certain derivatives as hedges of particular risks associated with forecasted purchases. These transactions, mainly currency forward contracts, are classified as cash flow hedges.

As of June 30, 2021 the Company used foreign currency exchange contracts to hedge the foreign currency effects related to the forecasted purchase of MPOS devices in U.S. dollars owed by a Brazilian subsidiary whose functional currency is the Brazilian Reais. The Company designated the foreign currency exchange contracts as cash flow hedges, the derivative's gain or loss is initially reported as a component of accumulated other comprehensive income and subsequently reclassified into earnings in the same period the forecasted transaction affects earnings. As of June 30, 2021, the Company estimated that the whole amount of net derivative gains related to its cash flow hedges included in accumulated other comprehensive income will be reclassified into earnings within the next 12 months.

In addition, as of June 30, 2021, the Company entered into certain foreign currency exchange contracts to hedge the foreign currency fluctuations related to certain transactions denominated in U.S. dollars of certain of its Brazilian and Mexican subsidiaries, whose functional currencies are the Brazilian Reais and Mexican Peso, respectively. These transactions were not designated as hedges for accounting purposes.

Finally, as of June 30, 2021, the Company entered into swap contracts to hedge the interest rate fluctuation of its financial debt related to its credit cards receivable securitization transactions in Brazil. These transactions were not designated as hedges for accounting purposes.

The following table presents the notional amounts of the Company's outstanding derivative instruments:

	Notional Amount as of June 30, 2021 (In thousands)
Designated as hedging instrument	
Foreign exchange contracts	$ 79,769
Not designated as hedging instrument	
Foreign exchange contracts	$ 269,474
Interest rate contracts	$ 185,785

Foreign exchange contracts

The fair values of the Company's outstanding derivative instruments as of June 30, 2021 and December 31, 2020 were as follows:

	Balance sheet location	June 30, 2021	December 31, 2020
		(In thousands)	
Derivatives			
Foreign exchange contracts not designated as hedging instruments	Other current assets	$ 84	$ 199
Interest rate contracts not designated as hedging instruments	Other current assets	196	—
Foreign exchange contracts not designated as hedging instruments	Other current liabilities	14,406	11,106
Foreign exchange contracts designated as cash flow hedges	Other current liabilities	5,860	2,858

The effects of derivative contracts on unaudited interim condensed consolidated of comprehensive income as of June 30, 2021 were as follows:

	December 31, 2020	Amount of Gain (Loss) recognized in other comprehensive loss	Amount of (gain) loss reclassified from accumulated other comprehensive loss	June 30, 2021
	(In thousands)			
Foreign exchange contracts designated as cash flow hedges	$ (2,469)	$ (562)	$ (2,721)	$ (5,752)

The effects of derivative contracts on unaudited interim condensed consolidated statement of income for the six and three-month periods ended June 30, 2021 and 2020 were as follows:

	Six month periods ended June 30,		Three month periods ended June 30,	
	2021	2020	2021	2020
	(In thousands)		(In thousands)	
Foreign exchange contracts not designated as hedging instruments recognized in interest and other, net	$ (10,986)	$ 21,826	$ (29,975)	$ 5,059
Interest rate contracts not designated as hedging instruments recognized in interest and other, net	187	—	187	—

15. Share repurchase program

On August 30, 2020, the Board of Directors of MercadoLibre ("the Board") authorized the Company to repurchase shares of the Company's common stock, par value $0.001 per share (the "Common Stock"), for aggregate consideration of up to $350,000 thousands. The share repurchase program was scheduled to expire on August 31, 2021. On August 4, 2021, the Board authorized the Company to repurchase shares of the Company's common stock, for aggregate consideration of up to $150,000 thousands. This authorization, which replaced and superseded the previous authorization, expires on August 31, 2022.

The Company expects to purchase shares at any time and from time to time, in compliance with applicable federal securities laws, through open-market purchases, block trades, derivatives, trading plans established in accordance with SEC rules, or privately negotiated transactions. The timing of repurchases will depend on factors including market conditions and prices, the Company's liquidity requirements and alternative uses of capital. The share repurchase program may be suspended from time to time or discontinued, and there is no assurance as to the number of shares that will be repurchased under the program or that there will be any repurchases.

As of June 30, 2021, the Company had acquired 78,542 shares under the share repurchase program.

On June 7, 2021, the Board authorized the use of part or all of the cash proceeds of terminating certain of its 2028 Notes Capped Call Transactions to repurchase shares of common stock. The Board's authorization is in addition to the share repurchase authorization referred to above. Under this authorization the Company had acquired 71,175 shares.

From time to time, the Company acquires shares of its own common stock in the Argentine market and pays for them in Argentine pesos at a price that reflects the additional cost of accessing US dollars through an indirect mechanism, because of restrictions imposed by the Argentine government for buying US dollars at the official exchange rate in Argentina. As a result, the Company recognized a foreign currency loss of $31,000 thousands and $12,720 thousands for the six and three-month period ended June 30, 2021.

16. Impact of COVID-19 pandemic

In March 2020, the outbreak of a novel strain of the coronavirus, COVID-19 was recognized as a pandemic by the World Health Organization, and the outbreak has become increasingly widespread around the world. Government-imposed total or partial lockdowns or curfews instituted throughout Latin America since March 2020, some of which have been subsequently extended, modified or rescinded, have led to a weakening of the macroeconomic environment, generating recession conditions and a devaluation of the local currencies in the countries in which the Company operates.

The Company has thus far not been required to suspend its operations in any country, but the Company's business was, and may in the future again be, negatively affected by the pandemic in terms of operations, consumer buying trends, and consequently, net revenues.

Management believes that, given the uncertainty with respect to how long the pandemic will persist, what additional measures may be introduced by governments or private parties, what effect any such additional measures may have on our business or the macroeconomic impact of the pandemic in the countries where the Company operates, it is not possible to have certainty around business development and its cash generation until the outbreak of COVID-19 can be definitively contained. In terms of liquidity and cash management, relevant funding sources remain available at the geographical segment level and guaranteed senior notes were issued in January 2021 in an aggregate amount of $1,100,000 thousands.

As of June 30, 2021, the Company's main source of liquidity was $1,260,391 thousands of cash and cash equivalents and short-term investments, which excludes a $707,885 thousands investment related to the Central Bank of Brazil Mandatory Guarantee.

Lastly, the revenues sources of the Company's subsidiaries are denominated in local currency. As a result, the current weak macro-economic environment in certain countries in which the Company operates coupled with the devaluations of certain local currencies in those countries against the U.S. dollar could cause a decline in year-over-year net revenues as measured in U.S. dollars.

Management has made its best estimation of the potential scenarios for 2021. However it is not possible to predict at this time with certainty the impact that COVID-19 could have and its effects, including its impact on the economies of the countries in which the Company operates, and therefore the extent of the impact on the Company's financial condition and results of operations if conditions persist or materially deviate from those currently used in its estimates.

Item 2 — Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement Regarding Forward-Looking Statements

Any statements made or implied in this report that are not statements of historical fact, including statements about our beliefs and expectations, are forward-looking statements within the meaning of Section 27 A of the Securities Act of 1933, as amended, (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and should be evaluated as such. The words "anticipate," "believe," "expect," "intend," "plan," "estimate," "target," "project," "should," "may," "could," "will" and similar words and expressions are intended to identify forward-looking statements. Forward-looking statements generally relate to information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities, future economic, political and social conditions in the countries in which we operate and their possible impact on our business, and the effects of future regulation and the effects of competition. Such forward-looking statements reflect, among other things, our current expectations, plans, projections and strategies, anticipated financial results, future events and financial trends affecting our business, all of which are subject to known and unknown risks, uncertainties and other important factors (in addition to those discussed elsewhere in this report) that may cause our actual results to differ materially from those expressed or implied by these forward-looking statements. These risks and uncertainties include, among other things:

- our expectations regarding the continued growth of e-commerce and Internet usage in Latin America;
- our ability to expand our operations and adapt to rapidly changing technologies;
- our ability to attract new customers, retain existing customers and increase revenues;
- the impact of government and central bank regulations on our business;
- litigation and legal liability;
- systems interruptions or failures;
- our ability to attract and retain qualified personnel;
- consumer trends;
- security breaches and illegal uses of our services;
- competition;
- reliance on third-party service providers;
- enforcement of intellectual property rights;
- seasonal fluctuations;
- political, social and economic conditions in Latin America;
- the expected timing and amount of MercadoLibre's share repurchases;
- our long-term sustainability goals; and
- the current and potential impact of COVID-19 on our net revenues, gross profit margins, operating margins and liquidity due to future disruptions in operations as well as the macroeconomic instability caused by the pandemic.

Many of these risks are beyond our ability to control or predict. New risk factors emerge from time to time and it is not possible for Management to predict all such risk factors, nor can it assess the impact of all such risk factors on our company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

These statements are based on currently available information and our current assumptions, expectations and projections about future events. While we believe that our assumptions, expectations and projections are reasonable in view of the currently available information, you are cautioned not to place undue reliance on our forward-looking statements. These statements are not guarantees of future performance. They are subject to future events, risks and uncertainties–many of which are beyond our control– as well as potentially inaccurate assumptions that could cause actual results to differ materially from our expectations and projections. Some of the material risks and uncertainties that could cause actual results to differ materially from our expectations and projections are described in "Item 1A — Risk Factors" in Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2020 filed with the Securities and Exchange Commission ("SEC") on March 1, 2021, as updated by those described in "Item 1A — Risk Factors" in Part II of our report on Form 10-Q for the quarter ended March 31, 2021 and in other reports we file from time to time with the SEC.

You should read that information in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 2 of Part I of this report, our unaudited interim condensed consolidated financial statements and related notes in Item 1 of Part I of this report and our audited consolidated financial statements and related notes in Item 8 of Part II of our Annual Report on Form 10-K for the year ended December 31, 2020. We note such information for investors as permitted by the Private Securities Litigation Reform Act of 1995. There also may be other factors that we cannot anticipate or that are not described in this report, generally because they are unknown to us or we do not perceive them to be material that could cause results to differ materially from our expectations.

Forward-looking statements speak only as of the date they are made, and we do not undertake to update these forward-looking statements except as may be required by law. You are advised, however, to review any further disclosures we make on related subjects in our periodic filings with the SEC.

The discussion and analysis of our financial condition and results of operations has been organized to present the following:

- a brief overview of our company;
- a review of our financial presentation and accounting policies, including our critical accounting policies;
- a discussion of our principal trends and results of operations for the six and three-month periods ended June 30, 2021 and 2020;
- a discussion of the principal factors that influence our results of operations, financial condition and liquidity;
- a discussion of our liquidity and capital resources and a discussion of our capital expenditures; and
- a description of our non-GAAP financial measures.

Other Information

We routinely post important information for investors on our Investor Relations website, http://investor.mercadolibre.com. We use this website as a means of disclosing material, non-public information and for complying with our disclosure obligations under SEC Regulation FD (Fair Disclosure). Accordingly, investors should monitor our Investor Relations website, in addition to following our press releases, SEC filings, public conference calls and webcasts. The information contained on, or that may be accessed through, our website is not incorporated by reference into, and is not a part of, this report.

Business Overview

We are the largest online commerce ecosystem in Latin America based on unique active users, and we are present in 18 countries: Brazil, Argentina, Mexico, Chile, Colombia, Peru, Uruguay, Venezuela, Bolivia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Honduras, Nicaragua, Panama, Paraguay and El Salvador. Our platform is designed to provide users with a complete portfolio of services to facilitate commercial transactions both digitally and offline.

Through our e-commerce platform, we provide buyers and sellers with a robust and safe environment that fosters the development of a large e-commerce community in Latin America, a region with a population of over 646 million people and with one of the fastest-growing Internet penetration and e-commerce growth rates in the world. We believe that we offer world-class technological and commercial solutions that address the distinctive cultural and geographic challenges of operating a digital commerce platform in Latin America.

We offer our users an ecosystem of six integrated e-commerce services: the Mercado Libre Marketplace, the Mercado Pago FinTech solution, the Mercado Envios logistics service, the Mercado Libre Ads solution, the Mercado Libre Classifieds service and the Mercado Shops online storefronts solution.

The Mercado Libre Marketplace, which we sometimes refer to as our marketplace, is a fully-automated, topically-arranged and user-friendly online commerce platform, which can be accessed through our website and mobile app. This platform enables both businesses and individuals to list merchandise and conduct sales and purchases digitally.

To complement the Mercado Libre Marketplace and also to enhance the user experience for our buyers and sellers, we developed Mercado Pago, an integrated digital payments solution. Initially designed to facilitate transactions on Mercado Libre’s Marketplaces by providing a mechanism that allowed our users to securely, easily and promptly send and receive payments, it is now a full ecosystem of Financial Technology solutions both in the digital and physical world. Our digital payments solution enables any MercadoLibre registered user to securely and easily send and receive digital payments and to pay for purchases made on any of MercadoLibre’s Marketplaces. Currently, Mercado Pago processes and settles all transactions on our Marketplaces in Brazil, Argentina, Mexico, Chile, Colombia and Uruguay, and is also available for our buyers and sellers in Peru. In addition, Mercado Pago grants through our Mercado Credito solution, loans to sellers and buyers in Argentina, Brazil and Mexico.

The Mercado Envios logistics solution enables sellers on our platform to utilize third-party carriers and other logistics service providers, while also providing them with fulfillment and warehousing services. The logistics services we offer are an integral part of our value proposition, as they reduce friction between buyers and sellers, and allow us to have greater control over the full experience. As of June 30, 2021, we also offer free shipping to buyers in Brazil, Argentina, Mexico, Chile and Colombia.

Our advertising platform, Mercado Ads, enables businesses to promote their products and services on the Internet. Through our advertising platform, MercadoLibre's brands and sellers are able to display ads on our webpages through product searches, banner ads, or suggested products. Our advertising platform enables merchants and brands to access the millions of consumers that are on our Marketplaces at any given time with the intent to purchase, which increases the likelihood of conversion.

Through Mercado Libre Classifieds, our online classified listing service, our users can also list and purchase motor vehicles, real estate and services in the countries where we operate. Classifieds listings differ from Marketplace listings as they only charge optional placement fees and not final value fees. Our classifieds pages are also a major source of traffic to our platform, benefitting both the Commerce and Fintech businesses.

We also offer our digital storefront solution, Mercado Shops, allows users to set-up, manage and promote their own digital stores. These stores are hosted by Mercado Libre and offer integration with the rest of our ecosystem, namely our Marketplaces, payment services and logistics services. Users can create a store at no cost, and can access additional functionalities and value added services on commission.

Reporting Segments and Geographic Information

Our segment reporting is based on geography, which is the criterion our Management currently uses to evaluate our segment performance. Our geographic segments are Brazil, Argentina, Mexico and Other Countries (including Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Panama, Peru, Bolivia, Honduras, Nicaragua, El Salvador, Guatemala, Paraguay, Uruguay and the United States of America). Although we discuss long-term trends in our business, it is our policy not to provide earnings guidance in the traditional sense. We believe that uncertain conditions make the forecasting of near-term results difficult. Further, we seek to make decisions focused primarily on the long-term welfare of our company and believe focusing on short-term earnings does not best serve the interests of our stockholders. We believe that execution of key strategic initiatives as well as our expectations for long-term growth in our markets will best create stockholder value. A long-term focus may make it more difficult for industry analysts and the market to evaluate the value of our Company, which could reduce the value of our common stock or permit competitors with short-term tactics to grow more rapidly than us. We, therefore, encourage potential investors to consider this strategy before making an investment in our common stock.

The following table sets forth the percentage of our consolidated net revenues by segment for the six and three-month periods ended June 30, 2021 and 2020:

	Six-month Periods Ended June 30,		Three-month Periods Ended June 30,	
(% of total consolidated net revenues) (*)	**2021**	**2020**	**2021**	**2020**
Brazil	55.8 %	56.4 %	55.9 %	53.0 %
Argentina	21.5	24.3	21.5	27.2
Mexico	15.9	14.4	15.2	14.3
Other Countries	6.8	4.9	7.5	5.5

(*) Percentages have been calculated using whole-dollar amounts rather than the rounded amounts that appear in the table. The table above may not total due to rounding.

The following table summarizes the changes in our net revenues by segment for the six and three-month periods ended June 30, 2021 and 2020:

	Six-month Periods Ended June 30,		Change from 2020 to 2021 (*)		Three-month Periods Ended June 30,		Change from 2020 to 2021 (*)	
	2021	2020	in Dollars	in %	2021	2020	in Dollars	in %
	(in millions, except percentages)				(in millions, except percentages)			
Net Revenues:								
Brazil	$ 1,719.8	$ 862.7	$ 857.1	99.3 %	$ 951.1	$ 465.3	$ 485.8	104.4 %
Argentina	663.3	372.1	291.2	78.3	366.1	239.2	126.9	53.0
Mexico	488.6	220.7	267.9	121.4	258.1	125.9	132.1	104.9
Other Countries	209.5	74.9	134.6	179.6	127.5	47.9	79.6	166.1
Total Net Revenues	$ 3,081.2	$ 1,530.5	$ 1,550.7	101.3 %	$ 1,702.7	$ 878.4	$ 824.4	93.9 %

(*) Percentages have been calculated using whole-dollar amounts rather than the rounded amounts that appear in the table. The table above may not total due to rounding.

Description of Line Items

Net revenues

We recognize revenues in each of our four geographical reporting segments. Within each of our segments, the services we provide and products we sale generally fall into two distinct revenue streams: "Commerce" and "Fintech."

The following table summarizes our consolidated net revenues by revenue stream for the six and three-month periods ended June 30, 2021 and 2020:

Consolidated net revenues by revenue stream	Six-month Periods Ended June 30, (*)		Three-month Periods Ended June 30, (*)	
	2021	2020	2021	2020
	(in millions)		(in millions)	
Commerce (**)	$ 2,052.9	$ 962.4	$ 1,142.3	$ 581.7
Fintech	1,028.2	568.0	560.4	296.7
Total	$ 3,081.2	$ 1,530.5	$ 1,702.7	$ 878.4

(*) The table above may not total due to rounding.
(**) Includes marketplace fees, shipping fees, sales of goods, ad sales, classified fees and other ancillary services.

Revenues from Commerce transactions are mainly generated from:

- marketplace fees that include final value fees and flat fees for transactions below a certain merchandise value;
- shipping fees, net of the third-party carrier costs (when we act as an agent);
- classifieds fees;
- ad sales up-front fees;
- sales of goods; and
- fees from other ancillary businesses.

Final value fees represent a percentage of the sale value that is charged to the seller once an item is successfully sold and flat fees represent a fixed charge for transactions below a certain merchandise value.

Shipping revenues are generated when a buyer elects to receive an item through our shipping service net of the third-party carrier costs.

Through our classifieds offerings in vehicles, real estate and services, we generate revenues from up-front fees. These fees are charged to sellers who opt to give their listings greater exposure throughout our websites.

Our Advertising revenues are generated by selling either display product and/or text link ads throughout our websites to interested advertisers.

Revenues from inventory sales are generated when control of the good is transferred, upon delivery to our customers.

Fintech revenues correspond to our Mercado Pago service, which are attributable to:

- commissions representing a percentage of the payment volume processed that are charged to sellers in connection with off Marketplace-platform transactions;
- commissions from additional fees we charge when a buyer elects to pay in installments through our Mercado Pago platform, for transactions that occur either on or off our Marketplace platform;
- commissions from additional fees we charge when our sellers elect to withdraw cash;
- interest, cash advances and fees from merchant and consumer credits granted under our Mercado Credito solution; and
- revenues from the sale of mobile points of sale products.

Although we also process payments on the Marketplace, we do not charge sellers an added commission for this service, as it is already included in the Marketplace final value fee that we charge.

When more than one service is included in one single arrangement with the same customer, we recognize revenue according to multiple element arrangements accounting, distinguishing between each of the services provided and allocating revenues based on their respective estimated selling prices.

We have a highly fragmented customer revenue base given the large numbers of sellers and buyers who use our platforms. For the six-month periods ended June 30, 2021 and 2020, no single customer accounted for more than 5.0% of our net revenues.

Our Mercado Libre Marketplace is available in 18 countries (Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Panama, Peru, Uruguay, Venezuela (deconsolidated as of December 1, 2017), Bolivia, Honduras, Nicaragua, El Salvador, Guatemala and Paraguay), and Mercado Pago is available in 7 countries (Argentina, Brazil, Chile, Peru, Colombia, Mexico and Uruguay). Additionally, Mercado Envios is available in 6 countries (Argentina, Brazil, Mexico, Colombia, Chile and Uruguay). The functional currency for each country's operations is the country's local currency, except for Argentina, where the functional currency is the U.S. dollar due to Argentina's status as a highly inflationary economy. Our net revenues are generated in multiple foreign currencies and then translated into U.S. dollars at the average monthly exchange rate. Please refer to "Critical Accounting Policies and Estimates" in Note 2 of our unaudited interim condensed consolidated financial statements for further detail on foreign currency translation.

Our subsidiaries in Brazil, Argentina and Colombia are subject to certain taxes on revenues, which are classified as a cost of net revenues. These taxes represented 8.4% of net revenues for the six-month period ended June 30, 2021, as compared to 7.4% for the same period in 2020. For the three-month periods ended June 30, 2021 and 2020, these taxes represented 8.5% of net revenues.

Cost of net revenues

Cost of net revenues primarily includes cost of sales of goods, shipping operation costs (including warehousing costs), carrier and other operating costs, bank and credit card processing charges for transactions and fees paid with credit cards and other payment methods, fraud prevention fees, certain taxes on revenues, certain taxes on bank transactions, hosting and site operation fees, compensation for customer support personnel, ISP connectivity charges and depreciation and amortization.

Product and technology development expenses

Our product and technology development related expenses consist primarily of compensation for our engineering and web-development staff, depreciation and amortization costs related to product and technology development, telecommunications costs and payments to third-party suppliers who provide technology maintenance services to us.

Sales and marketing expenses

Our sales and marketing expenses consist primarily of costs related to marketing our platforms through online and offline advertising and agreements with portals, search engines and other sales expenses related to strategic marketing initiatives, charges related to our buyer protection programs, the salaries of employees involved in these activities, chargebacks related to our Mercado Pago operations, bad debt charges, branding initiatives, marketing activities for our users and depreciation and amortization costs.

We carry out the majority of our marketing efforts on the Internet. We enter into agreements with portals, search engines, social networks, ad networks and other sites in order to attract Internet users to the Mercado Libre Marketplace and convert them into registered users and active traders on our platform.

We also work intensively on attracting, developing and growing our seller community through our customer support efforts. We have dedicated professionals in most of our operations that work with sellers through trade show participation, seminars and meetings to provide them with important tools and skills to become effective sellers on our platform.

General and administrative expenses

Our general and administrative expenses consist primarily of salaries for management and administrative staff, compensation of outside directors, long term retention program compensation, expenses for legal, audit and other professional services, insurance expenses, office space rental expenses, impairment losses from digital assets, travel and business expenses, as well as depreciation and amortization costs. Our general and administrative expenses include the costs of the following areas: general management, finance, treasury, internal audit, administration, accounting, tax, legal and human resources.

Other income (expenses), net

Other income (expenses) consists primarily of interest income derived from our investments and cash equivalents, interest expense and other financial charges related to financial liabilities and foreign currency gains or losses.

Income tax

We are subject to federal and state taxes in the United States, as well as foreign taxes in the multiple jurisdictions where we operate. Our tax obligations consist of current and deferred income taxes incurred in these jurisdictions. We account for income taxes following the liability method of accounting. A valuation allowance is recorded when, based on the available evidence, it is more likely than not that all or a portion of our deferred tax assets will not be realized. Therefore, our income tax expense consists of taxes currently payable, if any (given that in certain jurisdictions we still have net operating loss carry-forwards), plus the change in our deferred tax assets and liabilities during each period.

Critical Accounting Policies and Estimates

There have been no significant changes in our critical accounting policies, Management estimates or accounting policies since the year ended December 31, 2020 and disclosed in the Form 10-K, see "Critical Accounting Policies and Estimates".

Results of operations for the six and three-month periods ended June 30, 2021 compared to the six and three-month periods ended June 30, 2020

The selected financial data for the six and three-month periods ended June 30, 2021 and 2020 discussed herein is derived from our unaudited interim condensed consolidated financial statements included in Item 1 of Part I of this report. These statements include all normal recurring adjustments that Management believes are necessary to fairly state our financial position, results of operations and cash flows. The results of operations for the six and three-month periods ended June 30, 2021 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2021 or for any other period.

Statement of income data

	Six-month Periods Ended June 30,		Three-month Periods Ended June 30,	
(In millions)	**2021 (*)**	**2020 (*)**	**2021 (*)**	**2020 (*)**
	(Unaudited)		**(Unaudited)**	
Net service revenues	$ 2,735.6	$ 1,485.8	$ 1,504.7	$ 845.9
Net product revenues	345.6	44.7	198.0	32.5
Net revenues	3,081.2	1,530.5	1,702.7	878.4
Cost of net revenues	(1,735.9)	(790.5)	(948.8)	(451.2)
Gross profit	1,345.3	740.0	753.9	427.2
Operating expenses:				
Product and technology development	(273.0)	(146.7)	(147.0)	(73.3)
Sales and marketing	(621.3)	(390.6)	(333.1)	(184.1)
General and administrative	(194.0)	(133.0)	(107.7)	(70.4)
Total operating expenses	(1,088.3)	(670.2)	(587.8)	(327.7)
Income from operations	257.0	69.7	166.2	99.4
Other income (expenses):				
Interest income and other financial gains	49.2	55.6	24.2	18.8
Interest expense and other financial losses (**)	(130.6)	(50.6)	(39.3)	(27.0)
Foreign currency losses	(27.2)	(2.1)	(12.1)	(1.9)
Net income before income tax expense	148.4	72.7	138.9	89.3
Income tax expense	(114.3)	(37.8)	(70.7)	(33.4)
Net income	$ 34.2	$ 34.8	$ 68.2	$ 55.9

(*) The table above may not total due to rounding.
(**) Includes $49.2 million of loss on debt extinguishment and premium related to the 2028 Notes repurchase recognized in January 2021. See Note 11 of our unaudited interim condensed consolidated financial statements for further detail on 2028 Notes repurchase.

Principal trends in results of operations

Net revenues

Our net revenues maintained its growth trajectory during the first half of 2021, specifically related to the increase in our gross merchandise volume and the growth of our FinTech solution services (off-platform transactions through Mercado Pago, credits business, financing payment transactions, etc.). Please refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of operations— Net Revenues" section in the current document for further detail on net revenues trends for the six and three-month periods ended June 30, 2021 and 2020.

As a consequence of the COVID-19 pandemic which has affected many countries in Latin America, governments in the region imposed total or partial lockdowns and curfews in March 2020, some of which have been subsequently extended, modified or rescinded based on the evolution of the COVID-19 pandemic.

We are not able to predict any negative impacts that the COVID-19 pandemic may have on our business in the future. See Note 16 to our unaudited condensed consolidated financial statements.

Our sources of revenues are denominated in local currencies; therefore, the weak macro-economic environment in certain countries in which we operate, as a result of COVID-19, coupled with the devaluations of certain local currencies in those countries against the U.S. dollar, could cause a decline in year-over-year net revenues, measured in U.S. dollars.

We continue to monitor the progress of the COVID-19 pandemic and will take additional measures to comply with the rapidly changing regulations of the countries where we operate and the related macroeconomic instability. However, we may see lower net revenues growth until COVID-19 is contained in the countries where we operate.

Gross profit margins

Our gross profit margin is defined as total net revenues minus total cost of net revenues, as a percentage of net revenues.

Our gross profit trends are directly affected by our revenue, as stated above, and our cost of net revenues. In this sense, our main cost of net revenue are composed of cost of sales of goods, bank and credit card processing charges for transactions and fees paid with credit cards and other payment methods, sales taxes, shipping operation costs (including warehousing costs), carrier and other operating costs, hosting and site operation fees, compensation for customer support personnel and ISP connectivity charges. This cost structure is directly affected by the level of operations of our services, and our strategic plan on gross profit is built on factors such as an ample liquidity to fund expenses and investments and a cost-effective capital structure.

However, in the future, our gross profit margin could decline if we continue growing our sales of goods business, which has a lower pure product margin, and building up our logistics network, if we fail to maintain an appropriate relationship between our cost of revenue structure and our net revenues trend and if we are not able to apply appropriate measures regarding our business to prevent potential negative impacts of the COVID-19 pandemic.

For the six-month periods ended June 30, 2021 and 2020, our gross profit margins were 43.7% and 48.4%, respectively. The decrease in our gross profit margin resulted primarily from an increase in cost of product sold and shipping operating costs, as a percentage of net revenues, partially offset by a decrease in collection fees, as a percentage of net revenues.

For the three-month periods ended June 30, 2021 and 2020, our gross profit margins were 44.3% and 48.6%, respectively. The decrease in our gross profit margin resulted primarily from an increase in cost of product sold and shipping operating costs, as a percentage of net revenues, partially offset by a decrease in collection fees, as a percentage of net revenues.

Operating margins

Our Operating margin is defined as total net revenues minus total cost of net revenues and total operating expenses, as a percentage of net revenues.

Our operating margin is affected by our operating expenses structure, which mainly consists of our employees's salaries, our sales and marketing expenses related to those activities we incurred to promote our services, product development expenses, etc. As we continue to grow and focus on expanding our leadership in the region, we will continue to invest in product development, sales and marketing and human resources in order to promote our services and capture long-term business opportunities. As a result, we may experience decreases in our operating margins.

The COVID-19 pandemic and its potential negative impacts on our business could also have negative impacts on our operating margins if we fail to closely monitor operating expenses on demand patterns and expenses are not adjusted in order to maintain an appropriate balance of such expenses with our actual rate of business development.

For the six-month period ended June 30, 2021, as compared to the same period in 2020, our operating margin increased from a margin of 4.6% to a margin of 8.3%. This increase is primarily a consequence of the increase in net revenues explained above, marketing expenditures efficiencies that we achieved as a result of the growth in organic demand brought about by the effects of the COVID-19 pandemic consumer behavior and a decrease in chargebacks and buyer protection program expenses, as a percentage of net revenues.

For the three-month period ended June 30, 2021, as compared to the same period in 2020, our operating margin decreased from a margin of 11.3% to a margin of 9.8%. This decrease is primarily a consequence of an increase in marketing expenses, as percentage of net revenues, and the increase in cost of net revenues explained above, mainly related to cost of product sold and shipping operating costs .

Other Data

The following table includes seven key performance indicators, which are calculated as defined in the footnotes to the table. Each of these indicators provide a different measure of the level of activity on our platform, and we use them to monitor the performance of the business. In light of the evolution of our business, as from January 1, 2021, we no longer disclose "Number of confirmed new registered users during period" since Management considers that this indicator is no longer relevant to measuring the level of activity on our Mercado Libre Marketplace platform.

	Six-month Periods Ended June 30, (*)		Three-month Periods Ended June 30, (*)	
(in millions)	**2021**	**2020**	**2021**	**2020**
Unique active users (1)	98.0	65.5	75.9	51.5
Gross merchandise volume (2)	$ 13,079.8	$ 8,459.0	$ 7,022.6	$ 5,044.8
Number of successful items sold (3)	466.6	284.2	244.6	178.5
Number of successful items shipped (4)	438.6	247.7	230.5	157.5
Total payment volume (5)	$ 32,247.1	$ 19,308.8	$ 17,529.4	$ 11,214.3
Total volume of payments on marketplace (6)	$ 12,615.2	$ 7,966.5	$ 6,775.2	$ 4,763.2
Total payment transactions (7)	1,360.0	695.5	729.9	404.8
Capital expenditures	$ 262.8	$ 101.9	$ 150.2	$ 48.4
Depreciation and amortization	$ 84.5	$ 44.2	$ 46.1	$ 22.7

(*) Figures have been calculated using rounded amounts. Growth calculations based on this table may not total due to rounding.
(1) New or existing user who performed at least one of the following actions during the reported period: (1) made one purchase, or reservation, or asked one question or MercadoLibre Marketplace or Classified Marketplace (2) maintained an active listing on MercadoLibre Marketplace or Classified Marketplace (3) maintained an active account in Mercado Shops (4) made a payment, money transfer, collection and/or advance using Mercado Pago (5) maintained an outstanding credit line through Mercado Credito or (6) maintained a balance of more than $5 invested in a Mercado Fondo asset management account. Management uses this metric to evaluate the size of our community of users who interact with the ecosystem and of which we have the opportunity to generate further engagement. With the changes in our business we believe it provides a better indication of our active user base rather than a registration metric that does not reflect any sort of interaction.
(2) Measure of the total U.S. dollar sum of all transactions completed through the Mercado Libre Marketplace, excluding Classifieds transactions.
(3) Measure of the number of items that were sold/purchased through the Mercado Libre Marketplace, excluding Classifieds items.
(4) Measure of the number of items that were shipped through our shipping service.
(5) Measure of the total U.S. dollar sum of all transactions paid for using Mercado Pago, including marketplace and non-marketplace transactions.
(6) Measure of the total U.S. dollar sum of all marketplace transactions paid for using Mercado Pago, excluding shipping and financing fees.
(7) Measure of the number of all transactions paid for using Mercado Pago.

Net revenues

	Six-month Periods Ended June 30,		Change from 2020 to 2021 (*)		Three-month Periods Ended June 30,		Change from 2020 to 2021 (*)	
	2021	**2020**	**in Dollars**	**in %**	**2021**	**2020**	**in Dollars**	**in %**
	(in millions, except percentages)				(in millions, except percentages)			
Total Net Revenues	$ 3,081.2	$ 1,530.5	$ 1,550.7	101.3%	$ 1,702.7	$ 878.4	$ 824.4	93.9%

(*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table. The table above may not total due to rounding.

Our net revenues grew 101.3% and 93.9% for the six and three-month periods ended June 30, 2021, as compared to the same periods in 2020, respectively. The increase in net revenues was primarily attributable to:

a) an increase of $1,090.5 million and $560.6 million, or 113.3% and 96.4%, in Commerce revenues, for the six and three-month periods ended June 30, 2021, respectively, as compared to the same periods in 2020. This increase is mainly generated by a 54.6% and 39.2% increase in our gross merchandise volume and an increase of $296.1 and $161.9 million in our sales of goods business, for the six and three-month periods ended June 30, 2021, respectively, as compared to the same periods in 2020. The increase in our net revenues was partially offset by an increase of $259.1 million and $100.4 million in shipping carrier costs which are netted from revenues, from $424.8 million and $248.2 million for the six and three-month periods ended June 30, 2020 to $683.9 million and $348.6 million for the six and three-month periods ended June 30, 2021, respectively; and

b) an increase of 81.0% and 88.9%, in FinTech revenues, from $568.0 million and $296.7 million for the six and three-month periods ended June 30, 2020 to $1,028.2 million and $560.4 million for the six and three-month periods ended June 30, 2021. This increase is mainly generated by an increase of $211.2 million and $123.3 million in credit business, and increases in off-platform transactions and financing mainly associated to an 67.0% and 56.3% increase in our total payment volume, for the six and three-month periods ended June 30, 2021, respectively, as compared to the same periods in 2020.

Consolidated Net Revenues by revenue stream	Six-month Periods Ended June 30, 2021	Six-month Periods Ended June 30, 2020	Change from 2020 to 2021 (*) in Dollars	Change from 2020 to 2021 (*) in %	Three-month Periods Ended June 30, 2021	Three-month Periods Ended June 30, 2020	Change from 2020 to 2021 (*) in Dollars	Change from 2020 to 2021 (*) in %
	(in millions, except percentages)				(in millions, except percentages)			
Brazil								
Commerce	$ 1,114.5	$ 517.5	$ 597.0	115.4%	$ 623.6	$ 302.9	$ 320.7	105.9%
Fintech	605.3	345.2	260.1	75.3%	327.5	162.4	165.1	101.7%
	$ 1,719.8	862.7	$ 857.1	99.3%	$ 951.1	$ 465.3	$ 485.8	104.4%
Argentina								
Commerce	$ 377.5	$ 205.5	$ 172.0	83.7%	$ 210.3	$ 138.0	$ 72.2	52.3%
Fintech	285.8	166.6	119.2	71.6%	155.8	101.2	54.6	54.0%
	$ 663.3	372.1	$ 291.2	78.3%	$ 366.1	$ 239.2	$ 126.9	53.0%
Mexico								
Commerce	$ 392.0	$ 182.8	$ 209.2	114.4%	$ 204.1	$ 105.5	$ 98.5	93.3%
Fintech	96.6	37.9	58.7	155.0%	54.0	20.4	33.6	164.8%
	$ 488.6	220.7	$ 267.9	121.4%	$ 258.1	$ 125.9	$ 132.1	104.9%
Other countries								
Commerce	$ 168.9	$ 56.6	$ 112.3	198.5%	$ 104.4	$ 35.2	$ 69.2	196.6%
Fintech	40.6	18.3	22.2	121.1%	23.1	12.7	10.4	81.8%
	$ 209.5	74.9	$ 134.6	179.6%	$ 127.5	$ 47.9	$ 79.6	166.1%
Consolidated								
Commerce	$ 2,052.9	$ 962.4	$ 1,090.5	113.3%	$ 1,142.3	$ 581.7	$ 560.6	96.4%
Fintech	1,028.2	568.0	460.2	81.0%	560.4	296.7	263.8	88.9%
Total	$ 3,081.2	$ 1,530.5	$ 1,550.7	101.3%	$ 1,702.7	$ 878.4	$ 824.4	93.9%

(*) Percentages have been calculated using whole-dollar amounts rather than the rounded amounts that appear in the table. The table above may not total due to rounding.

Brazil

Commerce revenues in Brazil increased 115.4% in the six-month period ended June 30, 2021 as compared to the same period in 2020. This increase was primarily generated by a 49% increase in our gross merchandise volume and the increase in our sales of goods business. Fintech revenues grew by 75.3%, a $260.1 million increase, during the six-month period ended June 30, 2021 as compared to the same period in 2020, mainly driven by a 70.2% increase in the off-platform payments volume, credits business and financing.

Commerce revenues in Brazil increased 105.9% in the three-month period ended June 30, 2021 as compared to the same period in 2020. This increase was primarily generated by a 45% increase in our gross merchandise volume and the increase in our sales of goods business. Fintech revenues grew by 101.7%, a $165.1 million increase, during the three-month period ended June 30, 2021 as compared to the same period in 2020, mainly driven by a 92.7% increase in the off-platform payments volume, credits business and financing.

Argentina

Commerce revenues in Argentina increased 83.7% in the six-month period ended June 30, 2021 as compared to the same period in 2020. This increase was primarily generated by a 42% increase in our gross merchandise volume and the increase in our sales of goods business. Fintech revenues grew 71.6%, a $119.2 million increase, during the six-month period ended June 30, 2021 as compared to the same period in 2020, mainly driven by a 70.4% increase in the off-platform payments volume, credit business and financing, partially offset by the aforementioned devaluation of the local currency.

Commerce revenues in Argentina increased 52.3% in the three-month period ended June 30, 2021 as compared to the same period in 2020. This increase was primarily generated by a 16% increase in our gross merchandise volume and the increase in our sales of goods business. Fintech revenues grew 54.0%, a $54.6 million increase, during the three-month period ended June 30, 2021 as compared to the same period in 2020, mainly driven by a 43.4% increase in the off-platform payments volume, credit business and financing, partially offset by the aforementioned devaluation of the local currency.

Mexico

Commerce revenues in Mexico increased 114.4% in the six-month period ended June 30, 2021 as compared to the same period in 2020. This increase was primarily generated by a 74% increase in our gross merchandise volume and the increase in our sales of goods business. Fintech revenues grew 155.0%, a $58.7 million increase, during the six-month period ended June 30, 2021 as compared to the same period in 2020, mainly driven by a 104.8% increase in the off-platform payments volume (which is partially monetized as a strategy to expand our ecosystem), financing and credits business.

Commerce revenues in Mexico increased 93.3% in the three-month period ended June 30, 2021 as compared to the same period in 2020. This increase was primarily generated by a 49% increase in our gross merchandise volume and the increase in our sales of goods business. Fintech revenues grew 164.8%, a $33.6 million increase, during the three-month period ended June 30, 2021 as compared to the same period in 2020, mainly driven by a 96.8% increase in the off-platform payments volume (which is partially monetized as a strategy to expand our ecosystem), financing and credits business.

The following table sets forth our total net revenues and the sequential quarterly growth of these net revenues for the periods described below:

	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
	(in millions, except percentages) (*)			
2021				
Net revenues	$ 1,378.4	$ 1,702.7	$ n/a	$ n/a
Percent change from prior quarter	4%	24%		
2020				
Net revenues	$ 652.1	$ 878.4	$ 1,115.7	$ 1,327.3
Percent change from prior quarter	-3%	35%	27%	19%

(*) Percentages have been calculated using whole-dollar amounts rather than the rounded amounts that appear in the table.

The following table sets forth the growth in net revenues in local currencies, for the six and three-month periods ended June 30, 2021 as compared to the same periods in 2020:

	Changes from 2020 to 2021 (*)	
(% of revenue growth in Local Currency)	Six-month period	Three-month period
Brazil	116.5%	100.7%
Argentina	149.2%	112.1%
Mexico	104.2%	76.2%
Other Countries	160.1%	142.6%
Total Consolidated	126.4%	102.6%

(*) The local currency revenue growth was calculated by using the average monthly exchange rates for each month during 2020 and applying them to the corresponding months in 2021, so as to calculate what our financial results would have been if exchange rates had remained stable from one year to the next. See also "Non-GAAP Financial Measures" section below for details on FX neutral measures.

In Argentina, the increase in local currency growth is due to an increase in our Argentine Commerce transactions volume, increases in our off-platform transactions business through Mercado Pago, an increase in our credits and financing business and a high level of inflation.

In Brazil, the increase in local currency growth is a consequence of an increase in our Commerce transactions volume and lower shipping subsidies that we granted, an increase in our off-platform transactions through Mercado Pago and an increase in our financing and credits business.

In Mexico, the increase in local currency growth is a consequence of an increase of our Commerce transactions volume, an increase in our off-platform transactions through Mercado Pago and an increase in our financing and credits business.

Cost of net revenues

	Six-month Periods Ended June 30		Change from 2020 to 2021 (*)		Three-month Periods Ended June 30		Change from 2020 to 2021 (*)	
	2021	2020	in Dollars	in %	2021	2020	in Dollars	in %
	(in millions, except percentages)				(in millions, except percentages)			
Total cost of net revenues	$ 1,735.9	$ 790.5	$ 945.4	119.6%	$ 948.8	$ 451.2	$ 497.6	110.3%
As a percentage of net revenues (*)	56.3%	51.6%			55.7%	51.4%		

(*) Percentages have been calculated using whole-dollar amounts rather than the rounded amounts that appear in the table. The table above may not total due to rounding.

For the six-month period ended June 30, 2021 as compared to the same period in 2020, the increase of $945.4 million in cost of net revenues was primarily attributable to: i) a $266.1 million increase in cost of sales of goods mainly in Brazil, Argentina and Mexico; ii) a $249.5 million increase in shipping operating costs; iii) a $144.3 million increase in sales taxes; iv) a $108.7 million increase in collection fees, which was mainly attributable to our Argentine, Brazilian and Mexican operations as a result of the higher transactions volume of Mercado Pago in those countries; v) a $49.3 million increase in shipping carrier costs and; vi) a $43.1 million increase in customer support costs mainly associated with salaries and wages due to new hires and temporary customer support workers.

For the three-month period ended June 30, 2021 as compared to the same period in 2020, the increase of $497.6 million in cost of net revenues was primarily attributable to: i) a $152.1 million increase in cost of sales of goods mainly in Brazil, Argentina and Mexico; ii) a $130.1 million increase in shipping operating costs; iii) a $70.2 million increase in sales taxes; iv) a $50.7 million increase in collection fees, which was mainly attributable to our Argentine, Brazilian and Mexican operations as a result of the higher transactions volume of Mercado Pago in those countries; v) a $25.5 million increase in shipping carrier costs and; vi) a $23.2 million increase in customer support costs mainly associated with salaries and wages due to new hires and temporary customer support workers.

Product and technology development expenses

	Six-month Periods Ended June 30		Change from 2020 to 2021 (*)		Three-month Periods Ended June 30		Change from 2020 to 2021 (*)	
	2021	2020	in Dollars	in %	2021	2020	in Dollars	in %
	(in millions, except percentages)				(in millions, except percentages)			
Product and technology development	$ 273.0	$ 146.7	$ 126.3	86.1%	$ 147.0	$ 73.3	$ 73.7	100.6%
As a percentage of net revenues (*)	8.9%	9.6%			8.6%	8.3%		

(*) Percentages have been calculated using whole-dollar amounts rather than the rounded amounts that appear in the table. The table above may not total due to rounding.

For the six-month period ended June 30, 2021, the increase in product and technology development expenses as compared to the same period in 2020 amounted to $126.3 million. This increase was primarily attributable to: i) a $67.6 million increase in salaries and wages mainly related to new hires; ii) a $29.5 million increase in maintenance expenses mainly related to higher software licenses expenses and iii) a $11.5 million increase in depreciation and amortization expenses.

For the three-month period ended June 30, 2021, the increase in product and technology development expenses as compared to the same period in 2020 amounted to $73.7 million. This increase was primarily attributable to: i) a $40.6 million increase in salaries and wages mainly related to new hires; ii) a $15.2 million increase in maintenance expenses mainly related to higher software licenses expenses and iii) a $6.5 million increase in depreciation and amortization expenses.

We believe product development is one of our key competitive advantages and we intend to continue to invest in hiring engineers to meet the increasingly sophisticated product expectations of our customer base.

Sales and marketing expenses

	Six-month Periods Ended June 30		Change from 2020 to 2021 (*)		Three-month Periods Ended June 30		Change from 2020 to 2021 (*)	
	2021	2020	in Dollars	in %	2021	2020	in Dollars	in %
	(in millions, except percentages)				(in millions, except percentages)			
Sales and marketing	$ 621.3	$ 390.6	$ 230.7	59.1%	$ 333.1	$ 184.1	$ 149.0	81.0%
As a percentage of net revenues (*)	20.2%	25.5%			19.6%	21.0%		

(*) Percentages have been calculated using whole-dollar amounts rather than the rounded amounts that appear in the table. The table above may not total due to rounding.

For the six-month period ended June 30, 2021, the $230.7 million increase in sales and marketing expenses as compared to the same period in 2020 was primarily attributable to: i) a $100.5 million increase in bad debt expenses; ii) a $82.3 million increase in online and offline marketing expenses mainly in Brazil, Mexico and Argentina; iii) a $17.7 million increase in our buyer protection program expenses, mainly in Mexico; and iv) a $17.0 million increase in salaries and wages.

For the three-month period ended June 30, 2021, the $149.0 million increase in sales and marketing expenses as compared to the same period in 2020 was primarily attributable to: i) a $72.0 million increase in online and offline marketing expenses mainly in Brazil, Mexico and Argentina; and ii) a $41.4 million increase in bad debt expenses.

General and administrative expenses

	Six-month Periods Ended June 30		Change from 2020 to 2021 (*)		Three-month Periods Ended June 30		Change from 2020 to 2021 (*)	
	2021	2020	in Dollars	in %	2021	2020	in Dollars	in %
	(in millions, except percentages)				(in millions, except percentages)			
General and administrative	$ 194.0	$ 133.0	$ 61.0	45.9%	$ 107.7	$ 70.4	$ 37.3	52.9%
As a percentage of net revenues (*)	6.3%	8.7%			6.3%	8.0%		

(*) Percentages have been calculated using whole-dollar amounts rather than the rounded amounts that appear in the table. The table above may not total due to rounding.

For the six-month period ended June 30, 2021, the $61.0 million increase in general and administrative expenses as compared to the same period in 2020 was primarily attributable to: i) a $27.8 million increase in salaries and wages, mainly related to new hires; ii) a $12.4 million increase in tax, legal and other fees; iii) a $9.3 million increase in temporary services primarily related to administrative workers; and iv) a $7.2 million increase in impairment losses from digital assets.

For the three-month period ended June 30, 2021, the $37.3 million increase in general and administrative expenses as compared to the same period in 2020 was primarily attributable to: i) a $16.0 million increase in salaries and wages, mainly related to new hires; ii) a $6.4 million increase in tax, legal and other fees; iii) a $5.1 million increase in temporary services primarily related to administrative workers; and iv) a $7.0 million increase in impairment losses from digital assets.

Other income (expense), net

	Six-month Periods Ended June 30		Change from 2020 to 2021 (*)		Three-month Periods Ended June 30		Change from 2020 to 2021 (*)	
	2021	2020	in Dollars	in %	2021	2020	in Dollars	in %
	(in millions, except percentages)				(in millions, except percentages)			
Other income (expense), net	$ (108.6)	$ 2.9	$ (111.5)	-3823.6%	$ (27.3)	$ (10.1)	$ (17.2)	170.1%
As a percentage of net revenues (*)	-3.5%	0.2%			-1.6%	-1.1%		

(*) Percentages have been calculated using whole-dollar amounts rather than the rounded amounts that appear in the table. The table above may not total due to rounding.

For the six-month period ended June 30, 2021, the $111.5 million decrease in other income (expense), net as compared to the same period in 2020 was primarily attributable to: i) a $80.1 million increase in interest expense and other financial losses mainly attributable to a $49.2 million of loss on debt extinguishment and premium recognized during the first quarter of 2021 related to the repurchase of $440 million of principal of the 2028 Notes (refer to Note 11 of our unaudited interim condensed consolidated financial statements for further detail) and higher level of indebtedness during 2021, mainly in U.S., Argentina and Brazil; ii) a $25.1 million increase in our foreign currency loss mainly related to a loss of $31.0 million attributable to our own common stock acquisition in the Argentine market at a price that reflects the additional cost of accessing US dollars through an indirect mechanism due to restrictions imposed by the Argentine government for buying US dollars at the official exchange rate (refer to Note 15 of our unaudited interim condensed consolidated financial statements for further detail), partially offset by a $7.3 million foreign exchange gain from our Argentine subsidiaries and; iii) a $6.3 million decrease in interest income and other financial gains from our financial investments as a result of lower float in our U.S. investments, mainly offset by higher interest income in Argentina due to higher float and higher rates.

For the three-month period ended June 30, 2021, the $17.2 million decrease in other income (expense), net as compared to the same period in 2020 was primarily attributable to: i) a $12.4 million increase in interest expense and other financial losses mainly attributable to higher level of indebtedness during the second quarter of 2021, mainly in U.S. and Argentina ; ii) a $10.2 million increase in our foreign currency loss mainly related to a loss of $12.7 million attributable to our own common stock acquisition in the Argentine market at a price that reflects the additional cost of accessing US dollars through an indirect mechanism due to restrictions imposed by the Argentine government for buying US dollars at the official exchange rate (refer to Note 15 of our unaudited interim condensed consolidated financial statements for further detail), partially offset by a $1.7 million foreign exchange gain from our Argentine subsidiaries. This decrease was partially offset by a $5.4 million increase in interest income and other financial gains from our financial investments as a result of higher interest income in Argentina due to higher float and higher rates.

Income tax

	Six-month Periods Ended June 30		Change from 2020 to 2021 (*)		Three-month Periods Ended June 30		Change from 2020 to 2021 (*)	
	2021	2020	in Dollars	in %	2021	2020	in Dollars	in %
	(in millions, except percentages)				(in millions, except percentages)			
Income tax expense	$ (114.3)	$ (37.8)	$ (76.4)	202.1%	$ (70.7)	$ (33.4)	$ (37.3)	111.7%
As a percentage of net revenues (*)	-3.7%	-2.5%			-4.2%	-3.8%		

(*) Percentages have been calculated using whole-dollar amounts rather than the rounded amounts that appear in the table. The table above may not total due to rounding.

During the six-month period ended June 30, 2021 as compared to the same period in 2020, income tax expense increased by $76.4 million mainly as a result of higher income tax expense in Argentina and Brazil as a consequence of higher pre-tax gain in our Argentine and Brazilian segments in 2021 and higher income tax expense due to withholding tax on dividends from our Argentine subsidiary.

During the three-month period ended June 30, 2021 as compared to the same period in 2020, income tax expense increased by $37.3 million mainly as a result of higher income tax expense in Argentina as a consequence of higher pre-tax gain in our Argentine segment in 2021 and higher income tax expense due to withholding tax on dividends from our Argentine subsidiary.

Our effective tax rate is defined as income tax expense as a percentage of income before income tax expense.

The following table summarizes our effective tax rates for the six and three-month periods ended June 30, 2021 and 2020:

	Six-month Periods Ended June 30, (*)		Three-month Periods Ended June 30, (*)	
	2021	2020	2021	2020
Effective tax rate	77.0%	52.1%	50.9%	37.4%

(*) Percentages have been calculated using whole-dollar amounts rather than the rounded amounts that appear in the table. The table above may not total due to rounding.

Our effective tax rate for the six-month period ended June 30, 2021 increased as compared to the same period in 2020, largely as a result of: i) the loss on debt extinguishment related to 2028 Notes repurchase and the foreign exchange loss related to our share repurchases during 2021 which are considered non-deductible expenses and, ii) higher income tax expense due to withholding tax on dividends from our Argentine subsidiary.

Our effective tax rate for the three-month period ended June 30, 2021 increased as compared to the same period in 2020, largely as a result of: i) the foreign exchange loss related to our share repurchases during the second quarter of 2021 which is considered a non-deductible expense, and ii) higher income tax expense due to withholding tax on dividends from our Argentine subsidiary.

The following table summarizes our effective tax rates for the six and three-month periods ended June 30, 2021 and 2020:

	Six-month Periods Ended June 30		Three-month Periods Ended June 30	
	2021	2020	2021	2020
Effective tax rate by country				
Argentina	28.4%	33.2%	31.8%	30.3%
Brazil	25.1%	29.5%	23.1%	30.8%
Mexico	-9.7%	-1.1%	-7.8%	-9.2%

The decrease in our Argentine effective income tax rate during the six-month period ended June 30, 2021, as compared to the same period in 2020, was mainly a consequence of higher tax deductible expenses on our Argentine business related to tax inflation adjustments on certain assets, in accordance with Argentine income tax law. The increase in our Argentine effective income tax rate during the three-month period ended June 30, 2021, as compared to the same period in 2020, was mainly a consequence of the application of a higher income tax rate by the Argentine Tax Authorities (refer to Note 2 of our unaudited interim condensed consolidated financial statements for further detail), partially offset by tax deductible expenses on our Argentine business related to tax inflation adjustments on certain assets, in accordance with Argentine income tax law.

The decrease in our Brazilian effective income tax rate for the six and three-month periods ended June 30, 2021, as compared to the same periods in 2020, was mainly related to higher non-taxable pre-tax gains.

The increase in our negative Mexican effective income tax rate for the six-month period ended June 30, 2021 as compared to the same period in 2020, was mainly driven by the combined effect of higher income tax expense related to advertising business due to higher pre-tax gains in Mexico and pre-tax losses from other entities in Mexico that were not accounted for as deferred tax assets as a consequence of the valuation allowance.

The decrease in our Mexican negative effective income tax rate for the three-month period ended June 30, 2021 as compared to the same period in 2020, was mainly driven by higher pre-tax losses that were not accounted for as deferred tax assets as a consequence of the valuation allowance along with the effect of higher income tax expense from other entities in Mexico.

Segment information

(In millions, except for percentages)	Six-month Period Ended June 30, 2021 (*)				
	Brazil	Argentina	Mexico	Other Countries	Total
Net revenues	$ 1,719.8	$ 663.3	$ 488.6	$ 209.5	$ 3,081.2
Direct costs	(1,338.5)	(421.1)	(482.3)	(155.6)	(2,397.5)
Direct contribution	$ 381.3	$ 242.2	$ 6.2	$ 53.9	$ 683.6
Margin	22.2%	36.5%	1.3%	25.7%	22.2%

	Six-month Period Ended June 30, 2020 (*)				
	Brazil	Argentina	Mexico	Other Countries	Total
Net revenues	$ 862.7	$ 372.1	$ 220.7	$ 74.9	$ 1,530.5
Direct costs	(647.4)	(272.4)	(225.3)	(62.5)	(1,207.7)
Direct contribution	$ 215.4	$ 99.6	$ (4.6)	$ 12.4	$ 322.8
Margin	25.0%	26.8%	-2.1%	16.5%	21.1%

	Change from the Six-month Period Ended June 30, 2020 to June 30, 2021 (*)				
	Brazil	Argentina	Mexico	Other Countries	Total
Net revenues					
in Dollars	$ 857.1	$ 291.2	$ 267.9	$ 134.6	$ 1,550.7
in %	99.3%	78.3%	121.4%	179.6%	101.3%
Direct costs					
in Dollars	$ (691.1)	$ (148.7)	$ (257.0)	$ (93.0)	$ (1,189.9)
in %	106.8%	54.6%	114.1%	148.7%	98.5%
Direct contribution					
in Dollars	$ 165.9	$ 142.5	$ 10.9	$ 41.5	$ 360.9
in %	77.1%	143.0%	235.4%	335.4%	111.8%

(In millions, except for percentages)	Three-month Period Ended June 30, 2021 (*)				
	Brazil	Argentina	Mexico	Other Countries	Total
Net revenues	$ 951.1	$ 366.1	$ 258.1	$ 127.5	$ 1,702.7
Direct costs	(720.5)	(232.2)	(261.4)	(91.3)	(1,305.3)
Direct contribution	$ 230.6	$ 133.9	$ (3.3)	$ 36.3	$ 397.4
Margin	24.2%	36.6%	-1.3%	28.4%	23.3%

	Three-month Period Ended June 30, 2020 (*)				
	Brazil	Argentina	Mexico	Other Countries	Total
Net revenues	$ 465.3	$ 239.2	$ 125.9	$ 47.9	$ 878.4
Direct costs	(324.8)	(171.4)	(110.6)	(34.9)	(641.7)
Direct contribution	$ 140.5	$ 67.8	$ 15.4	$ 13.0	$ 236.7
Margin	30.2%	28.3%	12.2%	27.1%	26.9%

	Change from the Three-month Period Ended June 30, 2020 to June 30, 2021 (*)				
	Brazil	Argentina	Mexico	Other Countries	Total
Net revenues					
in Dollars	$ 485.8	$ 126.9	$ 132.1	$ 79.6	$ 824.4
in %	104.4%	53.0%	104.9%	166.1%	93.9%
Direct costs					
in Dollars	$ (395.7)	$ (60.8)	$ (150.9)	$ (56.3)	$ (663.7)
in %	121.9%	35.5%	136.5%	161.2%	103.4%
Direct contribution					
in Dollars	$ 90.1	$ 66.1	$ (18.7)	$ 23.3	$ 160.7
in %	64.1%	97.5%	-121.7%	179.5%	67.9%

(*) Percentages have been calculated using whole-dollar amounts rather than the rounded amounts that appear in the table. The table above may not total due to rounding.

Net revenues

Net revenues for the six and three-month period ended June 30, 2021 as compared to the same periods in 2020 are described above in "Item 2 — Management's Discussion and Analysis of Financial Condition and Results of Operations — Net revenues."

Direct costs

Brazil

For the six-month period ended June 30, 2021, as compared to the same period in 2020, direct costs increased by 106.8%, mainly driven by: i) a 125.6% increase in cost of net revenues, mainly attributable to an increase in shipping operating costs, sales taxes, collection fees as a consequence of the higher transactions volume of our Mercado Pago business, cost of sale of goods as a consequence of an increase in sales of products, customer support costs mainly associated to salaries and wages due to new hires and temporary customer support workers and shipping carrier costs; ii) an 86.2% increase in sales and marketing expenses, mainly due to an increase in bad debt expenses and online and offline marketing and sales expenses; iii) a 54.1% increase in product and technology development expenses, mainly due to an increase in salaries and wages, maintenance expenses mostly related to higher software licenses expenses and depreciation and amortization expenses; and iv) a 56.5% increase in general and administrative expenses, mostly attributable to an increase in salaries mainly related to new hirings, taxes, legal and other fees and depreciation and amortization expenses.

For the three-month period ended June 30, 2021, as compared to the same period in 2020, direct costs increased by 121.9%, mainly driven by: i) a 148.2% increase in sales and marketing expenses, mainly due to an increase in bad debt expenses and online and offline marketing and sales expenses; ii) a 118.7% increase in cost of net revenues, mainly attributable to an increase in shipping operating costs, sales taxes, collection fees as a consequence of the higher transactions volume of our Mercado Pago business, cost of sale of goods as a consequence of an increase in sales of products, customer support costs mainly associated to salaries and wages due to new hires and temporary customer support workers and shipping carrier costs; iii) an 84.2% increase in product and technology development expenses, mainly due to an increase in salaries and wages, maintenance expenses mostly related to higher software licenses expenses and depreciation and amortization expenses; and iv) a 92.8% increase in general and administrative expenses, mostly attributable to an increase in salaries mainly related to new hirings, taxes, legal and other fees and depreciation and amortization expenses.

Argentina

For the six-month period ended June 30, 2021, as compared to the same period in 2020, direct costs increased by 54.6%, mainly driven by: i) an 86.8% increase in cost of net revenues, mainly attributable to an increase in collection fees as a consequence of the higher transactions volume of our Mercado Pago business, shipping operating costs and cost of sale of goods as a consequence of an increase in sales of products and sales taxes; ii) an 81.6% increase in product and technology development expenses, mainly due to an increase in depreciation and amortization expenses and maintenance expenses mostly related to higher software licenses expenses; and iii) a 47.8% increase in general and administrative expenses, mostly attributable to an increae in other general and administrative expenses principally related to certain tax withholdings. This increase was partially offset by a 21.1% decrease in sales and marketing expenses, mainly due to lower bad debt expenses during the first half of 2021 as compared to the same period in 2020 resulting from the recognition of a charge of $27.0 million related to accumulated accounts receivable from an unaffiliated entity in Argentina during the second quarter of 2020.

For the three-month period ended June 30, 2021, as compared to the same period in 2020, direct costs increased by 35.5%, mainly driven by: i) a 68.9% increase in cost of net revenues, mainly attributable to an increase in collection fees as a consequence of the higher transactions volume of our Mercado Pago business, shipping operating costs and cost of sale of goods as a consequence of an increase in sales of products and sales taxes; ii) a 107.4% increase in product and technology development expenses, mainly due to an increase in depreciation and amortization expenses and maintenance expenses mostly related to higher software licenses expenses; and iii) a 24.6% increase in general and administrative expenses, mostly attributable to an increase in other general and administrative expenses principally related to certain tax withholdings. This increase was partially offset by a 36.4% decrease in sales and marketing expenses, mainly due to lower bad debt expenses during the first half of 2021 as compared to the same period in 2020 resulting from the recognition of a charge of $27.0 million related to accumulated accounts receivable from an unaffiliated entity in Argentina during the second quarter of 2020.

Mexico

For the six-month period ended June 30, 2021, as compared to the same period in 2020, direct costs increased by 114.1%, mainly driven by: i) a 134.7% increase in cost of net revenues, mainly attributable to increases in shipping operating costs, cost of sale of goods as a consequence of an increase in sales of products, collection fees due to higher Mercado Pago penetration, shipping carrier costs and customer support costs; ii) an 83.4% increase in sales and marketing expenses, mainly due to buyer protection program, bad debt expenses and online and offline marketing and sales expenses; iii) a 285.1% increase in product and technology development expenses, mainly attributable to depreciation and amortization expenses; and iv) a 33.4% increase in general and administrative expenses, mostly attributable to an increase in salaries, mainly related to new hires.

For the three-month period ended June 30, 2021, as compared to the same period in 2020, direct costs increased by 136.5%, mainly driven by: i) a 136.5% increase in cost of net revenues, mainly attributable to increases in shipping operating costs, cost of sale of goods as a consequence of an increase in sales of products, collection fees due to higher Mercado Pago penetration, shipping carrier costs and customer support costs; ii) a 131.9% increase in sales and marketing expenses, mainly due to buyer protection program, bad debt expenses and online and offline marketing and sales expenses; iii) a 734.3% increase in product and technology development expenses, mainly attributable to salaries and wages and depreciation and amortization expenses; and iv) a 77.7% increase in general and administrative expenses, mostly attributable to an increase in salaries, mainly related to new hires.

Liquidity and Capital Resources

Our main cash requirement has been working capital to fund Mercado Pago financing operations. We also require cash for capital expenditures relating to technology infrastructure, software applications, office space, business acquisitions, to fund our credit business, to build out our logistics capacity and to make interest payments on our loans payable and other financial liabilities. In 2020, we entered, into a purchase commitment in relation to the purchase of cloud services for a total amount of $240.5 million to be paid in the following 4 years. Please refer to Note 9 of our unaudited interim condensed consolidated financial statements for further detail on purchase commitments.

Since our inception, we have funded our operations primarily through contributions received from our stockholders during the first two years of operations, from funds raised during our initial public offering, and from cash generated from our operations. We issued the 2028 Notes for net proceeds of approximately $864.6 million. We have funded Mercado Pago mainly by discounting credit cards receivables and credit lines. Additionally, we have financed our Mercado Pago and Mercado Credito businesses through the securitization of credit cards receivable and certain loans through SPEs created in Brazil, Mexico and Argentina. Refer to Note 12 of our unaudited interim condensed consolidated financial statements for further detail on securitization transactions.

In January 2021, we closed a public offering of $400 million aggregate principal amount of 2.375% Sustainability Notes due 2026 (the "2026 Sustainability Notes") and $700 million aggregate principal amount of 3.125% Notes due 2031 (the "2031 Notes", and together with the 2026 Sustainability Notes, the "Notes"). The net proceeds from the offering of the 2031 Notes were applied in part towards the purchase price of $1,865.1 million for the repurchase of $440 million in aggregate principal amount of the 2028 Notes entered into in January 6, 2021. Refer to Note 11 to our unaudited condensed consolidated financial statements for further detail on the issuance of the Notes.

Given the uncertain progress of the COVID-19 pandemic and the related macroeconomic instability in the countries where we operate, it is not possible to have certainty around business development and cash generation for 2021. In terms of liquidity and cash management, our relevant sources of funding remain available and credit facilities have been obtained at the geographic segment level. Refer to Note 16 to our unaudited condensed consolidated financial statements for further detail on COVID-19 impacts.

As of June 30, 2021, our main source of liquidity was $1,260.4 million of cash and cash equivalents and short-term investments, which excludes a $707.9 million investment related to the Central Bank of Brazil Mandatory Guarantee, and consists of cash generated from operations, proceeds from loans, the issuance of the 2028 Notes and the Notes, and proceeds from the issuance of common and preferred stock.

The significant components of our working capital are cash and cash equivalents, restricted cash and cash equivalents, short-term investments, credit cards receivable and other means of payments, accounts receivable, loans receivable, inventory, accounts payable and accrued expenses, funds payable to customers and amounts due to merchants and short-term debt.

As of June 30, 2021, cash and cash equivalents, restricted cash and cash equivalents and investments of our non-U.S. subsidiaries amounted to $2,157.0 million or 85.9% of our consolidated cash and cash equivalents, restricted cash and cash equivalents and investments. Our cash and cash equivalent, restricted cash and cash equivalent and investments held outside U.S. amounted to approximately 84.0% of our consolidated cash and cash equivalents, restricted cash and cash equivalents and investments. Our non-U.S. dollar-denominated cash and cash equivalents, restricted cash and cash equivalents and investments are located primarily in Brazil.

The following table presents our cash flows from operating activities, investing activities and financing activities for the six-month periods ended June 30, 2021 and 2020:

(In millions)	Six-month Periods Ended June 30 2021	2020
Net cash (used in) provided by:		
Operating activities	$ (1.0)	$ 564.7
Investing activities	(256.6)	(548.0)
Financing activities	(755.4)	319.5
Effect of exchange rates on cash and cash equivalents, restricted cash and cash equivalents	(64.3)	(124.2)
Net (decrease) increase in cash and cash equivalents, restricted cash and cash equivalents	$ (1,077.1)	$ 211.9

(*) The table above may not total due to rounding.

Net cash (used in) provided by operating activities

Cash (used in) provided by operating activities consists of net income adjusted for certain non-cash items, and the effect of changes in working capital and other activities:

	Six-month Periods Ended June 30		Change from 2020 to 2021 (*)	
	2021	2020		in %
	(in millions, except percentages)			
Net Cash (used in) provided by:				
Operating activities	$ (1.0)	$ 564.7	$ (565.6)	-100.2%

(*) Percentages have been calculated using whole-dollar amounts rather than the rounded amounts that appear in the table. The table above may not total due to rounding.

The $565.6 million decrease in net cash (used in) provided by operating activities during the six-month period ended June 30, 2021, as compared to the same period in 2020, was primarily driven by a $523.1 million decrease in funds payable to customers and amounts due to merchants.

Net cash used in investing activities

	Six-month Periods Ended June 30		Change from 2020 to 2021 (*)	
	2021	2020	in Dollars	in %
	(in millions, except percentages)			
Net Cash used in:				
Investing activities	$ (256.6)	$ (548.0)	$ 291.5	-53.2%

(*) Percentages have been calculated using whole-dollar amounts rather than the rounded amounts that appear in the table. The table above may not total due to rounding.

Net cash used in investing activities in the six-month period ended June 30, 2021 resulted mainly from purchases of investments of $5,207.9 million, which was offset by proceeds from the sale and maturity of investments of $5,574.6 million, consistent with our treasury strategy of investing part of our available liquidity. We also used: i) $333.4 million in principal of loans receivable granted to merchants and consumers under our Mercado Credito solution; ii) $262.8 million in the purchase of property and equipment (mainly in information technology assets in Argentina, Brazil and Mexico); and iii) $19.5 million in the purchase of digital assets.

Net cash (used in) provided by financing activities

	Six-month Periods Ended June 30				Change from 2020 to 2021 (*)	
	2021		2020		in Dollars	in %
	(in millions, except percentages)					
Net Cash (used in) provided by:						
Financing activities	$	(755.4)	$	319.5	$ (1,074.9)	-336.4%

(*) Percentages have been calculated using whole-dollar amounts rather than the rounded amounts that appear in the table. The table above may not total due to rounding.

For the six-month period ended June 30, 2021, our net cash used in financing activities was primarily derived from $1,865.1 million in payments of the repurchase of the 2028 Notes, $2,239.7 million in payments from loans payable and other financial liabilities, $142.0 million related to the repurchase of our common stock, and $100.8 million for the purchase of capped calls. This net cash used in financing activities was offset by $3,502.0 million in net proceeds from loans payable and other financial liabilities and $102.4 million proceeds from the termination of certain of our 2028 Notes Capped Call Transactions.

In the event that we decide to pursue strategic acquisitions in the future, we may fund them with available cash, third-party debt financing, or by raising equity capital, as market conditions allow.

Debt

Convertible Senior Notes

On August 24, 2018, we issued $800 million of 2.00% Convertible Senior Notes due 2028 and on August 31, 2018 we issued an additional $80 million of notes pursuant to the partial exercise of the initial purchasers' option to purchase such additional notes, resulting in an aggregate principal amount of $880 million of 2.00% Convertible Senior Notes due 2028. The 2028 Notes are unsecured, unsubordinated obligations, which pay interest in cash semi-annually, on February 15 and August 15, at a rate of 2.00% per annum. The 2028 Notes will mature on August 15, 2028 unless earlier repurchased or converted in accordance with their terms prior to such date. The 2028 Notes may be converted, under specific conditions, based on an initial conversion rate of 2.2553 shares of common stock per $1,000 principal amount of the 2028 Notes (equivalent to an initial conversion price of $443.40 per share of common stock), subject to adjustment as described in the indenture governing the 2028 Notes.

In January 2021, we repurchased $440 million principal amount of the outstanding 2028 Notes. The total amount paid to repurchase such 2028 Notes amounted to $1,865.1 million, which includes principal, interest accrued and premium. Approximately, $440 million of the principal amount aggregate principal amount of the 2028 Notes remains outstanding.

Please refer to note 11 to our unaudited interim condensed consolidated financial statements for additional information regarding the 2028 Notes and the related capped call transactions.

Mercado Pago Funding

In 2021, we, through our subsidiaries, continued obtaining certain lines of credit in Argentina, Chile and Uruguay primarily to fund the Mercado Pago business. Additionally, we continue to securitize certain loans and credit card receivables through our Argentine, Mexican and Brazilian SPEs, formed to securitize loans provided by us to our users and credit cards receivable. Finally, we obtained funding through our financial institution in Brazil through deposit certificates. Please refer to Note 11 and 12 to our interim unaudited condensed consolidated financial statements for additional detail.

Debt Securities Guaranteed by Subsidiaries

On January 14, 2021, we issued $400 million aggregate principal amount of the 2026 Sustainability Notes and $700 million aggregate principal amount of the 2031 Notes. The payment of principal, premium, if any, interest, and all other amounts in respect of each of the Notes, is fully and unconditionally guaranteed (the "Subsidiary Guarantees"), jointly and severally, on an unsecured basis, by certain of our subsidiaries (the "Subsidiary Guarantors"). The initial Subsidiary Guarantors are MercadoLibre S.R.L., Ibazar.com Atividades de Internet Ltda., eBazar.com.br Ltda., Mercado Envios Servicos de Logistica Ltda., MercadoPago.com Representações Ltda., MercadoLibre Chile Ltda., MercadoLibre, S. de R.L. de C.V., DeRemate.com de México, S. de R.L. de C.V. and MercadoLibre Colombia Ltda.

We pay interest on the Notes on January 14 and July 14 of each year, beginning on July 14, 2021. The 2026 Sustainability Notes will mature on January 14, 2026, and the 2031 Notes will mature on January 14, 2031.

The Notes rank equally in right of payment with all of the Company´s other existing and future senior unsecured debt obligations from time to time outstanding. Each Subsidiary Guarantee will rank equally in right of payment with all of the Subsidiary Guarantor's other existing and future senior unsecured debt obligations from time to time outstanding, except for statutory priorities under applicable local law.

Each Subsidiary Guarantee will be limited to the maximum amount that would not render the Subsidiary Guarantor's obligations subject to avoidance under applicable fraudulent conveyance provisions of applicable law. By virtue of this limitation, a Subsidiary Guarantor's obligation under its Subsidiary Guarantee could be significantly less than amounts payable with respect to the Notes, or a Subsidiary Guarantor may have effectively no obligation under its Subsidiary Guarantee.

Under the indenture governing the Notes, the Subsidiary Guarantee of a Subsidiary Guarantor will terminate upon: (i) the sale, exchange, disposition or other transfer (including by way of consolidation or merger) of the Subsidiary Guarantor or the sale or disposition of all or substantially all the assets of the Subsidiary Guarantor (other than to the Company or a Subsidiary) otherwise permitted by the indenture, (ii) satisfaction of the requirements for legal or covenant defeasance or discharge of the Notes, (iii) the release or discharge of the guarantee by such Subsidiary Guarantor of the Triggering Indebtedness (as defined in the applicable indenture) or the repayment of the Triggering Indebtedness, in each case, that resulted in the obligation of such Subsidiary to become a Subsidiary Guarantor, provided that in no event shall the Subsidiary Guarantee of an Initial Subsidiary Guarantor terminate pursuant to this provision, or (iv) such Subsidiary Guarantor becoming an Excluded Subsidiary (as defined in the applicable indenture) or ceasing to be a Subsidiary.

We may, at our option, redeem the 2026 Sustainability Notes, in whole or in part, at any time prior to December 14, 2025 (the date that is one month prior to the maturity of the 2026 Sustainability Notes) and the 2031 Notes, in whole or in part, at any time prior to October 14, 2030 (the date that is three months prior to the maturity of the 2031 Notes), in each case by paying 100% of the principal amount of such Notes so redeemed plus the applicable "make-whole" amount and accrued and unpaid interest and additional amounts, if any. We may, at our option, redeem the 2026 Sustainability Notes, in whole or in part, on December 14, 2025 or at any time thereafter and the 2031 Notes on October 14, 2030 or at any time thereafter, in each case at the redemption price of 100% of the principal amount of such Notes so redeemed plus accrued and unpaid interest and additional amounts, if any. If we experience certain change of control triggering events, we may be required to offer to purchase the notes at 101% of their principal amount plus any accrued and unpaid interest thereon through the purchase date.

See note 11 of our unaudited condensed consolidated financial statements for additional detail.

We are presenting the following summarized financial information for the issuer and the initial Subsidiary Guarantors (together, the "Obligor Group") pursuant to Rule 13-01 of Regulation S-X, Guarantors and Issuers of Guaranteed Securities Registered or Being Registered. For purposes of the following summarized financial information, transactions between the Company and the Subsidiary Guarantors, presented on a combined basis, have been eliminated. Financial information for the non-guarantor subsidiaries, and any investment in a non-guarantor subsidiary by the Company or by any Subsidiary Guarantor, have been excluded. Amounts due from, due to and transactions with the non-guarantor subsidiaries and other related parties, as applicable, have been separately presented.

Summarized balance sheet information for the Obligor Group as of June 30, 2021 and as of December 31, 2020 is provided in the table below:

(In millions)	June 30, 2021	December 31, 2020
Current assets (1) (2)	$ 3,384.8	$ 4,339.4
Non-current assets (3)	1,472.7	1,121.2
Current Liabilities (4)	3,450.0	3,298.2
Non-current Liabilities (5) (6)	1,791.0	944.3

(1) Includes restricted cash and cash equivalents of $222.9 million and $402.0 million and guarantees in short-term investments of $707.9 million and $636.9 million as of June 30, 2021 and December 31, 2020, respectively.
(2) Includes Current assets from non-guarantor subsidiaries of $237.1 million and $156.4 million as of June 30, 2021 and December 31, 2020, respectively.
(3) Includes Non-current assets from non-guarantor subsidiaries of $103.2 million and $94.9 million as of June 30, 2021 and December 31, 2020, respectively.
(4) Includes Current liabilities to non-guarantor subsidiaries of $310.6 million and $144.7 million as of June 30, 2021 and December 31, 2020, respectively.
(5) Includes Non-current liabilities to non-guarantor subsidiaries of $44.8 million as of June 30, 2021.
(6) The Obligor Group's total liabilities increased from $4,242.5 million as of December 31, 2020 to $5,241.0 million as of June 30, 2021, mainly, due to the issuance of the Notes in January 2021. See Note 11 to the unaudited interim condensed consolidated financial statements for further detail.

Summarized statement of income information for the Obligor Group for the six-month period ended June 30, 2021 is provided in the table below:

(In millions)		June 30, 2021
Net revenues (1)	$	2,657.9
Gross Profit (2)		1,033.9
Income from operations (3)		150.3
Net loss (4) (5)		(26.0)

(1) Includes Net revenues from transactions with non-guarantor subsidiaries of $65.1 million for the six-month period ended June 30, 2021.
(2) Includes charges from transactions with non-guarantor subsidiaries of $143.5 million for the six-month period ended June 30, 2021.
(3) In addition to the charges included in Gross profit, Income from operations includes charges from transactions with non-guarantor subsidiaries of $90.2 million for the six-month period ended June 30, 2021.
(4) Includes other income/ (expense) from transactions with non-guarantor subsidiaries of $6.5 million for the six-month period ended June 30, 2021.
(5) Includes $49.2 million of loss on debt extinguishment and premium related to the 2028 Notes repurchase recognized in January 2021. See Note 11 of our unaudited interim condensed consolidated financial statements for further detail on 2028 Notes repurchase.

Capital expenditures

Our capital expenditures (comprised of our payments for property and equipment (such as fulfillment centers), intangible assets (excluding digital assets and acquired businesses) for the six-month periods ended June 30, 2021 and 2020 amounted to $262.8 million and $101.9 million, respectively.

During the six-month period ended June 30, 2021, we invested $105.0 million in information technology in Brazil, Argentina and Mexico, and $149.1 million in our Argentine, Brazilian and Mexican shipping premises and offices.

We are continually increasing our level of investment in hardware and software licenses necessary to improve and update our platform's technology and computer software developed internally. We anticipate continued investments in capital expenditures related to information technology and logistics network capacity in the future as we strive to maintain our position in the Latin American e-commerce market.

We believe that our existing cash and cash equivalents, including the sale of credit cards receivable, short-term investments and cash generated from operations, will be sufficient to fund our operating activities, property and equipment expenditures and to pay or repay obligations going forward.

Off-balance sheet arrangements

As of June 30, 2021, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our consolidated financial condition, results of operations, liquidity, capital expenditures or capital resources.

Recently issued accounting pronouncements

See Item 1 of Part I, "Unaudited Interim Condensed Consolidated Financial Statements-Note 2-Summary of significant accounting policies— Recently Adopted Accounting Standards and Recently issued accounting pronouncements not yet adopted."

Non-GAAP Financial Measures

To supplement our consolidated financial statements presented in accordance with U.S. GAAP, we use foreign exchange ("FX") neutral measures as a non-GAAP measure.

This non-GAAP measure should not be considered in isolation or as a substitute for measures of performance prepared in accordance with U.S. GAAP and may be different from non-GAAP measures used by other companies. In addition, this non-GAAP measure is not based on any comprehensive set of accounting rules or principles. Non-GAAP measures have limitations in that they do not reflect all of the amounts associated with our results of operations as determined in accordance with U.S. GAAP. This non-GAAP financial measure should only be used to evaluate our results of operations in conjunction with the most comparable U.S. GAAP financial measures.

Reconciliation of this non-GAAP financial measure to the most comparable U.S. GAAP financial measure can be found in the table included in this quarterly report.

We provide this non-GAAP financial measure to enhance overall understanding of our current financial performance and its prospects for the future, and we understand that this measure provides useful information to both Management and investors. In particular, we believe that FX neutral measures provide useful information to both Management and investors by excluding the foreign currency exchange rate impact that may not be indicative of our core operating results and business outlook.

The FX neutral measures were calculated by using the average monthly exchange rates for each month during 2020 and applying them to the corresponding months in 2021, so as to calculate what our results would have been if exchange rates had remained stable from one year to the next. The table below excludes intercompany allocation FX effects. Finally, these measures do not include any other macroeconomic effect such as local currency inflation effects, the impact on impairment calculations or any price adjustment to compensate local currency inflation or devaluations.

The following table sets forth the FX neutral measures related to our reported results of the operations for the six and three-month periods ended June 30, 2021:

	Six-month Periods Ended June 30, (*)					
	As reported			FX Neutral Measures	As reported	
(In millions, except percentages)	2021	2020	Percentage Change	2021	2020	Percentage Change
Net revenues	$ 3,081.2	$ 1,530.5	101.3%	$ 3,464.8	$ 1,530.5	126.4%
Cost of net revenues	(1,735.9)	(790.5)	119.6%	(1,922.1)	(790.5)	143.2%
Gross profit	1,345.3	740.0	81.8%	1,542.7	740.0	108.5%
Operating expenses	(1,088.3)	(670.2)	62.4%	(1,241.2)	(670.2)	85.2%
Income from operations	257.0	69.7	268.5%	301.5	69.7	332.3%

	Three-month Periods Ended June 30, (*)					
	As reported			FX Neutral Measures	As reported	
(In millions, except percentages)	2021	2020	Percentage Change	2021	2020	Percentage Change
	(Unaudited)			(Unaudited)		
Net revenues	$ 1,702.7	$ 878.4	93.9%	$ 1,780.0	$ 878.4	102.6%
Cost of net revenues	(948.8)	(451.2)	110.3%	(980.3)	(451.2)	117.3%
Gross profit	753.9	427.2	76.5%	799.7	427.2	87.2%
Operating expenses	(587.8)	(327.7)	79.3%	(625.6)	(327.7)	90.9%
Income from operations	166.2	99.4	67.1%	174.1	99.4	75.1%

(*) The table above may not total due to rounding.

Item 3 — Qualitative and Quantitative Disclosure About Market Risk

We are exposed to market risks arising from our business operations. These market risks arise mainly from the possibility that changes in interest rates and the U.S. dollar exchange rate with local currencies, particularly the Brazilian Reais, Argentine Peso and Mexican Peso due to Brazil's, Argentine's and Mexican's respective share of our revenues, may affect the value of our financial assets and liabilities. Latin American countries in which we operate have been negatively affected by the outbreak of COVID-19, which has generated macroeconomic instability and led to the devaluation of certain Latin American currencies.

Foreign currencies

We have significant operations internationally that are denominated in foreign currencies, primarily the Brazilian Reais, Argentine Peso, Mexican Peso, Colombian Peso and Chilean Peso, subjecting us to foreign currency risk, which may adversely impact our financial results. We transact business in various foreign currencies and have significant international revenues and costs. In addition, we charge our international subsidiaries for their use of intellectual property and technology and for certain corporate services. Our cash flows, results of operations and certain of our intercompany balances that are exposed to foreign exchange rate fluctuations may differ materially from expectations and we may record significant gains or losses due to foreign currency fluctuations and related hedging activities.

As of June 30, 2021, we hold cash and cash equivalents in local currencies in our subsidiaries, and have receivables denominated in local currencies in all of our operations. Our subsidiaries generate revenues and incur most of their expenses in the respective local currencies of the countries in which they operate. As a result, our subsidiaries use their local currency as their functional currency except for our Argentine subsidiaries, whose functional currency is the U.S. dollar due to the inflationary environment. As of June 30, 2021, the total cash, cash equivalents, restricted cash and cash equivalent denominated in foreign currencies totaled $1,161.1 million, short-term investments denominated in foreign currencies totaled $898.4 million and accounts receivable, credit cards receivable and other means of payment and loans receivable in foreign currencies totaled $1,829.7 million. As of June 30, 2021, we had $13.5 million long-term investments denominated in foreign currencies. To manage exchange rate risk, our treasury policy is to transfer most cash and cash equivalents in excess of working capital requirements into U.S. dollar-denominated accounts in the United States and to enter into certain foreign exchange derivatives, such as currency forwards contracts, in order to mitigate our exposure to foreign exchange risk. As of June 30, 2021, our U.S. dollar-denominated cash and cash equivalents, restricted cash and cash equivalents and short-term investments totaled $270.0 million and our U.S. dollar-denominated long-term investments totaled $167.9 million.

For the six-month period ended June 30, 2021, we had a consolidated loss on foreign currency of $27.2 million mainly related to a loss of $31.0 million attributable to our own common stock acquisition in the Argentine market at a price that reflects the additional cost of accessing US dollars through an indirect mechanism due to restrictions imposed by the Argentine government for buying US dollars at the official exchange rate (refer to Note 15 of our unaudited interim condensed consolidated financial), partially offset by a $7.3 million foreign exchange gain from our Argentine subsidiaries. For the three-month period ended June 30, 2021, we had a consolidated loss on foreign currency of $12.1 million mainly related to a loss of $12.7 million attributable to our own common stock acquisition in the Argentine market at a price that reflects the additional cost of accessing US dollars through an indirect mechanism due to restrictions imposed by the Argentine government for buying US dollars at the official exchange rate (refer to Note 15 of our unaudited interim condensed consolidated financial statements for further detail), partially offset by a $1.7 million foreign exchange gain from our Argentine subsidiaries. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of operations—Other income (expenses), net" for more information).

The following table sets forth the percentage of consolidated net revenues by segment for the six and three-month periods ended June 30, 2021 and 2020:

	Six-month Periods Ended June 30,		Three-month Periods Ended June 30,	
(% of total consolidated net revenues) (*)	**2021**	**2020**	**2021**	**2020**
Brazil	55.8 %	56.4 %	55.9 %	53.0 %
Argentina	21.5	24.3	21.5	27.2
Mexico	15.9	14.4	15.2	14.3
Other Countries	6.8	4.9	7.5	5.5

(*) Percentages have been calculated using whole-dollar amounts.

Foreign Currency Sensitivity Analysis

The table below shows the impact on our net revenues, cost of net revenues, operating expenses, other income (expenses) and income tax, net income and equity for a positive and a negative 10% fluctuation on all the foreign currencies to which we are exposed at the moment of translating our financial statements to U.S. dollar as of June 30, 2021:

Foreign Currency Sensitivity Analysis (*)

(In millions)	-10% (1)	Actual	+10% (2)
Net revenues	$ 3,423.5	$ 3,081.2	$ 2,801.1
Expenses (**)	(3,121.6)	(2,824.2)	(2,580.8)
Income from operations	301.9	257.0	220.3
Other income/(expenses) and income tax related to P&L items	(208.9)	(195.6)	(184.8)
Foreign Currency impact related to the remeasurement of our Net Asset position	(26.8)	(27.2)	(27.5)
Net Income	66.1	34.2	8.0
Total Shareholders' Equity	$ 219.6	$ 81.0	$ (74.0)

(1) Appreciation of the subsidiaries' local currency against U.S. Dollar
(2) Depreciation of the subsidiaries' local currency against U.S. Dollar
(*) The table above may not total due to rounding.
(**) Includes cost of net revenues and operating expenses.

The table above shows a increase in our net income when the U.S. dollar weakens against foreign currencies because of the positive impact of the increase in income from operations. On the other hand, the table above shows a decrease in our net income when the U.S. dollar strengthens against foreign currencies because of the negative impact of the decrease in income from operations.

Argentine Segment

In accordance with U.S. GAAP, we have classified our Argentine operations as highly inflationary since July 1, 2018, using the U.S. dollar as the functional currency for purposes of reporting our financial statements. Therefore, no translation effect has been accounted for in other comprehensive income related to our Argentine operations since July 1, 2018.

As of June 30, 2021, the Argentine Peso exchange rate against the U.S. dollar was 95.72.

In the second half of 2019, the Argentine government instituted exchange controls restricting the purchase of foreign currencies. Because of Argentine exchange controls, many Argentine entities use a trading mechanism, in which an entity buys U.S. dollar denominated securities in Argentina using Argentine Pesos, transfers the securities outside Argentina and sells the securities for U.S. dollars. The number of U.S. dollars that may be obtained through this mechanism are lower than the ones that would have resulted from buying them at the official rate if such transaction was not restricted.

Considering a hypothetical devaluation of 10% of the Argentine Peso against the U.S. dollar on June 30, 2021, the effect on non-functional currency net asset position in our Argentine subsidiaries would have been a foreign exchange loss amounting to approximately $3.6 million in our Argentine subsidiaries.

See Item 7, "Management's discussion and analysis of financial condition and results of operations—Critical accounting policies and estimates—Foreign Currency Translation" for details on the currency status of our Argentine segment.

Brazilian Segment

Considering a hypothetical devaluation of 10% of the Brazilian Reais against the U.S. dollar on June 30, 2021, the reported net assets in our Brazilian subsidiaries would have decreased by approximately $107.9 million with the related impact in Other Comprehensive Income. Additionally, we would have recorded a foreign currency loss amounting to approximately $15.7 million in our Brazilian subsidiaries.

Mexican Segment

Considering a hypothetical devaluation of 10% of the Mexican peso against the U.S. dollar on June 30, 2021, the reported net assets in our Mexican subsidiaries would have decreased by approximately $24.7 million with the related impact in Other Comprehensive Income. Additionally, we would have recorded a foreign currency loss amounting to approximately $12.9 million in our Mexican subsidiaries.

Interest

Our earnings and cash flows are also affected by changes in interest rates. These changes could have an impact on the interest rates that financial institutions charge us prior to the time we sell our Mercado Pago receivables. As of June 30, 2021, Mercado Pago's receivables totaled $1,189.8 million. Interest rate fluctuations could also impact interest earned through our Mercado Credito solution. As of June 30, 2021, loans receivable from our Mercado Credito solution totaled $570.5 million. Interest rate fluctuations could also negatively affect certain of our fixed rate and floating rate investments comprised primarily of time deposits, money market funds and sovereign debt securities. Investments in both fixed rate and floating rate interest earning products carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than predicted if interest rates fall.

As of June 30, 2021, the average duration of our available for sale securities, defined as the approximate percentage change in price for a 100-basis-point change in yield, was 1.1%. If interest rates were to instantaneously increase (decrease) by 100 basis points, the fair value of our available for sale securities as of June 30, 2021 could decrease (increase) by approximately $3.5 million.

As of June 30, 2021, our short-term investments amounted to $898.4 million and our long-term investments amounted to $181.4 million. Our short-term investments, except for the $707.9 million investment related to the Central Bank of Brazil Mandatory Guarantee, can be readily converted at any time into cash or into securities with a shorter remaining time to maturity. We determine the appropriate classification of our investments at the time of purchase and re-evaluate such designations as of each balance sheet date.

Equity Price Risk

Our board of directors, upon the recommendation of the compensation committee, approved the 2016, 2017, and 2018 Long Term Retention Program (the "2016, 2017 and 2018 LTRPs"), respectively.

In order to receive an award under the 2016, 2017 and/or 2018 LTRP, each eligible employee must satisfy the performance conditions established by the Board of Directors for such employee. If these conditions are satisfied, the eligible employee will, subject to his or her continued employment as of each applicable payment date, receive the full amount of his or her 2016, 2017, and/or 2018 LTRP award, payable as follows:

- the eligible employee will receive a fixed payment, equal to 8.333% of his or her 2016, 2017, and/or 2018 LTRP bonus once a year for a period of six years starting no later than April 30, 2017, 2018 and/or 2019 respectively (the "2016, 2017, or 2018 Annual Fixed Payment", respectively); and
- on each date we pay the respective Annual Fixed Payment to an eligible employee, he or she will also receive a payment (the "2016, 2017, or 2018 Variable Payment", respectively) equal to the product of (i) 8.333% of the applicable 2016, 2017, and/or 2018 LTRP award and (ii) the quotient of (a) divided by (b), where (a), the numerator, equals the Applicable Year Stock Price (as defined below) and (b), the denominator, equals the 2015 (with respect to the 2016 LTRP), 2016 (with respect to the 2017 LTRP) and 2017 (with respect to the 2018 LTRP) Stock Price, defined as $111.02, $164.17 and $270.84 for the 2016, 2017 and 2018 LTRP, respectively, which was the average closing price of our common stock on the NASDAQ Global Select Market during the final 60 trading days of 2015, 2016 and 2017, respectively. The "Applicable Year Stock Price" shall equal the average closing price of our common stock on the NASDAQ Global Select Market during the final 60 trading days of the year preceding the applicable payment date.

Our board of directors, upon the recommendation of the compensation committee, approved the 2019, 2020 and 2021 Long Term Retention Program (the "2019, 2020 and 2021 LTRPs"), respectively, under which certain eligible employees have the opportunity to receive cash payments annually for a period of six years (with the first payment occurring no later than April 30, 2020, 2021 and 2022, respectively). In order to receive the full target award under the 2019, 2020 and/or 2021 LTRP, each eligible employee must remain employed as of each applicable payment date. The 2019, 2020 and 2021 LTRP awards are payable as follows:

- the eligible employee will receive 16.66% of half of his or her target 2019, 2020 and/or 2021 LTRP bonus once a year for a period of six years, with the first payment occurring no later than April 30, 2020, 2021 and 2022 (the "2019, 2020 or 2021 Annual Fixed Payment", respectively); and

- on each date we pay the respective Annual Fixed Payment to an eligible employee, he or she will also receive a payment (the "2019, 2020 or 2021 Variable Payment") equal to the product of (i) 16.66% of half of the target 2019, 2020 or 2021 LTRP award and (ii) the quotient of (a) divided by (b), where (a), the numerator, equals the Applicable Year Stock Price (as defined below) and (b), the denominator, equals the average closing price of our common stock on the NASDAQ Global Select Market during the final 60 trading days of 2018, 2019 and 2020 defined as $322.91, $553.45 and $1,431.26 for the 2019, 2020 and 2021 LTRP, respectively. The "Applicable Year Stock Price" shall equal the average closing price of our common stock on the NASDAQ Global Select Market during the final 60 trading days of the year preceding the applicable payment date.

At June 30, 2021, the total contractual obligation fair value of our outstanding LTRP Variable Award Payment obligation subject to equity price risk amounted to $365.9 million. As of June 30, 2021, the accrued liability related to the outstanding Variable Award Payment of the LTRP included in Salaries and Social security payable in our condensed consolidated balance sheet amounted to $80.8 million. The following table shows a sensitivity analysis of the risk associated with our total contractual obligation fair value related to the outstanding LTRP Variable Award Payment subject to equity price risk if our common stock price per share were to increase or decrease by up to 40%:

	As of June 30, 2021	
	MercadoLibre, Inc Equity Price	2016, 2017, 2018, 2019, 2020 and 2021 LTRP Variable contractual obligation
(In thousands, except equity price) Change in equity price in percentage		
40%	2,183.28	512,246
30%	2,027.33	475,657
20%	1,871.38	439,068
10%	1,715.43	402,479
Static(*)	1,559.49	365,890
-10%	1,403.54	329,301
-20%	1,247.59	292,712
-30%	1,091.64	256,123
-40%	935.69	219,534

(*) Present value of average closing stock price for the last 60 trading days of the year preceding the applicable payment date.

Item 4 — Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our Management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Evaluation of Disclosure Controls and Procedures

Based on the evaluation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) required by Exchange Act Rules 13a-15(b) or 15d-15(b), our chief executive officer and our chief financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

Changes in Internal Controls Over Financial Reporting

There were no changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the six-month period ended June 30, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Most of our employees are working remotely due to the COVID-19 pandemic, and we continue to monitor and assess the impact of the COVID-19 pandemic on our internal controls.

PART II. OTHER INFORMATION

Item 1 — Legal Proceedings

See Item 1 of Part I, “Financial Statements—Note 9 Commitments and Contingencies—Litigation and other Legal Matters.”

Item 1A — Risk Factors

As of June 30, 2021, there have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020, as updated in the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2021.

Item 2 — Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased (2)(3)	(b) Average Price per Share (1)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2) (3)	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Program (in millions) (2) (3)
April, 2021	—	—	—	Up to $207
May, 2021	12,446	2,370.82	12,446	Up to $179
June, 2021	71,175	1,390.25	71,175	Up to $182

(1) Average price paid per share does not include costs associated with the repurchases.

(2) On August 30, 2020 the Board authorized the repurchase of shares of the Company's common stock for an aggregate consideration of up to $350 million. The share repurchase program was scheduled to expire on August 31, 2021 and may be suspended from time to time or discontinued. The repurchases are being executed from time to time, subject to general business and market and price conditions and other investment opportunities, through open-market purchases, block trades, derivatives, trading plans established in accordance with SEC rules, or privately negotiated transactions. As of June 30, 2021, the estimated remaining balance available for share repurchases under this authorization was $179 million. On August 4, 2021, the Board authorized the Company to repurchase shares of the Company's common stock, for aggregate consideration of up to $150 million. This authorization, which replaced and superseded the previous authorization, expires on August 31, 2022. Please refer to Note 15 of our unaudited interim condensed consolidated financial statements for additional detail.

(3) On June 7, 2021, the Board authorized the use of part or all of the cash proceeds of terminating certain of its 2028 Notes Capped Call Transactions to repurchase shares of the Company's common stock. This authorization expires on December 31, 2021, and is in addition to the share repurchase authorization referred to above. The repurchases are being executed from time to time, subject to general business and market and price conditions and other investment opportunities, through open-market purchases, block trades, derivatives, trading plans established in accordance with SEC rules, or privately negotiated transactions. In June 2021, we repurchased 71,175 shares of common stock pursuant to this authorization for an aggregate price of $99 million, and we had $3 million remaining available at June 30, 2021. The amount of further repurchases under this authorization will depend on whether the Company terminates additional 2028 Capped Call Transactions and on the amount of cash proceeds from any such terminations. Please refer to Note 15 of our unaudited interim condensed consolidated financial statements for additional detail.

Item 6 — Exhibits

The information set forth under "Index to Exhibits" below is incorporated herein by reference.

MercadoLibre, Inc.

INDEX TO EXHIBITS

3.1	Registrant's Amended and Restated Certificate of Incorporation. (1)	
3.2	Registrant's Amended and Restated Bylaws. (1)	
4.1	Form of Specimen Certificate for the Registrant's Common Stock. (2)	
4.2	Indenture with respect to the Registrant's 2.00% Convertible Senior Notes due 2028, dated as of August 24, 2018, between the Registrant and Wilmington Trust, National Association, as trustee. (3)	
4.3	Indenture, dated January 14, 2021, between MercadoLibre, Inc., MercadoLibre S.R.L., Ibazar.com Atividades de Internet Ltda., eBazar.com.br Ltda., Mercado Envios Servicos de Logistica Ltda., MercadoPago.com Representações Ltda., MercadoLibre Chile Ltda., MercadoLibre, S. de R.L. de C.V., DeRemate.com de México, S. de R.L. de C.V. and MercadoLibre Colombia Ltda. and The Bank of New York Mellon, as trustee. (4)	
4.4	First Supplemental Indenture, dated January 14, 2021, between MercadoLibre, Inc., MercadoLibre S.R.L., Ibazar.com Atividades de Internet Ltda., eBazar.com.br Ltda., Mercado Envios Servicos de Logistica Ltda., MercadoPago.com Representações Ltda., MercadoLibre Chile Ltda., MercadoLibre, S. de R.L. de C.V., DeRemate.com de México, S. de R.L. de C.V. and MercadoLibre Colombia Ltda. and The Bank of New York Mellon, as trustee. (4)	
4.5	Form of Global Note representing the Registrant's 2.375% Sustainability Notes due 2026. (4)	
4.6	Form of Global Note representing the Registrant's 3.125% Notes due 2031.(4)	
31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	*
31.2	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	*
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	*
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	*
101	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2021, formatted in Inline XBRL: (i) Interim Condensed Consolidated Balance Sheets, (ii) Interim Condensed Consolidated Statements of Income, (iii) Interim Condensed Consolidated Statements of Comprehensive Income, (iv) Interim Condensed Statements of Equity, (v) Interim Condensed Consolidated Statements of Cash Flows, and (vi) Notes to Interim Condensed Consolidated Financial Statements.	
104	The cover page from the Company's Form 10-Q for the quarterly period ended June 30, 2021, formatted in Inline XBRL and contained in Exhibit 101	

* Filed or furnished herewith, as applicable.
(1) Incorporated by reference to the Registration Statement on Form S-1 filed on May 11, 2007.
(2) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 filed on February 27, 2009.
(3) Incorporated by reference to the Registrant's Current Report on Form 8-K filed on August 24, 2018.
(4) Incorporated by reference to the Registrant's Current Report on Form 8-K filed on January 14, 2021.

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.

MERCADOLIBRE, INC.
Registrant

Date: August 5, 2021.

By: /s/ Marcos Galperin
Marcos Galperin
President and Chief Executive Officer

By: /s/ Pedro Arnt
Pedro Arnt
Executive Vice President and Chief Financial Officer