

# PRESS RELEASE

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## TRADING AT REGUS CONTINUES TO IMPROVE

Chertsey, UK, 6 September 2004, Regus Group plc (LSE: RGU)

Regus Group plc, the leading provider of global outsourced offices, announces unaudited results for the six months ended 30 June 2004.

### Financial Highlights

	H1 2004	H1 2003	Change
Turnover	£124.9m	£129.4m	+2.4% increase at constant currencies
Centre contribution	£16.4m	£2.0m loss	+ £18.4m improvement
REVPAW *	£ 4,962	£4,426	+12% improvement
EBITDA	£10.1m	£8.0m loss	+ £18.1m improvement
EBITDA margin	8.1%	(6.2%)	EBITDA positive
Group operating loss	£3.1m	£28.2m loss	Reduced losses by £25.1m

The above financial highlights are presented pre exceptionals

\* REVPAW represents Annualised Revenue per Available Workstation

### Operational Highlights

- Group occupancy up 14% and pricing continues to improve on new sales
- Centre costs reduced by 17%
- Cash generative at operating level
- 12 month workstation forward order book of £95 million at 31 August 2004 (2003 £85 million)
- Acquisition of HQ Global Workplaces completed in August, with annualised synergies of at least \$20 million expected

### Commenting today, Regus Chairman John Matthews said:

“The re-organisation of our business has created a platform for growth and profitability. In the past six months, we have built a record forward order book and have seen a substantial rise in enquiries as well as a reduction of discounting for new sales. Costs remain firmly under control. As a result we expect to see continued revenue growth and are on track to achieve our performance targets for 2004.

“With the recent acquisition of HQ which has consolidated our position as the world’s leading provider of global outsourced offices, Regus is well placed to deliver a continuing improvement in performance both in terms of cash generation and profitability.”

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## RESULTS SUMMARY

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

(£ millions, except workstations)

	6 MONTHS ENDED 30 JUNE 2004			6 MONTHS ENDED 30 JUNE 2003 RESTATED++		
	Revenue	Centre Contribution	Workstations	Revenue	Centre Contribution	Workstations
EMEA+	73.2	12.1	27,881	75.0	5.4	32,276
Americas	38.5	1.0	18,193	40.1	(10.9)	21,935
Asia	11.9	2.0	4,279	12.3	1.5	4,251
	<u>123.6</u>	<u>15.1</u>	<u>50,353</u>	<u>127.4</u>	<u>(4.0)</u>	<u>58,462</u>
UK fee	1.3	1.3	-	2.0	2.0	-
	<u>124.9</u>	<u>16.4</u>	<u>50,353</u>	<u>129.4</u>	<u>(2.0)</u>	<u>58,462</u>

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

++2003 has been restated to reflect the three geographical regions

### *Workstations*

The Group has seen a significant improvement in workstation utilisation with occupancy improving by 13 percentage points to 72% (H1 2003: 59%). This has been achieved through a combination of capacity reductions (9%) and an increase in the number of occupied workstations (5%). In the USA, one of our key markets, workstation occupancy has increased by 11%.

REVPAAW grew by 12% on H1 2003 due to growth in occupancy, price and services. New sale and renewal prices grew 14% between January and June 2004.

### *Revenue*

Group revenues of £124.9 million (H1 2003: £129.4 million) were 3.5% below last year, mainly due to a 14% decline in the average number of available workstations in the period, but also impacted by the weakening of the dollar. Compared to the first half of 2003, sterling has appreciated by 13% against the US dollar. At constant rates, revenues for the first half of the year increased by 2.4%.

Revenues for the Americas were 4% below the same period last year due to a lower inventory base and the weakening of the US dollar. Underlying revenues at constant rates increased by 7%. An improving US economy and our exit from Chapter 11 has improved trading.

EMEA revenues of £73.2 million (H1 2003: £75.0 million) were achieved despite a 14% capacity reduction in the region.

Asia Pacific revenues of £11.9 million were 3% below those of the same period last year (H1 2003: £12.3 million). Once again currency had an adverse impact with underlying revenues increasing by 2% on a constant currency basis.

### *Centre contribution*

Centre contribution before exceptional items increased by £18.4 million to a positive contribution of £16.4 million (H1 2003: loss of £2.0 million). This represents a centre

contribution margin of 13.1% (2003: loss of 1.5%) and our best half-year performance since 2001. The improvement in centre contribution has been driven by the combination of increasing local revenues on reduced inventory and a reduced cost base which has benefited from operational improvements and cost control programmes.

The Americas region accounted for £11.9 million of this improvement following the restructuring exercise in 2003. Centre contribution in EMEA increased by £6.7 million to £12.1 million, representing a margin of 16.6% of turnover (H1 2003: 7.2%). This improvement was principally realised through a re-alignment of the cost base and improved market conditions. Centre contribution in Asia Pacific increased by 33% to £2.0 million.

## **OPERATING REVIEW**

During 2003, the key elements required to deliver improved performance were put in place and Regus Group entered 2004 with renewed confidence. Since January, we have worked to capitalise on those achievements and to drive the business towards profitability.

The key elements underlying our progress are detailed below. These strategies have helped us achieve month-on-month growth in underlying revenues throughout the first six months of this year. With the achievement of our current monthly run-rate, which stood at £21.7 million per month at June 2004, we are well placed to achieve our targets for the remainder of the year.

### *Strategic Re-Organisation*

The reorganisation of our business has created a platform for growth and profitability. Nonetheless, we remain vigilant and we will continue to review each lease that comes up for renewal and ensure that we only enter into new agreements on the best possible terms going forward. We will also continue to rationalise where appropriate. For example, during the first half, we exited from underperforming centres in France, Czech Republic and the Netherlands. Centre contribution remains a key performance measure and our management reporting systems are designed to monitor performance at regional, local, centre and product level on a daily basis.

### *Cost Base Re-Alignment*

We substantially reduced our costs – both fixed and variable – benefiting the first six months of 2004. When compared with the first six months of 2003, total costs are 18% down to £108 million (H1 2003: £131 million).

We have reduced costs without sacrificing the quality of our customer service. The drive to automate and centralise administration across all our centres has enabled staff to concentrate on customer needs. It has also led to significant improvements in staff productivity.

Cost management is now driven by a restructured Group Finance function and rigid electronic purchasing system controls remain in operation.

The Group retains adequate resources to be able to gear up quickly to meet and service increased customer demand without increasing overheads.

### *Operational Re-Structuring*

The Group operates across four defined geographic regions – EMEA (all of Europe, Africa, Middle East but excluding the UK), Americas (United States, Canada and Latin America), Asia Pacific and the UK where the Group holds a 42% interest.

Middle layers of management have been eliminated and reporting lines have been shortened. Three Chief Operating Officers (COOs) manage the regions directly under the Group umbrella and report directly into Mark Dixon. The COOs have over 15 years' combined Regus experience and have been instrumental in delivering the Group's streamlined operating structure, refined product streams and revenue generation programmes.

### *Targeted Sales & Marketing Effort*

The strength of the Group's 12-month forward order book for workstation income, which stands at £95 million at 31 August 2004, attests to its success in sales generation and conversion. During the first six months of 2004, year-on-year global enquiries rose by 25%. Co-ordination of marketing and communications activity at the Group level has allowed Regional Marketing Managers to conduct targeted and measurable sector and segmental marketing campaigns in key markets. Direct mail is playing an important tactical role in maintaining and growing brand awareness.

Our substantial investment in new media channels, such as search engine optimisation and marketing, has played a vital part in increasing enquiries, reducing cost per enquiry by 20% and improving return on investment.

### *Continued Focus On Corporate Outsourcing*

Since January 2004, we have seen increasing demand for global office outsourcing services from multinationals, such as Royal Bank of Scotland, GlaxoSmithKline and Citigroup.

### *Increase in Capacity*

The Group has responded to customer demand with a number of lower risk new investments. In Asia, we opened a new centre in Shanghai and a specialised conference centre in Sydney. Additionally, we have acquired a new centre in Korea and are planning to open centres in India. Our franchise network has continued to expand in Cyprus, Guatemala, Dubai and North Africa.

## FINANCIAL REVIEW

### Group – six month results at actual exchange rates

The re-organisation in 2003 resulted in a significant reduction in inventory, impacting both revenue and costs. In 2004 we have rebuilt the revenues back to 2003 levels over a lower cost base.

GROUP	H1 2004	H1 2003	Variance
<b>EBITDA %</b>	8.1%	(6.2) %	-----
<b>Turnover</b>	£124.9m	£129.4m	£(4.5)m
<b>Centre Contribution</b>	£16.4m	£(2.0)m	£18.4m
<b>EBITDA</b>	£10.1m	£(8.0)m	£18.1m
<b>Average occupancy</b>	72.0%	59.0%	-----
<b>REVPAW</b>	£4,961	£4,427	£534

- EBITDA significantly improved from H1 2003
- REVPAW up 11%
- Revenues up 2.4% at constant currency – negative variance entirely due to currency
- 25% increase in enquiries year on year
- Substantial costs savings

### Regional analysis – six months at constant exchange rates and excluding Group holding companies

#### EMEA – (Europe, Middle East and Africa)

	H1 2004	H1 2003	Variance
<b>EBITDA %</b>	11.7%	7.1%	-----
<b>Turnover</b>	£76.2m	£75.6m	£0.6m
<b>Centre Contribution</b>	£12.6m	£5.5m	£7.1m
<b>EBITDA</b>	£8.9m	£5.4m	£3.5m
<b>Average occupancy</b>	67.5%	56.0%	-----
<b>REVPAW</b>	£5,480	£4,685	£795

- EBITDA up 65% on H1 2003
- REVPAW increased by 17%
- Strong EBITDA conversion into cash

## AMERICAS - (United States, Latin America and Canada)

	H1 2004	H1 2003	Variance
<b>EBITDA %</b>	5.7%	(27.8)%	-----
<b>Turnover</b>	£42.0m	£39.2m	£2.8m
<b>Centre Contribution</b>	£1.0m	£(10.5)m	£11.5m
<b>EBITDA</b>	£2.4m	£(10.9)m	£13.3m
<b>Average occupancy</b>	79.7%	59.5%	-----
<b>REVPAW</b>	£4,617	£3,664	£953

- EBITDA positive following successful cost reductions
- REVPAW increase by 26%
- No longer consuming cash

## ASIA PACIFIC

	H1 2004	H1 2003	Variance
<b>EBITDA %</b>	20.0%	18.5%	-----
<b>Turnover</b>	£12.5m	£12.4m	£0.1m
<b>Centre Contribution</b>	£2.1m	£1.5m	£0.6m
<b>EBITDA</b>	£2.5m	£2.3m	£0.2m
<b>Average occupancy</b>	75.2%	74.2%	-----
<b>REVPAW</b>	£5,842	£5,834	£8

- EBITDA up 9%
- REVPAW stable
- New centres in China (Shanghai) and Australia (Sydney) in July.

## Product analysis

### Meeting Room Revenues – six months performance at constant exchange rates

£million	H1 2004	H1 2003	Variance	% Variance
<b>EMEA</b>	4.7	4.2	0.5	11.9%
<b>AMERICAS</b>	1.5	1.2	0.3	25.0%
<b>ASIA PACIFIC</b>	1.0	0.8	0.2	25.0%
<b>REGUS GROUP</b>	<b>7.2</b>	<b>6.2</b>	<b>1.0</b>	<b>16.1%</b>

- Product specialists added to generate increases
- Demand for outsourcing from IBM and Glaxo – major wins

## Regus Virtual Office (RVO) – six months performance at constant exchange rates

£million	H1 2004	H1 2003	Variance	% Variance
EMEA	3.7	3.4	0.3	8.8%
AMERICAS	1.6	1.2	0.4	33.3%
ASIA PACIFIC	0.5	0.5	0.0	0.0%
<b>REGUS GROUP</b>	<b>5.8</b>	<b>5.1</b>	<b>0.7</b>	<b>13.7%</b>

- Product specialists added to generate increases

### *Administrative expenses*

Although administrative expenses of £19.4 million were 6% higher than the same period last year, this is entirely due to £2.1 million of non-recurring supplier credits benefiting the first half of 2003.

### *Liquidity and capital resources*

Cash at bank and in hand at 30 June 2004 was £58.3 million (December 2003: £85.0 million) of which £38.3 million (December 2003: £67.8 million) was free cash. Indebtedness (excluding finance leases) at 30 June 2004 was £8.9 million (December 2003: £9.2 million). The Group had outstanding finance lease obligations of £14.8 million (December 2003: £17.6 million), of which £7.1 million is due within one year.

Excluding exceptional Chapter 11 payments of £27.8 million, the cash inflow from operating activities in the six months ended 30 June 2004 was £3.7 million, our best performance since 2001. Net cash outflow before management of liquid resources and financing was £27.4 million after paying tax of £0.9 million, capital expenditure of £1.6 million and net interest of £1.1 million. During the period the Group received £2.1 million from the sale of own shares held by the ESOP Trust and £3.2 million relating to the balance of the rights issue proceeds received in January 2004

Since the period end the Company announced the £163.5 million acquisition of HQ Global Workplaces, funded by a placing and open offer raising £119 million and new debt facilities of US \$155 million. Following completion on 20 August 2004 the Company had indebtedness (excluding finance leases) of £69.5 million and free cash of £50.5 million.

### *Balance sheet*

The Group has net liabilities of £4.1 million at 30 June 2004. Based on current trading conditions and our view of the market, we believe we will be able to fund the ongoing business from existing cash resources and cash flows from operations.

## **ACQUISITION OF HQ GLOBAL WORKPLACES INC.**

The acquisition of HQ Global Workplaces Inc., the leading provider of outsourced office solutions in the United States, was completed on 20 August 2004.

By combining the US national market leader with the global market leader, this acquisition consolidates Regus' position as the world's pre-eminent provider of global outsourced offices. We now offer customers Regus services in more than 650 centres across 240 cities in 52 countries. This is critical to our Group strategy for leadership in the field of corporate property outsourcing. It offers US corporate customers access to the Group's unrivalled international business centre network as well as coast-to-coast coverage of North America for non-US customers.

We plan to run a dual brand strategy in the US, retaining the HQ brand to serve our mid-market customers. We believe this will significantly enhance cross-selling opportunities within the Group.

We are confident that the integration of HQ into the Group will provide a solid platform for developing our global corporate outsourcing business into 2005.

## **OUTLOOK**

Trading at Regus continues to improve. In the past six months, we have continued to build our forward order book and have seen a substantial rise in enquiries as well as a reduction of discounting for new sales. Costs remain firmly under control. As a result we expect to see continued revenue growth and are on track to achieve our performance targets for 2004.

The integration of HQ into the Regus Group is at an early stage. Nonetheless, even in the early days the potential benefits are becoming apparent. We are already benefiting from cross-selling opportunities as evidenced by contract wins with American Express, NASA and American Home Mortgage. In addition we have been able to capture and pool enquiries within the combined Group, with rates of sales conversion expected to rise as a result.

The implementation of our integration plan is on track and we are working to deliver synergy benefits of at least US \$20 million (£11 million) on an annualised basis.

Overall, the Group expects a continuing improvement in performance both in terms of cash generation and profitability.

**Regus Group plc**  
**Group Profit and Loss Account**  
**For the half year to 30 June 2004**

		<b>6 months ended</b>	6 months ended	Full year ended
		<b>30 June '04</b>	30 June '03	31 Dec '03
		<b>(unaudited)</b>	(unaudited)	audited
	Note	<b>£'000</b>	£'000	£'000
Turnover (including share of joint ventures & associate)	1	<b>159,733</b>	165,281	324,904
Less: Share of turnover of joint ventures	1	<b>(2,726)</b>	(3,101)	(5,501)
Less: Share pf turnover of associate	1	<b><u>(32,084)</u></b>	<u>(32,763)</u>	<u>(62,822)</u>
<b>Group Turnover</b>		<b>124,923</b>	129,417	256,581
Cost of sales (centre costs) before exceptional items		<b>(108,483)</b>	(131,370)	(239,683)
Exceptional credit to costs of sales	2(a)	-	2,348	-
Cost of sales (centre costs) after exceptional items		<b><u>(108,483)</u></b>	<u>(129,022)</u>	<u>(239,683)</u>
<b>Gross profit (centre contribution)</b>		<b>16,440</b>	395	16,898
Administration expenses before exceptional items		<b>(19,527)</b>	(18,393)	(38,736)
Exceptional administration expenses	2(a)	-	(6,484)	(6355)
Administration expenses		<b><u>(19,527)</u></b>	<u>(24,877)</u>	<u>(45,091)</u>
<b>Group operating loss</b>		<b>(3,087)</b>	(24,482)	(28,193)
Share of operating loss in joint ventures		<b>(574)</b>	(2,849)	(213)
Share of operating loss in associate	1	<b><u>(2,907)</u></b>	<u>(626)</u>	<u>(3,722)</u>
<b>Total operating loss: Group &amp; share of joint ventures &amp; associate</b>		<b>(6,568)</b>	(27,957)	(32,128)
Profit on sale of group undertakings	2(b)	=	<u>8,712</u>	<u>6,585</u>
<b>Loss before interest and taxation</b>		<b>(6,568)</b>	(19,245)	(25,543)
Net interest payable		<b><u>(1,217)</u></b>	<u>(1,088)</u>	<u>(4,397)</u>
<b>Loss on ordinary activities before tax</b>		<b>(7,785)</b>	(20,333)	(29,940)
Tax credit / (charge) on loss / profit on loss on ordinary activities		<b><u>881</u></b>	<u>(1,141)</u>	<u>2,068</u>
<b>Loss on ordinary activities after tax</b>		<b>(6,904)</b>	(21,474)	(27,872)
Equity minority interests		<b><u>254</u></b>	<u>418</u>	<u>885</u>
Retained loss for the period		<b><u>(6,650)</u></b>	<u>(21,056)</u>	<u>(26,987)</u>
Loss per ordinary share:	3			
Basic & diluted (p)		<b>(0.8)</b>	(3.7)	(4.7)
Basic & diluted before exceptional items (p)		<b>(0.8)</b>	(4.5)	(4.7)

**Regus Group plc**  
**Group Balance Sheet**

		<b>As at 30 Jun 04 (unaudited)</b>	At at 30 Jun 03 (unaudited)	As at 31 Dec 03 (audited) Restated
	Note	£'000	£'000	£'000
<b>Fixed assets</b>				
Tangible assets		<b>52,698</b>	82,568	67,136
<b>Investments</b>				
Investment in associate		<b>5,490</b>	11,857	8,361
Other investments		<u>5</u>	<u>29</u>	<u>5</u>
Total investments	4	<b><u>5,495</u></b>	<b><u>11,886</u></b>	<b><u>8,366</u></b>
		<b><u>58,193</u></b>	<b><u>94,454</u></b>	<b><u>75,502</u></b>
<b>Current assets</b>				
Stock		152	217	144
Debtors: amounts falling due after more than one year		<b>3,572</b>	-	873
Debtors: amounts falling due within one year		<b>56,421</b>	61,347	62,290
Cash at bank and in hand		<b><u>58,311</u></b>	<b><u>49,498</u></b>	<b><u>85,001</u></b>
		<b><u>118,456</u></b>	<b>111,062</b>	<b>148,308</b>
<b>Creditors: amounts falling due within one year</b>		<b><u>(119,858)</u></b>	<b><u>(170,775)</u></b>	<b><u>(134,189)</u></b>
<b>Net current (liabilities) / assets</b>		<b><u>(1,402)</u></b>	<b><u>(59,713)</u></b>	<b><u>14,119</u></b>
<b>Total assets less current liabilities</b>		<b>56,791</b>	34,741	89,621
<b>Creditors: amounts falling due after more than one year</b>		<b><u>(35,075)</u></b>	<b><u>(18,133)</u></b>	<b><u>(34,190)</u></b>
<b>Provision for deficit on joint ventures</b>				
Share of gross assets		<b>5,457</b>	7,047	5,076
Share of gross liabilities		<b><u>(7,035)</u></b>	<b><u>(11,407)</u></b>	<b><u>(6,073)</u></b>
	4	<b><u>(1,578)</u></b>	<b><u>(4,360)</u></b>	<b><u>(997)</u></b>
Provision for liabilities and changes due after more than one year	5	<b><u>(24,269)</u></b>	<b><u>(61,759)</u></b>	<b><u>(52,554)</u></b>
<b>Net (liabilities) / assets</b>		<b><u>(4,131)</u></b>	<b><u>(49,511)</u></b>	<b><u>1,880</u></b>
<b>Capital and reserves</b>				
Called up share capital		<b>39,442</b>	29,110	39,442
Share premium account		<b>44,364</b>	279,765	44,364
Own shares held		-	(15,882)	(10,453)
Other reserves		<b><u>(22,732)</u></b>	<b>6,533</b>	<b><u>(22,711)</u></b>
Profit and loss account		<b><u>(63,983)</u></b>	<b><u>(348,389)</u></b>	<b><u>(47,686)</u></b>
<b>Equity shareholders' (deficit) / funds</b>		<b><u>(2,909)</u></b>	<b><u>(48,863)</u></b>	<b><u>2956</u></b>
<b>Equity minority interests</b>		<b><u>(1,222)</u></b>	<b><u>(648)</u></b>	<b><u>(1,076)</u></b>
		<b><u>(4,131)</u></b>	<b><u>(49,511)</u></b>	<b><u>1,880</u></b>

**Regus Group plc**  
**Cash Flow Statement**  
**For the half year to 30 June 2004**

		<b>6 months ended 30 Jun 04 (unaudited)</b>	6 months ended 30 Jun 03 (unaudited) Restated £'000	6 months ended 31 Dec 03 (audited) Restated £'000
	Note	£'000		
<b>Cash outflow from continuing operating activities</b>				
Net cash outflow	6a	<b><u>(24,089)</u></b>	<b><u>(13,693)</u></b>	<b><u>(14,645)</u></b>
<b>Returns on investments and servicing of finance</b>				
Interest received		524	210	797
Interest paid		<b><u>(248)</u></b>	<b><u>(205)</u></b>	<b><u>(1,750)</u></b>
Interest paid on finance leases		<b><u>(1,358)</u></b>	<b><u>(907)</u></b>	<b><u>(3,350)</u></b>
		<b><u>(1,082)</u></b>	<b><u>(902)</u></b>	<b><u>(4,303)</u></b>
<b>Taxation</b>				
Tax paid		<b><u>(851)</u></b>	<b><u>(718)</u></b>	<b><u>(1,951)</u></b>
		<b><u>(851)</u></b>	<b><u>(718)</u></b>	<b><u>(1,951)</u></b>
<b>Capital expenditure and financial investment</b>				
Purchase of tangible fixed assets		<b><u>(1,577)</u></b>	<b><u>(2,058)</u></b>	<b><u>(8,445)</u></b>
Sale of tangible fixed assets		<b><u>136</u></b>	<b><u>1,044</u></b>	<b><u>3,345</u></b>
		<b><u>(1,441)</u></b>	<b><u>(1,014)</u></b>	<b><u>(5,100)</u></b>
<b>Acquisitions and disposals</b>				
Cash disposed with subsidiary		-	(1,137)	(1,137)
Sale of subsidiary undertakings		-	6,695	6,695
Investment in joint ventures		-	-	(412)
Cash acquired with subsidiary		-	-	<u>53</u>
		-	<u>5,558</u>	<u>5,199</u>
<b>Cash outflow before management of liquid resources and financing</b>		<b><u>(27,463)</u></b>	<b><u>(10,769)</u></b>	<b><u>(20,800)</u></b>
<b>Management of liquid resources</b>	6b	<b>274</b>	<b>(2,737)</b>	<b>8,511</b>
<b>Financing</b>	6b	<b><u>1,969</u></b>	<b><u>1,202</u></b>	<b><u>47,639</u></b>
<b>(Decrease) / increase in cash in the period</b>	6(c)(d)	<b><u>(25,220)</u></b>	<b><u>(12,304)</u></b>	<b><u>35,350</u></b>

## Statement of Total Recognised Gains and Losses

	<b>6 months ended 30 June 04 (unaudited) £'000</b>	6 months ended 30 June 03 (unaudited) Restated £'000	Full year ended 31 Dec 03 audited Restated £'000
Retained loss for the financial period	<b>(6,650)</b>	(21,056)	(26,987)
Currency translation differences	<b>(1,289)</b>	827	3,778
Total recognised losses for the period	<b>(7,939)</b>	(20,229)	(23,209)
Prior period adjustment (as explained in note 7)	<b>9,607</b>	-	-
Total losses recognised since the last annual report	<b>(1,668)</b>	(20,229)	(23,209)

## Reconciliation of Movements in Shareholders' Funds

	<b>30 June 2004 (unaudited) £'000</b>	30 June 2003 (unaudited) Restated £'000	31 Dec 2003 (audited) Restated £'000
Retained loss for the financial period	<b>(6,650)</b>	(21,056)	(26,987)
Shares issued under scheme of arrangement	-	-	29,256
Creation of merger reserve	-	-	(29,256)
Net proceeds of ordinary shares issued under rights issue	-	-	52,999
Other shares issued	-	-	1,697
Sale of shares held by ESOP	<b>2,074</b>	3,563	3,666
Exchange differences	<b>(1,289)</b>	827	3,778
<b>(Decrease) / increase in shareholders' funds</b>	<b>(5,865)</b>	(16,666)	35,153
Shareholders' funds/ (deficit) at 1 January (originally £3,803,000 before prior year adjustment of £847,000)	<b>2,956</b>	(32,197)	(32,197)
<b>Shareholders' (deficit) / funds at period end</b>	<b>(2,909)</b>	(48,863)	2,956

## Notes

### 1. Segmental reporting

#### Group turnover

	<b>6 months ended 30 June 2004</b>	6 months ended 30 June 2003 Restated	12 months ended 31 Dec 2003
	<b>(unaudited) £'000</b>	(unaudited) £'000	(audited) £'000
UK*	<b>32,084</b>	32,763	62,822
EMEA+	<b>73,636</b>	74,999	148,488
Americas	<b>40,839</b>	43,240	85,641
Asia Pacific	<b>11,847</b>	12,278	24,174
Other++	<b>1,327</b>	2,001	3,779
	<b><u>159,733</u></b>	<u>165,281</u>	<u>324,904</u>
Total Group	<b>124,923</b>	129,417	256,581
Total joint ventures and associate	<b>34,810</b>	35,864	68,323

#### Loss before interest and tax

	<b>6 months ended 30 June 2004</b>	6 months ended 30 June 2003 Restated	12 months ended 31 Dec 2003
	<b>(unaudited) £'000</b>	(unaudited) £'000	(audited) £'000
UK*	<b>(2,907)</b>	(669)	(3,722)
EMEA+	<b>3,098</b>	9,420	846
Americas	<b>(4,601)</b>	(26,587)	(22,953)
Asia Pacific	<b>651</b>	237	826
Other	<b>(2,809)</b>	(1,646)	(540)
	<b><u>(6,568)</u></b>	<u>(19,245)</u>	<u>(25,543)</u>
Total Group	<b>(3,087)</b>	(15,770)	(21,608)
Total joint ventures and associate	<b>(3,481)</b>	(3,475)	(3,935)

\* UK turnover represents our 42% interest in the ordinary shares of Regus Holdings (UK) Limited.

+ EMEA represents Europe, Middle East and Africa

++ Other revenue represents management fees received from the UK associate and franchise income

## 2. (a) Exceptional costs/(credits)

	6 months ended 30 June 04 (unaudited) £'000	6 months ended 30 June 03 (unaudited) £'000	Full year ended 31 Dec 03 (audited) £'000
<b>Cost of sales</b>			
Onerous leases, related closure & restructuring costs	-	1,210	-
Adjustment to tangible asset impairment provision	-	(3,558)	-
	<u>-</u>	<u>(2,348)</u>	<u>-</u>
<b>Administration expenses</b>			
Onerous leases, related closure & restructuring costs	-	6,484	6,355

## 2. (b) Profit on sale of group undertakings

	6 months ended 30 June 04 (unaudited) £'000	6 months ended 30 June 03 (unaudited) £'000	Full year ended 31 Dec 03 (audited) £'000
Liquidation of Germany subsidiary	-	2,017	(110)
UK deferred consideration	-	6,695	6,695
	<u>-</u>	<u>8,712</u>	<u>6,585</u>

## 3. Loss per share

Basic loss per ordinary share is calculated by dividing the loss attributable to ordinary shareholders of £6,650,000 (2003 half year loss of £21,056,000, full year loss of £26,987,000) by 787,591,000 (2003 half year 564,929,000, full year 574,805,000) ordinary shares, being the average number of ordinary shares in issue during the period.

Loss per ordinary share before exceptional items and profit on business disposals is based on losses of £6,650,000 (2003 half year loss of £25,632,000, full year loss of £27,217,000).

Losses per share are calculated using the following weighted average numbers of shares, adjusted to exclude own shares held under trust which have been treated as if they had been cancelled.

	6 months ended 30 June 04 '000	6 months ended 30 June 03 '000	Full year ended 31 Dec 03 '000
Ordinary shares – basic and diluted	<b>787,591</b>	564,929	574,805

## 4. Investments

	Group Interest in associate	Group Interest in joint ventures	Group other Investments	Total Investments
	£'000	£'000	£'000	£'000
At 1 January 2003 (Restated)	12,458	(1,623)	29	10,864
Exchange differences	-	369	(1)	368
Additions	-	259	-	259
Disposals	-	(164)	(23)	(187)
Share of retained losses	(4,097)	162	-	(3,935)
<b>At 31 December 2003 (Restated)</b>	<b>8,361</b>	<b>(997)</b>	<b>5</b>	<b>7,369</b>
Exchange differences	-	(6)	-	(6)
Share of retained losses	(2,871)	(575)	-	(3,446)
<b>At 30 June 2004</b>	<b>5,490</b>	<b>(1,578)</b>	<b>5</b>	<b>3,917</b>

## 5. Provisions

	Group Deferred tax	Group Onerous lease obligations	Group Total
	£'000	£'000	£'000
At 1 January 2003	(649)	57,891	57,242
Provided in period	-	10,310	10,310
Utilised in period	-	(5,630)	(5,630)
Transferred in year	649	-	649
Provisions released	-	(6,326)	(6,326)
Disposals	-	(1,845)	(1,845)
Exchange differences	-	(1,846)	(1,846)
<b>At 31 December 2003</b>	<b>-</b>	<b>52,554</b>	<b>52,554</b>
Utilised in period	-	(26,668)	(26,668)
Transferred	-	(763)	(763)
Exchange differences	-	(854)	(854)
<b>At 30 June 2004</b>	<b>-</b>	<b>24,269</b>	<b>24,269</b>
Amounts falling due within one year	-	12,429	12,429
Amounts falling due after one year	-	11,840	11,840

## 6. (a) Reconciliation of operating loss to operating cash flows

	6 months ended 30 June 04 (unaudited) £'000	6 months ended 30 June 03 (unaudited) £'000	Full Year ended 31 Dec 03 (audited) £'000
<b>Continuing operations</b>			
Operating loss	(3,087)	(24,482)	(28,193)
Depreciation charge	13,353	12,320	29,525
Loss on disposal of fixed assets	184	5,180	1,686
Impairment of fixed assets	-	(3,558)	-
(Decrease)/increase in provisions	(3,233)	2,620	(5,604)
(Increase)/decrease in stocks	(10)	71	138
(Increase)/decrease in debtors	(2,586)	(208)	3,608
Decrease in creditors	(890)	(5,636)	(15,805)
Net cash inflow /(outflow) from continuing operations pre Chapter 11 creditor payments	<u>3,731</u>	<u>(13,693)</u>	<u>(14,645)</u>
Chapter 11 creditor payments	(27,820)	-	-
Net cash outflow from continuing operations	<u>(24,089)</u>	<u>(13,693)</u>	<u>(14,645)</u>

The Chapter 11 creditor payments of £27.8 million have been charged to exceptional items in prior years.

## 6. (b) Financing and management of liquid resources

	6 months ended 30 June 04 (unaudited) £'000	6 months ended 30 June 03 (unaudited) Restated £'000	Full year ended 31 Dec 03 (audited) Restated £'000
<b>Management of liquid resources</b>			
New cash deposits	-	(13,011)	(18,851)
Repayment of cash deposits	274	10,274	27,362
	<u>274</u>	<u>(2,737)</u>	<u>8,511</u>
<b>Financing</b>			
New loans	64	2,420	-
Repayment of loans	(136)	(944)	(1,219)
Payment of principal under finance leases	(3,331)	(3,837)	(6,240)
Issue of equity shares	3,226	-	53,255
Issue costs	-	-	(1,846)
Sale of own shares held by ESOP	2,074	3,563	3,689
Issue of shares to minorities	72	-	-
	<u>1,969</u>	<u>1,202</u>	<u>47,639</u>

## 6. (c) Reconciliation of net cash flow to movement in net funds

	6 months ended 30 June 04 (unaudited) £'000	6 months ended 30 June 03 (unaudited) £'000	Full Year Ended 31 Dec 03 (audited) £'000
<b>(Decrease) / increase in cash in the period</b>	<b>(25,220)</b>	<b>(12,304)</b>	<b>35,350</b>
Cash outflow from change in borrowings and finance leases	<b>3,403</b>	2,361	7,710
Cash (outflow) / inflow from change in liquid resources	<b>(274)</b>	2,737	(8,511)
Change in net funds from cash flows	<b>(22,091)</b>	(7,206)	34,549
Business disposals	-	(710)	(710)
Other non-cash items:			
New finance leases	<b>(812)</b>	465	-
Exchange movements	<b>(611)</b>	1,265	1,910
Movement in net funds in the period	<b>(23,514)</b>	(6,186)	35,749
Net funds at 1 January 2004	<b>58,133</b>	22,384	22,384
<b>Net funds at 30 June 2004</b>	<b>34,619</b>	16,198	58,133

## 6. (d) Analysis of changes in net funds

	At 1 Jan 2004 £'000	Cash flow £'000	Other Non- cash changes £'000	Exchange movement £'000	At 30 June 2004 £'000
Cash at the bank and in hand	64,105	(25,318)	-	(466)	<b>38,321</b>
Overdrafts	(862)	98	-	32	<b>(732)</b>
	63,243	(25,220)	-	(434)	<b>37,589</b>
Debt due after 1 year	(6,019)	84	14	23	<b>(5,898)</b>
Debt due within 1 year	(2,338)	(12)	(14)	63	<b>(2,301)</b>
Finance leases due after 1 year	(10,962)	150	2,884	239	<b>(7,689)</b>
Finance leases due within 1 year	(6,687)	3,181	(3,696)	130	<b>(7,072)</b>
	(26,006)	3,403	(812)	455	<b>(22,960)</b>
Liquid resources	20,896	(274)	-	(632)	<b>19,990</b>
	<b>58,133</b>	<b>(22,091)</b>	<b>(812)</b>	<b>(611)</b>	<b>34,619</b>

Liquid Resources at 30 June 2004 includes cash held on deposit of which £3.0 million (December 2003: £3.6 million) relates to collateral against bank loans; £14.9 million (December 2003: £17.3 million) relates to deposits which are held by banks and landlords as security against lease commitments by Regus operating companies and £2.1 million (December 2003: nil) held by the ESOP Trust. These amounts are blocked and are not available for use by the business.

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

## **7. Preparation of interim financial statements**

Throughout these financial statements, the 2003 comparatives have been restated to reflect the adoption of UITF 38 "Accounting for ESOP trusts " which supersedes UITF 13 and requires presentation of an entity's own shares held in an ESOP trust to be deducted from shareholders' funds as opposed to being recognized as assets. The impact of adopting UITF 38 was to reduce investments and shareholders' funds by £ 847,000 as at December 2003. In addition the cash inflow on sale of own shares in relation to employee share schemes has been reclassified from "Sale of own shares" within "Capital expenditure and financial investments" to "Financing" in the Statement of Consolidated Cash Flows.

During 2004 the ESOP Trust sold its remaining shares in the Company. A prior period adjustment gives rise to a cumulative credit adjustment to reserves of £9.3 million in the 2004 interim accounts, of which £2.1 million relates to 2004 and the balance of £7.2 million relates to 2003 and prior periods.

The results for each half-year are unaudited. The comparative figures for the year to 31 December 2003 have been abridged from the Group's financial statements for that year, which have been delivered to the Registrar of Companies. The auditors have reported on those financial statements; their report was unqualified and did not contain a statement under s237 (2) or (3) of the Companies Act 1985.

## **8. International Financial Reporting Standards**

All European listed companies are required to adopt International Financial Reporting Standards (IFRS) for their financial statements from 2005, which will include comparative information for 2004. The Group is currently undertaking a detailed assessment of the impact of IFRS on its published financial statements.

Preparatory work is underway to enable the Group to report under IFRS for the first time when it announces its interim 2005 results.

## **9. 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.