REGUS GROUP PLC ANNUAL REPORT 2005

REGUS GROUP PLC
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Regus

REGUS GROUP PLC
ANNUAL REPORT 2005




CHANGING
THE WAY PEOPLE WORK

As the leading global office outsourcing provider we continue to pursue selective growth opportunities and acquisitions that will bring positive impact to our business in the future.

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OPEN FLAP →

HIGHLIGHTS

REVENUE
£463.3m (2004: £312.2m)

↑ **£151.1m**

CENTRE CONTRIBUTION
£117.2m (2004: £47.4m)

↑ **£69.8m**

PROFIT FROM OPERATIONS
£47.3m (2004: £1.2m)

↑ **£46.1m**

PROFIT BEFORE TAX
£38.7m (2004: £4.9m loss)

↑ **£43.6m**

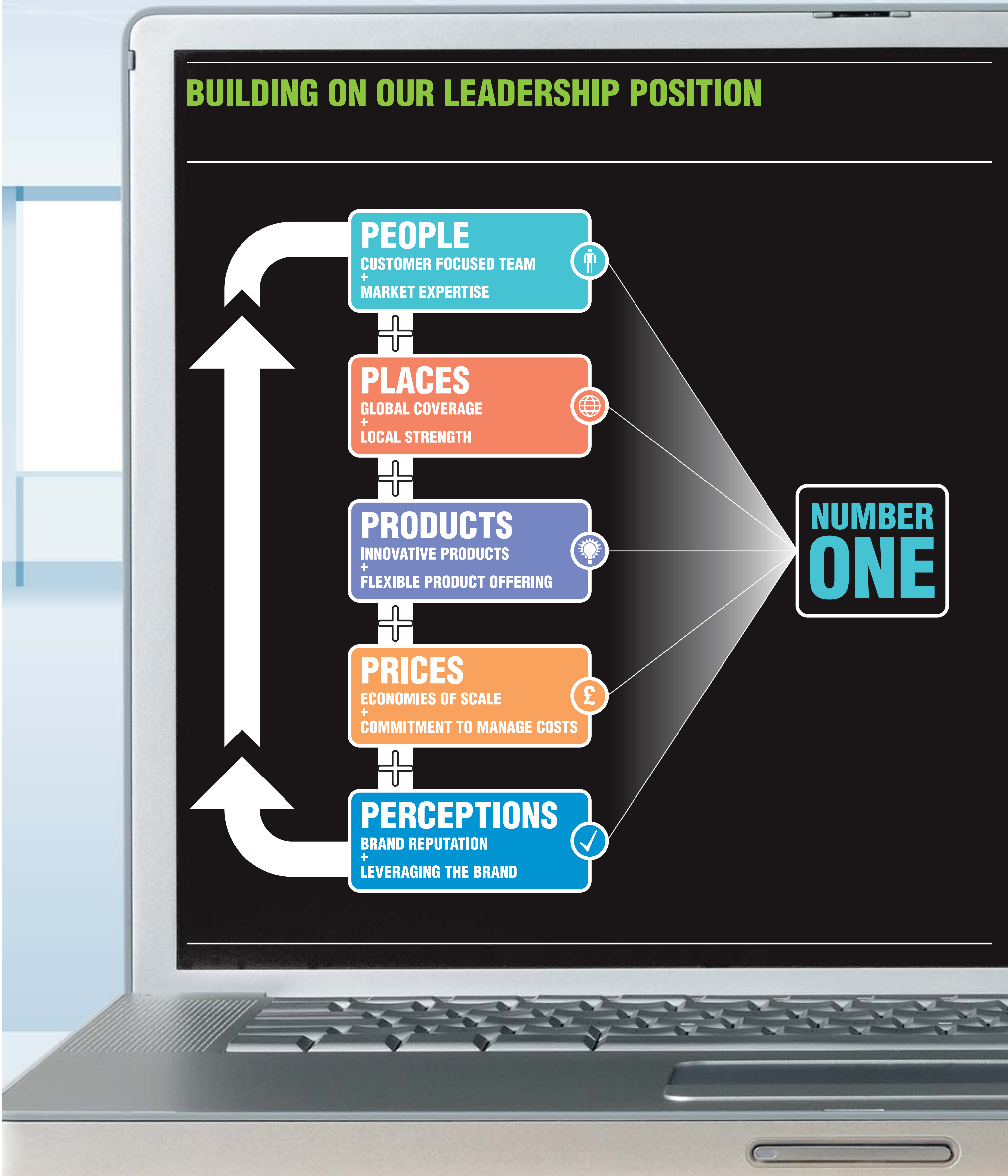
CASH FROM OPERATIONS
£78.1m (2004: £21.0m)

↑ **£57.1m**

BASIC EARNINGS PER SHARE (EPS)
4.5p (2004: 0.3p loss)

↑ **4.8p**

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



THE REGUS DIFFERENCE

NETWORK ACCESS
Our customers can step into any one of our Business Lounges across 350 cities in 60 countries.

FLEXIBILITY
With our unique Business Exchange Clause, our customers have the control to change their office location as their needs change.

100% COMMITTED
Our team members are on hand to serve our customers wherever they do business. With a 98% client satisfaction rating, they are in capable hands.

A WORLDWIDE COMMUNITY
With our online client directory our customers can advertise their business to the rest of our network of over 100,000 businesses.

GLOBAL BUYING
We leverage the combined global buying power of 100,000 businesses, and work with leading brands, to bring our customers a complete range of exclusive offers.

Chairman's Statement

JOHN MATTHEWS

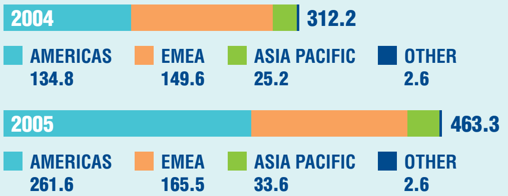
2005 was an excellent year for Regus. We have delivered solid growth in revenues, profit from operations and earnings per share.

REVENUE

£463.3m

(2004: £312.2m)

ANALYSIS OF TOTAL REVENUE (£m)



STRATEGY

Our strategy is one of profitable growth. We continue to drive revenue and profits from our existing portfolio through both price and occupancy gains. Our programme of new centre openings and acquisitions increases our market penetration around the world and delivers improved services and capabilities to our customers. In addition we have identified a number of future opportunities surrounding outsourcing and mobility. Our team continues to focus on capturing more revenue from existing customers as we increase awareness of the breadth and depth of our product offering.

To achieve our strategy, we will increase investment in our people and systems. Training and development, together with investment in technology and new systems, are core in enabling Regus to maximise the opportunities available.

Increased market penetration around the world.

FINANCIAL PERFORMANCE

Revenue increased by 48% to £463.3 million, including like-for-like growth of 13%. Profit from operations grew by £46.1 million to £47.3 million. Basic EPS increased by 4.8p to 4.5p from a loss of 0.3p in 2004. Shareholder funds increased from £93.7 million to £152.8 million illustrating the improved strength of the balance sheet at year-end. Average occupancy increased to 78% from 75% in 2004 and revenue per available workstation (REVPAW) increased 12% from £5,251 to £5,890.

Since the year-end we are pleased to have announced the signing of a new £100 million credit facility. The new facility, which is structured as a five year revolving credit and letter of credit facility has been negotiated on significantly more favourable terms, reflecting the strong progress the business has made since the Group's purchase of HQ in 2004.

DIVIDEND

The Board is not recommending the payment of a dividend for the year to 31 December 2005. However, the Board continues to keep its dividend policy under regular review.

THE BOARD

Stephen Gleadle was appointed Chief Financial Officer on 31 October 2005. He has significant management experience gained during his time at Synstar plc. Stephen replaces Rudy Lobo who has taken on the role of Group Chief Operating Officer. Together with the Group's Chief Executive, Mark Dixon, Stephen and Rudy will work closely together and I am confident that as a team they will steer the Group through its next phase of growth.

OUR TEAM MEMBERS

On behalf of the Board and our shareholders, I would like to thank our people for their substantial contributions. All successful businesses depend on the vision, skill, enthusiasm and commitment of their people and at Regus we are fortunate to have those in abundance.

OUTLOOK

Growth in revenue and profitability across the Group was substantial in 2005 and we are confident that our expansion programme will continue to strengthen our competitive position. We are committed to developing a business that can continue to deliver attractive rates of profit growth and cash generation over the long term. This philosophy underpins our future capital expenditure and investment plans for the roll-out of new centres. I look forward to reporting further progress in the year ahead.

JOHN MATTHEWS
CHAIRMAN
20 March 2006

Chief Executive's Review

MARK DIXON

OVERVIEW

It has been an outstanding year for Regus. Our excellent financial performance stems from our continued investment in growing our existing businesses and our ability to identify and exploit new opportunities through both organic growth and acquisitions. During the course of the year we have continued to invest in all of our regions and they have all contributed to this strong set of results.

We are constantly looking for ways to expand the business responding to the ever-increasing trend towards outsourcing by companies both large and small. In addition, the growing trend towards home, mobile and remote working is also driving growth in our business. We will constantly evaluate the needs of our customers and ensure we develop products to meet their requirements.

We continue to implement our disciplined expansion strategy, driving the performance of our mature business and opening new centres, which will increase our market penetration as we benefit from our size and reach.

Continued investment in growing our existing businesses.

SPOTLIGHT ON OUR REGIONS

TURN TO PAGES 6 AND 7 TO SEE OUR REVIEW OF THE AMERICAS
TURN TO PAGES 8 AND 9 TO SEE OUR REVIEW OF EMEA
TURN TO PAGES 10 AND 11 TO SEE OUR REVIEW OF ASIA PACIFIC

NEW AND INNOVATIVE PRODUCTS

We are committed to broadening our product offering. During 2005 we launched Network Access which provides immediate, unlimited access to the Regus network of business lounges around the world. Pioneered by Regus, Network Access comprises a unique membership where members can enjoy access to the Regus global network of business centres.

In response to customer demand, we have created specific management services tailored to meet individual requirements. One such product is Netspace, a fully outsourced solution designed to assist companies in setting up new sales operations or overseas offices. Through this service, Regus sources, negotiates, acquires and leases the workspace, oversees the fit out and configures the workspace to the client's needs in addition to manage IT and telecoms procurement and installation.

INVEST IN SYSTEMS AND TECHNOLOGY

The focus of the Regus IT strategy is to provide fast, effective, hassle free technology to ensure we as a business operate efficiently and our clients achieve business success. We take pride in developing home grown systems that are tailor-made to the business requirements. Currently we are implementing new systems in the areas of inventory, reservations and billing, customer relationship management and financial reporting.

IMPLEMENTING OPERATIONAL EXCELLENCE

Sales and marketing

The Group's marketing and advertising spend is focused geographically and by customer segment. Marketing is undertaken in regions and we use a number of channels to promote our offer. In November 2005 we signed a significant deal with Delta Airlines Crown Room members where 152,000 members have been provided with Network Access cards to utilise Regus facilities across the globe. The alliance has proved extremely popular with over 10% of members activating their cards and starting to use the Regus network in the first two months. We are in negotiations with a number of other airlines and look forward to signing further deals in the coming months.

Internet bookings

During the year we have invested significantly in our website application through the launch of multi-language websites. Further investment to improve our web presence will continue in 2006.

PROFIT FROM OPERATIONS

£47.3m

(2004: £1.2m)

OPERATIONAL HIGHLIGHTS

AVERAGE AVAILABLE WORKSTATIONS INCREASED BY
32% to 78,657 (2004: 59,451)

AVERAGE OCCUPANCY INCREASED TO
78% (2004: 75%)

AVERAGE REVPAW INCREASED
12% from £5,251 to £5,890

Committed to broadening our product offering.

BRANDS

The Regus network has four brands – the flagship Regus brand, HQ, Stratis Business Centres and Business Meeting Places. Both location and a diverse product offering are the key attributes of all four brands. In 2005 Regus UK was awarded the coveted SuperBrand award, alongside household names such as Microsoft and IBM. The independently judged award is given as a tribute to companies that demonstrate exceptional brand discipline. Brand standards and superior service are vital to our success and during the year we have spent significant time and resources on training team members to instil an ethos of creating a consistent, high standard of service across all our centres.

We continue to expand the brand globally, particularly in emerging markets such as China and India. We are also focused on retaining the integrity of the brand through quality and service audits.

CUSTOMER LOYALTY

Our success is built on customer loyalty. We make a point of listening to our clients so we can add value by delivering products that meet their needs. We are focused on providing value added benefits to customers, such as utilizing our global buying power to secure exclusive deals and discounts for our customers and arranging local and global networking opportunities that facilitate our clients business growth. The latter is facilitated by ClientNet, an innovative online business portal and 24/7 global interface that provides our clients with the tools to help their businesses grow and network with other clients.

OUR TEAM MEMBERS

Regus has a reputation for attracting and retaining exceptional people who are success orientated and driven to help others and themselves achieve more. As a consequence 98% of our customers rate the service we deliver as 'satisfactory' or higher. This has helped deliver today's results and I would like to thank the team and recognise the contribution they have made.

MARK DIXON
CHIEF EXECUTIVE OFFICER
20 March 2006

AMERICAS

AMERICAS: AT A GLANCE (a)

AVERAGE NUMBER OF WORKSTATIONS

2004	27,585	
2005	47,311	UP 72%

REVENUE (£m)

2004	134.8	
2005	261.6	UP 94%

CENTRE CONTRIBUTION (£m)

2004	17.7	
2005	61.5	UP 247%

(a) Owned centres excluding joint ventures and franchises.

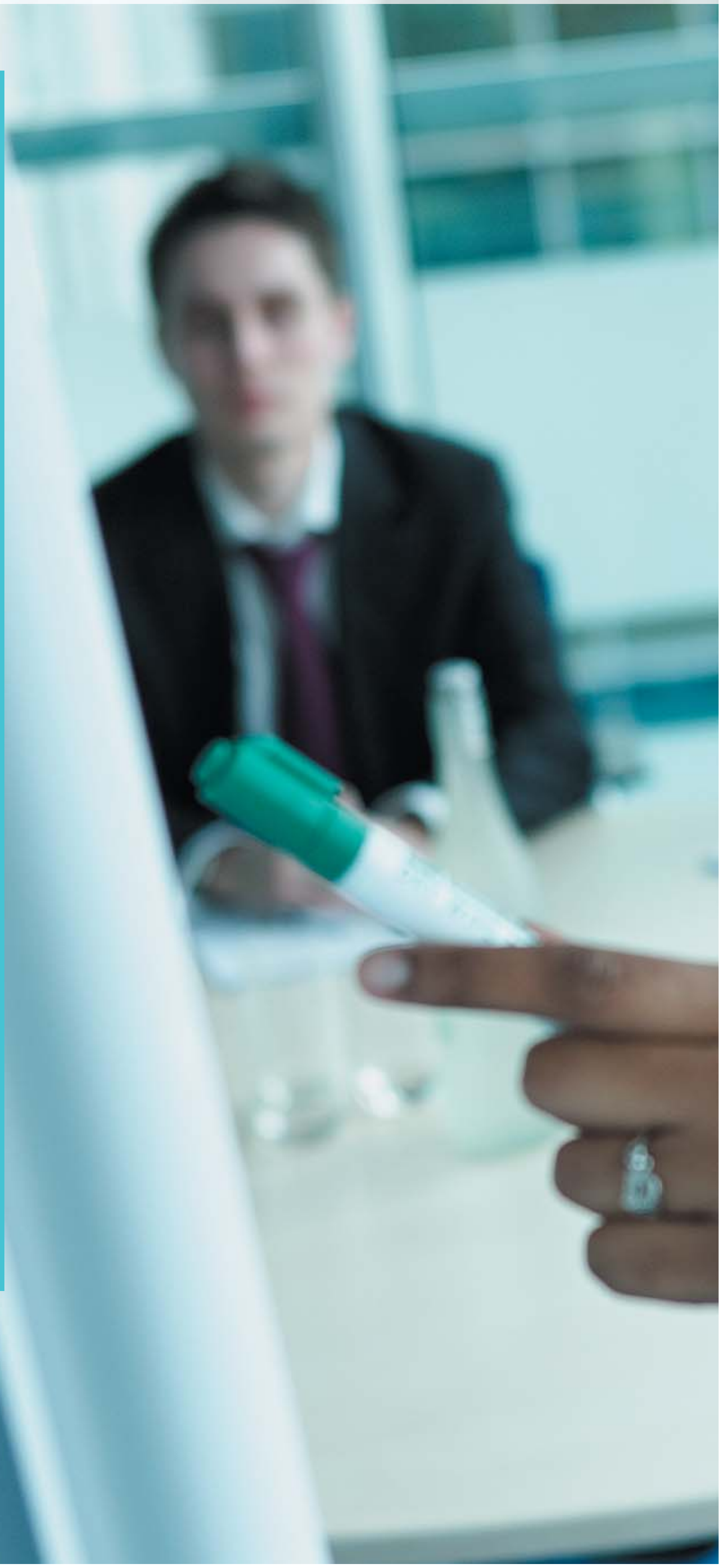
REVIEW

The first full year of operations following the HQ acquisition in North America has been very successful. Average occupancy increased from 80% to 81% with growth across all countries. REVPAW grew by an average of 13% year-on-year to £5,529 and we have added a total of 31 new centres in the region. The average number of available workstations has increased by 72% to 47,311 (2004: 27,585), primarily reflecting the full year impact of the HQ acquisition in August 2004.

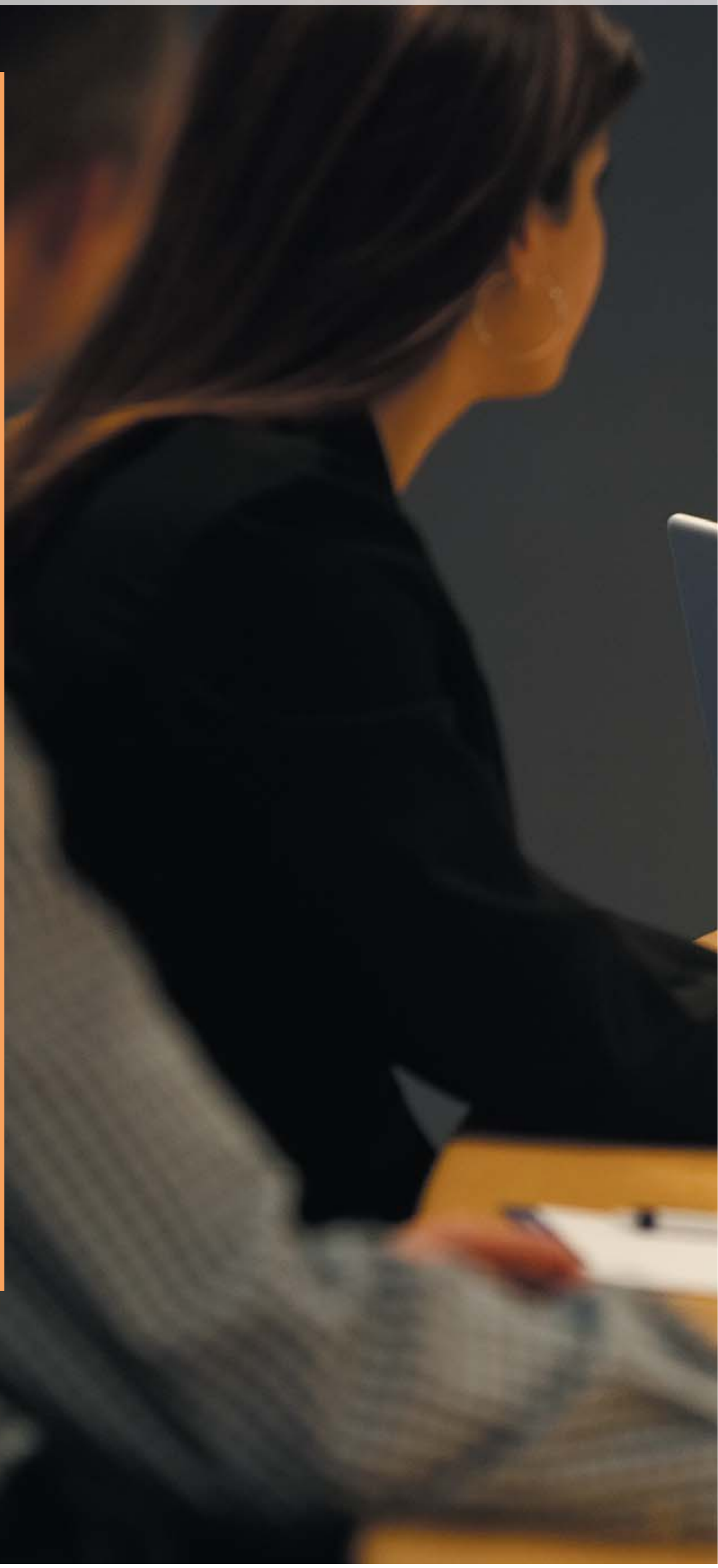
In terms of marketing, our most recent campaign "That works for me" has been targeted at both TV and Radio and has been launched to help increase customers awareness of the Regus offering.

"The people make Regus successful and fun to work for. I am very proud to be a member of a company that has such a strong team and vision and will ultimately change the way people work."

LORRAINE VEBER,
GLOBAL DIRECTOR SALES OPERATIONS, REGUS



EMEA



EMEA: AT A GLANCE (a)

AVERAGE NUMBER OF WORKSTATIONS

2004	27,431	
2005	25,871	DOWN 6%

REVENUE (£m)

2004	149.6	
2005	165.5	UP 11%

CENTRE CONTRIBUTION (£m)

2004	28.6	
2005	43.2	UP 51%

(a) Owned centres excluding joint ventures, UK associate and franchises.

REVIEW

EMEA made strong progress in the year with average occupancy increasing from 68% in 2004 to 73% in 2005. REVPAW improved 17% year-on-year to £6,397. The average number of available workstations has decreased by 6% to 25,871 (2004: 27,431) driven by the closure of underperforming workstations in 2004.

We have strengthened our EMEA management team through recruiting specialised individuals and restructuring the regional organisation.

"Regus gives me a unique opportunity to change the way our customers are working. It is a great proposition and customers are realising the opportunities we can offer them to help grow their businesses efficiently and without the risks."

**GARRY GÜRTLER,
REGIONAL GENERAL MANAGER, REGUS**

ASIA PACIFIC

ASIA PACIFIC: AT A GLANCE [a]

AVERAGE NUMBER OF WORKSTATIONS

2004	4,435	
2005	5,475	UP 23%

REVENUE (£m)

2004	25.2	
2005	33.6	UP 33%

CENTRE CONTRIBUTION (£m)

2004	5.1	
2005	9.8	UP 92%

(a) Owned centres excluding joint ventures and franchises.

REVIEW

Asia is our smallest region but continues to grow rapidly with a 33% increase in revenue, driven by strong pricing and occupancy in Japan, Hong Kong and Singapore. Average occupancy fell slightly from 76% to 75% driven by the impact of new centre openings with low starting occupancy. REVPAW grew by 8% year-on-year to £6,137 and we have added a total of 15 new centres. The average number of available workstations has increased by 23% to 5,475 (2004: 4,435).

"As a sales orientated person I feel immensely inspired by the Regus vision, the business model and the great concepts of changing the way people work. The satisfaction comes from not just closing a deal or helping customers find an office, but to tailor a Regus solution applicable to the global needs of different corporations."

**ESTHER YEE,
BUSINESS DEVELOPMENT DIRECTOR, REGUS**

Financial Review

STEPHEN GLEADLE

INTRODUCTION

2005 saw strong profit growth driven by the full year impact of the HQ acquisition in 2004 and further strengthening of the underlying business.

The three key operational drivers all improved. The weighted average number of workstations increased by 32% to 78,657 (which includes the full year impact of HQ). At the same time average occupancy increased from 75% to 78% and average revenue per occupied workstation (REVPOW) increased by 8% from £7,001 to £7,551. This results in an increase in our key indicator REVPAW of 12% from £5,251 to £5,890.

Against a relatively fixed cost base these factors have contributed to a £46.1 million increase in profit from operations from £1.2 million in 2004 to £47.3 million in 2005.

REVENUE AND CENTRE CONTRIBUTION (BEFORE NON-RECURRING ITEMS)

Revenue for the Group rose 48% to £463.3 million (2004: £312.2 million) and centre contribution (before non-recurring items) increased 117% to £117.1 million (2004: £54.0 million).

This year-on-year movement can be analysed as follows:

	Revenue £m	Centre contribution £m	% of revenue
2004	312.2	54.0	17
Growth in mature business [(a)]	31.9	31.3	–
Full year impact of centres added in 2004 (principally HQ)	111.4	30.9	–
Centres added in 2005	10.8	(0.1)	–
Centres closed	(3.0)	1.0	–
2005	**463.3**	**117.1**	**25**

(a) The mature business defined as those centres owned and operated at least 12 months prior to the start of the financial year.

The mature business, defined as those centres owned and operated at least 12 months prior to the start of the financial year, increased revenue by £31.9 million driven by occupancy and price. This revenue increase was almost completely reflected in contribution gains supported both by a fall in depreciation and the full year effect of cost savings achieved in the mature business following the integration of HQ.

Centres added in 2004 (principally the HQ acquisition) contributed a further £111.4 million of revenue and £30.9 million of contribution. This was due to both underlying improvements in the performance of these sites and the impact of accounting for them for a full 12 months. New centres added in 2005, both organic and by acquisition, contributed a further £10.8 million of revenue and a small loss of contribution of £0.1 million. This loss reflects start up costs and low rates of occupation when new centres are opened.

Taking all this together contribution margin improved from 17% to 25%.

ADMINISTRATION EXPENSES (BEFORE NON-RECURRING ITEMS)

Administration expenses before non-recurring items have increased by £20.7 million to £64.9 million. The full year effect of HQ together with other acquisitions contributed £11.0 million of the increase. A further £3.3 million relates to the cost of enhancing our business support functions and £6.4 million was spent on growth related activities.

As a percentage of revenue, administrative expenses (before non-recurring items) have fallen slightly to 14.0% of revenue (2004: 14.2%).

NON-RECURRING ITEMS

Results for the year include net non-recurring costs of £4.9 million (2004: £8.6 million). In 2005 these costs primarily relate to the integration of HQ. In 2004 they primarily relate to impairment of fixed assets and provisions on onerous leases.

PROFIT FROM OPERATIONS

Profit from operations was £47.3 million (2004: £1.2 million), representing a margin of 10.2% (2004: 0.3%).

SHARE OF OPERATING LOSS IN JOINT VENTURES AND ASSOCIATE

In the year ended 31 December 2005, the share of joint venture losses attributable to Regus reduced to £0.2 million (2004: £0.7 million) as they benefited from better trading conditions.

Our UK associate reported £0.5 million profit after tax (2004: £7.1 million loss on a restated International Financial Reporting Standard (IFRS) basis) in the 12 month period ended 31 December 2005. Our 42% shareholding resulted in a £0.2 million profit (2004: £3.0 million loss) being credited to our Group profit and loss account. Improved pricing and cost savings contributed to this performance.

FINANCING COSTS

Financing (or interest) costs can be summarised as follows:

	2005 £m	2004 £m
Interest payable	**(5.6)**	(2.9)
Interest receivable	**2.2**	1.3
Finance lease interest	**(0.9)**	(0.5)
Deferred financing fees	**(4.3)**	(0.3)
Total	**(8.6)**	(2.4)

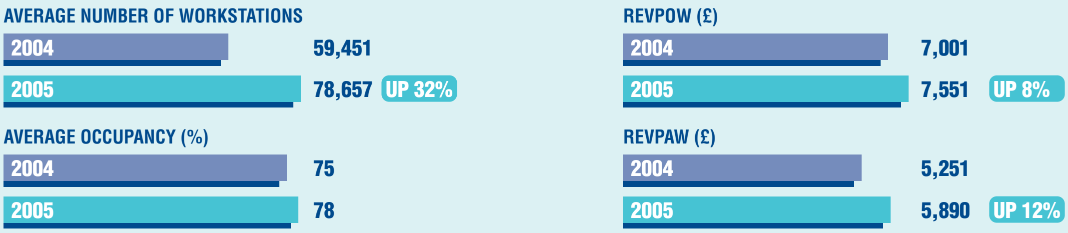
Net interest payable has risen following the arrangement of a US $155 million loan facility in August 2004 to fund the acquisition of HQ. This has been partially offset by increasing interest receivable following the Group's strong cash generation, which has driven the average free cash balance up from £40 million in 2004 to £55 million in 2005.

Underlying finance lease costs have fallen year on year by £0.8 million after taking account of a one-off adjustment of £1.2 million in 2004. This is consistent with the net movement of finance leases.

Deferred financing fees relate to the loan arrangement costs with respect to the US $155 million facility mentioned above. Following the accelerated repayment of the loan and in anticipation of the repayment of the remainder early in 2006 the Group has written off the remaining deferred financing fees consistent with the effective rate method.

TAXATION

As the business performance has strengthened, it has become necessary to recognise in the profit and loss account a greater proportion of the value of the tax losses that the Group holds. Accordingly in 2005, £15.0 million has been credited to the profit and loss account, which has correspondingly increased the deferred tax asset in the balance sheet. This has been partially offset by an £8.9 million (2004: £0.9 million) tax charge which resulted in a net tax credit of £6.1 million (2004: £2.6 million) to the profit and loss account. Therefore as a



consequence, despite being profitable, the Group has a net tax credit for the year to 31 December 2005. However, on a cash tax basis the Group paid £2.6 million of tax across a small number of countries. This represents approximately 7% of profit before tax.

As at 31 December 2005, the Group had £270.2 million of tax losses to carry forward against future overseas corporation tax liabilities, of which £172 million are in the US. Moving forward the cash tax rate will rise as losses across the Group are progressively utilised. The accounting rate will stay low or negative as tax losses are fully recognised through the profit and loss and then are expected to rise rapidly towards a normalised rate from fiscal year 2007/08.

EARNINGS

Basic EPS for the year rose to 4.5p (2004: 0.3p loss). This is based on weighted average number of shares of 984,792,040 (2004: 859,702,000).

CASHFLOW

Strong operating cash flow is a prime feature of the Group. Driven by the improvement in profit from operations, operating cash flow increased by £57.1 million to £78.1 million (2004: £21.0 million).

The Group's cash flow statement has been summarised below.

	2005 £m	2004 £m
Operating cash flow	**78.1**	21.0
Tax and net interest paid	**(6.9)**	(3.2)
Maintenance capex	**(6.4)**	(3.0)
Free cash flow	**64.8**	14.8
New centre openings	**(11.1)**	(2.3)
Acquisitions and investments	**(16.8)**	(162.9)
Financing	**(47.5)**	171.4
Other	**2.4**	(23.7)
Change in cash	**(8.2)**	(2.7)
Opening cash	**82.3**	85.0
Closing cash	**74.1**	82.3

The strong cash performance has enabled the Group both to invest in growth and repay debt early. Specifically, during the year 24 new centres were opened at a cost of £11.1 million. In addition a further 11 businesses (35 centres) were acquired for a total cash consideration of £16.8 million. In addition £39.4 million of the term debt and £8.1 million of debt associated with finance leases was repaid.

Following the above the Group's net cash position can be analysed as follows:

	2005 £m	2004 £m
Cash balance	**74.1**	82.3
Term loan	**(22.5)**	(55.8)
Other loans and overdrafts	**(7.4)**	(8.3)
Finance leases	**(8.2)**	(13.2)
Net funds	**36.0**	5.0

Note: Of the cash balance, £19.1 million in 2005 and £18.1 million in 2004 served as collateral against certain obligations of the Group.

STEPHEN GLEADLE
CHIEF FINANCIAL OFFICER
20 March 2006

BOARD OF DIRECTORS

MARK DIXON
CHIEF EXECUTIVE OFFICER

Chief Executive and Founder, Mark (46) is one of Europe's best-known entrepreneurs. Since founding Regus in Brussels in 1989, he has achieved a formidable reputation for leadership and innovation. Prior to Regus he established businesses in the retail and wholesale food industry. Recipient of two major awards for enterprise, Mark's vision of the future of work has revolutionised the way business approaches its property needs.

STEPHEN GLEADLE
CHIEF FINANCIAL OFFICER

Stephen (47) joined Regus as Chief Financial Officer on 31 October 2005. Stephen was Group Financial Controller of Tarmac plc, after which he was Finance Director of Synstar plc and of lastminute.com plc. Stephen replaced Rudy Lobo who has held the post since October 2003. Rudy has taken up the role of Chief Operating Officer. Stephen is a Chartered Accountant.

RUDY LOBO
CHIEF OPERATING OFFICER

Rudy (50) joined Regus in 1992 as Chief Financial Officer and reassumed the role in October 2003. In October 2005 he relinquished this role to Stephen Gleadle and took up the role of Chief Operating Officer. In this role, he is responsible for commercial operations, human resources and for directing Regus' IT and e-business strategy. Rudy is also a Director and Trustee of the charity Great Causes Ltd. Previously, Rudy was Head of Finance and Group Company Secretary of Medicom International Ltd, a publisher of medical journals. Rudy is a Certified Accountant.

BOARD COMMITTEES

AUDIT COMMITTEE
Roger Orf *Chairman*
Martin Robinson
Stephen East

NOMINATION COMMITTEE
John Matthews *Chairman*
Martin Robinson
Roger Orf
Stephen East

REMUNERATION COMMITTEE
Martin Robinson *Chairman*
Roger Orf
Stephen East

JOHN MATTHEWS
CHAIRMAN

John (61) joined Regus in 1995 as a non-executive director and was appointed Chairman in July 2002. He is currently Chairman of Crest Nicholson plc and an independent director of Center Parcs (UK) Group plc, Diploma plc, Rotork plc and SDL plc. A Chartered Accountant, he was previously Managing Director of County Natwest and Deputy Chairman as well as Deputy Chief Executive of Beazer plc, the international aggregates, construction and housing group. John is Chairman of the Nomination Committee.

ROGER ORF
INDEPENDENT SENIOR NON-EXECUTIVE DIRECTOR

Roger (53) was appointed a non-executive director of Regus in 1998 and he is Chairman of the Audit Committee. Roger is Head of European Property Investments for Citigroup. He was formerly Head of European Operations for Lone Star, an investment company. Prior to this, Roger made investments for his own account, managed investments on behalf of Apollo Real Estate Advisors and was in charge of Goldman Sachs European real estate department.

STEPHEN EAST
INDEPENDENT NON-EXECUTIVE DIRECTOR

Stephen (48) was appointed to the Board as a non-executive director on 11 March 2005. Stephen was formerly Finance Director of MEPC plc and is currently Finance Director at Woolworths Group plc. Prior to that he had run his own consultancy business and held senior positions with Redland PLC. He is a non-executive director of Star Energy Group plc. He has been appointed as a member of the Audit, Remuneration and Nomination Committees. Stephen is a Chartered Accountant and Deputy President of the Association of Corporate Treasurers.

MARTIN ROBINSON
INDEPENDENT NON-EXECUTIVE DIRECTOR

Martin (43) joined the Board of Regus in August 2002 and is Chairman of the Remuneration Committee. Martin is Chairman of Holmes Place and is also a Director of the Supervisory Board of EuroDisney SCA. He has held senior management positions with Scottish and Newcastle plc and Sara Lee Corporation and worked as a Management Consultant for four years with McKinsey & Co Inc.

DIRECTORS' REPORT

The directors present their report and the audited financial statements of Regus Group plc for the year ended 31 December 2005.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The Group is the world's leading supplier of global office outsourcing solutions. The Group's trading results are set out in the financial statements on pages 30 to 33. Details of the Group's future prospects and review of operations are described in the Chairman's Statement, Chief Executive's Review and Operational and Financial Review on pages 2 to 13.

RESULTS AND DIVIDENDS

Profit for the year before tax was £38.7 million (2004: £4.9 million loss), which after adding back non-recurring items of £4.9 million (2004: £8.6 million) amounted to a profit of £43.6 million (2004: £3.7 million).

The directors do not recommend the payment of a dividend.

DIRECTORS AND DIRECTORS' INTERESTS

The directors who held office since the last Annual Report were:

Executive directors

Mark Dixon
Rudy Lobo
Stephen Gleadle (appointed 31 October 2005)

Non-executive directors

John Matthews
Roger Orf
Martin Robinson
Stephen East

Biographical details for all current directors are shown on pages 14 and 15.

Details of the directors' interests and shareholdings are given in the Remuneration Report on pages 22 to 27.

CORPORATE AND SOCIAL RESPONSIBILITY

The Board recognises its responsibilities in respect of social, environmental and ethical (SEE) matters. The directors continually monitor risks to its businesses, including SEE risks, which may impact the Group's short and long term value. During 2005 no significant risks were identified.

PEOPLE AND CULTURE

Employee involvement

It is the Group's policy to communicate with all employees and to encourage employees to contribute to the management of the business. Communication with employees is carried out through the Company's intranet, employee newsletters, briefing meetings conducted by senior management and formal and informal discussions. Interim and Annual Reports are available to all staff. Informal communication is further facilitated by the Group's regional organisational structure.

The workplace

Empowered employees are key to delivering value for the organisation. Clear accountabilities have been established and reward strategies have been aligned with financial and non-financial performance measures. In our centres we operate flexible working practices which give us the edge in retaining experienced and well trained staff and allows us to align our team members' hours to the evolving needs of the business and our customer requirements.

Equal opportunity

The Group endorses and supports the principal of equal employment opportunity. It is the policy of the Group to provide equal employment opportunity to all qualified individuals, which ensures that all employment decisions are made, subject to legal obligations, on a non-discriminatory basis. Due consideration is given to the recruitment, promotion, training and working environment of all staff including those with disabilities. It is the Group's policy to encourage the training and further development of all its employees where this is of benefit to the individual and to the Group.

HEALTH AND SAFETY

The Board recognises the importance of maintaining high standards of health and safety. This means taking all reasonable and practicable steps to safeguard the health, safety and welfare of our employees, customers, visitors and other persons who may be affected by our activities. The effective management of health and safety is a legal issue and it is also business critical as it effects reputation, investor confidence, supplier relationships, staff morale and overall profitability.

In order to meet these responsibilities the Group:

- *Assesses the risks to health and safety*
- *Implements safe systems at work*
- *Provides information, instruction and training*
- *Establishes and maintain emergency procedures*
- *Regularly reviews health and safety policies and procedures.*

We are proactive in our approach to health and safety by monitoring proposed changes in legislation and implementing policies accordingly.

THE ENVIRONMENT

The Group does not operate in a business sector which causes significant pollution but the Board recognises that the business does have an impact on the environment. The Board is committed to managing and improving the ways in which our activities affect the environment by:

- *Optimising the use of energy – with over 700 locations it is important that we continually identify ways to improve energy efficiency across all our operations. We have implemented certain initiatives to reduce our energy use. These include, among others, resetting boiler controls, amending time settings for air conditioning and using timing switches for hot water supply.*

- *Encouraging the re-use and recycling of paper and toner cartridges, mixed office paper, packaging, bottles, aluminium cans and plastic cups.*

POLITICAL AND CHARITABLE DONATIONS

The Group made no charitable donations during the year (2004: £nil). It is the Group's policy not to make political donations either in the UK or overseas.

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

The Group does not follow a universal code dealing specifically with payments to suppliers but, where appropriate, our practice is to:

- *Agree the terms of payment upfront with the supplier*
- *Ensure that suppliers are made aware of these terms of payment*
- *Pay in accordance with contractual and other legal obligations.*

At 31 December 2005, the number of creditor days outstanding for the Group was 27 days (2004: 35 days) and the Company, nil days (2004: nil days).

GOING CONCERN

The directors, having made appropriate enquiries, have a reasonable expectation that the Group and the Company have 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 Accounts on pages 30 to 62.

SUBSTANTIAL INTERESTS

As at 20 March 2006, the Company has been notified of the following interests held in more than 3% of the issued share capital of the Company.

Holder	Number of ordinary shares	% of issued shared capital
Maxon Investments BV [a]	331,958,286	33.71
Merrill Lynch Investment Managers (UK)	91,167,220	9.26
Artemis Investment Managers	81,718,211	8.30
Standard Life Investment Management	66,761,400	6.78
M & G Investment Management	60,958,778	6.19
Morley Fund Management	30,233,099	3.07

(a) Mark Dixon owns the 100% interest in Maxon.

AUDITORS

In accordance with 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 (AGM).

On behalf of the Board

TIM REGAN
COMPANY SECRETARY
20 March 2006

CORPORATE GOVERNANCE

The Board is committed to high standards of corporate governance and has applied the principles of corporate governance recommended in Section 1 of the Combined Code published in July 2003 (the Combined Code) and applicable to all reporting periods beginning after 1 November 2003.

COMPLIANCE WITH THE NEW COMBINED CODE

The Company has complied with the provisions set out in section 1 of the Combined Code throughout the year ended 31 December 2005, with the exception of the following:

- *Provision D.1.1 – The senior independent non-executive director, Roger Orf does not have regular meetings with major external shareholders. However he is available to meet them as requested.*

THE BOARD

The Board is chaired by John Matthews. At the year-end the Board consisted of three executive directors and four non-executive directors. Biographical details of the directors are set out on pages 14 and 15.

DIVISION OF RESPONSIBILITIES

There is a clear division of responsibilities between the Chairman and the Chief Executive. John Matthews is responsible for leadership of the Board, setting its agenda and monitoring its effectiveness. He ensures effective communication with shareholders and that the Board is aware of the views of major shareholders. He facilitates both the contribution of the non-executive directors and constructive relations between the executive directors and non-executive directors. He ensures that the Chief Executive develops a strategy which is supported by the Board as a whole. Mark Dixon is responsible for formulating strategy and for its delivery once agreed by the Board. He creates a framework of strategy, values, organisation and objectives to ensure the successful delivery of key targets, and allocates decision making and responsibilities accordingly.

The Chairman participates in investor meetings and makes himself available for questions, in person, at the time of major announcements. This direct contact, together with feedback from management and from the Company's two in-house brokers (Dresdner Kleinwort Wasserstein and Credit Suisse First Boston), is used to brief the Board. The Board considers it appropriate for the Chairman to be the main conduit with investors, rather than the senior independent non-executive director. The Chairman regularly updates the Board and particularly the senior independent non-executive director on the results of his meetings and the opinions of investors. On this basis, Regus considers that the senior independent non-executive director is able to gain full awareness of the issues and concerns of major shareholders. Notwithstanding this policy, all directors have a standing invitation to participate in meetings with investors.

ROLE OF THE BOARD

The Board considers that its primary role is to provide leadership and to develop a coherent long term strategy for the Group. The Board approves the corporate plan and the annual budget and reviews performance against targets at every meeting. Through the Audit Committee, the directors ensure the integrity of financial information, the effectiveness of financial controls and the internal control and risk management system.

The Board has delegated authority to the Remuneration Committee to set the remuneration policy for directors and senior management. The Nomination Committee recommends the appointment of Board directors and has responsibility for succession planning at Board level. The various Board Committees have authority to make decisions in their areas of expertise.

Matters reserved for the Board are considered by the Board and no one individual has unrestricted powers of decision. There are well documented procedures and controls, including a schedule of matters that require the Board's specific approval. This provides the framework for decisions to be taken by the Board and those that are delegated to Committees of the Board. All capital expenditure projects over £1 million require Board approval.

The Chairman and Company Secretary are responsible for ensuring all directors are properly briefed on issues arising at Board meetings and that they have full and timely access to relevant information.

All directors, both executive and non-executive, are encouraged to request inclusion of any unresolved concerns that they may have in the Board minutes.

All directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures, corporate governance and regulatory compliance are followed and complied with. Should a director request independent professional advice to carry out his duties, such advice is available to him at the Company's expense.

The Group's insurance programme is reviewed annually and appropriate insurance cover is obtained to protect the directors and senior management in the event of a claim being brought against any of them in their capacity as directors and officers of the Company.

ATTENDANCE AT MEETINGS

There were five scheduled Board meetings during 2005 and seven additional meetings to consider matters, which were time critical and not appropriate to be dealt with by way of written resolution.

The number of meetings of the Board and Committees and individual attendance by the directors are shown below.

	Main Board	Audit Committee	Remuneration Committee	Nomination Committee
Total meetings	**12**	**3**	**5**	**2**
Executive				
Mark Dixon	11	–	–	–
Stephen Gleadle (a)	2	–	–	–
Rudy Lobo	11	–	–	–
Non-executive				
John Matthews (b)	10	1	1	2
Roger Orf	9	3	3	2
Martin Robinson	11	3	5	2
Stephen East (c)	9	1	4	1

(a) Appointed 31 October 2005.
(b) Resigned from Audit and Remuneration Committees 11 March 2005.
(c) Appointed 11 March 2005.

INDEPENDENCE AND NON-EXECUTIVE DIRECTORS

The Chairman is not deemed to be independent because he has been a non-executive director for more than ten years. All of the other non-executive directors who have served during the year are considered to be independent. The non-executive directors bring wide and varied commercial experience to Board and Committee deliberations. They are appointed for an initial three year term, subject to election by shareholders at the first AGM after their appointment.

TRAINING AND PROFESSIONAL DEVELOPMENT

Appropriate training is made available for all new directors to assist them in the discharge of their responsibilities. Subsequent to joining, Stephen Gleadle completed a formal induction programme including centre visits and meetings with senior management and external advisers. Training is provided on an ongoing basis to meet particular needs with the emphasis on governance and accounting developments. During the year the Company Secretary, Tim Regan, provided updates to the Board on relevant governance matters, whilst the Audit Committee regularly considers new accounting developments through presentations from management and the external auditors. The Board programme includes presentations from management at every meeting which, together with site visits, increases the non-executive directors understanding of the business and sector.

PERFORMANCE EVALUATION

During 2005, a formal annual performance evaluation has been conducted in respect of the Board and its Committees by means of an internally produced written questionnaire. The results of these evaluations were presented to the Board and actions to improve the effectiveness of the Board and the Committees were agreed and have been implemented accordingly. Fellow directors conducted a performance evaluation of each of the directors. The results of this process were collated and presented by the Chairman in one to one meetings. Evaluation of the Chairman's performance was collated by Roger Orf.

RE-ELECTION OF THE BOARD

All directors submit themselves for re-election by shareholders at least every three years and directors appointed during the period are required to seek re-election at the next AGM.

Non-executive directors are subject to the re-election requirements and serve the Company under letters of appointment, which have an initial three year term.

COMPANY SECRETARY

The Company Secretary, Tim Regan, is responsible for advising the Board, through the Chairman, on all governance matters. The appointment and removal of the Company Secretary is a matter reserved for the Board.

BOARD COMMITTEES AND TERMS OF REFERENCE

The Board has delegated certain of its governance responsibilities to the Audit, Nomination and Remuneration Committees. The Company Secretary acts as secretary to all of the Board Committees and minutes of meetings are circulated to all Board members. The terms of reference of these Committees have been documented and approved by the Board.

Audit Committee

Roger Orf *Chairman*
Martin Robinson
Stephen East

The Board has delegated the responsibility for applying an effective system of internal control and compliance, accurate external financial reporting, fulfilling its obligations under law and the Combined Code, and managing the relationship with the Company's external auditors to the Audit Committee. The Committee consists entirely of non-executive directors.

The Audit Committee meets at least three times a year with representatives of the external auditors. At the request of the Chairman, the Chief Financial Officer, the Company Secretary and the Head of Internal Audit attend each meeting.

SUMMARY TERMS OF REFERENCE:

Financial Reporting – provide support to the Board by monitoring the integrity of and ensuring that the published financial statements of the Group and any formal announcements relating to the Company's financial performance comply fully with the relevant statutes and accounting standards.

Internal control and risk systems – review the effectiveness of the Group's internal controls and risk management systems.

Internal audit – monitor and review the annual internal audit programme ensuring that the internal audit function is adequately resourced and free from management restrictions, review and monitor responses to the findings and recommendations of the internal auditors.

External audit – oversee the relationship with the external auditor including (but not limited to) approval of their remuneration, approval of their terms of engagement, assessing annually their independence and objectivity.

Employee concerns – the Committee reviews the Company's arrangements under which employees may in confidence raise any concerns regarding possible wrongdoing in financial reporting or other matters. The Committee ensures that these arrangements allow proportionate and independent investigation and appropriate follow up action.

THE FULL TERMS OF REFERENCE CAN BE FOUND ON WWW.REGUS.COM

External auditors – KPMG

The Committee advises the Board on the appointment, re-appointment, removal and remuneration of external auditors. KPMG Audit Plc were the Company's auditors for the year ended 31 December 2005. For 2006, the Committee has recommended to the Board that a resolution to re-appoint KPMG Audit Plc as the Company's auditors be proposed at the 2006 AGM. The Committee will continue to keep under review the independence and objectivity of the external auditors, the effectiveness of the audit process and the rotation of the lead audit partner.

CORPORATE GOVERNANCE

The Committee also meets independently with the Company's auditors and with the Head of Internal Audit to informally discuss matters of interest.

Policy on non-audit services

The scope and extent of non-audit work undertaken by the Company's auditor is monitored by and, above certain thresholds, requires prior approval from the Committee to ensure that the provision of non-audit services does not impair their independence or objectivity. During the year, KPMG performed due diligence work on certain acquisitions. KPMG is prohibited from providing services that would be considered to jeopardise their independence such as book keeping services, valuations and system design.

Nomination Committee

John Matthews *Chairman*
Martin Robinson
Roger Orf
Stephen East

SUMMARY TERMS OF REFERENCE:

Board appointment and composition – to regularly review the structure, size and composition of the Board and make recommendations on the role and nomination of directors for appointment and reappointment to the Board for the purpose of ensuring a balanced Board in respect of skills, knowledge and experience.

Board Committees – to make recommendations to the Board in relation to the suitability of candidates for membership of the Audit and Remuneration Committees. The appointment and removal of directors are matters reserved for the full Board.

Board effectiveness – to assess the role of Chairman and Chief Executive and make appropriate recommendations to the Board.

Board performance – assist the Chairman with the annual performance evaluation to assess the overall and individual performance and effectiveness of the Board.

Leadership – to remain fully informed about strategic issues and commercial matters affecting the Company and to keep under review the leadership needs of the organisation to enable it to compete effectively.

THE FULL TERMS OF REFERENCE CAN BE FOUND ON WWW.REGUS.COM

The Committee meets as required and met during the year to consider the appointment of a new Chief Financial Officer to replace Rudy Lobo. Spencer Stuart were appointed to provide assistance in the search and selection procedure of a suitable candidate. Following a rigorous selection process the Committee recommended to the Board the appointment of Stephen Gleadle who was duly appointed on the 31 October 2005.

Remuneration Committee

Martin Robinson *Chairman*
Roger Orf
Stephen East

The Remuneration Report is set out on pages 22 to 27.

Disclosure Committee

The Disclosure Committee comprises Rudy Lobo (Chairman), Mark Dixon, Stephen Gleadle, Tim Regan and Robert Blyth (Head of Internal Audit). The Committee meets as required to deal with all matters concerning public announcements of the Company and the Company's compliance with disclosure controls and procedures.

DIALOGUE WITH SHAREHOLDERS

Regus reports formally to shareholders twice a year, with the interim results announced normally in September and the preliminary final results announced normally in March. There are programmes for the Chief Executive and Chief Financial Officer to give presentations of these results to the Company's institutional shareholders, analysts and media in London and other locations. The Chief Executive and Chief Financial Officer maintain a close dialogue with institutional shareholders on the Company's performance, governance, plans and objectives. These meetings also serve to develop an ongoing understanding of the views and any concerns of the Company's major shareholders. The non-executive directors are given regular updates as to the views of the institutional shareholders and the Chairman is available to meet with these shareholders on request. The principal communication with private shareholders is through the Annual Report, the Interim Report and the AGM.

AGM

The AGM is held normally in May in London and is attended, other than in exceptional circumstances, by all members of the Board. Shareholders are invited to ask questions and are given the opportunity to meet the directors informally afterwards.

Notice of the AGM, together with any related documents are mailed to shareholders at least 20 working days before the meeting and separate resolutions are proposed on each issue. The level of proxy votes cast and the balance for and against each resolution, together with the level of abstentions, if any, are announced to the meeting following voting by a show of hands.

FINANCIAL AND OTHER INFORMATION IS MADE AVAILABLE ON WWW.REGUS.COM

INTERNAL CONTROL

The Board has ultimate responsibility for the system of internal control operating throughout the Group and for reviewing its effectiveness.

No system of internal control can provide absolute assurance against material misstatement or loss. The Group's system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable assurance that potential problems will normally be prevented or will be detected in a timely manner for appropriate action.

The Company has had procedures in place throughout the year, and up to 20 March 2006, the date of approval of this Annual Report, which is in accordance with the Internal Control Guidance for Directors on the Combined Code.

The Board conducts regular reviews of the Group's strategic direction. Country and regional strategic objectives, quarterly plans and performance targets for 2006 have been set by the executive directors and are regularly reviewed by the main Board in the context of the Group's overall objectives.

There is an ongoing process for identifying, evaluating and managing the risks faced by the Group. Major business risks and their financial implications are appraised by the responsible executives as a part of the budget process and these 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. Key risks and actions to mitigate those risks are regularly considered by the Board and are formally reviewed and approved by the Board annually.

The control framework and key procedures, which were in place throughout the year ended 31 December 2005, comprise the following:

The Board normally meets every six months together with certain other senior executives to consider Group financial performance, business development and Group management issues. The directors and officers of Group subsidiaries comprise executives with appropriate functional responsibilities. Executives of key operating companies meet regularly to manage their respective businesses.

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. The consolidated Group budget is approved by the Board.

Operational and financial reports are prepared and distributed to the Board on a monthly basis. Actual results are reviewed against budget and explanations are received for all material movements. The senior management team are integrally involved in the business and to this extent regularly discuss and address issues and opportunities with regional and functional teams. Formal business review meetings, chaired by Mark Dixon, are held with the regional teams and functional heads on a monthly basis.

There is a Group-wide policy governing appraisal and approval of investment, capital expenditure and asset disposals.

Key policies and control procedures (including finance, operations, and health and safety) are documented in manuals having Group-wide application. These are available to all staff on the Group's intranet system.

The Group's internal audit remit is to report to the Audit Committee on the Group's worldwide operations. Its resourcing programme of work and 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, integrity and with appropriate disciplines.

High standards of business ethics and compliance with laws, regulations and internal policies are demanded from staff at all levels.

The following key mechanisms were available to the Board at various times during the year in the conduct of its review of internal controls:

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

A series of internal audit reviews of country/regions covering the financial, operational and overhead functions. These reviews are based on the identified risks. The findings and recommendations of each review are reported to management and the Audit Committee.

System of reporting the effectiveness of key financial, operational and compliance controls. This is based on a comprehensive internal control self-assessment questionnaire collated and reviewed by Internal Audit. Results and action plans are reviewed by senior management and summarised for the Board.

REMUNERATION REPORT

The report has been prepared by the Remuneration Committee (the "Committee") of Regus Group plc and approved by the Board of Regus Group plc. The report complies with the UK Directors' Remuneration Report Regulations 2002 and, in compliance with such regulations, a separate resolution approving this report is being put to shareholders at this years AGM.

Information relating to the emoluments and pension contributions of the directors, directors' interests in the Company's shares and under Employee Share Plans has been audited.

UNAUDITED INFORMATION

MEMBERSHIP AND RESPONSIBILITIES OF THE REMUNERATION COMMITTEE

The members of the Remuneration Committee throughout the year were the Company's independent non-executive directors, Roger Orf, Stephen East and, the Chairman of the Committee, Martin Robinson.

The Committee met five times during the year.

The Committee has responsibility for making recommendations to the Board on the compensation of senior executives and determining, within agreed terms of reference, the specific remuneration packages for each of the executive directors.

The Board has delegated to the Remuneration Committee responsibility to:

- *Make recommendations to the Board in respect of remuneration policy for the executive directors and the Group's other senior management.*
- *Approve any new service agreement entered into between the Group and any executive director.*
- *Make recommendations to the Board on the implementation of the Group's performance bonus schemes and share schemes.*

The Committee has appointed Halliwell Consulting, an external consultancy which has wide experience of executive remuneration in UK listed companies, to advise in developing its performance related remuneration policy. Halliwell Consulting has no other connection with the Company.

The Committee has also sought advice from the Company's solicitors, Slaughter and May, in connection with the terms of service contracts for executive directors, other members of senior management and in relation to the operation of the Regus Group plc Co-Investment Plan (the "CIP") described later in this report.

Directors are not permitted, under Regus Group plc's Articles of Association, to vote on their own terms and conditions of remuneration.

The members of the Remuneration Committee attend the Company's AGM and are available to answer shareholders' questions about directors' remuneration.

COMPLIANCE WITH THE BEST PRACTICE PROVISIONS

In accordance with the Board's commitment to maintaining high standards of Corporate Governance, the Committee has complied during the year with all remuneration related aspects of the Code during the year.

REMUNERATION POLICY

The principal objective of the Committee's remuneration policy is to provide remuneration packages that will attract, retain and motivate people of the highest calibre and experience needed to shape and execute the Company's strategy and to deliver shareholder value.

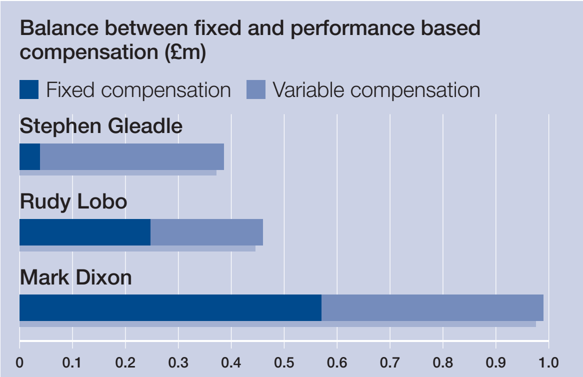
The guiding principles which the Committee has regard to and balances as far as is practicable, in determining policy and objectives for 2005 and future years are:

- *to ensure that it maintains a competitive package of total compensation, commensurate with comparable packages available with other similar companies operating in similar markets (the Comparator Group);*
- *to make a significant percentage of potential maximum reward conditional on short and long term performance;*
- *to ensure that the interests of the executives are closely aligned with those of the Company's shareholders through the provision of share incentives;*
- *to link reward to the satisfaction of targeted objectives which are the main drivers of shareholder value; and*
- *to be sensitive in determining executive directors' remuneration to pay and employment conditions around the Group.*

In order to achieve the above policy, the Committee sets the fixed elements of the executives' compensation package at a conservative level, taking into account the median level of salaries in the Comparator Group. This is balanced with the opportunity for overall compensation packages to be in the upper quartile of the Comparator Group dependent upon the degree to which the associated stringent performance conditions attached to the short and long term incentive schemes have been satisfied.

The tables below illustrate the balance between fixed and performance related (variable) compensation and the total expected value of the remuneration package for each executive director for the year ended 31 December 2005 (Stephen Gleadle's employment having commenced on 31 October 2005):

	Mark Dixon Chief Executive Officer %	Rudy Lobo Chief Operating Officer %	Stephen Gleadle Chief Financial Officer %
Fixed	57.61	53.72	10.26
Variable	42.39	46.28	89.74



Fixed compensation comprises salary, benefits and pension contributions. Variable compensation comprises the annual bonus paid in relation to the year ended 31 December 2005 and the expected value of the long term incentive plan (LTIP) awards.

The main elements of these packages and the performance conditions are described below.

The Remuneration Committee will continue to review the policy on an annual basis to ensure that it is in line with the Company's objectives and shareholders' interests.

Non-executive directors are remunerated with fees, set at levels that are sufficient to attract and retain their services and are in line with market rates. The non-executive directors do not receive any pension or other benefits, other than out of pocket expenses, nor do they participate in any bonus or share option schemes.

Martin Robinson and Roger Orf have chosen until further notice to use the whole of their directors' fees (net of tax) to purchase Regus shares in the open market on a quarterly basis. In addition, John Matthews has chosen to use part of his fees (£90,000 less tax) to purchase Regus shares in the open market.

SERVICE CONTRACTS

Details of contracts currently in place for directors are as follows:

	Date of contract	Term	Notice period and provision for compensation
Executive			
Mark Dixon	28/02/05	–	12 months
Rudy Lobo	04/03/05	–	12 months
Stephen Gleadle	19/10/05	–	12 months
Non-executive			
John Matthews	02/10/03	3 years	6 months
Roger Orf	02/10/03	3 years	6 months
Martin Robinson	02/10/03	3 years	6 months
Stephen East	11/03/05	3 years	6 months

REMUNERATION PACKAGES

The remuneration for executive directors during the year comprised a basic salary, a benefit package, an annual performance based short term incentive award paid partly in cash and partly in shares and participation in the Company's share incentive arrangement, the CIP.

BASIC SALARY AND BENEFITS

The Committee establishes salaries and benefits by reference to those prevailing in the employment market generally for executive directors of companies of comparable status and market value.

Each executive director receives a salary, which reflects his responsibilities, experience and performance. Salaries are reviewed annually in the context of individual and related business performance. Any increases in basic salary are effective from 1 January in each year.

The salaries of the Chief Executive, Chief Operating Officer and Finance Director will be £471,814, £253,000 and £231,000 respectively effective from 1 January 2006. This equates to an increase of 10% for each executive director based on their salaries as at 31 December 2005. It is the opinion of the Remuneration Committee that such rises were necessary to reflect the performance of the individuals and the additional responsibilities undertaken by them during the year.

Benefits comprise a company car or allowance, fuel, private medical insurance and a living allowance for the Chief Executive.

ANNUAL BONUS SCHEME

Overview

The Committee believes firmly in the financial effectiveness of short term incentives. Accordingly, every employee in the Group participates in some form of incentive scheme.

Old Policy

Up until 2004 executive directors were eligible to participate in the annual bonus plan and the Regus Super Bonus Plan with a maximum bonus potential of 140% of salary. However as set out in the circular to shareholders prior to the 2005 AGM, the Super Bonus Plan has been discontinued during the 2005 financial year following the introduction of the CIP.

New Policy

With effect from and including the 2005 financial year, maximum individual bonuses payable to executive directors and senior management have been reduced and are now capped at 100% of basic annual salary of which a maximum 50% can be taken as cash and 50% is deferred to purchase "Investment Shares" in Regus Group plc. These shares are awarded under the CIP with the opportunity of an additional award of Matching Shares released after a three year period, subject to certain conditions.

For the year ended 31 December 2005, the executive directors satisfied the stretching EBITDA targets in full. As such the total bonus payable will be 100% of salary. In reporting the calculation of awards, the Committee is mindful of the commercial sensitivity of the structure of the Group's bonus arrangements and considers that more detailed disclosure is inappropriate in the circumstances. As stated above, 50% of the total bonus payable will be paid in cash and 50% will be used to purchase Investment Shares. However, at the time of the drafting of this report, the award of Investment Shares and associated Matching Shares has not been made due to the Company being in a close period. The Committee will provide full details of the award and relevant performance conditions in its Remuneration Report for the year ending 31 December 2006.

REMUNERATION REPORT

The maximum number of awards granted to the executive directors will be based on the price of an ordinary share at the time of the grant and the monetary value will not exceed 50% of the total bonus paid.

Bonus targets are reviewed and agreed by the Committee at the beginning of each financial year. The performance measures for the bonus are reviewed annually by the Committee to ensure that they are appropriate to the current market conditions and position of the Company, so that they remain challenging. The structure of the bonus targets for the year ending 31 December 2006 will be similar to those operated for 2005.

The maximum bonus potential available for the executive directors for the year ending 31 December 2006 remains the same.

Bonuses are non-pensionable.

Non-executive directors do not receive a bonus.

PENSION BENEFITS

The executive directors participate in the Company's Money Purchase (Personal Pension) Scheme. The Company matches contributions up to a maximum of 7.5% of basic salary.

The Group does not operate a defined benefit pension scheme and has no plans to introduce such a scheme.

LONG TERM INCENTIVES

Overview

During the year the Remuneration Committee reviewed its share incentive policy and concluded that the interests of shareholders and executives would be better aligned through a new long term incentive policy, the CIP which was approved by shareholders at the 2005 AGM. In accordance with the new policy, the Remuneration Committee will not grant any further awards under the Company's existing arrangements to executives who participate in the CIP.

Old Policy

Prior to the change of policy, the Remuneration Committee granted options under the Regus Group Share Option Scheme.

For grants made in 2004, performance conditions are based on the Company's earnings per share (EPS) performance over a three year period. The options may be exercised between the third and tenth anniversaries of the date of the grant after which they will lapse.

The Remuneration Committee believed that a sliding scale of EPS growth of 3%-6% per annum in excess of the Retail Price Index was the most appropriate performance target (as the Company had been in loss, a notional starting EPS of 1p per share was used). This represented a challenging performance condition in light of the Company's circumstances at the time. The number of options that become exercisable for real growth of 3% per annum will not exceed 50% of salary.

EPS has been selected as the performance measure as it was considered a good indicator of long term corporate performance.

The Company and its predecessor has never retested performance conditions or re-priced options and the Remuneration Committee has no intention of changing their policy. There will be no automatic waiving of performance conditions in the event of a change of control or where grants are 'rolled over' on a change in capital structure. No performance targets were waived on the Scheme of Arrangement in 2003.

The Company also adopted the Regus Group Restricted Award Plan at the 2004 AGM. No awards have been made under this Plan.

New Policy

At the 2005 AGM, shareholders approved the CIP following a review by the Remuneration Committee of long term incentive arrangements for executive directors and other senior executives.

The Committee views the CIP, introduced in 2005, as the most appropriate vehicle for long term incentivisation for the executive directors and other senior executives. Details of the awards made to executive directors during the year are set out below.

There are two elements to the CIP:

The first element operates in conjunction with the annual bonus whereby 50% of any gross bonus payment will be paid in cash, with the other 50% taken as a deferred award of Investment Shares to be released at the end of a three year period.

Matching Shares will be awarded linked to the number of Investment Shares awarded and will vest depending on the Company's growth in free cash flow per share (FCF), EPS and relative total shareholder return (TSR) measured against the FTSE 350 Support Services Index. Matching Shares are awarded at no cost to participants.

The maximum number of Matching Shares which can be awarded to a participant in the CIP is 200% of salary. As such, the maximum number of Matching Shares which can be awarded based on Investment Shares awarded is 4:1 – however this level of award is subject to full payout of the annual bonus. In order to ensure that the executive directors and senior executives are motivated to consistently perform on an annual basis, the maximum matching ratio will only apply to participants who receive a bonus pay-out of 50% of salary or more. For bonus payout of less than 50% of salary the matching participants will only be eligible to receive two Matching Shares to one Investment Share.

The second element is that the Remuneration Committee may also make stand alone whole share awards ("LTIP Awards") without reference to annual bonus, up to a maximum of 100% of salary per annum under the CIP. Under the LTIP Award, executives are awarded a conditional right over a whole number of shares with the release being dependent on the extent to which (if at all) the challenging performance conditions set by the Remuneration Committee at the time the LTIP Award is made are satisfied.

Grants during the year ending 31 December 2005

	Mark Dixon	Rudy Lobo	Stephen Gleadle
LTIP award face value (% age of salary)	75%	75%	143%
Expected value of LTIP award (a)	£196,088	£103,383	£189,000
Expected value of LTIP award as a % age of salary	47.25%	47.25%	90%

(a) The expected value was calculated by taking the face value of the shares on the date of award and discounting this value by the probability of the performance condition being satisfied at this date (in accordance with the principles of IFRS 2).

It should be noted that as part of his recruitment, the LTIP Award granted to Stephen Gleadle was under a stand alone arrangement in accordance with the provisions of 13.13A(b) of the Listing Rules. However this award has been granted on the same terms and conditions as the LTIP Awards made to the other executive directors on the same date.

In addition, it is unlikely that future stand-alone LTIP Awards will be made to existing executive directors unless there are exceptional circumstances.

The performance conditions for the grant of awards under the LTIP are set out in the following table:

	EPS (p) for the year ending 31 Dec 2008			
	11p	12p	13p	14p
Growth in FCF per share				
10%	6%	13%	19%	25%
15%	13%	25%	38%	50%
20%	19%	38%	56%	75%
25%	25%	50%	75%	100%

Note: % denotes the % of LTIP Award which will be released at the end of the performance period.

In addition, no awards will be released unless the Company's TSR is at least at the median when compared against that of the companies comprising the FTSE 350 Support Services Sector at the date of grant.

It is recognised by the Remuneration Committee that the additional EPS targets represent a highly challenging goal and consequently in determining whether they have been met the Committee will exercise its discretion. The overall aim is that the relevant EPS targets must have been met on a run rate or underlying basis.

As such an adjusted measure of EPS will be calculated designed to assess the underlying performance of the business.

While the Remuneration Committee reserves the right to adjust EPS as it sees fit at the time, by way of example, the following adjustments are currently anticipated:

- *In a growth company such as Regus, costs are necessarily incurred in one year to drive profits in future years. As such it is important to ensure management is not incentivised to cut back on these investments to meet EPS targets in any one year. Accordingly those costs, incurred in the vesting year, which it considers necessary to drive future growth will be excluded from the EPS calculation. These would include, inter alia, the costs of the business development departments, excess marketing expenditures and current year losses from investing in new locations.*

- *Any one-off or non-recurring items will be excluded.*

- *It is expected that in the period between 2006 and 2008 the cash tax rate will rise as cumulative tax losses are utilised thereby increasing progressively the challenge of achieving a 14p EPS target. This will then be further complicated by the need to recognise deferred tax assets as the business strengthens reducing the accounting rate of tax in one year and increasing it in the next. To provide greater clarity and incentive to management EPS will be calculated based upon the cash tax rate up to a maximum of 30%.*

The Remuneration Committee is of the opinion that the EPS and free cash flow performance targets are a transparent and accurate measure of the Company's performance at this time and are the key corporate metrics for driving long term shareholder value. In addition, the TSR condition will ensure that executives are encouraged to focus on ensuring that the Company's return to shareholders is competitive compared to comparable companies.

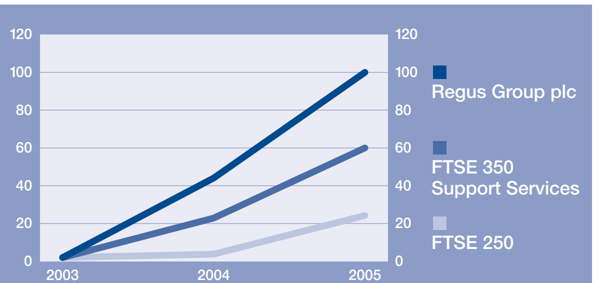
As mentioned above, awards under the CIP in respect of the bonus paid for the year ended 31 December 2005 will be made subsequent to the publication of this report. However the maximum number of awards granted to the executive directors will be based on the price of an ordinary share at the time of grant and the monetary value will not exceed 50% of basic salary. Full details of the levels of award and performance conditions will be disclosed in the Committee's Remuneration Report for the year ending 31 December 2006.

EXTERNAL APPOINTMENTS

Executive directors are permitted to accept appointments on external boards or committees so long as these are not deemed to interfere with the business of the Group. Any fees received in respect of these appointments are retained directly by the relevant executive director. At 31 December 2005, the executive directors did not hold any external positions for which they receive fees.

TSR

THE GRAPH SHOWS THE COMPANY'S PERFORMANCE, MEASURED BY TSR FOR THE GROUP COMPARED WITH THE PERFORMANCE OF THE FTSE 250 INDEX AND THE FTSE 350 SUPPORT SERVICES INDEX. THE COMMITTEE CONSIDER THE FTSE 250 INDEX RELEVANT SINCE IT IS AN INDEX OF COMPANIES OF SIMILAR SIZE TO REGUS GROUP PLC. AS DETAILED EARLIER IN THE REPORT THE COMPANY CONSIDERS ITS TSR PERFORMANCE FOR SHARE AWARDS UNDER THE CIP IN COMPARISON TO THAT OF THE FTSE 350 SUPPORT SERVICES INDEX.



REMUNERATION REPORT

AUDITED INFORMATION
DIRECTORS' EMOLUMENTS

The aggregate emoluments, excluding pensions of the directors were as follows:

	Salary £'000	Fees £'000	Benefits £'000	Bonus £'000	2005 Total £'000
Chairman					
John Matthews	–	190.0	–	–	190.0
Executive					
Mark Dixon	415.0	–	126.8	207.5	749.3
Rudy Lobo	218.8	–	12.9	109.4	341.1
Stephen Gleadle	35.0	–	2.2	157.5	194.7
Non-executive					
Roger Orf	–	36.0	–	–	36.0
Martin Robinson	–	36.0	–	–	36.0
Stephen East	–	24.2	–	–	24.2
	668.8	286.2	141.9	474.4	1571.3

Stephen Gleadle was appointed on 31 October 2005.

Stephen East was appointed on 11 March 2005.

	Salary £'000	Fees £'000	Benefits £'000	Bonus £'000	2004 Total £'000
Chairman					
John Matthews	–	115.0	–	–	115.0
Executive					
Mark Dixon	395.0	–	120.2	233.0	748.2
Rudy Lobo	180.0	–	13.2	122.0	315.2
Non-executive					
Roger Orf	–	35.0	–	–	35.0
Martin Robinson	–	35.0	–	–	35.0
	575.0	185.0	133.4	355.0	1248.4

Mark Dixon was the highest paid director in both 2005 and 2004.

Benefits include a housing allowance for Mark Dixon (2005: £108,329.87; 2004: £75,000) car and fuel allowance, medical insurance and life assurance.

PENSION CONTRIBUTIONS

	2005 £'000	2004 £'000
Mark Dixon	29.1	31.6
Rudy Lobo	15.3	12.4
Stephen Gleadle	2.4	–
	46.8	44.0

DIRECTORS' SHARE INTERESTS
The following directors held beneficial interests in the share capital of the Company at 31 December 2005 and 20 March 2006.

	Direct Holding Ordinary Shares of 5p 20 Mar 2006	31 Dec 2005	31 Dec 2004
Executive			
Mark Dixon [(a)]	366,329,326	366,329,326	366,329,326
Rudy Lobo	4,697,098	4,697,098	4,697,098
Non-executive			
John Matthews	577,678	577,678	550,000
Roger Orf	712,617	712,617	687,280
Martin Robinson	37,617	37,617	12,280
Stephen East	–	–	–

(a) The interests of Mark Dixon are held indirectly through Maxon Investments BV, an entity in which Mark Dixon holds 100% of the share capital.

DIRECTORS' SHARE OPTIONS

As at 20 March 2006, the beneficial interest of the directors in options granted under the Regus Group Share Option Plan are shown below.

	Grant date	Interest in options and awards over Ordinary Shares	Exercise price p	Date from which exercisable	Expiry date of grant or award
Mark Dixon	08/09/04	1,708,108	64.75	08/09/07	08/09/14
Rudy Lobo	08/09/04	778,378	64.75	08/09/07	08/09/14

All options were granted at the then prevailing market price. There have been no movements in the year.

DIRECTORS' INTERESTS UNDER THE LTIP

Details of awards over ordinary shares in the Company granted to the directors under the LTIP, all for nil consideration, are as follows:

	LTIP
Mark Dixon	
At 1 January 2005	–
Awards granted	337,398
At 31 December 2005	**337,398**
Rudy Lobo	
At 1 January 2005	–
Awards granted	186,992
At 31 December 2005	**186,992**
Stephen Gleadle	
At 1 January 2005	–
Awards granted	325,203
At 31 December 2005	**325,203**

No LTIP awards vested and no matching shares were granted during the year.

The entitlement to shares under the LTIP is subject to achieving the performance conditions referred to in the LTIP section on page 25.

The performance period for the LTIP awards is 3 November 2005 to 31 December 2008.

The mid market price of the Company's ordinary shares at 31 December 2005 was 105.5p and the range during the year was 75.5p to 124.0p.

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

ANNUAL RESOLUTION

Shareholders will be given the opportunity to approve the Remuneration Report at the AGM on 22 May 2006.

AUDIT REQUIREMENT

Within the Remuneration Report, the sections on director's remuneration, shareholdings and pension benefits on pages 26 to 27 inclusive, are audited. All other sections of the Remuneration Report are unaudited.

On behalf of the Board

MARTIN ROBINSON
CHAIRMAN, REMUNERATION COMMITTEE
20 March 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the Group and parent company financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards.

The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

In preparing each of the Group and parent company 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;*
- *for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;*
- *for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and*
- *prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.*

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

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

INDEPENDENT AUDITORS' REPORT

We have audited the Group and parent company financial statements (the ''financial statements'') of Regus Group plc for the year ended 31 December 2005 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Change in Shareholders' Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the parent company financial statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 28.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the Group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. 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 other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of 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 other information contained in the Annual Report 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. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and the part of the Directors' Remuneration Report to be audited. 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 and Company'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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

OPINION

In our opinion:

- *the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended;*
- *the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;*
- *the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2005; and*
- *the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.*

KPMG AUDIT PLC
CHARTERED ACCOUNTANTS AND REGISTERED AUDITOR
London
20 March 2006

CONSOLIDATED INCOME STATEMENT

	notes	Year ended 31 Dec 2005 £m	Year ended 31 Dec 2004 £m
Revenue	2	**463.3**	312.2
Costs of sales before non-recurring costs		**(346.2)**	(258.2)
Non-recurring cost of sales	5	**0.1**	(6.6)
Cost of sales		**(346.1)**	(264.8)
Gross profit (centre contribution)		**117.2**	47.4
Administration expenses before non-recurring expenses		**(64.9)**	(44.2)
Non-recurring administration expenses	5	**(5.0)**	(2.0)
Administrative expenses		**(69.9)**	(46.2)
Profit from operations	4	**47.3**	1.2
Share of loss of joint ventures	17	**(0.2)**	(0.7)
Share of profit/(loss) of associate	17	**0.2**	(3.0)
Profit/(loss) before financing costs		**47.3**	(2.5)
Financial expense	7	**(10.8)**	(3.7)
Financial income		**2.2**	1.3
Profit/(loss) before tax		**38.7**	(4.9)
Tax credit	8	**6.1**	2.6
Profit/(loss) after tax		**44.8**	(2.3)
Attributable to:			
Equity shareholders		**44.5**	(2.4)
Minority interest		**0.3**	0.1
		44.8	(2.3)
Earnings/(loss) per ordinary share (EPS):			
Basic EPS (p)	9	**4.5**	(0.3)
Diluted EPS (p)	9	**4.5**	(0.3)

CONSOLIDATED BALANCE SHEET

	notes	As at 31 Dec 2005 £m	As at 31 Dec 2004 £m
Non-current assets			
Goodwill	10	122.1	96.0
Other intangible assets	11	38.9	37.2
Property, plant and equipment	12	76.6	76.1
Deferred tax assets	8	21.9	6.2
		259.5	215.5
Current assets			
Trade and other receivables	13	99.6	76.0
Cash and cash equivalents		74.1	82.3
		173.7	158.3
Total assets		433.2	373.8
Current liabilities			
Trade and other payables	14	(73.8)	(64.1)
Customer deposits		(61.7)	(48.8)
Deferred income		(45.6)	(34.0)
Corporation tax		(12.3)	(6.9)
Obligations under finance leases	15	(4.8)	(7.3)
Bank overdrafts and loans	15	(24.5)	(8.3)
Provisions for liabilities and charges	16	(7.2)	(13.0)
		(229.9)	(182.4)
Net current liabilities		(56.2)	(24.1)
Total assets less current liabilities		203.3	191.4
Non-current liabilities			
Other payables	14	(27.9)	(21.3)
Obligations under finance leases	15	(3.4)	(5.9)
Loans	15	(5.4)	(55.8)
Provisions for liabilities and charges	16	(7.9)	(8.9)
Provision for deficit on joint ventures	17	(2.1)	(1.8)
Provision for deficit on associate	17	(3.8)	(4.0)
		(50.5)	(97.7)
Total liabilities		(280.4)	(280.1)
Net assets		152.8	93.7
Equity			
Share capital	18	49.2	49.3
Share premium account		153.5	153.5
Other reserves		(22.6)	(22.7)
Retained earnings		(27.3)	(85.8)
Equity attributable to equity holders of the parent		152.8	94.3
Minority interests		–	(0.6)
Total equity		152.8	93.7

Analysis of other reserves is included within the Statement of Changes in Equity.

Approval by the Board on 20 March 2006.

MARK DIXON
CHIEF EXECUTIVE OFFICER

STEPHEN GLEADLE
CHIEF FINANCIAL OFFICER

CONSOLIDATED CASH FLOW STATEMENT

	Year ended 31 Dec 2005 £m	Year ended 31 Dec 2004 £m
Profit before tax	**38.7**	(4.9)
Adjustments for:		
Net finance costs	**8.6**	2.4
Share of loss on joint venture and associate	**–**	3.7
Depreciation charge	**25.6**	29.7
Loss on disposal of fixed assets	**0.3**	–
Amortisation of intangible assets	**3.8**	1.4
Impairment of fixed assets	**–**	3.2
Decrease in provisions	**(5.7)**	(5.6)
Operating cash flows before movements in working capital	**71.3**	29.9
Increase in trade and other receivables	**(17.0)**	(1.0)
Increase/(decrease) in trade and other payables	**23.8**	(7.9)
Cash generated from operations	**78.1**	21.0
Interest paid on finance leases	**(1.0)**	(0.5)
Interest paid on credit facilities	**(5.5)**	(2.8)
Tax paid	**(2.6)**	(1.6)
Net cash flows from operating activities pre Chapter 11 payments	**69.0**	16.1
Settlement of liabilities under Chapter 11	**–**	(27.8)
Net cash in/(out) flows from operating activities	**69.0**	(11.7)
Investing activities		
Purchase of subsidiary undertakings (net of cash acquired)	**(16.7)**	(162.9)
Investment in joint venture	**(0.1)**	–
Sale of tangible fixed assets	**0.2**	0.6
Purchase of tangible fixed assets	**(17.5)**	(5.3)
Interest received	**2.2**	1.7
Cash outflows from investing activities	**(31.9)**	(165.9)
Financing activities		
Net proceeds from issue of loans	**–**	56.5
Repayment of loans	**(39.4)**	(1.6)
Payment of principal under finance leases	**(8.1)**	(7.7)
Net proceeds from issue of equity shares	**–**	122.2
Sale of own shares held by ESOP	**–**	2.0
Cash (out)/inflows from financing activities	**(47.5)**	171.4
Net decrease in cash and cash equivalents	**(10.4)**	(6.2)
Cash and cash equivalents at beginning of period	**82.3**	85.0
Effect of exchange rate fluctuations on cash held	**2.2**	3.5
Cash and cash equivalents at end of period	**74.1**	82.3

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent						
	Share capital £m	Share premium account £m	Foreign currency translation reserve £m	Other non-distributable reserves (a) £m	Retained earnings £m	Minority interests £m	Total equity £m
Balance at 1 January 2004	**39.4**	**44.4**	**–**	**(22.7)**	**(77.4)**	**(0.6)**	**(16.9)**
Loss attributable to equity holders	–	–	–	–	(2.4)	–	(2.4)
Profit attributable to minority interest	–	–	–	–	–	0.1	0.1
Currency translation differences	–	–	(8.3)	–	–	(0.1)	(8.4)
Sale of shares held in ESOP	–	–	–	–	2.1	–	2.1
Share based payments	–	–	–	–	0.2	–	0.2
Placing and Open Offer	9.9	112.7	–	–	–	–	122.6
Issue costs on Placing and Open Offer	–	(3.6)	–	–	–	–	(3.6)
Balance at 31 December 2004	**49.3**	**153.5**	**(8.3)**	**(22.7)**	**(77.5)**	**(0.6)**	**93.7**
Profit attributable to equity holders	–	–	–	–	44.5	–	44.5
Profit attributable to minority interest	–	–	–	–	–	0.3	0.3
Currency translation differences	–	–	13.3	–	–	(0.1)	13.2
Redemption of preference shares	(0.1)	–	–	0.1	(0.1)	–	(0.1)
Share based payments	–	–	–	–	0.8	–	0.8
Acquired in year (b)	–	–	–	–	–	(0.2)	(0.2)
Liquidation of subsidiary	–	–	–	–	–	0.6	0.6
Balance at 31 December 2005	**49.2**	**153.5**	**5.0**	**(22.6)**	**(32.3)**	**–**	**152.8**

(a) Other non-distributable reserves includes £29.2 million arising from the Scheme of Arrangement undertaken in 2003, partly offset by £6.5 million relating to merger reserves and £0.1 million to the redemption of preference shares.
(b) During the year the Group acquired the minority interest of subsidiaries in South Africa and Italy.

NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES

Regus Group plc (the "Company") is a company incorporated in the UK.

Basis of preparation

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") and equity account the Group's interest in associates and jointly controlled entities. The parent company financial statements present information about the Company as a separate entity and not about its Group.

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). The Company has elected to prepare its parent company financial statements in accordance with UK GAAP; these are presented on pages 60 to 62.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements and in preparing an opening IFRS balance sheet at 1 January 2004 for the purposes of the transition to Adopted IFRSs. The principal exception is that, as more fully explained below, financial instruments accounting is determined on different bases in 2005 and 2004 due to the transitional provisions of IAS 39.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 28.

The financial statements are prepared on the historical cost basis.

Transition to Adopted IFRSs

The Group is preparing its financial statements in accordance with Adopted IFRS for the first time and consequently has applied IFRS 1. An explanation of how the transition to Adopted IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in note 29.

In addition to exempting companies from the requirement to restate comparatives for IAS 39, IFRS 1 grants certain exemptions from the full requirements of IFRSs in the transition period. The following exemptions have been taken in these financial statements:

- ***Business combinations*** – Business combinations that took place prior to transition date have not been restated.

- ***Cumulative translation differences*** – Cumulative translation differences for all foreign operations have been set to zero at 1 January 2004.

The Group adopted IAS 39 with effect from 1 January 2005. IAS 39 has not had any impact on the accounts.

Adopted IFRSs not yet applied

The following adopted IFRSs were available for early application but have not been applied by the Group in these financial statements:

IFRS 7 "Financial Instruments: Disclosure" applicable for accounting periods commencing on or after 1 January 2007. The impact on the Group's financial statement on the initial application of this standard is not expected to be significant as the applicable requirements of this standard are similar to the disclosure requirements of IAS 32, which has already been adopted by the Group.

Amendments to IAS 39: "Financial Guarantee Contracts" applicable for accounting periods commencing on or after 1 January 2006. The impact on the Group's financial statement of the initial application of this standard is the requirement to recognise the fair value of the guarantees given to landlords.

Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised income and expense of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's share of the total recognised gains and losses of jointly controlled entities on an equity accounted basis, from the date that joint control commences until the date that joint control ceases.

Goodwill

All business combinations are accounted for using the purchase method. Goodwill represents the difference between cost of acquisition over the share of the fair value of identifiable net assets (including intangible assets) of a subsidiary, associate or joint venture at the date of acquisition.

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

Impairment

The carrying amounts of the Group's assets other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use were tested for impairment as at 31 October 2005, even though no indication of impairment existed.

Calculation of recoverable amount
The recoverable amount of relevant assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Intangible assets

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

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

Brand	20 years
Computer software	3-5 years
Customer lists	1-2 years

Amortisation of intangible assets is expensed through administration expenses in the income statement.

Leases

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

Finance leases
Plant and equipment acquired by way of a finance lease is capitalised at the commencement of the lease at the lower of its fair value and the present value of the minimum lease payments at inception. Future payments under finance leases are included in creditors, net of any future finance charges. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. Finance charges are recognised in the income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating leases
Minimum lease payments under operating leases are recognised in the income statement on a straight-line basis over the lease term. Lease incentives and rent free periods are included in the calculation of minimum lease payments. The commencement of the lease term is the date from which the Group is entitled to use the leased asset. The lease term is the non-cancellable period of the lease, together with any further periods for which the Group has the option to continue to lease the asset and when at the inception of the lease it is reasonably certain that the Group will exercise that option.

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

Non-recurring items

Non-recurring items are those significant items, which are separately disclosed by virtue of their size or incidence to enable a full understanding of the Group's financial performance. Transactions which may give rise to non-recurring items are restructuring, integration costs and onerous commitments.

Property, plant and equipment

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

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

With effect from 1 January 2005 the Group changed its estimate of the useful economic life of furniture from a period of five years to ten years. This re-lifing of furniture has reduced depreciation of furniture in the period by £2.4 million to £8.8 million. Asset lives have also been changed for computer hardware, software and telecoms for which there was no impact in 2005. It is not practical to estimate the future impact of this change in accounting estimate.

Revenue

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

Workstations
Workstation revenue is recognised when the provision of the service is rendered. Amounts invoiced in advance are deferred and recognised as revenue upon provision of the service.

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

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

Employee benefits

The Group's contributions to defined contribution plans and other paid and unpaid benefits earned by employees are charged to the income statement as incurred.

NOTES TO THE ACCOUNTS

Share based payments
The share option program entitles certain key management and directors to acquire shares of the ultimate parent company; these awards are granted by the ultimate parent. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using Black Scholes valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

Share appreciation rights (CIP) are also granted by the Company to certain key employees. The fair value of the amount payable to the employee is recognised as an expense with a corresponding increase in equity. The fair value is initially measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value of the share appreciation rights is measured based on the Monte Carlo valuation model, taking into account the terms and conditions upon which the instruments were granted. The liability is re-measured at each balance sheet date and at settlement date and any changes in fair value recognised in profit or loss spread equally over the vesting period.

Taxation
Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

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

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

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

Foreign currencies
Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the closing rate of exchange at the balance sheet date and the gains or losses on translation are taken to the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

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

Finance charges
Interest charges and income are accounted for in the income statement on an accruals basis. Deferred finance fees are charged to the income statement, through interest using the effective rate method.

Interest bearing borrowings
Interest bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

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

2 SEGMENTAL ANALYSIS – STATUTORY BASIS

Segment information is presented in respect of the Group's geographical segments. The Group's only business segment is the provision of serviced offices. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. There is no inter-segment trading. Management fees is in consideration of subsidiaries use of intellectual property and Group services including but not limited to business development services, purchasing, information technology, sales and marketing, finance and treasury, human resources and legal. Unallocated items comprise mainly interest bearing loans, borrowings and expenses, and corporate assets and expenses. Segment capital expenditure is the total cost (calculated on an accruals basis) incurred during the period to acquire segment assets that are expected to be used for more than one year. The serviced office business is run on a worldwide basis, but managed through three principal geographical segments – Americas; Europe, Middle East and Africa (EMEA) and Asia Pacific. The results of business centres in each of these regions form the basis for reporting geographical results.

	Americas		EMEA		Asia Pacific		Other (including UK associate)		Total	
	2005 £m	2004 £m	**2005 £m**	2004 £m	**2005 £m**	2004 £m	**2005 £m**	2004 £m	**2005 £m**	2004 £m
Revenue	**261.6**	134.8	**165.5**	149.6	**33.6**	25.2	**2.6**	2.6	**463.3**	312.2
Gross profit (centre contribution)	**61.5**	17.7	**43.2**	28.6	**9.8**	5.1	**2.7**	(4.0)	**117.2**	47.4
Management fees – income	**0.2**	1.7	**2.4**	2.8	**0.8**	0.4	**(3.4)**	(4.9)	**–**	–
Management fees – charges	**(0.3)**	(0.1)	**(10.7)**	(3.4)	**(2.9)**	(1.1)	**13.9**	4.6	**–**	–
Profit/(loss) from operations	**32.5**	4.5	**15.7**	10.2	**3.0**	1.6	**(3.9)**	(15.1)	**47.3**	1.2
Share of (loss)/profit of joint ventures	**(0.3)**	(0.8)	**0.1**	0.1	**–**	–	**–**	–	**(0.2)**	(0.7)
Share of profit/(loss) of UK associate	**–**	–	**–**	–	**–**	–	**0.2**	(3.0)	**0.2**	(3.0)
Financial expense	**(2.7)**	(1.3)	**(1.8)**	(1.4)	**(0.5)**	(0.3)	**(5.8)**	(0.7)	**(10.8)**	(3.7)
Financial income	**2.3**	0.3	**0.6**	0.4	**0.2**	0.1	**(0.9)**	0.5	**2.2**	1.3
Profit/(loss) before tax	**31.8**	2.7	**14.6**	9.3	**2.7**	1.4	**(10.4)**	(18.3)	**38.7**	(4.9)
Tax credit/(charge)	**0.5**	(0.1)	**2.1**	(0.4)	**0.1**	0.9	**3.4**	2.2	**6.1**	2.6
Profit/(loss) after tax	**32.3**	2.6	**16.7**	8.9	**2.8**	2.3	**(7.0)**	(16.1)	**44.8**	(2.3)
EBITDA (see note 3)	**54.8**	20.5	**29.3**	21.4	**6.9**	5.1	**(9.4)**	(6.1)	**81.6**	40.9
Depreciation	**18.4**	16.2	**5.3**	10.6	**1.8**	2.8	**0.1**	0.1	**25.6**	29.7
Amortisation	**3.8**	1.4	**–**	–	**–**	–	**–**	–	**3.8**	1.4
Share based payments	**–**	–	**–**	–	**–**	–	**0.8**	0.2	**0.8**	0.2
Assets	**275.3**	233.5	**66.7**	58.1	**28.2**	17.1	**63.0**	65.1	**433.2**	373.8
Liabilities	**(92.2)**	(94.3)	**(111.6)**	(109.2)	**(22.0)**	(13.8)	**(54.6)**	(62.8)	**(280.4)**	(280.1)
Net assets/(liabilities)	**183.1**	139.2	**(44.9)**	(51.1)	**6.2**	3.3	**8.4**	2.3	**152.8**	93.7
Capital expenditure incurred	**8.2**	6.8	**5.3**	1.4	**5.8**	0.7	**0.1**	0.1	**19.4**	9.0

NOTES TO THE ACCOUNTS

3 SEGMENTAL REPORTING – MANAGEMENT BASIS

	Americas		EMEA		Asia Pacific		Other (including UK associate)		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
Mature										
Workstations	**17,826**	17,986	**25,299**	26,464	**4,056**	4,114	**–**	–	**47,181**	48,564
Occupancy (%)	**83**	80	**73**	69	**80**	76	**–**	–	**78**	74
Revenue (£m)	**91.6**	78.5	**162.5**	146.8	**26.4**	23.3	**2.6**	2.6	**283.1**	251.2
Contribution (£m)	**20.3**	7.0	**43.2**	29.5	**9.2**	4.9	**2.6**	2.6	**75.3**	44.0
2004 Expansions										
Workstations	**28,431**	9,468	**–**	–	**351**	152	**–**	–	**28,782**	9,620
Occupancy (%)	**80**	80	**–**	–	**72**	55	**–**	–	**80**	80
Revenue (£m)	**165.6**	56.0	**–**	–	**2.5**	0.7	**–**	–	**168.1**	56.7
Contribution (£m)	**40.8**	10.8	**–**	–	**1.0**	0.1	**–**	–	**41.8**	10.9
2005 Expansions										
Workstations	**1,054**	–	**450**	–	**935**	–	**–**	–	**2,439**	–
Occupancy (%)	**70**	–	**61**	–	**50**	–	**–**	–	**61**	–
Revenue (£m)	**4.4**	–	**2.7**	–	**3.7**	–	**–**	–	**10.8**	–
Contribution (£m)	**0.4**	–	**–**	–	**(0.5)**	–	**–**	–	**(0.1)**	–
Closures										
Workstations	**–**	131	**122**	967	**133**	169	**–**	–	**255**	1,267
Occupancy (%)	**–**	29	**56**	43	**87**	89	**–**	–	**72**	48
Revenue (£m)	**–**	0.3	**0.3**	2.8	**1.0**	1.2	**–**	–	**1.3**	4.3
Contribution (£m)	**–**	(0.1)	**–**	(0.9)	**0.1**	0.1	**–**	–	**0.1**	(0.9)
Total										
Workstations	**47,311**	27,585	**25,871**	27,431	**5,475**	4,435	**–**	–	**78,657**	59,451
Occupancy (%)	**81**	80	**73**	68	**75**	76	**–**	–	**78**	75
Revenue (£m)	**261.6**	134.8	**165.5**	149.6	**33.6**	25.2	**2.6**	2.6	**463.3**	312.2
Contribution (£m)	**61.5**	17.7	**43.2**	28.6	**9.8**	5.1	**2.6**	2.6	**117.1**	54.0
REVPAW (£)	**5,529**	4,887	**6,397**	5,454	**6,137**	5,681	**–**	–	**5,890**	5,251

Notes:
- *The mature business is defined as those centres owned and operated at least 12 months prior to 1 January 2005 and therefore have a full 12 month comparative.*
- *Expansions include new centres opened and acquired businesses.*
- *Workstation numbers are calculated as the weighted average for the year.*
- *The results above exclude non-recurring items, which are analysed in note 5. Contribution after non-recurring items was £117.2 million in 2005 (2004: £47.4 million).*

Reconciliation of profit from operations to adjusted EBIT and EBITDA

	Americas		EMEA		Asia Pacific		Other		Total	
	2005 £m	2004 £m	**2005 £m**	2004 £m	**2005 £m**	2004 £m	**2005 £m**	2004 £m	**2005 £m**	2004 £m
Profit from operations	**32.6**	2.9	**24.0**	10.8	**5.1**	2.3	**(14.4)**	(14.8)	**47.3**	1.2
Non-recurring items	**–**	–	**–**	–	**–**	–	**4.9**	8.6	**4.9**	8.6
Adjusted EBIT	**32.6**	2.9	**24.0**	10.8	**5.1**	2.3	**(9.5)**	(6.2)	**52.2**	9.8
Depreciation/amortisation	**22.2**	17.6	**5.3**	10.6	**1.8**	2.8	**0.1**	0.1	**29.4**	31.1
EBITDA	**54.8**	20.5	**29.3**	21.4	**6.9**	5.1	**(9.4)**	(6.1)	**81.6**	40.9

Notes:
- *Profit/(loss) from operations excludes internal management fees.*
- *Adjusted EBIT and EBITDA excludes the results of the joint ventures and UK associate.*

4 PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	2005 £m	2004 £m
Depreciation on property, plant and equipment:		
owned assets	**20.6**	20.0
finance leases	**5.0**	9.7
Impairment of trade and other receivables	**2.5**	0.8
Amortisation of intangibles	**3.8**	1.4
Loss on disposal of fixed assets	**0.3**	–
Rents payable in respect of operating leases:		
property	**168.1**	130.3
equipment	**2.9**	4.3
Group audit fees (worldwide)	**0.7**	0.6
Non-audit fees paid to Group Auditors – due diligence on acquisitions	**0.1**	0.4
Non-audit fees paid to Group Auditors – regulatory reporting	**–**	0.6
Staff costs (see note 6)	**88.6**	59.9

5 NON-RECURRING ITEMS

Included in the results for the year to 31 December 2005 were non-recurring items amounting to £4.9 million (2004: £8.6 million).

	2005 £m	2004 £m
Cost of sales:		
Onerous leases, related closure and restructuring costs [(a)]	**0.1**	(3.4)
Write-down of property, plant and equipment [(b)]	**–**	(3.2)
	0.1	(6.6)
Administration expenses:		
Costs relating to the integration of HQ	**(4.7)**	(2.5)
Severance pay	**–**	(0.3)
Onerous leases, fixed asset impairment and restructuring costs	**–**	0.3
Release of surplus provisions relating to Chapter 11 and Scheme of Arrangement	**1.5**	0.5
Indemnity claim with landlord	**(1.8)**	–
	(5.0)	(2.0)
Non-recurring items	**(4.9)**	(8.6)

The above items have been reported as non-recurring items and are disclosed separately as they are relevant to the understanding of the Group's financial performance.

Prior year non-recurring operating items

(a) As a result of a detailed review of our lease portfolio, three centres were identified for divestment at an estimated cost of £3.4 million.
(b) Fixed asset impairment charge of £3.2 million relates to loss making centres.

NOTES TO THE ACCOUNTS

6 STAFF COSTS AND NUMBERS

	2005 £m	2004 £m
The aggregate payroll costs were as follows:		
Wages and salaries	**75.5**	50.8
Social security	**11.9**	8.5
Pension costs	**0.4**	0.4
Share based payments	**0.8**	0.2
	88.6	59.9

	2005 Average full time equivalents	2004 Average full time equivalents
The average number of persons employed by the Group (including executive directors), analysed by category and geography, was as follows:		
Centre staff	**2,043**	1,442
Sales staff	**209**	203
Finance staff	**170**	125
Other staff	**183**	111
	2,605	1,881
Corporate functions	**45**	43
EMEA	**909**	873
Americas	**1,443**	801
Asia Pacific	**208**	164
	2,605	1,881

Details of directors' emoluments and interests are given in the Remuneration Report on pages 26 to 27.

7 NET FINANCIAL EXPENSE

	2005 £m	2004 £m
Interest payable and similar charges on bank loans and overdrafts	**(5.6)**	(2.9)
Interest payable and similar charges on finance leases	**(0.9)**	(0.5)
Deferred financing fees	**(4.3)**	(0.3)
Total financial expense	**(10.8)**	(3.7)
Interest receivable on cash balances	**2.2**	1.3
Net financial expense	**(8.6)**	(2.4)

Deferred financing fees relate to loan arrangement costs on the US $110 million term loan, which was due for final repayment in 2010. During the year the Group accelerated the repayment of the loan and has recognised the cost accordingly based on the effective rate.

8 TAXATION

(a) Analysis of credit/(charge) in the year

	2005 £m	2004 £m
Current taxation		
United Kingdom tax		
Corporation tax	**–**	–
(Under)/over provision in respect of prior years	**(1.3)**	0.5
Overseas tax		
Corporation tax	**(7.6)**	(1.5)
Over provision in respect of prior years	**–**	0.1
Total current taxation	**(8.9)**	(0.9)
Deferred taxation		
Origination and reversal of timing differences	**12.8**	3.5
Under provision in respect of prior years	**2.2**	–
Total deferred taxation	**15.0**	3.5
Tax credit on profit	**6.1**	2.6

(b) Reconciliation of taxation credit

	2005		2004	
	£m	%	£m	%
Profit/(loss) before tax	**38.7**		(4.9)	
Tax on profit/(loss) at 30% (2004: 30%)	**(11.6)**	**(30.0)**	1.5	30.0
Tax effects of:				
Expenses not deductible for tax purposes	**(4.5)**	**(11.6)**	(2.2)	(44.9)
Non-taxable income	**1.5**	**3.9**	0.1	2.3
Movement in deferred tax assets not recognised in the tax charge	**21.6**	**55.8**	2.6	53.2
Differences in tax rates on overseas earnings	**(1.8)**	**(4.7)**	0.1	2.3
Adjustment to tax charge in respect of previous periods	**0.9**	**2.3**	0.5	10.2
Tax credit for the year	**6.1**	**15.7**	2.6	53.1

(c) Factors that may effect the future tax charge

Tax losses to carry forward against certain future overseas corporation tax liabilities have the following expiration dates:

	2005 £m	2004 £m
2005	**–**	3.2
2006	**3.1**	3.7
2007	**3.6**	2.3
2008	**5.4**	8.0
2009	**4.5**	3.9
2010	**2.2**	1.2
2011	**1.0**	1.3
2012 and later	**177.7**	171.0
	197.5	194.6
Available indefinitely	**72.7**	45.3
Tax losses available to carry forward	**270.2**	239.9

NOTES TO THE ACCOUNTS

8 TAXATION CONTINUED

(d) Deferred taxation

Deferred taxation is included in the balance sheet as follows:

	2005 £m	2004 £m
Intangibles	**(17.3)**	–
Property, plant and equipment	**15.0**	2.7
Tax losses	**15.7**	2.4
Short term timing differences	**8.5**	1.1
	21.9	6.2

The movement in deferred tax is analysed below:

	2005 £m	2004 £m
Deferred tax asset		
At 1 January	**6.2**	2.7
Current year movement	**12.8**	3.5
Prior year movement	**2.2**	–
Acquisitions	**0.2**	–
Transfers	**0.3**	–
Exchange movement	**0.2**	–
At 31 December	**21.9**	6.2

9 EARNINGS/(LOSS) PER ORDINARY SHARE (BASIC AND DILUTED)

	2005	2004
Profit/(loss) attributable to ordinary equity holders of the Parent	**£44.5m**	(£2.4m)
Weighted average number of shares outstanding during the year	**984,792,040**	859,702,000
Average market price of one share during the year	**99.8p**	–
Weighted average number of shares under option during the year	**7,261,924**	–
Exercise price for shares under option during the year	**60.37p**	–

Calculation of 2005 EPS

	Earnings	Shares	Per share
Profit attributable to ordinary equity holders of the Parent	£44.5m		
Weighted average number of shares outstanding in the year		984,792,040	
Basic EPS	**£44.5m**	**984,792,040**	**4.5p**
Weighted average number of shares under option during the year		7,261,924	
Weighted average number of shares that would have been issued at average market price (7,261,924 x 60.37p)/99.8p		(4,392,809)	
Weighted average number of awards under the CIP £1,632,905/105.5p		1,547,777	
Diluted EPS	**£44.5m**	**989,208,932**	**4.5p**

Note: Options are considered dilutive when they would result in the issue of ordinary shares for less than the market price of ordinary shares in the period. The amount of the dilution is taken to be the average market price of shares during the period minus the issue price. The number of awards granted under the CIP are an indicative number based on the year-end share price.

Calculation of 2004 EPS

	Earnings	Shares	Per share
Loss attributable to ordinary equity holders of the Parent	(£2.4m)		
Weighted average number of shares outstanding in the year		859,702,000	
Basic and diluted loss per share	**(£2.4m)**	**859,702,000**	**(0.3p)**

Note: In 2004 share options were not included in the computation of diluted loss per share due to them being anti-dilutive. As a result the basic loss per share is equal to the diluted loss per share.

10 GOODWILL

	£m
Cost	
At 1 January 2004	–
Recognised on acquisition of subsidiaries	102.6
Exchange differences	(6.6)
At 31 December 2004	**96.0**
At 1 January 2005	96.0
Recognised on acquisition of subsidiaries	15.3
Exchange differences	10.8
At 31 December 2005	**122.1**
Accumulated impairment losses	
At 1 January 2004 and 31 December 2004 and 2005	–
Net book value	
At 31 December 2005	**122.1**
At 31 December 2004	96.0
At 1 January 2004	–

The recoverability of goodwill attributed to the USA was calculated on 31 October 2005 by comparing the net book value of goodwill to the fair value of the USA. The fair value is computed by allocating the total market capitalisation of the Group to the USA.

11 OTHER INTANGIBLE ASSETS

	Brand £m	Customer lists £m	Software £m	Total £m
Cost				
At 1 January 2004	–	–	5.9	5.9
Additions at cost	–	–	0.4	0.4
Acquisition of subsidiaries	36.8	2.0	2.0	40.8
Exchange rate movements	(2.6)	–	(0.2)	(2.8)
At 31 December 2004	**34.2**	**2.0**	**8.1**	**44.3**
At 1 January 2005	34.2	2.0	8.1	44.3
Additions at cost	–	–	0.5	0.5
Acquisition of subsidiaries	–	1.1	–	1.1
Disposals	–	–	(0.2)	(0.2)
Exchange rate movements	3.7	0.2	0.5	4.4
At 31 December 2005	**37.9**	**3.3**	**8.9**	**50.1**
Amortisation				
At 1 January 2004	–	–	5.7	5.7
Amortisation charge for the year	0.7	0.3	0.4	1.4
Exchange rate movements	–	–	–	–
At 31 December 2004	**0.7**	**0.3**	**6.1**	**7.1**
At 1 January 2005	0.7	0.3	6.1	7.1
Amortisation charge for the year	1.9	1.1	0.8	3.8
Exchange rate movements	–	0.1	0.2	0.3
At 31 December 2005	**2.6**	**1.5**	**7.1**	**11.2**
Net book value				
At 31 December 2005	**35.3**	**1.8**	**1.8**	**38.9**
At 31 December 2004	33.5	1.7	2.0	37.2
At 1 January 2004	–	–	0.2	0.2

NOTES TO THE ACCOUNTS

12 PROPERTY, PLANT AND EQUIPMENT

	Furniture, fittings and motor vehicles £m	Computers £m	Total £m
Cost			
At 1 January 2004	199.7	14.8	214.5
Additions	8.4	0.6	9.0
Acquisition of subsidiaries	38.0	0.9	38.9
Disposals	(3.3)	(0.6)	(3.9)
Exchange rate movements	(8.8)	(0.3)	(9.1)
At 31 December 2004	**234.0**	**15.4**	**249.4**
At 1 January 2005	234.0	15.4	249.4
Additions	17.7	1.7	19.4
Acquisition of subsidiaries	2.3	–	2.3
Disposals	(15.3)	(0.5)	(15.8)
Exchange rate movements	14.1	0.5	14.6
At 31 December 2005	**252.8**	**17.1**	**269.9**
Accumulated depreciation			
At 1 January 2004	134.7	12.9	147.6
Charge for the year	28.2	1.5	29.7
Impairment losses (see note 5)	3.2	–	3.2
Disposals	(2.7)	(0.5)	(3.2)
Exchange rate movements	(3.7)	(0.3)	(4.0)
At 31 December 2004	**159.7**	**13.6**	**173.3**
At 1 January 2005	159.7	13.6	173.3
Charge for the year	24.1	1.5	25.6
Disposals	(13.8)	(0.2)	(14.0)
Exchange rate movements	7.9	0.5	8.4
At 31 December 2005	**177.9**	**15.4**	**193.3**
Net book value			
At 31 December 2005	**74.9**	**1.7**	**76.6**
At 31 December 2004	74.3	1.8	76.1
At 1 January 2004	65.0	1.9	66.9

Additions include £1.9 million in respect of assets acquired under finance leases (2004: £3.7 million).

The net book value of furniture, fittings and motor vehicles include amounts held under finance leases as follows:

	2005 £m	2004 £m
Cost	**51.9**	47.4
Accumulated depreciation	**(45.6)**	(37.7)
Net book value	**6.3**	9.7

13 TRADE AND OTHER RECEIVABLES

	2005 £m	2004 £m
Trade receivables	**46.1**	34.8
Amounts owed by joint ventures and associate	**5.5**	5.1
Other receivables	**26.7**	22.0
Prepayments and accrued income	**18.1**	13.0
VAT recoverable	**3.2**	1.1
Total current	**99.6**	76.0

14 TRADE AND OTHER PAYABLES

	2005 £m	2004 £m
Trade payables	**20.0**	19.2
Other tax and social security	**7.1**	4.4
Deferred landlord contributions	**2.0**	1.0
Rent accruals	**6.4**	10.1
Other accruals	**27.5**	24.1
Other creditors	**10.8**	5.3
Total current	**73.8**	64.1

	2005 £m	2004 £m
Accruals and deferred income	**1.7**	1.0
Rent accruals	**25.6**	21.1
Unamortised financing fees	**–**	(4.1)
Other creditors	**0.6**	3.3
Total non-current	**27.9**	21.3

15 BORROWINGS

The Group's total loan and borrowing position at 31 December 2005, and at previous year-end had the following maturity profiles:

Bank loans and other loans

	2005 £m	2004 £m
Repayments fall due as follows		
Amounts falling due after more than one year:		
In more than one year but no more than two years	**0.1**	7.3
In more than two years but not more than five years	**0.3**	34.9
In more than five years [(a)]	**5.0**	13.6
Total non-current	**5.4**	55.8
Total current	**24.5**	8.3
Total bank loans and other loans	**29.9**	64.1

(a) Loans not wholly repayable within five years total £5.0 million and mature in 2012. The average year-end interest on these loans is 8.6% (2004: 8.4%).

Obligations under finance leases

The maturity of the Group's finance obligations is as follows:

	2005 £m	2004 £m
Amounts payable		
Within one year or on demand	**5.2**	7.5
In more than one year but not more than two years	**2.7**	4.8
In more than two years but not more than five years	**1.1**	2.2
In more than five years	**0.1**	0.1
	9.1	14.6
Less: finance charges allocated to future periods	**(0.9)**	(1.4)
Present value of future minimum lease payments	**8.2**	13.2
Total current	**4.8**	7.3
Total non-current	**3.4**	5.9

NOTES TO THE ACCOUNTS

16 PROVISIONS FOR LIABILITIES AND CHARGES

	2005 £m	2004 £m
At 1 January	**21.9**	52.6
Provided in the period	**2.3**	2.7
Utilised in the period	**(7.2)**	(32.1)
Provisions released	**(2.0)**	(0.6)
Exchange differences	**0.1**	(0.7)
At 31 December	**15.1**	21.9
Analysed between:		
Current	**7.2**	13.0
Non-current	**7.9**	8.9

The above provision is in respect of onerous leases and closure provisions.

17 PROVISION FOR DEFICIT ON JOINT VENTURES AND ASSOCIATE

	Investment in UK associate £m	Investments in joint ventures £m	Total £m
At 1 January 2005	**(4.0)**	**(1.8)**	**(5.8)**
Additions	–	0.1	0.1
Share of profit/(losses)	0.2	(0.2)	–
Exchange rate movements	–	(0.2)	(0.2)
At 31 December 2005	**(3.8)**	**(2.1)**	**(5.9)**

		Ownership	
Entity	Country	2005 %	2004 %
Associate			
Regus Holdings (UK) Limited	England	**42**	42
Joint ventures			
Regus Equity Business Centers L.L.C.	USA	**50**	50
Skyport International Ing Vastgoed Beleggingen WTC1	Netherlands	**50**	50
Skyport International Ing Vastgoed Beleggingen WTC2	Netherlands	**50**	–
Regus Istanbul Is Merkezi Isletmeciligi AS	Turkey	**30**	–

The following information is given in respect of Regus Holdings (UK) Limited, which became an associate on 31 December 2002. 2004 is restated under IFRS.

The Group's interest in the ordinary shares of the associate equates to 42%. The results stated below are the results of the UK associate and do not represent the effective share of 42%.

	2005 £m	2004 £m
UK associate		
Income statement		
Turnover	**161.4**	156.4
Profit/(loss) before tax	**0.5**	(7.9)
Tax	**–**	0.7
Profit/(loss) after tax	**0.5**	(7.2)
Net liabilities		
Fixed assets	**36.2**	41.9
Current assets	**72.6**	66.2
Current liabilities	**(116.0)**	(114.0)
Non-current liabilities	**(1.9)**	(3.8)
Net liabilities	**(9.1)**	(9.7)

18 SHARE CAPITAL

(a) Ordinary equity share capital

	2005 Number	2005 Nominal value £m	2004 Number	2004 Nominal value £m
Authorised				
Ordinary 5p shares	**1,600,000,000**	**80.0**	1,600,000,000	80.0
Issued and fully paid up:				
At 1 January	**984,792,040**	**49.2**	787,833,632	39.4
Issued during 2004				
Placing and Open Offer	**–**	**–**	196,958,408	9.8
At 31 December	**984,792,040**	**49.2**	984,792,040	49.2

(b) Non-equity £1 redeemable preference shares

	2005 Number	2005 Nominal value £m	2004 Number	2004 Nominal value £m
Allotted and called up				
5p shares	**–**	**–**	50,000	0.1

On 31 December 2005, the preference shares were redeemed in full at par out of the distributable profits of the Company.

19 ANALYSIS OF NET FINANCIAL ASSETS

	At 1 Jan 2005 £m	Cash flow £m	Non-cash changes £m	Exchange movements £m	**At 31 Dec 2005 £m**
Cash and cash equivalents	82.3	(10.4)	–	2.2	**74.1**
Debt due after one year	(55.8)	38.2	16.2	(4.0)	**(5.4)**
Debt due within one year	(8.3)	1.2	(16.5)	(0.9)	**(24.5)**
Unamortised portion of discount and financing fees	4.1	–	(4.3)	0.2	**–**
Finance leases due after one year	(5.9)	2.2	0.7	(0.4)	**(3.4)**
Finance leases due within one year	(7.3)	5.9	(2.9)	(0.5)	**(4.8)**
	(73.2)	47.5	(6.8)	(5.6)	**(38.1)**
Net financial assets	9.1	37.1	(6.8)	(3.4)	**36.0**

Cash and cash equivalents balances held by the Group that are not available for use amounted to £19.1 million in 2005 (2004: £18.1 million). This cash serves as collateral against certain obligations of the Group.

Cash not available for use at 31 December 2005 includes cash held on deposit of which £3.1 million (December 2004: £2.7 million) relates to collateral against bank loans; £14.1 million (December 2004: £13.5 million) relates to deposits which are held by banks and landlords as security against lease commitments by Regus operating companies and £1.9 million (December 2004: £1.9 million) held by the ESOP Trust. These amounts are blocked and not available for use by the business.

Non-cash changes comprise new finance leases, amortisation of deferred finance fees, acquired debt and movements between categories.

20 FINANCIAL INSTRUMENTS

The objectives, policies and strategies applied by the Group with respect to financial instruments are determined at Group level. Exposure to credit, interest rate and currency risks arise in the normal course of business. The principal financial instruments used by the Group to finance its operations are cash and loans.

Credit risk

A diversified customer base and requirement for customer deposits and payments in advance on workstation contracts minimizes the Group's exposure to customer credit risk.

Cash assets, borrowings and derivative financial instruments are only transacted with counterparties of sound credit ratings, and management does not expect any counterparty to fail to meet its obligations.

NOTES TO THE ACCOUNTS

20 FINANCIAL INSTRUMENTS CONTINUED

Interest rate risk

The Group's debt is held at variable interest rates because further early repayment of the debt is probable. Surplus cash balances are invested to achieve maximum interest returns on a day to day basis.

Foreign currency risk

The Group's exposure to currency risk at a transactional level is minimal as the majority of day to day transactions of overseas subsidiaries are carried out in local currency.

The majority of the Group's net assets are in US dollars and euros, and the Group limits the translation exposure and resulting impact on shareholders' funds by borrowing in US dollars. The Group does not hedge the translation effect of exchange rate movements on the income statement.

Derivative financial instruments

Historically the Group has occasionally used derivative financial instruments to hedge its exposure to foreign currency and interest rate fluctuations, although natural hedges limit the exposure to these risks. At 31 December 2005 there were no derivative financial instruments outstanding.

No transactions of a speculative nature are undertaken.

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

As at 31 December 2005

	Effective interest rate %	Total £m	Less than 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m
Cash and cash equivalents	3.0	74.1	74.1	–	–	–
Loan payable to UK associate	8.6	(5.0)	(5.0)	–	–	–
Finance lease liabilities	8.6	(8.2)	(4.8)	(2.4)	(0.9)	(0.1)
Secured bank loans	9.9	(22.5)	(22.5)	–	–	–
Other loans and overdrafts	9.3	(2.4)	(2.4)	–	–	–
Net financial assets		**36.0**	**39.4**	**(2.4)**	**(0.9)**	**(0.1)**

As at 31 December 2004

	Effective interest rate %	Total £m	Less than 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m
Cash and cash equivalents	1.7	82.3	82.3	–	–	–
Loan payable to UK associate	8.4	(5.0)	(5.0)	–	–	–
Finance lease liabilities	8.7	(13.2)	(7.3)	(3.7)	(2.1)	(0.1)
Secured bank loans	8.1	(55.8)	(55.8)	–	–	–
Other loans and overdrafts	9.0	(3.3)	(3.3)	–	–	–
Unauthorised portion of discount and financing fees	0.0	4.1	4.1	–	–	–
Net financial assets		9.1	15.0	(3.7)	(2.1)	(0.1)

Sensitivity analysis

At 31 December 2005 it is estimated that a general increase of one percentage point in interest rates would increase the Group's profit before tax by approximately £0.4 million (2004: £0.1 million).

It is estimated that a general increase of one percentage point in the value of the US dollar against other foreign currencies would have decreased the Group's profit before tax by approximately £0.3 million for the year ended 31 December 2005 (2004: £nil). It is estimated that a general increase of one percentage point in the value of the euro against other foreign currencies would have decreased the Group's profit before tax by approximately £0.2 million for the year ended 31 December 2005 (2004: £0.1 million).

Fair value disclosures

The fair values together with the carrying amounts shown in the balance sheet are as follows:

	Carrying amount £m	**2005 Fair value £m**	Carrying amount £m	2004 Fair value £m
Cash and cash equivalents	**74.1**	**74.1**	82.3	82.3
Trade and other receivables	**99.6**	**99.6**	76.0	76.0
Loan payable to UK associate	**(5.0)**	**(5.0)**	(5.0)	(5.0)
Finance lease liabilities	**(8.2)**	**(7.0)**	(13.2)	(10.6)
Secured bank loans	**(22.5)**	**(22.5)**	(55.8)	(55.8)
Other loans and overdrafts	**(2.4)**	**(2.4)**	(3.3)	(3.3)
Trade and other payables	**(73.8)**	**(73.8)**	(64.1)	(64.1)
	61.8	**63.0**	16.9	19.5
Unrecognised gain		**1.2**		2.6

20 FINANCIAL INSTRUMENTS CONTINUED

Summary of methods and assumptions

Trade and other receivables/payables

For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

Finance lease liabilities

The fair value of finance leases has been calculated by discounting future cash flows at the Group's weighted average cost of capital.

Loans and overdrafts

The fair value of bank loans, overdrafts and other loans approximates to the carrying value because interest rates are at floating rates where payments are reset to market rates at intervals of less than one year.

Gains and losses on hedges

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

Committed borrowing facilities

	Principle £m	Available £m
At 31 December 2005	**44**	**15**
At 31 December 2004	76	13

Principal committed facilities include US $64.0 million (2004: US $132.0 million) of senior credit facilities, which the Group entered into in 2004, of which US $25.0 million (2004: US $25.0 million) is available.

On 13 March 2006, the Group signed a new five year £100 million revolving credit facility agreement.

Foreign currency exposure as at 31 December 2005

To mitigate the effect of the currency exposures arising from its net investments overseas, the Group borrows, where appropriate, in the local currencies arising from its net investments. Gains and losses arising on net investments overseas are recognised in the consolidated statement of changes in equity.

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 income statement of the Group companies and the Group.

	Net foreign currency monetary assets/(liabilities)				
	Euro £m	Sterling £m	US dollar £m	Others £m	Total £m
31 December 2005					
Functional currency of Group operation					
Euro	**–**	**–**	**0.6**	**0.7**	**1.3**
Sterling	**(3.6)**	**–**	**3.6**	**(1.4)**	**(1.4)**
US dollar	**(0.3)**	**(0.2)**	**–**	**2.9**	**2.4**
Others	**(0.6)**	**–**	**(6.7)**	**3.6**	**(3.7)**
	(4.5)	**(0.2)**	**(2.5)**	**5.8**	**(1.4)**
31 December 2004					
Functional currency of Group operation					
Euro	–	1.9	0.6	0.5	3.0
Sterling	(4.2)	–	(1.8)	(3.7)	(9.7)
US dollar	–	–	–	0.7	0.7
Others	(0.1)	–	(4.0)	0.8	(3.3)
	(4.3)	1.9	(5.2)	(1.7)	(9.3)

NOTES TO THE ACCOUNTS

21 SHARE BASED PAYMENTS

Regus Group Share Option Plan

During 2004 the Group established the Regus Group Share Option Plan which entitles executive directors and key management to share options in Regus Group plc.

The table below presents the options outstanding and their exercise price together with an analysis of the movements in the number of options during the year.

	Date of grant	Numbers granted	Weighted average exercise price per share p	Lapsed	At 31 Dec 2005	Exercisable from	Expiry date
	23/07/2004	4,106,981	57.00	nil	4,106,981	23/07/2007	23/07/2014
	08/09/2004	3,884,170	64.75	(729,227)	3,154,943	08/09/2007	08/09/2014
Total		**7,991,151**	**60.37**	**(729,227)**	**7,261,924**		

Performance conditions for share options

The plan includes certain performance criteria that need to be met in order for share options to vest. A proportion of the share options vest as shown below should the basic earnings per share, adjusted for non-recurring items and goodwill and intangible amortisation exceed targets linked to the Retail Price Index. The basic earnings per share for perfomance purposes was 1p. No options are exercisable at the year-end.

Target over performance period	Portion of share options vested
RPI	20%
RPI + 3%	40%
RPI + 4%	60%
RPI + 5%	80%
RPI + 6%	100%

The share options are valued using the Black Scholes model. The inputs to the model are as follows:

	Grant date	
	July 2004	September 2004
Share price on grant date	57.00p	64.75p
Exercise price	57.00p	64.75p
Expected volatility	59.11%	59.06%
Option life	3 years	3 years
Expected dividend	nil	nil
Fair value of option at time of grant	25.0p	28.0p
Risk free interest rate	5.1%	5.1%

The expected volatility is based on the historic volatility adjusted for any abnormal movement in share prices.

Regus Group plc Co-Investment Plan (CIP) and Long Term Incentive Plan (LTIP)

Plan	Date of grant	Number of awards granted	Lapsed	At 31 Dec 2005	Release date
LTIP	03/11/2005	3,723,235	nil	3,723,235	03/11/2008

The fair value of services received in return for share based payments are measured by reference to the fair value of the equity instruments granted. No awards are exercisable at the year-end.

The LTIP/CIP awards are valued using the Monte Carlo method.

21 SHARE BASED PAYMENTS CONTINUED

The inputs to the model are as follows:

	CIP	LTIP (b)
Share price on grant date	(a)	92.25p
Exercise price	nil	nil
Number of simulations	60,000	60,000
Number of companies	29	29
Award life	3 years	3 years
Expected dividend	nil	nil
Fair value of award at time of grant	(a)	65.0p
Risk free interest rate	4.4670%	4.4670%

(a) The CIP awards will be granted on the 21 March 2006 and will have a release date of 21 March 2009. There is no expiry date and therefore remaining contractual life on the basis that the awards release immediately.
(b) The LTIP awards have a release date of 3 November 2008. There is no expiry date and therefore remaining contractual life on the basis that the awards release immediately.

The performance conditions for the grant of awards under the LTIP are set out in the following table:

	EPS (p) for the year ending 31 Dec 2008			
	11p	12p	13p	14p
Growth in FCF per share				
10%	6%	13%	19%	25%
15%	13%	25%	38%	50%
20%	19%	38%	56%	75%
25%	25%	50%	75%	100%

Note: % denotes the % of LTIP Award which will be released at the end of the performance period.

In addition, no awards will be released unless the Company's TSR is at least at the median when compared against that of the companies comprising the FTSE 350 Support Services Sector at the date of grant.

It is recognised by the Remuneration Committee that the additional EPS targets represent a highly challenging goal and consequently in determining whether they have been met the Committee will exercise its discretion. The overall aim is that the relevant EPS targets must have been met on a run rate or underlying basis. As such an adjusted measure of EPS will be calculated designed to assess the underlying performance of the business.

While the Remuneration Committee reserves the right to adjust EPS as it sees fit at the time, by way of example, the following adjustments are currently anticipated:

- *In a growth company such as Regus, costs are necessarily incurred in one year to drive profits in future years. As such it is important to ensure management is not incentivised to cut back on these investments to meet EPS targets in any one year. Accordingly those costs, incurred in the vesting year, which it considers necessary to drive future growth will be excluded from the EPS calculation. These would include, inter alia, the costs of the business development departments, excess marketing expenditures and current year losses from investing in new locations.*

- *Any one-off or non-recurring costs will be excluded.*

- *It is expected that in the period between 2006 and 2008 the cash tax rate will rise as cumulative tax losses are utilised thereby increasing progressively the challenge of achieving a 14p EPS target. This will then be further complicated by the need to recognise deferred tax assets as the business strengthens reducing the accounting rate of tax in one year and increasing it in the next. To provide greater clarity and incentive to management EPS will be calculated based upon the cash tax rate up to a maximum of 30%.*

- *The Remuneration Committee is of the opinion that the EPS and free cash flow performance targets are a transparent and accurate measure of the Company's performance at this time and are the key corporate metrics for driving long term shareholder value. In addition, the TSR condition will ensure that executives are encouraged to focus on ensuring that the Company's return to shareholders is competitive compared to comparable companies.*

As mentioned above, awards under the CIP in respect of the bonus paid for the year ended 31 December 2005 will be made subsequent to the publication of this report. However, the maximum number of awards granted will be based on the price of an ordinary share at the time of grant and the monetary value will not exceed 50% of basic salary. Full details of the levels of award and performance conditions will be disclosed in the Committee's Remuneration Report for the year ending 31 December 2006.

NOTES TO THE ACCOUNTS

22 ACQUISITIONS

Details of all acquisitions made during 2005 are set out in the following table:

Name	Purchase consideration including costs £m	Percentage of equity and voting rights aquired	Date of acquisition
Regus Shui On Center (Hong Kong)	0.2	100%	01/01/2005
Regus Jongro Ltd (South Korea)	–	100%	01/03/2005
Vantas Ciudad de Mexico, S de RL de CV	3.0	100%	06/05/2005
Buffalo Acquisition Sub, LLC	0.3	100%	01/09/2005
DelVal Acquisition Sub, LLC	6.2	100%	01/09/2005
EOS Holdings SAS (formerly HQ France)	0.7	100%	30/09/2005
Regus Strategic Consulting (Shanghai) Ltd	0.1	100%	30/09/2005
Florida Business Centers Acquisition Sub, LLC	1.8	100%	01/11/2005
HQ Global Workplaces, Inc (formerly Sienna)	0.2	100%	01/12/2005
Insignia Acquisition Sub, LLC and Insignia Office Centres (Vancouver), Inc	2.1	100%	01/12/2005
Regus Executive Serviced Office (Shanghai) Ltd	0.3	100%	06/12/2005

All of the acquisitions above are providers of fully serviced business centres.

On 28 February 2005 the Group acquired the 35% minority interest holding in Regus Business Centres Italia Spa (now Regus Business Centres Italia Srl) for £0.5 million. On 22 November 2005 the Group acquired the 40% minority interest holding of Regus International Holding BV for £1.3 million.

All acquisitions made in the year have been aggregated as no single acquisition is material. These transactions have been accounted for using the purchase method of accounting.

	Book value £m	Fair value adjustments £m	Fair value £m
Net assets acquired			
Property, plant and equipment	2.2	0.1	2.3
Fair value of lease adjustments	–	0.5	0.5
Customer list	–	1.1	1.1
Trade and other receivables	2.9	–	2.9
Trade and other payables	(5.6)	–	(5.6)
Bank loans	(0.4)	–	(0.4)
Deferred tax assets	0.2	–	0.2
Other	0.5	–	0.5
	(0.2)	1.7	1.5
Goodwill			15.3
Total consideration			
Satisfied by:			
Cash			16.7
Directly attributable costs			0.1
			16.8

The above fair values are provisional.

	Fair value £m
Net cash outflow arising on acquisition	
Cash consideration and directly attributable costs	16.8
Cash and cash equivalents acquired	(0.1)
	16.7

If the above acquisitions had occurred on 1 January 2005, the revenue and net retained loss arising from these acquisitions would have been £9.6 million and £0.6 million respectively. In the year these acquisitions contributed revenue of £5.7 million and net retained loss of £0.2 million.

The following cash generating unit (CGU) has significant amount of goodwill:

	2005 £m	2004 £m
USA	111.3	95.8

22 ACQUISITIONS CONTINUED

Acquisition of HQ Global Holdings Inc (HQ)

On 20 August 2004, the Group acquired HQ, a company incorporated in the USA. The total consideration for the acquisition was £173.5 million after accounting for expenses and professional fees.

The net assets of HQ on acquisition and the fair vales were as follows:

	Book values of acquired business £m	Adjustments To align accounting policies £m	Adjustments Revaluations £m	Fair value at date of acquisition £m
Intangible assets – brand (a)	–	–	36.8	36.8
Customer list and software	2.0	–	2.0	4.0
Property, plant and equipment (b)	42.4	–	(3.6)	38.8
Working capital (c and d)	(20.8)	(0.1)	(1.5)	(22.4)
Current and deferred tax	(2.0)	–	–	(2.0)
Cash and cash equivalents	15.9	–	–	15.9
Net assets acquired	**37.5**	**(0.1)**	**33.7**	**71.1**
Consideration				
Cash (including costs of £0.5m)				173.5
Goodwill				**102.4**

All consideration was paid in cash. There was no deferred consideration.

The accounting policy and fair value adjustments include:

(a) An independent valuation of the HQ brand name was conducted at the date of acquisition. "Relief from Royalty" approach was used as the valuation method. Under this method the fair value is equal to the amount saved through the avoidance of royalty payments in perpetuity. A 3% royalty rate and 15% weighted average cost of capital was used for the valuation.

(b) The valuation of property, plant and equipment was based on a cost and market valuation approach resulting in a fair value adjustment of £3.6 million.

(c) Incremental provision of £0.1 million was required to align HQ bad debt provision to Regus Group policy.

(d) Leasehold interest valuations were based on the difference between contract rent and market rent over the lease term discounted to net present value at a weighted average cost of 15%.

Summary of results of HQ prior to acquisition

Set out below are summary profit and loss accounts of HQ. The pre acquisition period has been prepared under UK GAAP using HQ accounting policies, translated into sterling using the average rates for the respective period.

	1 Jan 2004 to 19 Aug 2004 £m	20 Aug 2004 to 31 Dec 2004 £m	Total £m
Sales	97.8	55.7	153.5
Operating expenses	(96.8)	(52.3)	(149.1)
Operating profit	1.0	3.4	4.4
Interest	(0.8)	–	(0.8)
Profit before tax	0.2	3.4	3.6
Tax	–	–	–
Profit attributable to HQ ordinary shares	0.2	3.4	3.6

HQ contributed £3.4 million to the Group's net operating cash flows and paid £1.8 million for capital expenditure in the post acquisition period ending 31 December 2004.

There were no other recognised gains and losses other than those recognised in the profit and loss account.

Acquisition of Interlink Business Plaza – Korea

On 6 August 2004, the Group acquired Interlink Plaza in Korea for £0.2 million comprising £42,000 fixed assets and the balance being goodwill. There have been no material fair value adjustments.

23 CAPITAL COMMITMENTS

	2005 £m	2004 £m
Contracts placed for future capital expenditure not provided in the financial statements	**5.1**	0.7

These commitments are in respect of fit out obligations on new centres opening in 2006. In addition our 42% share of the UK associate capital commitments amounted to £0.3 million at 31 December 2005 (2004: £0.6 million).

NOTES TO THE ACCOUNTS

24 NON-CANCELLABLE OPERATING LEASE COMMITMENTS

At 31 December 2005 the Group was committed to make the following payments in respect of operating leases:

	2005			2004		
	Property £m	**Motor vehicles, plant and equipment £m**	**Total £m**	Property £m	Motor vehicles, plant and equipment £m	Total £m
Leases which expire:						
Within one year	**190.0**	**5.6**	**195.6**	173.5	6.5	180.0
Between two and five years	**514.2**	**4.6**	**518.8**	425.9	5.1	431.0
After five years	**151.9**	**–**	**151.9**	150.4	–	150.4
	856.1	**10.2**	**866.3**	749.8	11.6	761.4

25 CONTINGENT LIABILITIES

The Group has bank guarantees and letters of credit held with certain banks amounting to £24.8 million (December 2004: £22.9 million). The Group acts as a guarantor for certain lease obligations of its UK associate.

26 RELATED PARTIES

During the year ended 31 December 2005 the Group received management fees of £3.6 million (2004: £3.7 million) from its joint venture entities and UK associate. Regus rented office space from its associate incurring costs of £0.2 million (2004: £0.2 million). At 31 December 2005, £5.8 million (2004: £5.8 million) was due to the Group from the joint ventures and associate of which £0.3 million of this debt has been provided for at 31 December 2005. At 31 December 2005 Regus had outstanding a loan from its associate amounting to £5.0 million (2004: £5.0 million). It incurred interest of £0.4 million (2004: £0.4 million) on the loan during the year.

27 PRINCIPAL GROUP COMPANIES

The Group's principal subsidiary undertakings at 31 December 2005, their principal activities and countries of incorporation are set out below:

Name of undertaking	Country of incorporation	Principal activity	% of ordinary share and votes held
Regus Business Centre SA	Argentina	Trading	100
Regus Centres Pty Ltd	Australia	Trading	100
Regus Clarence Street Pty Ltd	Australia	Trading	100
Regus Business Centre Melbourne Pty Ltd (a)	Australia	Trading	100
Regus Business Centre GmbH	Austria	Trading	100
Regus Belgium NV	Belgium	Trading	100
Skyport Bruxelles NV	Belgium	Trading	100
Regus Business Centre NV	Belgium	Trading	100
Regus do Brasil Ltda (a)	Brazil	Trading	97
Regus H Holdings Inc	British Virgin Islands	Holding	100
Regus Canadian Holding Corporation	Canada	Trading	100
Regus Business Centre Ltd	Canada	Trading	100
Regus Business Centres Canada Limited Partnership	Canada	Trading	59
Insignia Partnership	Canada	Trading	100
Insignia Office Centres (Vancouver) Inc	Canada	Holding	100
Regus Columbia Ltda	Columbia	Trading	100
Regus Business Centre Chile Ltda	Chile	Trading	100
Regus Business Centre (Shanghai) Ltd (a)	China	Trading	100
Regus Business Service Co Ltd	China	Trading	100
Regus Business Services (Shanghai) Ltd (a)	China	Trading	100
Regus Business Centre (Beijing) Ltd	China	Trading	100
Regus Business Service (Dalian) Ltd	China	Trading	100
Regus Strategic Consulting (Shanghai) Ltd	China	Trading	100
Regus Business Service (Shenzhen) Ltd	China	Trading	100
Regus Executive Serviced Office (Shaghai) Ltd	China	Trading	100

27 PRINCIPAL GROUP COMPANIES CONTINUED

Name of undertaking	Country of incorporation	Principal activity	% of ordinary share and votes held
Regus Business Centre sro [a]	Czech Republic	Trading	100
Regus Empiria sro [a]	Czech Republic	Trading	100
Regus Sydhavn Aps	Denmark	Trading	100
Regus Holding Denmark A/S	Denmark	Holding	100
Regus Kobenhavn Aps	Denmark	Trading	100
Regus Tuborg A/S	Denmark	Trading	100
Regus Business Centre Trading FZCO	Dubai	Trading	100
Regus Business Centre LLC (Egypt)	Egypt	Trading	100
Regus Business Centres (Holdings)	England	Trading	100
Regus Management Ltd [a]	England	Management	100
Regus Investments Ltd	England	Holding	100
Regus Limited [a]	England	Holding	100
Regus H Holdings Ltd	England	Holding	100
Regus H	England	Holding	100
HQ Merc (UK) Management Limited	England	Trading	100
HQ Merc (UK) Partnership Limited	England	Trading	100
Regus Finland Oy	Finland	Trading	100
Regus Roissy SAS [a]	France	Trading	100
Regus Paris SAS [a]	France	Trading	100
Regus Centre D'Affaires SAS [a]	France	Trading	100
Regus Opera SAS [a]	France	Trading	100
HQ Holdings SAS [a]	France	Trading	100
Regus GmbH & Co KG [a]	Germany	Trading	100
RBC Deutschland GmbH [a]	Germany	Trading	100
Regus Verwaltungs GmbH [a]	Germany	Trading	100
Regus Hellas SA [a]	Greece	Trading	100
Regus Business Centre Ltd [a]	Hong Kong	Trading	100
Regus Business Services (Hong Kong) Ltd [a]	Hong Kong	Trading	100
Regus Kft	Hungary	Trading	100
Regus EMKE Kft [a]	Hungary	Trading	100
Regus Kalman Kft [a]	Hungary	Trading	100
Regus Business Centre Private Ltd [a]	India	Trading	100
Regus Office Centre Services Private Ltd [a]	India	Trading	100
Europa Business Centre Ltd	Ireland	Trading	100
Regus Ireland Ltd [a]	Ireland	Trading	100
Regus Franchise International Ltd	Ireland	Trading	100
Regus Business Centre Ltd	Israel	Trading	100
Regus Business Centre Srl	Italy	Trading	100
Regus Business Centres Italia Srl	Italy	Trading	100
Regus Japan KK	Japan	Trading	100
Regus Luxembourg SA	Luxembourg	Trading	100
Regus Centres Sdn Bhd	Malaysia	Trading	100
Regus Business Centre SA de CV	Mexico	Trading	100
Regus Services SA de CV	Mexico	Trading	100
Regus Mexico S de RL de CV [a]	Mexico	Trading	100
Centros Regus de Mexico SA de CV	Mexico	Trading	100
Centros de Negocious Regus SA de CV	Mexico	Trading	100
Centros Corporativos Regus SA de CV	Mexico	Trading	100
Regus Maroc SARL	Morocco	Trading	100
Regus Amsterdam BV	Netherlands	Trading	100
Regus Business Centre BV	Netherlands	Holding	100
Regus Netherlands BV [a]	Netherlands	Holding	100
Regus International Holding BV [b]	Netherlands	Trading	100
Satellite Business Centre Schiphol BV	Netherlands	Trading	100
Skyport International BV	Netherlands	Trading	100
Skyport Amsterdam BV	Netherlands	Trading	100
Regus H Holdings Inc BV	Netherlands	Holding	100

NOTES TO THE ACCOUNTS

27 PRINCIPAL GROUP COMPANIES CONTINUED

Name of undertaking	Country of incorporation	Principal activity	% of ordinary share and votes held
Regus Business Centre Ibsen AS	Norway	Trading	100
Regus Business Centre Skoyen AS	Norway	Trading	100
Regus Business Centre Nydalen AS	Norway	Trading	100
Regus Business Centre Norge AS (a)	Norway	Trading	100
Regus Business Centre (Panama) SA	Panama	Trading	100
Regus Business Centre (Peru) SA	Peru	Trading	100
Regus Business Centres Inc	Philippines	Trading	100
Regus Business Centre SP z.o.o. (a)	Poland	Trading	100
Regus Plaza SP z.o.o. (a)	Poland	Trading	100
Regus Wisniowy SP z.o.o. (a)	Poland	Trading	100
Regus Business Centre Lda (a)	Portugal	Trading	100
LLC Regus Business Centre	Russia	Trading	100
Regus Business Centre Avrora LLC (a)	Russia	Trading	100
Regus Business Centre Capital Plaza LLC (a)	Russia	Trading	100
Regus Centres Pte Ltd (a)	Singapore	Trading	100
Regus Business Services Marina Pte Ltd (a)	Singapore	Trading	100
Regus Business Centre Bratislava sro (a)	Slovakia	Trading	100
Regus Korea Ltd (a)	South Korea	Trading	100
Regus Jongro Ltd (a)	South Korea	Trading	100
Regus Business Centre SA (a)	Spain	Trading	100
Business Centre Gothenburg AB	Sweden	Trading	100
Business Centre Stockholm AB (a)	Sweden	Trading	100
Business Centre Sweden AB	Sweden	Trading	100
Regus Garda AB (a)	Sweden	Trading	100
Regus Solna Strand AB (a)	Sweden	Trading	100
Regus Lilla Bommen AB (a)	Sweden	Trading	100
Regus Uppsala AB (a)	Sweden	Trading	100
Regus Business Centre (S) SA	Switzerland	Trading	100
Regus Centres (Thailand) Ltd (a)	Thailand	Trading	100
Regus Tunisie SARL	Tunisia	Trading	100
Regus Is Merkezi Isletmeciligi Ltd Sirketi	Turkey	Trading	100
Regus Business Centres (a)	Ukraine	Trading	100
Regus International Services SA	Uruguay	Trading	100
Regus International Services LLC	USA	Trading	100
Regus Corporation (a)	USA	Holding	100
Regus Southeast Investments LLC	USA	Trading	100
Regus H Holdings LLC	USA	Holding	100
Regus Business Centre LLC	USA	Trading	100
Regus Business Centre Latin Corp	USA	Management	100
Stratis Business Centres, Inc	USA	Trading	100
HQ Global Holdings LLC	USA	Holding	100
HQ Global Workplaces LLC	USA	Holding	100
HQ Subsidiaries LLC	USA	Holding	100
HQ Network Systems Inc	USA	Trading	100
Regus Management Group LLC	USA	Management	100
Regus Business Centers LLC	USA	Trading	60
Regus Property Group, LLC	USA	Trading	100
Insignia Acquisition Sub LLC	USA	Trading	100
Delval Acquisition Sub LLC	USA	Trading	100
Buffalo Acquisition Sub, LLC	USA	Trading	100
Florida Business Centers Acquisition Sub LLC	USA	Trading	100
Regus Business Centre Venezuela CA	Venezuela	Trading	100
Regus Centre (Vietnam) Ltd	Vietnam	Trading	100

(a) Shares held directly by Regus Group plc.
(b) Our South African business operates as a branch of this company.

Investments in Group subsidiaries are held at cost all of which are included within the consolidated results. The principal activity of all trading companies is the provision of fully serviced business centres.

28 KEY JUDGMENTAL AREAS ADOPTED IN PREPARING THESE ACCOUNTS

The preparation of financial statements in accordance with IFRS requires management to make certain judgements and assumptions that effect reported amounts and related disclosures.

Valuation of intangibles and goodwill

We evaluate the fair value of goodwill and intangibles to assess potential impairments on an annual basis, or during the year if an event or other circumstance indicates that we may not be able to recover the carrying amount of the asset. We evaluate the fair value of goodwill at the reporting unit level and make that determination based upon future cash flow projections, which assume certain growth projections which may or may not occur. We record an impairment loss for goodwill when the carrying value of the intangible asset is less than its estimated fair value.

Deferred tax assets

We base our estimate of deferred tax assets and liabilities on current tax laws and rates and, in certain cases, business plans and other expectations about future outcomes. Changes in existing laws and rates, and their related interpretations, and future business results may affect the amount of deferred tax liabilities or the valuation of deferred tax assets over time. Our accounting for deferred tax consequences represents management's best estimate of future events that can be appropriately reflected in the accounting estimates. It is current Group policy to recognise a deferred tax asset if the entity has made a taxable profit in the previous year and is forecast to make a profit in the forthcoming year. Deferred tax assets are not recognised for the period in excess of 12 months from this year-end.

Onerous lease provisions

We have identified certain poor performing centres where the lease is considered onerous i.e. the Group does not expect to recover the unavoidable lease costs up to the first break point. The accounts include a provision for our estimate of the net amounts payable under the terms of the lease to the first break point, discounted at the Group weighted average cost of capital.

Dilapidations

Certain of our leases with landlords include a clause obliging the Group to hand the property back in the condition as at the date of signing the lease. The costs to bring the property back to that condition are not known until the Group exit the property so the Group estimates the costs at each balance sheet date. However, given that the nature of the changes made to properties are improvements, likely to be of value to the landlord and also taking into account the Group's experience to date, no provision has been made for these potential costs at 31 December 2005.

29 RESTATEMENT OF FINANCIAL INFORMATION FOR 2004 UNDER IFRS

As stated in note 1, these are the Group's first consolidated financial statements prepared in accordance with Adopted IFRSs.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2005, the comparative information presented in these financial statements for the year ended 31 December 2004 and in the preparation of an opening IFRS balance sheet at 1 January 2004 (the Group's date of transition).

1 Analysis of impact

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

(a) Income statement

	notes	Year ended 31 Dec 2004 £m
Group operating loss reported under UK GAAP		(3.2)
Lease accounting	**2.1**	2.8
Reclassify profit on sale of subsidiaries		0.1
Share based payments	**2.2**	(0.2)
Amortisation of goodwill	**2.3**(a)	2.0
Amortisation of intangible assets	**2.3**(b)	(0.3)
Profit from operations on an IFRS basis		1.2
Share result of joint ventures		(0.7)
Share of result of UK associate	**2.4**	(3.0)
Net finance costs		(2.4)
Tax	**2.5**	2.6
Loss for the period on an IFRS basis		(2.3)

(a) Group operating loss reported under UK GAAP includes profit from sale of subsidiaries.
(b) The share of result of joint ventures and UK associate includes associated finance costs and tax.

NOTES TO THE ACCOUNTS

29 RESTATEMENT OF FINANCIAL INFORMATION FOR 2004 UNDER IFRS CONTINUED

(b) Equity

	notes	31 Dec 2004 £m	1 Jan 2004 £m
Equity reported under UK GAAP		109.0	1.9
Lease accounting	**2.1**	(5.9)	(8.7)
Goodwill and intangible assets	**2.3**	1.7	–
Share of net liabilities of UK associate	**2.4**	(10.2)	(9.4)
Deferred revenue – franchise fees	**2.6**	(0.8)	(0.8)
Holiday pay	**2.7**	(0.1)	(0.1)
Net assets/(liabilities) on an IFRS basis		93.7	(17.1)

(c) Cash flow

	notes	Year ended 31 Dec 2004 IFRS £m	Year ended 1 Jan 2004 UK GAAP £m
Net cash outflows from operating activities	**2.8**	(11.7)	(6.8)
Tax and returns on investment and financing activity	**2.9**	–	(3.2)
Cash outflows from investing activities	**3.0**	(165.9)	(167.6)
Cash inflows from financing activities	**3.1**	171.4	165.0
Decrease in cash and cash equivalents	**3.2**	(6.2)	(12.6)

2 Notes on restatement

2.1 Lease accounting
The following differences were identified between UK GAAP and IFRS:

a During the Group's Chapter 11 process a number of lease contracts were renegotiated to a more favourable cost. Under UK GAAP, rent accruals were released to the profit and loss account when negotiations were completed. In contrast, IFRS requires rent accruals to be spread over the remaining lease term and consequently an adjustment has been made to reinstate these accruals in the transition balance sheet and recognise them over the lease term with a favourable impact to centre profitability.

b Under UK GAAP, minimum lease payments (net of lease incentives) are spread on a straight line basis over the shorter of the period to the first contractual break point or the first market rent review date. IFRS requires that, minimum lease payments be assessed over the period to the first contractual break point only. As a result of this change, certain operating lease incentives are spread over a longer period and additional rental periods are brought into the assessment of minimum lease payments. Consequently an adjustment has been made to increase the rent accrual in the transition balance sheet.

c Under UK GAAP the Group made an accrual for rental costs which are dependent on centre performance (e.g. turnover or profitability) based on the best estimate of the future liability by spreading the expected cost over the lease term. Under IFRS accruals are only made for contingent rents in the period in which they arise. Consequently, an adjustment has been made to release accruals in the transition balance sheet relating to rentals that were anticipated but were not contractually due at that date.

The total impact of the adjustments described above is to instate an accrual of £8.7 million in the transition balance sheet and to reduce the charge for rent costs in 2004 by £2.8 million.

2.2 Share options
In accordance with IFRS 2 and the transitional exemption permitted by IFRS 1, the Group has recognised a charge of £0.2 million reflecting the fair value of outstanding share options granted to employees since 7 November 2002. The fair value has been calculated using a Black Scholes valuation model and is charged to income statement over the vesting period of the options.

2.3 Goodwill and intangible assets
There are two adjustments arising in relation to the acquisition of HQ, which effect the carrying value and amortisation of goodwill and intangible assets.

a IFRS 3 prohibits the amortisation of goodwill but requires an impairment test to be carried out on an annual basis. Consequently the UK GAAP amortisation charge of £2.0 million has been reversed.

b IFRS requires certain intangible assets to be recognised separately when it is capable of being separated from the business or arises from contractual or other legal rights. Accordingly, an intangible asset of £2.0 million representing the value of the customer list acquired with HQ has been separately recognised. This is being amortised over a period of two years resulting in a 2004 charge of £0.3 million.

29 RESTATEMENT OF FINANCIAL INFORMATION FOR 2004 UNDER IFRS CONTINUED

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

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

2.5 Tax
Tax on an IFRS basis is restated to exclude tax attributable to the UK associate. The respective tax is now included within 'Share of result of associate'. On an IFRS basis the tax credit for the year ended 31 December 2004 was £2.6 million compared with £2.9 million on a UK GAAP basis.

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

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

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

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

2.8 Net cash outflows from operating activities
Under IFRS net cash flows from operating activities include interest paid on finance leases of £0.5 million, interest paid on credit facilities of £2.8 million and tax paid of £1.6 million.

2.9 Tax and returns on investment and financing activity
Under UK GAAP tax and returns on investments and financing activity are separately disclosed in the cash flow statement. Under IFRS tax paid, interest paid on finance leases and interest paid on credit facilities is included in net cash flows from operating activities. Interest received is included in cash outflows from investing activities.

3.0 Cash outflows from investing activities
Under UK GAAP interest received of £1.7 million is classified separately under financing activities. Under IFRS interest received is included in cash outflows from investing activities.

3.1 Cash inflows from financing activities
Under UK GAAP liquid resources of £6.4 million are included within cash inflows from financing activities. Under IFRS liquid resources are not included in this category.

3.2 Movement in cash and cash equivalents
Under UK GAAP liquid resources of £6.4 million were shown separately as a movement in the cash flow statement. Under IFRS this balance is included within the definition of cash and cash equivalents.

REGUS GROUP PLC
PARENT COMPANY ACCOUNTS

COMPANY BALANCE SHEET

	notes	As at 31 Dec 2005 (UK GAAP) £m	As at 31 Dec 2004 (UK GAAP) *Restated* £m
Investments			
Investment in subsidiaries	1	**307.7**	304.3
Current assets			
Debtors		**93.0**	77.9
Cash at bank and in hand		**9.6**	21.2
		102.6	99.1
Total assets		**410.3**	403.4
Creditors falling due within one year	2	**(1.2)**	(20.5)
Total assets less current liabilities		**409.1**	382.9
Amounts owed to Group undertakings		**(25.6)**	–
Total liabilities		**(26.8)**	(20.5)
Net assets		**383.5**	382.9
Capital and reserves	3		
Share capital		**49.2**	49.3
Share premium account		**153.5**	153.5
Other reserves		**0.1**	–
Profit and loss account		**180.7**	180.1
Shareholder funds		**383.5**	382.9

ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost accounting rules.

The Company is included in the consolidated accounts of Regus Group plc.

The Company has taken advantage of the exemption contained in FRS8 and has therefore not disclosed transactions or balances with entities which form part of the Group.

In accordance with FRS1 (revised), the Company is exempt from the requirement to prepare a cash flow statement within these financial statements.

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the Company has not been included as part of these accounts. The Company's profit for the financial year was £0.7 million (2004: £33.1 million)

Investments

Fixed asset investments are stated at cost less provision for impairment.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Foreign currencies

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

1 INVESTMENTS

	£m
At 1 January 2005	304.3
Additions	4.4
Provision for impairment	(1.0)
At 31 December 2005	307.7

The Company's principal subsidiary undertakings at 31 December 2005, their principal activities and countries of incorporation are set out below:

Name of undertaking	Country of incorporation	Principal activity	% of ordinary share and votes held
Regus Business Centre Melbourne Pty Ltd	Australia	Trading	100
Regus Clarence Street Pty Ltd	Australia	Trading	100
Regus do Brasil Ltda	Brazil	Trading	97
Regus Business Services (Shanghai) Ltd	China	Trading	100
Regus Business Centre (Shanghai) Ltd	China	Trading	100
Regus Business Centre sro	Czech Republic	Trading	100
Regus Empiria sro	Czech Republic	Trading	100
Regus Management Ltd	England	Management	100
Regus Limited	England	Holding	100
Regus Roissy SAS	France	Trading	100
Regus Paris SAS	France	Trading	100
Regus Centre D'Affaires SAS	France	Trading	100
Regus Opera SAS	France	Trading	100
HQ Holdings SAS	France	Trading	100
Regus GmbH & Co KG	Germany	Trading	100
RBC Deutschland GmbH	Germany	Trading	100
Regus Verwaltungs GmbH	Germany	Trading	100
Regus Hellas SA	Greece	Trading	100
Regus Business Centre Ltd	Hong Kong	Trading	100
Regus Business Services (Hong Kong) Ltd	Hong Kong	Trading	100
Regus EMKE Kft	Hungary	Trading	100
Regus Kalman Kft	Hungary	Trading	100
Regus Business Centre Private Ltd	India	Trading	100
Regus Office Centre Services Private Ltd	India	Trading	100
Regus Ireland Ltd	Ireland	Trading	100
Regus Mexico S de RL de CV	Mexico	Trading	100
Regus Netherlands BV	Netherlands	Holding	100
Regus International Holding BV	Netherlands	Trading	40
Regus Business Centre Norge AS	Norway	Trading	100
Regus Business Centre Sp z.o.o.	Poland	Trading	100
Regus Plaza SP z.o.o.	Poland	Trading	100
Regus Wisniowy SP z.o.o.	Poland	Trading	100
Regus Business Centre Lda	Portugal	Trading	100
Regus Business Centre Avrora LLC	Russia	Trading	100
Regus Business Centre Capital Plaza LLC	Russia	Trading	100
Regus Centres Pte Ltd	Singapore	Trading	100
Regus Business Services Marina Pte Ltd	Singapore	Trading	100
Regus Business Centre Bratislava sro	Slovakia	Trading	100
Regus Korea Ltd	South Korea	Trading	100
Regus Jongro Ltd	South Korea	Trading	100
Regus Business Centre SA	Spain	Trading	100
Business Centre Gothenburg AB	Sweden	Trading	100
Business Centre Stockholm AB	Sweden	Trading	100
Business Centre Sweden AB	Sweden	Trading	100
Regus Garda AB	Sweden	Trading	100
Regus Solna Strand AB	Sweden	Trading	100
Regus Lilla Bommen AB	Sweden	Trading	100
Regus Uppsala AB	Sweden	Trading	100
Regus Centres (Thailand) Ltd	Thailand	Trading	100
Regus Business Centres	Ukraine	Trading	100
Regus Corporation	USA	Holding	100

REGUS GROUP PLC PARENT COMPANY ACCOUNTS

2 CREDITORS FALLING DUE WITHIN ONE YEAR

	2005 £m	2004 £m
Amounts due to Group undertakings	**1.0**	20.5
Other creditors	**0.2**	–
	1.2	20.5

3 CAPITAL AND RESERVES

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Profit and loss reserve (distributable) £m	Profit and loss reserve (non-distributable) £m	Total £m
At 1 January 2005	49.3	153.5	–	1.0	31.9	235.7
Prior year dividend from a Group company	–	–	–	–	147.2	147.2
At 1 January 2005 (restated)	49.3	153.5	–	1.0	179.1	382.9
Preference share redemption	(0.1)	–	0.1	(0.1)	–	(0.1)
Retained profit for year	–	–	–	0.7	–	0.7
At 31 December 2005	49.2	153.5	0.1	1.6	179.1	383.5

The balance sheet as at 31 December 2004 has been restated to reflect the dividend received prior to 31 December 2004 for £147.2 million.

4 CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

At 31 December 2005 the Company had no annual commitments under operating leases (2004: £nil) or contingent liabilities (2004: £nil).

5 DIRECTORS AND EMPLOYEES

The remuneration of all the directors was borne by Regus Management Limited. Details are available in the Group Remuneration Report.

The Company had no employees during the period (2004: nil).

6 COMPANY AUDIT FEES

The Company incurred audit fees of £4,000 in 2004 and 2005.

FIVE YEAR SUMMARY

	Full year ended 31 Dec 2001 UK GAAP £m	Full year ended 31 Dec 2002 UK GAAP £m	Full year ended 31 Dec 2003 UK GAAP £m	Full year ended 31 Dec 2004 IFRS £m	**Full year ended 31 Dec 2005 IFRS £m**
Revenue	512.6	435.6	256.6	312.2	**463.3**
Cost of sales before non-recurring costs	(434.7)	(413.3)	(239.7)	(258.2)	**(346.2)**
Non-recurring cost of sales	(38.0)	(57.0)	–	(6.6)	**0.1**
Cost of sales	(472.7)	(470.3)	(239.7)	(264.8)	**(346.1)**
Gross profit/(loss) (centre gross profit)	39.9	(34.7)	16.9	47.4	**117.2**
Administration expenses before non-recurring expenses	(91.3)	(61.1)	(38.7)	(44.2)	**(64.9)**
Non-recurring administration expenses	(11.1)	(35.1)	(6.4)	(2.0)	**(5.0)**
Administration expenses	(102.4)	(96.2)	(45.1)	(46.2)	**(69.9)**
Profit/(loss) from operations	(62.5)	(130.9)	(28.2)	1.2	**47.3**
Share of loss of joint ventures	(5.6)	(5.5)	(0.2)	(0.7)	**(0.2)**
Share of (loss)/profit of associate	–	–	(3.7)	(3.0)	**0.2**
Profit/(loss) before financing costs	(68.1)	(136.4)	(32.1)	(2.5)	**47.3**
Profit on sale of subsidiaries	–	22.7	6.6	–	**–**
Financial income	–	–	–	1.3	**2.2**
Financial expense	(0.6)	(5.4)	(4.4)	(3.7)	**(10.8)**
Profit/(loss) before tax	(68.7)	(119.1)	(29.9)	(4.9)	**38.7**
Tax (charge)/credit	(10.1)	(5.5)	2.1	2.6	**6.1**
Profit/(loss) after tax	(78.8)	(124.6)	(27.8)	(2.3)	**44.8**
Attributable to:					
Equity shareholders	(80.7)	(125.8)	(28.7)	(2.4)	**44.5**
Minority interest	1.9	1.2	0.9	0.1	**0.3**
	(78.8)	(124.6)	(27.8)	(2.3)	**44.8**
Earnings/(loss) per ordinary share:					
Basic (p)	(13.6p)	(21.9p)	(4.7p)	(0.3p)	**4.5p**
Diluted (p)	–	–	–	–	**4.5p**
Weighted average number of shares outstanding (thousands)	563,528	564,052	574,805	859,702	**984,792**
Balance sheet data (as at 31 December)					
Intangible assets	–	–	–	133.2	**161.0**
Property, plant and equipment	247.7	106.3	75.5	76.1	**76.6**
Deferred tax assets	–	–	–	6.2	**21.9**
Trade and other receivables	117.7	59.3	62.3	76.0	**99.6**
Cash and cash equivalents	117.1	58.6	85.0	82.3	**74.1**
Total assets	482.5	224.2	222.8	373.8	**433.2**
Current liabilities	(344.4)	(149.3)	(134.2)	(182.4)	**(229.9)**
Non-current liabilities	(24.8)	(50.1)	(34.2)	(88.8)	**(42.6)**
Provisions for liabilities and charges	(28.3)	(57.2)	(52.6)	(8.9)	**(7.9)**
Equity minority interests	(0.4)	0.2	1.1	0.6	**–**
Equity shareholders funds'/(deficit)	84.6	(32.2)	2.9	94.3	**152.8**

Results are presented under IFRS for 2005 with comparatives restated under IFRS for 2004. If the prior years were to be restated then the main adjustments would be in respect of lease accounting.

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