

**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, 2020**

-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
(State or other jurisdiction of
incorporation or organization)

98-0212790
(I.R.S. Employer
Identification Number)

Arias 3751, 7th Floor
Buenos Aires, Argentina, C1430CRG
(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:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.001 par value per share	MELI	Nasdaq Global Select Market

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 definition of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large Accelerated Filer

Non-Accelerated Filer

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.
49,709,955 shares of the issuer's common stock, \$0.001 par value, outstanding as of August 7, 2020.

MERCADOLIBRE, INC.
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MercadoLibre, Inc.
Interim Condensed Consolidated Balance Sheets
As of June 30, 2020 and December 31, 2019
(In thousands of U.S. dollars, except par value)
(Unaudited)

	June 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,169,550	\$ 1,384,740
Restricted cash and cash equivalents	493,808	66,684
Short-term investments (530,660 and 522,798 held in guarantee)	2,124,872	1,597,241
Accounts receivable, net	42,423	35,446
Credit cards receivable and other means of payment, net	646,739	379,969
Loans receivable, net	139,148	182,105
Prepaid expenses	23,141	45,309
Inventory	20,831	8,626
Other assets	94,042	88,736
Total current assets	4,754,554	3,788,856
Non-current assets:		
Long-term investments	5,790	263,983
Loans receivable, net	5,055	6,439
Property and equipment, net	263,041	244,257
Operating lease right-of-use assets	186,851	200,449
Goodwill	81,799	87,609
Intangible assets, net	15,942	14,275
Deferred tax assets	93,897	117,582
Other assets	45,807	58,241
Total non-current assets	698,182	992,835
Total assets	\$ 5,452,736	\$ 4,781,691
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	\$ 417,759	\$ 372,309
Funds payable to customers	1,324,605	894,057
Salaries and social security payable	114,944	101,841
Taxes payable	141,226	60,247
Loans payable and other financial liabilities	591,683	186,138
Operating lease liabilities	25,113	23,259
Other liabilities	44,449	114,469
Total current liabilities	2,659,779	1,752,320
Non-current liabilities:		
Salaries and social security payable	25,279	26,803
Loans payable and other financial liabilities	610,899	631,353
Operating lease liabilities	168,589	176,673
Deferred tax liabilities	65,273	99,952
Other liabilities	15,825	12,627
Total non-current liabilities	885,865	947,408
Total liabilities	\$ 3,545,644	\$ 2,699,728
Commitments and Contingencies (Note 9)		
Redeemable convertible preferred stock, \$0.001 par value, 40,000,000 shares authorized, 100,000 shares issued and outstanding at June 30, 2020 and December 31, 2019	\$ 98,843	\$ 98,843
Equity		
Common stock, \$0.001 par value, 110,000,000 shares authorized, 49,709,955 shares issued and outstanding at June 30, 2020 and December 31, 2019	\$ 50	\$ 50
Additional paid-in capital	1,964,140	2,067,869
Treasury stock	(1,440)	(720)
Retained earnings	350,860	322,592
Accumulated other comprehensive loss	(505,361)	(406,671)
Total Equity	1,808,249	1,983,120
Total Liabilities, Redeemable convertible preferred stock and Equity	\$ 5,452,736	\$ 4,781,691

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

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MercadoLibre, Inc.
Interim Condensed Consolidated Statements of Income
For the six and three-month periods ended June 30, 2020 and 2019
(In thousands of U.S. dollars, except for share data)
(Unaudited)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2020	2019	2020	2019
Net revenues	\$ 1,530,460	\$ 1,019,012	\$ 878,369	\$ 545,242
Cost of net revenues	(790,474)	(509,578)	(451,197)	(272,812)
Gross profit	739,986	509,434	427,172	272,430
Operating expenses:				
Product and technology development	(146,689)	(106,292)	(73,254)	(53,923)
Sales and marketing	(390,583)	(311,368)	(184,076)	(180,692)
General and administrative	(132,970)	(94,123)	(70,404)	(50,303)
Total operating expenses	(670,242)	(511,783)	(327,734)	(284,918)
Income (loss) from operations	69,744	(2,349)	99,438	(12,488)
Other income (expenses):				
Interest income and other financial gains	55,566	58,128	18,782	33,684
Interest expense and other financial losses	(50,561)	(30,238)	(26,977)	(14,679)
Foreign currency (losses) gains	(2,089)	(2,886)	(1,903)	783
Net income before income tax (expense) gain	72,660	22,655	89,340	7,300
Income tax (expense) gain	(37,822)	5,426	(33,393)	8,917
Net income	\$ 34,838	\$ 28,081	\$ 55,947	\$ 16,217

	Six Months Ended June 30,		Three Months Ended June 30,	
	2020	2019	2020	2019
Basic EPS				
Basic net income				
Available to shareholders per common share	\$ 0.66	\$ 0.45	\$ 1.11	\$ 0.31
Weighted average of outstanding common shares	49,709,964	47,658,610	49,709,973	49,318,522
Diluted EPS				
Diluted net income				
Available to shareholders per common share	\$ 0.66	\$ 0.45	\$ 1.11	\$ 0.31
Weighted average of outstanding common shares	49,709,964	47,658,610	49,709,973	49,318,522

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, 2020 and 2019
(In thousands of U.S. dollars)
(Unaudited)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2020	2019	2020	2019
Net income	\$ 34,838	\$ 28,081	\$ 55,947	\$ 16,217
Other comprehensive (loss) income, net of income tax:				
Currency translation adjustment	(100,650)	3,353	(6,052)	3,647
Unrealized gains on hedging activities	4,978	—	997	—
Unrealized net gains (loss) on available for sale investments	1,061	2,504	(1,207)	492
Less: Reclassification adjustment for gains from accumulated other comprehensive (loss) income	4,079	2,729	2,375	—
Net change in accumulated other comprehensive (loss) income, net of income tax	(98,690)	3,128	(8,637)	4,139
Total Comprehensive (loss) income	\$ (63,852)	\$ 31,209	\$ 47,310	\$ 20,356

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, 2020 and 2019
(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, 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

	Common stock		Additional paid-in capital	Retained Earnings	Accumulated other comprehensive loss	Total Equity
	Shares	Amount				
Balance as of December 31, 2018	45,203	\$ 45	224,800	\$ 503,432	\$ (391,577)	\$ 336,700
Common Stock issued	4,116	4	1,866,496	—	—	1,866,500
Exercise of convertible notes	—	—	2	—	—	2
Unwind Capped Call	—	—	3	—	—	3
Net income	—	—	—	11,864	—	11,864
Amortization of Preferred Stock discount	—	—	5,841	(5,841)	—	—
Other comprehensive loss	—	—	—	—	(1,011)	(1,011)
Balance as of March 31, 2019	49,319	\$ 49	\$ 2,097,142	\$ 509,455	\$ (392,588)	\$ 2,214,058
Transaction Costs	—	—	715	—	—	715
Exercise of convertible notes	—	—	2	—	—	2
Capped Call	—	—	(88,362)	—	—	(88,362)
Redeemable convertible preferred stock dividend distribution (\$9.99 per share)	—	—	—	(1,000)	—	(1,000)
Net income	—	—	—	16,217	—	16,217
Other comprehensive income	—	—	—	—	4,139	4,139
Balance as of June 30, 2019	49,319	\$ 49	\$ 2,009,497	\$ 524,672	\$ (388,449)	\$ 2,145,769

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, 2020 and 2019
(In thousands of U.S. dollars)
(Unaudited)

	Six Months Ended June 30,	
	2020	2019
Cash flows from operations:		
Net income	\$ 34,838	\$ 28,081
Adjustments to reconcile net income to net cash provided by operating activities:		
Unrealized devaluation loss, net	29,348	13,366
Depreciation and amortization	44,202	32,975
Accrued interest	(28,933)	(24,684)
Non cash interest, convertible notes amortization of debt discount and amortization of debt issuance costs and other charges	75,568	11,140
Financial results on derivative instruments	(21,826)	(69)
Stock-based compensation expense — restricted shares	366	—
LTRP accrued compensation	51,907	32,208
Deferred income taxes	(31,145)	(34,743)
Changes in assets and liabilities:		
Accounts receivable	23,147	(6,900)
Credit cards receivable and other means of payment	(343,229)	(61,562)
Prepaid expenses	20,807	8,857
Inventory	(14,270)	(1,191)
Other assets	(6,965)	(12,651)
Payables and accrued expenses	170,100	41,798
Funds payable to customers	606,307	118,421
Other liabilities	(73,134)	3,587
Interest received from investments	27,597	17,292
Net cash provided by operating activities	564,685	165,925
Cash flows from investing activities:		
Purchase of investments	(2,326,013)	(2,332,544)
Proceeds from sale and maturity of investments	1,910,311	1,086,461
Receipts from settlements of derivative instruments	8,624	—
Payment for acquired businesses, net of cash acquired	(6,937)	—
Purchases of intangible assets	(87)	(34)
Changes in principal of loans receivable, net	(39,092)	(97,468)
Purchases of property and equipment	(94,834)	(71,361)
Net cash used in investing activities	(548,028)	(1,414,946)
Cash flows from financing activities:		
Proceeds from loans payable and other financial liabilities	1,781,040	95,603
Payments on loans payable and other financing liabilities	(1,353,658)	(55,236)
Payment of finance lease obligations	(1,064)	(889)
Purchase of convertible note capped call	(104,095)	(88,362)
Dividends paid of preferred stock	(2,000)	(844)
Common Stock repurchased	(720)	—
Proceeds from issuance of convertible redeemable preferred stock, net	—	98,688
Proceeds from issuance of common stock, net	—	1,867,215
Net cash provided by financing activities	319,503	1,916,175
Effect of exchange rate changes on cash, cash equivalents, restricted cash and cash equivalents	(124,226)	(3,527)
Net increase in cash, cash equivalents, restricted cash and cash equivalents	211,934	663,627
Cash, cash equivalents, restricted cash and cash equivalents, beginning of the period	\$ 1,451,424	\$ 464,695
Cash, cash equivalents, restricted cash and cash equivalents, end of the period	\$ 1,663,358	\$ 1,128,322

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 online and technology tools that allow businesses and individuals to trade products and services in the region. The Company enables commerce through its marketplace platform (including online classifieds for vehicles, services and real estate), 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 online payments; through Mercado Envios, MercadoLibre facilitates the shipping of goods from 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, 2020, MercadoLibre, through its wholly-owned subsidiaries, operated online ecommerce 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. 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 \$360,133 thousands and \$345,204 thousands as of June 30, 2020 and December 31, 2019, respectively.

These interim condensed consolidated financial statements reflect the Company’s consolidated financial position as of June 30, 2020 and December 31, 2019. 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, 2020 and 2019 and statements of cash flows for the six-months periods ended June 30, 2020 and 2019. 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.

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, 2019, contained in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”). 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, 2019. During the six-month period ended June 30, 2020, there were no material updates made to the Company’s significant accounting policies, except for the adoption of ASC 326 as of January 1, 2020. See Note 2 to these interim condensed consolidated financial statements for more details.

Revenue recognition

Revenue recognition criteria for the services mentioned above 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, 2019.

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 accounts, loans receivable and chargebacks of \$70,790 thousands and \$38,079 thousands as of June 30, 2020 and December 31, 2019, 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, 2019 and 2018 was \$16,590 thousands and \$5,918 thousands, respectively, of which \$8,475 thousands and \$4,193 thousands were recognized as revenue during the six-month periods ended June 30, 2020 and 2019, respectively.

As of June 30, 2020, total deferred revenue was \$17,052 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.

Allowances for doubtful accounts on accounts receivable and loans receivable

Since January 1, 2020 the Company maintains allowances for doubtful accounts for Management's estimate of current expected credit losses ("CECL") that may result if customers do not make the required payments.

Measurement of current expected credit losses

The company estimates its allowance for credit losses as the lifetime expected credit losses of the accounts receivables mentioned above. The CECL represent the present value of the uncollectible portion of the principal, interest, late fees, and other allowable charges.

Loans Receivable

Loans Receivable in this portfolio include the products that the company offers to: 1) on-line merchant, 2) in-store merchant and 3) consumers.

For loans receivable that share similar risk characteristics such as product type, country, unpaid installments, days delinquent, and other relevant factors, the company estimates the lifetime expected credit loss allowance based on a collective assessment.

The lifetime expected credit losses is determined by applying probability of default and loss given default models to monthly projected exposures, then discounting these cash flows to present value using the portfolio's loans interest rate, estimated as a weighted average of the original effective interest rate of all the loans that conform the portfolio segment.

The probability of default is an estimation of the likelihood that a loan receivable will default over a given time horizon. Probability of default models are estimated using a transition matrix method; these matrices are constructed using roll rates and then transformed, taking into account the expected future delinquency rate (forward-looking models). Therefore, the models include macroeconomic outlook or projections and recent performance. With this model, the Company estimates marginal monthly default probabilities for each delinquency bucket, type of product and country. Each marginal monthly probability of default represents a different possible scenario of default.

The exposure at default is equal to the receivables' expected outstanding principal, interest and other allowable balances. The Company estimates the exposure at default that the portfolio of loans would have in each possible moment of default, meaning for each possible scenario mentioned above.

The loss given default is the percentage of the exposure at default that is not recoverable. The Company estimates this percentage using the transition matrix method mentioned above and the portfolio segment's interest rate.

The measurement of CECL is based on probability-weighted scenarios (probability of default for each month), in view of past events (roll rates), current conditions and adjustments to reflect the reasonable and supportable forecast of future economic conditions which were affected, among other factors, by the COVID-19 pandemic. The Company will continue to monitor the impact of the pandemic on expected credit losses estimates.

The Company writes off loans receivable when the customer balance becomes 90 days past due.

Accounts Receivable

To measure the CECL, accounts receivable have been grouped based on shared credit risk characteristics and the number of days past due. The Company has therefore concluded that the expected loss rates for accounts receivable is a reasonable approximation of the historical loss rates for those assets. Accounts receivable are recovered over a period of 0-180 days, therefore, forecasted changes to economic conditions are not expected to have a significant effect on the estimate of the allowance for doubtful accounts.

The Company writes off accounts receivable when the customer balance becomes 180 days past due.

Cash and cash equivalents, restricted cash and cash equivalents, short-term investments and credit cards receivable and other means of payment

The Company's management assesses balances for credit losses included in cash and cash equivalents, restricted cash and cash equivalents, short-term investments (measured at amortized cost) and credit cards receivable and other means of payment, based on a review of the average period for which the financial asset is held, credit ratings of the financial institutions and probability of default and loss given default models.

The Company has arrangements with some unaffiliated entities under which MercadoLibre users are able to fund their Mercado Pago accounts by depositing an equivalent amount with the unaffiliated entity. In some of these arrangements, MercadoLibre credits the Mercado Pago account before the unaffiliated entity transfers the funds to MercadoLibre to settle the transaction. The amounts pending settlement are recognized in the balance sheet as credit cards receivable and other means of payment. In June 2020, the Company became aware that \$26,654 thousands of receivable had accumulated from one such unaffiliated entity in Argentina. The aging of these receivables exceeded the expected aging for transactions of this kind. As of June 30, 2020, the Company recorded a \$26,654 thousands allowance for doubtful accounts on receivables due to the Company by this entity.

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, as described below. 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.

Derivative Financial Instruments

The Company's operations are in various foreign currencies and consequently are exposed to foreign currency risk. The Company uses derivative instruments to reduce the volatility of earnings and cash flows which were designated as hedges. All outstanding derivatives are recognized in the Company's consolidated balance sheet at fair value. The effective portion of a designated derivative's gain or loss in a cash flow hedge is initially reported as a component of accumulated other comprehensive (loss) income and is subsequently reclassified into the financial statement line item in which the variability of the hedged item is recorded in the period the hedging transaction affects earnings.

The Company also hedges its economic exposure to foreign currency risk related to foreign currency denominated monetary assets and liabilities with foreign derivative currency contracts which were not designated as hedges. The gains and losses on the foreign exchange derivative contracts economically offset gains and losses on certain foreign currency denominated monetary assets and liabilities recognized in earnings. Accordingly, these outstanding non-designated derivatives are recognized in the Company's consolidated balance sheet at fair value, and changes in fair value from these contracts are recorded in other income (expense), net in the consolidated statement of income.

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. Management's judgments related to this assessment consider, 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, which 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 \$17,311 thousands and \$3,125 thousands for the six and three-month periods ended June 30, 2020, respectively.

On August 17, 2011, the Argentine government issued a software development law and on September 9, 2013, the Argentine government issued a regulatory decree establishing the requirements to become a beneficiary of the software development law, including a requirement to comply with annual incremental ratios related to exports of services and research and development. The law expired on December 31, 2019.

The Argentine Industry Secretary approved the Company's application for eligibility under the law for the Company's Argentine subsidiary, MercadoLibre S.R.L. As a result, the Company's Argentine subsidiary was granted a tax holiday retroactive from September 18, 2014. A portion of the benefits obtained is a 60% relief of total income tax related to software development activities and a 70% relief of payroll taxes related to software development activities.

As a result of the Company's eligibility under the law, it recorded an income tax benefit of \$4,093 thousands and \$774 thousands during the six and three-month periods ended June 30, 2019, respectively. The aggregate per share benefit of the Argentine tax holiday amounted to \$0.09 and \$0.02 for the six and three-month periods ended June 30, 2019, respectively. Furthermore, the Company recorded a labor cost benefit of \$4,637 thousands and \$2,241 thousands during the six and three-month periods ended June 30, 2019, respectively. Additionally, \$611 thousands and \$211 thousands were accrued to pay software development law audit fees during the six and three-month periods ended June 30, 2019, 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. Law No. 27,506 allows companies currently benefiting from the software development law, to apply for tax benefits under Law No. 27,506, which will be effective from January 1, 2020 to December 31, 2029.

The above-mentioned regime was suspended on January 20, 2020 through a resolution issued by Argentina's Ministry of Productive Development 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, which are still pending approval from the Chamber of Senates of Argentina. If the changes are approved, companies that meet new specified criteria shall be entitled to: i) a 60% reduction in the income tax burden 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, iii) a tax credit amounting to 70% (which can be up to 80% in certain specific cases) of the Company's contribution to the social security regime for personnel whose job is related to the promoted activities (caps on the number of employees could be applicable). The tax credit may be used to offset federal taxes, such as value-added tax and income tax.

The Company will analyze whether it will be eligible to benefit under the modified knowledge-based economy promotional regime and its related tax benefits once the modifications are passed by the Congress of Argentina and enacted into law.

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 \$11,047 thousands and \$3,722 thousands as of June 30, 2020 and 2019, respectively.

Accumulated other comprehensive loss

The following table sets forth the Company's accumulated other comprehensive loss as of June 30, 2020 and December 31, 2019:

	June 30, 2020	December 31, 2019
	(In thousands)	
Accumulated other comprehensive loss:		
Foreign currency translation	\$ (508,749)	\$ (408,099)
Unrealized gains on investments	1,343	2,029
Unrealized gains (losses) on hedging activities	3,245	(250)
Estimated tax expense on unrealized gains	(1,200)	(351)
	<u>\$ (505,361)</u>	<u>\$ (406,671)</u>

The following tables summarize the changes in accumulated balances of other comprehensive loss for the six-months ended June 30, 2020:

	Unrealized (Losses) Gains on hedging activities, net	Unrealized (Losses) Gains on Investments	Foreign Currency Translation	Estimated tax (expense) benefit	Total
	(In thousands)				
Balances as of December 31, 2019	\$ (250)	\$ 2,029	\$ (408,099)	\$ (351)	\$ (406,671)
Other comprehensive income (loss) before reclassifications	7,135	1,343	(100,650)	(2,439)	(94,611)
Amount of loss (gain) reclassified from accumulated other comprehensive loss	(3,640)	(2,029)	—	1,590	(4,079)
Net current period other comprehensive income (loss)	3,495	(686)	(100,650)	(849)	(98,690)
Ending balance	<u>\$ 3,245</u>	<u>\$ 1,343</u>	<u>\$ (508,749)</u>	<u>\$ (1,200)</u>	<u>\$ (505,361)</u>

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 investments	\$ 2,029	Interest income and other financial gains
Unrealized gains on hedging activities	3,640	Cost of net revenues
Estimated tax expense on unrealized gains	(1,590)	Income tax expense
Total reclassifications for the period	<u>\$ 4,079</u>	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, 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 program, fair value of convertible debt, fair value of investments, fair value of derivative instruments, recognition of 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 June 16, 2016 the FASB issued the ASU 2016-13 "Financial Instruments-Credit Losses (Topic 326): Measurement of credit losses on financial instruments". This update amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. For assets held at amortized cost basis, this update eliminates the probable initial recognition threshold in current GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses. For available for sale debt securities, credit losses should be measured in a manner similar to current GAAP, however this topic will require that credit losses be presented as an allowance rather than as a write-down. The Company adopted this standard effective January 1, 2020 using a modified retrospective approach transition method, resulting in a decrease of \$4,570 thousands (net of income tax) to the opening balance of retained earnings.

On August 29, 2018 the FASB issued the ASU 2018-15 "Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40)". The amendments in this update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The amendments require an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The amendments in this update are effective for fiscal years beginning after December 15, 2019, 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 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 Company is assessing the effects that the adoption of this accounting pronouncement may have on its financial statements.

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 June 30, 2014, the Company issued \$330 million of 2.25% Convertible Senior Notes due 2019 and 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). Additionally, on March 29, 2019 the Company issued Preferred Stock (see Note 12 to these interim condensed consolidated financial statements). The conversion of these notes and the Preferred Stock are included in the calculation for diluted earnings per share utilizing the "if converted" method. Accordingly, conversion of these Notes and the redeemable convertible preferred stock are not assumed for purposes of computing diluted earnings per share if the effect is antidilutive.

The denominator for diluted net income per share for the six and three-month periods ended June 30, 2020 and 2019 does not include any effect from the 2019 Notes Capped Call Transactions or 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 15 of the financial statements as of December 31, 2019 on Form 10-K for more details. For the six and three-month periods ended June 30, 2020 and 2019, 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, 2020 and 2019:

	Six Months Ended June 30,				Three Months Ended June 30,			
	2020		2019		2020		2019	
	(In thousands)				(In thousands)			
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
Net income per common share	\$ 0.66	\$ 0.66	\$ 0.45	\$ 0.45	\$ 1.11	\$ 1.11	\$ 0.31	\$ 0.31
Numerator:								
Net income	\$ 34,838	\$ 34,838	\$ 28,081	\$ 28,081	\$ 55,947	\$ 55,947	\$ 16,217	\$ 16,217
Amortization of redeemable convertible preferred stock	—	—	(5,841)	(5,841)	—	—	—	—
Dividends on preferred stock	(2,000)	(2,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Net income corresponding to common stock	\$ 32,838	\$ 32,838	\$ 21,240	\$ 21,240	\$ 54,947	\$ 54,947	\$ 15,217	\$ 15,217
Denominator:								
Weighted average of common stock outstanding for Basic earnings per share	49,709,964	—	47,658,610	—	49,709,973	—	49,318,522	—
Adjusted weighted average of common stock outstanding for Diluted earnings per share	—	49,709,964	—	47,658,610	—	49,709,973	—	49,318,522

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, 2020	December 31, 2019
	(In thousands)	
Cash and cash equivalents	\$ 1,169,550	\$ 1,384,740
Restricted cash and cash equivalents		
Securitization Transactions	\$ 51,753	\$ 37,424
Sovereign Debt Securities (Secured lines of credit guarantee)	—	29,260
Bank account (Argentine Central Bank regulation)	217,158	—
Bank collateral account (*)	224,897	—
Total restricted cash and cash equivalents	\$ 493,808	\$ 66,684
Total cash, cash equivalents, restricted cash and cash equivalents (**)	\$ 1,663,358	\$ 1,451,424
Short-term investments		
Time Deposits	\$ 422,849	\$ 189,660
Sovereign Debt Securities (Central Bank of Brazil mandatory guarantee)	530,660	506,175
Sovereign Debt Securities (Secured lines of credit guarantee)	—	16,623
Sovereign Debt Securities	1,171,363	884,720
Corporate Debt Securities	—	63
Total short-term investments	\$ 2,124,872	\$ 1,597,241
Long-term investments		
Sovereign Debt Securities	\$ —	\$ 260,320
Corporate Debt Securities	—	173
Other Investments	5,790	3,490
Total long-term investments	\$ 5,790	\$ 263,983

(*) Cash deposited and owned by the Company under the sole control and dominion of escrow agents as collateral of loans granted to a Brazilian subsidiary with due date in October 2020.

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

Regulation issued by Argentine Central Bank

In January 2020, the Central Bank of Argentina 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 Central Bank of Argentina 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 Central Bank of Argentina; (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, 2020, in accordance with the regulation, the Company held \$217,158 thousands in a bank account, payable on demand.

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, 2020 and December 31, 2019, respectively. As of June 30, 2020 and December 31, 2019, in accordance with the regulation, the Company held \$530,660 thousands and \$506,175 thousands deposited in Brazilian federal government bonds, respectively, as a mandatory guarantee.

5. Loans receivable, net

The Company manages loans receivable as “On-line merchant”, “Consumer” and “In-store merchant”. As of June 30, 2020 and December 31, 2019, Loans receivable, net were as follows:

	June 30, 2020	(In thousands)	December 31, 2019
On-line merchant	\$	91,750	\$ 130,102
Consumer		59,815	60,179
In-store merchant		18,469	18,707
Loans receivable		170,034	208,988
Allowance for uncollectible accounts		(25,831)	(20,444)
Loans receivable, net	\$	144,203	\$ 188,544
Current	\$	139,148	\$ 182,105
Non-current		5,055	6,439
Loans receivable, net	\$	144,203	\$ 188,544

The credit quality analysis of loans receivable was as follows:

	June 30, 2020	(In thousands)	December 31, 2019
1-30 days past due	\$	12,206	\$ 20,430
31-60 days past due		3,643	6,916
61-90 days past due		8,526	7,580
Total past due		24,375	34,926
To become due		145,659	174,062
Total	\$	170,034	\$ 208,988

The following table summarizes the allowance for uncollectible accounts activity during the six-month periods ended June 30, 2020 and 2019:

	2020	June 30, (In thousands)	2019 (1)
Balance at beginning of year	\$	20,444	\$ 6,636
Adoption of ASC 326 (2)		4,977	-
Charged/credited to Net income		34,614	20,000
Charges/Utilized /Currency translation adjustments/Write-offs		(34,204)	(12,023)
Balance at end of period	\$	25,831	\$ 14,613

(1) The comparative information has not been restated and continues to be reported under the accounting standard in effect during 2019.
 (2) Cumulative pre-tax adjustments recorded to retained earnings as of January 1, 2020.

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 since the acquisition amounted to \$213 thousands for the period ended June 30, 2020.

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, 2020	(In thousands)	December 31, 2019
Goodwill	\$	81,799	\$ 87,609
Intangible assets with indefinite lives			
- Trademarks		7,305	8,366
Amortizable intangible assets			
- Licenses and others		4,688	5,320
- Non-compete agreement		3,295	2,703
- Customer list		13,514	13,900
- Trademarks		7,180	4,723
Total intangible assets	\$	35,982	\$ 35,012
Accumulated amortization		(20,040)	(20,737)
Total intangible assets, net	\$	15,942	\$ 14,275

Goodwill

The changes in the carrying amount of goodwill for the six-month period ended June 30, 2020 and the year ended December 31, 2019 are as follows:

	Six Months Ended June 30, 2020						
	Brazil	Argentina	Mexico	Chile (In thousands)	Colombia	Other Countries	Total
Balance, beginning of the period	\$ 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
Effect of exchange rates changes	(6,543)	—	(5,371)	(1,306)	(408)	(82)	(13,710)
Balance, end of the period	<u>\$ 22,529</u>	<u>\$ 10,594</u>	<u>\$ 27,887</u>	<u>\$ 14,807</u>	<u>\$ 4,150</u>	<u>\$ 1,832</u>	<u>\$ 81,799</u>

	Year Ended December 31, 2019						
	Brazil	Argentina	Mexico	Chile (In thousands)	Colombia	Other Countries	Total
Balance, beginning of the year	\$ 30,069	\$ 6,946	\$ 31,340	\$ 16,014	\$ 3,339	\$ 1,175	\$ 88,883
Purchase price allocations adjustments	—	45	—	—	—	—	45
Effect of exchange rates changes	(997)	—	856	(1,142)	(27)	(9)	(1,319)
Balance, end of the year	<u>\$ 29,072</u>	<u>\$ 6,991</u>	<u>\$ 32,196</u>	<u>\$ 14,872</u>	<u>\$ 3,312</u>	<u>\$ 1,166</u>	<u>\$ 87,609</u>

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 \$1,711 thousands and \$919 thousands for the three-month periods ended June 30, 2020 and 2019, respectively, while aggregate amortization expense for intangible assets for the six-month periods ended June 30, 2020 and 2019 amounted to \$2,519 thousands and \$2,149 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, 2020:

For year ended 12/31/2020	\$ 2,344
For year ended 12/31/2021	3,610
For year ended 12/31/2022	1,453
For year ended 12/31/2023	871
Thereafter	359
	<u>\$ 8,637</u>

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 Company has re-named and grouped by nature its Revenue streams breakdown, given the increasing importance of its financial business in current and expected future revenue composition, which Management considers shows more meaningful information about the business. As such, the breakdown by revenue stream previously labeled as "Enhanced Marketplace" and "Non-marketplace", is now presented under the titles of "Commerce" and "Fintech", respectively. Also, as a result, a group of other services, including classifieds fees, ad sales and other ancillary services, which had historically been included in the "Non-marketplace" line, have, as of January 1, 2020, been included as a part of the "Commerce" revenue stream. Prior-period corresponding figures have been changed accordingly for comparative purposes.

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

	Six Months Ended June 30, 2020					Total
	Brazil	Argentina	Mexico	Other Countries		
			(In thousands)			
Net revenues	\$ 862,745	\$ 372,079	\$ 220,703	\$ 74,933	\$	\$ 1,530,460
Direct costs	(647,382)	(272,433)	(225,315)	(62,347)		(1,207,477)
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

	Six Months Ended June 30, 2019					Total
	Brazil	Argentina	Mexico (In thousands)	Other Countries		
Net revenues	\$ 643,242	\$ 207,689	\$ 118,944	\$ 49,137	\$	1,019,012
Direct costs	(501,260)	(151,401)	(150,801)	(44,888)		(848,350)
Direct contribution	141,982	56,288	(31,857)	4,249		170,662
Operating expenses and indirect costs of net revenues						(173,011)
Loss from operations						(2,349)
Other income (expenses):						
Interest income and other financial gains						58,128
Interest expense and other financial losses						(30,238)
Foreign currency losses						(2,886)
Net income before income tax gain					\$	22,655

	Three Months Ended June 30, 2020					Total
	Brazil	Argentina	Mexico (In thousands)	Other Countries		
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

	Three Months Ended June 30, 2019					Total
	Brazil	Argentina	Mexico (In thousands)	Other Countries		
Net revenues	\$ 340,858	\$ 113,913	\$ 64,383	\$ 26,088	\$	545,242
Direct costs	(275,917)	(83,909)	(85,216)	(24,441)		(469,483)
Direct contribution	64,941	30,004	(20,833)	1,647		75,759
Operating expenses and indirect costs of net revenues						(88,247)
Loss from operations						(12,488)
Other income (expenses):						
Interest income and other financial gains						33,684
Interest expense and other financial losses						(14,679)
Foreign currency gains						783
Net income before income tax expense					\$	7,300

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

	June 30, 2020	December 31, 2019
	(In thousands)	
US property and equipment, net	\$ 649	\$ 937
Other countries		
Argentina	112,904	100,536
Brazil	99,162	103,571
Mexico	36,215	30,131
Other countries	14,111	9,082
Total property and equipment, net	\$ 262,392	\$ 243,320
	\$ 263,041	\$ 244,257

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

	June 30, 2020	December 31, 2019
	(In thousands)	
Other countries goodwill and intangible assets		
Argentina	\$ 13,879	\$ 8,632
Brazil	23,329	30,142
Mexico	31,190	36,003
Chile	22,070	22,237
Other countries	7,273	4,870
Total goodwill and intangible assets	\$ 97,741	\$ 101,884

Consolidated net revenues by similar products and services for the six and three-month periods ended June 30, 2020 and 2019 were as follows:

Consolidated Net Revenues	Six Months Ended June 30,		Three months Ended June 30,	
	2020	2019	2020	2019
	(In thousands)			
Commerce (*)	\$ 962,413	\$ 610,821	\$ 581,703	\$ 324,016
Fintech	568,047	408,191	296,666	221,226
Total	\$ 1,530,460	\$ 1,019,012	\$ 878,369	\$ 545,242

(*) Includes marketplace fees, shipping fees, ad sales, classified fees and other ancillary services.

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, 2020 and December 31, 2019:

Description	Balances as of June 30, 2020	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, 2019	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 \$	526,204 \$	526,204 \$	— \$	— \$	688,760 \$	688,760 \$	— \$	—
Sovereign Debt Securities	16,698	16,698	—	—	32,874	32,874	—	—
Restricted Cash and cash equivalents:								
Money Market Funds	36,616	36,616	—	—	32,829	32,829	—	—
Sovereign Debt Securities	—	—	—	—	29,260	29,260	—	—
Investments:								
Sovereign Debt Securities (Central Bank of Brazil mandatory guarantee)	530,660	530,660	—	—	506,175	506,175	—	—
Sovereign Debt Securities	1,171,363	1,171,363	—	—	1,161,663	1,161,663	—	—
Corporate Debt Securities	—	—	—	—	236	178	58	—
Other Assets:								
Derivative Instruments	16,443	—	—	16,443	1,249	—	—	1,249
Total Financial Assets	\$ 2,297,984 \$	2,281,541 \$	— \$	16,443 \$	2,453,046 \$	2,451,739 \$	58 \$	1,249
Liabilities:								
Contingent considerations \$	4,506 \$	— \$	— \$	4,506 \$	2,201 \$	— \$	— \$	2,201
Long-term retention program	68,298	—	68,298	—	60,958	—	60,958	—
Derivative Instruments	984	—	—	984	251	—	—	251
Total Financial Liabilities	\$ 73,788 \$	— \$	68,298 \$	5,490 \$	63,410 \$	— \$	60,958 \$	2,452

As of June 30, 2020 and December 31, 2019, 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, 2020 and December 31, 2019, 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.

The unrealized net gains or losses on short-term and long-term investments for which the Company has not elected the fair value option are reported as a component of other comprehensive (loss) income. The Company does not anticipate any significant realized losses associated with those investments in excess of the Company's historical cost.

As of June 30, 2020 and December 31, 2019, 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, 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, 2020 and December 31, 2019, the estimated fair value of the 2028 Notes (liability component), which is based on Level 2 inputs, is \$660,931 thousands and \$686,366 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, 2020 and December 31, 2019:

	Balances as of June 30, 2020	Significant other observable inputs (Level 2)	Balances as of December 31, 2019	Significant other observable inputs (Level 2)
(In thousands)				
Assets				
Time Deposits	\$ 422,849	\$ 422,849	\$ 189,660	\$ 189,660
Accounts receivable	42,423	42,423	35,446	35,446
Credit Cards receivable and other means of payment, net	646,739	646,739	379,969	379,969
Loans receivable, net	144,203	144,203	188,544	188,544
Other assets	129,196	129,196	149,218	149,218
Total Assets	\$ 1,385,410	\$ 1,385,410	\$ 942,837	\$ 942,837
Liabilities				
Accounts payable and accrued expenses	\$ 417,759	\$ 417,759	\$ 372,309	\$ 372,309
Funds payable to customers	1,324,605	1,324,605	894,057	894,057
Salaries and social security payable	71,925	71,925	67,686	67,686
Taxes payable	141,226	141,226	60,247	60,247
Loans payable and other financial liabilities (*)	1,202,582	1,274,558	817,491	927,903
Other liabilities	54,784	54,784	124,644	124,644
Total Liabilities	\$ 3,212,881	\$ 3,284,857	\$ 2,336,434	\$ 2,446,846

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

As of June 30, 2020 and December 31, 2019, 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, 2020 and December 31, 2019, the fair value of money market funds, sovereign and corporate debt securities classified as available for sale securities are as follows:

	June 30, 2020			
	Cost	Gross Unrealized Gains ⁽¹⁾	Financial Gains	Estimated Fair Value
(In thousands)				
Cash and cash equivalents				
Money Market Funds	\$ 526,204	\$ —	\$ —	\$ 526,204
Sovereign Debt Securities	16,673	—	25	16,698
Total Cash and cash equivalents	\$ 542,877	\$ —	\$ 25	\$ 542,902
Restricted cash and cash equivalents				
Money Market Funds	\$ 36,616	\$ —	\$ —	\$ 36,616
Total Restricted cash and cash equivalents	\$ 36,616	\$ —	\$ —	\$ 36,616
Short-term investments				
Sovereign Debt Securities (Central Bank of Brazil mandatory guarantee) (2)	\$ 527,098	\$ —	\$ 3,562	\$ 530,660
Sovereign Debt Securities (3)	1,162,560	1,343	7,460	1,171,363
Total Short-term investments	\$ 1,689,658	\$ 1,343	\$ 11,022	\$ 1,702,023
Total	\$ 2,269,151	\$ 1,343	\$ 11,047	\$ 2,281,541

(1) Unrealized gains from securities are attributable to market price movements, net foreign exchange losses and foreign currency translation. Management does not believe any remaining significant unrealized losses represent credit losses based on the evaluation of available evidence including the credit rating of the investments, as of June 30, 2020.

(2) Brazilian government bonds 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.)

(3) Includes \$820,088 thousands of U.S treasury notes 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, 2019				
	Cost	Gross Unrealized Gains ⁽¹⁾	Financial Gains	Financial Losses	Estimated Fair Value
(In thousands)					
Cash and cash equivalents					
Money Market Funds	\$ 688,760	\$ —	\$ —	\$ —	\$ 688,760
Sovereign Debt Securities	32,851	—	23	—	32,874
Total Cash and cash equivalents	\$ 721,611	\$ —	\$ 23	\$ —	\$ 721,634
Restricted Cash and cash equivalents					
Money Market Funds	\$ 32,829	\$ —	\$ —	\$ —	\$ 32,829
Sovereign Debt Securities (2)	29,227	—	33	—	29,260
Total Restricted Cash and cash equivalents	\$ 62,056	\$ —	\$ 33	\$ —	\$ 62,089
Short-term investments					
Sovereign Debt Securities (Central Bank of Brazil mandatory guarantee)(3)	\$ 504,195	\$ —	\$ 1,980	\$ —	\$ 506,175
Sovereign Debt Securities (4)	898,922	2,080	400	(59)	901,343
Corporate Debt Securities	63	—	—	—	63
Total Short-term investments	\$ 1,403,180	\$ 2,080	\$ 2,380	\$ (59)	\$ 1,407,581
Long-term investments					
Sovereign Debt Securities (5)	\$ 260,400	\$ 2	\$ 1	\$ (83)	\$ 260,320
Corporate Debt Securities	170	3	—	—	173
Total Long-term investments	\$ 260,570	\$ 5	\$ 1	\$ (83)	\$ 260,493
Total	\$ 2,447,417	\$ 2,085	\$ 2,437	\$ (142)	\$ 2,451,797

(1) Unrealized gains from securities are attributable to market price movements, net foreign exchange losses and foreign currency translation. Management does not believe any remaining significant unrealized losses represent other-than-temporary impairments based on the evaluation of available evidence including the credit rating of the investments, as of December 31, 2019.

(2) Held by the Company's Argentine subsidiary in guarantee for secured lines of credit. (See Note 11 – Loans payable and other financial liabilities.)

(3) Brazilian government bonds measured at fair value with impact on the consolidated statement of income for the application of the fair value option. (See Note 2 – Investments - Fair value option applied to certain financial instruments.)

(4) Includes \$627,842 thousands of U.S treasury notes measured at fair value with impact on the consolidated statement of income for the application of the fair value option (See Note 2 – Investments - Fair value option applied to certain financial instruments.) and \$16,623 thousands held by the Company's Argentine subsidiary in guarantee for secured lines of credit. (See Note 11 – Loans payable and other financial liabilities.)

(5) Includes \$260,230 thousands of U.S treasury notes measured at fair value with impact on the consolidated statement of income for the application of the fair value option. (See Note 2 – Investments - Fair value option applied to certain financial instruments.)

The material portion of the Sovereign Debt Securities consists of U.S. Treasury Notes, which carry no significant risk.

As of June 30, 2020, 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	2,281,541
Total	\$ 2,281,541

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, 2020, the Company had accounted for estimated liabilities involving proceeding-related contingencies and other estimated contingencies of \$7,485 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, 2020, 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 \$18,944 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 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 the Argentine subsidiary, 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, 2020 the total amount of the deposits were \$42,935 thousands (which includes \$4,249 thousands of interest) included in non-current other assets of the consolidated balance sheet. In June 2020, the Company's appeal was dismissed. The Company made a new filing before the same court in July 2020 and plans to appeal the case to the superior courts. 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 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, 2020 and December 31, 2019, Management’s estimate of the maximum potential exposure related to the Company’s buyer protection program is \$2,028,711 thousands and \$1,365,815 thousands, respectively, for which the Company recorded an allowance of \$5,916 thousands and \$3,808 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; 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, 2020, the Company paid \$1,864 thousands in relation thereto.

10. Long term retention program (“LTRP”)

The following table summarizes the 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019 and 2020 long term retention program accrued compensation expense for the six and three-month periods ended June 30, 2020 and 2019, 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,	
	2020	2019	2020	2019
	(In thousands)		(In thousands)	
LTRP 2011	—	26	—	(29)
LTRP 2012	69	1,416	—	857
LTRP 2013	—	97	—	(96)
LTRP 2014	125	2,823	(1)	1,603
LTRP 2015	4,885	4,862	3,613	2,880
LTRP 2016	10,055	7,607	7,620	4,569
LTRP 2017	10,560	6,976	7,854	4,163
LTRP 2018	5,363	3,323	3,807	1,868
LTRP 2019	10,320	5,078	6,657	2,952
LTRP 2020	10,530	—	6,693	—
Total LTRP	\$ 51,907	\$ 32,208	\$ 36,243	\$ 18,767

11. Loans payable and other financial liabilities

The following table summarizes the Company's Loans payable and other financial liabilities as of June 30, 2020 and December 31, 2019:

Type of instrument	Currency	Interest	Weighted Average Interest Rate	Maturity	Book value as of	
					June 30, 2020	December 31, 2019
					(In thousands)	
<i>Current loans payable and other financial liabilities:</i>						
Loans from banks						
Chilean Subsidiary	Chilean Pesos	Fixed	2.09	% July 2020	\$ 54,261	\$ 38,780
Brazilian Subsidiary	Brazilian Reais	Variable	CDI + 3.35	% March 2021	66,826	-
Brazilian Subsidiary	Brazilian Reais	Variable	CDI + 2.30	% September 2020	37,072	-
Brazilian Subsidiary	Brazilian Reais	Variable	CDI + 3.90	% October 2020	5,552	-
Brazilian Subsidiary	Brazilian Reais	Variable	CDI + 3.25	% May 2021	40,532	-
Brazilian Subsidiary	Brazilian Reais	Variable	CDI + 2.9	% December 2020	9,159	-
Mexican	Mexican Peso	Variable	THIE + 2.55	% October 2020	15,884	-
Argentine Subsidiary	Argentine Pesos	Fixed	32.50	% November 2020	14,360	-
Uruguayan Subsidiary	Uruguayan Pesos	Fixed	9.39	% July- August 2020	13,321	-
Secured lines of credit						
Argentine Subsidiary	Argentine Pesos	-	-	% -	-	49,499
Brazilian Subsidiary (*)	Brazilian Reais	Variable	CDI + 1.00	% October 2020	102,927	-
Brazilian Subsidiary (*)	Brazilian Reais	Variable	CDI + 1.50	% October 2020	99,171	-
Unsecured lines of credit						
Uruguayan Subsidiary	Uruguayan Pesos	Fixed	9.88	% July 2020	18,736	16,435
Argentine Subsidiary	Argentine Pesos	Fixed	27.67	% July 2020	36,221	9,645
Chilean Subsidiary	Chilean Pesos	Variable	1.47	% July 2020	2,607	1,951
Convertible notes					6,649	6,649
Finance lease obligations					1,832	2,008
Credit card collateralized debt					20,028	17,309
Collateralized debt					45,875	43,862
Other lines of credit					670	-
					<u>\$ 591,683</u>	<u>\$ 186,138</u>
<i>Non Current loans payable and other financial liabilities:</i>						
Convertible notes					582,306	569,305
Finance lease obligations					5,804	7,368
Collateralized debt					22,789	54,680
					<u>\$ 610,899</u>	<u>\$ 631,353</u>

(*) Under the terms of the loans agreements, the Company transferred cash to deposit accounts owned by the Company but under the sole control and dominion of escrow agents as collaterals. These collaterals are shown in Restricted cash and cash equivalents of the consolidated balance sheet.

See Notes 13 and 14 to these interim condensed consolidated financial statements for details regarding the Company's collateralized debt securitization transactions and finance lease obligations, respectively.

Convertible Senior Notes

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 thousand 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. For additional information regarding the 2028 Notes please refer to Note 2 and Note 15 to the audited consolidated financial statements for the year ended December 31, 2019, contained in the Company's Annual Report on Form 10-K filed with the SEC.

During the six-month period ended June 30, 2020, one Note was converted, for a total amount of \$1 thousands. Additionally, during the second quarter of 2020, the conversion threshold was met and the Notes become convertible between July 1, 2020 and September 30, 2020. From July 1, 2020 to the date of issuance of these interim condensed consolidated financial statements, the Company received one additional request for conversion. The determination of whether or not the Notes are convertible must continue to be performed on a quarterly basis. 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. The intention of the Company is to share-settle the total amount due upon conversion of the Notes.

In connection with the issuance of the 2028 Notes, the Company paid \$91,784 thousands, \$11,472 thousands, \$88,362 thousands and \$104,095 thousands (including transaction expenses) in August 2018, November 2018, June 2019 and June 2020, respectively, to enter into capped call transactions with respect to shares of the common stock with certain financial institutions (the "2028 Notes Capped Call Transactions"). 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 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 of the 2028 Notes Capped Call Transactions. 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.

The total estimated fair value of the 2028 Notes was \$2,017,169 thousands and \$1,338,014 thousands as of June 30, 2020 and December 31, 2019, 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, 2020 and December 31, 2019 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 \$985.77 closing price of the Company's common stock on June 30, 2020, the if-converted value of the 2028 Notes exceeded their principal amount by \$1,076,421 thousands.

The following table presents the carrying amounts of the liability and equity components related to the 2028 Notes as of June 30, 2020 and December 31, 2019:

	June 30, 2020	December 31, 2019
	(In thousands)	
Amount of the equity component (1)	\$ 327,305	\$ 327,305
2.00% Convertible Senior Notes due 2028	\$ 879,999	\$ 880,000
Unamortized debt discount (2)	(288,500)	(301,227)
Unamortized transaction costs related to the debt component	(9,193)	(9,468)
Contractual coupon interest accrual	32,609	23,809
Contractual coupon interest payment	(25,960)	(17,160)
Net carrying amount	\$ 588,955	\$ 575,954

(1) Net of \$6,163 thousands of transaction costs related to the equity component of the 2028 Notes.

(2) As of June 30, 2020, the remaining period over which the unamortized debt discount will be amortized is 8.2 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,	
	2020	2019	2020	2019
	(In thousands)		(In thousands)	
Contractual coupon interest expense	\$ 8,800	\$ 9,142	\$ 4,400	\$ 4,400
Amortization of debt discount	12,727	12,285	6,420	5,968
Amortization of debt issuance costs	275	239	140	117
Total interest expense related to the 2028 Notes	\$ 21,802	\$ 21,666	\$ 10,960	\$ 10,485

12. Equity Offerings

On March 15, 2019, the Company closed a public equity offering of approximately \$1,150,000 thousands of common stock at a public offering price of \$480 per share (the "Offering"). Pursuant to the Offering, the Company issued 2,395,834 shares of common stock, par value \$0.001 per share (the "Common Stock") which includes the exercise in full of the underwriters' option to purchase \$150 million of additional shares of common stock.

In addition, on March 15, 2019 the Company closed its \$750,000 thousands concurrent private placement of common stock to PayPal, Inc ("PayPal"). PayPal purchased 1,719,790 shares of Common Stock at a price of \$436.10 per share.

On March 29, 2019, in a separate private placement, an affiliate of Dragoneer Investment Group purchased 100,000 shares of perpetual convertible preferred stock designated as Series A Perpetual Preferred Stock, par value \$0.001 per share (the "Preferred Stock") of the Company for \$100,000 thousands in the aggregate. The Preferred Stock is a class of equity security that ranks senior to the Common Stock with respect to dividend rights or rights upon liquidation.

Each share of Preferred Stock has a stated value of \$1,000, is entitled to a cash dividend of 4% per annum, and is convertible into shares of the Company's Common Stock at an initial conversion price of \$479.71 (subject to adjustment). The Company may require the conversion of any or all of the Preferred Stock beginning on March 29, 2023 if certain conditions set forth in the Certificate of Designation are met. The Company may redeem any or all of the Preferred Stock for cash, shares of its Common Stock or a combination thereof (at its election, subject to certain conditions) at any time beginning on March 29, 2026 for a percentage of the stated value of each share of Preferred Stock, plus any accrued and unpaid dividends at such time. On March 15, 2026, September 15, 2026 and March 15, 2027, the holders of the Preferred Stock shall have the right to redeem all of the outstanding shares of Preferred Stock for cash, shares of the Company's Common Stock or a combination thereof (at the Company's election, subject to certain conditions) to be determined by the formula set forth in the Certificate of Designation. Upon the occurrence of a change of control, the holders will have the right to redeem their shares of Preferred Stock for cash at a price set forth in the Certificate of Designation. The holders of the Preferred Stock have the right to vote on matters submitted to a vote of the holders of Common Stock on an as-converted basis unless required by applicable law.

In the aggregate, the Company raised funds in the amount of \$1,965,903 thousands net of issuance costs paid in the amount of \$34,097 thousands.

13. 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.

Additionally, 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.

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.

As of June 30, 2020, the carrying value of the Brazilian collateralized debt was \$44,036 thousands, composed by: 1) \$10,092 thousands bearing interest at a rate of Brazilian DI plus 3.5% per annum for a term of 36 months, due in June 2021 and 2) \$33,944 thousands bearing interest at a rate of Brazilian DI plus 3.25% per annum for a term of 30 months, due in May 2021. The carrying value of the Argentine collateralized debt was \$1,666 thousands bearing interest at a variable rate equivalent to the BADLAR rate plus 200 basis points with a minimum 40% and a maximum 50% nominal rate per annum for a term of 9 months, due in August 2020. The carrying value of the Mexican collateralized debt was \$22,962 thousands bearing interest at a variable rate equivalent to the equilibrium interbank interest rate published by Banco de Mexico in the Diario Oficial plus 3.34% per annum for term of 36 months, due in November 2022.

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, 2020 and December 31, 2019 as follows:

	June 30, 2020	December 31, 2019
Assets	(In thousands)	
Current assets:		
Restricted cash and cash equivalents	\$ 51,753	\$ 37,424
Loans receivable, net	51,294	104,419
Total current assets	103,047	141,843
Non-current assets:		
Loans receivable, net	2,651	4,395
Total non-current assets	2,651	4,395
Total assets	\$ 105,698	\$ 146,238
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	\$ 67	\$ 128
Loans payable and other financial liabilities	45,875	43,862
Total current liabilities	45,942	43,990
Non-current liabilities:		
Loans payable and other financial liabilities	22,789	54,680
Total non-current liabilities	22,789	54,680
Total liabilities	\$ 68,731	\$ 98,670

14. Leases

The Company leases certain fulfillment centers, office space 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 (in thousands):

	June 30, 2020	December 31, 2019
Operating Leases		
Operating lease right-of-use assets	\$ 186,851	\$ 200,449
Operating lease liabilities	\$ 193,702	\$ 199,932
Finance Leases		
Property and equipment, at cost	11,657	10,952
Accumulated depreciation	(2,703)	(1,563)
Property and equipment, net	\$ 8,954	\$ 9,389
Loans payable and other financial liabilities	\$ 7,636	\$ 9,376

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, 2020:

Weighted average remaining lease term	
Operating leases	8 Years
Finance leases	3 Years
Weighted average discount rate (*)	
Operating leases	13 %
Finance leases	17 %

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

The components of lease expense were as follows (in thousands):

	Six months ended June 30,	
	2020	2019
Operating lease cost	\$ 18,721	\$ 13,874
Finance lease cost:		
Depreciation of property and equipment	1,030	584
Interest on lease liabilities	896	489
Total finance lease cost	\$ 1,926	\$ 1,073

Supplemental cash flow information related to leases was as follows (in thousands):

	Six months ended June 30,	
	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 17,540	\$ 10,219
Financing cash flows from finance leases	1,064	889
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$ 28,823	\$ 43,018
Finance leases	790	3,355

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 (in thousands):

Period Ending June 30, 2020	Operating Leases	Finance Leases
One year or less	\$ 39,493	\$ 3,037
One year to two years	38,056	3,037
Two years to three years	35,417	2,925
Three years to four years	33,951	1,564
Four years to five years	30,656	283
Thereafter	106,594	—
Total lease payments	\$ 284,167	\$ 10,846
Less imputed interest	(90,465)	(3,210)
Total	\$ 193,702	\$ 7,636

15. 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, 2020 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 Reals. Pursuant to these contracts, the Company will buy a notional amount of \$6,091 thousands in July 2020, \$6,773 thousands in August 2020, \$6,971 thousands in September 2020, \$5,070 thousands in October 2020, \$4,100 thousands in November 2020 and \$4,533 thousands in December 2020, at fixed currency rates. 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, 2020, 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, 2020, 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 a Brazilian subsidiary, whose functional currency is the Brazilian Reals, which were not designated as hedges for accounting purposes. Pursuant to these contracts, the Company will buy a notional amount of \$28,600 thousands in July 2020, \$39,000 thousands in August 2020 and \$46,000 thousands in December 2020, at fixed currency rates.

Finally, 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 a Mexican subsidiary, whose functional currency is the Mexican Peso, which were not designated as hedges for accounting purposes. Pursuant to these contracts, the Company will buy a notional amount of \$10,000 thousands in October 2020 and \$10,000 thousands in December 2020, at fixed currency rates.

Foreign exchange contracts

The fair values of the Company's outstanding derivative instruments as of June 30, 2020 and December 31, 2019 were as follows:

	Balance sheet location	June 30, 2020		December 31, 2019	
		(In thousands)			
Derivatives					
Foreign exchange contracts not designated as hedging instruments	Other current assets	\$	14,181	\$	1,249
Foreign exchange contracts designated as cash flow hedges	Other current assets		2,262		—
Foreign exchange contracts not designated as hedging instruments	Other current liabilities		984		—
Foreign exchange contracts designated as cash flow hedges	Other current liabilities		—		251

The effects of derivative contracts on unaudited interim condensed consolidated of comprehensive income as of June 30, 2020 were as follows:

	December 31, 2019	Amount of Gain (Loss) recognized in other comprehensive loss	Amount of gain reclassified from accumulated other comprehensive loss (income)		June 30, 2020
			(In thousands)		
Foreign exchange contracts designated as cash flow hedges	\$ (250)	\$ 7,135	\$	(3,640)	\$ 3,245

The effects of derivative contracts on unaudited interim condensed consolidated statement of income for the six and three-month periods ended June 30, 2020 and 2019 were as follows:

	Six month periods ended June 30,		Three month periods ended June 30,	
	2020	2019	2020	2019
	(In thousands)			
Foreign exchange contracts not designated as hedging instruments	\$ 21,826	\$ 69	\$ 5,059	\$ 69
Loss from foreign exchange contracts designated as fair value hedges	—	(1,030)	—	(1,030)
Gain from hedged items attributable to hedged risks	—	1,030	—	1,030

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 in late March, 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. Despite the uncertainty generated by the pandemic, the Company's revenues increased 61.1% during the second quarter in comparison with the same quarter of 2019, mainly as a result of an increase in gross merchandise value and total payment value.

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 for the remainder of 2020. In terms of liquidity and cash management, relevant funding sources remain available and new credit facilities have been obtained at the geographical segment level. As of June 30, 2020, the Company's main source of liquidity was \$2,763,762 thousands of cash and cash equivalents and short-term investments, which excludes a \$530,660 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 weak macro-economic environment in 2020 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 the rest of 2020. 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 Exchange Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, 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 online 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; 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, 2019 filed with the Securities and Exchange Commission (“SEC”) on February 14, 2020, 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, 2020 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, 2019. 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, 2020 and 2019;
- 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

MercadoLibre, Inc. (together with its subsidiaries “us”, “we”, “our” or the “Company”) is the largest online commerce ecosystem in Latin America. Our platform is designed to provide users with a complete portfolio of services to facilitate commercial transactions. We are a market leader in e-commerce in each of Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Peru, Uruguay and Venezuela, based on the number of unique visitors and page views. We also operate online commerce platforms in the Dominican Republic, Honduras, Nicaragua, El Salvador, Panama, Bolivia, Guatemala and Paraguay.

Through our platform, we provide buyers and sellers with a robust environment that fosters the development of a large e-commerce community in Latin America, a region with a population of over 644 million people and with one of the fastest-growing Internet penetration rates in the world. We believe that we offer technological and commercial solutions that address the distinctive cultural and geographic challenges of operating an online 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 platform, the Mercado Envios logistics service, the MercadoLibre Classifieds service, the MercadoLibre advertising solution and the Mercado Shops online webstores 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 online.

Mercado Pago is our financial technology (FinTech) solution, designed to facilitate transactions both on and off our marketplaces by providing a mechanism that allows our users to securely, easily and promptly send and receive payments online. Outside of our marketplaces, Mercado Pago allows merchants to process transactions via their websites and mobile apps, as well as in their brick-and-mortar stores through QR codes and mobile points of sale (“MPOS”) devices. It also enables users to easily transfer money to each other. Through Mercado Fondo, our asset management product, our users are able to invest the outstanding balance on their Mercado Pago account at competitive rates and in a simple way. Mercado Credito, our lending solution, allows us to finance merchants’ working capital needs and consumers’ purchases.

To further enhance our suite of e-commerce services, we launched the Mercado Envios shipping program in Brazil, Argentina, Mexico, Colombia, Chile and Uruguay. Through Mercado Envios, we offer a cost-efficient way to utilize our existing distribution chain to fulfill sales on our platform. Sellers that opt into the program are able to offer a uniform and seamlessly integrated shipping experience to their buyers at competitive prices. As of June 30, 2020, we also offer free shipping to buyers in Brazil, Argentina, Mexico, Chile and Colombia.

Through MercadoLibre Classifieds, our online classified listing service, our users can also list and purchase 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.

Furthermore, we developed our MercadoLibre advertising platform to enable businesses to promote their products and services on the Internet. Through this platform, MercadoLibre's sellers and large advertisers are able to display ads on our webpages.

Additionally, through Mercado Shops, our online store solution, users can set-up, manage and promote their own online store. These stores are hosted by MercadoLibre and offer integration with the marketplace, and payment and advertising services we offer. Users can pay monthly subscriptions for enhanced functionality and value added services on their store.

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, 2020 and 2019:

(% of total consolidated net revenues) (*)	Six-month Periods Ended				Three-month Periods Ended			
	June 30,		June 30,		June 30,		June 30,	
	2020	2019	2020	2019	2020	2019	2019	
Brazil	56.4	%	63.1	%	53.0	%	62.5	%
Argentina	24.3		20.4		27.2		20.9	
Mexico	14.4		11.7		14.3		11.8	
Other Countries	4.9		4.8		5.5		4.8	

(*) 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.

The following table summarizes the changes in our net revenues by segment for the six and three-month periods ended June 30, 2020 and 2019:

	Six-month Periods Ended		Change from 2019		Three-month Periods Ended		Change from 2019	
	June 30,		to 2020 (*)		June 30,		to 2020 (*)	
	2020	2019	in Dollars	in %	2020	2019	in Dollars	in %
	(in millions, except percentages)				(in millions, except percentages)			
Net Revenues:								
Brazil	\$ 862.7	\$ 643.2	\$ 219.5	34.1 %	\$ 465.3	\$ 340.9	\$ 124.4	36.5 %
Argentina	372.1	207.7	164.4	79.2	239.2	113.9	125.3	110.0
Mexico	220.7	118.9	101.8	85.6	125.9	64.4	61.6	95.6
Other Countries	74.9	49.1	25.8	52.5	47.9	26.1	21.8	83.7
Total Net Revenues	\$ 1,530.5	\$ 1,019.0	\$ 511.4	50.2 %	\$ 878.4	\$ 545.2	\$ 333.1	61.1 %

(*) 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.

Recent Developments

Loss from transaction with an agent

We have arrangements with some unaffiliated entities under which our users are able to fund their Mercado Pago accounts by depositing an equivalent amount with the unaffiliated entity. In some of these arrangements, we credit the Mercado Pago account before the unaffiliated entity transfers the funds to us to settle the transaction. The amounts pending settlement are recognized in our balance sheet as credit cards receivable and other means of payment. In June 2020, we became aware that \$26.7 million dollars of receivables had accumulated from one such unaffiliated entity in Argentina. The aging of these receivables exceeded the expected aging for transactions of this kind. Consequently, we conducted, with the assistance of an outside independent accounting advisor, an internal review. Our internal review on this matter did not identify any material errors in the consolidated financial statements for the year ended December 31, 2019 or the quarter ended March 31, 2020. However, based on the review, management has determined that there were deficiencies in the timely operation of certain internal controls. See Item 4 of Part I, "Controls and Procedures—Changes in Internal Controls Over Financial Reporting."

As of June 30, 2020, we recorded a \$26.7 million allowance for doubtful accounts on receivables due to us by this entity, and are attempting to collect the full outstanding balance from said unaffiliated entity.

Capped call transactions related to the 2.00% Convertible Senior Notes 2028

In connection with the issuance of the 2028 Notes, we paid \$104.1 million (including transaction expenses) in June 2020 to enter into the 2028 Notes Capped Call Transactions with certain financial institutions. 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 our common stock is greater than the strike price of the 2028 Notes Capped Call Transactions. Please see note 11 to our unaudited condensed consolidated financial statements for further detail on the 2028 Notes Capped Call Transactions.

Criminal complaint against our chief executive officer and others

On February 4, 2020, an Argentine federal prosecutor submitted to an Argentine judge a complaint alleging that certain sales of Argentine government securities, made by a common investment fund that holds balances for Mercado Pago customers, were based on non-public information about the government's plans to extend the maturities of the securities. The complaint named our chief executive officer, as well as others who are not specifically identified, as having committed criminal fraud against the Argentine federal government. The judge appointed another prosecutor to investigate the allegations described in the complaint. At the conclusion of the investigation, the prosecutor recommended dismissing the complaint, finding that there was no criminal conduct, which recommendation was accepted by the judge.

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 generally fall into two distinct revenue streams: "Commerce" and "Fintech."

We have re-named and grouped by nature our Revenue streams breakdown, given the increasing importance of our financial business in current and expected future revenue composition, which our management considers shows more meaningful information about the business. As such, the breakdown by revenue stream previously labeled as "Enhanced Marketplace" and "Non-marketplace", is now presented under the titles of "Commerce" and "Fintech", respectively. Also, as a result, a group of other services, including classifieds fees, ad sales and other ancillary services, which had historically been included in the "Non-marketplace" line, have as of January 1, 2020, been included as a part of the "Commerce" Revenue stream. Prior-period corresponding figures have been changed accordingly for comparative purposes.

The following table summarizes our consolidated net revenues by revenue stream for the six and three-month periods ended June 30, 2020 and 2019:

Consolidated net revenues by revenue stream	Six-month Periods Ended		Three-month Periods Ended	
	June 30, (*)		June 30, (*)	
	2020	2019	2020	2019
	(in millions)		(in millions)	
Commerce (**)	\$ 962.4	\$ 610.8	\$ 581.7	\$ 324.0
Fintech	568.0	408.2	296.7	221.2
Total	\$ 1,530.5	\$ 1,019.0	\$ 878.4	\$ 545.2

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

(**) Includes marketplace fees, shipping fees, 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 to our customers.

Fintech revenues correspond to our MercadoPago 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, 2020 and 2019, 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 7.4% of net revenues for the six-month period ended June 30, 2020, as compared to 8.5% for the same period in 2019. For the three-month period ended June 30, 2020 these taxes represented 8.5% of net revenues, as compared to 8.4% for the same period in 2019.

Cost of net revenues

Cost of net revenues primarily includes bank and credit card processing charges for transactions and fees paid with credit cards and other payment methods, shipping operation costs (including warehousing costs), carrier and other operating costs, fraud prevention fees, certain taxes on revenues, certain taxes on bank transactions, cost of sales of goods, 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, 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

The preparation of our unaudited interim condensed consolidated financial statements and related notes requires us to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We have based our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our Management has discussed the development, selection and disclosure of these estimates with our audit committee and our board of directors. Actual results may differ from these estimates under different assumptions or conditions.

An accounting policy is considered to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact our interim condensed consolidated financial statements. We believe that our critical accounting policies reflect the more significant estimates and assumptions used in the preparation of our interim condensed consolidated financial statements.

There have been no significant changes in our critical accounting policies, Management estimates or accounting policies since the year ended December 31, 2019 and disclosed in the Form 10-K, see "Critical Accounting Policies and Estimates", other than those discussed in Note 2 of our unaudited interim condensed consolidated financial statements in connection with the adoption of ASC 326 as of January 1, 2020.

Results of operations for the six and three-month periods ended June 30, 2020 compared to the six and three-month periods ended June 30, 2019

The selected financial data for the six and three-month periods ended June 30, 2020 and 2019 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, 2020 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2020 or for any other period.

Statement of income data

(In millions)	Six-month Periods Ended June 30,		Three-months Periods Ended June 30,	
	2020 (*)	2019 (*)	2020 (*)	2019 (*)
	(Unaudited)		(Unaudited)	
Net revenues	\$ 1,530.5	\$ 1,019.0	\$ 878.4	\$ 545.2
Cost of net revenues	(790.5)	(509.6)	(451.2)	(272.8)
Gross profit	740.0	509.4	427.2	272.4
Operating expenses:				
Product and technology development	(146.7)	(106.3)	(73.3)	(53.9)
Sales and marketing	(390.6)	(311.4)	(184.1)	(180.7)
General and administrative	(133.0)	(94.1)	(70.4)	(50.3)
Total operating expenses	(670.2)	(511.8)	(327.7)	(284.9)
Income/(loss) from operations	69.7	(2.3)	99.4	(12.5)
Other income (expenses):				
Interest income and other financial gains	55.6	58.1	18.8	33.7
Interest expense and other financial losses	(50.6)	(30.2)	(27.0)	(14.7)
Foreign currency (losses)/gains	(2.1)	(2.9)	(1.9)	0.8
Net income before income tax (expense)/gain	72.7	22.7	89.3	7.3
Income tax expense/(gain)	(37.8)	5.4	(33.4)	8.9
Net income	\$ 34.8	\$ 28.1	\$ 55.9	\$ 16.2

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

Principal trends in results of operations
Net revenues

Our net revenues maintained its growth trajectory during the first half of 2020, specifically related to the increase in our gross merchandise volume, the decrease in the amount incurred in shipping subsidies netted from revenues 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, 2020.

The COVID-19 pandemic has affected many companies and industries in Latin America, our Company included, especially during the end of first quarter of 2020 when government-imposed total or partial lockdowns and curfews throughout Latin America in late March, some of which have been subsequently extended, modified or rescinded.

Despite the fact that the second quarter of 2020 was characterized by the solid performance of our business and our belief that our long-term growth in net revenues will continue in the future, given our leadership in the region and the ongoing opportunities for e-commerce and Fintech solutions in Latin America, we are not able to predict the negative impacts that the COVID-19 pandemic may have on our business in the future.

Lastly, our sources of revenues are denominated in local currencies; therefore, the weak macro-economic environment in certain countries in which we operate 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 bank and credit card processing charges for transactions and fees paid with credit cards and other payment methods, fraud prevention fees, sales taxes, shipping operation costs (including warehousing costs), carrier and other operating costs, certain taxes on bank transactions, cost of products sold, hosting and site operation fees, compensation for customer support personnel, ISP connectivity charges and depreciation and amortization. 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 with no significant short-term maturities.

However, in the future, our gross profit margin could decline if we are not able to apply appropriate measures regarding our business to prevent potential negative impacts of the COVID-19 pandemic, if we fail to maintain an appropriate relationship between our cost of revenue structure and our net revenues trend and we continue offering new shipping subsidies.

For the six-month periods ended June 30, 2020 and 2019, our gross profit margins were 48.4% and 50.0%, respectively. The decrease in our gross profit margin resulted primarily from an increase in shipping operating costs, as a percentage of net revenues, partially offset by a decrease in collection fees and sales taxes, as a percentage of revenues.

For the three-month periods ended June 30, 2020 and 2019, our gross profit margins were 48.6% and 50.0%, respectively. The decrease in our gross profit margin resulted primarily from an increase in shipping operating costs, as a percentage of net revenues, partially offset by a decrease in collection fees, as a percentage of revenues.

Operating margins

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 non-critical 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, 2020, as compared to the same period in 2019, our operating margin increased from a negative margin of 0.2% to a positive margin of 4.6%. This increase is primarily a consequence of 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.

For the three-month period ended June 30, 2020, as compared to the same period in 2019, our operating margin increased from a negative margin of 2.3% to a positive margin of 11.3%. This increase is primarily a consequence of marketing expenditures efficiencies we achieved as a result of the growth in organic demand brought about by the effects of the COVID-19 pandemic consumer behavior.

Other Data

(in millions)	Six-month Periods Ended June 30,		Three-month Periods Ended June 30,	
	2020	2019	2020	2019
Unique active users ⁽¹⁾	65.5	47.6	51.5	35.5
Number of confirmed new registered users during period ⁽²⁾	29.9	24.7	16.9	12.4
Gross merchandise volume ⁽³⁾	\$ 8,459.0	\$ 6,485.5	\$ 5,044.8	\$ 3,397.7
Number of successful items sold ⁽⁴⁾	284.2	171.4	178.5	88.7
Number of successful items shipped ⁽⁵⁾	247.7	132.6	157.5	70.2
Total payment volume ⁽⁶⁾	\$ 19,308.8	\$ 12,156.5	\$ 11,214.3	\$ 6,517.4
Total volume of payments on marketplace ⁽⁷⁾	\$ 7,966.5	\$ 6,016.1	\$ 4,763.2	\$ 3,120.0
Total payment transactions ⁽⁸⁾	695.5	325.6	404.8	181.6
Capital expenditures	\$ 101.9	\$ 71.4	\$ 48.4	\$ 38.4
Depreciation and amortization	\$ 44.2	\$ 33.0	\$ 22.7	\$ 17.3

- (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 number of new users who have registered on the Mercado Libre Marketplace and confirmed their registration, excluding Classifieds users.
- (3) Measure of the total U.S. dollar sum of all transactions completed through the Mercado Libre Marketplace, excluding Classifieds transactions.
- (4) Measure of the number of items that were sold/purchased through the Mercado Libre Marketplace, excluding Classifieds items.
- (5) Measure of the number of items that were shipped through our shipping service.
- (6) Measure of the total U.S. dollar sum of all transactions paid for using Mercado Pago, including marketplace and non-marketplace transactions.
- (7) Measure of the total U.S. dollar sum of all marketplace transactions paid for using Mercado Pago, excluding shipping and financing fees.
- (8) Measure of the number of all transactions paid for using Mercado Pago.

Net revenues

	Six-month Periods Ended June 30,		Change from 2019 to 2020 (*)		Three-month Periods Ended June 30,		Change from 2019 to 2020 (*)	
	2020	2019	in Dollars		2020	2019	in Dollars	
	(in millions, except percentages)				(in millions, except percentages)			
Total Net Revenues	\$ 1,530.5	\$ 1,019.0	\$ 511.4	50.2%	\$ 878.4	\$ 545.2	\$ 333.1	61.1%

(*) 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 50.2% in the six-month period ended June 30, 2020 as compared to the same period in 2019. The increase in net revenues was primarily attributable to an increase of 57.6% in Commerce net revenues resulting from increases in local currency gross merchandise volume in Argentina, Brazil and Mexico of 164%, 38% and 90%, respectively. Our net revenues grew 61.1% in the three-month period ended June 30, 2020 as compared to the same period in 2019. The increase in net revenues was primarily attributable to an increase of 79.5% in Commerce net revenues resulting from increases in local currency gross merchandise volume in Argentina, Brazil and Mexico of 230%, 58% and 122%, respectively.

The increase in our local currency gross merchandise volume was partially offset by the devaluation of the Brazilian Reals, the Mexican Peso and the Argentine Peso.

In addition, the increase in net revenues was attributable to:

- a decrease of \$65.2 million, or 48.5%, in shipping subsidies that are netted from revenues, during the six-month period ended June 30, 2020 as compared to the same period in 2019. For the three-month period ended June 30, 2020, shipping subsidies that are netted from revenues decreased \$29.8 million, or 49.3%, as compared to the same period in 2019; and
- an increase of \$37.7 million and \$26.5 million for the six and three-month periods ended June 30, 2020, as compared to the same periods in 2019, respectively, mainly related to the flat fee we charge in Brazil, Argentina and Mexico for transactions below a certain merchandise value.

Our Fintech revenues increased 39.2%, from \$408.2 million for the six-month period ended June 30, 2019 to \$568.0 million for the six-month period ended June 30, 2020. Our Fintech revenues increased 34.1%, from \$221.2 million for the three-month period ended June 30, 2019 to \$296.7 million for the three-month period ended June 30, 2020

This increase is mainly generated by a 58.8% and 72.1% increase in our total payment volume, mainly associated with off-platform transactions, financing and credits business for the six and three-month periods ended June 30, 2020, respectively, as compared to the same period in 2019.

Consolidated Net Revenues by revenue stream	Six-month Periods Ended June 30,		Change from 2019 to 2020 (*)		Three-month Periods Ended June 30,		Change from 2019 to 2020 (*)	
	2020	2019	in Dollars	in %	2020	2019	in Dollars	in %
	(in millions, except percentages)				(in millions, except percentages)			
<i>Brazil</i>								
Commerce	\$ 517.5	\$ 360.6	\$ 156.9	43.5%	\$ 302.9	\$ 189.2	\$ 113.7	60.1%
Fintech	345.2	282.6	62.6	22.1%	162.4	151.7	10.7	7.1%
	\$ 862.7	643.2	\$ 219.5	34.1%	\$ 465.3	\$ 340.9	\$ 124.4	36.5%
<i>Argentina</i>								
Commerce	\$ 205.5	\$ 108.2	\$ 97.3	89.9%	\$ 138.0	\$ 59.3	\$ 78.8	132.9%
Fintech	166.6	99.5	67.1	67.4%	101.2	54.6	46.5	85.1%
	\$ 372.1	207.7	\$ 164.4	79.2%	\$ 239.2	\$ 113.9	\$ 125.3	110.0%
<i>Mexico</i>								
Commerce	\$ 182.8	\$ 102.3	\$ 80.5	78.7%	\$ 105.5	\$ 55.0	\$ 50.5	91.7%
Fintech	37.9	16.7	21.2	127.5%	20.4	9.3	11.1	118.5%
	\$ 220.7	118.9	\$ 101.8	85.6%	\$ 125.9	\$ 64.4	\$ 61.6	95.6%
<i>Other countries</i>								
Commerce	\$ 56.6	\$ 39.7	\$ 16.8	42.4%	\$ 35.2	\$ 20.5	\$ 14.7	71.5%
Fintech	18.3	9.4	8.9	95.2%	12.7	5.6	7.2	128.8%
	\$ 74.9	49.1	\$ 25.8	52.5%	\$ 47.9	\$ 26.1	\$ 21.8	83.7%
<i>Consolidated</i>								
Commerce	\$ 962.4	\$ 610.8	\$ 351.6	57.6%	\$ 581.7	\$ 324.0	\$ 257.7	79.5%
Fintech	568.0	408.2	159.9	39.2%	296.7	221.2	75.4	34.1%
Total	\$ 1,530.5	\$ 1,019.0	\$ 511.4	50.2%	\$ 878.4	\$ 545.2	\$ 333.1	61.1%

(*) 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.

Brazil

Commerce revenues in Brazil increased 43.5% in the six-month period ended June 30, 2020 as compared to the same period in 2019. This increase was primarily a consequence of: i) a 38% increase in local currency gross merchandise volume (partially offset by a 21.9% approximate average devaluation of the local currency); ii) a \$66.0 million decrease in shipping subsidies related to our free shipping initiative, which is presented netted from revenues; and iii) an increase of \$25.2 million as a result of the implementation of a flat fee for transactions below a certain merchandise value. Fintech revenues grew by 22.1%, a \$62.6 million increase, during the six-month period ended June 30, 2020 as compared to the same period in 2019, mainly driven by a 52.3% increase in the off-platform payments volume (which is partially monetized as a strategy to expand our ecosystem) and financing.

Commerce revenues in Brazil increased 60.1% in the three-month period ended June 30, 2020 as compared to the same period in 2019. This increase was primarily a consequence of: i) a 58% increase in local currency gross merchandise volume (partially offset by a 27.3% approximate average devaluation of the local currency); ii) a \$35.2 million decrease in shipping subsidies related to our free shipping initiative, which is presented netted from revenues; and iii) an increase of \$19.8 million as a result of the implementation of a flat fee for transactions below a certain merchandise value. Fintech revenues grew by 7.1%, a \$10.7 million increase, during the three-month period ended June 30, 2020 as compared to the same period in 2019, mainly driven by a 35.0% increase in the off-platform payments volume (which is partially monetized as a strategy to expand our ecosystem), financing and credits business.

Argentina

Commerce revenues in Argentina increased 89.9% in the six-month period ended June 30, 2020 as compared to the same period in 2019. This increase was primarily a consequence of: i) a 164% increase in local currency gross merchandise volume (partially offset by a 35.7% approximate average devaluation of the local currency); and ii) an increase of \$4.4 million as a result of the implementation of a flat fee for transactions below a certain merchandise value. Fintech revenues grew 67.4%, a \$67.1 million increase, during the six-month period ended June 30, 2020 as compared to the same period in 2019, mainly driven by a 149.8% increase in the off-platform payments volume (which is partially monetized as a strategy to expand our ecosystem) and financing, partially offset by the aforementioned devaluation of the local currency.

Commerce revenues in Argentina increased 132.9% in the three-month period ended June 30, 2020 as compared to the same period in 2019. This increase was primarily a consequence of: i) a 230% increase in local currency gross merchandise volume (partially offset by a 35.1% approximate average devaluation of the local currency) and ii) an increase of \$2.0 million as a result of the implementation of a flat fee for transactions below a certain merchandise value. This increase was partially offset by a \$3.3 million increase in shipping subsidies related to our free shipping initiative, which is presented netted from revenues. Fintech revenues grew 85.1%, a \$46.5 million increase, during the three-month period ended June 30, 2020 as compared to the same period in 2019, mainly driven by a 184.9% increase in the off-platform payments volume (which is partially monetized as a strategy to expand our ecosystem) and financing, partially offset by the aforementioned devaluation of the local currency.

Mexico

Commerce revenues in Mexico increased 78.7% in the six-month period ended June 30, 2020, as compared to the same period in 2019, mainly due to: i) a 90% increase in local currency gross merchandise volume (partially offset by a 11.5% approximate average devaluation of the local currency); and ii) an increase of \$7.7 million as a result of the implementation of a flat fee for transactions below a certain merchandise value. Fintech revenues grew 127.5%, a \$21.2 million increase, during the six-month period ended June 30, 2020 as compared to the same period in 2019, mainly driven by a 116.1% increase in the off-platform payments volume (which is partially monetized as a strategy to expand our ecosystem), financing and credits business, partially offset by the aforementioned devaluation of the local currency.

Commerce revenues in Mexico increased 91.7% in the three-month period ended June 30, 2020, as compared to the same period in 2019, mainly due to: i) a 122% increase in local currency gross merchandise volume (partially offset by an 18.0% approximate average devaluation of the local currency); and ii) an increase of \$4.5 million as a result of the implementation of a flat fee for transactions below a certain merchandise value. Fintech revenues grew 118.5%, a \$11.1 million increase, during the three-month period ended June 30, 2020 as compared to the same period in 2019, mainly driven by a 121.8% increase in the off-platform payments volume (which is partially monetized as a strategy to expand our ecosystem), financing and credits business, partially offset by the aforementioned devaluation of the local currency.

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)			
	(*)			
2020				
Net revenues	\$ 652.1	\$ 878.4	n/a	n/a
Percent change from prior quarter	-3%	35%		
2019				
Net revenues	\$ 473.8	\$ 545.2	\$ 603.0	\$ 674.3
Percent change from prior quarter	11%	15%	11%	12%

(*) 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, 2020 as compared to the same period in 2019:

(% of revenue growth in Local Currency)	Changes from 2019 to 2020 (*)	
	Six-month period	Three-month period
Brazil	72.4%	87.4%
Argentina	181.2%	224.0%
Mexico	111.5%	137.9%
Other Countries	80.6%	118.3%
Total Consolidated	98.8%	123.4%

(*) The local currency revenue growth was calculated by using the average monthly exchange rates for each month during 2019 and applying them to the corresponding months in 2020, 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, an increase in our shipped items volume, increases in our off-platform transactions business through Mercado Pago, an increase in our financing and a high level of inflation.

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

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

Cost of net revenues

	Six-month Periods Ended		Change from 2019		Three-month Periods Ended		Change from 2019	
	June 30,		to 2020 (*)		June 30,		to 2020 (*)	
	2020	2019	in Dollars	in %	2020	2019	in Dollars	in %
	(in millions, except percentages)				(in millions, except percentages)			
Total cost of net revenues	\$ 790.5	\$ 509.6	\$ 280.9	55.1%	\$ 451.2	\$ 272.8	\$ 178.4	65.4%
As a percentage of net revenues (*)	51.6%	50.0%			51.4%	50.0%		

(*) 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, 2020 as compared to the same period in 2019, the increase of \$280.9 million in cost of net revenues was primarily attributable to: i) a \$100.2 million increase in shipping operating costs; ii) a \$66.3 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; iii) a \$42.9 million increase in cost of sales of goods in Brazil, Argentina and Mexico; iv) a \$27.5 million increase in sales taxes; v) a \$19.1 million increase in hosting expenses and; vi) a \$8.3 million increase in other payment costs mainly related to prepaid card costs and funding for our Mercado Pago business.

For the three-month period ended June 30, 2020 as compared to the same period in 2019, the increase of \$178.4 million in cost of net revenues was primarily attributable to: i) a \$57.1 million increase in shipping operating costs; ii) a \$44.7 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; iii) a \$29.0 million increase in sales taxes; iv) a \$28.9 million increase in cost of sales of goods in Brazil, Argentina and Mexico and; v) a \$11.8 million increase in hosting expenses.

Product and technology development expenses

	Six-month Periods Ended		Change from 2019		Three-month Periods Ended		Change from 2019	
	June 30,		to 2020 (*)		June 30,		to 2020 (*)	
	2020	2019	in Dollars	in %	2020	2019	in Dollars	in %
	(in millions, except percentages)				(in millions, except percentages)			
Product and technology development	\$ 146.7	\$ 106.3	\$ 40.4	38.0%	\$ 73.3	\$ 53.9	\$ 19.3	35.9%
As a percentage of net revenues (*)	9.6%	10.4%			8.3%	9.9%		

(*) 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.

For the six-month period ended June 30, 2020, the increase in product and technology development expenses as compared to the same period in 2019 amounted to \$40.4 million. This increase was primarily attributable to: i) a \$28.1 million increase in salaries and wages mainly related to new hiring; and ii) a \$5.4 million increase in depreciation and amortization expenses.

For the three-month period ended June 30, 2020, the increase in product and technology development expenses as compared to the same period in 2019 amounted to \$19.3 million. This increase was primarily attributable to: i) a \$13.9 million increase in salaries and wages mainly related to new hiring; and ii) a \$2.1 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		Change from 2019		Three-month Periods Ended		Change from 2019	
	June 30,		to 2020 (*)		June 30,		to 2020 (*)	
	2020	2019	in Dollars	in %	2020	2019	in Dollars	in %
	(in millions, except percentages)				(in millions, except percentages)			
Sales and marketing	\$ 390.6	\$ 311.4	\$ 79.2	25.4%	\$ 184.1	\$ 180.7	\$ 3.4	1.9%
As a percentage of net revenues (*)	25.5%	30.6%			21.0%	33.1%		

(*) 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, 2020, the \$79.2 million increase in sales and marketing expenses as compared to the same period in 2019 was primarily attributable to: i) a \$43.0 million increase in bad debt expenses explained by the recognition of a charge of \$27.0 million related to accumulated accounts receivable from an unaffiliated entity in Argentina as discussed above in "Recent Developments" and the adoption of the ASC 326 effective January 1, 2020; ii) a \$20.5 million increase in our buyer protection program expenses, mainly in Mexico and Argentina iii) a \$ 13.8 million increase in other sales expenses mainly related to strategic marketing initiatives expenses; and iv) a \$6.6 million increase in salaries and wages. This increase was partially offset by a \$13.4 million decrease in online and offline marketing expenses mainly in Brazil, Mexico and Argentina as a consequence of 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.

For the three-month period ended June 30, 2020, the \$3.4 million increase in sales and marketing expenses as compared to the same period in 2019 was primarily attributable to: i) a \$25.5 million increase in bad debt expenses explained by the recognition of a charge of \$27.0 million related to accumulated accounts receivable from an unaffiliated entity in Argentina as discussed above in "Recent Developments"; ii) a \$14.5 million increase in our buyer protection program expenses, mainly in Mexico and Argentina; iii) a \$ 2.3 million increase in chargebacks from credit cards due to the increase in our Mercado Pago transactions volume; iv) a \$ 1.6 million increase in other sales expenses mainly related to strategic marketing initiatives expenses; and v) a \$1.5 million increase in salaries and wages. This increase was partially offset by a \$43.1 million decrease in online and offline marketing expenses mainly in Brazil, Mexico and Argentina as a consequence of 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.

General and administrative expenses

	Six-month Periods Ended		Change from 2019		Three-month Periods Ended		Change from 2019	
	June 30,		to 2020 (*)		June 30,		to 2020 (*)	
	2020	2019	in Dollars	in %	2020	2019	in Dollars	in %
	(in millions, except percentages)				(in millions, except percentages)			
General and administrative	\$ 133.0	\$ 94.1	\$ 38.9	41.3%	\$ 70.4	\$ 50.3	\$ 20.1	40.0%
As a percentage of net revenues (*)	8.7%	9.2%			8.0%	9.2%		

(*) 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.

For the six-month period ended June 30, 2020, the \$38.9 million increase in general and administrative expenses as compared to the same period in 2019 was primarily attributable to: i) a \$25.5 million increase in salaries and wages, mainly related to the LTRPs; and ii) a \$5.6 million increase in legal, tax and other fees.

For the three-month period ended June 30, 2020, the \$20.1 million increase in general and administrative expenses as compared to the same period in 2019 was primarily attributable to: i) a \$13.9 million increase in salaries and wages, mainly related to the LTRPs; and ii) a \$1.6 million increase in legal, tax and other fees.

Other income (expense), net

	Six-month Periods Ended		Change from 2019		Three-month Periods Ended		Change from 2019	
	June 30,		to 2020 (*)		June 30,		to 2020 (*)	
	2020	2019	in Dollars	in %	2020	2019	in Dollars	in %
	(in millions, except percentages)				(in millions, except percentages)			
Other income (expense), net	\$ 2.9	\$ 25.0	\$ (22.1)	-88.3%	\$ (10.1)	\$ 19.8	\$ (29.9)	-151.0%
As a percentage of net revenues (*)	0.2%	2.5%			-1.1%	3.6%		

(*) 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, 2020, the \$22.1 million decrease in other income (expense), net as compared to the same period in 2019 was primarily attributable to: i) a \$20.3 million increase in financial expenses mainly attributable to financial loans entered into during the second quarter of 2020, mainly in Brazil and Argentina and interest expenses from our trusts related to our factoring business in Argentina; and ii) a \$2.6 million decrease in interest income from our financial investments as a result of lower interest rates in our investment as a consequence of the pandemic. This decrease was partially offset by a \$0.8 million decrease in our foreign exchange loss.

For the three-month period ended June 30, 2020, the \$29.9 million decrease in other income (expense), net as compared to the same period in 2019 was primarily attributable to: i) a \$14.9 million decrease in interest income from our financial investments as a result of lower interest rates in our investment as a consequence of the pandemic; ii) a \$12.3 million increase in financial expenses mainly attributable to financial loans entered into during the second quarter of 2020, mainly in Brazil and Argentina and interest expenses from our trusts related to our factoring business in Argentina; and iii) a \$2.7 million increase in our foreign exchange loss.

Income tax

	Six-month Periods Ended		Change from 2019		Three-month Periods Ended		Change from 2019	
	June 30,		to 2020 (*)		June 30,		to 2020 (*)	
	2020	2019	in Dollars	in %	2020	2019	in Dollars	in %
	(in millions, except percentages)				(in millions, except percentages)			
Income tax (expense)/gain	\$ (37.8)	\$ 5.4	\$ (43.2)	-797.1%	\$ (33.4)	\$ 8.9	\$ (42.3)	-474.5%
As a percentage of net revenues (*)	-2.5%	0.5%			-3.8%	1.6%		

(*) 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 and three-month periods ended June 30, 2020 as compared to the same periods in 2019, income tax expense increased by \$43.2 million and \$42.3 million, respectively, mainly as a result of: i) higher income tax expense in Brazil, as a consequence of higher pre-tax gain in our Brazilian segment during 2020; ii) valuation allowances on certain deferred tax assets in Mexico accounted for in the first half of 2020 and iii) higher income tax expense in Argentina as a consequence of the temporary suspension of the knowledge-based economy promotional regime in 2020, which had a direct impact on the income tax rate for our Argentine business.

Our effective tax rate is defined as income tax (expense)/gain as a percentage of income before income tax (expense)/gain.

The following table summarizes our effective tax rates for the six and three-month periods ended June 30, 2020 and 2019:

	Six-month Periods Ended June 30, (*)		Three-month Periods Ended June 30, (*)	
	2020	2019	2020	2019
Effective tax rate	52.1%	-23.9%	37.4%	-122.1%

(*) 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.

Our effective tax rate for the six and three-month periods ended June 30, 2020 increased to a positive effective tax rate as compared to the same period in 2019, largely as a result of an increase in our Argentine income tax rate mainly as a consequence of the temporary suspension of the knowledge-based economy promotional regime in 2020 by Argentine government until new rules for the application of the regime are issued and the valuation allowances on certain deferred tax assets in Mexico and Colombia accounted for in the six and three-month ended periods ended June 30, 2020.

The following table summarizes our effective tax rates for the six and three-month periods ended June 30, 2020 and 2019:

Effective tax rate by country	Six-month Periods Ended June 30,		Three-month Periods Ended June 30,	
	2020	2019	2020	2019
Argentina	33.2%	7.4%	30.3%	0.5%
Brazil	29.5%	27.2%	30.8%	21.3%
Mexico	-1.1%	33.2%	-9.2%	32.5%

The increase in the effective income tax rate in our Argentine subsidiaries during the six and three-month periods ended June 30, 2020 as compared to the same period in 2019 was mainly a consequence of the temporary suspension of the knowledge-based economy promotional regime since 2020 by the Argentine government until new rules for the application of the regime are issued, which had a direct impact on the income tax rate for our Argentine business. For information regarding the benefits granted to the Company under the software development law, please see Note 2 to our interim unaudited condensed consolidated financial statements.

The increase in our Brazilian effective income tax rate for the six and three-month periods ended June 30, 2020 as compared to the same period in 2019, was mainly related to higher non-taxable expenses.

The decrease in our Mexican effective income tax rate for the six and three-month periods ended June 30, 2020 as compared to the same period in 2019, was mainly related to valuation allowances on certain deferred tax assets in Mexico accounted for in the period ended June 30, 2020.

Segment information

(In millions, except for percentages)

	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%

	Six-month Period Ended June 30, 2019 (*)				
	Brazil	Argentina	Mexico	Other Countries	Total
Net revenues	\$ 643.2	\$ 207.7	\$ 118.9	\$ 49.1	\$ 1,019.0
Direct costs	(501.3)	(151.4)	(150.8)	(44.9)	(848.4)
Direct contribution	\$ 142.0	\$ 56.3	\$ (31.9)	\$ 4.2	\$ 170.7
Margin	22.1%	27.1%	-26.8%	8.6%	16.7%

	Change from the Six-month Period Ended June 30, 2019 to June 30, 2020 (*)				
	Brazil	Argentina	Mexico	Other Countries	Total
Net revenues					
in Dollars	\$ 219.5	\$ 164.4	\$ 101.8	\$ 25.8	\$ 511.4
in %	34.1%	79.2%	85.6%	52.5%	50.2%
Direct costs					
in Dollars	\$ (146.1)	\$ (121.0)	\$ (74.5)	\$ (17.7)	\$ (359.3)
in %	29.2%	79.9%	49.4%	39.3%	42.4%
Direct contribution					
in Dollars	\$ 73.4	\$ 43.4	\$ 27.2	\$ 8.1	\$ 152.1
in %	51.7%	77.0%	85.5%	191.5%	89.1%

(In millions, except for percentages)

	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%

	Three-month Period Ended June 30, 2019 (*)				
	Brazil	Argentina	Mexico	Other Countries	Total
Net revenues	\$ 340.9	\$ 113.9	\$ 64.4	\$ 26.1	\$ 545.2
Direct costs	(275.9)	(83.9)	(85.2)	(24.4)	(469.5)
Direct contribution	\$ 64.9	\$ 30.0	\$ (20.8)	\$ 1.6	\$ 75.8
Margin	19.1%	26.3%	-32.4%	6.3%	13.9%

Change from the Three-month Period Ended June 30, 2019 to June 30, 2020 (*)

	Brazil	Argentina	Mexico	Other Countries	Total
Net revenues					
in Dollars	\$ 124.4	\$ 125.3	\$ 61.6	\$ 21.8	\$ 333.1
in %	36.5%	110.0%	95.6%	83.7%	61.1%
Direct costs					
in Dollars	\$ (48.8)	\$ (87.5)	\$ (25.3)	\$ (10.5)	\$ (172.2)
in %	17.7%	104.3%	29.7%	43.0%	36.7%
Direct contribution					
in Dollars	\$ 75.6	\$ 37.8	\$ 36.2	\$ 11.3	\$ 161.0
in %	116.4%	126.0%	173.9%	688.0%	212.4%

(*) 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.

Net revenues

Net revenues for the six and three-month period ended June 30, 2020 as compared to the same period in 2019 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, 2020, as compared to the same period in 2019, direct costs increased by 29.2%, mainly driven by: i) a 41.8% increase in cost of net revenues, mainly attributable to an increase in shipping operating costs, collection fees as a consequence of the higher transactions volume of our Mercado Pago business, increase in cost of sale of goods as a consequence of an increase in sales of products and sales taxes; ii) a 4.6% increase in sales and marketing expenses, mainly due to an increase in bad debt expenses partially explained by the adoption of the ASC 326 effective January 1, 2020, other sales expenses mainly related to strategic marketing initiatives expenses partially offset by a decrease in online and offline marketing expenses as a consequence of 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; iii) a 35.2% increase in product and technology development expenses, mainly due to an increase in salaries and wages and depreciation and amortization expenses; and iv) a 48.9% increase in general and administrative expenses, mainly attributable to an increase in salaries and wages mainly related to the LTRPs and legal, tax and other fees.

For the three-month period ended June 30, 2020, as compared to the same period in 2019, direct costs increased by 17.7%, mainly driven by: i) a 47.3% increase in cost of net revenues, mainly attributable to an increase in shipping operating costs, collection fees as a consequence of the higher transactions volume of our Mercado Pago business, increase in cost of sale of goods as a consequence of an increase in sales of products and sales taxes; ii) a 18.6% increase in product and technology development expenses, mainly due to an increase in salaries and wages and depreciation and amortization expenses; and iii) a 14.5% increase in general and administrative expenses, mainly attributable to an increase in salaries, mainly related to the LTRPs and wages and legal, tax and other fees. This increase was partially offset by a 28.1% decrease in sales and marketing expenses, mainly due to a decrease in online and offline marketing expenses as a consequence of 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.

Argentina

For the six-month period ended June 30, 2020, as compared to the same period in 2019, direct costs increased by 79.9%, mainly driven by: i) a 90.5% increase in sales and marketing expenses, mainly due to an increase in bad debt expenses explained by the recognition of a charge of \$27.0 million related to accumulated accounts receivable from an unaffiliated entity in Argentina as discussed above in “Recent Developments” and the adoption of the ASC 326 effective January 1, 2020, and buyer protection program expenses partially offset by a decrease in online and offline marketing expenses as a consequence of 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; ii) a 78.5% increase in cost of net revenues, mainly attributable to an increase in shipping operating costs, sales taxes, finance costs mainly related to funding our Mercado Pago business, an increase in cost of sale of goods as a consequence of an increase in sales of products, and an increase in collection fees as a consequence of the higher transactions volume of our Mercado Pago business and sales taxes; iii) a 39.1% increase in product and technology development expenses, mainly due to an increase in depreciation and amortization expenses; and iv) a 41.4% increase in general and administrative expenses, mainly attributable to an increase in salaries and wages, mainly related to the LTRPs.

For the three-month period ended June 30, 2020, as compared to the same period in 2019, direct costs increased by 104.3%, mainly driven by: i) a 117.4% increase in sales and marketing expenses, mainly due to an increase in bad debt expenses explained by the recognition of a charge of \$27.0 million related to accumulated accounts receivable from an unaffiliated entity in Argentina as discussed above in "Recent Developments" and the adoption of the ASC 326 effective January 1, 2020, and buyer protection program expenses partially offset by a decrease in online and offline marketing expenses as a consequence of 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; ii) a 103.2% increase in cost of net revenues, mainly attributable to an increase in shipping operating costs, an increase in cost of sale of goods as a consequence of an increase in sales of products, and an increase in collection fees as a consequence of the higher transactions volume of our Mercado Pago business and sales taxes; iii) a 63.1% increase in product and technology development expenses, mainly due to an increase in depreciation and amortization expenses; and iv) a 25.6% increase in general and administrative expenses, mainly attributable to an increase in salaries and wages, mainly related to the LTRPs.

Mexico

For the six-month period ended June 30, 2020, as compared to the same period in 2019, direct costs increased by 49.4%, mainly driven by: i) a 31.2% increase in sales and marketing expenses, mainly due to buyer protection program expenses, bad debt expenses partially explained by the adoption of the ASC 326 effective January 1, 2020, chargebacks from credit cards due to the increase in our Mercado Pago transaction volume and salaries and wages partially offset by a decrease in online and offline marketing expenses as a consequence of 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; ii) a 63.8% increase in cost of net revenues, mainly attributable to an increase in shipping operating costs, an increase in collection fees due to higher Mercado Pago penetration, customer support costs and an increase in cost of sale of goods as a consequence of an increase in sales of products; iii) a 10.7% increase in product and technology development expenses, mainly attributable to depreciation and amortization expenses; and iv) a 51.6% increase in general and administrative expenses, mainly attributable to an increase in salaries and wages.

For the three-month period ended June 30, 2020, as compared to the same period in 2019, direct costs increased by 29.7%, mainly driven by: i) a 63.5% increase in cost of net revenues, mainly attributable to an increase in shipping operating costs, an increase in collection fees due to higher Mercado Pago penetration, customer support costs and an increase in cost of sale of goods as a consequence of an increase in sales of products; and ii) a 77.6% increase in general and administrative expenses, mainly attributable to an increase in salaries and wages. This increase was partially offset by: a) i) a 9.4% decrease in sales and marketing expenses, mainly due to a decrease in online and offline marketing expenses as a consequence of 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 ii) a 45.4% decrease in product and development expenses.

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 the interest payments on our loans payable and other financial liabilities. We have 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 receivable and credit lines.

Additionally, we started to fund 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. Please refer to Note 13 of our unaudited interim condensed consolidated financial statements for further detail on securitization transactions.

Finally, we issued common and preferred stock in the securities offerings that closed on March 15, 2019 and March 29, 2019, respectively, for net aggregate proceeds of \$1,965.9 million, which are intended to be used to fund the growth of our payment initiatives, build out our logistics capacity, drive the adoption of these services and for general corporate purposes. Please see note 12 to our unaudited condensed consolidated financial statements for additional information regarding our equity offerings.

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 the remainder of the year 2020. In terms of liquidity and cash management, our relevant sources of funding remain available and new credit facilities have been obtained at the geographic segment level. During the first half of 2020, we obtained credit facilities in Brazil for \$357.7 million. Please refer to Note 11 of our unaudited interim condensed consolidated financial statements for further information on our loans and Note 16 for further detail on COVID-19 impacts.

As of June 30, 2020, our main source of liquidity was \$2,763.8 million of cash and cash equivalents and short-term investments, which excludes a \$530.7 million investment related to the Central Bank of Brazil Mandatory Guarantee, and consists of cash generated from operations, proceeds from loans, from the issuance of the 2028 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, accounts receivable, loans receivable, accounts payable and accrued expenses, funds receivable from and payable to Mercado Pago users, and short-term debt.

As of June 30, 2020, cash and investments of our non-U.S. subsidiaries amounted to \$1,950.8 million, 51.4% of our consolidated cash, restricted cash and cash equivalents and investments, and our non-U.S. dollar-denominated cash and investments amounted to approximately 51.5% of our consolidated cash and investments. Our non-U.S. dollar-denominated cash 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, 2020 and 2019:

(In millions)	Six-month Periods Ended	
	June 30, (*)	
	2020	2019
Net cash (used in) provided by:		
Operating activities	\$ 564.7	\$ 165.9
Investing activities	(548.0)	(1,414.9)
Financing activities	319.5	1,916.2
Effect of exchange rates on cash and cash equivalents, restricted cash and cash equivalents	(124.2)	(3.5)
Net increase in cash and cash equivalents, restricted cash and cash equivalents	\$ 211.9	\$ 663.6

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

Net cash provided by operating activities

Cash 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		Change from 2019	
	June 30, (*)		to 2020 (*)	
	2020	2019	in Dollars	in %
(in millions, except percentages)				
Net Cash provided by:				
Operating activities	\$ 564.7	\$ 165.9	\$ 398.8	240.3%

(*) 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.

The \$398.8 million increase in net cash provided by operating activities during the six-month period ended June 30, 2020, as compared to the same period in 2019, was primarily driven by a \$487.9 million increase in funds payable to customer and a \$128.3 million increase in payables and accrued expenses, partially offset by an increase of \$281.7 million in credit cards receivable and other means of payment.

Net cash used in investing activities

	Six-month Periods Ended		Change from 2019	
	June 30, (*)		to 2020 (*)	
	2020	2019	in Dollars	in %
(in millions, except percentages)				
Net Cash used in:				
Investing activities	\$ (548.0)	\$ (1,414.9)	\$ 866.9	-61.3%

(*) 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.

Net cash used in investing activities in the six-month period ended June 30, 2020 resulted mainly from purchases of investments of \$2,326.0 million, which was partially offset by proceeds from the sale and maturity of investments of \$1,910.3 million, as part of our financial strategy. We also used: a) \$94.8 million in the purchase of property and equipment (mainly in information technology assets in Argentina, Brazil and Mexico), b) \$39.1 million in principal of loans receivable granted to merchants and consumers under our Mercado Credito solution and \$6.9 million in payments related to the acquisition of Kiserty S.A. The cash used in investing activities in the six-month period ended June 30, 2020 was partially offset by receipts from settlements of derivative instruments for \$8.6 million.

Net cash provided by financing activities

	Six-month Periods Ended		Change from 2019	
	June 30, (*)		to 2020 (*)	
	2020	2019	in Dollars	in %
(in millions, except percentages)				
Net Cash provided by:				
Financing activities	\$ 319.5	\$ 1,916.2	\$ (1,596.7)	-83.3%

(*) 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, 2020, the \$1,596.7 million decrease in net cash provided by financing activities was mainly derived from \$1,867.2 million in proceeds from the issuance of Common Stock and the \$98.7 million in proceeds from the issuance of Preferred Stock in the first quarter of 2019.

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.

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.

Credit Lines in Brazil

Due to the COVID-19 pandemic situation, we have obtained new credit facilities at the geographic segment level. During the first half of 2020, we have obtained credit facilities in Brazil for \$357.7 million. Please refer to Note 11 of our unaudited interim condensed consolidated financial statements for further information on our loans and Note 16 for further detail on COVID-19 impacts.

Mercado Pago Funding

In 2020, 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 and credit cards receivable provided by us to our users. Please refer to Note 13 to our interim unaudited condensed consolidated financial statements for additional detail.

Capital expenditures

Our capital expenditures (composed of our payments for property and equipment (as fulfillment centers), intangible assets and acquired businesses) for the six-month periods ended June 30, 2020 and 2019 amounted to \$101.9 million and \$71.4 million, respectively.

During the six-month period ended June 30, 2020 we invested \$62.6 million in information technology in Brazil, Argentina and Mexico, and \$24.4 million in our Argentine, Brazilian and Mexican 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 logistic 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, 2020, 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 believe that reconciliation of FX neutral measures to the most directly comparable GAAP measure provides investors an overall understanding of our current financial performance and its prospects for the future. Specifically, we believe this FX neutral non-GAAP measure 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 2019 and applying them to the corresponding months in 2020, 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, this measures does 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, 2020:

(In millions, except percentages)	Six-month Periods Ended June 30, (*)						
	As reported		FX Neutral Measures			As reported	
	2020	2019	Percentage Change	2020	2019	Percentage Change	
		(Unaudited)			(Unaudited)		
Net revenues	\$ 1,530.5	\$ 1,019.0	50.2%	\$ 2,026.0	\$ 1,019.0	98.8%	
Cost of net revenues	(790.5)	(509.6)	55.1%	(1,027.0)	(509.6)	101.5%	
Gross profit	740.0	509.4	45.3%	999.0	509.4	96.1%	
Operating expenses	(670.2)	(511.8)	31.0%	(879.4)	(511.8)	71.8%	
Income (loss) from operations	69.7	(2.3)	3070.4%	119.6	(2.3)	5192.4%	

(In millions, except percentages)	Three-month Periods Ended June 30, (*)						
	As reported		FX Neutral Measures			As reported	
	2020	2019	Percentage Change	2020	2019	Percentage Change	
		(Unaudited)			(Unaudited)		
Net revenues	\$ 878.4	\$ 545.2	61.1%	\$ 1,218.3	\$ 545.2	123.4%	
Cost of net revenues	(451.2)	(272.8)	65.4%	(613.4)	(272.8)	124.9%	
Gross profit	427.2	272.4	56.8%	604.9	272.4	122.0%	
Operating expenses	(327.7)	(284.9)	15.0%	(446.5)	(284.9)	56.7%	
Income (loss) from operations	99.4	(12.5)	896.4%	158.4	(12.5)	1368.5%	

(*) 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 Reals and Argentine Peso due to Brazil's and Argentine'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 Reals, 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, 2020, 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, 2020, the total cash, cash equivalents, restricted cash and cash equivalent denominated in foreign currencies totaled \$932.1 million, short-term investments denominated in foreign currencies totaled \$917.8 million and accounts receivable, credit cards receivable and other means of payment and loans receivable in foreign currencies totaled \$832.7 million. As of June 30, 2020, we had no 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, as forwards, in order to mitigate our exposure to foreign exchange risk. As of June 30, 2020, our U.S. dollar-denominated cash and cash equivalents, restricted cash and cash equivalents and short-term investments totaled \$1,938.3 million and our U.S. dollar-denominated long-term investments totaled \$5.8 million.

For the six-month period ended June 30, 2020, we had a consolidated loss on foreign currency of \$2.1 million mainly related to the loss on foreign exchange in our Brazilian subsidiaries. For the three-month period ended June 30, 2020, we had a consolidated loss on foreign currency of \$1.9 million mainly related to the loss on foreign exchange in 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, 2020 and 2019:

(% of total consolidated net revenues) (*)	Six-month Periods Ended				Three-month Periods Ended			
	June 30,				June 30,			
	2020		2019		2020		2019	
Brazil	56.4	%	63.1	%	53.0	%	62.5	%
Argentina	24.3		20.4		27.2		20.9	
Mexico	14.4		11.7		14.3		11.8	
Other Countries	4.9		4.8		5.5		4.8	

(*) 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 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, 2020:

Foreign Currency Sensitivity Analysis (*)				
(In millions)	-10%	Actual	+10%	
	(1)		(2)	
Net revenues	\$ 1,700.5	\$ 1,530.5	\$ 1,391.4	
Cost of net revenues and operating expenses	(1,618.0)	(1,460.7)	(1,332.0)	
Income from operations	82.4	69.7	59.4	
Other income/(expenses) and income tax related to P&L items	(36.5)	(32.8)	(29.8)	
Foreign Currency impact related to the remeasurement of our Net Asset position	(2.3)	(2.1)	(1.9)	
Net Income	43.6	34.8	27.6	
Total Shareholders' Equity	\$ 1,805.9	\$ 1,808.2	\$ 1,672.7	

(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.

The table above shows an 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, 2020, the Argentine Peso exchange rate against the U.S. dollar was 70.46.

Considering a hypothetical devaluation of 10% of the Argentine Peso against the U.S. dollar on June 30, 2020, the reported net asset position in our Argentine subsidiaries would have recorded a foreign exchange loss amounting to approximately \$1.3 million in our Argentine subsidiaries.

Brazilian Segment

Considering a hypothetical devaluation of 10% of the Brazilian Reais against the U.S. dollar on June 30, 2020, the reported net assets in our Brazilian subsidiaries would have decreased by approximately \$54.9 million with the related impact in Other Comprehensive Income. Additionally, we would have recorded a foreign exchange loss amounting to approximately \$12.5 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, 2020, the reported net assets in our Mexican subsidiaries would have decreased by approximately \$15.9 million with the related impact in Other Comprehensive Income. Additionally, we would have recorded a foreign exchange loss amounting to approximately \$3.2 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, 2020, Mercado Pago's receivables totaled \$646.7 million. Interest rate fluctuations could also impact interest earned through our Mercado Credito solution. As of June 30, 2020, loans granted under our Mercado Credito solution totaled \$144.2 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, investment grade corporate debt securities 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.

Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. As of June 30, 2020, 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 0.5%. If interest rates were to instantaneously increase (decrease) by 100 basis points, the fair market value of our available for sale securities as of June 30, 2020 could decrease (increase) by approximately \$5.2 million.

As of June 30, 2020, our short-term investments amounted to \$2,124.9 million and our long-term investments amounted to \$5.8 million. Our short-term investments, except for the \$530.7 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 2015, 2016, 2017, and 2018 Long Term Retention Program (the "2015, 2016, 2017 and 2018 LTRPs"), respectively.

In order to receive an award under the 2015, 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 2015, 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 2015, 2016, 2017, and/or 2018 LTRP bonus once a year for a period of six years starting in or about the first quarter of 2016, 2017, 2018 and/or 2019 respectively (the "2015, 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 "2015, 2016, 2017, or 2018 Variable Payment", respectively) equal to the product of (i) 8.333% of the applicable 2015, 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 2014 (with respect to the 2015 LTRP), 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 \$127.29, \$111.02, \$164.17 and \$270.84 for the 2015, 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 2014, 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 and 2020 Long Term Retention Program (the “2019 and 2020 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 in or about the first quarter of 2020 and 2021, respectively). In order to receive the full target award under the 2019 and/or 2020 LTRP, each eligible employee must remain employed as of each applicable payment date. The 2019 and 2020 LTRP awards are payable as follows:

- the eligible employee will receive 16.66% of half of his or her target 2019 and/or 2020 LTRP bonus once a year for a period of six years, with the first payment occurring in or about the first quarter of 2020 and 2021 (the “2019 or 2020 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 or 2020 Variable Payment”) equal to the product of (i) 16.66 % of half of the target 2019 or 2020 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 and 2019 defined as \$322.91 and \$553.45 for the 2019 and 2020 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, 2020, the total contractual obligation fair value of our 2015, 2016, 2017, 2018, 2019 and 2020 LTRP Variable Payment obligation amounted to \$240.9 million. As of June 30, 2020, the accrued liability related to the 2015, 2016, 2017, 2018, 2019 and 2020 Variable Payment of the LTRP included in Salaries and Social security payable in our condensed consolidated balance sheet amounted to \$68.3 million. The following table shows a sensitivity analysis of the risk associated with our total contractual obligation fair value related to the 2015, 2016, 2017, 2018, 2019 and 2020 LTRP Variable Payment if our common stock price per share were to increase or decrease by up to 40%:

	As of June 30, 2020		
	MercadoLibre, Inc Equity Price	2015, 2016, 2017, 2018, 2019 and 2020 LTRP Variable contractual obligation	
(In thousands, except equity price) Change in equity price in percentage			
	40%	1,380.58	337,241
	30%	1,281.97	313,153
	20%	1,183.35	289,064
	10%	1,084.74	264,975
	Static(*)	986.13	240,887
	-10%	887.51	216,798
	-20%	788.90	192,709
	-30%	690.29	168,621
	-40%	591.68	144,532

(*) 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

As mentioned in “Management’s Discussion Analysis of Financial Condition and Results of Operations-Recent Developments” in Item 2, we recognized a charge of \$27.0 million in the three-month period ended June 30, 2020 resulting from an accumulation of accounts receivable from an unaffiliated entity in Argentina. This entity acts as a collection agent for certain amounts credited to the accounts of our Mercado Pago customers. After conducting a review of these receivables we concluded that there were deficiencies in the timely operation of certain internal controls that constitute a material weakness. We also concluded that there were no material errors in the financial results or balances identified as a result of the material weakness, and therefore, no need for the restatement of prior period financial statements.

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, our management, with the participation of our principal executive officer and our principal financial officer, evaluated our company's disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q. Based on this evaluation, our management concluded that as of the end of the period covered by this quarterly report on Form 10-Q, our disclosure controls and procedures were not effective because of the material weakness described above.

Our management has also concluded that, due to the material weakness discussed above, our internal control over financial reporting was not effective as of December 31, 2019.

Due to this material weakness, the following should no longer be relied upon: (a) Management's Report on Internal Control Over Financial Reporting in Item 9A of the Form 10-K for the fiscal year ended December 31, 2019 (the "2019 Form 10-K"), (b) the statements concerning effectiveness of the Company's internal control over financial reporting at December 31, 2019 contained in the report of Deloitte & Co. S.A. in the 2019 Form 10-K and (c) the statements under "Evaluation of Disclosure Controls and Procedures" in Item 9A of the 2019 Form 10-K and Item 4 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2020. The Company expects to file an amendment to its 2019 Form 10-K to include disclosures concerning this material weakness. In addition, the Company anticipates that the report of Deloitte & Co. S.A. in the 2019 Form 10-K will be revised to reflect the identification of this material weakness.

Notwithstanding the identified material weakness for the annual period, management, including our CEO (principal executive officer) and CFO (principal financial officer), believes that the consolidated financial statements included in the Annual Report for the period ended December 31, 2019 on Form 10-K fairly present in all material respects our financial condition, results of operations and cash flows as of and for the periods presented in accordance with U.S. GAAP.

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, 2020 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.

To remediate the material weakness described above, we have undertaken to understand the root cause of the control deficiencies, and have begun implementing improvements in our internal controls for this type of accounts receivable. We deem the root cause to lie in lack of competence of the control owners in charge of these specific controls. Remediation steps being undertaken during the third quarter of 2020 include, but are not limited to, the following: i) changes to the control owners of these specific controls, ii) institution of an additional layer of reconciliation reviews and controls to be executed by a different team to guarantee mitigating controls on accounts receivables from means of payments, iii) an increase in the frequency of the control, iv) implementation of new systems to aid in these controls, and v) hiring of competent outsourced personnel and expertise to assist in the execution of these controls.

We expect that the remediation of this material weakness will be completed prior to the end of fiscal year 2020. The material weakness will not be considered remediated, however, until the applicable controls operate for a sufficient period of time and our management has concluded, through testing, that the controls are operating effectively.

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, 2020, 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, 2019, as updated in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2020.

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⁾
3.3	Registrant's Certificate of Designation of Series A Perpetual Preferred Stock , ⁽²⁾
4.1	Form of Specimen Certificate for the Registrant's Common Stock , ⁽³⁾
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 , ⁽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, 2020, 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, 2020, 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 Current Report on Form 8-K filed on March 29, 2019.

(3) 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.

(4) Incorporated by reference to the Registrant's Current Report on Form 8-K filed on August 24, 2018.

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 10, 2020.

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

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

**CERTIFICATION PURSUANT TO
RULE 13A-14 OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Marcos Galperin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of MercadoLibre, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s Board of Directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

August 10, 2020

/s/ Marcos Galperin

Marcos Galperin
President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
RULE 13A-14 OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Pedro Arnt, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of MercadoLibre, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's Board of Directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 10, 2020

/s/ Pedro Arnt

Pedro Arnt
Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of MercadoLibre, Inc. (the "Company") for the period ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Marcos Galperin, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Marcos Galperin

Marcos Galperin
President and Chief Executive Officer
(Principal Executive Officer)

August 10, 2020

The foregoing certification is being furnished solely to accompany this report pursuant to 18 U.S.C. 1350, and is not being filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company whether made before or after the date hereof, regardless of any general incorporation language in such filing. A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of MercadoLibre, Inc. (the "Company") for the period ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Pedro Arnt, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Pedro Arnt

Pedro Arnt
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

August 10, 2020

The foregoing certification is being furnished solely to accompany this report pursuant to 18 U.S.C. 1350, and is not being filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company whether made before or after the date hereof, regardless of any general incorporation language in such filing. A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.
