

**THIS DOCUMENT AND ANY ENCLOSURES TO IT ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank manager, solicitor, accountant, fund manager or other appropriate financial adviser authorised pursuant to FSMA if you are in the United Kingdom or from another appropriately authorised independent financial adviser if you are in a territory outside the United Kingdom.**

If you sell or transfer or have sold or otherwise transferred all of your Ordinary Shares, please forward this document and the accompanying documents as soon as possible to the purchaser or transferee or the stockbroker, bank or other agent through whom the sale or transfer is/was effected for onward transmission to the purchaser or transferee. If you sell or have sold or otherwise transferred only part of your holding of Ordinary Shares, you should retain this document and the accompanying documents.

The distribution of this document and/or the accompanying documents into jurisdictions other than the United Kingdom may be restricted by law and therefore persons into whose possession this document and/or the accompanying documents come should inform themselves about and observe any such restrictions. Any failure to comply with any such restrictions may constitute a violation of the securities laws of such jurisdictions.

**Your attention is drawn to the letter from the Chairman of FirstGroup in Part I (Letter from the Chairman) of this document, recommending you to vote in favour of the Resolutions to be proposed at the Extraordinary General Meeting. You should read this document in its entirety and consider whether to vote in favour of the Resolutions in light of the information contained in, or incorporated by reference into, this document.**

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## **FirstGroup plc**

*(Incorporated in Scotland under the Companies Act with registered number SC157176 )*

### **Proposed Acquisition of Laidlaw International, Inc.**

### **Circular and Notice of Extraordinary General Meeting**

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**Notice of an Extraordinary General Meeting of FirstGroup, to be held at The Marcliffe Hotel, North Deeside Road, Pitfodells, Aberdeen AB15 9YA on 20 April 2007 at 10 a.m., is set out at the end of this document.**

**Shareholders will find enclosed a Form of Proxy for use at the Extraordinary General Meeting. Shareholders are requested to complete and return the Form of Proxy whether or not they intend to be present at the meeting. To be valid, Forms of Proxy should be completed and signed in accordance with the instructions printed thereon and returned by post or by hand so as to reach the Registrars as soon as possible and, in any event, by no later than 10 a.m. on 18 April 2007. Return of a Form of Proxy will not preclude a Shareholder from attending and voting at the Extraordinary General Meeting.**

Capitalised terms have the meanings ascribed to them in Part IX (Definitions) of this document.

All Shareholders on the register of members of the Company at the close of business on 21 March 2007 have been sent this document.

This document contains forward-looking statements, which are based on the Board's current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. These forward-looking statements are subject to the risk factors described in Part II (Risk Factors) of this document. It is believed that the expectations reflected in these statements are reasonable, but they may be affected by a number of variables which could cause actual results or trends to differ materially, including, but not limited to: the Group's or the Enlarged Group's ability to obtain capital/additional finance; a reduction in demand by customers; an increase in competition; an unexpected decline in revenue or profitability; legislative, fiscal and regulatory developments, including, but not limited to, changes in environmental and safety regulations; currency and interest rate fluctuations; retention of senior management; the maintenance of labour relations; fluctuations in the cost of fuel; treatment of defined benefit pension schemes; and operating and financial restrictions as a result of existing debt facilities. Each forward-looking statement speaks only as of the date of the particular statement. Except as required by the Listing Rules, the Disclosure and Transparency Rules, the Prospectus Rules, the London Stock Exchange or otherwise by law, the Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

**For a discussion of certain risk factors which should be taken into account when considering whether to vote in favour of the Resolutions, please refer to Part II (Risk Factors) of this document.**

JPMorgan Cazenove, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting for the Company and no one else in connection with the Acquisition and will not be responsible to anyone other than the Company for providing the protections afforded to its clients or for providing advice in relation to the Acquisition or for any other matters referred to in this document.

Tricorn Partners, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting for the Company and no one else in connection with the Acquisition and will not be responsible to anyone other than the Company for providing the protections afforded to its clients or for providing advice in relation to the Acquisition or for any other matters referred to in this document.

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## EXPECTED TIMETABLE OF PRINCIPAL EVENTS IN RESPECT OF THE ACQUISITION

	<u>2007</u>
Announcement .....	9 February
Circular published and despatched to Shareholders .....	26 March
Latest time and date for receipt of Forms of Proxy .....	10 a.m. on 18 April
<b>Extraordinary General Meeting</b> .....	<b>10 a.m. on 20 April</b>
Laidlaw Shareholder Meeting .....	11 a.m. (Central Time) on 20 April
Expected date for completion of the Acquisition .....	by the end of 2007

Notes:

- (i) Each of the times and dates set out in the above timetable and mentioned in this document is subject to change by the Company and/or Laidlaw, in which event details of the new times and dates will be notified to the Financial Services Authority and, where appropriate, to Shareholders.
- (ii) Other than as expressly stated, references to times in this document are to London time.
- (iii) Completion of the Acquisition is conditional on a number of factors (as more fully described in paragraph 6 of Part IV (Principal Terms of the Acquisition Agreement)). Amongst the conditions to completion is the expiration, termination or waiver of any waiting period under the HSR Act and receipt of the necessary approval under the Competition Act (Canada). Although the Board expects these conditions to be satisfied by the end of this year, there can be no assurance as to the timing or outcome of the clearance processes or that such clearances will not be subject to conditions, including the giving of certain undertakings by the Company. Please refer to Part IV below for further details.

## PART I

### LETTER FROM THE CHAIRMAN

*(Incorporated in Scotland with registered number SC157176)*

*Registered office*  
395 King Street  
Aberdeen  
AB24 5RP

26 March 2007

*To the holders of Ordinary Shares*

Dear Shareholder

#### **Proposed acquisition of Laidlaw International, Inc.**

##### **1. Introduction**

On 9 February 2007 the Company announced that it had signed a conditional agreement for the acquisition of Laidlaw International, Inc., the leading operator of school and inter-city bus transportation and a supplier of public transit services in North America. Under the terms of the Acquisition Agreement, FirstGroup will pay consideration of \$35.25 per ordinary share of Laidlaw in cash, equivalent to a total consideration of approximately \$3.6 billion (£1.9 billion) including the refinancing of Laidlaw's existing debt.

Completion of the Acquisition is subject to the satisfaction of a number of conditions, including your approval of the Acquisition due to the size of Laidlaw relative to that of FirstGroup. Your approval will be sought at an Extraordinary General Meeting to be held on 20 April 2007. The notice of the Extraordinary General Meeting is set out at the end of this document.

This document constitutes a "class 1" circular for the purposes of chapter 10 of the Listing Rules in connection with a proposed acquisition (as described below), for which the prior approval of Shareholders is required. Its purpose is to provide you with details of the Acquisition, to explain why the Board believes that the Acquisition is in the best interests of the Company and its Shareholders, and why the Board unanimously recommends that you vote in favour of the Resolutions at the Extraordinary General Meeting.

##### **2. Information on Laidlaw**

Laidlaw is the leading operator of school and inter-city bus transportation and a supplier of public transit services in North America. Laidlaw group businesses operate recognised brands, including Laidlaw Education Services, Greyhound and Laidlaw Transit. Laidlaw's shares trade on the New York Stock Exchange.

Laidlaw operates in three reportable business segments that provide transportation services in the United States (approximately 84% of revenue) and Canada (approximately 16% of revenue):

- (i) Education Services (approximately 50% of revenue);
- (ii) Greyhound (approximately 40% of revenue); and
- (iii) Public Transit (approximately 10% of revenue).

The Education Services segment ("Education Services") provides school bus transportation, including scheduled home-to-school, extra-curricular and charter and transit school bus services, throughout the United States and Canada.

Greyhound, a national provider of inter-city bus transportation in the United States and Canada, provides scheduled passenger services, package delivery services and charter bus services.

The Public Transit segment ("Public Transit") provides fixed-route municipal bus services and paratransit bus transportation for riders with restricted mobility.

For the year ended 31 August 2006, approximately 84% and 83% of Laidlaw's revenues and EBITDA, respectively, were generated in the United States, with the remaining 16% and 17% generated in Canada.

*(a) Education Services*

Laidlaw's Education Services segment is the leading independent school bus operator in North America. The segment operates in 37 states in the United States and 6 provinces in Canada. Headquartered in the Chicago suburb of Naperville, Education Services operates school buses and special education vehicles, primarily under the name Laidlaw Education Services in North America.

The Education Services business is composed of three core activities (home-to-school, extra-curricular and charter & transit) as well as the non-core activities of equipment leasing, logistical support, maintenance agreements and other support services.

Education Services has contracts with more than 1,000 school boards and districts in North America. Education Services has approximately 450 operating locations in Canada and the United States, providing transportation for approximately 2 million students each school day. The fleet consists of approximately 40,000 buses. For the twelve months ended 31 August 2006, Education Services generated \$1.58 billion in revenues and \$294.5 million in EBITDA.

*(b) Greyhound*

Greyhound is the only national provider of scheduled inter-city bus transportation services in the United States and Canada. Greyhound's operations are headquartered in Dallas, Texas. Greyhound serves the value-oriented customer by offering scheduled passenger services to approximately 2,400 destinations throughout the United States and Canada, carrying approximately 24 million passengers annually. Greyhound also provides package express services and charter bus services. For the twelve months ended 31 August 2006, Greyhound generated \$1.24 billion in revenue and \$152.1 million in EBITDA.

*(c) Public Transit*

Laidlaw's Public Transit business is a leading private provider of municipal public transportation services in North America, specialising in paratransit (transportation for mobility-challenged individuals) and fixed-route (municipal transit) contract services. Headquartered in Overland Park, Kansas, the segment operates under the name Laidlaw Transit Services. Laidlaw Transit Services also operates under the name SafeRide Services in Phoenix, Arizona. Revenue is mainly driven by contracts with regional and municipal transit authorities. As of 31 August 2006, Public Transit had nearly 130 municipal transit and paratransit contracts, involving 40 million passengers carried annually, and a fleet of approximately 3,400 vehicles, approximately 70% of which are client owned. For the twelve months ended 31 August 2006, Public Transit generated \$308.2 million in revenues and \$19.7 million in EBITDA.

Public Transit operates at approximately 88 locations in 23 states and transports more than 40 million passengers per year.

**Summary financial information on Laidlaw**

The revenue, EBITDA, operating income before tax and net income of Laidlaw for the two years ended 31 August 2006 (as presented under US GAAP) are summarised below.

Shareholders should read the whole of this document and not just rely on the summarised financial information set out below.

	Year ended 31 August	
	2005	2006
	US\$m	US\$m
Revenue .....	3,026.5	3,131.9
EBITDA* .....	414.0	466.3
Income/(loss) from continuing operations before income taxes and cumulative effect of a change in accounting principle .....	(7.6)	236.6
Net income .....	212.4	124.9

\* EBITDA is defined as operating income before depreciation and amortisation.

As at 31 August 2006, Laidlaw had gross assets of approximately US\$3.0 billion and net assets of approximately US\$1.2 billion.

These figures (save for EBITDA) have been extracted without material adjustment from the financial information contained in Part VI (Financial Information on Laidlaw) of this document, which information was prepared by Laidlaw in accordance with US GAAP. The figure for EBITDA has been extracted without material adjustment from such information.

### **3. Background to and reasons for the Acquisition**

FirstGroup's strategy is to maintain and develop its role as a leading global transport provider. It has pursued, for some years, a strategy of improving shareholder returns through organic growth and by selective acquisitions in the UK and North America. The Acquisition is consistent with this strategy and is expected to be earnings enhancing in the first full financial year following completion.

#### *(a) Background*

In 1999, as part of its strategy to develop profitably its business outside the UK, FirstGroup acquired the US based Ryder Public Transportation Services, Inc. ("Ryder"), a business primarily involved in student transportation but also involved in transit contracting and management and fleet maintenance and ancillary services. This represented FirstGroup's first large US investment.

FirstGroup has successfully integrated Ryder, and grown its business in North America (both organically and by acquisition) from a turnover of \$683 million in its first full financial year of operations, to a business which reported turnover of \$1,476 million in the year ended 31 March 2006, and which has continued to grow since then. Over the period since 1999 FirstGroup has built a very experienced US management team.

The US school bus market is highly fragmented, with bus services predominantly run by school boards. The Board estimates that of the 500,000 school buses in North America, approximately 350,000 are in the public sector and are still the direct responsibility of, and are operated by, the school district authorities.

FirstGroup's involvement in the US transit market consists largely of "Fixed Route" contracts to operate and manage urban bus services on behalf of state transit authorities and "Paratransit" services contracts to provide transport for passengers with restricted mobility and manage call centre operations for these services. The combined Fixed Route and Paratransit markets are estimated to be worth approximately \$15 billion, of which some \$13 billion is in the public sector and some \$2 billion in the outsourced private sector.

#### *(b) Strategic rationale*

The Board believes that, in bringing together FirstGroup and Laidlaw, it will create a stronger, more robust business, in what is still a fragmented market, that is capable of growing its earnings through improved operating efficiencies and the extraction of substantial synergies. The Enlarged Group will be able to improve its margin whilst being significantly cash generative.

More specifically, FirstGroup is familiar with the school bus and transit markets in which Laidlaw operates and has followed Laidlaw in an acquisition context for over two years. The Board views the business as extremely attractive and will bring to FirstGroup:

- (i) Proven operations with respected management;
- (ii) Diversified contract-backed revenues with over 1,000 contracts;
- (iii) Established and tightly controlled cost base;
- (iv) Healthy, organic growth opportunities; and
- (v) Strong cash generation, enabling the Enlarged Group to reduce leverage quickly.

The Acquisition will be transformational in terms of developing FirstGroup's position in the North American transportation market. The combined business will employ over 98,000 staff in North America.

In the North American school bus market, the lower cost base will enable the Enlarged Group to bid for contracts more effectively and the Board believes that its enhanced service offering will benefit both the customers and the Company. It will also give FirstGroup the opportunity to work more effectively with those school districts which continue to run their own buses, by offering them a greater range of services bringing more operational and cost efficiencies. The combined business will operate approximately 62,000 school buses in the US and Canada. It will employ over 71,000 staff in its North American school bus business.

Since the acquisition of Ryder, FirstGroup has grown strongly in the transit contracting and management markets. FirstGroup's transit business has successfully expanded in the higher margin, faster growing call centre, paratransit, logistics consultancy and public/private shuttle bus markets. The Acquisition will provide a strong platform for FirstGroup to offer further economies of scale and importantly consistent standards of quality and service to its customers in both the public and private sector. The combined transit business will employ over 12,000 staff in the US and Canada.

Whilst Greyhound is a less obvious strategic fit with the rest of FirstGroup's current business and the Board will therefore be carrying out a strategic review of Greyhound, FirstGroup considers it to be an attractive business with exciting growth prospects and a strong brand. Greyhound has a well-respected management team, who have re-shaped the business in the last two years through network rationalisation and it is not anticipated that any significant changes will be made to the operations or management of the Greyhound business as a result of the Acquisition. Greyhound is the only national provider of scheduled intercity bus services in the US and Canada, employing over 11,000 staff, and is a credible competitor to many other forms of mid to long distance transport. FirstGroup's management believes that its experience in long distance rail and coach travel in the United Kingdom could further benefit Greyhound as there is further scope to enhance revenues through yield management systems, improved revenue collection and optimisation. In addition, FirstGroup believes that Greyhound's marketing offering is relatively under-developed and as a consequence, there is significant scope to drive revenue growth and improve the offering to customers, for example from longer-term bookings.

*(c) Financial effects of the acquisition*

The Acquisition will bring significant savings in both operating costs and capital expenditure. FirstGroup estimates annual cost synergies to be approximately \$70 million in the first full financial year of ownership. The savings will be achieved through:

- (i) rationalisation of the network and removal of overlapping operations;
- (ii) removal of excess spare fleet;
- (iii) reduction in equipment stock, such as spares;
- (iv) sale of excess owned properties;
- (v) purchasing improvements;
- (vi) reduced insurance costs; and
- (vii) removal of North American board costs and central and regional overheads.

These savings will enable FirstGroup to drive margin improvements in both Laidlaw and FirstGroup's existing US businesses. FirstGroup should also be able to benefit from significant tax losses and other tax attributes within Laidlaw to reduce the amount of cash tax payable by the combined business.

The potential savings described above are expected to make the Acquisition earnings enhancing in the first full financial year of ownership.

The cash consideration for the Acquisition, including the refinancing of Laidlaw's existing debt, is approximately \$3.6 billion (£1.9 billion). This will be financed through new committed bank debt facilities of \$3.75 billion (£2.0 billion) and equity issues of approximately £375 million, including the Placing. More details of the financing structure are given in paragraph 7 below.

The combined FirstGroup and Laidlaw will have strong cashflows and FirstGroup has designed the financing structure to enhance shareholder value through an efficient use of its balance sheet to minimise the amount of equity to be issued to finance the Acquisition, whilst maintaining a prudent overall capital structure consistent with investment grade status. The strong cashflows from the combined business should enable FirstGroup to rapidly reduce debt levels over the next few years.

#### **4. Management and organisation of the Enlarged Group**

Immediately following the Acquisition the Enlarged Group will continue to be managed by the current executive Directors.

The integration of Laidlaw into FirstGroup's existing business will be overseen by Dean Finch, Group Finance Director. David Leeder, Director of International Development and Marketing, will assume responsibility for Greyhound.

No changes to the Board of FirstGroup are currently anticipated.

## **5. Current trading and prospects of the Group and the Enlarged Group**

### *(a) The Group*

Commenting on the interim results announced on the 8 November 2006, FirstGroup's Chief Executive, Moir Lockhead said:

"I believe the Group is well placed for continued growth during the second half of the year. The Group's clear strategy is to increase shareholder value by profitably growing our core businesses and developing opportunities in new markets. The Board remains confident of the Group's future prospects and ability to generate strong cash flows and is committed to dividend growth of 10% per annum, for the foreseeable future at least until 2008, and where appropriate share repurchase while maintaining a strong balance sheet. Trading in the second half of the year has started well and is in line with our expectations."

### *(b) The Enlarged Group*

The Board believes that, following completion of the Acquisition, the Enlarged Group will be well placed to establish a leading position in the large, fragmented North American transport market. The Board has confidence in the financial and trading prospects of the Enlarged Group for the current financial year, much of which will be spent in integrating and assimilating Laidlaw and FirstGroup's North American operations and on the delivery of synergies, from the cost savings and operational efficiencies outlined above.

## **6. Principal terms of the Acquisition**

Under the terms of the Acquisition Agreement, FirstGroup has agreed to acquire Laidlaw by way of a merger of FirstGroup Acquisition Corporation with and into Laidlaw (as a result of which each issued and outstanding share of common stock of Laidlaw will be converted into a right to receive \$35.25 in cash). On completion of the Acquisition, Laidlaw will become one of the Company's wholly-owned subsidiaries.

Based on the total issued and outstanding share capital of Laidlaw as at 8 February 2007 (79.4 million shares), and including the cash-out of Laidlaw option holders, the total consideration payable by FirstGroup to Laidlaw shareholders will be approximately \$2.9 billion. In connection with the Acquisition FirstGroup will also repay approximately \$0.7 billion of Laidlaw's existing debt.

The Acquisition Agreement contains various representations and warranties customary for a US acquisition of the size and nature of the Acquisition. The representations and warranties from Laidlaw to FirstGroup cover, amongst other things, the organisation and capital of Laidlaw and its subsidiaries, the due and valid execution of the Acquisition Agreement and the absence of certain events and liabilities which could be expected to have a material adverse effect on Laidlaw's financial condition or business or on Laidlaw's ability to consummate the transaction. The representations and warranties from FirstGroup to Laidlaw cover, amongst other things, the due and valid execution of the Acquisition Agreement.

The Acquisition Agreement is conditional upon, amongst other things: (i) the waiting period applicable to the consummation of the Acquisition under the HSR Act having expired, been terminated or been waived and approval having been obtained under the Competition Act (Canada), (ii) the approval of the Acquisition Agreement and the transactions contemplated thereby by Laidlaw's shareholders at a special shareholder meeting of Laidlaw; and (iii) the approval of the Acquisition Agreement and the transactions contemplated thereby by Shareholders at the Extraordinary General Meeting. Although the Board is confident that the regulatory conditions referred to above will be satisfied, there can be no assurance as to the timing or outcome of the HSR Act or other necessary clearance processes or that such clearances will not be subject to conditions, including the giving of certain undertakings (for example, as to divestments) by FirstGroup.

The Acquisition Agreement does not include a financing condition. As described below, FirstGroup has arranged committed bank debt facilities in order to ensure that it has sufficient funding to consummate the Acquisition. These facilities are available on a "certain funds" basis until 8 August 2007 although this availability will automatically extend for up to three months in the event that the termination date set out in the Acquisition Agreement is extended.

Either FirstGroup or Laidlaw may terminate the Acquisition Agreement if, amongst other things, the Acquisition has not been consummated on or before 8 August 2007; provided that either FirstGroup or Laidlaw may unilaterally extend such date for up to three months if completion of the Acquisition is prevented only by the requirement to obtain the necessary competition clearances.

The Acquisition Agreement further provides for the payment of certain fees and expenses by FirstGroup and Laidlaw to each other in certain circumstances in the event that the Acquisition should not be completed.

Laidlaw has agreed to pay FirstGroup a break fee of up to \$78 million in certain circumstances, and FirstGroup has agreed to pay Laidlaw a break fee of up to £22 million in certain circumstances (including if the Acquisition is terminated as a result of the failure to obtain the approval of Shareholders to the Acquisition).

The Board currently expects that completion of the Acquisition will take place by the end of this year.

Further details on the principal terms and material conditions of the Acquisition Agreement are set out in Part IV (Principal Terms of the Acquisition Agreement) of this document.

## **7. Summary of the principal terms of the proposed financing**

The cash consideration for the Acquisition, including the refinancing of Laidlaw's existing debt, is expected to be approximately \$3.6 billion (£1.9 billion). This will be financed through new committed bank facilities of \$3.75 billion (£2.0 billion) and equity issues of approximately £375 million, including the Placing. In addition FirstGroup expects to replace certain letters of credit and other facilities of Laidlaw.

The equity financing of approximately £375 million is expected to comprise the Placing and a further equity issue of approximately £160 million shortly after completion of the Acquisition. The full amount of the equity required has been underwritten pursuant to the Standby Equity Underwriting Letter and to the extent that any such equity has not been issued prior to completion of the Acquisition, the funds to complete the Acquisition will be available through the Equity Bridge Facility.

### *(a) Committed Debt Facilities and Standby Underwriting*

The committed bank debt facilities comprise the following facilities entered into on 9 February 2007 by FirstGroup:

- (i) a senior loan facility (the "Senior Facility") comprising two tranches (a term facility and a revolving credit facility) in an aggregate amount of \$3.75 billion entered into with HSBC Bank plc, J.P. Morgan Chase Bank, N.A. and The Royal Bank of Scotland plc; and
- (ii) a subordinated equity bridge facility (the "Equity Bridge Facility") in an amount of \$750 million entered into with J.P. Morgan Chase Bank, N.A..

The commitment available under the Equity Bridge Facility was reduced by the net proceeds of the Placing and is now an amount of approximately \$328 million. To the extent that any part of the Equity Bridge Facility is drawn down at completion of the Acquisition, FirstGroup intends to refinance it through an underwritten equity issue shortly after completion.

FirstGroup has also entered into the Standby Equity Underwriting Letter with JPMorgan Cazenove and the Underwriter. The Standby Equity Underwriting Letter includes an undertaking from FirstGroup to refinance the Equity Bridge Facility by means of one or more equity offerings to be launched as soon as reasonably practicable following the consummation of the Acquisition. Although the price at which any new ordinary shares of FirstGroup are to be issued will be determined by FirstGroup, JPMorgan Cazenove and the Underwriter at the time of issue, the Standby Equity Underwriting Letter nevertheless includes a commitment from the Underwriter to underwrite any such issue at a price equal to the nominal value of each new Ordinary Share. The parties further undertake to cooperate in the negotiation of the underwriting arrangements relating to any specific offering.

Further details of the Senior Facility, the Equity Bridge Facility and the Standby Equity Underwriting Letter are set out in section 8 (material contracts) of Part VIII (Additional Information).

### *(b) Placing of new Ordinary Shares*

On 9 February 2007, FirstGroup launched the Placing, a bookbuilt, non pre-emptive placing of 39,527,477 new Ordinary Shares (the "Placing Shares"). The Placing raised net proceeds of approximately £217 million.

The Placing Shares were placed, subject to the terms and conditions of a placing agreement entered into between FirstGroup, JPMorgan Cazenove, the Underwriter and UBS, at a price of 560 pence per Placing Share (the “Placing Price”). The Placing Shares represented approximately 9.99 per cent. of FirstGroup’s issued ordinary share capital prior to the Placing.

Further details of the Placing are set out in section 8 (material contracts) of Part VIII (Additional Information).

If the Acquisition does not complete, FirstGroup will use the monies raised in the Placing for potential investment opportunities in Continental Europe, or general corporate purposes in the UK and US.

## **8. Extraordinary General Meeting**

A notice convening the Extraordinary General Meeting of the Company to be held at The Marcliffe Hotel, North Deeside Road, Pitfodells, Aberdeen AB15 9YA on 20 April 2007 at 10 a.m. is set out at the end of this document. The purpose of the EGM is to seek Shareholders’ approval of the Resolutions set out in the notice of the Extraordinary General Meeting. If passed, the Resolutions (which, save for (v) below, are interconditional) will:

- (i) subject to the Resolutions referred to in paragraphs (ii), (iii) and (iv) below being passed, approve the Acquisition;
- (ii) increase the authorised share capital of the Company;
- (iii) subject to the Resolution referred to in paragraph (ii) above being passed, authorise the Directors of the Company to allot shares to refinance the Equity Bridge Facility;
- (iv) subject to the completion of the Acquisition, authorise the Directors to incur, and permit subsidiaries of the Company to incur, borrowings of up to \$4.0 billion to finance the Acquisition; and
- (v) subject to the Resolution referred to in paragraph (iii) above being passed, disapply section 89 of the Act in respect of the allotment for cash of equity securities to which that Resolution applies.

The Acquisition is conditional, amongst other things, upon the passing of each of the Resolutions set out in paragraphs (i), (ii), (iii) and (iv) above.

Each of the Resolutions will be decided on a show of hands unless a poll is demanded in a manner permitted by the Articles. Only members who are present at the meeting in person can vote on a show of hands. On a poll, each member present in person or by proxy has one vote.

Resolutions (i), (ii), (iii) and (iv) will be proposed as ordinary resolutions. Accordingly, the passing of each of these Resolutions requires a majority of votes cast in respect of that Resolution.

Resolution (v) will be proposed as a special resolution. The passing of a special resolution requires a majority of not less than three-fourths of votes cast in respect of that Resolution.

The passing of the Resolutions at the EGM will enable the Company to complete the Acquisition and will give the Company the maximum flexibility in relation to the proposed refinancing, through one or more equity offerings, of the Equity Bridge Facility. Whilst the authorities to be sought at the Extraordinary General Meeting will allow the Directors to allot new Ordinary Shares at their nominal value of 5 pence (being the lowest price at which such securities are legally allowed to be issued) the Directors will take into account the interests of the Company and its Shareholders in respect of any such equity offerings and expect that any such offering would be at a significant premium to the nominal value of the Ordinary Shares.

The above is only a short summary of the Resolutions and their effect. You should read the fuller description of the Resolutions and their effect which is set out in Part V (Purpose of the EGM) of this document. The full wording of the Resolutions is set out in the notice of the EGM which is set out on pages 89 to 91 of this document.

## **9. Action to be taken**

You will find enclosed with this document the Form of Proxy for use at the Extraordinary General Meeting or at any adjournment thereof. You are requested to complete and sign the Form of Proxy in accordance with the instructions printed on it and return it as soon as possible, but in any event so as to be received no later than 10 a.m. on 18 April 2007, to Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DW. CREST members may also choose to use the CREST electronic proxy appointment service in accordance

with the procedures set out in the notice convening the Extraordinary General Meeting at the end of this document. The lodging of the Form of Proxy (or the electronic appointment of a proxy) will not preclude you from attending and voting at the meeting in person if you so wish.

#### **10. Further information**

Your attention is drawn to the further information set out in Parts II (Risk Factors) to VIII (Additional Information) of this document.

#### **11. Recommendation**

**The Board considers that the Acquisition is in the best interests of the Company and its Shareholders taken as a whole and, accordingly, the Board unanimously recommends Shareholders to vote in favour of the Resolutions at the Extraordinary General Meeting, as the members of the Board intend to do in respect of their own holdings of Ordinary Shares, being in aggregate 1,398,647 Ordinary Shares (representing approximately 0.32 per cent. of the Company's current issued share capital).**

Yours faithfully

Martin Gilbert  
Chairman  
26 March 2007

## PART II

### RISK FACTORS

*You should carefully consider the risks and uncertainties described below, in addition to the other information in this document. The risks and uncertainties described below represent all of those known to the Directors as at the date of this document which the Directors consider to be material. However, these risks and uncertainties are not the only ones facing the Group and/or the Enlarged Group; additional risks and uncertainties not presently known to the Directors, or that the Directors currently consider to be immaterial, could also impair the business of the Group and/or the Enlarged Group. If any or a combination of these risks actually occurs, the business, financial condition and operating results of the Group and/or the Enlarged Group could be adversely affected. In such case, the market price of the Ordinary Shares could decline and you may lose all or part of your investment.*

#### **1. Risks relating to the Enlarged Group's business**

##### *(a) Accidents or other incidents/safety*

Both FirstGroup and Laidlaw are committed to ensuring the highest standards of safety in their operations. However, there are material risks relating to accidents or other incidents, and the cost of repair, litigation, compensation and reputational damage caused by such accidents or incidents could adversely affect the business of the Enlarged Group.

##### *(b) Operating and infrastructure risks*

Disruption in the industry could have a resultant effect upon the businesses and results of both FirstGroup and Laidlaw. If, for example, a certain type of vehicle or rolling stock or a certain section of track was found to have a fault or otherwise be unusable for a period of time, this could have a disproportionate impact upon the business or results of the Enlarged Group.

##### *(c) Fuel*

Fuel costs will constitute a material and essential proportion of the Enlarged Group's cost base. Fuel prices and supplies are influenced significantly by international, political and economic circumstances as well as natural disasters. If a fuel supply shortage were to arise from a national strike or world supply difficulties, a disruption to oil imports or refining capacity due to a natural disaster or otherwise, higher fuel prices could impact on the Enlarged Group's operating results.

##### *(d) Industry regulation*

The businesses of both the Company and Laidlaw are subject to numerous laws regulating safety procedures, equipment specifications, employment requirements, environmental requirements, insurance coverage and other operating issues and considerations. These laws and regulations are constantly subject to change. It may not be feasible to pass regulatory and compliance costs on to customers and charges associated with the adoption of new or more stringent legislation, regulations or other laws could therefore adversely impact the results of the Enlarged Group's operations.

##### *(e) Insurance*

Insurance reserves are made for estimates of losses that the Enlarged Group will ultimately incur on accidents or incidents that have been reported but not paid and accidents or incidents that have been incurred but not reported. These reserves are based on actuarial valuations which consider a number of factors, including historical claim payment patterns and changes in case reserves, the assumed rate of increase in medical treatment costs and property damage repairs and ultimate compensation. Historical experience and recent trends are the most significant factors in the determination of these reserves. Given the magnitude of the claims involved and the length of time until the ultimate cost is known, the use of any estimation technique is inherently uncertain and any error in such techniques and/or adversity in claims experience could lead to significant increases in the Enlarged Group's financial exposure.

FirstGroup currently self insures up to various levels, to a maximum of \$5 million per occurrence.

*(f) Terrorism*

Terrorist acts and public concerns about potential attacks could adversely affect the demand for the services of the Enlarged Group.

*(g) Labour disputes*

FirstGroup and Laidlaw seek to maintain good relations with their employees and the trade unions that represent them. However, such good relations cannot be guaranteed and any disruption may have a material and adverse effect on the business of the Enlarged Group.

Approximately 41% of Laidlaw's employees are represented by a trade union. The existence of local union contracts will limit the impact of any individual labour disruption on the Enlarged Group's education services operations. However, a coalition of labour unions has been formed in the US that is focusing on organising service workers in a number of industries, including student transportation. If this coalition were to successfully organise a large portion of the Enlarged Group's education services work force, this could result in increased operating costs or possibly significant disruption of operations, either of which could have a material adverse effect on the business, financial condition and results of operations of the Enlarged Group. While industrial relations issues in FirstGroup have previously been resolved through negotiation or through tribunal action, there can be no assurance that in the future this will always be the case and that FirstGroup's employees might not resort to industrial action or that FirstGroup will be able to continue to negotiate wages and salaries and terms and conditions of employment on terms that support its ability to offer its services at competitive prices.

The Enlarged Group's Greyhound operations have agreements with a number of unions. The largest agreement, with the ATU 1700, which expired on 31 January 2007, covers 84% of Greyhound's U.S. drivers and 45% of Greyhound's maintenance employees. Re-negotiations are ongoing and there is no assurance as to their success. The agreement with ATU 1700 was extended through 15 April 2007 and on 16 February 2007, the union agreed to submit a company labour contract proposal to its members for a vote. However, if the members do not vote in favour of the proposal and consequently the Enlarged Group is unable to extend the ATU contract, this could result in a significant disruption of operations and increased operating costs in the future, which could have a material adverse effect on the business, financial condition and results of operations of the Enlarged Group.

Furthermore, the Acquisition Agreement does not limit Laidlaw's ability to enter into, modify or amend its collective bargaining agreements prior to completion of the Acquisition. If the terms of new collective bargaining agreements entered into, or existing agreements modified or amended, by Laidlaw were less favourable than the terms of the existing agreements, this could result in increased operating costs in the future, which could have a material adverse effect on the business, financial condition and results of operations of the Enlarged Group.

*(h) Labour costs*

Labour costs represent the largest component of both FirstGroup and Laidlaw's operating costs. Labour shortages, or low unemployment rates, could hinder the Enlarged Group's ability to recruit and retain qualified employees leading to a higher than expected increase in the cost of recruitment, training and other staff costs. It is difficult to pass any such costs through to the customer and any such developments in the labour market would likely have a significant adverse effect on the financial results of the Enlarged Group.

*(i) Changes in the UK and global economies*

With the exception of contracted revenues, the level of economic activity affects the number of bus and train journeys taken by passengers. Any changes in economic activity may impact on passenger numbers and hence the Enlarged Group's operations and profitability.

*(j) Increased competition*

The Company's and Laidlaw's businesses compete in the areas of pricing and service and face competition from a number of sources.

In the UK, the main source of competition to the bus is the car as the cost of driving a car is generally perceived as less expensive than bus travel, especially if there is more than one person in the car. In order to

make bus travel a viable alternative to the car FirstGroup seeks to work with local authorities to introduce bus priority measures and effect infrastructure changes that promote bus patronage.

The main competitor to FirstGroup's UK Rail businesses is again the car and to a lesser extent, long-distance coach operators and budget airlines. To mitigate the risk from these pressures, FirstGroup works with local and national bodies to ensure that services are provided that meet or exceed the requirements of the Company's stakeholders.

In North America FirstGroup's and Laidlaw's businesses cover a wide geographic spread competing with several large companies and a substantial number of smaller, locally owned or government owned operators. The Enlarged Group's competitors in the yellow school bus business can also include school districts since most school districts operate their own yellow school buses. Similarly, while the majority of competitors to the Enlarged Group's Transit and Services business streams are operated by private entities, including several large companies, these businesses also compete with many municipalities.

The growth of these or the emergence of other sources of competition could force the Enlarged Group to adopt less profitable operating models in order to compete on price thus harming the Enlarged Group's financial performance.

*(k) Environmental and safety laws and regulations*

The operations of Laidlaw and FirstGroup are subject to various government, federal, state, provincial, local and foreign laws and regulations relating to environmental and health and safety matters, including those concerning emissions to the air; waste water discharges; exposure to hazardous substances; storage, treatment and disposal of waste and remediation of soil and ground water contamination. Both FirstGroup and Laidlaw have incurred, and expect to incur, costs for their operations to comply with these legal requirements, and these costs could increase in the future. In particular, Laidlaw has been named as a "potentially responsible party" under the United States Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, at various third-party sites at which its waste was allegedly disposed. In addition, Laidlaw is investigating or engaged in remedial activities at currently or formerly owned, leased or operated sites. Laidlaw records liabilities when environmental liabilities are either known or considered probable and can be estimated with a reasonable degree of accuracy. However, any estimate is, by its nature, based on a number of assumptions which may prove inaccurate and any potential environmental liability incurred by the Enlarged Group may vary considerably from its estimated level.

*(l) Pensions*

The pension schemes operated for the benefit of the employees of FirstGroup and Laidlaw and to which both parties contribute are subject to regulation by government authorities, and the economic position of the defined benefit pension schemes could weaken considerably from material changes to investment performance, inflation, interest rates and longevity of pension scheme members. If such authorities were to insist on the reduction or elimination of a deficit in, or an increase in the level of contributions to, a particular scheme this could impose a considerable liability on the relevant contributing company and adversely impact the results of such company and the Enlarged Group.

*(m) Currency and interest rate fluctuations*

The Enlarged Group's business, financial condition and results of operations may be adversely affected by fluctuations in exchange rates, particularly between the US dollar, the Canadian dollar and Pounds Sterling. Although FirstGroup engages in, and the Enlarged Group would engage in, currency hedging transactions to reduce its exposure to currency fluctuations and would also be naturally hedged to some extent, there can be no assurance that these currency hedging transactions and natural hedging will be sufficient to protect against adverse exchange rate movements which could have a material adverse effect on the Enlarged Group's business, financial condition and results of operations.

In addition, the Enlarged Group will be subject to the effects of interest rate fluctuations on its floating rate financing arrangements. There can be no assurance that the Enlarged Group's interest rate hedging programme will be sufficient to protect against adverse interest rate movements on an ongoing basis.

*(n) Retention of senior management*

The Company and Laidlaw depend on their executive Directors and other senior management. Although it is not anticipated that any of the executive Directors or other senior management will be lost or replaced at this

stage, the loss of the services of any of the executive Directors or other senior management could adversely affect the Enlarged Group's business until a suitable replacement is found. There may be a limited number of persons with the requisite skills to serve in such positions and the Company cannot be certain that it would be able to locate or employ such qualified personnel on acceptable terms or at all.

*(o) Transit companies have high fixed costs and low profit margins, which make them more vulnerable to relatively small changes in the numbers of passengers or in the pricing or traffic mix.*

The rail transport industry is characterised by high fixed costs and low profit margins. The revenues generated by a journey are variable and are directly related to the number of passengers carried and the fare structure of that service. As a result, a relatively small change in the number of passengers carried by FirstGroup or in the pricing obtainable by FirstGroup could have a disproportionate effect on FirstGroup's rail passenger revenues.

*(p) Profitability is subject to seasonal fluctuations*

Demand for the services of FirstGroup and Laidlaw fluctuates over the course of the year. As the majority of profits are generated in certain periods (such as school terms in the case of its school bus services and holiday seasons in the case of Greyhound), lower demand for travel, cancellations and other factors that adversely affect transport utilisation during these periods may have a disproportionately strong adverse effect on the business, financial condition and results of operations of FirstGroup and Laidlaw.

The seasonal nature of parts of the Enlarged Group's business is likely to lead to net debt as at September being higher than net debt as at March.

*(q) Licences and contracts*

Certain licences and contracts are essential to the businesses of FirstGroup and Laidlaw. If the Enlarged Group should lose such a contract or licence (including as part of a refranchising process) this would have a material adverse effect upon the business and results of the Enlarged Group. In the case of FirstGroup, for example, the removal of the Company's licence by the Traffic Commissioner would have a serious impact upon its business. Similarly, the incorporation of cross default clauses in rail franchise agreements means that the loss of any one such contract would have a disproportionate impact upon the Company's results.

Any decision to renationalise the rail or bus industry in the UK, or any part thereof, leading to a loss of the licences and contracts of the Enlarged Group, could have a material adverse effect on the business, financial condition and results of operations of the Enlarged Group.

*(r) Potential disruptions to business systems*

The Enlarged Group's ability to receive and process ticket purchases, manage reservations and its network, and engage in other critical business tasks will depend on the efficient and uninterrupted operation of its computer and communications systems. Any significant disruption to the Enlarged Group's systems would damage the Enlarged Group's ability to efficiently carry on its business. While FirstGroup will develop business continuity plans to cover all of its major systems and disruption risks as soon as possible, a comprehensive plan is not currently in place.

*(s) Taxation*

The tax profile of FirstGroup and the Enlarged Group may be adversely affected by changes to tax and accounting regulations. Such changes could increase the effective tax rates on earnings and cash tax payable on an ongoing basis, and also increase labour costs. While FirstGroup would endeavour to mitigate the effects of these changes, there can be no assurance that such actions would be sufficient to avoid adverse impacts.

## **2. Risks relating to the Acquisition**

*(a) Completion of the Acquisition*

The Acquisition is conditional, amongst other things, upon: (i) its approval by Shareholders at the Extraordinary General Meeting; (ii) its approval by shareholders of Laidlaw; and (iii) all filings having been made and all the waiting periods having expired, been terminated or been waived in relation to the Acquisition pursuant to the HSR Act and the necessary approval having been received under the Competition Act (Canada). Pursuant to the Acquisition Agreement, FirstGroup and Laidlaw are obliged to use their reasonable best efforts to fulfill such conditions; provided that, in the case of (iii), neither FirstGroup nor

Laidlaw is required to divest any of their businesses, assets or properties that in the aggregate generated, in the case of FirstGroup, operating profit plus depreciation or, in the case of Laidlaw, operating income before depreciation and amortisation, in each case in excess of \$20 million during a recently ended twelve month period. There can be no assurance that all conditions will be satisfied and that completion of the Acquisition will be achieved, either at all or in the manner currently envisaged. In particular, although the Board is confident that the regulatory clearances referred to above will be obtained, there can be no assurance as to the timing or outcome of the clearance processes. Further, there can be no assurance that such clearances will not be subject to conditions, including the giving of certain undertakings by FirstGroup. It is possible that the attachment of such conditions could render the Acquisition commercially unviable for FirstGroup.

*(b) Appraisal Rights under Delaware Law*

Under Delaware Law, each shareholder of Laidlaw who properly perfects their rights will be entitled to seek appraisal of the fair value of their shares in Laidlaw subsequent to completion of the Acquisition. While FirstGroup will not be required to complete the Acquisition if holders of more than 10% of Laidlaw's shares have demanded (and not withdrawn) appraisal rights, FirstGroup will be required to complete the Acquisition and pay the appraised value of the Laidlaw shares if holders of 10% or less of the shares have demanded appraisal. If the Delaware Court of Chancery subsequently determines that the fair value of each share of Laidlaw common stock is materially greater than the consideration offered in connection with the Acquisition (\$35.25 per share), it could have a material adverse effect on the financial condition and results of operations of the Enlarged Group.

*(c) Commercial objectives following the Acquisition*

The Enlarged Group may face significant management, administrative and financial challenges in achieving its key commercial objectives, including:

- outstanding or unforeseen legal, regulatory, contractual, labour or other issues arising from the Acquisition;
- additional capital expenditure requirements;
- the combination of Laidlaw with FirstGroup's United States operations in a cost-effective manner;
- delivery of the anticipated synergies;
- retention of customers and key personnel; and
- integration of the different management cultures in FirstGroup and Laidlaw.

There can be no assurance that FirstGroup will be successful in meeting all of these challenges.

*(d) Risk of integration of the combined companies; Significant uncertainties*

FirstGroup and Laidlaw entered into the Acquisition Agreement expecting that the Acquisition will result in cost savings for the combined companies. There are, however, significant uncertainties and risks relating to combining the operations of FirstGroup and Laidlaw and FirstGroup may be unable to successfully combine the operations of the Enlarged Group. The Acquisition will significantly increase the size of FirstGroup's school bus transportation business. As a result, FirstGroup will have to implement a number of strategic and operational decisions regarding the integration of FirstGroup's and Laidlaw's operations following the Acquisition. The manner in which FirstGroup implements its decisions may significantly impact the ongoing operations of FirstGroup and Laidlaw. It is difficult to assess with any certainty the impact that FirstGroup's decisions may have on its results of operations and financial condition.

*(e) Entry into new market areas*

The business of Laidlaw incorporates certain units which may not provide a productive fit with the existing business of FirstGroup. Although the management of the Company is yet to form a view as to the future of any specific business unit, it may become necessary, following the consummation of the Acquisition, to dispose of certain elements of the business of Laidlaw in order to maximise the operational and financial benefits of the Acquisition. The inability to consummate any such disposals could have an adverse impact upon the financial results of the Enlarged Group.

*(f) Performance of Laidlaw*

If the results and cash flows generated by the combination of FirstGroup's US operations and Laidlaw fall well below the Directors' current expectations, a write-down may be required against the goodwill arising on the Acquisition.

Laidlaw's historical operating results may not necessarily be indicative of future performance. Furthermore, Laidlaw's future ability to contribute fully to the Enlarged Group's cash flow and operating profitability will be dependent upon a number of factors, including certain of the risks described in section 1 of this Part II.

In particular, as detailed in paragraph (a) of Part III (Description of Laidlaw's business), Laidlaw completed a period of restructuring following its emergence from Chapter 11 proceedings in June 2003. The relatively short period since the completion of Laidlaw's restructuring leaves room for greater uncertainty as to its future performance and increases the risk that forward-looking statements relating to Laidlaw will prove inaccurate.

*(g) Fluctuation of share price*

The Company's share price has fluctuated and may continue to fluctuate. The factors which may affect the Company's share price include but are not limited to:

- the Company's expected and actual performance and the performance of the transport industry in general;
- the level of activity amongst its customers in the transport sectors in the United States and the United Kingdom;
- speculation regarding mergers or acquisitions involving, and/or major divestments by, the Company or its competitors;
- the status of the Group's financing or re-financing activities to maintain adequate liquidity, including its future compliance with any financial covenants in its debt instruments;
- future issues of Ordinary Shares, including an issue (or issues) to refinance the Equity Bridge Facility; and
- announcements of changes in the Company's credit rating.

Furthermore, the Company's share price may fall in response to market appraisal of its current strategy or if the Group's operating results and/or prospects from time to time are below the prior expectations of market analysts and investors. In addition, stock markets have from time to time experienced significant price and volume fluctuations that have affected the market price of securities and which may be unrelated to the Group's operating performance and prospects.

*(h) Exchange rate fluctuations*

FirstGroup's reporting currency is in Pounds Sterling and its principal foreign currency exposure relates to movements in the US dollar and Pounds Sterling exchange rate, due to its US operations, and US dollar denominated costs in the UK, principally fuel costs and interest. This exposure can adversely affect profits, cash flows and balance sheet positions, such as net debt. FirstGroup implements policies to manage these exposures on an ongoing basis.

Consummation of the Acquisition will significantly increase the amount of FirstGroup's US and Canadian dollar earnings, cash flows and balance sheet values. While policies will be adjusted to take account of these increased exposures in the Enlarged Group, there can be no assurance that the financial performance and condition of the Enlarged Group will not be adversely affected by movements in the US dollar/Pounds Sterling exchange rate, Canadian dollar/US dollar exchange rate and Canadian dollar/Pounds Sterling exchange rate.

*(i) Financing*

FirstGroup plans to finance the Acquisition through debt facilities which give the Company access to an aggregate credit of approximately \$4.1 billion (following the Placing). These facilities contain restrictive covenants which could inhibit the operations of the Enlarged Group. In particular, if FirstGroup is unable to combine its existing business with that of Laidlaw its results may suffer and certain of the financial covenants, contained with the Company's new and existing debt facilities, could be breached. In addition, a decline in FirstGroup's financial performance could lead to a downgrade of the rating applied to the Company's debt

instruments by external rating agencies. Such a downgrade could make it more difficult and more expensive for the Enlarged Group to raise additional finance.

*(j) Possible issue of additional shares*

In addition to one or more offerings of securities by means of which the Company may seek to refinance all or part of the monies owing under the Equity Bridge Facility, the Company may offer additional shares in the future which may adversely affect the market price of the outstanding Ordinary Shares. The Company has no current plans for further offerings subsequent to those noted above. However, it is possible that the Company may decide to offer additional shares in the Company in the future. An additional offering of shares by the Company, significant sales of shares by major Shareholders or the public perception that an offering may occur, could have an adverse effect on the market price of the Company's outstanding Ordinary Shares.

*(k) Ability to pay future dividends is uncertain*

FirstGroup intends to maintain its current dividend policy. However, there can be no assurance that the Company will be able to maintain its ability to pay dividends in the future. Future dividends to be received by the Shareholders will depend on the progress of the Enlarged Group in the United States and the United Kingdom, and the Company's continuing ability to be profitable. Under the Act, the Company can only pay dividends to the extent that it has distributable reserves available for this purpose. The Company can give no assurance to the Shareholders that it will actually be able to pay a dividend going forward.

*(l) Contractual pressures*

The Enlarged Group will face a different competitive landscape to that faced individually by either FirstGroup or Laidlaw. This will place new stress upon certain pre-existing relationships. In some cases, for example, established customers of either FirstGroup or Laidlaw may not wish to contract with the Enlarged Group.

*(m) Risks that do not give rise to a material adverse effect*

During the period from the signing of the Acquisition Agreement to the closing of the Acquisition, events or developments may occur which have an adverse effect on Laidlaw's business. Unless such events and developments have had or could reasonably be expected to have a material adverse effect on Laidlaw's financial condition or business or on Laidlaw's ability to consummate the Acquisition, FirstGroup will be required to close the transaction notwithstanding the adverse events or developments. This could have an adverse effect on the business, financial condition and results of operations of the Enlarged Group.

**PART III**  
**DESCRIPTION OF LAIDLAW'S BUSINESS**

*(The financial information set out in this Part III has been extracted without material adjustment from the audited financial statements in Laidlaw's Form 10k for the year ended 31 August, 2006.)*

**(a) History**

Laidlaw's predecessor company, Laidlaw Inc., an Ontario company, (the "**Predecessor Company**") came into being in 1924 when Robert Laidlaw set up a trucking service in Ontario, Canada. Laidlaw itself was incorporated under the laws of Ontario, Canada under the name "Laidlaw Investments Ltd" on 25 September 1985. In 1990, the Predecessor Company obtained a full listing on the New York Stock Exchange.

The 1990s were a period of rapid expansion for the Predecessor Company through acquisitions including that of Mayflower (the US school bus and public transit operator), Careline, Inc. (a US ambulance consolidator) and American Medical Response (a major US ambulance operator). In 1998, the Predecessor Company went on to acquire the US operations of Greyhound Lines (having acquired the company's Canadian operations the year before).

On 28 June, 2001, Laidlaw, along with the Predecessor Company, filed voluntary petitions for reorganisation under chapter 11 of the US Bankruptcy Code and the Canadian Companies' Creditors Arrangement Act. On 27 February, 2003 and 28 February, 2003, the US Bankruptcy Court and the Ontario Superior Court of Justice, respectively, confirmed their Third Amended Joint Plan of Reorganisation (the "**Plan**"). None of Laidlaw's operating subsidiaries were a party to the reorganisation proceedings.

Laidlaw completed its restructuring when the Plan became effective on 23 June, 2003. Under the Plan, \$4.0 billion of liabilities were compromised. The creditor groups received a combination of \$1.2 billion in cash and 100 million shares of newly issued common stock in Laidlaw in exchange for the extinguishment of all claims, liabilities and debt against the Predecessor Company. The equity ownership of the Predecessor Company was cancelled for no consideration.

In connection with the reorganisation, Laidlaw became a Delaware corporation and, as part of its domestication, changed its name from "Laidlaw Investments Ltd." to "Laidlaw International, Inc."

In 2005 Laidlaw sold its healthcare transportation and emergency management businesses.

**(b) Overview of the business**

Laidlaw is the leading operator of school and inter-city bus transportation and a supplier of public transit services in North America. Laidlaw's businesses operate recognised brands, including Laidlaw Education Services, Greyhound and Laidlaw Transit. Laidlaw's shares trade on the New York Stock Exchange.

Laidlaw operates in three reportable business segments that provide transportation services in the United States (approximately 84% of revenue) and Canada (approximately 16% of revenue):

- (i) Education Services (approximately 50% of revenue);
- (ii) Greyhound (approximately 40% of revenue); and
- (iii) Public Transit (approximately 10% of revenue).

The Education Services segment provides school bus transportation, including scheduled home-to-school, extra-curricular and charter and transit school bus services, throughout the United States and Canada.

Greyhound, a national provider of inter-city bus transportation in the United States and Canada, provides scheduled passenger services, package delivery services and charter bus services.

The Public Transit segment provides fixed-route municipal bus services and paratransit bus transportation for riders with restricted mobility.

For the year ended 31 August 2006, approximately 84% and 83% of Laidlaw's revenues and EBITDA, respectively, were generated in the United States, with the remaining 16% and 17% generated in Canada.

The Laidlaw businesses have strong brand names. The fleets used by Education Services and Greyhound prominently display the Laidlaw and Greyhound brand names, respectively, and as a result have become recognised as providers of choice for bus transportation services.

*(i) Education Services*

Laidlaw's Education Services segment is the leading independent school bus operator in North America. The segment operates in 37 states in the United States and 6 provinces in Canada. Headquartered in the Chicago suburb of Naperville, Education Services operates school buses and special education vehicles, primarily under the name Laidlaw Education Services in North America.

In aggregate, more than 95% of Laidlaw's Education Services' revenue is generated from contractual relationships, generally with contract terms of three to five years in length and options for extensions. Laidlaw's school bus contracts are typically with school districts, boards of education or municipalities. Contracts are customised to suit the individual needs of each district and may include managing the entire transportation system or specific components such as fleet acquisition or maintenance services. The size of these contracts varies from those covering very small operations to those covering over 570 buses. In addition to Laidlaw's contracted regular routes, Laidlaw transports students to extra-curricular events, field trips and athletic events and provides charter services to outside groups.

Education Services has contracts with more than 1,000 school boards and districts in North America. Education Services provides transportation for approximately 2.0 million students each school day. The fleet consists of approximately 40,000 buses.

The Education Services business is composed of three core activities (home-to-school, extra-curricular and charter & transit) as well as the non-core activities of equipment leasing, logistical support, maintenance agreements and other support services.

Of the core activities, home-to school is by far the most significant aspect of the Education Services Segment. This activity comprises all regularly scheduled services for the transportation of students to and from school (including students with special needs). Home-to-school produced revenue of approximately \$1,373 million during fiscal year 2006, or 87% of the total business revenue during the same period. Extra-curricular revenue is non-contractual revenue resulting from transportation services not associated with regular home-to-school services such as transportation for school field trips. The final core activity, charter services, are generally non-contractual, non-regularly scheduled transportation services performed for a customer other than a school or school board.

*(ii) Greyhound*

Greyhound is the only national provider of scheduled inter-city bus transportation services in the United States and Canada. Greyhound's operations are headquartered in Dallas, Texas. Greyhound serves the value-oriented customer by offering scheduled passenger services to approximately 2,400 destinations throughout the United States and Canada, carrying approximately 24 million passengers annually. Greyhound also provides package express services, charter bus services and, in many terminals, food services.

Greyhound operates in four businesses: Passenger Service, Charter, Package Express and Food Service & other. The segment draws the large majority of its revenues from passenger services which provide inter-city bus transportation to cities and towns in urban and rural areas throughout the US and Canada. Additionally, interline agreements and alliances with other bus carriers provide access to smaller towns in the US and Canada and cross-border transportation to and from Mexico that are complementary to its existing service schedules.

Greyhound sells tickets at approximately 1,600 sales locations, 100 of which are segment owned/operated and 1,500 of which are agency operated. The segment employs approximately 4,400 drivers. The segment operates a system with flexible capacity in order to meet the seasonal demands of the business. This is accomplished through the centralised management of national dispatch operations for equipment and drivers, rental of additional buses and drivers to cover peak demand periods, planning and coordinating extra sections and analysing and implementing pooling and through service arrangements with other carriers. Annual planning for resources (both buses and drivers), pricing analysis and decision-making are also centralised.

Greyhound recently completed a two-year effort to restructure its passenger service routes. The last region of the network restructuring, the Northeast United States, was completed in March 2006.

Amongst Greyhound's other core activities is the package express service which targets commercial shippers and delivery companies that require rapid delivery of small parcels, typically to locations within a range of 100 to 300 miles. Greyhound's services include standard delivery, which is a value priced terminal-to-terminal delivery service, as well as priority and same day delivery, which is a premium priced product where parcels are typically delivered door-to-door.

Greyhound also offers charter services whereby a group of individuals can reserve a bus and driver for transportation to and from specific events, such as concerts, sporting events, casinos and conventions. In maximising the operational efficiency of the segment, Greyhound seeks to tap the significant synergies between charter and the regular passenger service such as the use of excess capacity from passenger services during peak charter seasons.

In support of its other activities, Greyhound also offers food services and travel and logo items for purchase in many of its terminal locations.

### *(iii) Public Transit*

Laidlaw's Public Transit business is a leading private provider of municipal public transportation services in North America, specialising in paratransit (transportation for mobility-challenged individuals) and fixed-route (municipal transit) contract services. Headquartered in Overland Park, Kansas, the segment operates under the name Laidlaw Transit Services. Laidlaw Transit Services also operates under the name SafeRide Services in Phoenix, Arizona. Revenue is mainly driven by contracts with regional and municipal transit authorities. As of 31 August 2006, Public Transit had nearly 130 municipal transit and paratransit contracts, and a fleet of approximately 3,400 vehicles, approximately 70% of which are client owned. For the twelve months ended 31 August 2006, Public Transit generated \$308.2 million in revenues and \$19.7 million in EBITDA. Public Transit currently operates at 88 locations in 23 states and transports more than 40 million passengers per year.

Public Transit offers three types of transit services. The first is paratransit of which Public Transit is one of the largest and most experienced providers in the United States. The paratransit business, which contributes approximately three quarters of Public Transit's total revenues, provides paratransit services to persons with disabilities that are comparable to the level of fixed-route service provided. Paratransit programmes are based upon the qualifications of its riders for certain services that include curb-to-curb and door-to-door services, group and individual dial-a-ride services, Americans with Disabilities Act ("ADA") services, general public services and services to target populations. Many of Public Transit's largest paratransit programmes are operated in response to the ADA enacted by Congress in 1990, which requires operators not to discriminate on the basis of disability and to provide equal access to transit services.

Public Transit also offers fixed route services which provide daily public transportation to transit-dependent as well as discretionary passengers. Services include express and local routes in diverse environments. The fixed-route business contributes approximately one quarter of the segment's total revenues.

Public Transit also provides other transportation services such as shuttle services for corporate campuses, which account for approximately 0.5% of revenue. However, given the limited growth potential of Public Transit's existing markets, the segment is attempting to diversify its revenue base through other value added activities and complementary services such as the development of shuttles for airports, universities, parking lots and corporations along with special event transportation.

All of Public Transit's revenues are generated under contracts, generally with three-year maturities and two-year extension options. The segment is generally paid according to the contract either by the service hour, service mile or on a fixed cost per month plus a variable rate based on service hours.

Revenue growth was a challenge for Public Transit during 2006. While winning 11 new contracts with annualised revenues of \$22 million during the year, a large contract, with annual revenues of \$31 million, expired in July 2006 and was not renewed. Public Transit's largest contract represents 7% of the Public Transit segment's revenue. Revenue development efforts continue to be a primary focus. Public Transit launched a management training program in 2006 to develop project managers, especially for new contracts.

### *(c) Safety*

Given the potential for revenue disruption and losses due to accidents in its businesses, Laidlaw places a significant emphasis on safety.

#### *(i) Education Services*

Laidlaw's Education Services business is committed to ensuring the safety of the school children transported every day. Laidlaw's drivers operate under very stringent safety standards and undergo thorough background checks and testing at the time of hire. Laidlaw requires mandatory training both in the classroom and behind the wheel for new drivers and has extensive on-going driver training and preventative maintenance programs.

Laidlaw has developed and implemented a comprehensive system of safety precautions and procedures that includes:

- Child awareness training consisting of programs and activities to increase the awareness of school bus safety;
- Daily pre trip equipment inspection by the drivers; and
- Use of equipment on certain vehicles that reinforces and monitors behavior in route and at the completion of each run.

These efforts have enabled Laidlaw to reduce the frequency of accidents over the past decade to a level that Laidlaw believes is one of the lowest in the industry.

*(ii) Greyhound*

Greyhound is committed to ensuring the safety of the passengers transported every day. Greyhound's drivers operate under very stringent safety standards and undergo thorough background checks and testing at the time of hire. Mandatory training both in the classroom and behind the wheel is required for Greyhound's new drivers and extensive on-going driver training and preventative maintenance programs are also provided. These efforts have enabled Greyhound to maintain a frequency of accidents at a level that Greyhound believes is one of the lowest in the industry.

*(iii) Public Transit*

The Public Transit segment operates under very stringent safety standards. In addition to thorough background checks and testing at the time of hire, Laidlaw requires a minimum of over 60 hours of training both in the classroom and behind the wheel for new drivers. Additionally, Laidlaw's existing drivers receive an average of 12 hours of training annually. Over the last few years, Laidlaw has seen an improvement in its safety record; in particular, the frequency of incidents has declined.

*(iv) Results*

As a result of Laidlaw's consistent focus on safety, its insurance expense as a percentage of consolidated revenue has steadily declined despite reserves remaining at the conservative end of actuarial recommendations.

*(d) Customers*

Laidlaw benefits from significant diversification in terms of customers and contracts. No single contract accounts for more than 1% of the consolidated revenue of Laidlaw. Additionally, since most of the contracts are for terms of between 3 and 5 years, Laidlaw typically only has renegotiation risk on approximately one-third of its contracted revenue each year. Individual contracts are with discrete local municipalities or school districts that independently bid out contracts for school bus and public transit.

*(e) Employees and labour relations*

As of 31 August 2006, Laidlaw employed approximately 62,500 employees, approximately 41% of which were represented by over 200 collective bargaining agreements. Laidlaw believes that its relations with its employees and their collective bargaining organisations are good.

*(f) Seasonality*

Laidlaw's Education Services business is seasonal with operations following the typical school year schedule from September to June. As a result, Laidlaw's Education Services business historically experiences a significant decline in revenue and operating income in its fourth fiscal quarter due to school summer vacations. Conversely cash flows from operations generally are significantly lower during the first quarter and are significantly higher during the fourth quarter due to the lag between the expenses incurred from providing services at the beginning of the school year and the collection of receivables related to those services.

Greyhound's business is also seasonal in nature and generally follows the pattern of the travel industry as a whole, with peaks during the summer months and the Christmas holiday season. As a result, Greyhound's cash flows are also seasonal, with a disproportionate amount of annual cash flows being generated during the peak travel periods.

**(g) Vehicle Fleet**

*(i) Education Services*

Laidlaw's Education Services business operates a fleet of approximately 40,000 buses of which approximately 39,000 are owned by Laidlaw while the balance are owned by the customer. At 31 August 2006, the average age of Laidlaw's bus fleet was approximately 5.8 years. During 2006, Laidlaw purchased approximately 4,600 vehicles at an aggregate cost of \$269 million, of which \$66 million was paid for in fiscal year 2007.

*(ii) Greyhound*

During the twelve months ended 31 August 2006, Greyhound added approximately 70 buses to its fleet at a cost of \$21.5 million and retired approximately 900 buses from operations, resulting in a fleet of approximately 2,500 buses. Greyhound also purchased, upon lease expiration, nearly 300 buses already in operation at a cost of \$30.4 million, leaving approximately 1,700 buses owned and 800 leased. The average age of Greyhound's bus fleet was 7.6 years at 31 August 2006.

*(iii) Public Transit*

As of 31 August 2006, Public Transit operated approximately 3,400 revenue-generating vehicles, of which Laidlaw owns over 1,000, most of which are paratransit vehicles. The remaining units were owned and provided by customers. Laidlaw's fleet consists of vans, sedans, body-on-chassis small buses and transit style buses configured to the individual requirements of each contract. Vehicle life is usually tied to the contract for which the vehicle is providing services.

**(h) Regulation**

*(i) Education Services*

Companies operating in the school bus industry are not subject to market-area licensing requirements in the United States. In Canada, licences to carry passengers are granted by provincial boards upon proof of public convenience and necessity. The provincial boards exercise control over the issuance, extension and transfer of licenses and regulate the general conduct of a licensee's business.

Within the United States there are federal and state, and in Canada there are provincial, laws and regulations and licensing requirements that set standards for fleet and safety equipment, bus operations and maintenance, driver qualifications and insurance with which Laidlaw must comply.

*(ii) Greyhound*

As a motor carrier engaged in interstate, as well as intrastate, transportation of passengers and express shipments, Greyhound is registered with the US Department of Transportation ("DOT"), and is also regulated by the Surface Transportation Board. Greyhound is also subject to state and provincial regulations that are consistent with federal requirements.

Greyhound is subject to regulation under the ADA pursuant to regulations adopted by the DOT. The regulations require that all new buses acquired by Greyhound for its US fixed route operations must be equipped with wheelchair lifts. By October 2006, one-half of Greyhound's US fleet involved in fixed route operations were required to be lift-equipped, Greyhound was in compliance with this requirement. The balance of Greyhound's US fleet will need to be lift-equipped by October 2012.

In Canada, Greyhound operates under the Canada Transportation Act ("CTA"). The CTA allows each province to regulate provincial scheduled services. Greyhound generally is required to file tariffs with schedule and rate information for its passenger services.

*(i) Executive officers*

The current executive officers of Laidlaw are as follows:

**Kevin E. Benson** has been President and Chief Executive Officer and a director of Laidlaw since June 2003. From September 2002 to June 2003, Mr. Benson was President and Chief Executive Officer of Laidlaw's predecessor, Laidlaw Inc. Prior to this, Mr. Benson served as President and Chief Executive Officer of the Insurance Corporation of British Columbia, an insurance company, from December 2001 until September 2002 and as President of The Pattison Group, a privately owned company that owns interests in numerous businesses across a range of industries, in 2000 and 2001. He previously served as President and Chief

Executive Officer of Canadian Airlines from 1996 until 2000. Mr. Benson also serves as a director of TransCanada Pipelines Limited.

**Beth Byster Corvino** has been Executive Vice President, General Counsel and Corporate Secretary of Laidlaw since July 2005 and had served as Senior Vice President since April 2004. From 1998 to April 2004 she served as Vice President, General Counsel and Corporate Secretary, and then as a consultant to, Chas. Levy Circulating Company LLC, a book and magazine wholesaler, where she was responsible for all legal affairs and strategic planning, and served as Chief Operating Officer of its trucking subsidiary.

**Mary B. Jordan** has been Executive Vice President, Human Resources and Internal Communications of Laidlaw since July 2006. From April 2004 to March 2006 she served as the Provincial Executive Director for the British Columbia Centre for Disease Control in Vancouver. She previously served from September 2001 to June 2003 as Senior Vice President, Air Canada, International and British Columbia, and from June 2000 to September 2001 as President of Air Canada's low cost subsidiary. Ms. Jordan also serves as a director of the Vancouver International Airport Authority.

**Jeffrey W. Sanders** has been Vice President, Chief Financial Office of Laidlaw since July 2006. From August 2003 until July 2006 he served as Vice President, Corporate Development and as Controller since January 2004. From May 1999 until July 2003 he served as Senior Vice President and Chief Financial Officer of Greyhound Lines, Inc. Mr. Sanders joined Greyhound Lines, Inc. in June 1997 as Vice President, Corporate Development and from September 1997 through May 1999 served as Vice President Finance.

**Jeffery A. McDougle** has been Vice President and Treasurer since February 2004. From July 2003 until January 2004, he served as Vice President of Fleet at US Airways Inc. From April 2002 until July 2003, Mr. McDougle served as Vice President of Finance and Treasurer for US Airways Group, where in addition to his treasury functions, he was responsible for corporate finance, corporate insurance and purchasing. In addition, he served as Vice President — Purchasing of US Airways, Inc. from November 2001 to April 2002 and Vice President — Treasurer of US Airways Group from May 1999 to November 2001.

## PART IV

### PRINCIPAL TERMS OF THE ACQUISITION AGREEMENT

#### 1. Introduction

Under the terms of the Acquisition Agreement, the Company has agreed to acquire Laidlaw by way of a merger of FirstGroup Acquisition Corporation with and into Laidlaw (as a result of which each issued and outstanding share of common stock of Laidlaw will be converted into a right to receive \$35.25 in cash). On completion of the Acquisition, Laidlaw will become one of the Company's wholly-owned subsidiaries.

#### 2. Consideration

Based on the total issued and outstanding share capital of Laidlaw as at 9 February 2007 (79.4 million shares), and including the cash-out of Laidlaw option holders, the total consideration payable by FirstGroup to Laidlaw shareholders will be approximately \$2.9 billion.

In addition, in connection with the Acquisition, FirstGroup will repay approximately \$0.7 billion of Laidlaw's existing debt.

#### 3. Representations, warranties and indemnities

The Acquisition Agreement contains various representations and warranties customary for a US acquisition of the size and nature of the Acquisition. The representations and warranties from Laidlaw to FirstGroup relate to, amongst other things:

- the organisation and capital of Laidlaw and its subsidiaries;
- the due and valid execution of the Acquisition Agreement by Laidlaw;
- the absence of certain events, undisclosed liabilities or litigation which could be expected to have a material adverse effect on Laidlaw's financial condition or business or on Laidlaw's ability to consummate the Acquisition;
- actions by, or filings with, any governmental authority necessary to consummate the Acquisition;
- filings with the United States Securities and Exchange Commission and Canadian securities regulatory authorities, the absence of material misstatements or omissions from such filings and compliance with the Sarbanes-Oxley Act of 2002;
- compliance with applicable laws and permits;
- the amount of net debt of Laidlaw;
- tax returns and other tax-related matters;
- employees, employee benefit plans and collective bargaining agreements;
- environmental, intellectual property and real estate matters; and
- the continuing force and effect of the material contracts applicable to Laidlaw and its subsidiaries.

The representations and warranties from FirstGroup to Laidlaw cover, amongst other things, the due and valid execution of the Acquisition Agreement by FirstGroup and FirstGroup Acquisition Corporation, the actions by, or filings with, any governmental authority necessary to consummate the Acquisition and the financing of the Acquisition.

The representations and warranties are subject to certain qualifications and limitations customary for a US acquisition of the size and nature of the Acquisition. Each representation, warranty and agreement contained within the Acquisition Agreement, for instance, is expressly stated not to survive the consummation of the Acquisition with the exception of those covenants and agreements which by their terms apply after the consummation of the Acquisition Agreement, including the indemnification provisions summarised at paragraph 5 below and FirstGroup's obligation to maintain suitable compensation and benefit plans for Laidlaw employees.

#### **4. Pre-closing obligations**

Laidlaw has covenanted that, amongst other things, prior to the closing of the Acquisition:

- the business of Laidlaw and its subsidiaries will be conducted in the ordinary course consistent with past practice and in such a way as to preserve the business; provided that Laidlaw will be permitted, amongst other things, (i) to incur at least \$10 million in unforecasted capital expenditures, (ii) to make at least \$10 million in acquisitions and (iii) to enter into, modify or amend its collective bargaining agreements;
- it will not, and will not allow its subsidiaries to, enter into, amend, modify (in any material respect) or terminate a material contract, except for material customer contracts entered into by Laidlaw's public transit business;
- it will provide FirstGroup and FirstGroup's representatives reasonable access to its offices, properties, books and records, including to such financial information as FirstGroup may reasonably request;
- it will give prompt notice to FirstGroup of, amongst other things, (i) any actions, suits, claims, investigations, audits or proceedings commenced or, to its knowledge, threatened, which, if pending as at the date of the Acquisition Agreement, would have required disclosure or which relate to the consummation of the transactions contemplated therein; or (ii) any failure by Laidlaw to comply with or satisfy any covenant or condition under the Acquisition Agreement;
- it will use reasonable efforts to take or cause to be taken all actions, and to do or cause to be done all things, necessary to consummate the Acquisition as promptly as practicable; provided that Laidlaw will not be required to divest any of its businesses, assets or properties that in the aggregate generate earnings before interest, taxes, depreciation and amortisation in excess of \$20 million during a recently ended twelve month period;
- it shall, subject to indemnification from FirstGroup, use its reasonable best efforts to cooperate with FirstGroup in its efforts to consummate the financing of the transactions contemplated by the Acquisition Agreement; and
- it will not solicit, initiate or take any action to solicit or encourage the submission of any alternative acquisition proposal. If Laidlaw receives an unsolicited offer which its board of directors determines provides greater value for its shareholders than the Acquisition and is reasonably capable of being consummated, the board of directors of Laidlaw will be permitted to change its recommendation to shareholders and terminate the Acquisition Agreement if (i) it determines that failure to take such action would reasonably be expected to result in a breach of its fiduciary duties under applicable law and (ii) it has notified FirstGroup of the alternative offer at least three days prior to changing its recommendation and has not received a new offer from FirstGroup which is at least as favourable to the shareholders of Laidlaw as the alternative transaction.

#### **5. Post-closing obligations**

FirstGroup has covenanted that, amongst other things, following the closing of the Acquisition, FirstGroup shall: (i) indemnify and hold harmless all past and present directors and officers of Laidlaw for acts or omissions occurring at or prior to closing to the fullest extent permitted by Delaware Law or any other applicable law or provided under Laidlaw's certificate of incorporation and bylaws; and (ii) either purchase a prepaid directors' and officers' liability "tail" insurance policy covering a period of six years from the completion of the Acquisition or maintain, for a period of 6 years from completion of the Acquisition, the existing directors' and officers' liability insurance and fiduciary liability policies maintained by Laidlaw; provided that FirstGroup will not be required to pay annually in excess of 200% of the amount per annum Laidlaw paid for such insurance during its last full fiscal year.

#### **6. Conditions precedent to closing**

The closing of the Acquisition is conditional upon, amongst other things:

- the Acquisition having been approved by the shareholders of FirstGroup and Laidlaw;
- any waiting period applicable to the consummation of the Acquisition under the HSR Act having expired, been terminated or been waived and approval of the Acquisition under the Competition Act (Canada) having been obtained;

- the government of the United States having completed its national security review and, if necessary, investigation under the Exon-Florio Statute, and having concluded that no adverse action is necessary in respect of the Acquisition;
- all actions by, or filings with, the United States Surface Transportation Board necessary to permit the consummation of the Acquisition having been taken, made or obtained;
- performance, in all material respects, by FirstGroup and Laidlaw of their respective obligations under the Acquisition Agreement at or prior to closing;
- the representations and warranties given by FirstGroup and Laidlaw in the Acquisition Agreement being true and correct, except for those exceptions which, individually or in the aggregate, have not or would not reasonably be expected to have a material adverse effect;
- holders of less than 10% of the shares of Laidlaw common stock having demanded (and not withdrawn) appraisal of their shares pursuant to Delaware law; and
- since the date of the Acquisition Agreement, there not having occurred any event or events which, individually or in the aggregate, has or would reasonably be expected to have a material adverse effect in respect of Laidlaw.

Pursuant to the Acquisition Agreement, FirstGroup and Laidlaw are obligated to use their reasonable best efforts to fulfil any such conditions; provided that neither FirstGroup nor Laidlaw is required to divest any of their businesses, assets or properties that in the aggregate generate, in the case of FirstGroup, operating profit plus depreciation or, in the case of Laidlaw, operating income before depreciation and amortisation, in each case in excess of \$20 million during a recently ended twelve month period. Although the Board is confident that the regulatory conditions referred to above in relation to the HSR Act and the Competition Act (Canada) will be satisfied, there can be no assurance as to the timing or ultimate outcome of the clearance processes. Further, there can be no assurance that such clearances will not be subject to conditions, including the giving of certain undertakings by FirstGroup.

The Acquisition Agreement does not include a financing condition. As described below, FirstGroup has arranged committed bank debt facilities in order to ensure that it has sufficient funding to consummate the Acquisition. These facilities are available on a “certain funds” basis until 8 August 2007 although this availability will automatically extend for up to three months in the event that the termination date set out in the Acquisition Agreement is extended.

## **7. Termination**

The Acquisition Agreement may be terminated at any time prior to the completion of the Acquisition by mutual written consent of FirstGroup and Laidlaw.

In addition, either FirstGroup or Laidlaw may terminate the Acquisition Agreement if: (i) the Acquisition has not been consummated on or before 8 August 2007; provided that either FirstGroup or Laidlaw may unilaterally extend such date for up to three months if completion of the Acquisition is prevented only by the requirement to obtain the necessary competition clearances; (ii) any law or regulation makes consummating of the Acquisition illegal or enjoins either FirstGroup or Laidlaw from consummation of the Acquisition; or (iii) the merger is not approved by the shareholders of Laidlaw or FirstGroup at their respective shareholder meetings.

If, however, termination results from the wilful failure of either party to fulfil a condition to the performance of the obligations of the other party or the wilful failure to perform its own covenants then such party shall be responsible for all losses incurred by the other as a result of such failure.

FirstGroup may terminate the Acquisition Agreement unilaterally if, amongst other things, (i) the board of directors of Laidlaw changes its recommendation to shareholders, (ii) there is a breach of any representation or warranty or any failure to perform any covenant by Laidlaw that is incapable of being cured prior to the consummation of the Acquisition and that has or would reasonably be expected to have a material adverse effect, (iii) Laidlaw wilfully and materially breaches certain obligations relating to the solicitation, initiation and encouragement of alternative acquisition proposals or (iv) the Board changes its recommendation to Shareholders in order to enter into an alternative proposal that provides greater value to Shareholders and is reasonably capable of being consummated.

Laidlaw may terminate the Acquisition Agreement unilaterally if, amongst other things, (i) the Board changes its recommendation to Shareholders, (ii) there is a breach of any representation or warranty or any

failure to perform any covenant by FirstGroup that is incapable of being cured prior to the consummation of the Acquisition and that has or would reasonably be expected to have a material adverse effect, (iii) FirstGroup wilfully and materially breaches certain obligations relating to the solicitation, initiation and encouragement of alternative acquisition proposals or (iv) the board of directors of Laidlaw changes its recommendation to shareholders in order to enter into an alternative proposal that provides greater value to Laidlaw's shareholders and is reasonably capable of being consummated.

## **8. Break Fees**

The Acquisition Agreement provides for the payment of certain fees and expenses in the event that the Acquisition should not be completed.

Laidlaw has agreed to pay to FirstGroup the sum of \$78 million in the event that the Acquisition Agreement is terminated as a result of the board of directors of Laidlaw changing its recommendation to shareholders or Laidlaw wilfully and materially breaching certain obligations relating to the solicitation, initiation and encouragement of alternative acquisition proposals. Laidlaw has further agreed to pay to FirstGroup the sum of \$43.35 million if the Acquisition Agreement is terminated as a result of the failure to obtain the approval of Laidlaw's shareholders to the Acquisition; provided that Laidlaw will pay to FirstGroup an additional \$34.65 million if it enters into certain alternative transactions within 12 months of the date of such termination. Laidlaw shall pay to FirstGroup up to \$43.35 million if the Acquisition Agreement is terminated as a result of the failure to consummate the Acquisition on or before 8 August 2007 (or a later date if completion is prevented only by the requirement to obtain the necessary competition clearances) and if Laidlaw enters into certain alternative transactions within 12 months of the date of such termination. Finally, Laidlaw has agreed to reimburse FirstGroup for its fees and expenses incurred in connection with the Acquisition if the Acquisition Agreement is terminated by FirstGroup as result of a breach of the representations and warranties, or a failure to perform a covenant, by Laidlaw.

FirstGroup has agreed to pay to Laidlaw the sum of £22 million in the event that the Acquisition Agreement is terminated as a result of the Board changing its recommendation to Shareholders, the failure to obtain the approval of Shareholders to the Acquisition or FirstGroup wilfully and materially breaching certain obligations relating to the solicitation, initiation and encouragement of alternative acquisition proposals. In addition, FirstGroup has agreed to reimburse Laidlaw for its fees and expenses incurred in connection with the Acquisition if the Acquisition Agreement is terminated by Laidlaw as result of a breach of the representations and warranties, or a failure to perform a covenant, by FirstGroup.

## **9. Governing law**

The Acquisition Agreement is governed by and to be construed in accordance with the laws of the State of Delaware.

**PART V**  
**PURPOSE OF THE EGM**

As summarised in paragraph 8 (Extraordinary General Meeting) of Part I (Letter from the Chairman) the purpose of the EGM is to consider and, if thought fit, to pass resolutions for the following purposes:

- (i) subject to the Resolutions referred to in paragraphs (ii), (iii) and (iv) below being passed, to approve the Acquisition;
- (ii) to increase the authorised share capital of the company from £30,000,000 to £230,000,000 by the creation of an additional 4,000,000,000 Ordinary Shares;
- (iii) subject to the Resolution referred to in paragraph (ii) above being passed, to authorise the Directors of the Company, for the purposes of section 80 of the Companies Act, to exercise all the powers of the Company to allot relevant securities (as defined in that section) in connection with one or more issues of relevant securities under one or more transactions to refinance in whole or in part the Equity Bridge Facility, up to an aggregate nominal amount of £200,000,000 (equivalent to 4,000,000,000 Ordinary Shares, representing approximately 913% of the Company's issued ordinary share capital (including treasury shares) at 23 March 2007, being the latest practicable date prior to the publication of this document);
- (iv) subject to the completion of the Acquisition, to authorise the Directors, for the purposes of Article 102 of the Articles of Association of the Company, to incur and permit subsidiaries of the Company to incur, borrowings of up to US\$4,000,000,000 such that such borrowings shall not be aggregated with other borrowings for the purpose of the limit contained in Article 102(B)(i); and
- (v) subject to the Resolution referred to in paragraph (iii) above being passed, to authorise the Directors to allot equity securities for cash pursuant to the authority conferred under the Resolution set out in paragraph (iii) and/or where such allotment constitutes an allotment of equity securities by virtue of Section 94(3A) of the Act as if section 89 of the Act did not apply to any such allotment, provided that this power shall be limited to:
  - (a) the allotment of equity securities to existing shareholders in proportion to their existing holdings or in accordance with the rights attached to such holdings; and
  - (b) the allotment of equity securities up to an aggregate nominal amount of £2,190,000.

Resolutions (i) to (iv) will be proposed as ordinary resolutions and Resolution (v) as a special resolution.

Accordingly, the passing of each of Resolutions (i) to (iv) requires a majority of votes cast in respect of that Resolution.

The passing of Resolution (v), as a special resolution, requires a majority of not less than three-fourths of votes cast in respect of that Resolution.

Each of the Resolutions will be decided on a show of hands unless a poll is demanded in a manner permitted by the Articles. Only members who are present at the meeting in person can vote on a show of hands. On a poll, each member present in person or by proxy has one vote.

The Acquisition is conditional, amongst other things, upon the passing of each of the Resolutions set out in paragraphs (i), (ii), (iii) and (iv) above.

*Ordinary Resolutions*

*Resolution (i).* This Resolution is to approve the Acquisition on the terms set out in the Acquisition Agreement as described in Part IV (Principal Terms of the Acquisition Agreement).

*Resolution (ii).* The proposed increase in the authorised share capital of the Company referred to in paragraph (ii) above is to provide sufficient authorised but unissued share capital to enable FirstGroup to refinance the whole of the maximum amount now permitted to be drawn under the Equity Bridge Facility through one or more issues of new Ordinary Shares at the lowest price at which such Ordinary Shares are legally allowed to be issued, being their nominal value of 5 pence per Ordinary Share. As the Equity Bridge Facility is denominated in US dollars, the amount of Ordinary Shares required in such circumstances is also dependant on the US dollar/Pounds Sterling exchange rate. If the Resolution referred to in paragraph (ii) above is passed, the authorised share capital of the Company will be increased as described in that paragraph irrespective of whether or not the Acquisition proceeds. However, the Directors are only permitted

to allot authorised but unissued relevant securities in accordance with an authority granted by Shareholders in general meeting, the Articles and the Act. Therefore, the Directors will only be permitted to allot relevant securities to refinance the Equity Bridge Facility pursuant to the Resolution referred to in paragraph (iii). Shareholders should note that such issues may be effected before or after the completion of the Acquisition and therefore may be effected whether or not the Acquisition proceeds. The Directors intend, at the first Annual General Meeting of the Company following either (i) the full refinancing of the Equity Bridge Facility or (ii) an announcement that the Acquisition will not be consummated, to seek Shareholder approval to reduce the authorised share capital of the Company by cancelling such number of authorised but unissued Ordinary Shares as the directors of the Company consider appropriate taking into account the capital structure of the Company at that time.

*Resolution (iii).* The authorities referred to in paragraph (iii) above are to allot authorised but unissued relevant securities. These authorities will (unless previously varied or revoked by Shareholders in general meeting) expire on the date which is 5 years from the date on which the Resolution is passed. The Directors intend, at the first Annual General Meeting of the Company following either (i) the full refinancing of the Equity Bridge Facility or (ii) an announcement that the Acquisition will not be consummated, to seek Shareholder approval for a renewal of the authority to allot relevant securities (as defined in section 80 of the Act) such that the new authority applies only in respect of approximately one third of the Company's issued ordinary share capital as at the latest practicable date prior to the issue of the notice convening such Annual General Meeting of the Company.

The authority to allot relevant securities referred to in paragraph (iii) above (which if utilised in full would represent an increase of approximately 913% in the Company's issued ordinary share capital (including treasury shares) at 23 March 2007, being the latest practicable date prior to the publication of this document) will not be used for any purpose except to the extent required by the Directors to allot relevant securities in connection with one or more issues of relevant securities under one or more transactions to cancel (if prior to drawdown) or prepay (if after drawdown) in whole or in part amounts permitted to be drawn or owing (as applicable) under the Equity Bridge Facility. The authority to allot relevant securities referred to in paragraph (iii) above is to authorise the Directors to allot relevant securities to enable FirstGroup to refinance the whole of the maximum amount now permitted to be drawn under the Equity Bridge Facility through one or more issues of Ordinary Shares at the lowest price at which such Ordinary Shares are legally allowed to be issued, being their nominal value of 5 pence per Ordinary Share. As the Equity Bridge Facility is denominated in US dollars, the amount of Ordinary Shares required in such circumstances is also dependant on the US dollar/Pounds Sterling exchange rate. Given that the closing price of the Company's Ordinary Shares on 23 March 2007 (being the latest practicable date prior to the publication of this document) was 659.5p the Directors expect that any issue or issues of new Ordinary Shares in connection with the refinancing of the Equity Bridge Facility would be at a significant premium to their nominal value.

Following the passing of the Resolutions referred to in paragraphs (ii) and (iii) above, FirstGroup will have in aggregate approximately 4,090,000,000 authorised but unissued Ordinary Shares which the Directors will be authorised to allot. Save as mentioned in this Part V, the Directors have no present intention of issuing any authorised but unissued Ordinary Shares.

*Resolution (iv).* The authority referred to in paragraph (iv) above to incur, and permit subsidiaries of the Company to incur, borrowings of up to US\$4,000,000,000 will allow the Company to draw down sufficient funds under the Senior Facility and the Equity Bridge Facility to consummate the Acquisition. It is the Company's intention that any drawings under the Equity Bridge Facility (to the extent such facility is not refinanced by equity offerings prior to completion of the Acquisition) should be refinanced following completion by means of one or more equity offerings.

#### *Special Resolution*

*Resolution (v).* The authorities referred to in paragraph (v) above will enable the directors to effect equity offerings of Ordinary Shares (a) up to a maximum nominal value of £2,190,000 (representing approximately 10% of the Company's issued ordinary share capital (including treasury shares) at 23 March, being the last practicable date prior to the publication of this document) for cash on a non pre-emptive basis or (b) to existing shareholders for cash on a pre-emptive basis but excluding certain overseas jurisdictions and aggregating fractional entitlements. These authorities will expire (unless previously revoked or varied by the Shareholders in a general meeting of the Company) 5 years after the date of the Resolution.

The Resolutions will enable the Company to complete the Acquisition and will give the Company the maximum flexibility in relation to the proposed refinancing, through one or more equity offerings, of the

Equity Bridge Facility. Whilst the authorities to be sought at the Extraordinary General Meeting will allow the Directors to allot new Ordinary Shares at their nominal value of 5 pence (being the lowest price at which such securities are legally allowed to be issued) the Directors will take into account the interests of the Company and its Shareholders in respect of any such equity offerings and expect that any such offering would be at a significant premium to the nominal value of the Ordinary Shares.

**PART VI**  
**FINANCIAL INFORMATION ON LAIDLAW**

**1. Financial Information table**

The financial information contained in this Part VI has been extracted without material adjustments from the published financial statements of Laidlaw, prepared under US GAAP and filed with the SEC. A reconciliation of these accounts in accordance with FirstGroup's accounting policies under IFRS is set out in section 3 of this Part VI. The information contained in section (A) below has been extracted from the audited financial statements of Laidlaw and the information contained in section (B) below has been extracted without material adjustment from the unaudited quarterly financial information of Laidlaw.

**(A) Financial information for the years ended 31 August 2006, 31 August 2005 and 31 August 2004.**

*(a) Consolidated statement of operations*

	Year Ended August 31,		
	2006	2005	2004
	US\$m	US\$m	US\$m
<b>Revenue</b> .....	3,131.9	3,026.5	3,026.8
Compensation expense .....	1,540.9	1,519.0	1,555.8
Vehicle related costs .....	249.7	259.5	260.5
Fuel expense .....	250.5	199.7	163.1
Insurance and accident claim costs .....	168.4	163.2	206.0
Occupancy costs .....	164.2	156.7	157.8
Depreciation and amortization .....	215.8	249.1	230.7
Other operating expenses .....	291.9	314.4	310.1
<b>Operating income</b> .....	250.5	164.9	142.8
Interest expense .....	(24.3)	(70.8)	(78.6)
Other income, net .....	10.4	10.5	2.1
Debt restructuring costs .....	—	(112.2)	—
<b>Income (loss) from continuing operations before income taxes and cumulative effect of a change in accounting principle</b> .....	236.6	(7.6)	66.3
Income tax (expense) benefit .....	(95.4)	2.0	(19.8)
<b>Income (loss) from continuing operations before cumulative effect of a change in accounting principle</b> .....	141.2	(5.6)	46.5
Income (loss) from discontinued operations .....	(12.6)	218.0	15.2
<b>Income before cumulative effect of a change in accounting principle</b> .....	128.6	212.4	61.7
Cumulative effect of a change in accounting principle .....	(3.7)	—	—
<b>Net income</b> .....	124.9	212.4	61.7

(b) Consolidated balance sheet

	<u>August 31, 2006</u>	<u>August 31, 2005</u>	<u>August 31, 2004</u>
	US\$m	US\$m	US\$m
<b>Assets</b>			
Cash and cash equivalents .....	318.7	217.3	154.2
Accounts receivable .....	210.5	202.6	194.1
Insurance collateral .....	106.4	81.9	98.9
Parts and supplies .....	40.7	32.5	32.0
Deferred income tax assets .....	39.6	42.4	41.3
Other current assets .....	24.8	29.2	22.7
Discontinued operations .....	—	—	918.1
Property and equipment .....	1,597.9	1,435.1	1,492.4
Insurance collateral .....	303.4	392.2	354.5
Other long-term investments .....	29.3	40.3	155.2
Goodwill .....	—	—	139.1
Contracts and customer relationships .....	68.5	73.4	118.6
Deferred income tax assets .....	267.4	350.3	166.4
Deferred charges and other assets .....	31.5	11.5	60.9
<b>Total assets</b> .....	<u>3,038.7</u>	<u>2,908.7</u>	<u>3,948.4</u>
<b>Liabilities and shareholders' equity</b>			
Accounts payable .....	140.3	86.4	76.9
Accrued employee compensation .....	112.7	105.7	102.6
Other accrued liabilities .....	95.8	86.9	90.3
Current portion of insurance reserves .....	147.8	141.6	175.0
Current portion of long-term debt .....	34.7	27.8	29.2
Discontinued operations .....	—	—	394.5
Long-term debt .....	772.6	286.6	1,105.9
Insurance reserves .....	339.7	344.4	325.2
Pension liability .....	104.5	128.4	188.3
Other long-term liabilities .....	82.7	100.7	84.0
<b>Total liabilities</b> .....	<u>1,830.8</u>	<u>1,308.5</u>	<u>2,571.9</u>
<b>Shareholders' equity</b>			
Common shares; \$0.01 par value per share; issued and outstanding 81.6 million (August 31, 2005—100.2 million)	0.8	1.0	1.0
Additional paid in capital .....	814.5	1,315.9	1,360.9
Common shares held in trust (August 31, 2004—3.8 million)	—	—	(50.0)
Accumulated other comprehensive income .....	77.8	34.1	12.8
Retained earnings .....	314.8	249.2	51.8
<b>Total shareholders' equity</b> .....	<u>1,207.9</u>	<u>1,600.2</u>	<u>1,376.5</u>
<b>Total liabilities and shareholders' equity</b> .....	<u>3,038.7</u>	<u>2,908.7</u>	<u>3,948.4</u>

(c) Consolidated statement of shareholders' equity

	Common Shares		Additional Paid in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Comprehensive Income (Loss)
	# of shares	Amount				
			US\$m	US\$m	US\$m	US\$m
<b>Balance at August 31, 2003</b> .....	<b>100.0*</b>	<b>\$ 1.0</b>	<b>\$ 1,308.3*</b>	<b>\$ (9.9)</b>	<b>\$ (9.1)</b>	
Net income .....	—	—	—	61.7	—	\$ 61.7
Stock based compensation .....	—	—	2.6	—	—	—
Other comprehensive income:						
Net unrealized gain on financial instruments .....	—	—	—	—	4.5	4.5
Foreign currency translation adjustment ..	—	—	—	—	17.4	17.4
Total comprehensive income .....						<b>\$ 83.6</b>
<b>Balance at August 31, 2004</b> .....	<b>100.0*</b>	<b>\$ 1.0</b>	<b>\$ 1,310.9*</b>	<b>\$ 51.8</b>	<b>\$ 12.8</b>	
Net income .....	—	—	—	212.4	—	\$ 212.4
Stock based compensation .....	0.2	—	5.0	—	—	—
Dividends paid .....	—	—	—	(15.0)	—	—
Other comprehensive income (loss):						
Net unrealized gain on financial instruments .....	—	—	—	—	1.2	1.2
Foreign currency translation adjustment ..	—	—	—	—	39.5	39.5
Minimum pension liability adjustment ...	—	—	—	—	(19.4)	(19.4)
Total comprehensive income .....						<b>\$ 233.7</b>
<b>Balance at August 31, 2005</b> .....	<b>100.2</b>	<b>\$ 1.0</b>	<b>\$ 1,315.9</b>	<b>\$ 249.2</b>	<b>\$ 34.1</b>	
Net income .....	—	—	—	124.9	—	\$ 124.9
Stock based compensation .....	0.3	—	7.2	—	—	—
Repurchase of common stock .....	(18.9)	(0.2)	(508.6)	—	—	—
Dividends paid .....	—	—	—	(59.3)	—	—
Other comprehensive income (loss):						
Net unrealized loss on financial instruments .....	—	—	—	—	(1.4)	(1.4)
Foreign currency translation adjustment ..	—	—	—	—	25.7	25.7
Minimum pension liability adjustment ...	—	—	—	—	19.4	19.4
Total comprehensive income .....						<b>\$ 168.6</b>
<b>Balance at August 31, 2006</b> .....	<b>81.6</b>	<b>\$ 0.8</b>	<b>\$ 814.5</b>	<b>\$ 314.8</b>	<b>\$ 77.8</b>	

\* Net of 3.8 million common shares held in trust. The common shares held in trust were cancelled in fiscal 2005.

(d) Consolidated statements of cash flows

	Year ended August 31,		
	2006	2005	2004
	US\$m	US\$m	US\$m
<b>Operating activities</b>			
Net income . . . . .	124.9	212.4	61.7
Loss (income) from discontinued operations . . . . .	12.6	(218.0)	(15.2)
Non-cash adjustments to net income			
Depreciation and amortization . . . . .	215.8	249.1	230.7
Deferred income taxes . . . . .	85.3	(3.0)	17.5
Write-off of deferred financing fees . . . . .	—	41.5	—
Other non-cash items . . . . .	(3.7)	28.6	25.7
Net change in certain assets and liabilities			
Accounts receivable . . . . .	8.0	(6.4)	8.7
Insurance collateral . . . . .	57.6	(15.9)	(89.7)
Accounts payable and accrued liabilities . . . . .	6.9	(4.2)	(6.4)
Insurance reserves . . . . .	4.7	(18.3)	11.0
Other assets and liabilities . . . . .	(38.5)	1.1	3.0
<b>Net cash provided by operating activities . . . . .</b>	<u>473.6</u>	<u>266.9</u>	<u>247.0</u>
<b>Investing activities</b>			
Purchase of property and equipment . . . . .	(329.3)	(186.6)	(183.6)
Proceeds from disposal of property and equipment . . . . .	39.2	34.2	14.9
Expended on acquisitions . . . . .	(11.0)	(6.4)	(3.4)
Net decrease in performance bond collateral . . . . .	0.6	20.5	48.6
Net decrease (increase) in other investments . . . . .	7.5	4.0	(2.5)
Net (distributions) proceeds from sale of healthcare businesses . . . . .	(10.0)	797.8	—
Net proceeds from sale of other businesses . . . . .	6.3	10.6	—
<b>Net cash (used) provided by investing activities . . . . .</b>	<u>(296.7)</u>	<u>674.1</u>	<u>(126.0)</u>
<b>Financing activities</b>			
Proceeds from issue of long-term debt . . . . .	522.1	300.5	3.6
Repayments of long-term debt . . . . .	(29.1)	(1,155.3)	(65.8)
Repurchase of common stock . . . . .	(504.0)	(84.5)	—
Dividend payment . . . . .	(59.3)	(15.0)	—
Other financing activities . . . . .	(5.2)	(4.4)	(5.3)
Decrease in credit facility cash collateral . . . . .	—	100.0	—
<b>Net cash used in financing activities . . . . .</b>	<u>(75.5)</u>	<u>(858.7)</u>	<u>(67.5)</u>
<b>Discontinued operations (revised—Note 14)</b>			
Operating cash flows . . . . .	—	(1.8)	56.1
Investing cash flows . . . . .	—	(15.0)	(42.0)
Financing cash flows . . . . .	—	(2.4)	(7.4)
<b>Net cash used by discontinued operations . . . . .</b>	<u>—</u>	<u>(19.2)</u>	<u>6.7</u>
<b>Net increase in cash and cash equivalents . . . . .</b>	101.4	63.1	60.2
<b>Cash and cash equivalents—beginning of period . . . . .</b>	<u>217.3</u>	<u>154.2</u>	<u>94.0</u>
<b>Cash and cash equivalents—end of period . . . . .</b>	<u>318.7</u>	<u>217.3</u>	<u>154.2</u>

**Note 1 — Corporate overview and basis of presentation**

*Corporate overview*

Laidlaw International, Inc. (“Laidlaw”) operates in three reportable business segments: education services, Greyhound and public transit. The education services segment provides school bus transportation, including scheduled home-to-school, extra-curricular and charter and transit school bus services, throughout the United States and Canada. Greyhound, a national provider of inter-city bus transportation in the United States and Canada, provides scheduled passenger service, package delivery service, charter bus service and, in certain terminals, food service. The public transit segment provides fixed-route municipal bus service and paratransit bus transportation for riders with disabilities.

### ***Basis of presentation***

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and include the accounts of Laidlaw and all of its respective subsidiaries. All significant intercompany transactions and balances have been eliminated. Prior period amounts have been reclassified to conform to the current year presentation. Upon emergence from bankruptcy in June 2003, Laidlaw adopted Fresh Start accounting and adjusted all assets and liabilities to fair value at that time.

### **Note 2 — Summary of significant accounting policies**

A summary of the significant accounting policies followed in the preparation of these consolidated financial statements is presented below:

#### ***Cash and cash equivalents***

Cash and cash equivalents include short-term investments that are part of Laidlaw's cash management portfolio. These investments are highly liquid and have original maturities of three months or less.

#### ***Accounts receivable***

Accounts receivable are net of an allowance for doubtful accounts of \$6.0 million on August 31, 2006, \$6.2 million on August 31, 2005 and \$4.9 million on August 31, 2004. The allowance for doubtful accounts is based on the credit risk applicable to particular customers, historical trends and other relevant information.

#### ***Parts and supplies***

Parts and supplies are valued at the lower of cost, determined on a first-in first-out basis and replacement cost. This approximates fair value.

#### ***Property and equipment***

Additions to property and equipment are recorded at cost. Depreciation of property and equipment is recorded on a straight-line basis over their estimated useful lives, which range from twenty to forty years for buildings, five to fifteen years for vehicles, and three to ten years for all other items. Depreciation of education services vehicles during the year is allocated based on usage. Maintenance costs are expensed as incurred while improvements and expenditures that extend the useful life of the assets are capitalized.

#### ***Insurance collateral***

Insurance collateral is comprised principally of cash, deposits and debt and equity securities and supports Laidlaw's insurance program and reserves. If these investments were sold or otherwise liquidated they would have to be replaced by other suitable financial assurances and are, therefore, considered restricted. Income earned on these investments are an element of the costs related to Laidlaw's self-insurance program and are included as part of "Insurance and accident claim costs" in the Consolidated Statements of Operations.

Laidlaw determines the classification of debt and equity securities as held-to-maturity or available-for-sale at the time of purchase and reevaluates such designation as of each balance sheet date. Securities are classified as held-to-maturity when Laidlaw has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at cost, adjusted for amortization of premiums and discounts to maturity. Investments not classified as held-to-maturity are classified as available-for-sale. Available-for-sale securities are carried at fair value, with net unrealized gains and losses reported as a component of "Accumulated other comprehensive income". The cost of securities sold is based on the specific identification method. At August 31, 2006, all of the securities are designated as available-for-sale and are stated at fair value.

#### ***Other long-term investments***

Investments in shares of companies over which Laidlaw has significant influence are accounted for by the equity method and equity earnings are recognized to the extent that an increase in the carrying value is determined to be realizable. Marketable securities are carried at fair value and other investments are carried at their original cost.

### ***Contracts and customer relationships***

Laidlaw's contracts and customer relationships represent the amortized fair value of such assets held by Laidlaw's education services segment. Substantially all of the revenue of the education services segment is derived from contracts. The contracts generally have terms of three to five years and historically most contracts have been renewed. Contract assets are initially valued based on the remaining terms of the contract and the expected contract renewal period used to determine the acquisition price or fair value. The contracts are amortized on a straight-line basis over the length of the contract and expected renewal period, if any, which ranges from three to fifteen years.

### ***Income taxes***

Income taxes are accounted for using the asset and liability method. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. A valuation allowance is provided for those deferred income tax assets for which it is more likely than not that the related benefits will not be realized.

### ***Impairment of long-lived assets***

Long-lived assets are assessed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Important factors, which could trigger impairment review, include significant underperformance relative to historical or projected future operating results, significant changes in the use of the acquired assets or the strategy for the overall business, and significant negative industry or economic trends. If indicators of impairment are present, management evaluates the carrying value of long-lived assets in relation to the projection of future undiscounted cash flows of the underlying assets.

Projected cash flows are based on historical results adjusted to reflect management's best estimate of future market and operating conditions, which may differ from actual cash flows.

### ***Insurance reserves***

Laidlaw generally retains liability for auto, general and workers' compensation claims for the first \$5 million of any one occurrence and insures amounts above \$5 million up to a maximum of \$275 million per occurrence.

Laidlaw establishes reserves for claims based upon an assessment of actual claims and claims incurred but not reported. The reserves are developed using actuarial principles and assumptions that consider a number of factors, including historical claim payment patterns (including legal costs) and changes in case reserves and the assumed rate of inflation in health care costs and property damage repairs. Workers' compensation claims are discounted at a rate commensurate with the interest rate on monetary assets that are essentially risk free and have a maturity comparable to the underlying liabilities. Auto and general liability claims are not discounted.

Investment income earned on the investments supporting these reserves has been offset against the costs related to Laidlaw's self-insurance program and is included as part of "Insurance and accident claim costs" in the Consolidated Statements of Operations. The accretion of imputed interest from the discounting of the reserves is also included as part of these expenses.

### ***Defined benefit pension plans***

The costs of pension benefits are actuarially determined using the projected benefit method pro-rated for service and management's best estimate of expected plan investment performance, discount rates, salary escalation, retirement ages of employees and mortality tables. Plan assets are recorded at market value. Any net actuarial gain or loss in excess of 10 per cent of the greater of the benefit obligation or the market-related value of plan assets is amortized over the average remaining service period of participating employees for active plans and average remaining life expectancy of retired participants for frozen plans.

### ***Financial instruments***

Laidlaw's cash and cash equivalents, insurance collateral, other long-term investments, accounts receivable, accounts payable, accrued liabilities, long-term debt and other long-term liabilities constitute financial instruments. Concentration of credit risks in accounts receivable is limited, due to the large number of customers comprising Laidlaw's customer base throughout North America.

Laidlaw's derivative policy allows the use of derivative financial instruments for purposes other than trading to minimize the risk and costs associated with financing and operating activities. Laidlaw periodically enters into forward purchase contracts for the purchase of diesel fuel whereby Laidlaw agrees to take delivery of a set amount of fuel at a fixed price at a future specified date as an economic hedge against future price changes. Additionally, Laidlaw has entered into option contracts to hedge against fuel price fluctuations. Specifically, Laidlaw will purchase a call option for diesel fuel while simultaneously selling a put option that covers the identical amount of fuel with the same underlying terms and conditions as the call option. Laidlaw also periodically enters into interest rate swap agreements to convert a portion of the interest rate exposure of our long-term debt from floating rates to fixed.

Fair value of Laidlaw's financial instruments is determined using the methods and assumptions required by SFAS 107 "Disclosures About Fair Value of Financial Instruments". The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, long-term debt and other long-term liabilities, approximate fair value. The fair values of the debt and equity securities included in insurance collateral and other long-term investments are based upon quoted market prices at August 31, 2006 and 2005.

### ***Foreign currency***

The accounts of foreign-based subsidiaries are measured using the local currency as the functional currency. All balance sheet amounts have been translated into U.S. dollars using the exchange rates in effect at the applicable period end. Income statement amounts have been translated using the average exchange rate for the applicable period. The gains and losses resulting from the changes in exchange rates from the translation of subsidiary accounts in local currency to U.S. dollars have been reported as a component of "Accumulated other comprehensive income" in the Consolidated Balance Sheets.

Foreign currency transaction gains and losses result from the effect of exchange rate changes on transactions denominated in currencies other than the functional currency. These gains and losses are included in the Consolidated Statements of Operations and are immaterial for all years presented.

### ***Revenue recognition***

Revenue is recognized at the time services are provided. Revenue collected in advance on contracts and tickets is deferred and taken into income as the services are provided.

### ***Stock options***

Laidlaw records the expense of stock option awards over the period in which the options vest. The stock options are valued using the Black-Scholes valuation method on the date of grant.

### ***Use of estimates***

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and disclosure of contingencies. Future events could alter such estimates.

Laidlaw uses third-party actuaries and assumptions of future events in estimating the claims liability reserves and future pension obligations. As a result of using assumptions, there is a reasonable possibility that the amounts recorded for deferred income tax assets, insurance reserves and pension liability could change materially.

### ***Recent accounting pronouncements***

FASB Interpretation No 47, "Accounting for Conditional Asset Retirement Obligations" ("FIN 47") was issued in March 2005 and clarifies the accounting prescribed in SFAS No. 143, "Accounting for Asset Retirement Obligations". FIN 47 requires the recognition of a liability for the fair value of a conditional asset retirement obligation if the fair value can be reasonably estimated, even though uncertainty exists as to the timing and method of settlement. Laidlaw adopted FIN 47 August 31, 2006 and Laidlaw recorded a liability of \$8.8 million and recognized a non-cash cumulative effect charge of \$3.7 million, net of taxes. See Note-12 "Change in accounting principle" for further discussion.

FASB Interpretation No 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" ("FIN 48"), was issued In July 2006. This interpretation clarifies the accounting for

uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." It prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken, or expected to be taken, on a tax return. Laidlaw will be required to adopt FIN 48 in the first quarter of fiscal 2008. Management is currently evaluating the requirements of FIN 48 and has not yet determined the impact on the consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurement" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value and expands disclosures about assets and liabilities measured at fair value. Laidlaw will be required to adopt SFAS 157 in the first quarter of fiscal 2009. Management is currently evaluating the requirements of SFAS 157 and has not yet determined the impact on the consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158 ("SFAS 158"), "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)." SFAS 158 requires an employer to recognize a plan's funded status in its statement of financial position, measure a plan's assets and obligations as of the end of the employer's fiscal year and recognize the changes in a defined benefit postretirement plan's funded status in comprehensive income in the year in which the changes occur. Laidlaw will be required to recognize the funded status of benefit plans and adopt the new disclosure requirements effective August 31, 2007. Laidlaw will be required to measure plan assets and benefit obligations as of the date of the fiscal year-end statement of financial position effective August 31, 2009. Laidlaw is currently evaluating the requirements of SFAS 158, but based on the current funded status of the plans, management does not anticipate SFAS 158 will have a material impact on Laidlaw's consolidated financial statements.

**Note 3 — Insurance collateral**

As discussed in Note 2—"Summary of significant accounting policies", Laidlaw maintains insurance collateral to support Laidlaw's insurance program and insurance reserves. Components of Laidlaw's insurance collateral program are as follows (\$ in millions):

	<u>August 31, 2006</u>	<u>August 31, 2005</u>
Cash, deposits and receivables .....	115.9	131.3
Debt securities .....	245.3	296.7
Equity securities .....	<u>48.6</u>	<u>46.1</u>
Total insurance collateral .....	409.8	474.1
Less: current portion .....	<u>106.4</u>	<u>81.9</u>
Long term insurance collateral .....	<u><u>303.4</u></u>	<u><u>392.2</u></u>

All of the debt and equity securities have been classified as available-for-sale securities in accordance with SFAS 115 "Accounting for Certain Investments in Debt and Equity Securities". Gains and losses realized on sale of debt and equity securities have been offset against the costs related to Laidlaw's self-insurance program and are included as part of "Insurance and accident claim costs" in the Consolidated Statements of Operations. Proceeds from sale of available for sale securities for the year ended August 31, 2006 were \$82.9 million resulting in gross realized gains of \$6.2 million and gross realized losses of \$2.0 million. The net realized gains for the year ended August 31, 2006 include \$1.3 million which had been classified at August 31, 2005 as part of net unrealized gains and losses.

The amortized cost and estimated fair market value of investments in debt and equity securities for the years ended August 31, 2006 and 2005 are as follows (\$ in millions):

	<u>Amortized cost</u>	<u>Gross unrealized Gains</u>	<u>Gross unrealized losses</u>	<u>Fair market value</u>
<b>August 31, 2006</b>				
Debt securities .....	\$255.0	\$ —	\$ (9.7)	\$245.3
Equity securities .....	<u>45.7</u>	<u>4.1</u>	<u>(1.2)</u>	<u>48.6</u>
Total .....	<u>\$300.7</u>	<u>\$4.1</u>	<u>\$ (10.9)</u>	<u>\$293.9</u>
<b>August 31, 2005</b>				
Debt securities .....	\$301.1	\$0.6	\$ (5.0)	\$296.7
Equity securities .....	<u>43.6</u>	<u>3.9</u>	<u>(1.4)</u>	<u>46.1</u>
Total .....	<u>\$344.7</u>	<u>\$4.5</u>	<u>\$ (6.4)</u>	<u>\$342.8</u>

The following table shows the gross unrealized losses and fair value of Laidlaw's unrealized losses aggregated by length of time the individual securities have been in a continuous unrealized loss position (\$ in millions):

	<u>12 months or greater</u>		<u>Less than 12 Months</u>		<u>Total</u>	
	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>
<b>August 31, 2006</b>						
Debt securities .....	\$200.1	\$8.5	\$43.2	\$1.2	\$243.3	\$ 9.7
Equity securities .....	<u>2.6</u>	<u>0.2</u>	<u>9.2</u>	<u>1.0</u>	<u>11.8</u>	<u>1.2</u>
Total .....	<u>\$202.7</u>	<u>\$8.7</u>	<u>\$52.4</u>	<u>\$2.2</u>	<u>\$255.1</u>	<u>\$10.9</u>
<b>August 31, 2005</b>						
Debt securities .....	\$190.3	\$4.6	\$68.6	\$0.4	\$258.9	\$ 5.0
Equity securities .....	<u>3.8</u>	<u>0.5</u>	<u>9.8</u>	<u>0.9</u>	<u>13.6</u>	<u>1.4</u>
Total .....	<u>\$194.1</u>	<u>\$5.1</u>	<u>\$78.4</u>	<u>\$1.3</u>	<u>\$272.5</u>	<u>\$ 6.4</u>

The contractual maturities of the debt securities at August 31, 2006 are as follows (\$ in millions):

Due within one year .....	\$ 39.4
Due between one year and five years .....	126.0
Due between five years and ten years .....	<u>79.9</u>
Total fair market value of debt securities .....	<u>\$245.3</u>

On an ongoing basis Laidlaw evaluates its investments in debt and equity securities to determine if a decline in fair market value is other-than temporary. If a decline in fair market value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis in the investment is established.

#### **Note 4 — Contracts and Customer Relationships**

Contracts and customer relationships are net of accumulated amortization of \$24.9 million and \$18.4 million at August 31, 2006 and 2005, respectively. Amortization expense was \$6.5 million and \$7.5 million for the years ending August 31, 2006 and 2005, respectively. Estimated amortization expense on existing contracts for the year ending August 31, 2007 and the next four years thereafter is \$6.6 million, \$6.6 million, \$6.6 million, \$5.8 million and \$5.6 million, respectively.

## Note 5 — Income Taxes

Income (loss) from continuing operations before income taxes and cumulative effect of a change in accounting principle by geographic area is as follows (\$ in millions):

	Year ended August 31,		
	2006	2005	2004
United States . . . . .	\$192.7	\$(24.1)	\$37.3
Canada . . . . .	43.9	16.5	29.0
	<u>\$236.6</u>	<u>\$ (7.6)</u>	<u>\$66.3</u>

Income tax expense (benefit) by geographic area is as follows (\$ in millions):

	Year ended August 31,		
	2006	2005	2004
<b>Current income tax expense</b>			
U.S.—Federal . . . . .	\$ 7.3	\$ —	\$ —
U.S.—State . . . . .	1.6	0.5	1.7
Canada . . . . .	1.2	0.5	0.6
Total current income tax expense . . . . .	<u>\$10.1</u>	<u>\$ 1.0</u>	<u>\$ 2.3</u>
<b>Deferred income tax expense (benefit)</b>			
U.S.—Federal . . . . .	\$60.2	\$(10.2)	\$12.6
U.S.—State . . . . .	6.5	0.9	0.6
Canada . . . . .	18.6	6.3	4.3
Total deferred income tax expense (benefit) . . . . .	<u>\$85.3</u>	<u>\$ (3.0)</u>	<u>\$17.5</u>
<b>Total income tax expense (benefit)</b>			
U.S.—Federal . . . . .	\$67.5	\$(10.2)	\$12.6
U.S.—State . . . . .	8.1	1.4	2.3
Canada . . . . .	19.8	6.8	4.9
Total income tax expense (benefit) . . . . .	<u>\$95.4</u>	<u>\$ (2.0)</u>	<u>\$19.8</u>

The effective income tax rates on income from continuing operations before income taxes and cumulative effect of a change in accounting principle differs from the statutory rates as follows (\$ in millions):

	Year ended August 31,		
	2006	2005	2004
Income tax expense (benefit) at the statutory rate . . . . .	\$82.8	\$(2.7)	\$23.2
Increase (decrease) resulting from:			
Tax rate differentials in other jurisdictions . . . . .	0.5	0.7	0.9
State taxes . . . . .	5.2	0.9	1.5
Foreign earnings repatriated . . . . .	5.9	—	—
Canadian tax rate change . . . . .	3.8	—	(6.6)
Change in valuation allowance . . . . .	(0.7)	0.3	—
Other . . . . .	(2.1)	(1.2)	0.8
Income tax expense (benefit) . . . . .	<u>\$95.4</u>	<u>\$(2.0)</u>	<u>\$19.8</u>

The deferred income tax assets and liabilities contain the following temporary differences (\$ in millions):

	<u>August 31,</u> <u>2006</u>	<u>August 31,</u> <u>2005</u>	<u>August 31,</u> <u>2004</u>
<b>Deferred income tax assets:</b>			
Capital loss carryforwards .....	464.0	487.1	—
Net operating loss and credit carryforwards .....	142.5	180.3	191.2
Interest deduction carryforwards .....	131.8	163.1	167.9
Claims liabilities .....	74.1	65.0	71.9
Pension liability .....	36.3	49.2	71.6
Other accrued liabilities .....	<u>36.4</u>	<u>47.9</u>	<u>29.9</u>
Total deferred income tax assets .....	<u>885.1</u>	<u>992.6</u>	<u>532.5</u>
<b>Deferred income tax liabilities:</b>			
Book over tax depreciation/amortization .....	107.1	104.1	132.8
Other .....	<u>6.7</u>	<u>8.4</u>	<u>12.6</u>
Total deferred income tax liabilities .....	<u>113.8</u>	<u>112.5</u>	<u>145.4</u>
<b>Net deferred income tax asset:</b>			
Net deferred income tax assets before valuation allowance .....	771.3	880.1	387.1
Valuation allowance .....	<u>(464.3)</u>	<u>(487.4)</u>	<u>(179.4)</u>
Net deferred income tax assets .....	<u>307.0</u>	<u>392.7</u>	<u>207.7</u>

#### *Valuation allowance*

Laidlaw has significant net deferred tax assets resulting from net operating loss (“NOL”), interest deduction and capital loss carryforwards, and other deductible temporary differences that will reduce taxable income in future periods. SFAS 109, “Accounting for Income Taxes” requires that a valuation allowance be established when it is “more likely than not” that all, or a portion, of net deferred tax assets will not be realized. A review of all available positive and negative evidence needs to be considered, including expected reversals of significant deductible temporary differences, a company’s recent financial performance, the market environment in which a company operates, tax planning strategies and the length of NOL and interest deduction carryforward periods. Furthermore, the weight given to the potential effect of negative and positive evidence should be commensurate with the extent to which it can be objectively verified.

At August 31, 2006, Laidlaw maintained a valuation allowance of \$464.0 million for capital loss carryforwards. As capital losses may only be applied against capital gains, and Laidlaw does not generate capital gains in the ordinary course, Laidlaw believes it is more likely than not that the capital loss carryforwards will not be realized. Additionally, a \$0.3 million valuation allowance is maintained against an NOL in Canada as it is more likely than not that it will not be realized. During 2006, \$0.7 million of the valuation allowance for capital loss carryforwards was released to offset capital gains realized in fiscal 2006. The valuation allowance was reduced by another \$22.4 million during 2006 principally due to adjustments for annual limitation expirations and basis changes.

#### *Availability and Amount of NOLs and Capital Losses*

Upon emergence from bankruptcy in 2003, Laidlaw underwent an ownership change within the meaning of Section 382 of the Internal Revenue Code (“IRC”). As a result, Laidlaw is subject to an annual limitation of approximately \$53 million on \$168.5 million of NOL and \$213.1 million of capital losses.

Laidlaw has NOL carryforwards of \$362.8 million in the U.S. that expire in varying amounts in the years 2011 to 2026. In Canada, NOL carryforwards of \$13.4 million expire in varying amounts in the years 2007 to 2026. A capital loss of \$1,301.6 million in the U.S. expires in 2010. In Canada, Laidlaw has capital losses of \$23.6 million with no expiry.

Laidlaw has credited \$0.8 million to paid in capital for \$2.2 million of windfall deductions resulting from the application of SFAS 123(R).

In the U.S., Laidlaw has approximately \$371.0 million of interest deduction carryforwards, under IRC Section 163(j), with no expiry. In addition, Laidlaw has tax credits of \$5.3 million, of which \$4.0 million expire between 2023 and 2026 and \$1.3 million have no expiry.

### *Investment in Foreign Subsidiaries*

During 2006, Laidlaw elected to repatriate \$112.4 million from its Canadian subsidiaries which qualified for the temporary dividends-received-deduction available under the American Jobs Creation Act. The associated federal and state tax is approximately \$6.5 million. During 2006 and 2005, Laidlaw received non-taxable cash distributions of \$83.8 and \$58.5 million respectively from its Canadian subsidiaries. At August 31, 2006, there were no remaining unremitted earnings from foreign subsidiaries. Future earnings of the foreign subsidiaries will be permanently invested in those businesses.

### **Note 6 — Long-term Debt**

Components of long-term debt are as follows (\$ in millions):

	<b>Debt balance</b>		
	<b>August 31,</b>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Credit Facilities			
Term A Facility .....	277.5	300.0	—
Term B Facility .....	500.0	—	593.7
Revolver .....	22.0	—	—
Notes and other debt .....	<u>7.8</u>	<u>14.4</u>	<u>541.4</u>
Total debt .....	807.3	314.4	1,135.1
Less: current portion .....	<u>34.7</u>	<u>27.8</u>	<u>29.2</u>
Long-term debt .....	<u><u>772.6</u></u>	<u><u>286.6</u></u>	<u><u>1,105.9</u></u>
		<b>Weighted average</b>	
		<b>interest rate</b>	
		<b>August 31,</b>	
		<u>2006</u>	<u>2005</u>
Credit Facilities			
Term A Facility .....		6.8%	4.9%
Term B Facility .....		7.1	—
Revolver .....		6.3	—
Notes and other debt .....		10.4	9.9

At August 31, 2006, maturities of long-term debt for the next five years ending August 31 and all years thereafter are as follows (\$ in millions):

<u>Year ending August 31,</u>	
2007 .....	\$ 34.7
2008 .....	50.9
2009 .....	50.7
2010 .....	185.3
2011 .....	9.3
Thereafter .....	<u>476.4</u>
Total maturities .....	<u><u>\$807.3</u></u>

### ***Credit Facilities***

In July 2006, Laidlaw amended its existing senior secured credit facilities (“Credit Facilities”) to consist of a \$277.5 million term loan due June 2010 (“Term A Facility”) a \$300 million revolving credit facility (“Revolver”) and added a \$500 million term loan due July 2013 (“Term B Facility”).

Principal on the Term A Facility is payable in quarterly installments of \$7.5 million from September 30, 2006 through June 30, 2007, \$11.25 million from September 30, 2007 through June 30, 2009, \$37.5 million from September 30, 2009 through March 31, 2010 with a final payment of \$45.0 million due on June 30, 2010.

The Term B Facility consists of a \$375 million loan to Laidlaw International, Inc. and a \$125 million loan to its Canadian subsidiaries. Principal is payable in 26 quarterly installments of \$1.25 million from December 31, 2006 through March 31, 2013 and a final payment of \$467.5 million is due on July 31, 2013.

The \$300 million Revolver was established to fund Laidlaw's working capital and letter of credit needs. It has a \$200 million sub-limit for letters of credit, a \$15 million sub-limit for swingline loans and a \$50 million sub-limit for Canadian dollar borrowings and Canadian dollar letters of credit by Canadian borrowers. On August 31, 2006, there were \$22.0 million of cash borrowings and there were issued letters of credit of \$118.6 million, leaving \$159.4 million of availability. The \$22.0 million cash borrowings are classified as long term based on Laidlaw's intent and ability under the terms of the Revolver.

Interest on the Credit Facilities' U.S. borrowings is based on the applicable margin plus the LIBOR rate. Alternatively, at Laidlaw's option, interest can be calculated using the applicable margin plus a base rate ("Base Rate") which is the highest of: (a) the base rate of Citibank, N.A., (b) the Federal Funds rate plus 0.50% or (c) the latest three-month certificates of deposit, as determined by Citibank, N.A. and adjusted for the cost of reserves and FDIC insurance assessments plus 0.50%.

The applicable margin used for the Term A Facility and the Revolver is dependent on Laidlaw's debt rating and ranges from 0.60% to 2.00% for the LIBOR rate and ranges from 0.0% to 1.0% for the Base Rate. The applicable margin used for the Term B Facility is 1.75% for the LIBOR rate and 0.75% for the Base Rate.

Laidlaw established a cash flow hedge by entering into interest rate agreements ("SWAP's") with counterparties in order to convert one half of the outstanding Term A Facility principal balance from floating rate debt to fixed rate debt with a weighted average interest rate of 5.5% based on the margin in effect on August 31, 2006. The notional amount of the SWAP's are amortizing in tandem with the scheduled principal payments on the Term A Facility and will expire in June 2010

Interest on Canadian dollar borrowings under the Revolver is based on the applicable margin plus the Canadian prime rate. Alternatively, at Laidlaw's option, interest can be calculated using the applicable margin plus the Canadian dollar bankers' acceptances rate.

In addition to interest due on any amounts outstanding, Laidlaw is also responsible for certain commitment and letter of credit fees.

The Credit Facilities are guaranteed by Laidlaw's wholly-owned U.S. and Canadian subsidiaries excluding Laidlaw's insurance subsidiaries. However, the Canadian subsidiaries' guarantees and collateral only support the loans made to the Canadian borrowers. Terms included in the Credit Facilities require that Laidlaw meet certain financial covenants including a leverage ratio and interest coverage ratio, as well as certain non-financial covenants. As of August 31, 2006, Laidlaw was in compliance with all such covenants.

#### ***Notes and other debt***

Notes and other debt consists of a \$4.0 million 10<sup>3</sup>/<sub>4</sub>% senior note, \$0.8 million of capitalized equipment leases and \$3.0 million of other debt.

#### **Note 7 — Benefit Plans**

Laidlaw's subsidiaries sponsor fifteen defined benefit pension plans. Four plans relate to Greyhound Canada Transportation Corp. and cover employees represented by the Canadian Auto Workers Union and the Amalgamated Transit Union ("ATU") and all non-unionized employees meeting certain eligibility requirements. A fifth plan is a multi-employer pension plan, instituted in 1992, to cover certain union mechanics of Greyhound Lines, Inc. represented by the International Association of Machinists and Aerospace Workers. A further eight plans are single employer pension plans maintained in the United States by Greyhound Lines, Inc. (the "Greyhound U.S. Plans"). The largest of the Greyhound U.S. Plans (the "ATU Plan") covers approximately 12,000 current and former Greyhound Lines, Inc. employees, fewer than 600 of whom are active employees. The ATU Plan was closed to new participants on October 31, 1983, and service and wage accruals were frozen for active employees effective March 15, 2002. Other Greyhound U.S. Plans include two plans that cover salaried employees of Greyhound Lines, Inc. through May 7, 1990, and substantially all employees at Vermont Transit Company through June 30, 2000, when the plans were curtailed. The remaining five Greyhound U.S. Plans are active plans that cover salaried and hourly personnel of other Greyhound Lines, Inc. subsidiaries. Additionally, Laidlaw International Inc. has Supplemental Employee Retirement Plans ("SERPs") that cover certain executives of the parent and subsidiaries in both the U.S. and Canada.

The Greyhound U.S. Plans have an annual measurement date of May 31, while the Greyhound Canada Transportation Corp. plans and the SERPs have an annual measurement date of June 30.

Changes in Laidlaw's benefit obligation and plan assets are as follows (\$ in millions):

	Year ended August 31,		
	2006	2005	2004
<b>Change in benefit obligation:</b>			
Benefit obligation at beginning of period	1,030.2	934.9	957.7
Service cost	10.6	8.2	7.2
Interest cost	53.2	57.3	55.0
Plan participants' contributions	2.7	2.5	0.2
Plan amendments	—	—	0.5
Actuarial (gain) loss	(49.1)	95.6	(4.1)
Benefits paid	(88.6)	(86.2)	(83.3)
Foreign exchange	25.0	17.9	1.7
Benefit obligation at end of period	<u>984.0</u>	<u>1,030.2</u>	<u>934.9</u>
<b>Change in plan assets:</b>			
Fair value of plan assets at beginning of period	891.4	734.4	734.0
Actual return on plan assets	56.9	73.3	72.6
Employer contributions	11.1	150.1	6.9
Plan participants' contributions	2.8	2.7	2.5
Benefits paid	(88.6)	(86.2)	(83.3)
Foreign exchange	24.3	17.1	1.7
Fair value of plan assets at end of period	<u>897.9</u>	<u>891.4</u>	<u>734.4</u>
Funded status	(86.1)	(138.8)	(200.5)
Unrecognized net (gain) loss	(8.0)	41.2	(39.9)
Unrecognized prior service cost	0.5	0.5	0.5
Funding after measurement date	0.1	—	51.6
Accrued benefit cost	<u>(93.5)</u>	<u>(97.1)</u>	<u>(188.3)</u>
<b>Amounts recognized in the consolidated balance sheets:</b>			
Prepaid benefit asset	11.0	—	—
Accrued benefit liability	(104.5)	(128.4)	(188.3)
Accumulated other comprehensive loss	—	31.3	—
Accrued benefit cost	<u>(93.5)</u>	<u>(97.1)</u>	<u>(188.3)</u>
Increase (decrease) in minimum pension liability reflected in other comprehensive income	(31.3)	31.3	—

The components of net pension benefit cost for Laidlaw's pension plans are as follows (\$ in millions):

	Year ended August 31,		
	2006	2005	2004
<b>Components of net pension benefit cost</b>			
Service cost	\$10.6	\$ 8.2	\$ 7.2
Interest cost	53.2	57.3	55.0
Expected return on plan assets	(57.0)	(57.5)	(51.3)
Net pension expense	<u>\$ 6.8</u>	<u>\$ 8.0</u>	<u>\$ 10.9</u>

The weighted-average assumptions used to determine the pension plans benefit obligations and net periodic costs are as follows (\$ in millions):

	Year ended August 31,		
	2006	2005	2004
<b>Benefit obligations</b>			
Discount rate	5.9%	5.2%	6.3%
Rate of salary progression	3.6%	3.6%	3.6%
<b>Net periodic costs</b>			
Discount rate	5.2%	6.3%	5.9%
Rate of salary progression	3.6%	3.6%	3.5%
Expected long-term rate of return on plan assets	6.4%	7.4%	7.5%

As of August 31, 2006 and 2005, nine and ten of Laidlaw's pension plans, respectively had accumulated benefit obligations in excess of plan assets. As of August 31, 2006 and 2005, eleven and thirteen of Laidlaw's pension plans, respectively had projected benefit obligations in excess of plan assets.

The accumulated benefit obligations in excess of plan assets, projected benefit obligations in excess of plan assets and total accumulated benefit obligation are as follows (\$ in millions):

	<u>Year ended August 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Accumulated obligation in excess of plan assets:</b>			
Projected benefit obligation . . . . .	730.4	809.3	766.6
Accumulated benefit obligation . . . . .	726.5	805.0	763.0
Fair value of assets . . . . .	635.5	673.5	559.8
<b>Projected benefit obligation in excess of plan assets:</b>			
Projected benefit obligation . . . . .	794.8	1,020.6	806.8
Accumulated benefit obligation . . . . .	782.4	991.7	797.7
Fair value of assets . . . . .	698.5	878.2	598.5
Total accumulated benefit obligation . . . . .	954.0	1,001.8	913.4

***Plan Assets***

Assets of the various plans consist primarily of government-backed securities, corporate equity securities, guaranteed insurance contracts, annuities and corporate debt obligations. Furthermore, equity investments are diversified across large and small capitalizations. The plan assets at August 31, 2006, 2005 and 2004 contain no investments in equity or debt securities of Laidlaw or its subsidiaries.

Asset management objectives are to maximize plan returns at an acceptable level of risk such that the plan will be able to pay retirement benefits to plan participants while minimizing cash contributions from Laidlaw over the life of the plan. Investment risk is measured and monitored on an ongoing basis through quarterly investment reviews. Additionally, the asset allocations are reviewed annually using projected benefit payments and long-term historical returns by asset class to determine the optimal allocation for meeting the long-term strategy. The reviews are generally conducted by the plans' investment advisors and are reviewed by the plans' actuaries and other experts. The investment and asset allocation policies of the plans prohibit concentrations greater than 10% in any single equity security, prohibit the use of derivative instruments and do not allow investments in hedge funds.

Target investment allocations, along with the actual weighted-average asset allocations of the collective pension plan assets, are as follows:

	<u>Target allocation August 31, 2006</u>	<u>Percentage of plan assets August 31,</u>		
		<u>2006</u>	<u>2005</u>	<u>2004</u>
Equity securities . . . . .	58%	53%	57%	55%
Debt securities . . . . .	42%	47%	43%	45%
Total . . . . .	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

***Plan Contributions and Potential Funding Requirements***

Laidlaw expects to make pension contributions of \$15.8 million during the year ending August 31, 2007. It is Laidlaw's policy to fund the minimum required contribution under existing laws.

Based upon current pension legislation and plan asset values at August 31, 2006 and assuming annual investment returns of 6%, Laidlaw does not anticipate any significant increase in the minimum funding requirements in the near future. However, there is no assurance that the pension plans will be able to earn the assumed rate of return, or that there will be market driven changes in the discount rates, which would result in Laidlaw being required to make significantly higher plan contributions in the future.

### *Expected future Payments*

Based on current estimates, the future benefit payments under Laidlaw's defined benefit pension plans over the next ten years are expected to be as follows (\$ in millions):

<u>Year ending August 31,</u>	
2007 .....	\$ 82.6
2008 .....	81.3
2009 .....	80.2
2010 .....	78.8
2011 .....	82.9
Fiscal years 2012 through 2016 .....	374.4

### *Defined Contribution Retirement plans*

Laidlaw sponsors defined contribution retirement plans that are generally available to all employees unless not required by union agreements. Company contributions to these plans were \$7.1 million, \$6.9 million and \$7.9 million for the years ended August 31, 2006, 2005 and 2004, respectively.

## **Note 8 — Commitments and contingencies**

### *Lease commitments*

Laidlaw leases certain vehicles and facilities pursuant to operating leases. The leases generally provide for the lessee to pay taxes, maintenance, insurance and certain other operating costs of the leased property. Rental expense incurred under operating leases was \$99.9 million, \$111.3 million and \$114.7 million for the years ended August 31, 2006, 2005 and 2004, respectively.

The leases on most of the vehicles contain purchase provisions or residual value guarantees. Of those leases that contain residual value guarantees, the aggregate residual value at lease expiration is \$88.3 million of which Laidlaw has guaranteed \$55.4 million. Laidlaw has the right to exercise a purchase option with respect to the leased equipment or the equipment can be sold to a third party. At August 31, 2006, management estimates that the residual value on certain leases will exceed the projected fair market value of the underlying buses by \$1.8 million and has established appropriate reserves for this estimated liability.

At August 31, 2006, future minimum operating lease payments for premises and equipment, excluding the effect of any residual value guarantees, are as follows (\$ in millions):

<u>Year ending August 31,</u>	
2007 .....	\$ 71.4
2008 .....	53.3
2009 .....	35.7
2010 .....	26.7
2011 .....	19.0
Thereafter .....	<u>39.2</u>
Total rentals payable .....	<u>\$245.3</u>

### *Environmental matters*

Laidlaw's operations are subject to various federal, state, local and foreign laws and regulations relating to environmental matters, including those concerning emissions to the air; waste water discharges; storage, treatment and disposal of waste and remediation of soil and ground water contamination. Laidlaw has incurred, and expects to incur, costs for our operations to comply with these legal requirements, and these costs could increase in the future. In particular, Laidlaw has been named as a "potentially responsible party" under the United States Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, at various third-party sites at which our waste was allegedly disposed. In addition, management is investigating or engaged in remediation of past contamination at other sites used in the businesses. Laidlaw records liabilities when environmental liabilities are either known or considered probable and can be reasonably estimated. On an ongoing basis, management assesses and evaluates environmental risk and, when necessary, conducts appropriate corrective measures.

At August 31, 2006, Laidlaw had reserved \$9.1 million for general environmental liabilities. Of this amount, \$0.4 million was reserved for fourteen superfund sites, where we are a de minimis contributor in virtually all cases, and \$8.7 million is reserved for ongoing remediation at approximately 60 owned or leased facilities. The largest liability established for remediation at a specific site is approximately \$1.2 million.

The adoption of FIN 47, issued in March 2005 required Laidlaw to recognize additional liabilities. Therefore, Laidlaw has also recorded \$8.8 million of liability for asset retirement obligations triggered by environmental laws and regulations related to the remediation and abatement of asbestos containing materials and disposal of fuel storage tanks. Laidlaw has approximately 250 facilities with asbestos containing materials with the largest exposure at any individual location amounting to \$0.4 million. Additionally, this liability covers disposal costs for approximately 360 fuel storage tanks. See Note 12—"Change in accounting principle" for additional disclosures related to these obligations.

Management believes that adequate accruals have been made related to all known environmental matters, however actual environmental liabilities could differ significantly from these estimates.

### ***Contractual fuel obligations***

During the year ended August 31, 2006, fuel costs, which are subject to market risk from fluctuating fuel prices, represented 8% of Laidlaw's revenue. To mitigate some of this risk, Laidlaw has established a program to enter into option contracts ("Fuel Collars") and forward purchase contracts ("FPCs"). The FPCs generally stipulate that Laidlaw take delivery of set bulk volumes of fuel at prearranged prices for a set period. At August 31, 2006, Laidlaw had outstanding FPCs to purchase 1.4 million gallons of fuel at an average price of \$1.89 per gallon.

During 2006 Laidlaw began to hedge a portion of its diesel fuel purchases by entering into Fuel Collars, which effectively create a cap on the future purchase price of a certain amount of fuel and at the same time, limit the amount of benefit to Laidlaw in a falling future price market. Laidlaw creates a Fuel Collar by purchasing a call option for diesel fuel while simultaneously selling a put option that covers the identical amount of fuel with the same underlying terms and conditions as the call option. During fiscal 2006, Laidlaw entered into Fuel Collars for 21.5 million gallons of diesel fuel of which contracts for 15.0 million gallons remain outstanding at August 31, 2006. In accordance with Statement of Financial Accounting Standards Number 133 "Accounting for Derivative Instruments and Hedging Activities", Laidlaw is accounting for these contracts as cash flow hedges, and has recorded a liability of \$1.6 million for the fair value of the contracts at August 31, 2006.

The volume of fuel covered under the Fuel Collars and FPCs is below the forecasted total bulk fuel needs for any given location. Therefore, the risk of being forced to purchase fuel through the FPCs or settle put options not required by Laidlaw, is minimal. All Fuel Collars and FPCs that were outstanding on August 31, 2006 will expire in fiscal 2007.

### ***Director and Officer Claim Treatment Letter***

Pursuant to the terms of the Directors and Officer Treatment letter dated June 27, 2001, Laidlaw established a defense trust to cover claims against former Directors and Officers that arose prior to Laidlaw's emergence from bankruptcy. Under the agreement, Laidlaw may be obligated to make additional contributions. As of August 31, 2006, the trust balance was \$9.2 million and Laidlaw's maximum exposure to funding the trust in the future is \$6.0 million. Amounts paid from the trust are recognized as an expense when the costs are incurred. The unexpended balance in the trust, if any, will revert to Laidlaw in June 2013.

### **Note 9 — Shareholders' Equity**

#### ***(1) Capital stock***

##### ***(a) Authorized***

500 million Common Shares, par value \$0.01 per share, and 50 million Series A Junior Participating Preferred Shares, par value \$0.01 per share.

##### ***(b) Shareholder Rights Plan***

Laidlaw has a shareholder rights plan pursuant to which each outstanding share of Laidlaw's common shares is accompanied by one preferred share purchase right. The rights expire on July 3, 2013 unless they are earlier redeemed, exchanged, extended or amended by Laidlaw's board of directors.

The rights are not exercisable or transferable apart from the common shares until ten days after a public announcement by Laidlaw that a person or group has acquired beneficial ownership of 15% or more of Laidlaw's common shares or ten business days (or a later date as determined by Laidlaw's board of directors) after a person or group begins a tender or exchange offer that, if completed, would result in that person or group acquiring beneficial ownership of 15% or more of Laidlaw's common shares. Once exercisable, each right would separate from the common shares and be separately tradeable, and, subject to adjustment would entitle its holder to purchase, at the exercise price of \$75.00 per right, a number of common shares, or a number of the surviving company's shares if Laidlaw is not the surviving company, having a market value equal to \$150.00.

Laidlaw may redeem all (but not less than all) of the rights for a redemption price of \$0.01 per right until the rights become exercisable. Laidlaw may also exchange each right for one common share or an equivalent security until an acquiring person or group owns 50% or more of the outstanding common shares.

**(c) Dividends**

During fiscal 2006 and 2005, Laidlaw paid dividends of \$0.60 and \$0.15 per share to shareholders, respectively. While, Laidlaw intends to pay dividends for the foreseeable future, all subsequent dividends will be reviewed quarterly and declared by Laidlaw's board of directors, or a committee to which it delegates such authority, at its discretion.

**(d) Stock repurchase program**

Effective January 5, 2006, Laidlaw's board of directors authorized a stock repurchase program to acquire up to \$200 million of Laidlaw's outstanding stock. Through July 5, 2006, approximately 2.8 million shares had been repurchased at an average cost of \$27.18 per share through open market purchases, leaving \$123.2 million authorized for future repurchases under the program. On July 6, 2006 Laidlaw announced that its board of directors had authorized the repurchase of an additional \$376.8 million of outstanding common stock. This authorization, in combination with the remaining amount authorized under the previously announced buyback program, allowed Laidlaw to repurchase an additional \$500 million. In August 2006 we repurchased approximately 15.5 million shares for \$26.90 per share through a modified "Dutch" auction tender offer. Additionally, we repurchased approximately 0.5 million shares on the open market at an average price of \$26.29 per share leaving \$68.9 million available for future repurchases. As of October 31, 2006, we had completed the repurchase of all authorized amounts.

Future stock repurchases may be made through open market and privately negotiated transactions at times, and in such amounts, as management deems appropriate. The timing and amount of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements and other market conditions. The stock repurchase program does not have an expiration date and may be limited or terminated at any time without prior notice.

**(2) Accumulated other comprehensive income**

Accumulated other comprehensive income is comprised of the following (\$ in millions):

	<u>Year ended August 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Foreign currency translation .....	80.0	54.3	14.8
Unrealized loss on investments .....	(4.7)	(1.2)	(3.0)
Unrealized gain on interest rate swap .....	3.0	—	—
Unrealized loss on fuel hedge .....	(1.6)	—	—
Minimum pension liability .....	—	(31.3)	—
Deferred income tax .....	<u>1.1</u>	<u>12.3</u>	<u>1.0</u>
Total .....	<u>77.8</u>	<u>34.1</u>	<u>12.8</u>

**Note 10 — Stock Based Compensation**

Laidlaw's 2003 Amended and Restated Equity and Performance Incentive Plan ("2003 Incentive Plan") provides for the grant of stock options, stock appreciation rights, restricted shares, deferred shares, performance shares, and performance units to officers and employees of Laidlaw. The 2003 Incentive Plan also provides for the grant of option rights and restricted stock to non-employee directors. There were 5,000,000

Common Shares initially available under the 2003 Incentive Plan. In any calendar year, no participant may be granted more than 500,000 option rights, appreciation rights, deferred shares or restricted shares, or more than \$1.0 million worth of performance shares or performance units. The 2003 Incentive Plan is administered by Laidlaw's Human Resources and Compensation Committee ("Compensation Committee"). The Compensation Committee, as administrator of the plan, has the authority to select plan participants, grant awards, and determine the terms and conditions of such awards.

Laidlaw recorded expenses for stock based compensation of \$7.6 million, \$5.2 million and \$2.6 million for the years ended August 31, 2006, 2005 and 2004, respectively. Laidlaw also recognized income tax benefits related to the stock based compensation of \$2.7 million, \$1.8 million and \$0.9 million for the years ended August 31, 2006, 2005 and 2004, respectively.

### *Stock options*

Stock options have a ten-year life and vest ratably over three years beginning on the first anniversary of the date of the grant. The option holder has no voting or dividend rights. The grant prices are equal to the market prices at date of grant. Laidlaw records the expense of the stock options over the related vesting period.

The options were valued using the Black-Scholes option-pricing model at the date of grant using the following assumptions:

	<u>Years ended August 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Expected volatility . . . . .	29.9%	32.1%	31.8%
Expected term (in years) . . . . .	6.0	6.0	6.0
Expected dividends per share . . . . .	\$0.60	\$ —	\$ —
Risk-free rate of return (weighted average) . . . . .	4.5%	3.7%	3.6%
Weighted average grant-date fair value . . . . .	\$6.52	\$7.23	\$4.89

Expected volatility is based on the historical volatility of Laidlaw's stock price. The expected term represents the estimated average period of time that the options remain outstanding. Since Laidlaw does not have a sufficient history of issuing stock options, the expected term was estimated based on a review of the average terms experienced by other publicly traded companies. Estimated dividends in 2006 were based on the recent dividend payout trend, while in 2005 no dividend payouts were assumed due to credit facility restrictions in place at that time. The risk-free rate of return reflects the weighted average interest rate offered for zero coupon treasury bonds over the expected term of the options.

A summary of the stock option activity for the years ended August 31, 2006 and 2005 is presented below:

	<u>Number of options</u>	<u>Weighted- average exercise price</u>	<u>Weighted- average remaining contractual term (years)</u>	<u>Aggregate intrinsic value (\$ in millions)</u>
Outstanding at September 1, 2004 . . . . .	498,375	\$12.89		
Granted . . . . .	452,625	18.85		
Exercised . . . . .	(6,333)	13.00		
Forfeited . . . . .	(37,862)	15.53		
Outstanding at August 31, 2005 . . . . .	906,805	\$15.75	8.8	\$ 8.2
Exercisable at August 31, 2005 . . . . .	159,792	\$12.88	8.3	\$ 1.9
Outstanding at September 1, 2005 . . . . .	906,805	\$15.75		
Granted . . . . .	404,125	23.21		
Exercised . . . . .	(40,886)	14.94		
Outstanding at August 31, 2006 . . . . .	<u>1,270,044</u>	<u>\$18.15</u>	<u>8.2</u>	<u>\$ 11.2</u>
Exercisable at August 31, 2006 . . . . .	<u>419,257</u>	<u>\$14.76</u>	<u>7.6</u>	<u>\$ 5.1</u>

As of August 31, 2006, there was \$3.5 million of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted average period of 1.2 years. The total intrinsic value of stock options exercised during the years ended August 31, 2006 and 2005 was \$0.5 million and \$0.1 million, respectively. The total fair value of the options vested during the years ended August 31,

2006 and 2005 was \$1.8 million and \$0.8 million, respectively. During the year ended August 31, 2006, Laidlaw received \$0.7 million of cash from the exercise of stock options.

### ***Restricted shares***

Restricted shares vest at the end of a three year period. During the vesting period the participant has the rights of a shareholder in terms of voting and dividend rights but is restricted from transferring the shares. Restricted shares are valued at the price of the common stock on the date of grant and the expense is recorded ratably over the vesting period.

A summary of the restricted share activity for the years ended August 31, 2005 and 2006 is presented below:

	<u>Number of shares</u>	<u>Weighted- average grant-date fair value</u> \$
Outstanding at September 1, 2005 .....	28,688	10.33
Granted .....	25,313	18.85
Forfeited .....	<u>(3,375)</u>	10.33
Outstanding at August 31, 2005 .....	50,626	14.59
Outstanding at September 1, 2005 .....	50,626	14.59
Granted .....	<u>25,313</u>	24.79
Outstanding at August 31, 2006 .....	75,939	17.99

As of August 31, 2006, there was \$0.6 million of total unrecognized compensation cost related to the outstanding restricted shares that will be recognized over a weighted average period of 1.1 years.

### ***Deferred shares***

Deferred shares vest ratably over a four year period beginning on the first anniversary of the date of the grant. On each vesting date the employee receives common stock of Laidlaw equal in number to the deferred shares that have vested. Upon delivery of Laidlaw common stock an equal number of deferred shares are terminated. The participants have no voting or dividend rights with the deferred shares. The deferred shares are valued at the price of the common stock on the date of grant and the expense is recorded ratably over the vesting period.

A summary of the non-vested deferred share activity for the years ended August 31, 2005 and August 31, 2006 is presented below:

	<u>Number of shares</u>	<u>Weighted- average grant-date fair value</u>
Non-vested at September 1, 2004 .....	825,550	\$13.09
Granted .....	362,000	19.57
Vested .....	(167,715)	13.09
Forfeited .....	<u>(164,423)</u>	13.70
Non-vested at August 31, 2005 .....	855,412	15.71
Non-vested at September 1, 2005 .....	855,412	\$15.71
Granted .....	236,500	23.06
Vested .....	(189,736)	15.30
Forfeited .....	<u>(84,482)</u>	15.03
Non-vested at August 31, 2006 .....	<u>817,694</u>	18.01

As of August 31, 2006, there was \$11.0 million of total unrecognized compensation cost related to the outstanding deferred shares that will be recognized over a weighted average period of 1.9 years.

## Note 11 — Discontinued Operations

The following table details the components of income from discontinued operations (\$ in millions):

	Year ended August 31,		
	2006	2005	2004
Revenue .....	\$ —	\$646.2	\$1,604.6
Pre-tax income (loss) before income taxes.....	0.6	(30.6)	27.7
Income tax benefit (expense).....	(0.2)	10.0	(12.5)
Income (loss) from operations .....	0.4	(20.6)	15.2
Pre-tax gain (loss) on sale of businesses.....	(12.4)	236.8	—
Income tax benefit (expense).....	(0.6)	1.8	—
Gain (loss) on sale .....	(13.0)	238.6	—
Income (loss) from discontinued operations.....	<u>\$(12.6)</u>	<u>\$218.0</u>	<u>\$ 15.2</u>

In fiscal 2005 Laidlaw completed the sale of its healthcare transportation services (“AMR”) and emergency management services segments to an affiliate of Onex Corporation. Subsequent to the sale, AMR management advised Laidlaw that they had determined that, utilizing an alternative method of valuing accounts receivable, AMR’s accounts receivable reserves had been understated between \$39 million and \$50 million during the last five years, including the date of sale. As a result of this matter, Onex could have asserted a claim against Laidlaw under the Stock Purchase Agreement. In fiscal 2006 Laidlaw agreed to pay Onex \$10 million in satisfaction of all potential claims Onex may have had against Laidlaw under the Stock Purchase Agreement in regards to the accounts receivable valuation. This settlement resulted in Laidlaw recording a \$10 million pre-tax loss from discontinued operations during fiscal 2006.

The additional loss from discontinued operations in 2006 primarily relates to changes in reserves related to contingent obligations of AMR that are partially indemnified by Laidlaw under the Stock Purchase Agreement.

## Note 12 — Change in accounting principle

FIN 47—“Accounting for Conditional Asset Retirement Obligations” was issued in March 2005 and clarifies the accounting prescribed in SFAS No. 143, “Accounting for Asset Retirement Obligations”. FIN 47 requires the recognition of a liability for the fair value of a conditional asset retirement obligation if the fair value can be reasonably estimated, even though uncertainty exists as to the timing and method of settlement. An asset retirement obligation (“ARO”) is a legal obligation to perform certain activities in connection with retirement, disposal or abandonment of assets. FIN 47 clarifies that the uncertainty about the timing or method of settlement of a conditional asset retirement should be factored into the measurement of the liability. Laidlaw’s ARO’s are recorded at fair value utilizing assumptions on inflation, discount rates, and estimates on the timing and amount of remediation costs based on internal models and external quotes. The ARO liability is offset with a corresponding increase to property and equipment, which is then depreciated over the remaining useful life of the fixed asset. An ongoing operating expense is then recognized for changes in the value of the liability as a result of the passage of time. Laidlaw’s ARO’s are related to the cost of removal and disposal of asbestos containing materials in certain of our buildings and the costs of disposal of fuel storage tanks.

Upon the adoption of FIN 47 at August 31, 2006, Laidlaw recorded a liability of \$8.8 million and recognized a non-cash cumulative effect charge of \$3.7 million, net of taxes. Had FIN 47 been adopted as of the beginning of the earliest year presented in the consolidated financial statements, the estimated ARO liability would have been approximately \$8.1 million and \$7.6 million at the end of 2005 and 2004, respectively.

### Note 13 — Earnings (loss) per share

The earnings (loss) per share figures are calculated using the weighted average number of shares outstanding during the respective periods as presented below (in millions):

	Years ended August 31,		
	2006	2005*	2004
<b>Average shares outstanding</b> . . . . .	97.8	100.1	100.0
Effect of dilutive securities . . . . .	0.4	—	—
Shares held in pension plan trust . . . . .	—	—	3.8
<b>Average diluted shares outstanding</b> . . . . .	<u>98.2</u>	<u>100.1</u>	<u>103.8</u>

\* Potential common shares are considered non-dilutive for the year ending August 31, 2005 due to the loss from continuing operations

### Note 14 — Statement of cash flows

Net cash payments for interest were \$19.0 million, \$76.5 million and \$72.1 million, for the years ended August 31, 2006, 2005 and 2004, respectively. Net cash payments (refunds) for income taxes were \$(3.1) million, \$1.5 million and \$(9.7) million, for the years ended August 31, 2006, 2005 and 2004, respectively.

During the years ended August 31, 2006, 2005 and 2004 Laidlaw purchased \$66.3 million, \$13.4 million and \$3.7 million, respectively, of vehicles that were financed through accounts payable at year end. The cash outflow and capital expenditure reported for these amounts are reflected the following year. Additionally, in fiscal 2006 Laidlaw completed the sale of a public transit facility for \$15.8 million, receiving the proceeds subsequent to August 31, 2006.

Laidlaw has separately disclosed the operating, investing and financing portions of the cash flows attributable to discontinued operations for the years ended August 31, 2005 and 2004, which were previously reported on a combined basis as a single amount. This revised presentation does not change any of the account balances on the consolidated balance sheets, consolidated statements of operations, or the net increase (decrease) in cash and cash equivalents included in our consolidated statement of cash flows for any period presented.

### Note 15 — Legal proceedings

#### *Contingent Liabilities Relating to Sale of AMR*

Laidlaw sold its healthcare transportation services company, American Medical Response (“AMR”) to an affiliate of Onex Corporation in accordance with a Stock Purchase Agreement dated December 6, 2004, as amended (the “Stock Purchase Agreement”). Pursuant to the terms of the Stock Purchase Agreement, Laidlaw is subject to indemnification obligations related to the matters set forth below.

On May 9, 2002, AMR received a subpoena duces tecum from the Office of Inspector General for the United States Department of Health and Human Services. The subpoena required AMR to produce a broad range of documents relating to contracts in Georgia and Colorado for the period from January 1993 through May 2002. Laidlaw is unaware of any active government investigation arising out of AMR activities in Georgia or Colorado and, therefore, does not currently believe there is a material financial exposure related to this matter.

During the first quarter of fiscal 2004, AMR was advised by the U.S. Department of Justice (“DOJ”), that it was investigating certain business practices at AMR. The specific practices at issue were (1) whether ambulance transports involving Medicare eligible patients complied with the “medically necessary” requirement imposed by Medicare regulations, (2) whether patient signatures, when required, were properly obtained from Medicare eligible patients; and (3) whether discounts in violation of the Federal Anti-Kickback Act were provided by AMR in exchange for referrals involving Medicare eligible patients. On September 14, 2006, AMR entered into a Settlement Agreement with the DOJ related to the above matters. Shortly thereafter, Laidlaw paid AMR an agreed upon indemnification amount that was within the accrual Laidlaw had previously established with respect to this matter.

#### *Other*

Laidlaw is also a defendant in various lawsuits arising in the ordinary course of business, primarily cases involving personal injury, property damage, environmental or employment related claims. Some of these actions are covered to varying degrees by insurance policies. Based on an assessment of known claims and our

historical claims payout pattern, management believes that there is no proceeding either threatened or pending against us that would have a material adverse effect on Laidlaw.

**Note 16 — Segment information**

Laidlaw has three reportable segments: education services, Greyhound and public transit. The education services segment provides school bus transportation throughout Canada and the United States. The Greyhound segment provides intercity and tourism bus transportation throughout North America. Public transit provides municipal and paratransit bus transportation within the United States.

Laidlaw evaluates performance and allocates resources based on operating income before depreciation and amortization (“EBITDA”). Laidlaw’s reportable segments are business units that offer different services and are each managed separately.

**Reportable Segments (\$ in millions)**

	Year ended August 31,		
	2006	2005	2004
<b>Revenue</b>			
Education services	\$1,579.5	\$1,518.2	\$1,495.8
Greyhound	1,244.2	1,201.6	1,230.5
Public transit	308.2	306.7	300.5
Consolidated	<u>\$3,131.9</u>	<u>\$3,026.5</u>	<u>\$3,026.8</u>
<b>EBITDA</b>			
Education services	\$ 294.5	\$ 296.0	\$ 279.3
Greyhound	152.1	101.9	86.2
Public transit	19.7	16.1	8.0
Consolidated	\$ 466.3	\$ 414.0	\$ 373.5
Depreciation and amortization	(215.8)	(249.1)	(230.7)
Operating income	250.5	164.9	142.8
Interest expense, net	(24.3)	(70.8)	(78.6)
Other income, net	10.4	10.5	2.1
Debt restructuring costs	—	(112.2)	—
Income tax (expense) benefit	(95.4)	2.0	(19.8)
Income (loss) from continuing operations	<u>\$ 141.2</u>	<u>\$ (5.6)</u>	<u>\$ 46.5</u>
<b>Assets</b>			
Education services	\$1,235.0	\$1,088.3	\$1,222.7
Greyhound	783.6	857.0	898.0
Public transit	102.8	102.1	104.5
Corporate assets	917.3	861.3	805.1
Discontinued operations	—	—	918.1
Consolidated	<u>\$3,038.7</u>	<u>\$2,908.7</u>	<u>\$3,948.4</u>
<b>Capital expenditures</b>			
Education services	\$ 233.2	\$ 137.4	\$ 134.9
Greyhound	87.4	41.9	35.5
Public transit	8.7	7.3	13.2
Consolidated	<u>\$ 329.3</u>	<u>\$ 186.6</u>	<u>\$ 183.6</u>

## Geographic Information

	Year ended August 31,		
	2006	2005	2004
<b>Revenue</b>			
United States .....	\$2,621.2	\$2,576.0	\$2,614.4
Canada .....	510.7	450.5	412.4
Consolidated .....	<u>\$3,131.9</u>	<u>\$3,026.5</u>	<u>\$3,026.8</u>
<b>EBITDA</b>			
United States .....	\$ 389.0	\$ 360.0	\$ 313.3
Canada .....	77.3	54.0	60.2
Consolidated .....	<u>\$ 466.3</u>	<u>\$ 414.0</u>	<u>\$ 373.5</u>
<b>Long-lived assets</b>			
United States .....	\$1,586.4	\$1,533.2	\$1,586.8
Canada .....	387.0	368.0	379.0
Consolidated .....	<u>\$1,973.4</u>	<u>\$1,901.2</u>	<u>\$1,965.8</u>

### Note 17 — Valuation and Qualifying Accounts

Allowance for doubtful accounts and deferred income tax valuation reserves were as follows (\$ in millions):

	Year ended August 31,		
	2006	2005	2004
<b>Allowance for doubtful accounts</b>			
Balance at beginning of Period .....	\$ 6.2	\$ 4.9	\$ 5.7
Charged to costs and expenses .....	1.8	2.7	1.2
Amounts written off net of recoveries .....	(2.0)	(1.4)	(1.7)
Other .....	—	—	(0.3)
Balance at end of period .....	<u>\$ 6.0</u>	<u>\$ 6.2</u>	<u>\$ 4.9</u>
<b>Deferred income tax asset valuation reserve</b>			
Balance at beginning of Period .....	\$487.4	\$179.4	\$178.6
Reserves established for capital losses .....	0.5	487.1	—
Reserves used against capital gains .....	(0.7)	—	—
Losses expired .....	(17.9)	—	—
Increase (decrease) in attributes subject to reserve .....	(5.4)	—	35.9
Reduction applied to intangibles .....	—	(113.3)	(34.9)
Amounts written off net of recoveries .....	—	(66.8)	(0.5)
Exchange rate differences .....	0.4	0.7	0.3
Charged to costs and expenses .....	—	0.3	—
Balance at end of period .....	<u>\$464.3</u>	<u>\$487.4</u>	<u>\$179.4</u>

## Note 18 — Quarterly Financial Information (Unaudited)

Selected unaudited quarterly financial data for the years ended August 31, 2006, 2005 and 2004 are as follows (\$ in millions except per share amounts):

	2006			
	4 <sup>th</sup> Qtr.**	3 <sup>rd</sup> Qtr.	2 <sup>nd</sup> Qtr.	1 <sup>st</sup> Qtr.
Revenue . . . . .	\$635.4	\$860.7	\$789.0	\$846.8
Operating income . . . . .	5.0	83.5	65.3	96.7
Income from continuing operations . . . . .	1.9	43.5	37.8	58.0
Income (loss) from discontinued operations . . . . .	0.3	(9.4)	(3.8)	0.3
Cumulative effect of a change in accounting principles . . . . .	(3.7)	—	—	—
Net income (loss) . . . . .	<u>\$ (1.5)</u>	<u>\$ 34.1</u>	<u>\$ 34.0</u>	<u>\$ 58.3</u>
Basic earnings (loss) per share*				
Continuing operations . . . . .	\$ 0.02	\$ 0.44	\$ 0.38	\$ 0.58
Discontinued operations . . . . .	—	(0.09)	(0.04)	—
Cumulative effect of a change in accounting principles . . . . .	(0.04)	—	—	—
Net income (loss) . . . . .	<u>\$(0.02)</u>	<u>\$ 0.35</u>	<u>\$ 0.34</u>	<u>\$ 0.58</u>
Diluted earnings (loss) per share*				
Continuing operations . . . . .	\$ 0.02	\$ 0.44	\$ 0.38	\$ 0.58
Discontinued operations . . . . .	—	(0.09)	(0.04)	—
Cumulative effect of a change in accounting principles . . . . .	(0.04)	—	—	—
Net income (loss) . . . . .	<u>\$(0.02)</u>	<u>\$ 0.35</u>	<u>\$ 0.34</u>	<u>\$ 0.58</u>
	2005			
	4 <sup>th</sup> Qtr.***	3 <sup>rd</sup> Qtr.	2 <sup>nd</sup> Qtr.	1 <sup>st</sup> Qtr.
Revenue . . . . .	\$613.0	\$836.1	\$763.7	\$813.7
Operating income (loss) . . . . .	(7.1)	62.0	50.9	59.1
Income (loss) from continuing operations . . . . .	(81.5)	30.4	20.7	24.8
Income (loss) from discontinued operations . . . . .	(2.1)	(1.0)	215.5	5.6
Net income (loss) . . . . .	<u>\$(83.6)</u>	<u>\$ 29.4</u>	<u>\$ 236.2</u>	<u>\$ 30.4</u>
Basic earnings (loss) per share*				
Continuing operations . . . . .	\$(0.81)	\$ 0.30	\$ 0.21	\$ 0.25
Discontinued operations . . . . .	(0.02)	(0.01)	2.15	0.05
Net income (loss) . . . . .	<u>\$(0.83)</u>	<u>\$ 0.29</u>	<u>\$ 2.36</u>	<u>\$ 0.30</u>
Diluted earnings (loss) per share*				
Continuing operations . . . . .	\$(0.81)	\$ 0.30	\$ 0.20	\$ 0.24
Discontinued operations . . . . .	(0.02)	(0.01)	2.08	0.05
Net income (loss) . . . . .	<u>\$(0.83)</u>	<u>\$ 0.29</u>	<u>\$ 2.28</u>	<u>\$ 0.29</u>

\* The sum of the quarterly earnings per share amounts do not equal the total annual earnings per share due to the uneven timing of earnings through out the year compared to the weighted average shares outstanding.

\*\* Income from continuing operations includes a \$5.4 million (\$0.05 per share) Insurance recovery gain from hurricane Katrina and a \$2.3 million (\$0.02 per share) gain from the sale of a public transit facility.

\*\*\* Loss from continuing operations includes a \$72.2 million (\$0.72 per share) charge for debt restructuring costs and a \$2.1 million (\$0.02 per share) charge for a correction of the accounting for post-retirement benefits.

	2004			
	<u>4<sup>th</sup> Qtr.</u>	<u>3<sup>rd</sup> Qtr.</u>	<u>2<sup>nd</sup> Qtr.</u>	<u>1<sup>st</sup> Qtr.</u>
Revenue .....	\$612.2	\$838.1	\$761.6	\$814.9
Operating income (loss) .....	(2.7)	73.8	19.5	52.2
Income (loss) from continuing operations .....	(10.3)	32.0	3.8	21.0
Income (loss) from discontinued operations .....	7.6	2.6	3.4	1.6
Net income (loss) .....	<u>\$ (2.7)</u>	<u>\$ 34.6</u>	<u>\$ 7.2</u>	<u>\$ 22.6</u>
Basic earnings (loss) per share				
Continuing operations .....	\$(0.10)	\$ 0.32	\$ 0.04	\$ 0.21
Discontinued operations .....	0.07	0.03	0.03	0.02
Net income (loss) .....	<u>\$(0.03)</u>	<u>\$ 0.35</u>	<u>\$ 0.07</u>	<u>\$ 0.23</u>
Diluted earnings (loss) per share				
Continuing operations .....	\$(0.10)	\$ 0.31	\$ 0.04	\$ 0.20
Discontinued operations .....	0.07	0.02	0.03	0.02
Net income (loss) .....	<u>\$(0.03)</u>	<u>\$ 0.33</u>	<u>\$ 0.07</u>	<u>\$ 0.22</u>

**(B) Financial information the three months ended 30 November 2005 and 30 November 2006.**

*(a) Consolidated statement of operations*

	Three months ended November 30,	
	2006	2005
	US\$m	US\$m
<b>Revenue</b> .....	<u>858.1</u>	<u>846.8</u>
Compensation expense .....	421.3	406.7
Vehicle related costs .....	59.6	63.1
Fuel .....	69.9	65.3
Insurance and accident claim costs .....	43.8	47.1
Occupancy costs .....	38.4	38.7
Depreciation and amortization .....	62.0	58.6
Other operating expenses .....	<u>83.3</u>	<u>70.6</u>
<b>Operating income</b> .....	79.8	96.7
Interest expense .....	(14.9)	(5.5)
Other income (expense), net .....	<u>(1.9)</u>	<u>1.8</u>
Income from continuing operations before income taxes .....	63.0	93.0
Income tax expense .....	<u>(22.9)</u>	<u>(35.0)</u>
<b>Income from continuing operations</b> .....	40.1	58.0
<b>Income from discontinued operations</b> .....	<u>—</u>	<u>0.3</u>
<b>Net income</b> .....	<u><u>40.1</u></u>	<u><u>58.3</u></u>

(b) Consolidated balance sheet

	November 30, 2006 <u>(unaudited)</u> US\$m	August 31, 2006 <u>(unaudited)</u> US\$m	November 30, 2005 <u>(unaudited)</u> US\$m
<b>Assets</b>			
Cash and cash equivalents .....	95.9	318.7	146.9
Accounts receivable .....	369.8	210.5	363.5
Insurance collateral .....	62.8	106.4	74.9
Parts and supplies .....	35.9	40.7	33.3
Deferred income tax assets .....	42.5	39.6	45.0
Other current assets .....	27.5	24.8	28.2
Property and equipment .....	1,597.5	1,597.9	1,457.9
Insurance collateral .....	350.4	303.4	396.9
Other long-term investments .....	26.0	29.3	39.2
Contracts and customer relationships .....	66.7	68.5	71.8
Deferred income tax assets .....	239.2	267.4	316.4
Deferred charges and other assets .....	34.0	31.5	10.7
Total assets .....	<u>2,948.2</u>	<u>3,038.7</u>	<u>2,984.7</u>
<b>Liabilities and shareholders' equity</b>			
Accounts payable .....	86.6	140.3	102.1
Accrued liabilities .....	212.8	208.5	215.7
Current portion of insurance reserves .....	140.5	147.8	146.8
Current portion of long-term debt .....	34.7	34.7	34.7
Long-term debt .....	777.2	772.6	278.5
Insurance reserves .....	349.3	339.7	351.3
Pension liability .....	105.3	104.5	127.4
Other long-term liabilities .....	80.3	82.7	80.4
Total liabilities .....	1,786.7	1,830.8	1,336.9
<b>Shareholders' Equity</b>			
Common shares; \$0.01 par value per share; issued and outstanding 79.3 million (August 31, 2006 — 81.6 million) .....	0.8	0.8	1.0
Additional paid in capital .....	745.5	814.5	1,316.5
Accumulated other comprehensive income .....	73.8	77.8	37.9
Retained earnings .....	341.4	314.8	292.4
Total shareholders' equity .....	<u>1,161.5</u>	<u>1,207.9</u>	<u>1,647.8</u>
Total liabilities and shareholders' equity .....	<u>2,948.2</u>	<u>3,038.7</u>	<u>2,984.7</u>

(c) Consolidated cash flow statement

	Three months ended	
	November 30,	
	2006	2005
	US\$m	US\$m
<b>Operating activities</b>		
Net income	40.1	58.3
Income from discontinued operations	—	(0.3)
Non-cash adjustments to net income		
Depreciation and amortization	62.0	58.6
Deferred income taxes	22.0	34.2
Other non-cash items	3.5	3.2
Net change in certain operating assets and liabilities		
Accounts receivable	(176.6)	(162.1)
Insurance collateral	2.7	(4.8)
Accounts payable and accrued liabilities	(0.5)	1.7
Insurance reserves	2.9	12.1
Other assets and liabilities	(4.3)	(16.8)
<b>Net cash used by operating activities</b>	<b>(48.2)</b>	<b>(15.9)</b>
<b>Investing activities</b>		
Purchase of property and equipment	(129.5)	(57.9)
Proceeds from sale of property and equipment	19.2	3.4
Net decrease in performance bond collateral	4.2	0.6
Net decrease in other investments	—	0.1
<b>Net cash used by investing activities</b>	<b>(106.1)</b>	<b>(53.8)</b>
<b>Financing activities</b>		
Repurchase of common stock	(74.3)	—
Proceeds from issuance of long term debt	13.4	—
Principal payment on Term A debt	(7.5)	—
Net decrease in other long-term debt	(0.2)	(1.2)
Other financing activities	0.1	—
<b>Net cash used by financing activities</b>	<b>(68.5)</b>	<b>(1.2)</b>
<b>Discontinued operations</b>		
Operating cash flows from discontinued operations	—	0.5
<b>Net cash provided by discontinued operations</b>	<b>—</b>	<b>0.5</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(222.8)</b>	<b>(70.4)</b>
<b>Cash and cash equivalents — beginning of period</b>	<b>318.7</b>	<b>217.3</b>
<b>Cash and cash equivalents — end of period</b>	<b>95.9</b>	<b>146.9</b>

**Note 1 — Corporate Overview and Basis of Presentation**

*Corporate overview*

Laidlaw International, Inc. (“Laidlaw”) operates in three reportable business segments: education services, Greyhound and public transit. The education services segment provides school bus transportation, including scheduled home-to-school, extra-curricular and charter and transit school bus services, throughout the United States and Canada. Greyhound, a national provider of inter-city bus transportation in the United States and Canada, provides scheduled passenger service, package delivery service, charter bus service and, in certain terminals, food service. The public transit segment provides paratransit bus transportation for riders with disabilities and fixed-route municipal bus service.

*Basis of presentation*

The accompanying interim consolidated financial statements of Laidlaw have been prepared in accordance with accounting principles generally accepted in the United States for interim reporting and accordingly, do not include all of the disclosures required for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included. All such adjustments are of a

normal, recurring nature. Operating results for the three months ended November 30, 2006 are not necessarily indicative of the results that may be expected for the full year ending August 31, 2007. For further information, see Laidlaw's consolidated financial statements, including the accounting policies and notes thereto, included in Laidlaw's Annual Report on Form 10-K for the fiscal year ended August 31, 2006.

## Note 2 — Comprehensive Income

The following table summarizes total comprehensive income (\$ in millions):

	Three months ended November 30,	
	2006	2005
<i>Net income</i> .....	<b>\$40.1</b>	\$58.3
Net unrealized gain (loss) on securities .....	<b>4.6</b>	(4.8)
Net (loss) gain on interest rate swaps .....	<b>(0.9)</b>	1.4
Net loss on fuel hedge .....	<b>(0.8)</b>	—
Foreign currency translation adjustments .....	<b>(6.9)</b>	7.2
<b>Total comprehensive income</b> .....	<b><u>\$36.1</u></b>	<b><u>\$62.1</u></b>

## Note 3 — Stock Awards and Options

Pursuant to Laidlaw's Amended and Restated 2003 Equity and Performance Incentive Plan, Laidlaw has issued stock based compensation to various employees and non-employee directors. These grants to employees represent the long-term incentive portion of Laidlaw's overall compensation plan for management. Laidlaw accounts for all stock-based compensation based on estimated fair value at the grant date and recorded an expense related to these plans of approximately \$2.3 million and \$1.7 million during the three months ended November 30, 2006 and 2005, respectively. A summary of stock based awards and options issued during the current fiscal year is as follows:

*Stock options* — During the three months ended November 30, 2006, Laidlaw issued 319,125 non-qualified stock options to employees and non-employee directors with an average exercise price of \$28.60 per share. The exercise price is equal to the fair market value of Laidlaw's stock at the date of grant. The option holder has no voting or dividend rights. The stock options have a ten-year life and vest ratably over three years.

*Restricted Shares* — During the three months ended November 30, 2006, Laidlaw issued 25,313 shares of restricted common stock to non-employee directors. The restricted shares vest at the end of a two year period and during the vesting period the participant has the rights of a shareholder with respect to voting and dividend rights but is restricted from transferring the shares.

*Deferred Shares* — During the three months ended November 30, 2006, Laidlaw granted 182,500 deferred shares to key employees. The deferred shares vest ratably over a four year period. On each vesting date the employee receives common stock of Laidlaw equal in number to the deferred shares that have vested. Upon delivery of Laidlaw common stock an equal number of deferred shares are terminated. The participants have no voting or dividend rights with the deferred shares.

## Note 4 — Pension Plans

The components of net pension cost for Laidlaw's pension plans were as follows (\$ in millions):

	Three months ended November 30,	
	2006	2005
<b>Components of net pension cost</b>		
Service cost .....	<b>\$ 2.7</b>	\$ 2.2
Interest cost .....	<b>13.5</b>	12.2
Expected return on plan assets .....	<b>(14.2)</b>	(12.6)
<b>Net pension cost</b> .....	<b><u>\$ 2.0</u></b>	<b><u>\$ 1.8</u></b>

## **Note 5 — Material Contingencies**

### ***Legal proceedings***

Laidlaw is a defendant in various lawsuits and claims arising in the ordinary course of business, primarily cases involving personal injury, property damage, environmental or employment related claims. Some of these actions are covered to varying degrees by insurance policies. Based on an assessment of known claims and our historical claims payout pattern, management believes that there is no proceeding either threatened or pending against us that would have a material adverse effect on Laidlaw.

### ***Environmental matters***

Laidlaw's operations are subject to various federal, state, local and foreign laws and regulations relating to environmental matters, including those concerning emissions to the air; waste water discharges; storage, treatment and disposal of waste and remediation of soil and ground water contamination. Laidlaw has incurred, and expects to incur, costs for our operations to comply with these legal requirements, and these costs could increase in the future. In particular, Laidlaw has been named as a "potentially responsible party" under the United States Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, at various third-party sites at which Laidlaw's waste was allegedly disposed. In addition, management is investigating or engaged in remediation of past contamination at other sites used in Laidlaw's business. Laidlaw records liabilities when environmental liabilities are either known or considered probable and can be reasonably estimated. On an ongoing basis, management assesses and evaluates environmental risk and, when necessary, conducts appropriate corrective measures. As of the date of this report, management believes that adequate accruals have been made related to all known environmental matters, however actual environmental liabilities could differ significantly from these estimates.

### ***Income tax matters***

The respective tax authorities, in the normal course, audit previous tax filings. It is not possible at this time to predict the final outcome of these audits or to establish a reasonable estimate of possible additional taxes owed, if any.

## **Note 6 — Repurchase of Common Stock**

During the three months ended November 30, 2006 Laidlaw repurchased approximately 2.5 million shares of our common stock at an average cost of \$27.92 per share through open market purchases, completing the \$500 million repurchase program authorized in July 2006.

## **Note 7 — Statement of Cash Flows**

During the three month periods ended November 30, 2006 and 2005 Laidlaw expended cash of \$56.8 million and \$19.3 million, respectively, for vehicles that were purchased in the previous fiscal year and financed through accounts payable at year end.

## **Note 8 — Segment Information**

Laidlaw has three reportable segments: education services, Greyhound and public transit. The education services segment provides school bus transportation throughout Canada and the United States. The Greyhound segment provides intercity bus transportation throughout North America. Public transit provides municipal and paratransit bus transportation within the United States.

Laidlaw evaluates performance and allocates resources based on operating income before depreciation and amortization ("EBITDA"). Laidlaw's reportable segments are business units that offer different services and are each managed separately.

	Three months ended November 30,	
	(\$ millions)	
	<u>2006</u>	<u>2005</u>
<b>Revenue</b>		
Education services .....	<b>\$501.7</b>	\$463.7
Greyhound .....	<b>279.5</b>	304.6
Public transit .....	<b>76.9</b>	78.5
Consolidated .....	<b><u>\$858.1</u></b>	<u>\$846.8</u>
<b>EBITDA</b>		
Education services .....	<b>\$111.9</b>	\$115.4
Greyhound .....	<b>25.6</b>	34.9
Public transit .....	<b>4.3</b>	5.0
Consolidated .....	<b>141.8</b>	155.3
Depreciation and amortization .....	<b>(62.0)</b>	(58.6)
Operating income .....	<b>79.8</b>	96.7
Interest expense, net .....	<b>(14.9)</b>	(5.5)
Other income (expense), net .....	<b>(1.9)</b>	1.8
Income tax expense .....	<b>(22.9)</b>	(35.0)
Income from continuing operations .....	<b>40.1</b>	58.0
Income from discontinued operations .....	<b>—</b>	0.3
Net income .....	<b><u>\$ 40.1</u></b>	<u>\$ 58.3</u>

Total identifiable assets for each of the reportable segments has not changed materially since August 31, 2006 with the exception of the education services segment where total identifiable assets at November 30, 2006 were \$1,422.9 million compared to \$1,235.0 million at August 31, 2006. The increase was primarily due to seasonal accounts receivable changes.

**Note 9 — Business Interruption Settlement**

During the three months ended November 30, 2005, Greyhound received a \$5.0 million business interruption insurance settlement relating to losses incurred during the September 11, 2001 terrorist attacks. The recovery was applied against other operating expenses on Laidlaw's "Consolidated Statements of Operations".

## **2. Accountant's report on the reconciliation of Laidlaw's financial information**

The Board of Directors  
FirstGroup plc  
395 King Street  
Aberdeen  
AB24 5RP

JPMorgan Cazenove Limited  
20 Moorgate  
London  
EC2R 6DA

26 March 2007

Dear Sirs

### **FirstGroup plc (the "Company") — proposed acquisition of Laidlaw International, Inc. ("Laidlaw")**

We report on the reconciliation of the consolidated shareholders' equity as at 31 August 2004, 31 August 2005 and 31 August 2006, and the consolidated net income for each of the years in the three-year period ended 31 August 2006 and the consolidated shareholders' equity as at 30 November 2005 and 30 November 2006 and the consolidated net income for each of the quarterly periods then ended, as reported in the financial statements of Laidlaw prepared under US Generally Acceptable Accounting Principles ("US GAAP"), on the basis of the accounting policies of the Company (the "reconciliations"), and on the adjustments set out in Section 3 of Part VI of the circular of the Company dated 26 March 2007 (the "Circular"). This report is required by Listing Rule 13.5.27(2)(b)R of the Financial Services Authority and is given for the purpose of complying with that Listing Rule and for no other purpose.

### **Responsibilities**

It is the responsibility of the directors of the Company (the "Directors") to prepare the reconciliations in accordance with Listing Rule 13.5.27(2)(a).

It is our responsibility to form an opinion as required by Listing Rule 13.5.27(b) as to whether the:

- (a) reconciliations have been properly compiled on the stated basis; and
- (b) adjustments are appropriate for the purpose of presenting the financial information (as adjusted) on a basis consistent in all material respects with the accounting policies of the Company.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to ordinary shareholders as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.4.1R(6), consenting to its inclusion in the Circular.

### **Basis of Opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of assessing whether the unadjusted financial information of Laidlaw has been extracted from an appropriate source, including communicating with its directors, management, obtaining and evaluating evidence supporting the adjustments and discussing the reconciliations with the Directors.

The reconciliations are based on the audited balance sheets as at 31 August 2006, 31 August 2005 and 31 August 2004 and profit and loss accounts for each of the years then ended, and the unaudited balance sheets as at 30 November 2005 and 30 November 2006 and profit and loss accounts for the quarterly period then ended of Laidlaw.

As the work that we performed did not involve an independent examination of any of the underlying financial information we express no opinion on the balance sheets and profit and loss accounts.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the reconciliations have been properly compiled on the

basis stated and that the adjustments are appropriate for the purpose of presenting the financial information (as adjusted) on a basis consistent in all material respects with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

**Opinion**

In our opinion:

- (a) the reconciliations have been properly compiled on the basis stated; and
- (b) the adjustments are appropriate for the purpose of presenting the financial information (as adjusted) on a basis consistent in all material respects with the accounting policies of the Company.

Yours faithfully

Deloitte & Touche LLP  
Chartered Accountants

*Deloitte & Touche LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu ("DTT"), a Swiss Verein whose member firms are separate and independent legal entities. Neither DTT nor any of its member firms has any liability for each other's acts or omissions. Services are provided by member firms or their subsidiaries and not by DTT.*

### 3. Unaudited reconciliation of Laidlaw's net income for the financial period and total stockholder's equity

Laidlaw prepares its financial statements in accordance with US GAAP. For the purposes of the reconciliation to IFRS a transition date to IFRS of 1 September 2003 has been used, being the beginning of the earliest period for which a restatement to IFRS is presented.

In order to make a restatement to IFRS easier, IFRS 1 allows some exemptions from full retrospective application of certain standards. In preparing these reconciliations the Directors of FirstGroup have applied the following exemptions from full retrospective application of IFRS:

- The business combinations exemption in IFRS 1 has been applied such that business combinations that took place prior to the 1 September 2003 transition date have not been restated.
- Estimates under IFRS 1 at 1 September 2003 are consistent with estimates at the same date under US GAAP.
- Upon its emergence from bankruptcy in June 2003, Laidlaw had recorded its net assets at fair value in accordance with the requirements of AICPA Statement of Position, 90-7, Financial Reporting by Entities in Reorganisation Under the Bankruptcy Code. For the purposes of the transition to IFRS these fair value measurements have been used as deemed cost for IFRS.
- IFRS 2, Share-based payments, has been applied to equity-settled awards granted on or after 1 November 2002.
- In accordance with IAS 19, Employee benefits, all actual gains and losses were recognised at the date of transition and subsequently have been recognised in the statement of recognised income and expense in the period in which they arise.

The table below provides an unaudited reconciliation of net income for each of the three financial years ended 31 August 2006 and the three months ended 30 November 2005 and 2006 and total stockholders' equity as at those dates as published by Laidlaw to those results that would have been presented had the IFRS accounting policies of FirstGroup been applied:

	Year ended 31 August			Three months ended 30 November	
	2006	2005	2004	2006	2005
	US\$m	US\$m	US\$m	US\$m	US\$m
Net income for the financial period under US GAAP, as reported . . . . .	124.9	212.4	61.7	40.1	58.3
Adjustments:					
Pensions . . . . .	<i>a</i> (3.3)	(0.7)	2.2	0.4	(0.7)
Other intangible assets . . . . .	<i>c</i> —	91.0	—	—	—
Asset retirement obligations . . . . .	<i>d</i> —	(0.8)	(0.8)	—	(0.2)
Tax effect of other adjustments . . . . .	<i>e</i> 1.3	(34.0)	(0.5)	(0.2)	0.3
Net income for the financial period under IFRS, as restated . . . . .	<u>122.9</u>	<u>267.9</u>	<u>62.6</u>	<u>40.3</u>	<u>57.7</u>

	As at 31 August			As at 30 November	
	2006	2005	2004	2006	2005
	US\$m	US\$m	US\$m	US\$m	US\$m
Total stockholders' equity under US GAAP, as reported .....	1,207.9	1,600.2	1,376.5	1,161.5	1,647.8
Adjustments:					
Pensions .....	<i>a</i> 1.2	(23.4)	(6.6)	1.9	(23.9)
Deferred tax on land .....	<i>b</i> (50.4)	(50.4)	(50.4)	(50.4)	(50.4)
Other intangible assets .....	<i>c</i> 91.0	91.0	—	91.0	91.0
Asset retirement obligations .....	<i>d</i> —	(5.0)	(4.2)	—	(5.3)
Tax effect of other adjustments .....	<i>e</i> (35.0)	(23.8)	4.1	(35.3)	(23.5)
Estimated total shareholders' equity under IFRS, as restated .....	<u>1,214.7</u>	<u>1,588.6</u>	<u>1,319.4</u>	<u>1,168.7</u>	<u>1,635.7</u>

Notes:

- (a) FirstGroup has elected in accordance with IAS 19 to recognise all actuarial gains and losses in the statement of recognised income and expense in the period in which they arise. Under US GAAP, Laidlaw have applied the corridor approach in accordance with SFAS 87 such that actuarial gains and losses that exceed 10 percent of the greater of the projected benefit obligation and the market related value of plan assets are amortised over the average remaining service lives of active employees. Furthermore SFAS 87 permits measurement of plan assets and obligations up to three months before the balance sheet date and does not require the measurement to be updated for significant changes between the measurement date and the balance sheet date whereas IAS 19 requires the measurement to be done at the balance sheet date. The accounting for Laidlaw's pension schemes has been revised accordingly.
- (b) Under US GAAP, deferred tax is recorded on land revalued upon emergence from bankruptcy for the difference between the book value and original cost. Under IFRS the tax basis of the land is considered to be nil as it is held for use, which results in the recognition of an additional deferred tax liability.
- (c) US GAAP requires that the benefit for subsequent recognition of a deferred tax asset of an entity emerging from bankruptcy for which a valuation allowance was established upon emergence is first applied to goodwill, then to reduce other intangible assets and finally to reduce tax expense. IFRS does not have specific guidance for entities emerging from bankruptcy. Therefore the recognition of additional deferred tax assets results in a reduction in tax expense and not an adjustment to the net book value of other intangible assets.
- (d) The adoption of FIN 47 Accounting for Conditional Asset Retirement obligations, by Laidlaw in the period ending 31 August 2006 resulted in the recognition of a cumulative effect of a change in accounting principle charge in 2006 and resulted in a provision for the anticipated costs of retiring assets used in the business at 31 August 2006. Under IFRS a charge and related provision would already have been recognised for the preceding periods.
- (e) The tax adjustment represents the tax effect of the foregoing adjustments: (a), (c) and (d).

## **PART VII**

### **UNAUDITED PRO FORMA FINANCIAL INFORMATION**

Set out below is an unaudited pro forma statement of net assets as at 30 September 2006 based on the consolidated net assets of FirstGroup and the consolidated net assets of Laidlaw. This unaudited pro forma statement of net assets is prepared for illustrative purposes only to show the effect on FirstGroup of the Acquisition, the repayment of Laidlaw's debt, the Placing, another equity issue (or issues) to refinance the Equity Bridge Facility and drawdown under the Acquisition finance facilities, in each case as if they had occurred on 30 September 2006.

Because of the nature of pro forma information, this information addresses a hypothetical situation and does not therefore represent the actual financial position or results of FirstGroup or the Enlarged Group.

The unaudited pro forma statement of net assets set out below is based on the consolidated balance sheet of FirstGroup as at 30 September 2006 adjusted to reflect the consolidated balance sheet of Laidlaw as at 30 November 2006 presented in accordance with FirstGroup's accounting policies (as extracted without material adjustment from Laidlaw's financial information reconciliation in Part VI (Financial Information on Laidlaw) of this document) and other adjustments on the basis described in the notes below.

*Unaudited pro forma statement of net assets as at 30 September 2006*

	Historical	Historical	Pro forma adjustments				Acquisition finance facilities £m (vii)	Pro forma £m
	FirstGroup 2006 £m (i)	Laidlaw 2006 £m (ii)	Acquisition £m (iii)	Laidlaw debt repayment £m (iv)	Placing £m (v)	Equity offering (s) £m (vi)		
<b>Current Assets</b>								
Cash And Cash Equivalents	181.3	51.3	(1,573.3)	(429.5)	216.0	149.0	1,586.5	181.3
Trade And Other								
Receivables . . . . .	368.1	197.8						565.9
Insurance Collateral . . . . .	—	33.6						33.6
Inventories . . . . .	62.4	19.2						81.6
Deferred Tax . . . . .	—	22.7						22.7
Other Current Assets . . . . .	7.5	14.7						22.2
	<u>619.3</u>	<u>339.3</u>	<u>(1,573.3)</u>	<u>(429.5)</u>	<u>216.0</u>	<u>149.0</u>	<u>1,586.5</u>	<u>907.3</u>
<b>Non-Current Assets</b>								
Property, Plant And								
Equipment . . . . .	1,036.6	854.3						1,890.9
Insurance Collateral . . . . .	—	187.4						187.4
Other Long-Term								
Investments . . . . .	—	13.9						13.9
Goodwill . . . . .	482.6	—	948.2					1,430.8
Other Intangible Assets . . . . .	59.4	84.3						143.7
Deferred Tax . . . . .	—	82.1						82.1
Deferred Charges And Other Assets . . . . .	34.9	13.5						48.4
	<u>1,613.5</u>	<u>1,235.5</u>	<u>948.2</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,797.2</u>
Total Assets . . . . .	<u>2,232.8</u>	<u>1,574.8</u>	<u>(625.1)</u>	<u>(429.5)</u>	<u>216.0</u>	<u>149.0</u>	<u>1,586.5</u>	<u>4,704.5</u>
<b>Current Liabilities</b>								
Trade And Other Payables . .	(586.3)	(235.2)						(821.5)
Debt Due In Less Than One Year . . . . .	(72.0)	(18.6)		18.6				(72.0)
Tax Liabilities . . . . .	(51.7)	—						(51.7)
	<u>(710.0)</u>	<u>(253.8)</u>	<u>—</u>	<u>18.6</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(945.2)</u>
<b>Non-Current Liabilities</b>								
Long-Term Debt . . . . .	(976.0)	(410.9)		410.9			(1,586.5)	(2,562.5)
Insurance Reserves . . . . .	(32.5)	(186.8)						(219.3)
Pension Liability . . . . .	(140.8)	(55.3)						(196.1)
Deferred Taxation . . . . .	(86.2)	—						(86.2)
Other Long-Term Liabilities	(6.8)	(42.9)						(49.7)
	<u>(1,242.3)</u>	<u>(695.9)</u>	<u>—</u>	<u>410.9</u>	<u>—</u>	<u>—</u>	<u>(1,586.5)</u>	<u>(3,113.8)</u>
Total Liabilities . . . . .	<u>(1,952.3)</u>	<u>(949.7)</u>	<u>—</u>	<u>429.5</u>	<u>—</u>	<u>—</u>	<u>(1,586.5)</u>	<u>(4,059.0)</u>
<b>Net Assets</b> . . . . .	<u>280.5</u>	<u>625.1</u>	<u>(625.1)</u>	<u>—</u>	<u>216.0</u>	<u>149.0</u>	<u>—</u>	<u>645.5</u>

Note: No other adjustments have been made to reflect the effect of trading or any other transactions since 30 September 2006 of the Group.

- (i) The financial information in respect of FirstGroup as at 30 September 2006 has been extracted without material adjustment from the Interim Report for the six months ended 30 September 2006. The financial information is stated in accordance with IFRS and is unaudited although it has been reviewed by the auditors whose review report is given on page 28 of the 2006 Interim Statements.
- (ii) The financial information in respect of Laidlaw represents the unaudited quarterly balance sheet as at 30 November 2006. The financial information was published in accordance with US GAAP in US dollars and has been restated to IFRS and translated into pounds sterling as follows:

*Laidlaw IFRS adjustments*

	Laidlaw US GAAP	IFRS adjustments		Laidlaw IFRS	Laidlaw IFRS
	\$m	\$m		\$m	£m (viii)
<b>Current assets</b>					
Cash and cash equivalents .....	95.9			95.9	51.3
Accounts receivable .....	369.8			369.8	197.8
Insurance collateral .....	62.8			62.8	33.6
Inventories .....	35.9			35.9	19.2
Deferred tax .....	42.5			42.5	22.7
Other current assets .....	27.5			27.5	14.7
	<u>634.4</u>	<u>—</u>		<u>634.4</u>	<u>339.3</u>
<b>Non-current assets</b>					
Property, plant and equipment .....	1,597.5			1,597.5	854.3
Insurance collateral .....	350.4			350.4	187.4
Other long-term investments .....	26.0			26.0	13.9
Other intangible assets .....	66.7	91.0	<i>a</i>	157.7	84.3
Deferred tax .....	239.2	(85.7)	<i>b c</i>	153.5	82.1
Deferred charges and other assets .....	34.0	(8.8)	<i>d</i>	25.2	13.5
	<u>2,313.8</u>	<u>(3.5)</u>		<u>2,310.3</u>	<u>1,235.5</u>
Total assets .....	<u>2,948.2</u>	<u>(3.5)</u>		<u>2,944.7</u>	<u>1,574.8</u>
<b>Current liabilities</b>					
Trade and other payables .....	(439.9)			(439.9)	(235.2)
Debt due in less than one year .....	(34.7)			(34.7)	(18.6)
	<u>(474.6)</u>	<u>—</u>		<u>(474.6)</u>	<u>(253.8)</u>
<b>Non-current liabilities</b>					
Long-term debt .....	(777.2)	8.8	<i>d</i>	(768.4)	(410.9)
Insurance reserves .....	(349.3)			(349.3)	(186.8)
Pension liability .....	(105.3)	1.9	<i>e</i>	(103.4)	(55.3)
Other long-term liabilities .....	(80.3)			(80.3)	(42.9)
	<u>(1,312.1)</u>	<u>10.7</u>		<u>(1,301.4)</u>	<u>(695.9)</u>
Total liabilities .....	<u>(1,786.7)</u>	<u>10.7</u>		<u>(1,776.0)</u>	<u>(949.7)</u>
<b>Net assets</b> .....	<u>1,161.5</u>	<u>7.2</u>		<u>1,168.7</u>	<u>625.1</u>

The adjustments which are set out above are summarised as follows:

- (a) US GAAP requires that the benefit for subsequent recognition of a deferred tax asset of an entity emerging from bankruptcy for which a valuation allowance was established upon emergence is first applied to goodwill, then to reduce other intangible assets and finally to reduce tax expense. IFRS does not have specific guidance for entities emerging from bankruptcy. Therefore the recognition of additional deferred tax assets results in a reduction in tax expense and not an adjustment to the net book value of other intangible assets.
- (b) Under US GAAP, deferred tax is recorded on land revalued upon emergence from bankruptcy for the difference between the book value and original cost. Under IFRS the tax basis of the land is considered to be nil as it is held for use, which results in the recognition of an additional deferred tax liability.
- (c) The tax effect of the adjustments in (a) and (e) is \$35.3 million, of which \$34.6m represents the deferred tax liability on the net book value of other intangible assets and \$0.7m on pensions. In addition, \$50.4m represents the additional deferred tax liability on land (see (b) above).

- (d) Under US GAAP, debt issuance costs are deferred and classified as an asset. Under IFRS, debt issuance costs are deducted from the value of the debt. Accordingly \$8.8 million has been reclassified from deferred charges and other assets and reduces the carrying value of debt on the balance sheet.
- (e) FirstGroup has elected in accordance with IAS 19 to recognise all actuarial gains and losses in the statement of recognised income and expense in the period in which they arise. Under US GAAP, Laidlaw have applied the corridor approach in accordance with SFAS 87 such that actuarial gains and losses that exceed 10 percent of the greater of the projected benefit obligation and the market related value of plan assets are amortised over the average remaining service lives of active employees. Furthermore SFAS 87 permits measurement of plan assets and obligations up to three months before the balance sheet date and does not require the measurement to be updated for significant changes between the measurement date and the balance sheet date whereas IAS 19 requires the measurement to be done at the balance sheet date. The accounting for Laidlaw's pension schemes has been revised accordingly.

The pro forma adjustments are as follows:

- (iii) The adjustment of £1,573.3m to cash represents gross cash consideration of £1,515.5m (\$2,879m), plus estimated acquisition expenses of £57.8m.

The pro forma adjustment in respect of goodwill is as follows:

	<u>£m</u>
Purchase consideration .....	1,515.5
Acquisition costs .....	<u>57.8</u>
	1,573.3
Net assets of Laidlaw as at 30 November 2006 .....	<u>(625.1)</u>
Provisional goodwill arising on acquisition .....	<u><u>948.2</u></u>

IFRS includes detailed requirements for the allocation of purchase price to the net assets acquired, including the recognition of intangible assets for items such as customer relationships, brand names and so on. There is insufficient information currently available to complete a comprehensive purchase price allocation. Accordingly the provisional goodwill recognised in this unaudited pro forma statement of net assets reflects the allocation of purchase price in excess of the net assets acquired to goodwill. The final purchase price allocation may result in a materially different allocation than that presented in this unaudited pro forma statement of net assets.

- (iv) The adjustment to cash of £429.5m reflects the repayment of Laidlaw debt due within one year of £18.6m and the repayment of debt due after more than one year of £410.9m.
- (v) Gross Placing receipts of £221.0m reflecting the placement of approximately 39.5m Ordinary Shares at 560 pence per Ordinary Share less costs of the Placing of approximately £5.0m.
- (vi) Assumes equity offering(s) by FirstGroup to raise net proceeds of £149.0m (gross proceeds of approximately £154.0m less costs of approximately £5.0m) in order to refinance the Equity Bridge Facility.
- (vii) The £1,586.5m cash receipt from the new revolving credit facility of \$3,750.0m represents principally the gross acquisition costs of acquiring 100% of the share capital of Laidlaw.
- (viii) The Laidlaw balance sheet has been translated into pounds sterling at the closing exchange rate as at 30 September 2006 (\$1.87: £1).

## **Report on Pro forma financial information**

The Board of Directors  
FirstGroup plc  
395 King Street  
Aberdeen  
AB24 5RP

JPMorgan Cazenove Limited  
20 Moorgate  
London  
EC2R 6DA

26 March 2007

Dear Sirs,

### **FirstGroup plc (the “Company”)**

We report on the pro forma financial information (the “Pro forma financial information”) set out in Part VII of the circular dated 26 March 2007 (the “Circular”), which has been prepared on the basis described in that Part VII, for illustrative purposes only, to provide information about how the transaction might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the period as at 30 September 2006. This report is required by Annex II item 7 of Commission Regulation (EC) No 809/2004 (the “Prospectus Directive Regulation”) as applied by Listing Rule 13.5.31R and is given for the purpose of complying with that requirement and for no other purpose.

### **Responsibilities**

It is the responsibility of the directors of the Company (the “Directors”) to prepare the Pro forma financial information in accordance with Annex I item 20.2 and Annex II items 1 to 6 of the Prospectus Directive Regulation.

It is our responsibility to form an opinion, as required by Annex II item 7 of the Prospectus Directive Regulation, as to the proper compilation of the Pro forma financial information and to report that opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to ordinary shareholders as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.4.1R (6), consenting to its inclusion in the Circular.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

### **Basis of Opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the Directors.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards or practices.

**Opinion**

In our opinion:

- (a) the Pro forma financial information has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of the Company.

Yours faithfully

Deloitte & Touche LLP  
Chartered Accountants

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**PART VIII**  
**ADDITIONAL INFORMATION**

**1. Responsibility**

The Directors whose names are set out in paragraph 2(a) below, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

**2. Interests of Directors and major Shareholders**

*(a) The Directors*

<u>Name</u>	<u>Position</u>
Martin James Gilbert . . . . .	Chairman
Moir Lockhead . . . . .	Deputy Chairman and Chief Executive
Dean Kendal Finch . . . . .	Finance Director
David John Leeder . . . . .	Director of International Development and Marketing
Sidney Barrie . . . . .	Commercial Director and Company Secretary
David Moncrieff Dunn . . . . .	Senior Independent Non-Executive Director
James Alexander Forbes . . . . .	Non-Executive Director
John Phimister Sievwright . . . . .	Non-Executive Director
David Andrew Begg . . . . .	Non-Executive Director
Martyn Whitaker Williams . . . . .	Non-Executive Employee Director
Audrey Caroline Baxter* . . . . .	Non-Executive Director

\* Appointed 1 August 2006

*(b) Directors' interests in the share capital of the Company*

The interests of the Directors in the issued share capital of the Company, including the interests of persons connected with the Directors for the purposes of section 346 of the Companies Act, as notified to the Company pursuant to sections 324 or 328 of the Companies Act and entered in the register of directors' interests maintained under section 325 of the Companies Act, as at 23 March 2007 (being the latest practicable date prior to the publication of this document) are as follows:

<u>Director</u>	<u>Number of Ordinary Shares</u>	
	<u>Beneficial</u>	<u>Non-Beneficial</u>
Martin James Gilbert . . . . .	85,328	—
Moir Lockhead . . . . .	1,174,412	470,690
Dean Kendal Finch . . . . .	16,411	—
David John Leeder . . . . .	15,260	—
Sidney Barrie . . . . .	20,000	—
David Moncrieff Dunn . . . . .	24,837	—
James Alexander Forbes . . . . .	21,467	—
John Phimister Sievwright . . . . .	28,288	—
David Andrew Begg . . . . .	5,603	—
Martyn Whitaker Williams . . . . .	3,422	—
Audrey Caroline Baxter . . . . .	3,619	—

Details of the Directors' share options are set out below. Moir Lockhead also holds a nominal non-beneficial interest in a number of the Company's subsidiary undertakings.

*(c) Directors' share options*

The Company operates an Executive annual bonus plan (the "Executive Annual Bonus Plan") which comprises an annual cash and deferred share bonus and has operated an Executive Share Option Scheme ("ESOS") for Executive Directors and other senior management. The Company also operates a save as you earn scheme (the "SAYE Scheme") and a buy as you earn scheme (the "BAYE Scheme") for eligible

employees. The outstanding share options under the ESOS, the Executive Annual Bonus Plan and the SAYE Scheme granted to each of the serving Directors are set out in the table below. No price was paid for the award of any option. There have been no changes to the terms and conditions of any option awarded to Directors.

Directors	Scheme	At 1 April 2006 or date of appointment (number of shares)	Granted during the year (number of shares)	Lapsed/ Exercised during the year (number of shares)	Waiver during the year (number of shares)	At (date of circular) (number of shares)	Exercise price (pence)	Date from which exercisable	Expiry date	
Moir Lockhead	ESOS:									
	2001	130,985	—	—	—	130,985	346.5	15.8.04	15.8.11	
	2002	173,784	—	—	—	173,784	269	21.6.05	21.6.12	
	2003	166,958	—	—	—	166,958	287	18.11.06	18.11.13	
	2004	193,277	—	—	—	193,277	275.08	10.6.07	10.6.14	
	Deferred share bonus:									
	2003	28,559 <sup>(1)</sup>	—	28,559	—	—	nil	1.4.06	1.4.07	
	2004	34,062	—	—	—	34,062	nil	1.4.07	1.4.08	
	2005	36,787	—	—	—	36,787	nil	1.4.08	1.4.09	
	2006	—	61,567	—	—	61,567	nil	1.04.11	1.04.12	
Dean Finch	ESOS:									
	2001	18,470 <sup>(1)</sup>	—	18,470	—	—	346.5	15.8.04	15.8.11	
	2002	24,535 <sup>(1)</sup>	—	24,535	—	—	269	21.6.05	21.6.12	
	2003	58,930 <sup>(2)</sup>	—	58,930	—	—	287	18.11.06	18.11.13	
	2004	90,883	—	—	—	90,883	275.08	10.6.07	10.6.14	
	Deferred share bonus:									
	2003	13,720 <sup>(3)</sup>	—	13,720	—	—	nil	1.4.06	1.4.07	
	2004	27,029	—	—	—	27,029	nil	1.4.07	1.4.08	
	2005	38,344	—	—	—	38,344	nil	1.4.08	1.4.09	
	2006	—	37,313	—	—	37,313	nil	1.04.11	1.04.12	
David Leeder	Special share award:									
	2006	—	200,000	—	—	200,000	nil	31.03.11	30.03.12	
	ESOS:									
	2002	26,914	—	—	—	26,914	269	21.6.05	21.6.12	
	2003	64,643	—	—	—	64,643	287	18.11.06	18.11.13	
	2004	90,883	—	—	—	90,883	275.08	10.6.07	10.6.14	
	Deferred share bonus:									
	2003	7,163 <sup>(3)</sup>	—	7,163	—	—	nil	1.4.06	1.4.07	
	2004	19,941	—	—	—	19,941	nil	1.4.07	1.4.08	
	2005	29,311	—	—	—	29,311	nil	1.4.08	1.4.09	
Sidney Barric	2006	—	31,872	—	—	31,872	nil	1.04.11	1.04.12	
	SAYE 2005/06	678	—	—	—	678	325	1.5.09	31.10.09	
	SAYE:									
	2005/06	678	—	—	—	678	325	1.5.09	31.10.09	
	Deferred share bonus:									
	2006	—	18,657	—	—	18,657	nil	1.04.11	1.04.12	
	Martyn Williams	SAYE:								
		2003/04	636	—	—	—	636	232	1.2.07	31.8.07
		2004/05	567	—	—	—	567	267	1.2.08	31.8.08
		2005/06	345	—	—	—	345	325	1.5.09	31.10.09
2006/07		—	340	—	—	340	444	1.02.10	31.08.10	

(1) Exercised on 9 August 2006. The closing price on the date of exercise was 449.25p.

(2) Exercised on 20 November 2006. The closing price on the date of exercise was 554.5p.

(3) Exercised on 7 June 2006. The closing price on the date of exercise was 401.5p.

#### (d) Interests of major Shareholders

As at 23 March 2007 (being the latest practicable date prior to the publication of this document), and so far as is known to the Company by virtue of the notifications made to it pursuant to the Companies Act, the name of each person (other than any Director) who, directly or indirectly, is interested in three per cent. or more of the Company's share capital, and the amount of such person's interest, is as follows:

<u>Institution</u>	<u>Holding</u>	<u>Current percentage</u>
Ameriprise Financial, Inc. ....	35,070,076	8.06%
JPMorgan Chase & Co . . . . .	20,273,058	4.66%
Aviva plc . . . . .	15,831,999	3.64%
Legal & General plc . . . . .	14,763,688	3.39%

None of the major Shareholders in the Company have different voting rights.

As at 23 March 2007 (being the latest practicable date prior to the publication of this document), the Company is not aware of any person who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company.

### 3. Directors' service contracts

#### Executive Directors

##### *(a) Current remuneration policy*

The aim of the Remuneration Committee (the "Committee") is to design remuneration packages for the Company's Executives which attract, retain and motivate the high calibre individuals necessary to maintain the Group's position as a leader in the public transportation industry. In implementing its policy, the Committee has given full consideration to the Principles of Good Governance set out in the Combined Code on Corporate Governance with regard to Directors' remuneration.

##### *Structure of remuneration packages.*

There are currently four main elements to the executive remuneration package:

##### *Basic salary and benefits in kind*

The basic salary and benefits in kind for each Executive Director are determined by the Committee for each financial year and when an individual changes position or responsibility. In determining appropriate levels, the Committee considers the Group as a whole and also the packages received by similar individuals at the Company's peers in the public transport sector and other companies of comparable market capitalisation. Details of the salaries and benefits in kind received by each of the Executive Directors in the year are shown below.

##### *Executive Annual Bonus Plan*

The Group operates a discretionary performance-related bonus plan for its senior management under which payment of bonuses is linked to achievement of budgeted annual Group operating profit targets and personal objectives (including safety targets). Where an Executive Director is also directly responsible for one or more operating division(s), payment of a proportion of the bonus is also linked to the profitability of those divisions. The Committee considers and agrees the Group and divisional objectives for all Executive Directors and the personal objectives for the Chief Executive. The Chief Executive, in consultation with the Committee, agrees the personal objectives for the other Executive Directors. The level of bonus payable to Executive Directors in the year to 31 March 2006 was 110% of basic salary in the case of the Chief Executive and 100% of basic salary in the case of the other Executive Directors. Each of the Chief Executive and the other Executive Directors would receive half of their bonus in cash and the remaining half in the form of deferred shares. For all Executive Directors, up to 50% of any bonus award will be payable in shares.

##### *Share Option Schemes*

##### *ESOS*

The performance target applicable to awards under the ESOS is that growth in the Company's annualised earnings per share ('EPS') over the three-year performance period must exceed the increase in the retail prices index ('RPI') over the same period by an average of at least 2% per annum. Additionally, in respect of awards made in 2004, for the maximum award to vest, the Company's total shareholder return ('TSR') over the performance period must place the Company in the top 25% of companies in a group of the Company's listed transport peers. A proportion of the options between 0% and 100% (determined on a sliding scale) will vest if the Company's performance against that peer group is between the 50th and 75th percentile. No options will vest if the Company's performance is below the 50th percentile.

As a result of institutional shareholder feedback and general informed comment on the value of the share option awards, the Committee decided that, in view of the benefits potential available under the Executive annual bonus plan, as described above, it would not make any option awards during the year to 31 March 2006 but would continue to review appropriate mechanisms to achieve longer-term incentives for Executive Directors.

##### *SAYE Scheme*

For the year ended 31 March 2006 options may be granted under the SAYE Scheme on an annual basis at a discount of up to 20% of market value. The scheme expired during the year ended 31 March 2006 and a resolution was passed at the Annual General Meeting held at the end of that year to approve a replacement

scheme on materially the same terms. As with the previous scheme the Executive Directors are eligible to participate.

#### *BAYE Scheme*

The Company operates a Share Incentive Plan under the title 'Buy As You Earn'. The scheme, which is open to all UK employees of the Group (including the Executive Directors), enables employees to purchase partnership shares from their gross income (before income tax and National Insurance deductions). The Company provides two matching shares for every three partnership shares, subject to a maximum Company contribution of shares to the value of £20 a month. The shares are held in trust for up to five years, in which case, no income tax or National Insurance will be payable. The matching shares will be forfeited if the corresponding partnership shares are removed from trust within three years from award.

#### *Special Share Award*

On 22 August 2006 the Company declared a special bonus of deferred nil-cost options over 200,000 Ordinary Shares in favour of Dean Finch.

These options will vest on 31 March 2011 but only to the extent that certain performance criteria are satisfied based on targets relating to the profitability of First Greater Western Limited and the EPS growth of the Company over a five-year performance period which commenced on 1 April 2006.

#### *Retirement benefits*

Executive Directors are members of a number of defined benefit Group pension schemes. Their dependants are eligible for dependants' pensions and the payment of a lump sum in the event of death in service.

#### *(b) Service contracts*

It is the Company's policy to restrict notice periods for Executive Directors to a maximum of 12 months. In line with this policy, all of the Executive Directors have service contracts with an undefined term but which provide for a notice period of 12 months. The contracts contain a provision, exercisable at the discretion of the Company, to pay an amount in lieu of notice on early termination of the contract. Such payments are limited to basic salary plus certain benefits but would not include entitlement to bonus or share options. There are no contractual provisions governing payment of compensation on early termination of the contracts. If it becomes necessary to consider early termination of a service contract, the Company will have regard to all the circumstances of the case, including mitigation, when determining any compensation to be paid. Details of the Executive Directors' contracts are set out below:

(i) Moir Lockheed (Chief Executive) — Mr Lockheed is employed by the Company for an indefinite term pursuant to a secondment agreement dated 5 March 2001. Mr Lockheed's underlying service agreement is with First Aberdeen Limited and is dated 5 March 2001. This agreement is stated to continue until terminated by either party on 12 months written notice. Pursuant to the terms of the service agreement, for the year ended 31 March 2006, Mr Lockheed received a salary of £450,000 and from 1 April 2006 Mr Lockheed's salary stood at £461,250 per annum. Mr Lockheed is also entitled to the payment of business expenses by the Company, access to a company car and such other benefits as may be notified to him from time to time. At the discretion of the Committee, Mr Lockheed may also be entitled to an annual bonus. Further details of Mr Lockheed's remuneration package for the years ended 31 March 2006 and 2007 are set out in paragraph (c) below.

(ii) Dean Finch (Finance Director) — Mr Finch is employed by the Group pursuant to an executive service agreement dated 26 February 2004. This agreement is stated to be for an indefinite period subject to termination by either party on 12 months written notice. For the year ended 31 March 2006 Mr Finch received a salary of £300,000 and from 1 April 2006 Mr Finch's salary stood at £307,500. Mr Finch is also entitled to the reimbursement of business expenses by the Company and has access to a company car. At the discretion of the Committee, Mr Finch may also be entitled to an annual bonus. Further details of Mr Finch's remuneration package for the years ended 31 March 2006 and 2007 are set out in paragraph (c) below.

(iii) David Leeder (Director of International Development and Marketing) — Mr Leeder is employed by the Group pursuant to an executive service agreement dated 3 September 2001. This agreement is stated to be for an indefinite period subject to termination by either party on 12 months written notice. For the year ended 31 March 2006 Mr Leeder received a salary of £264,000 and from 1 April 2006 Mr Leeder's salary stood at £282,356. Mr Leeder is also entitled to the reimbursement of business expenses by the Company and has

access to a company car. At the discretion of the Committee, Mr Leeder may also be entitled to an annual bonus. Further details of Mr Leeder's remuneration package for the years ended 31 March 2006 and 2007 are set out in paragraph (c) below.

(iv) Sidney Barrie (Commercial Director and Company Secretary) — Mr Barrie is employed by the Group pursuant to a service agreement dated 31 August 2005. This agreement is stated to be for an indefinite period subject to termination by either party on 12 months written notice. Since his employment covered only part of the year, for the year ended 31 March 2006 Mr Barrie received a salary of £150,000. Under the terms of his service agreement, Mr Barrie is entitled to an annual salary of £225,000. As at 1 April 2006 Mr Barrie's salary stood at £230,625. Mr Barrie is also entitled to the reimbursement of business expenses by the Company and receives an annual allowance in lieu of access to a company car. At the discretion of the Committee, Mr Barrie may also be entitled to an annual bonus. Further details of Mr Barrie's remuneration package for the years ended 31 March 2006 and 2007 are set out in paragraph (c) below.

Where Board approval is given for an Executive Director to accept an outside non-executive directorship, unless the appointment is in connection with Group business, the individual Director is entitled to retain any fees received.

*(c) Actual remuneration of executive Directors*

	<u>Salary 2007</u>	<u>Salary 2006</u>	<u>Cash bonus 2006</u>	<u>Benefits in kind 2006<sup>(1)</sup></u>	<u>Total 2006</u>	<u>Total 2005</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Moir Lockhead .....	461	450	248	25	723	590
Dean Finch .....	308	300	150	18	468	330
David Leeder .....	282	264	128	19	411	303
Sidney Barrie <sup>(2)</sup> .....	<u>231</u>	<u>150</u>	<u>75</u>	<u>8</u>	<u>233</u>	<u>—</u>
Total .....	<u>1,282</u>	<u>1,164</u>	<u>601</u>	<u>70</u>	<u>1,835</u>	<u>1,223</u>

(1) The Directors received the following non-cash benefits in the year to 31 March 2006: Moir Lockhead: £19,000 company car, £5,000 private fuel and £1,000 medical insurance for himself and spouse; Dean Finch: £12,000 company car, £5,000 private fuel and £1,000 medical insurance for himself and family; David Leeder: £13,000 company car, £5,000 private fuel and £1,000 medical insurance for himself; Sidney Barrie: £10,000 car allowance (£7,000 for period 1 August 2005 to 31 March 2006); £1,000 medical insurance for himself and spouse.

(2) Appointed as a Director on 1 August 2005.

(3) The salary of each of the Executive Directors will increase on 1 April 2007.

(4) On 1 April 2007 a cash bonus may be paid to each Executive Director.

**Non-Executive Directors**

*(a) Terms of engagement*

All Non-Executive Directors have a letter of appointment. Each of the Non-Executive Directors is engaged for a fixed term (subject to early termination in circumstances including a failure by the shareholders to reappoint the relevant director or their removal in accordance with the Articles of Association of the Company). The Non-Executive Directors are entitled to an annual fee as well as to reimbursement of any reasonably incurred business expenses.

*(b) Current fee policy*

The fees of Non-Executive Directors are determined by the Board based on surveys of fees paid to Non-Executive Directors of comparable companies.

*(c) Share options and pensions*

Non-Executive Directors cannot participate in any of the Company's share option schemes and, other than the Group Employee Director, are not eligible to join a Company pension scheme.

Each of the Non-Executive Directors (other than David Dunn, who, with effect from January 2006 elected to receive all of his fees in cash and Audrey Baxter who receives all of her fees in the form of shares in the Company) has elected to receive 40% of his fees in the form of shares in the Company (in the case of Martyn Williams, with effect from January 2006) in order to ensure that their interests are more closely aligned to

those of the Shareholders. The shares are purchased on a monthly basis in the market. The appointment of each of the Non-Executive Directors is subject to early termination without compensation if he is not re-appointed at a meeting of shareholders where he is up for re-election.

*(d) Actual fees paid to non-executive Directors as of 1 September 2006*

	<u>Fees</u> <u>2006</u> <u>£000</u>
Martin Gilbert <sup>(1)</sup> .....	140
David Begg .....	38
David Dunn .....	43
Jim Forbes .....	43
John Sievwright .....	38
Martyn Williams .....	28
Audrey Baxter .....	<u>38</u>
Total .....	<u>368</u>

(1) Martin Gilbert's fee was increased from £114,000 to £120,000 on 1 September 2005 and further increased to £140,000 from 1 September 2006.

#### **4. Working capital statement**

The Company is of the opinion that, following the completion of the Acquisition and taking into account the bank and other facilities available to the Company, the working capital available to the Enlarged Group is sufficient for its present requirements, that is for at least the 12 months following the date of this document.

#### **5. Related party transactions**

There are no transactions between FirstGroup and any entity or individual which could be deemed to be a related party.

#### **6. Significant changes**

*(a) The Group*

There have been no significant changes in the financial or trading position of the Group since 31 March 2006, the date to which the last audited consolidated financial statements of the Group were prepared.

*(b) Laidlaw*

There have been no significant changes in the financial or trading position of Laidlaw since 31 August 2006, the date to which the Laidlaw financial information table in Part VI (Financial Information on Laidlaw) of this document was drawn up.

#### **7. Litigation**

*(a) The Group*

No member of the Group is or has been engaged in or, so far as the Company is aware, has any pending or threatened governmental, legal or arbitration proceedings which may have, or have had in the recent past (covering the 12 months preceding the date of this document), a significant effect on the financial position or profitability of the Company and/or the Group.

*(b) Laidlaw*

No member of the Laidlaw group of companies is or has been engaged in or, so far as the Company is aware, has any pending or threatened governmental, legal or arbitration proceedings which may have, or have had in the recent past (covering the 12 months preceding the date of this document), a significant effect on the financial position or profitability of Laidlaw and/or its group of companies.

## 8. Material contracts of the Group

In addition to the Acquisition Agreement which has been summarised in Part IV (Principal Terms of the Acquisition Agreement) of this document, the following contracts are the only contracts (not being contracts entered into in the ordinary course of business): (i) which the Company or any member of the Group has entered into in the two years immediately preceding the date of this document which are or may be material; or (ii) which have been entered into by the Company or any member of the Group at any other time and which contain provisions under which the Company or any member of the Group has an obligation or entitlement that is material to the Company and the Group as at the date of this document.

### *(a) Acquisition Debt Facilities*

#### *(i) Senior Term and Revolving Facility*

On 9 February 2007, the Company entered into the Senior Facility comprising of a \$3.75 billion senior term and revolving facility with, amongst others, HSBC Bank plc, J.P.Morgan plc and The Royal Bank of Scotland plc as mandated lead arrangers and The Royal Bank of Scotland plc as facility agent. The Senior Facility consists of a \$2.25 billion term facility (the "Senior Term Facility") and a \$1.5 billion revolving and guarantee facility (the "Senior Revolving Facility"). The Senior Facility is to be guaranteed by certain members of the Group and of the Laidlaw group to be determined on the basis of certain financial tests.

The purpose of the Senior Facility is to fund the costs of the Acquisition and the replacement of certain of Laidlaw's existing financing arrangements. Additionally, the Senior Revolving Facility will provide funding for the general working capital purposes of the Enlarged Group after completion of the Acquisition. The Senior Facility is available on a "certain funds" basis until 8 August 2007, although this availability will automatically extend for up to three months in the event the termination date set out in the Acquisition Agreement is extended.

The initial maturity of the Senior Term Facility is one year from the signing of the Acquisition Agreement (i.e. 8 February 2008), although this is capable of being extended for up to two further years at the option of FirstGroup. The final maturity of the Senior Revolving Facility is five years after signing of the Acquisition Agreement (i.e. 8 February 2012).

The representations, warranties, undertakings and events of default contained in the Senior Facility replicate those contained in the Company's existing £520 million syndicated revolving facility, subject to certain amendments and additional provisions introduced to reflect the greater size of the Senior Facility, the structure and effect on the Group of the Acquisition and certain changes in legal, accounting and regulatory requirements.

The Senior Term Facility is mandatorily prepayable in certain circumstances, including from the proceeds of any new issues of debt securities by companies within the Enlarged Group.

#### *(ii) Equity Bridge Facility*

On 9 February 2007 the Company entered into the Equity Bridge Facility (affording it a \$750 million subordinated equity bridge facility) with JPMorgan Chase Bank, N.A. as lender. Except as described below, amounts owing under the Equity Bridge Facility are subordinated to all bonds, senior letters of credit and other senior bank facilities under which the Company has raised finance.

The purpose of the Equity Bridge Facility is to fund (in part) the costs of the Acquisition and the replacement of certain of Laidlaw's financing arrangements and it is available on a "certain funds" basis until 8 August 2007 (with the availability automatically extending in the same manner as the Senior Facility as described above).

The maturity date of the Equity Bridge Facility is six months after the completion of the Acquisition. However, in accordance with its terms, it is mandatorily cancelled and/or prepaid (as applicable) by the amount of any issues of equity in the equity capital markets made by FirstGroup or any other member of the Group (including issues of equity under the Standby Equity Underwriting Letter) at any time on or after 9 February 2007. Accordingly, the amount available under the Equity Bridge Facility has been reduced by the net proceeds of the Placing of approximately \$422 million.

The covenant package in the Equity Bridge Facility is a reduced version of that contained in the Senior Facility and events of default under the Equity Bridge Facility (other than non-payment) can not be accelerated unless the Senior Facility is also in default and has been accelerated.

Following the successful completion of the Placing, the commitment now available under the Equity Bridge Facility is approximately \$328 million.

*(b) Standby Equity Underwriting Letter*

In connection with the Acquisition and pursuant to the Standby Equity Underwriting Letter, the Underwriter (as underwriter on behalf of JPMorgan Cazenove) has irrevocably undertaken to underwrite a capital increase by way of a rights issue or placing of ordinary shares of 5 pence each in the capital of FirstGroup (an “Ordinary Share Offering”) and/or, subject to the prior written approval of JPMorgan Cazenove (such approval not to be unreasonably withheld or delayed) to underwrite as aforesaid any other equity offering or offerings by FirstGroup or one or more of its (direct or indirect) subsidiary or associated undertakings to raise, in aggregate, net proceeds (being proceeds net of costs and expenses) equal to the amount required to pay or repay the amount then outstanding under the Equity Bridge Facility (the “Refinancing Amount”). The net proceeds raised by way of such Ordinary Share Offering and/or such other underwritten equity offering(s) will be used first to pay or repay the Refinancing Amount.

Under the Standby Equity Underwriting Letter (and subject to the provisions described in paragraph (iii) below), FirstGroup undertakes to effect (and to take any and all actions which are necessary for) an Ordinary Share Offering and/or (subject to the prior written approval of JPMorgan Cazenove (such approval not to be unreasonably withheld or delayed)) to effect another equity offering or offerings by FirstGroup and/or to procure an equity offering or offerings by one or more of its (direct or indirect) subsidiary or associated undertakings which is underwritten by the Underwriter on behalf of JPMorgan Cazenove and for which JPMorgan Cazenove will act as sponsor (where necessary) of such number of ordinary shares of 5 pence each in the capital of FirstGroup or other securities as is necessary to raise, in aggregate, net proceeds which are sufficient to pay or repay the Refinancing Amount as soon as reasonably practicable following the completion of the Acquisition (subject to the directors’ fiduciary duties and taking into account market conditions) and in any event by the termination date of the Equity Bridge Facility (being the date falling 6 months after consummation of the Acquisition), to the extent that the Refinancing Amount has not already been paid or repaid by that date.

The Standby Equity Underwriting Letter also contains, amongst others, the following provisions:

- (i) JPMorgan Cazenove, the Underwriter and FirstGroup have agreed that the issue price of any ordinary shares of 5 pence each in the capital of FirstGroup or other securities, as the case may be, proposed to be issued in connection with any Ordinary Share Offering and/or other underwritten equity offering or offerings underwritten by the Underwriter on behalf of JPMorgan Cazenove will in each case be agreed by FirstGroup and JPMorgan Cazenove at the time the relevant Ordinary Share Offering and/or other underwritten equity offering(s) is launched, each acting reasonably and in good faith in the light of the then prevailing market conditions, any relevant Listing Rules or analogous requirements and/or Investor Protection Committee Guidelines, the market price of an Ordinary Share or other relevant security immediately prior to launch and, in the case of an Ordinary Share Offering in the form of a rights issue, such customary discounts to market price as are appropriate, but in any case where ordinary shares of 5 pence each in the capital of FirstGroup are to be offered the issue price will not be less than the nominal value of each such share. The Standby Equity Underwriting Letter nevertheless includes an undertaking from the Underwriter to underwrite any Ordinary Share Offering at an issue price equal to the nominal value of each Ordinary Share;
- (ii) FirstGroup, JPMorgan Cazenove and the Underwriter have undertaken to negotiate reasonably and in good faith the terms and conditions of any underwriting agreement to be entered into in connection with an Ordinary Share Offering and/or other underwritten equity offering or offerings to raise some or all of the Refinancing Amount (each an “Underwriting Agreement”). In addition, FirstGroup, JPMorgan Cazenove and the Underwriter have agreed that the terms and conditions of any Underwriting Agreement will be customary for the type of offering it relates to, including, for example, an obligation for FirstGroup to prepare a prospectus or other relevant disclosure documentation (if necessary), the provision of customary representations and warranties by FirstGroup (and/or any other appropriate subsidiary or associated undertaking of FirstGroup) in relation to the Enlarged Group (but no representations or warranties will be provided by any directors), the provision of comfort letters in respect of any financial statements forming part of any prospectus or other disclosure documentation, the provision of customary indemnities in favour of JPMorgan Cazenove and the Underwriter, the obtaining of irrevocable undertakings (to the extent agreed), customary conditions and termination provisions and customary *force majeure* provisions (if any);

- (iii) FirstGroup has undertaken that, subject to the provisions described below, until all amounts drawn down under the Equity Bridge Facility are repaid neither FirstGroup nor any direct or indirect subsidiary or associated undertaking of FirstGroup will undertake any rights issue, placing, equity offering (excluding the issue of shares by one member of the Group to another member of the Group or to an employee benefit trust) or other form of equity capital markets fund raising which is not managed exclusively by JPMorgan Cazenove or underwritten by the Underwriter on behalf of JPMorgan Cazenove without JPMorgan Cazenove's prior written consent. Notwithstanding the above, if the Board determines acting reasonably and in good faith that:
- (A) JPMorgan Cazenove is not acting reasonably and in good faith or in accordance with the provisions described in paragraph (i) above in relation to the setting of the issue price of any ordinary shares of 5 pence each in the capital of FirstGroup or other securities proposed to be issued in connection with any Ordinary Share Offering or other underwritten equity offering; and/or
- (B) either of JPMorgan Cazenove or the Underwriter is not negotiating reasonably and in good faith in relation to the other terms and conditions of any Underwriting Agreement in accordance with the provisions described in paragraph (ii) above (other than the Agreed Underwriting Commission described in paragraph (v) below) in connection with any Ordinary Share Offering or other underwritten equity offering,

FirstGroup will notify the Underwriter and JPMorgan Cazenove in writing of the Board's determination and may then seek to agree a higher issue price (the "Third Party Issue Price") and/or other terms and conditions more favourable than those being offered by JPMorgan Cazenove and the Underwriter (the "Third Party Terms"), with a third party or third parties. If FirstGroup is successful it will notify the Underwriter and JPMorgan Cazenove of the Third Party Issue Price and/or those Third Party Terms. If within 48 hours from receipt of such notice JPMorgan Cazenove (for itself and on behalf of the Underwriter) has not confirmed (as applicable) its irrevocable agreement to manage and/or underwrite such Ordinary Share Offering or (as the case may be) such other underwritten equity offering at that Third Party Issue Price and/or on those Third Party Terms and/or that JPMorgan Cazenove and the Underwriter will enter into an Underwriting Agreement in connection with such Ordinary Share Offering or such other underwritten equity offering on terms no less favourable to FirstGroup (or the relevant subsidiary of FirstGroup) than the Third Party Terms and/or the Third Party Issue Price, then (A) the undertaking of FirstGroup described in this paragraph (iii) and certain other of FirstGroup's undertakings under the Standby Equity Underwriting Letter shall cease to apply, provided that FirstGroup shall procure that the third party or third parties who has or have offered the Third Party Issue Price and/or the Third Party Terms shall assume all of the rights and obligations of the Affiliates (as defined) of JPMorgan Cazenove and the Underwriter and other relevant finance parties at par, plus any accrued interest, under the Equity Bridge Facility (if JPMorgan Cazenove or the Underwriter so require) and (B) JPMorgan Cazenove and the Underwriter will cease to have any obligations under the Standby Equity Underwriting Letter;

- (iv) in consideration of JPMorgan Cazenove and the Underwriter entering into the Standby Equity Underwriting Letter, FirstGroup has agreed to pay (or procure that the same are paid) to JPMorgan Cazenove an equity standby underwriting fee of 1.00 per cent. of £375 million less the net proceeds raised pursuant to the Placing (plus VAT, if applicable) and an aggregate equity advisory fee in an amount to be agreed by FirstGroup and JPMorgan Cazenove on completion of the Acquisition;
- (v) in addition to the fees payable as described in paragraph (iv) above, if some or all of the Refinancing Amount is raised through one or more Ordinary Share Offerings, FirstGroup has agreed to pay (or procure that the same are paid) in aggregate to JPMorgan Cazenove and the Underwriter 2 per cent. of the aggregate value of the price at which the Underwriter on behalf of JPMorgan Cazenove underwrites any Ordinary Share Offering of the maximum number of ordinary shares of 5 pence each in the capital of FirstGroup which comprise underwritten securities (the "Agreed Underwriting Commission") (and VAT, if applicable); and
- (vi) if (A) the Equity Bridge Facility is terminated before any funds are drawn down under it or (B) the Acquisition Agreement does not become unconditional by 9 February 2008, the Standby Equity Underwriting Letter and the undertakings in it automatically terminate.

*(c) Placing Agreement, Option Agreement and Subscription and Transfer Agreement*

*Placing Agreement*

In connection with the Placing and on the terms and subject to the conditions of the Placing Agreement, (i) JPMorgan Cazenove and UBS agreed severally (and not jointly or jointly and severally) as agent of the Company to use all respective reasonable endeavours to procure placees for the Ordinary Shares placed pursuant to the Placing (the "Placing Shares") at a price to be agreed (the "Placing Price") after a bookbuilding process (the "Bookbuild") conducted by JPMorgan Cazenove and (ii) the Underwriter agreed to subscribe at the Placing Price for all such Placing Shares which were not so placed by JPMorgan Cazenove and UBS. The obligations of JPMorgan Cazenove, UBS and the Underwriter were conditional on certain matters being satisfied and the Placing Agreement was terminable by JPMorgan Cazenove upon the occurrence of certain specified events.

Pursuant to the Placing Agreement, FirstGroup agreed to allot the Placing Shares in consideration of the transfer to FirstGroup by each of JPMorgan Cazenove and UBS of certain ordinary shares of no par value in the capital of FirstGroup Jersey Limited ("JerseyCo") and certain redeemable preference shares of no par value in the capital of JerseyCo held by each of JPMorgan Cazenove and UBS (together, the "Consideration Shares") pursuant to the Option Agreement and the Subscription and Transfer Agreement described below.

The Placing Agreement also contained, amongst others, the following provisions:

- (i) FirstGroup gave certain representations, warranties and indemnities to JPMorgan Cazenove, UBS and the Underwriter that are usual for an agreement of this type (as it also did under the Option Agreement and Subscription and Transfer Agreement described below). The liabilities of FirstGroup are unlimited as to time and amount. In addition, FirstGroup gave certain undertakings limiting its and the Group's actions in the period up to and including 14 March 2007; and
- (ii) FirstGroup agreed to pay to JPMorgan Cazenove and UBS an aggregate commission of 2 per cent. of the Placing Proceeds (being the amount equal to the product of the Placing Price and the aggregate number of Placing Shares), with 75 per cent. of such commission being payable to JPMorgan Cazenove and 25 per cent. of such commission being payable to UBS; and
- (iii) FirstGroup agreed to pay certain costs and expenses of, in connection with, or incidental to the Bookbuild, the Placing of the Placing Shares, the allotment and issue of the Placing Shares, the issue and/or transfer of the Consideration Shares and any other matter or arrangement contemplated by, or incidental to, the Placing of the Placing Shares.

*Option Agreement and Subscription and Transfer Agreement*

In connection with the Placing, FirstGroup, JerseyCo, JPMorgan Cazenove and UBS entered into an option agreement dated 9 February 2007 (the "Option Agreement") and a subscription and transfer agreement dated 9 February 2007 (the "Subscription and Transfer Agreement"), in respect of the subscription and transfer of certain ordinary shares of no par value in the capital of JerseyCo and certain redeemable preference shares of no par value in the capital of JerseyCo. Under the terms of these agreements:

- (i) JPMorgan Cazenove and UBS agreed to subscribe for certain ordinary shares of no par value in the capital of JerseyCo, and FirstGroup, JPMorgan Cazenove and UBS entered into put and call options in respect of the ordinary shares of no par value in the capital of JerseyCo subscribed for by JPMorgan Cazenove and UBS that were exercisable if the Placing did not proceed;
- (ii) JPMorgan Cazenove and UBS applied the Placing Proceeds (less commission due under the Placing Agreement and certain fees, costs, expenses and other amounts) to subscribe for certain redeemable preference shares of no par value in capital of JerseyCo (with JPMorgan Cazenove subscribing for 75 per cent. of such redeemable preference shares and UBS subscribing for 25 per cent. of such redeemable preference shares); and
- (iii) JPMorgan Cazenove and UBS agreed to transfer to FirstGroup all the ordinary shares of no par value in the capital of JerseyCo and redeemable preference shares of no par value in the capital of JerseyCo held by each of them following the subscriptions described above in consideration for the allotment by FirstGroup of the Placing Shares pursuant to the Placing Agreement as described above.

Accordingly, instead of receiving cash as consideration for the allotment of the Placing Shares, at the conclusion of the Placing on 14 February 2007, FirstGroup owned the entire issued ordinary and redeemable preference share capital of JerseyCo whose only assets were its cash reserves, representing an amount

equivalent to the net proceeds of the Placing. Following the conclusion of the Placing, on 15 February 2007 FirstGroup exercised its right of redemption over the redeemable preference shares it held in JerseyCo and as a result received a sum equal to the net proceeds of the Placing from JerseyCo.

## **9. Material contracts of Laidlaw**

In addition to the Acquisition Agreement which has been summarised in Part IV (Principal Terms of the Acquisition Agreement) of this document, the following contract is the only other contract (not being a contract entered into in the ordinary course of business): (i) which Laidlaw or any member of the Laidlaw group of companies has entered into within the two years immediately preceding the date of this document which is or may be material; or (ii) which has been entered into by Laidlaw or any member of the Laidlaw group of companies at any other time and which contains provisions under which Laidlaw or any member of the Laidlaw group of companies has an obligation or entitlement that is material to Laidlaw and the Laidlaw group of companies as at the date of this document.

### *(a) Credit Facility Agreement*

In July 2006 Laidlaw undertook a \$500 million recapitalisation, whereby Laidlaw used \$500 million of debt to repurchase approximately \$500 million of Laidlaw's common stock.

On July 31, 2006, Laidlaw amended its existing senior secured credit facilities, consisting of a \$277.5 million term loan due June 2010 (the "Term A Facility") and a \$300 million revolving credit facility (the "Revolver"), to add a \$500 million term loan due July 2013 (the "Term B Facility").

Principal on the Term A Facility is payable in quarterly instalments of \$7.5 million from September 30, 2006 through June 30, 2007, \$11.25 million from September 30, 2007 through June 30, 2009, \$37.5 million from September 30, 2009 through March 31, 2010 with a final payment of \$45.0 million due on June 30, 2010. The Term B Facility consists of a \$375 million loan to Laidlaw and a \$125 million loan to its Canadian subsidiaries. Principal is payable in 26 quarterly instalments of \$1.25 million from December 31, 2006 through March 31, 2013 and a final payment of \$467.5 million is due on July 31, 2013. The Revolver was established to fund Laidlaw's working capital and letter of credit needs. It has a \$200 million sub-limit for letters of credit, a \$15 million sub-limit for swingline loans and a \$50 million sub-limit for Canadian dollar borrowings and Canadian dollar letters of credit by Canadian borrowers.

On August 31, 2006, there were \$22.0 million of cash borrowings and issued letters of credit of \$118.6 million, leaving \$159.4 million of availability, under the facility. The \$22.0 million cash borrowings are classified as long term based on Laidlaw's intent and ability under the terms the Revolver.

The credit facility includes certain representations, undertakings and events of default which are standard in a credit agreement of this nature.

In August 2006 Laidlaw repurchased approximately 15.5 million shares for \$26.90 per share through a modified "Dutch" auction tender offer. Additionally, Laidlaw repurchased approximately 0.5 million shares on the open market at an average price of \$26.29 per share leaving \$68.9 million available for future repurchases. As of October 31, 2006, Laidlaw had completed the repurchase of all authorised amounts.

## **10. Consents**

### *(a) JPMorgan Cazenove Limited*

JPMorgan Cazenove has given and not withdrawn its written consent to the issue of this document and the references herein to its name in the form and context in which they appear.

### *(b) Tricorn Partners LLP*

Tricorn Partners has given and not withdrawn its written consent to the issue of this document and the references herein to its name in the form and context in which they appear.

### *(c) Deloitte & Touche LLP*

Deloitte & Touche LLP has given and not withdrawn its written consent to the inclusion in Parts VI (Financial Information on Laidlaw) and VII (Unaudited Pro forma Financial Information) of this document of its reports and the references to its reports and its name in the form and context in which they appear.

## **11. Documents available for inspection**

Copies of the following documents will be available for inspection during normal business hours on each Business Day from the date of this document up to and including the date of conclusion of the Extraordinary General Meeting at the offices of Slaughter and May, One Bunhill Row, London, EC1Y 8YY, United Kingdom:

- (a) the memorandum of association and Articles of the Company;
- (b) the Annual Report and Accounts for FY 2004, FY 2005 and FY 2006;
- (c) the Circular;
- (d) the Acquisition Agreement;
- (e) the written consent from JPMorgan Cazenove (as referred to in paragraph 10 of this Part VIII);
- (f) the written consent from Tricorn Partners (as referred to in paragraph 10 of this Part VIII); and
- (g) the written consent from Deloitte & Touche LLP (as referred to in paragraph 10 of this Part VIII), together with the reports prepared by Deloitte & Touche LLP regarding the reconciliation of Laidlaw's financial information as set out in Part VI (Financial Information on Laidlaw) of this document and the unaudited pro forma statement as set out in Part VII (Unaudited Pro Forma Financial Information) of this document.

**PART IX**  
**DEFINITIONS**

The definitions set out below apply throughout this document, unless the context requires otherwise.

<b>“Act” or “Companies Act”</b>	the Companies Act 1985 as amended and, where the context so requires, the Companies Act 2006;
<b>“Acquisition”</b>	the proposed acquisition of the entire issued share capital of Laidlaw;
<b>“Acquisition Agreement”</b>	the agreement and plan of merger between the Company, Laidlaw and FirstGroup Acquisition Corporation dated 8 February 2007, in relation to the Acquisition;
<b>“Annual Report and Accounts”</b>	the annual report and accounts prepared by the Company for FY 2004, FY 2005 and/or FY 2006 (as the case may be);
<b>“Articles”</b>	the articles of association of FirstGroup adopted on 13 July 2006;
<b>“Board”</b>	the board of directors of the Company from time to time;
<b>“Business Day”</b>	any day on which banks are generally open in London for the transaction of business other than a Saturday or Sunday or public holiday;
<b>“certificated” or “in certificated form”</b>	a share or other security which is not in uncertificated form (that is, not in CREST);
<b>“CREST”</b>	the system for the paperless settlement of trades in securities and the holding of uncertificated securities in accordance with the CRESTCo Regulations operated by CRESTCo;
<b>“CREST Manual”</b>	the rules governing the operation of CREST, consisting of the CREST Reference Manual, CREST International Manual, CREST Central Counterparty Service Manual, CREST Rules, Registrars Service Standards, Settlement Discipline Rules, CCSS Operations Manual, Daily Timetable, CREST Application Procedure and CREST Glossary of Terms (all as defined in the CREST Glossary of Terms promulgated by CRESTCo on 15 July 1996, as amended);
<b>“CREST member”</b>	a person who has been admitted by CRESTCo as a system-member (as defined in the CRESTCo Regulations);
<b>“CREST Shareholders”</b>	Shareholders holding Ordinary Shares in uncertificated form;
<b>“CREST sponsor”</b>	a CREST participant admitted to CREST as a CREST sponsor;
<b>“CREST sponsored member”</b>	a CREST member admitted to CREST as a sponsored member;
<b>“CRESTCo Regulations”</b>	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), as amended from time to time;
<b>“CRESTCo”</b>	CRESTCo Limited;
<b>“Director”</b>	a director of the Company;
<b>“Disclosure and Transparency Rules”</b>	the disclosure and transparency rules made under Part VI of FSMA (as set out in the FSA Handbook), as amended;
<b>“Enlarged Group”</b>	the Company together with its subsidiaries and subsidiary undertakings, as enlarged by the Acquisition;
<b>“Equity Bridge Facility”</b>	the \$750 million subordinated equity bridge facility dated 9 February 2007 entered into by the Company with JPMorgan Chase Bank, N.A., details of which are set out in Part VIII (Additional Information);
<b>“Exon-Florio”</b>	the United States’ Exon-Florio Statute, Sec 721 of Title VII of the Defence Production Act of 1950, as amended (50 U.S.C. App. 2170);

<b>“Extraordinary General Meeting” or “EGM”</b>	the extraordinary general meeting of the Company to be convened pursuant to the notice set out at the end of this document (including any adjournment thereof);
<b>“FirstGroup” or the “Company”</b>	FirstGroup plc, a company incorporated in Scotland with registered number SC157176, whose registered office is at 395 King Street, Aberdeen, AB24 5R9;
<b>“FirstGroup Acquisition Corporation”</b>	FirstGroup Acquisition Corporation (a company incorporated in Delaware and a wholly owned subsidiary of FirstGroup which changed its name from Fern Acquisition Vehicle Corporation on 15 March 2007);
<b>“Form of Proxy”</b>	the form of proxy for use at the Extraordinary General Meeting, which accompanies this document;
<b>“FSMA”</b>	the Financial Services and Markets Act 2000;
<b>“FY 2004”, “FY 2005” and “FY 2006”</b>	the financial years ended 31 March 2004, 31 March 2005 and 31 March 2006, respectively;
<b>“Greyhound”</b>	Greyhound Lines, Inc. and Greyhound Canada Transportation Corp.;
<b>“Group”</b>	the Company and its subsidiaries and subsidiary undertakings prior to the completion of the Acquisition;
<b>“HSR Act”</b>	the Hart Scott Rodino Anti-Trust Improvements Act of 1976, as amended;
<b>“IFRS”</b>	International Financial Reporting Standards as adopted by the European Union;
<b>“JPMorgan Cazenove”</b>	JPMorgan Cazenove Limited;
<b>“Laidlaw”</b>	Laidlaw International, Inc. and/or its subsidiaries and subsidiary undertakings (as the context requires);
<b>“Laidlaw Shareholder Meeting”</b>	the special shareholder meeting of Laidlaw at which Laidlaw’s shareholders will consider a resolution to approve the Acquisition Agreement and the transactions contemplated thereby;
<b>“Laidlaw Shareholders”</b>	all the existing shareholders of Laidlaw, who are to sell all of their issued and outstanding shares of common stock pursuant to the Acquisition Agreement;
<b>“Listing Rules”</b>	the listing rules made under Part VI of FSMA (as set out in the FSA Handbook), as amended;
<b>“London Stock Exchange”</b>	London Stock Exchange plc or its successor(s);
<b>“Ordinary Shares”</b>	the ordinary shares of 5 pence each in the capital of the Company at the date of this document;
<b>“Placing”</b>	the placing of 39,527,477 new Ordinary Shares launched by the Company on 9 February 2007, which raised net proceeds for the Company of approximately £217 million;
<b>“Placing Agreement”</b>	the agreement entered into between FirstGroup, JPMorgan Cazenove, the Underwriter and UBS, setting out the terms and conditions of the Placing;
<b>“Pounds” or “£” or “Pounds Sterling”</b>	the lawful currency of the United Kingdom;
<b>“Prospectus Rules”</b>	the prospectus rules made under Part VI of FSMA (as set out in the FSA Handbook), as amended;
<b>“Registrars”</b>	Lloyds TSB Registrars;
<b>“Resolutions”</b>	the resolutions to be proposed at the Extraordinary General Meeting;
<b>“SEC”</b>	United States Securities and Exchange Commission;

<b>“Senior Facility”</b>	the senior loan facility dated 9 February 2007 and entered into by the Company with HSBC Bank plc, J.P.Morgan plc and The Royal Bank of Scotland plc, details of which are set out in Part VIII (Additional Information);
<b>“Shareholders”</b>	holders of Ordinary Shares;
<b>“Standby Equity Underwriting Letter”</b>	the letter from JPMorgan Cazenove and the Underwriter to the Company dated 9 February 2007 agreeing to underwrite one or more equity offerings to refinance the Equity Bridge Facility, details of which are set out in Part VII (Additional Information);
<b>“subsidiary”</b>	a subsidiary as that term is defined in section 736 of the Companies Act;
<b>“subsidiary undertaking”</b>	a subsidiary undertaking as that term is defined in section 258 of the Companies Act;
<b>“Tricorn Partners”</b>	Tricorn Partners LLP;
<b>“UBS”</b>	UBS Limited;
<b>“uncertificated” or “in uncertificated form”</b>	a share or other security recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the CRESTCo Regulations, may be transferred by means of CREST;
<b>“Underwriter”</b>	J.P. Morgan Securities Limited
<b>“United Kingdom” or “UK”</b>	the United Kingdom of Great Britain and Northern Ireland;
<b>“UK Listing Authority”</b>	the Financial Services Authority acting in its capacity as the competent authority for the purposes of FSMA;
<b>“United States” or “US”</b>	the United States of America, its territories and possessions, any state of the United States and the District of Columbia;
<b>“US GAAP”</b>	generally accepted accounting principles in the United States; and
<b>“US\$”, “US dollars” or “\$”</b>	the lawful currency of the United States.

The rate of exchange used for all purposes of this document (other than in Part VI (Financial Information on Laidlaw) and Part VII (Unaudited Pro Forma Financial Information)) is £1:US\$1.9.

## NOTICE OF EXTRAORDINARY GENERAL MEETING

### FirstGroup plc

*(Incorporated in Scotland under the Companies Act with registered number SC157176)*

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of FirstGroup plc (the “Company”) will be held at The Marcliffe Hotel, North Deeside Road, Pitfodels, Aberdeen AB15 9YA on 20 April 2007 at 10 a.m. for the purposes of considering and, if thought fit, passing the following resolutions:

#### **Resolutions 1 to 4 to be proposed as ordinary resolutions:**

- 1 THAT, subject to Resolutions 2, 3 and 4 being passed, the proposed acquisition of the entire issued share capital of Laidlaw International, Inc. (the “Acquisition”) pursuant to the merger agreement between the Company, Laidlaw International, Inc. and FirstGroup Acquisition Corporation dated 8 February 2007 (the “Acquisition Agreement”), and the associated and ancillary arrangements contemplated by the Acquisition Agreement and/or described in the circular of the Company dated 26 March 2007 accompanying this notice, be and are hereby approved and that the Directors of the Company (or any duly authorised committee thereof) be and are hereby authorised to take all such steps as may be necessary or desirable in relation thereto and to implement the same with such non-material modifications, variations, revisions, waivers or amendments as the Directors or any such committee may deem necessary, expedient or appropriate.
- 2 THAT the authorised share capital of the Company be and is hereby increased from £30,000,000 to £230,000,000 by the creation of an additional 4,000,000,000 ordinary shares of 5 pence each in the capital of the Company having the rights and privileges and being subject to the restrictions contained in the Articles of Association of the Company and ranking *pari passu* in all respects with the existing ordinary shares of 5 pence each in the capital of the Company.
- 3 THAT, subject to Resolution 2 being passed, the Directors be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities, within the meaning of Section 80 of the Companies Act 1985, up to an aggregate nominal amount of £200,000,000 in connection with one or more issues of relevant securities under one or more transactions to refinance in whole or in part the Company’s financing arrangements entered into in relation to the proposed acquisition of the entire issued share capital of Laidlaw International, Inc. pursuant to the merger agreement between the Company, Laidlaw International, Inc. and FirstGroup Acquisition Corporation dated 8 February 2007, provided that this authority shall expire (unless previously revoked or varied by the Company in general meeting) 5 years after the date of the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require the relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.
- 4 THAT, subject to the completion of the proposed acquisition of the entire issued share capital of Laidlaw International, Inc. pursuant to the merger agreement between the Company, Laidlaw International, Inc. and FirstGroup Acquisition Corporation dated 8 February 2007 (the “Acquisition”), the Directors be and are hereby authorised for the purposes of Article 102 of the Articles of Association of the Company to incur and permit subsidiaries of the Company to incur and have outstanding borrowings for the purpose of facilitating the Acquisition (including any refinancing of such borrowings) up to an amount of US\$4,000,000,000 which such amount shall not be counted or aggregated with other borrowings now outstanding or incurred from time to time of the Company and its subsidiaries for the purpose of the limit on borrowings contained in Article 102(B) (i) of the Articles of Association of the Company.

#### **Resolution 5 to be proposed as a special resolution**

- 5 THAT, subject to Resolution 3 being passed, in place of all existing powers of the Company pursuant to the resolution numbered 11 approved at the last Annual General Meeting of the Company held on 13 July 2006, the Directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 (the “Act”), to allot equity securities (within the meaning of Section 94 of the Act) for cash pursuant to the authority conferred by Resolution 3 and/or where such allotment constitutes an allotment of equity

securities by virtue of Section 94(3A) of the Act as if Section 89 of the Act did not apply to any such allotment, provided that this power shall be limited:

- (a) to the allotment of equity securities in connection with or pursuant to an offer or invitation, open for acceptance for a period fixed by the Directors, in favour of holders of ordinary shares (and/or holders of such other equity securities of the Company as the Directors may determine) on the register on a fixed record date (excluding any holder holding any shares as treasury shares) in proportion (as nearly as may be) to their existing holdings of such securities (ignoring for this purpose both any holder holding any shares as treasury shares and the treasury shares held by him) or in accordance with the rights attached thereto (but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements that would otherwise arise or any legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory); and
- (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £2,190,000,

and shall expire (unless previously revoked or varied by the Company in general meeting) 5 years after the date of the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require the relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

By order of the Board

Sidney Barrie  
Company Secretary  
26 March 2007

*Registered Office*  
395 King Street  
Aberdeen  
AB24 5RP

## **Voting Procedures:**

- 1 Shareholders in the Company are entitled to attend and vote at the meeting.
- 2 Shareholders or the duly authorised representative of a Corporation entitled to attend and vote at the meeting, including any adjournment thereof, may appoint one or more proxies to attend and (on a poll) vote in his or her place. A proxy need not be a member of the Company and such appointment will not preclude a Shareholder from attending and voting at the meeting in person.
- 3 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those Shareholders registered in the register of members of the Company as at 6.00 p.m. on the day which is two days before the date of the meeting or any adjourned meeting (as the case may be) shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. In each case, changes to the register of members of the Company occurring after this time shall be disregarded in determining the right of any person to attend and vote at the meeting.
- 4 A form of proxy for use by Shareholders is enclosed with this document. To be effective, forms of proxy (other than an electronic appointment of a proxy) must be completed and returned, in accordance with their instructions, so as to be received by Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DW as soon as possible, but in any event so as to arrive no later than 48 hours before the time appointed for the meeting. Forms of proxy must be signed by the member or, in the case of joint holders, any one of them. The notice of meeting shall prevail over any description of the business of the meeting set out in the form of proxy.
- 5 Shareholders who would prefer to register the appointment of the proxy electronically by way of the internet can do so through Lloyds TSB Registrars' website at [www.sharevote.co.uk](http://www.sharevote.co.uk) using their personal Authentication Reference Number (this is the series of 24 numbers being each of the Reference Number, Card ID and Account Number printed to the right of your name on the proxy form). Alternatively, Shareholders can appoint a proxy electronically by logging on to their portfolio at [www.shareview.co.uk](http://www.shareview.co.uk) and clicking on "Company Meeting".
- 6 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting, including any adjournments thereof, by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed (a) voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service (a "CREST Proxy Instruction") to be valid, the appropriate CREST Proxy Instruction must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 7RA01) by no later than 48 hours before the time of the meeting or any adjourned meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed (a) voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST systems and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.









