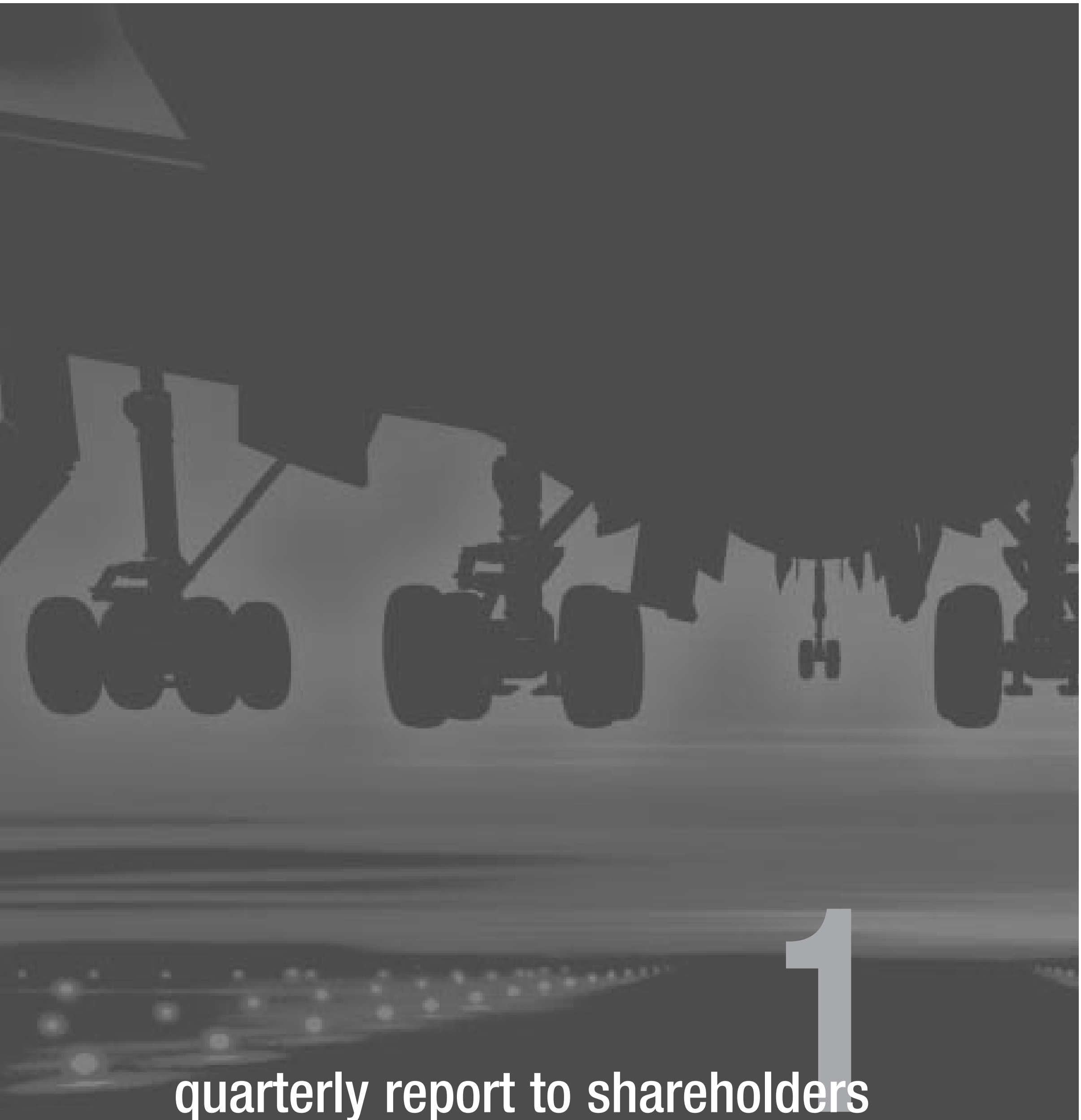

quarterly report to shareholders

FIRST QUARTER ENDED JUNE 30, 2003

HÉROUX DEVTEK

message to shareholders

On behalf of the Board of Directors, I would like to take this opportunity to present the financial results of the Héroux-Devtek's first quarter ending June 30, 2003. The Company has substantially completed the previously-announced consolidations of its gas turbine and aerostructure operations at the end of the first quarter, and is now looking ahead to reaping the benefits of these moves in the second half of this fiscal year.

Héroux-Devtek recorded sales of $52.4 million in the first quarter compared to $69.2 million a year ago. The Company's global sales were negatively impacted by a stronger Canadian dollar, which alone accounted for a $2.0 million decline in sales on a year-over-year basis. In addition, sales for the Landing Gear Division declined more than they would have otherwise due to late deliveries caused by production slowdowns and manufacturing inefficiencies at the Longueuil plants. However, sales not realized during the first quarter as a result of these factors will be seen in the results for the later quarters. The Company ended the first quarter with a net loss of $0.8 million ($0.03 per share), compared to a net income of $3.0 million ($0.12 per share) last year.

The transition period for the previously announced transfer of gas turbine operations from Tampa to Cincinnati is complete. Manufacturing operations at the Company's Tampa plants ceased on June 30, 2003. Some large pieces of equipment needed for production remain to be moved to Cincinnati in the second quarter, and surplus capital assets will be up for sale in the second quarter of this year. This initiative will enable this Division to reduce manufacturing costs by approximately $1 million per quarter, based on current sales. The final elements of the transfer of Aerostructure operations from Metro Machining to the Dorval facilities will also be completed in Q2. A second large piece of equipment has been installed at the Dorval plant and is now being tested for capabilities and accuracy, and should commence production by the end of the second quarter.

Our strategy of creating centres of excellence for each facet of our business is progressing according to plan, enabling us to realign our costs with our level of revenues. With the transition period coming to an end in the second quarter, we should see renewed profitability in the second half of the current fiscal year.

Sector Results

Sales in the Aerospace & Defence sector declined by 17.4% in the first quarter to $46.7 million from $56.5 million a year ago. With the exception of the Aerostructure Division, which showed an increase of 20.1% in sales, all segments were affected by slower demand and by the factors mentioned above.

Industrial sector sales, which consist almost exclusively of industrial gas turbine components, decreased to $5.7 million in the first quarter from $12.7 million last year. The severe cuts in industrial gas turbine orders that have prevailed since the second quarter of fiscal 2003 persisted into the first quarter.

Outlook

Although the aerospace industry as a whole continues to be depressed, the regional jet business remains solid, and the Company expects 20% growth in its Aerostructure Division sales for the current year.

However, other divisions will continue to feel the brunt of the poor economic climate in the aerospace and industrial gas turbine industries. The Company maintains that it will be a challenge to sustain its landing gear business volume at last year's level in the current year. The gas turbine business is still not expected to turn around before 2006, although first quarter sales of industrial gas turbines were $1.4 million higher than in the last quarter of fiscal 2003. The Company is still awaiting an answer from the U.S. Air Force on the renewal of its repair and overhaul contract, which has not yet been awarded.

Despite the challenges we face across all the sectors of our business, we believe that the steps we have taken to streamline our cost structure will improve our competitiveness, thereby enabling us to increase market share and be profitable. Our strong financial position remains an important asset, as we are continuously on the lookout for business opportunities that will help us to grow in the long term and increase shareholder value.

I wish to thank our shareholders for their continuing confidence and support. The management of Héroux-Devtek reiterates its commitment to the Company's growth objectives in these challenging times.

Gilles Labbé
President and Chief Executive Officer
July 31, 2003

Consolidated balance sheets

As at June 30, 2003 and March 31, 2003 (In thousands of dollars)

	June 2003 (Unaudited)	March 2003 (Audited)
Assets		
Current assets		
Cash and temporary investments	**$ 47,937**	$ 52,972
Accounts receivable	**26,852**	36,323
Income taxes receivable	**3,171**	3,785
Other receivables	**3,024**	4,010
Inventories	**61,370**	58,650
Prepaid expenses	**1,770**	2,212
Future income taxes	**5,799**	5,930
	149,923	163,882
Capital assets, net	**93,490**	97,397
Other assets	**888**	962
Future income taxes	**5,533**	4,766
Goodwill, net	**22,060**	22,060
	$ 271,894	$ 289,067
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 64,930**	$ 73,115
Customers' advances	**1,773**	3,912
Income taxes payable	**670**	1,275
Future income taxes	**395**	380
Current portion of long-term debt	**3,569**	3,340
	71,337	82,022
Long-term debt	**59,778**	63,650
Other liabilities	**7,318**	7,348
Future income taxes	**11,146**	11,128
	149,579	164,148
Shareholders' Equity		
Capital stock (Note 3)	**71,047**	71,317
Contributed surplus (Note 3)	**108**	81
Cumulative translation adjustment	**258**	1,803
Retained earnings	**50,902**	51,718
	122,315	124,919
	$ 271,894	$ 289,067

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

Consolidated statements of income

For the periods ended June 30, 2003 and 2002
(In thousands of dollars, except per share data) (Unaudited)

	2003	2002
Sales	**$ 52,385**	$ 69,160
Cost of sales	**43,485**	54,471
Amortization	**3,507**	3,656
Gross profit	**5,393**	11,033
Selling and administrative expenses	**5,991**	5,940
Operating income (loss)	**(598)**	5,093
Financial expenses (Note 4)	**515**	504
Income (loss) before income taxes	**(1,113)**	4,589
Income taxes (recovery)	**(326)**	1,572
Net income (loss)	**$ (787)**	$ 3,017
Earnings (loss) per share	**$ (0.03)**	$ 0.12
Earnings (loss) per share – fully diluted	**$ (0.03)**	$ 0.12
Weighted-average number of shares outstanding during the periods	**23,479,314**	24,443,937

Consolidated statements of retained earnings

For the periods ended June 30, 2003 and 2002
(In thousands of dollars) (Unaudited)

	2003	2002
Balance at beginning of year	**$ 51,718**	$ 53,283
Repurchase of common shares (Note 3)	**(29)**	-
Net income (loss)	**(787)**	3,017
Balance at end of year	**$ 50,902**	$ 56,300

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

Consolidated statements of cash flows

For the periods ended June 30, 2003 and 2002
(In thousands of dollars) (Unaudited)

	2003	2002
Cash and cash equivalents provided by (used for):		
Operating activities		
Net income (loss)	**$ (787)**	$ 3,017
Items not requiring an outlay of cash		
Amortization	**3,556**	3,746
Future income taxes	**(874)**	(918)
Gain on sale of capital assets	**(26)**	(61)
Write-off of loans bearing no interest	**-**	(408)
Stock-based compensation (Note 3)	**27**	8
Cash flow from operations	**1,896**	5,384
Net change in non-cash items related to operations (Note 5)	**(3,308)**	(5,506)
Cash and cash equivalents used for operating activities	**(1,412)**	(122)
Investing activities		
Net change in temporary investments	**2,232**	1,063
Purchase of capital assets	**(1,599)**	(3,172)
Proceeds on disposal of capital assets	**74**	62
Cash and cash equivalents provided by (used for) investing activities	**707**	(2,047)
Financing activities		
Increase in long-term debt	**108**	1,471
Repayment of long-term debt	**(1,491)**	(1,494)
Repurchase of common shares (Note 3)	**(299)**	-
Other	**(192)**	(207)
Cash and cash equivalents used for financing activities	**(1,874)**	(230)
Effect of changes in exchange rates on cash and cash equivalents	**(224)**	(432)
Change in cash and cash equivalents	**(2,803)**	(2,831)
Cash and cash equivalents at beginning of period	**7,781**	13,716
Cash and cash equivalents at end of period	**$ 4,978**	$ 10,885
Cash and temporary investments are comprised of:		
Cash and cash equivalents	**$ 4,978**	$ 10,885
Temporary investments	**42,959**	41,187
	$ 47,937	$ 52,072
Interest paid	**$ 626**	$ 499
Income taxes paid	**$ 2,778**	$ 5,926

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

Notes to consolidated financial statements

For the periods ended June 30, 2003 and 2002
(All dollar amounts in thousands, except share data) (Unaudited)

Note 1: Consolidated interim financial statements

The consolidated interim financial statements include the accounts of Héroux-Devtek Inc. and its subsidiaries, all of which are wholly-owned.

The consolidated interim financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles applicable to interim financial statements and follow the same accounting policies and methods in their application as the most recent annual financial statements, except for the changes in accounting policies for impairment and disposal of long-lived assets described in note 2. In the opinion of Management, all adjustments necessary for a fair presentation are reflected in the interim financial statements. Such adjustments are of a normal and recurring nature. The results of operations for the interim periods are not necessarily indicative of the operating results for the full year. The interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report for the fiscal year ended March 31, 2003.

Note 2: Changes in accounting policies

Effective April 1, 2003, the Company adopted prospectively the new accounting policies in regard to the impairment and disposal of long-lived assets.

Impairment and disposal of long-lived assets

This new standard requires an impairment loss for a long-lived asset to be held and used be recognized when its carrying amount exceeds the sum of the undiscounted cash flows expected from its use and eventual disposition. The adoption of this new standard had no impact on the Company's financial situation or results at June 30, 2003.

Disposal of long-lived assets

This new standard provides guidance on the recognition, measurement and disclosure of the disposal of long-lived assets. The adoption of this new standard had no impact on the Company's financial situation or results at June 30, 2003.

Note 3: Capital stock

Authorized capital stock

The authorized capital stock of the Company consists of the following:

An unlimited number of common shares
An unlimited number of first preferred shares, issuable in series
An unlimited number of second preferred shares, issuable in series.

The rights, privileges, restrictions and conditions related to the preferred shares may be established by the Board of Directors.

The issued and outstanding capital stock of the Company consists of the following:

	June 30, 2003	March 31, 2003
23,455,459 common shares (23,544,659 at March 31, 2003)	**$ 71,047**	$ 71,317

Note 3: Capital stock (cont'd)

Stock-based compensation

Stock option plan

The Company has a stock option plan where options to purchase common shares are issued to directors, officers and key employees. The Company expenses all granting of stock options based on their earned period, using the Black & Scholes model to determine their fair value. The expense related to stocks options recorded in the quarters ended June 30, 2003 and 2002 amounted to $27 and $8 respectively.

During the quarter ended June 30, 2003, the Company issued 20,000 stock options at an average price of $3.15 and cancelled 263,250 stock options at an average price of $5.95.

Stock appreciation rights

The Company has a Stock Appreciation Right plan (SAR) where rights are issued to its non-employee directors. The SAR enables the participants to receive by way of bonus, on the exercise date of a SAR, a cash amount equal to the excess of the market price of a common share over the granted price of the SAR. The SARs are expensed on an earned basis and their costs are determined based on the Company's common shares quoted market value over their granted price. No expense was recorded for SAR during the period.

Repurchase of common shares

On August 21, 2002, the Company obtained approval from the Toronto Stock Exchange (TSE) to proceed with its normal course issuer bid allowing the Company to purchase up to 1,222,195 of its common shares during the twelve-month period ending August 20, 2003. In April 2003, the company obtained TSE approval to increase the number of common shares to be repurchased at 1,585,700. During the quarter ended June 30, 2003, the Company repurchased for cancellation 89,200 common shares for a total cash consideration of $299. The excess ($29) of the cost of the common shares repurchased over their average book value ($270) was accounted for in reduction of the Company's retained earnings. As of June 30, 2003, the aggregate number of common shares repurchased for cancellation totaled 1,023,478.

Diluted earnings per share

For the quarter ended June 30, 2003, the use of the treasury method, for the diluted earnings per share calculations had no impact on the average number of common shares but increased the average number of common shares by 291,278 to 24,735,215 for the quarter ended June 30, 2002.

Note 4: Financial expenses

The financial expenses for the quarters ended June 30 are as follows:

	2003	2002
Interest expense	**$ 851**	$ 799
Interest revenue	**(336)**	(295)
	$ 515	$ 504

Note 5: Net change in non-cash items related to operations

The net change in non-cash items related to operations can be detailed as follows:

	2003	2002
Accounts receivable	**$ 9,471**	$ 12,907
Income taxes receivable	**614**	-
Other receivables	**986**	(799)
Inventories	**(2,720)**	(1,667)

Note 5: Net change in non-cash items related to operations (cont'd)

	2003	2002
Prepaid	**442**	129
Accounts payable and accrued liabilities and other liabilities	**(8,026)**	(7,673)
Customers' advance	**(2,139)**	(3,797)
Income taxes payable	**(605)**	(3,636)
Effect of changes in exchange rate	**(1,331)**	(970)
	$ (3,308)	$ (5,506)

Note 6: Segmented information

Quarters ended June 30

Activity Segments

	2003			2002		
	Products related to Aerospace & Defence	Industrial products	Total	Products related to Aerospace & Defence	Industrial products	Total
Sales	**$ 46,674**	**$ 5,711**	**$ 52,385**	$ 56,478	$ 12,682	$ 69,160
Operating income (loss)	**1,644**	**(2,242)**	**(598)**	4,218	875	5,093
Financial expenses			**515**			504
Income (loss) before income taxes			**(1,113)**			4,589
Assets	**234,892**	**37,002**	**271,894**	224,090	59,205	283,295
Goodwill	**22,060**	**-**	**22,060**	22,060	2,100	24,160
Purchase of capital assets	**1,295**	**304**	**1,599**	2,620	552	3,172
Amortization	**2,789**	**767**	**3,556**	2,709	1,037	3,746

Geographic Segments

	2003			2002		
	Canada	Outside Canada	Total	Canada	Outside Canada	Total
Sales	**$ 42,221**	**$ 10,164**	**$ 52,385**	$ 52,923	$ 16,237	$ 69,160
Operating income (loss)	**1,787**	**(2,385)**	**(598)**	4,281	812	5,093
Financial expenses			**515**			504
Income (loss) before income taxes			**(1,113)**			4,589
Assets	**219,836**	**52,058**	**271,894**	216,667	66,628	283,295
Goodwill	**20,977**	**1,083**	**22,060**	20,977	3,183	24,160
Purchase of capital assets	**1,280**	**319**	**1,599**	2,444	728	3,172
Amortization	**2,539**	**1,017**	**3,556**	2,495	1,251	3,746

Note 7: Reclassification

Comparative figures for the financial statements as at June 30, 2002 have been reclassified to comply with the June 30, 2003 presentation.

Management discussion and analysis of financial position and operating results

The purpose of this analysis is to provide the reader with an overview of how the financial position of Héroux-Devtek Inc. ("Héroux-Devtek" or "the Company") changed between March 31, 2003 and June 30, 2003. It also compares the operating results and cash flows for the three-month period ended June 30, 2003 to those for the same period the previous year. This analysis should be read in conjunction with the audited consolidated financial statements and the management discussion and analysis ("MD&A") for the year ended March 31, 2003.

Forward-Looking Statements

In the interest of providing shareholders and potential investors with information regarding Héroux-Devtek, including management's assessment of future plans and operations, certain statements in this management discussion and analysis are forward-looking statements subject to risks, uncertainties and other important factors that could cause the Company's actual performance to differ materially from those expressed in or implied by such forward-looking statements.

Such factors include, but are not limited to: the impact of general economic conditions in Canada and the United States; industry conditions including changes in laws and regulations; increased competition; the lack of availability of qualified personnel or management; fluctuations in commodity prices; foreign exchange or interest rates; stock market volatility; and the impact of accounting policies issued by Canadian and U.S. standard setters. Some of these factors are further discussed under Risks and Uncertainties in this management discussion and analysis.

Although the Company believes that the expectations conveyed by the forward-looking statements are based on information available to it on the date such forward-looking statements were made, there can be no assurance that such expectations will prove to be correct. All subsequent forward-looking statements, whether written or orally attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements.

Overview

General

Héroux-Devtek designs, develops, manufactures and repairs systems and components for the aerospace and industrial sectors. Its primary products are landing gear, aircraft structural components and components for aircraft and industrial gas turbines.

Héroux-Devtek serves two main market segments: aerospace & defence, and the industrial market. The Company provides the commercial aerospace market with landing gear, airframe structural components and aircraft engine components for business jets and regional jets (less than 100 passengers) and large commercial jets (more than 100 passengers). It also manufactures military aircraft landing gear and supplies parts and repair and overhaul services for military aircraft landing gear. Products for the defence side of the market consist of small arms and related equipment provided to the governments of Canada and other NATO countries.

Héroux-Devtek's main product for the industrial market is large components for gas turbines that generate electricity, with its largest customer being The General Electric Company. It also sells precision components for other industrial applications. The Company's sales by segment are as follows:

First quarter ended June 30	2003	2002
Aerospace & Defence	**89 %**	82 %
Industrial	**11 %**	18 %
	100 %	100 %

Héroux-Devtek is structured around four divisions: landing gear, aerostructure, gas turbine components, and logistics & defence. The Landing Gear Division designs, manufactures, repairs and overhauls landing gear and has built a strong and recognized design engineering team. The Aerostructure Division manufactures very large airframe components. While they continue to report as separate divisions, landing gear and aerostructure were grouped under a single management team in the fall of 2002 to take advantage of operating and administrative synergies. The Gas Turbine Components Division manufactures aircraft engine components and large components for the power generation and other industrial markets. Logistics & Defence manufactures small arms for the defence market. Each division is assigned responsibility for its own market development and operating results in order to foster entrepreneurship and employee involvement. The Company's corporate head office provides support to the divisions and retains responsibility for such areas as global strategic development, financing, legal counsel, human resources and public relations.

Business Strategy

Héroux-Devtek's business strategy is to position itself as a key supplier for its customers in the three pillars of its business: landing gear, aerostructure and gas turbines. For the Company, being a key supplier means providing not only manufactured components but also other services such as design, assembly and program management in order to become a complete service provider and allow customers to focus on their core business. In order to achieve this, the Company aims to develop management and technical expertise so as to add value to products at competitive costs. It also seeks to grow to attain a critical mass in each of its market segments, while maintaining a solid financial position.

Héroux-Devtek pursues both external and internal growth. It seeks external growth through acquisitions that can be easily integrated into its existing operations or that bring complementary technology leading to greater added value. For internal growth, the Company looks to:

- Develop valued-added, proprietary products through design engineering.
- Establish or enhance its presence in certain product markets, such as the after-market repair and overhaul of commercial and military landing gear, design and manufacturing of small landing gear, and large structural assemblies for commercial and military aircraft OEMs.
- Diversify the customer base for its existing product lines, which generally means finding new OEM customers for its landing gear, airframe structural and aircraft engines components.

Results of operations

Consolidated Sales

Consolidated sales for the first quarter ended June 30, 2003 were $52.4 million, down 24.3% from sales of $69.2 million for the same period last year. The Company's global sales were negatively impacted by a stronger Canadian dollar, which alone accounted for a $2 million decline in sales on a year-over-year basis.

Sales by division were as follows:

First quarter ended June 30 Division	2003 ($'000)	2002 ($'000)	% Change
Landing Gear	**31,129**	40,451	-23.0
Aerostructure	**6,717**	5,591	+20.1
Sub-total	**37,846**	46,042	-17.8
Gas Turbine Components	**10,164**	16,235	-37.4
Logistics & Defence	**4,375**	6,883	-36.4
Total	**52,385**	69,160	-24.3

Landing Gear and Aerostructure Divisions

The Aerostructure Division was restructured last year, and is now under the responsibility of the Landing Gear Division, which shares the same customer and supplier base. This allows the Aerostructure Division to benefit from the established purchasing, quality, engineering and sales and marketing capabilities of the Landing Gear Division, and enhances the product offering to customers of both divisions.

Landing Gear

Sales for the Landing Gear Division were $31.1 million in the first quarter, 23.0% less than sales of $40.5 million a year earlier. Landing gear sales continue to reflect the slowdown in the large civil aerospace sector and reduced demand for spare parts for out-of-production aircraft.

Military manufacturing sales and repair and overhaul sales declined more than they would have otherwise due to late deliveries caused by production slowdowns and manufacturing inefficiencies at the Longueuil plants. However, sales not realized during the first quarter as a result of these factors will be seen in the results for the later quarters.

It should be noted that new engineering sales for the quarter amounted to $1.2 million, up from $0.4 million in the first quarter of fiscal 2003.

The following table shows the weighting of first quarter landing gear sales for fiscal 2004:

First quarter ended June 30	2003 ($'000)	2002 ($'000)	% Change
Military	**15,683**	19,959	-21.4
Commercial	**15,446**	20,492	-24.6
Total	**31,129**	40,451	-23.0
Manufacturing	**23,572**	31,349	-24.8
Repair and overhaul	**7,557**	9,102	-17.0
Total	**31,129**	40,451	-23.0

The Company is still awaiting an answer from the U.S. Air Force on the renewal of its repair and overhaul contract, which has not yet been awarded. This contract represents approximately $12.0 million per year.

Given the prevailing circumstances in the aerospace industry, the Company continues to feel that it will be a challenge to maintain its landing gear business volume at last year's level in the current year.

Aerostructure

Aerostructure sales rose 20.1% in the first quarter, to $6.7 million compared to $5.6 million last year. The division was able to increase its share of the regional jet market with its main customer, Bombardier.

The Aerostructure Division has completed installation of a second large piece of equipment at its Dorval plant. The profiler in question is now being tested for capabilities and accuracy, and should commence production by the end of the second quarter.

Although the aerospace industry as a whole continues to be depressed, the regional jet business remains solid, and the Company expects 20% growth in its Aerostructure Division sales for the current year.

Gas Turbine Components

First quarter sales for the Gas Turbine Components Division were $10.2 million, down 37.4% from $16.2 million last year. The severe cuts in industrial gas turbine orders, that have prevailed since the second quarter of fiscal 2003 persisted into the first quarter, with sales down $6.9 million from a year ago. While this sector is still not expected to turn around before 2006, it is notable that these sales were $1.4 million higher than in the last quarter of fiscal 2003. Meanwhile, sales of aircraft engine parts rose relative to last year, indicating the division's gains in market share, particularly in the regional jet (CF-34) program.

A breakdown of first quarter sales for the division is as follows:

First quarter ended June 30	2003 ($'000)	2002 ($'000)	% Change
Aerospace	**4,453**	3,554	+25.3
Industrial Gas Turbine	**4,944**	11,846	-58.3
Other Industrial	**767**	835	-8.1
Total	**10,164**	16,235	-37.4

As planned and discussed in the MD&A for fiscal 2003, manufacturing operations at the Company's Tampa plants ceased on June 30 following the transfer of production to its Cincinnati operations. Some large pieces of equipment needed for production remain to be moved to Cincinnati in the second quarter, and the remaining surplus capital assets will be up for sale in the second and third quarters of this year.

Logistics & Defence

Sales for the Logistics & Defence Division were significantly lower on a year-over-year basis due to a special order received last year from the Norway Special Forces. First quarter sales for the division totalled $4.4 million this year compared to $6.9 million last year.

Sales by Segment

The Company's sales by segment and destination were as follows:

First quarter ended June 30 Segment	2003 ($'000)	2002 ($'000)	% Change
Aerospace & Defence			
Civil	**25,452**	27,723	-8.2
Military	**15,772**	21,069	-25.1
Defence	**5,450**	7,686	-29.1
Sub-total	**46,674**	56,478	-17.4
Industrial			
Gas Turbine Components	**4,944**	11,847	-58.3
Other Industrial	**767**	835	-8.1
Sub-total	**5,711**	12,682	-55.0
Total	**52,385**	69,160	-24.3

First quarter ended June 30 Destination	2003	2002
Canada	**29 %**	26 %
US	**63 %**	64 %
International	**8 %**	10 %
	100 %	100 %

Gross Profit

Consolidated gross profit decreased from 16.0% in the first quarter of last year to 10.3% this year.

Landing Gear

Gross profit for the Landing Gear Division slipped 1.9% relative to the first quarter of last year. This was due in part to manufacturing inefficiencies during the quarter, which delayed deliveries and drove up unabsorbed manufacturing overhead costs. The product sales mix for the quarter was also less favourable than last year.

Aerostructure

The 20.1% increase in sales volume for the quarter meant that manufacturing overhead costs were better absorbed, especially at Dorval. As a result, gross profit rose 1.8%. The integration of the Metro unit into the Dorval facility will be completed as planned in the second quarter, generating additional improvement in gross profit.

Gas Turbine Components

Due to weak industry demand, the Company decided last year to fully integrate its Tampa production into its Cincinnati operations, a process that was completed on June 30. During the preceding six-month transition period, the two sites operated in parallel so as to ensure on-time delivery to customers. Under generally accepted accounting principles, the additional operating costs resulting from this process could not be included in the restructuring charges taken in fiscal 2003. Combined with the significant reduction in year-over-year business volume and the resulting substantial increase in unabsorbed manufacturing overhead costs, this caused gross profit for the division to fall 27.1% in the first quarter relative to the same period last year. However, manufacturing operations at the Tampa site ended on June 30, and margins should improve in the coming quarters. The completion of the integration of the Tampa manufacturing operations into our Cincinnati sites will reduce the manufacturing costs of this division by approximately $1.0 million per quarter, based on current business volume.

Logistics & Defence

Gross profit for the Logistics & Defence Division increased by 8.0% due to a higher manufacturing sales content and to manufacturing process re-engineering initiatives introduced late last year.

Selling and Administrative Expenses

For reporting purposes, selling and administrative expenses include research and development expenses.

Selling and administrative expenses for the first quarter of fiscal 2004 were comparable to last year's figure, as shown below:

First quarter ended June 30	2003	2002
Selling and administrative expenses ($'000)	**5,991**	5,940
% of sales	**11.4**	8.6

Selling and administrative expenses include a loss on U.S. exchange of $391,000 ($244,000 net of income taxes). This loss resulted from large fluctuations in the US/CAN exchange rate during the first quarter, which was 1.3475 at June 30, 2003 compared to 1.4678 at March 31, 2003. This had a negative impact on monetary items in foreign currencies included in the current assets and liabilities not covered by forward foreign exchange contracts. However, this loss was offset by lower sales commissions given the drop in sales volume.

First quarter selling and administrative expenses for fiscal 2004 also include $27,000 in expenses for the granting of stock options, compared to $8,000 the previous year.

Operating Income

The Company showed an operating loss of $0.6 million or 1.1% of sales for the first quarter of this year compared to operating income of $5.1 million or 7.4% of sales last year, for a total drop of 8.5%. The table below shows first quarter operating income for the Company's two market segments.

First quarter ended June 30	2003			2002		
	Sales ($'000)	Operating income ($'000)	Operating income (% of sales)	Sales ($'000)	Operating income ($'000)	Operating income (% of sales)
Aerospace & Defence	**46,674**	**1,644**	**3.5**	56,478	4,218	7.5
Industrial	**5,711**	**(2,242)**	**(39.3)**	12,682	875	6.9
Total	**52,385**	**(598)**	**(1.1)**	69,160	5,093	7.4

On a year-over-year basis, first quarter operating income as a percentage of sales declined by 4.0% for the Aerospace & Defence sector and by 46.2% for the Industrial sector.

Income Taxes

Expressed as a percentage of the loss before income taxes, the Company posted an income tax recovery of 29.3% for the first quarter of 2004. In the first quarter of fiscal 2003, income taxes amounted to 34.3% of the Company's income before income taxes.

Net Income (Loss)

The table below shows net income (loss) and earnings (loss) per share on a fully diluted basis. Loss per share, both basic and diluted, are based on a weighted average of 23,479,314 common shares outstanding in the first quarter of fiscal 2004. For the quarter ended June 30, 2002, the weighted average number of common shares used for the basic and diluted earnings per share calculation was 24,443,937 and 24,735,215 respectively.

First quarter ended June 30	2003	2002
Net income (loss) ($'000)	**(787)**	3,017
Earnings (loss) per share, fully diluted ($)	**(0.03)**	0.12

Liquidity and capital resources

At June 30, 2003, the Company had cash and temporary investments of $47.9 million, of which $43.0 million was invested in temporary investments.

Operating Activities

Internally, the Company generated cash flow from operations and used cash flow for its operating activities as follows:

First quarter ended June 30	2003 ($'000)	2002 ($'000)
Cash flow from operations	**1,896**	5,384
Net change in non-cash items related to operations	**(3,308)**	(5,506)
Cash flow used for operating activities	**(1,412)**	(122)

In the first quarter of fiscal 2004, the main negative factor affecting cash flow from operations was the $3.8 million drop in net income relative to last year. The $0.9 million net decrease in future income taxes due to the operating losses in the Gas Turbine Components Division also had a negative impact on the Company's cash flow from operations.

Cash flow used for operating activities amounted to $1.4 million, reflecting an unfavourable change of $3.3 million in non-cash items related to operations. This change was mainly due to higher inventories for the Landing Gear and Gas Turbine Components Divisions (see under Consolidated Balance Sheets below). Last year, cash flow used for operating activities was $0.1 million, which included an unfavourable change of $5.5 million in non-cash items related to operations (see Note 5 to the consolidated financial statements).

Investing Activities

In the first quarter of fiscal 2004, investing activities provided $0.7 million in cash and cash equivalents, compared to a net use of $2.0 million last year.

A net change in temporary investments provided $2.2 million in cash and cash equivalents this year compared to $1.1 million last year.

Purchase of capital assets totalled $1.6 million compared to $3.2 million last year. Of this, $1.2 million was evenly split between the Landing Gear and Aerostructure Divisions, and $0.3 million was invested in the Gas Turbine Components Division.

As mentioned in the 2003 year-end MD&A, about $15 million will be invested in the purchase of capital assets in fiscal 2004, including $5 million for the first phase of the modernization of the plating department at the Landing Gear Division's Longueuil facility. No capital investment was made in this project during the first quarter.

Financing Activities

Financing activities used cash and cash equivalents of $1.9 million in the first quarter of this year compared to $0.2 million last year.

The Company repaid $1.5 million in long-term debt during the quarter, approximately the same amount as last year.

In August 2002, the Company obtained TSX approval for the repurchase of up to 1,222,195 common shares during the 12-month period ending on August 20, 2003. In May 2003, the Company obtained TSX approval to increase the number of common shares to be repurchased during that period to 1,585,700 shares. During the quarter ended June 30, 2003, the Company repurchased 89,200 common shares for a cash consideration of $0.3 million. The excess of the cost of the repurchased common shares over their average book value amounted to $29,000 and was accounted for in reduction of the Company's retained earnings. The total number of common shares repurchased to date is 1,023,478.

Consolidated Balance Sheets

The following table itemizes and explains the significant changes in the consolidated balance sheets between June 30, 2003 and March 31, 2003:

Item	Change ($ million)	Explanation
Cash and temporary investments	(5.0)	See statement of cash flows.
Accounts receivable	(9.5)	Related to reduced business volume in the first quarter ended June 30, 2003.
Other receivables	(1.0)	Collection of a cash deposit for the purchase of equipment.
Inventories	2.7	Increase due to: • Closing of the Tampa plants. As part of the transition plan and in order to minimize the impact on customers and maintain on-time deliveries, the Gas Turbine Components Division produced ahead of customer requirements (back-up inventory). • Late deliveries at the Landing Gear Division (increase in work-in-progress).
Capital assets	(3.9)	Decrease due to: • Impact of US exchange rate fluctuations on the capital assets of self-sustaining US subsidiaries (-$2.0 million). • Amortization of capital assets (-$3.5 million). • Purchase of capital assets (+$1.6 million).
Accounts payable and accrued liabilities	(8.2)	Reduction related to reduced business volume in the first quarter ended June 30, 2003.
Customers' advances	(2.1)	Represents unearned amounts received by the Logistics & Defence Division. These advances are liquidated based on units delivered to customers (see Note 10 to the consolidated financial statements dated March 31, 2003).
Long-term debt (including current portion)	(3.6)	Decrease due to: • Favourable impact of $2.2 million on long-term debt of self-sustaining US subsidiaries resulting from foreign exchange fluctuations. • Capital repayments of $1.5 million.
Capital stock	(0.3)	Represents the repurchase of 89,200 common shares at average book value during the quarter.
Cumulative translation adjustment	(1.5)	Reflects the counterpart of the impact of the foreign exchange rate fluctuations on the net assets of self-sustaining US subsidiaries.
Retained earnings	(0.8)	See statements of retained earnings.

The Company continues to enjoy a strong balance sheet, which puts it in an excellent position to benefit from the current economic challenges.

The Company's long-term debt-to-equity ratio was 0.49:1 on June 30, 2003 compared to 0.51:1 on March 31, 2003. At June 30, 2003, the balance sheet included cash and temporary investments of $47.9 million, of which $43.0 million was invested in temporary investments. At March 31, 2003, cash and temporary investments stood at $53.0 million, including $45.2 million in temporary investments.

Off-Balance Sheet Items and Commitments

The Company has entered into operating lease obligations for machinery and equipment amounting to $17.0 million as of June 30, 2003. These amounts are mainly repayable over the next five years.

At June 30, 2003, the Company had entered into forward foreign exchange contracts totalling US $68.0 million at an average exchange rate of 1.4807. These contracts relate to its export sales and mature at various dates between July 2003 and October 2007. This compares to $60.5 million at an average exchange rate of 1.5063 held at March 31, 2003.

Risks and uncertainties

Héroux-Devtek operates in industry segments that have a variety of risk factors and uncertainties. The Company's business, financial condition and results of operations could be materially adversely affected by any of the following risks and uncertainties:

- Reliance on large customers
- Operational risk
- General economic conditions
- Military spending
- Foreign currency fluctuations
- Liquidity and access to capital resources
- Restrictive debt covenants
- Changing interest rates
- External business environment
- Warranty casualty claim losses
- Environmental matters
- Collective bargaining agreements

Please see the Company's MD&A for the year ended March 31, 2003 for a description of these risks and uncertainties. The risks and uncertainties listed above are not the only ones facing the Company. Additional risks and uncertainties not presently known to the Company or that the Company currently believes to be immaterial may also adversely affect its business.

www.herouxdevtek.com

Head Office
Suite 658, East Tower,
Complexe Saint-Charles
1111 Saint-Charles Street West
Longueuil, Québec, Canada
J4K 5G4

Investor Relations
Tel.: (450) 679-3330
Fax: (450) 679-3666
ir@herouxdevtek.com

Maison Brison
Tel.: (514) 731-0000
brison1@maisonbrison.com

Share Listing
Toronto Stock Exchange
Ticker symbol: HRX

HÉROUX DEVTEK