



Regus Group plc

Interim Report

Six months ended June 2005



Financial Highlights ^(a)

£216.0m

TURNOVER

(2004: £124.9m)

£48.7m

CENTRE CONTRIBUTION

(2004: £17.5m)

£22.3m

ADJUSTED EBITA ^(b)

(2004: £1.9m LOSS)

£37.4m

ADJUSTED EBITDA ^(b)

(2004: £11.4m)

£34.5m

ADJUSTED OPERATING CASH FLOW ^(b)

(2004: £3.8m)

1.7p

ADJUSTED EARNINGS PER SHARE ^(c)

(2004: 0.8p LOSS)

£5,584

REVPAW ^(d)

(2004: £4,961)

(a) Financial highlights compare H1, 2005 against H1, 2004.

(b) Adjusted results are those of subsidiaries before charging exceptional items of £3.0 million (H1 2004: £nil) and £1.3 million (H1 2004: £0.1 million) amortisation of intangibles.

(c) Adjusted earnings per share is profit after tax before charging exceptional items of £3.0 million (H1 2004: £nil) and £1.3 million (H1 2004: £0.1 million) amortisation of intangibles.

(d) REVPAW = Annualised Revenue per Available Workstation.

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Operational Highlights

MONTH ON MONTH SALES INCREASE THROUGHOUT H1 2005

CONTINUED DOUBLE-DIGIT GROWTH IN MEETING ROOM AND VIRTUAL OFFICE PRODUCTS

EXCELLENT PERFORMANCE IN EMEA

COSTS UNDER CONTROL ACROSS THE BUSINESS

CONTRACTED SYNERGIES ON HQ ACQUISITION CONTINUE TO BE REALISED

NINE NEW CENTRES OPENED IN THE PERIOD PLUS ACQUISITION OF SEVEN CENTRES IN MEXICO

SIX UNDERPERFORMING CENTRES CLOSED IN EUROPE

“We have delivered strong performance across all areas in the first half of 2005, increasing month on month revenues, profitability and cash generation. The business is performing well and we are delighted with the results in all three regions, in particular EMEA, which has seen excellent performance. We continue to pursue selective growth opportunities and acquisitions that will bring positive impact to our business in the future.”

MARK DIXON
CHIEF EXECUTIVE OFFICER

Operational and Financial Review

BASIS OF PREPARATION

International Financial Reporting Standards (IFRS)

From 1 January 2005, Regus Group plc adopted IFRS having previously reported its results under UK GAAP. The change to IFRS is a requirement for all companies listed in the European Union.

The financial information contained in this report has been prepared on the basis of the accounting policies contained within and has not been audited and does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The statutory accounts for 2004, which were prepared under UK GAAP, have been delivered to the Registrar of Companies. The auditors' opinion on those accounts was unqualified and did not contain a statement made under Section 232(2) or Section 237(3) of the Companies Act 1985.

Forward-looking statements

Statements in this report include 'forward-looking statements' that express expectations of future events or results. All statements based on future expectations rather than on historical facts are forward-looking statements that involve a number of risks and uncertainties, and Regus cannot give assurance that such statements will prove to be correct.

OPERATING REVIEW

The Group had a strong first half performance – both financially and operationally. The Group generated profits from operations of £22.3 million (H1 2004: £1.9 million loss), after adding back non recurring integration costs of £3.0 million (H1 2004: £nil) and amortisation of intangibles of £1.3 million (H1 2004: £0.1 million). This reflects a complete turnaround on previous years. The strong EBITDA to cash conversion in the period of £34.5 million has enabled the Group to make an early payment of \$20.0 million on its \$110.0 million term debt and invest in future growth. In August last year, we acquired HQ Global Holdings Inc in the USA and we were pleased to have contracted \$20.0 million of synergies well ahead of schedule. HQ has now been successfully integrated and we are now looking at further opportunities to optimise the performance of the enlarged Group and improve the quality of our business.

Since June 2004, we have made progress in each of the following areas:

- Improving yield and occupancy
- Improving EBITDA to cash conversion
- Using geographic presence to optimise economies of scale
- Leveraging our strong brands
- Establishing a strong foothold in growth economies
- Continued restructuring of the business
- Targeted marketing strategy

Improving yield and occupancy

We continue to leverage the existing business by increasing occupancy and improving yields through generation of higher service and ancillary revenues from our customer base. Average workstation prices have risen steadily month on month and this has been achieved through focusing on optimal pricing for our product.

Investment in products, the sales process and marketing have paid dividends with both our Meeting Room and Virtual Office businesses both reporting growth in excess of 20% on a like for like basis and now generating £12.6 million and £12.9 million of revenues respectively in the six months ended 30 June

2005. Going forward we will optimise workstation capacity in profitable centres and grow market share through:

- Furthering our business relationships with existing clients
- Attracting new clients
- Diversifying our customer portfolio
- Exploiting market trends
- Creating new product streams

Improving EBITDA to cash conversion

The Group continues to successfully translate earnings into cash with over 90% of EBITDA converted into cash during the period.

Using geographic presence to optimise economies of scale

Our global coverage and multi brand approach has proved successful in providing a fully packaged workplace solution which is flexible and responsive to customer needs. Regus continues to be the global market leader in all major serviced office markets. The consistency in approach and the ease and simplicity of using the Regus network around the world is a critical success factor in achieving customer satisfaction and recurring business.

Leveraging our strong brands

Our brand portfolio has allowed us to extend customer choice through offering a wide variety of locations, office configurations, term length and scope of services. Our network of brands enables us to access multiple markets and accommodate a wider customer choice.

Establishing a strong foothold in growth economies

Our objective is to execute disciplined demand led volume growth. During 2005, we opened five new centres in Asia Pacific, three in EMEA and one in North America. In addition seven centres were acquired in Mexico in May, 2005.

We enter the second half of 2005 with advanced plans to open 28 centres. While we have a very strong pipeline of new centres and acquisitions, we remain cautious in our selection to ensure the best return on investment and a low risk profile.

Capital investment in new centre openings was £3.0 million in H1 2005 and is anticipated to be circa £7.0 million in H2 2005. In addition we invested £2.9 million on acquisitions in the first half of 2005 and we have committed a further £1.8 million in H2 2005.

Continued restructuring of the business

We continue to manage our lease portfolio proactively to enable us to exit underperforming locations at minimal cost and risk. In addition, as part of our risk management strategy, we continue to renegotiate lease and property costs thereby enhancing our ability to maintain the quality of the business in tougher trading conditions.

Targeted marketing strategy

We have modified our marketing strategy so that spend is focused on direct marketing, rather than strategic brand advertising. Marketing spend, which was £1.7 million up on the same period last year, has been focused on the right promotion to the right customer. In addition our new internet site has been launched, with online bookings up 80% versus the same period last year.

Operational and Financial Review continued

FINANCIAL REVIEW

We are making good progress against our objectives. Additional costs incurred for the future development and growth of the business have been offset by cost savings delivered in line with our planned synergies.

Demand, as measured by number of enquiries, has increased when compared to the same period last year. Margins have improved on the back of strong revenue growth and a firm control on costs.

Our like for like revenues grew by 9.3%. There were good revenue performances in our products with strong growth in Meeting Rooms (+27%) and Virtual Offices (+23%) on a like for like basis.

The following table presents the revenue, centre contribution before exceptional items and workstations (i.e. weighted average number of available workstations) by geographic region on an IFRS basis (with 2004 restated).

	2005			2004		
	Revenue £m	Centre contribution £m	Workstations	Revenue £m	Centre contribution £m	Workstations
Regus	43.0	6.6	18,257	38.5	1.6	18,193
HQ	77.6	17.8	28,222	–	–	–
Americas	120.6	24.4	46,479	38.5	1.6	18,193
EMEA ^(a)	79.3	19.0	25,807	73.2	12.6	27,881
Asia Pacific	14.9	4.1	5,072	11.9	2.0	4,279
Total	214.8	47.5	77,358	123.6	16.2	50,353
UK fee	1.2	1.2	–	1.3	1.3	–
Group	216.0	48.7	77,358	124.9	17.5	50,353

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

Workstations

The Group has seen a significant improvement in workstation utilisation with occupancy improving by 4 percentage points to 76% (H1 2004: 72%). In EMEA, occupancy increased by 3 percentage points to 71%.

REVPAW grew by 12.6% to £5,584 on H1 2004 (£4,961) due to growth in occupancy, price and services.

Revenue

Group revenues of £216.0 million (H1 2004: £124.9 million) were £91.1 million above last year, principally due to the acquisition of HQ, completed in August 2004, which contributed £77.6 million revenues in H1 2005.

Revenue for the Americas was £82.1 million higher than last year, again mainly due to the acquisition of HQ. Strong activity coupled with benefits of integrating our back office and sales force has improved operational performance and profitability in the Americas region. This is illustrated by gross margins increasing from 4.2% to 20.2% between the two periods.

EMEA revenue of £79.3 million (H1 2004: £73.2 million) was achieved despite a 7.4% net capacity reduction in the region. We continue to optimise our inventory base in this region by addressing centres trading below their expectations, whilst managing existing centre performance.

Asia Pacific revenues of £14.9 million were £3.0 million higher than the same period last year (H1 2004: £11.9 million). New centre openings generated £1.7 million of revenue in the year.

Centre contribution

Centre contribution before exceptional items increased by £31.2 million to £48.7 million (H1 2004: £17.5 million). This represents a centre contribution margin of 22.5% (H1 2004: 14.0%). The improvement in centre contribution has been driven by a combination of increasing local revenues on reduced inventory and a lower cost base, following operational efficiency improvements and cost control programmes.

The Americas region accounted for £22.8 million of this improvement in centre contribution with HQ delivering £17.8 million. Centre contribution in EMEA increased by £6.4 million to £19.0 million, representing a margin of 24% of turnover (H1 2004: 17.2%). This improvement was principally realised through better trading. Centre contribution in Asia Pacific increased by £2.1 million to £4.1 million.

Administrative expenses and exceptional items (integration costs)

Administrative expenses in the period of £30.7 million included £3.0 million of non recurring integration costs. Administrative expenses excluding these costs amounted to £27.7 million which includes £7.2 million of HQ administration expenses.

Share of operating loss in joint ventures and associate

In the half year ended 30 June 2005, the share of joint venture losses attributable to Regus was £0.1 million (H1 2004: £0.6 million loss). Our UK associate reported a £2.1 million (H1 2004: £7.9 million) operating loss in the six month period ended 30 June 2005. Our 42% share holding resulted in a £0.9 million loss being charged to our Group profit and loss account in 2005 (H1 2004: £3.3 million loss).

Net interest

Net interest payable increased by £1.9 million to £3.1 million (H1 2004: £1.2 million). Interest payable on bank loans and overdrafts increased by £2.3 million as a result of the additional \$110.0 million debt taken on to finance the HQ acquisition. This was offset by £1.0 million (H1 2004: £0.6 million) of interest receivable on increased average free cash balances of £57.0 million in 2005 against £33.0 million in 2004.

Taxation

The tax charge for the period of £0.9 million (H1 2004: £0.9 million tax credit), includes £1.8 million foreign tax charge (H1 2004: £nil) and £0.9 million tax credit (H1 2004: £0.9 million tax credit) arising from the recognition of a deferred tax asset on prior year losses.

Adjusted profit after tax and earnings per share pre exceptional items and intangible amortisation

Profit after tax of £13.0 million (H1 2004: £6.2 million loss), adjusted for exceptional items of £3.0 million (H1 2004: £nil) and intangible amortisation of £1.3 million (H1 2004: £0.1 million) was £17.3 million, a £23.4 million improvement on the prior year.

Adjusted earnings per share were 1.7p (H1 2004: 0.8p loss per share).

Liquidity and capital resources

Cash and cash equivalents at 30 June 2005 was £81.5 million (December 2004: £82.3 million) of which £65.6 million (December 2004: £64.2 million) was free cash. A \$20.0 million early repayment on the \$110.0 million term debt was made in March 2005.

Indebtedness (excluding finance leases) at 30 June 2005 was £52.9 million (December 2004: £64.1 million). The Group had outstanding finance lease obligations of £9.6 million (December 2004: £13.2 million), of which £4.7 million is due within one year.

Net cash within the business was £19.0 million at June 2005, up from £5.0 million at December 2004.

Cash generated from operations in the half year ended 30 June 2005 was £31.5 million. Net cash inflow before financing activities was £19.1 million after paying £2.9 million on acquisitions (net of cash assumed), net capital expenditure of £5.5 million, interest received of £0.9 million and £0.1 million paid to acquire the minority interest in our Italian joint venture.

The Group is financed through working capital and a \$155.0 million senior credit facility, which was entered into in August 2004, and is repayable between now and August 2010. The Group was in compliance with the covenant conditions of the senior credit facility throughout the period. At 30 June 2005, \$81.75 million of the Term A debt was outstanding, \$20.0 million of the Letter of Credit facility was fully utilised and the \$25.0 million revolver facility was un-drawn and available until August 2008. The Group seeks to maintain comfortable headroom on committed facilities at all times and ensure all future contractual commitments can be covered by the existing facilities.

Both the Group's cash and debt is kept at short term floating interest rates owing to the current cash flow generation of the business, the debt is deemed non-core and earlier repayment is probable.

PRIORITIES

The focus for the remainder of the year is to continue to improve the quality of our business through a combination of activities:

- Increasing revenues through increasing occupancy across the portfolio, driving better yields from high demand inventory and maximising meeting room utilisation.
- Using the benefits of our scale, geographic coverage and multi brand offering to leverage our purchasing power and rationalise back office administrative operations.
- Optimise revenue synergies achieved through selling across brands and geographic regions.
- Proactively managing our lease portfolio to enable us to exit underperforming locations at minimal cost and risk. In addition we will continue to manage our inventory to ensure we meet demand and maximise occupancy and profitability.

As part of our risk management strategy we are focused on introducing more flexibility in our cost base so costs can be varied in line with revenues.

OUTLOOK

We will continue to invest in the long term growth of the business. Favourable market drivers and strong cash generation have provided a catalyst for the Group to focus on a disciplined expansion programme of new centres and bolt-on acquisitions.

Looking forward, we expect the underlying trends experienced in the first six months of the year to continue and we are confident of making further progress in the second half of this year.

Consolidated Income Statement

	notes	Six months ended 30 June 2005 (unaudited) £m	Six months ended 30 June 2004 (unaudited) Restated £m	Full year ended 31 Dec 2004 (unaudited) Restated £m
Revenue	2	216.0	124.9	312.2
Cost of sales (centre costs) before impairments and onerous lease charges		(167.3)	(107.4)	(259.9)
Impairments and onerous lease charges		-	-	(6.6)
Cost of sales (centre costs) after impairments and onerous lease charges		(167.3)	(107.4)	(266.5)
Gross profit (centre contribution)		48.7	17.5	45.7
Administrative expenses before integration costs		(27.7)	(19.5)	(44.2)
Integration costs		(3.0)	-	(2.0)
Administrative expenses after integration costs		(30.7)	(19.5)	(46.2)
Profit/(loss) from operations		18.0	(2.0)	(0.5)
Share of loss of joint ventures		(0.1)	(0.6)	(0.7)
Share of loss of associate		(0.9)	(3.3)	(3.1)
Profit/(loss) before interest and taxation		17.0	(5.9)	(4.3)
Interest receivable		1.0	0.6	1.4
Interest payable		(4.1)	(1.8)	(3.7)
Profit/(loss) on ordinary activities before tax		13.9	(7.1)	(6.6)
Tax (charge)/credit		(0.9)	0.9	2.6
Profit/(loss) on ordinary activities after tax		13.0	(6.2)	(4.0)
Attributable to:				
Equity shareholders		13.0	(5.9)	(3.7)
Minority interest		-	(0.3)	(0.3)
		13.0	(6.2)	(4.0)
Earnings/(loss) per ordinary share:				
Basic and diluted (p)	4	1.3	(0.8)	(0.4)

Results are presented under IFRS with comparatives restated. See note 9.
All results relate to continuing operations.

Consolidated Balance Sheets

	As at 30 June 2005 (unaudited)	As at 30 June 2004 (unaudited) Restated	As at 31 Dec 2004 (unaudited) Restated
notes	£m	£m	£m
Non-current assets			
Goodwill	105.9	–	96.0
Other intangible assets	36.5	2.0	37.2
Property, plant and equipment	69.8	50.7	76.1
Deferred tax assets	7.2	3.6	6.2
	219.4	56.3	215.5
Current assets			
Trade and other receivables	87.4	56.6	76.0
Cash and cash equivalents	81.5	58.3	82.3
	168.9	114.9	158.3
Total assets	388.3	171.2	373.8
Current liabilities			
Trade and other payables	(70.7)	(57.0)	(71.0)
Customer deposits	(52.8)	(33.2)	(48.8)
Deferred income	(39.1)	(21.7)	(34.0)
Obligations under finance leases	(4.7)	(7.1)	(7.3)
Bank overdrafts and loans	(7.6)	(3.0)	(7.7)
Provisions	5 (12.0)	(12.4)	(13.0)
	(186.9)	(134.4)	(181.8)
Net current liabilities	(18.0)	(19.5)	(23.5)
Total assets less current liabilities	201.4	36.8	192.0
Non-current liabilities			
Obligations under finance leases	(4.9)	(7.7)	(5.9)
Loans	(41.7)	(5.8)	(52.2)
Accruals	(26.3)	(26.7)	(25.9)
Provision for deficit on joint ventures and associate	(6.8)	(5.9)	(5.8)
Provisions	5 (7.9)	(11.8)	(8.9)
	(87.6)	(57.9)	(98.7)
Total liabilities	(274.5)	(192.3)	(280.5)
Net assets/(liabilities)	113.8	(21.1)	93.3
Equity			
Share capital	49.3	39.4	49.3
Share premium account	153.5	44.4	153.5
Other reserves	(22.7)	(22.7)	(22.7)
Retained earnings	(65.1)	(81.0)	(85.7)
Equity attributable to shareholders	115.0	(19.9)	94.4
Minority interests	(1.2)	(1.2)	(1.1)
Total equity	113.8	(21.1)	93.3

Consolidated Cash Flow Statement

	notes	Six months ended 30 June 2005 (unaudited) £m	Six months ended 30 June 2004 (unaudited) Restated £m	Full year ended 31 Dec 2004 (unaudited) Restated £m
Cash generated from operations	6	31.5	3.8	21.0
Interest paid on finance leases		(0.5)	(1.4)	(0.5)
Interest paid on credit facilities		(3.5)	(0.2)	(2.8)
Tax paid		(0.8)	(0.9)	(1.6)
Net cash flows from operating activities pre Chapter 11 payments		26.7	1.3	16.1
Chapter 11 payments		–	(27.8)	(27.8)
Net cash flows from operating activities after Chapter 11 payments		26.7	(26.5)	(11.7)
Investing activities				
Purchase of subsidiary undertakings		(2.9)	–	(173.7)
Cash acquired with subsidiary		–	–	10.8
Investment in joint venture		(0.1)	–	–
Sale of tangible fixed assets		0.6	0.1	0.6
Purchase of tangible fixed assets		(6.1)	(1.6)	(5.3)
Interest received		0.9	0.5	1.7
Cash flows from investing activities		(7.6)	(1.0)	(165.9)
Financing activities				
New loans		–	0.1	61.2
Repayment of loans		(14.3)	(0.1)	(1.6)
Payment of principal under finance leases		(4.2)	(3.3)	(7.7)
Issue of equity shares		–	3.2	125.8
Debt issue costs		–	–	(4.7)
Issue costs on shares issued		–	–	(3.6)
Sale of own shares held by ESOP		–	2.1	2.0
Cash flows from financing activities		(18.5)	2.0	171.4
Net increase/(decrease) in cash and cash equivalents		0.6	(25.5)	(6.2)
Cash and cash equivalents at beginning of period		82.3	85.0	85.0
Effect of exchange rate fluctuations on cash held		(1.4)	(1.2)	3.5
Cash and cash equivalents at end of period	8	81.5	58.3	82.3

Included within cash and cash equivalents is cash at bank and in hand of £65.6 million (December 2004: £64.2 million) and liquid resources of £15.9 million (December 2004: £18.1 million). See note 8 for additional analysis.

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Group						Total equity £m
	Share capital £m	Share premium account £m	Foreign currency translation reserve £m	Other reserves £m	Retained earnings £m	Minority interests £m	
Balance at 31 Dec 2003	39.4	44.4	–	(22.7)	(75.8)	(1.1)	(15.8)
Loss for the period	–	–	–	–	(5.9)	(0.3)	(6.2)
Sales of shares held by ESOP	–	–	–	–	2.1	–	2.1
Exchange differences	–	–	(1.4)	–	–	0.2	(1.2)
Balance at 30 June 2004	39.4	44.4	(1.4)	(22.7)	(79.6)	(1.2)	(21.1)
Profit for the period	–	–	–	–	2.2	–	2.2
Exchange differences	–	–	(7.1)	–	–	0.1	(7.0)
Placing and Open Offer	9.9	112.7	–	–	–	–	122.6
Issue costs on Placing and Open Offer	–	(3.6)	–	–	–	–	(3.6)
Share based payments	–	–	–	–	0.2	–	0.2
Balance at 31 Dec 2004	49.3	153.5	(8.5)	(22.7)	(77.2)	(1.1)	93.3
Profit for the period	–	–	–	–	13.0	–	13.0
Exchange differences	–	–	7.4	–	–	(0.1)	7.3
Share based payments	–	–	–	–	0.2	–	0.2
Balance at 30 June 2005	49.3	153.5	(1.1)	(22.7)	(64.0)	(1.2)	113.8

This statement is unaudited.

Notes

1 ACCOUNTING POLICIES ADOPTED IN 2005 REPORTED FINANCIAL INFORMATION

Basis of preparation

The Group has adopted IFRS from 1 January 2004 ("the date of transition") based on the standards expected to be in issue at 31 December 2005.

EU law (IAS Regulation EC 1606/2002) requires that the next annual consolidated financial statements of the company, for the year ending 31 December 2005, be prepared in accordance with International Financial Reporting Standards (IFRSs) adopted for use in the EU ("adopted IFRSs").

This interim financial information has been prepared in accordance with adopted IFRSs for interim financial statements (adopted IAS 34 Interim Financial Reporting). These are the Group's first adopted IFRS condensed consolidated interim financial statements for part of the period that will be covered by the first adopted IFRS annual financial statements and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

These consolidated interim financial statements have been prepared on the basis of adopted IFRSs in issue that are effective or available for early adoption at 31 December 2005, the Group's first annual reporting date at which it is required to use adopted IFRSs.

However, the adopted IFRSs that will be effective (or available for early adoption) in the annual financial statements for the year ending 31 December 2005 are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period will be determined finally only when the annual financial statements are prepared for the year ending 31 December 2005.

First time application

In accordance with IFRS 1 the Group is entitled to a number of voluntary and mandatory exemptions from full restatement, which have been adopted as follows:

- The basis of accounting for pre-transition combinations under UK GAAP has not been revisited.
- The reserve for cumulative foreign currency translation differences has been set to zero at the transition date.
- IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that had not been vested at 1 January 2005.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent company (Regus Group plc) and its subsidiaries. The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

The results of subsidiaries are consolidated, using the purchase method of accounting, from the date on which control of net assets and operations of the acquired company are effectively transferred to the Group. Similarly, the results of subsidiaries divested cease to be consolidated from the date on which control of the net assets and operations are transferred out of the Group.

Goodwill

Goodwill represents the difference between cost of acquisition over the share of the fair value of identifiable net assets (including intangible assets) of a subsidiary, associate or joint venture at the date of acquisition.

Positive goodwill is stated at cost less any provision for impairment in value. An impairment test is carried out annually. Positive goodwill is allocated to cash generating units for the purpose of impairment testing.

Notes continued

Intangible assets

Intangible assets acquired separately from the business are capitalised at cost. Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if their fair value can be measured reliably on initial recognition.

Intangible assets are amortised on a straight line basis over the estimated useful life of the assets as follows:

HQ brand	10-20 years
Computer software	2 years
Customer lists	1-2 years

Leases

Plant and equipment leases for which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases, including all of the Group's building leases are categorised as operating leases.

Finance leases

Plant and equipment acquired by way of a finance lease is capitalised at the commencement of the lease at the lower of its fair value and the present value of the minimum lease payments at inception. Future payments under finance leases are included in creditors, net of any future finance charges.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. Finance charges are recognised in the income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating leases

Minimum lease payments under operating leases are recognised in the income statement on a straight line basis over the lease term. Lease incentives and rent free periods are included in the calculation of minimum lease payments.

The commencement of the lease term is the date from which the Group is entitled to use the leased asset. The lease term is the non-cancellable period of the lease, together with any further periods for which the Group has the option to continue to lease the asset and when at the inception of the lease it is reasonably certain that the Group will exercise that option.

Contingent rentals include rent increases based on future inflation indices or non-guaranteed rental payments based on centre turnover or profitability and are excluded from the calculation of minimum lease payments. Contingent rentals are recognised in the income statement as they are incurred.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight line basis over the estimated useful life of the assets as follows:

Fixtures and fittings	Over the shorter of the lease term and 10 years
Furniture	5 years
Office equipment and telephones	5 years
Motor vehicles	4 years
Computer hardware	3 years

Investments in associates and joint ventures

Investments in associates and joint ventures are equity accounted and carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value from the date that significant influence commences until the date that significant influence ceases.

The profit and loss account reflects the Group's share of the results of operations of the joint venture or associate. To the extent that losses of an associate or joint venture exceed the carrying amount of the investment, the investment is reported at nil value and additional losses are only provided if the Group has incurred legal or constructive obligations.

Revenue

Revenue from the provision of services to customers is measured at the fair value of consideration received or receivable (excluding sales taxes).

Workstations

Workstation revenue is recognised in the income statement as it falls due under the customer rental contract or service agreement. Amounts invoiced in advance are deferred and recognised as revenue upon provision of the service.

Customer service income

Service income (including the rental of meeting rooms) is recognised on a monthly basis as services are rendered. In circumstances where Regus acts as an agent for the sale and purchase of goods to customers, only the commission fee earned is recognised as revenue.

Management and franchise fees

Fees received for the provision of initial and subsequent services are recognised as revenue as the services are rendered. Fees charged for the use of continuing rights granted by the agreement, or for other services provided during the period of the agreement, are recognised as revenue as the services are provided or the rights used.

Pensions and employee benefits

The Group's contributions to defined contribution plans and other paid and unpaid benefits earned by employees are charged to the profit and loss account in the period to which the contributions relate.

Share based payments

The Group issues share options to certain employees (including directors). The fair value of these payments is measured at fair value at the date of grant by use of the Black – Scholes model and charged to profit and loss on a straight line basis over the vesting period. No cost is recognised for awards that do not ultimately vest due to the failure to meet non market conditions.

Deferred taxation

Deferred tax is provided, using the liability method, on all taxable temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts.

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax balances are not discounted.

Notes continued

Provisions

Provisions are recognised when an obligation exists for a future liability in respect of a past event and where the amount of the obligation can be reliably estimated.

Restructuring provisions are made for direct expenditures of a business reorganisation where the plans are sufficiently detailed and well advanced, and where the appropriate communication to those affected has been undertaken at the balance sheet date.

Provision is made for onerous contracts to the extent that the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be delivered, discounted using the Group's weighted average cost of capital.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities, goodwill and fair value adjustments denominated in foreign currencies are translated using the closing rate of exchange at the balance sheet date and the gains or losses on translation are taken to the income statement.

The results and cash flows of overseas operations are translated using the average rate for the period. Assets and liabilities, including goodwill and fair value adjustments, of overseas operations are translated using the closing rate with all exchange differences arising on consolidation being recognised in the foreign currency translation reserve. Exchange differences are released to the income statement on disposal.

Financial instruments

Financial instruments are recorded initially at fair value and their subsequent measurement depends on the designation of the instrument.

Cash deposits and trade receivables are classified as loans and receivables and are held at amortised cost. All other financial assets are classified as available for sale and changes in fair value are taken to reserves. All debt is held at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and liquid resources.

Impairment

The carrying amount of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

2 SEGMENTAL REPORTING

	H1 2004 £m	Like for Like £m	Expansions £m	Closures £m	Exchange £m	H1 2005 £m
Group						
Revenue	124.9	136.5	81.9	(1.3)	(1.1)	216.0
Centre contribution	17.5	30.7	18.0	0.1	(0.1)	48.7
(Loss)/profit from operations	(2.0)	9.1	8.8	0.2	(0.1)	18.0
EBITDA	11.4	20.2	17.4	0.1	(0.3)	37.4
EBITDA (%)	9.1	14.8	21.2	(7.7)	–	17.3
Average occupancy (%)	72.0	72.6	77.4	32.4	–	76.2
REVPAW (£)	4,961	5,601	5,559	3,048	–	5,584
Americas						
Revenue	38.5	43.3	79.9	(0.2)	(2.4)	120.6
Centre contribution	1.6	6.9	17.9	–	(0.4)	24.4
(Loss)/profit from operations	(3.4)	1.4	8.9	–	(1.1)	9.2
EBITDA	2.5	6.6	17.4	–	(1.4)	22.6
EBITDA (%)	6.5	15.2	21.8	–	–	18.7
Average occupancy (%)	79.7	79.9	78.7	23.5	–	79.5
REVPAW (£)	4,219	4,747	5,628	2,553	–	5,189
EMEA						
Revenue	73.2	78.7	0.3	(1.1)	1.4	79.3
Centre contribution	12.6	18.5	0.1	0.1	0.3	19.0
Profit from operations	3.5	9.2	–	0.2	0.1	9.5
EBITDA	9.2	13.5	–	0.1	0.2	13.8
EBITDA (%)	12.6	17.2	–	(9.1)	–	17.4
Average occupancy (%)	67.5	67.3	29.8	34.4	–	70.6
REVPAW (£)	5,262	5,995	2,423	3,159	–	6,146
Asia Pacific						
Revenue	11.9	13.3	1.7	–	(0.1)	14.9
Centre contribution	2.0	4.1	–	–	–	4.1
Profit/(loss) from operations	0.7	2.4	(0.1)	–	(0.1)	2.2
EBITDA	2.3	3.3	–	–	(0.1)	3.2
EBITDA (%)	19.3	24.8	–	–	–	21.5
Average occupancy (%)	75.2	75.8	49.8	–	–	74.7
REVPAW (£)	5,562	6,269	4,102	–	–	5,875
Other						
Revenue	1.3	1.2	–	–	–	1.2
Centre contribution	1.3	1.2	–	–	–	1.2
(Loss)/profit from operations	(2.8)	(3.9)	–	–	1.0	(2.9)
EBITDA	(2.6)	(3.2)	–	–	1.0	(2.2)

Notes continued

3 RECONCILIATION OF PROFIT/(LOSS) BEFORE INTEREST AND TAX TO ADJUSTED EBIT AND EBITDA

	Six months ended 30 June 2005 (unaudited) £m	Six months ended 30 June 2004 (unaudited) £m	Full year ended 31 Dec 2004 (unaudited) £m
Profit/(loss) before interest and tax	17.0	(5.9)	(4.3)
Add back:			
Non-recurring items (impairments, onerous lease charges and integration costs)	3.0	–	8.6
Share of loss of joint venture and associate	1.0	3.9	3.8
Adjusted EBIT	21.0	(2.0)	8.1
Add back:			
Depreciation	15.1	13.3	30.1
Amortisation	1.3	0.1	1.0
Adjusted EBITDA	37.4	11.4	39.2

4 EARNINGS/(LOSS) PER SHARE (BASIC AND DILUTED)

	Six months ended 30 June 2005 (unaudited) £m		Six months ended 30 June 2004 (unaudited) £m		Full year ended 31 Dec 2004 (unaudited) £m	
	£m	p	£m	p	£m	p
Profit/(loss) for the period retained for equity shareholders	13.0	1.3	(5.9)	(0.8)	(3.7)	(0.4)
Add back:						
Non-recurring cost of sales	–	–	–	–	6.6	0.8
Non-recurring administration expenses	3.0	0.3	–	–	2.0	0.2
Amortisation of intangibles	1.3	0.1	0.1	–	1.0	0.1
Profit on sale of subsidiaries	–	–	–	–	0.1	–
Tax effect on non-recurring items	–	–	–	–	(2.2)	(0.3)
Profit/(loss) for the period before non-recurring items, amortisation and profit on sale of subsidiaries	17.3	1.7	(5.8)	(0.8)	3.8	0.4
		'000		'000		'000
Ordinary shares – basic	985,800		787,591		859,702	
Ordinary shares – diluted	988,611		787,591		859,702	

In 2004 share options were not included in the computation of diluted loss per share due to them being anti-dilutive.

5 PROVISIONS

	Six months ended 30 June 2005 (unaudited) £m	Six months ended 30 June 2004 (unaudited) £m	Full year ended 31 Dec 2004 (unaudited) £m
1 January	21.9	52.6	52.6
Provided in the period	0.1	–	2.7
Utilised in the period	(2.2)	(26.7)	(32.1)
Provisions released	–	–	(0.6)
Transferred to accruals	(0.4)	(0.8)	–
Exchange differences	0.5	(0.9)	(0.7)
At end of period	19.9	24.2	21.9
Analysed between:			
Amounts due within one year	12.0	12.4	13.0
Amounts due after one year	7.9	11.8	8.9

6 RECONCILIATION OF PROFIT/(LOSS) FROM OPERATIONS TO CASH GENERATED FROM OPERATIONS

	Six months ended 30 June 2005 (unaudited) £m	Six months ended 30 June 2004 (unaudited) £m	Full year ended 31 Dec 2004 (unaudited) £m
Profit/(loss) from operations	18.0	(2.0)	(0.5)
Adjustments for:			
Depreciation charge	15.1	13.3	30.1
Loss on disposal of fixed assets	0.3	0.2	–
Amortisation of intangible assets	1.3	0.1	1.0
Impairment of fixed assets	–	–	3.2
Decrease in provisions	(2.0)	(3.2)	(5.6)
Operating cashflows before movements in working capital	32.7	8.4	28.2
(Increase)/decrease in debtors	(5.5)	(2.5)	(1.0)
Increase/(decrease) in creditors	4.3	(2.1)	(6.2)
Cash generated from operations	31.5	3.8	21.0

7 CONTINGENT LIABILITIES

The Group has bank guarantees and letters of credit held with certain banks amounting to £21.8 million (December 2004: £22.9 million), the Group acts as a guarantor for certain lease obligations of its UK associate.

Notes continued

8 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 Jan 2005 £m	Cash flow £m	Non-cash changes £m	Exchange movement £m	At 30 June 2005 £m
Cash at bank and in hand	64.2	1.1	–	0.3	65.6
Overdrafts	(0.4)	0.1	–	–	(0.3)
	63.8	1.2	–	0.3	65.3
Debt due after one year	(55.8)	13.7	–	(2.8)	(44.9)
Debt due within one year	(7.9)	0.6	–	(0.4)	(7.7)
Unamortised portion of discount and financing fees	4.1	–	(0.4)	–	3.7
Finance leases due after one year	(5.9)	0.4	0.9	(0.3)	(4.9)
Finance leases due within one year	(7.3)	3.9	(0.9)	(0.4)	(4.7)
	(72.8)	18.6	(0.4)	(3.9)	(58.5)
Liquid resources	18.1	(2.2)	–	–	15.9
	9.1	17.6	(0.4)	(3.6)	22.7

Liquid resources at 30 June 2005 include cash held on deposit of which £2.4 million (December 2004: £2.7 million) relates to collateral against bank loans; £11.6 million (December 2004: £13.5 million) relates to deposits which are held by banks and landlords as security against lease commitments by Regus operating companies and £1.9 million (December 2004: £1.9 million) held by the ESOP Trust. These amounts are blocked and not available for use by the business.

Non-cash changes include movements between categories.

9 RESTATEMENT OF FINANCIAL INFORMATION FOR 2004 UNDER IFRS**1 Analysis of impact**

The tables below illustrate the impact of IFRS restatement on previously reported results under UK GAAP.

a. Income statement (un-audited)

	notes	Year ended 31 Dec 2004 £m	Six months ended 30 June 2004 £m
Group operating loss reported under UK GAAP ^(a)		(3.2)	(3.1)
Lease accounting	2.1	1.2	1.1
Share options	2.2	(0.2)	–
Amortisation of goodwill	2.3a	2.0	–
Amortisation of intangible assets	2.3b	(0.3)	–
Loss from operations on an IFRS basis		(0.5)	(2.0)
Share of result of joint ventures ^(b)		(0.7)	(0.6)
Share of result of associate ^(b)	2.4	(3.1)	(3.3)
Net finance costs		(2.2)	(1.2)
Tax	2.5	2.5	0.9
Loss for the period on an IFRS basis		(4.0)	(6.2)

(a) Includes profit from sale of subsidiaries.

(b) Includes associated finance costs and tax.

9 RESTATEMENT OF FINANCIAL INFORMATION FOR 2004 UNDER IFRS CONTINUED

b. Net assets (un-audited)

	notes	31 Dec 2004 £m	30 June 2004 £m	31 Dec 2003 £m
Net assets/(liabilities) reported under UK GAAP		109.0	(4.1)	1.9
Lease accounting	2.1	(6.3)	(6.3)	(7.4)
Goodwill and intangibles	2.3	1.7	–	–
Share of net liabilities of associate	2.4	(10.2)	(9.8)	(9.4)
Deferred revenue – franchise fee	2.6	(0.8)	(0.8)	(0.8)
Holiday pay	2.7	(0.1)	(0.1)	(0.1)
Net assets/(liabilities) on an IFRS basis		93.3	(21.1)	(15.8)

2 Notes on restatement

2.1 Lease accounting

The following differences were identified between UK GAAP and IFRS:

- a. During the Group's Chapter 11 process a number of lease contracts were renegotiated to a more favourable cost to the Group. Under UK GAAP, rent accruals were released to the profit and loss account when negotiations were completed. In contrast, IFRS requires rent accruals to be spread over the remaining lease term and consequently an adjustment has been made to reinstate these accruals in the transition balance sheet and recognise them over the lease term with a favourable impact to centre profitability.
- b. Under UK GAAP, minimum lease payments (net of lease incentives) are spread on a straight line basis over the shorter of the period to the first contractual break point or the first market rent review date. IFRS requires that, minimum lease payments be assessed over the period to the first contractual break point only. As a result of this change, certain operating lease incentives are spread over a longer period and additional rental periods are brought into the assessment of minimum lease payments. Consequently an adjustment has been made to increase the rent accrual in the transition balance sheet.
- c. Under UK GAAP the Group made an accrual for rental costs which are dependent on centre performance (e.g. turnover or profitability) based on the best estimate of the future liability by spreading the expected cost over the lease term. Under IFRS accruals are only made for contingent rents in the period in which they arise. Consequently, an adjustment has been made to release accruals in the transition balance sheet relating to rentals that were anticipated but were not contractually due at that date.

The total impact of the adjustments described above is to instate an accrual of £7.4 million in the transition balance sheet and to reduce the charge for rent costs in 2004 by £1.1 million.

2.2. Share options

In accordance with IFRS 2 and the transitional exemption permitted by IFRS 1, the Group has recognised a charge reflecting the fair value of outstanding share options granted to employees since 7 November 2002. The fair value has been calculated using a Black – Scholes valuation model and is charged to profit and loss over the vesting period of the options.

The impact of this change has been a charge of £0.2 million to operating profit for the year to 31 December 2004. The total charge over the three year vesting period is calculated to be a charge of £1.5 million to operating profit.

2.3. Goodwill and intangible assets

There are two adjustments arising in relation to the acquisition of HQ Global Workplaces Inc (HQ), which effect the carrying value and amortisation of goodwill and intangible assets.

Notes continued

- a. IFRS 3 prohibits the amortisation of goodwill but requires an impairment test to be carried out on an annual basis. Consequently the UK GAAP amortisation charge of £2.0 million has been reversed.
- b. IFRS requires certain intangible assets to be recognised separately when it is capable of being separated from the business or arises from contractual or other legal rights. Accordingly, an intangible asset of £1.9 million representing the value of the customer list acquired with HQ has been separately recognised. This is being amortised over a period of two years resulting in a 2004 charge of £0.3 million.

2.4. UK associate

The Group will continue to apply the equity method of accounting for its UK associate.

Changes to Group accounting policies, in particular lease accounting, when applied to the UK associate result have the effect of increasing the reported loss of the UK associate and reducing net assets. The impact on the Group is to increase the share of the net loss in 2004 by £0.8 million and to reduce the carrying value of the UK associate in the transition balance sheet by £9.4 million.

2.5. Tax

Tax on an IFRS basis is restated to exclude tax attributable to the UK associate. The respective tax is now included within 'Share of result of associate'. On an IFRS basis the tax credit for the year ended 31 December 2004 was £2.5 million compared with £2.9 million on a UK GAAP basis.

Due to the uncertainty of recovering tax losses the Group has not recognised the related deferred tax assets on either a UK GAAP or IFRS basis. None of the IFRS conversion adjustments result in a change in the position with regard to the recoverability of these losses and consequently there is no adjustment to the tax credit for the year.

2.6. Deferred revenue – franchise fees

Under UK GAAP, franchise fees are recognised as income in the period received. IFRS requires franchise fees charged for the use of continuing rights granted by the agreement, or for other services provided during the period of the agreement to be recognised as revenue as the services are provided or the rights used. The income recognised prior to 1 January 2004, which under IFRS is spread over the period of the franchise contract, amounted to £0.8 million and is unchanged at 31 December 2004.

2.7. Holiday pay

UK GAAP does not require the recognition of a holiday accrual for unpaid holiday carried over a period end. An accrual is only recognised where a liability to pay employees for holiday earned exists at the balance sheet date.

Under IFRS, full provision is made for paid leave accrued by employees and therefore an accrual of £0.1 million has been established in the opening balance sheet. There has been no movement in this accrual subsequent to the transition balance sheet.

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