

**NUEVA ELEKTRA DEL MILENIO, S. A. DE C. V.  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF JUNE 30, 2021 AND DECEMBER 31, 2020  
AND FOR THE SIX-MONTH PERIOD ENDED  
JUNE 30, 2021 AND 2020**

**Nueva Elektra del Milenio, S. A. de C. V. and subsidiaries**  
**Condensed consolidated financial statements as of June 30, 2021**  
**and December 31, 2020 and for the six-month period ended**  
**June 30, 2021 and 2020**

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Nueva Elektra del Milenio, S. A. de C. V. and subsidiaries  
(Note 1)

Condensed consolidated statements of financial position  
June 30, 2021 and December 31, 2020  
(Thousands of Mexican pesos)

	<u>Note</u>	<u>2021</u>	<u>2020</u>
<b>Assets</b>			
<b>Current</b>			
Cash and cash equivalents		\$ 7,480,436	\$ 6,258,984
Investments in securities	5	<u>7,424,024</u>	<u>4,279,526</u>
		14,904,460	10,538,510
Accounts receivables:			
Related parties	7	23,217,910	20,407,453
Accounts receivables, net	6	1,399,075	1,204,031
Senior notes service reserve		740,262	-
Account receivable with collateral agent		608,026	-
Other accounts receivables		<u>4,630,782</u>	<u>4,108,165</u>
		30,596,054	25,719,649
Inventories	8	8,192,837	6,267,898
Prepayments		1,964,675	1,331,976
Assets held for sale		<u>36,725</u>	<u>268,551</u>
<b>Total current assets</b>		<u>55,694,752</u>	<u>44,126,584</u>
Investments in securities	5	1,861,230	1,861,463
Related parties	7	16,849,961	16,852,077
Investment in stores, furniture and equipment, net	9	3,942,429	4,286,985
Right-of-use assets	10	8,675,164	8,210,065
Deferred income tax		1,529,566	1,757,209
Investment in associates		1,035,428	961,862
Other assets		<u>296,735</u>	<u>251,636</u>
		<u>34,190,513</u>	<u>34,181,297</u>
<b>Total assets</b>		<u>\$ 89,885,265</u>	<u>\$ 78,307,881</u>

Nueva Elektra del Milenio, S. A. de C. V. and subsidiaries  
(Note 1)

Condensed consolidated statements of financial position (continued)  
June 30, 2021 and December 31, 2020  
(Thousands of Mexican pesos)

	<u>Note</u>	<u>2021</u>	<u>2020</u>
<b>Liabilities</b>			
<b>Current</b>			
Trade payables		\$ 5,035,152	\$ 4,840,418
Related parties	7	30,257,707	30,771,591
Provisions		1,900,158	1,826,660
Leases	10	1,331,778	1,112,481
Other payables	13	<u>4,021,067</u>	<u>4,542,956</u>
<b>Total current liabilities</b>		<u>42,545,862</u>	<u>43,094,106</u>
<b>Non-current liabilities</b>			
Senior notes	12	9,661,694	-
lease liabilities	10	8,250,806	7,850,522
Contributions for future capital increases	14-c	2,268,202	2,268,202
Income tax payable		766,251	1,126,056
Other liabilities		<u>107,318</u>	<u>103,205</u>
		<u>21,054,271</u>	<u>11,347,985</u>
<b>Total liabilities</b>		<u>63,600,134</u>	<u>54,442,091</u>
<b>Stockholders' equity</b>			
	14		
Capital stock		4,373,858	4,373,858
Legal reserve		201,509	201,509
Retained earnings		14,655,834	12,096,262
Other comprehensive income		<u>7,053,860</u>	<u>7,194,022</u>
Total controlling equity		26,285,061	23,865,651
Total non-controlling equity		<u>71</u>	<u>139</u>
<b>Total stockholders' equity</b>		<u>26,285,132</u>	<u>23,865,790</u>
<b>Total liabilities and stockholders' equity</b>		<u>\$ 89,885,265</u>	<u>\$ 78,307,881</u>

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

**Nueva Elektra del Milenio, S. A. de C. V. and subsidiaries**  
(Note 1)

**Condensed consolidated statements of comprehensive income**  
**For the six-month period ended June 30, 2021 and 2020**  
(Thousands of Mexican pesos)

	<u>Note</u>	<u>2021</u>	<u>2020</u>
Net sales and revenue from services	7 and 15	\$ 31,799,642	\$ 29,977,846
Cost of sales	15	<u>16,239,090</u>	<u>12,762,791</u>
<b>Gross profit</b>		<u>15,560,552</u>	<u>17,215,055</u>
Selling and administrative expenses	7	10,952,749	13,463,276
Depreciation and amortization		1,683,019	1,670,743
Other income, net		<u>(91,072)</u>	<u>(148)</u>
Total expenses		<u>12,544,696</u>	<u>15,133,870</u>
<b>Profit from operations</b>		<u>3,015,856</u>	<u>2,081,185</u>
Comprehensive financial results:	7		
Interest income		1,335,856	1,198,103
Interest expense		(1,031,152)	(854,986)
Exchange gain, net		198,344	430,950
Gain (loss) on investments		<u>51,565</u>	<u>(99,500)</u>
		<u>554,613</u>	<u>674,568</u>
Equity in the net profit of associated companies		<u>74,695</u>	<u>39,095</u>
<b>Profit before income tax</b>		3,645,164	2,794,847
Income tax	16	<u>(958,062)</u>	<u>(558,969)</u>
<b>Profit before discontinued operations</b>		2,687,102	2,235,878
Loss from discontinued operations	11	<u>(127,529)</u>	<u>(323,427)</u>
<b>Net profit for the period</b>		2,559,573	1,912,451
Other comprehensive income (OCI):			
Exchange (loss) gains arising on translation of foreign operations in subsidiaries and associates	14-g	<u>(140,162)</u>	<u>4,327,529</u>
<b>Total comprehensive income for the period</b>		<u>\$ 2,419,411</u>	<u>\$ 6,239,980</u>

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

Nueva Elektra del Milenio, S. A. de C. V. and subsidiaries  
(Note 1)

Condensed consolidated statements of changes in stockholders' equity  
For six-month period ended June 30, 2021 and 2020  
(Thousands of Mexican pesos)

	<u>Capital stock</u>	<u>Legal reserve</u>	<u>Retained earnings</u>	<u>Other comprehensive income</u>	<u>Total controlling equity</u>
<b>Balances at December 31, 2019</b>	\$ 4,373,858	\$ 201,509	\$ 10,642,197	\$ 6,072,121	\$ 21,289,685
Dividends payments			(1,000,000)		(1,000,000)
Comprehensive income for the year (Notes 2-e and 14-g)	<u>                    </u>	<u>                    </u>	<u>1,912,451</u>	<u>4,327,529</u>	<u>6,239,980</u>
<b>Balances at June 30, 2020</b>	<u>\$ 4,373,858</u>	<u>\$ 201,509</u>	<u>\$ 12,554,648</u>	<u>\$ 9,399,650</u>	<u>\$ 26,529,665</u>
<b>Balances at December 31, 2020</b>	4,373,858	201,509	12,096,262	7,194,022	23,865,651
Comprehensive income for the period (Notes 2-e and 14-g)	<u>                    </u>	<u>                    </u>	<u>2,559,573</u>	<u>(140,162)</u>	<u>2,419,411</u>
<b>Balances at June 30, 2021</b>	<u>\$ 4,373,858</u>	<u>\$ 201,509</u>	<u>\$ 14,655,834</u>	<u>\$ 75,053,860</u>	<u>\$ 26,285,061</u>

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

**Nueva Elektra del Milenio, S. A. de C. V. and subsidiaries**  
(Note 1)

**Condensed consolidated Statements of cash flows**  
**For six-month period ended June 30, 2021 and 2020**  
(Thousands of Mexican pesos)

	<u>2021</u>	<u>2020</u>
<b>Operating activities</b>		
Profit before income tax	\$ 3,645,164	\$ 2,794,847
Items related to investment activities:		
Depreciation and amortization	1,683,019	1,670,743
Equity in net profit of associates, net	(74,695)	(39,095)
Interest income	(1,335,856)	(1,198,103)
Other items not realized	(6,638)	29,878
Items related with financing activities:		
Interest expense	<u>1,031,152</u>	<u>854,986</u>
	4,942,146	4,113,256
Variations in:		
Increase in inventories	(1,927,963)	(45,355)
Increase receivables and other assets	(5,301,747)	(559,006)
Increase (decrease) in liabilities	108,929	(1,405,428)
Income tax payment	<u>(1,744,139)</u>	<u>(367,266)</u>
<b>Net cash flows from operating activities</b>	<u>(3,922,774)</u>	<u>1,736,201</u>
<b>Investment activities</b>		
(Increase) decrease in Investments	(3,144,499)	4,527,446
Investment in stores, furniture and equipment	(433,225)	(423,193)
Interest collected	479,697	637,199
Other	<u>(1,757)</u>	<u>-</u>
<b>Net cash flows from investment activities</b>	<u>(3,099,784)</u>	<u>4,741,452</u>
<b>Cash flows to apply in financing activities</b>	<u>(7,022,558)</u>	<u>6,477,653</u>
<b>Financing activities</b>		
Proceeds from debt	9,661,694	-
Lease payments	(1,162,987)	(1,057,037)
Dividends payment	-	(1,000,000)
Interest paid	<u>(115,690)</u>	<u>-</u>
<b>Net cash flows from financing activities</b>	<u>8,383,017</u>	<u>(2,057,037)</u>
Net increase in cash and cash equivalents	1,360,459	4,420,615
Effect of exchange rate changes on cash and cash equivalents	(139,007)	119,280
Cash and cash equivalents at beginning of year	<u>6,258,984</u>	<u>3,563,093</u>
<b>Cash and cash equivalents at end of the period</b>	<u>\$ 7,480,436</u>	<u>\$ 8,102,988</u>

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

Nueva Elektra del Milenio, S. A. de C. V. and subsidiaries

Notes to the condensed consolidated financial statements  
June 30, 2021 and December 31, 2020 and for the  
six-month period ended June 30, 2021 and 2020  
(Thousands of Mexican Pesos)

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1. Activity

The main activity of Nueva Elektra del Milenio, S. A. de C. V. (NEM) and subsidiaries (the Company) (Subsidiary of Grupo Elektra, S. A. B. de C. V.), is the sales of motorcycles, consumer electronics furniture, household appliances, mobile phones, telephony, transportation equipment and computers, among other products, as well as provision of electronic money transfers, extended warranties and mobile phone airtime among other services, through a chain of 1,249 stores in Mexico and Central America; and affiliate lending and services provider.

NEM is a *sociedad anónima de capital variable*, organized and existing under the laws of Mexico. NEM's registered office is Av. FFCC de Río Frío N° 419 BW, Col. Fraccionamiento Industrial del Moral 1, Iztapalapa, C.P. 09319, Mexico City, Mexico and its principal executive office is located at Av. Insurgentes Sur No. 3579 Tower I, Col. Tlalpan La Joya, C.P. 14000, Mexico City, Mexico.

Relevant event

I. Impact of the COVID-19 Pandemic

On March 11, 2020, the World Health Organization categorized the outbreak of SARS-CoV2 (COVID-19) as a pandemic. Subsequently, on March 30, 2020, the Mexican federal government declared a health emergency, announcing the implementation of several protective measures, including the suspension of any and all non-essential activities and a voluntary lockdown. Similar protective measures, including the suspension of any and all non-essential activities, have been implemented in certain Mexican states and in Mexico City in 2020.

As of the date of this report, we have growth rates that place us below pre-pandemic levels, with inflation data above the Central Bank's target, with expectations of interest rate hikes in the near future, so the impact on the Company's results in the long term, both directly and indirectly, through repercussions on customers, counterparties, suppliers and other stakeholders, will depend, among others, on the duration of the COVID-19 pandemic, compliance with the vaccination plan, the appearance of variants that may lead authorities to take protective measures, such as suspension of non-essential activities and confinement.

The Mexican commercial sector in general has been significantly affected by the containment measures imposed in response to the COVID-19 pandemic, and retailers that do not have a mature strategy for their digital channels were the hardest hit. The COVID-19 pandemic drove the growth of e-commerce, which partly offset the impact of COVID-19 on the Company's business and financial performance, given the investment in the omni-channel strategy and digital channels launched by the Company more than four years ago.

On the other hand, we continue to take steps at our touchpoints to protect their customers and their employees from exposure to COVID-19. Among such measures, each Elektra store has implemented certain restrictions or requirements for its in-store customers, including:

- mandatory wearing of masks;
- disinfecting customers' hands before entering the store with an alcohol-based disinfectant provided by the store;



- measuring body temperature;
- disinfecting shoes with special wet carpets at the entrance; and
- limiting occupation.

## II. Outsourcing Law

On April 23, 2021 the Mexican Official Gazette published a presidential decree on the amendment to the rules regarding outsourcing, this legislation prohibits subcontracting personnel, but allows it if the services provided are specialized and such services are not part of the Company's corporate purposes or preponderant business activity.

The Companies will have a 90 days window starting the day following the publication to become compliant and remove all outsourcing and insourcing structures, however the authority announced a 30 days extension starting on July 23th. Furthermore, all Companies that provide specialized subcontracting services must be registered before the Ministry of Labor and Social Welfare (STPS for its acronym in Spanish).

The effects on this amendment in the Companies that held subcontracting services leads to a higher burden on the Payroll Tax, Income tax over wages and salaries and Social Security fees, and the effects on the determination of the Worker's Profit Sharing (PTU for its acronym in Spanish).

The Company is in the process to assess the possible financial impact that implementing these changes may have on the information.

## 2. Basis of preparation of condensed consolidated financial statements

### a. Compliance with financial reporting standards

Until December 31, 2020 NEM was a private company and prepared non-consolidated financial statements to comply with legal and tax provisions requiring the presentation of the Company's financial statements as an independent legal entity and for their presentation to the Shareholders' Meeting, therefore, they did not include the consolidation of the financial statements of its subsidiaries, which were recognized under the equity method. Consolidated financial statements were not presented as they met the exception requirements for a sub-controller, established in NIF B-8 "Consolidated or combined financial statements".

On January 20, 2021, NEM, as originator, issued series 2021-1 Fixed Rate Notes Due 2028 ("Senior Notes") for US\$500 million (see Note 12), because of that the company prepare since such date condensed consolidated financial statements, in accordance with the Mexican Financial Reporting Standard NIF B-8 "Consolidated or combined financial statements". Additionally, the accompanying condensed consolidated financial statements have been prepared in accordance with the Mexican Financial Reporting Standard NIF B-9 "Interim Financial Reporting", because of that they do not include all the required information for annual financial statements in accordance with Mexican Financial Reporting Standards, (NIF for its acronym in Spanish), issued by the Mexican Council of Financial Reporting Standards (CINIF for its acronym in Spanish).

### b. Use of estimates

The preparation of the financial statements in accordance with Mexican Financial Reporting Standards requires that use of certain estimations and assumptions to measure some amounts of the consolidated financial statements and to make the disclosures required therein. However, the actual results may differ from such estimations, therefore it is considered that the estimations and assumptions used where the adequate under the circumstances.

The relevant key assumptions used in the determination of accounting estimates are reviewed periodically, and the relative effects, if any, are recognized in the same period and in the future periods affected. The key estimates are described in the following notes:

- Note 3-c Accounts receivable and allowance for expected credit losses. Evaluation of the probability of non-payment of accounts receivable.
- Note 3-g Allowance for inventory impairment losses. Determination of the net realizable value.
- Note 3-i Investment in shares of associates.
- Note 3-j Impairment in the value of long live assets and their disposal.
- Note 3-l Provisions. Identification and quantification of present obligations, determination of the present value of the obligation.
- Note 3-m Revenue recognition. Assessment of the timing of revenue recognition, over time or at a point in time, estimate of expected returns.
- Note 3-o Income tax. Provision of taxes on multiple jurisdictions.
- Note 3-p Contingencies. Assessment of the likelihood and amount of outgoing cash flows.

#### c. Functional and reporting currency

The reporting currency in which the condensed consolidated financial statements of the Company is the Mexican peso. Since the Company maintains investments in subsidiaries abroad, the items included in the financial statements of each one of the entities comprising the Company are measured in the currency of the primary economic environment where each entity operates, that is, its "functional currency". The Company is exposed to a foreign currency translation risk.

For disclosure purposes in the condensed consolidated financial statements and related notes, when reference is made to pesos or "\$", it refers to Mexican pesos, and when it refers to dollars, it refers to dollars of the United States of America.

#### d. Consolidation

The condensed consolidated financial statements comprise the financial statements of NEM and its subsidiaries together with the equity in the net results of associates and joint ventures. The results of subsidiaries sold or acquired are included in the statement of comprehensive income to, or from the date on which control is transferred.

### 1. Subsidiaries

A subsidiary is an entity controlled, directly or indirectly, by NEM. Control is effective if, and only if, the following criteria is met:

- Power over the subsidiary
- Exposure or rights, to variable returns from its involvement with the subsidiary.
- The ability to use its power over the subsidiary to affect the amount of the Company's returns.

For the purposes of consolidation, accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

When NEM ceases to have control, any retained interest in the entity is re-measured at its fair value at the date when control is lost; the change in carrying amount is recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the group has directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

Balances and transactions between the companies have been eliminated in consolidation.

The main subsidiaries of NEM are the following:

Company	Percentage of equity (%)	Activity
Elektra de Guatemala, S. A., a Guatemalan entity	100%	Retail
Comercializadora EKT, S. A. de C.V., a Honduran entity	100%	Retail
EKT International Investment, Zrt., a Hungarian entity	100%	Intercompany lending

## 2. Associates

Associates are all entities over which the Company has significant influence but not control, that is, the faculty to just only participate in decisions of the financial and operating policies. It is presumed that significant influence exists if the Company possess directly or indirectly, 25% or more of the voting power in the associate, unless it can be clearly demonstrated that there is no such influence or that for other circumstances, a less participation, could be consider the existence of significant influence.

Investments in associates are initially recognized at cost and are subsequently accounted for using the equity method. The Company's investment in associates includes goodwill identified at time of purchase.

The Company's share of profits or losses after acquisition is recognized in the statement of comprehensive income, except when the losses exceed the Company's investment in the associate.

If there is objective evidence that the investment in an associate is impaired, the carrying amount of the investment is subject to impairment tests, by comparing the recoverable amount and the carrying value of the investment, which is recognized together with the participation in the results of associates.

The main associates companies of NEM are the following:

Company	Percentage of equity (%)	Activity
Proveedora AOS de Servicios, S. A. de C. V., a Mexican entity	33.5%	Collection Services
Banco Azteca de Honduras, S. A., a Honduran entity	29.1%	Banking services
Inmuebles Ardoma, S. A. de C. V., a Mexican entity	10.2%	Real Estate
Aerotaxis Metropolitanos, S. A. de C. V., a Mexican entity	5.0%	Air taxi Services
Mercadotecnia Tezontle, S. A. de C. V., a Mexican entity	5.2%	Administrative Services
Compañía Operadora de Teatros, S. A. de C. V., a Mexican entity	4.6%	Real Estate

### e. Segment information

The condensed financial information regarding business segments operated by the Company, whose operating results are reviewed in decision-making, is presented in Note 17.

### f. Translation of foreign currency

According to the NIF B15 "The effects of changes in foreign exchange rates", transactions in foreign currencies are recorded at the exchange rates prevailing on the dates on which they are entered into. Assets and liabilities denominated in these currencies are stated in local currency, applying the exchange rates prevailing as of the date of the financial position statement. Differences arising from fluctuations in the exchange rates between the dates on which transactions are entered into and those on which they are settled or valued at the close of the period are applied to the results of the period.

The financial statements of the subsidiary companies abroad maintain a registry currency that matches the functional currency, which served as the base to convert foreign operations to the Company's presentation currency, considering that in these cases there was a non-inflationary environment. The accumulated effect originated by the translation of such financial statements is presented within the stockholders' equity in the accumulative effect of foreign currency translation.

g. Condensed consolidated statement of comprehensive income

The condensed consolidated comprehensive income is presented in a single statement that includes the items that make up the net income or loss, including the other comprehensive results and the participation in the other comprehensive results of other entities.

Ordinary costs and expenses are presented according to their function because it is the practice of the sector to which the Company belongs to and allows knowing the gross profit margin.

Additionally, the operating income item is presented, this heading is the result of decreasing the net sales and sales income with the cost of sales and general expenses. This item is included since it contributes to a better understanding of the economic and financial performance of the Company. In addition, other expenses are included as it is considered convenient to present the amounts of activities that are not directly related to the Company's activities.

h. Condensed consolidated cash flows statements

The condensed consolidated statements of cash flows were prepared using the indirect method which consists in presenting the income before income taxes, then the changes on the working capital, investment activities and lastly the finance operation.

i. Accounting policies changes

NIF C-15 "Impairment in the value of long-lived assets and their disposition". It comes into effect for fiscal years beginning on January 1, 2022, its early application is allowed and supersedes Bulletin C-15 "Impairment in the value of long-lived assets and their disposition".

The relevant changes presented by this NIF in relation to the previous regulations and, mainly for convergence with the International Financial Reporting Standards (IFRS), are:

a) New examples of indications are added to assess whether there is an impairment;

b) the requirement to use a net sales price is changed to a fair value in terms of NIF B-17, "Determination of fair value", less disposal costs to carry out impairment tests;

c) the option of using estimates of future cash flows and a discount rate, in real terms;

d) standards are incorporated for the treatment of future cash flows in foreign currency in the determination of the recoverable amount;

NIF C-8, "Intangible Assets", is amended to indicate that the allocation of goodwill should be made at the level of a cash-generating unit (CGU) that is expected to benefit from the synergy of the business acquisition;

e) the recognition of goodwill impairment is incorporated in two steps: i) comparing the carrying amount of the CGU including goodwill with its recoverable amount, and if the latter is less, an impairment loss is generated; and ii) affecting this loss in the first instance to goodwill and later, if there is an excess, distributing it pro rata among the other long-term assets that are part of the CGU;

f) the calculation of impairment is eliminated through the perpetual value of intangible assets with indefinite useful lives, which are part of the pro rata distribution of other long-lived assets that are part of the CGU;

g) the determination of the impairment of corporate assets is established as follows: i) first, they are assigned to the CGU to which they belong in a reasonable and consistent manner, ii) Second, the carrying amount of the CGU, including corporate assets, is compared with its recoverable amount and if the latter is less, an impairment loss is generated, which is distributed pro rata among all long-lived assets that are part of the CGU, including corporate assets;

h) the impairment test for intangible assets with indefinite lives is modified, and;

i) the disclosures are modified due to the changes described above;

The Company is in the process of evaluating the financial effects derived from adopting this standard.

### 3. Summary of significant accounting policies

The main accounting policies adopted in the preparation of the condensed consolidated financial statements are set out below. The policies have been consistently applied to the previous year presented in this condensed consolidated financial statements, unless otherwise stated.

#### a. Cash and cash equivalents

They are measured at fair value and consist mainly of cash for the Company's operations, high liquidity deposits which are easily convertible in cash and subject to non-significant risks of changes in their value. Interests accrued and gains and losses in their measurement are presented in the statement of comprehensive income, as part of the comprehensive financing result.

#### b. Investment in financial Instruments

The classification of financial instruments in which the Company has invested depends on the business model used for the management of investments and the contractual terms of the cash flows. As a consequence of the business model, investments in financial instruments are classified as follows:

Financial instruments held to collect principal and interest (IFCPI for its acronym in Spanish). See Note 3-d.

Financial instruments held to collect or trade (IFN for its acronym in Spanish). These are financial instruments in which the investment objective is to obtain a profit in its sale when it is convenient or to collect the contractual cash flows in order to obtain a gain on the contractual interest they generate. These instruments are measured at fair value and changes in their value are recognized through other comprehensive income, after affecting the year's net income or loss as follows:

- i. interests accrued at the effective interest rate
- ii. exchange gains or losses when they occur
- iii. decreases in its value which are attributable to impairment due to expected credit losses of the financial instrument.

Financial instruments held for trading (IFN for its acronym in Spanish)

Financial instruments held for trading. These are financial instruments in which the investment objective is to generate profits between their purchase and sale prices. These instruments are measured at fair value and changes in their value are recognized through profit and loss.

#### c. Accounts receivable and allowance for expected credit losses

Accounts receivable are generated from the sale of goods and services, as well as other activities and are recognized initially at fair value, and subsequently at amortized cost, which is equal to the nominal value of the contract which supports them, net of provisions for returns and discounts, and the estimate for expected credit losses for impairment in accounts receivable.

The Company established an account policy for the creation of an estimate for impairment of accounts receivable on the basis of expected credit losses during the expected life of the financial instruments. During this process, the Company assesses the likelihood of default for accounts receivable at the time of their recognition in accordance with its historical experience and subsequently adjusts it based on current credit conditions and future macroeconomic factors, such as the growth of domestic product, unemployment rates and inflation, which the Company considered could affect the likelihood of default by its customers.

When the Company confirms that an account receivable will not be recovered, the net carrying value of the account receivable is cancelled against the applicable estimation.

d. Financial instruments held to collect principal and interest (IFCPI for its acronym in Spanish)

The Company classifies financial instruments as IFCPI when the objective of the business model is to hold said instruments to collect the contractual cash flows and the terms of the agreement include established dates to collect said cash flows, which relate exclusively to payments of principal and interest on the amount of principal pending payment.

The IFCPI are originated from the sale of goods or services and are recognized initially at the fair value of the estimated cash flows to be received from principal and interests.

Subsequent to their initial recognition, IFCPI are measured at amortized cost including increases due to the effective interest accrued, the decreases due to the amortization of the costs of transaction and other items collected in advance such as commissions and interest, and the decreases due to the collection of principal and interests and the cancellations or discounts.

Amortized cost and effective interest method

The effective interest method is used in the calculation of the amortized cost of financial instruments to distribute their income or expense by an effective interest during the expected life of the financial instruments.

e. Prepaid expenses

Prepaid expenses are recorded based on the value paid of goods or services to be received and are presented in the short or long term in view of the classification of the destination item. Advance payments for services, freights and leases are recognized in the results of the period in which services are received

f. Inventories and cost of sales

Inventories are recorded at the lowest of their acquisition cost or their net realizable value, and are valued under the average costs allocation formula.

The cost of sales represents the cost of inventories at the time of sale, increased, if applicable, by reductions in the net realizable value of inventories during the year.

g. Allowance for inventory impairment losses

It follows the practice of creating an estimate for losses due to impairment, obsolescence, slow movement and other causes that indicate that the use or realization of the products that are part of the inventory will be less than their net carrying value.

The amount of any penalty for impairment losses on inventories, to be valued at their net realizable value and all losses on inventories must be recognized as cost of sales in the period in which the losses occur. The result of any reversal of impairment losses as a result of increases in the net realizable value should be recognized as a decrease in cost of sales in the period in which the reversal occurs.

h. Investment in stores, furniture and equipment

Investments in stores, furniture and equipment are recorded at acquisition cost.

Depreciation is calculated using the straight-line method based on the estimated useful life of assets.

	<u>Annual rate %</u>
Computer equipment	30 and 33
Furniture and equipment	10
Storehouse equipment	2
Communication equipment and others	10 and 20

Amortization of the investment in stores is calculated using the straight-line method based on initial monthly balances in periods that do not exceed five years. (See Note 9)

Maintenance and minor repair expenses are recorded in the net income and loss when incurred.

The Company performs most of its operations in leased properties, through renewable lease contracts.

i. Investment in shares of associates

Associated companies are all entities over which the Company has significant influence but not control, that is, the power to participate in the decisions of financial and operating policies. Investments in shares in associated companies and subsidiaries are initially recognized at acquisition cost, and are subsequently valued using the equity method.

In the event that there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is subject to impairment tests, such as the difference between the recovery value and the carrying amount of the investment.

j. Impairment in the value of long lived assets and their disposal

The values of the long-lived assets are periodically evaluated to determine the existence of indications that these values exceed their recovery value. The realizable value represents the amount of potential income reasonably expected to be obtained as a result of the use of these assets. If it is determined that restated values are excessive, the Company records the allowances necessary to reduce them to their recoverable value. When the Company intends to sell the assets, the latter are presented in the financial statements at their restated or realizable value, whichever is lower.

#### k. Leases

Leases are those contracts where there is an identified asset, all the economic benefits from use of the asset are obtained and the Company had the right of to direct use of the asset.

In determining whether the Company obtains substantially all the economic benefits from use of the asset, it is only considered the economic benefits that arise use of the asset, not those incidental to legal ownership or other potential benefits. In addition, the Company considers whether the supplier has substantive substitution rights, if it is the case, the contract is not a lease.

The Company accounts for a contract, or a portion of a contract, as a lease when it transfers the right to use an asset for a period of time in exchange for consideration.

In determining whether the Company has the right to direct use of the asset, the Company considers whether it directs how and for what purpose the asset is used throughout the period of use. If there are no significant decisions to be made because they are pre-determined due to the nature of the asset, the Company considers whether it was involved in the design of the asset in a way that predetermines how and for what purpose the asset will be used throughout the period of use. If the contract or portion of a contract does not satisfy these criteria, the Company applies other applicable NIF rather than NIF D-5.

All leases are accounted for by recognizing a right-of-use asset and a lease liability, except for leases of low value assets; and leases with a duration of 12 months or less.

Lease liabilities are measured at the present value of the future lease payments to be made, discounted using implicit interest rate in the lease unless this is not readily determinable, in which case the Company's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

Subsequent to initial measurement lease liabilities increase as a result of interest accrued at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortized on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset, what is expected to happen first.

When the Company renegotiates the contractual terms of a lease, the accounting depends on the nature of the modification:

- i. If the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy.
- ii. In all other cases where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is premeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount.
- iii. If the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial of full termination of the lease with any difference recognized in profit or loss of the year. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.



#### l. Provisions

Provisions are recognized if, as a result of a past event, there is a present legal or assumed obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be necessary to settle the obligation.

#### m. Revenue recognition

##### Performance obligations and timing of revenue recognition

The majority of the Company's revenue is derived from retail sales with revenue recognized at a point in time when control of the goods has transferred to the customer.

This is generally when the goods are delivered to the customer. There is limited judgement needed in identifying the point control passes: once physical delivery of the products to the agreed location has occurred, the Company no longer has physical possession, usually will have a present right to payment (as a single payment on delivery) and retains none of the significant risks and rewards of the goods in question.

Some goods sold by the Company include warranties which require the Company to either replace or mend a defective product during the warranty period if the goods fail to comply with agreed-upon specifications. The warranty period is 15 days. In accordance with NIF D-1, such warranties are not accounted for as separate performance obligations and hence no revenue is allocated to them.

##### Determining the transaction price

Most of the Company's revenue is derived from fixed price contracts and therefore the amount of revenue to be earned from each contract is determined by reference to those fixed prices. Exceptions are as follows:

- Some contracts provide customers a limited right of return. Historical experience allows the Company to reliably estimate the value of the assets to be returned and to restrict the amount of income that is recognized, so that it is highly probable that a reversal of previously recognized income will not occur when the goods are returned.
- The income from money transfer services represents the commissions paid by different money transmitters to the Company, in which NEM acts as their money transmitter payor partner in Mexico, for delivery of transmitted money amounts in Mexican pesos to beneficiaries in Mexico through its own payout channels or its affiliates, plus the participation that corresponds to the Company in the exchange gain. These commissions are recorded as income as services are rendered.
- Administrative services revenue is recognized in the accounting period in which the service is rendered.

#### n. Foreign currency balances and transactions

Foreign currency transactions are recorded at the applicable exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Mexican pesos at the applicable exchange rate in effect at the condensed consolidated financial statements date. The exchange rate fluctuations are recognized in the statement of income of the period.

#### o. Income tax

The income tax is determined according to the current tax provisions, recorded in the results of the period in which it is incurred, except those arising from a transaction that is recognized in the Other comprehensive income (OCI) or directly in a stockholders' equity heading.

Deferred taxes are determined based on the assets and liabilities method, which consists of comparing the accounting and tax values of assets and liabilities, from which temporary differences arise, both deductible and cumulative. All resulting temporary differences, including the benefit of tax losses to be amortized, are subject to the corresponding tax rate and recognized as a deferred asset or liability. Deferred tax assets are recorded only when there is a high probability of recovery.

When there is uncertainty over income tax treatment on the tax base of assets and liabilities, the tax treatment of certain transactions and other tax assumptions, the Company:

- i. Determine whether uncertain tax treatments should be considered separately, or together with other uncertain tax treatments, based on which approach provides better predictions of the resolution.
- ii. Determine if it is probable that the tax authorities will accept the uncertain tax treatment; and
- iii. If it is probable that the uncertain tax treatment should not be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. This measurement is required to be based on the assumption that the tax authority will examine amounts they have a right to examine and have full knowledge of all related information when making those examinations.

p. Contingencies

Significant obligations or losses related to contingencies are recognized when their effects are likely to materialize and there are reasonable elements for their quantification. If these reasonable elements do not exist, their disclosure is included qualitatively in the notes to the condensed consolidated financial statements. Contingent income, profits or assets are recognized until the moment that certainty will be realized.

#### 4. Risk management

The Company is exposed through its operations to the following financial risks:

- Foreign exchange risk

The Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these condensed financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

a. Principal financial instruments

The principal financial instruments used by the Company, from which financial instrument risk arises, are as follows:

- Cash and cash equivalents
- Accounts receivables
- Investments in securities
- Accounts payable to suppliers

b. General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has

delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function. The Board receives monthly reports from the Company's Financial Administration through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The Company's internal auditors also review the risk management policies and processes and report their findings to the Audit Committee.

c. Foreign exchange risk

Foreign exchange risk arises when the Company enters into transactions denominated in another currency than their functional currency. Where the Company has liabilities denominated in a currency other than their functional currency and has insufficient reserves of that currency to settle them, cash already denominated in that currency will, where possible, be transferred from elsewhere within the Company's subsidiaries.

In order to monitor the continuing effectiveness of this policy, the Board receives a monthly forecast, analyzed by the major currencies held, of liabilities due for settlement and expected cash reserves.

**5. Investments in securities**

	<u>2021</u>	<u>2020</u>
Investments in high-liquidity securities	\$ 5,796,406	\$ 2,587,981
Private debt instruments	3,332,940	3,448,666
Investments in capital instruments	<u>155,908</u>	<u>104,342</u>
Total Investments	<u>\$ 9,285,254</u>	<u>\$ 6,140,989</u>
Less, current investments	<u>7,424,024</u>	<u>4,279,526</u>
Non-Current investments	<u><u>1,861,230</u></u>	<u><u>1,861,463</u></u>

**6. Accounts receivable, net**

Accounts receivable as of June 30, are integrated as follows:

	<u>2021</u>	<u>2020</u>
Trade receivables:		
Sale of shares	\$ 1,515,647	\$ 1,515,647
Accounts receivable from remittance companies	634,229	590,029
Commissions for remittances	475,863	372,029
Wholesale and employee sales	<u>497,180</u>	<u>302,808</u>
	<u>3,122,919</u>	<u>2,780,513</u>
Estimate for expected credit losses:		
Sale of shares	(1) (1,515,647)	(1,515,647)
Accounts receivable from remittance companies and commissions	(2) (7,633)	(19,494)
Wholesale and employee sales	<u>(200,564)</u>	<u>(41,341)</u>
	<u>(1,723,844)</u>	<u>(1,576,482)</u>
	<u><u>\$ 1,399,075</u></u>	<u><u>\$ 1,204,031</u></u>

- (1) On August 6, 2013, NEM signed a sale contract with respect to 100% of the capital stock of Elektra de Argentina, S. A., for a total value of US \$ 80,000 to be collected in five exhibitions; and whenever the payment obligation by the buyers, unrelated parties, has expired in the amount of US \$ 72,000 \$ (1,443,256), a figure that has not been updated during the 2021 and 2020 six-month period, as it is estimated at 100%, since the Company initiated the corresponding legal actions to obtain its collection.
- (2) The company makes estimates for expected credit losses, preventing bankruptcies in operations that are not recognized by money transfer partners.

## 7. Related parties, net

### i. Balances with related parties

	<u>2021</u>	<u>2020</u>
Accounts receivable:		
Dirección y Administración Central, S. A. de C. V.	\$ 6,872,243	\$ 6,829,198
Grupo Elektra, S. A. B. de C. V.	6,483,441	4,431,180
Intra Mexicana, S. A. de C. V.	2,899,323	2,640,777
Operadoras en Servicios Comerciales, S. A. de C. V.	1,718,839	2,119,080
Selabe Motors, S. A. de C. V.	1,765,401	1,665,911
Others	<u>3,478,663</u>	<u>2,721,307</u>
	23,217,910	20,407,453
Long-term intercompany loans: (1)	<u>16,849,961</u>	<u>16,852,077</u>
	<u>\$ 40,067,871</u>	<u>\$ 37,259,530</u>

- (1) The Company, through its subsidiary EKT International Investment, Zrt., provides intercompany loans as detailed in the following schedule:

	<u>Amount MxN</u>	<u>Amount USD</u>	<u>Maturity Date</u>
Grupo Elektra, S. A. B. de C. V.	\$ 2,687,337	\$ 135,000	September 3, 2022
Grupo Elektra, S. A. B. de C. V.	2,338,744	120,000	October 22, 2022
Grupo Elektra, S. A. B. de C. V.	696,717	35,000	March 30, 2023
Purpose Financial, Inc.	8,161,542	410,000	June 30, 2022
Purpose Financial, Inc.	2,886,399	145,000	January 5, 2024
Grupo Elektra Global, SLU	21,897	1,100	November 6, 2022
Grupo Elektra Global, SLU	<u>7,325</u>	<u>368</u>	November 24, 2022
<b>Long-term loans</b>	<u>\$ 16,849,961</u>	<u>\$ 846,468</u>	

	<u>2021</u>	<u>2020</u>
Accounts payable:		
Elmex Superior, S. A. de C. V.	\$ 10,756,786	\$ 10,427,845
Comercializadora de Motocicletas de Calidad, S. A. de C. V.	3,646,738	4,006,044
Mercadotecnia Tezontle, S. A. de C. V.	6,792,096	6,873,969
Compañía Operadora de Teatros, S. A. de C. V.	1,385,475	2,397,799
Mi Garantía Extendida, S. A. de C. V.	2,036,332	1,758,798

Salinas y Rocha, S. A. de C. V.	1,902,261	1,720,463
Others	<u>3,738,019</u>	<u>3,586,673</u>
	<u>\$ 30,257,707</u>	<u>\$ 30,771,591</u>

ii. Transactions with related parties

**Income**

	<u>2021</u>	<u>2020</u>
Inventory Sales:		
Grupo Elektra, S. A. B. de C. V.	\$ 5,589,098	\$ 4,609,332
Operadoras en Servicios Comerciales, S. A. de C. V.	216,092	288,401
Salinas y Rocha, S. A. de C. V.	100,484	76,690
Others	<u>29,607</u>	<u>19,726</u>
	<u>\$ 5,935,281</u>	<u>\$ 4,994,419</u>

Revenue from administrative services:

Banco Azteca, S. A. Institución de Banca Múltiple	\$ 6,875,974	\$ 8,540,833
Seguros Azteca, S. A. de C. V.	386,837	334,360
Afore Azteca, S. A. de C. V.	125,486	223,224
Elektra Satelital, S. A. de C. V.	145,552	133,736
Banco Azteca de Guatemala, S. A.	154,532	139,036
Comercializadora de Motocicletas de Calidad, S. A. de C. V.	204,519	61,419
Punto Casa de Bolsa, S. A. de C. V.	84,545	93,298
Others	<u>574,131</u>	<u>909,267</u>
	<u>\$ 8,551,606</u>	<u>\$ 10,435,173</u>

Interest income:

Grupo Elektra, S. A. B. de C. V.	\$ 733,454	\$ 451,175
Purpose Financal, Inc.	444,333	489,418
Banco Azteca, S. A. Institución de Banca Múltiple	48,374	95,847
Arrendadora Internacional Azteca, S. A. de C. V.	6,263	7,514
Others	<u>9,021</u>	<u>13,741</u>
	<u>\$ 1,241,445</u>	<u>\$ 1,057,695</u>

Other income:

Intra Mexicana, S. A. de C. V.	\$ 301,730	\$ 300,607
Operadoras en Servicios Comerciales, S. A. de C. V.	107,155	180,822
Grupo Elektra, S. A. B. de C. V.	110,909	87,130
Others	<u>221,074</u>	<u>505,751</u>
	<u>\$ 740,868</u>	<u>\$ 1,074,310</u>

**Expenses**

Expenses from administrative and operational services:

Elmex Superior, S. A. de C. V.	\$ 1,274,211	\$ 33,468
TV Azteca, S. A. B. de C. V.	794,563	787,078
Operadoras en Servicios Comerciales, S. A. de C. V.	848,916	2,068,425
Procesos Boff, S. A. de C. V.	439,936	569,236
Dirección de Administración Central, S. A. de C. V.	355,990	165,135
Banco Azteca, S. A. Institución de Banca Múltiple	234,560	215,540
Grupo Elektra, S. A. B. de C. V.	38,853	1,328,063
Others	<u>677,336</u>	<u>610,400</u>

	<u>\$ 4,664,365</u>	<u>\$ 5,777,345</u>
Interests expense:		
Grupo Elektra, S. A. B. de C. V.	\$ 150,188	\$ 134,513
Compañía Operadora de Teatros, S. A. de C. V.	43,012	96,779
Others	<u>59,512</u>	<u>109,077</u>
	<u>\$ 252,712</u>	<u>\$ 340,369</u>
Inventory purchases:		
Comercializadora de Motocicletas de Calidad, S. A. de C. V.	\$ 5,209,584	\$ 3,009,130
Mercancía Exclusiva Universal, S. A. de C. V.	513,905	416,630
Others	<u>10,575</u>	<u>39,426</u>
	<u>\$ 5,734,064</u>	<u>\$ 3,465,186</u>

## 8. Inventories

	<u>2021</u>	<u>2020</u>
Household appliances	\$ 2,296,587	\$ 2,005,636
Motorcycles	2,386,794	1,793,258
Electronic	1,469,252	1,104,525
Computer	1,209,692	477,578
Transport	181,727	247,172
Furniture	337,475	286,932
Telephones	311,030	272,445
Others	<u>280</u>	<u>80,352</u>
	<u>\$ 8,192,837</u>	<u>\$ 6,267,898</u>

## 9. Investment in stores, furniture and equipment, net

	<u>2021</u>				
	<u>Initial balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Foreign effect</u>	<u>Final balance</u>
<b>Investment:</b>					
Investment in stores	\$ 10,291,847	\$ 426,125	\$ (5,770)	\$ 11,196	\$ 10,723,398
Furniture and equipment	122,904	2,021	(2,069)	1,145	124,001
Computer equipment	201,726	4,182	(2,485)	1,639	205,062
Machinery and equipment	70,625		(61)	542	71,106
Transportation equipment	34,082	897	(408)	338	34,909
Others	<u>44,846</u>			<u>387</u>	<u>45,233</u>
	<u>10,766,030</u>	<u>433,225</u>	<u>(10,793)</u>	<u>15,247</u>	<u>11,203,709</u>
<b>Depreciation:</b>					
Investment in stores	(6,137,884)	(762,308)	5,021	(10,396)	(6,905,567)
Furniture and equipment	(82,678)	(2,748)	1,282	(974)	(85,118)
Computer equipment	(167,875)	(7,791)	2,299	(1,466)	(174,833)
Machinery and equipment	(53,833)	(1,611)	61	(437)	(55,820)
Transportation equipment	(23,197)	(2,740)	398	(208)	(25,747)
Others	<u>(13,578)</u>	<u>(517)</u>		<u>(100)</u>	<u>(14,195)</u>
	<u>(6,479,045)</u>	<u>(777,715)</u>	<u>9,061</u>	<u>(13,581)</u>	<u>(7,261,280)</u>
	<u>\$ 4,286,985</u>	<u>\$ (344,490)</u>	<u>\$ (1,732)</u>	<u>\$ 1,666</u>	<u>\$ 3,942,429</u>

## 10. Leases

### Nature of leasing activities

The Company leases land and buildings in diverse jurisdictions from which it operates. In some jurisdictions it is customary for lease contracts to provide for payments to increase each year by inflation and in others to be reset periodically to market rental rates. In some jurisdictions, the periodic rent is fixed over the lease term.

The Company has entered into furniture and equipment lease agreements, and has the option to purchase certain furniture and equipment for a nominal amount at the end of the lease term. The Company's obligations on the leases are guaranteed by the lessor's title to the leased assets. Generally, the Company has restrictions on assigning and subletting leased assets and some contracts require that certain financial ratios be maintained.

Leasing contracts with related companies are normally executed over a period of 10 years and with companies other than the commercial group to which the company belongs, the leases were made between 5 and 10 years, in both cases with the option to renew the contract lease after that date.

#### a. As of June 30, 2021 right of use assets are as follows:

	<u>Properties</u>	<u>Computer Equipment</u>	<u>Investment In stores</u>	<u>Total assets</u>
January 1, 2021	\$ 8,060,742	\$ 8,232	\$ 141,091	\$ 8,210,065
Exchange differences	1,558			1,558
Contracts changes	311,268			311,268
Additions for new contracts	1,031,491		13,506	1,044,997
Disposals	(71,515)			(71,515)
Amortization	<u>(805,806)</u>	<u>(1,557)</u>	<u>(14,210)</u>	<u>(821,573)</u>
June 30, 2021	\$ <u>8,528,102</u>	\$ <u>6,675</u>	\$ <u>140,387</u>	\$ <u>8,675,164</u>

#### b. As of June 30, 2021 lease liability is as follows:

	<u>2021</u>
January 1, 2021	\$ 8,963,003
Additions for new contracts and rent update	1,430,980
Interest accrued in the period	501,300
Disposals	(90,033)
Payments for leases	(1,162,987)
Currency effects	2,792
Decrease in lease payments	<u>(62,471)</u>
<b>Total lease liabilities</b>	<b>\$ <u>9,582,584</u></b>
Less, current leases	<u>(1,331,778)</u>
Non-current leases	<u>8,250,806</u>

c. Amounts recognized in profit of the period

	<u>2021</u>	<u>2020</u>
Depreciation of right-on-use assets	\$ 821,574	\$ 912,048
Interest expense on lease liabilities	501,300	512,378
Decrease in lease payments	(62,471)	-
Net cost of disposal of assets and lease liabilities	<u>18,881</u>	<u>74,387</u>
	<u>\$ 1,279,284</u>	<u>\$ 1,498,813</u>

## 11. Disposal of business

- (i). On May 8, 2015, Grupo Elektra announced the beginning of the retirement process of all subsidiary operations in the Federative Republic of Brazil. As a result of the liquidation of subsidiary companies, the Company recognizes in the results of the period the effects of this process. See Note 18.
- (ii). In December 2020 the Company decided to start closing the operations of the Elektra stores in Peru.

The Company recognized the results of Elektra Peru as a discontinued operation in the condensed consolidated income statement for the period ended June 30, 2021 and the period ended June 30, 2020 was reclassified for the recognition of the discontinued operation for purposes of comparability. Additionally, the assets and liabilities of Elektra Peru are recognized as assets held for sale and liabilities attributable to assets held for sale in the condensed consolidated financial position statement as of June 30, 2021 and December 31, 2020.

## 12. Senior Notes

On January 20, 2021, Nueva Elektra del Milenio, S.A. de C.V., as originator, issued series 2021-1 Fixed Rate Notes Due 2028 (“Senior Notes”) for US\$500 million at the rate of 4.875% per annum (total amount of accrued interest for the full tenor is US\$112,396) through a financing program. The Senior Notes have a corporate guarantee from Grupo Elektra, S.A.B. de C.V.

The Senior Notes have been issued through a private offering of securities made abroad in accordance with Rule 144A and Regulation S of the Securities Act of the United States of America of 1933, as amended the “United States Securities Act”. The Senior Notes were listed on the Luxembourg Stock Exchange and have not been, and will not be, registered in the National Securities Registry (“Registro Nacional de Valores”) maintained by the National Banking and Securities Commission (“Comisión Nacional Bancaria y de Valores or “CNBV”) and will not be and cannot be offered or sold in Mexico without the authorization of the CNBV unless offered or sold to institutional investors or qualified investors pursuant to private offer exceptions set forth in article 8th of the Securities Market Law (“Ley del Mercado de Valores”) and other applicable provisions.

Under the financing program, the Company transferred the Receivables (as defined on the transaction documents) to the SPV and thus are not assets of the Company.

As of June 30, 2021, the Senior Notes net outstanding balance was \$9,661,694:



	2021
Outstanding balance	\$ 9,953,100
Transaction costs	(291,406)
	<u>\$ 9,661,694</u>

On April 15, 2021, the Company paid interest for US\$5.8 million and on July US\$6.1 million, with the flows entering the financing structure in accordance with the transaction documents. In addition, the Senior Notes have a Debt Service Reserve for US\$31,094 equal to the Maximum Quarterly Debt Service.

The Senior Notes had a Monthly Debt Service Coverage Ratio of 93.5x, 97.8x, and 110.6x during April, May and June, 2021, respectively, and a Quarterly Debt Service Coverage Ratio of 100.6x for the second quarter of 2021.

### 13. Other payables

	2021	2020
Creditor for goods and services	\$ 2,146,760	\$ 2,527,392
Merchandise reserve	1,201,819	899,055
Taxes to pay	488,437	549,788
Deferred income	30,769	294,306
Employee benefits	148,152	141,221
Liabilities attributable to assets held held for sale	<u>5,130</u>	<u>131,194</u>
	<u>\$ 4,021,067</u>	<u>\$ 4,542,956</u>

### 14. Stockholders' equity

#### a. Capital stock

The capital stock consists of ordinary, common and nominative shares with a nominal value of one hundred pesos each. As of June 30, 2021 and December, 31 2020, the share capital are as follows:

	Number of shares	Amount
Fixed capital stock	500	\$ 50
Variable capital stock	<u>39,204,850</u>	<u>3,920,485</u>
	<u>39,205,350</u>	3,920,535
Restatement until December 31, 2007		<u>453,323</u>
		<u>\$ 4,373,858</u>

#### b. Payments of dividends

The dividends distribution resulting from retained earnings and other capital reserves; as well as distributed earnings derived from reductions of capital, will be taxable for effects of the income tax (ISR for its acronym in Spanish) applying the current rate on the distribution or reduction date on a grossed-up base, except when the distribution of dividends comes from Net Tax Income Account (CUFIN for its acronym in Spanish) and when the distributed

profits derived from the capital reduction come from the restated Contributed capital account (CUCA for its acronym in Spanish).

The tax paid for such distribution may be credited against the income tax for the year in which the dividend tax is paid and in the next two fiscal years against the tax for the year and the provisional payments thereof. The payment of dividends and distributed profits from profits generated as of January 1, 2014, to shareholders and individuals' resident abroad, are subject to an additional 10% of income tax on dividends as final payment in Mexico.

c. Contributions for future capital increases

As of June 30 31, 2021, the Company has made contributions for future capital increases in the amount of \$ 2,268,202, which have not been formalized in the minutes of the meeting consequently, they are presented in long-term liabilities.

d. Legal reserve

The Company recognizes what is stated in item 20 of the Mexican General Law of Mercantile Companies, relative to the separation of 5% of net profits to form the "reserve fund" until this fund reaches the amount of 20% of the capital stock; The fund is intended to protect the capital of the company against eventual losses and / or contingencies that arise. The Company has a reserve fund as of June 30, 2021 of \$ 201,509.

e. Contribution capital account

The capital contributions made in cash, in kind, as well as the capitalization of liabilities, form the contribution capital account, which is updated annually in accordance with the provisions of the current Income Tax Law. As of June 30, 2021 the updated balance of the account called "Updated contribution capital" amounts to \$ 19,342,666. In the case of reimbursement to shareholders for the excess of said reimbursement over this amount, it must be given the tax treatment of a distributed profit.

f. Net tax profit account

Accumulated profits, including those that have been capitalized, are subject to ISR payment, in the case of distribution in cash or in kind, except that they correspond to profits pending distribution, on which the tax has already been covered, which form the CUFIN. As of June 30, 2021, the updated balance amounts to \$ 5,099,884.

g. Other comprehensive income

Other comprehensive income as of June 30,2021 and 2020 is composed as shown below:

	<u>2021</u>	<u>2020</u>
Net income of the period	\$ 2,559,573	\$ 1,912,451
Exchange gains arising on translation of foreign operations in subsidiaries and associated companies	<u>(140,162)</u>	<u>4,327,529</u>
Comprehensive profit of the period	<u>\$ 2,419,411</u>	<u>\$ 6,239,980</u>

**15. Revenue and costs**

As of June 30, 2021 and 2020 the principal income of the Company is as follows:

	<u>2021</u>	<u>2020</u>
Inventory retail sales	\$ 20,176,759	\$ 16,177,988
Administrative services	9,014,334	11,376,480
Money transfers	2,134,343	1,979,573
Commissions and extended		

warranty services	<u>474,206</u>	<u>443,805</u>
	<u>\$ 31,799,642</u>	<u>\$ 29,977,846</u>

As of June 30, 2021 and 2020 costs by nature are as follows:

	<u>2021</u>	<u>2020</u>
Inventory retail sales	\$ 15,915,193	\$ 12,455,330
Money transfers	58,186	67,809
Commissions and extended warranty services	<u>265,711</u>	<u>239,652</u>
	<u>\$ 16,239,090</u>	<u>\$ 12,792,791</u>

## 16. Income taxes

This item is integrated as shown below:

	<u>2021</u>	<u>2020</u>
Current income tax	\$ 730,419	\$ 582,429
Deferred income tax	<u>227,643</u>	<u>(23,460)</u>
	<u>\$ 958,062</u>	<u>\$ 558,969</u>

- a. The ISR rate was 30% on a basis that differs from the accounting income mainly due to permanent differences such as annual adjustment for inflation, as well as certain non-deductible expenses.
- b. Grupo Elektra, S. A. B. de C. V. (conciliatory entity of NEM) and its Subsidiaries considered as conciliatory entity and integrated entities, respectively; determine the ISR according to what is mentioned in Article 64 of the ISR Law, Chapter IV "Of the optional regimen for Company entities". This new optional regime requires a participation in the capital of the subsidiaries of at least 80% and will allow the integrating Company (Controlling) to differ the annual tax payments of its integrated subsidiaries who generated profits for a period equivalent to 3 years to the extent that its expenses due to taxes do not exceed individually the expense for comprehensive tax of the Controlling Company, without considering those companies that have tax losses pending amortization prior to 2014. Foreign subsidiaries determine their income taxes according to the applicable tax rates in each jurisdiction.

## 17. Information by segments

Condensed financial information by geographic area as of June 30, 2021 and 2020 is presented below:

	<u>Mexico</u>	<u>Central America</u>	<u>Other</u>	<u>Total</u>
<b>June 30, 2021</b>				
Income	\$ 29,431,716	\$ 2,367,926	\$ -	\$ 31,799,642
Gross profit	14,793,377	767,175	-	15,560,552
Profit from operations	2,783,644	237,515	(5,303)	3,015,856
Depreciation and amortization	(1,603,938)	(79,081)	-	(1,683,019)
Income Tax	(845,434)	(58,898)	(53,730)	(958,062)

	Mexico	Central America	Other	Total
<b>June 30, 2020</b>				
Income	\$ 28,142,824	\$ 1,835,022	\$ -	\$ 29,977,846
Gross profit	16,632,384	582,671	-	17,215,055
Profit from operations	2,018,067	68,239	(5,121)	2,081,185
Depreciation and amortization	(1,575,703)	(95,040)	-	(1,670,743)
Income Tax	(464,001)	(35,510)	(59,458)	(558,969)

## 18. Commitments and contingencies

### a. Commitments

- i. The Company is the Trustor and Second Trustee of an Irrevocable Administration Trust, Payment Source and Guarantee, established as a financing structure obtained by Grupo Elektra, S. A. B. de C. V. (Grupo Elektra), through which the Company provides the main source of payment, which are the commissions generated by the remittance payment service charged to various business partners.

On July 2017, Grupo Elektra made a disposition of the loan for \$ 2,000,000 with Banco Nacional de Comercio Exterior, for a term of 10 years.

On June 2018, Grupo Elektra made an additional disposal for \$ 1,000,000 with Banco Multiva, for a term of 5 years.

### b. Contingencies

#### Processes in South America

The closure of operations in the Federative Republic of Brazil is divided into two processes:

#### 1. Closing of commercial operations:

On May 8, 2015, the commercial subsidiaries started a judicial recovery procedure (similar to commercial bankruptcy) before the 31st Civil Court in the capital of the State of Pernambuco, Brazil with procedure number 6174-66-2015.8.17.0001, in order to make the orderly payment to their creditors, which consist of liquid credits with various creditors amounting to R\$22 million (US\$ 7 million) at December 1, 2015 (date on which the most recent list of creditors was published), and non-liquid credits of labor creditors are assumed in an amount approximating R\$ 132 million (US\$ 42 million).

In June 2016, the meeting of creditors (maximum body for recovery to approve any novation of obligations) approved the judicial recovery plan filed by the commercial subsidiaries (the "Recovery Plan"), which in turn was approved by the Lower Court. That plan reduced the liquid contingency from R\$ 22 million (US\$ 7 million) to R\$ 7 million (US\$ 2 million), and we estimate that the non-liquid contingency will be reduced from R\$ 132 million (US\$ 42 million) to R\$ 2 million (US\$ 600 thousand) as a result of the Plan.

In August 2016, junior creditors challenged the approval of the Recovery Plan before the Court of Justice of the State of Pernambuco, since that authority ruled that the plan discussed was juridically valid on April 12, 2017, since it complied with the formalities set forth in Brazilian legislation. That ruling was final.

The Recovery Plan has been complied with in 2017 until the ended of the first quarter 2021, and payments have been made to various creditors with the approved plan.

#### 2. Closing of bank transactions:

On May 11, 2015, Banco Azteca de Brazil informed the Banco Central de Brazil of its decision to stop operating the bank business in Brazil. As of that time and up to the end of December 2016, all the necessary activities were carried out to liquidate its bank assets and pay its bank creditors, always in constant communication with the bank regulatory agency.

As part of that closing process, on January 8, 2016, the Central Bank of Brazil notified the beginning of the out-of-court settlement process of Banco Azteca de Brazil.

Simultaneously with the petition, Banco Azteca de Brazil and the Central Bank of Brazil started a plan to close banking activities which, among other matters, included: (i) the change of name from Banco Azteca de Brazil to Deler Consultoria, S. A. and the amendment to its corporate purpose (which were approved by the Stockholders' Meeting of the bank); and (ii) the cancellation of the bank license, which was approved by the Central Bank on November 27, 2018.

To date, Deler Consultoria, S. A. (unregulated business in the financial system) continues to make the corresponding negotiations with its creditors and hopes to solve the contingencies.

The Company is a party to various legal actions and complaints during the normal course of its operations. Management considers that none of these lawsuits against the Company will have a significant adverse effect on its business or financial position.

In accordance with the current tax legislation, the authorities have the power to review up to five fiscal years prior to the last income tax return filed.

According to the ISR Law, when there are operations with related parties, these must be subject to tax limitations and obligations, as for the determination of agreed prices, since these must be equivalent to the ones that will be used with or between independent parties in comparable operations.

**MEXICO,  
AUGUST 12, 2021**



**CP. JAVIER RODRIGUEZ  
LLUCK  
Accounting Director.**



**CP. GILDARDO LARA  
BAYON  
Comptroller.**