

REGUS GROUP PLC

REGUS RECOVERY ON TRACK

Chertsey, UK, 14 March 2005, Regus Group plc (LSE: RGU)

Regus Group plc, the global office outsourcing company, announces audited results for the twelve months ended 31 December 2004.

Financial results (1)	2004	2003	Change
£m (except EPS and REVPAW)			Inc HQ
Turnover	312.2	256.6	+55.6
Centre contribution	44.6	16.9	+27.7
Group operating loss	(3.3)	(28.2)	+24.9
Loss before interest and tax	(6.5)	(25.5)	+19.0
Adjusted profit/(loss) before interest and tax (2)	4.1	(25.8)	+29.9
Loss per share (p)	(0.6)	(4.7)	+4.1
Adjusted earnings /(loss) per share (p) (2)	0.3	(4.7)	+5.0
REVPAW (£) (3)	5,252	4,614	+638

Notes

(1) 2004 includes HQ figures since its acquisition on 20 August 2004. For Regus like for like revenues see Financial Review.

(2) Adjusted profit before interest and tax and EPS is stated before charging exceptional items of £8.6 million (2003: £6.4 million); amortisation of goodwill of £2.0 million (2003: £Nil) and deducting the profit on sale of subsidiaries of £0.1 million (2003: £6.6 million).

(3) REVPAW = Annualised revenue per available workstation.

Highlights

- Q4 occupancy up 10% to 77% (Q4 2003: 70%)
- 2004 annualised REVPAW up 14% to £5,252 (2003: £4,614)
- £163.5M (\$302.5m) acquisition and successful integration of HQ Global Holdings Inc.
- Synergies from HQ acquisition ahead of schedule
- Strong cash generation, closing cash £82.3m
- £10.5m (\$20m) early repayment on £57.9m (\$110m) term debt scheduled for April 2005

Mark Dixon, Chief Executive Officer, Regus Group plc, commented:

"Regus made further strong progress during 2004. Trading in the final quarter was particularly good, with the forward order book at record levels providing a solid platform for 2005. With the acquisition of HQ now successfully integrated, delivering synergies ahead of schedule, Regus is well positioned for continued growth in revenues, profits and cash generation during 2005."



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A presentation for analysts will be held at City Point, 1 Ropemaker Street, London EC2Y 9HT at 11.00am today, Monday 14 March 2005. Please call Claire Bott of Financial Dynamics on 020 7269 7291 for further details.

2004 OPERATIONAL REVIEW

The benefits of the changes put in place at Regus over the past two years have been evidenced by the improved results achieved in 2004. The thorough overhaul of our business undertaken in 2003 and the restructuring measures implemented thereafter have delivered a platform for growth in revenues, profits and cash generation. We enter 2005 with a record forward order book, customer satisfaction at an all-time high, renewal levels improved by approximately 13% year on year and our costs firmly under control.

Last year saw a clear shift in our focus towards the US where, following the successful acquisition and integration of HQ Global Holdings Inc, acquired in August 2004 for £163.5 million (\$302.5 million), we now generate approximately 60 per cent of Group revenues. Reflecting this change in focus, the Company's Chief Executive, Mark Dixon, relocated to the US in 2003 to drive the development of the business in the US and subsequently to lead the integration of HQ. Against a continuing backdrop of favourable economic conditions, Regus is well placed to achieve further growth in the US and will benefit from the dual branding that HQ brings to its service offering in that market.

We have seen good growth in Asia Pacific in 2004 and we have opened new offices in Shanghai, Sydney and Korea. Performance in Europe, however, has been slower and we have taken steps in The Netherlands and Germany to rationalise our portfolio, exiting out of under performing inventory where necessary.

We also invested significantly in our products last year and expect to see the benefits of this in 2005 and beyond. While workstation and related services comprise the majority of our revenues, our meeting room business has also been expanded, attracting major deals from both government and the private sector, and we have also grown our Virtual Office business by applying dedicated resources. These businesses are experiencing high teen year on year growth and we expect both of them to contribute to like for like growth in revenues and profits this year.

There is an increasing trend amongst customers to outsource their business space and, as the global leader in office outsourcing, Regus is well placed to benefit from this trend. We have also seen similar growing demand from government departments who recognise the benefits of flexibility and ease of use that office outsourcing can bring. With this increasingly diversified customer base, Regus looks forward with confidence to 2005.

Q4 review

We delivered an excellent fourth quarter with revenues of £105.5 million (2003: £64.2m) and EBITDA (pre exceptional items, joint ventures and associate) of £16.5 million (2003: £4.8m).

Occupancy rose to 77% in the quarter and we saw improvement in pricing on both new sales and renewals over the corresponding period last year.

Year-on-year global enquiries, excluding HQ, in the fourth quarter have risen by 21% through more focused marketing activities. Our substantial investment in new media channels, such as search engine optimisation and marketing, has played a vital part in increasing enquiries, reducing cost per enquiry and improving return on investment.

FINANCIAL REVIEW

The following table presents the Group's revenue, centre contribution before exceptional items and workstations (i.e. weighted average number of available workstations) by geographic region. The table also shows the split between Regus and HQ performance.

Segmental analysis						
(£ million, except workstations)						
	2004			2003		
	Revenue	Centre Contribution	Available Workstations	Revenue	Centre Contribution	Available Workstations
Americas Regus	79.0	4.8	18,238	80.2	(4.1)	20,525
HQ	55.7	11.0	9,347	---	---	----
Americas	134.7	15.8	27,585	80.2	(4.1)	20,525
EMEA (a)	149.6	27.4	27,431	148.4	13.8	30,831
Asia Pacific	25.2	5.3	4,435	24.2	3.4	4,262
	<u>309.5</u>	<u>48.5</u>	<u>59,451</u>	<u>252.8</u>	<u>13.1</u>	<u>55,618</u>
UK fee (b)	2.7	2.7	-	3.8	3.8	-
Group	<u>312.2</u>	<u>51.2</u>	<u>59,451</u>	<u>256.6</u>	<u>16.9</u>	<u>55,618</u>

(a) EMEA represents Europe (excluding UK), Middle East and Africa

(b) UK fee is management income for services provided to the UK Associate

The table below shows total revenues and profits of the Regus Group as well as the separate contributions of Regus and HQ.

Financial results £m (except REVPAW)	2004			2003
	Total	HQ	Regus	Regus
Turnover	312.2	55.8	256.4	256.6
Centre contribution	44.6	11.0	33.6	16.9
Group operating (loss)/profit	(3.3)	3.3	(6.6)	(28.2)
(Loss)/profit before interest and tax	(6.5)	3.3	(9.8)	(25.5)
Adjusted profit/(loss) before interest and tax	4.1	6.3	(2.3)	(25.8)
REVPAW (£)	5,252	5,970	5,117	4,614

Workstations

The Group has seen a significant improvement in workstation utilisation in 2004 with average occupancy for the year improving to 75% (2003: 63%). This has been achieved through a combination of capacity reductions (10% reduction in inventory) and a 6% increase in the number of occupied workstations on a like for like basis excluding the impact of HQ. Workstation occupancy of the existing Regus US business increased to 82% (2003:66%). HQ has operated at 80% occupancy since acquisition. New sale and renewal prices grew 14% and 3% respectively on the average of 2003.

Revenue

Revenue of £312.2 million (2003: £256.6 million) was 22% above last year, principally due to the acquisition of HQ, which was completed in August 2004. Our reported results (excluding the impact of HQ) were affected by the weakening dollar and the reduction of inventory by approximately 5,000 less available workstations in the year. Compared to 2003, sterling has appreciated by 12% against the US dollar. At constant rates, Regus revenues for the year increased by 5%.

Revenue for the Americas was £54.5 million higher than last year due to the acquisition of HQ. Setting aside the effect of the acquisition, underlying revenues at constant currency increased by 8%. Strong economic activity coupled with the economic benefits of integrating our back office and sales force has improved operational performance and profitability.

EMEA revenue of £149.6 million (2003: £148.4 million) was achieved despite a 11% capacity reduction in the region. Underlying revenues at constant currency increased by 3%. We have continued to optimise our inventory base in this region by addressing those centres trading below their potential. As discussed in our December trading update, additional plans are in place to improve profitability in this region, particularly in The Netherlands and Germany, through the removal of excess capacity and continued restructuring of our cost base.

Asia Pacific revenues of £25.2 million were £1.0 million (4%) higher than last year (2003: £24.2 million). New centre openings generated £0.7 million of revenue in the year, while currency had an adverse impact of £1.5 million. Underlying revenues increased by 10% on a constant currency basis.

Centre contribution

Centre contribution pre exceptional costs increased by £34.3 million to £51.2 million (2003: £16.9 million). This represents a centre contribution margin of 16% (2003: 7%). After exceptional costs of £6.6m, centre contribution was £44.6m. The improvement in centre contribution has been driven by a combination of increasing local revenues on reduced inventory and a lower cost base, which has benefited from operational improvements and cost control programmes.

The Americas region accounted for £15.8 million of the £51.2 million, with HQ contributing £11.0 million in the four months since acquisition. The restructuring of Regus' operations in the USA, started in 2003 is now largely completed.

Centre contribution in EMEA increased from £13.8 million to £27.4 million, representing a margin of 18% of turnover (2003: 9%). This improvement was principally realised through a re-alignment of the cost base and better market conditions. Centre contribution in Asia Pacific increased by 53% to £5.3 million.

When compared with 2003, total costs (excluding HQ) were reduced by £23.7 million or 10% to £216.0 million (2003: £239.7 million). More importantly we have reduced costs without sacrificing the quality of our customer service.

Administration expenses and exceptional items

Administration expenses of £43.9 million were 4% down on 2003 even after including HQ administration expenses of £4.6 million and adjusting for the effect of £2.1 million one-off items benefiting 2003.

Results for the year include exceptional items of £8.6 million. Centre contribution includes a charge of £6.6 million relating to an onerous contract provision of £3.4 million and a fixed asset impairment of £3.2 million. Administration expenses include a charge of £2.0 million comprising HQ integration costs of £2.8 million offset by the release of prior year restructuring provisions of £0.8 million.

Adjusted profit and earnings per share pre exceptional items and goodwill amortisation

Profit before interest and tax, adjusted for exceptional items, goodwill amortisation and profit on disposal of subsidiaries was £4.1 million, a £29.9 million improvement on the prior year. This was achieved through a £23.5 million reduction in centre costs and a contribution of £6.4 million from HQ.

Adjusted earnings per share were 0.3p (2003: 4.7p loss per share).

Liquidity and capital resources

Cash at bank and in hand at 31 December 2004 was £82.3 million (2003: £85.0 million) of which £64.1 million (December 2003: £64.8 million) is readily accessible.

Indebtedness (excluding finance leases) at 31 December 2004 was £64.1 million (2003: £9.2 million). The Group had outstanding finance lease obligations of £13.2 million (2003: £17.6 million), of which £7.3 million is due within one year.

Acquisition of HQ

In August 2004 we consolidated our position as the No 1 serviced office provider in the USA with the acquisition of HQ for £163.5 million (\$302.5 million) financed through new debt facilities and a 1 for 4 rights issue to raise £119.0 million, net of expenses.

The integration of HQ is substantially complete and we are very pleased to have achieved this well ahead of our original timetable of 18 months. As a result the costs of integration and any associated disruption have been minimised. In addition the financial benefits we had previously estimated have started to accrue earlier. We achieved £10.3 million (\$19.6 million) of annualised synergies in the period to 31 December 2004. This compares favourably against our original target of synergies of at least \$20.0 million by the end of 2005. Our synergies have come mainly from headcount reduction (\$11.3 million), procurement savings (\$5.2 million), elimination of cost duplication (\$2.4 million) and other general savings (\$0.7 million). Headcount reduction involved the loss of 69 corporate employees and 45 centre staff.

Our increased capacity has allowed us to strengthen our purchasing power and leverage better deals with suppliers. 70% of the \$5.2 million procurement savings have been achieved through renegotiating contracts with telecom and courier providers. Elimination of costs have been realised through consolidating insurance policies, brokers and financing arrangements. The removal of management fees and directors' fees incurred by HQ as a standalone operation accounted for \$0.8 million of the \$2.4 million cost eliminations. Other savings amounting to \$4.4 million of which \$3.7 million is to be delivered in 2005 encompasses further headcount reductions and savings arising from property negotiations.

Overall, the integration costs incurred during the year were £2.5 million. We expect to incur a further £3.5 million (\$7 million) in 2005 against a total original estimate of £8 million (\$15 million).

Since acquisition, HQ has generated revenues of £55.7 million and an underlying profit pre exceptional items and amortisation of goodwill of £10.8 million. Total revenues of HQ in 2004 were £153.5 million (translated at an average rate for the period). In addition to the cost synergies above we have benefited from cross-selling opportunities as evidenced by contract wins with American Express, NASA and American Home Mortgage.

We now have the two leading brands in the industry in the US that are working effectively together, able to offer more choice for the customer and attract more new customers to our portfolio.

International Financial Reporting Standards

For the period commencing 1 January 2005, Regus will report its financial results in accordance with International Financial Reporting Standards ("IFRS"). The transition date for adoption of IFRS is determined in accordance with IFRS 1, *First time Adoption of International Financial Reporting Standards*, and has been determined as 1 January 2004. The consolidated results of Regus converted from a UK Generally Accepted Accounting Principles (UK GAAP) basis onto an IFRS basis for the year ended 31 December 2004, together with an explanation of the adjustments, will be presented in a separate announcement before the issuance of our interim results.

Outlook

The reorganisation of our business has created a platform for growth and improving profitability and, following an excellent fourth quarter last year and with the acquisition of HQ now successfully integrated, we have strong momentum going into 2005. Our forward order book is some £10 million higher than at the same period last year and we have seen a substantial rise in enquiry levels as well as a reduction of discounting for new sales. Costs remain firmly under control.

In the USA, our largest market, there is clear evidence of increasing activity levels and the outlook in Asia-Pacific is similarly very positive. During 2005, we will look selectively to open new centres in both these regions to address rising demand. Although the outlook in Europe is less certain, we are making steady progress in our key countries and where necessary are addressing those centres trading below their potential.

We have invested substantially in the business over the past year, particularly in the acquisition of HQ, but also in our meeting room and Virtual Office businesses and we expect these to contribute significantly to our performance in the coming year. We will also continue to manage our property portfolio actively, taking advantage of lease renewals to realign our cost base and remove excess or unprofitable capacity.

With the current levels of occupancy and good pricing momentum into 2005, the Board is confident that Regus has a solid platform in place for strong growth in revenues, profits and cash during 2005.

Consolidated profit & loss account

	2004		2003	
	<u>Continuing operations</u>			
For the year ended 31 December	£ '000	£ '000	£ '000	Total Restated £ '000
Turnover (including share of joint ventures and associate)	327,547	55,819	383,366	324,904
Less: share of turnover of joint ventures	(5,485)	-	(5,485)	(5,501)
Less: share of turnover of associate	(65,667)	-	(65,667)	(62,822)
Group turnover	256,395	55,819	312,214	256,581
Cost of sales (centre costs) before exceptional items	(216,169)	(44,798)	(260,967)	(239,683)
Exceptional cost of sales	(6,620)	-	(6,620)	-
Cost of sales (centre costs) after exceptional items	(222,789)	(44,798)	(267,587)	(239,683)
Gross profit (centre contribution)	33,606	11,021	44,627	16,898
Administration expenses before exceptional items and goodwill amortisation	(39,270)	(4,580)	(43,850)	(38,736)
Exceptional administration expenses	(967)	(1,028)	(1,995)	(6,355)
Goodwill amortisation	-	(2,037)	(2,037)	-
Administration expenses after exceptional items and goodwill amortisation	(40,237)	(7,645)	(47,882)	(45,091)
Group operating (loss)/profit	(6,631)	3,376	(3,255)	(28,193)
Share of operating loss in joint ventures			(653)	(213)
Share of operating loss in associate			(2,684)	(3,722)
Total operating loss			(6,592)	(32,128)
Profit on sale of subsidiaries			133	6,585
Loss on ordinary activities before interest			(6,459)	(25,543)
Net interest payable and similar charges			(2,190)	(4,397)
Loss on ordinary activities before tax			(8,649)	(29,940)
Tax on loss on ordinary activities			2,887	2,068
Loss on ordinary activities after tax			(5,762)	(27,872)
Equity minority interests			382	885
Retained loss for the financial year			(5,380)	(26,987)
Earnings/(loss) per ordinary share (pence)				
Basic and diluted			(0.6)	(4.7)
Basic and diluted before exceptional items; profit on sale of subsidiaries and goodwill amortisation			0.3	(4.7)

Balance sheets

	Group		Company	
	2004	2003 <i>Restated</i>	2004	2003
As at 31 December	£'000	£'000	£'000	£'000
Fixed assets				
Intangible assets	129,481	-	-	-
Tangible assets	78,137	67,136	-	-
Investments				
Investments in subsidiaries	-	-	304,313	29,256
Investment in associate	6,142	8,361	-	-
Other investments	5	5	-	-
	6,147	8,366	304,313	29,256
Current assets				
Stock	187	144	-	-
Debtors: amounts falling due after more than one year	5,181	873	-	-
Debtors: amounts falling due within one year	76,771	62,290	77,873	4,651
Cash at bank and in hand	82,324	85,001	21,179	50,163
	164,463	148,308	99,052	54,814
Creditors: falling due within one year	(167,351)	(134,189)	(167,655)	(414)
Net current (liabilities)/assets	(2,888)	14,119	(68,603)	54,400
Total assets less current liabilities	210,877	89,621	235,710	83,656
Creditors: falling due after more than one year	(78,289)	(34,190)	-	-
Provision for deficit on joint ventures				
Share of gross assets	4,109	5,076	-	-
Less: Share of gross liabilities	(5,794)	(6,073)	-	-
	(1,685)	(997)	-	-
Provisions for liabilities and charges	(21,908)	(52,554)	-	-
Net assets	108,994	1,880	235,710	83,656
Capital and reserves				
Called up share capital	49,290	39,442	49,290	39,442
Share premium account	153,498	44,364	153,498	44,364
Other reserves	(22,709)	(22,711)	-	-
Profit and loss account	(69,746)	(58,139)	32,922	(150)
Shareholders' funds	110,333	2,956	235,710	83,656
Equity minority interests	(1,339)	(1,076)	-	-
Total capital employed	108,994	1,880	235,710	83,656

Shareholders' funds includes amounts relating to both equity and non-equity interests.

The restatement of 2003 results is due to the adoption of UITF 38 'Accounting for ESOP Trusts'

Approved by the Board on 11 March 2005

Mark Dixon
Chief Executive

Consolidated cash flow statement

	2004	2003
		<i>Restated</i>
For the year ended 31 December	£ '000	£ '000
Operating activities		
Net cash inflow/(outflow) before exceptional operating items	24,228	(8,754)
Net cash outflow from exceptional operating items	(31,051)	(5,868)
Net cash outflow from operating activities	(6,823)	(14,622)
Returns on investments and servicing of finance		
Interest received	1,712	797
Interest paid	(2,766)	(1,750)
Interest on finance leases	(537)	(3,350)
Net cash outflow from returns on investment and servicing of finance	(1,591)	(4,303)
Tax paid	(1,569)	(1,951)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(5,305)	(8,445)
Proceeds on disposal of tangible fixed assets	608	3,345
Net cash outflow from capital expenditure and financial investments	(4,697)	(5,100)
Acquisitions and disposals		
Purchase of subsidiary undertakings	(173,741)	-
Net cash at bank and in hand acquired with subsidiaries	10,758	53
Proceeds on disposal of subsidiary undertakings	-	6,695
Net cash at bank and in hand disposed with subsidiaries	(12)	(1,137)
Investment in joint ventures	-	(412)
Net cash (outflow)/inflow from acquisitions and disposals	(162,995)	5,199
Cash outflow before management of liquid resources and financing	(177,675)	(20,777)
Management of liquid resources	(6,443)	8,511
Financing	171,549	47,616
(Decrease)/increase in cash	(12,569)	35,350