Regus plc

Annual Report & Accounts 2001

Regus

Contents

OVERVIEW

Regus is the world's leading provider of serviced office space. Its global network of business centres spans 50 countries and allows Regus customers to outsource completely, or in part, their workspace requirements. By December 2001, Regus operated some 92,232 workstations in 411 centres in some 200 cities worldwide.

Cape Town

MYVIEW
Statement from the Chairman

2001 was a challenging year for the global economy and for Regus.

Faced with a rapid deterioration in global economic conditions, we undertook a fundamental reassessment of our business model. Focusing on pricing, occupancy and cost, we took swift, radical action to take some £60 million out of the company's cost base – effectively halving our overheads.

A new strategy of discounting prices for longer-term contracts was also introduced. We improved our customer value proposition by introducing all inclusive business service packages and day pricing.

We closed the year with a strong forward order book. Inquiry levels also stabilised as global companies continue to look to Regus for cost-effective, flexible, easy to use, quality solutions for their office requirements.

Results

Revenue for the year was up 22% at £512.6 million. Centre contribution before exceptional items decreased 22% to £77.8 million, with established centres continuing to return a margin of 25%.

Administrative expenses before exceptional items fell as a percentage of turnover to 18% (2000: 21%) and we recorded an operating loss before exceptional items of £19.0 million (2000: profit of £12.4 million).

In November, we announced an exceptional one-time charge totalling £90.5 million. This related to the costs of a major restructuring of our business including a reduction in workstation capacity (11% of available total), of which 40% is in the US; various asset write-downs; and a rationalisation of the workforce.

After exceptional items, the Group's operating loss for the year was £109.5 million (2000: profit of £2.9 million). The Group's EBITDA for the year was £45.1 million (2000: £53.0 million).

Our people

Tragedy struck Regus in September when we lost five team members in the terrorist attack on the World Trade Centre in New York. Ninety of our clients also perished on the 93rd floor of the South Tower.

I would like to pay personal tribute to Ingeborg Lariby, Rochelle Snell, Margaret Echtermann, Vanessa Langer and Tatiana Ryjova for their dedication and courage.

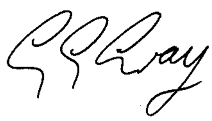
The global economic downturn forced us to reduce our workforce by 24% during the year. On behalf of the directors and shareholders, I want to thank all Regus people for their hard work, commitment and adaptability during what has been a difficult period of readjustment and change.

The future

Despite continuing economic uncertainty, it is our belief that the Regus proposition remains a compelling one, even in times of recession. The flexibility, cost-effectiveness, ease of use, quality and global coverage provided by Regus offer proven benefits to a wide variety of customers – from start-ups to SMEs and major corporates – looking for solutions, both long and short-term, to their property needs.

In support of this, our new strategy of trading price against term has led to a significant lengthening in our average customer tenancy period. At the same time, a number of global customers have begun to use Regus structurally – preferring to outsource their property requirements across the board rather than investing in costly and inflexible conventional space.

Overall, we ended the year lean and fit and ready for challenges ahead. We look forward to building on the many long-term relationships we have established with our customers and continuing our quest to offer them the very best solutions to their workspace requirements.



George Gray
8 March 2002

PREVIEW

During 2001, Regus recognised the challenges confronting the serviced office sector and took swift, radical action to meet them. As a result, the company was able to simplify and re-price its business offering, cut costs, re-engineer systems and ready itself for the economic conditions forecast for 2002.

COST EFFECTIVE

San Francisco

Products and initiatives

During 2001, we detected a global trend for organisations, ranging from start-ups through to multinationals, to switch to the structured outsourcing of their office accommodation requirements.

This trend was mirrored in research from the Chartered Institute of Purchasing and Supply (CIPS) published in association with Regus. The True Cost of the Flexible Office revealed that over the past five years serviced offices in the UK had become even more cost-effective for longer periods, for larger numbers of people and over a wider geographic spread, compared with conventional lease arrangements.

Because customers are increasingly demanding the flexibility, cost-effectiveness, ease of use, quality and global coverage provided by Regus, we introduced a number of initiatives during the year to help meet that demand:

- **all inclusive Business Service packages**
- **day and hourly pricing**
- **a card-based Regus Global Membership Programme for Corporate Touchdown**
- **a new Business Continuity product offering**
- **a Global Meeting Room Directory and Agent Hotline**
- **a global agreement with Genesys for state-of-the-art audio conferencing services**

Videoconferencing provides a stress-free and flexible alternative to business travel. As the world's leading independent provider of videoconferencing services, Regus saw an increase in demand for its services in the aftermath of 11 September.

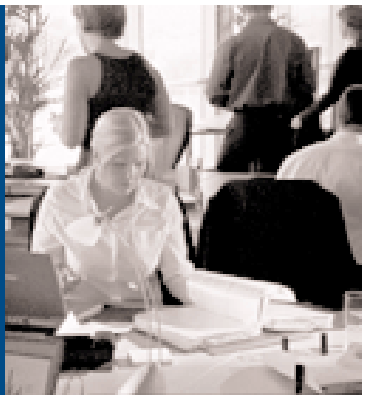
More generally, the drive to reduce capital expenditure in the second half led Regus to redouble its efforts in support of its franchising strategy (first announced in January 2001). The signing of major deals with the HAK Group in the Middle East and Business Spark in the UK towards the end of the year opened a new chapter in the company's history. With a strong pipeline of potential franchisees, the expectation is that within five years Regus will have a significant proportion of its global network franchised. Joint ventures and management contracts are also expected to play a significant role going forward.

CUSTOMER**VIEW**

"Once we factored in fit-out costs to bring a building up to our required specification, we found that the cost of taking the same amount of fully serviced space at the Regus business centre at London's Chiswick Park was not only comparable, but our start-up costs were greatly reduced."

Olivier Strilka, *Managing Director*, France Telecom R&D UK

France Telecom R&D has taken 100 workstations in a five-year deal



Sales and marketing

The Regus customer contact management system was remodelled during the year and has provided the company with the basis for a far-reaching review of its sales and marketing functions. The enhancement of systems and procedures is expected to continue into 2002.

Regus reinforced its market leadership during the year. The company was the recipient of three top awards at The 2001 UK Property Awards including the International Property Achievement Award for Regus, the Property Personality of the Year Award and the Property Entrepreneur of the Year Award for Mark Dixon.

In addition to its work with the Chartered Institute of Purchasing and Supply, Regus demonstrated further "thought leadership" by commissioning research into the use of email communication and funded How Britain Works, a survey of HR professionals looking at the links between staff recruitment and retention and work environment.

Regus also continued to invest in its well-known international brand through high-profile sponsorship activities. The 2001 Regus London Film Festival was the most successful festival ever – attracting a record number of attendees and staging a record number of international film premieres. As a result, the Regus brand enjoyed extensive print and broadcast media exposure during the month of November. We expect to continue our sponsorship of the Regus London Film Festival in 2002.

The tragic events of 11 September led to the postponement of the Ryder Cup. However, as an Official Partner to the Ryder Cup, Regus will be continuing its sponsorship of this top global sporting event when the 2001 event is re-staged in Birmingham, England, in September 2002.

CUSTOMER**VIEW**

"We were very pleased when we found that the network of Regus centres matched our space and flexibility requirements and that centres were located almost everywhere we wanted to go."

Damien Belgeonne, *Group property manager*, FLAG Telecom
Flag Telecom has taken 86 workstations in a one-year deal

GLOBAL

Singapore

EASY TO USE

New York

Operations

Regus now has more than 5,800 customers around the world and more than 54,000 people work at Regus centres around the world on a daily basis.

During 2001, we added another 71 centres and our first 16 franchised centres. We increased the number of countries in which we operate to 50 (2000: 48). We added 23,502 workstations and 775 franchised workstations, during this period. We also added 3,885 new workstations through the expansion of existing centres, bringing the year-end total to 92,232.

The bulk of the growth was in the US, where we added 8,102 workstations, with the balance mainly in the major towns and cities in which we already operated. We also entered Canada and the United Arab Emirates for the first time.

There were a number of well-publicised announcements during the year. These included the acquisition of Satellite/Skyport Conferences Centers in Holland and Belgium; and the acquisition of Stratis Business Centres Inc in the United States.

Key customer wins during the year included Hutchison 3G, Fujitsu Siemens, Centrica, Linklaters, France Telecom, Philip Morris, Royal Bank of Scotland, and Interbrew.

The corporate development team, which manages relations with major property owners worldwide, shifted its focus. In the face of economic downturn, much work is being done to restructure commercial arrangements to ensure a win-win outcome for Regus and property owners alike. A new priority is the development of relations with agents on a retained basis. This approach is expected to yield long-term benefits in terms of cost and efficiency of sale.

The abortive acquisition of HQ Global Workplaces resulted in an exceptional cost of £3.3 million. The closure of much of HQ's continental European network in the late autumn subsequently led to the transfer of customers to Regus in Austria, Spain and Germany.

CUSTOMER**VIEW**

"The cost-effectiveness and flexibility of outsourced space at the Regus centre is the perfect solution for us. The availability of high quality serviced space on flexible terms means we can move in easily and we don't incur any expensive start-up costs."

Ken King, *Head of Facilities*, Office of Fair Trading
The OFT has taken 90 workstations in a nine-month deal

Technology

Regus continued to invest heavily in IT, in particular in those projects that offer direct value to our customers. As a result, the Regus technology proposition now encompasses: tiered Internet access packages through RegusNet; an automatic on-line PC backup service; domain name registration and web-space services; managed email services; and on-site engineering support service for customers.

2002 will see the provision of PC's on desks and other hardware at highly competitive rates; an expanded suite of software applications and services; the launch of Regus Customer Business Portal offering on-line products and services along with local/community information services; customer intranet/extranet and other hosting services; and customer disaster recovery services.

Through technological innovation, we have also seen improved automation and efficiency in the business itself. This includes completion of the global roll-out of RegusNet and the Regus Windows2000 platform; the continued roll-out of the Regus eBusiness application suite, together with new management tools providing more timely and detailed monitoring and reporting of global occupancy, forward orders and revenues.

All-in-all, the delivery of these benefits depends upon a scalable, resilient, reliable and properly supported infrastructure. To help achieve this, we announced a landmark agreement with top technology suppliers in December. This agreement allows Regus to cut IT costs by outsourcing the management of its global data centre, local and wide area networks, hardware infrastructure, operating systems, help desk and engineering support, business continuity and e-business applications.

To achieve further cost savings for our customers, we re-negotiated supplier contracts and maintenance agreements, thereby enhancing our own buying power. We also reached new "voice agreements" with telecoms providers that have reduced call costs globally and reduced data bandwidth costs in core Regus regions.

We expect to see significant benefits for our business from the pilot and subsequent roll-out of our new integrated web-based inventory, reservation and billing system. Much work is also underway to reduce the administrative burden at centre-level and enable customer-facing staff to focus even more fiercely on the provision of quality service.

CUSTOMER**VIEW**

"The key benefits we derive from the business centre concept in general, and Regus in particular, can be summed up in the word 'flexibility'."

Patrick Van den Bogaert,
Office Services Manager, DHL
DHL has taken 237 workstations in a one-year deal

FLEXIBLE

Sydney

QUALITY

Paris

People

We recognise that the success of the Regus business depends to a large extent on the calibre and motivation of the people we employ. We have promoted a dynamic, high-work ethic with a strong culture of delivering excellent service to customers.

We regard all our employees as “team members”, irrespective of their functional title or status. We keep them informed of developments through a weekly email news sheet Regus News, through regular webcasts and an annual conference (which will be virtual for the first time in 2002). It is a credit to them that team members have been enthusiastic in helping us increase productivity at every level despite a company-wide salary freeze.

The Regus Open Learning Institute (ROLI), our company-wide web-based learning programme, has continued its success as a training tool. Since its launch, the content of the programme has expanded exponentially and ROLI now forms the keystone of our training and professional development activities.

In accordance with new European Union employment regulations on works councils, Regus convened its first Regus European Forum (REF) in December 2001. This involved some 21 company representatives. In future, the REF is expected to convene every four months.

At the end of 2001, we employed 2,466 people: 642 in the UK and Ireland; 972 in the rest of Europe; 529 in the Americas; 235 in the rest of the world; and 88 at Regus headquarters.

CUSTOMER**VIEW**

“We found that Regus just does not have any competition at this level of service and quality.”

Bernard Carey, *London Liaison Office Director*, BMW Group

The BMW Group has taken 21 workstations in a five-month deal

Financial review

Introduction

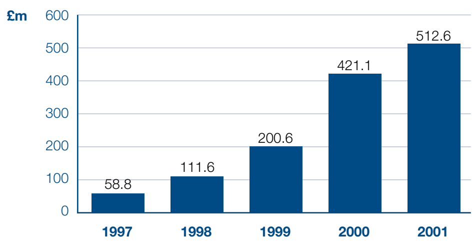
The Group recorded an operating loss of £19.0 million (2000: £12.4 million profit) before exceptional items on turnover of £512.6 million (2000: £421.1 million). After an exceptional charge of £90.5 million (2000: £9.5 million), the operating loss was £109.5 million (2000: £2.9 million profit). Overall, the year was characterised by a sharp economic downturn in the US in the first quarter, which subsequently deepened and spread to other markets during the second quarter. Rates of fill for new centres slowed as demand for office space declined and prices were impacted by competitive pressures.

Regus responded to the challenging environment by changing its business model and restructuring its cost base.

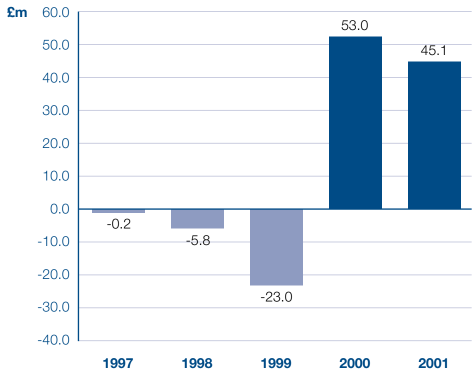
Restructuring

Regus undertook a major restructuring in 2001; the total cost base was reduced by approximately £60 million (annualised) and the workforce was reduced by a quarter. The related restructuring charge of £80.0 million comprises of £37.4 million for onerous lease provisions, £5.4 million redundancy costs and £4.6 million write-down of capitalised IT costs, as well as £32.6 million from the write-down in the investment in own shares.

Revenues



EBITDA before exceptional items



Results of Operations

The following table sets forth the Group's revenue, centre contribution (gross profit) before exceptional items and workstations (i.e. weighted average number of workstations) by geographic region.

Year ended 31 December

	2001			2000		
	Revenue	**Contribution**	**Workstations**	Revenue	Contribution	Workstations
			(in £ millions, except workstations)			
UK & Ireland	**213.6**	**59.4**	**23,524**	188.6	59.6	17,568
Rest of Europe	**151.9**	**24.9**	**26,089**	118.9	29.2	17,565
Americas	**113.7**	**(10.0)**	**21,494**	86.5	13.9	10,900
Rest of World	**33.4**	**3.5**	**5,433**	27.1	(2.4)	4,300
Total	**512.6**	**77.8**	**76,540**	421.1	100.3	50,333

The following table sets forth the Group's revenue, centre contribution (gross profit) before exceptional items and workstations by established vs. new centres.

Year ended 31 December

	2001			2000		
	Revenue	**Contribution**	**Workstations**	Revenue	Contribution	Workstations
			(in £ millions, except workstations)			
Established Centres	**410.8**	**103.1**	**51,932**	293.6	92.3	30,941
New Centres	**101.8**	**(25.3)**	**24,608**	127.5	8.0	19,392
Total	**512.6**	**77.8**	**76,540**	421.1	100.3	50,333

Revenue

Revenue on a global basis increased 22% to £512.6 million in 2001 from £421.1 million in 2000 with weighted average workstations increasing 52% to 76,540 in 2001 from 50,333 in 2000. As a result, total revenue per available workstation (REVPAW) decreased from £8,366 in 2000 to £6,697 in 2001. REVPOW (the total revenue per occupied workstation) fared better, with the reduction limited to 1% (falling from £11,230 in 2000 to £11,147 in 2001).

Revenue from established centres increased 40% to £410.8 million in 2001 and weighted average workstations in established centres increased 68% to 51,932. Accordingly, REVPAW in established centres decreased from £9,489 in 2000 to £7,910 in 2001 principally due to lower rates arising from longer term contracts. Revenue from new centres decreased 20% to £101.8 million in 2001 and workstations in new centres increased 27% to 24,608. REVPAW in new centres decreased from £6,575 in 2000 to £4,137 in 2001. Included in revenues in 2001 is £0.9 million (2000:£nil) of franchise income, derived from royalties and franchise fees.

Average occupied workstations increased during 2001 ending the year up 23% to 45,986 (2000: 37,497).

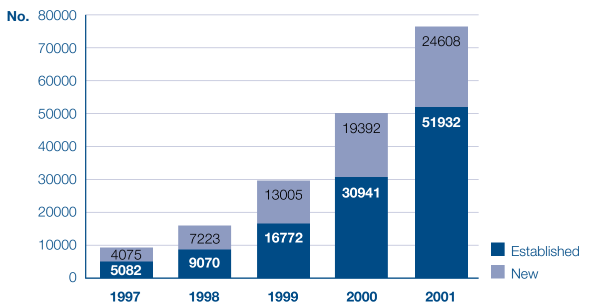
Centre Contribution (Gross Profit) before exceptional items

Centre contribution on a global basis decreased 22% from £100.3 million in 2000 to £77.8 million in 2001. This decrease reflects the increasing trend towards longer term contracts with the average contract increasing from 6.5 months to 11.1 months during 2001.

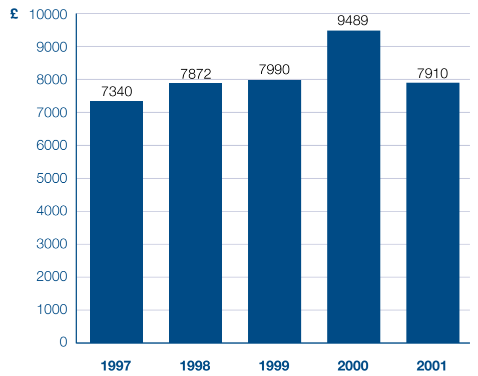
Centre contribution from established centres increased 12% to £103.1 million in 2001 primarily due to the 68% increase in workstations to 51,932. The centre contribution

Financial review *continued*

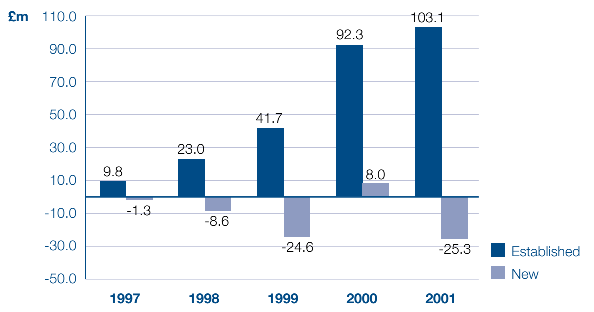
Available Workstations



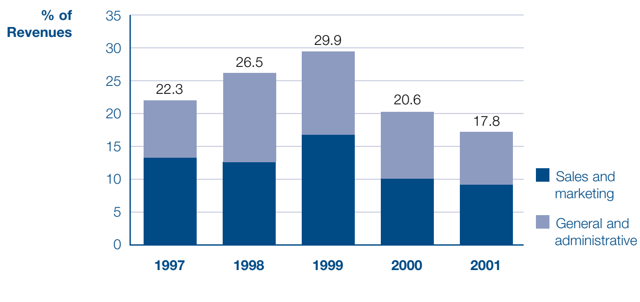
REVPAW - established centres



Contribution before exceptional items



Overheads



margin (centre contribution before exceptional items as a percentage of revenue) from established centres fell by 6% to 25% between 2001 and 2000. Centre contribution from new centres decreased to negative £25.3 million in 2001 from positive £8.0 million.

Administrative Expenses

Total administrative expenses before exceptional items increased 5% to £91.3 million in 2001. As a percentage of revenues, however, administrative expenses decreased from 21% in 2000 to 18% in 2001, reflecting increased efficiencies arising from Regus' strategy of focusing on countries and markets where it had existing centres and the restructuring. Sales and marketing costs increased 11% to £48.2 million in 2001 (or 53% of total administrative expenses) from £43.5 million in 2000 (or 50% of total administrative expenses). Regional and central overheads decreased 1% to £43.1 million in 2001 (or 47% of total administrative expenses) from £43.3 million in 2000 (or 50% of total administrative expenses).

Exceptional Item

As well as the restructuring costs detailed above, the £90.5 million exceptional item included the costs of the aborted merger with HQ (£3.3 million), the postponement of the 2001 Ryder Cup, for which Regus was a principle sponsor, (£2.3 million) and the write-down of goodwill on acquisitions (£4.9 million).

Net Interest Payable

Interest payable decreased substantially in 2001 compared to 2000 primarily due to interest payable on Regus' £100 million senior secured multi-currency secured loan facility which was repaid from the proceeds of the IPO in October 2000.

Tax on Loss on Ordinary Activities

Despite Regus' overall loss making position in 2000 and 2001, Regus provided for tax liabilities in both periods, primarily because tax liabilities arose on profits arising in the UK, Ireland, and seven continental European countries. However, these taxable profits could not be offset by tax losses in all other countries where Regus operates. The majority of Regus' operating companies have tax losses available to carry forward against future profits. In some countries, there are time restrictions on the carry forward of such losses. The group expects to adopt FRS 19 (Deferred tax) with effect from 1 January 2002.

Cash flow

Operating cash flow before exceptional items was £56.1 million in 2001 compared to £117.9 million in 2000. Decreased trading levels resulted in net working capital outflows of £2.7 million in the year. Capital expenditure in 2001 increased to £128.5 million of which £105.6 million was funded from cash resources and the balance through finance leases.

Convertible Bond Issue

The Directors felt that the business would be additionally protected by the creation of a cash reserve and raised £40m on 28 December 2001 by way of a convertible bond issue.

The option to convert the bond lies with Regus (unless the share price rises above 86.32 pence) and the Directors will closely monitor the trading performance and projected cashflows in order to be able to make an early decision to convert the bond if conditions require.

Treasury Management

The Group's treasury policy seeks to ensure that adequate financial resources are available for day-to-day operations while managing its currency, interest rate and counter-party credit risks. Group Treasury strategy and policy is developed centrally, with subsidiary companies being required to operate within a framework of controls approved by the Board. We do not engage in speculative transactions. Our policy on each of the major areas of treasury activity is set out below.

Currency translation

The results of the Group's foreign subsidiaries are translated into sterling at the average exchange rates for the period concerned. The balance sheets of foreign subsidiaries are translated into sterling at the closing exchange rates. Any gains and losses resulting from the translation are recorded in reserves where they are matched with the gains and losses on related borrowings, foreign exchange contracts, currency swaps or currency options, used to hedge the net assets of subsidiaries. Group Treasury makes proposals to a Treasury Risk Committee of the Board on a quarterly basis regarding the hedging policy for overseas assets and liabilities.

Currency transaction exposures

Currency transaction exposure arises where sales and purchases are transacted by a business unit in a currency other than its own, local, functional currency. The majority of the Group's businesses, however, sell to clients and pay suppliers in their local markets in their own functional currencies and as a result, have limited transaction exposure. Where this is not the case, it is our policy to cover material transactions as soon as they are committed and to use forward currency contracts to do so.

Funding and deposits

The Group continues to manage substantial cash balances. Outstanding borrowings comprise office equipment financed through finance leases as well as specific loans from certain property owners advanced on commercial terms. Wherever possible, these borrowings are matched to the local currency of the borrower.

Surplus funds are deposited in investment grade instruments that carry low credit risk and which are readily realisable.

Counter-party risk

The Group actively manages its relationships with a panel of high-quality financial institutions. Cash assets, borrowings and other financial instruments are distributed according to predetermined limits approved by the Board to control exposure to any particular institution.

Interest rate risk

The Group's policy is to borrow and invest funds using both fixed and floating interest rates. The Group manages interest rate risk using forward rates or interest rate swaps as appropriate to minimise the risk to the Group of adverse movements in interest rates.

Directors

George Gray
Independent Non-Executive Chairman, age 63

Dr Gray was appointed as a Non-Executive Director of Regus in August 1999. From 1987 until 1999, he was Executive Chairman of Serco Group plc. He was appointed Chairman of Serco on completion of the management buy out from RCA. He is also a Non-Executive Director of Misys plc. He is a member of the audit committee and remuneration committee and Chairman of the nomination committee.

Mark Dixon
Chief Executive, age 42

Founder of Regus. His vision of the future coupled with his entrepreneurial skill and drive have been responsible for the Group's dynamic growth over the past ten years. He is recognised as a major contributor to the growth of the serviced office industry. He is a member of the nomination committee.

Rudy Lobo
Executive Director and Company Secretary, age 45

Mr Lobo joined Regus nine years ago and was previously Group Finance Director. He is responsible for commercial issues, risk management and legal services. Previously, Mr Lobo was the Group Company Secretary of Medicom International Ltd, a publisher of medical journals, and a Director of several of its subsidiaries.

Stephen Stamp
Group Finance Director, age 40

Mr Stamp joined Regus in January 2000 from Shire Pharmaceuticals Group plc, where he was Group Finance Director. Prior to joining Shire in 1994, he was an assistant director of corporate finance at Lazard Brothers and before that spent four years at KPMG London, qualifying as a chartered accountant in 1987. He is also a non-executive director of Enact Pharma plc.

John Matthews
Independent Non-Executive Director, age 57

Appointed in 1995. He is also Chairman of Crest Nicholson plc and a director of Nationwide Accident Repair Services plc, Rotork plc and SDL plc.
A chartered accountant, he has held senior executive positions in investment banking and in industry. He is Chairman of the audit committee and remuneration committee, and a member of the nomination committee.

Roger Orf
Independent Non-Executive Director, age 49

Managing Director and founding partner of Pelham Partners, a property investment and advisory company, since 1995. Pelham Partners, working closely with Apollo Real Estate Advisors, has invested more than US$600 million of equity in 14 European countries. Prior to 1995, Mr Orf was in charge of Goldman Sachs' European real estate department. He is a member of the audit committee and the remuneration committee.

Auditors
KPMG Audit Plc
8 Salisbury Square
London EC4Y 8BB

Legal advisers to the Company as to English law
Slaughter and May
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London EC2V 5DB

Legal advisers to the Company as to US law
Davis Polk & Wardwell
99 Gresham Street
London EC2V 7NG

Bankers
NatWest Bank Plc
1 Princes Street
London EC2R 8PB

Financial advisers and stockbrokers
Merrill Lynch International
Ropemaker Place
25 Ropemaker Street
London EC2Y 9LY

Registrars
Capita IRG Plc
Bourne House
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Kent BR3 4TU

Registered office and headquarters
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Chertsey
Surrey KT16 0RS

Website
www.regus.com

Registered number
3548821

REVIEW

Directors' report

The directors present their report and the audited financial statements of Regus plc for the year ended 31 December 2001.

Principal activities

The Group is engaged in the provision of fully-serviced business centres. The Chairman's statement, the review of operations and the financial review on pages 2 to 17 describe the principal activities of the Group during 2001.

Business review and future developments

The loss on ordinary activities before taxation for the year ended 31 December 2001 was £110.1 million (2000: loss £3.9 million). An indication of future developments is given in the Chairman's statement.

Dividends

No dividend is proposed (2000: £nil).

Directors and directors' interests

The directors who held office during the year were :

M L J Dixon
S A Stamp
R J G Lobo
J W Matthews
R G Orf
G G Gray
R M Kuijpers (resigned 2 April 2001)

Details of the directors' interests and shareholdings are given in the Remuneration report on pages 25 to 27.

In accordance with the Articles of Association, R G Orf and S A Stamp retire by rotation and, being eligible, offer themselves for re-election at the Annual General Meeting.

Employees

It is the Group's policy to communicate with all employees and to encourage them to take a wider interest in the affairs of their employing company and the Group. This is done in a variety of ways, including electronic media, in-house journals, bulletins and briefing sessions.

The health and safety of employees is of paramount importance. Safety awareness is actively promoted in the working environment and is reviewed from time to time, in the light of good practice and developing legislation, in all businesses worldwide.

The Group is committed to the principle of equal opportunity in employment, regardless of a person's race, creed, nationality, sex, age, marital status or disability. Employment policies are fair, equitable and consistent with the skills and abilities of the employees and the needs of the Group's businesses. These policies ensure that everyone is accorded equal opportunity for recruitment, training and promotion. Where an employee becomes disabled while employed by a Group company, every effort is made to enable that person to continue in employment.

The number of employees and their remuneration are set out in note 5 to the financial statements.

Political and charitable donations

The Group made no political contributions in either 2001 or 2000. There were no donations to UK charities in 2001 (2000: £18,190).

Payment of creditors

It is the policy of the Group to agree terms of payment for its business transactions with its suppliers. Payment is then made in accordance with these, subject to the terms and conditions being met by the supplier. Trade creditor days of the Group for the year ended 31 December 2001 were 48 days (2000: 44 days). The Company does not follow any code or standard on payment practice. The Holding Company has no trade creditors.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs and of the profit or loss of the Company and Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Substantial shareholdings

The Company has been notified of the following holders of 3% or more of its issued share capital for the purposes of Section 198 of the Companies Act 1985, as at 8 March 2002:

Paramount Nominees Ltd[1]	**365,329,286**	**62.8%**
HSBC Trustee Jersey Ltd[2]	**23,140,000**	**3.99%**
Mourant and Co Trustees Ltd[3]	**18,120,670**	**3.12%**

[1] *The beneficiary is Maxon Investments BV. M L J Dixon owns 100% interest in Maxon (page 27).*

[2] *The beneficiary of half of this holding is R J G Lobo (page 27).*

[3] *These shares are held by Regus Employee Trust (note 22).*

Introduction of the Euro

The effects on the business of the introduction of the Euro were not significant. All costs were expensed to the profit and loss account.

Auditors

Pursuant to Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company and to authorise the directors to determine their remuneration is to be proposed at the forthcoming Annual General Meeting.

By order of the Board
8 March 2002

R J G Lobo Company Secretary
3000 Hillswood Drive
Chertsey
Surrey KT16 0RS
United Kingdom

Corporate governance

The Board of Directors is committed to maintaining the highest standards of corporate governance in line with the Combined Code, appended to the Financial Services Authority Listing Rules, which sets out the Principles of Good Governance and the Code of Best Practice. A summary of the Company's procedures for applying the principles and the extent to which the provisions of the Combined Code have been applied are set out below.

Board composition

The Board currently comprises three executive directors, and three independent non–executive directors, including a non-executive chairman. The Chairman of the audit committee, currently Mr J W Matthews, has acted as senior independent director since 1995. Mr R Kuijpers, an independent non-executive director, was also a member of the Board until 2 April 2001. During this period, he was also a member of the audit, nomination and remuneration committees. The Board schedules seven meetings each year, but arranges to meet at other times, as appropriate. It has a formal schedule of matters specifically reserved for its decision and approval. The Board is supplied with appropriate and timely information to enable it to discharge its duties and requests additional information or variations to regular reporting as it requires. A procedure exists for directors to seek independent professional advice at the Company's expense in the furtherance of their duties, if necessary. In addition, appropriate training is made available for all new directors to assist them in the discharge of their responsibilities. All directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. While all directors are expected to bring an independent judgment to bear on strategy, performance, resources (including key appointments) and standards of conduct, the independent non-executive directors were selected and appointed for this purpose. All directors submit themselves for re-election at least every three years and directors appointed during the period are required to seek re-election at the next AGM.

The independent non-executive directors understand that the executive directors will not automatically recommend their re-election.

Board committees

The Board has a number of standing committees, which all have written terms of reference setting out their authority and duties:

Audit committee – the members of this committee are Mr J W Matthews (Chairman), Dr G G Gray and Mr R G Orf (all independent non-executive directors). The audit committee meets as required, but not less than four times a year. Its responsibilities, in addition to those referred to under Internal Control, include a critical review of the annual and interim financial statements (including the Board's statement on internal control in the annual report) prior to their submission to the Board for approval, when a report from the committee is also given. The committee also reviews the scope and results of the internal and external audit and its cost-effectiveness and the independence and objectivity of the auditors. Although other directors, including the Group Finance Director, attend audit committee meetings, the committee can meet for private discussions with the internal and external auditors.

Nomination committee – the members of this committee are Dr G G Gray (Chairman) and Mr J W Matthews (both independent non-executive directors), and Mr M L J Dixon. The committee meets as required but not less than once a year. Its responsibilities include reviewing the Board structure, size and composition, nominating candidates to the Board to fill Board vacancies when they arise and recommending executive directors who are retiring by rotation to be put forward for re-election.

Remuneration committee – the members of this committee are Mr J W Matthews (Chairman), Dr G G Gray and Mr R G Orf (all independent non-executive directors). A statement setting out the role and responsibility of this committee and the Group's remuneration policy is shown on pages 25 to 26.

Going Concern

After making appropriate enquiries, the directors have a reasonable expectation that the Group as a whole has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Internal control

The Board acknowledges its overall responsibility for the Group's system of internal control and for reviewing the effectiveness of that system on a timely basis. The internal control processes have been designed to identify, evaluate and manage the key risks that the Group encounters in pursuing its objectives. Internal control processes within Regus plc encompass all controls, including financial, operational and compliance controls and risk management. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement.

The main Board conducts regular reviews of the Group's strategic direction. Country and regional strategic objectives, quarterly plans and performance targets for 2002 have been set by the executive directors and are regularly reviewed by the main Board in the context of the Group's overall objectives.

The control framework and key procedures which were in place throughout the year ended 31 December 2001 comprise the following:

- The executive directors ('the Group executive') normally meet monthly together with certain other senior executives to consider Group financial performance, business development and management issues. Directors of key operating companies meet regularly.
- Major business risks and their financial implications are appraised by the responsible executives as part of the budget process and these are endorsed by regional management. Key risks are reported to the Group Board and the audit committee. The appropriateness of controls is considered by the executives, having regard to cost/benefit, materiality and the likelihood of risks crystallising.
- Country and regional budgets, containing financial and operating targets, capital expenditure proposals and performance indicators, are reviewed by the Group executive and must support regional business strategies.
- Monthly reports on Group and regional performances are provided to the Group executive. Quarterly summaries and forecasts are presented to the Board and discussed at Group Board meetings. Performance against both budgets and objectives are reviewed with regional management, as are forecasts and material sensitivities. The Board regularly receives reports from key executives and functional heads covering areas such as forecasts, business development, strategic planning, legal and corporate matters.
- There is a Group-wide policy governing appraisal and approval of investment expenditure and asset disposals. Post-investment reviews are undertaken.
- Other key policies and control procedures (including finance, operations, and health and safety) having Group-wide application are available to all staff on web-based systems.

The Group's internal audit function reports to management on the Group's worldwide operations. Its budget, programme of work and its findings, including any material control issues and resultant actions, are reviewed by the audit committee.

To underpin the effectiveness of controls, it is the Group's policy to recruit and develop appropriately skilled management and staff of high calibre and integrity. High standards of business ethics and compliance with laws, regulations and internal policies are demanded from staff at all levels.

The directors have conducted a review of the effectiveness of the Group's system of internal controls. This review covered all controls, including financial, operational and compliance controls and risk management. The key mechanisms available to the Board in the conduct of its review are:

- An ongoing process, through Board meetings, senior management meetings and divisional reviews as well as other management meetings, for the formal identification of the Company's significant operational risks and mitigating control processes;

Corporate governance *continued*

- The Treasury Risk Committee comprising the Group Finance Director, Company Secretary, Tax Director and Group Treasurer, which meets to consider the specific risks associated with Treasury transactions, including the approval of all transactions in financial derivatives;
- Since the third quarter of 2001 there has been an embedded system of reporting the effectiveness of key financial, operational and compliance controls. This is a comprehensive self-assessment system built up from centre-level using the Group's intranet. Results and action plans are then reviewed by senior management and summarised for the main Board;
- A multi-disciplinary Group Risk forum, chaired by the Company Secretary, reports to the Board on a quarterly basis. This forum considers all aspects of risk identification and management and its reports represent a key feature of the process by which the Board assesses the overall effectiveness of the Group's system of internal control.

Communications with shareholders

The Company has a policy of maintaining an active dialogue with institutional shareholders through individual meetings with senior management. A regular programme of meetings with major institutional shareholders is planned in order to discuss matters affecting the Group. In addition presentations will be made four times a year after the announcement of results, the details of which, together with Group financial reports and announcements, will be accessible via the Group's internet site. The Company corresponds regularly on a range of subjects with its individual shareholders who have an opportunity to question the Board, as well as the Chairman of the audit and remuneration committees, at the Annual General Meeting.

Compliance statement

The Company has complied with the provisions set out in section 1 of the Code of Best Practice prepared by the Committee on Corporate Governance and published in June 1998 ('the Combined Code') throughout the year ended 31 December 2001.

Remuneration report

The remuneration committee

The remuneration committee is chaired by Mr J W Matthews and its other current members are Dr G G Gray and Mr R G Orf. All members of this committee are independent non-executive directors. The Group Chief Executive and/or other directors may be invited to attend some meetings of the committee in an advisory capacity as the committee considers appropriate. The committee will consider all material elements of remuneration policy, remuneration and incentives of executive directors and senior management with reference to independent remuneration research and professional advice in accordance with the Combined Code on Corporate Governance, and will make recommendations to the Board of Directors on the framework for executive remuneration and its cost. The Board of Directors is then responsible for implementing the recommendations and agreeing the remuneration package of individual directors. Directors are not permitted, under Regus' Articles of Association, to vote on their own terms and conditions of remuneration. The committee does not make recommendations on the remuneration of non-executive directors, which is a matter solely for the full Board. The members of the remuneration committee attend the Company's Annual General Meeting and are available to answer shareholders' questions about directors' remuneration.

Remuneration policy

Remuneration policy centres on ensuring that remuneration packages are sufficiently competitive to attract, retain and motivate the right calibre of executive directors and senior management. Incentive payments are conditional upon demanding performance criteria so as to align incentive awards paid to directors directly with the interest of shareholders. The remuneration committee uses the services of external consultants to help it agree appropriate packages reflecting the remuneration policy. The constituent parts of those packages are set out in the following paragraphs.

Basic salary and benefits

Salaries are reviewed annually and determined by the committee, taking into account the performance of the Group and of individual directors over the previous 12 months and the pay and employment conditions elsewhere in the Group. The committee also uses information provided by external consultants relating to the rates of pay for similar positions in comparable companies. Any increases in basic salary are effective from 1 January in each year.

The remuneration table included within this report also shows benefits received in 2001. The main benefits relate to the provision of company cars and the provision of private medical insurance for the director and his immediate family.

During 2001, the following contractual emoluments were irrevocably waived by the directors:

Director	Amount Waived (£)
Mark Dixon	193,320
Stephen Stamp	85,908
Rudy Lobo	21,667
George Gray	42,500
John Matthews	10,417

Annual performance bonus

Under the annual bonus scheme, the executive directors are entitled to an annual bonus of up to 40% of their basic salary, which is payable provided the budget targets for the relevant financial year are exceeded.

Long-term incentive plan

Other than share options, the executive directors do not participate in any of the long-term incentive plans offered to senior management.

Share options

The Group believes that share ownership by employees, including the executive directors, strengthens the link between their personal interests and those of ordinary shareholders. Regus has established a number of employee share plans, including the Regus Global Share Plan and the Regus International Sharesave Plan.
No additional option grants were made to any director during 2001.

Remuneration report *continued*

During 1999 the Group established the Regus Employee Trust. The Trust is a discretionary trust for the benefit of employees, including executive directors. The Trust may issue shares to the Group's employees (including directors) at the discretion of the Company. The Trust has purchased some of the shares in the Company which would be required if participants were entitled to exercise the maximum number of options outstanding under the share option plans.

Pensions

The executive directors participate in the Company's Money Purchase (Personal Pension) Scheme. The Company matches employee contributions up to a maximum of 10% of basic salary.

The main benefits to executive directors, who contribute a percentage of their gross salaries to the scheme, are:

- A pension, based on the value of fund built up from personal contributions, at any age between 50 and the normal pension age of 65;
- A tax-free cash sum, payable when taking the benefits;
- Life assurance cover based on the level of contributions with the opportunity to purchase additional cover, subject to Inland Revenue limit of 5% of net relevant earnings;
- Pension to spouse payable on death.

All executive directors are subject to the Inland Revenue cap on the amount of salary which may be treated as pensionable.

Service contracts

On 1 July 2000 Mr M L J Dixon, Mr R J G Lobo and Mr S A Stamp entered into full-time rolling service agreements with Regus Management Limited. These are terminable by either party giving not less than 12 months' notice to the other party or automatically on the respective directors reaching the age of 65.

Dr G G Gray, Mr J W Matthews and Mr R G Orf, as non-executive directors, have been appointed pursuant to letters of appointment dated 2 September 1999 (as amended by letters of amendment dated 30 November 1999 and 21 September 2000), 26 October 1999 and 29 August 2000 respectively. These appointments are for three years, terminable on three months' notice by the Company or the directors.

Directors' remuneration table

	Salary/ fees £'000	Bonus £'000	Benefits £'000	**Total remuneration 2001 £'000**	Total remuneration 2000 £'000	**Pension scheme contributions 2001 £'000**	Pension scheme contributions 2000 £'000
Executive							
Mark Dixon	206.7	–	21.9	**228.6**	448.0	**22.7**	28.0
Stephen Stamp	99.5	–	9.8	**109.3**	225.3	**12.5**	10.5
Rudy Lobo	143.3	–	17.2	**160.5**	223.8	**11.6**	9.6
Peter Jenkins	–	–	–	**–**	4.8	**–**	–
Non-executive							
George Gray	37.5	–	–	**37.5**	34.5	**–**	–
Robert Kuijpers*	6.3	–	–	**6.3**	25.0	**–**	–
John Matthews	14.6	–	–	**14.6**	25.0	**–**	–
Roger Orf	5.0	–	–	**5.0**	1.7	**–**	–
	512.9		48.9	**561.8**	988.1	**46.8**	48.1

* *Former director*

Directors' shareholdings

	Ordinary shares Beneficial holdings 31 December 2001	Ordinary shares Beneficial holdings 31 December 2000
Mark Dixon[1]	**364,329,286**	355,329,286
Rudy Lobo	**38,462**	38,462
Stephen Stamp	**384,615**	384,615
George Gray (Chairman)	**38,462**	38,462
John Matthews	**359,724**	10,385
Roger Orf	**300,000**	8,583,844

[1] *Mr Dixon's beneficial ownership of shares is calculated by attributing to him all shares owned by Maxon Investments BV, an entity in which Mr Dixon holds 100% of the share capital.*

Directors' share options

	Option type	31 December 2000	Granted during 2001	31 December 2001	Exercise price	Date from which exercisable	Expiry date
Rudy Lobo	A	266,179	–	**266,179**	5.0p	1/1/03	31/12/09
	A	283,503	–	**283,503**	145.5p	1/1/03	31/12/09
	B	11,570,000	–	**11,570,000**	0.375p	31/12/03	–
	C	4,003	–	**4,003**	242.0p	1/1/04	1/7/04
Stephen Stamp	A	2,790,203	–	**2,790,203**	145.5p	7/1/03	7/1/10
	C	4,003	–	**4,003**	242.0p	1/1/04	1/7/04

A *Awarded under the Regus Team Member Share Plan for nil consideration. The Board of Directors has the discretion to waive some or all of the exercise price. The grant to Mr Stamp is subject to higher performance targets.*

B *Awarded to Mr Lobo by Maxon pursuant to an agreement dated 17 September 1999 recording the terms of an agreement entered into on 11 November 1992 between Mr Lobo and Maxon, as amended on 30 June 2000. These shares are currently held by HSBC Trustees (Jersey) Limited and will not be capable of exercise before 31 December 2003 other than in defined circumstances (which include the discretion of Maxon). The shares subject to the option are transferable to Mr Lobo upon payment to Maxon of an exercise price of £45,000, which is equivalent to the market value of the relevant shares at the time the parties entered into the option arrangements.*

C *Awarded under the Regus International Sharesave Plan, the maximum monthly contribution for which may not exceed the amount permitted by the Income and Corporation Taxes Act 1988.*

Summary particulars of the Group's share option schemes are given in note 22 on page 52.

The market price of the shares at 31 December 2001 was 51.5p and the range during 2001 was 11.5p to 392p.

None of the directors had a beneficial interest in any contract of significance in relation to the business of the Company or its subsidiaries at any time during the financial year.

Independent auditor's report to the members of Regus plc

We have audited the financial statements on pages 29 to 57.

Respective responsibilities of directors and auditors
The directors are responsible for preparing the annual report. As described on page 21 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the UK Listing Authority and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on pages 22 to 24 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the information contained in the annual report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the company and the Group as at 31 December 2001 and of the loss of the Group for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
8 March 2002
Chartered Accountants, Registered Auditor

Consolidated profit and loss account

for the year ended 31 December 2001

	Note	31 Dec 2001 £'000	31 Dec 2000 £'000
Turnover (including share of joint ventures)	1	**524,622**	429,200
Less: share of turnover of joint ventures	1	**(11,989)**	(8,075)
Turnover		**512,633**	421,125
Cost of sales (centre costs) before exceptional items		**(434,787)**	(320,832)
Exceptional items	3	**(37,955)**	–
Cost of sales (centre costs) after exceptional items		**(472,742)**	(320,832)
Gross profit (centre contribution)	1	**39,891**	100,293
Administration expenses before exceptional items		**(91,255)**	(86,859)
Exceptional items	3	**(52,591)**	(9,501)
Administration expenses after exceptional items		**(143,846)**	(96,360)
Group operating (loss)/profit		**(103,955)**	3,933
Share of operating loss in joint ventures	1	**(5,572)**	(1,027)
Total operating (loss)/profit: Group and share of joint ventures		**(109,527)**	2,906
Net interest payable and other similar charges	6	**(554)**	(6,763)
Loss on ordinary activities before tax	2	**(110,081)**	(3,857)
Tax on loss on ordinary activities	7	**(10,090)**	(9,926)
Loss on ordinary activities after tax		**(120,171)**	(13,783)
Equity minority interests		**1,933**	253
Retained loss for the financial year	19	**(118,238)**	(13,530)
Loss per ordinary share:	8		Restated
Basic and diluted (p)		**(21.0)**	(2.7)
Basic and diluted before exceptional items (p)		**(5.2)**	(1.1)

All results arose from continuing operations.

Balance sheets

as at 31 December 2001

	Note	**Group 31 Dec 2001 £'000**	Group 31 Dec 2000 £'000	**Company 31 Dec 2001 £'000**	Company 31 Dec 2000 £'000
Fixed assets					
Intangible assets	9	**4,307**	–	**–**	–
Tangible assets	10	**242,299**	193,453	**–**	–
Investments					
Investments in subsidiaries	11	**–**	–	**5,631**	5,631
Investment in own shares	11	**3,805**	47,021	**–**	–
Other investments	11	**33**	–	**–**	–
Interest in joint ventures:	11				
Share of gross assets		**15,656**	13,601	**–**	–
Share of gross liabilities		**(14,562)**	(9,461)	**–**	–
		1,094	4,140	**–**	–
Total investments		**4,932**	51,161	**5,631**	5,631
		251,538	244,614	**5,631**	5,631
Current assets					
Stock		**392**	279	**–**	–
Debtors: amounts falling due within one year	12	**114,288**	129,677	**256**	393
Debtors: amounts falling due after more than one year	12	**3,000**	–	**274,235**	202,073
Cash at bank and in hand		**117,074**	169,821	**69,985**	98,387
		234,754	299,777	**344,476**	300,853
Creditors: amounts falling due within one year	13	**(344,392)**	(317,883)	**(52,933)**	(15,493)
Provisions for liabilities and charges due within one year	16	**(19,953)**	–	**–**	–
Net current (liabilities)/assets		**(129,591)**	(18,106)	**291,543**	285,360
Total assets less current liabilities		**121,947**	226,508	**297,174**	290,991
Creditors: amounts falling due after more than one year	14	**(24,806)**	(23,050)	**–**	–
Provisions for liabilities and charges due after more than one year	16	**(8,349)**	(794)	**–**	–
Net assets		**88,792**	202,664	**297,174**	290,991
Capital and reserves					
Called-up share capital	17	**29,106**	29,034	**29,106**	29,034
Share premium account	18	**279,765**	279,858	**279,765**	279,858
Other reserves	19	**4,056**	615	**8,948**	5,531
Profit and loss account	19	**(224,482)**	(106,417)	**(20,645)**	(23,432)
Equity shareholders' funds		**88,445**	203,090	**297,174**	290,991
Equity minority interests		**347**	(426)	**–**	–
		88,792	202,664	**297,174**	290,991

The financial statements on pages 29 to 57 were approved by the Board of Directors on 8 March 2002 and were signed on its behalf by:

Mark Dixon
Chief Executive

Stephen Stamp
Group Finance Director

Consolidated cash flow statement

for the year ended 31 December 2001

	Note	31 Dec 2001 £'000	31 Dec 2000 £'000
Cash inflow from continuing operating activities			
Net cash inflow before exceptional items		**56,140**	117,899
Outflow related to exceptional items	20(a)	**(12,144)**	–
Net cash inflow from continuing operating activities	20(a)	**43,996**	117,899
Returns on investments and servicing of finance			
Interest received		**3,906**	3,851
Interest paid		**(252)**	(7,993)
Interest paid on finance leases		**(3,351)**	(2,861)
		303	(7,003)
Taxation			
Tax paid		**(6,275)**	(2,224)
		(6,275)	(2,224)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(105,633)**	(88,078)
Sale of tangible fixed assets		**3,052**	1,506
Purchase of own shares		**–**	(42,500)
Purchase of investments		**(26)**	–
		(102,607)	(129,072)
Acquisitions and disposals			
Purchase of subsidiary undertakings		**(5,712)**	–
Investment in joint ventures		**(5,631)**	(3,789)
		(11,343)	(3,789)
Cash outflow before management of liquid resources and financing		**(75,926)**	(24,189)
Management of liquid resources	20(b)	**45,643**	(78,712)
Financing	20(b)	**22,714**	118,766
(Decrease)/increase in cash in the period	20(c)&(d)	**(7,569)**	15,865

Consolidated statement of total recognised gains and losses

for the year ended 31 December 2001

	31 Dec 2001	31 Dec 2000
	£'000	£'000
Loss for the financial year	**(118,238)**	(13,530)
Exchange differences	**197**	2,675
Tax charge on exchange differences	**–**	(872)
Total recognised gains and losses for the year	**(118,041)**	(11,727)

Reconciliation of movements in Group shareholders' funds

	31 Dec 2001	31 Dec 2000
	£'000	£'000
Loss for the financial year	**(118,238)**	(13,530)
Net proceeds of ordinary shares issued	**3,396**	238,548
Exchange differences	**197**	2,675
Tax charge on exchange differences	**–**	(872)
(Decrease)/increase in shareholders' funds	**(114,645)**	226,821
Shareholders' funds/(deficit) at 1 January	**203,090**	(23,731)
Shareholders' funds at 31 December	**88,445**	203,090

Accounting policies

Description of business

Regus plc (the "Company"), formerly Regus Business Centres plc, and its consolidated subsidiaries (the "Group") are engaged in the provision of fully serviced business centres offering clients a mix of workstations, conference rooms and related support services. The Group operates an international network of business centres and is divided into four geographic regions, UK & Ireland, Rest of Europe, Americas and Rest of World. Maxon Investments BV ("Maxon") is the ultimate parent company and M L J Dixon, the Chief Executive of the Company, has an effective controlling interest in the equity shares of the Company via Maxon.

Basis of preparation

The consolidated financial statements have been prepared in accordance with applicable accounting standards and in conformity with accounting principles generally accepted in the United Kingdom ("UK GAAP"), under the historical cost convention. These principles differ in certain significant respects from generally accepted accounting principles in the United States ("US GAAP"). Application of US GAAP would have affected shareholders' funds and results of operations at and for the years ended 31 December 2000 and 2001, to the extent summarised in note 28.

The preparation of financial statements in conformity with UK GAAP and US GAAP requires management to make estimates and assumptions that reflect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses for an accounting period. Such estimates and assumptions could change in the future as more information becomes known or circumstances change, such that the Group's results may differ from the amounts reported and disclosed in the financial statements. The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and all its subsidiary undertakings, which have all been prepared to 31 December 2001. Where subsidiary undertakings are acquired or disposed of during the year, the consolidated profit and loss account includes only the results for the part of the year during which they are subsidiary undertakings.

Transactions in foreign currencies

Assets and liabilities of foreign subsidiaries and related hedging instruments are translated into sterling at the closing exchange rate prevailing at the balance sheet date. Results of overseas undertakings are translated into sterling at the average rates of exchange for the relevant period. Differences arising from the re-translation of the results of overseas undertakings are dealt with through reserves.

Transactions in foreign currency are recorded using the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange prevailing at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Goodwill

Goodwill arising on consolidation, representing the difference between the purchase price and the fair value of the net assets of the subsidiary undertaking at the date of acquisition, is capitalised as an intangible fixed asset and charged to the profit and loss account in equal annual instalments over its useful economic life.

Joint ventures

A joint venture is a company in which the Group has an investment for the longer term and shares control under a contractual arrangement. The appropriate share of results of joint ventures, as disclosed in their financial statements but after adjustment to conform with the Group's accounting policies, is included in the consolidated profit and loss account.

Tangible fixed assets and depreciation

Depreciation is provided on a straight line basis at rates calculated to write off the cost of fixed assets to their estimated residual value over their estimated useful lives at the following rates:

Accounting policies *continued*

Furniture	- 5 years
Fixtures and fittings	- shorter of the lease term, the first break point of the building lease or 10 years
Telephones and office equipment	- 5 years
Computer hardware	- 3 years
Computer software	- 2 years
Cars	- 4 years

Fixed asset investments

Fixed asset investments are generally accounted for at cost less provision for impairment.

Stock

Stock is stated at the lower of cost and net realisable value. Stock relates to items purchased for resale to customers and to items intended for distribution within the business such as office supplies and marketing materials.

Deferred taxation

Provision under the liability method is made for deferred taxation at the current rate of corporation tax on all timing differences, to the extent that they are expected to crystallise.

Refurbishment

The terms of most building leases require Regus to make good dilapidation or other damage occurring during the rental period. Accruals for dilapidations are only made when it is known that a dilapidation has occurred. However, due to the nature of the business, centres are maintained to a high standard.

Turnover

Turnover represents the value of services provided to third parties in the year and is exclusive of VAT and similar taxes.

Cost of sales

Cost of sales consists of costs from the individual business centres, including property lease costs, employee costs and start-up costs.

Pensions

The Group operates defined contribution schemes. Contributions are charged to the profit and loss account on an accruals basis.

Leases

a) Finance leases

Where the Group enters into a lease for furniture, fittings, equipment or cars which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. This also includes occasions where the Group takes interest bearing extended credit from suppliers and certain loans from landlords.

Under all such lease arrangements the asset is recorded in the balance sheet as a tangible asset and is depreciated over its estimated useful life in accordance with the policy described above. Future instalments under such leases, net of finance charges, are included in creditors.

Lease payments are apportioned between the finance element, which is charged to the profit and loss account on a sum of the digits basis or a post-tax actuarial basis, and the capital element, which reduces the outstanding obligation for future instalments.

b) Building leases

Building leases are all accounted for as operating leases because substantially all the risks and rewards of ownership remain with the lessor.

The rental on certain leases is wholly or partly conditional on the profitability of the centre and therefore the risk to the business, in terms of rent, is reduced. Once all outstanding rent has been paid, landlords receive a share of the profits of the centre.

For leases which are wholly or partly conditional on the profitability of the centre, an estimate is made of the likely rent payable based on profitability in respect of the period up to the date of the first market rent review or first break point in the lease, whichever is sooner, and this is spread on a straight line basis over that period. Any subsequent changes in estimates are spread over the remaining period to the date of the first market rent review or first break point in the lease, whichever is sooner. Amounts payable in respect of profit shares are accrued once a sufficient net surplus has been made which would result in a profit share being paid.

Any incentives or rent free periods on conventional leases and the conventional element of leases which are partly conventional and partly conditional on profitability, are spread on a straight line basis over the period to the date of the first market rent review or first break point in the lease, whichever is sooner, so that the amounts charged to the profit and loss account are the same each year over that period.

Financial instruments

The Group uses various derivative financial instruments to hedge its exposures to fluctuations in foreign exchange risks. These include forward currency contracts and currency options.

The accounting method used for derivative financial instruments is determined by whether or not the instrument is designated as a hedge of an existing exposure and, if so by the accounting method used for the item being hedged.

The Group considers its derivative financial instruments to be hedges when certain criteria are met.

Forward currency contracts

The Group's criteria to qualify for hedge accounting are:

- The instrument must be related to a foreign currency asset or liability;
- It must involve the same currency as the hedged item;
- It must reduce the risk of foreign currency exchange movements on the Group's operations.

The Group has established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instruments. The Group does not enter into financial instruments for trading or speculative purposes.

Forward currency contracts are marked to market at the period end, with the resulting exchange gains or losses taken to administration expenses in the profit and loss account, except where the hedged item's exchange difference is reflected in reserves (such as quasi equity loans). In this situation the gain or loss is taken to reserves. The gains or losses on the forward contracts are recognised when the gains or losses on the underlying hedged transactions are recognised. The net resulting unrealised asset or liability is reflected in debtors or creditors as appropriate.

Premiums or discounts on derivative financial instruments that hedge an existing exposure are charged or credited to interest income or cost over the life of the instrument. The related asset or liability is classified as an accrual or prepayment.

Derivative financial instruments that are not designated as hedges are marked to market using period end market rates and gains or losses are taken to the profit and loss account.

Gains or losses arising on hedging instruments which are cancelled due to the termination of the underlying exposure are taken to administration expenses immediately.

Currency options

Under hedge accounting for currency options, the Group defers the instruments impact on profit until it fully recognises the underlying hedged item in the profit and loss account.

Option costs are charged to the interest cost over the life of the option contract. The related asset is classified as prepayments.

At maturity, any realised gain on the option is recognised in the profit and loss account in administration expenses.

Notes to the financial statements

for the year ended 31 December 2001

1 Segmental reporting

The following tables set out the Group's segmental analysis by geographic region and by established and new centres. Established centres are those that have been open for a period of at least 18 months as at the end of the relevant period and new centres are those that have been open for less than 18 months as at the end of the relevant period. The numbers reported include exceptional costs.

	Turnover 31 Dec 2001 £'000	Turnover 31 Dec 2000 £'000	**Gross profit/(loss) (centre contribution) 31 Dec 2001 £'000**	Gross profit/(loss) (centre contribution) 31 Dec 2000 £'000
Geographic analysis				
UK and Ireland	**215,188**	188,862	**56,916**	59,619
Rest of Europe	**151,879**	118,933	**9,132**	29,214
Americas	**124,096**	94,296	**(28,752)**	13,850
Rest of World	**33,459**	27,109	**2,595**	(2,390)
	524,622	429,200	**39,891**	100,293
Total Group	**512,633**	421,125		
Total joint ventures	**11,989**	8,075		
Established centres	**410,804**	293,555	**90,859**	92,329
New centres	**101,829**	127,570	**(50,968)**	7,964
Total	**512,633**	421,125	**39,891**	100,293

	Operating profit/(loss) 31 Dec 2001 £000	Operating profit/(loss) 31 Dec 2000 £'000	**Net assets/ (liabilities) As at 31 Dec 2001 £'000**	Net assets/ (liabilities) As at 31 Dec 2000 £'000
Geographic analysis				
United Kingdom and Ireland	**32,413**	33,720	**46,932**	20,852
Rest of Europe	**(7,712)**	1,133	**(39,183)**	(31,622)
Americas	**(58,289)**	(16,262)	**(65,110)**	(1,924)
Rest of World	**(1,221)**	(11,789)	**(29,596)**	(29,474)
Other*	**(74,718)**	(3,896)	**175,749**	244,832
	(109,527)	2,906	**88,792**	202,664
Total Group	**(103,955)**	3,933	**87,698**	198,524
Total joint ventures	**(5,572)**	(1,027)	**1,094**	4,140

* includes non-regional exceptional costs.

Exceptional charges to the profit and loss account for 2001 by region were: United Kingdom and Ireland £1.1 million (2000: £3.0 million); Rest of Europe £13.7 million (2000: £2.7 million); Americas £28.0 million (2000: £1.6 million); Rest of World £0.9 million (2000: £0.2 million); and, Other £46.8 million (2000: £2.0 million).

There is no difference between segmental information on an origin basis and on a destination basis.

The directors are of the opinion that the whole of the turnover is derived from the same class of business.

2 Loss on ordinary activities before tax

	31 Dec 2001 £'000	31 Dec 2000 £'000
Loss before tax is stated after charging:		
Depreciation of tangible fixed assets:		
– owned assets	**47,827**	27,671
– assets under finance leases	**16,060**	12,875
(Profit)/loss on sale of fixed assets	**(32)**	1,520
Provision for impairment of fixed assets (note 3)	**12,166**	–
Goodwill amortisation	**196**	–
Operating leases:		
– property	**191,842**	136,969
– equipment	**9,426**	6,033
Audit fees:		
– company	**5**	5
– group	**782**	546
Non audit fees paid to KPMG:		
– UK companies	**153**	204
– Group	**397**	496
– exceptional (note 3)	**1,100**	–
Other exceptional items (note 3)	**77,280**	9,501

Non-exceptional non audit fees in 2001 are primarily in respect of tax compliance services. In 2000, in addition to the fees above, audit fees of £240,000 and non audit fees of £786,000 paid to KPMG were offset against the share premium account.

3 Exceptional item

Included in the results for the year to 31 December 2001 were exceptional pre-tax charges totalling £90.5 million as follows:

Restructuring and redundancy costs (£5.4 million)

As part of an aggressive attack on its cost base, the Group has reviewed staffing levels across all regions and all functions.

Headcount was reduced by 800, representing approximately 24% of the total workforce. £0.5 million of this charge has been included in cost of sales.

Reduction in workstation capacity (£37.4 million)

The Group reviewed the prospects for each of its centres in light of current market conditions. Regus decided to reduce capacity by 9,700 workstations, representing 11% of the network. The exceptional charge includes consequential costs associated with onerous leases and asset impairments and has been included in cost of sales.

Write-down related to ESOP (£32.6 million)

As mentioned in the second quarter results, the directors have determined that, in the circumstances, the carrying value of the investment in own shares should be written down to 21p a share, the market value on 30 September 2001. This is counterbalanced by a writeback for the reduced cost of granting reward options of £8.8 million.

Write-down of software development assets (£4.6 million)

The directors reviewed the estimated useful life of external development costs and determined that it would be prudent, in the circumstances, to write off the remainder of these costs.

Fees in respect of aborted merger with HQ Global Workplaces (£3.3 million)

This exceptional charge had been made in the Group's second quarter results. It includes £1.1 million paid to KPMG in request of due diligence and transaction advice.

Write-down of acquisition goodwill (£4.9 million)

The directors have determined that there has been an impairment to the value of goodwill arising from acquisitions and, accordingly, it is prudent that the goodwill be written down.

Non-recoverable Ryder Cup expenditure (£2.3 million)

On the basis that the Group is unlikely to benefit from the expenditure, the directors consider it appropriate to recognise the unrecoverable expenditure as an exceptional charge.

Prior year exceptional items

The exceptional pre-tax charge of £9.5 million in 2000 relates to costs associated with the write down of the Reward share options exercise price from £1.455 to £0.05.

The impact of exceptional items on the tax charge is given in note 8.

Notes to the financial statements

for the year ended 31 December 2001 *continued*

4 Profit and loss account of holding company

Of the loss attributable to shareholders, a profit of £2,881,000 (December 2000: loss of £11,922,000) is dealt with in the accounts of Regus plc. As permitted by Section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account.

5 Employees and directors

	31 Dec 2001 £'000	31 Dec 2000 £'000
Staff costs		
Wages and salaries	**71,672**	61,648
Social security costs	**11,127**	7,851
Pension costs	**360**	260
	83,159	69,759

The Group contributes to the personal pension schemes of a small number of employees. The amount which is included within creditors is £18,000 (2000: £44,000).

	31 Dec 2001 Number	31 Dec 2000 Number
Average number of people (including executive directors) employed		
Centre staff	**1,923**	1,525
Sales staff	**363**	284
Finance staff	**170**	135
Other staff	**200**	157
	2,656	2,101

	31 Dec 2001 £'000	31 Dec 2000 £'000
Directors		
Aggregate emoluments	**562**	988
Company pension payments to money purchase scheme	**47**	48
Highest-paid director		
Aggregate emoluments	**229**	448
Company pension payments to money purchase scheme	**23**	28

Retirement benefits are accruing to three directors under a money purchase scheme. In 2000, two directors received share options under the long term incentive scheme.

More detailed information on directors emoluments is provided in the report of the Remuneration Committee.

6 Net interest payable and other similar charges

	31 Dec 2001 £'000	31 Dec 2000 £'000
Interest payable on overdrafts and loans	**842**	7,749
Interest payable on finance leases	**3,339**	2,867
	4,181	10,616
Interest income	**(3,877)**	(3,863)
Share of joint venture net interest payable	**250**	10
Net interest payable and other similar charges	**554**	6,763

7 Taxation

	31 Dec 2001 £'000	31 Dec 2000 £'000
United Kingdom		
Corporation tax at 30% (2000: 30%)	**5,588**	4,402
Deferred tax	**62**	794
	5,650	5,196
Overseas		
Corporation taxes	**4,440**	4,752
Over provision in respect of prior periods	**–**	(22)
	4,440	4,730
	10,090	9,926
Approximate gross tax losses to carry forward against certain future overseas corporation tax liabilities (UK: nil (2000: nil))	**126,561**	76,910

No deferred tax has been provided on the unremitted accumulated reserves of the subsidiary undertakings as accumulated reserves of subsidiary undertakings are retained to finance their business.

At 31 December 2001, the total unremitted accumulated reserves of the subsidiary undertakings were £6,168,000 (2000: £2,047,000).

The tax losses above have the following expiration dates:

	As at 31 Dec 2001 £'000	As at 31 Dec 2000 £'000
2001	**–**	196
2002	**727**	757
2003	**1,682**	2,592
2004	**12,395**	15,885
2005	**8,712**	7,574
2006	**7,848**	397
2007	**3,479**	482
2008 and later	**66,248**	27,165
	101,091	55,048
Available indefinitely	**25,470**	21,862
	126,561	76,910

Notes to the financial statements

for the year ended 31 December 2001 *continued*

7 Taxation *continued*

A reconciliation of the actual tax charge resulting from applying the UK statutory rate to the loss before tax is as follows:

	31 Dec 2001 £'000	31 Dec 2000 £'000
UK statutory rate applied to result for year	**(33,024)**	(1,157)
Adjusted for:		
Permanent differences	**16,741**	451
Difference in taxation rates	**(9,375)**	(1,721)
Tax losses utilised	**(1,028)**	(1,133)
Deferred tax asset not booked in respect of:		
Tax losses carried forward	**20,467**	6,907
Start-up costs and other reserves	**16,309**	6,717
Adjustment in respect of prior periods	**–**	(22)
Other items	**–**	(116)
Actual tax charge	**10,090**	9,926

There was no tax charge arising from joint venture operations.

8 Loss per share

Loss per share has been calculated by dividing the retained loss for the financial year by the weighted average number of ordinary shares in issue excluding those held under the employee share trust.

There were no adjustments to the retained loss for the year for the diluted earnings per share computations.

The 2001 and 2000 diluted shares were not included in the computation of diluted earnings per share due to losses in 2001 and 2000, resulting in options being antidilutive. The 2000 diluted loss per share has been restated from that reported in the 2000 Annual Report because the number of diluted shares had been wrongly adjusted by 13,829,065 ordinary shares relating to share options.

The following summarises the calculation of loss per share for the years ended 31 December 2001 and 2000:

			31 Dec 2001	31 Dec 2000 Restated
Loss for the year		(£'000)	**(118,238)**	(13,530)
Add: exceptional items		(£'000)	**90,546**	9,501
Less: tax on exceptional items		(£'000)	**(1,614)**	(1,508)
Loss for the year before exceptional items		(£'000)	**(29,306)**	(5,537)
Weighted average ordinary shares in issue	– basic and diluted	('000's)	**563,528**	497,889
Loss per ordinary share	– basic and diluted	(p)	**(21.0)**	(2.7)
Impact of exceptional items	– basic and diluted	(p)	**(15.8)**	(1.6)
Loss per ordinary share before exceptional items	– basic and diluted	(p)	**(5.2)**	(1.1)

9 Goodwill

	£'000
Cost	
At 1 January 2001	–
Additions	9,496
Exchange differences	(77)
At 31 December 2001	**9,419**
Amortisation	
At 1 January 2001	–
Charge for the period	196
Provision for impairment	4,916
At 31 December 2001	**5,112**
Net book value at 31 December 2001	**4,307**
Net book value at 31 December 2000	–

In April the Group acquired three subsidiaries for a total consideration of £9.1 million: Stratis Business Centres Inc in the US and Satellite and Skyport Business Centres in the Netherlands, consisting of £5.7 million cash and shares of £3.4 million. The net liabilities of the companies at the date of acquisition were £0.3 million resulting in goodwill on acquisition of £9.4 million. There were no material fair value adjustments. Subsequently the directors have determined that there has been an impairment to the value of goodwill arising from acquisitions to the value of £4.9 million and, accordingly, it is prudent that the goodwill be written down. The useful economic life of goodwill is 20 years. The post acquisition results have not been shown separately on the face of the profit and loss account as they are not material.

10 Tangible fixed assets – Group

	Furniture and fittings £'000	Computers £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 January 2001	244,693	21,497	422	266,612
Exchange differences	(2,328)	(183)	(2)	(2,513)
Additions	115,230	13,248	55	128,533
Acquisitions	676	136	–	812
Disposals	(3,844)	(2,272)	(187)	(6,303)
At 31 December 2001	**354,427**	**32,426**	**288**	**387,141**
Aggregate depreciation				
At 1 January 2001	65,272	7,690	197	73,159
Exchange differences	(997)	(89)	–	(1,086)
Charge for the period	53,091	10,698	98	63,887
Provision for impairment	7,600	4,566	–	12,166
Disposals	(980)	(2,188)	(116)	(3,284)
At 31 December 2001	**123,986**	**20,677**	**179**	**144,842**
Net book value at 31 December 2001	**230,441**	**11,749**	**109**	**242,299**
Net book value at 31 December 2000	179,421	13,807	225	193,453

The net book value of tangible fixed assets includes an amount in respect of fixed assets held under finance leases as follows:

	Group 31 Dec 2001 £'000	Group 31 Dec 2000 £'000
Cost	**96,282**	74,570
Depreciation	**(43,169)**	(28,078)
Net book value	**53,113**	46,492

Notes to the financial statements

for the year ended 31 December 2001 *continued*

11 Investments

	Group Investment in own shares* £'000	Group Interest in joint ventures £'000	Group Other Investments £'000	Group Total £'000	Company Shares in Group undertakings £'000
At 1 January 2001	47,021	4,134	6	51,161	5,631
Exchange differences	–	154	–	154	–
Additions	–	2,631	27	2,658	–
Revaluation	(1,821)	–	–	(1,821)	–
Provision for impairment	(41,395)	–	–	(41,395)	–
Share of losses retained	–	(5,825)	–	(5,825)	–
At 31 December 2001	**3,805**	**1,094**	**33**	**4,932**	**5,631**

* The nominal value of the Group's investment in own shares is £0.9 million. Note 22 provides details of the investment in own shares.

Details of investments in subsidiary companies are given on pages 56 to 57 of these accounts.

12 Debtors

	Group 31 Dec 2001 £'000	Group 31 Dec 2000 £'000	Company 31 Dec 2001 £'000	Company 31 Dec 2000 £'000
Amounts falling due within one year				
Trade debtors	**45,103**	60,990	**–**	–
Amounts owed by participating interest	**4,136**	1,862	**–**	–
Other debtors	**30,144**	29,940	**–**	–
Prepayments and accrued income	**23,804**	26,364	**256**	393
VAT recoverable	**11,101**	10,521	**–**	–
	114,288	129,677	**256**	393
Amounts falling due after one year				
Amounts owed by Group undertakings	**–**	–	**274,235**	202,073
Amounts owed by participating interest	**3,000**	–	**–**	–
	3,000	–	**274,235**	202,073
Total debtors	**117,288**	129,677	**274,491**	202,466

As at 31 December 2001 the provision for bad and doubtful debts was £2,858,000 (2000: £1,701,000). An allowance for bad and doubtful debts is recorded at the end of each period based upon the expected collectability of all trade receivables.

An analysis of the bad and doubtful debt provision is as follows:

	Group 31 Dec 2001 £'000	Group 31 Dec 2000 £'000
Opening balance	**1,701**	1,047
Additional charges to profit and loss account	**1,916**	842
Provision utilisation	**(724)**	(190)
Exchange difference	**(35)**	2
Closing balance	**2,858**	**1,701**

13 Creditors – amounts falling due within one year

	Group 31 Dec 2001 £'000	Group 31 Dec 2000 £'000	Company 31 Dec 2001 £'000	Company 31 Dec 2000 £'000
Bank loans and overdrafts	**6,018**	5,750	**10,865**	-
Non-convertible bond	**40,000**	-	**40,000**	-
Other loans	**724**	807	**–**	-
Obligations under finance leases	**14,909**	10,614	**–**	-
Amounts owed to Group undertakings	**–**	-	**–**	8,851
Trade creditors	**44,452**	31,207	**–**	-
Customer deposits	**72,584**	80,024	**–**	-
Other tax and social security	**12,364**	16,128	**–**	-
Corporation tax	**13,396**	9,849	**301**	301
Deferred income	**31,847**	43,541	**–**	-
Deferred landlord contributions	**7,195**	3,173	**–**	-
Rent accruals	**65,715**	56,307	**–**	-
Other accruals	**31,818**	58,392	**–**	-
Other creditors	**3,370**	2,091	**1,767**	6,341
	344,392	317,883	**52,933**	15,493

On 28 December 2001, the Company issued £40.0 million nominal of five per cent non-convertible bonds. On 14 February 2002, the bonds were exchanged for convertible debentures and warrants. The convertible debentures incur interest at five per cent and, at the Company's option, are either repaid in ten equal monthly instalments from March 2002 to December 2002 or are converted into ordinary shares at 95 per cent of the average price during the following month. The convertible bonds may be converted at the holders option at a price of 86.32 pence per share.The warrant holders have the right to subscribe for up to five million ordinary shares at five pence per share. Any remaining unexercised warrants will lapse three years after issue. The fair value of the warrants, as at 31 December, was 49 pence per share.

14 Creditors – amounts falling due after more than one year

	Group 31 Dec 2001 £'000	Group 31 Dec 2000 £'000
Bank loans	**8**	12
Other loans	**1,322**	1,475
Obligations under finance leases	**23,064**	21,150
Accruals and deferred income	**365**	361
Other creditors	**47**	52
	24,806	23,050

Certain bank loans are secured on the assets of the applicable subsidiaries and bear interest at local commercial rates.
All other creditors are unsecured and non-interest bearing.
As at 31 December 2001 the Group had no other available credit facilities (December 2000: £13,748,000).

Notes to the financial statements

for the year ended 31 December 2001 *continued*

15 Maturity of debt

The maturity profile of the carrying amount of the Group's financial liabilities as at 31 December was as follows:

	Non-convertible bond 31 Dec 2001 £'000	**Bank loans & overdrafts 31 Dec 2001 £'000**	**Other loans 31 Dec 2001 £'000**	**Finance leases 31 Dec 2001 £'000**	**Total 31 Dec 2001 £'000**
Within one year	**40,000**	**6,018**	**724**	**14,909**	**61,651**
Between one and two years	**–**	**4**	**260**	**11,231**	**11,495**
Between two and five years	**–**	**4**	**716**	**11,196**	**11,916**
After five years or more	**–**	**–**	**346**	**637**	**983**
	40,000	**6,026**	**2,046**	**37,973**	**86,045**

	Non-convertible bond 31 Dec 2000 £'000	Bank loans and overdrafts 31 Dec 2000 £'000	Other loans 31 Dec 2000 £'000	Finance leases 31 Dec 2000 £'000	Total 31 Dec 2000 £'000
Within one year	–	5,750	807	10,614	17,171
Between one and two years	–	4	285	10,224	10,513
Between two and five years	–	8	678	10,685	11,371
After five years or more	–	–	512	241	753
	–	5,762	2,282	31,764	39,808

The following provides additional disclosure for bank loans and overdrafts and other loans:

	Group 31 Dec 2001 £'000	Group 31 Dec 2000 £'000	**Company 31 Dec 2001 £'000**	Company 31 Dec 2000 £'000
Within one year	**46,742**	6,557	**50,865**	–
Between one and two years	**264**	289	**–**	–
Between two and three years	**221**	249	**–**	–
Between three and four years	**383**	238	**–**	–
Between four and five years	**116**	199	**–**	–
After five years or more	**346**	512	**–**	–
	48,072	8,044	**50,865**	–

The following provides additional finance lease disclosure including the interest components of future minimum lease payments (Company: nil):

	Group 31 Dec 2001 £'000	Group 31 Dec 2000 £'000
Within one year	**17,370**	11,966
Between one and two years	**12,597**	11,967
Between two and three years	**8,188**	7,862
Between three and four years	**3,403**	1,970
Between four and five years	**569**	1,379
After five years or more	**492**	1,118
Total commitment	**42,619**	36,262
Less amounts representing interest	**(4,646)**	(4,498)
Present value of future minimum lease payments	**37,973**	31,764
Within one year	**14,909**	10,614
After one year	**23,064**	21,150

16 Provisions for liabilities and charges

	Group Deferred tax £'000	Group Onerous Lease Obligations £'000	Group Total £'000
At 1 January 2001	794	–	794
Provided in year	62	28,165	28,227
Exchange differences	–	(719)	(719)
At 31 December 2001	856	27,446	28,302
Amounts falling due within one year	–	19,953	19,953
Amounts falling due after one year	856	7,493	8,349

There is no unprovided deferred tax liability (note 7).

17 Called up share capital

	Group and Company 31 Dec 2001 £'000	Group and Company 31 Dec 2000 £'000
Authorised		
800,000,000 (2000: 800,000,000) Ordinary shares of 5p each	40,000	40,000
	40,000	40,000
Allotted, called up and fully paid		
582,112,320 (2000: 580,676,185) Ordinary shares of 5p each	29,106	29,034
	29,106	29,034

In April 2001, 1,388,895 new ordinary shares of 5 pence each were issued for a total consideration of £3,486,750 in respect of the acquisition of Stratis Business Centers Inc.

During 2001, 47,240 new ordinary shares of 5 pence each were issued in respect of exercised share options, see note 22.

18 Share premium account

	Group and Company (non distributable) £'000
At 1 January 2001	279,858
Issue costs*	(93)
At 31 December 2001	279,765

* Issue costs relate to additional costs associated with the Initial Public Offering in 2000.

Notes to the financial statements

for the year ended 31 December 2001 *continued*

19 Reserves

	Group Profit and loss £'000	Group Other (non distributable) £'000	Company Profit and loss £'000	Company Other (non distributable) £'000
At 1 January 2001	(106,417)	615	(23,432)	5,531
(Loss)/profit for the period	(118,238)	–	2,881	–
Premium on shares issued for acquisitions	–	3,417	–	3,417
Transfer to capital reserve	(34)	34	–	–
Exchange differences	207	(10)	(94)	–
At 31 December 2001	**(224,482)**	**4,056**	**(20,645)**	**8,948**

20 Cash flow statement

a) Reconciliation of operating profit to net cash inflow from operating activities

	Group 31 Dec 2001 £'000	Group 31 Dec 2000 £'000
Continuing operating activities		
Group operating (loss)/profit	**(103,955)**	3,933
Depreciation charge	**63,887**	40,546
Goodwill amortisation	**196**	–
(Profit)/loss on disposal of fixed assets	**(32)**	1,520
Impairment of goodwill	**4,916**	–
Impairment of fixed assets	**12,166**	–
Impairment of investment in own shares	**41,395**	–
Increase in provisions	**28,165**	–
(Increase) in stocks	**(109)**	(33)
Decrease/(increase) in debtors	**17,208**	(58,228)
(Decrease)/increase in creditors	**(19,841)**	130,161
Net cash inflow from continuing operating activities	**43,996**	117,899

The cash inflow for December 2001 includes a £12,144,000 outflow relating to the exceptional item charged during the year (note 3).

b) Financing and management of liquid resources

	Group 31 Dec 2001 £'000	Group 31 Dec 2000 £'000
Management of liquid resources		
New cash deposits	**(50,981)**	(95,897)
Repayment of cash deposits	**96,624**	17,185
	45,643	(78,712)
Financing		
New loans	**42,180**	13,945
Repayment of loans	**(4,566)**	(116,325)
Payment of principal under finance leases	**(16,793)**	(14,702)
Issue of equity shares	**1,985**	253,756
Issue costs	**(92)**	(17,908)
	22,714	118,766

20 Cash flow statement *continued*

c) Reconciliation of net cash flow to movement in net funds

	31 Dec 2001 £'000	31 Dec 2000 £'000
(Decrease)/increase in cash in the period	**(7,569)**	15,865
Cash (inflow)/outflow from change in borrowings and finance leases	**(20,821)**	117,082
Cash (inflow)/outflow from change in liquid resources	**(45,643)**	78,712
Change in net funds/borrowings resulting from cash flows	**(74,033)**	211,659
Acquisitions	**(783)**	–
Other non-cash items:		
New finance leases	**(22,901)**	(23,574)
Translation difference	**(1,267)**	1,830
Movement in net funds/borrowings in the year	**(98,984)**	189,915
Net funds/(borrowings) at 1 January	**130,013**	(59,902)
Net funds at 31 December	**31,029**	130,013

d) Analysis of changes in net funds in the period

	At 1 January 2001 £'000	Cash flow £'000	Acquisitions £'000	Other Non-cash changes £'000	Exchange movements £'000	At 31 December 2001 £'000
Cash at bank and in hand	31,432	(5,983)	–	–	(1,202)	24,247
Overdrafts	(1,203)	(1,586)	–	–	8	(2,781)
	30,229	(7,569)	–	–	(1,194)	21,466
Debt due after 1 year	(1,487)	91	–	36	30	(1,330)
Debt due within 1 year	(5,354)	(37,705)	(783)	(83)	(36)	(43,961)
Finance leases due after 1 year	(21,150)	11,430	–	(13,235)	(109)	(23,064)
Finance leases due within 1 year	(10,614)	5,363	–	(9,619)	(39)	(14,909)
	(38,605)	(20,821)	(783)	(22,901)	(154)	(83,264)
Liquid resources	138,389	(45,643)	–	–	81	92,827
	130,013	(74,033)	(783)	(22,901)	(1,267)	31,029

Liquid resources at 31 December 2001 include cash held on deposit of which £3.2 million (December 2000: £5.5 million) relates to collateral against bank loans and £28.4 million (December 2000: £35.4 million) relates to deposits which are held by banks as security for the issuance of bank guarantees to support lease commitments by Regus operating companies. These amounts are blocked and are not available for use by the business.

There are arrangements in place where cash balances and deposits with banks in the UK and the Netherlands can be offset against overdrawn accounts in the same bank.

Non-cash changes comprise new finance leases and reclassifications between categories.

Notes to the financial statements

for the year ended 31 December 2001 *continued*

21 Financial instruments

Details of the role that financial instruments have had during the year in managing the risks that the Group faces are discussed in the financial review on page 17 of the financial statements.

Short-term debtors and creditors and inter-company balances

Short term debtors and creditors and Intercompany balances have been excluded from all the following disclosures other than the currency risk disclosure.

Interest rate risk and currency profile of financial liabilities and assets

The following table analyses the currency and interest rate composition of the Group's financial liabilities and assets, comprising gross borrowings and deposits where applicable.

31 December 2001

	At floating rates £'000	At fixed rates £'000	Non-interest bearing £'000	Total £'000	Weighted average fixed interest rate %	Weighted average period for which rate is fixed Years
Financial liabilities						
Euro	(3,380)	(5,552)	–	(8,932)	7.7	2.3
Japanese Yen	–	(1,067)	–	(1,067)	6.6	1.3
Sterling	–	(42,926)	–	(42,926)	5.5	1.0
US Dollar	–	(28,428)	–	(28,428)	8.8	2.0
Others	(4,692)	–	–	(4,692)	11.0	2.4
	(8,072)	(77,973)	–	(86,045)		
Financial assets						
Australian Dollars	812	–	–	812	–	–
Euro	21,518	–	–	21,518	–	–
Japanese Yen	511	–	–	511	–	–
Sterling	80,904	–	–	80,904	–	–
US Dollar	8,511	–	–	8,511	–	–
Others	4,818	–	–	4,818	–	–
	117,074	–	–	117,074		
	109,002	(77,973)	–	31,029		
Of which:						
liquid resources	92,827	–	–	92,827		
gross borrowings	(8,072)	(77,973)	–	(86,045)		
cash	24,247	–	–	24,247		
	109,002	(77,973)	–	31,029		

The sterling fixed rate liabilities include £40 million five per cent non-convertible bonds. Once the fair value of the warrants issued in February 2002 is considered in accordance with FRS4, the effective annual finance charge is 17 per cent.

21 Financial instruments *continued*

31 December 2000

	At floating rates £'000	At fixed rates £'000	Non-interest bearing £'000	Total £'000	Weighted average fixed interest rate %	Weighted average period for which rate is fixed Years
Financial liabilities						
Euro	(1,491)	(3,037)	–	(4,528)	8.0	4.3
Japanese Yen	–	(895)	–	(895)	6.8	3.3
Sterling	(500)	(6,078)	–	(6,578)	9.8	3.8
US Dollar	–	(20,996)	–	(20,996)	8.9	4.7
Others	(6,053)	(758)	–	(6,811)	11.3	3.7
	(8,044)	(31,764)	–	(39,808)		
Financial assets						
Australian Dollar	1,961	–	–	1,961	–	–
Euro	32,571	–	39	32,610	–	–
Japanese Yen	2,393	–	2	2,395	–	–
Sterling	102,433	–	95	102,528	–	–
US Dollar	18,407	–	94	18,501	–	–
Others	11,784	–	42	11,826	–	–
	169,549	–	272	169,821		
	161,505	(31,764)	272	130,013		
Of which:						
liquid resources	138,389	–	–	138,389		
gross borrowings	(8,044)	(31,764)	–	(39,808)		
cash	31,160	–	272	31,432		
	161,505	(31,764)	272	130,013		

Maturity analysis of undrawn committed borrowing facilities

The Group has the following undrawn committed borrowing facilities available at the 31 December in respect of which all conditions precedent had been met at that date:

	31 Dec 2001 £'000	31 Dec 2000 £'000
Expiring within:		
One year or less	**–**	3,589
Between one and two years	**–**	–
In more than two years	**–**	–
	–	3,589

Notes to the financial statements

for the year ended 31 December 2001 *continued*

21 Financial instruments *continued*

Currency exposure

As explained in the Financial Review, to mitigate the effect of the currency exposures arising from its net investments overseas the Group borrows, where appropriate, in the local currencies arising from its net investments. Gains and losses arising on net investments overseas are recognised in the statement of total recognised gains and losses.

The tables below show the extent to which Group companies have monetary assets and liabilities in currencies other than their local currency. Foreign exchange differences on retranslation of these assets and liabilities are taken to the profit and loss account of the Group companies and the Group.

31 December 2001

	Net foreign currency monetary assets/(liabilities)					
Functional currency of Group operation	**Euro £'000**	**Japanese Yen £'000**	**Sterling £'000**	**US Dollar £'000**	**Others £'000**	**Total £'000**
Euro	**–**	**10,976**	**(56)**	**66,572**	**2,053**	**79,545**
Sterling	**817**	**–**	**–**	**(3,349)**	**6,458**	**3,926**
US Dollar	**(43)**	**–**	**–**	**–**	**1,196**	**1,153**
Others	**(4,123)**	**–**	**(137)**	**(7,712)**	**(1,245)**	**(13,217)**
	(3,349)	**10,976**	**(193)**	**55,511**	**8,462**	**71,407**

31 December 2000

	Net foreign currency monetary assets/(liabilities)					
Functional currency of Group operation	Euro £'000	Japanese Yen £'000	Sterling £'000	US Dollar £'000	Others £'000	Total £'000
Euro	–	–	27,390	6,268	144	33,802
Sterling	2,550	104	–	6,607	9,031	18,292
US Dollar	12	–	899	–	(110)	801
Others	27	5	54	2,023	2,450	4,559
	2,589	109	28,343	14,898	11,515	57,454

21 Financial instruments *continued*

Fair value disclosures

The following table provides a comparison by category of the carrying amounts and the fair value of the Group's financial assets and liabilities at 31 December.

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale, and excludes accrued interest.

Set out below the table is a summary of the methods and assumptions used for each category of financial instrument.

	Book value 31 Dec 2001 £'000	**Fair value 31 Dec 2001 £'000**	Book value 31 Dec 2000 £'000	Fair value 31 Dec 2000 £'000
Primary financial instruments held or issued to finance the Group's operations				
Short-term borrowings	**(61,651)**	**(60,499)**	(17,171)	(15,874)
Long-term borrowings	**(24,394)**	**(17,712)**	(22,637)	(16,837)
Short-term deposits	**92,827**	**92,827**	138,389	138,389
Cash at bank and in hand	**24,247**	**24,247**	31,432	31,432
Derivative financial instruments held to hedge the currency exposure on expected future results				
Forward foreign currency contracts	**–**	**–**	1,510	1,510
Currency options	**–**	**–**	–	45

Summary of methods and assumptions

Forward foreign currency contracts and currency options

Fair value is based on market price of comparable instruments at the balance sheet date.

Short-term deposits and borrowings, accounts receivable and payable

The fair value of short-term deposits, loans and overdrafts approximates to the carrying value because of the short maturity of these instruments. The fair value of finance leases has been calculated by discounting future cash flows at the Group's weighted average cost of capital.

Long-term borrowings

The fair value of bank loans and other loans approximates to the carrying value because the majority are floating rate where payments are reset to market rates at intervals of less than one year. The fair value of finance leases has been calculated by discounting future cash flows at the Group's weighted average cost of capital.

Hedges

There were no off-balance sheet (unrecognised) or on-balance sheet (deferred) gains or losses in respect of financial instruments used as hedges at the end of the year.

Notes to the financial statements

for the year ended 31 December 2001 *continued*

22 Employee share ownership plan ("ESOP")

During 1999 the Group established the Regus Employee Trust. The Trustee is Mourant & Co Trustees Limited which is an independent professional trust company residing in Jersey. The Trust is a discretionary trust for the benefit of employees (including directors). The ESOP provides for the issue of options and the payment of bonuses to the Group's employees (including directors) at the discretion of the Company. Regus plc is not deemed to be the sponsor of the ESOP for the purpose of UITF17.

The Trustee is not entitled to receive dividends.

At 31 December 2001 the Trust held 18,120,670 shares in Regus plc (note 11). The market value at 31 December 2001 was £9.3 million. Costs incurred by the Trust are expensed in the profit and loss account.

At 31 December 2001, awards over a total of 34,907,406 (2000: 28,047,451) shares had been granted to employees.
The awards have been issued in ten tranches and some of the awards had been granted subject to the performance of the Group (performance awards). Details of the awards are provided below:

Award Type	Date exercisable	Exercise price £	31 December 2000 Number of awards	New Awards	Lapses	Exercised awards	**31 December 2001 Number of awards**
Performance awards	1 January 03 to 1 January 07	1.455	9,354,204	–	(1,041,336)	–	**8,312,868**
	1 January 04 to 1 January 08	2.600	1,304,048	–	(333,014)	–	**971,034**
	26 March 04 to 26 March 06	2.560	–	1,942,441	(550,904)	–	**1,391,537**
	8 June 04 to 26 March 06	2.560	–	351,388	(49,897)	–	**301,491**
	8 June 04 to 26 March 06	2.275	–	84,876	–	–	**84,876**
	29 August 04	0.475	–	200,000	(150,000)	–	**50,000**
	12 November 04	0.335	–	195,000	–	–	**195,000**
Non-performance awards	1 January 03 to 1 January 07	1.455	7,309,132	–	(1,392,329)	–	**5,916,803**
	1 January 03 to 1 January 06	0.050	3,610,596	–	(402,801)	(47,240)	**3,160,555**
	1 January 04 to 1 January 08	2.600	2,443,518	–	(714,750)	–	**1,728,768**
	29 August 04	0.475	–	851,250	(801,250)	–	**50,000**
	12 November 04	0.335	–	3,235,000	(80,000)	–	**3,155,000**
			24,021,498	6,859,955	(5,516,281)	(47,240)	**25,317,932**

In addition, at 31 December 2000, awards over 798,024 American Depositary Shares (December 2000: 120,000) had been granted to employees employed by the Group. The awards have been issued in five tranches and some of the awards had been granted subject to the performance of the Group (performance awards). Details of the awards are provided below:

Award Type	Date exercisable	Exercise price $	31 December 2000 Number of awards	New Awards	Lapses	Exercised awards	**31 December 2001 Number of awards**
Performance awards	11 December 03 to 11 December 05	25.000	120,000	–	(120,000)	–	**–**
	26 March 04 to 26 March 06	18.188	–	185,636	(50,895)	–	**134,741**
	8 June 04 to 26 March 06	18.188	–	124,439	(24,760)	–	**99,679**
	8 June 04 to 26 March 06	16.200	–	83,949	–	–	**83,949**
	29 August 04	3.290	–	73,000	–	–	**73,000**
Non-performance awards	29 August 04	3.290	–	70,000	(50,000)	–	**20,000**
	12 November 04	2.300	–	141,000	(5,000)	–	**136,000**
			120,000	678,024	(250,655)	–	**547,369**

The Group also operates a SAYE share ownership plan however the number of shares involved is immaterial.

23 Capital commitments

	Group 31 Dec 2001 £'000	Group 31 Dec 2000 £'000	Company 31 Dec 2001 £'000	Company 31 Dec 2000 £'000
Contracts placed for future capital expenditure not provided in the financial statements	**5,246**	17,432	**–**	–

24 Operating lease commitments

At 31 December the Group had lease agreements in respect of properties, vehicles, plant and equipment, for which the payments extend over a number of years.

	Property 31 Dec 2001 £'000	Vehicles, plant and equipment 31 Dec 2001 £'000	Total 31 Dec 2001 £'000	Property 31 Dec 2000 £'000	Vehicles, plant and equipment 31 Dec 2000 £'000	Total 31 Dec 2000 £'000
Annual commitments under non-cancellable operating leases expiring:						
Within one year	**4,285**	**1,311**	**5,596**	2,601	1,903	4,504
Between one and five years	**54,452**	**4,012**	**58,464**	78,830	7,527	86,357
After five years	**157,112**	**182**	**157,294**	59,829	31	59,860
	215,849	**5,505**	**221,260**	141,260	9,461	150,721

	31 Dec 2001 Total £'000	31 Dec 2000 Total £'000
Minimum future lease payments under non-cancellable operating leases:		
Amounts due within one year	**221,354**	150,721
Amounts due between one and two years	**217,154**	149,732
Amounts due between two and three years	**202,742**	143,571
Amounts due between three and four years	**189,295**	114,692
Amounts due between four and five years	**171,033**	88,320
Amounts due after five years	**748,401**	245,420
	1,749,979	892,456

Notes to the financial statements

for the year ended 31 December 2001

25 Contingent liabilities

The Group has bank guarantees and letters of credit held with certain banks, totalling £28,358,000 (December 2000: £42,183,000). The Company also acts as a guarantor for certain obligations of other subsidiary entities.

26 Related party transactions

During the year ended 31 December 2001 the Group received management fees of £4.2 million (2000: £3.0 million) from its joint venture entities as listed on pages 56 and 57. At 31 December 2001, £4.1 million (2000: £1.9 million) was due to the Group from the joint ventures.

27 Ultimate parent company and controlling party

Maxon Investments BV, a company incorporated in The Netherlands is considered as the ultimate parent company. M L J Dixon is considered the ultimate controlling party by virtue of his effective controlling interest in the equity shares of the Company via Maxon Investments BV.

Notes to the financial statements

for the year ended 31 December 2001 *continued*

28 Summary of differences between UK and US GAAP financial statements

The Group's consolidated financial statements are prepared in accordance with UK GAAP, which differs in certain respects from US GAAP.

Effect of differences between UK and US GAAP

The following is a summary of the material adjustments to net loss which would have been required if US GAAP had been applied instead of UK GAAP:

	31 Dec 2001 £'000	31 Dec 2000 £'000
Net loss reported in accordance with UK GAAP	**(118,238)**	(13,530)
US GAAP adjustments:		
Franchise revenue recognition	**(682)**	–
Compensation expense related to options granted by shareholder	**–**	(6,836)
Compensation expense related to other variable plan options	**(6,809)**	3,997
Provision for closure costs	**27,446**	–
Deferred taxes	**5,438**	(474)
Write down ESOP shares	**41,395**	–
Net loss in conformity with US GAAP	**(51,450)**	(16,843)
Weighted average shares outstanding ('000)	**581,649**	502,773
Loss per ordinary share before extraordinary items (p)	**(8.8)**	(3.4)
Loss per ordinary share after extraordinary items (p)	**(8.8)**	(3.4)

The following is a summary of the material adjustments to shareholders' funds which would have been required if US GAAP had been applied instead of UK GAAP:

	31 Dec 2001 £'000	31 Dec 2000 £'000
Shareholders' funds recorded in accordance with UK GAAP	**88,445**	203,090
US GAAP adjustments:		
Franchise revenue recognition	**(682)**	–
Compensation expense related to other variable plan options[1]	**595**	10,778
Provision for closure costs	**27,446**	–
Deferred taxes	**7,341**	1,902
Employee share trust (investment in own shares)	**(3,805)**	(47,021)
Shareholders' funds in conformity with US GAAP	**119,340**	168,749

[1] Shareholders' funds were not affected by the differences between UK GAAP and US GAAP on these options as the difference resulted in recording an increase to expense and a corresponding increase to contributed capital, except for awards granted to employees where the company will pay a cash bonus for the difference between the fair value and the base price of the awards.

Principal Group companies

Name of Group entity	Country of incorporation	% of equity and votes held
Regus Business Centre SA	Argentina	100
Regus Centres Pty Ltd	Australia	100
Regus Business Centre GmbH	Austria	100
Regus Business Centre SA	Belgium	100
Skyport Brussels NV	Belgium	100
Regus Belgium NV	Belgium	100
Regus do Brasil Ltda	Brazil	100
Regus Business Centers Canada LP +++	Canada	60
Regus Business Centre Ltd	Canada	100
Regus Business Centre Chile Ltda	Chile	100
Regus Business Service Co Ltd	China	95
Regus Business Services (Shanghai) Ltd	China	100
Regus Colombia Ltda	Colombia	100
Regus Business Centre s.r.o	Czech Republic	100
Regus Copenhagen ApS	Denmark	100
Regus Business Centre (Egypt)	Egypt	100
Host Regus Ltd	England	100
Park Business Centres Ltd +++	England	50
Regus Business Centre Trading Ltd +	England	100
Regus Business Centres (UK) Ltd	England	100
Regus City Ltd	England	100
Regus Management Limited	England	100
Regus (UK) Limited	England	100
Regus Finland Oy	Finland	100
Regus Paris SA	France	100
Regus Roissy SA	France	100
Regus Business Centre GmbH	Germany	100
Regus Hellas SA	Greece	100
Regus Business Centre Ltd	Hong Kong	100
Regus Central Europe Trading and Servicing Ltd	Hungary	100
Regus Kft	Hungary	100
Europa Business Centre Ltd	Ireland	100
Regus Ireland Ltd	Ireland	100
Regus Finance	Ireland	100
Regus Franchise International Limited	Ireland	100
Regus Business Centres Ltd	Israel	100
Regus Business Centre Srl	Italy	100
Regus Business Centres Italia SpA +++	Italy	65
Regus Japan KK	Japan	100
Regus Korea Limited	Korea	100
SIA Regus Business Centre	Latvia	100
Regus Luxembourg SA	Luxembourg	100
Regus Centres Sdn Bhd	Malaysia	100

Name of Group entity	Country of incorporation	% of equity and votes held
Regus Business Centre S.A.de C.V.	Mexico	100
Regus Services S.A. de C.V.	Mexico	100
Regus Maroc SARL	Morocco	100
Skyport Business Services BV	Netherlands	100
Satellite Business Centre Schipol BV	Netherlands	100
Skyport International BV	Netherlands	100
Regus Amsterdam BV	Netherlands	100
Regus Business Centre BV	Netherlands	100
Regus International Holdings BV ++	Netherlands	60
Regus Business Centre Oslo AS	Norway	100
Regus Business Centre (Panama) S.A.	Panama	100
Regus Business Centre (Peru) S.A.	Peru	100
Regus Centres Inc	Philippines	100
Regus Business Centre Sp zoo	Poland	100
Regus Business Centre Ltda	Portugal	100
Regus Business Centre (Romania) S.R.L	Romania	100
LLC Regus Business Centre	Russia	100
Regus Centres Pte Ltd	Singapore	100
Regus Business Centre Bratislava s.r.o	Slovakia	100
Regus Business Centre SA	Spain	100
Business Centre Gothenburg AB	Sweden	100
Business Centre Stockholm AB	Sweden	100
Regus Business Centre (S) S.A.	Switzerland	100
Regus Business Centre (Tanzania) Ltd	Tanzania	100
Regus Centres (Thailand) Ltd	Thailand	100
Regus Tunisie SARL	Tunisia	100
Regus Is Merkezi Isletmeciligi Ltd Sirketi	Turkey	100
Regus Business Centres (Ukraine)	Ukraine	100
Regus Duke-Weeks Business Centers LLC +++	USA	50
Stratis Business Centers Inc	USA	100
Regus Business Centre Corp	USA	100
Regus Crescent Business Centers LLC +++	USA	50
Regus Equity Business Centers LLC +++	USA	50
Regus Venezuela C.A.	Venezuela	100
Regus Centre (Vietnam) Ltd	Vietnam	100

Investments in Group undertakings are held at cost all of which are included within the consolidated results. Shares listed above are held directly by Regus plc. where indicated by an asterisk.

Other than Regus Business Centre BV, Regus Business Centres (Holdings) Ltd and Regus Finance which are investment holding companies, and Regus Management Limited, which is a management company employing head office staff, the principal activity of all other companies is the provision of fully serviced business centres.

+ Our Azerbaijan business operates as a branch of this company.
++ Our South African business operates as a branch of this company.
+++ These are joint ventures.

Shareholder information

Annual General Meeting
The Annual General Meeting will be held at Regus City Point, 1 Ropemaker Street, London EC2Y 9HT, at 10.00am on Friday 26 April 2002. The proxy card accompanies this report.

Registrar
Administrative enquiries about the holding of Regus shares should be directed in the first instance to the Registrar whose address is:

Capita IRG Plc
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU
United Kingdom

Tel: +44 (0) 20 8639 2000
www.capita-irg.com

American Depositary Receipts (ADRs)
In the US, the Company's ordinary shares are traded in the form of American Depositary Receipts, evidenced by ADRs, and are traded under the symbol "REGS" on NASDAQ.

Each ADR represents five ordinary shares in Regus plc. Morgan Guaranty Trust Company of New York is the authorised Depositary Bank for the Regus ADR Programme. For enquiries on the ADR service please contact our representatives at:

Morgan Guaranty Trust Company of New York
PO Box 842006
Boston
MA 02284-2006
USA

Tel: +1 781 575 4328

Investor relations
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+44 (0) 1932 895 262

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Unsolicited mail
The Company is obliged by law to make its share register available to other organisations who may then use it for a mailing list. If you wish to limit the receipt of unsolicited mail you may do so by writing to:

The Mail Preference Service (MPS)
Freepost 22
London W1E 7EZ
United Kingdom

Tel: +44 (0) 845 703 4599

MPS will then notify the organisations which support its service that you do not wish to receive unsolicited mail.

Further information
Information about Regus may be found on the Regus website at:

www.regus.com, or telephone +44 (0) 845 303 3004 (international direct dial).

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AGM Notice

Dear shareholder

Annual General Meeting

I am pleased to give you information about the Annual General Meeting, to be held at City Point, 1 Ropemaker Street, London EC2Y 9HT at 10.00am on Friday 26 April 2002.

Action to be taken

A form of proxy is enclosed for you to complete according to the instructions printed on it and to send to the Company's registrar, Capita IRG Plc, PO Box 25, Beckenham, Kent BR3 4BR, to arrive no later than 10.00am on 24 April 2002. You will not be prevented from attending and voting at the meeting, if you subsequently find that you are able to do so.

Location of the meeting

The meeting is to be held at City Point in the Regus Conference Centre on the 9th floor. Further details are provided on page 63.

Recommendation

We, your directors, consider that all of the resolutions set out in the Notice of Annual General Meeting are in the best interests of shareholders and recommended that you vote in their favour, as we shall regarding our own shareholdings.

Yours faithfully

G G Gray

George Gray
Chairman

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Regus plc will be held at City Point, 1 Ropemaker Street, London EC2Y 9HT, on Friday 26 April at 10.00am to consider and, if thought fit, pass the following resolutions:

Ordinary business

1 Report and accounts

To receive the report of the directors and the financial statements for the year ended 31 December 2001 together with the report of the auditors.

2 Re-election of directors

To re-elect each of Stephen Stamp and Roger Orf as directors of the Company.

3 Re-appointment of auditors

To re-appoint KPMG as auditors to the Company and to authorise the directors to determine the auditors' remuneration for the year.

Special business

To consider and, if thought fit, pass the following resolutions of which Resolution 4 will be proposed as an ordinary resolution and Resolutions 5 and 6 will be proposed as special resolutions:

4 Directors' authority to allot ordinary shares

That, in addition to the authorities and powers granted to the directors by the shareholders at the Extraordinary General Meeting held on 13 February 2002, the directors be and are hereby authorised, generally and unconditionally, for the purposes of Section 80 of the Companies Act 1985, to exercise all powers of the Company to allot relevant securities up to the aggregate nominal amount of £9,701,888.55, being the lesser of (i) the Company's authorised but unissued share capital at the date of the resolution and (ii) the sum of (a) one-third of the Company's issued ordinary share capital at the date of the resolution and (b) any amounts outstanding at the date of the resolution which have previously been approved by

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shareholders to satisfy the Company's obligations to issue shares. The Company may make any offer or agreement prior to the expiry of this authority which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities after such expiry in accordance with this authority in pursuance of such offer or agreement. This authority shall expire immediately prior to the fifth anniversary of the passing of this resolution. Except for the powers and authorities granted to the directors by the shareholders at the Extraordinary General Meeting held on 13 February 2002, all unexercised authorities vested in the directors immediately prior to the general meeting at which this resolution is passed to allot relevant securities are hereby revoked. Expressions used in this resolution which are defined in the Companies Act 1985 shall have the same meaning as used herein.

5 Directors' power to disapply pre-emption rights

That if Resolution 4 is passed as an ordinary resolution, the directors be and are hereby empowered in accordance with section 95(1) of the Companies Act 1985 from time to time to allot equity securities pursuant to the general authority referred to in Resolution 4 to such persons and in such manner as the directors may think fit as if Section 89(1) of the Companies Act 1985 did not apply to any such allotment, provided that this power shall be limited to:

(i) the allotment of equity securities in connection with a rights issue, open offer or any other pre-emptive offer in favour of shareholders and in favour of holders of any other class of equity security in accordance with the rights attached to such class where the equity securities respectively attributable to the interests of such persons on a fixed record date proportionate (as nearly as may be) to the respective numbers of equity securities held by them or are otherwise allotted in accordance with the rights attaching to such equity securities subject to such exclusions or other arrangements as the Board may deem necessary or expedient to deal with fractional entitlements or legal or practical problems arising in any overseas territory, the requirements of any regulatory body or stock exchange or any other matter whatsoever; and

(ii) the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to the aggregate nominal amount of £1,455,283.25 being 5% of the ordinary share capital in issue at 8 March 2002.

This power shall enable the Company to make any offer or agreement before the expiry of such general authority which would or might require securities to be allotted after such expiry and the directors may allot equity securities after such expiry pursuant to any such offer or agreement. Expressions used in this resolution which are defined in the Companies Act 1985 shall have the same meanings as used herein. This authority shall expire immediately prior to the fifth anniversary of the passing of this resolution.

This power is in addition to the authorities and powers granted to the directors by the shareholders at the Extraordinary General Meeting held on 13 February 2002.

6 Company's authority to purchase ordinary shares

That the Company be and is hereby unconditionally and generally authorised for the purpose of Section 166 of the Companies Act 1985 to make market purchases (as defined in Section 163 of that Act) of ordinary shares of the Company provided that:

(i) the maximum number of shares which may be purchased is 58,211,331;

(ii) the minimum price which may be paid is the nominal value of each share;

(iii) the maximum price which may be paid for a share is an amount equal to 105% of the average of the middle market quotations of the Company's ordinary shares as derived from the Stock Exchange Daily Official List for the five business days immediately preceding the day on which such share is contracted to be purchased;

(iv) this authority shall expire at the conclusion of the Annual General Meeting of the Company held in 2003 (except in relation to the purchase of shares the contract for which was concluded before the expiry of such authority and which might be executed wholly or partly after such expiry) unless such authority is renewed prior to such time.

Registered Office:
3000 Hillswood Drive, Chertsey , Surrey KT16 ORS

By order of the Board
R J G Lobo
Company Secretary
8 March 2002

Any member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of the member. A proxy need not be a member of the Company.

Explanatory notes to the resolutions

Resolution 1 - Report and accounts

The directors are required to present to the Annual General Meeting, the directors' and auditors' reports and the accounts of the Company for the year ended 31 December 2001.

Resolution 2 - Re-election of directors

The Company's Articles of Association require that at the Annual General Meeting one-third in number of the directors must retire by rotation (including those directors who have held office at the time of the preceding two Annual General Meetings and who did not retire at either of them). In accordance with the Articles of Association, Stephen Stamp and Roger Orf (being those longest in the office since their last appointment) shall retire.

All the retiring directors offer themselves for re-election. Brief details of all the directors, including those seeking re-election at the meeting, are to be found in this Annual Report and Accounts.

Resolution 3 - Re appointment of auditors

The auditors of a company must be appointed at each general meeting at which accounts are presented. Resolution 3 proposes the re-appointment of the Company's existing auditors KPMG for a further year. The resolution also gives authority to the directors to determine the auditors' remuneration.

Resolution 4 - Directors' authority to allot ordinary shares

Under Section 80 of the Companies Act 1985, the directors require the authority of shareholders in general meeting to allot unissued shares of the Company and this resolution seeks to renew the authority last granted to the directors at the 2001 Annual General Meeting. Although this authority is not due to expire until the fifth anniversary of the date of the passing of the resolution, the directors consider it appropriate, and in line with current practice, to seek renewal of the authority on an annual basis. Accordingly, the directors seek the authority to allot, at their discretion, an amount of relevant securities up to the aggregate nominal amount of £9,701,888.55 being one-third of the issued ordinary share capital of the Company at the date of the resolution. The directors do not have any present intention of exercising this authority other than in respect of the Company's share option schemes and if necessary to satisfy the consideration payable for businesses acquired or to be acquired. Other than as set out immediately below, this authority supersedes all previous authorities and the directors intend to seek its renewal at next year's Annual General Meeting.

At an Extraordinary General Meeting held on 13 February 2001, the Company was granted authority to allot an aggregate nominal amount of up to £2,910,566.50 pursuant to a convertible debentures instrument or a warrant instrument under Section 80 of the Companies Act and as if Section 89(1) of the Companies Act did not apply to any such allotment. This authority will remain in force for the periods specified in the relevant resolutions and will be cumulative with the authorities requested at this Annual General Meeting.

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Resolution 5 - Directors' power to disapply pre-emption rights

Under Section 95 of the Companies Act 1985, the directors require the authority of shareholders in general meeting to disapply section 89 of the Companies Act 1985 so that they can allot authorised but unissued shares in the Company for cash other than to existing holders of ordinary shares pro rata to their holdings or alternatively, should appropriate circumstances arise, allot shares in connection with a rights issue (subject to certain limited exclusions for arrangements). At the present time there is not intention to exercise such authority.

The directors intend to seek renewal of the authority given by Resolution 5 at next year's Annual General Meeting.

In accordance with the guidelines issued by the investment committees of the Association of British Insurers and the National Association of Pension Funds, the Board confirms its intention that no more than 7.5% of the issued ordinary share capital of the Company will be allotted for cash on a non pre-emptive basis during any rolling three-year period.

Resolution 6 - Authority to purchase own shares

In certain circumstances, it may be advantageous for the Company to purchase its own ordinary shares and Resolution 6 seeks authority from the shareholders to make such purchases in the market. The directors consider it desirable for this general authority to be available to provided additional flexibility in the management of the Company's capital resources. The directors have no specific intention of using such authority and would do so only when, in the light of market conditions prevailing at the time, they believe that the effect of such purchases is in the best interests of shareholders generally. Any shares purchased under this authority will be cancelled and the number of shares in issue will be reduced accordingly.

Resolution 6 specifies the maximum number of shares which may be purchased (representing up to 10% of the Company's ordinary share capital in issue as at 8 March 2002) and the minimum and maximum prices at which they may be bought. The authority given by Resolution 6 will last until the conclusion of next year's Annual General Meeting (or, if earlier, 15 months from 26 April 2002 being the date of the passing of the present resolutions). The directors intend to seek renewal of this power at subsequent Annual General Meetings.

Information for shareholders and other participants

This section provides information for shareholders and other "participants" who have the rights in connection with this meeting.

Shareholders

Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the time by which a person must be entered on the register of members in order to have the right to attend or vote at the Annual General Meeting is 10.00am on Wednesday 24 April 2002. Entries in the register after that time will be disregarded in determining the rights of any person to attend or vote at the meeting. Such a shareholder is entitled to appoint a proxy or proxies to attend and, on a poll, to vote instead of him or her.
A proxy need not be a shareholder of the Company.
A prepaid proxy card is enclosed and, to be valid, it must be completed according to the instructions printed on it and sent to the Company's registrar Capita IRG Plc, PO Box 25, Beckenham, Kent BR3 4BR, to arrive no later than 10.00am on Wednesday 24 April 2002.

Shareholders who return completed proxy voting forms may still attend the meeting instead of their proxies and vote in person if they wish. In the event of a poll in which the shareholders votes in person, his/her proxy votes lodged with the Company will be excluded.

Regus plc Employee Trust
If you only hold shares through the Regus plc Employee Trust, you cannot participate in the Annual General Meeting.

Documents
Copies of the following items will be available for inspection at the registered office of the Company during normal business hours on any weekday excluding Saturdays, Sundays and public holidays, from the date of this notice until the date of the meeting. They will also be available for inspection at the place of the meeting for a period of at least 15 minutes before the meeting and until the conclusion of the meeting:

- The register of members;
- The register of directors' shareholdings;
- Directors' service contracts;
- Memorandum of Association;
- The Company's current Articles of Association.

9.00am	Doors open to shareholder registration desk and reception area
9.15am	Auditorium opens
10.00am	The Annual General Meeting begins

Shareholders will be asked to vote on each of the resolutions set out in this Notice of Annual of Annual General Meeting. Shareholders will have an opportunity to ask questions at the meeting.

Who may attend ?
Only shareholders are entitled to attend the meeting. Non-shareholders will be admitted, as non-participating observers, at the discretion of the Company.

Admission
You will be asked to register at the shareholder reception desk. If you have been appointed as a shareholder proxy, you should make this fact known to the shareholder reception desk.

Security
Shareholders are reminded that briefcases, cameras, laptop computers, tape-recorders, etc. are not allowed in the meeting room. We also ask that mobile phones be switched off during the meeting.

About the meeting
At the meeting you will be asked to vote on the resolutions which are set out in this Notice of Meeting. Explanatory notes are also provided. You may therefore find it helpful to bring this document with you. However, you do not need to bring any other documents. During the meeting the Chairman will give shareholders the opportunity to ask questions.

Smoking
Smoking is not permitted in the building.

The Annual General Meeting will be held on Friday 26 April at 10.00am. The venue is the Regus Conference Centre at City Point, 1 Ropemaker Street, London, EC2Y 9HT, and is on the 9th floor of the tower, accessible by lifts from the ground floor.

Five-year summary

Profit and loss data	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	**31 Dec 2001**
	£m	£m	£m	£m	**£m**
Turnover (including share of joint ventures)	58.8	111.6	200.6	429.2	**524.6**
Less: share of turnover of joint ventures	–	–	–	(8.1)	**(12.0)**
Turnover	58.8	111.6	200.6	421.1	**512.6**
Cost of sales (centre costs) before exceptional items	(50.3)	(97.2)	(183.5)	(320.8)	**(434.7)**
Exceptional items	–	–	–	–	**(38.0)**
Cost of sales (centre costs) after exceptional items	(50.3)	(97.2)	(183.5)	(320.8)	**(472.7)**
Gross profit (centre contribution)	8.5	14.4	17.1	100.3	**39.9**
Administration expenses before exceptional items	(13.1)	(29.6)	(60.0)	(86.9)	**(91.3)**
Exceptional items	–	–	(5.1)	(9.5)	**(52.5)**
Administration expenses after exceptional items	(13.1)	(29.6)	(65.1)	(96.4)	**(143.8)**
Group operating (loss)/profit	(4.6)	(15.2)	(48.0)	3.9	**(103.9)**
Share of operating loss in joint ventures	–	–	(0.1)	(1.0)	**(5.6)**
Total operating (loss)/profit: Group and share of joint ventures	(4.6)	(15.2)	(48.1)	2.9	**(109.5)**
Net interest payable and other similar charges	(1.8)	(2.0)	(6.8)	(6.8)	**(0.6)**
Loss on ordinary activities before tax	(6.4)	(17.2)	(54.9)	(3.9)	**(110.1)**
Tax on loss on ordinary activities	(0.5)	(0.8)	(1.5)	(9.9)	**(10.1)**
Loss on ordinary activities after tax	(6.9)	(18.0)	(56.4)	(13.8)	**(120.2)**
Minority interests	–	0.1	–	0.3	**1.9**
Retained loss for the financial period	(6.9)	(17.9)	(56.4)	(13.5)	**(118.3)**
Loss per ordinary share:					
Basic and diluted (p)	(1.7)	(4.2)	(12.0)	(2.7)	**(21.0)**
Weighted average number of shares outstanding (thousands)	400,000	427,729	469,486	497,889	**563,528**
Balance sheet data (at year end):					
Fixed assets and investments	24.0	54.7	126.8	244.6	**251.5**
Cash	14.8	48.0	72.1	169.8	**117.1**
Total assets	53.0	142.2	268.3	544.4	**486.3**
Creditors: amount falling due within one year	(46.9)	(99.3)	(189.9)	(317.9)	**(364.3)**
Creditors: amounts falling due after more than one year	(22.8)	(29.1)	(102.4)	(23.8)	**(33.2)**
Equity minority interests	(0.1)	(0.2)	(0.2)	(0.4)	**0.3**
Equity shareholders funds/(deficit)	(16.6)	13.9	(23.7)	203.1	**88.4**

Financial calendar 2002

AGM	Friday 26 April 2002

Announcements of quarterly results

Quarter 1	Thursday 7 May 2002
Quarter 2	Wednesday 7 August 2002
Quarter 3	Wednesday 6 November 2002

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www.regus.com

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Chertsey,
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United Kingdom

Registered number: 3548821