Regus plc

Annual report and accounts 2000

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www.regus.com

Regus plc
(formerly known as
Regus Business Centres plc)
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United Kingdom

Registered number: 3548821

Sponsors of the 2001 Ryder Cup

Contents

Regus

Regus is a provider of high-quality business services to the global economy. Its international network of adaptable business centres allows Regus customers to outsource completely or in part their workspace requirements. By December 2000, Regus operated 64,070 workstations in 335 centres across 48 countries.

Regus around the globe

Argentina
Australia
Austria
Azerbaijan
Belgium
Brazil
Chile
China
Czech Republic
Denmark
Egypt
Finland
France
Germany
Greece
Hungary
Ireland
Israel
Italy
Japan
Latvia
Luxembourg
Malaysia
Mexico
Morocco
The Netherlands
Norway
Panama
Peru
Philippines
Poland
Portugal
Romania
Russia
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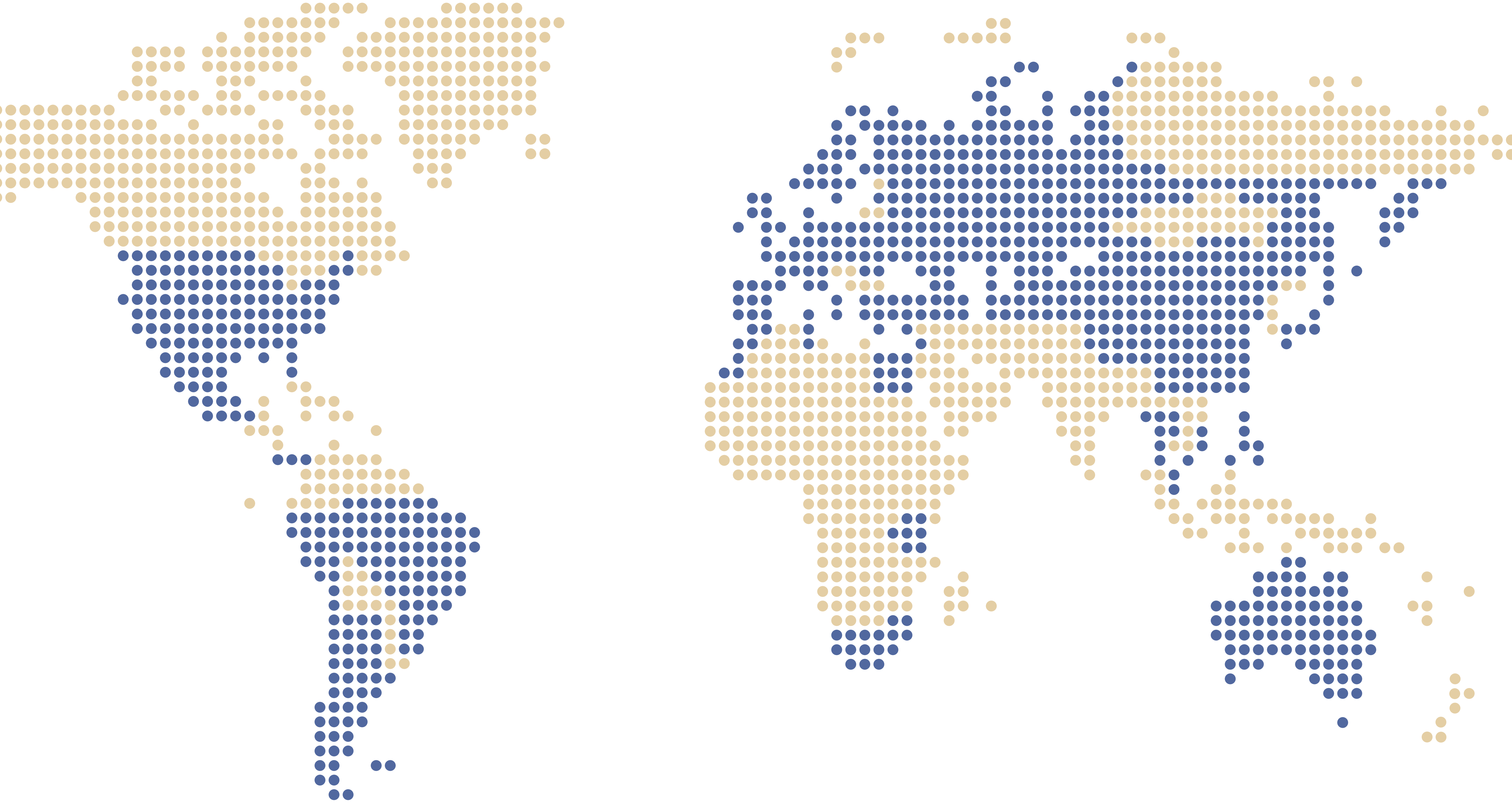
Ukraine
United Kingdom
USA
Vietnam

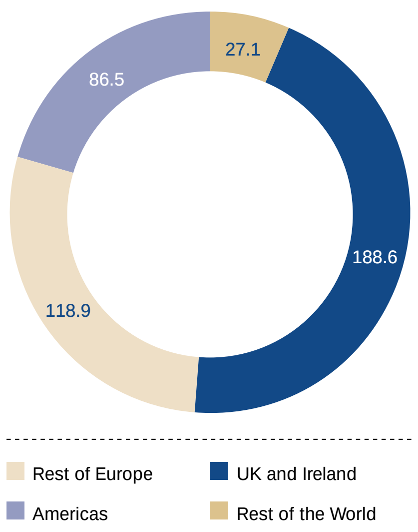


Regus at a glance

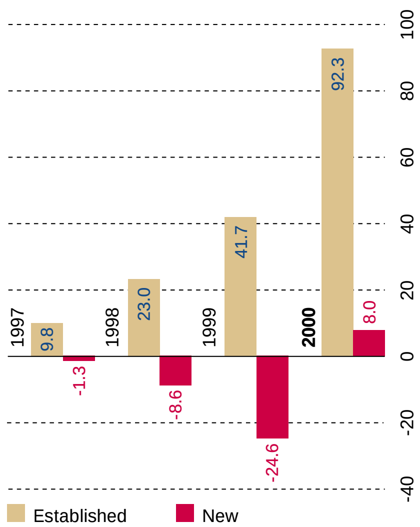
Financial highlights

- Successful flotation raised £239 million (net)
- Number of workstations increased 60% to 64,000
- Turnover up 110% from 1999
- US experienced growth of 503% in turnover
- First operating profit recorded in history of Regus plc
- Centre contribution (gross profit) increased 486%
- Operating cash flow up 721% to £117 million
- Substantially improved covenants, with cash of £170 million and net assets of £203 million

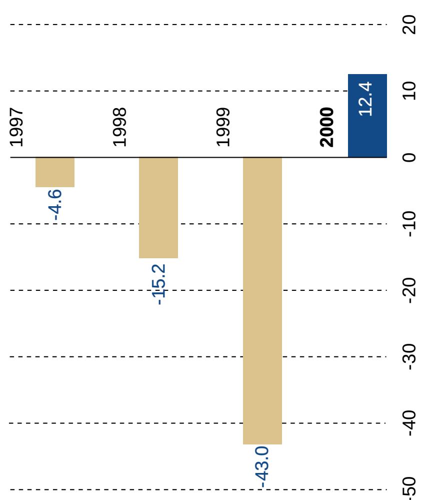
Turnover 2000 by region
(£m)



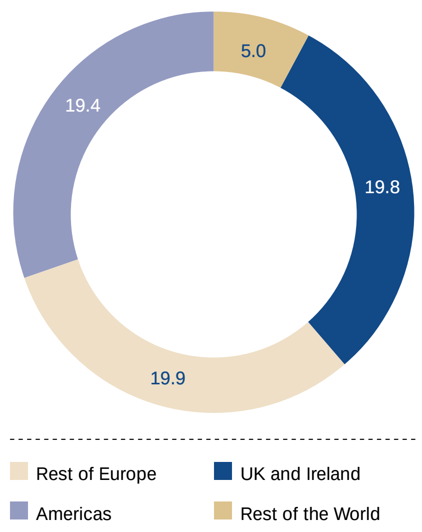
Centre contribution
(£m)



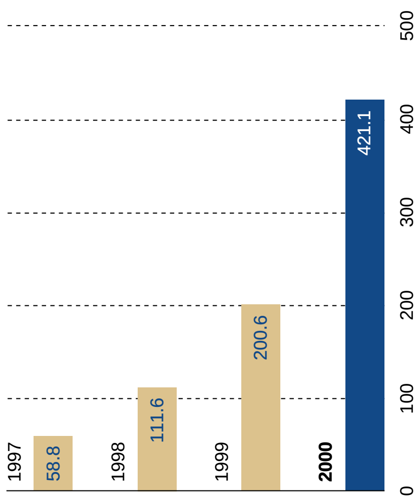
EBIT before exceptional items
(£m)



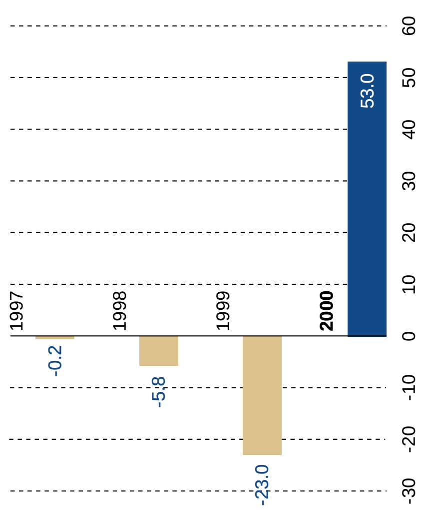
Total workstations 2000 by region
(thousands)



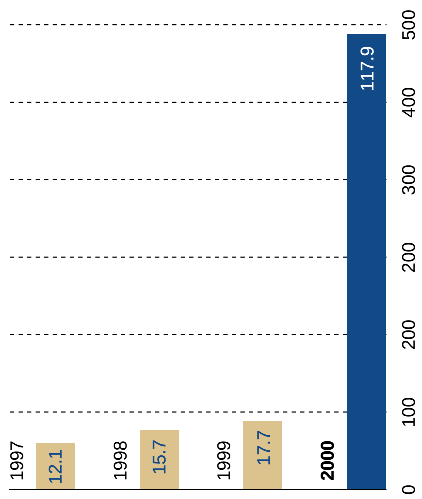
Turnover by year
(£m)



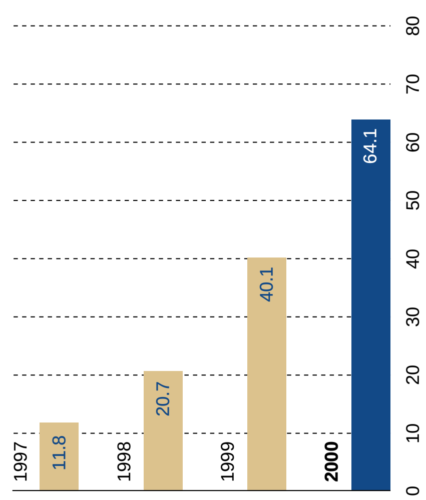
EBITDA before exceptional items
(£m)



Operating cash flow before exceptional items (£m)



Total workstations by year
(thousands)



Chairman's statement

During 2000, the business grew at a spectacular rate. Revenue was up 110%, Ninety-three centres were added to our portfolio and we now operate in 48 countries. In addition, we listed on the London Stock Exchange and NASDAQ.

2000 was a landmark year for Regus. We enjoyed many successes, including simultaneous listings on the London Stock Exchange and NASDAQ in October. The offer was several times over-subscribed, raised £239 million (net) for the Group and resulted in a high-quality investor base. We repaid the £100 million multi-currency secured loan facility, which we raised in 1999, from the proceeds. These actions have positioned us well to continue the rapid development of Regus.

The business grew during the year at a spectacular rate: we added another 93 centres to our portfolio and increased the number of countries in which we operate to 48 (1999: 45). We added 23,934 workstations, our key measure of volume, bringing the year-end total to 64,070. As a result, the Group recorded its first-ever operating profit before exceptional items. In line with our strategy of expanding in established markets, enhancing national networks, increasing customer awareness and attracting key national accounts, the bulk of the growth was in the US, where we added 10,945 workstations, with the balance mainly in the major towns and cities in which we already operate.

Results

Revenue for the year was up 110% at £421.1 million. Overall centre contribution increased 486% to £100.3 million, with established centres continuing to return a margin of 31%.

Administrative expenses before exceptional items fell as a percentage of turnover to 21% (1999: 30%) and we recorded an operating profit before exceptional items of £12.4 million (1999: loss of £43.0 million). The exceptional item of £9.5 million relates to the cost associated with reducing the Reward Options exercise price from £1.455 to £0.05.

After exceptional items the Group's operating profit for the year was £2.9 million (1999: loss of £48.1 million). The Group's EBITDA for the year was £43.5 million. (1999: negative £28.1 million).

The Board

Upon the Initial Public Offering ("IPO"), Mark Dixon relinquished his role as Executive Chairman, remaining as Chief Executive, and I was appointed Non-executive Chairman. From the end of March 2001 Robert Kuijpers will have resigned his position of non-executive director and will become CEO, International. There were no other changes to the Board.

During the year, we established an audit committee, a nomination committee and a remuneration committee.

Our people

2000 was a particularly busy year for our management and team members. On behalf of the directors and shareholders I would like to thank all Regus people, who ensured that the business ran smoothly and grew rapidly, for their dedication and hard work.

The future

Trends in performance continue to be encouraging, and we believe the Company has an exciting future. With flexible office space accounting for less than 2% of the global office market we see no near-term constraint on our growth potential. The IPO provided the resources for us to grow through acquisition as well as organically.

We will continue to focus resources on our core markets, particularly in the US. In non-core markets we seek to enter into profit-sharing deals including joint ventures, management contracts and franchising. Strategic alliances, joint ventures and acquisitions will enable us to expand the range of services we offer throughout the network.

An exciting prospect for 2001 is our sponsorship of the Ryder Cup golf tournament, which will be held in September 2001 at The Belfry in the UK. This is the largest global sporting event of 2001, which will have major television coverage, and will give the Regus brand excellent exposure worldwide.

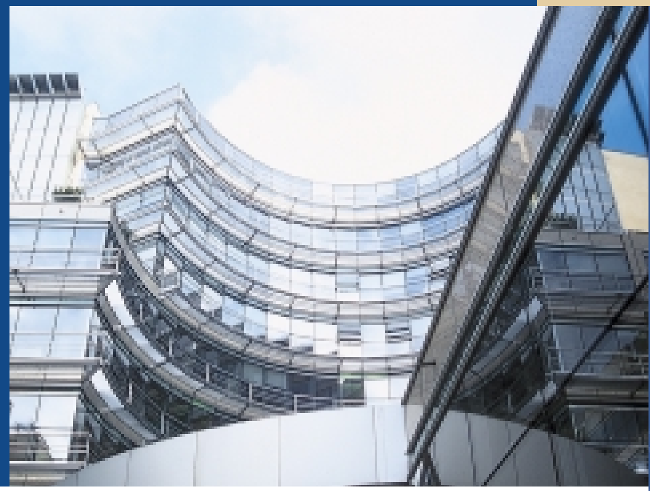
Our clear strategy, focused management and highly-motivated workforce will, we believe, keep us at the forefront of the flexible office space market, and puts us in an ideal position to capitalise on changing work practices worldwide.

George Gray
26 February 2001

Review of operations – developing our business through flexibility

"Regus were able to provide me with an ideal, flexible solution. Merrill Lynch was looking for an immediate outsourced solution – the new centre in London is ideal as it has been designed to investment banking standards."

Chris Oliver, MLEMEA



Right: France, Paris Etoile - Balzac

Regus is a leading provider of high-quality business services to the global economy. Our international network of adaptable business centres enables customers to outsource, completely or in part, their workspace requirements. Our centres offer a client-driven mix of workstations, conference rooms and support services, such as video conferencing, telecommunications, internet connectivity, reception and secretarial services. Customers can use all or part of our centres for one hour or for more than five years.

Products and initiatives

Our serviced business centres provide an alternative to traditional office space. Situated in downtown business districts, suburban office parks and close to transportation gateways, we tailor our business centres to meet a wide variety of customer needs. We offer convenience, flexibility and immediate availability. In addition, depending on circumstances such as the number of employees and the term of occupancy, they often prove to be cheaper than traditional office leasing.

To add to the services we offer, we expect to provide a wider range of products in the near future:

- Franchises We believe that we can grow our network of business centres more quickly through franchising, particularly in developing countries where the franchise can apply its local expertise and capital. We plan, therefore, to launch new centres in these areas through franchise arrangements, under which we will approve the location, design and marketing of the centres while extending the same quality control and staff training procedures to the franchise operators as we apply to all our proprietary business centres.

- Regus Next Generation We plan to launch a new type of business centre, built from prefabricated materials and positioned outside regional cities and in other locations where land values are lower than those in our traditional heartland. Our strategy is to market these centres to SMEs at a lower price than, but at a similar margin to, our traditional centres. We have already signed one lease for a building in Harlow in the UK which will be completed during the first quarter of 2001.

- Regus Workz We are piloting a new product, Regus Workz, which will offer business centres designed specifically for the more casual business cultures of the new economy. While interiors will be less formal, their quality will match our original centres. The first two pilots are Covent Garden, London, and Folsom St, San Francisco.

Sales and marketing

Our sales and marketing strategy, which involves a constant appraisal and improvement of product mix, investment in local advertising and a continuing focus on service quality, has been key to developing the Regus brand during 2000.

During November 2000, Regus maximised on the opportunity to increase brand awareness and grow concept understanding in key markets through the UK, via the first ever title sponsorship of the Regus London Film Festival and Regus London Film Festival On Tour. The sponsorship enabled Regus to acquire new business as well as aiding retention of clients. The initiative has since been nominated and short-listed for an award in the Arts Sponsorship category of the upcoming Hollis Sponsorship Awards.

Above: Denmark, Copenhagen - City

"Regus' professionalism and willingness to assist has enabled our company to grow in Chicago from one to eight people in four short weeks."

Rob Murray, OneSoft

"Regus has great vision in providing completely fitted-out space. For large companies like ours, when we need growth we need something that's right on time."

Meredith Fondahl, Charles Schwab & Co. Inc

"I can meet with Regus today and move tomorrow in most locations."

Herb Henderson, Madison River Communications

To develop our brand awareness further, we signed our biggest-ever sponsorship deal at the end of the year when we became an Official Partner to the Ryder Cup 2001, probably the most prestigious sporting event of the year and one of the world's top ten sporting events. We join other major global companies, such as IBM, KPMG and Pfizer, in supporting this golf tournament which features the best players from Europe and the US. In 2001 the event will run from 28 to 30 September at The Belfry, near Birmingham, UK. Since more than 35 countries take live TV coverage, more than 800 million viewers will see the Regus name every day during the event.

Operations

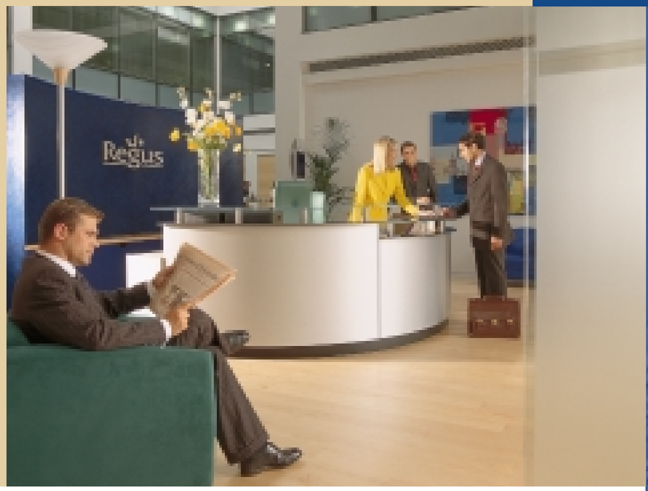
Regus considers the location of its business centres to be of paramount importance and has generally positioned them in city centres, at important transportation hubs, such as major airports, and in business parks. Our international corporate development team which, at the end of the year, consisted of 25 people, works with our regional management teams and property owners to identify suitable locations.

In 2000, we continued to develop our global network by adding a further 93 centres and by expanding 17 existing centres. We closed three centres. As a result of opening centres that are generally larger, we increased the number of workstations available at the end of the year by 60%, to 64,070, compared with 40,136 at the

Review of operations – developing our business through global growth

"The location of the Cape Town Regus Centre in Safmarine House, one of the city's most prestigious buildings, was a major factor in its favour when we were deciding on branch office space. The centre projects the kind of international, upmarket image we must have."

Paul Grinups, Mobil Oil South Africa



end of 1999. This rate of growth is set to continue with a further 53 leases signed at the year end, all of which are due to open during 2001.

In 2000 we focused on the strategically important US market and expanded within existing countries of operation; we added only three new countries in the year. In the US we added a further 37 centres – 10,945 workstations – to the 25 centres in existence at the end of 1999. Twenty-six of these new centres are Regus owned while 11 are joint ventures.

In the UK and Ireland we opened 17 new centres, including four in central London. In mainland Europe, we opened 27 centres, including eight in Benelux, two in France, eight in Germany and three in Spain. In the rest of the world, we opened three centres in Australia and two in Japan. For the first time, we opened centres in Egypt, Azerbaijan and Tunisia. The past year also saw the signing of our largest centre to date: the Amsterdam Teleport Towers centre, which opened in January 2001, has some 1,028 workstations and is ideally placed to reap the rewards from the thriving Benelux market.

Property and supplier relationships

The corporate development team actively manages our relationships with major property owners throughout the world. Their objective is to position Regus as the partner of choice for any property owner. Regus can offer property owners a menu of deal structures, ranging from conventional leases through participation leases and management contracts to franchise, depending upon the property owner's appetite for risk and reward. Once we have decided to lease a property, our team of designers, contractors and suppliers works to build out the workstations and conference rooms to our consistently high standards.

We have established 50/50 joint ventures with Arlington Securities and Teesland Group plc in the UK, with Equity Office Properties Trust and Crescent in the US, Milano Centrale in Italy and Gesco in India. In each case we operate business centres in our partners' buildings on a profit-share arrangement through which we are paid a management fee by the joint-venture company and share in the business centres' profits.

We have partnerships with Jones Lang LaSalle, the world's largest chartered surveyors and international property consultants, and DIFA, Germany's third-largest property fund. In addition, we work closely with the owners of our buildings and with our partners who are involved in new products and initiatives.

As the business has grown and matured, we have strengthened our relationships with our principal suppliers, on a mutually beneficial basis, and have achieved significant purchasing discounts on certain products. As a result, approximately 80% of our capital expenditure on new centres is placed with only 16 suppliers.

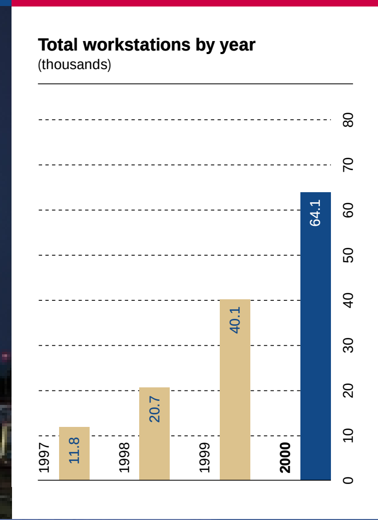
We continue to develop non-exclusive partnerships with "best-in-class" companies to facilitate entry into new and/or existing markets. These enable us to introduce new products more efficiently and quickly and to reduce the risk of doing so.

E-business

We have always been determined that our clients should benefit from advances in technology. Our relationships with Hewlett Packard, Microsoft, Cisco and Ericsson continue to deliver improved efficiency, create new revenue streams and maintain a global standard.

Regus

Above: Finland, Espoo - Spectri Business Park



Mobil Oil South Africa ("Mobil SA") is part of the world's third-largest oil company, and is always looking for beneficial working relationships.

It is company policy to outsource as much as possible, and this includes the management of its branch office facilities and support staff wherever feasible.

Mobil SA was so satisfied with Regus' service and facilities to date that it recently signed up for another year's lease.

Staff at Mobil SA's Cape Town branch also make extensive use of the meeting rooms in the Regus centre, and of the skilled secretarial support services.

Paul Grinups, Mobil Oil South Africa

During 2000 we initiated several pilot projects to increase IT services to meet our clients' needs. These included Engineer Services – providing for a variety of break fix and local support – and en@ble Services – a selection of ASP services. We will extend these pilots in 2001 to four key regional markets, and will use their success to determine the roll-out programme.

Collaboration with other IT partners has enabled us to develop "RegusNet", which provides a high-speed secure internet access, together with a wide range of value-added IT services, for our clients.

A principal objective of our e-business programme is to drive increased revenues and margins, primarily through increased efficiency. By delivering an integrated, internet-enabled systems platform across the Group, customers may make bookings, receive bills and make electronic payments from their own PCs. Because data is captured only once, accuracy and speed are improved and costs are reduced.

The applications, built around PeopleSoft software, include financials, human resources, billing, e-procurement, purchase order and expenses, and form the backbone of our Management Information System. We have also implemented Pivotal customer relationship management. These applications employ the latest web technology and operate on a platform of Windows 2000 and RegusNet.

Review of operations – developing our business through infrastructure

"As organisations such as Regus help companies take advantage of opportunities on both sides of the Atlantic, our transatlantic business links will become even more intimate and advantageous for companies and consumers in both countries."

Richard Fursland, British American Chamber of Commerce

Stage 1 of this project was completed successfully in the second half of 2000. Committed expenditure on applications alone is around £10 million. We have already begun to experience some benefits, but expect financial and operational savings to come through in the second half of 2001.

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 tri-weekly electronic newsletter through our intranet, RegusSmart, and an annual conference. Professionalism is further enhanced through our training and development programme at the Regus Academy, where 551 team members have been trained this year, and 95 team members have been promoted.

We have also developed The Regus Open Learning Institute, known as ROLI, which is a new web-based learning programme providing training for all Regus team members from their own laptop, anywhere, anytime. ROLI comprises three levels of distance learning on each functional area of the Regus business, from induction (basic level) to intermediate and advanced levels, to develop Regus experts in their chosen field. ROLI is of significant benefit in the development of team members' careers. Once they have completed the basic, intermediate and senior programmes within their functional arena, they can develop significant expertise in other functional areas, in the direction of becoming a Regus expert in all areas of our business toward overall general management.

At the end of 2000, we employed 2,615 people: 818 in the UK and Ireland; 908 in the rest of Europe; 512 in the Americas; 254 in the rest of the world; and 123 at Regus headquarters.

Above: The Netherlands, Amsterdam - The Atrium

Above: Belgium, Brussels - Park Atrium

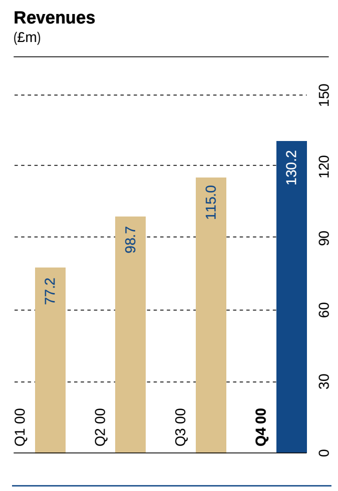
In the US, Intel has chosen Regus to solve a major commute problem for some 300 employees based in Silicon Valley. Regus centres in San Francisco's financial district and Bay Area at San Ramon are now dedicated to Intel staff "hotdesking" – saving up to four hours commute time daily in some cases. With unemployment below 1% in this part of the US, Intel's initiative is seen as an innovative way of maintaining staff loyalty. Intel is also a major client at Regus centres in Lima, Kiev, Santiago, Tel Aviv, Stockholm, Brussels and London.

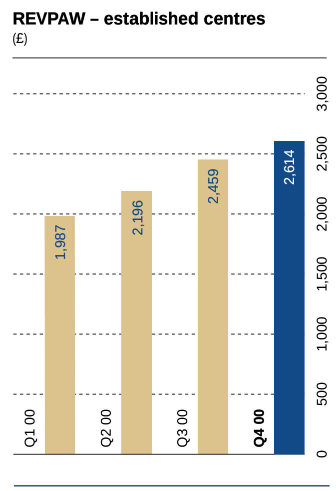
In Europe, Regus has launched a pilot scheme with Siemens that sets an exciting precedent for the way companies – and people – work. At Munich Airport, Regus is now running the first of several planned tailor-made business centres in Germany exclusively for Siemens. Further such fully-serviced centres are planned for Erlangen and Berlin, and may also expand to Dusseldorf and Frankfurt. Siemens chose the Regus option because of our flexibility; strength and breadth of international network; market experience; and proven high service standards.

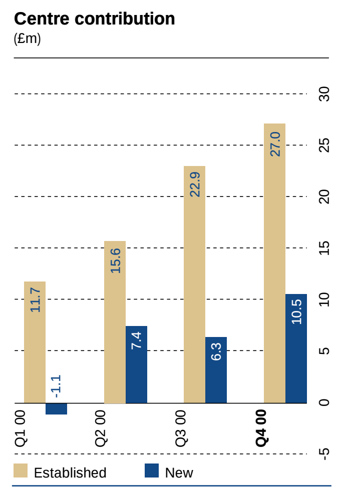
Regus

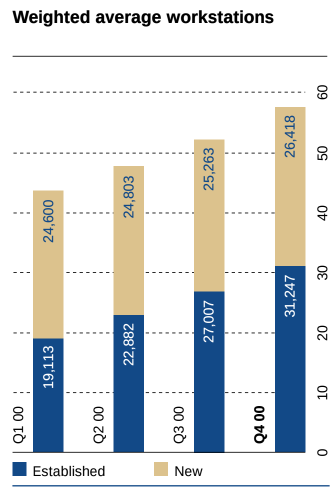
Financial review

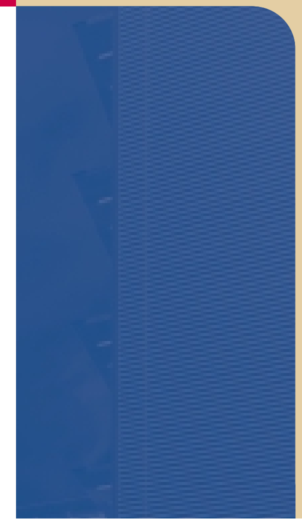
The Group recorded an operating profit of £12.4 million (1999: loss of £43.0 million) on turnover of £421.1 million (1999: £200.6 million). The operating profit is stated before exceptional charges of £9.5 million relating to the Team Member Share Plan. EBITDA after exceptional items for 2000 was £43.5 million (1999: negative £28.1 million).











IPO

Regus came to the market in October 2000, with a dual listing on the LSE and NASDAQ. The IPO raised £239 million (net), from which we repaid a £100 million senior multi-currency secured loan facility. Regus shares were offered at £2.60 each. At 31 December 2000 the share price stood at £3.62, giving a market capitalisation of more than £2.1 billion and putting us in 121st position in the FTSE 350.

Revenue

Revenue on a global basis increased 110% to £421.1 million (1999: £200.6 million), with weighted average workstations increasing 69% to 50,333 (1999: 29,777). As a result, total revenue per available workstation ("REVPAW") increased to £8,367 (1999: £6,737).

Revenue from established centres increased 119% to £293.6 million while weighted average workstations in established centres increased 84% to 30,941. Accordingly, REVPAW in established centres increased to £9,488 (1999: £7,990), principally due to an increase in both pricing and occupancy. Revenue from new centres increased 92% to £127.5 million and workstations in new centres increased 49% to 19,392. REVPAW in new centres increased to £6,578 (1999: £5,121) because we opened new centres in higher-priced markets and achieved faster fill rates.

Revenue in the UK and Ireland increased 83% to £188.6 million (1999: £102.9 million), with workstations increasing 43% to 17,568. REVPAW increased to £10,736 (1999: £8,350).

Results of operations	Year ended 31 December 2000 Revenue £m	Contribution £m	Weighted average workstations Number	Year ended 31 December 1999 Revenue £m	Contribution £m	Weighted average workstations Number
UK and Ireland	188.6	59.6	17,568	102.9	20.2	12,324
Rest of Europe	118.9	29.2	17,565	73.7	10.8	12,276
Americas	86.5	13.9	10,900	15.6	(6.0)	3,218
Rest of the World	27.1	(2.4)	4,300	8.4	(7.9)	1,959
	421.1	100.3	50,333	200.6	17.1	29,777

Revenue and contribution from centres	Year ended 31 December 2000 Revenue £m	Contribution £m	Weighted average workstations Number	Year ended 31 December 1999 Revenue £m	Contribution £m	Weighted average workstations Number
Established centres	293.6	92.3	30,941	134.0	41.7	16,772
New centres	127.5	8.0	19,392	66.6	(24.6)	13,005
	421.1	100.3	50,333	200.6	17.1	29,777

In mainland Europe, revenue increased 61% to £118.9 million (1999: £73.7 million), with workstations increasing 43% to 17,565. REVPAW increased to £6,771 (1999: £6,004).

Revenue in the Americas increased 455% to £86.5 million (1999: £15.6 million), primarily as a result of a 239% increase in workstations.

Revenue in the Rest of the World increased 224% to £27.1 million (1999: £8.4 million), primarily as a result of a 119% increase in workstations.

Centre contribution (gross profit)

Centre contribution on a global basis increased 486% to £100.3 million (1999: £17.1 million). This increase is principally as a result of a 110% increase in revenue, offset in part by a 75% increase in cost of sales to £320.8 million (1999: £183.5 million). In our most important markets, particularly the UK, western Europe and the US, there was strong demand which resulted in new centres filling more quickly, in opportunities for price increases and in comparatively high levels of occupancy.

Contribution from established centres increased 122% to £92.3 million, primarily as a result of an 84% increase in workstations, to 30,941. The contribution margin (contribution as a percentage of revenue) from established centres remained stable at 31%. Contribution from new centres increased to £8.0 million (1999: loss of £24.6 million), reflecting our strategy of focusing our new centre opening programme on countries in which we already operate. As a result, start-up costs of new centres were substantially reduced.

Centre contribution in the UK and Ireland increased 196% to £59.6 million (1999: £20.2 million). Contribution margin in the UK and Ireland increased to 32% (1999: 20%), primarily as a result of higher occupancy and prices. The UK and Ireland continue to benefit from favourable economic conditions and a comparative shortage of office space, particularly in central London.

Centre contribution in mainland Europe increased 170% to £29.2 million, with margin increasing to 25% (1999: 15%). By focusing on opening new centres only in countries where we had existing centres, the region benefited from reduced start-up costs compared with the previous year, as well as from particularly strong markets in western European capital cities.

Contribution in the Americas increased to £13.9 million (1999: loss of £6.0 million). This was principally attributable to the maturing of existing centres.

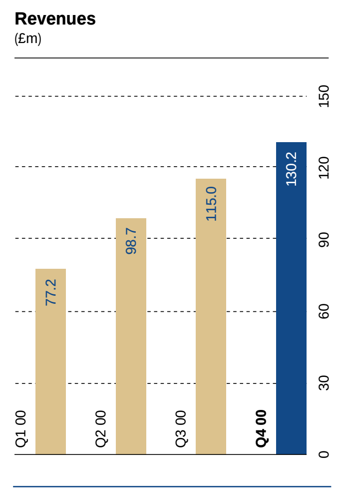
Losses in the Rest of the World decreased to £2.4 million (1999: loss of £7.9 million), primarily as a result of reducing the number of new centre openings from 13 in 1999 to nine in 2000.

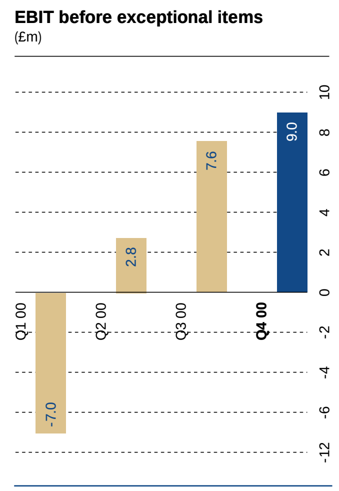
Administrative expenses

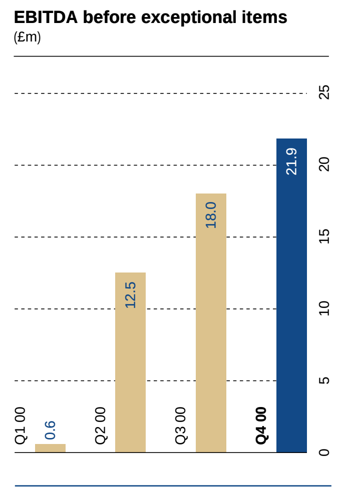
Total administrative expenses increased 45% to £86.9 million, largely as a result of our substantial investment in sales, marketing and administrative infrastructure needed to support our expanding network. As a percentage of revenues, however, administrative expenses decreased to 21% for the year (1999: 30%), reflecting increased efficiencies arising from our strategy of focusing on countries and markets in which we had existing operations. Sales and marketing costs increased 28% to £43.5 million (1999: £34.0 million). Regional and central overheads increased 66% to £43.4 million (1999: £26.1 million). This was principally attributable to an increase in the number of employees in our headquarters and regional network, from 258 in 1999 to 292 in 2000.

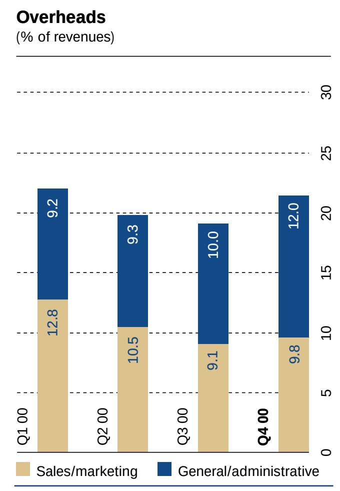
Financial review *continued*

Regus









Exceptional item

The £9.5 million exceptional item relates to the costs associated with the reduction of the exercise price of the Reward Options granted in the Team Member Share Plan. The original exercise price was £1.455 per share, which was written down to £0.05 per share following the successful IPO.

Net interest payable

Interest payable is principally affected by the interest payable on our £100 million senior multi-currency secured loan facility. This facility was repaid from the proceeds of the IPO.

Interest income comprised interest on cash held in deposits generated from organic growth of our business and the excess portion of debt drawn down from our multi-currency secured loan facility.

Tax on loss on ordinary activities

Despite our overall loss-making position in 1999 and 2000, we provided for tax liabilities in both periods. The principal reason for this was that tax liabilities were incurred on profits arising in the UK, Ireland, Italy, Luxembourg, The Netherlands, Belgium, France, Switzerland and Spain. These taxable profits could not, however, be offset by tax losses in all other countries where we operate. The majority of our 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.

Cash flow

Operating cash flow before exceptional items was £117.9 million (1999: £17.7 million). Increased trading levels resulted in net working capital inflows of £71.9 million in the year. Capital expenditure increased to £111.7 million, of which £88.1 million was funded from cash resources and the balance through finance leases. After repaying the £100 million multi-currency secured loan facility the net proceeds of the IPO were £139.0 million.

Treasury policy

The Group's treasury policy seeks to ensure that adequate financial resources are available for the development and growth of its operations while managing its currency, interest rate and counter-party risks. Group Treasury strategy and policy is developed centrally with subsidiary companies operating within a framework of controls approved by the Board. We do not engage in speculative transactions. Our policy on 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 borrowings, foreign exchange contracts, currency swaps or currency options, used to hedge the net assets of subsidiaries. Group Treasury makes proposals to a committee of the Board each quarter on hedging its foreign assets in this way.

Currency transaction exposures Currency transaction exposure arises where sales and purchases are transacted by a business unit in a currency other than its own 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 therefore 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 is currently net cash positive, with substantial cash balances. During the year, the major debt facility was repaid in full and cancelled on receipt of proceeds from the successful IPO. Outstanding borrowings comprise office equipment financed through finance and operating leases and specific loans from certain property owners advanced on commercial terms. Wherever possible, these borrowings are matched to the local currency of the borrower or, in the case of lease finance, to the life of the asset financed.

During 2001 we will arrange sufficient bank credit facilities on normal commercial terms to provide further liquidity or capital for growth. Surplus funds are deposited in investment grade instruments that carry low credit risk and which are readily realisable in major currencies.

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 against predetermined limits approved by the Board to control exposure to any particular institution.

Interest rate risk The Group's current policy is to borrow and invest surplus funds on a floating rate basis. Group Treasury is, however, currently undertaking a review of policy in light of the increase in surplus funds resulting from the IPO and the potential arrangement of debt facilities in 2001. This will consider the appropriateness of fixing interest rates using forward rate or interest rate swap agreements.

Finance systems

During 2000, we began the global implementation of PeopleSoft financial software. At the core of our e-business strategy, PeopleSoft will bring benefits in training, speed of processing and data analysis. We aim to have upgraded worldwide to the fully web-enabled PeopleSoft Version 8 by the end of 2001.

Hyperion Enterprise was maintained as the Group's financial reporting software and continued to be developed. Towards the end of the year we embarked on the development of a global budgeting and forecasting system using Applix software, to be used in conjunction with Hyperion Enterprise. Applix will be rolled out across the Group by March 2001 and is expected to bring greater flexibility, accuracy and speed of production to the forecasting and budgeting process.

Directors and advisers

The Board, from left to right: Rudy Lobo, Robert Kuijpers, Stephen Stamp, George Gray, Mark Dixon, John Matthews, Roger Orf

George Gray
Non-executive Chairman, age 62
Dr Gray was appointed as a non-executive director of Regus in August 1999. From 1987 until recently, 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 41
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 44
Mr Lobo joined Regus eight years ago and was previously Group Finance Director. He is responsible for commercial issues, risk management and legal services, and has responsibility for directing Regus' IT and e-business strategy. 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.

Regus

Auditors
KPMG Audit Plc
St James' Square
Manchester M2 6DS

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

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

Stephen Stamp
Group Finance Director, age 39
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
Non-executive Director, age 55
Appointed in 1995. He is also a director of Crest Nicholson plc (Chairman), Perry Group plc (Deputy Chairman), Rotork plc and several private companies. 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.

Robert Kuijpers
Non-executive Director, age 62
Appointed in September 1999, Mr Kuijpers is Chief Executive Officer of DHL Worldwide Express. Prior to joining DHL in 1988, he was with H J Heinz in a number of positions, latterly as Managing Director for continental Europe. Before this, he held a number of positions in sales and marketing. Mr Kuijpers is a Dutch citizen, resident in Belgium. He is a member of the audit, nomination and remuneration committees.

Roger Orf
Non-executive Director, age 47
Managing Director and founding partner of Pelham Partners, a property investment and advisory company. Since that time Pelham Partners, working closely with Apollo Real Estate Advisors, has invested more than US$400 million of equity in 14 European countries. Prior to 1995 Mr Orf was in charge of Goldman Sachs' European real estate department.

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
34 Beckenham Road
Kent BR3 4TU

Registered office and headquarters
3000 Hillswood Drive
Chertsey
Surrey KT16 0RS

Website
www.regus.com

Registered number
3548821

Regus

Directors' report

The directors present their report and the audited financial statements of Regus plc for the year ended 31 December 2000.

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 4 to 15 describe the principal activities of the Group during 2000.

Business review and future developments

In October 2000, the Group successfully floated on the London Stock Exchange and NASDAQ. The loss on ordinary activity before taxation for the year ended 31 December 2000 was £3.9 million (1999: loss £54.9 million). An indication of future developments is given in the Chairman's statement.

Change of name

On 18 July 2000, the Company changed its name from Regus Business Centres plc to Regus plc.

Dividends

No dividend is proposed (1999: £nil).

Directors and directors' interests

The directors who held office during the year were :
M L J Dixon
S A Stamp (appointed 7 January 2000)
R J G Lobo
J W Matthews
R G Orf
G G Gray
R M Kuijpers
P L Jenkins (resigned 7 January 2000)

Details of the directors' interests and shareholdings are given in the Remuneration report on pages 22 to 24.

In accordance with the Articles of Association, M J Dixon, R J G Lobo and J W Matthews 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 2000 or 1999. Donations to UK charities amounted to £18,190 (1999: £16,000).

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. The Company does not follow any code or standard on payment practice. The 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; and
- 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 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 Company and 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 26 February 2001:

Paramount Nominees Ltd[1]	355,329,286	61.19%
Chase Nominees Ltd	24,406,380	4.20%
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 24).

2 The beneficiary of half of this holding is R J G Lobo (page 24).

3 These shares are held by Regus Employee Trust (note 10).

Introduction of the Euro

The directors are aware of the potential impact of the introduction of the Euro and an action plan is in place. The effects on the business are not expected to be significant and costs will be expensed to the profit and loss account when incurred.

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 is to be proposed at the forthcoming Annual General Meeting.

By order of the Board
26 February 2001

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

Regus

Corporate governance

The Board of Directors is committed to maintaining the highest standards of corporate governance in line with the Combined Code, issued by the London Stock Exchange in 1998, 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, three independent non–executive directors, including a non-executive chairman and Mr R G Orf who, by virtue of his interest in the share capital of the Company (as described in the Remuneration report) is not an independent non-executive director. The Chairman of the audit committee, currently Mr J W Matthews, has acted as senior independent director since 1995. 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 Board 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 M Kuijpers (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 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), Mr J W Matthews, Mr R M Kuijpers (all 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 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 M Kuijpers (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 22 to 24.

From the end of March 2001 Mr R M Kuijpers stepped down as a non-executive director and no longer serves on the committees above.

Going concern

After making appropriate enquiries, the directors consider that the Group 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 its effectiveness 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 encompass all controls, including financial, operational and compliance controls and risk management. Such a system is, however, designed to manage rather than eliminate the risk of failure to achieve business objectives, and cannot provide absolute assurance against material misstatement.

The main Board conducted an in-depth review of the Group's strategy prior to the Initial Public Offering on 17 October 2000 and it continues to conduct regular reviews of the Group's strategic direction. Country and regional strategic objectives, quarterly plans and performance targets for 2001 and beyond 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 in place throughout the year ended 31 December 2000 are:

- The executive directors ("the Group executive") normally meet monthly together with certain other senior executives to consider Group financial performance, business development and Group management issues. Directors of key operating companies meet regularly to manage their respective businesses.
- Major business risks and their financial implications are appraised by the executives responsible as part of the budget process and are endorsed by regional management. Key risks are reported to the 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 budgets and objectives is reviewed with regional management, as are forecasts and material sensitivities. The Board regularly receives reports from key executives and functional heads on matters such as forecasts, business development, strategic planning, legal and corporate.
- Appropriate delegated authority levels are in force across the Group which prescribe the limits to which it can be committed.
- A Group-wide policy governs appraisal and approval of investment expenditure and asset disposals. Post-investment audits are undertaken.
- Other key policies and control procedures (including finance, operations and health and safety), which have Group-wide application, are available to all staff on web-based systems.

Since the IPO on 17 October 2000, the Group has strengthened its internal audit function, co-sourced with Arthur Andersen, which reports to management on the Group's worldwide operations. Its 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.

Communications with shareholders

A regular programme of meetings with major institutional shareholders is planned in order to communicate the Group's performance and prospects. 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

Since obtaining a listing on 17 October 2000, 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") except for the requirement of provision D2.1 of the Code (according to the Guidance notes issued to directors by the Turnbull working party issued in September 1999). This Code provision states that the directors should, at least annually, conduct a review of the effectiveness of the Group's system of internal controls and should report to shareholders that they have done so. The review should cover all controls, including financial, operational and compliance controls and risk management.

The following procedures will enable the Company to report full compliance for 2001 but were not in place throughout the year ending 31 December 2000:

- Throughout 2001, an ongoing process for the formal identification of the Company's significant risks and mitigating control processes will be in place.
- An embedded system of reporting the effectiveness of controls (and, where relevant, management's actions in response to any observed weaknesses) will be established during the first quarter of 2001.
- A multi-disciplinary Group risk forum, chaired by Mr R Lobo, has been established to report to the Board on a quarterly basis from the first quarter of 2001. It will consider all aspects of risk management and, through its reports, will enable the Board to assess regularly the overall effectiveness of the Group's system of internal control.

For the period prior to 17 October 2000, the Group complied with the remaining provisions of the Combined Code except for:

- the requirement to re-elect directors at least every three years (provision A6.2); and
- the establishment of an Audit Committee (provision A3.1).

Remuneration report

The remuneration committee
The remuneration committee is chaired by Mr J W Matthews and its other members are Dr G G Gray and Mr R M Kuijpers. 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 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 2000. The main benefits relate to the provision of company cars and the provision of private medical insurance for the director and his immediate family.

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 achieved.

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 Team Member Share Plan, a replacement plan known as the Regus Global Share Plan and the Regus International Sharesave Plan. As at 26 February 2001 no options had been granted to executive directors, other than those detailed in the table of directors' interests at the end of this report.

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; and
- 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 R M Kuijpers, 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), 4 October 1999, 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 2000 £000	Total remuneration 1999 £000	Pension scheme contributions 2000 £000	Pension scheme contributions 1999 £000
Executive							
Mark Dixon[1]	300.0	127.0	21.0	448.0	384.8	28.0	56.0
Peter Jenkins*	4.6	–	0.2	4.8	208.7	–	0.9
Stephen Stamp[1]	150.0	67.0	8.3	225.3	–	10.5	–
Rudy Lobo[1]	145.0	65.0	13.8	223.8	181.1	9.6	7.7
Non-executive							
George Gray	34.5	–	–	34.5	20.8	–	–
Robert Kuijpers	25.0	–	–	25.0	6.3	–	–
John Matthews	25.0	–	–	25.0	21.3	–	–
Roger Orf	1.7	–	–	1.7	–	–	–
	685.8	259.0	43.3	988.1	823.0	48.1	64.6

* Former director

1 In addition to the annual bonus of 40% of their basic salary, the directors indicated received a one-off bonus of $10,000 each. This was approved by the remuneration committee.

Remuneration report *continued*

Directors' shareholdings

	Ordinary shares Beneficial holdings 31 December 2000*	Ordinary shares Beneficial holdings 31 December 1999*
Mark Dixon[1]	355,329,286	358,598,516
Rudy Lobo	38,462	–
Stephen Stamp	384,615	–
George Gray (Chairman)	38,462	–
Robert Kuijpers	–	–
John Matthews	10,385	–
Roger Orf [2]	8,583,844	8,953,844

* Or at date of appointment if later.

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 a 100% beneficial ownership interest.

2 Mr Orf's beneficial ownership of shares is calculated by attributing to him all shares, including options, owned by AP Pelham Partners X1 LLC, an affiliate of Apollo Real Estate Investment Fund 111 LP. Mr Orf, as a director of AP Pelham Partners X1 LLC, exercises shared investment and voting powers over shares held by AP Pelham Partners X1 LLC.

Directors' share options

	Option type	31 December 1999	Granted during 2000	31 December 2000	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 21 on page 49.

The market price of the shares at 31 December 2000 was 362p and the range since 17 October, the date of the IPO, was 277p to 376p.

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.

There has been no change in the directors' shareholdings (all of which are beneficial) and their share options between the year end and 26 February 2001.

Auditor's report to the members of Regus plc

We have audited the financial statements on pages 26 to 54.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report. As described on page 19 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 Financial Services 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 20 to 21 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 statements on internal control cover 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 judgments 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 of the Group as at 31 December 2000, 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
Chartered Accountants
Registered Auditor

26 February 2001

Consolidated profit and loss account

for the year ended 31 December 2000

	Note	12 months to 31 Dec 2000 £'000	12 months to 31 Dec 1999 £'000
Turnover (including share of joint ventures)	1	429,200	200,610
Less: share of turnover of joint ventures	1	(8,075)	(9)
Turnover		421,125	200,601
Cost of sales (centre costs)		(320,832)	(183,487)
Gross profit (centre contribution)	1	100,293	17,114
Administration expenses before exceptional items		(86,859)	(60,054)
Exceptional items	3	(9,501)	(5,125)
Administration expenses after exceptional items		(96,360)	(65,179)
Group operating profit/(loss)		3,933	(48,065)
Share of operating loss in joint ventures		(1,027)	(92)
Total operating profit/(loss): Group and share of joint ventures	1	2,906	(48,157)
Net interest payable and other similar charges	6	(6,763)	(6,782)
Loss on ordinary activities before tax	2	(3,857)	(54,939)
Tax on loss on ordinary activities	7	(9,926)	(1,524)
Loss on ordinary activities after tax		(13,783)	(56,463)
Equity minority interests		253	17
Retained loss for the financial year	18	(13,530)	(56,446)
Loss per ordinary share:	8		
Basic (p)		(2.7)	(12.0)
Diluted (p)		(2.6)	(12.0)
Basic (p)*		(1.1)	(11.3)
Diluted (p)*		(1.1)	(11.3)

* Before exceptional items

All results arose from continuing operations.

Balance sheets

as at 31 December 2000

	Note	Group 31 Dec 2000 £'000	Group 31 Dec 1999 £'000	Company 31 Dec 2000 £'000	Company 31 Dec 1999 £'000
Fixed assets					
Tangible assets	9	193,453	125,571	–	–
Investments					
Investments in subsidiaries	10	–	–	5,631	5,631
Investment in own shares	10	47,021	–	–	–
Interest in joint ventures:	10				
Share of gross assets		13,601	1,361	–	–
Share of gross liabilities		(9,461)	(155)	–	–
		4,140	1,206	–	–
Total investments		51,161	1,206	5,631	5,631
		244,614	126,777	5,631	5,631
Current assets					
Stocks		279	244	–	–
Debtors	11	129,677	69,183	202,466	43,932
Cash at bank and in hand		169,821	72,100	98,387	18,466
		299,777	141,527	300,853	62,398
Creditors: amounts falling due within one year	12	(317,883)	(189,860)	(15,493)	(3,552)
Net current (liabilities)/assets		(18,106)	(48,333)	285,360	58,846
Total assets less current liabilities		226,508	78,444	290,991	64,477
Creditors: amounts falling due after more than one year	13	(23,050)	(102,350)	–	–
Provisions for liabilities and charges	15	(794)	–	–	–
Net assets/(liabilities)		202,664	(23,906)	290,991	64,477
Capital and reserves					
Called-up share capital	16	29,034	24,061	29,034	24,061
Share premium account	17	279,858	46,283	279,858	46,283
Other reserves	18	615	606	5,531	5,531
Profit and loss account	18	(106,417)	(94,681)	(23,432)	(11,398)
Equity shareholders' funds/(deficit)		203,090	(23,731)	290,991	64,477
Equity minority interests		(426)	(175)	–	–
		202,664	(23,906)	290,991	64,477

The financial statements on pages 26 to 54 were approved by the Board of Directors on 26 February 2001 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 2000

	Note	12 months to 31 Dec 2000 £'000	12 months to 31 Dec 1999 £'000
Cash inflow from continuing operating activities			
Net cash inflow before exceptional items		117,899	17,731
Outflow related to exceptional item	19(a)	–	(3,370)
Net cash inflow from continuing operating activities	19(a)	117,899	14,361
Returns on investments and servicing of finance			
Interest received		3,851	1,287
Interest paid		(7,993)	(3,575)
Interest paid on finance leases		(2,861)	(2,943)
Debt arrangement fees paid		–	(1,500)
		(7,003)	(6,731)
Taxation			
Tax paid		(2,224)	(969)
		(2,224)	(969)
Capital expenditure			
Purchase of tangible fixed assets		(88,078)	(76,024)
Sale of tangible fixed assets		1,506	311
Purchase of own shares		(42,500)	–
		(129,072)	(75,713)
Acquisitions and disposals			
Investment in joint ventures		(3,789)	(1,296)
		(3,789)	(1,296)
Cash outflow before management of liquid resources and financing		(24,189)	(70,348)
Management of liquid resources	19(b)	(78,712)	(16,519)
Financing	19(b)	118,766	96,979
Increase in cash in the period	19(c)(d)	15,865	10,112

Consolidated statement of total recognised gains and losses
for the year ended 31 December 2000

	12 months to 31 Dec 2000 £'000	12 months to 31 Dec 1999 £'000
Loss for the financial year	(13,530)	(56,446)
Exchange differences	2,675	(1,160)
Tax charge on exchange differences	(872)	–
Total recognised losses for the year	(11,727)	(57,606)

Reconciliation of movements in Group shareholders' funds

	12 months to 31 Dec 2000 £'000	12 months to 31 Dec 1999 £'000
Loss for the financial year	(13,530)	(56,446)
Net proceeds of ordinary shares issued	238,548	20,000
Exchange differences	2,675	(1,160)
Tax charge on exchange differences	(872)	–
Net increase/(decrease) in shareholders' funds	226,821	(37,606)
Shareholders' (deficit)/funds at 1 January	(23,731)	13,875
Shareholders' funds/(deficit) at 31 December	203,090	(23,731)

Accounting policies

1 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 and 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.

2 Basis of preparation
The consolidated financial statements have been prepared 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/(deficit) and results of operations at and for the years ended 31 December 1999 and 2000, to the extent summarised in note 27.

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.

3 Basis of consolidation
The financial statements have been prepared using the merger accounting principles contained in FRS 6, Acquisitions and Mergers, in relation to the Group reorganisation which comprised the addition on 23 July 1998 of a new Group holding company, Regus plc, above the previous one, Regus Business Centre BV. Under merger accounting, the results and cash flows of the two companies are combined as though the structure was in place from 1 January 1997. Profit and loss and balance sheet comparatives are shown on the combined basis and adjustments have been made where necessary to adopt accounting policies consistent with UK GAAP rather than Dutch GAAP as used by the previous holding company.

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiary undertakings which are more than 50% owned subsidiaries. Subsidiary undertakings not more than 50% owned, including 50% owned joint ventures, are accounted for under the gross equity method and included in interest in joint ventures. All significant intercompany accounts and transactions have been eliminated on consolidation.

4 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.

5 Tangible fixed assets and depreciation
Depreciation is provided on a straight-line basis at rates calculated to write off the cost of fixed assets over their estimated useful lives at the following rates:

Furniture	– five years
Fixtures and fittings	– shorter of the lease term, the first break point of the building lease or ten years
Telephones and office equipment	– five years
Computer hardware	– three years
Computer software	– two years
Cars	– four years

6 Fixed asset investments
Fixed asset investments are generally accounted for at the lower of cost and recoverable amount. Investments designated as hedging instruments are carried at market value, any gains or losses being recognised consistently with the item being hedged.

7 Stocks
Stocks are stated at the lower of cost and net realisable value. Stocks relate to items purchased for resale to customers and to items intended for distribution within the business, such as office supplies and marketing materials. Provision is made for any deterioration in net realisable value as a result of obsolescence or damage.

8 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.

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

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

Centre income is invoiced monthly in advance and is deferred until the month in which the services are provided.

Income for other services supplied to clients using centres is charged and recognised in the month in which the related services are provided.

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

12 Start-up costs
Start-up costs (including formation costs, costs related to finding property and any other centre opening costs) are charged to the profit and loss account as they are incurred.

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

14 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 the shorter of the lease term and 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.

Accounting policies *continued*

14 Leases *continued*

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.

15 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 items' 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.

Regus

Notes to the financial statements
for the year ended 31 December 2000

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.

	Turnover 12 months to 31 Dec 2000 £'000	Turnover 12 months to 31 Dec 1999 £'000	Gross profit/(loss) (centre contribution) 12 months to 31 Dec 2000 £'000	Gross profit/(loss) (centre contribution) 12 months to 31 Dec 1999 £'000
Geographic analysis				
UK and Ireland	188,862	102,856	59,619	20,169
Rest of Europe	118,933	73,739	29,214	10,830
Americas	94,296	15,646	13,850	(6,012)
Rest of World	27,109	8,369	(2,390)	(7,873)
	429,200	200,610	100,293	17,114
Total Group	421,125	200,601		
Total joint ventures	8,075	9		
Established centres	293,555	134,016	92,329	41,673
New centres	127,570	66,585	7,964	(24,559)
Total	421,125	200,601	100,293	17,114

	Operating profit/(loss) 12 months to 31 Dec 2000 £000	Operating profit/(loss) 12 months to 31 Dec 1999 £'000	Net assets/ (liabilities) As at 31 Dec 2000 £'000	Net assets/ (liabilities) As at 31 Dec 1999 £'000
Geographic analysis				
UK and Ireland	36,763	4,830	21,304	(5,952)
Rest of Europe	3,783	(10,527)	(28,972)	(27,073)
Americas	(14,646)	(19,812)	(308)	(15,189)
Rest of World	(11,609)	(15,742)	(29,294)	(17,791)
Other	(1,884)	(1,781)	249,435	47,224
Exceptional item	(9,501)	(5,125)	(9,501)	(5,125)
	2,906	(48,157)	202,664	(23,906)
Total Group	3,933	(48,065)	198,524	(25,112)
Total joint ventures	(1,027)	(92)	4,140	1,206

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.

Regus

Notes to the financial statements
for the year ended 31 December 2000 *continued*

2 Loss on ordinary activities before tax

	12 months to 31 Dec 2000 £'000	12 months to 31 Dec 1999 £'000
Loss before tax is stated after charging:		
Depreciation of tangible fixed assets:		
– owned assets	27,671	12,459
– assets under finance leases	12,875	7,602
Loss on sale of fixed assets	1,520	15
Operating leases:		
– property	136,969	71,805
– equipment	6,033	5,466
Audit fees:		
– Company	5	5
– Group	546	375
Non-audit fees paid to KPMG Audit plc and associates:		
– UK companies	204	76
– Group	496	306
– exceptional (note 3)	–	900
Other exceptional items (note 3)	9,501	4,225

In addition to the fees above, audit fees and non-audit fees of £0.2 million and £0.8 million respectively paid to KPMG were offset against the share premium account.

3 Exceptional item

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

The exceptional pre-tax charge of £5.1 million in 1999 related principally to costs associated with the raising of loan finance and the postponed flotation work during 1999.

4 Loss of holding company

Of the loss attributable to shareholders, a loss of £11.9 million (1999: loss of £11.7 million) 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

	12 months to 31 Dec 2000 £'000	12 months to 31 Dec 1999 £'000
Staff costs for the Group during the year		
Wages and salaries	61,648	42,126
Social security costs	7,851	5,465
Other pension costs	260	300
	69,759	47,891

The Group contributes to the personal pension schemes of a small number of employees. The amount which is included within creditors is £44,000 (1999: £12,000). Included within the above staff costs in 1999 are £900,000 of exceptional costs in relation to the postponed flotation work (note 3).

	12 months to 31 Dec 2000 Number	12 months to 31 Dec 1999 Number
Average number of people (including executive directors) employed during the year		
Centre staff	1,525	949
Sales staff	284	285
Finance staff	135	111
Other staff	157	147
	2,101	1,492

	12 months to 31 Dec 2000 £'000	12 months to 31 Dec 1999 £'000
Directors		
Aggregate emoluments	988	787
Compensation for loss of office	–	36
Company pension payments to money purchase scheme	48	65
Highest-paid director		
Aggregate emoluments	448	385
Company pension payments to money purchase scheme	28	56

Retirement benefits are accruing to three directors under a money purchase scheme. One director (1999: one director) received share options under the long-term incentive scheme.

More detailed information on directors' emoluments is provided in the Remuneration report on pages 22 to 24.

Regus

Notes to the financial statements

for the year ended 31 December 2000 *continued*

6 Net interest payable and other similar charges

	12 months to 31 Dec 2000 £'000	12 months to 31 Dec 1999 £'000
Interest payable on overdrafts and loans	7,759	7,495
Interest payable on finance leases	2,867	2,965
	10,626	10,460
Interest income	(3,863)	(3,678)
Net interest payable and other similar charges	6,763	6,782

7 Taxation

	12 months to 31 Dec 2000 £'000	12 months to 31 Dec 1999 £'000
United Kingdom		
Corporation tax at 30% (1999: 30%)	4,402	–
Deferred tax	794	–
Under provision in respect of prior periods	–	180
	5,196	180
Overseas		
Corporation taxes	4,752	1,322
Under provision in respect of prior periods	(22)	124
Deferred tax	–	(102)
	9,926	1,524
Approximate gross tax losses to carry forward against certain future UK corporation tax liabilities	–	5,855
Approximate gross tax losses to carry forward against certain future overseas corporation tax liabilities	76,910	57,718

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 2000, the total unremitted accumulated reserves of the overseas subsidiary undertakings were £2.0 million (1999: £2.4 million).

The tax losses above have the following expiration dates:

	31 Dec 2000 £'000	31 Dec 1999 £'000
2000	–	860
2001	196	915
2002	757	1,497
2003	2,592	3,489
2004	15,885	10,010
2005	7,574	273
2006	397	298
2007 and later	27,647	16,547
	55,048	33,889
Available indefinitely	21,862	29,684
	76,910	63,573

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:

	12 months to 31 Dec 2000 £'000	12 months to 31 Dec 1999 £'000
UK statutory rate applied to result for year	(1,157)	(16,502)
Adjusted for:		
Permanent differences:		
Professional fees associated with postponed flotation and costs of obtaining loan finance	–	2,010
Other permanent differences	451	217
Difference in taxation rates	(1,721)	(1,732)
Tax losses utilised	(1,133)	(795)
Deferred tax asset not booked in respect of:		
Tax losses carried forward	6,907	16,211
Start-up costs and other reserves	6,717	1,905
Adjustment in respect of prior periods	(22)	304
Other items	(116)	(94)
Actual tax charge	9,926	1,524

Page 14 of the financial review provides an explanation of the tax charge.

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. The loss per share before exceptional items has been calculated by adjusting the loss for the years ended 31 December 2000 and 1999 by the exceptional items of £9.5 million and £5.1 million and the tax thereon of £1.5 million and £1.5 million respectively. There were no adjustments to the retained loss for the year for the diluted earnings per share computations. The basic weighted number of ordinary shares has been adjusted by 13,829,065 (1999: nil) shares, relating to share options, to arrive at the diluted number of ordinary shares. The following summarises the calculation of loss per share for the years ended 31 December 1999 and 2000:

		12 months to 31 Dec 2000	12 months to 31 Dec 1999
Retained loss for the year (£'000)		(13,530)	(56,446)
Weighted average ordinary shares in issue	– basic (000)	497,889	469,486
	– diluted (000)	511,718	469,486
Loss per ordinary share	– basic (p)	(2.7)	(12.0)
	– diluted (p)	(2.6)	(12.0)
Loss per ordinary share (before exceptional items)	– basic (p)	(1.1)	(11.3)
	– diluted (p)	(1.1)	(11.3)

Regus

Notes to the financial statements
for the year ended 31 December 2000 *continued*

9 Tangible fixed assets – Group

	Furniture and fittings £'000	Computers £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 January 2000	150,667	10,593	578	161,838
Exchange differences	96	187	2	285
Additions	99,549	12,002	101	111,652
Disposals	(5,619)	(1,285)	(259)	(7,163)
At 31 December 2000	244,693	21,497	422	266,612
Aggregate depreciation				
At 1 January 2000	32,921	3,093	253	36,267
Exchange differences	280	70	(2)	348
Charge for the period	34,759	5,664	123	40,546
Disposals	(2,688)	(1,137)	(177)	(4,002)
At 31 December 2000	65,272	7,690	197	73,159
Net book value at 31 December 2000	179,421	13,807	225	193,453
Net book value at 31 December 1999	117,746	7,500	325	125,571

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 2000 £'000	Group 31 Dec 1999 £'000
Cost	74,570	51,675
Depreciation	(28,078)	(15,900)
Net book value	46,492	35,775

10 Investments

	Group Investment in own shares* £'000	Group Interest in joint ventures £'000	Group Total £'000	Company Shares in Group undertakings £'000
At 1 January 2000	–	1,206	1,206	5,631
Exchange differences	–	170	170	–
Additions	45,200	3,791	48,991	–
Revaluation	1,821	–	1,821	–
Share of losses retained	–	(1,027)	(1,027)	–
At 31 December 2000	47,021	4,140	51,161	5,631

* The nominal value of the Group's investment in own shares is £0.9 million. Note 21 provides details of the investment in own shares.

Details of investments in subsidiary companies are given on pages 53 to 54 of these accounts.

11 Debtors

	Group 31 Dec 2000 £'000	Group 31 Dec 1999 £'000	Company 31 Dec 2000 £'000	Company 31 Dec 1999 £'000
Amounts falling due within one year				
Trade debtors	60,990	31,153	–	–
Amounts owed by participating interest	1,862	–	–	–
Other debtors	29,940	14,951	–	–
Prepayments and accrued income	26,364	16,121	393	–
VAT recoverable	10,521	6,958	–	–
	129,677	69,183	393	–
Amounts falling due after one year				
Amounts owed by Group undertakings	–	–	202,073	43,932
Total debtors	129,677	69,183	202,466	43,932

As at 31 December 2000 the provision for bad and doubtful debts was £1.7 million (1999: £1.0 million). An allowance for bad and doubtful debts is recorded at the end of each period based upon the expected collectability of all trade receivables.

Analysis of the bad and doubtful debt provision is as follows:

	Group 31 Dec 2000 £'000	Group 31 Dec 1999 £'000
Opening balance	1,047	732
Additional charges to profit and loss account	842	439
Provision utilisation	(190)	(79)
Exchange difference	2	(45)
Closing balance	1,701	1,047

Notes to the financial statements

for the year ended 31 December 2000 *continued*

12 Creditors – amounts falling due within one year

	Group 31 Dec 2000 £'000	Group 31 Dec 1999 £'000	Company 31 Dec 2000 £'000	Company 31 Dec 1999 £'000
Bank loans and overdrafts	5,750	26,154	–	3,249
Other loans	807	122	–	–
Obligations under finance leases	10,614	9,314	–	–
Amounts owed to Group undertakings	–	–	8,851	–
Trade creditors	31,207	19,928	–	–
Customer deposits	80,024	37,674	–	–
Other tax and social security	16,128	9,043	–	–
Corporation tax	9,849	1,877	301	301
Deferred income	43,541	23,551	–	–
Deferred landlord contributions	3,173	4,529	–	–
Rent accruals	56,307	34,145	–	–
Other accruals	58,392	21,440	–	–
Other creditors	2,091	2,083	6,341	2
	317,883	189,860	15,493	3,552

As at 31 December 2000 other accruals included property taxes £4.5 million (1999: £2.6 million), telephone call cost accruals £1.4 million (1999: £1.1 million), marketing and advertising £3.4 million (1999: £1.4 million), commissions and bonuses £6.0 million (1999: £1.4 million), holiday pay £1.1 million (1999: £0.7 million), legal and audit fees £1.4 million (1999: £0.6 million), share option cost accruals £13.2 million (1999: £nil) and other accruals £27.4 million (1999: £13.6 million)

13 Creditors – amounts falling due after more than one year

	Group 31 Dec 2000 £'000	Group 31 Dec 1999 £'000	Company 31 Dec 2000 £'000	Company 31 Dec 1999 £'000
Bank loans	12	80,804	–	–
Other loans	1,475	1,934	–	–
Obligations under finance leases	21,150	13,674	–	–
Accruals and deferred income	361	5,855	–	–
Other creditors	52	83	–	–
	23,050	102,350	–	–

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.

Deferred tax has been provided to the extent that the directors believe on the basis of reasonable assumptions that it is probable that the liability will crystallise in the foreseeable future.

As at 31 December 2000 the Group had £13.7 million (1999: £3.0 million) of other available credit facilities, none of which (1999: £0.8 million) was drawn, that bear interest at various commercial rates with maturities through December 2004.

14 Maturity of debt

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

	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

	Bank loans and overdrafts 31 Dec 1999 £'000	Other loans 31 Dec 1999 £'000	Finance leases 31 Dec 1999 £'000	Total 31 Dec 1999 £'000
Within one year	26,154	122	9,314	35,590
Between one and two years	80,783	1,361	7,216	89,360
Between two and five years	21	547	6,436	7,004
After five years or more	–	26	22	48
	106,958	2,056	22,988	132,002

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

	Group 31 Dec 2000 £'000	Group 31 Dec 1999 £'000	Company 31 Dec 2000 £'000	Company 31 Dec 1999 £'000
Within one year	6,557	26,276	–	3,249
Between one and two years	289	82,144	–	–
Between two and three years	249	343	–	–
Between three and four years	238	88	–	–
Between four and five years	199	137	–	–
After five years or more	512	26	–	–
	8,044	109,014	–	3,249

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

	Group 31 Dec 2000 £'000	Group 31 Dec 1999 £'000	Company 31 Dec 2000 £'000	Company 31 Dec 1999 £'000
Within one year	11,966	10,984	–	–
Between one and two years	11,967	7,901	–	–
Between two and three years	7,862	4,726	–	–
Between three and four years	1,970	2,358	–	–
Between four and five years	1,379	209	–	–
After five years or more	1,118	23	–	–
Total commitment	36,262	26,201	–	–
Less amounts representing interest	(4,498)	(3,213)	–	–
Present value of future minimum lease payments	31,764	22,988	–	–
Within one year	10,614	9,314	–	–
After one year	21,150	13,674	–	–

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Notes to the financial statements

for the year ended 31 December 2000 *continued*

15 Provisions for liabilities and charges

	Group Deferred tax £'000
At 1 January 2000	–
Provided in year	794
At 31 December 2000	794

There is no unprovided deferred tax.

16 Share capital

	Group and Company 31 Dec 2000 £'000	Group and Company 31 Dec 1999 £'000
Authorised		
659,999,615 new A ordinary shares of 5 pence each	–	33,000
140,000,385 new B ordinary shares of 5 pence each	–	7,000
800,000,000 ordinary shares of 5 pence each	40,000	–
	40,000	40,000
Allotted and fully paid		
385,665,000 new A ordinary shares of 5 pence each	–	19,283
95,557,208 new B ordinary shares of 5 pence each	–	4,778
580,676,185 ordinary shares of 5 pence each	29,034	–
	29,034	24,061

In March 2000, 1,855,670 new A ordinary shares of 5 pence each were allotted for a total consideration of £2.7 million.

In October 2000, 97,598,307 ordinary shares of 5 pence each were issued in an Initial Public Offering for a total consideration of £253.8 million, at the same time new A and new B ordinary shares were reclassified as ordinary shares.

17 Share premium account

	Group and Company (non distributable) £'000
At 1 January 2000	46,283
Premium on issue of shares during period	251,483
Issue costs	(17,908)
At 31 December 2000	279,858

18 Reserves

	Group Profit and loss £'000	Group Other (non distributable) £'000	Company Profit and loss £'000	Company Other (non distributable) £'000
At 1 January 2000	(94,681)	606	(11,398)	5,531
Retained loss for the period	(13,530)	–	(11,922)	–
Transfer to capital reserve	(9)	9	–	–
Exchange differences	2,675	–	(112)	–
Tax on exchange differences	(872)	–	–	–
At 31 December 2000	(106,417)	615	(23,432)	5,531

19 Cash flow statement

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

	Group 12 months to 31 Dec 2000 £'000	Group 12 months to 31 Dec 1999 £'000
Continuing operating activities		
Operating profit/(loss)	3,933	(48,065)
Depreciation charge	40,546	20,061
Loss on disposal of fixed assets	1,520	15
(Increase)/decrease in stocks	(33)	22
Increase in debtors	(58,228)	(32,573)
Increase in creditors	130,161	74,901
Net cash inflow from continuing operating activities	117,899	14,361

The cash inflow for 1999 includes a £3.4 million outflow relating to the exceptional item charged during the year (note 3).

b) Financing and management of liquid resources

	Group 12 months to 31 Dec 2000 £'000	Group 12 months to 31 Dec 1999 £'000
Management of liquid resources		
New cash deposits	(95,897)	(105,536)
Repayment of cash deposits	17,185	89,017
	(78,712)	(16,519)
Financing		
New loans	13,945	105,073
Repayment of loans	(116,325)	(12,298)
Payment of principal under finance leases	(14,702)	(15,796)
Issue of equity shares	253,756	20,000
Issue costs	(17,908)	–
	118,766	96,979

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Notes to the financial statements
for the year ended 31 December 2000 *continued*

19 Cash flow statement *continued*

c) Reconciliation of net cash flow to movement in net funds/(borrowings)

	12 months to 31 Dec 2000 £'000	12 months to 31 Dec 1999 £'000
Increase in cash in the period	15,865	10,112
Cash outflow/(inflow) from change in borrowings and finance leases	117,082	(76,979)
Cash outflow from increase in liquid resources	78,712	16,519
Change in net funds/borrowings resulting from cash flows	211,659	(50,348)
Other non-cash items:		
New finance leases	(23,574)	(17,234)
Exchange differences	1,830	(1,280)
Movement in net funds/borrowings in the year	189,915	(68,862)
Net (borrowings)/funds at 1 January	(59,902)	8,960
Net funds/(borrowings) at 31 December	130,013	(59,902)

d) Analysis of changes in net funds/(borrowings) in the period

	At 1 January 2000 £'000	Cash flow £'000	Non-cash changes £'000	Exchange movements £'000	At 31 December 2000 £'000
Cash at bank and in hand	16,426	8,030	6,583	393	31,432
Overdrafts	(1,923)	7,835	(7,229)	114	(1,203)
	14,503	15,865	(646)	507	30,229
Debt due after one year	(82,738)	(10,076)	91,387	(60)	(1,487)
Debt due within one year	(24,353)	112,456	(93,852)	395	(5,354)
Finance leases due after one year	(13,674)	6,534	(14,000)	(10)	(21,150)
Finance leases due within one year	(9,314)	8,168	(9,377)	(91)	(10,614)
	(130,079)	117,082	(25,842)	234	(38,605)
Liquid resources	55,674	78,712	2,914	1,089	138,389
	(59,902)	211,659	(23,574)	1,830	130,013

Liquid resources include cash held on deposit of which £40.9 million at 31 December 2000 (1999: £22.0 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.

20 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 14 of the financial statements.

Short-term debtors and creditors and inter-company balances
Short-term debtors and creditors have been excluded from all the following disclosures other than the currency risk disclosure. Inter-company balances have been excluded from all the following disclosures except for 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 2000

Financial liabilities	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
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:						
Current asset investments	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		

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Notes to the financial statements
for the year ended 31 December 2000 *continued*

20 Financial instruments *continued*

31 December 1999

Financial liabilities	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
Euro	(853)	(3,590)	–	(4,443)	8.5	4.5
Japanese Yen	(11,526)	(797)	–	(12,323)	7.2	3.5
Sterling	(92,785)	(11,434)	–	(104,219)	10.3	4.0
US Dollar	–	(6,230)	–	(6,230)	9.3	5.0
Others	(3,850)	(937)	–	(4,787)	11.5	4.0
	(109,014)	(22,988)	–	(132,002)	–	–
Financial assets						
Australian Dollar	1,491	–	–	1,491	–	–
Euro	13,394	–	35	13,429	–	–
Japanese Yen	201	–	–	201	–	–
Sterling	45,242	–	39	45,281	–	–
US Dollar	6,333	–	40	6,373	–	–
Others	5,302	–	23	5,325	–	–
	71,963	–	137	72,100		
	(37,051)	(22,988)	137	(59,902)		
Of which:						
Current asset investments	55,674	–	–	55,674		
Gross borrowings	(109,014)	(22,988)	–	(132,002)		
Cash	16,289	–	137	16,426		
	(37,051)	(22,988)	137	(59,902)		

Maturity analysis of undrawn committed borrowing facilities

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

Expiring within	31 Dec 2000 £'000	31 Dec 1999 £'000
One year or less	3,589	10,000
Between one and two years	–	–
In more than two years	–	1,250
	3,589	11,250

20 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 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 2000

Functional currency of Group operation	Net foreign currency monetary assets/(liabilities) 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

31 December 1999

Functional currency of Group operation	Net foreign currency monetary assets/(liabilities) Euro £'000	Japanese Yen £'000	Sterling £'000	US Dollar £'000	Others £'000	Total £'000
Euro	–	–	1,400	6,190	342	7,932
Sterling	1,109	368	–	5,135	5,667	12,279
US Dollar	–	–	–	–	–	–
Others	60	84	26	335	1,918	2,423
	1,169	452	1,426	11,660	7,927	22,634

Notes to the financial statements

for the year ended 31 December 2000 *continued*

20 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 2000 £'000	Fair value 31 Dec 2000 £'000	Book value 31 Dec 1999 £'000	Fair value 31 Dec 1999 £'000
Primary financial instruments held or issued to finance the Group's operations				
Short-term borrowings	(17,171)	(15,874)	(35,590)	(34,842)
Long-term borrowings	(22,637)	(16,837)	(96,412)	(92,531)
Short-term deposits	138,389	138,389	55,674	55,674
Accounts receivable	60,990	60,990	31,153	31,153
Accounts payable	(31,207)	(31,207)	(19,928)	(19,928)
Cash at bank and in hand	31,432	31,432	16,426	16,426
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, overdrafts, and accounts receivable and payable 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

The table below shows the extent to which the Group has off-balance sheet (unrecognised) and on-balance sheet (deferred) gains and losses in respect of financial instruments used as hedges at the beginning and end of the year. It also shows the amount of such gains and losses which have been included in the profit and loss account for the year and those gains and losses which are expected to be included in next year's expected profit and loss accounts.

All the gains and losses on the hedging instruments are expected to be matched by losses and gains on the hedged transactions or positions.

Under the Group's accounting policy, foreign currency assets and liabilities which are hedged using forward foreign currency contracts are translated at the period end rate and the forward contract is marked to market. The Group defers the impact of foreign currency options on profit until it fully recognises the underlying hedged item in the profit and loss account.

20 Financial instruments *continued*

The gains or losses on both these types of instrument are treated as deferred for the purposes of the table below.

	Unrecognised gains £'000	Unrecognised losses £'000	Unrecognised net gains/(losses) £'000	Deferred gains £'000	Deferred losses £'000	Deferred net gains/(losses) £'000
Gains and losses on hedges at 1 January 2000	–	–	–	–	–	–
Arising in previous years included in 2000 income	–	–	–	–	–	–
Gains and losses not included in 2000 income						
Arising before 1 January 2000	–	–	–	–	–	–
Arising in 2000	45	–	45	–	–	–
Gains and losses on hedges at 31 December 2000	45	–	45	–	–	–
Of which:						
Gains and losses expected to be included in 2001 income	45	–	45	–	–	–
Gains and losses expected to be included in 2002 income or later	–	–	–	–	–	–

21 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.

The Trustee is not entitled to receive dividends.

At 31 December 2000 the Trust held 18,120,670 shares in Regus plc (note 10). The market value at 31 December 2000 was £65.6 million. Costs incurred by the Trust are expensed in the profit and loss account.

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Notes to the financial statements
for the year ended 31 December 2000 *continued*

21 Employee share ownership plan ("ESOP") *continued*

At 31 December 2000, awards over a total of 28,047,451 (1999: 20,971,634) shares had been granted to employees. The awards have been issued in eight 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 first exercisable	31 December 2000 Number of awards	Exercise price £	31 December 1999 Number of awards	Exercise price £
Performance awards	1 January 2003 to 1 January 2007	10,184,514	1.455	7,492,834	1.455
	1 January 2004 to 1 January 2008	1,322,792	2.60	–	
Non-performance awards	1 January 2003 to 1 January 2007	9,741,279	1.455	9,582,328	1.455
	1 January 2003 to 1 January 2006	4,047,105	0.05	3,896,472	1.455
	1 January 2004 to 1 January 2008	2,751,761	2.60	–	
		28,047,451		20,971,634	
Lapsed options at 31 December		(4,025,953)		–	
Net options at 31 December		24,021,498		20,971,634	

In addition, at 31 December 2000, awards over 120,000 American Depositary Receipts (1999: nil) had been granted to an employee employed by the Group. The employee may begin to exercise these between 12 December 2003 and 12 December 2005. All these awards had been granted subject to conditions linked to the performance of the Group. The exercise price of these awards is $25.00.

The Group also operates a SAYE share ownership plan.

22 Capital commitments

	Group 31 Dec 2000 £'000	Group 31 Dec 1999 £'000	Company 31 Dec 2000 £'000	Company 31 Dec 1999 £'000
Contracts placed for future capital expenditure not provided in the financial statements	14,279	17,432	–	–

23 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 £'000	Vehicles, plant and equipment £'000	31 Dec 2000 Total £'000	31 Dec 1999 Total £'000
Annual commitments under non-cancellable operating leases expiring:				
Within one year	2,601	1,903	4,504	1,169
Between one and five years	78,830	7,527	86,357	35,797
After five years	59,829	31	59,860	61,667
	141,260	9,461	150,721	98,633

	31 Dec 2000 Total £'000	31 Dec 1999 Total £'000
Minimum future lease payments under non-cancellable operating leases:		
Amounts due within one year	150,721	98,633
Amounts due between one and two years	149,732	103,079
Amounts due between two and three years	143,571	97,087
Amounts due between three and four years	114,692	83,487
Amounts due between four and five years	88,320	58,609
Amounts due after five years	245,420	177,472
	892,456	618,367

24 Contingent liabilities

The Group has bank guarantees and letters of credit held with certain banks, totalling £42.2 million (1999: £26.5 million). The Company also acts as a guarantor for certain obligations of other subsidiary entities.

25 Related party transactions

During the year ended 31 December 2000 the Group received management fees of £3.0 million (1999: £nil) from its joint venture entities as listed on pages 53 and 54. At 31 December 2000, £1.9 million (1999: £nil) was due to the Group from the joint ventures.

26 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 2000 *continued*

27 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:

	12 months to 31 Dec 2000 £'000	12 months to 31 Dec 1999 £'000
Net loss reported in accordance with UK GAAP	(13,530)	(56,446)
US GAAP adjustments:		
Stock purchase warrants	–	(1,500)
Amortisation of debt discount	–	(2,038)
Compensation expense related to options granted by shareholder	(6,836)	(11,840)
Compensation expense related to other variable plan options	3,997	–
Deferred taxes	(474)	644
Income taxes on US GAAP adjustments	–	611
Net loss in conformity with US GAAP	(16,843)	(70,569)
Weighted average shares outstanding (000)	502,773	469,486
Loss per ordinary share before extraordinary items (p)	(3.4)	(14.7)
Loss per ordinary share after extraordinary items (p)[1]	(3.4)	(15.0)

1 In the year ended 31 December 1999 there was an extraordinary cost of £1,775,000 relating to the early extinguishment of debt.

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

	31 Dec 2000 £'000	31 Dec 1999 £'000
Shareholders' funds/(deficit) recorded in accordance with UK GAAP	203,090	(23,731)
US GAAP adjustments:		
Stock purchase warrants and debt discount	–	(8,500)
Compensation expense related to options granted by shareholder[1]	–	–
Compensation expense related to other variable plan options[2]	10,778	–
Deferred taxes	1,902	2,376
Income taxes on US GAAP adjustments		
Employee share trust (investment in own shares)	(47,021)	–
Shareholders' funds/(deficit) in conformity with US GAAP	168,749	(29,855)

1 Shareholders' funds/(deficit) was not affected by the differences between UK GAAP and US GAAP since these differences resulted in recording an increase to expense and a corresponding increase to contributed capital.

2 Shareholders' funds/(deficit) was 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
Stephanie Square Business Centre SA	Belgium	100
Regus do Brasil Ltda	Brazil	100
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
FoRe Business Centres Ltd †††	England	50
Host Regus Ltd	England	100
Park Business Centres Ltd †††	England	50
Regus Business Centres (Holdings) Ltd *	England	100
Regus Business Centres (UK) Ltd	England	100
Regus Business Centre Trading Ltd †	England	100
Regus City Ltd	England	100
Regus Management Limited	England	100
Regus (UK) Ltd	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 Finance	Ireland	100
Regus Franchise International Ltd	Ireland	100
Regus Ireland Ltd	Ireland	100
Regus Business Centres Ltd	Israel	100
Regus Business Centre Srl	Italy	100
Regus Milano Centrale Business Centre S.p.A ††	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
Regus Business Centre SA de CV	Mexico	100
Regus Services SA de CV	Mexico	100
Regus Maroc SARL	Morocco	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) SA	Panama	100
Regus Business Centre (Peru) SA	Peru	100
Regus Centres Inc	Philippines	100
Regus Business Centre SP zoo	Poland	100

Principal Group companies *continued*

Name of Group entity	Country of incorporation	% of equity and votes held
Regus Business Centre Lda	Portugal	100
Regus Business Centre (Romania) SRL	Romania	100
LLC Regus Business Centre	Russia	100
Regus Centres Pte Ltd	Singapore	100
Regus Business Centre Bratislava sro	Slovak Republic	100
Regus Business Centre SA	Spain	100
Business Centre Gothenburg AB	Sweden	100
Business Centre Stockholm AB	Sweden	100
Regus Business Centre (S) SA	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 Business Centre Corp	USA	100
Regus Crescent Business Centres LLC †††	USA	50
Regus Equity Business Centres LLC †††	USA	50
Regus Business Centre Venezuela CA	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.

A full list of the Group companies will be included in the Company's annual return.

† Our Azerbaijan business operates as a branch of this company.
†† Our South Africa business operates as a branch of this company.
††† 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 3.00pm on Tuesday 17 April 2001. The full Notice of Meeting and proxy card accompany 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
For investor enquiries, please contact:

Dale Lawrence
Director of Public Relations
Regus plc
3000 Hillswood Drive
Chertsey
KT16 0RS
United Kingdom
by telephone
+44 (0) 1932 895 000
by fax
+44 (0) 1932 895 260
by email
dale.lawrence@regus.com

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).

Registered office
Regus plc
3000 Hillswood Drive
Chertsey
Surrey KT16 0RS
United Kingdom

Registered number 3548821

Tel: +44 (0) 1932 895 000
Fax: +44 (0) 1932 895 001

Five-year summary

Profit and loss data:	12 months to 31 Dec 1996 £m	12 months to 31 Dec 1997 £m	12 months to 31 Dec 1998 £m	12 months to 31 Dec 1999 £m	12 months to 31 Dec 2000 £m
Turnover (including share of joint ventures)	32.9	58.8	111.6	200.6	429.2
Less: share of turnover of joint ventures	–	–	–	–	(8.1)
Turnover	32.9	58.8	111.6	200.6	421.1
Cost of sales (centre costs)	(29.7)	(50.3)	(97.2)	(183.5)	(320.8)
Gross profit (centre contribution)	3.2	8.5	14.4	17.1	100.3
Administration expenses before exceptional items	(8.3)	(13.1)	(29.6)	(60.0)	(86.9)
Exceptional items	–	–	–	(5.1)	(9.5)
Administration expenses after exceptional items	(8.3)	(13.1)	(29.6)	(65.1)	(96.4)
Group operating profit/(loss)	(5.1)	(4.6)	(15.2)	(48.0)	3.9
Share of operating loss in joint ventures	–	–	–	(0.1)	(1.0)
Total operating profit/(loss): Group and share of joint ventures	(5.1)	(4.6)	(15.2)	(48.1)	2.9
Net interest payable and other similar charges	(0.6)	(1.8)	(2.0)	(6.8)	(6.8)
Loss on ordinary activities before tax	(5.7)	(6.4)	(17.2)	(54.9)	(3.9)
Tax on loss on ordinary activities	(0.2)	(0.5)	(0.8)	(1.5)	(9.9)
Loss on ordinary activities after tax	(5.9)	(6.9)	(18.0)	(56.4)	(13.8)
Minority interests	–	–	0.1	–	0.3
Retained loss for the financial period	(5.9)	(6.9)	(17.9)	(56.4)	(13.5)
Loss per ordinary share:					
Basic (£)	(0.01)	(0.02)	(0.04)	(0.12)	(0.03)
Diluted (£)	(0.01)	(0.02)	(0.04)	(0.12)	(0.03)
Weighted average number of shares outstanding (thousands)	400,000	400,000	427,729	469,486	497,889
Balance sheet data (at year end):					
Fixed assets	11.2	24.0	54.7	126.8	244.6
Cash	3.5	14.8	48.0	72.1	169.8
Total assets	21.6	53.0	142.2	268.3	544.4
Other net current liabilities	(14.5)	(32.7)	(59.9)	(120.4)	(187.9)
Creditors: amounts falling due after more than one year	(9.8)	(22.8)	(29.1)	(102.4)	(23.8)
Equity minority interests	(0.1)	(0.1)	(0.2)	(0.2)	(0.4)
Equity shareholders funds/(deficit)	(9.5)	(16.6)	13.9	(23.7)	203.1

Regus

Financial calendar

AGM 17 April 2001

Announcements of quarterly results
Quarter 1 15 May 2001
Quarter 2 14 August 2001
Quarter 3 12 November 2001

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