Consolidated Financial Statements
31 August 2021

OVH Groupe S.A.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of income

(in thousand euros)	Notes	2021	2020
Revenue	4,3	663 312	632 116
Personnel expenses	4,4	(172 477)	(150 572)
Operating expenses	4,5	(250 805)	(226 579)
Current EBITDA [1]		240 030	254 964
Depreciation and amortisation expenses	4,6	(224 042)	(215 624)
Current operating income		15 988	39 340
Other non-current operating income	4,7	-	24
Other non-current operating expenses	4,7	(9 478)	(8 772)
Operating income		6 510	30 592
Cost of financial debt		(30 267)	(23 530)
Other financial income		12 899	14 150
Other financial expenses		(11 245)	(21 772)
Financial result	4,8	(28 613)	(31 152)
Pre-tax income (loss)		(22 104)	(561)
Income tax	4,9	(10 240)	(10 746)
Consolidated net income (loss)		(32 344)	(11 306)

Earnings per share	Note		
Basic earnings per ordinary share (in euros)	4,16	(0,19)	(0,07)
Diluted earnings per share (in euros)	4,16	(0,19)	(0,07)

[1] The current EBITDA indicator defined in Note 4.1 corresponds to operating income before depreciation, amortisation and other non-current operating income and expenses (Note 4.7).

Consolidated statement of comprehensive income

(in thousand euros)	Notes	31 August 2021	31 August 2020
Revaluation of cash flow and net investment hedging instruments	4.19	3,117	(3,291)
Tax on recyclable items	4.9	(873)	921
Translation adjustments		4,397	(5,671)
Items that are recyclable in profit or loss		6,641	(8,041)
Actuarial gains and losses on defined benefit pension plans	4.21	(150)	29
Tax on non-recyclable items	4.9	39	50
Items that cannot be recycled to profit or loss		(111)	79
Total other comprehensive income		6,530	(7,962)
Consolidated net income		(32,344)	(11,306)
Comprehensive income for the period		(25,814)	(19,268)

Consolidated statement of financial position

(in thousand euros)	Notes	31 August 2021	31 August 2020
Goodwill	4.10	33,836	20,786
Other intangible assets	4.10	141,739	84,329
Property, plant and equipment	4.11	797,045	717,281
Rights of use assets	4.23	49,277	53,902
Non-current financial assets	4.13	1,303	1,280
Deferred tax assets	4.9	7,058	11,431
Other non-current assets		-	697
Total non-current assets		1,030,258	889,706
Trades receivables	4.14	35,481	25,363
Other receivables and current assets	4.15	131,959	43,385
Current tax assets		4,008	5,718
Derivative financial instruments - assets	4.19	140	121
Cash and cash equivalents	4.17	53,610	90,838
Total current assets		225,198	165,425
TOTAL ASSETS		1,255,456	1,055,131

Share capital	4.16	170,779	170,407
Share premiums		93,470	93,842
Reserves and retained earnings		(123,107)	(132,564)
Net income (loss)		(32,344)	(11,306)
Equity		108,798	120,379
Non-current financial debt	4.17	639,583	579,711
Non-current lease liabilities	4.17	38,061	42,287
Other non-current financial liabilities		16,921	17,115
Non-current provisions	4.21	6,011	5,122
Deferred tax liabilities	4.9	14,144	10,961
Other non-current liabilities	4.22	7,783	7,079
Total non-current liabilities		722,503	662,275
Current financial debt	4.17	69,760	30,528
Current lease liabilities	4.17	14,837	13,871
Current provisions	4.21	31,361	21
Accounts payable		149,504	92,096
Current tax liabilities		1,694	2,075
Derivative financial instruments - liabilities	4.19	174	3,291
Other current liabilities	4.22	156,825	130,596
Total current liabilities		424,155	272,478
TOTAL LIABILITIES AND EQUITY		1,255,456	1,055,131

Consolidated statement of changes in equity

(in thousand euros)	Share capital	Share premiums	Reserves and consolidated income (loss)	Translation reserves	Other comprehensive income (excluding translation reserves)	Total Equity
1 September 2020	170,407	93,842	(139,231)	(3,072)	(1,567)	120,379
Consolidated net income (loss)			(32,344)			(32,344)
Other comprehensive income				4,397	2,133	6,530
Comprehensive income			(32,344)	4,397	2,133	(25,814)
Capital increase	372	(372)				-
Share-based payments			13,266			13,266
New IFRIC interpretation on the allocation of retirement benefits to the services' periods (effect net of tax)			990			990
Other changes			(23)			(23)
						-
Transactions with the shareholders	372	(372)	14,233	-	-	14,233
31 August 2021	**170,779**	**93,470**	**(157,342)**	**1,325**	**566**	**108,798**

(in thousand euros)	Share capital	Share premiums	Reserves and consolidated income (loss)	Translation reserves	Other comprehensive income (excluding translation reserves)	Total Equity
1 September 2019	176,063	238,186	(133,341)	2,599	724	284,231
Consolidated net income (loss)			(11,306)			(11,306)
Other comprehensive income				(5,671)	(2,291)	(7,962)
Comprehensive income			(11,306)	(5,671)	(2,291)	(19,268)
Capital decrease	(7,706)	(142,294)				(150,000)
Capital increase	2,050	(2,050)				-
Share-based payments			5,423			5,423
Other changes			(7)			(7)
						-
Transactions with the shareholders	(5,656)	(144,344)	5,416	-	-	(144,584)
31 August 2020	**170,407**	**93,842**	**(139,231)**	**(3,072)**	**(1,567)**	**120,379**

Consolidated statement of cash flows

(in thousand euros)		Notes	2021	2020
Consolidated net income (loss)			(32,344)	(11,306)
Adjustments to net income items:				
Depreciation, amortisation and impairment of non-current assets and rights of use relating to leases		4.6	224,042	213,558
Changes in provisions			33,610	1,314
(Gains)/losses on asset disposals and other write-offs and revaluations			10,656	6,162
Expense related to share allocations (excluding social security contributions)		4.24	13,266	5,423
(Income)/Tax expense		4.9	10,240	10,746
Net financial income (excluding foreign exchange differences)		4.8	30,075	26,956
Cash flow from operations	A		289,545	252,853
Change in net operating receivables and other receivables		4.15	(100,009)	(9,634)
Changes in operating payables and other payables		4.22	80,004	31,578
Change in operating working capital requirement	B		(20,004)	21,944
Tax paid	C		(1,322)	(4,358)
Cash flows from operating activities	D = A+B+C		268,218	270,438
Payments related to acquisitions of property, plant and equipment and intangible assets		4.10 - 4.11	(343,232)	(280,289)
Proceeds from disposal of intangible assets			(0)	4,372
Cash inflows/(outflows) related to business combinations net of cash		4.10	(12,699)	(23,916)
Receipts/(disbursements) related to disposals of consolidated securities and impact of reorganisations and loss of control			1,233	-
Receipts/(disbursements) related to loans and advances granted			205	(68)
Net cash flows used in investing activities	E		(354,493)	(299,901)
Capital decrease			-	(150,000)
Increase in financial debt		4.17	120,000	509,374
Repayment of financial debt		4.17	(25,374)	(230,383)
Repayment of lease liabilities		4.17	(19,061)	(20,228)
Financial interest paid		4.17	(20,675)	(18,969)
Guarantee deposits received			(277)	1,162
Cash flows from financing activities	F		54,613	90,960
Effect of exchange rate on cash and cash equivalents	G		277	(1,280)
Change in cash and cash equivalents	D+E+F+G		(31,385)	60,216
Cash and cash equivalents at beginning of the period			**84,656**	**24,442**
Cash and cash equivalents at end of the period			**53,272**	**84,656**

(in thousand euros)	2021	2020
Term deposits	-	18,000
Current bank accounts	53,610	72,838
Cash and cash equivalents	**53,610**	**90,838**
Short-term borrowings	(338)	(6,182)
Bank overdraft	**(338)**	**(6,182)**
Net Cash Position	53,272	84,656

APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS

Detailed contents

1. Presentation of the Group

OVHcloud group is a global player and the European Cloud leader active on five continents. For over twenty years, the Group has relied on an integrated model that has given it a complete control of its value chain: from the design of its servers to the one of the cloud platform solutions that it provides its customers, along with the construction and management of its data centres, and the organisation of its fibre optic network. This unique approach allows OVHcloud group to cover all the uses of its customers fully independently. Today, OVHcloud group offers its customers state-of-the-art solutions combining high performance, price predictability and total sovereignty over their data to support their growth in complete freedom.

The parent company of the OVHcloud group (the "Group") is OVH Groupe (the "Company"), founded in 1999 and registered at 2, rue Kellerman, 59100 Roubaix, France. Previously incorporated as a simplified joint stock company (Société par Actions Simplifiée), it has been transformed, dated 28 September 2021, into a public limited company (Société Anonyme), and its shares have been listed in the compartment A of Paris Stock Exchange (Euronext) on 15 October 2021.

The Group's consolidated financial statements at 31 August 2021 were prepared under the responsibility of the Group Chairman and approved by the Group's Board of Directors on 15 November 2021.

The consolidated financial statements are presented in thousands of euros (unless otherwise stated). The amounts are indicated without decimals and rounding to the nearest thousand euros and may, in certain cases, lead to non-material discrepancies in the totals and sub-totals shown in tables.

2. Significant events

Significant events during the financial year ended 31 August 2021

Strasbourg incident

On the night of 9 to 10 March 2021, a fire broke out in one of the four OVHcloud data centres in Strasbourg, France. As electricity had to be cut, all the site's data centre operations were shut down. The data centre in which the fire broke out was destroyed and a second data centre is no longer operational and will be dismantled. No human or bodily injury was reported, but several thousand customers were affected by the interruption and some of them lost data, the majority not having opted for a backup solution as proposed by the Group.

The fire had the following impacts on the financial statements at 31 August 2021:

- A decrease in revenue due to:
  - The grant of vouchers for customers affected by a service interruption for 27.8 million euros of which 20.0 million euros have been used for the financial year ended 31 August 2021. Vouchers are deducted from revenue as the services are provided by the Group to customers. Unredeemed vouchers at 31 August 2021 amounted to 7.8 million euros,
  - The issuance of credit notes for service interruption for 5.2 million euros,
  - 2.9 million euros of lost revenue due to services interruption and not invoiced to customers.
- Non-current expenses (see Note 4.7), directly related to the incident, of 56.7 million consisting of:
  - One-off costs of 12.5 million euros due to the cleaning costs of servers and other equipment, site security, recovery and backup of disks, specific maintenance procedures and incremental remuneration related to the mobilisation of teams following this fire,
  - A provision of 31.1 million euros (see Note 4.21) intended to cover all the effects of the incident in respect of appraisal costs, procedural costs and customer claims,
  - Scrapping of certain property, plant and equipment for a total amount of 13.1 million euros (corresponding to their net book value) (see Note 4.11).
- Accelerated depreciation of servers impacted during the fire;
- Over the financial year ended 31 August 2021, approximately 21 million euros of capital expenditure on the replacement of new servers;
- These costs were offset by 58 million euros corresponding to the issuance by the insurance companies of a single lump-sum indemnity for damage caused by the fire.

The Group also plans an additional budget to complete the repairs and to implement a "hyper-resilience" plan.

See also Notes 3, 4.10, 4.13, 4.15 and 4.21 referring to the impacts of the Strasbourg incident.

Sale of Hubic SAS (now Shadow) to Jezby Ventures

Pursuant to a share purchase agreement dated 18 December 2020, the Group sold the entire share capital of Hubic SAS to Jezby Ventures SAS, a company indirectly controlled by Octave Klaba, for a total amount of 0.5 million euros. Hubic SAS had previously benefited from a partial contribution of assets by OVH SAS (customer base, brands and internet sites/applications) relating to a file storage service business and other related digital services for individuals. The development of this business by the Group has ceased in the last two years as it was not a strategic activity for the Group. The sale price of Hubic shares was assessed by an independent expert.

A transitional services agreement was signed between OVH SAS, subsidiary of the Group, and Hubic SAS under the terms of which the Group undertook to provide administrative services to Hubic SAS for a period of six months, renewable once, for a fixed remuneration of 0.5 million euros.

Furthermore, OVH SAS and Hubic SAS entered into a framework agreement for the Group to become Hubic SAS's supplier for its cloud solution needs (see Note 5 "Transactions with related parties").

Covid-19 health crisis

The Group has not identified any significant impact related to the health crisis on the financial statements ended 31 August 2021.

At the height of the crisis from March to May 2020, the Group saw an acceleration in its digital offering offset by project delays for certain customers.

During the 2020 and 2021 financial years, the Group did not use the various public support measures proposed by French or foreign governments.

Acquisition of BuyDRM

On 22 July 2021, OVHcloud group acquired 100% of the shares of BuyDRM, a company specialised in digital rights management and content protection, for an initial acquisition price of 15.3 million dollars, paid in full in cash. The purchase agreement also provides for a contingent earn-out clause up to 14 million dollars, based on the achievement of revenue and EBITDA margins for the financial years ended 31 August 2022 and 2023, as well as the achievement of operational objectives and a presence condition.

For the year ended 31 December 2020, BuyDRM generated a revenue of approximately 3 million dollars and an EBITDA of approximately 0.7 million dollars (based on unaudited data).

Acquisition of servers from Hubic SAS (now Shadow)

Following the acquisition by Hubic SAS of the Blade Group's gaming activities in the United States and France, OVHcloud group (via its subsidiary Vint Hill Data Centre, LLC) acquired on 1 July 2021 for 4.9 million dollars of mainly GPU and storage servers from Hubic SAS. These servers will be gradually transferred to OVHcloud group data centres and will be leased to Hubic SAS under a multi-year contract for private cloud services with Hubic SAS.

Subsequent events

Initial Public Offering

OVHcloud group S.A. has been listed on the compartment A of Euronext Paris regulated market on 15 October 2021 to finance its growth strategy, including the financing of its geographical expansion, the construction of data centres, the development of new products and external growth transactions where applicable. The total number of OVHcloud shares newly issued as part of the initial public offering is 18,918,919, with a unit value of 18.50€, i.e. a primary offering of approximately 350 million euros.

Refinancing

Following its initial public offering, dated 25 October 2021, the Group redeemed the full amount of the previous Loan Agreements (Term Loan and Revolving Credit Facility), as well as the Euro PP bonds for an amount of 705.2 million euros, thanks to the establishment of a new unsecured senior loan agreement with a total principal amount of
920 million euros (the "New Debt"), to replace the previous Loan Agreements. The New Debt, which is not subject to a guarantee given by the Company, includes a new term loan of 500 million euros, with a maturity of 5 years, and the setting up of a new revolving credit facility (RCF) for a maximum capacity of 420 million euros with an initial maturity of 5 years eligible to two extended options for one more year each.

At the funds release date, the applicable margin will be 1.10% for the term loan against 3.25% in the previous refinancing, and it will be at 0.70% in case of drawing-down the revolving credit facility instead of 2.50% in the previous refinancing.

Company shareholding

The companies MANOVH and MENOVH, two entities combining the Group's employee shareholding (managers and employees), merged into the Company on 18 October 2021, making the shareholders of MANOVH and MENOVH direct shareholders of the Company.

Following the transformation of the Company into a public limited company with a Board of Directors (which took place on 28 September 2021), on 18 October 2021 all the A Preference shares and the C Preference shares were converted into Ordinary Company Shares. This transaction does not directly affect neither the equity, nor the income statement, nor the cash.

Lastly, the Group proposed to its employees to subscribe to a shareholding offer reserved for Group employees (Employee Share Plan 2021 or "ESP 2021"). This offer is addressed to Group employees in France and abroad, considering the contribution covered by the Group and an agreed discount of 30% on the sale share price. The Chief Executive Director of the Group noticed the 9 November 2021, the completion of the capital increase linked to this employee share plan for an amount of 9.8 million euros corresponding to the issuance of 1,365,343 new shares. Following this offer, 97.8% of the employees became shareholders of the Group.

3. Main accounting policies used in the consolidated financial statements

Basis of preparation

The Group's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB), as adopted by the European Union on 31 August 2021.

Amendments applied in advance

- Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures": reform of benchmark interest rates - Phase 2
  The objective of this phase 2 of the draft "Reform of benchmark interest rates" is to specify the accounting impacts linked to the effective replacement of the benchmarks.
  The entry into force of phase 2 has no impact for the Group as there is no effective change to the benchmarks in the Group's contracts at 31 August 2021.

- Amendments to IAS 19 "Employee benefits"
  The IFRS interpretation committee met in April 2021 to specify a new position on the terms and conditions for assessing commitments such as retirement benefits. This position was validated by the IASB in May 2021.
  Depending on the position adopted, retirement benefits are now provisioned, not over the entire career of employees, but over the last years of their career corresponding to the ceiling of the compensation scale (for example, if the scale is capped after 25 years of service, retirement benefits would be provisioned for the 25 years preceding retirement. The same reasoning is applied to the intermediate thresholds, in the case of scales whose rights are defined by length of service).
  The impact of this new position is recognised through equity, as a change in accounting method. The impact on the Group's consolidated financial statements is a reduction in the commitment of 1.3 million euros, the scale of compensation defined by the collective agreement for the metal industry being defined in tranches and capped from 40 years of service.

Standards, interpretations and amendments adopted by the European Union with mandatory application from 1 January 2021

The following texts are not applicable for the Group:

- the amendments to IFRS 4 "Insurance contracts - Extension of the temporary exemption to the application of IFRS 9", published on 25 June 2020.
- the amendments to IFRS 16 "Covid-19 rental concessions beyond 30 June 2021", published on 31 March 2021.

Standards, interpretations and amendments not yet adopted by the European Union

The impacts on financial statements of the texts published by the IASB at 31 August 2021 and not in force in the European Union are currently being analysed. These texts are as follows:

- amendments to IAS 1 "Presentation of financial statements - Classification of liabilities as current and non-current liabilities" and "Presentation of financial statements - Classification of current and non-current liabilities - Deferral of the effective date", published on 23 January and 15 July 2020;
- the amendments to IFRS 3 "Business combinations", to IAS 16 "Property, plant and equipment", to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as well as the annual improvements to IFRS (cycle 2018-2020), published on 14 May 2020;
- the amendments to IAS 1 "Presentation of Financial Statements", published on 12 February 2021;
- the amendments to IAS 8 "Definition of an accounting estimate", published on 12 February 2021;

- the amendments to IAS 12 “Deferred taxes related to assets and liabilities arising from a single transaction”, published on 7 May 2021.

In addition, the following texts are not applicable for the Group: IFRS 17 “Insurance Contracts”, published on 18 May 2017.

The other accounting principles and methods used for the preparation of these financial statements are identical to those applied for the latest annual financial statements.

The consolidated financial statements were prepared based on historical cost, except for certain financial assets and liabilities which are measured at fair value as described in Note 3.

Consolidation methods

Subsidiaries

The subsidiaries over which OVH Groupe S.A. exercises its control are all entities controlled directly or indirectly by OVH Groupe S.A. The Group has control of an entity when it is exposed or entitled to variable returns as a result of its participation in the entity and has a significant influence.

The assets, liabilities, income and expenses of subsidiaries are consolidated from the date on which the Group takes control. They are deconsolidated from the date of loss of control.

Financial positions balances and transactions, and income and expenses resulting from intra-group operations, are eliminated in the preparation of the consolidated financial statements.

Investments in associates

Associates are entities in which the Group exercises significant influence over financial and operating policies without having control or joint control. Significant influence is presumed to exist when the Group directly or indirectly holds more than 20% of the voting rights of another entity.

Investments in associates are accounted for using the equity method.

The results, assets and liabilities of associates are included in the consolidated financial statements using the equity method. The Group’s share of net income of associate companies is recognised on a separate line under “Share of net income of associate companies” in the consolidated income statement.

The Group’s interests in these entities are recognised based on the acquisition cost (including acquisition-related costs), adjusted for the Group’s share of the comprehensive income of the associate and reduced, where applicable, by any impairment losses.

Gains arising from transactions with equity-accounted entities are eliminated by the counterparty of investments under the equity method to the extent of the Group’s interest in the company. Losses are eliminated in the same way as gains, but only to the extent that they do not represent an impairment loss.

The Group has chosen to recognise under equity attributable to owners of the parent company, the effects of dilutions recorded in the financial statements of associates in connection with changes in the percentage of ownership held in their own subsidiaries.

When the Group’s share in the losses of an associate is greater than its interest in it, the carrying amount of investments in associates is reduced to zero and the Group ceases to recognise its share of subsequent losses, except to the extent that it has a legal or constructive obligation towards the associated company or has made a payment on its behalf.

The list of companies consolidated under the equity method is presented in Note 5.

Foreign currency translation

The consolidated financial statements are presented in euros, the functional currency of the Group, unless otherwise indicated.

Translation of the financial statements of foreign subsidiaries

The financial statements of each of the consolidated companies of the Group are prepared in their own functional currency, meaning the currency of the main economic environment in which they operate and which generally corresponds to the local currency. All their financial transactions are then valued in this local currency.

The financial statements of consolidated entities with a functional currency other than euros are translated using the closing rate method:

- Assets and liabilities, including goodwill and fair value adjustments in the context of acquisition accounting, are converted into euros at the closing rate of the financial year;
- Income statement and cash flow items are converted into euros at the average rate of the period, in the absence of a significant change during the period.

All translation differences resulting from the consolidation of foreign subsidiaries are recognised in other net comprehensive income that can be reclassified to profit or loss on the line "Translation adjustments" and recorded under "Translation reserves" under consolidated equity. When a foreign entity is sold, the cumulative amount of the translation differences under equity relating to this entity is recognised in the income statement.

Translation of foreign currency transactions

Transactions denominated in foreign currencies are converted into the respective functional currencies of the Group companies by applying the exchange rate applicable on the date of the transaction.

At closing, monetary assets and liabilities are converted at the closing exchange rate. The resulting exchange differences are recognised in profit or loss and presented in other financial income and expenses, with the exception of translation differences relating to long-term receivables and payables (the settlement of which is neither planned nor probable in the foreseeable future), which are essentially part of the Group's net investment in foreign operations, which are recognised in other comprehensive income.

The exchange rates used to convert the financial statements of the Group's main subsidiaries are as follows:

	Average rates		Closing rates	
	2021	2020	2021	2020
Czech koruna	26.080	26.109	25.523	26.208
Tunisian dinar	3.281	3.165	3.310	3.260
US dollar	1.196	1.113	1.183	1.194
Australian dollar	1.592	1.651	1.616	1.621
Canadian dollar	1.517	1.498	1.490	1.560
Singapore dollar	1.606	1.542	1.590	1.624
CFA Franc BCEAO	655.957	655.957	655.957	655.957
Pound sterling	0.877	0.877	0.859	0.896
Indian rupee	88.070	73.073	86.385	87.469
Polish zloty	4.528	4.379	4.530	4.397

Use of significant judgements and estimates

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the amounts of assets, liabilities, income and expenses and information provided in the notes to the consolidated financial statements.

Due to the inherent uncertainty of all measurement processes, these estimates are reviewed on a regular basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and for any relevant future periods.

These estimates are based on past experience and take into account economic conditions and available information, on the basis of a specific country-by-country review.

Depending on changes in assumptions or in the event of conditions that differ from those initially expected, the amounts recognised in future financial statements may differ from current estimates.

Significant estimates, assumptions and judgements used to apply accounting methods concern:

- Some of the accounting treatments relating to the effects of the Strasbourg fire of March 2021.
  In particular:
  - Vouchers have been granted to certain customers so that they can benefit from free services. Vouchers are deducted from revenue as the services are provided by the Group to customers,
  - OVHcloud has been and could continue to be subject of customer claims alleging the existence of damages as a result of the fire, in particular claims for damages, for interruption of services or loss of data, and in this respect, a provision was recognised in the financial statements at 31 August 2021. This provision is intended to cover all the effects of the incident in respect of appraisal costs, procedural costs and customer claims;
- Impairment tests on property, plant and equipment, intangible assets and Goodwill: main assumptions underlying recoverable amounts (Notes 3 and 4.12);
- Development costs: measurement of development costs recognised as intangible assets (Note 4.10);
- Lease liabilities and right-of-use: estimates of the lease term and the incremental borrowing rate used when the implicit rate is not identifiable in the lease (Note 4.23);
- Recognition and measurement of deferred tax assets: probability of future taxable profits sufficient to use them (Note 4.9);
- Valuation of share-based payments: key assumptions (Note 4.24).

Significant accounting policies

The main accounting policies applied by the Group to prepare its consolidated financial statements are as follows:

Business combinations

Business combinations are accounted in accordance with IFRS 3 (amended), “Business combinations”, according to the acquisition method when all acquired elements meet the definition of a company whose control has been transferred to the Group.

Identifiable assets acquired and liabilities assumed as part of a business combination are, with some exceptions, initially measured at their fair value at the date of acquisition. The Group recognises any non-controlling interest in the acquired entity either at fair value or in proportion to the net identifiable assets of the acquired entity.

Costs directly attributable to the acquisition are recognised in other non-current operating expenses in the period in which they are incurred.

Goodwill resulting from a business combination is measured as follows:

- the fair value of the consideration transferred for an acquired business;
- increased by the amount of non-controlling interests in the acquiree;
- increased by the fair value of any pre-existing investment in the subsidiary; and
- less the net fair value of the identifiable assets acquired and liabilities assumed at the date of acquisition.

Estimates of the consideration transferred and the fair value of the assets acquired and liabilities assumed are finalised within twelve months of the acquisition date. Adjustments are recognised as retroactive adjustments to Goodwill if they reflect conditions prevailing on the acquisition date. Beyond this twelve-month period, any adjustment is recognised directly in the income statement.

When the payment of part of the cash consideration is deferred, the future amounts to be paid are discounted to their present value at the date of the acquisition of control. The discount rate used is the entity’s incremental borrowing rate, meaning the rate at which similar borrowings could be obtained from an independent source of financing on comparable terms.

The earn-outs are initially recognised at their fair value. The earn-outs that meet the definition of financial liabilities are then remeasured at fair value and subsequent changes in fair value are recognised in profit or loss.

Other intangible assets

Other intangible assets mainly include patents, licences, intellectual property, IP blocks[1], IT software, customer relations and development costs. They are initially recognised:

- In the event of acquisition: at their acquisition cost;
- In the event of a business combination: at their fair value at the date of the acquisition of control;
- In the case of internal production: at their production cost for the Group.

Other intangible assets are recorded in the balance sheet at their initial cost less accumulated amortisation and any impairment losses recorded.

[1] An IP block allows a customer to associate equipment on its internal network with a public IP address. This includes eight IP addresses in total, five of which the customer can associate with its machines and services. The Group’s IP addresses can be used with no lifetime limit, given the absence of expiry of the asset.

Research and development costs

Research and development costs include the costs of technical activities, intellectual property, education and transmission of fundamental knowledge to ensure the development, manufacture, implementation and marketing of new or continuously improving technologies and software.

Development costs must be capitalised if, and only if, they meet the following restrictive criteria defined by IAS 38 "Intangible assets":

- the project is clearly identified and the related costs are individualised and reliably monitored;
- the technical and industrial feasibility of the project is proven;
- there is an intention to complete the project and use or market the intangible asset resulting from the project;
- the Group has the ability to use or sell the intangible asset resulting from this project;
- the Group can demonstrate how the developed project will generate future economic benefits;
- the Group has adequate technical, financial and other resources to complete the project and to use or sell the intangible asset resulting from the project.

When these conditions are not met, development costs incurred by the Group are recognised as expenses in the financial year in which they are incurred.

Research expenses are recognised as expenses in the financial year in which they are incurred.

Technologies and software developed in-house

Development costs of technologies and software are recognised as intangible assets when specific conditions, related to technical feasibility, prospects for marketing and profitability are met, in accordance with IAS 38 "Intangible Assets". Technological and economic feasibility is generally confirmed when the project development of a product or commercial solution has reached a defined milestone according to an established project management model. Development costs include the costs incurred in the execution of development activities, meaning salary costs allocated to development activities and the cost of external service providers.

In the case of software, the Group considers that only internal and external development expenses related to organic analysis, programming, testing and user documentation costs may be capitalised, providing that the other conditions of IAS 38 "Intangible assets" are compliant with.

All other research and development expenses are recognised in profit or loss as they are incurred. Research and development expenses (whether capitalised or not) are mainly made up of personnel expenses (including salaries, bonuses, benefits and travel expenses) as well as fees of subcontractors integrated in the project teams that add new functionalities to OVHcloud's existing offerings, develop new offerings, ensure reliable performance of its global cloud platform, and manage and develop internal IT systems and infrastructures. The Group presents an aggregate amount of research and development expenses for the 2021 and 2020 financial years in Note 4.10.

Depreciation periods

The main useful lives of the various categories of intangible assets are as follows:

	Depreciation method	Depreciation period
Technologies and software developed in-house	Straight-line	5 years
Customer relations	Straight-line	2 years
Softwares	Straight-line	1 to 8 years
Patents and licences	Straight-line	1 to 3 years
IP blocks	Not amortised	Undetermined

Software is amortised from the effective operational start of its use (in batches where applicable).

Depreciation is recognised on the depreciation and amortisation line. Any impairment losses recognised are shown in the income statement under “Other non-current operating expenses” if they correspond to their definition (Note 4.7).

Property, plant and equipment (fixed assets)

Property, plant and equipment are valued at their acquisition or production cost less accumulated depreciation and any impairment losses recognised, by applying the component approach provided in IAS 16 “Property, plant and equipment”.

Depreciation of property, plant and equipment is determined on a straight-line basis over the useful life of the asset from the date of commissioning.

When the recoverable amount of the intangible assets becomes less than their carrying amount, an impairment loss is recognised.

The Group has analysed its fixed assets in order to break them down by component, with different useful lives. These components include the CPU-GPU processors, the RAM memory, the motherboard, and the hard drive.

The components are intended for the installation in a server and in accordance with IAS 16 “Property, plant and equipment”, are recorded as fixed assets of which the duration of use by the Group exceeds one year.
Moreover, new components are installed within a server, then reinstalled in other servers, as the Group has a model to produce its servers. The components can be successively installed on several servers during their use. The components are recognised as fixed assets in progress until the date of commissioning of the server which corresponds to the date of its availability for marketing. Once the server has been set up, it is transferred to “IT equipment”. The starting date of depreciation coincides with the service start date. When a component is reinstalled, it is remeasured at its fair value.

The main useful lives of the various categories of property, plant and equipment are as follows:

	Depreciation method	Depreciation period
Buildings	Straight-line	10 to 30 years
Materials and tools	Straight-line	5 to 10 years
Infrastructure equipment and facilities	Straight-line	10 years
Vehicles	Straight-line	4 years
Network equipment	Straight-line	5 years
Server components and IT equipment	Straight-line	3 to 5 years
Furniture	Straight-line	10 years

Capital gains and losses on disposals and retirement of property, plant and equipment are included in “Other operating income or expenses” if they are significant and unusual.

Impairment of goodwill and fixed assets

The carrying amounts of goodwill, intangible assets with indefinite useful lives and assets under construction are tested for impairment at least once a year, when events or changes in circumstances indicate that they must be impaired. Other intangible assets and property, plant and equipment (including right-of-use assets in accordance with IFRS 16 “Leases”) are tested for impairment only when there is an indication of loss of value.

For the purposes of impairment testing, assets to which it is not possible to directly relate independent cash flows, are grouped together in the cash-generating unit (CGU) to which they belong, defined by IAS 36 “Impairment of assets” as being the smallest asset group for which there are identifiable independent cash flows. Goodwill is thus allocated to the CGU which should benefit from the synergies of the associated business combination.

There are four CGUs within OVHcloud group, which reflect the smallest groups generating independent cash inflows: Baremetal and Hosted Private Cloud (these two CGUs are included in the Private Cloud segment), Public Cloud and Webcloud & Other.

When the carrying amount of a CGU is greater than its recoverable amount an impairment loss is recognised in other non-current operating expenses after having been allocated in the first instance to the carrying amount of any goodwill allocated to it, if applicable.

Unlike those relating to other assets, goodwill impairment losses are definitive and cannot be reversed in profit or loss at a later date.

The recoverable amount of the CGUs is the higher of the fair value net of disposal costs and the value in use, which corresponds to the present value of future cash flows generated by the use and disposal of assets.
To calculate the recoverable value, the Group has used a method based on the discounting of future cash flows.

Cash flows are taken from the strategic plan approved by the Group’s Board of Directors for the next three years, then an extrapolation for the fourth and fifth years.

Cash flows subsequent to this five-year period are extrapolated by applying a perpetual growth rate according to market growth forecasts. The assumptions used to generate these projected cash flows are based on economic growth assumptions defined by Group management and are consistent with past performance.
Cash flows are discounted at the weighted average cost of capital (WACC) of the segment for each CGU.

The recoverable amount is sensitive to the discount rate used as well as the expected future cash flows and the growth rate used for extrapolation purposes. The main assumptions used to determine the recoverable amount of the various CGUs, including a sensitivity analysis, are presented and explained in more detail in Note 4.12.

Leases (as lessee)

A contract or part of a contract is or contains a lease if it grants the right to control the use of an identified asset for a certain period, in exchange for a consideration.

The Group recognises a right-of-use asset and a lease liability on the effective start date of the lease.

The right-of-use asset is initially measured at cost, which includes the initial amount of the lease liability adjusted for lease payments made on, or before the effective date, plus the initial direct costs incurred to enter into the contract, and an estimate of the potential costs of dismantling or restoring the leased asset according to the terms of the contract. It is subsequently amortised in accordance with IAS 16 “Property, plant and equipment” using the straight-line method from the effective start date over the term of the contract, corresponding to the non-cancellable contractual term of use of the asset after taking into account the renewal or termination options, if their exercise is reasonably certain by the Group’s management. In addition, the right-of-use may be subject to impairment in accordance with IAS 36 “Impairment of assets” as part of the annual valuation test.

The lease liability is initially measured at the present value of future rents. The discount rate used corresponds to the interest rate implicit in the contract or, if it cannot be easily determined, the incremental borrowing rate (based on terms and not maturities). In practice, the latter rate is generally used.

In the absence of an implicit interest rate in the contracts, the Group determines its incremental borrowing rate based on the interest rates granted by various sources of external financing obtained by the Group and makes certain adjustments to take into account the conditions of the contract and the type of asset leased. The calculation of the discount rate requires estimates, specifically for the credit spread added to the risk-free rate, to consider the specific economic environment of the lessee company.

The lease liability is then increased by the interest expense and reduced by the amounts of rent paid, in accordance with the effective interest rate method. It is revalued in the event of a change in future rents following a change in index or rate, or, where applicable, in the event of a revaluation by the Group of the exercise of a purchase option or a termination option.

Payments relating to leases included in the scope of IFRS 16 “Leases” are recognised in the net cash flows from financing activities, in the consolidated statement of cash flows, broken down between the repayment of the principal of the lease liability and the implicit interest payment (included in “Financial interest paid”).

The Group has taken the option not to restate leases with a term of less than or equal to one year or for low-value assets (5,000 dollars). The rental expense is recognised under “Operating expenses”, and the paid-out part is presented in the net cash flows from operating activities, in the consolidated cash flow statement.

The Group has identified five main categories of assets subject to leases, details of which are provided in Note 4.23:

- Offices: these contracts concern the leases of the Group’s various offices in the countries where it operates;
- Data centres: these contracts mainly concern the rental of workshops and data warehouses;
- Networks: these contracts mainly concern network IT equipment leases;
- Points of Presence (POP): these contracts correspond to the leases of sites within infrastructures owned by third parties that the Group uses to establish the interconnections of its networks;
- Other: these contracts mainly concern vehicles, power generators and other equipment used in its operations.

The application of IFRS 16 “Leases” gives rise to the recognition of deferred taxes, calculated on the basis of the value of the right-of-use, net of the corresponding lease liability.

Determination of the term of leases with renewal and termination options:

Judgement and estimates were required to determine the exit dates of the leases given the termination or renewal options provided in certain leases. In general, this concerns renewal options, which the Group is reasonably certain to exercise based on the evidence.

Renewal periods have been taken into account for network contracts (five years with a renewal period of twenty-four months) and POP “Point of Presence” contracts (between one and fifteen years with a renewal period of twelve months). These renewal periods are in accordance with assessment elements and any economic incentives related to the contracts (such as the low level of related fittings, or de-installation costs and possible service cuts, if applicable). With regard to property leases, the assessment was made according to the location of the property (France or abroad) and whether or not it has a strategic nature, as well as the recent nature of the main leases signed by the Group. In France, most real estate leases are so-called “3, 6, 9” commercial leases; in general, a total period of nine years has been used and considers the Group’s analysis in terms of penalties and economic incentives, such as related investments or moving costs, or the contractual penalties provided for in the contracts, in accordance with the interpretation of the IASB Interpretation Committee and the statement of conclusions of the ANC. In particular, non-removable fixtures are not significant and have a useful life similar to the residual term of the leases.

The other main contracts generally have terms as follows, determined in accordance with the principles mentioned above:

- Offices located outside France: between 1 and 10 years;
- Data centres (duration depending on the country): between 1 and 40 years.

The leases on certain Data centres may be fairly short, in order to cope with the Group’s growth, and thus be able to quickly change or increase space as needed.

- Power generators: 3 years;
- Vehicles: 3 years.

At each closing date, the Group reassesses the term of the lease in the event of a significant event or change of circumstances that would affect its ability to exercise, or not, the option of renewal or termination.

Trade receivables and other operating receivables

On initial recognition, trade receivables are recognised at their transaction price within the meaning of IFRS 15 “Revenue from contracts with customers” and then at amortised cost, which generally corresponds to their nominal value. Impairment losses are recognised for the expected credit losses over the life of the asset: the Group applies the simplified approach in this calculation for receivables and leased assets, as well as receivables related to leases under IFRS 16 “Leases” (mainly revenues from dedicated servers and dedicated cloud).

The Group has set up a provisioning matrix based on its credit loss history, adjusted for forward-looking factors specific to debtors and the economic environment, where applicable.

Provisioning rates are based on days of arrears for customer groups by geographic area of the end customer.

The provisioning matrix is initially based on the Group's observed historical default rates. At each reporting date, the historical default rates observed are updated.

Information on impairment of the Group's trade receivables is presented in Note 4.14.

Cash and cash equivalents

This item includes cash (current bank accounts) and cash equivalents corresponding to term deposits with a maturity of less than three months, very liquid, easily convertible into known cash, and which are subject to a negligible risk of change in value.

Share capital

The Group has issued ordinary shares and preference shares. Incremental costs directly attributable to the issue of these instruments are recognised as a deduction from shareholders' equity.

Non-redeemable preference shares are classified as equity insofar as they give entitlement to discretionary dividends, do not involve any obligation to deliver cash or other financial assets and do not require a variable number of payments to be made of Group equity instruments. The related discretionary dividends are recognised as equity distributions at the date of their approval by the Company's shareholders.

Following the initial public offering, the preference shares have been converted into ordinary shares.

Financial instruments

The Group has classified its financial instruments as follows:

- Trade receivables, deposits, guarantees and other loans in financial assets at amortised cost (Notes 4.13, 4.14 and 4.15);
- Shares in non-consolidated entities in financial assets at fair value through profit or loss or OCI (Note 4.18);
- Borrowings and other financial liabilities at amortised cost using the effective interest rate method – EIR (Note 4.17);
- Derivative assets and liabilities at fair value through profit or loss, with the exception of derivatives classified as cash flow hedges (Note 4.19).

<u>Derivative financial instruments</u>

The Group holds derivative financial instruments to hedge foreign exchange risk and interest rate risk.

Derivatives are recognised at their fair value in the balance sheet. Changes in fair value are recognised in other financial income and expense unless they are eligible for hedge accounting.

The Group designates certain derivative instruments as cash flow hedges in order to hedge the variability of cash flows related to highly probable forecast transactions resulting from changes in exchange rates, interest rates, commodity prices or energy prices. When establishing a designated hedge relationship, the Group documents its risk management objective and the hedge implementation strategy. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether changes in the cash flows of the hedged item and the hedging instrument are expected to offset each other.

<u>Cash flow hedge</u>

The Group's hedging instruments are currency swaps and forward currency purchases that are set up in order to hedge changes in the price of future purchases of electronic components. When a derivative is designated as a cash flow hedge, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and accumulated in the hedge reserve.

The effective portion of the change in the fair value of the derivative recognised in other comprehensive income is limited to the cumulative change in the fair value of the hedging item as soon as the hedge is in place. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in other financial income and expense.

The Group has chosen not to separate out the carryforward component of forward currency purchases as hedging costs.

When the expected hedged transaction results in the recognition of a non-financial item such as fixed assets, the amount accumulated in the hedging reserve is included directly in the initial cost of the non-financial item when it is recognised.

Current and non-current provisions

A provision is recognised when the Group has a legal or implicit obligation towards a third party and it is probable or certain that it will result in an outflow of resources for the benefit of said third party. The amount recognised as a provision by the Group must be the best estimate of the expenditure necessary to settle the current legal or implicit obligation towards a third party at the closing date. Provisions mainly consist of provisions for litigation with subcontractors, customers, co-contractors or suppliers. The Group identifies, assesses and finances each risk relating to claims, in conjunction with its legal advisors, on the basis of the best estimate of the risk incurred.

Commitments resulting from restructuring plans are recognised when detailed plans have been drawn up and implementation has started or an announcement has been made.

Employee benefits

Post-employment defined-contribution plans correspond to general and special social security plans in France and to plans in Canada and the United States. The contributions to be paid are recognised as expenses when the corresponding service is rendered.

Post-employment defined benefit plans mainly correspond to retirement benefits in France. Defined benefit obligations are calculated annually by a qualified actuary using the projected unit credit method. These obligations are not financed by external management. The liabilities and costs of defined benefit plans are determined using actuarial valuations, estimated on the basis of assumptions made, in particular in terms of discount rates, expected salary inflation and mortality rates.

Remeasurements of the defined benefit liability (actuarial gains and losses) are recognised immediately in other comprehensive income. The Group determines the interest expense by applying the discount rate to the liabilities and the cost of services, as determined at the beginning of the year. This liability is adjusted, where applicable, for any change resulting from the payment of benefits during the period.

The Group recognises all interest expenses related to defined benefit plans in other financial expenses. The other costs are included in personnel expenses.

There are no other significant long-term employee benefits.

Share-based payments

Some Group employees or corporate officers receive compensation in the form of share-based payments, under which services are provided in exchange for equity instruments (equity-settled transactions) and cash-settled instruments (cash-settled transactions).

Equity-settled transactions

The free shares granted by the Group to French employees or corporate officers are equity-settled transactions. They are detailed in Note 4.24.

The grant date fair value of these share-based, equity-settled payment agreements is recognised as an expense, with a corresponding increase in equity, over the vesting period, using the gradual rights acquisition method, as the free shares are acquired in tranches. The amount recognised as an expense is adjusted to reflect the number of rights for which the associated service conditions will be met, so that the final amount recognised is based on the actual number of rights that meet the corresponding service conditions at the vesting date of said rights.

In addition, some employees or corporate officers had the opportunity to invest in a holding company owning shares in OVH Groupe SAS. As these investments in ordinary shares were made pari passu, at the fair value of the shares, and settled in equity, no expense was recognised in the statement of comprehensive income in accordance with IFRS 2 “Share-based payments”.

Cash-settled transactions

Instruments linked to shares granted by the Group to foreign employees (“phantom shares”) are share-based payments settled in cash.

A liability is recognised for the fair value of cash-settled transactions. Fair value is measured initially and at each closing date, up to and including the settlement date, with changes in fair value recognised in personnel expenses. The fair value is recognised as an expense over the vesting period with the recognition of a corresponding liability. The approach used to consider the vesting conditions in the valuation of equity-settled transactions also applies to cash-settled transactions (Note 4.24).

Free shares and phantom shares are valued at their fair value on the allocation dates. This fair value is based on the fair value of an ordinary share less the present value of the estimated future dividends and the best estimate of the percentage of employees who will meet the vesting conditions (a percentage estimated by management).

The assumptions used to estimate the fair value of share-based payment transactions are presented in Note 4.24.

Fair value measurement

The Group measures derivative financial instruments and shares of non-consolidated entities at fair value at each reporting date and provides information on the fair value of all financial instruments.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability as part of an orderly transaction between market participants at the measurement date. The methods used to measure the fair value of financial instruments are classified according to the following three levels of fair value:

Level 1: fair value based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: fair value measured using data other than quoted prices in active markets, observable either directly (prices) or indirectly (derived data);

Level 3: fair value data for the asset or liability that are not based on observable market data (unobservable inputs). Further information is provided in Note 4.18.

Current and non-current classification

The Group presents assets and liabilities in the balance sheet according to their classification as current/non-current.

An asset is classified as current when:

- it is expected to be realised or is intended to be sold or consumed in the normal operating cycle;
- it is held primarily for trading purposes;

- it should be completed within twelve months of the reporting period; or
- it is cash or cash equivalent, unless restricted by exchange or used to settle a liability for at least twelve months after the reporting period.

A liability is classified as current when:

- it is expected to be settled in the normal operating cycle;
- it is held primarily for trading purposes;
- it is expected to be settled within twelve months of the reporting period; or
- there is no unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

All other assets and liabilities are classified as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Revenue recognition

Revenue is recognised when control of the promised good or service (product) is transferred to a customer for an amount reflecting the consideration to which the Group expects to be entitled in exchange of this product.

The Group has determined that the contracts do not include a significant financing component since the period between the payment date and the performance period for the service is less than one year. Payments received before the transfer of control of the good or service are recognised in deferred income.

The Group's revenue is classified as follows:

Cloud computing services

Revenue from the sale of cloud computing services consists of revenue related to the Private Cloud (including the Baremetal and Hosted Private Cloud activity) and Public Cloud (including Public Cloud and Virtual Private Servers or VPS), often sold with associated support services and additional services such as storage.

The provision of dedicated servers and dedicated clouds corresponds to rental components according to IFRS 16 "Leases", which are generally classified as operating leases. As a result, rents are recognised on a straight-line basis over the term of the lease.

Revenue from leases under IFRS 16 "Leases" corresponds to almost all activities of the Private Cloud operating segment.

Other services, outside the Private Cloud operating segment, fall within the scope of IFRS 15 "Revenue from contracts with customers". Revenue from other services is recognised over the life of the contract to the extent that customers simultaneously receive and consume the benefits provided by the entity's ongoing execution of the services. In general, since services are generally invoiced monthly, and the Group has the right to invoice customers at an amount representative of its performance on the invoicing date, it recognises revenue as the amount invoiced.

Information on the Group's activities is detailed in Note 4.1.

Web communication services

The Group provides domain name registration and hosting services.

Domain name revenues are related to the registration and renewal of domain names. They are recognised when ownership of the domain name is transferred to the buyer.

Revenue from hosting services mainly includes website hosting, website security and online visibility services. Payment of the price of the transaction is initially recognised in deferred income upon receipt, generally at the time of the order. Then, the revenue is recognised in a straight-line over the period during which the performance obligations are satisfied, which generally means the period of the contract, insofar as the customers simultaneously receive and consume the benefits of the services as the entity executes the contract.

Business applications

Revenues from business applications consist mainly of third-party productivity applications, email accounts, email marketing tools and telephony solutions. Payment of the price of the transaction is initially recognised in deferred income upon receipt, generally at the time of the order. Then, the revenue is recognised in a straight-line over the period during which the performance obligations are satisfied, which generally means the period of the contract, insofar as the customers simultaneously receive and consume the benefits of the services as the entity executes the contract.

Definition of contracts, performance obligations and other assessments

Framework agreements have been signed with certain major customers. They generally do not include minimum purchase commitments or significant termination penalties. In addition, no significant up-front payment is made. As a result, the contracts, meaning each purchase order associated with the framework agreement, generally have a duration of less than one year and, consequently, the information relating to the remaining performance obligations to be fulfilled (the order book) are not provided.

Cloud computing contracts may include several performance obligations (for example, different types of servers, support services and additional services), the contractual prices of which correspond to their individual selling prices (no material issue with the allocation of the transaction price between the different performance obligations), which are generally recognised on an ongoing basis, with a similar performance profile. Most other contracts, notably contracts related to domain names and ADSL, generally include single performance obligations.

Contract assets are not significant. Contract liabilities (deferred income) are included in other current debts and liabilities and other non-current liabilities.

The costs of obtaining contracts are not significant, and neither are the costs related to the execution of contracts (set-up costs).

Agent/principal treatment

Whether income is recognised depends on whether the Group qualifies as an agent or principal. The Group provides its customers with licences that can be taken out with third parties and integrated into the Group's service offer. The Group thus obtains the right to manage the use of the licences and their economic benefits, thus holding control prior to their transfer. Thus, the Group acts as principal for all its performance obligations.

Loyalty points programme

The Group has a loyalty points programme which allows customers to accumulate points that can be used to qualify for free services. Loyalty points give rise to a separate performance obligation insofar as they confer a significant right on the customer.

A portion of the transaction price is allocated to loyalty points awarded to customers based on their individual selling price and recognised in deferred income (contract liabilities) until the points are redeemed. Revenue is recognised as points are used by the customer.

Tax credits

The Group applies the treatment of public subsidies to recognise tax credits, such as the French apprenticeship tax credit, family tax credit, corporate sponsorship tax credit and research tax credit. Under this approach, tax credits are recognised when there is reasonable assurance that the assistance will be received and that the Group will meet all relevant conditions. Under this method, tax credits related to operating expenses are recorded as a reduction of the related expenses and recognised during the period in which the expenses are charged to the income statement. Tax credits related to capital expenditure are recognised as a reduction in the cost of the corresponding assets. The tax credits recorded are based on management's best estimates of the amounts to be received.

Income tax

Tax expense

The tax expense presented in the income statement includes current and deferred tax. It is recognised in profit or loss unless it is related to a business combination or items recognised directly in equity or in other comprehensive income.

Tax assets and liabilities are offset if certain criteria are met.

The French company added value contribution (CVAE) is recognised in income tax.

Current taxes

Current tax includes the estimated amount of tax due (or receivable) in respect of taxable income for a period and any adjustment to the amount of tax payable for prior years. The amount of current tax due (or receivable) is determined on the basis of the best estimate of the amount of tax that the Group expects to pay (or receive) due to any uncertainties that may arise. It is calculated on the basis of the tax rates that have been adopted or quasi-adopted at the closing date. The Group has two tax consolidation groups: France and the United States.

Deferred taxes

Deferred taxes are recognised on the temporary differences between the carrying amounts of assets and liabilities and their tax values (subject to exceptions). They are calculated on the basis of the most recent tax rates enacted or substantively enacted at the balance sheet date, the application of which is expected over the period during which the asset will be realised and the liability settled.

Deferred tax liabilities are always recognised, subject to specific exceptions.

Deferred tax assets are recognised in respect of deductible temporary differences, unused tax losses and unused tax credits only to the extent that it is probable that the Group will have future taxable profits against which they can be offset. This being assessed according to the business plan of each of the Group's subsidiaries (budget and medium-term plan), the probable timing and level of future taxable profits, as well as future tax planning strategies.

Uncertain tax treatments

An "uncertain tax treatment" is a tax treatment for which there is uncertainty as to whether the relevant tax authority will accept the tax treatment under tax legislation.

If the Group concludes that it is likely that the tax authorities will accept an uncertain tax position, all items relating to taxes (taxable income, tax bases, tax rates, tax loss carryforwards, tax credits, taxes) will be determined in accordance with this position.

If the Group concludes that acceptance by the tax authorities is not likely, this uncertainty will be included in the calculation of the items relating to taxes and will result in the recognition of a tax liability.

For the financial year ended on 31 August 2021, this tax liability was recognised as deferred tax.

Other non-current operating income and expenses

Other non-current operating income and other non-current operating expenses are defined as being limited in number, clearly identifiable, unusual and having a significant impact on the consolidated results, meaning that they affect the understanding of the Group's current performance.

The classification applies to the significant items of income and expenses that are unusual in terms of nature and frequency, such as certain expenses related to restructuring costs approved by management, consolidation costs related to business combinations, and certain capital gains or losses related to changes in the scope of consolidation and, at 31 August 2021, to non-current income and expenses directly related to the Strasbourg incident.

Acquisition costs included in non-current operating expenses correspond in particular to acquisition costs relating to consulting and due diligence costs.

4. Notes to the consolidated financial statements

4.1 Segment reporting

In accordance with IFRS 8 “Segment reporting”, the Group has identified three operating segments: Private Cloud, Public Cloud and Webcloud & Other. Segment information is presented by activity, compliant with the Group’s internal reporting structure.

Presentation

Private Cloud

The Private Cloud offers services and solutions that are hosted on resources dedicated to customers. This service offer mainly consists of:

- **Baremetal**: dedicated solution administered entirely by the customer according to their needs and without constraints because they are the only user. The uses of a Baremetal solution are multiple: big data, machine learning, hosting of websites and web applications, storage and back-up, infrastructure virtualisation, server clusters, business applications (CRM, ERP) or online game hosting;
- **Hosted Private Cloud**: dedicated solution managed by OVHcloud group, integrating VMWare virtualisation technology. The Hosted Private Cloud offer is particularly suitable for hosting strategic sensitive data such as health or financial data.

Public Cloud

The Public Cloud is a range of cloud solutions that are billed per use, based on open standards (OpenStack, Kubernetes). Resources, such as computing power or storage, as well as the physical infrastructure that provides them, are pooled, meaning they are shared between the users of the cloud services provider, and flexible, meaning adaptable to customer needs and instantly deployable on a large scale. These solutions are typically used for applications that can experience peaks in demand, such as e-commerce, and demanding applications such as video streaming, music streaming or application testing and development.

Webcloud & Other

OVHcloud offers its customers peripheral solutions allowing the creation and hosting of online websites such as the search and renewal of domain names, the creation of a site or an online store. OVHcloud also offers collaboration solutions such as professional messaging, telecommunication and texting.

This segment also includes, on a residual basis, various non-significant activities, including the holding of events (and the wind farm for the 2020 financial year).

This segmentation reflects the internal reporting as submitted to the Group’s Chief Executive Officer, OVHcloud group’s main operational decision-maker. The implementation of this monitoring tool makes it possible to assess the performance of the operating segments and to decide on the allocation of resources, in particular investments.

Key performance indicators

The Group uses the following aggregates to assess the performance of the operating segments presented:

Revenue: as presented in the consolidated financial statements.

Direct costs: Direct costs include all costs directly or indirectly related to the products sold. These are mainly the costs of raw materials, energy, labour costs, transport and licence costs. This aggregate is tracked before depreciation charges.

Gross margin: Gross margin corresponds to revenue less direct costs. This aggregate is tracked before depreciation charges.

Sales and marketing costs: Sales and marketing costs include all direct and indirect costs related to sales and marketing activities, which are mainly personnel and marketing sub-contracting expenses. This aggregate is tracked before depreciation charges.

General and administrative expenses: General and administrative expenses include all expenses related to general management, finance and accounting, IT, legal, HR, and technical activities. This aggregate is tracked before depreciation charges.

Current EBITDA: This performance monitoring indicator, as presented in the consolidated financial statements, also corresponds to Revenue less Direct costs, Sales and marketing costs and General and administrative costs.

Capital expenditures (excluding corporate acquisitions): corresponding to acquisitions of tangible assets and the Group's capitalised project costs (net cash flows from investing activities excluding business acquisitions net of cash acquired).

In addition, the Group does not monitor any indicator of segment liabilities, as financial debt is managed centrally and not at the three reporting segments levels.

(in thousand euros)	Private Cloud	Public Cloud	Webcloud & Other	Total 2021
Revenue	397,560	94,352	171,400	663,312
Direct costs	(121,809)	(33,944)	(75,621)	(231,374)
Gross margin	275,751	60,407	95,779	431,937
Sales and marketing costs	(46,640)	(10,496)	(13,093)	(70,228)
General and administrative costs	(84,200)	(16,081)	(21,398)	(121,679)
Current EBITDA	144,911	33,831	61,289	240,030
Capital expenditure (excluding business combination)	(273,197)	(57,076)	(22,257)	(352,531)

(in thousand euros)	Private Cloud	Public Cloud	Webcloud & Other	Total 2020
Revenue	389,079	82,304	160,733	632,116
Direct costs	(117,932)	(31,631)	(72,536)	(222,099)
Gross margin	271,147	50,673	88,197	410,017
Sales and marketing costs	(38,921)	(7,672)	(10,359)	(56,952)
General and administrative costs	(70,097)	(11,285)	(16,719)	(98,101)
Current EBITDA	162,129	31,716	61,119	254,964
Capital expenditure (excluding business combination)	(218,706)	(42,351)	(14,928)	(275,985)

Non-current assets are broken down as follows in the main countries in which the Group operates:

(in thousand euros)	31 August 2021	31 August 2020
France	717,952	572,899
Canada	93,633	103,792
North America	107,514	94,613
Other countries	111,159	118,402
Total	1,030,258	889,706

Non-current assets mainly include property, plant and equipment and intangible assets. It is mainly composed of servers that are most often shared and managed according to the needs of customers, the specificities of the services provided to them and not the location of this equipment. Thus, there is no correlation in a given country between the amount of fixed assets and the level of revenue or current EBITDA.

4.2 Adjusted EBITDA

In addition to the current EBITDA, the Group follows the Adjusted EBITDA. This alternative performance indicator corresponds the current EBITDA restated, on the one hand, from expenses related to share-based payments and, on the other hand, from additional purchase prices. Indeed, the Group considers these charges do not reflect its current operational performance, particularly equity-settled compensation plans since they do not directly impact cash.

Reconciliation between Current EBITDA and Adjusted EBITDA

(in thousand euros)	2021	2020
Current EBITDA	**240,030**	**254,964**
Equity-settled and cash-settled compensation plans	20,998	8,182
Earn out compensation	945	-
Adjusted EBITDA	**261,972**	**263,146**

4.3 Revenue

Geographic markets

The revenue presented by geographic area corresponds to the residential revenue of customers (customers' main place of residence).

(in thousand euros)	2021	2020
France	342,582	328,610
Europe (excluding France)	192,579	179,917
Rest of the world	128,150	123,589
Total	663,312	632,116

Revenue by product

(in thousand euros)	2021	2020
Baremetal	310,844	287,552
Hosted Private Cloud	86,716	101,527
Private Cloud	397,560	389,079
Public Cloud	94,352	82,304
Webcloud & Other	171,400	160,733
Total	663,312	632,116

Almost all activities of the Private Cloud operating segment correspond to revenue from leases under IFRS 16 "Leases". Other services, outside the Private Cloud operating segment, fall within the scope of IFRS 15 "Revenue from contracts with customers".

4.4 Personnel expenses

(in thousand euros)	2021	2020
Wages and salaries	(110,460)	(102,036)
Social charges	(42,300)	(40,610)
Share-based payments	(20,998)	(8,182)
Employee profit sharing	(303)	(588)
Pension cost - defined benefit pension plans	(314)	(470)
Tax credits relating to personnel expenses	1,898	1,314
Personnel expenses	(172,477)	(150,572)

Share-based payments are up, compared to the 2020 financial year, due in particular to the acceleration of the service condition, the change in the estimate of the probable number of instruments actually acquired and, for phantom shares, the revaluation of the historical plans, to consider the probability of completion of the IPO at 31 August 2021.

The Group's average headcount is broken down as follows over the following periods:

	2021	2020
France	1,695	1,457
EMEA (excluding France) [1]	326	323
North America	348	301
Others	75	72
Total	2,444	2,153

[1] Europe Middle-East and Africa

4.5 Operating expenses

(in thousand euros)	2021	2020
Purchases consumed	(145,576)	(135,358)
External expenses	(90,769)	(81,709)
Taxes and duties	(7,636)	(6,835)
Impairment of trade receivables and other current assets and other provisions	(6,824)	(2,677)
Operating expenses	(250,805)	(226,579)

The item "Purchases consumed" mainly includes purchases of supplies or services, licenses and available domain names for customers, as well as energy costs.

The breakdown of external expenses is as follows:

(in thousand euros)	2021	2020
Subcontracting	(7,099)	(6,371)
Rental expenses	(18,734)	(19,645)
Maintenance	(11,927)	(11,879)
Fees	(19,763)	(14,756)
Advertising	(13,644)	(9,859)
Travel costs and expenses	(6,239)	(5,157)
Bank fees	(6,942)	(6,533)
Insurance premiums	(2,236)	(1,619)
Postal charges	(1,142)	(1,062)
Other external expenses	(3,042)	(4,830)
External expenses	(90,769)	(81,709)

Lease expenses, included in "external expenses", which fell from 19.6 million euros over the period ended 31 August 2020 to 18.7 million euros over the period ended 31 August 2021, represent the portion of lease rentals not restated in accordance with IFRS 16 "Leases" (services portion included in the lease rental cost, low-value assets and/or assets with a lease term of less than 12 months and for which OVHcloud can rapidly disengage without financial or economic constraints).

4.6 Depreciation and amortisation expenses

(in thousand euros)	2021	2020
Amortisation of intangible assets	(9,978)	(3,154)
Amortisation of rights-of-use	(18,673)	(22,339)
Depreciation of property, plant and equipment	(195,391)	(190,131)
Depreciation and amortisation expenses	(224,042)	(215,624)

The increase in amortisation of intangible assets is mainly due to the commissioning of capitalised development projects for the financial years ended on 31 August 2021 and 31 August 2020.

4.7 Other non-current operating income and expenses

(in thousand euros)	2021	2020
Other non-current operating income	-	24
Claim costs	(56,748)	-
Lump-sum insurance indemnity	58,000	-
Equity transactions costs	(8,121)	(1,008)
Acquisition costs	(916)	(764)
Disposal costs	(730)	-
Other income / (expenses)	(963)	(7,000)
Other non-current operating expenses	(9,478)	(8,772)
Other non-current operating income and expenses	(9,478)	(8,748)

Acquisition-related costs mainly correspond to acquisition costs of BuyDRM (a company specialised in digital rights management and content protection acquired in July 2021), the residual acquisition costs of OpenIO (acquired in July 2020) and Exten (acquired in August 2020) incurred in the 2021 financial year.

Costs related to capital transactions correspond to the costs incurred by the Group in connection with the proposed IPO (mainly legal and advisory fees) over the 2021 and 2020 financial years.

"Incident claims" correspond to the costs directly incurred from the occurrence of the Strasbourg incident, to a provision to cover all the appraisal and procedural costs related to the incident, and for possible claims for liability from certain customers, as well as the scrapping of property, plant and equipment, offset by the commitment to pay a single lump sum indemnity by the insurance companies for damage caused by the fire (see Notes 2 and 3).

Other expenses for the 2021 financial year mainly consist of capital losses on disposals of property, plant and equipment.

4.8 Financial result

(in thousand euros)	2021	2020
Interest expenses	(30,267)	(23,530)
Cost of financial debt	(30,267)	(23,530)
Foreign exchange gains	12,679	14,027
Interest income	220	124
Other financial income	12,899	14,151
Foreign exchange losses	(9,924)	(21,172)
Other interest expenses	(1,321)	(601)
Other financial expenses	(11,245)	(21,773)
Financial result	(28,613)	(31,152)

Financial income includes the cost of financial debt, income from cash management and other financial income and expenses (including foreign exchange gains and losses and bank fees).

Foreign exchange gains and losses mainly relate to positions in US Dollars.

The cost of financial debt includes interest expenses related to borrowings and financial debts and interest charges related to lease liabilities. Given that the closing date is close to the date of the IPO, the Group considered that the IPO project would be highly probable as of 31 August 2021. Thus, the Group considered that the existing debt would be repaid early soon and, as such, accounted an expense of 8.7 million euros related to the unamortized fees (1.1 million euros as of 31 August 2020). The increase in interest expenses over the twelve-month period ended on 31 August 2021 is also due to the additional use of the Revolving Credit Facility (hereinafter, "RCF").

4.9 Income tax

The main components of the income tax expense for the financial years ended 31 August 2021 and 2020 are as follows:

Consolidated income

(in thousand euros)	2021	2020
Current taxes	(4,703)	(5,431)
- On income	(2,426)	(490)
- On French company added value contribution (CVAE)	(2,277)	(4,941)
Deferred taxes	(5,537)	(5,315)
(Expense)/Income tax recognised in the income statement	(10,240)	(10,746)

Other consolidated comprehensive income recorded in equity

(in thousand euros)	2021	2020
Deferred tax on changes in the fair value of cash flow hedges	(873)	921
Deferred tax on revaluation of the liability for defined benefit plans (actuarial gains and losses)	39	50
(Expense)/Income tax recognised in other consolidated comprehensive income	(834)	971

Statement of financial position variations

In the consolidated statement of financial position, changes in net deferred taxes were as follows:

(in thousand euros)	31 August 2021	31 August 2020
Deferred tax assets	*11,431*	*12,428*
Deferred tax liabilities	*(10,961)*	*(12,147)*
At 1 September	470	281
Recognised in the income statement	(5,537)	(5,315)
Recognised in the comprehensive income statement (equity)	(834)	971
Business combinations	-	(315)
Transfers	(438)	-
Other movements	(322)	1,338
Translation adjustments	(425)	3,510
At 31 August	(7,086)	470
Deferred tax assets	*7,058*	*11,431*
Deferred tax liabilities	*(14,144)*	*(10,961)*

Net deferred taxes by nature of temporary differences

(in thousand euros)	31 August 2021	31 August 2020
Fixed assets revalued in the context of business combinations	-	908
Leases	883	572
Tax losses carried forward	6,276	6,179
Defined benefit obligations	553	848
Revaluation of financial instruments including derivatives	30	888
Non-deductible provisions	3,852	-
Depreciation differences	1,169	3,776
Other temporary differences	2,906	1,866
Netting of deferred taxes	(8,612)	(3,606)
Deferred tax assets	7,058	11,431

(in thousand euros)	31 August 2021	31 August 2020
Fixed assets revalued in the context of business combinations	1,419	1,202
Depreciation and amortisation (differences in amortisation rates)	13,261	10,652
Insurance indemnity on claim (spreading) (1)	6,731	-
Tax risks	1,023	-
Other temporary differences	322	2,713
Netting of deferred taxes	(8,612)	(3,606)
Deferred tax liabilities	14,144	10,961

(1) Provision of the French General Tax Code relative to spreading of insurance indemnity

The Group only activates its tax loss carryforwards within the tax consolidation scope of France. On the basis of the profits generated over the last three financial years (financial years 2018 to 2020), the Group estimates that it will be able to use up its tax loss carryforwards within approximately five years.
The health crisis has no significant impact on the result for the year and on the outlook for tax loss carryforwards.

Reconciliation of the tax expense for the 2021 and 2020 financial years

(in thousand euros)	31 August 2021	31 August 2020
Pre-tax income	(22,104)	(561)
Tax rate in France	32.02%	31.00%
Theoretical tax income/(expense)	7,078	174
Differences in tax rates between countries	**(206)**	**(1,916)**
Reconciliation with the effective rate:	**(17,112)**	**(9,004)**
Net impact of permanent differences	(5,662)	(4,578)
Recognition of deferred tax assets on tax loss carryforwards arising in previous years	822	-
Unrecognised deferred tax assets on temporary differences and tax loss carryforwards	(9,018)	(2,770)
Tax credits	891	922
French company added value contribution (CVAE)	(1,548)	(3,417)
Other items	(2,597)	840
Effective tax income/(expense)	(10,240)	(10,746)

At 31 August 2021, tax losses not recognised as deferred tax assets mainly relate to the United States, for an amount of 114 million euros (93 million euros at 31 August 2020). In the United States, tax losses can be carried forward for twenty years from the date they are recognised.

4.10 Intangible assets

Goodwill

(in thousand euros)	31 August 2021	31 August 2020
GROSS VALUES		
At opening	22,579	1,883
Increases	12,902	20,758
Changes in scope	(493)	
Translation adjustments	148	(62)
At closing	35,136	22,579
DEPRECIATIONS		
At 1 September	(1,793)	(1,883)
Impairment	-	-
Changes in scope	493	
Translation adjustments	-	90
At closing	(1,300)	(1,793)
NET BOOK VALUES	33,836	20,786

At 31 August 2021, the gross value of goodwill comprises the following goodwill: BuyDRM, a company acquired in 2021, for 13 million euros; OpenIO for 18.5 million euros and Exten for 3.6 million euros, companies acquired in 2020.

Acquisition of BuyDRM

On 22 July 2021, OVH Groupe S.A. acquired BuyDRM, an American company that offers a secure content delivery platform with DRM and encryption for a consideration transferred of 12.8 million euros.

The temporary calculation of goodwill breaks down as follows:

(in thousand euros)	31 August 2021
Consideration paid in cash	12,791
Other non-current and current assets	237
Cash and cash equivalents	92
Current debts and liabilities	440
Net assets acquired	(111)
Provisional goodwill	12,902

Goodwill will be allocated during the financial year ended on 31 August 2022.

Other intangible assets

(in thousand euros)	Capitalised development costs	Franchises/patents /similar rights	Other intangible assets	Total
GROSS VALUES				
1 September 2019	6,955	12,636	40,609	60,200
Increases	202	4,931	40,707	45,840
Decreases	-	(586)	-	(586)
Changes in scope	(761)	4,700	559	4,498
Transfers	9,177	(3,533)	(2,890)	2,754
Translation adjustments	-	(238)	(1,092)	(1,330)
31 August 2020	15,572	17,910	77,893	111,376
Increases	-	332	67,433	67,765
Decreases	(400)	-	-	(400)
Changes in scope	(3,378)	(576)	-	(3,954)
Transfers	53,015	8,297	(60,288)	1,024
Translation adjustments	-	127	145	272
31 August 2021	64,810	26,090	85,184	176,084
AMORTISATION				
1 September 2019	(1,875)	(7,519)	(10,303)	(19,698)
Amortisations and impairments	(2,734)	(794)	(118)	(3,646)
Reversals	-	-	549	549
Decreases	-	586	-	586
Changes in scope	410	-	-	410
Transfers	267	(274)	(6,288)	(6,295)
Translation adjustments	-	-	1,047	1,047
31 August 2020	(3,932)	(8,002)	(15,113)	(27,047)
Amortisations and impairments	(6,782)	(3,267)	(40)	(10,089)
Changes of scope	3,495	574	-	4,069
Transfers	(1,172)	(45)	80	(1,137)
Translation adjustments	-	(1)	(140)	(141)
31 August 2021	(8,391)	(10,741)	(15,212)	(34,345)
NET BOOK VALUES				
1 September 2019	5,080	5,117	30,306	40,502
31 August 2020	11,640	9,908	62,780	84,329
31 August 2021	56,419	15,349	69,972	141,739

In the 2021 financial year, OVHcloud total research and development expenses amount to 76 million euros and include 59.8 million euros of capitalised costs (for reminder, 39.5 million euros at 31 August 2020). These capitalised costs, which meet the criteria of IAS 38 “Intangible Assets” (see Note 3), are fundamental for the development, manufacture, implementation and marketing of new or continuously improving technologies and software.

Of the capitalised costs, 27.8 million euros correspond to internal costs (personnel costs) (16.1 million euros at 31 August 2020), and 31.1 million euros for external costs (software, services) (23.4 million euros at 31 August 2020).

Internal capitalised costs mainly include IT systems overhaul projects for 13.1 million euros (5.2 million euros at 31 August 2020) and projects to develop new services for customers for 14.7 million euros (10.8 million euros at 31 August 2020).

OVH S.A.S acquired the entity OpenIO on 22 July 2020: the total net intangible assets of this acquisition amounted to 4.7 million euros and consisted of software. This company was merged into OVH S.A.S. during the 2021 financial year.

4.11 Property, plant and equipment (fixed assets)

(in thousand euros)	Land	Buildings and fixtures and fittings	Infrastructure equipment, facilities, industrial plant and equipment	IT equipment	Other property, plant and equipment	Leases - Rights-of-use	Property, plant and equipment under construction	Total
GROSS VALUES								
1 September 2019	6,950	51,876	161,096	900,303	223,942	109,208	97,638	1,551,014
Increases	-	2,830	16,371	174,565	14,854	7,017	44,122	259,759
Decreases	-	-	(7,013)	(163,003)	(6)	(10,866)	(2,616)	(183,504)
Changes in scope	-	-	-	15	6	-	-	21
Transfers	-	64	(2,645)	9,082	4,641	-	(17,601)	(6,459)
Translation adjustments	(332)	(1,545)	(4,796)	(11,922)	(2,131)	(1,607)	(1,497)	(23,830)
31 August 2020	6,618	53,225	163,012	909,041	241,306	103,753	120,046	1,597,001
Increases	-	3,308	18,589	173,550	230	14,579	82,298	292,553
Decreases	-	(3,720)	(6,377)	(216,215)	(6,764)	(23,428)	(5,941)	(262,445)
Changes in scope	-	(1,765)	(13,368)	(13)	(498)	(191)	(3)	(15,838)
Transfers	-	1,401	78,350	17,094	(13,170)	(2,979)	(50,495)	30,201
Other movements	1	-	-	1	(138)	3,798	1	3,663
Translation adjustments	44	683	5,075	5,093	270	450	634	12,249
31 August 2021	6,663	53,132	245,281	888,551	221,236	95,982	146,540	1,657,384
AMORTISATION								
1 September 2019	-	(12,877)	(55,658)	(518,022)	(162,174)	(39,380)	(12,822)	(800,932)
Amortisations and impairments	-	(3,422)	(20,282)	(158,944)	(7,194)	(22,339)	(652)	(212,833)
Reversals	-	-	-	13	-	-	2,571	2,584
Decreases	-	-	7,013	154,886	5	10,866	-	172,770
Changes of scope	-	-	-	(41)	26	-	-	(15)
Transfers	-	-	5	2,989	(6)	-	-	2,988
Translation adjustments	-	304	2,061	5,977	258	1,001	19	9,620
31 August 2020	-	(15,994)	(66,862)	(513,143)	(169,085)	(49,851)	(10,885)	(825,818)
Amortisations and impairments	(183)	(3,299)	(28,569)	(154,104)	(5,561)	(18,689)	(7,843)	(218,248)
Reversals	-	-	529	302	-	-	1,053	1,884
Decreases	-	2,842	4,453	220,169	3,869	23,091	-	254,424
Changes in scope	-	1,364	12,819	17	450	129	-	14,779
Transfers	(509)	777	(27,430)	(15,945)	5,968	1,864	5,474	(29,801)
Other movements	-	(1)	-	1	138	(2,964)	(1)	(2,827)
Translation adjustments	-	(125)	(2,271)	(2,672)	(14)	(285)	(86)	(5,453)
31 August 2021	(692)	(14,436)	(107,331)	(465,375)	(164,235)	(46,705)	(12,287)	(811,060)
NET BOOK VALUES								
1 September 2019	6,950	38,999	105,438	382,281	61,768	69,828	84,816	750,082
31 August 2020	6,618	37,231	96,150	395,898	72,221	53,902	109,161	771,183
31 August 2021	5,971	38,696	137,950	423,176	57,001	49,277	134,253	846,324

Land and buildings

Land and buildings with a book value of 44.7 million euros in 2021 (2020: 43.9 million euros) are mainly carried by data centres and lands related.

Infrastructure equipment, facilities, industrial plant and equipment and IT equipment

Machinery, equipment and computer hardware with a net book value of 560.3 million euros in 2021 (2020: 492.1 million euros) are mainly composed of IT servers.

Other property, plant and equipment

Other property, plant and equipment with a net book value of 57 million euros (2020: 72.2 million euros) are mainly composed of fittings carried out at OVH S.A.S.

Right-of-use under leases

Information on leases is presented in Note 4.23.

Property, plant and equipment under construction

Property, plant and equipment under construction mainly represents production costs for servers and networks, and the fitting-out of buildings.

4.12 Impairment test on goodwill, fixed and intangible assets

The CGUs correspond to Baremetal and Hosted Private Cloud (within the Private Cloud operating segment), and Public Cloud and Webcloud & Other operating segments. Goodwill is only allocated to the Public Cloud CGU.

The recoverable amount of the CGUs was established on the basis of the value in use and does not show any impairment.

Impairment tests conducted during the 2021 financial year:

The impacts of the Strasbourg incident (see Note 2), which affect all of the Group's CGUs, constitute an impairment indication from the point of view of IAS 36 "Impairment of assets". In this respect, the Group performed an impairment test as part of the financial statements closed on 31 May 2021. The medium-term plan used was revised to consider the impacts of the Strasbourg incident, applied over the five years of the plan. This plan was prepared by the Group's management.
There has been no indication of impairment since 31 May 2021.

However, the Company updated the net asset value of each CGU tested at 31 August 2021, while maintaining the operating and financial assumptions of the 31 May 2021 model.

The Group carried out an analysis of the sensitivity of the impairment tests to the main assumptions used to determine the recoverable amount of each CGU, namely the discount rate, the perpetual growth rate and the projected cash flows. For the nine-month period ended 31 May 2021, for each CGU, an increase in the discount rate of one percentage point, a decrease in the perpetual growth rate of half a percentage point, and a decrease in cash flows of 10% would not lead, for each of these variations taken individually or cumulatively, to any impairment on each of the four CGUs.

4.13 Non-current financial assets

(in thousand euros)	Shares in non-consolidated companies	Loans and sureties	Total
GROSS VALUES			
1 September 2019	99	1,232	1,331
Disposals/Decreases	-	(5)	(5)
Changes in scope	22	-	22
Transfers	-	(9)	(9)
Other movements	(22)	1	(21)
Translation adjustments	-	(5)	(5)
31 August 2020	99	1,214	1,313
Disposals/Decreases	-	(225)	(225)
Transfers	-	235	235
Translation adjustments	-	12	12
31 August 2021	99	1,236	1,335
DEPRECIATIONS			
1 September 2019	(31)		(31)
31 August 2020	(33)		(33)
31 August 2021	(32)		(32)
NET BOOK VALUES			
1 September 2019	68	1,232	1,300
31 August 2020	66	1,214	1,280
31 August 2021	67	1,236	1,303

During the financial year ended 31 August 2021, Hubic SAS (now Shadow) benefited from a partial contribution of assets. The securities held were then sold by the Group for 0.5 million euros to Jezby Ventures SAS.

Loans, securities and other financial assets correspond to deposits and guarantees paid in connection with the leases of operating properties.

4.14 Receivables

(in thousand euros)	31 August 2021	31 August 2020
Trade receivables	54,625	43,562
Impairment of trade receivables	(24,799)	(19,666)
Contract assets	5,655	1,467
Receivables	35,481	25,363

Changes in the impairment of trade receivables is as follows:

(in thousand euros)	31 August 2021	31 August 2020
At 1 September	(19,666)	(16,069)
Provisions	(5,326)	(7,333)
Reversals	371	3,581
Other changes	(42)	-
Translation adjustments	(136)	155
At 31 August	(24,799)	(19,666)

The age of the receivables is as follows:

(in thousand euros)	31 August 2021	31 August 2020
Net trade receivables	35,481	25,363
Not past due	26,723	17,041
< 30 days	4,932	4,409
> 30 days and < 90 days	2,894	3,043
> 90 days	932	870

4.15 Other receivables and current assets

(in thousand euros)	31 August 2021	31 August 2020
Loans and securities	294	436
Advances to suppliers	9,816	5,997
Tax receivables (excluding current tax)	35,416	23,682
Prepaid expenses	26,825	9,042
Other receivables	59,608	4,228
Other receivables and current assets	131,959	43,385

The change in other receivables and current assets between 31 August 2021 and 31 August 2020 is mainly due to the granting by insurance companies of a single lump-sum indemnity for the damage caused by the fire at the Strasbourg site, for an amount of 58 million euros. This lump-sum indemnity has been totally cashed by OVH SAS, in September 2021.

Changes in receivables and other receivables are explained below:

(in thousand euros)	Trade receivables	Other receivables	Others	Total
31 August 2020	25,363	42,949	436	68,748
Translation adjustments	1,062	138	(5)	1,195
Changes in scope	55	(37)	-	18
Other changes (transfers)	(3,212)	819	(157)	(2,550)
Changes in net operating receivables and other receivables	12,214	87,795		100,009
Change in loans and advances granted			19	19
31 August 2021	35,481	131,664	294	167,439

4.16 Capital

NUMBER OF SHARES *(in thousands)*	Ordinary shares	A preference shares	Total
1 September 2019	134,272	33,976	168,248
Increases / (Decreases)	1,734	(6,008)	(4,274)
31 August 2020	136,006	27,968	163,974
Increases / (Decreases)	372	-	372
31 August 2021	136,378	27,968	164,346

(in thousand euros)	Ordinary shares	A preference shares	Total share capital	Share premiums	Total
1 September 2019	134,272	41,791	176,063	238,186	414,249
Increases / (Decreases)	1,734	(7,390)	(5,656)	(144,344)	(150,000)
31 August 2020	136,006	34,401	170,407	93,842	264,249
Increases / (Decreases)	372	-	372	(372)	-
31 August 2021	136,378	34,401	170,779	93,470	264,249

At 31 August 2021, the share capital was composed of ordinary shares with a par value of 1 euro and two categories of preference shares (A and C) with a par value of 1.23 euro for A preference shares and of 1 euro for C preference shares. The share capital has been issued and fully paid up.

At 31 August 2021, the share capital amounted to 170.8 million euros and consisted of 136,378,003 ordinary shares, 27,968,123 A preference shares and two C preference shares.

At 31 August 2021, the Group's share capital was 79% held by the founder's family, 17% by investment funds and 4% by some Group employees as part of a share allocation plan.

It should be noted that the number of shares considered to determine earnings per share ((0.19) euros at 31 August 2021 and (0.07) euros at 31 August 2020) takes into account, retrospectively on 31 August 2020, the A Preference shares conversion into Ordinary Company Shares (5.267.621 shares).

Capital increases and decreases

The variations later than 31 August 2021 are detailed in Note 2.

For the financial year ended 31 August 2021, the following transactions were carried out by decision of the shareholders:

- Capital increase of 372 thousand euros on 22 July 2021 through the incorporation of share issue premiums via the issue of 371,932 ordinary shares.

For the financial year ended 31 August 2020, the following transactions were carried out by decision of the shareholders:

- Capital increase of 1.7 million euros through the incorporation of share issue premiums via the issue of 1,733,799 ordinary shares;
- On 7 October 2019, by decision of the General Meeting of Shareholders, a capital increase with a par amount of 316 thousand euros through the incorporation of share issue premiums was carried out via the issue of 257,021 A preference shares with a par value of €1.23 each;
- Capital reduction of 7.7 million euros corresponding to 6,265,036 A preference shares with a par value of €1.23 each. The total amount of the share buyback amounted to 150 million euros, and the portion exceeding the nominal value was charged to the share issue premiums for 142.3 million euros.

Preference shares

A preference shares

- Governance rights: each A preference share gave the right to one vote in the collective decisions of the Group's shareholders (General Meetings);
- Economic rights: each A preference share gave the right to a special dividend each year under certain conditions provided in OVHcloud group Articles of Association but did not give the right to the ordinary dividend payable in respect of ordinary shares.

C preference shares

- Governance rights: C preference shares did not give voting rights in the collective decisions of the Group's shareholders, but the holding of C preference shares gave the right to implement the reversal of governance provided for in the OVHcloud group Articles of Association and specified in the associates' pact;
- Economic rights: C preference shares did not confer any economic rights other than the right to receive reimbursement of their subscription price.

All A preference shares and all C preference shares were converted into ordinary Company shares on 14 October 2021, date of the settlement-delivery of the shares in connection with the admission to trading of the Company's shares on the Euronext Paris regulated market.

Dividend

The Group did not declare or pay a dividend during the financial years ended 31 August 2021 and 2020.

4.17 Net debt

Net Cash Position

(in thousand euros)	31 August 2021	31 August 2020
Term deposits	-	18,000
Cash at bank	53,610	72,838
Cash and cash equivalents	53,610	90,838

Net debt

Net debt includes all current and non-current financial debt, less cash and cash equivalents.

The table below shows changes in net debt:

(in thousand euros)	31 August 2021	31 August 2020
Non-current financial debt	639,583	579,711
Current financial debt	69,760	30,528
Gross financial debt (excluding lease liabilities)	709,343	610,239
Cash and cash equivalents	(53,610)	(90,838)
Net debt	655,733	519,401
Lease liabilities	52,898	56,158
Net debt (including lease liabilities)	708,631	575,559

Financing agreements include voluntary early repayment clauses for the Group. Counterparties may only require early repayment in the event of a change of control.

At 31 August 2021, a balance of 66 million euros remained available on the Revolving Credit Facility (hereafter Revolving Credit Facility "RCF").

Group debt structure

Bond issues

In 2014, the Group issued three bonds for a total amount of 87 million euros to refinance maturing debts:

- Bond A amounted to 20 million euros with a fixed rate of 3.11% and was repaid at its nominal value upon maturity on 17 December 2020.
- Bond B amounts to 57 million euros with a fixed rate of 4% (and a repayment date initially scheduled for 17 November 2021).
- Bond C amounts to 10 million euros with a fixed rate of 4.125% (and a repayment date initially scheduled for 27 May 2022).

Syndicated bank loans (revolving credit facility and term facility)

In December 2019, the Group entered into a syndicated loan with several banks in order to extend the maturity of the previous syndicated loan and increase the amount borrowed to finance its operating activities. This new syndicated financing includes, under the same documentation, a term loan of 400 million euros maturing in December 2026 placed with institutional investors and a revolving multi-currency credit facility (RCF) with a maximum capacity of 300 million euros maturing in December 2025 with a group of banks. This transaction was recognised as an extinguishment of liabilities with the setting up of a new debt and resulted in the recognition of a financial expense of 3.4 million euros for the 2020 financial year.
If the level of RCF drawdown less available cash reaches at least 120 million euros, the syndicated loan becomes subject to compliance with a net debt/EBITDA ratio of 4.5x.

This syndicated loan was subject to bank covenants in respect of the RCF loans. These were met as of 31 August 2021 and 2020.

On 13 July 2021, OVHcloud received a commitment from a pool of banks for an unsecured refinancing of 920 million euros, planned after the IPO of 15 October 2021. The credit lines were fully confirmed and the contracts with banks signed before the OVHcloud IPO. The Group decided to proceed with this refinancing, motivated by good market conditions and its credit profile in connection with the IPO.

The facilities include a term loan (the "New Term Loan") in the amount of 500 million euros and a revolving credit facility (the "New Revolving Credit Facility") in the amount of 420 million euros. These facilities are used to repay in full the amounts due under the Existing Loan Agreement at the date on which the facilities are drawn down, and the remaining Euro PP bonds, representing a repayment of 705.2 million euros.

As a result, in the event of an IPO, this refinancing could be analysed as an early extinguishment of debt.

The progress of the IPO project at 31 August 2021, and the resulting probability of refinancing and so the extinction of the historic debt, led to the following effects:

- Accounting of 8.7 million euros expense related to the borrowing costs fees of the historic debt;
- Accounting of the early repayment penalty of 0.3 million euros.

As the Group still has a contractual right not to repay the existing debt early, the classification according to the schedule of the existing debt, which it is planned to refinance, is maintained at 31 August 2021.

Term loan and advances (BPI)

In October 2014, BPI granted the Group two loans (term loan A and term loan B) for a total amount of 7 million euros. Term loan A amounts to 5 million euros with a maturity of ten years and a fixed rate of 4.21%. This loan was refinanced in June 2021 with a green loan of 5 million euros with BPI France, with an interest rate of 0.98%, repayable in 20 quarterly instalments between 30 September 2023 and 30 June 2028. The term loan B, for an initial amount of 2 million euros with a maturity of seven years and a fixed rate of 0.96%, will mature on 31 October 2021.

Breakdown of financial debt

(in thousand euros)	Type of facility	Notional or maximum amount	Interest rate	Final maturity	Non-current	Current	Total 31 August 2021
Bond B	Maturity	57,000	4%	17/11/2021	-	58,793	58,793
Bond C	Maturity	10,000	4.13%	27/05/2022	-	10,324	10,324
Term facility	Maturity	400,000	IBOR + margin	04/12/2026	400,253	59	400,312
Revolving credit facility	Revolving	300,000	IBOR + margin	04/12/2025	234,000	37	234,037
Term loan B (BPI loan)	Straight-line	530	0.96%	31/10/2021-31/03/2026	330	200	530
Green loan (BPI loan)	Straight-line	5,000	0.98%	30/06/2028	5,000	8	5,008
Bank overdrafts					-	338	338
Total financial debt (1)					639,583	69,760	709,343

(1) All financial debts are labelled in euros.

Changes in financial debt

Bond issues

During the financial year ended 31 August 2021, the euro PP 2020 bond was fully redeemed for a nominal amount of 20 million euros.

Syndicated bank loans (revolving credit facility and term facility)

During the financial year ended 31 August 2020, the Group repaid the balance of syndicated bank loans concluded in 2017 for an amount of 227 million euros (207 million euros relating to the revolving credit facility and 20 million euros relating to the term loan) and used the new syndicated bank loans signed in 2019 in the amount of 519 million euros (119 million euros for the revolving credit facility and 400 million euros for the term loan).

For the financial year ended 31 August 2021, the Group used the syndicated bank loans signed in 2019 and for an additional amount of 115 million euros for the revolving credit facility.

Changes in financial debt in 2021 and 2020 are as follows:

(in thousand euros)	31 August 2020	Loan issues	Loan repayments	Amortisation of borrowing costs	Interest paid	Accrued interest	Discount effects	Change in bank overdrafts	Translation adjustments	Transfers and other movements	31 August 2021
Bond issues	66,910	-	-				90	-	-	(67,000)	-
Revolving credit facilities, term loans and other debt	512,801	120,000	(3,695)	8,874			-		(6)	1,609	639,583
Non-current financial debt	579,711	120,000	(3,695)	8,874	-	-	90	-	(6)	(65,391)	639,583
Lease liabilities	42,287	7,660	(543)				-		122	(11,465)	38,061
Non-current financial debt including lease liabilities	621,998	127,660	(4,238)	8,874	-	-	90	-	116	(76,856)	677,644
Bond issues	20,000	-	(20,000)				-	-	-	67,000	67,000
Revolving credit facilities, term loans and other debt	7,947	1	(1,948)				-	(4,043)	8	(1,403)	562
Interest on long-term borrowings	2,581				(20,675)	20,292				-	2,198
Current financial debt	30,528	1	(21,948)	-	(20,675)	20,292	-	(4,043)	8	65,597	69,760
Lease liabilities	13,871	6,942	(18,516)			1,210	-		61	11,269	14,837
Current financial debt including lease liabilities	44,399	6,943	(40,464)	-	(20,675)	21,502	-	(4,043)	69	76,866	84,597
Financial debt including lease liabilities	666,397	134,603	(44,702)	8,874	(20,675)	21,502	90	(4,043)	185	10	762,241
Of which financial debt	610,239	120,001	(25,643)	8,874	(20,675)	20,292	90	(4,043)	2	206	709,343
Of which lease liabilities	56,158	14,602	(19,059)	-	-	1,210	-	-	183	(196)	52,898

(in thousand euros)	31 August 2019	Loan issues	Loan repayments	Amortisation of borrowing costs	Interest paid	Accrued interest	Discount effects	Change in bank overdrafts	Translation adjustments	Transfers and other movements	31 August 2020
Bond issues	86,821	-	-				89	-	-	(20,000)	66,910
Revolving credit facilities, term loans and other debt	227,120	509,374	(226,644)				4,066	-	-	(1,115)	512,801
Non-current financial debt	313,941	509,374	(226,644)	-	-	-	4,155	-	-	(21,115)	579,711
Lease liabilities	51,729	4,520	(13,568)				-		(394)	-	42,287
Non-current financial debt including lease liabilities	365,670	513,894	(240,212)	-	-	-	4,155	-	(394)	(21,115)	621,998
Bond issues	-	-	(1,213)				-	-	-	21,213	20,000
Revolving credit facilities, term loans and other debt	4,727	49	(2,525)				-	2,821	(46)	2,921	7,947
Interest on long-term borrowings	2,366				(2,385)	2,581				19	2,581
Current financial debt	7,093	49	(3,738)	-	(2,385)	2,581	-	2,821	(46)	24,153	30,528
Lease liabilities	18,287	2,498	(8,073)		1,413		-		(254)	-	13,871
Current financial debt including lease liabilities	25,380	2,547	(11,811)	-	(972)	2,581	-	2,821	(300)	24,153	44,399
Financial debt including lease liabilities	391,050	516,441	(252,023)	-	(972)	2,581	4,155	2,821	(694)	3,038	666,397
Of which financial debt	321,034	509,423	(230,382)	-	(2,385)	2,581	4,155	2,821	(46)	3,038	610,239
Of which lease liabilities	70,016	7,018	(21,641)	-	1,413	-	-	-	(648)	-	56,158

4.18 Classification of financial instruments and fair value measurement

Financial assets and liabilities are classified as follows:

(in thousand euros)	*Notes*	*Accounting category*	*Level in the fair value hierarchy*	31 August 2021 Total net book value	31 August 2021 Fair value	31 August 2020 Total net book value	31 August 2020 Fair value
Loans and guarantees and other financial assets	2	Amortised cost	Level 2	1,236	1,236	1,518	1,518
Non-consolidated equity investments	3	Fair value through profit or loss	Level 3	67	67	57	57
Total non-current financial assets				1,303		1,575	
Trade and other receivables	1	Amortised cost		35,481	35,481	25,363	25,363
Current derivative financial assets		Fair value through profit or loss or hedging instrument	Level 2	140	140	121	121
Cash and cash equivalents	1	Amortised cost		53,610	53,610	90,838	90,838
Total current financial assets				89,231		116,321	
Total financial assets				90,534		117,896	
Financial debt (excluding lease liabilities)	5	Amortised cost	Level 2	639,584	639,584	579,710	580,068
Lease liabilities	4	Amortised cost		38,061	38,061	42,287	
Derivative financial instruments	6	Fair value through profit or loss or hedging instrument	Level 2	16,921	16,921	17,115	17,115
Total non-current financial liabilities				694,566		639,113	
Financial debt (excluding lease liabilities)	4	Amortised cost	Level 2	69,760	69,760	30,528	30,528
Lease liabilities	4	Amortised cost		14,837		13,871	
Accounts payable	1	Amortised cost		149,503	149,503	92,096	92,096
Derivative financial instruments	6	Fair value through profit or loss or hedging instrument	Level 2	174	174	3,291	3,291
Total current financial liabilities				234,274		139,787	
Total financial liabilities				928,840		778,899	

Note 1 - The net book value of non-derivative current financial assets and liabilities is considered as an approximation of their fair value.

Note 2 - The difference between the net book value and the fair value of loans and guarantees in non-current financial assets and security deposits in non-current financial liabilities is not considered significant.

Note 3 - The fair value of non-consolidated equity investments is not significant.

Note 4 - As permitted by IFRS, the fair value of the lease liability and its level in the fair value hierarchy is not provided.

Note 5 - The fair value of borrowings and financial liabilities has been estimated using the discounted future cash flow method.

Note 6 - Derivatives are measured at their fair value on the balance sheet. Fair value is based on market data and commonly used valuation models. It can be confirmed in the case of complex instruments by reference to securities listed by independent financial institutions.

4.19 Derivative financial instruments

The Group’s risk management strategy and its application in terms of risk management are explained in Note 4.20.

(in thousand euros)	31 August 2021	31 August 2020
Derivative financial instruments - assets	140	121
Derivative financial instruments - liabilities	174	3,291

4.20 Risk management

Financial risk management

The Group is exposed to foreign exchange risk, interest rate risk, credit risk and liquidity risk.

The Group's risk management focuses on the unpredictability of financial markets and seeks to minimise the potential negative effects of these risks on the Group's financial performance. The Group may use derivative financial instruments to hedge certain exposures to these risks.

Currency risk management

The Group's international activities generate flows in many currencies. In order to mitigate exposure to currency risk, the Group uses forward currency contracts to hedge:

- Purchases of components and fixed assets in US dollars. These transactions are highly probable and may be designated as hedged items. The Group enters into foreign exchange forward contracts to hedge the cost of fixed assets against foreign exchange risk and qualifies these transactions as cash flow hedges. Forward exchange contract balances vary depending on the level of expected investments in US dollars. Changes in the projected amount of cash flows for hedged items and hedging contracts may be a source of ineffectiveness.
- Financial assets and liabilities in foreign currencies: in the context of intra-group financing, financing facilities are set up between the parent company whose functional currency is the euro, and subsidiaries whose functional currency is a foreign currency. In order to centralise the foreign exchange risk, the financing is set up in the functional currency of the subsidiary. These financings may generate an exposure to exchange rate risk that is not eliminated in the consolidated financial statements. The Group therefore uses cross-currency swaps to hedge its exposure to currency risk linked to the nominal amount and interest on the financing. Currency swaps are not qualified as hedging instruments under IFRS. The Group classifies certain intra-group financing as net investments abroad. Valuation differences linked to changes in exchange rates are then recognised in other items of comprehensive income.

In addition, the Group centralises cash surpluses and cash requirements in currencies other than the euro for the Group's subsidiaries. The risk related to non-euro current accounts between the central treasury department and the subsidiaries is hedged by short-term currency swaps. These swaps do not qualify as hedges.

Since 2018, the Group has limited the hedging derivatives used to currency swaps, cross-currency swaps and forward foreign exchange contracts.

All fair values of derivatives are measured using significant observable data (level 2).

Effect of cash flow hedges on the income statement and other comprehensive income:

For purchases in US dollars, OVHcloud group recognises expenses in US dollars included in the price of the fixed asset at the hedging rate. The effective portion of the hedging instrument, qualified as a cash flow hedge, initially recognised in other comprehensive income, is recycled from the cash hedging reserve to non-current assets. The effect of hedging instruments is then reclassified to profit or loss based on the depreciation and amortisation of these assets over the estimated useful life of the equipment.

<u>Sensitivity of foreign exchange rates:</u>

A change in exchange rates would have affected consolidated equity or net income, due to the hedging strategies, as follows:

- Future acquisitions of fixed assets in US dollars: the hedging instruments used in these hedging strategies are considered as 100% effective. The effects on other comprehensive income of a 10% change in the spot rate in US dollars at the closing date would not have generated any impact in 2021 or in 2020.

- Financial assets and liabilities denominated in foreign currencies and cash pooling: assets and liabilities denominated in foreign currencies resulting from the financing activity of non-euro subsidiaries generate currency effects that are not eliminated in the consolidated financial statements. The effects of derivative instruments in foreign currencies offset these variations in the financial statements. A change in the spot exchange rate applied to these hedging strategies would therefore have no impact on consolidated net income and equity.

Risk management rate

In order to hedge interest rate risk at an acceptable level, the Group maintains a combination of variable and fixed rate loans. Depending on the level of market interest rates, the Group may hedge interest rate risk through interest rate swaps. No interest rate swaps or interest rate derivatives have been negotiated after 2017.

IBOR reform: the main benchmark interest rates are currently undergoing an in-depth reform at the global level, which includes the replacement of certain interbank rates on offer (IBOR) by other, risk-free rates (commonly known as the “IBOR reform”). The Group is exposed to IBORs through its financial instruments, which have to be replaced or modified as part of this reform, which concerns all markets. There are still uncertainties about the timing and methods of transition that will be adopted in the various countries in which the Group operates. However, the latter believes that the reform of the IBORs will have no impact on its risk management and hedge accounting.

The Group is exposed to Euribor/Libor’s rates variation on its term Facility and its Revolving credit Facility which total amount is 634 million euros at 31 august 2021. These financial liabilities mature respectively in 2026 and 2025 and did not have exchange rates hedging.

Sensitivity analysis:

The existence of a floor justifies the fact that no analysis is performed on the assumption - 100 basis points.

A quantitative sensitivity analysis of the change in interest rates at 31 August would result in the following additional expenses in the income statement:

(in thousand euros)	31 August 2021	31 August 2020
Euribor interest rate fluctuation assumptions		
+ 100 basis points	2,501	1,847
- 100 basis points	-	-

Liquidity risk management

Liquidity risk is the risk to which the Group is exposed when it experiences difficulties in meeting its obligations relating to financial liabilities that will be settled by remitting cash or other financial assets. The Group’s objective in managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to honour its liabilities when they fall due without incurring unacceptable losses or adversely affecting the Group’s reputation.

The available resources enable the Group to manage its liquidity risk (cash and available bank credit lines).

The table below shows the residual contractual maturities of the Group's financial liabilities, including interest payments:

	31 August 2021				
(in thousand euros)	Book value	Contractual amount	< 1 year	> 1 year < 5 years	> 5 years
Bond B	58 793	59 280	59 280	-	-
Bond C	10 324	10 628	10 628	-	-
Term facility	400 312	469 370	13 181	52 758	403 431
Revolving credit facility	234 037	261 813	6 524	255 289	-
Term loan B (BPI loan)	530	530	200	330	-
Green loan (BPI loan)	5 008	5 227	49	3 156	2 022
Bank overdraft	338	338	338	-	-
Lease liabilities	52 898	52 898	14 837	38 061	-
Other non-current financial liabilities	16 921	16 921		-	16 921
Suppliers and other accounts payable	149 504	149 504	149 504	-	-
Liabilities from derivative financial instruments	174	174	174	-	-
Financial liabilities	928 840	1 026 683	254 715	349 594	422 374

	31 August 2020				
(in thousand euros)	Book value	Contractual amount	< 1 year	> 1 year < 5 years	> 5 years
Bond A	20 433	20 184	20 184	-	-
Bond B	58 508	59 767	2 280	57 487	-
Bond C	10 273	10 717	413	10 304	-
Term facility	391 580	481 390	13 000	52 000	416 390
Revolving credit facility	119 005	137 626	2 975	11 900	122 751
Term loan A (BPI loan)	3 464	3 323	831	2 492	-
Term loan B (BPI loan)	700	504	404	100	-
Other borrowings	94	94	94	-	-
Bank overdraft	6 182	6 182	6 182	-	-
Lease liabilities	56 158	56 158	13 871	42 287	-
Other non-current financial liabilities	17 115	17 115	-	-	17 115
Suppliers and other accounts payable	92 096	92 096	92 096	-	-
Liabilities from derivative financial instruments	3 291	3 291	3 291	-	-
Financial liabilities	778 899	888 447	155 621	176 570	556 256

Credit risk management

Credit risk is managed at Group level. Credit risk arises from cash, cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including receivables outstanding and committed transactions.

OVHcloud currently provides services to more than 1.6 million euros customers worldwide and delivers the service to its customer portfolio once payment for the service has been made in majority of cases. Credit risk is therefore very low within the Group.

In the event that a customer credit is required, the credit control department assesses the credit quality of the customer, taking into account their financial position and past experience.

No individual Group customer represents more than 10% of sales in 2021 or 2020.

Management of raw material risk (energy contracts)

The bulk of energy supplies are made through forward purchase contracts, at a fixed or indexed price.

IFRS 9 intends to incorporate in its scope forward purchase and sale transactions for any non-financial asset, when these transactions have similar characteristics to derivatives.

However, IFRS 9 considers that forward contracts on non-financial assets should not be considered as derivatives when they were concluded to meet the "day-to-day" business needs of the Company, characterised by taking delivery of the underlying asset at maturity to use it in the Company's industrial process. OVHcloud does not buy electricity for the purpose of speculating or arbitrating on changes in commodity prices. The contracts are concluded in order to use it in the ordinary course of business in the industrial process and do not meet the definition of a derivative instrument.

4.21 Provisions and contingent liabilities

Provisions and contingent liabilities are presented as follows:

(in thousand euros)	31 August 2021	31 August 2020
Defined benefit pension plans	2,299	3,028
Disputes and litigations	3,712	1,694
Other provisions	-	400
Non-current provisions	**6,011**	**5,122**
Defined benefit pension plans	71	-
Disputes and litigations	31,107	21
Other provisions	183	-
Current provisions	**31,361**	**21**
Current and non-current provisions	37,372	5,143

Change in provisions and contingent liabilities

(in thousand euros)	Defined benefit pension plans	Disputes and litigations	Other provisions	Total
1 September 2019	2,573	792	400	3,765
Provisions	484	1,533	489	2,506
Reversals/Benefits paid	-	(604)	(438)	(1,042)
Change in actuarial gains and losses	(29)	-	-	(29)
Changes in scope	-	146	2	148
Transfers	-	(145)	(53)	(198)
Translation adjustments	-	(7)	-	(7)
31 August 2020	3,028	1,715	400	5,143
Provisions	333	33,172	183	33,688
Reversals/Benefits paid	(17)	(61)	-	(78)
Change in actuarial gains and losses	150	-	-	150
Changes in scope	(1)	-	(400)	(401)
Other changes	212	(29)	1	184
New IFRIC application	(1,335)			(1,335)
Translation adjustments	-	21	-	21
31 August 2021	2,370	34,818	184	37,372

There were no significant contingent liabilities at 31 August 2021 and 2020.

Defined benefit pension plans for employees

Post-employment defined benefit plans mainly concern employees in France.

These commitments are not covered by asset plans.

In France, in accordance with the legal regime governed by the collective agreements applicable to employees of French entities, a lump sum is paid to employees upon retirement, the amount of which depends on their length of service and their salary at the time of their departure according to a scale defined in the collective agreement.

Main assumptions

The main assumptions used to determine the defined benefit plans are as follows:

	31 August 2021	31 August 2020
Discount rate	0.90%	1.0%
Salary inflation rate	2.0%	2.0%
Average staff turnover rate	7.5%	7.5%
Average payroll tax rate	37%-46%	37%-51%
Duration of the pension commitment	23.4 years	24.2 years
Mortality table	INSEE 2013-2015	INSEE 2013-2015

The average tax rate on salaries corresponds to the average rate of employer contributions.

The duration of the retirement commitment corresponds to the average remaining working life of employees.

Change in defined benefit obligations

(in thousand euros)	31 August 2021	31 August 2020
At 1 September	3,028	2,573
Interest cost	19	14
Service costs	314	470
Rendered during the period	*352*	*565*
Past services cost	*(37)*	*(95)*
Impact on net income	333	484
Other changes	211	
New IFRIC application	(1,335)	-
Benefits paid	(17)	-
Change in actuarial gains and losses	150	(29)
At 31 August	2,370	3,028

The IFRS interpretation committee met in April 2021 to adopt a new position on the terms and conditions for assessing commitments such as retirement benefits (See Note 3 on the effects of the application of the new interpretation).

Past service costs are explained by employee departures. No new collective bargaining agreement has been adopted. Consequently, the Group now applies the legal scale for calculating pension benefits.

Sensitivity analysis

A quantitative sensitivity analysis for significant assumptions at 31 August 2021 is shown below:

(in thousand euros)	31 August 2021	31 August 2020
Change in discount rate		
+ 25 basis points	2,021	2,854
- 25 basis points	2,276	3,213
Change in salary inflation		
+ 25 basis points	2,275	3,250
- 25 basis points	2,023	2,852

The amount of contributions that OVHcloud group expects to pay into the plan during the 2022 financial year is 0.5 million euros.

Other provisions

Following the fire at the Strasbourg site, a provision of 31.1 million euros was recorded to cover all the effects of the incident in respect of appraisal costs, legal costs and liability claims.

4.22 Other current and non-current liabilities

(in thousand euros)	31 August 2021	31 August 2020
Personnel expenses	680	716
Deferred revenue	6,024	5,690
Other non-current debt	1,079	673
Other non-current liabilities	7,783	7,079
Personnel expenses	43,794	31,288
Deferred revenue	64,050	58,200
Advances received	14,705	8,726
Tax liabilities (other than current taxes)	32,347	28,872
Other current debt	1,929	3,510
Other current liabilities	156,825	130,596
Other current and non-current liabilities	164,608	137,675

The change in trade payables and other current liabilities is explained as follows:

(in thousand euros)	Suppliers	Fixed assets suppliers	Other current liabilities	Total
1 September 2019	57,524	-	125,657	183,181
Translation adjustments	(777)	-	(5,987)	(6,764)
Changes in scope	134	-	2,171	2,305
Other changes (transfers)	833	-	(2,211)	(1,378)
Changes in operating payables and other payables	20,613		10,965	31,578
Change in suppliers of fixed assets		13,769		13,769
31 August 2020	78,327	13,769	130,596	222,692
Translation adjustments	908	-	817	1,724
Changes in scope	(67)	-	407	340
Other changes (transfers)	(50)	-	(491)	(541)
Changes in operating payables and other payables	54,507		25,497	80,004
Change in suppliers of fixed assets		2,108		2,108
31 August 2021	133,626	15,877	156,825	306,328

4.23 Leases

The carrying amounts of the rights-of-use recognised and the movements for the period are presented in the following tables:

(in thousand euros)	Offices and accommodation	Data centres	Networks	Points of presence	Other assets	Total
GROSS VALUES						
1 September 2019	56,865	6,830	21,462	20,259	3,791	109,207
Increases	2,515	1,171	154	3,178	-	7,018
Disposals	(588)	-	(7,205)	(2,622)	(450)	(10,865)
Translation adjustments	(538)	(143)	-	(926)	-	(1,607)
31 August 2020	58,254	7,858	14,411	19,889	3,341	103,753
Increases	2,856	3,720	1,910	5,339	754	14,579
Disposals	(451)	(2,395)	(14,584)	(2,761)	(3,237)	(23,428)
Translation adjustments	182	19	34	225	-	461
31 August 2021	63,737	3,737	6,299	20,507	1,701	95,982
AMORTISATIONS						
1 September 2019	(12,673)	(1,701)	(13,251)	(10,263)	(1,491)	(39,379)
Amortisation and impairment	(7,863)	(1,528)	(5,777)	(5,729)	(1,442)	(22,339)
Disposals	588	-	7,205	2,622	450	10,865
Translation adjustments	232	135	-	635	-	1,002
31 August 2020	(19,716)	(3,094)	(11,823)	(12,735)	(2,483)	(49,851)
Amortisation and impairment	(7,551)	(1,122)	(3,437)	(5,261)	(1,317)	(18,688)
Disposals	210	2,395	14,584	2,701	3,202	23,091
Changes in scope	-	-	-	60	70	129
Transfers	548	819	(3,381)	1,386	(344)	(972)
Translation adjustments	(99)	(4)	(17)	(164)	-	(285)
31 August 2021	(26,608)	(1,007)	(4,074)	(14,073)	(942)	(46,705)
NET BOOK VALUES						
1 September 2019	44,192	5,129	8,211	9,996	2,300	69,828
31 August 2020	38,538	4,764	2,588	7,154	858	53,902
31 August 2021	37,129	2,730	2,224	6,434	759	49,277

The impacts of the restatement of leases in the consolidated income statement for the periods ended 31 August 2021 and 2020 are as follows:

(in thousand euros)	2021	2020
Restated rental costs	18,740	21,642
Amortisation of rights-of-use	(18,673)	(22,339)
Interest expenses	(1,210)	(1,414)
Net expenses on contract exits	(207)	
Pre-tax income	(1,350)	(2,111)

Rental expenses restated for the financial year ended 31 August 2021 amounting to 18.7 million euros concern:

- Data centres for 1.1 million euros,
- Networks for 1.2 million euros,
- Points of Presence (POP) for 6.8 million euros,
- Offices for 8.5 million euros,
- Other assets, such as fittings or cars for 1.1 million euros.

4.24 Share-based payments

(in thousand euros)	2021	2020
Expenses for equity-settled compensation plans	(13,266)	(5,423)
Expenses for cash-settled compensation plans	(4,580)	(223)
Social charges related to share-based payments	(3,152)	(2,536)
Share-based payments	(20,998)	(8,182)

Free shares

The General Meeting of 10 October 2017 authorised the allocation of a maximum of 4,590,562 free ordinary shares with a four-year service condition. The identity of the beneficiaries and the date of allocation are determined by the Chairman.

Summary of free shares

Grant date	October 2017	February 2019	July 2020	February 2021	July 2021
Total number of free shares granted	1 108 049	1,776,316	385 236	442,186	250,976
Number of beneficiaries	33	35	23	32	22
Vesting period	4 years	4 years	4 years	1 year	1 year
Estimate of the percentage of employees who will fulfil the service conditions	58%	88%	97%	100%	100%
Fair value of ordinary shares at the grant date (€)	7.48	8.46	10.2	10.75	20
Expected dividends [1]	-	-	-	-	-

[1] *Expected dividends: no dividend distribution is expected for the periods concerned by these free shares.*

A charge of 13.3 million euros in respect of the fair value of the free shares was recognised under personnel expenses in the income statement for the financial year ended 31 August 2021 (an expense of 5.4 million euros was recognised for the financial year ended 31 August 2020).

Personnel expenses for free shares were up compared to the 2020 financial year mainly due to the acceleration of the service condition and the change in the estimate of the probable number of instruments actually acquired to consider the probability of completion of the IPO at 31 August 2021.

Movements during the financial year

The following table illustrates the number and movements of free shares issued during the financial year:

(in numbers of shares)	31 August 2021	31 August 2020
Outstanding at begining of the period	2,722,116	2,412,731
Allocated during the period	693,162	385,236
Lapsed during the period	(140,897)	(75,851)
Outstanding at end of period	3,274,381	2,722,116

"Phantom" shares

In October 2017, a phantom share plan was put in place for foreign resident employees, with a four-year service condition. The plan depends on the value of the OVH shares and will not be settled in shares, but in cash. It is therefore considered to be a cash-settled share-based plan. The liability for phantom shares is measured, initially and at each closing date until settlement, at the fair value of the phantom shares, which is based on the fair value of the ordinary shares.

Summary of phantom shares:

Grant date	October 2017	February 2019	July 2020	February 2021	July 2021	August 2021
Total number of instruments issued	708,938	85,074	152,767	5,976	5,975	23,902
Number of beneficiaries	9	4	7	1	1	2
Vesting period	4 years	4 years	4 years	1 year	1 year	1 year
Estimate of the percentage of employees who will fulfil the service conditions	2%	67%	100%	100%	100%	100%
Fair value of the share at the grant date (€)	7.48	8.46	10.2	10.75	20	20
Expected dividends [1]	-	-	-	-	-	-

[1] *Expected dividends: no dividend distribution is expected for the periods concerned by these free shares.*

For the financial year ended 31 August 2021, a personnel expense was recognised in respect of phantom shares for 6.0 million euros (0.3 million euros at 31 August 2020), giving a cumulative liability of 6.4 million euros at 31 August 2021 (0.4 million euros as at 31 August 2020).

Personnel expenses for phantom shares were up compared to the 2020 financial year due in particular to the acceleration of the service condition, the change in estimate of the probable number of instruments actually acquired and the revaluation of historical plans to consider the probability of completion of the IPO at 31 August 2021.

Movements during the financial year

The following table shows the number and movements of phantom shares issued during the year:

(in numbers of shares)	31 August 2021	31 August 2020
Outstanding at begining of the period	226,140	101,731
Allocated during the period	35,853	152,767
Lapsed during the period		(28,358)
Outstanding at end of period	261,993	226,140

5. Other information

5.1 Off-balance sheet commitments

Guarantees

At 31 August 2021, the Group's off-balance sheet commitments were as follows:

Commitments given in connection with the implementation of the new syndicated loan:
- Pledge of shares under French law on OVH Group shares;
- Mortgage under Canadian law on the shares of Holding OVH Canada Inc.;
- Mortgage under Canadian law on the shares of OVH Infrastructures Canada Inc.;
- Pledge under US law on the shares of OVH Holding US Inc.;
- Guarantee deed for bonds in euros.

At 31 August 2020, the Group's off-balance sheet commitments were as follows:

Commitments given in connection with the implementation of the new syndicated loan:
- Pledge of shares under French law on OVH Group shares;
- Mortgage under Canadian law on the shares of Holding OVH Canada Inc.;
- Mortgage under Canadian law on the shares of OVH Infrastructures Canada Inc.;
- Pledge under US law on the shares of OVH Holding US Inc.;
- Guarantee deed for bonds in euros.

5.2 Statutory Auditors' fees

	Grant Thornton		KPMG		TOTAL	
(in thousand euros)	2021	2020	2021	2020	2021	2020
Statutory audit, certification, review of financial statements	418	180	376	277	794	458
OVH Groupe	173	67	154	74	327	141
Fully consolidated subsidiaries	245	114	223	203	468	317
Services other than the certification of financial statement	1,112	22	1,217	136	2,329	158
OVH Groupe	1,059	22	1,217	136	2,276	158
Fully consolidated subsidiaries	53				53	0
TOTAL	1,530	202	1,593	414	3,124	616

5.3 Transactions with associates and other related parties

Transactions with related parties correspond to transactions concluded with:

- SCI OVH, an unconsolidated entity owned up to 14% by the Group, leases premises to the Group and is controlled by one of its managers;
- AixMétal, a non-consolidated entity controlled by Group shareholders (Klaba family), is a supplier of metal parts to the Group;
- SCI Immostone, an unconsolidated entity controlled by Group shareholders (Klaba family), leases premises to the Group;
- KOSC, an associate accounted for using the equity method, is an XDSL service provider;
- Hubic SAS (now Shadow), an entity sold by the Group to Jezby Venture SAS, and controlled by a Group shareholder (Octave Klaba), is also a customer of the Group;
- In addition, SCI Immolys, an unconsolidated entity controlled by Group shareholders (Halina and Henryk Klaba), leases premises to the Group. The impacts in the financial statements are not material.

All related-party transactions are presented below.

(in thousand euros)	SCI OVH	AixMetal	SCI Immostone	KOSC	SCI Immolys	Hubic	31 August 2021
Balance sheet							
Assets	3,268	4,367	1,993	43	383	1,849	11,903
Non-current liabilities	3,396	600	2,244	-	384	-	6,624
Income statement						-	-
Revenue	-	-	-	-	-	4,473	4,473
Operating expenses	(753)	(6,730)	(344)	-	(46)	-	(7,873)
Financial result	(77)	-	(59)	-	(3)	-	(140)

(in thousand euros)	SCI OVH	AixMetal	SCI Immostone	KOSC	SCI Immolys	Hubic	31 August 2020
Balance sheet							
Assets	3,967	84	2,395	2,743	20	-	9,209
Non-current liabilities	4,103	194	2,542	-	19	-	6,858
Income statement						-	-
Revenue	-	-	-	125	-	-	125
Operating expenses	(747)	(4,738)	(352)	14,309	(24)	-	8,448
Financial result	(96)	-	(69)	-	(1)	-	(166)

5.4 Compensation of key executives

The Group's main executives correspond to the management team, which includes the following people:

- Chairman
- Chief Executive Officer
- Chief Financial Officer
- Director of Operations
- Product and Technologies Director
- Industry Director
- Service delivery Director
- Legal Director
- Human Resources Director
- Sales Director
- Marketing and Digital Director
- Customer Service Director
- Vice-Chief Executive Officers

The compensation of the main executives recorded in the income statement during the period (including social security contributions and excluding social contributions on the allocation of free shares) is as follows:

(in thousand euros)	31 August 2021	31 August 2020
Short-term employee benefits	6,942	7,525
Post-employment benefits	(4)	93
Termination benefits	144	-
Share-based payments	545	3,717
Compensation of executives	7,627	11,335

5.5 Group scope

The Group’s scope is detailed below.

		2021		2020	
Country	List of consolidated companies	Percentage of interest	Consolidation method [1]	Percentage of interest	Consolidation method [1]
Germany	OVH DCD Data Center Deutschland GmbH	100%	FC	100%	FC
	OVH BSG GmbH	100%	FC	100%	FC
	OVH GmbH	100%	FC	100%	FC
Australia	Data Center Sydney Pty Ltd.	100%	FC	100%	FC
	OVH Australia Pty Ltd.	100%	FC	100%	FC
Canada	OVH Serveur Inc.	100%	FC	100%	FC
	OVH Technologies Inc.	100%	FC	100%	FC
	OVH hébergement	100%	FC	100%	FC
	OVH Infrastructure Canada Inc.	100%	FC	100%	FC
	Holding OVH Canada Inc.	100%	FC	100%	FC
Spain	OVH Hispano SL	100%	FC	100%	FC
	Altimat Spain S.L.	100%	FC	100%	FC
United States	Vint Hill llc Data center	100%	FC	100%	FC
	OVH Holding US Inc.	100%	FC	100%	FC
	OVH Data US LLC	100%	FC	100%	FC
	OVH US LLC	100%	FC	100%	FC
	Data Center West Coast LLC	100%	FC	100%	FC
	OpenIO Inc.	100%	FC	100%	FC
	BuyDRM	100%	FC	-	-
France	**OVH Groupe S.A.S (OVH Groupe S.A since the 28 september 2021)**	**100%**	**Parent company**	**100%**	**Parent company**
	OVH SAS	100%	FC	100%	FC
	Ortoncourt wind power plant	-	-	100%	FC
	Media BC	100%	FC	100%	FC
	OpenIO	-	-	100%	FC
	DDIS	-	-	85%	FC
	KOSC	41%	EM	41%	EM
Finland	OVH Hosting OY	100%	FC	100%	FC
India	OVHTECH R&D (India)	100%	FC	100%	FC
Ireland	OVH Hosting Ltd.	100%	FC	100%	FC
	OVH BSI Ltd.	100%	FC	100%	FC
Italy	Altimat Italy Srl	100%	FC	100%	FC
	OVH Srl	100%	FC	100%	FC
Lithuania	OVH UAB	100%	FC	100%	FC
Morocco	OVH Hosting SARL	100%	FC	100%	FC
The Netherlands	OVH BV	100%	FC	100%	FC
Poland	OVH Sp. Zoo	100%	FC	100%	FC
	Data Center Ozarow Sp. Zoo	100%	FC	100%	FC
Portugal	OVH Hosting Sistemas Informaticos Unipessoal Lda	100%	FC	100%	FC
United Kingdom	OVH Ltd.	100%	FC	100%	FC
	Data Center Erith Ltd.	100%	FC	100%	FC
	OVH BSUK Ltd.	100%	FC	100%	FC
Senegal	OVH SARL	100%	FC	100%	FC
Singapore	Altimat Data Center Singapore Pte Ltd.	100%	FC	100%	FC
	OVH Singapore Pte Ltd	100%	FC	100%	FC
Czech Republic	OVH CZ Sro	100%	FC	100%	FC
Tunisia	OVH SARL	100%	FC	100%	FC
	OVH Tunisie SARL	100%	FC	100%	FC

[1] FC: Full consolidation / EM: Equity method