Bristow Group Inc
Form 10-Q
February 05, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended December 31, 2006

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 001-31617

Bristow Group Inc.

(Exact name of registrant as specified in its charter)

Delaware	**72-0679819**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification Number)*
2000 W. Sam Houston Pkwy. S., Suite 1700 Houston, Texas	**77042**
(Address of principal executive offices)	*(Zip Code)*

Registrant's telephone number, including area code:

(713) 267-7600

None
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is shell company (as defined in Rule 12b-2 of the Exchange Act).
o Yes þ No

Indicate the number shares outstanding of each of the issuer’s classes of Common Stock, as of January 31, 2007.

23,534,869 shares of Common Stock, $.01 par value

TABLE OF CONTENTS

BRISTOW GROUP INC.
INDEX — FORM 10-Q

		Page
	PART I	
Item 1.	Financial Statements	2
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	33
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	61
Item 4.	Controls and Procedures	63
	PART II	
Item 1.	Legal Proceedings	64
Item 1A.	Risk Factors	64
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds and Issuer Repurchases of Equity Securities	66
Item 6.	Exhibits	67
Signatures		68

TABLE OF CONTENTS

PART I — FINANCIAL INFORMATION

Item 1. ***Financial Statements.***

BRISTOW GROUP INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Income

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2006	2005	2006	2005
	(Unaudited) (In thousands, except per share amounts)			
Gross revenue:				
Operating revenue from non-affiliates	$191,301	$155,864	$564,426	$470,531
Operating revenue from affiliates	10,701	13,715	34,411	37,994
Reimbursable revenue from non-affiliates	20,668	21,751	66,884	56,091
Reimbursable revenue from affiliates	1,172	937	3,392	2,993
	223,842	192,267	669,113	567,609
Operating expense:				
Direct cost	151,193	126,120	438,534	375,182
Reimbursable expense	21,488	22,050	69,266	58,114
Depreciation and amortization	11,060	10,653	32,080	32,160
General and administrative	20,164	15,338	52,040	46,005
Loss (gain) on disposal of assets	(1,042)	374	(5,707)	1,276
	202,863	174,535	586,213	512,737
Operating income	20,979	17,732	82,900	54,872
Earnings from unconsolidated affiliates, net of losses	2,106	1,351	5,393	1,770
Interest income	3,841	898	6,200	2,879
Interest expense	(2,539)	(3,903)	(8,646)	(11,288)
Other income (expense), net	(5,226)	2,296	(11,319)	4,308
Income before provision for income taxes and minority interest	19,161	18,374	74,528	52,541
Provision for income taxes	(8,453)	(4,984)	(26,724)	(12,453)
Minority interest	(257)	10	(1,049)	(84)
Net income	10,451	13,400	46,755	40,004
Preferred stock dividends	(3,150)	—	(3,471)	—
Net income available to common stockholders	$ 7,301	$ 13,400	$ 43,284	$ 40,004
Earnings per common share:				
Basic	$ 0.31	$ 0.57	$ 1.85	$ 1.71
Diluted	$ 0.31	$ 0.57	$ 1.80	$ 1.70
Preferred dividends declared per common share	$ 0.13	$ —	$ 0.13	$ —

The accompanying notes are an integral part of these financial statements.

2

TABLE OF CONTENTS

BRISTOW GROUP INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

	December 31, 2006 (Unaudited)	March 31, 2006
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 219,699	$ 122,482
Accounts receivable from non-affiliates, net of allowance for doubtful accounts of $3.1 million and $4.6 million, respectively	163,361	144,521
Accounts receivable from affiliates, net of allowance for doubtful accounts of $4.1 million and $4.6 million, respectively	16,887	15,884
Inventories	161,067	147,860
Prepaid expenses and other	12,701	16,519
Total current assets	573,715	447,266
Investment in unconsolidated affiliates	42,969	39,912
Property and equipment - at cost:		
Land and buildings	48,918	40,672
Aircraft and equipment	1,079,273	838,314
	1,128,191	878,986
Less - Accumulated depreciation and amortization	(302,877)	(263,072)
	825,314	615,914
Goodwill	20,478	26,837
Prepaid pension costs	45,125	37,207
Other assets	10,163	9,277
	$1,517,764	$1,176,413
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
Current liabilities:		
Accounts payable	$ 36,466	$ 41,227
Accrued wages, benefits and related taxes	43,126	45,958
Income taxes payable	457	6,537
Other accrued taxes	8,647	6,471
Deferred revenues	14,127	9,994
Other accrued liabilities	37,149	31,083
Deferred taxes	10,892	5,025
Short-term borrowings and current maturities of long-term debt	22,198	17,634
Total current liabilities	173,062	163,929
Long-term debt, less current maturities	237,749	247,662
Accrued pension liabilities	153,609	136,521
Other liabilities and deferred credits	17,485	18,016
Deferred taxes	81,494	68,281
Minority interest	5,292	4,307

Commitments and contingencies (Note 5)		
Stockholders’ investment:		
5.50% mandatory convertible preferred stock, $.01 par value, authorized and outstanding 4,600,000 shares; entitled on liquidation to $230 million; net of offering costs of $7.4 million	222,554	—
Common stock, $.01 par value, authorized 35,000,000 shares; outstanding: 23,534,536 as of December 31 and 23,385,473 as of March 31 (exclusive of 1,281,050 treasury shares)	235	234
Additional paid-in capital	166,559	158,762
Retained earnings	491,335	447,524
Accumulated other comprehensive loss	(31,610)	(68,823)
	849,073	537,697
	$1,517,764	$1,176,413

The accompanying notes are an integral part of these financial statements.

3

TABLE OF CONTENTS

BRISTOW GROUP INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

	Nine Months Ended December 31,	
	2006	**2005**
	(Unaudited) (In thousands)	
Cash flows from operating activities:		
Net income	$ 46,755	$ 40,004
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	32,080	32,160
Deferred income taxes	17,177	(12,350)
Loss (gain) on asset dispositions	(5,707)	1,276
Stock-based compensation expense	3,465	—
Equity in earnings from unconsolidated affiliates over dividends received	(430)	(689)
Minority interest in earnings	1,049	84
Tax benefit related to exercise of stock options	(837)	—
Increase (decrease) in cash resulting from changes in:		
Accounts receivable	(4,380)	(28,565)
Inventories	(10,706)	(15,386)
Prepaid expenses and other	(206)	(4,817)
Accounts payable	(15,991)	8,246
Accrued liabilities	6,303	1,282
Other liabilities and deferred credits	(707)	10,104
Net cash provided by operating activities	67,865	31,349
Cash flows from investing activities:		
Capital expenditures	(216,246)	(102,307)
Proceeds from asset dispositions	24,005	72,620
Net cash used in investing activities	(192,241)	(29,687)
Cash flows from financing activities:		
Issuance of preferred stock	223,550	—
Preferred stock issuance costs	(994)	—
Preferred stock dividends paid	(2,944)	—
Cash collateral provided under operating leases	—	(10,285)
Repayment of debt and debt redemption premiums	(5,570)	(3,160)
Partial prepayment of put/call obligation	(96)	(66)
Issuance of common stock	2,926	602
Tax benefit related to exercise of stock options	837	—
Net cash provided by (used in) financing activities	217,709	(12,909)
Effect of exchange rate changes on cash and cash equivalents	3,884	(6,140)
Net increase (decrease) in cash and cash equivalents	97,217	(17,387)
Cash and cash equivalents at beginning of period	122,482	146,440
Cash and cash equivalents at end of period	$ 219,699	$ 129,053
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		

Interest, net of interest capitalized	$	10,914	$	13,639
Income taxes	$	15,676	$	13,241
Non-cash investing activities:				
Capital expenditures funded by accounts payable and short-term notes, net	$	—	$	14,746

The accompanying notes are an integral part of these financial statements.

4

TABLE OF CONTENTS

BRISTOW GROUP INC. AND SUBSIDIARIES

Condensed Notes to Consolidated Financial Statements

NOTE 1 — BASIS OF PRESENTATION, CONSOLIDATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following consolidated financial statements include the accounts of Bristow Group Inc. and its consolidated entities ("Bristow Group," the "Company," "we," "us," or "our") after elimination of all significant intercompany accounts a transactions. Investments in affiliates in which we own 50% or less of the equity but have retained the majority of the economic risk of the operating assets and related results are consolidated. Certain of these entities are Variable Interest Entities ("VIEs") of which we are the primary beneficiary. See discussion of these VIEs in Note 3 in the "Notes to Consolidated Financial Statements" included in our Annual Report on Form 10-K for fiscal year 2006 ("fiscal year 2006 Annual Report"). Other investments in affiliates in which we own 50% or less of the equity but have the ability to exercise significant influence are accounted for using the equity method. Investments which we do not consolidate or in which we do not exercise significant influence are accounted for under the cost method whereby dividends are recognized as income when received.

Pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"), the information contained in the following condensed notes to consolidated financial statements is condensed from that which would appear in the annual consolidated financial statements; accordingly, the consolidated financial statements included herein should be read in conjunction with the consolidated financial statements and related notes thereto contained in our Annual Report on Form 10-K for fiscal year 2006 ("fiscal year 2006 Financial Statements"). Operating results for the interim period presented are not necessarily indicative of the results that may be expected for the entire fiscal year.

The condensed consolidated financial statements included herein are unaudited; however, they include all adjustments of a normal recurring nature which, in the opinion of management, are necessary for a fair presentation of the consolidated financial position of the Company as of December 31, 2006, the consolidated results of operations for the three and nine months ended December 31, 2006 and 2005, and the consolidated cash flows for the nine months ended December 31, 2006 and 2005.

In order to conform with the current period presentation of accrued liabilities, we have reclassified $8.5 million of accounts payable to other accrued liabilities as of March 31, 2006. This reclassification had no effect on our consolidated financial position, results of operations or cash flows.

Our fiscal year ends March 31, and we refer to fiscal years based on the end of such period. Therefore, the fiscal year ending March 31, 2007 is referred to as fiscal year 2007.

Foreign Currency Translation

Foreign currency transaction gains and losses result from the effect of changes in exchange rates on transactions denominated in currencies other than a company's functional currency, including transactions between consolidated companies. An exception is made where an intercompany loan or advance is deemed to be of a long-term investment nature, in which instance the foreign currency transaction gains and losses are included with cumulative translation gains and losses and are reported in stockholders' investment as accumulated other comprehensive gains or losses. Translation adjustments, which are reported in accumulated other comprehensive gains or losses, are the result of translating a foreign entity's financial statements from its functional currency to U.S. dollars, our reporting currency. Balance sheet information is presented based on the exchange rate as of the balance sheet date, and income statement

information is presented based on the average conversion rate for the period. The various components of equity are presented at their historical average exchange rates. The resulting difference after applying the different exchange rates is the cumulative translation adjustment. The functional currency of Bristow Aviation Holdings, Ltd. ("Bristow Aviation"), one of our consolidated subsidiaries, is the British pound sterling.

As a result of the change in exchange rates during the three and nine months ended December 31, 2006, we recorded foreign currency transaction losses of approximately $3.4 million and $9.6 million, respectively, primarily related to the British pound sterling, compared to foreign currency transaction gains of approximately $2.3 million and $5.3 million

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BRISTOW GROUP INC. AND SUBSIDIARIES

Condensed Notes to Consolidated Financial Statements — (Continued)

during the three and nine months ended December 31, 2005, respectively. These gains and losses arose primarily from the following U.S. dollar-denominated transactions entered into by Bristow Aviation (whose functional currency is the British pound sterling):

- Cash and cash equivalents held in U.S. dollar-denominated accounts. Beginning in July 2006, we reduced a portion of Bristow Aviation's U.S. dollar-denominated cash balances.

- U.S. dollar-denominated intercompany loans. On August 14, 2006, we entered into a derivative contract to mitigate our exposure to exchange rate fluctuations on our U.S. dollar-denominated intercompany loans. This derivative contract provided us with a call option on £12.9 million and a put option on $24.5 million, with a strike price of 1.895 U.S. dollars per British pound sterling, and was exercised by us prior to the scheduled expiration on November 14, 2006, resulting in a net loss of $0.3 million. On November 14, 2006, we entered into another derivative contract for the same amount and strike price that expires on May 14, 2007. The fair value of this contract, which totaled $0.9 million as of December 31,2006, is recorded as a derivative asset within other assets on our balance sheet. The change in fair value of this contract from November 14 to December 31, 2006 resulted in a gain of $0.5 million, which served to offset a portion of the foreign currency transaction losses recorded for the three and nine months ended December 31, 2006.

- Euro- and Nigerian Naira-denominated intercompany loans and U.S. dollar-denominated receivables. The economic effect of the foreign currency transaction losses during the three and nine months ended December 31, 2006 was offset by a corresponding benefit during those periods reflected as a cumulative translation adjustment in stockholders' investment on our condensed consolidated balance sheet. We are evaluating alternatives to further mitigate these remaining foreign currency exchange exposures.

The following table presents the applicable exchange rates (of one British pound sterling into U.S. dollars) for the indicated periods:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2006	2005	2006	2005
High	$ 1.98	$ 1.79	$ 1.98	$ 1.92
Average	1.91	1.75	1.87	1.80
Low	1.86	1.71	1.74	1.71

As of December 31, 2006 and March 31, 2006, the exchange rate was $1.96 and $1.74, respectively.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R)." SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of

financial position and recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS No. 158 is effective for our current fiscal year and will be adopted in the consolidated financial statements to be included in our Annual Report on Form 10-K for fiscal year 2007. We anticipate that the adoption of SFAS No. 158 will have no impact on our net income or comprehensive income. Rather, we expect that the primary impact will be the reflection of a net accrued pension liability ($108.5 million as of December 31, 2006) versus the current presentation of showing the prepaid pension costs ($45.1 million as of December 31, 2006) separately from the accrued pension liabilities ($153.6 million as of December 31, 2006).

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements.” SFAS No. 157 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop

BRISTOW GROUP INC. AND SUBSIDIARIES

Condensed Notes to Consolidated Financial Statements — (Continued)

those assumptions. Under the standard, fair value measurements will be separately disclosed by level within the fair value hierarchy (i.e., levels 1, 2, and 3, as defined). Companies are required to provide enhanced disclosure regarding fair value measurements in the level 3 category (recurring fair value measurements using significant unobservable inputs), including a reconciliation of the beginning and ending balances separately for each major category of assets and liabilities. SFAS No. 157 is effective for financial statements issued for our fiscal year 2009 and interim periods therein. We have not yet completed our evaluation of the impact of SFAS No. 157.

In September 2006, the SEC released Staff Accounting Bulletin (“SAB”) No. 108, “Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements.” SAB No. 108 provides guidance on how the effects of the carryover or reversal of prior year financial statement misstatements should be considered in quantifying a current year misstatement. Prior practice allowed the evaluation of materiality on the basis of either (1) the error quantified as the amount by which the current year income statement was misstated (“rollover method”) or (2) the cumulative error quantified as the cumulative amount by which the current year balance sheet was misstated (“iron curtain method”). Reliance on either method in prior years could have resulted in misstatement of the financial statements. SAB No. 108 requires both methods to be used in evaluating materiality. Immaterial prior year errors may be corrected with the first filing of prior year financial statements after adoption. The cumulative effect of the correction would be reflected in the opening balance sheet with appropriate disclosure of the nature and amount of each individual error corrected in the cumulative adjustment, as well as a disclosure of the cause of the error and that the error had been deemed to be immaterial in the past. SAB No. 108 is effective for our current fiscal year and will be adopted in the consolidated financial statements to be included in our Annual Report on Form 10-K for fiscal year 2007. We do not believe that the adoption of this bulletin will have a material impact on our consolidated results of operations, cash flows or financial position upon adoption; however, due to the nature of the guidance, a final determination of the impact of SAB No. 108 cannot be made until the period of its adoption.

In September 2006, the FASB approved FASB Staff Position (“FSP”) AUG AIR-1, “Accounting for Planned Major Maintenance Activities,” which prohibits the accruing as a liability the future costs of periodic major overhauls and maintenance of plant and equipment. Other previously acceptable methods of accounting for planned major overhauls and maintenance will continue to be permitted. The new requirements apply to our fiscal year 2008 and must be retrospectively applied. We do not believe that the adoption of this staff position will have a material impact on our consolidated results of operations, cash flows or financial position upon adoption; however, we have not yet completed our evaluation of the impact of FSP AUG AIR-1.

In June 2006, the FASB issued FASB Interpretation (“FIN”) No. 48, “Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109,” which clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with SFAS No. 109, “Accounting for Income Taxes.” FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN No. 48 requires enterprises to evaluate tax positions using a two-step process consisting of recognition and measurement. The effects of a tax position will be recognized in the period in which the enterprise determines that it is more likely than not (defined as a more than 50% likelihood) that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. A tax position that meets the more-likely-than-not recognition threshold is measured as the largest amount of tax benefit that is greater than 50%

likely of being recognized upon ultimate settlement. FIN No. 48 is effective for our fiscal year 2008. We have not yet completed our evaluation of the impact that the adoption of this interpretation will have on our consolidated results of operations, cash flows or financial position.

See Note 8 for discussion and disclosure made in connection with the adoption of SFAS No. 123(R), "Share-Based Payment" on April 1, 2006.

NOTE 2 — DISPOSITIONS

On November 30, 2006, we completed a sale of the assets of our aircraft engine overhaul business, Turbo Engines, Inc. ("Turbo"), to Timken Alcor Aerospace Technologies, Inc. ("Timken") for approximately $14.6 million ($13.2 million of which was received in cash upon closing of the transaction), including estimated post-closing adjustments. The sale

BRISTOW GROUP INC. AND SUBSIDIARIES

Condensed Notes to Consolidated Financial Statements — (Continued)

was effective November 30, 2006 and resulted in a pretax gain of $0.1 million. However, the transaction resulted in additional tax expense of $2.5 million related to non-deductible goodwill recorded at the time we acquired Turbo in 2001. This additional tax expense resulted in an increase in our tax rate for the three and nine months ended December 31, 2006 (see Note 7). In conjunction with this sale, we signed a supply agreement with Timken through which we are obligated to purchase parts and components, and obtain repair services, from Timken totaling $10.5 million over a three-year period beginning December 1, 2006 at prices consistent with prior arrangements with Timken.

On December 22, 2006, we entered into an agreement to terminate our 50% ownership interest in Aeroleo Taxi Aereo S. A. ("Aeroleo"), our Brazilian affiliate. The closing of this transaction is pending approval from a regulatory agency in that country and is expected to result in a pre-tax gain of approximately $2.5 million. We expect to obtain this approval during the fourth quarter of fiscal year 2007. During the three months ended December 31, 2005, we recorded an impairment charge of $1.0 million to reduce the recorded value of our investment in the joint venture. During fiscal years 2006 and 2005, and the three and nine months ended December 31, 2006, we derived approximately $8.0 million, $10.2 million, $2.1 million and $6.3 million, respectively, of leasing and other revenues from this joint venture. We expect to continue to lease aircraft to this company after the closing of this transaction.

NOTE 3 — INVESTMENTS IN SIGNIFICANT AFFILIATES

Consolidated Affiliates

Bristow Aviation — Bristow Aviation is organized with three classes of ordinary shares, each having different voting rights. The Company, Caledonia Investments plc and its subsidiary, Caledonia Industrial & Services Limited (together, "Caledonia"), and a European Union investor (the "E.U. Investor") own 49%, 46% and 5%, respectively, of Bristow Aviation's total outstanding ordinary shares, although Caledonia has voting control over the E.U. Investor's shares. For a further discussion of our investment in Bristow Aviation and our relationship with Caledonia, see Note 3 in the "Notes to Consolidated Financial Statements" included in our fiscal year 2006 Annual Report.

During September and October 2006, we conducted a public offering of 4,600,000 shares of our 5.50% mandatory convertible preferred stock, par value $.01 per share and liquidation preference of $50 per share (the "Preferred Stock") (see Note 6). Caledonia purchased an aggregate of 300,000 shares of the Preferred Stock in this offering at a price equal to the public offering price. The underwriters for this offering received no discount or commission on the sale of these 300,000 shares to Caledonia.

Unconsolidated Affiliates

HC — After the conclusion of the contract with Petróleos Mexicanos ("PEMEX") in February 2005, our 49% owned unconsolidated affiliates, Hemisco Helicopters International, Inc. ("Hemisco") and Heliservicio Campeche S.A. de C.V. ("Heliservicio" and collectively, "HC"), experienced difficulties during fiscal year 2006 in meeting their obligations to make lease rental payments to us and to another one of our unconsolidated affiliates, Rotorwing Leasing Resources, L.L.C. ("RLR"). During fiscal year 2006, RLR and we made a determination that because of the uncertainties as to collectibility, lease revenues from HC would be recognized as they were collected. As of December 31, 2006, $1.0 million of amounts billed but not collected from HC have not been recognized in our results, and our 49% share of the equity in earnings of RLR has been reduced by $3.5 million for amounts billed but not collected from HC. During the

three and nine months ended December 31, 2006, we recognized revenue of $0.2 million and $1.2 million, respectively, upon receipt of payment from HC for amounts billed in fiscal year 2006.

Prior to June 30, 2006, we took several actions to improve the financial condition and profitability of HC, including relocating several aircraft to other markets, restructuring our profit sharing arrangement with our partner, and completing a recapitalization of Heliservicio on August 19, 2005. In June 2006, Heliservicio was awarded a two-year contract by PEMEX. Under this contract, Heliservicio will provide and operate three medium helicopters in support of PEMEX’s oil and gas operations. We will continue to evaluate the improving results for HC to determine if and when we will change our accounting for this joint venture from the cash to accrual basis.

Other — Historically, in addition to the expansion of our business through purchases of new and used aircraft, we have also established new joint ventures with local partners or purchased significant ownership interests in companies

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BRISTOW GROUP INC. AND SUBSIDIARIES

Condensed Notes to Consolidated Financial Statements — (Continued)

with ongoing helicopter operations, particularly in countries where we have no operations or our operations are limited in scope, and we continue to evaluate similar opportunities which could enhance our operations. Where we believe that it is probable that an investment will result, the costs associated with such investment evaluations are deferred and included in Investment in unconsolidated affiliates. For each investment evaluated, an impairment of the deferred costs is recognized in the period in which we determine that it is no longer probable that an investment will be made. In December 2006, we recorded expense of $1.9 million for acquisition costs previously deferred in connection with an acquisition we were evaluating as we determined that the acquisition is no longer probable. As of December 31, 2006, other costs associated with investment evaluations were not significant.

NOTE 4 — DEBT

Debt as of December 31, 2006 and March 31, 2006 consisted of the following (in thousands):

	December 31, 2006	March 31, 2006
6 1/8% Senior Notes due 2013	$230,000	$230,000
Limited recourse term loans	19,155	20,023
Hemisco Helicopters International, Inc. note	4,380	4,380
Short-term advance from customer	1,400	1,400
Note to Sakhalin Aviation Services Ltd.	417	647
Sakhalin debt	4,595	5,667
Short-term notes	—	3,179
Total debt	259,947	265,296
Less short-term borrowings and current maturities of long-term debt	(22,198)	(17,634)
Total long-term debt	$237,749	$247,662

Note to Sakhalin Aviation Services Ltd. — In August 2006, the note issued to Sakhalin Aviation Services Ltd. (“Sakhalin”) was replaced with a new note to Sakhalin that will be repaid over a three-year period. As with the original note, the new note is non-interest bearing.

Senior Secured Credit Facilities — In August 2006, we entered into syndicated senior secured credit facilities which consist of a $100 million revolving credit facility (with a subfacility of $25 million for letters of credit) and a $25 million letter of credit facility (the “Credit Facilities”). The aggregate commitments under the revolving credit facility may be increased to $200 million at our option following our 6 1/8% Senior Notes due 2013 receiving an investment grade credit rating from Moody’s or Standard & Poor’s (so long as the rating of the other rating agency of such notes is no lower than one level below investment grade). As of December 31, 2006, our Moody's and Standard & Poor's ratings were Ba2 and BB, respectively, which are two levels below the investment grade ratings of Baa3 and BBB – , respectively. The revolving credit facility may be used for general corporate purposes, including working capital and acquisitions. The letter of credit facility is used to issue letters of credit supporting or securing performance of statutory obligations, surety or appeal bonds, bid, or performance bonds and similar obligations.

Borrowings under the revolving credit facility bear interest at an interest rate equal to, at our option, either the Base Rate or LIBOR (or EURIBO, in the case of Euro-denominated borrowings) plus the applicable margin. “Base Rate” means the higher of (1) the prime rate and (2) the Federal Funds rate plus 0.5% per annum. The applicable margin for

borrowings range from 0.0% and 2.5% depending on whether the Base Rate or LIBOR is used, and is determined based on our credit rating. Fees owed on letters of credit issued under either the revolving credit facility or the letter of credit facility are equal to the margin for LIBOR borrowings. Based on our current ratings, the margins on Base Rate and LIBOR borrowings were 0.0% and 1.25%, respectively, as of December 31, 2006. Interest is payable at least quarterly, and the Credit Facilities mature in August 2011. Our obligations under the Credit Facilities are guaranteed by certain of our principal domestic subsidiaries and secured by the accounts receivable, inventory and equipment (excluding aircraft and their components) of Bristow Group Inc. and the guarantor subsidiaries, and the capital stock of certain of our principal subsidiaries.

TABLE OF CONTENTS

BRISTOW GROUP INC. AND SUBSIDIARIES

Condensed Notes to Consolidated Financial Statements — (Continued)

In addition, the Credit Facilities include covenants which are customary for these types of facilities, including certain financial covenants and restrictions on the ability of Bristow Group Inc. and its subsidiaries to enter into certain transactions, including those that could result in the incurrence of additional liens and indebtedness; the making of loans, guarantees or investments; sales of assets; payments of dividends or repurchases of our capital stock; and entering into transactions with affiliates.

As of December 31, 2006, we had $4.7 million in letters of credit outstanding under the letter of credit facility and no borrowings or letters of credit outstanding under the revolving credit facility.

We previously had a $30 million revolving credit facility with a U.S. bank that was terminated in August 2006.

U.K. Facilities — As of December 31, 2006, Bristow Aviation had a £6.0 million ($11.7 million) facility for letters of credit, of which £0.3 million ($0.6 million) was outstanding, and a £1.0 million ($2.0 million) net overdraft facility, under which no borrowings were outstanding. Both facilities are with a U.K. bank. The letter of credit facility is provided on an uncommitted basis, and outstanding letters of credit bear fees at a rate of 0.7% per annum. Borrowings under the net overdraft facility are payable upon demand and bear interest at the bank's base rate plus a spread that can vary between 1% and 3% per annum depending on the net overdraft amount. The net overdraft facility will be reviewed by the bank annually on August 31 and is cancelable at any time upon notification from the bank. The facilities are guaranteed by certain of Bristow Aviation's subsidiaries and secured by a negative pledge of Bristow Aviation's assets.

NOTE 5 — COMMITMENTS AND CONTINGENCIES

Aircraft Purchase Contracts— As shown in the table below, we expect to make additional capital expenditures over the next six fiscal years to increase the size of our aircraft fleet. As of December 31, 2006, we had 42 aircraft on order and options to acquire an additional 35 aircraft. The additional aircraft on order are expected to provide incremental fleet capacity.

	Three Months Ending March 31,		**Fiscal Year Ending March 31,**			
	2007	**2008**	**2009**	**2010**	**2011-2013**	**Total**
Commitments as of December 31, 2006:						
Number of aircraft:						
Small	1	2	—	—	—	3
Medium	6	12	3	3	6	30
Large	4	5	—	—	—	9
	11[(1)]	19[(2)]	3	3	6	42
Related expenditures (in thousands)	$ 84,067	$162,522	$ 23,051	$24,285	$ 37,053	$330,978

Options as of December 31, 2006:						
Number of aircraft:						
Medium [3]	—	1	6	6	14	27
Large	—	2	6	—	—	8
	—	3	12	6	14	35
Related expenditures (in thousands)	$ 8,220	$119,494	$102,600	$48,292	$107,624	$386,230

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(1) Signed customer contracts are currently in place for nine of these 11 aircraft.

(2) Signed customer contracts are currently in place for eight of these 19 aircraft.

TABLE OF CONTENTS

BRISTOW GROUP INC. AND SUBSIDIARIES

Condensed Notes to Consolidated Financial Statements — (Continued)

(3) As of December 31, 2006, options with respect to six of these aircraft were "subject to availability," which means that the delivery time for the aircraft subject to these options will depend upon the number of manufacturing slots available at the time the options are exercised. As a result, the delivery time for these aircraft may be extended beyond those specified in the purchase agreement with the manufacturer, and these medium aircraft were included in the 2011-2013 period in the table above. However, we can accelerate the delivery of these aircraft at our option to as early as January 1, 2008, subject to the manufacturer's availability to fill customer orders at the time an option is exercised.

The following chart presents an analysis of our aircraft orders and options during fiscal year 2007:

	Three Months Ended					
	June 30, 2006		September 30, 2006		December 31, 2006	
	Orders	Options	Orders	Options	Orders	Options
Beginning of quarter	53	37	51	37	47	37
Aircraft delivered	(2)	—	(4)	—	(10)	—
Aircraft ordered	—	—	—	—	8	(5)
Orders converted to options	—	—	—	—	(3)	3
End of quarter	51	37	47	37	42	35

In early calendar year 2007, we ordered three additional large aircraft (for which no option previously existed) which will be delivered in fiscal year 2009, thereby increasing our aircraft commitments by $63.6 million, and obtained the option to purchase eight additional large aircraft and the right to trade in older aircraft to the same manufacturer.

Collective Bargaining Agreement — We employ approximately 300 pilots in our North America operations who are represented by the Office and Professional Employees International Union ("OPEIU") under a collective bargaining agreement. We and the pilots represented by the OPEIU ratified an amended collective bargaining agreement on April 4, 2005. The terms under the amended agreement are fixed until October 3, 2008 and include a wage increase for the pilot group and improvements to several other benefit plans.

We are currently involved in negotiations with the unions in Nigeria and anticipate that we will increase certain benefits for union personnel as a result of these negotiations. We do not expect these benefit increases to have a material impact on our results of operations.

Our ability to attract and retain qualified pilots, mechanics and other highly-trained personnel is an important factor in determining our future success. For example, many of our customers require pilots with very high levels of flight experience. The market for these experienced and highly-trained personnel is competitive and will become more competitive if oil and gas industry activity levels increase. In addition, some of our pilots, mechanics and other personnel, as well as those of our competitors, are members of the U.S. or U.K. military reserves and have been, or could be, called to active duty. If significant numbers of such personnel are called to active duty, it would reduce the supply of such workers and likely increase our labor costs.

Internal Review — In February 2005, we voluntarily advised the staff of the SEC that the Audit Committee of our board of directors had engaged special outside counsel to undertake a review of certain payments made by two of our

affiliated entities in a foreign country. The review of these payments, which initially focused on Foreign Corrupt Practices Act matters, was subsequently expanded by such special outside counsel to cover operations in other countries and other issues (the "Internal Review"). In connection with this review, special outside counsel to the Audit Committee retained forensic accountants. As a result of the findings of the Internal Review (which was completed in late 2005), our quarter ended December 31, 2004 and prior financial statements were restated. We also provided the SEC with documentation resulting from the Internal Review, which eventually resulted in a formal SEC investigation. For further information on the restatements, see our fiscal year 2005 Annual Report.

In October 2005, the Audit Committee reached certain conclusions with respect to findings from the Internal Review. The Audit Committee concluded that, over a considerable period of time, (1) improper payments were made by, and on behalf of, certain foreign affiliated entities directly or indirectly to foreign officials, (2) improper payments were made by certain foreign affiliated entities to employees of certain customers, (3) inadequate employee payroll declarations and, in certain instances, tax payments were made by us or our affiliated entities in certain jurisdictions, (4) inadequate valuations

BRISTOW GROUP INC. AND SUBSIDIARIES

Condensed Notes to Consolidated Financial Statements — (Continued)

for customs purposes may have been declared in certain jurisdictions resulting in the underpayment of import duties, and (5) an affiliated entity, with the assistance of our personnel, engaged in transactions which appear to have assisted in the circumvention of currency transfer restrictions and other regulations. In addition, as a result of the Internal Review, the Audit Committee and management determined that there were deficiencies in our books and records and internal controls with respect to the foregoing and certain other activities.

Based on the Audit Committee's findings and recommendations, the board of directors took disciplinary action with respect to our personnel who it determined bore responsibility for these matters. The disciplinary actions included termination or resignation of employment (including of certain members of senior management), changes of job responsibility, reductions in incentive compensation payments and reprimands. One of our affiliates also obtained the resignation of certain of its personnel.

We took remedial actions, including correcting underreported payroll taxes, disclosing to certain customers inappropriate payments made to customer personnel and terminating certain agency, business and joint venture relationships. We also took steps to reinforce our commitment to conduct our business with integrity by creating an internal corporate compliance function, instituting a new code of business integrity, and developing and implementing a training program for all employees. In addition to the disciplinary actions referred to above, we took steps to strengthen our control environment by hiring new key members of senior and financial management, including persons with appropriate technical accounting and legal expertise, expanding our corporate finance group and internal audit staff, realigning reporting lines within the accounting function so that field accounting reports directly to the corporate accounting function instead of operations management, and improving the management of our tax structure to comply with its intended design. Our compliance program is in full operation and clear corporate policies have been established and communicated to our relevant personnel.

We have communicated the Audit Committee's conclusions with respect to the findings of the Internal Review to regulatory authorities in the jurisdictions in which the relevant activities took place where appropriate. Until final resolution of all of these issues, such disclosure may result in legal and administrative proceedings, the institution of administrative, civil injunctive or criminal proceedings involving us and/or current or former employees, officers and/or directors who are within the jurisdictions of such authorities, the imposition of fines and other penalties, remedies and/or sanctions, including precluding us from participating in business operations in their countries. To the extent that violations of the law may have occurred in countries in which we operate, related proceedings could also result in sanctions requiring us to curtail our business operations in one or more such countries for a period of time. In the event that we curtail our business operations in any such country, we then may face difficulties exporting our aircraft from such country. During the three and nine months ended December 31, 2006, we made payments of $0.4 million and $9.0 million, respectively, for the taxes attributable to underreported employee payroll. Operating income for three and nine months ended December 31, 2005 included $1.0 million and $3.0 million, respectively, attributable to this accrual. Since December 31, 2005, no additional accruals were required for taxes attributable to underreported employee payroll.

Although we recorded an accrual for the expected outcome in December 2006 (see below), we cannot predict the ultimate outcome of the SEC investigation, nor can we predict whether other applicable U.S. and foreign governmental authorities will initiate separate investigations. The outcome of the SEC investigation and any related legal and administrative proceedings could include the institution of administrative, civil injunctive or criminal proceedings involving us and/or current or former employees, officers and/or directors, the imposition of fines and

other penalties, remedies and/or sanctions, modifications to business practices and compliance programs and/or referral to other governmental agencies for other appropriate actions. It is not possible to accurately predict at this time when matters relating to the SEC investigation will be completed, the final outcome of the SEC investigation, what if any actions may be taken by the SEC or by other governmental agencies in the U.S. or in foreign jurisdictions, or the effect that such actions may have on our consolidated financial statements. As a result of the disclosure and remediation of a number of activities identified in the Internal Review, we may encounter difficulties conducting business in certain foreign countries and retaining and attracting additional business with certain customers. We cannot predict the extent of these difficulties; however, our ability to continue conducting business in these countries and with these customers and through agents may be significantly impacted. It is also possible that we may become subject to claims by third parties, possibly resulting in litigation. The matters identified in the Internal Review and their effects could have a material adverse effect on our business, financial condition and results of operations.

TABLE OF CONTENTS

BRISTOW GROUP INC. AND SUBSIDIARIES

Condensed Notes to Consolidated Financial Statements — (Continued)

As we continue to respond to the SEC investigation and other governmental authorities and take other actions relating to improper activities that have been identified in connection with the Internal Review, there can be no assurance that restatements, in addition to those reflected in our fiscal year 2005 Annual Report, will not be required or that our historical financial statements included in this Quarterly Report will not change or require further amendment. As part of our ongoing compliance program, we received evidence that foreign affiliates of our minority owned operating entity in Kazakhstan may have made improper gifts or payments to government employees. We engaged an outside accounting firm to investigate this matter and such investigation is underway. The results of such investigation, including our view as to whether improper activities took place, will be disclosed to the SEC by us as appropriate. In addition, as we continue to operate our compliance program, other situations involving foreign operations, similar to those matters disclosed to the SEC in February 2005 and described above, could arise that warrant further investigation and subsequent disclosures. As a result, new issues may be identified that may impact our financial statements and the scope of the restatements described above and lead us to take other remedial actions or otherwise adversely impact us.

During fiscal years 2005 and 2006 and the nine months ended December 31, 2006, we incurred approximately $2.2 million, $10.5 million and $0.1 million, respectively, in legal and other professional costs in connection with the Internal Review. In addition, in December 2006, we recorded a charge of $3.0 million for costs and fees we currently expect to incur in connection with the resolution of the SEC investigation regarding the findings resulting from the Internal Review, a substantial portion of which relates to legal fees in connection with the investigation. There can be no assurance that the amounts currently recorded will be sufficient to resolve such matters or that such matters can ultimately be resolved until final action by the SEC. We expect to incur additional costs associated with the Internal Review and in the conduct of our new compliance program, which will be expensed as incurred and which could be significant in the fiscal quarters in which they are recorded.

Many of the improper actions identified in the Internal Review resulted in decreasing the costs incurred by us in performing our services. The remedial actions we are taking have resulted in an increase in these costs and, if we cannot raise our prices simultaneously and to the same extent as our increased costs, our operating income will decrease.

In addition, we face legal actions relating to the remedial actions which we have taken as a result of the Internal Review, and may face further legal action of this type in the future. In November 2005, two of our consolidated foreign affiliates were named in a lawsuit filed with the High Court of Lagos State, Nigeria by Mr. Benneth Osita Onwubalili and his affiliated company, Kensit Nigeria Limited, which allegedly acted as agents of our affiliates in Nigeria. The claimants allege that an agreement between the parties was terminated without justification and seek damages of $16.3 million. We have responded to this claim and are continuing to investigate this matter.

Document Subpoena from U.S. Department of Justice — In June 2005, one of our subsidiaries received a document subpoena from the Antitrust Division of the U.S. Department of Justice (the "DOJ"). The subpoena related to a grand jury investigation of potential antitrust violations among providers of helicopter transportation services in the U.S. Gulf of Mexico. The subpoena focused on activities during the period from January 1, 2000 to June 13, 2005. We believe we have submitted to the DOJ substantially all documents responsive to the subpoena. We have had discussions with the DOJ and provided documents related to our operations in the United States as well as internationally. We intend to continue to provide additional information as required by the DOJ in connection with the investigation. There is no assurance that, after review of any information furnished by us or by third parties, the DOJ

will not ultimately conclude that violations of U.S. antitrust laws have occurred. The period of time necessary to resolve the DOJ investigation is uncertain, and this matter could require significant management and financial resources that could otherwise be devoted to the operation of our business.

The outcome of the DOJ investigation and any related legal proceedings in other countries could include civil injunctive or criminal proceedings involving us or our current or former officers, directors or employees, the imposition of fines and other penalties, remedies and/or sanctions, including potential disbarments, and referrals to other governmental agencies. In addition, in cases where anti-competitive conduct is found by the government, there is greater likelihood for civil litigation to be brought by third parties seeking recovery. Any such civil litigation could have serious consequences for our company, including the costs of the litigation and potential orders to pay restitution or other damages or penalties, including potentially treble damages, to any parties that were determined to be injured as a result of any impermissible anti-competitive conduct. Any of these adverse consequences could have a material adverse effect on our business, financial condition and results of operations. The DOJ investigation, any related proceedings in other countries and any

third-party litigation, as well as any negative outcome that may result from the investigation, proceedings or litigation, could also negatively impact our relationships with customers and our ability to generate revenue.

Environmental Contingencies — The United States Environmental Protection Agency, also referred to as the EPA, has in the past notified us that we are a potential responsible party, or PRP, at four former waste disposal facilities that are on the National Priorities List of contaminated sites. Under the federal Comprehensive Environmental Response, Compensation, and Liability Act, also known as the Superfund law, persons who are identified as PRPs may be subject to strict, joint and several liability for the costs of cleaning up environmental contamination resulting from releases of hazardous substances at National Priorities List sites. We were identified by the EPA as a PRP at the Western Sand and Gravel Superfund site in Rhode Island in 1984, at the Sheridan Disposal Services Superfund site in Waller County, Texas in 1989, at the Gulf Coast Vacuum Services Superfund site near Abbeville, Louisiana in 1989, and at the Operating Industries, Inc. Superfund site in Monterey Park, California in 2003. We have not received any correspondence from the EPA with respect to the Western Sand and Gravel Superfund site since February 1991, nor with respect to the Sheridan Disposal Services Superfund site since 1989. Remedial activities at the Gulf Coast Vacuum Services Superfund site were completed in September 1999 and the site was removed from the National Priorities List in July 2001. The EPA has offered to submit a settlement offer to us in return for which we would be recognized as a *de minimis* party in regard to the Operating Industries Superfund site, but we have not yet received this settlement proposal. Although we have not obtained a formal release of liability from the EPA with respect to any of these sites, we believe that our potential liability in connection with these sites is not likely to have a material adverse effect on our business, financial condition or results of operations.

Hurricanes Katrina and Rita — As a result of hurricanes Katrina and Rita in the fall of 2005, several of our shorebase facilities located along the U.S. Gulf Coast sustained significant hurricane damage. In particular, hurricane Katrina caused a total loss of our Venice, Louisiana, shorebase facility, and hurricane Rita severely damaged the Creole, Louisiana, base and flooded the Intracoastal City, Louisiana, base. These facilities have since been reopened. Based on estimates of the losses, discussions with our property insurers and analysis of the terms of our property insurance policies, we believe that it is probable that we will receive a total of $2.8 million in insurance recoveries ($1.5 million has been received thus far). We recorded a $0.2 million net gain during fiscal year 2006, ($2.8 million in probable insurance recoveries offset by $2.6 million of involuntary conversion losses) related to property damage to these facilities.

Aircraft Repurchase Commitments — During November 2002, we sold assets related to our activities in Italy. In connection with this sale, we also agreed to acquire ownership of three aircraft used in the Italy operations and currently leased from unrelated third parties at future dates, and transfer ownership to the buyer. As part of this arrangement, we agreed to exercise our purchase option at the conclusion of each lease and to sell these aircraft to the buyer for an aggregate sales price of €8.8 million ($11.4 million). During fiscal year 2005, leases with one of the third parties were terminated and the sale to the buyer closed on two of these aircraft, resulting in the recognition of a $2.3 million gain. We exercised the purchase option on the remaining aircraft and completed the sale during the three months ended September 30, 2006, resulting in a gain of $2.2 million.

Supply Agreement with Timken — As discussed in Note 2, in conjunction with the sale of the assets of Turbo to Timken, we signed a supply agreement with Timken through which we are obligated to purchase parts and components, and obtain repair services, from Timken totaling $10.5 million over a three-year period beginning December 1, 2006 at prices consistent with prior arrangements with Timken.

Guarantees — We have guaranteed the repayment of up to £10 million ($19.6 million) of the debt of FBS and $11.7 million of the debt of RLR, both unconsolidated affiliates. See discussion of these commitments in Note 6 to our fiscal year 2006 Financial Statements. As of December 31, 2006, we have recorded a liability of $0.7 million representing the fair value of the RLR guarantee, which is reflected in our consolidated balance sheet in other liabilities and

deferred credits. Additionally, we provided an indemnity agreement to Afianzadora Sofimex, S.A. to support issuance of surety bonds on behalf of HC from time to time; as of December 31, 2006, surety bonds with an aggregate value of 33.6 million Mexican pesos ($3.1 million) were outstanding.

TABLE OF CONTENTS

BRISTOW GROUP INC. AND SUBSIDIARIES

Condensed Notes to Consolidated Financial Statements — (Continued)

The following table summarizes our commitments under these guarantees as of December 31, 2006:

	Amount of Commitment Expiration Per Period			
Total	**Remainder of Fiscal Year 2007**	**Fiscal Years 2008-2009**	**Fiscal Years 2010-2011**	**Fiscal Year 2012 and Thereafter**
		(In thousands)		
$34,395	$ 3,108	$11,716	$ —	$ 19,570

Other Matters — Although infrequent flight accidents have occurred in the past, and the related losses and liability claims have been covered by insurance subject to a deductible. We are a defendant in certain claims and litigation arising out of operations in the normal course of business. In the opinion of management, uninsured losses, if any, will not be material to our financial position, results of operations or cash flows.

NOTE 6 — MANDATORY CONVERTIBLE PREFERRED STOCK

In September 2006, we issued 4,000,000 shares of Preferred Stock, in a public offering, for net proceeds of $193.6 million. In October 2006, we issued an additional 600,000 shares of Preferred Stock upon the exercise of the underwriters' over-allotment option, for net proceeds of $29.1 million. We have used a portion of the net proceeds from this offering and intend to use the remainder to acquire aircraft and for working capital and other general corporate purposes, including acquisitions.

Unless converted earlier pursuant to the terms discussed below, on September 15, 2009, the Preferred Stock will convert into common stock based on the following conversion rates:

Market Value of Common Stock on September 15, 2009	Number of Shares of Common Stock Issued for Each Share of Preferred Stock	Total Number of Shares of Common Stock Issued for 4,600,000 Shares of Preferred Stock
$35.26 or less	1.4180	6,522,800
Between $35.26 and $43.19	1.4180 to 1.1577	6,522,799 to 5,324,961
$43.19 or greater	1.1576	5,324,960

The "Market Value" of our common stock is the average of the closing price per share of common stock on each of the 20 consecutive trading days ending on the third trading day immediately preceding the mandatory conversion date. Each share of Preferred Stock is convertible at the holder's option at any time into approximately 1.1576 shares of our common stock based on a conversion price of $43.19 per share, subject to specified adjustments; however, upon such optional conversion of Preferred Stock, we will make no payment of any future dividends. If, at any time prior to the mandatory conversion date, the closing price per share of our common stock exceeds $64.785, subject to anti-dilution requirements, for at least 20 days within a period of 30 consecutive trading days, we may elect to cause the conversion of all of the Preferred Stock then outstanding at the conversion rate of 1.1576 shares of common stock (or a total of

5,324,960 shares of common stock upon conversion of 4,600,000 shares of Preferred Stock), subject to specified adjustments including payment of unpaid future dividends. There are also conversion and other requirements applicable upon the cash acquisition of our company.

Annual cumulative cash dividends of $2.75 per share of mandatory convertible preferred stock are payable quarterly on the fifteenth day of each March, June, September and December. Holders of the Preferred Stock on the mandatory conversion date will have the right to receive the dividend due on such date (including any accrued, cumulated and unpaid dividends), whether or not declared, to the extent we are legally permitted to pay such dividends at such time.

On November 15, 2006, our Board of Directors declared a dividend of $0.65694 per share of Preferred Stock issued and outstanding at the close of business on December 1, 2006, which was paid on December 15, 2006. The net amount of $2.9 million (which was reduced for dividends accrued on the overallotment shares prior to their issuance) is included as a financing cash outflow in our consolidated cash flow statement for the nine months ended December 31, 2006 and resulted in a corresponding reduction in retained earnings as of December 31, 2006.

TABLE OF CONTENTS

BRISTOW GROUP INC. AND SUBSIDIARIES

Condensed Notes to Consolidated Financial Statements — (Continued)

NOTE 7 — TAXES

Our effective income tax rates from continuing operations were 44.1% and 27.1% for the three months ended December 31, 2006 and 2005, respectively, and 35.9% and 23.7% for the nine months ended December 31, 2006 and 2005, respectively. The effective tax rates for the three and nine months ended December 31, 2006 were impacted by additional tax expense of $2.5 million recorded as a result of the sale of the assets of Turbo (Note 2). Excluding the tax recorded as a result of the Turbo asset sale, our effective tax rates for the three and nine months ended December 31, 2006 were 31.1% and 32.5%, respectively. During the three and nine months ended December 31, 2006, we had net reversals of reserves for estimated tax exposures of $0.8 million and $2.3 million, respectively, as a result of our evaluation of the need for such reserves in light of the expiration of the related statutes of limitations. Reversals of reserves at a level proportional to that for the three months ended December 31, 2006 are expected to occur in the last quarter of fiscal year 2007. Our effective tax rate was also impacted by the permanent reinvestment outside the U.S. of foreign earnings, upon which no U.S. tax has been provided, and by the amount of our foreign source income and our ability to realize foreign tax credits. The significant variance between the U.S. federal statutory rate and the effective rate for the three and nine months ended December 31, 2005 was due primarily to the impact of the reversals of reserves for tax contingencies of $2.9 million and $8.6 million, respectively, during those periods.

NOTE 8 — EMPLOYEE BENEFIT PLANS

Pension Plans

The following table provides a detail of the components of net periodic pension cost:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2006	2005	2006	2005
	(In thousands)			
Service cost for benefits earned during the period	$ 66	$ 69	$ 194	$ 212
Interest cost on pension benefit obligation	5,742	5,220	16,847	16,094
Expected return on assets	(5,941)	(4,749)	(17,431)	(14,641)
Amortization of unrecognized experience losses	921	893	2,702	2,754
Net periodic pension cost	$ 788	$ 1,433	$ 2,312	$ 4,419

The current estimate of our cash contributions to the pension plans for fiscal year 2007 is $9.9 million, $2.8 million and $8.1 million of which were paid during the three and nine months ended December 31, 2006, respectively. We expect to increase our annual cash contributions to the plans to a range of $13 million to $15 million per fiscal year beginning in fiscal year 2008.

Stock-Based Compensation

We have a number of incentive and stock option plans, which are described in Note 9 to our fiscal year 2006 Financial Statements.

Prior to April 1, 2006, we accounted for these stock-based compensation plans in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Under APB No. 25, no compensation expense was reflected in net income for stock options that we had issued to our employees, as all options granted under those plans had an exercise price equal to the market value of the underlying shares on the date of grant. Additionally, as required under the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," we provided pro forma net income and earnings per share for each period as if we had applied the fair value method to measure stock-based compensation expense. Compensation expense related to awards of restricted stock units was recorded in our statements of income over the vesting period of the awards.

TABLE OF CONTENTS

BRISTOW GROUP INC. AND SUBSIDIARIES

Condensed Notes to Consolidated Financial Statements — (Continued)

Effective April 1, 2006, we adopted the provisions of SFAS No. 123(R), “Share-Based Payment,” and related interpretations, to account for stock-based compensation using the modified prospective transition method and therefore will not restate our prior period results. SFAS No. 123(R) supersedes and revises guidance in APB No. 25 and SFAS No. 123. Among other things, SFAS No. 123(R) requires that compensation expense be recognized in the financial statements for share-based awards based on the grant date fair value of those awards. The modified prospective transition method applies to (1) unvested stock options under our stock option plans as of March 31, 2006 based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS No. 123, and (2) any new share-based awards granted subsequent to March 31, 2006 (including restricted stock units), based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). Additionally, stock-based compensation expense includes an estimate for pre-vesting forfeitures and is recognized over the requisite service periods of the awards on a straight-line basis, which is commensurate with the vesting term.

The adoption of SFAS No. 123(R) on April 1, 2006 had the effect of reducing our income before provision for income taxes and minority interest and net income from that which would have been reported if we had continued to account for stock-based compensation under APB No. 25 as follows:

	Three Months Ended December 31, 2006	Nine Months Ended December 31, 2006
	(In thousands)	
Reduction in income before provision for income taxes and minority interest	$616	$1,799
Reduction in net income	400	1,169

Basic and diluted earnings per share were impacted by the adoption of SFAS No. 123(R) as follows:

	Three Months Ended December 31, 2006	Nine Months Ended December 31, 2006
As reported:		
Basic	$0.31	$1.85
Diluted	0.31	1.80
If SFAS No. 123(R) were not adopted:		
Basic	$0.33	$1.90
Diluted	0.33	1.85

Total share-based compensation expense, which includes stock options and restricted stock units, was $1.3 million and $3.5 million for the three and nine months ended December 31, 2006, respectively, compared to $0.2 million and $0.3 million for both the three and nine months ended December 31, 2005, respectively. Stock-based compensation expense has been allocated to our various business units.

Stock Options — We use a Black-Scholes option pricing model to estimate the fair value of share-based awards under SFAS No. 123(R), which is the same valuation technique we previously used for pro forma disclosures under SFAS

No. 123. The Black-Scholes option pricing model incorporates various assumptions, including the risk-free interest rate, volatility, dividend yield and the expected term of the options.

The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for a period equal to the expected term of the option. Expected volatilities are based on the historical volatility of shares of our common stock, which has not been adjusted for any expectation of future volatility given uncertainty related to the future performance of our common stock at this time. We also use historical data to estimate the expected term of the options within the option pricing model; groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of the options represents the period of time that the options granted are expected to be outstanding. Additionally, SFAS No. 123(R) requires us to estimate pre-vesting option forfeitures at the time of grant and periodically revise those estimates in subsequent periods if actual pre-vesting forfeitures differ from those estimates. We record stock-based compensation expense only for those awards expected to vest using an estimated forfeiture rate based on our historical forfeiture data. Previously, we accounted for forfeitures as they occurred under the pro forma disclosure provisions of SFAS No. 123 for periods prior to April 1, 2006.

TABLE OF CONTENTS

BRISTOW GROUP INC. AND SUBSIDIARIES

Condensed Notes to Consolidated Financial Statements — (Continued)

The following table shows the assumptions we used to compute the stock-based compensation expense for stock option grants issued during the three and nine months ended December 31, 2006.

	Three Months Ended December 31, 2006	Nine Months Ended December 31, 2006
Risk free interest rate	5.0-5.2%	5.0-5.2%
Expected life (years)	4	4
Volatility	30-34%	30-34%
Dividend yield	—	—

The weighted average grant date fair value of options granted during the nine months ended December 31, 2006 was $12.01 per option. No options were granted during the three months ended December 31, 2006. Unrecognized stock-based compensation expense related to nonvested stock options was approximately $2.6 million as of December 31, 2006, relating to a total of 315,701 unvested stock options under our stock option plans. We expect to recognize this stock-based compensation expense over a weighted average period of approximately 1.32 years. The total fair value of options vested during the three and nine months ended December 31, 2006 was approximately $0.4 million and $1.7 million, respectively.

Options issued under our stock option plans had vesting terms ranging from six months to three years. Options issued under these plans expire ten years from the date of grant, except for options issued to non-employee directors which expire from three months to one year following the date when the individual ceases to be a director (based on the reason thereof). The following is a summary of stock option activity for the nine months ended December 31, 2006:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (In thousands)
Balance as of March 31, 2006	813,763	$ 24.90	7.83	$ 9,033
Granted	196,000	34.78		
Exercised	(146,171)	20.20		
Forfeited	(45,518)	28.88		
Balance as of December 31, 2006	818,074	27.91	7.83	$ 6,688
Exercisable as of December 31, 2006	502,373	25.82	7.21	$ 5,161

The total intrinsic value, determined as of the date of exercise, of options exercised for the three and nine months ended December 31, 2006 was $0.7 million and $2.4 million, respectively, and for the three and nine months ended December 31, 2005 was less than $0.1 million and was $0.3 million, respectively. The total amount of cash that we received from option exercises for the three and nine months ended December 31, 2006 was $0.8 million and $2.9 million, respectively, and for the three and nine months ended December 31, 2005 was less than $0.1 million and was $0.6 million, respectively. The total tax benefit attributable to options exercised during the three and nine months

ended December 31, 2006 was $0.2 million and $0.8 million, respectively.

SFAS No. 123(R) requires the benefits associated with tax deductions in excess of recognized compensation cost to be reported as a financing cash flow rather than as an operating cash flow as previously required. The excess tax benefits from stock-based compensation of $0.8 million as reported on our condensed consolidated statement of cash flows in financing activities for the nine months ended December 31, 2006 represents the reduction in income taxes otherwise

TABLE OF CONTENTS

BRISTOW GROUP INC. AND SUBSIDIARIES

Condensed Notes to Consolidated Financial Statements — (Continued)

payable during the period attributable to the actual gross tax benefits in excess of the expected tax benefits for options exercised in current and prior periods.

Restricted Stock Units — We record compensation expense for restricted stock units based on an estimate of the service period related to the awards, which is tied to the future performance of our stock over certain time periods under the terms of the award agreements. The estimated service period is reassessed quarterly. Changes in this estimate may cause the timing of expense recognized in future periods to accelerate. Compensation expense related to awards of restricted stock units for the three and nine months ended December 31, 2006 was $0.7 million and $1.7 million, respectively, and for the three and nine months ended December 31, 2005 was $0.2 million and $0.3 million, respectively.

The following is a summary of non-vested restricted stock units as of December 31, 2006 and changes during the nine months ended December 31, 2006:

	Units	Weighted Average Grant Date Fair Value Per Unit
Non-vested as of March 31, 2006	198,200	$ 29.32
Granted	200,180	35.08
Forfeited	(18,640)	32.07
Vested	(4,100)	34.25
Non-vested as of December 31, 2006	375,640	32.20

Unrecognized stock-based compensation expense related to non-vested restricted stock units was approximately $9.5 million as of December 31, 2006, relating to a total of 375,640 unvested restricted stock units. We expect to recognize this stock-based compensation expense over a weighted average period of approximately 4.28 years.

Prior Period Pro Forma Presentation — The following table illustrates the effect on net income and earnings per share for the three and nine months ended December 31, 2005 as if we had applied the fair value method to measure stock-based compensation, as required under the disclosure provisions of SFAS No. 123:

	Three Months Ended December 31, 2005	Nine Months Ended December 31, 2005
	(In thousands, except per share amounts)	
Net income, as reported	$ 13,400	$ 40,004
Stock-based employee compensation expense included in reported net income, net of tax	185	280

Stock-based employee compensation expense, net of tax	(457)	(1,586)
Pro forma net income	$ 13,128	$ 38,698
Basic earnings per common share:		
Earnings per common share, as reported	$ 0.57	$ 1.71
Stock-based employee compensation expense, net of tax	(0.01)	(0.05)
Pro forma basic earnings per common share	$ 0.56	$ 1.66
Diluted earnings per common share:		
Earnings per common share, as reported	$ 0.57	$ 1.70
Stock-based employee compensation expense, net of tax	(0.01)	(0.06)
Pro forma diluted earnings per common share	$ 0.56	$ 1.64

TABLE OF CONTENTS

BRISTOW GROUP INC. AND SUBSIDIARIES

Condensed Notes to Consolidated Financial Statements — (Continued)

NOTE 9 — EARNINGS PER SHARE

Basic earnings per common share was computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per common share for the three months ended December 31, 2006 excluded the assumed conversion of Preferred Stock outstanding into 6,466,251 common shares as the inclusion of these shares and the adjustment for preferred stock dividends in calculating income available to common stockholders - diluted was anti-dilutive for the quarter. Diluted earnings per common share for the three and nine months ended December 31, 2006 excluded options to purchase 414,254 and 324,462 shares, respectively, at weighted average exercise prices of $32.97 and $32.36, respectively, which were outstanding during the period but were anti-dilutive. Diluted earnings per share for the three and nine months ended December 31, 2005 excluded options to purchase 101,400 and 32,379 shares, respectively, at weighted average exercise prices of $33.72 and $35.93, respectively, which were outstanding during the period but were anti-dilutive. Diluted earnings per share for the nine months ended December 31, 2006 also included weighted average shares resulting from the assumed conversion of the Preferred Stock at the conversion rate that results in the most dilution: 1.4180 shares of common stock for each share of Preferred Stock. The following table sets forth the computation of basic and diluted net income per share.

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2006	2005	2006	2005
Earnings (in thousands):				
Income available to common stockholders - basic	$ 7,301	$ 13,400	$ 43,284	$ 40,004
Preferred Stock dividends	—	—	3,471	—
Income available to common stockholders - diluted	$ 7,301	$ 13,400	$ 46,755	$ 40,004
Shares:				
Weighted average number of common shares outstanding - basic	23,506,295	23,343,465	23,428,374	23,334,939
Assumed conversion of Preferred Stock outstanding during the period	—	—	2,386,504	—
Net effect of dilutive stock options and restricted stock units based on the treasury stock method	134,417	254,280	152,437	265,850
Weighted average number of common shares outstanding - diluted	23,640,712	23,597,745	25,967,315	23,600,789
Basic earnings per common share	$ 0.31	$ 0.57	$ 1.85	$ 1.71
Diluted earnings per common share	$ 0.31	$ 0.57	$ 1.80	$ 1.70

TABLE OF CONTENTS

BRISTOW GROUP INC. AND SUBSIDIARIES

Condensed Notes to Consolidated Financial Statements — (Continued)

NOTE 10 — SEGMENT INFORMATION

We conduct our business in two segments: Helicopter Services and Production Management Services. The Helicopter Services segment operations are conducted through seven business units: North America, South and Central America, Europe, West Africa, Southeast Asia, Other International and Eastern Hemisphere ("EH") Centralized Operations. We provide Production Management Services, contract personnel and medical support services in the U.S. Gulf of Mexico to the domestic oil and gas industry under the Grasso Production Management name. The following shows reportable segment information for the three and nine months ended December 31, 2006 and 2005, reconciled to consolidated totals, and prepared on the same basis as our condensed consolidated financial statements:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2006	2005	2006	2005
	(In thousands)			
Segment gross revenue from external customers:				
Helicopter Services:				
North America	$ 55,024	$ 50,290	$172,066	$151,466
South and Central America	13,173	10,977	39,321	30,461
Europe	71,890	59,108	212,816	179,246
West Africa	35,062	27,427	98,009	79,876
Southeast Asia	18,181	15,789	52,848	44,285
Other International	11,462	8,743	32,580	23,696
EH Centralized Operations	3,939	3,690	10,957	8,434
Total Helicopter Services	208,731	176,024	618,597	517,464
Production Management Services	15,111	16,235	50,542	50,105
Corporate	—	8	(26)	40
Total segment gross revenue	$223,842	$192,267	$669,113	$567,609
Intersegment and intrasegment gross revenue:				
Helicopter Services:				
North America	$ 7,734	$ 6,579	$23,797	$19,105
South and Central America	315	450	809	1,350
Europe	1,366	890	3,951	2,657
West Africa	—	—	—	—
Southeast Asia	—	—	—	—
Other International	—	344	19	1,060
EH Centralized Operations	11,979	10,987	34,092	31,170
Total Helicopter Services	21,394	19,250	62,668	55,342
Production Management Services	19	18	57	58
Total intersegment and intrasegment gross revenue	$21,413	$19,268	$62,725	$55,400
Consolidated gross revenue reconciliation:				
Helicopter Services:				
North America	$ 62,758	$ 56,869	$195,863	$170,571

South and Central America	13,488	11,427	40,130	31,811
Europe	73,256	59,998	216,767	181,903
West Africa	35,062	27,427	98,009	79,876
Southeast Asia	18,181	15,789	52,848	44,285
Other International	11,462	9,087	32,599	24,756
EH Centralized Operations	15,918	14,677	45,049	39,604
Intrasegment eliminations	(19,116)	(16,676)	(54,321)	(48,811)
Total Helicopter Services [1]	211,009	178,598	626,944	523,995
Production Management Services [2]	15,130	16,253	50,599	50,163
Corporate	—	8	(26)	40
Intersegment eliminations	(2,297)	(2,592)	(8,404)	(6,589)
Total consolidated gross revenue	$223,842	$192,267	$669,113	$567,609

TABLE OF CONTENTS

BRISTOW GROUP INC. AND SUBSIDIARIES

Condensed Notes to Consolidated Financial Statements — (Continued)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2006	2005	2006	2005
	(In thousands)			
Consolidated operating income (loss) reconciliation:				
Helicopter Services:				
North America	$ 9,078	$ 8,785	$ 29,341	$ 33,159
South and Central America	2,993	1,391	9,904	2,006
Europe	3,803	3,628	21,278	20,553
West Africa	3,153	1,806	6,381	5,911
Southeast Asia	1,956	1,701	5,056	2,786
Other International	905	2,192	5,340	4,376
EH Centralized Operations	5,565	3,302	15,472	2,601
Total Helicopter Services	27,453	22,805	92,772	71,392
Production Management Services	739	1,117	3,546	3,675
Gain (loss) on disposal of assets	1,042	(373)	5,707	(1,276)
Corporate	(8,255)	(5,817)	(19,125)	(18,919)
Total consolidated operating income	$20,979	$17,732	$ 82,900	$ 54,872

	December 31, 2006	March 31, 2006
	(In thousands)	
Identifiable assets: [3]		
Helicopter Services:		
North America	$ 429,313	$ 415,045
South and Central America	13,438	10,042
Europe	32,329	31,515
West Africa	3,209	8,918
Southeast Asia	14,562	13,657
Other International	17,397	28,125
EH Centralized Operations	590,442	520,524
Total Helicopter Services	1,100,690	1,027,826
Production Management Services	34,617	34,013
Corporate	382,457	114,574
Total consolidated identifiable assets	$1,517,764	$1,176,413

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[1] Includes reimbursable revenue of $20.0 million and $19.1 million for the three months ended December 31, 2006 and 2005, respectively, and $62.2 million and $46.4 million for the nine months ended December 31, 2006 and 2005, respectively.

[2] Includes reimbursable revenue of $1.8 million and $3.6 million for the three months ended December 31, 2006 and 2005, respectively, and $8.1 million and $12.7 million for the nine months ended December 31, 2006 and 2005, respectively.

[3] Information presented herein for our business units related to identifiable assets is based on the business unit that owns the underlying assets. A significant portion of these assets are leased from our North America and EH Centralized Operations business units to other business units. Our operating revenue and operating expenses associated with the operations of those assets is reflected in the results for the business unit that operates the assets, and the intercompany lease revenue and expense eliminates in consolidation.

TABLE OF CONTENTS

BRISTOW GROUP INC. AND SUBSIDIARIES

Condensed Notes to Consolidated Financial Statements — (Continued)

NOTE 11 — COMPREHENSIVE INCOME

Comprehensive income is as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2006	2005	2006	2005
	(In thousands)			
Net income	$10,451	$13,400	$46,755	$ 40,004
Other comprehensive income (loss):				
Currency translation adjustments	15,892	(8,027)	37,213	(25,144)
Comprehensive income	$26,343	$ 5,373	$83,968	$ 14,860

During the three and nine months ended December 31, 2006, the U.S. dollar weakened against the British pound sterling resulting in translation gains recorded as a component of stockholders' investment as of December 31, 2006. During the three and nine months ended December 31, 2005, the U.S. dollar strengthened against the British pound sterling resulting in translation losses recorded as a component of stockholders' investment as of December 31, 2005. See discussion of foreign currency translation in Note 1.

NOTE 12 — SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION

In connection with the sale of our 6 $^{1}/_{8}$% Senior Notes due 2013, certain of our wholly-owned subsidiaries (the "Guarantor Subsidiaries") jointly, severally and unconditionally guaranteed the payment obligations under these notes. The following supplemental financial information sets forth, on a consolidating basis, the balance sheet, statement of income and cash flow information for Bristow Group Inc. ("Parent Company Only"), for the Guarantor Subsidiaries and for our other subsidiaries (the "Non-Guarantor Subsidiaries"). We have not presented separate financial statements and other disclosures concerning the Guarantor Subsidiaries because management has determined that such information is not material to investors.

The supplemental condensed consolidating financial information has been prepared pursuant to the rules and regulations for condensed financial information and does not include all disclosures included in annual financial statements, although we believe that the disclosures made are adequate to make the information presented not misleading. The principal eliminating entries eliminate investments in subsidiaries, intercompany balances and intercompany revenues and expenses.

The allocation of the consolidated income tax provision was made using the with and without allocation method.

TABLE OF CONTENTS

BRISTOW GROUP INC. AND SUBSIDIARIES

Condensed Notes to Consolidated Financial Statements — (Continued)

Supplemental Condensed Consolidating Statement of Income
Three Months Ended December 31, 2006

	Parent Company Only	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated
Revenue:					
Gross revenue	$ (1)	$81,951	$141,892	$ —	$223,842
Intercompany revenue	—	3,954	2,807	(6,761)	—
	(1)	85,905	144,699	(6,761)	223,842
Operating expense:					
Direct cost	(187)	59,682	113,186	—	172,681
Intercompany expenses	—	2,808	3,953	(6,761)	—
Depreciation and amortization	71	4,856	6,133	—	11,060
General and administrative	8,370	4,555	7,239	—	20,164
Gain on disposal of assets	—	(976)	(66)	—	(1,042)
	8,254	70,925	130,445	(6,761)	202,863
Operating income (loss)	(8,255)	14,980	14,254	—	20,979
Earnings (losses) from unconsolidated affiliates, net	2,055	(184)	2,341	(2,106)	2,106
Interest income	21,496	97	1,029	(18,781)	3,841
Interest expense	(2,826)	—	(18,494)	18,781	(2,539)
Other expense, net	(1,908)	(36)	(3,282)	—	(5,226)
Income (loss) before provision for income taxes and minority interest	10,562	14,857	(4,152)	(2,106)	19,161
Allocation of consolidated income taxes	(74)	(1,880)	(6,499)	—	(8,453)
Minority interest	(37)	—	(220)	—	(257)
Net income (loss)	$10,451	$12,977	$ (10,871)	$ (2,106)	$ 10,451

TABLE OF CONTENTS

BRISTOW GROUP INC. AND SUBSIDIARIES

Condensed Notes to Consolidated Financial Statements — (Continued)

Supplemental Condensed Consolidating Statement of Income
Nine Months Ended December 31, 2006

	Parent Company Only	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(In thousands)		
Revenue:					
Gross revenue	$ (26)	$250,267	$418,872	$ —	$669,113
Intercompany revenue	—	10,634	8,528	(19,162)	—
	(26)	260,901	427,400	(19,162)	669,113
Operating expense:					
Direct cost	7	186,777	321,016	—	507,800
Intercompany expenses	—	8,529	10,583	(19,112)	—
Depreciation and amortization	153	13,632	18,295	—	32,080
General and administrative	18,936	13,033	20,121	(50)	52,040
Gain on disposal of assets	—	(1,170)	(4,537)	—	(5,707)
	19,096	220,801	365,478	(19,162)	586,213
Operating income (loss)	(19,122)	40,100	61,922	—	82,900
Earnings (losses) from unconsolidated affiliates, net	26,715	(809)	6,358	(26,871)	5,393
Interest income	51,457	230	3,092	(48,579)	6,200
Interest expense	(9,292)	—	(47,933)	48,579	(8,646)
Other expense, net	(2,002)	(130)	(9,187)	—	(11,319)
Income before provision for income taxes and minority interest	47,756	39,391	14,252	(26,871)	74,528
Allocation of consolidated income taxes	(883)	(4,606)	(21,235)	—	(26,724)
Minority interest	(118)	—	(931)	—	(1,049)
Net income (loss)	$ 46,755	$ 34,785	$ (7,914)	$(26,871)	$ 46,755

TABLE OF CONTENTS

BRISTOW GROUP INC. AND SUBSIDIARIES

Condensed Notes to Consolidated Financial Statements — (Continued)

Supplemental Condensed Consolidating Statement of Income
Three Months Ended December 31, 2005

	Parent Company Only	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(In thousands)		
Revenue:					
Gross revenue	$ 7	$73,374	$118,886	$ —	$192,267
Intercompany revenue	—	1,934	2,693	(4,627)	—
	7	75,308	121,579	(4,627)	192,267
Operating expense:					
Direct cost	1,041	53,592	93,537	—	148,170
Intercompany expenses	—	2,695	1,823	(4,518)	—
Depreciation and amortization	37	4,564	6,052	—	10,653
General and administrative	4,747	5,048	5,652	(109)	15,338
Loss on disposal of assets	—	1	373	—	374
	5,825	65,900	107,437	(4,627)	174,535
Operating income (loss)	(5,818)	9,408	14,142	—	17,732
Earnings (losses) from unconsolidated affiliates, net	31,258	(922)	2,325	(31,310)	1,351
Interest income	13,733	50	985	(13,870)	898
Interest expense	(3,708)	(3)	(14,062)	13,870	(3,903)
Other income (expense), net	(261)	60	2,497	—	2,296
Income before provision for income taxes and minority interest	35,204	8,593	5,887	(31,310)	18,374
Allocation of consolidated income taxes	(21,766)	(172)	16,954	—	(4,984)
Minority interest	(38)	—	48	—	10
Net income	$ 13,400	$ 8,421	$ 22,889	$(31,310)	$ 13,400

TABLE OF CONTENTS

BRISTOW GROUP INC. AND SUBSIDIARIES

Condensed Notes to Consolidated Financial Statements — (Continued)

Supplemental Condensed Consolidating Statement of Income
Nine Months Ended December 31, 2005

	Parent Company Only	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(In thousands)		
Revenue:					
Gross revenue	$ 39	$223,702	$343,868	$ —	$567,609
Intercompany revenue	—	5,566	6,534	(12,100)	—
	39	229,268	350,402	(12,100)	567,609
Operating expense:					
Direct cost	17	161,271	272,008	—	433,296
Intercompany expenses	—	6,535	5,236	(11,771)	—
Depreciation and amortization	69	13,642	18,449	—	32,160
General and administrative	18,873	11,396	16,065	(329)	46,005
Loss (gain) on disposal of assets	4	(142)	1,414	—	1,276
	18,963	192,702	313,172	(12,100)	512,737
Operating income (loss)	(18,924)	36,566	37,230	—	54,872
Earnings (losses) from unconsolidated affiliates, net	48,248	(2,959)	4,886	(48,405)	1,770
Interest income	40,938	138	3,160	(41,357)	2,879
Interest expense	(10,895)	(10)	(41,740)	41,357	(11,288)
Other income (expense), net	(717)	59	4,966	—	4,308
Income before provision for income taxes and minority interest	58,650	33,794	8,502	(48,405)	52,541
Allocation of consolidated income taxes	(18,529)	(2,512)	8,588	—	(12,453)
Minority interest	(117)	—	33	—	(84)
Net income	$ 40,004	$ 31,282	$ 17,123	$(48,405)	$ 40,004

TABLE OF CONTENTS

BRISTOW GROUP INC. AND SUBSIDIARIES

Condensed Notes to Consolidated Financial Statements — (Continued)

Supplemental Condensed Consolidating Balance Sheet
As of December 31, 2006

	Parent Company Only	Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(In thousands)		
ASSETS					
Current assets:					
Cash and cash equivalents	$ 181,516	$ 3,623	$ 34,560	$ —	$ 219,699
Accounts receivable	33,988	69,846	119,233	(42,819)	180,248
Inventories	—	74,512	86,555	—	161,067
Prepaid expenses and other	(163)	1,322	11,542	—	12,701
Total current assets	215,341	149,303	251,890	(42,819)	573,715
Intercompany investment	286,127	1,046	—	(287,173)	—
Investment in unconsolidated affiliates	4,696	779	37,494	—	42,969
Intercompany notes receivable	770,460	—	25,352	(795,812)	—
Property and equipment - at cost:					
Land and buildings	262	34,571	14,085	—	48,918
Aircraft and equipment	2,130	500,817	576,326	—	1,079,273
	2,392	535,388	590,411	—	1,128,191
Less: Accumulated depreciation and amortization	(1,428)	(121,803)	(179,646)	—	(302,877)
	964	413,585	410,765	—	825,314
Goodwill	—	18,594	1,773	111	20,478
Other assets	8,889	77	46,322	—	55,288
	$1,286,477	$ 583,384	$ 773,596	$(1,125,693)	$1,517,764
LIABILITIES AND STOCKHOLDERS' INVESTMENT					
Current liabilities:					
Accounts payable	$ 1,418	$ 11,552	$ 34,247	$ (10,751)	$ 36,466
Accrued liabilities	7,706	24,827	103,043	(32,070)	103,506
Deferred taxes	(3,771)	—	14,663	—	10,892
Short-term borrowings and current maturities of long-term debt	—	—	22,198	—	22,198

Total current liabilities	5,353	36,379	174,151	(42,821)	173,062
Long-term debt, less current maturities	234,380	—	3,369	—	237,749
Intercompany notes payable	25,212	195,054	575,545	(795,811)	—
Other liabilities and deferred credits	4,262	9,720	157,112	—	171,094
Deferred taxes	50,776	1,841	28,877	—	81,494
Minority interest	2,036	—	3,256	—	5,292
Stockholders' investment:					
5.50% mandatory convertible preferred stock	222,554	—	—	—	222,554
Common stock	235	4,062	34,803	(38,865)	235
Additional paid-in-capital	166,559	51,170	8,014	(59,184)	166,559
Retained earnings	491,335	285,158	(79,114)	(206,044)	491,335
Accumulated other comprehensive income (loss)	83,775	—	(132,417)	17,032	(31,610)
	964,458	340,390	(168,714)	(287,061)	849,073
	$1,286,477	$ 583,384	$ 773,596	$(1,125,693)	$1,517,764

TABLE OF CONTENTS

BRISTOW GROUP INC. AND SUBSIDIARIES

Condensed Notes to Consolidated Financial Statements — (Continued)

Supplemental Condensed Consolidating Balance Sheet
As of March 31, 2006

	Parent Company Only	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(In thousands)		
			ASSETS		
Current assets:					
Cash and cash equivalents	$ 74,601	$ 1,363	$ 46,518	$ —	$ 122,482
Accounts receivable	23,627	57,332	112,277	(32,831)	160,405
Inventories	—	71,061	76,799	—	147,860
Prepaid expenses and other	1,146	4,080	11,293	—	16,519
Total current assets	99,374	133,836	246,887	(32,831)	447,266
Intercompany investment	266,510	1,046	—	(267,556)	—
Investment in unconsolidated affiliates	4,854	1,587	33,471	—	39,912
Intercompany notes receivable	547,552	—	13,954	(561,506)	—
Property and equipment - at cost:					
Land and buildings	171	29,251	11,250	—	40,672
Aircraft and equipment	1,695	357,051	479,568	—	838,314
	1,866	386,302	490,818	—	878,986
Less: Accumulated depreciation and amortization	(1,349)	(109,963)	(151,760)	—	(263,072)
	517	276,339	339,058	—	615,914
Goodwill	—	18,593	8,133	111	26,837
Other assets	8,808	176	37,500	—	46,484
	$927,615	$ 431,577	$ 679,003	$(861,782)	$1,176,413
		LIABILITIES AND STOCKHOLDERS' INVESTMENT			
Current liabilities:					
Accounts payable	$ 920	$ 19,225	$ 30,519	$ (9,437)	$ 41,227
Accrued liabilities	14,696	20,399	88,342	(23,394)	100,043
Deferred taxes	(6,060)	—	11,085	—	5,025
Short-term borrowings and current maturities of long-term debt	—	—	17,634	—	17,634
Total current liabilities	9,556	39,624	147,580	(32,831)	163,929
Long-term debt, less current maturities	234,381	—	13,281	—	247,662
	14,658	74,525	472,323	(561,506)	—

Intercompany notes payable					
Other liabilities and deferred credits	4,658	10,175	139,704	—	154,537
Deferred taxes	34,361	1,648	32,272	—	68,281
Minority interest	1,804	—	2,503	—	4,307
Stockholders' investment:					
Common stock	234	4,062	23,578	(27,640)	234
Additional paid-in-capital	158,762	51,170	13,477	(64,647)	158,762
Retained earnings	447,524	250,373	(69,418)	(180,955)	447,524
Accumulated other comprehensive income (loss)	21,677	—	(96,297)	5,797	(68,823)
	628,197	305,605	(128,660)	(267,445)	537,697
	$927,615	$ 431,577	$ 679,003	$(861,782)	$1,176,413

29

TABLE OF CONTENTS

BRISTOW GROUP INC. AND SUBSIDIARIES

Condensed Notes to Consolidated Financial Statements — (Continued)

Supplemental Condensed Consolidating Statement of Cash Flows
Nine Months Ended December 31, 2006

	Parent Company Only	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(In thousands)		
Net cash provided by (used in) operating activities	$ (17,569)	$ 28,583	$ 36,910	$ 19,941	$ 67,865
Cash flows from investing activities:					
Capital expenditures	(527)	(153,214)	(62,505)	—	(216,246)
Proceeds from asset dispositions	13,200	3,843	6,962	—	24,005
Net cash used in investing activities	12,673	(149,371)	(55,543)	—	(192,241)
Cash flows from financing activities:					
Issuance of preferred stock	223,550	—	—	—	223,550
Preferred stock issuance costs	(994)	—	—	—	(994)
Preferred stock dividends paid	(2,944)	—	—	—	(2,944)
Repayment of debt and debt redemption premiums	—	—	(5,570)	—	(5,570)
Increases (decreases) in cash related to intercompany advances and debt	(111,640)	123,048	8,533	(19,941)	—
Partial prepayment of put/call obligation	(96)	—	—	—	(96)
Issuance of common stock	2,926	—	—	—	2,926
Tax benefit related to exercise of stock options	837	—	—	—	837
Net cash provided by (used in) financing activities	111,639	123,048	2,963	(19,941)	217,709
Effect of exchange rate changes on cash and cash equivalents	172	—	3,712	—	3,884
Net increase (decrease) in cash and cash equivalents	106,915	2,260	(11,958)	—	97,217
Cash and cash equivalents at beginning of period	74,601	1,363	46,518	—	122,482
Cash and cash equivalents at end of period	$ 181,516	$ 3,623	$ 34,560	$ —	$ 219,699

30

BRISTOW GROUP INC. AND SUBSIDIARIES

Condensed Notes to Consolidated Financial Statements — (Continued)

Supplemental Condensed Consolidating Statement of Cash Flows
Nine Months Ended December 31, 2005

	Parent Company Only	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated
Net cash provided by (used in) operating activities	$ 42,014	$ 20,813	$ 7,735	$ (39,213)	$ 31,349
Cash flows from investing activities:					
Capital expenditures	(331)	(78,391)	(23,585)	—	(102,307)
Proceeds from asset dispositions	73	70,373	2,174	—	72,620
Net cash used in investing activities	(258)	(8,018)	(21,411)	—	(29,687)
Cash flows from financing activities:					
Cash collateral provided under operating leases	—	(10,285)	—	—	(10,285)
Repayment of debt and debt redemption premiums	—	—	(3,160)	—	(3,160)
Repayment of intercompany debt	(1)	(4,600)	(212)	4,813	—
Dividends paid	—	(3,500)	(30,900)	34,400	—
Partial prepayment of put/call obligation	(66)	—	—	—	(66)
Issuance of common stock	602	—	—	—	602
Net cash provided by (used in) financing activities	535	(18,385)	(34,272)	39,213	(12,909)
Effect of exchange rate changes on cash and cash equivalents	—	—	(6,140)	—	(6,140)
Net increase (decrease) in cash and cash equivalents	42,291	(5,590)	(54,088)	—	(17,387)
Cash and cash equivalents at beginning of period	23,947	7,907	114,586	—	146,440
Cash and cash equivalents at end of period	$ 66,238	$ 2,317	$ 60,498	$ —	$ 129,053

31

TABLE OF CONTENTS

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Bristow Group Inc.:

We have reviewed the condensed consolidated balance sheet of Bristow Group Inc. and subsidiaries as of December 31, 2006, the related condensed consolidated statements of income for the three-month and nine-month periods ended December 31, 2006 and 2005 and the related condensed consolidated statements of cash flows for the nine-month periods ended December 31, 2006 and 2005. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Bristow Group Inc. and subsidiaries as of March 31, 2006, and the related consolidated statements of income, stockholders' investment, and cash flows for the year then ended (not presented herein); and in our report dated June 8, 2006, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of March 31, 2006 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG LLP

Houston, Texas
February 5, 2007

TABLE OF CONTENTS

Item 2. ***Management's Discussion and Analysis of Financial Condition and Results of Operations.***

Management's Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and the notes thereto as well as our Annual Report on Form 10-K for the fiscal year ended March 31, 2006 ("Annual Report") and the MD&A contained therein. In the discussion that follows, the terms "Current Quarter" and "Comparable Quarter" refer to the three months ended December 31, 2006 and 2005, respectively, and the terms "Current Period" and "Comparable Period" refer to the nine months ended December 31, 2006 and 2005, respectively. Our fiscal year ends March 31, and we refer to fiscal years based on the end of such period. Therefore, the fiscal year ending March 31, 2007 is referred to as "fiscal year 2007."

Forward-Looking Statements

This Quarterly Report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). Forward-looking statements are statements about our future business, strategy, operations, capabilities and results; financial projections; plans and objectives of our management; expected actions by us and by third parties, including our customers, competitors and regulators; and other matters. Some of the forward-looking statements can be identified by the use of words such as "believes", "belief", "expects", "plans", "anticipates", "intends", "projects", "estimates", "may", "might", "would", "could words; however, all statements in this Quarterly Report, other than statements of historical fact or historical financial results are forward-looking statements.

Our forward-looking statements reflect our views and assumptions on the date of this Quarterly Report regarding future events and operating performance. We believe that they are reasonable, but they involve known and unknown risks, uncertainties and other factors, many of which may be beyond our control, that may cause actual results to differ materially from any future results, performance or achievements expressed or implied by the forward-looking statements. Accordingly, you should not put undue reliance on any forward-looking statements. Factors that could cause our forward-looking statements to be incorrect and actual events or our actual results to differ from those that are anticipated include all of the following:

• the risks and uncertainties described or referred to under "Risk Factors" included elsewhere in this Quarterly Report, our Quarterly Reports for prior quarters during fiscal year 2007 and in the Annual Report;

• the level of activity in the oil and natural gas industry is lower than anticipated;

• production-related activities become more sensitive to variances in commodity prices;

• the major oil companies do not continue to expand internationally;

• market conditions are weaker than anticipated;

• we are not able to re-deploy our aircraft to regions with the greater demand;

• we do not achieve the anticipated benefit of our fleet expansion program;

• the outcome of the SEC investigation relating to the Foreign Corrupt Practices Act and other matters, or the Internal Review, has a greater than anticipated financial or business impact;

• the outcome of the DOJ antitrust investigation, which is ongoing, has a greater than anticipated financial or business impact; and

• the implementation of our plan to improve our internal control over financial reporting, as discussed in the Annual Report and under Item 4. “Controls and Procedures — Changes in Internal Control Over Financial Reporting” included elsewhere in this Quarterly Report.

TABLE OF CONTENTS

All forward-looking statements in this Quarterly Report are qualified by these cautionary statements and speak only as of the date of this Quarterly Report. We do not undertake any obligation, other than as required by law, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Executive Overview

This Executive Overview only includes what management considers to be the most important information and analysis for evaluating our financial condition and operating performance. It provides the context for the discussion and analysis of the financial statements which follows and does not disclose every item bearing on our financial condition and operating performance.

General

We are the leading provider of helicopter services to the worldwide offshore energy industry based on the number of aircraft operated. We are one of two helicopter service providers to the offshore energy industry with global operations. We have major operations in the U.S. Gulf of Mexico and the North Sea, and operations in most of the other major offshore oil and gas producing regions of the world, including Alaska, Australia, Brazil, Mexico, Nigeria, Russia and Trinidad. We have a long history in the helicopter services industry, with our two principal legacy companies, Bristow Helicopters Ltd., and Offshore Logistics, Inc., having been founded in 1955 and 1969, respectively.

We conduct our business in two segments: Helicopter Services and Production Management Services. The Helicopter Services segment operations are conducted through seven business units:

- North America;
- South and Central America;
- Europe;
- West Africa;
- Southeast Asia;
- Other International; and
- Eastern Hemisphere ("EH") Centralized Operations.

We provide helicopter services to a broad base of major, independent, international and national energy companies. Customers charter our helicopters to transport personnel between onshore bases and offshore platforms, drilling rigs and installations. A majority of our helicopter revenue is attributable to oil and gas production activities, which have historically provided a more stable source of revenue than exploration and development related activities. As of December 31, 2006, we operated 341 aircraft (including 319 aircraft owned, 14 leased aircraft and eight aircraft operated along with one of our customers; three of the owned aircraft are held for sale) and our unconsolidated affiliates operated an additional 146 aircraft (excluding those aircraft leased from us). In both the Current Quarter and the Current Period, our Helicopter Services segment contributed approximately 92% of our gross revenue.

We are also a leading provider of production management services for oil and gas production facilities in the U.S. Gulf of Mexico. Our services include furnishing specialized production operations personnel, engineering services,

production operating services, paramedic services and providing marine and helicopter transportation of personnel and supplies between onshore bases and offshore facilities. In connection with these activities, our Production Management Services segment uses our helicopter services. We also handle regulatory and production reporting for some of our customers. As of December 31, 2006, we managed or had personnel assigned to 315 production facilities in the U.S. Gulf of Mexico.

The chart below presents (1) the number of helicopters in our fleet and their distribution among the business units of our Helicopter Services segment as of December 31, 2006; (2) the number of helicopters which we had on order or under option as of December 31, 2006; and (3) the percentage of gross revenues which each of our segments and business units provided during the Current Period. For additional information regarding our commitments and options to acquire

TABLE OF CONTENTS

aircraft, see “— Liquidity and Capital Resources — Future Cash Requirements — Capital Commitments” included elsewhere i this Quarterly Report.

	Aircraft in Fleet					Percentage of Current Period Revenues
	Helicopters					
	Small	Medium	Large	Fixed Wing	Total	
Helicopter Services						
North America	138	26	4	1	169	26%
South and Central America	2	33	1	—	36	6%
Europe	1	8	31	—	40	32%
West Africa	11	29	2	6	48	14%
Southeast Asia	2	6	7	—	15	8%
Other International	—	11	10	3	24	5%
EH Centralized Operations	—	—	9	—	9	1%
Production Management	—	—	—	—	—	8%
Total	154	113	64	10	341	100%
Aircraft not currently in fleet:						
On order	3	30	9	—	42	
Under option	—	27	8	—	35	

We expect that the additional aircraft on order and any aircraft we acquire pursuant to options will generally be deployed evenly across our global business units, but with a bias towards those units where we expect higher growth, such as our Other International and Southeast Asia units.

The following chart presents an analysis of our aircraft orders and options during fiscal year 2007:

	Three Months Ended					
	June 30, 2006		September 30, 2006		December 31, 2006	
	Orders	Options	Orders	Options	Orders	Options
Beginning of quarter	53	37	51	37	47	37
Aircraft delivered	(2)	—	(4)	—	(10)	—
Aircraft ordered	—	—	—	—	8	(5)
Orders converted to options	—	—	—	—	(3)	3
End of quarter	51	37	47	37	42	35

Our operating revenue depends on the demand for our services and the pricing terms of our contracts. We measure the demand for our helicopter services in flight hours. Demand for our services depends on the level of worldwide offshore oil and gas exploration, development and production activities. We believe that our customers’ exploration and development activities are influenced by actual and expected trends in commodity prices for oil and gas. Exploration and development activities generally use medium-size and larger aircraft on which we typically earn higher margins. We believe that production-related activities are less sensitive to variances in commodity prices, and accordingly, provide more stable activity levels and revenue stream. We estimate that a majority of our operating revenue from Helicopter Services is related to the production activities of the oil and gas companies.

Helicopter Services are seasonal in nature, as our flight activities are influenced by the length of daylight hours and weather conditions. The worst of these conditions typically occurs during the winter months when our ability to safely fly and our customers’ ability to safely conduct their operations, is inhibited. Accordingly, our flight activity is generally lower in the fourth fiscal quarter.

Our helicopter contracts are generally based on a two-tier rate structure consisting of a daily or monthly fixed fee plus additional fees for each hour flown. We also provide services to customers on an “ad hoc” basis, which usually entails a shorter notice period and shorter duration. Our charges for ad hoc services are generally based on an hourly rate, or a daily or monthly fixed fee plus additional fees for each hour flown. Generally, our ad hoc services have a higher margin than our other helicopter contracts due to supply and demand dynamics. In addition, our standard rate structure is based on fuel costs remaining at or below a predetermined threshold. Fuel costs in excess of this threshold are generally charged to the

customer. We also derive revenue from reimbursements for third party out-of-pocket costs such as certain landing and navigation costs, consultant salaries, travel and accommodation costs, and dispatcher charges. The costs incurred that are rebilled to our customers are presented as reimbursable expense and the related revenue is presented as reimbursable revenue in our consolidated statements of income.

Our helicopter contracts generally provide that the customer will reimburse us for cost increases associated with the contract and are cancelable by the customer with notice of generally 30 days in the U.S. Gulf of Mexico, 90 to 180 days in Europe and 90 days in West Africa. In North America, we generally enter into short-term contracts for twelve months or less, although we occasionally enter into longer-term contracts. In Europe, contracts are longer term, generally between two and five years. In South and Central America, West Africa, Southeast Asia and Other International, contract length generally ranges from three to five years. At the expiration of a contract, our customers often negotiate renewal terms with us for the next contract period. In other instances, customers solicit new bids at the expiration of a contract. Contracts are generally awarded based on a number of factors, including price, quality of service, equipment and record of safety. An incumbent operator has a competitive advantage in the bidding process based on its relationship with the customer, its knowledge of the site characteristics and its understanding of the cost structure for the operations.

Maintenance and repair expenses, training costs, employee wages and insurance premiums represent a significant portion of our overall expenses. Our production management costs also include contracted transportation services. We expense maintenance and repair costs, including major aircraft component overhaul costs, as the costs are incurred. As a result, our earnings in any given period are directly impacted by the amount of our maintenance and repair expenses for that period. In certain instances, major aircraft components, primarily engines and transmissions, are maintained by third-party vendors under contractual arrangements. Under these agreements, we are charged an agreed amount per hour of flying time.

As a result of local laws limiting foreign ownership of aviation companies, we conduct helicopter services in certain foreign countries through interests in affiliates, some of which are unconsolidated. Generally, we realize revenue from foreign operations by leasing aircraft and providing services and technical support to unconsolidated affiliates and non-affiliated entities. We also receive dividend income from the earnings of some of these entities. For additional information about these unconsolidated affiliates, see Note 3 in the “Notes to Consolidated Financial Statements” in the Annual Report and Note 3 in the “Condensed Notes to Consolidated Financial Statements” included elsewhere in this Quarterly Report.

Our Strategy

Our goal is to advance our position as the leading helicopter services provider to the offshore energy industry. We intend to employ the following strategies to achieve this goal:

• *Strategically position our company as the preferred provider of helicopter services.* We position our company as the preferred provider of helicopter services by maintaining strong relationships with our customers and providing high-quality service. We focus on maintaining relationships with our customers’ local and corporate management. We believe that this focus helps us to provide our customers with the right aircraft in the right place at the right time and to better anticipate customer needs, which in turn allows us to better manage our fleet. We also leverage our close relationships with our customers to establish mutually beneficial operating practices and safety standards worldwide. By applying standard operating and safety practices across our global operations, we are able to provide our customers with consistent, high-quality service in each of their areas of operation. By better understanding our customers’ needs and by virtue of our global operations and safety standards, we have effectively competed against other helicopter service providers based on customer service, safety and reliability, and not just price.

• *Integrate our operations.* In fiscal year 2006, we completed a number of changes in our business to integrate our global organization, and we intend to continue to identify and implement further integration opportunities. These changes include changes in our senior management team, the integration of our operations among previously independently managed businesses, improvements in global asset allocation and other changes in our corporate operations. We anticipate that these improvements will result in revenue growth, and may also generate cost savings.

• *Grow our business internationally.* We plan to grow our business in most of the markets in which we operate. We expect this growth to be particularly strong in international markets outside our three largest markets (U.S. Gulf of Mexico, North Sea and Nigeria), which represented 65% of our Current Period revenues. Although we have a footprint in most major oil and gas producing regions of the world, we have the opportunity to expand and deepen our presence in many of these markets, for example Southeast Asia. We anticipate this growth to result primarily from the deployment of new aircraft into markets where we expect they will be most profitably employed, as well as by executing opportunistic acquisitions. Our acquisition-related growth may include increasing our role and participation with existing unconsolidated affiliates and may include increasing our position in existing markets or expanding into new markets.

In October 2006, we exercised options to purchase four large aircraft for a purchase price of approximately $79.0 million. In December 2006, we exercised an option to purchase an additional large aircraft for a purchase price of $19.8 million, while converting orders for three medium aircraft to options. In early calendar year 2007, we ordered three additional large aircraft (for which no option previously existed) which will be delivered in fiscal year 2009, thereby increasing our aircraft commitments by $63.6 million, and obtained the option to purchase eight additional large aircraft and the right to trade in older aircraft to the same manufacturer. Consistent with our desire to maintain a conservative use of leverage to fund growth, we raised $222.6 million capital through the sale of equity securities in the offering of mandatory convertible preferred stock ("Preferred Stock") completed in September and October 2006. As of December 31, 2006, we had options to acquire an additional eight large aircraft and an additional 27 medium aircraft. Depending on market conditions, we may exercise these additional options to acquire aircraft or elect to expand our business through acquisition, including acquisitions under consideration or negotiation. These strategic decisions would require us to access additional sources of capital. Our decision to use equity, debt or a combination of the two would depend on our financial position and market conditions at that time, but we currently expect to use debt financing.

Market Outlook

We are currently experiencing significant demand for our helicopter services. Based on our current contract level and discussions with our customers about their needs for aircraft related to their oil and gas production and exploration plans, we anticipate the demand for aircraft services will continue at a very high level for the near term. Further, based on the projects planned by our customers in the markets in which we currently operate, we anticipate global demand for our services will grow in the long term and exceed the transportation capacity of the aircraft we and our competitors currently have in our fleets and on order. In addition, this high level of demand has allowed us to increase the rates we charge for our services over the past several years.

We expect to see growth in demand for additional helicopter services, particularly in North and South America, West Africa and Southeast Asia. We also expect that the relative importance of our Southeast Asia and Other International business units will continue to increase as the major oil and gas companies increasingly focus on prospects outside of North America and the North Sea. This growth will provide us with opportunities to add new aircraft to our fleet, as well as opportunities to redeploy aircraft from weaker markets into markets that will sustain higher rates for our services. Currently, helicopter manufacturers are indicating very limited supply availability during the next three years. We expect that this tightness in aircraft availability from the manufacturers and the lack of suitable aircraft in the secondary market, coupled with the increase in demand for helicopter services, will result in upward pressure on the rates we charge for our services. At the same time, we believe that our recent aircraft acquisitions and commitments position us to capture a portion of the upside created by the current market conditions

We have made and are in the process of making a number of changes in our West Africa business unit operations in Nigeria. This reorganization as well as periodic disruption to our operations related to civil unrest and violence have made and are expected to continue to make our operating results from Nigeria unpredictable through at least the end

of calendar year 2007.

There has been a trend of major oil and gas companies outsourcing certain activities and transferring reserves located in the U.S. Gulf of Mexico to smaller, independent oil and gas producers. These trends have generated, and are expected to continue to generate, additional demand for our production management services, as smaller producers are more likely to require the operational and manpower support that our Production Management Services segment provides.

TABLE OF CONTENTS

Results of Operations

The following table presents our operating results and other income statement information for the applicable periods:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2006	2005	2006	2005
	(Unaudited) (In thousands)			
Gross revenue:				
Operating revenue	$202,002	$169,579	$598,837	$508,525
Reimbursable revenue	21,840	22,688	70,276	59,084
Total gross revenue	223,842	192,267	669,113	567,609
Operating expense:				
Direct cost	151,193	126,120	438,534	375,182
Reimbursable expense	21,488	22,050	69,266	58,114
Depreciation and amortization	11,060	10,653	32,080	32,160
General and administrative	20,164	15,338	52,040	46,005
Loss (gain) on disposal of assets	(1,042)	374	(5,707)	1,276
Total operating expense	202,863	174,535	586,213	512,737
Operating income	20,979	17,732	82,900	54,872
Earnings from unconsolidated affiliates, net of losses	2,106	1,351	5,393	1,770
Interest expense, net	1,302	(3,005)	(2,446)	(8,409)
Other income (expense), net	(5,226)	2,296	(11,319)	4,308
Income before provision for income taxes and minority interest	19,161	18,374	74,528	52,541
Provision for income taxes	(8,453)	(4,984)	(26,724)	(12,453)
Minority interest	(257)	10	(1,049)	(84)
Net income	$ 10,451	$ 13,400	$ 46,755	$ 40,004

TABLE OF CONTENTS

The following table presents the impact on net income and diluted earnings per share of certain items related to corporate activities that affect the comparability of our results from the applicable prior year periods:

	Three Months Ended December 31,				Nine Months Ended December 31,			
	2006		2005		2006		2005	
	Net Income Impact	Diluted Earnings Per Share Impact	Net Income Impact	Diluted Earnings Per Share Impact	Net Income Impact	Diluted Earnings Per Share Impact	Net Income Impact	Diluted Earnings Per Share Impact
	(In thousands, except per share amounts)							
Investigations:								
SEC [1]	$ (2,067)	$ (0.09)	$ (1,790)	$ (0.08)	$ (2,096)	$ (0.08)	$ (7,789)	$ (0.33)
DOJ	(462)	(0.02)	(712)	(0.03)	(1,041)	(0.04)	(1,064)	(0.05)
Acquisitions and divestitures:								
Impairment of investment in Brazilian joint venture	—	—	(758)	(0.03)	—	—	(794)	(0.03)
Expense of previously deferred acquisition costs	(1,302)	(0.06)	—	—	(1,275)	(0.05)	—	—
Turbo asset sale	(2,419)	(0.10)	—	—	(2,421)	(0.09)	—	—
Foreign currency transaction gains (losses)	(2,352)	(0.10)	1,677	0.07	(6,450)	(0.25)	4,044	0.17
Preferred Stock	1,608	(0.07)	—	—	1,758	(0.16)	—	—
Total	$ (6,994)	$ (0.44)	$ (1,583)	$ (0.07)	$ (11,525)	$ (0.67)	$ (5,603)	$ (0.24)

[1] In December 2006, we recorded a pre-tax charge of $3.0 million for costs and fees we currently expect to incur in connection with the resolution of the SEC investigation regarding the findings resulting from the Internal Review, a substantial portion of which relates to legal fees in connection with the investigation. There can be no assurance that the amounts currently recorded will be sufficient to resolve such matters or that such matters can ultimately be resolved until final action by the SEC.

Current Quarter Compared to Comparable Quarter

Our gross revenue increased to $223.8 million for the Current Quarter from $192.3 million for the Comparable Quarter, an increase of 16.4%. The increase in gross revenue relates to an increase in gross revenue for our Helicopter Services segment, with improvements in operating revenue across all of our business units, most significantly for North America (primarily resulting from higher utilization of large aircraft and an increase in rates, which was partially offset by the impact of poor weather in December 2006), Europe (primarily resulting from the addition of two new aircraft in this market) and West Africa (primarily resulting from an increase in rates under certain contracts and revenue from three new contracts). Our operating expense increased to $202.9 million for the Current Quarter from $174.5 million for the Comparable Quarter, an increase of 16.3%. Operating expense increased as a result of the increase in operating activity, but also as a result of a higher level of maintenance activity on our aircraft and higher

compensation costs driven by higher labor rates and additional personnel. An increase in maintenance costs and salaries resulted in a decline in operating margin for our Europe business unit. However, improved margins for most of our other business units, most significantly in South and Central America (primarily resulting from cash received by our Mexico operations and improvement in flight activity in Trinidad), West Africa (primarily resulting from rate increases) and EH Centralized Operations (primarily resulting from increases in lease charges for aircraft leased to other business units and to unconsolidated affiliates), and gains on asset dispositions in the Current Quarter (compared to losses on asset dispositions in the Comparable Quarter) resulted in increases in our consolidated operating income and operating margin for the Current Quarter to $21.0 million and 9.4%, respectively, compared to $17.7 million and 9.2%, respectively, for the Comparable Quarter.

Net income for the Current Quarter of $10.5 million represents a $2.9 million decrease from the Comparable Quarter. This decrease in net income resulted from an increase in the provision for income taxes during the Current Quarter compared to the Comparable Quarter (due to $2.5 million in additional tax expense recorded in the Current Quarter

TABLE OF CONTENTS

resulting for the sale of the assets of Turbo Engines, Inc. ("Turbo") on November 30, 2006 and from an increase in the overall effective tax rate), foreign currency transaction losses of $3.4 million during the Current Quarter compared to foreign currency transaction gains of $2.3 million in the Comparable Quarter, and a charge of $1.9 million for acquisition costs previously deferred in connection with an acquisition we were evaluating as we determined that the acquisition is no longer probable. These amounts were partially offset by the increase in operating income discussed above, an increase of $2.9 million interest income (due to the investment of funds from the Preferred Stock offering) and a decrease of $1.4 million in interest expense (due to an increase in the amount of interest capitalized) during the Current Quarter compared to the Comparable Quarter.

Current Period Compared to Comparable Period

Our gross revenue increased to $669.1 million for the Current Period from $567.6 million for the Comparable Period, an increase of 17.9%. The increase in gross revenue relates to an increase in gross revenue for our Helicopter Services segment, with improvements in operating revenue across all of our business units, most significantly for North America (primarily resulting from increases in rates for certain contracts and an increase in utilization of our small aircraft in this market), Europe (primarily resulting from aircraft added to the market during fiscal year 2006) and West Africa (primarily resulting from an increase in rates under certain contracts and three new contracts). The increase in gross revenue was also attributable to an increase in out-of-pocket expenses rebilled to our customers (reimbursable revenue) of $11.2 million. Our operating expense increased to $586.2 million for the Current Period from $512.7 million for the Comparable Period, an increase of 14.3%. Operating expense increased as a result of the increase in operating activity, but also as a result of a higher level of maintenance activity on our aircraft and compensation costs driven by higher labor rates and additional personnel. These additional operating expense items resulted in a decline in operating income for our North America business unit and a decline in operating margin for our North America and Europe business units. However, improved margins for most of our other business units and significant gains on asset dispositions in the Current Period (compared to losses on asset dispositions in the Comparable Period) resulted in increases in our operating income and operating margin for the Current Period to $82.9 million and 12.4%, respectively, compared to $54.9 million and 9.7%, respectively, for the Comparable Period.

Net income for the Current Period of $46.8 million represents a $6.8 million increase from the Comparable Period. This increase in net income was driven by the increase in operating income discussed above, which was partially offset by foreign exchange losses of $9.6 million in the Current Period compared to foreign exchange gains of $5.3 million in the Comparable Period, and an increase in the provision for income taxes due to the additional tax expense related to the Turbo asset sale, the increase in income during the Current Period and from an increase in the overall effective tax rate.

TABLE OF CONTENTS

Business Unit Operating Results

The following tables set forth certain operating information, which forms the basis for discussion of our Helicopter Services and Production Management Services segments, and for the seven business units comprising our Helicopter Services segment.

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2006	2005	2006	2005
Flight hours (excludes unconsolidated affiliates):				
Helicopter Services:				
North America [(1)]	34,742	38,131	118,353	115,516
South and Central America	9,973	9,569	28,889	29,198
Europe	10,917	9,329	31,772	29,323
West Africa	9,733	8,867	27,795	25,836
Southeast Asia	3,059	3,117	9,328	8,844
Other International	2,641	1,728	7,119	5,020
Consolidated total	71,065	70,741	223,256	213,737

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2006	2005	2006	2005
	(In thousands)			
Gross revenue:				
Helicopter Services:				
North America	$ 62,758	$ 56,869	$195,863	$170,571
South and Central America	13,488	11,427	40,130	31,811
Europe	73,256	59,998	216,767	181,903
West Africa	35,062	27,427	98,009	79,876
Southeast Asia	18,181	15,789	52,848	44,285
Other International	11,462	9,087	32,599	24,756
EH Centralized Operations	15,918	14,677	45,049	39,604
Intrasegment eliminations	(19,116)	(16,676)	(54,321)	(48,811)
Total Helicopter Services [(2)]	211,009	178,598	626,944	523,995
Production Management Services [(3)]	15,130	16,253	50,599	50,163
Corporate	—	8	(26)	40
Intersegment eliminations	(2,297)	(2,592)	(8,404)	(6,589)
Consolidated total	$223,842	$192,267	$669,113	$567,609

Operating expense: [(4)]				
Helicopter Services:				
North America	$ 53,680	$ 48,084	$166,522	$137,412
South and Central America	10,495	10,036	30,226	29,805
Europe	69,453	56,370	195,489	161,350
West Africa	31,909	25,621	91,628	73,965
Southeast Asia	16,225	14,088	47,792	41,499
Other International	10,557	6,895	27,259	20,380
EH Centralized Operations	10,353	11,375	29,577	37,003

Intrasegment eliminations	(19,116)	(16,676)	(54,321)	(48,811)
Total Helicopter Services	183,556	155,793	534,172	452,603
Production Management Services	14,391	15,136	47,053	46,488
Loss (gain) on disposal of assets	(1,042)	373	(5,707)	1,276
Corporate [5]	8,255	5,825	19,099	18,959
Intersegment eliminations	(2,297)	(2,592)	(8,404)	(6,589)
Consolidated total	$202,863	$174,535	$586,213	$512,737

See notes beginning on following page

TABLE OF CONTENTS

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2006	2005	2006	2005
	(In thousands)			
Operating income:				
Helicopter Services:				
North America	$ 9,078	$ 8,785	$ 29,341	$ 33,159
South and Central America	2,993	1,391	9,904	2,006
Europe	3,803	3,628	21,278	20,553
West Africa	3,153	1,806	6,381	5,911
Southeast Asia	1,956	1,701	5,056	2,786
Other International	905	2,192	5,340	4,376
EH Centralized Operations	5,565	3,302	15,472	2,601
Total Helicopter Services	27,453	22,805	92,772	71,392
Production Management Services	739	1,117	3,546	3,675
Gain (loss) on disposal of assets [6]	1,042	(373)	5,707	(1,276)
Corporate [5]	(8,255)	(5,817)	(19,125)	(18,919)
Consolidated operating income	20,979	17,732	82,900	54,872
Earnings from unconsolidated affiliates	2,106	1,351	5,393	1,770
Interest income	3,841	898	6,200	2,879
Interest expense	(2,539)	(3,903)	(8,646)	(11,288)
Other income (expense), net [7]	(5,226)	2,296	(11,319)	4,308
Income before provision for income taxes and minority interest	19,161	18,374	74,528	52,541
Provision for income taxes [8]	(8,453)	(4,984)	(26,724)	(12,453)
Minority interest	(257)	10	(1,049)	(84)
Net income	$10,451	$13,400	$ 46,755	$ 40,004

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2006	2005	2006	2005
Operating margin: [9]				
Helicopter Services:				
North America	14.5%	15.4%	15.0%	19.4%
South and Central America	22.2%	12.2%	24.7%	6.3%
Europe	5.2%	6.0%	9.8%	11.3%
West Africa	9.0%	6.6%	6.5%	7.4%
Southeast Asia	10.8%	10.8%	9.6%	6.3%
Other International	7.9%	24.1%	16.4%	17.7%
EH Centralized Operations	35.0%	22.5%	34.3%	6.6%
Total Helicopter Services	13.0%	12.8%	14.8%	13.6%
Production Management Services	4.9%	6.9%	7.0%	7.3%
Consolidated total	9.4%	9.2%	12.4%	9.7%

[1] Our presentation of flight hours for North America has been changed from reports prior to our Quarterly Report for the second quarter of fiscal year 2007 to reflect total flight hours, which is consistent with the presentation of flight

hours for our other business units. North America flight hours in those prior reports reflected only billed hours.

(2) Includes reimbursable revenue of $20.0 million and $19.1 million for the three months ended December 31, 2006 and 2005, respectively, and $62.2 million and $46.4 million for the nine months ended December 31, 2006 and 2005, respectively.

(3) Includes reimbursable revenue of $1.8 million and $3.6 million for the three months ended December 31, 2006 and 2005, respectively, and $8.1 million and $12.7 million for the nine months ended December 31, 2006 and 2005, respectively.

(4) Operating expense includes depreciation and amortization in the following amounts for the periods presented:

TABLE OF CONTENTS

	Three Months Ended December 31,		Nine Months Ended December 30,	
	2006	2005	2006	2005
	(In thousands)			
Helicopter Services:				
North America	$ 4,562	$ 4,494	$13,190	$12,856
South and Central America	482	508	1,416	1,578
Europe	320	115	651	377
West Africa	386	322	966	1,427
Southeast Asia	63	96	252	311
Other International	560	472	1,632	1,398
EH Centralized Operations	4,570	4,560	13,681	13,995
Total Helicopter Services	10,943	10,567	31,788	31,942
Production Management Services	45	49	138	148
Corporate	72	37	154	70
Consolidated total	$11,060	$10,653	$32,080	$32,160

(5) Includes professional fees in connection with the Internal Review of $3.0 million and $3.1 million for the three and the nine months ended December 31, 2006, respectively, and $2.5 million and $10.2 million for the three and nine months ended December 31, 2005, respectively.

(6) Includes a gain on the sale of an aircraft used in our Italy operations of $2.1 million for the nine months ended December 31, 2006.

(7) Includes foreign currency transaction losses of $3.4 million and $9.6 million for the three and nine months ended December 31, 2006, respectively, and foreign currency transaction gains of $2.3 million and $5.3 million for the three and nine months ended December 31, 2005, respectively.

(8) Includes $2.5 million in additional tax expense during the three and nine months ended December 31, 2006 recorded as a result of the sale of the assets of Turbo in December 2006 (See " Current Quarter Compared to Comparable Quarter — Helicopter Services — North America" below).

(9) Operating margin is calculated as gross revenue less operating expense divided by gross revenue.

Current Quarter Compared to Comparable Quarter

Set forth below is a discussion of operations of our segments and business units. Our consolidated results are discussed under "Executive Overview — Overview of Operating Results" above.

Helicopter Services

Gross revenue for Helicopter Services increased to $211.0 million for the Current Quarter from $178.6 million for the Comparable Quarter, an increase of 18.1%, and operating expense increased to $183.6 million for the Current Quarter from $155.8 million for the Comparable Quarter, an increase of 17.8%. This resulted in an operating margin of 13.0% for the Current Quarter compared to 12.8% for the Comparable Quarter. Helicopter Services results are further explained below by business unit.

North America

Gross revenue for North America increased to $62.8 million for the Current Quarter from $56.9 million for the Comparable Quarter, despite an 8.9% decrease in flight activity. The increase in gross revenue is due to a shift to a higher level of utilization of our medium and large aircraft (which earn higher rates) compared to our small aircraft during the Current Quarter (resulting from a significant period of poor weather in the Gulf of Mexico during December as small aircraft are utilized less in those conditions) and also due to a 10% rate increase for certain contracts (which was phased in beginning in March 2006), partially offset by the impact of lower flight activity for our small aircraft (resulting from the period of poor weather during December 2006).

Operating expense for North America increased to $53.7 million for the Current Quarter from $48.1 million for the Comparable Quarter. The increase was primarily due to higher maintenance expense and labor costs and the adoption of

TABLE OF CONTENTS

the new equity compensation accounting standard in the quarter ended June 30, 2006. Our operating margin for North America decreased to 14.5% for the Current Quarter from 15.4% for the Comparable Quarter primarily due to the increase in maintenance costs discussed above.

As discussed in Note 2 to the "Condensed Notes to Consolidated Financial Statements" included elsewhere in this Quarterly Report, on November 30, 2006, we completed a sale of the assets of our aircraft engine overhaul business, Turbo, to Timken Alcor Aerospace Technologies, Inc. ("Timken") for approximately $14.6 million ($13.2 million of which was received in cash upon closing of the transaction), including estimated post-closing adjustments. The operations of Turbo represented 0.9% and 1.2% of our consolidated gross revenue in the Current Quarter and Comparable Quarter, respectively.

South and Central America

Gross revenue for South and Central America increased to $13.5 million for the Current Quarter from $11.4 million for the Comparable Quarter primarily due to revenue recognized in the Current Quarter upon receipt of cash from our joint venture in Mexico and an increase in the number of aircraft operating in Trinidad over the Comparable Quarter. In Mexico, a contract with Petróleos Mexicanos ("PEMEX") concluded in February 2005. As a result, our 49% owned unconsolidated affiliates, Hemisco Helicopters International, Inc. and Heliservicio Campeche S.A. de C.V. ("Heliservicio" and collectively, "HC"), experienced difficulties during fiscal year 2006 in meeting their obligations to make lease rental payments to us and to another one of our unconsolidated affiliates, Rotorwing Leasing Resources, L.L.C. ("RLR"). As a result of uncertainties as to collectibility, lease revenues from HC are recognized as they are collected. As of December 31, 2006, $1.0 million of revenues billed but not collected from HC have not been recognized in our results, and our 49% share of the equity in earnings of RLR has been reduced by $3.5 million for revenues billed but not collected from HC. During the Current Quarter, we recognized revenue of $0.2 million upon receipt of payment from HC for amounts billed in fiscal year 2006.

Operating expense for South and Central America increased to $10.5 million for the Current Quarter from $10.0 million for the Comparable Quarter, primarily due to an increase in operating expense in Trinidad as a result of additional aircraft. However, as a result of the increase in gross revenue for Mexico, the operating margin for this business unit increased significantly to 22.2% for the Current Quarter from 12.2% for the Comparable Quarter.

Since the conclusion of the PEMEX contract in February 2005, we took several actions to improve the financial condition and profitability of HC, including relocating several aircraft to other markets, restructuring our profit sharing arrangement with our partner, and completing a recapitalization of Heliservicio on August 19, 2005. In June 2006, Heliservicio was awarded a two-year contract by PEMEX. Under this contract, Heliservicio will provide and operate three medium helicopters in support of PEMEX's oil and gas operations. We will continue to evaluate the improving results for HC to determine if and when we will change our accounting for this joint venture from the cash to accrual basis.

We have completed negotiations with our partner in a joint venture that operates in Brazil and on December 22, 2006 entered into an agreement to terminate our ownership interest in the joint venture. The closing of this transaction is pending approval from the Brazilian National Agency of Civil Aviation and is expected to result in a pre-tax gain of approximately $2.5 million. We expect to obtain this approval during the fourth quarter of fiscal year 2007. Nevertheless, upon such termination, we anticipate that we will lease additional aircraft to helicopter service operations in Brazil. To the extent that we are not able to continue such leases, we expect to experience a substantial reduction in business activity in Brazil in future periods.

Europe

Gross revenue for Europe increased to $73.3 million for the Current Quarter from $60.0 million for the Comparable Quarter, primarily as a result of a 17.0% increase in flight activity, increases in rates due to annual contract escalations, a higher level of out-of-pocket expenses rebilled to our customers (which increased $2.1 million over the Comparable Quarter), and the effect of changes in exchange rates. The majority of the increase in flight hours relates to an improvement in our utilization per airframe.

TABLE OF CONTENTS

Operating expense for Europe increased to $69.5 million for the Current Quarter from $56.4 million for the Comparable Quarter, primarily due to a $2.0 million increase in out-of-pocket expenses rebilled to our customers, higher maintenance costs, higher salaries and fuel costs primarily associated with the increase in activity over the Comparable Quarter, $1.1 million in charges recorded for our insurance deductible related to an aircraft accident during the Current Quarter, and the effect of changes in exchange rates. We are generally able to recover fuel cost increases from our customers. As a result of the higher level of maintenance costs and salaries, operating margin for Europe decreased to 5.2% for the Current Quarter from 6.0% for the Comparable Quarter.

We are currently involved in negotiations with unions representing our pilots and engineers in this market and we currently expect that labor rates under our existing contracts could increase 4-5% starting in July 2007 through June 2008. We expect to be able to pass these costs on to our customers through annual contract escalation charges built into existing contracts or through rate increases as customer contracts come up for renewal.

In October 2006, we were awarded an amendment and extension of our existing contract in the North Sea with Integrated Aviation Consortium for the provision of helicopter transportation services to offshore facilities both East and West of the Shetland Islands. The amendment extends the contract until June 2010 and calls for the provision of five new Sikorsky S-92 helicopters to be delivered in the second and third quarters of fiscal year 2008 to replace the six AS332L Super Puma helicopters currently under contract, which we intend to re-deploy to other markets. In December 2006, the provision for an additional sixth Sikorsky S-92 was confirmed and a related aircraft option was exercised.

In December 2005, we were informed that we were not awarded the contract extension that would have commenced in mid-2007 to provide search and rescue services using seven S-61 aircraft and operate four helicopter bases for the U.K. Maritime and Coastguard Agency (“MCA”). The MCA has the option to extend our agreement through July 2009. We expect to continue to provide this service until the end of fiscal year 2008 and expect that the transition of work will take place, one base at a time, over a period of at least one year. We sold two of these aircraft in early calendar year 2007, resulting in a gain of $4.0 million. At the end of the agreement and any transition period, we expect that we will either be able to employ these aircraft for other customers or trade the aircraft in as partial consideration towards the purchase of new aircraft. In the Current Quarter and Comparable Quarter, we had $7.9 million and $6.7 million, respectively, in operating revenues associated with this contract. In July 2006, we entered into a partnership with an unconsolidated affiliate of ours, FB Heliservices Limited (“FBH”), and a third party, Serco Limited, through which we will seek to obtain the future U.K.-wide search and rescue contract, including the provision of 28 aircraft, scheduled to start in 2012.

West Africa

Gross revenue for West Africa increased to $35.1 million for the Current Quarter from $27.4 million for the Comparable Quarter, primarily as a result of an increase in rates under our contract with a major customer in Nigeria (beginning October 1, 2006) and a 9.8% increase in flight activity in Nigeria from the Comparable Quarter (which resulted from the addition of three new contracts in this market since last year).

Operating expense for West Africa increased to $31.9 million for the Current Quarter from $25.6 million in the Comparable Quarter. The increase was primarily a result of higher salary expense, maintenance activity and aircraft lease costs, primarily due to the increase in activity. We are currently involved in negotiations with the unions in Nigeria and anticipate that we will increase certain benefits for union personnel as a result of these negotiations. We do not expect these benefit increases to have a material impact on our results of operations. Operating expense for the Current Quarter included $0.8 million in salary costs for the period back to April 1, 2006 resulting from the resolution of negotiations with the union representing certain of our employees. Operating margin for West Africa increased to 9.0% in the Current Quarter from 6.6% in the Comparable Quarter primarily resulting from the increase in rates with a

major customer and the increase in flight activity discussed above.

In April 2006, we extended our contract with a major customer to March 31, 2008, under which we will provide and operate two large and two medium helicopters. The contract is not cancelable by the customer during the first 12 months and 180 days cancellation notice is required in the second 12 months. In December 2006, we reached an agreement with a major customer in Nigeria to increase rates beginning October 1, 2006.

TABLE OF CONTENTS

We have commenced a reorganization of our Nigerian operations, including consolidation of two former operating businesses, expansion of several hangar facilities, integration of finance and administrative functions, and repositioning of major maintenance operations into our two largest operating facilities. This reorganization as well as periodic disruption to our operations related to civil unrest and violence have made and are expected to continue to make our operating results from Nigeria unpredictable through at least the end of calendar year 2007.

Southeast Asia

Gross revenue for Southeast Asia increased to $18.2 million in the Current Quarter from $15.8 million for the Comparable Quarter primarily due to higher revenue in Australia. Australia's flight activity and revenue increased 25.2% and 28.9%, respectively, from the Comparable Quarter, primarily due to the utilization of three additional large aircraft and escalations of other contract rates since the Comparable Quarter. The increases in flight activity and revenue in Australia was partially offset by lower flight activity and revenue in China since we are not currently flying in this market.

Operating expense increased to $16.2 million for the Current Quarter from $14.1 million for the Comparable Quarter as a result of an increase in salary and fuel costs related to the increase in activity compared to the Comparable Quarter, and an increase in salaries associated with the addition of personnel. Our operating margin in this market remained unchanged at 10.8% for both the Current Quarter and Comparable Quarter.

Other International

Gross revenue for Other International increased to $11.5 million for the Current Quarter from $9.1 million for the Comparable Quarter primarily due to increases in flight activity in Russia (resulting from the addition of a new short-term contract since the Comparable Quarter) and our commencement of flight operations in Kenya, partially offset by a decrease in flight activity in Turkmenistan (resulting from the operation of one less aircraft compared to the Comparable Quarter).

Operating expense increased to $10.6 million for the Current Quarter from $6.9 million for the Comparable Quarter. The increase in operating expense is primarily due to increased operational costs associated with the increases in flight activity in Russia, the commencement of flight operations in Kenya, increased freight costs for our operations in Kazakhstan, and increased general and administrative costs associated with higher salaries, travel expenses and overhead cost allocations. As a result of the increase in operating expense in these markets discussed above, our operating margin for Other International decreased substantially to 7.9% for the Current Quarter from 24.1% for the Comparable Quarter.

EH Centralized Operations

Gross revenue for EH Centralized Operations increased to $15.9 million for the Current Quarter from $14.7 million for the Comparable Quarter as a result of an increase in intercompany lease charges associated with a change in the mix of aircraft leased to other business units and an increase in lease charges for aircraft leased to Norsk Helikopter AS ("Norsk"), our unconsolidated affiliate in Norway, in the Current Quarter compared to the Comparable Quarter.

Operating expense decreased to $10.4 million for the Current Quarter from $11.4 million for the Comparable Quarter primarily due to lower maintenance costs (which primarily relate to a higher level of billing to other business units for maintenance costs incurred due to increased flight activity throughout a majority of our operations), partially offset by increased salaries associated with the addition of personnel. As a result of higher gross revenue, our operating margin for EH Centralized Operations increased to 35.0% for the Current Quarter from 22.5% for the Comparable Quarter.

Production Management Services

Gross revenue for our Production Management Services segment decreased to $15.1 million for the Current Quarter from $16.3 million for the Comparable Quarter, a decrease of 7.4%. This decrease was primarily due to a previously announced reduction of the scope of our services under a contract with a significant customer beginning in October 2006, and was partially offset by additional labor revenue associated with several new contracts and with increased rates on several existing contracts. Operating expense decreased to $14.4 million for the Current Quarter from $15.1 million for

the Comparable Quarter, primarily due to the decrease in costs associated with the reduction of the scope of services with a significant customer. As a result of the decrease in gross revenue, our operating margin decreased to 4.9% for the Current Quarter from 6.9% in the Comparable Quarter.

As discussed above, in October 2006, a significant customer of the Production Management Services segment advised us that the scope of work under our services contract would be substantially reduced. This work represented none of our consolidated gross revenue for the Current Quarter and 1.3% of consolidated gross revenue for the Current Period. Although we expect to experience a decline in revenue from our Production Management Services segment in the near term (i.e. the remainder of fiscal year 2007) due to the loss of this contract, we anticipate in the long term to replace this business at comparable margins.

General and Administrative Costs

Consolidated general and administrative costs increased by $4.8 million during the Current Quarter compared to the Comparable Quarter. The increase is primarily due to the adoption of the new equity compensation accounting rules during fiscal year 2007, compensation expense associated with the award of additional restricted stock units and the addition of personnel in several of our markets as well as our corporate office. As discussed in Note 8 in the "Condensed Notes to Consolidated Financial Statements" included elsewhere in this Quarterly Report, the adoption of the new equity compensation accounting rules resulted in additional expense totaling $0.6 million for the Current Quarter. Additionally, professional fees for the Current Quarter included approximately $3.0 million and $0.7 million in connection with the Internal Review and DOJ investigations, respectively. Professional fees for the Comparable Quarter included approximately $2.5 million and $1.0 million in connection with the Internal Review and DOJ investigations, respectively.

Earnings from Unconsolidated Affiliates

Earnings from unconsolidated affiliates increased to $2.1 million during the Current Quarter compared to $1.4 million in the Comparable Quarter, primarily due to higher equity earnings from FBS Limited of $0.7 million (primarily resulting from lower interest charges, an increase in activity and rates for a manpower services contract, and a decrease in overhead costs compared to the Comparable Quarter) and an increase in equity in earnings from RLR of $0.7 million (resulting from an increase in the amount of cash received from HC during the Current Quarter compared to the Comparable Quarter, as HC's results have improved as a result of new work for aircraft which were underutilized in the prior quarters). The increase for the Current Quarter was partially offset by lower equity earnings from Norsk of $0.7 million.

Interest Expense, Net

Interest expense, net of interest income, was income of $1.3 million during the Current Quarter compared to expense of $3.0 million during the Comparable Quarter. Approximately $2.9 million of the change in interest expense, net, resulted from higher interest income earned in the Current Quarter relative to the Comparable Quarter due to higher short-term cash investment balances and returns (driven by the cash on hand as a result of the Preferred Stock offering completed in September and October 2006). Additionally, interest expense for the Current Quarter and Comparable Quarter was reduced by approximately $1.8 million and $0.5 million, respectively, of capitalized interest. More interest was capitalized in the Current Quarter as a result of the increase in capitalized costs for helicopters being manufactured as discussed under "Liquidity and Capital Resources — Cash Flows — Investing Activities" below.

Other Income (Expense), Net

Other income (expense), net, for the Current Quarter was expense of $5.2 million compared to income of $2.3 million for the Comparable Quarter. The amount for the Current Quarter includes $1.9 million for acquisition costs previously deferred in connection with an acquisition we were evaluating as we determined that the acquisition is no longer probable, and foreign currency transaction losses of $3.4 million. The amount for the Comparable Quarter includes foreign currency transaction gains of $2.3 million. These gains and losses arose primarily from U.S. dollar-denominated transactions entered into by Bristow Aviation (whose functional currency is the British pound sterling). See Item 3. “Quantitative and Qualitative Disclosures About Market Risk — Foreign Currency Risk” included elsewhere in this Quarterly Report for a discussion of how we manage these risks.

TABLE OF CONTENTS

Taxes

Our effective income tax rates from continuing operations were 44.1% and 27.1% for the Current Quarter and Comparable Quarter, respectively. The effective tax rate for the Current Quarter was impacted by additional tax expense of $2.5 million recorded as a result of the sale of the assets of Turbo as discussed above. Excluding the tax recorded as a result of the Turbo asset sale, our effective tax rate for the Current Quarter was 31.1%. During the Current Quarter, we had net reversals of reserves for estimated tax exposures of $0.8 million. Reversals of reserves at a level proportional to that for the Current Quarter are expected to occur in the last quarter of fiscal year 2007. Our effective tax rate was also reduced by the permanent reinvestment outside the U.S. of foreign earnings, upon which no U.S. tax has been provided, and by the amount of our foreign source income and our ability to realize foreign tax credits. The significant variance between the U.S. federal statutory rate and the effective rate for the Comparable Quarter was due primarily to the impact of the reversals of reserves for tax contingencies of $2.9 million during that period, as a result of our evaluation of the need for such reserves in light of the expiration of the related statutes of limitations.

Current Period Compared to Comparable Period

Set forth below is a discussion of operations of our segments and business units. Our consolidated results are discussed under "Executive Overview — Overview of Operating Results" above.

Helicopter Services

Gross revenue for Helicopter Services increased to $626.9 million for the Current Period from $524.0 million for the Comparable Period, an increase of 19.6%, and operating expense increased to $534.2 million for the Current Period from $452.6 million for the Comparable Period, an increase of 18.0%. This resulted in an operating margin of 14.8% for the Current Period compared to 13.6% for the Comparable Period. Helicopter Services results are further explained below by business unit.

North America

Gross revenue for North America increased to $195.9 million for the Current Period from $170.6 million for the Comparable Period, and flight activity increased by 2.5%. The increase in gross revenue is primarily due to an increase in the number of aircraft on month-to-month contracts for the Current Period, a rate increase in May 2005 of 8% (which was phased in during fiscal year 2006), an additional 10% rate increase for certain contracts (which is being phased in beginning in March 2006), and an increase in fuel surcharges we billed to our customers as a result of fuel price increases, partially offset by the effect of lower flight activity in December 2006 resulting from poor weather.

Operating expense for North America increased to $166.5 million for the Current Period from $137.4 million for the Comparable Period. The increase was primarily due to increased maintenance expense (associated with the complete refurbishment of several aircraft in the Current Period), an increase in the reserve for excess and dormant inventory recorded during the Current Period, higher labor costs associated with the increase in flight activity and from the adoption of the new equity compensation accounting standard in the Current Period, and higher fuel costs associated with both the increase in flight activity and a higher average cost per gallon (which we are generally able to recover from our customers). Our operating margin for North America decreased to 15.0% for the Current Period from 19.4% for the Comparable Period primarily due to the increase in maintenance and labor costs.

As discussed under "— Current Quarter Compared to Comparable Quarter — North America" above, on November 30, 2006, we completed a sale of the assets of our aircraft engine overhaul business, Turbo, to Timken for approximately

$14.6 million ($13.2 million of which was received in cash upon closing of the transaction), including estimated post-closing adjustments. The operations of Turbo represented 1.1% of our consolidated gross revenue in both the Current Period and the Comparable Period.

South and Central America

Gross revenue for South and Central America increased to $40.1 million for the Current Period from $31.8 million for the Comparable Period primarily due to higher revenue recognized in the Current Period upon receipt of cash from our

joint venture in Mexico and an increase in the number of aircraft operating in Trinidad over the Comparable Period. As of December 31, 2006, $1.0 million of revenues billed but not collected from HC have not been recognized in our results, and our 49% share of the equity in earnings of RLR has been reduced by $3.5 million for revenues billed but not collected from HC. During the Current Period, we recognized revenue of $1.2 million upon receipt of payment from HC for amounts billed in fiscal year 2006. For additional information on our investment in HC and RLR, see "— Current Quarter Compared to Comparable Quarter — Helicopter Services — South and Central America" included elsewhere in this Quarterly Report.

Operating expense for South and Central America totaled $30.2 million for the Current Period and $29.8 million for the Comparable Period. Operating expense increased in Trinidad as a result of additional aircraft in that market, which was almost fully offset by lower operating expense in other markets. The largest of these decreases was noted in Mexico, where overall flight activity has declined due to the conclusion of the PEMEX contract in February 2005. As a result of the increase in gross revenue while operating expense was substantially unchanged, the operating margin for this business unit increased significantly to 24.7% for the Current Period from 6.3% for the Comparable Period.

Europe

Gross revenue for Europe increased to $216.8 million for the Current Period from $181.9 million for the Comparable Period, primarily as a result of an 8.4% increase in flight activity, an $11.5 million increase in out-of-pocket expenses rebilled to our customers, and the effect of changes in exchange rates. The majority of the increase in flight hours relates to new contracts within the North Sea and an increase in our utilization per airframe.

Operating expense for Europe increased to $195.5 million for the Current Period from $161.4 million for the Comparable Period primarily due to an increase in activity in the North Sea, increased maintenance costs, higher fuel rates, the impact of additions in personnel and salary increases, the increase in out-of-pocket expenses rebilled to our customers, and the effect of changes in exchange rates in the Current Period compared to the Comparable Period. We are generally able to recover fuel cost increases from our customers. As a result of the increases in maintenance costs and salaries, operating margin for Europe decreased to 9.8% for the Current Period from 11.3% for the Comparable Period.

As discussed above, we were not awarded the contract extension that would have commenced in mid−2007 by MCA. We are currently evaluating our options related to aircraft used in the MCA contract. In the Current Period and Comparable Period, we had $24.8 million and $20.6 million, respectively, in operating revenues associated with this contract. For additional information relating to the contract with MCA, see "— Current Quarter Compared to Comparable Quarter — Helicopter Services — Europe" included elsewhere in this Quarterly Report.

West Africa

Gross revenue for West Africa increased to $98.0 million for the Current Period from $79.9 million for the Comparable Period, primarily as a result of a 7.6% increase in flight activity in Nigeria from the Comparable Period (resulting from the addition of three new contracts in this market following the end of the Comparable Period), an increase in rates under our contract with a major customer in Nigeria (beginning October 1, 2006), increases in certain of our standard monthly rates for other contracts, and a $3.3 million increase in out-of-pocket expenses rebilled to our customers.

Operating expense for West Africa increased to $91.6 million for the Current Period from $74.0 million in the Comparable Period. The increase was primarily as a result of higher salary expense and fuel costs associated with the increase in activity, increases in freight charges on spare parts, and the increase in out-of-pocket expenses rebilled to our customers. Operating margin for West Africa decreased to 6.5% in the Current Period from 7.4% in the

Comparable Period as a result of the higher level of operating expenses.

For a discussion of additional matters related to our Nigeria operations, see "— Current Quarter Compared to Comparable Quarter — Helicopters Services — West Africa" included elsewhere in this Quarterly Report.

TABLE OF CONTENTS

Southeast Asia

Gross revenue for Southeast Asia increased to $52.8 million in the Current Period from $44.3 million for the Comparable Period, primarily due to higher revenue in Australia. Australia's flight activity and revenue increased 22.3% and 24.7%, respectively, from the Comparable Period, primarily due to the utilization of an additional large aircraft, increases in certain rates and the billing of contract escalations.

Operating expense increased to $47.8 million for the Current Period from $41.5 million for the Comparable Period primarily as a result of an increase in salary, maintenance and fuel costs related to the increase in activity compared to the Comparable Period. As a result of higher gross revenue during the Current Period, operating margin increased to 9.6% for the Current Period from 6.3% for the Comparable Period.

Other International

Gross revenue for Other International increased to $32.6 million for the Current Period from $24.8 million for the Comparable Period primarily due to an increase in flight activity in Russia, the billing of escalation charges on contracts in both Russia ($1.6 million in gross revenue) and Mauritania ($0.5 million in gross revenue), the commencement of flight operations in Kenya, and additional revenue in Egypt resulting from an additional large aircraft leased to our unconsolidated affiliate in that country, which commenced in December 2005.

Operating expense increased to $27.3 million for the Current Period from $20.4 million for the Comparable Period. The increase in operating expense is primarily due to increased operational costs associated with the increases in flight activity discussed above and increased general and administrative costs associated with higher salaries, travel expenses, and overhead cost allocations. As a result of the increase in general and administrative costs discussed above, our operating margin for Other International decreased to 16.4% for the Current Period from 17.7% for the Comparable Period.

EH Centralized Operations

Gross revenue for EH Centralized Operations increased to $45.0 million for the Current Period from $39.6 million for the Comparable Period as a result of increased parts sales, increased out-of-pocket costs rebilled to our customers, and an increase in lease charges for aircraft leased to Norsk in the Current Period compared to the Comparable Period.

Operating expense decreased to $29.6 million for the Current Period from $37.0 million for the Comparable Period, primarily due to lower maintenance costs which primarily relates to a higher level of billing to other business units for maintenance costs incurred due to increased flight activity throughout a majority of our operations and maintenance in the Comparable Period for a large aircraft that was then in the process of being prepared for deployment to Malaysia, partially offset by increased salaries associated with the addition of personnel and increased professional fees and other costs. As a result of higher gross revenue and the decrease in operating expense, our operating margin for EH Centralized Operations increased significantly to 34.3% for the Current Period from 6.6% for the Comparable Period.

Production Management Services

Gross revenue for our Production Management Services segment increased to $50.6 million for the Current Period from $50.2 million for the Comparable Period, an increase of 0.8%, primarily due to an increase in labor revenue with the addition of several new contracts, which was almost fully offset by the previously announced reduction of the scope of our services under a contract with a significant customer beginning in October 2006. We also had additional billings to an existing customer beginning in June 2006 for an additional helicopter provided to them under contract. Operating expense increased to $47.1 million for the Current Period from $46.5 million for the Comparable Period,

primarily due to an increase in costs associated with the increase in activity. Primarily resulting from the reduction in work with a significant customer in the Current Period, our operating margin decreased to 7.0% for the Current Period from 7.3% in the Comparable Period.

TABLE OF CONTENTS

General and Administrative Costs

Consolidated general and administrative costs increased to $52.0 million during the Current Period compared to $46.0 million for the Comparable Period. The increase is primarily due to the adoption of the new equity compensation accounting rules during the Current Period, the addition of personnel in several of our markets and in our corporate office, and an overall increase in corporate general and administrative costs (including additional legal fees related to matters other than the Internal Review or DOJ investigation). The increase in cost in the Current Period was partially offset by lower costs incurred related to the Internal Review. As discussed in Note 8 in the "Condensed Notes to Consolidated Financial Statements" included elsewhere in this Quarterly Report, the adoption of the new equity compensation accounting rules resulted in additional expense totaling $1.8 million for the Current Period. Professional fees in the Current Period included approximately $3.1 million and $1.5 million in connection with the Internal Review and DOJ investigations, respectively. Professional fees in the Comparable Period included approximately $10.2 million and $1.4 million in connection with the Internal Review and DOJ investigations, respectively.

Earning from Unconsolidated Affiliates

Earnings from unconsolidated affiliates increased to $5.4 million during the Current Period compared to $1.8 million in the Comparable Period, primarily due to higher equity earnings from FBS Limited of $2.0 million (primarily resulting from lower interest charges, an increase in activity and rates for a manpower services contract, and a decrease in overhead costs compared to the Comparable Period), and higher equity earnings from RLR of $2.2 million (resulting from an increase in the amount of cash received from HC during the Current Period compared to the Comparable Period, as HC's results have improved as work lost upon completion of the PEMEX contract has gradually been replaced).

Interest Expense, Net

Interest expense, net of interest income, totaled $2.4 million during the Current Period compared to $8.4 million during the Comparable Period. The decrease in interest expense, net, primarily resulted from higher interest income earned in the Current Period relative to the Comparable Period due to higher short-term cash investment balances and returns (primarily driven by the cash on hand as a result of the Preferred Stock offering completed in September and October 2006). Additionally, interest expense for the Current Period and Comparable Period was reduced by approximately $4.3 million and $1.6 million, respectively, of capitalized interest. More interest was capitalized in the Current Period as a result of the increase in capitalized costs for helicopters being manufactured as discussed under "Liquidity and Capital Resources — Cash Flows — Investing Activities" included elsewhere in this Quarterly Report.

Other Income (Expense), Net

Other income (expense), net, for the Current Period was expense of $11.3 million compared to income of $4.3 million for the Comparable Period, and primarily represents foreign currency transaction gains and losses. See discussion of foreign currency translation gains and losses under "— Current Quarter Compared to Comparable Quarter — Other Income (Expense), net" above. Additionally, the Current Period included $1.9 million for acquisition costs previously deferred in connection with an acquisition we were evaluating as we determined that the acquisition is no longer probable.

Taxes

Our effective income tax rates from continuing operations were 35.9% and 23.7% for the Current Period and Comparable Period, respectively. The effective tax rate for the Current Period was impacted by additional tax expense of $2.5 million recorded as a result of the sale of the assets of Turbo as discussed above. Excluding the tax recorded as

a result of the Turbo asset sale, our effective tax rate for the Current Period was 32.5%. During the Current Period, we had net reversals of reserves for estimated tax exposures of $2.3 million. Reversals of reserves at a level proportional to that for the Current Period are expected to occur in the last quarter of fiscal year 2007. Our effective tax rate was also reduced by the permanent reinvestment outside the U.S. of foreign earnings, upon which no U.S. tax has been provided, and by the amount of our foreign source income and our ability to realize foreign tax credits. The significant variance between the U.S. federal statutory rate and the effective rate for the Comparable Period was due primarily to the impact of the reversals of reserves for tax contingencies of $8.6 million during that period, as a result of our evaluation of the need for such reserves in light of the expiration of the related statutes of limitations.

TABLE OF CONTENTS

Liquidity and Capital Resources

Cash Flows

Operating Activities

Net cash flows provided by operating activities totaled $67.9 million during the Current Period and $31.3 million during the Comparable Period. Non-cash working capital used $25.0 million in cash flows from operating activities for the Current Period compared to $39.2 million used in operating activities for the Comparable Period. Cash flows from operating activities improved primarily due to the favorable change in non-cash working capital, changes in deferred income taxes and the improvement in net income during the Current Period.

Investing Activities

Cash flows used in investing activities were $192.2 million and $29.7 million for the Current Period and Comparable Period, respectively, primarily for capital expenditures as follows:

	Nine Months Ended December 31,	
	2006	**2005**
Number of aircraft delivered:		
New:		
Small	2	4
Medium	11	8
Large	3	2
Total new aircraft	16	14
Used:		
Small	1	5
Total used aircraft	1	5
Total aircraft	17	19
Capital expenditures (in thousands):		
Aircraft and related equipment	$208,963	$107,872
Other	7,283	9,181
Total capital expenditures	$216,246	$117,053

During the Current Period, we made final payments in connection with the delivery of three small, eleven medium and three large aircraft and progress payments on the construction of new aircraft to be delivered in future periods in conjunction with our aircraft commitments (discussed below) totaling $188.9 million. Also during the Current Period, we spent an additional $20.1 million to upgrade aircraft within our existing aircraft fleet and to customize new aircraft delivered for our operations. During the Comparable Period, apart from payments made for new aircraft in conjunction with our aircraft commitments, we purchased five small used aircraft for $6.4 million and paid deposits of $11.0 million for five large aircraft.

During the Current Period, we received proceeds of $13.2 million (out of a total sales price of $14.6 million) for the sale of the assets of Turbo to Timken Alcor Aerospace Technologies, Inc., which closed on November 30, 2006 and resulted in a small gain for book purposes. We expect to receive $1.1 million of the remaining amount due to us in the fourth quarter of fiscal year 2007 and $0.3 million late in fiscal year 2008. Additionally, we received proceeds of $10.8 million primarily from the disposal of 19 aircraft, two airframes and certain other equipment, which together

resulted in a net gain of $5.6 million. During the Comparable Period, we received proceeds of $72.6 million primarily from the disposal of ten aircraft and certain equipment, which resulted in a net loss of $1.3 million.

Due to the significant investment in aircraft made in both the Current Period and Comparable Period, net capital expenditures exceeded cash flow from operations, and we expect this will continue to be the case through the end of fiscal year 2008.

TABLE OF CONTENTS

Historically, in addition to the expansion of our business through purchases of new and used aircraft, we have also established new joint ventures with local partners or purchased significant ownership interests in companies with ongoing helicopter operations, particularly in countries where we have no operations or our operations are limited in scope, and we continue to evaluate similar opportunities which could enhance our operations.

Financing Activities

Cash flows provided by financing activities were $217.7 million during the Current Period compared to cash flows used in financing activities of $12.9 million during the Comparable Period. During the Current Period, cash was provided by the issuance of the Preferred Stock in September and October 2006 resulting in net proceeds of $223.6 million and by our receipt of proceeds of $2.9 million from the exercise of options to acquire shares of our common stock by our employees. Cash was used for the payment of Preferred Stock dividends of $2.9 million and the repayment of debt totaling $5.6 million.

We issued 4,000,000 shares of Preferred Stock at a par value of $0.01 per share and liquidation preference $50 per share, in a public offering that closed on September 19, 2006. We issued an additional 600,000 shares of Preferred Stock in October 2006, upon the exercise of the underwriters' over-allotment option, for net proceeds of $29.1 million. For further discussion of the terms and conditions of the Preferred Stock, see Note 6 in the "Condensed Notes to Consolidated Financial Statements" included elsewhere in this Quarterly Report. On November 15, 2006, our Board of Directors declared a dividend of $0.65694 per share of Preferred Stock issued and outstanding at the close of business on December 1, 2006, which was paid on December 15, 2006.

During the Comparable Period, cash was used for the provision of cash collateral totaling $10.3 million in conjunction with a sale and leaseback financing arrangement and the repayment of debt totaling $3.2 million, and cash was provided by our receipt of proceeds of $0.6 million from the exercise of options to acquire shares of our common stock by our employees.

Future Cash Requirements

Debt Obligations

As of December 31, 2006, total debt was $259.9 million, of which $22.2 million was classified as current.

Senior Secured Credit Facilities — In August 2006, we entered into syndicated senior secured credit facilities which consist of a $100 million revolving credit facility (with a subfacility of $25 million for letters of credit) and a $25 million letter of credit facility (the "Credit Facilities"). The aggregate commitments under the revolving credit facility may be increased to $200 million at our option following our 6 1/8% Senior Notes due 2013 receiving an investment grade credit rating from Moody's or Standard & Poor's (so long as the rating of the other rating agency of such notes is no lower than one level below investment grade). As of December 31, 2006, our Moody's and Standard & Poor's ratings were Ba2 and BB, respectively, which are two levels below the investment grade ratings of Baa3 and BBB –, respectively. The revolving credit facility may be used for general corporate purposes, including working capital and acquisitions. The letter of credit facility is used to issue letters of credit supporting or securing performance of statutory obligations, surety or appeal bonds, bid or performance bonds and similar obligations.

Borrowings under the revolving credit facility bear interest at an interest rate equal to, at our option, either the Base Rate or LIBOR (or EURIBO, in the case of Euro-denominated borrowings) plus the applicable margin. "Base Rate" means the higher of (1) the prime rate and (2) the Federal Funds rate plus 0.5% per annum. The applicable margin for borrowings range from 0.0% and 2.5% depending on whether the Base Rate or LIBOR is used, and is determined based on our credit rating. Fees owed on letters of credit issued under either the revolving credit facility or the letter of

credit facility are equal to the margin for LIBOR borrowings. Based on our current ratings, the margins on Base Rate and LIBOR borrowings were 0.0% and 1.25%, respectively, as of December 31, 2006. Interest is payable at least quarterly, and the Credit Facilities mature in August 2011. Our obligations under the Credit Facilities are guaranteed by certain of our principal domestic subsidiaries and secured by the accounts receivable, inventory and equipment (excluding aircraft and their components) of Bristow Group Inc. and the guarantor subsidiaries, and the capital stock of certain of our principal subsidiaries.

In addition, the Credit Facilities include covenants which are customary for these types of facilities, including certain financial covenants and restrictions on the ability of Bristow Group Inc. and its subsidiaries to enter into certain

transactions, including those that could result in the incurrence of additional liens and indebtedness; the making of loans, guarantees or investments; sales of assets; payments of dividends or repurchases of our capital stock; and entering into transactions with affiliates.

As of December 31, 2006, we had $4.7 million in letters of credit outstanding under the letter of credit facility and no borrowings or letters of credit outstanding under the revolving credit facility.

We previously had a $30 million revolving credit facility with a U.S. bank that was terminated in August 2006.

U.K. Facilities — As of December 31, 2006, Bristow Aviation had a £6.0 million ($11.7 million) facility for letters of credit, of which £0.3 million ($0.6 million) was outstanding, and a £1.0 million ($2.0 million) net overdraft facility, under which no borrowings were outstanding. Both facilities are with a U.K. bank. The letter of credit facility is provided on an uncommitted basis, and outstanding letters of credit bear fees at a rate of 0.7% per annum. Borrowings under the net overdraft facility are payable upon demand and bear interest at the bank's base rate plus a spread that can vary between 1% and 3% per annum depending on the net overdraft amount. The net overdraft facility will be reviewed by the bank annually on August 31 and is cancelable at any time upon notification from the bank. The facilities are guaranteed by certain of Bristow Aviation's subsidiaries and secured by a negative pledge of Bristow Aviation's assets.

Limited Recourse Term Loans — As of December 31, 2006, we had two limited recourse term loans outstanding in an aggregate amount of $19.2 million. The two limited recourse term loans were created in connection with sale and lease transactions for two aircraft and mature in March 2007 and July 2007. We have given notice to the bank to exercise our right to purchase the two aircraft under the sale and lease agreements and are in the process of evaluating financing the balance of the debt, which will be approximately $19 million at maturity.

Preferred Stock

Annual cumulative cash dividends of $2.75 per share of Preferred Stock are payable quarterly on the fifteenth day of each March, June, September and December. If declared, dividends on the 4,600,000 shares of Preferred Stock would be $3.2 million on each quarterly payment date beginning on March 15, 2007 and thereafter. For a further discussion of the terms and conditions of the Preferred Stock, see Note 6 in the "Condensed Notes to Consolidated Financial Statements" included elsewhere in this Quarterly Report.

Pension Plan

In May 2006, the Pensions Regulator ("TPR") in the U.K. published a statement on regulating the funding of defined benefit schemes. In this statement, TPR focused on a number of items including the use of triggers to determine the level of funding of the schemes. We expect to increase our annual cash contributions to the plans to a range of $13 million to $15 million per fiscal year beginning in fiscal year 2008.

Tax Payments

During the fourth quarter of fiscal year 2007, we expect to make additional payments for underreported payroll taxes in Nigeria in the range of $9 million to $11 million, which were accrued in prior periods.

54

TABLE OF CONTENTS

Capital Commitments

As shown in the table below, we expect to make additional capital expenditures over the next six fiscal years to increase the size of our aircraft fleet. As of December 31, 2006, we had 42 aircraft on order and options to acquire an additional 35 aircraft. The additional aircraft on order are expected to provide incremental fleet capacity, with only a small number of our existing aircraft expected to be replaced with the new aircraft in the near term.

	Three Months Ending March 31,	Fiscal Year Ending March 31,				
	2007	2008	2009	2010	2011-2013	Total
Commitments as of December 31, 2006:						
Number of aircraft:						
Small	1	2	—	—	—	3
Medium	6	12	3	3	6	30
Large	4	5	—	—	—	9
	11 [(1)]	19 [(2)]	3	3	6	42
Related expenditures (in thousands)	$ 84,067	$162,522	$ 23,051	$24,285	$ 37,053	$330,978
Options as of December 31, 2006:						
Number of aircraft:						
Medium [(3)]	—	1	6	6	14	27
Large	—	2	6	—	—	8
	—	3	12	6	14	35
Related expenditures (in thousands)	$ 8,220	$119,494	$102,600	$48,292	$107,624	$386,230

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(1) Signed customer contracts are currently in place for nine of these 11 aircraft.

(2) Signed customer contracts are currently in place for eight of these 19 aircraft.

(3) As of December 31, 2006, options with respect to six of these aircraft were "subject to availability," which means that the delivery time for the aircraft subject to these options will depend upon the number of manufacturing slots available at the time the options are exercised. As a result, the delivery time for these aircraft may be extended beyond those specified in the purchase agreement with the manufacturer, and these medium aircraft were included in the 2011-2013 period in the table above. However, we can accelerate the delivery of these aircraft at our option to as early as January 1, 2008, subject to the manufacturer's availability to fill customer orders at the time an option is exercised.

The following chart presents an analysis of our aircraft orders and options during fiscal year 2007:

	Three Months Ended					
	June 30, 2006		September 30, 2006		December 31, 2006	
	Orders	Options	Orders	Options	Orders	Options

Beginning of quarter	53	37	51	37	47	37
Aircraft delivered	(2)	—	(4)	—	(10)	—
Aircraft ordered	—	—	—	—	8	(5)
Orders converted to options	—	—	—	—	(3)	3
End of quarter	51	37	47	37	42	35

In early calendar year 2007, we ordered three additional large aircraft (for which no option previously existed) which will be delivered in fiscal year 2009, thereby increasing our aircraft commitments by $63.6 million, and obtained the option to purchase eight additional large aircraft and the right to trade in older aircraft to the same manufacturer.

TABLE OF CONTENTS

Contractual Obligations, Commercial Commitments and Off Balance Sheet Arrangements

We have various contractual obligations which are recorded as liabilities in our consolidated financial statements. Other items, such as certain purchase commitments, interest payments and other executory contracts are not recognized as liabilities in our consolidated financial statements but are included in the table below. For example, we are contractually committed to make certain minimum lease payments for the use of property and equipment under operating lease agreements.

The following tables summarize our significant contractual obligations and other commercial commitments on an undiscounted basis as of December 31, 2006 and the future periods in which such obligations are expected to be settled in cash. In addition, the table reflects the timing of principal and interest payments on outstanding borrowings. Additional details regarding these obligations are provided in the "Condensed Notes to Consolidated Financial Statements" included elsewhere in this Quarterly Report and the "Notes to Consolidated Financial Statements" included in the Annual Report.

	Payments Due by Period				
		Three Months Ending	Fiscal Year Ending March 31,		
	Total	March 31, 2007	2008-2009	2010-2011	2012 and beyond
	(In thousands)				
Contractual cash obligations:					
Long-term debt and short-term borrowings:					
Principal	$259,947	$ 11,749	$ 13,453	$ 365	$234,380
Interest	93,451	4,111	29,211	28,451	31,678
Aircraft operating leases (1) (2)	63,963	1,814	12,600	13,387	36,162
Other operating leases (1)	15,765	865	4,957	3,676	6,267
Pension obligations (3)	179,411	2,799	21,820	19,721	135,071
Aircraft purchase obligations	330,978	84,067	185,573	49,420	11,918
Other purchase obligations (4)	40,919	29,183	9,403	2,333	—
Total contractual cash obligations	$984,434	$ 134,588	$277,017	$117,353	$455,476
Other commercial commitments					
Debt guarantees (5)	$ 31,286	$ —	$ 11,716	$ —	$ 19,570
Other guarantees (6)	3,108	3,108	—	—	—
Letter of credit (7)	4,682	4,682	—	—	—
Total other commercial commitments	$ 39,076	$ 7,790	$ 11,716	$ —	$ 19,570

(1) Represents minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year.

(2) Represents nine aircraft that we sold on December 30, 2005 for $68.6 million in aggregate to a subsidiary of General Electric Capital Corporation and then leased back under separate operating leases with terms of ten years expiring in January 2016. A deferred gain on the sale of the aircraft was recorded in the amount of approximately

$10.8 million in aggregate, which is being amortized over the lease term.

[3] Represents expected funding for pension benefits in future periods. These amounts are undiscounted and are based on the expectation that the pension will be fully funded in approximately 20 years. However, see "— Pension Plan" for discussion of possible increases in the required level of pension plan contributions in future periods. As of December 31, 2006, we had recorded on our balance sheet a $153.6 million pension liability and a $45.1 million prepaid pension asset associated with this obligation.

[4] Other purchase obligations primarily represent unfilled purchase orders for aircraft parts and commitments associated with upgrading facilities at our bases and amounts committed to Timken in future periods related to the supply agreement effective December 1, 2006 (See Note 2 in the "Condensed Notes to Consolidated Financial Statements" included elsewhere in this Quarterly Report).

TABLE OF CONTENTS

(5) We have guaranteed the repayment of up to £10 million ($19.6 million) of the debt of FBS Limited and $11.7 million of the debt of RLR, both unconsolidated affiliates.

(6) Relates to an indemnity agreement between us and Afianzadora Sofimex, S.A. to support issuance of surety bonds on behalf of HC from time to time. As of December 31, 2006, surety bonds with and aggregate value of 33.6 million Mexican pesos ($3.1 million) were outstanding.

(7) In January 2006, a letter of credit was issued against the revolving credit facility for $2.5 million in conjunction with the additional collateral for the sale and leaseback financing discussed in Note 6 in the "Notes to Consolidated Financial Statements" included in the Annual Report. The letter of credit expires January 27, 2008.

We do not expect the guarantees shown in the table above to become obligations that we will have to fund.

Other

Historically, in addition to the expansion of our business through purchases of new and used aircraft, we have also established new joint ventures with local partners or purchased significant ownership interests in companies with ongoing helicopter operations, particularly in countries where we have no operations or our operations are limited in scope, and we continue to evaluate similar opportunities which could enhance our operations.

Financial Condition and Sources of Liquidity

Our future cash requirements include the contractual obligations discussed in the previous section and our normal operations. Normally our operating cash flows are sufficient to fund our cash needs. Although there can be no assurances, we believe that our existing cash, future cash flows from operations and borrowing capacity under the Credit Facilities will be sufficient to meet our liquidity needs in the foreseeable future based on existing commitments. However, the expansion of our business through purchases of additional aircraft and increases in flight hours from our existing aircraft fleet may require additional cash in the future to fund the resulting increase in new aircraft and working capital requirements.

Consistent with our desire to maintain a conservative use of leverage to fund growth, we raised capital through the sale of the Preferred Stock in September and October 2006. As of December 31, 2006, we had options to acquire an additional eight large aircraft and an additional 27 medium aircraft. Related to the three aircraft ordered early in calendar year 2007, we have options for eight additional large aircraft. Depending on market conditions, we may exercise these additional options to acquire aircraft, purchase other aircraft or elect to expand our business through acquisition, including acquisitions under consideration or negotiation. These strategic decisions would require us to access additional sources of capital. Our decision to use equity, debt or a combination of the two would depend on our financial position and market conditions at that time, but we currently expect to use debt financing. See "Risk Factors — In order to grow our business, we may require additional capital in the future, which may not be available to us" included elsewhere in this Quarterly Report.

Cash and cash equivalents were $219.7 million and $122.5 million, as of December 31, 2006 and March 31, 2006, respectively. Working capital as of December 31, 2006 and March 31, 2006, was $400.7 million and $283.3 million, respectively. The increase in working capital during Current Period was primarily a result of the $97.2 million increase in cash and cash equivalents.

Critical Accounting Policies and Estimates

See Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates” in the Annual Report for a discussion of our critical accounting policies. Other than the item included below, there have been no material changes to our critical accounting policies and estimates provided in the Annual Report.

Stock-Based Compensation

We have historically compensated our executives and employees through the awarding of stock-based compensation, including stock options and restricted stock units. Based on the requirements of Statement of Financial Accounting Standards (“SFAS”) No.123 (R), “Share-Based Payment,” which we adopted on April 1, 2006, we have begun to account for stock-based compensation awards in the Current Quarter using a fair-value based method, resulting in compensation expense for stock option awards being recorded in our condensed consolidated statements of income. We use a Black-

TABLE OF CONTENTS

Scholes option pricing model to estimate the fair value of share-based awards under SFAS No. 123(R), which is the same valuation technique we previously used for pro forma disclosures under SFAS No. 123, “Accounting for Stock-Based Compensation.” The Black-Scholes option pricing model incorporates various assumptions, including the risk-free interest rate, volatility, dividend yield and the expected term of the options, in order to determine the fair value of the options on the date of grant. Judgment is also required in estimating the amount of stock-based awards that are expected to be forfeited. Additionally, the service period over which compensation expense associated with awards of restricted stock units are recorded in our statements of income involve certain assumptions as to the expected vesting of the restricted stock units, which is based on factors relating to the future performance of our stock. As the determination of these various assumptions is subject to significant management judgment and different assumptions could result in material differences in amounts recorded in our condensed consolidated financial statements, management believes that accounting estimates related to the valuation of stock options and the service period for restricted stock units are critical estimates.

The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for a period equal to the expected term of the option. Expected volatilities are based on historical volatility of shares of our common stock, which has not been adjusted for any expectation of future volatility given uncertainty related to the future performance of our common stock at this time. We also use historical data to estimate the expected term of the options within the option pricing model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of the options represents the period of time that the options granted are expected to be outstanding. For a detail of the assumptions used for the Current Quarter and Current Period, see Note 8 in the “Condensed Notes to Consolidated Financial Statements” included elsewhere in this Quarterly Report.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R).” SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS No. 158 is effective for our current fiscal year and will be adopted in the consolidated financial statements to be included in our Annual Report on Form 10-K for fiscal year 2007. We anticipate that the adoption of SFAS No. 158 will have no impact on our net income or comprehensive income. Rather, we expect that the primary impact will be the reflection of a net accrued pension liability ($108.5 million as of December 31, 2006) versus the current presentation of showing the prepaid pension costs ($45.1 million as of December 31, 2006) separately from the accrued pension liabilities ($153.6 million as of December 31, 2006).

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements.” SFAS No. 157 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements will be separately disclosed by level within the fair value hierarchy (i.e., levels 1, 2, and 3, as defined). Companies are required to provide enhanced disclosure regarding fair value measurements in the level 3 category (recurring fair value measurements using significant unobservable inputs), including a reconciliation of the beginning and ending balances separately for each major category of assets and liabilities. SFAS No. 157 is effective for financial statements issued for our fiscal year 2009 and interim periods therein. We have not yet completed our evaluation of the impact of SFAS No. 157.

In September 2006, the SEC released Staff Accounting Bulletin (“SAB”) No. 108, “Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements.” SAB No. 108 provides guidance on how the effects of the carryover or reversal of prior year financial statement misstatements should be considered in quantifying a current year misstatement. Prior practice allowed the evaluation of materiality on the basis of either (1) the error quantified as the amount by which the current year income statement was misstated (“rollover method”) or (2) the cumulative error quantified as the cumulative amount by which the current year balance sheet was misstated (“iron curtain method”). Reliance on either method in prior years could have resulted in misstatement of the financial statements. SAB No. 108 requires both methods to be used in evaluating materiality. Immaterial prior year errors may be corrected with the first filing of prior year financial statements after adoption. The cumulative effect of the

TABLE OF CONTENTS

correction would be reflected in the opening balance sheet with appropriate disclosure of the nature and amount of each individual error corrected in the cumulative adjustment, as well as a disclosure of the cause of the error and that the error had been deemed to be immaterial in the past. SAB No. 108 is effective for our current fiscal year and will be adopted in the consolidated financial statements to be included in our Annual Report on Form 10-K for fiscal year 2007. We do not believe that the adoption of this bulletin will have a material impact on our consolidated results of operations, cash flows or financial position upon adoption; however, due to the nature of the guidance, a final determination of the impact of SAB No. 108 cannot be made until the period of adoption.

In September 2006, the FASB approved FASB Staff Position ("FSP") AUG AIR-1, "Accounting for Planned Major Maintenance Activities," which prohibits the accruing as a liability the future costs of periodic major overhauls and maintenance of plant and equipment. Other previously acceptable methods of accounting for planned major overhauls and maintenance will continue to be permitted. The new requirements apply to our fiscal year 2008 and must be retrospectively applied. We do not believe that the adoption of this staff position will have a material impact on our consolidated results of operations, cash flows or financial position upon adoption; however, we have not yet completed our evaluation of the impact of FSP AUG AIR-1.

In June 2006, the FASB issued FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109," which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN No. 48 requires enterprises to evaluate tax positions using a two-step process consisting of recognition and measurement. The effects of a tax position will be recognized in the period in which the enterprise determines that it is more likely than not (defined as a more than 50% likelihood) that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. A tax position that meets the more-likely-than-not recognition threshold is measured as the largest amount of tax benefit that is greater than 50% likely of being recognized upon ultimate settlement. FIN No. 48 is effective for our fiscal year 2008. We have not yet completed our evaluation of the impact that the adoption of this interpretation will have on our consolidated results of operations, cash flows or financial position.

See Note 8 in the "Condensed Notes to Consolidated Financial Statements" included elsewhere in this Quarterly Report for discussion and disclosure made in connection with the adoption of SFAS No. 123(R).

Internal Review and Governmental Investigations

Internal Review

In February 2005, we voluntarily advised the staff of the SEC that the Audit Committee of our board of directors had engaged special outside counsel to undertake a review of certain payments made by two of our affiliated entities in a foreign country. The review of these payments, which initially focused on Foreign Corrupt Practices Act matters, was subsequently expanded by such special outside counsel to cover operations in other countries and other issues. In connection with this review, special outside counsel to the Audit Committee retained forensic accountants. As a result of the findings of the Internal Review (which was completed in late 2005), our quarter ended December 31, 2004 and prior financial statements were restated. We also provided the SEC with documentation resulting from the Internal Review, which eventually resulted in a formal SEC investigation. For further information on the restatements, see our Annual Report on Form 10-K for fiscal year 2005.

For additional discussion of the SEC investigation, the Internal Review, and related proceedings, see Note 4 in the "Condensed Notes to Consolidated Financial Statements" included elsewhere in this Quarterly Report.

We have communicated the Audit Committee's conclusions with respect to the findings of the Internal Review to regulatory authorities in the jurisdictions in which the relevant activities took place where appropriate. Until final resolution of all of these issues, such disclosure may result in legal and administrative proceedings, the institution of administrative, civil injunctive or criminal proceedings involving us and/or current or former employees, officers and/or directors who are within the jurisdictions of such authorities, the imposition of fines and other penalties, remedies and/or sanctions,

TABLE OF CONTENTS

including precluding us from participating in business operations in their countries. To the extent that violations of the law may have occurred in countries in which we operate, related proceedings could also result in sanctions requiring us to curtail our business operations in one or more such countries for a period of time. In the event that we curtail our business operations in any such country, we then may face difficulties exporting our aircraft from such country. During the Current Quarter and the Current Period, we made payments of $0.4 million and $9.0 million respectively, for the taxes attributable to underreported employee payroll. Operating income for the Comparable Quarter and the Comparable Period included $1.0 million and $3.0 million, respectively, attributable to this accrual. Since December 31, 2005, no additional accruals were required for taxes attributable to underreported employee payroll.

Although we recorded an accrual for the expected outcome in December 2006 (see below), we cannot predict the ultimate outcome of the SEC investigation, nor can we predict whether other applicable U.S. and foreign governmental authorities will initiate separate investigations. The outcome of the SEC investigation and any related legal and administrative proceedings could include the institution of administrative, civil injunctive or criminal proceedings involving us and/or current or former employees, officers and/or directors, the imposition of fines and other penalties, remedies and/or sanctions, modifications to business practices and compliance programs and/or referral to other governmental agencies for other appropriate actions. It is not possible to accurately predict at this time when matters relating to the SEC investigation will be completed, the final outcome of the SEC investigation, what if any actions may be taken by the SEC or by other governmental agencies in the U.S. or in foreign jurisdictions, or the effect that such actions may have on our consolidated financial statements. As a result of the disclosure and remediation of a number of activities identified in the Internal Review, we may encounter difficulties conducting business in certain foreign countries and retaining and attracting additional business with certain customers. We cannot predict the extent of these difficulties; however, our ability to continue conducting business in these countries and with these customers and through agents may be significantly impacted. It is also possible that we may become subject to claims by third parties, possibly resulting in litigation. The matters identified in the Internal Review and their effects could have a material adverse effect on our business, financial condition and results of operations.

As we continue to respond to the SEC investigation and other governmental authorities and take other actions relating to improper activities that have been identified in connection with the Internal Review, there can be no assurance that restatements, in addition to those reflected in our Annual Report on Form 10-K for fiscal year 2005, will not be required or that our historical financial statements included in this Quarterly Report will not change or require further amendment. As part of our ongoing compliance program, we received evidence that foreign affiliates of our minority owned operating entity in Kazakhstan may have made improper gifts or payments to government employees. We engaged an outside accounting firm to investigate this matter and such investigation is underway. The results of such investigation, including our view as to whether improper activities took place, will be disclosed to the SEC by us as appropriate. In addition, as we continue to operate our compliance program, other situations involving foreign operations, similar to those matters disclosed to the SEC in February 2005 and described above, could arise that warrant further investigation and subsequent disclosures. As a result, new issues may be identified that may impact our financial statements and the scope of the restatements described above and lead us to take other remedial actions or otherwise adversely impact us.

During fiscal years 2005 and 2006 and the Current Period, we incurred approximately $2.2 million, $10.5 million and $0.1 million, respectively, in legal and other professional costs in connection with the Internal Review. In addition, in December 2006, we recorded a charge of $3.0 million for costs and fees we currently expect to incur in connection with the resolution of the SEC investigation regarding the findings resulting from the Internal Review, a substantial portion of which relates to legal fees in connection with the investigation. There can be no assurance that the amounts currently recorded will be sufficient to resolve such matters or that such matters can ultimately be resolved until final action by the SEC. We expect to incur additional costs associated with the Internal Review and in the conduct of our new compliance program, which will be expensed as incurred and which could be significant in the fiscal quarters in which they are recorded.

Many of the improper actions identified in the Internal Review resulted in decreasing the costs incurred by us in performing our services. The remedial actions we are taking have resulted in an increase in these costs and, if we cannot raise our prices simultaneously and to the same extent as our increased costs, our operating income will decrease.

In addition, we face legal actions relating to the remedial actions which we have taken as a result of the Internal Review, and may face further legal action of this type in the future. In November 2005, two of our consolidated foreign affiliates were named in a lawsuit filed with the High Court of Lagos State, Nigeria by Mr. Benneth Osita Onwubalili and

his affiliated company, Kensit Nigeria Limited, which allegedly acted as agents of our affiliates in Nigeria. The claimants allege that an agreement between the parties was terminated without justification and seek damages of $16.3 million. We have responded to this claim and are continuing to investigate this matter.

Document Subpoena from U.S. Department of Justice

In June 2005, one of our subsidiaries received a document subpoena from the DOJ. The subpoena related to a grand jury investigation of potential antitrust violations among providers of helicopter transportation services in the U.S. Gulf of Mexico. The subpoena focused on activities during the period from January 1, 2000 to June 13, 2005. We believe we have submitted to the DOJ substantially all documents responsive to the subpoena. We have had discussions with the DOJ and provided documents related to our operations in the United States as well as internationally. We intend to continue to provide additional information as required by the DOJ in connection with the investigation. There is no assurance that, after review of any information furnished by us or by third parties, the DOJ will not ultimately conclude that violations of U.S. antitrust laws have occurred. The period of time necessary to resolve the DOJ investigation is uncertain, and this matter could require significant management and financial resources that could otherwise be devoted to the operation of our business.

The outcome of the DOJ investigation and any related legal proceedings in other countries could include civil injunctive or criminal proceedings involving us or our current or former officers, directors or employees, the imposition of fines and other penalties, remedies and/or sanctions, including potential disbarments, and referrals to other governmental agencies. In addition, in cases where anti-competitive conduct is found by the government, there is a greater likelihood for civil litigation to be brought by third parties seeking recovery. Any such civil litigation could have serious consequences for our company, including the costs of the litigation and potential orders to pay restitution or other damages or penalties, including potentially treble damages, to any parties that were determined to be injured as a result of any impermissible anti-competitive conduct. Any of these adverse consequences could have a material adverse effect on our business, financial condition and results of operations. The DOJ investigation, any related proceedings in other countries and any third-party litigation, as well as any negative outcome that may result from the investigation, proceedings or litigation, could also negatively impact our relationships with customers and our ability to generate revenue.

In connection with this matter, we incurred $2.6 million, $0.7 million and $1.5 million in legal and other professional fees in fiscal year 2006, the Current Quarter and the Current Period, respectively, and significant expenditures may continue to be incurred in the future.

Item 3. ***Quantitative and Qualitative Disclosures about Market Risk.***

We may be exposed to certain market risks arising from the use of financial instruments in the ordinary course of business. This risk arises primarily as a result of potential changes in the fair market value of financial instruments that would result from adverse fluctuations in foreign currency exchange rates, credit risk, and interest rates as discussed in “Item 7A. Quantitative and Qualitative Disclosures About Market Risk” in the Annual Report. Significant matters concerning market risk arising during the Current Quarter and the Current Period are discussed below.

Foreign Currency Risk

Foreign currency transaction gains and losses result from the effect of changes in exchange rates on transactions denominated in currencies other than a company’s functional currency, including transactions between consolidated companies. An exception is made where an intercompany loan or advance is deemed to be of a long-term investment nature, in which instance the foreign currency transaction gains and losses are included with cumulative translation gains and losses and are reported in stockholders’ investment as accumulated other comprehensive gains or losses.

Translation adjustments, which are reported in accumulated other comprehensive gains or losses, are the result of translating a foreign entity's financial statements from its functional currency to U.S. dollars, our reporting currency. Balance sheet information is presented based on the exchange rate as of the balance sheet date, and income statement information is presented based on the average conversion rate for the period. The various components of equity are presented at their historical average exchange rates. The resulting difference after applying the different exchange rates is the cumulative translation adjustment. The functional currency of Bristow Aviation is the British pound sterling.

TABLE OF CONTENTS

As a result of the change in exchange rates during the three and nine months ended December 31, 2006, we recorded foreign currency transaction losses of approximately $3.4 million and $9.6 million, respectively, primarily related to the British pound sterling, compared to foreign currency transaction gains of approximately $2.3 million and $5.3 million, respectively, during the three and nine months ended December 31, 2005. These gains and losses arose primarily from the following U.S. dollar-denominated transactions entered into by Bristow Aviation (whose functional currency is the British pound sterling):

· Cash and cash equivalents held in U.S. dollar-denominated accounts. Beginning in July 2006, we reduced a portion of Bristow Aviation's U.S. dollar-denominated cash balances.

· U.S. dollar-denominated intercompany loans. On August 14, 2006, we entered into a derivative contract to mitigate our exposure to exchange rate fluctuations on our U.S. dollar-denominated intercompany loans. This derivative contract provided us with a call option on £12.9 million and a put option on $24.5 million, with a strike price of 1.895 U.S. dollars per British pound sterling, and was exercised by us prior to the scheduled expiration on November 14, 2006, resulting in a net loss of $0.3 million. On November 14, 2006, we entered into another derivative contract for the same amount and strike price that expires on May 14, 2007. The fair value of this contract, which totaled $0.9 million as of December 31, 2006, is recorded as a derivative asset within other assets on our balance sheet. The change in fair value of this contract from November 14 to December 31, 2006 resulted in a gain of $0.5 million, which served to offset a portion of the foreign currency transaction losses recorded for the three and nine months ended December 31, 2006.

· Euro- and Nigerian Naira-denominated intercompany loans and U.S. dollar-denominated receivables. The economic effect of the foreign currency transaction losses during the three and nine months ended December 31, 2006 was offset by a corresponding benefit during those periods reflected as a cumulative translation adjustment in stockholders' investment on our condensed consolidated balance sheet. We are evaluating alternatives to further mitigate these remaining foreign currency exchange exposures.

The following table presents the applicable exchange rates (of one British pound sterling into U.S. dollars) for the indicated periods:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2006	**2005**	**2006**	**2005**
High	$ 1.98	$ 1.79	$ 1.98	$ 1.92
Average	1.91	1.75	1.87	1.80
Low	1.86	1.71	1.74	1.71

As of December 31, 2006 and March 31, 2006, the exchange rate was $1.96 and $1.74, respectively.

We occasionally use off-balance sheet hedging instruments to manage risks associated with our operating activities conducted in foreign currencies. In limited circumstances and when considered appropriate, we will use forward exchange contracts to hedge anticipated transactions. We have historically used these instruments primarily in the buying and selling of spare parts, maintenance services and equipment. As of December 31, 2006, we did not have any nominal forward exchange contracts outstanding.

62

TABLE OF CONTENTS

Item 4. ***Controls and Procedures.***

Material Weaknesses Previously Disclosed

As discussed in "Item 9A. Controls and Procedures" of the Annual Report, our management, including our Chief Executive Officer (principal executive officer, "CEO") and Chief Financial Officer (principal financial officer, "CFO"), concluded that, as of March 31, 2006, the Company did not maintain effective internal control over financial reporting because of the material weaknesses described below.

- We did not have sufficient technical expertise to address or establish adequate policies and procedures associated with accounting matters. In addition, we did not maintain policies and procedures to ensure adequate management review of the information supporting the financial statements.

- We did not have sufficient technical tax expertise to establish and maintain adequate policies and procedures associated with the operation of certain complex tax structures. As a result, we failed to establish proper procedures to ensure the actions required to enable us to realize the benefits of these structures as previously recognized in our financial statements were performed.

Each of these material weaknesses resulted in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Evaluation of Disclosure Controls and Procedures

As of December 31, 2006, we carried out an evaluation, under the supervision of our CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Although the changes discussed below have substantially addressed the material weaknesses associated with the control environment previously disclosed, the changes have not been in effect for a sufficient period of time to permit validation of their operation; therefore, as of December 31, 2006, our CEO and CFO concluded, after the evaluation described above, that our disclosure controls and procedures were not effective, as of such date.

Changes in Internal Control Over Financial Reporting

During the three months ended December 31, 2006, management made the following changes to our internal control over financial reporting to address the material weaknesses discussed above:

- We implemented a number of financial policies related to the application of accounting principles generally accepted in the United States of America and other accounting procedures, which were developed in prior periods;

- We continued the self-reporting process for underpaid payroll taxes in various jurisdictions; and

- We continued to operate under and we enhanced the changes implemented prior to March 31, 2006.

Management believes that once the changes discussed in the Annual Report, as well as the changes discussed above, have been operating for a sufficient period of time, the material weaknesses identified above will be remediated.

Outside of these remediation efforts, there has been no other change in our internal control over financial reporting that occurred during the period covered by this Quarterly Report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

TABLE OF CONTENTS

PART II — OTHER INFORMATION

Item 1. ***Legal Proceedings.***

We have certain actions or claims pending that have been discussed and previously reported in Part I. Item 3. “Legal Proceedings” in the Annual Report. Developments in these previously reported matters are described in Note 5 in the “Condensed Notes to Consolidated Financial Statements” in Part I. Item 1. “Financial Statements” of this Quarterly Report, which is incorporated herein by reference.

Item 1A. ***Risk Factors.***

The following is a modified risk factor discussion that should be read in conjunction with the risk factor discussion in the Annual Report and our Quarterly Report on Form 10-Q for the quarters ended June 30 and September 30, 2006.

The SEC investigation, any related proceedings in other countries and the consequences of the activities identified in the Internal Review could result in civil or criminal proceedings, the imposition of fines and penalties, the commencement of third-party litigation, the incurrence of expenses, the loss of business and other adverse effects on our company.

In February 2005, we voluntarily advised the staff of the SEC that the Audit Committee of our board of directors had engaged special outside counsel to undertake a review of certain payments made by two of our affiliated entities in a foreign country. The review of these payments, which initially focused on Foreign Corrupt Practices Act matters, was subsequently expanded by such special outside counsel to cover operations in other countries and other issues (the “Internal Review”). In connection with this review, special outside counsel to the Audit Committee retained forensic accountants. As a result of the findings of the Internal Review (which was completed in late 2005), our quarter ended December 31, 2004 and prior financial statements were restated. We also provided the SEC with documentation resulting from the Internal Review which eventually resulted in a formal SEC investigation. For further information on the restatements, see our fiscal year 2005 Annual Report.

In October 2005, the Audit Committee reached certain conclusions with respect to findings from the Internal Review. The Audit Committee concluded that, over a considerable period of time, (1) improper payments were made by, and on behalf of, certain foreign affiliated entities directly or indirectly to foreign officials, (2) improper payments were made by certain foreign affiliated entities to employees of certain customers, (3) inadequate employee payroll declarations and, in certain instances, tax payments were made by us or our affiliated entities in certain jurisdictions, (4) inadequate valuations for customs purposes may have been declared in certain jurisdictions resulting in the underpayment of import duties, and (5) an affiliated entity, with the assistance of our personnel, engaged in transactions which appear to have assisted in the circumvention of currency transfer restrictions and other regulations. In addition, as a result of the Internal Review, the Audit Committee and management determined that there were deficiencies in our books and records and internal controls with respect to the foregoing and certain other activities.

Based on the Audit Committee’s findings and recommendations, the board of directors took disciplinary action with respect to our personnel who it determined bore responsibility for these matters. The disciplinary actions included termination or resignation of employment (including of certain members of senior management), changes of job responsibility, reductions in incentive compensation payments and reprimands. One of our affiliates also obtained the resignation of certain of its personnel.

We took remedial actions, including correcting underreported payroll taxes, disclosing to certain customers inappropriate payments made to customer personnel and terminating certain agency, business and joint venture relationships. We also took steps to reinforce our commitment to conduct our business with integrity by creating an

internal corporate compliance function, instituting a new code of business integrity, and developing and implementing a training program for all employees. In addition to the disciplinary actions referred to above, we took steps to strengthen our control environment by hiring new key members of senior and financial management, including persons with appropriate technical accounting and legal expertise, expanding our corporate finance group and internal audit staff, realigning reporting lines within the accounting function so that field accounting reports directly to the corporate accounting function instead of operations management, and improving the management of our tax structure to comply

with its intended design. Our compliance program is in full operation and clear corporate policies have been established and communicated to our relevant personnel.

We have communicated the Audit Committee's conclusions with respect to the findings of the Internal Review to regulatory authorities in the jurisdictions in which the relevant activities took place where appropriate. Until final resolution of all of these issues, such disclosure may result in legal and administrative proceedings, the institution of administrative, civil injunctive or criminal proceedings involving us and/or current or former employees, officers and/or directors who are within the jurisdictions of such authorities, the imposition of fines and other penalties, remedies and/or sanctions, including precluding us from participating in business operations in their countries. To the extent that violations of the law may have occurred in countries in which we operate, related proceedings could also result in sanctions requiring us to curtail our business operations in one or more such countries for a period of time. In the event that we curtail our business operations in any such country, we then may face difficulties exporting our aircraft from such country. During the three and nine months ended December 31, 2006, we made payments of $0.4 million and $9.0 million, respectively, for the taxes attributable to underreported employee payroll. Operating income for three and nine months ended December 31, 2005 included $1.0 million and $3.0 million, respectively, attributable to this accrual. Since December 31, 2005, no additional accruals were required for taxes attributable to underreported employee payroll.

Although we recorded an accrual for the expected outcome in December 2006 (see below), we cannot predict the ultimate outcome of the SEC investigation, nor can we predict whether other applicable U.S. and foreign governmental authorities will initiate separate investigations. The outcome of the SEC investigation and any related legal and administrative proceedings could include the institution of administrative, civil injunctive or criminal proceedings involving us and/or current or former employees, officers and/or directors, the imposition of fines and other penalties, remedies and/or sanctions, modifications to business practices and compliance programs and/or referral to other governmental agencies for other appropriate actions. It is not possible to accurately predict at this time when matters relating to the SEC investigation will be completed, the final outcome of the SEC investigation, what if any actions may be taken by the SEC or by other governmental agencies in the U.S. or in foreign jurisdictions, or the effect that such actions may have on our consolidated financial statements. As a result of the disclosure and remediation of a number of activities identified in the Internal Review, we may encounter difficulties conducting business in certain foreign countries and retaining and attracting additional business with certain customers. We cannot predict the extent of these difficulties; however, our ability to continue conducting business in these countries and with these customers and through agents may be significantly impacted. It is also possible that we may become subject to claims by third parties, possibly resulting in litigation. The matters identified in the Internal Review and their effects could have a material adverse effect on our business, financial condition and results of operations.

As we continue to respond to the SEC investigation and other governmental authorities and take other actions relating to improper activities that have been identified in connection with the Internal Review, there can be no assurance that restatements, in addition to those reflected in our fiscal year 2005 Annual Report, will not be required or that our historical financial statements included in this Quarterly Report will not change or require further amendment. As part of our ongoing compliance program, we received evidence that foreign affiliates of our minority owned operating entity in Kazakhstan may have made improper gifts or payments to government employees. We engaged an outside accounting firm to investigate this matter and such investigation is underway. The results of such investigation, including our view as to whether improper activities took place, will be disclosed to the SEC by us as appropriate. In addition, as we continue to operate our compliance program, other situations involving foreign operations, similar to those matters disclosed to the SEC in February 2005 and described above, could arise that warrant further investigation and subsequent disclosures. As a result, new issues may be identified that may impact our financial statements and the scope of the restatements described above and lead us to take other remedial actions or otherwise adversely impact us.

During fiscal years 2005 and 2006 and the nine months ended December 31, 2006, we incurred approximately $2.2 million, $10.5 million and $0.1 million, respectively, in legal and other professional costs in connection with the Internal Review. In addition, in December 2006, we recorded a charge of $3.0 million for costs and fees we currently expect to incur in connection with the resolution of the SEC investigation regarding the findings resulting from the Internal Review, a substantial portion of which relates to legal fees in connection with the investigation. There can be no assurance that the amounts currently recorded will be sufficient to resolve such matters or that such matters can ultimately be resolved until final action by the SEC. We expect to incur additional costs associated with the Internal Review and in the conduct of our new compliance program, which will be expensed as incurred and which could be significant in the fiscal quarters in which they are recorded.

TABLE OF CONTENTS

Many of the improper actions identified in the Internal Review resulted in decreasing the costs incurred by us in performing our services. The remedial actions we are taking have resulted in an increase in these costs and, if we cannot raise our prices simultaneously and to the same extent as our increased costs, our operating income will decrease.

In addition, we face legal actions relating to the remedial actions which we have taken as a result of the Internal Review, and may face further legal action of this type in the future. In November 2005, two of our consolidated foreign affiliates were named in a lawsuit filed with the High Court of Lagos State, Nigeria by Mr. Benneth Osita Onwubalili and his affiliated company, Kensit Nigeria Limited, which allegedly acted as agents of our affiliates in Nigeria. The claimants allege that an agreement between the parties was terminated without justification and seek damages of $16.3 million. We have responded to this claim and are continuing to investigate this matter.

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds and Issuer Repurchases of Equity Securities.***

Period [1]	Total Number of Shares Purchased [2]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Program
November 1, 2006 – November 30, 2006	1,207	$ 35.57	—	$ —

[1] No shares were purchased during the periods of October 1, 2006 – October 31, 2006 and December 1, 2006 – December 31, 2006.

[2] The total number of shares purchased in the period consists of shares withheld by us in satisfaction of withholding taxes due upon the vesting of restricted stock units granted to an employee under our 2004 Stock Incentive Plan.

TABLE OF CONTENTS

Item 6. ***Exhibits.***

The following exhibits are filed as part of this Quarterly Report:

Exhibit Number	Description of Exhibit
15.1*	Letter from KPMG LLP dated February 5, 2007, regarding unaudited interim information.
31.1**	Rule 13a-14(a) Certification by President and Chief Executive Officer of Registrant.
31.2**	Rule 13a-14(a) Certification by Executive Vice President and Chief Financial Officer of Registrant.
32.1**	Certification of Chief Executive Officer of registrant pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer of Registrant pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.
** Furnished herewith.

TABLE OF CONTENTS

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BRISTOW GROUP INC.

By: /s/ Perry L Elders
Perry L. Elders
Executive Vice President and Chief Financial Officer

By: /s/ Elizabeth D. Brumley
Elizabeth D. Brumley
Vice President and Chief Accounting Officer

February 5, 2007

TABLE OF CONTENTS

Index to Exhibits

Exhibit Number	Description of Exhibit
15.1*	Letter from KPMG LLP dated February 5, 2007, regarding unaudited interim information.
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