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quarterly report to shareholders

second quarter ended September 30, 2002

HÉROUX DEVTEK

Message to shareholders

On behalf of the Board of Directors, I am pleased to present the financial results of the Company's second quarter and six-month periods ending September 30, 2002.

As predicted, the power generation industry cutbacks announced in the first quarter continued to deeply affect our results in the second quarter. Sales for the second quarter were $62.3 million, down 18.3% from $76.2 million, while net income decreased 31.2% to $2.9 million ($0.12 per share), compared to $4.2 million ($0.17 per share) for the same period last year.

Our other divisions remained strong despite the slowdown in the civil aerospace industry. For one thing, the Aerostructure Division, which saw a 9.9% increase in sales in the second quarter, is starting to reap the dividends of the investments we've made during the last two years, with deliveries picking up during the quarter as Bombardier worked to offset the effect of its first-quarter strike. Also, demand for military products has shown continuous strength quarter over quarter. However, it is not sufficient to compensate for the decrease in sales seen in our Gas Turbine Components Division.

OUTLOOK

The Gas Turbine Components Division will face a difficult second half. Nonetheless, we are taking measures to reduce the impact of this situation by rightsizing our workforce and consolidating our U.S. operations. Sales in the military sector remains strong and should help in reducing the effects of the continuing poor civil aerospace market.

As we stated in the first quarter, we are continuously implementing rigorous cost control measures throughout the Company and accelerating the specialization and consolidation of all our plants. These initiatives, combined with our strong financial position, should enable us to become more competitive in a turbulent environment where our customers are looking to stronger and more efficient suppliers.

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

Gilles Labbé
President and Chief Executive Officer
November 18, 2002

Consolidated statements of income

For the periods ended September 30, 2002 and 2001

(in thousands of dollars, except per share data) (unaudited)	Quarters ended 2002 Sept. 30	2001 Sept. 30	Six months ended 2002 Sept. 30	2001 Sept. 30
Sales	$ 62,299	$ 76,225	$ 131,459	$ 154,244
Cost of sales	49,096	59,849	103,975	121,297
Amortization	3,723	2,981	7,379	6,093
Gross profit	9,480	13,395	20,105	26,854
Selling and administrative expenses	5,004	5,599	10,368	11,329
Research and development expenses	30	264	198	525
Operating income	4,446	7,532	9,539	15,000
Financial expenses (Note 4)	400	350	904	692
Income before income taxes and goodwill amortization	4,046	7,182	8,635	14,308
Income taxes	1,156	2,645	2,728	5,361
Income before goodwill amortization	2,890	4,537	5,907	8,947
Goodwill amortization	-	336	-	672
Net income	$ 2,890	$ 4,201	$ 5,907	$ 8,275
Earnings per share before goodwill amortization	$ 0.12	$ 0.19	$ 0.24	$ 0.38
Earnings per share before goodwill amortization – fully diluted	$ 0.12	$ 0.18	$ 0.24	$ 0.37
Earnings per share	$ 0.12	$ 0.17	$ 0.24	$ 0.35
Earnings per share – fully diluted	$ 0.12	$ 0.17	$ 0.24	$ 0.34
Average number of shares outstanding	24,408,495	24,198,883	24,426,118	23,747,927

Consolidated statements *of retained earnings*

For the periods ended September 30, 2002 and 2001

(in thousands of dollars) (unaudited)	Quarters ended 2002 Sept. 30	2001 Sept. 30	Six months ended 2002 Sept. 30	2001 Sept. 30
Balance at beginning of period	$ 56,300	$ 39,933	$ 53,283	$ 35,859
Repurchase of common shares (Note 3)	(585)	-	(585)	-
Net income	2,890	4,201	5,907	8,275
Balance at end of period	$ 58,605	$ 44,134	$ 58,605	$ 44,134

Consolidated balance sheets

As at September 30, 2002 and March 31, 2002

(in thousands of dollars)	2002 *September* (unaudited)	2002 *March* (audited)
Assets		
Current assets		
Cash and temporary investments	$ 47,289	$ 55,966
Accounts receivable	39,212	47,340
Income taxes receivable	460	-
Other receivables	2,443	4,301
Inventories	64,061	61,127
Prepaid expenses	1,586	2,114
Future income taxes	6,213	4,730
Total current assets	161,264	175,578
Capital assets, net	97,548	95,260
Other assets	1,579	1,720
Future income taxes	3,577	2,919
Goodwill, net	24,160	24,160
Total assets	$ 288,128	$ 299,637
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 68,237	$ 74,962
Customers' advances	8	6,123
Income taxes payable	1,103	3,919
Future income taxes	607	720
Current portion of long-term debt	2,887	5,075
Total current liabilities	72,842	90,799
Long-term debt	61,651	59,565
Other liabilities	7,762	7,938
Future income taxes	10,342	10,534
Total liabilities	152,597	168,836
Shareholders' equity		
Capital stock (Note 3)	73,509	73,958
Contributed surplus (Note 2)	32	-
Cumulative translation adjustment	3,385	3,560
Retained earnings	58,605	53,283
Total shareholders' equity	135,531	130,801
Total liabilities and shareholders' equity	$ 288,128	$ 299,637

Consolidated statements of cash flows

For the periods ended September 30, 2002 and 2001

(in thousands of dollars) (unaudited)	Quarters ended 2002 Sept. 30	Quarters ended 2001 Sept. 30	Six months ended 2002 Sept. 30	Six months ended 2001 Sept. 30
Cash and cash equivalents provided by (used for):				
Operating activities				
Net income	**$ 2,890**	$ 4,201	**$ 5,907**	$ 8,275
Items not requiring an outlay of cash				
Amortization	**3,773**	3,317	**7,519**	6,765
Future income taxes	**(217)**	12	**(1,135)**	(1,056)
(Gain) on sale of capital assets	**-**	-	**(61)**	-
Stock based compensation (Note 2)	**24**	-	**32**	-
Cash flow from operations	**6,470**	7,530	**12,262**	13,984
Net change in non-cash items related to operations	**(6,306)**	(1,294)	**(11,812)**	(6,779)
	164	6,236	**450**	7,205
Investing activities				
Net change in temporary investments	**1,540**	(7,798)	**2,603**	(1,599)
Purchase of capital assets	**(2,999)**	(7,201)	**(6,171)**	(11,483)
Proceeds on disposal of capital assets	**-**	80	**62**	80
Other	**-**	(28)	**-**	(55)
	(1,459)	(14,947)	**(3,506)**	(13,057)
Financing activities				
Net change in bank loan	**-**	(2,726)	**-**	(2,281)
Increase in long-term debt	**363**	2,588	**1,834**	2,588
Repayment of long-term debt	**(1,464)**	(1,428)	**(3,366)**	(3,529)
Repurchase of common shares (Note 3)	**(1,182)**	-	**(1,182)**	-
Issuance of common shares (Note 3)	**148**	9,972	**148**	9,984
	(2,135)	8,406	**(2,566)**	6,762
Effect of changes in exchange rates on cash and cash equivalents	**390**	(9)	**(42)**	9
Cash and cash equivalents used for discontinued operations included in other liabilities	**(203)**	(141)	**(410)**	(283)
Change in cash and cash equivalents	**(3,243)**	(455)	**(6,074)**	636
Cash and cash equivalents at beginning of period	**10,885**	8,138	**13,716**	7,047
Cash and cash equivalents at end of period	**$ 7,642**	$ 7,683	**$ 7,642**	$ 7,683
Cash and temporary investments are comprised of:				
Cash and cash equivalents	**$ 7,642**	$ 7,683	**$ 7,642**	$ 7,683
Temporary investments	**39,647**	35,271	**39,647**	35,271
	$ 47,289	$ 42,954	**$ 47,289**	$ 42,954
Interest paid	**$ 658**	$ 752	**$ 1,157**	$ 1,559
Income taxes paid	**$ 2,718**	$ 1,669	**$ 8,644**	$ 7,306

Notes to Consolidated Financial Statements

(Unaudited)

For the periods ended September 30, 2002 and 2001

(in thousands of dollars except per share data)

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 stock-based compensation and goodwill and other intangible 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, 2002.

Note 2 | Changes in accounting policies

Goodwill and other intangible assets

Effective April 1, 2002, the Company adopted prospectively the new recommendations of the Canadian Institute of Chartered Accountants (CICA) with respect to goodwill and other intangible assets. Accordingly, the Company ceased amortizing goodwill on April 1, 2002 and adopted the goodwill impairment model introduced by the new accounting rules. Transitional impairment tests on goodwill were performed during the current period and no loss was recognized as an adjustment to the retained earnings as at April 1, 2002.

The goodwill amortization expense, under the previous accounting rules, would have amounted to $336 for the quarter ended September 30, 2002, and $672 for the semester ended September 30, 2002.

Stock-based compensation

Effective April 1, 2002, the Company adopted prospectively the new recommendations of the CICA with respect to stock-based compensation. The Company elected to expense all granting of stock options. On June 6, 2002, the Company granted to key employees 150,000 stock options, representing a fair value of $472 calculated using the Black-Scholes valuation model assuming a 7-year term, expected volatility of 35%, no expected dividend distribution and a risk free interest rate of 5.2%. The cost of these options is amortized over their earned period. The expense related to stock options recorded in the quarter ended September 30, 2002 amounted to $24 and $32 for the semester ended September 30, 2002. The expense is included in selling and administrative expenses and, its counterpart, in the contributed surplus shown in the Company's shareholders' equity.

Note 3 | 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:

	2002 *Sept. 30*	2002 *March 31*
24,271,837 common shares (24,443,937 at March 31, 2002)	**$ 73,509**	$ 73,958

Issuance of common shares

During the quarter and the semester ended September 30, 2002 the Company issued 25,000 common shares for a total cash consideration of $148 relating to the exercise of stock options.

On July 10, 2001, the Company issued 1,000,000 common shares at a price of $9.91 on a private placement basis representing a net proceed of $9,883. In addition, during the quarter ended September 30, 2001, the Company issued 15,000 common shares for a total cash consideration of $89 relating to the exercise of stock options (17,000 common shares for a total cash consideration of $101 for the semester ended September 30, 2001 relating to the exercise of stock options).

Repurchase of common shares

On August 21, 2002, the Company obtained approval from the Toronto Stock Exchange 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.

During the quarter ended September 30, 2002, the Company repurchased for cancellation 197,100 common shares for a total cash consideration of $1,182. The excess ($585) of the cost of the common shares repurchased ($1,182) over their average book value ($597) was accounted for in reduction of the Company's retained earnings.

From October 1, 2002 to November 18, 2002, the Company repurchased 125,800 common shares for a total cash consideration of $634.

Diluted earnings per share

In the quarter and the semester ended September 30, 2002, the use of the treasury method, for the diluted earnings per share calculations increased the average number of common shares by 39,367 and 179,573 to 24,447,862 and 24,605,691 respectively (389,003 and 364,425 to 24,587,886 and 24,112,352 respectively for the quarter and the semester ended September 30, 2001).

Note 4 | Financial expenses

The financial expenses for the quarters and the six-month periods ended September 30 are as follows:

	Quarters ended		Six months ended	
	2002 *Sept. 30*	2001 *Sept. 30*	**2002** *Sept. 30*	2001 *Sept. 30*
Interest expenses	**$ 736**	$ 706	**$ 1,535**	$ 1,443
Interest revenue	**(336)**	(356)	**(631)**	(751)
	$ 400	$ 350	**$ 904**	$ 692

Note 5 | Segmented information

Quarters ended September 30

	2002			2001		
	Products related to Aerospace and Defence	*Industrial Products*	*Total*	*Products related to Aerospace and Defence*	*Industrial Products*	*Total*
A) Activity segments						
Sales	**$ 54,071**	**$ 8,228**	**$ 62,299**	$ 60,209	$ 16,016	$ 76,225
Operating income	**4,627**	**(181)**	**4,446**	5,615	1,917	7,532
Financial expenses			**400**			350
Income before income taxes and goodwill amortization			**4,046**			7,182
Assets	**237,780**	**50,348**	**288,128**	235,899	41,975	277,874
Goodwill	**22,060**	**2,100**	**24,160**	22,670	2,162	24,832
Purchase of capital assets	**3,737**	**2,868**	**6,605**	6,234	967	7,201
Amortization	**2,869**	**904**	**3,773**	2,395	922	3,317

	2002			2001		
	Canada	*Outside Canada*	*Total*	*Canada*	*Outside Canada*	*Total*
B) Geographic segments						
Sales	**$ 48,861**	**$ 13,438**	**$ 62,299**	$ 53,906	$ 22,319	$ 76,225
Operating income	**4,857**	**(411)**	**4,446**	5,487	2,045	7,532
Financial expenses			**400**			350
Income before income taxes and goodwill amortization			**4,046**			7,182
Assets	**221,662**	**66,466**	**288,128**	222,987	54,887	277,874
Goodwill	**20,977**	**3,183**	**24,160**	21,556	3,276	24,832
Purchase of capital assets	**2,462**	**4,143**	**6,605**	5,660	1,541	7,201
Amortization	**2,498**	**1,275**	**3,773**	2,137	1,180	3,317

Note 5 | Segmented information *(continued)*

Six months ended September 30

	2002			2001		
	Products related to Aerospace and Defence	*Industrial Products*	*Total*	*Products related to Aerospace and Defence*	*Industrial Products*	*Total*
A) Activity segments						
Sales	$ 110,549	$ 20,910	$ 131,459	$ 123,461	$ 30,783	$ 154,244
Operating income	8,845	694	9,539	11,609	3,391	15,000
Financial expenses			904			692
Income before income taxes and goodwill amortization			8,635			14,308
Assets	237,780	50,348	288,128	235,899	41,975	277,874
Goodwill	22,060	2,100	24,160	22,670	2,162	24,832
Purchase of capital assets	6,357	3,420	9,777	9,379	2,104	11,483
Amortization	5,578	1,941	7,519	4,851	1,914	6,765

	2002			2001		
	Canada	*Outside Canada*	*Total*	*Canada*	*Outside Canada*	*Total*
B) Geographic segments						
Sales	$ 101,784	$ 29,675	$ 131,459	$ 110,022	$ 44,222	$ 154,244
Operating income	9,138	401	9,539	11,204	3,796	15,000
Financial expenses			904			692
Income before income taxes and goodwill amortization			8,635			14,308
Assets	221,662	66,466	288,128	222,987	54,887	277,874
Goodwill	20,977	3,183	24,160	21,556	3,276	24,832
Purchase of capital assets	4,906	4,871	9,777	8,627	2,856	11,483
Amortization	4,993	2,526	7,519	4,281	2,484	6,765

Note 6 | Reclassification

Comparative figures for the quarterly financial statements as at September 30, 2001 have been reclassified to comply with the September 30, 2002 presentation.

Management's 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 Company's financial position changed between March 31, 2002 and September 30, 2002. It also compares the operating results and cash flow for the quarter and the six-month period ended September 30, 2002 to those for the corresponding periods the previous year. This analysis should be read in conjunction with the Company's consolidated audited financial statements dated March 31, 2002, as well as the interim results to June 30, 2002.

FORWARD-LOOKING STATEMENTS

Statements made in this analysis, other than historical financial results, may be considered as forward-looking statements. These statements express the current beliefs and expectations of management about the Company's future results and performance. Factors that could cause actual results to differ materially from current expectations include, but are not limited to, fluctuations in the interim results to September 30, 2002, changes in level of demand for the Company's services and the impact of competitive price pressures, as well as general market trends and changes in economic conditions.

OPERATING RESULTS

The Company's consolidated sales for the three-month period ended September 30, 2002 declined by 18.3% to $62.3 million compared to $76.2 million for the same period in 2001. For the first six months of the fiscal year, consolidated sales were $131.5 million, down 14.8% from $154.2 million for the same period last year. Aside from a small increase in second quarter sales for the Aerostructure Division, all divisions recorded declines in sales for both the second quarter and the first six months of the year.

Landing Gear Division

The second quarter saw a continuation of the slowdown in the large civil aerospace sector and the reduced demand for out-of-production aircraft replacement parts seen in the first quarter of the year. Both these factors affected the Landing Gear Division, with second quarter sales down 11.5% to $37.0 million, while sales for the first six months slipped 8.0% to $77.5 million. However, the impact of this slowdown was partially offset by increased engineering sales, which amounted to $710,000 for the second quarter and $1.1 million for the first half of the year, and by growing military sector sales. The engineering department was established as a revenue generating activity in the first quarter of the current fiscal year.

It should be noted that for comparison purposes, last year's figures for the Landing Gear Division have been restated to include the results for D.A.L.S., previously part of the Logistics & Defence Division.

Gas Turbine Components Division

Sales for the Gas Turbine Components Division were $13.5 million for the second quarter, 39.8% lower than second quarter sales of $22.3 million last year. For the first six months of the year, sales were $29.7 million, down 32.9% from $44.2 million for the same period last year.

This substantial decrease was almost entirely due to a sharp falloff in sales in the industrial gas turbine sector of 49.9% in the second quarter alone, and 30.7% for the first six months of the year. These declines reflect lower component deliveries to G.E. Power Systems, who announced a dramatic drop in industrial gas turbine demand in the first quarter. Persistent weakness in the civil aerospace market post September 11th also drove down sales of aerospace engine parts in the second quarter and in the first half of the 2002-2003 fiscal year, compounded by the effect of the Bombardier strike in the first quarter.

Aerostructure Division

The Aerostructure Division posted a gain of 9.9% in second quarter sales, with deliveries picking up during the quarter as Bombardier worked to offset the effect of its first-quarter strike. The impact of the strike is still reflected in sales figures for the first half of the year, which were down 8.5% from the previous year. Second quarter sales for the Aerostructure Division were $6.5 million compared to $5.9 million last year, while sales for the first six months of the year totaled $12.1 million compared to $13.2 million in 2001-2002.

Logistics & Defence Division

Sales for the Logistics & Defence Division decreased by 13.5% to $5.3 million for the second quarter, down from $6.2 million for the corresponding period last year. This decline was mainly due to lower sales of scopes and other small arm accessories sold under contract to the Danish and U.K. governments.

Sales for the first half of the year were down only 3.0% from last year, at $12.2 million compared to $12.6 million.

Activity and Geographic segments

Sales for the aerospace and defence sector continued to slip in the second quarter, falling 10.2% to $54.1 million from $60.2 million for the same quarter last year. As a result, sales for the first half of the year were also down 10.5%, at $110.5 million compared to $123.5 million last year. The sector continues to be affected by weak demand for large civil aerospace products and out-of-production aircraft parts, although military and defence sales remain strong.

Industrial sector sales decreased by 48.6% at $8.2 million in the second quarter, down from $16.0 million a year earlier, dampened by the G.E. Power Systems production cutbacks and reduced demand for information technology products. Sales for the first six months of the year declined by 32.1% for the same reasons, to $20.9 million from $30.8 million a year ago.

Products manufactured in Canada rose to 78.4% of Héroux-Devtek's consolidated sales for the second quarter, compared to 70.7% for the same period the previous year, while US production slipped, reflecting mainly the decreased demand for industrial gas turbines. For the same reason, sales of Canadian products represented 77.4% of the total for the six-month period, up from 71.3% last year, with US product sales making up the balance.

In the second quarter, the Company's sales were made up of 28.3% Canadian, 62.9% American and 8.8% international customers, while for the first six months of the year the breakdown stood at 27.1% Canadian, 63.2% American and 9.7% international.

Gross Profit

Consolidated gross profit for the second quarter declined to 15.2% of sales from 17.6% for the same period last year. Consolidated gross profit as a percentage of sales for the first six months of the year slipped from 17.4% a year ago to 15.3% this year. These declines are generally due to lower sales, and the resulting higher non-absorption of fixed manufacturing overhead costs.

The Landing Gear Division's gross profit as a percentage of sales was down 0.8% for the second quarter and 1.5% for the first six months of the year, in both cases a further consequence of the reduced demand in the large civil aerospace and replacement parts for out-of-production aircraft markets.

In the Gas Turbine Components Division, where the full impact of the dampened demand announced by G.E. Power Systems was felt during the second quarter, gross profit as a percentage of sales fell 11.6%. For the first six months of the year, gross profit decreased by 7.2%. In an effort to mitigate the impact of the weak market, the division is presently consolidating production to better utilize existing capacity and thereby reduce its overhead costs.

Gross profit as a percentage of sales for the Aerostructure Division was up 3.7% in the second quarter. With its new Dorval plant now in operation, the division is able to reclaim higher value-added production that has until now been subcontracted out, thereby improving absorption of its fixed manufacturing overhead costs. The division's gross profit as a percentage of sales was nonetheless down 4.5% for the first six months of this year, reflecting the effect of the Bombardier strike in the first quarter.

In the Logistics & Defence Division, gross profit as a percentage of sales remained substantially unchanged for the second quarter and rose 2.3% for the first half of the year compared to the same periods last year, due to a better product mix and an improved ratio of higher value-added, manufactured product to distributed product.

Selling and Administrative Expenses

Selling and administrative expenses amounted to $5.0 million for the second quarter, $0.6 million lower than for the same period last year. As a percentage of sales, selling and administrative expenses increased 0.7% to 8.0% relative to last year, reflecting the higher weighting of fixed expenses given lower sales.

For the first half of the year, selling and administrative expenses were $10.4 million, down from $11.3 million for the corresponding period last year and up 0.6% to 7.9% as a percentage of sales.

Selling and administrative expenses include amortization costs of $24,000 for the quarter and $32,000 for the first six months of the year related to the granting of 150,000 stock options in June 2002, which the Company has elected, since April 1, 2002, to expense in accordance with new CICA recommendations.

Operating Income

Operating income for the second quarter was $4.4 million, down 41.0% from $7.5 million for the second quarter last year. As a percentage of sales, second quarter operating income fell by 14.2% in the industrial sector, from a 12.0% operating income to a 2.2% operating loss; operating income in the aerospace and defence sector decreased by 0.7% in the second quarter to 8.6% compared to the same period last year. In both sectors, this was due to a higher weighting of fixed manufacturing overhead costs proportional to the decline in sales.

Operating income of $9.5 million for the first six months was down 36.4% from $15.0 million for the same period last year. Industrial operating income was 3.3% of sales for the period while aerospace and defence operating income stood at 8.0%, compared to 11.0% and 9.4% of sales respectively for the six-month period a year ago.

Financial Expenses

Financial expenses of $400,000 for the second quarter were net of $336,000 in interest revenue, compared to financial expenses of $350,000 net of $356,000 in interest revenue for the second quarter last year.

For the first six months of the year, financial expenses amounted to $904,000 net of interest revenue of $631,000, compared to last year's financial expenses of $692,000 net of interest revenue of $751,000.

Income Taxes

Expressed as a percentage of income before income taxes and goodwill amortization, the second quarter income tax provision dropped to 28.6%, down from 36.8% last year. This decline was mainly due to the net loss situation in the Gas Turbine Components Division, which is taxed at a higher rate, as well as to a favourable future income tax adjustment of $150,000.

For the first six months of the year, the provision fell from 37.5% to 31.6% for the same reasons mentioned above.

Net Income

The Company posted net income of $2.9 million in the second quarter, down 31.2% from net income of $4.2 million for the corresponding quarter a year ago. On a fully diluted basis, earnings per share for the quarter were $0.12 compared to $0.17 last year.

Net income for the first six months of the year amounted to $5.9 million ($0.24 per share fully diluted), a decrease of 28.6% from $8.3 million ($0.34 per share fully diluted) for the same period a year earlier.

CASH FLOW AND FINANCIAL POSITION

The Company generated cash flow from operations of $6.5 million in the second quarter, compared to $7.5 million a year earlier. The decline was primarily due to lower net income and a variation in future income taxes, partially offset by a small rise in amortization. For the first six months of the year, cash flow from operations was $12.3 million, compared to $14.0 million a year ago.

Net change in non-cash items related to operations reduced cash and cash equivalents for the second quarter ended September 30, 2002, by $6.3 million, mainly attributable to a $4.8 million increase in accounts receivable caused by a high sales volume in the last month of the second quarter ($24 million). An increase of $1.3 million in inventories and a decrease of $2.3 million in customer advances also contributed to the reduction, although these were partially offset by a $1.2 million increase in accounts payable and accrued liabilities.

In the second quarter of the last fiscal year, net change in non-cash items related to operations used $1.3 million in cash and cash equivalents due to increases of $2.0 million in accounts receivable and $0.2 million in inventories and a decrease of $1.4 million in customer advances, the whole partially offset by an increase of $2.1 million in income taxes payable.

For the six-month period, net change in non-cash items related to operations reduced cash and cash equivalents by $11.8 million this year and $6.8 million last year. For fiscal 2002-2003 to date, the net change in non-cash items is mainly attributable to decreases in accounts payable and accrued liabilities, customer advances and income taxes payable of $6.3 million, $6.1 million and $3.3 million respectively, combined with an increase of $2.9 million in inventories. This was partially offset by an $8.1 million decrease in accounts receivable due to lower business volume.

Investing Activities

Investing activities used cash and cash equivalents of $1.5 million in the second quarter of the current fiscal year, having used $14.9 million in the same quarter the previous year. For the first six months of the year, investing activities amounted to $3.5 million in cash and cash equivalents, while $13.1 million was used in investing activities in the first half of last year.

Capital asset purchases totalled $6.6 million in the three months ended September 30, 2002, of which $3.6 million was financed through capital leases. These acquisitions included $4.1 million invested in the Gas Turbine Components Division for equipment ordered a year ago to enhance efficiency, and received in early July 2002. An additional $2.2 million was invested in the Landing Gear Division, with the remainder allocated to the Aerostructure Division. In the first six months of the year, purchases of capital assets amounted to $9.8 million, compared to $11.5 million for the same period last year.

Temporary investments decreased from $41.2 million in June 2002 to $39.6 million in September 2002, providing $1.5 million in cash and cash equivalents. During the same period last year, temporary investments increased by $7.8 million. For the six-month period ended September 30, temporary investments declined by $2.6 million this year, compared to an increase of $1.6 million last year.

Financing Activities

In the second quarter ended September 30, 2002, financing activities used cash and cash equivalents of $2.1 million, while these activities generated $8.4 million for the same period last year. Long-term debt was reduced by $1.5 million in the second quarter ended September 30, 2002, and a $2.1 million immigrant loan that matured during the quarter was repaid out of the investments related to it. Last year, the Company repaid $1.4 million in long-term debt during the second quarter, and generated $9.9 million in funds related to the issuance of 1 million common shares through a private placement.

During the three months ended September 30, 2002, the Company also applied $1.2 million toward the repurchase of 197,100 common shares for cancellation purposes, after obtaining TSE approval last August, allowing the Company to repurchase up to 1,222,195 common shares during the 12-month period ending August 20, 2003. The excess of the cost of the repurchased shares over their average book value amounted to $585,000 and was accounted for in reduction of the Company's retained earnings.

For the first six months of this year, financing activities used $2.6 million, having generated a total of $6.8 million during the same period the previous year.

Consolidated Balance Sheet

On September 30, 2002, working capital stood at $88.4 million, up from $84.8 at March 31, 2002. The working capital ratio improved from 1.93:1 at March 31, 2002 to 2.21:1 at September 30, 2002.

The Company continues to show a strong balance sheet, with $47.3 million in cash and temporary investments at September 30, 2002 compared to $56.0 million at March 31, 2002. The long-term-debt-to-equity ratio slightly improved from the beginning of the year, at 0.45:1.

OUTLOOK

The civil aerospace sector remains fragile, still suffering the effects of last year's terrorist attacks and the prevailing weak economy, but the Company is working to reduce the impact of this weakness by increasing market share in a climate of supplier consolidation. While competition is fierce, Héroux-Devtek's solid financial position provides it with a strong advantage.

Military and defence spending remains strong, particularly in the U.S.

The weak demand currently prevailing in the industrial gas turbine market is expected to persist through 2003. In light of this, the Company is undertaking steps to consolidate production and cut its fixed manufacturing overhead costs in this area.

RISK AND UNCERTAINTIES

An overview of the risks and uncertainties associated with the conduct of the Company's business is included in the "Management's Discussion and Analysis of Financial Position and Operating Results" for the fiscal year ended March 31, 2002 (page 12 of the Company's annual report). That overview constitutes an integral part of this document.

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