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SECOND QUARTER ENDED SEPTEMBER 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 for Héroux-Devtek's second quarter and six-month period ending September 30, 2003. In the second quarter, the Company announced over $250 million in new contracts and renewals, mainly with the U.S. Air Force. The bulk of these contracts, $234.2 millon, were awarded to the Landing Gear Division, while the balance, some $25.1 million, went to the Gas Turbine Components Division.

Sales in the second quarter totalled $53.2 million compared to $62.3 million a year ago. Héroux-Devtek's results continued to be negatively impacted by a stronger Canadian dollar, which alone accounted for a $2.3 million decline in sales on a year-over-year basis. The Landing Gear Division continued to be affected by slow demand for large civil aerospace products and spare parts for out-of-production aircraft. The Aerostructure Division also suffered a decline in sales mainly due to customers' inventory adjustments and a weaker business jet market. However, second quarter sales of industrial gas turbines were essentially the same as first quarter sales, which could indicate that the decline in the gas turbine market has bottomed out, although it is still not expected to recover before 2006. Consequently, the Company recorded a net loss of $0.9 million (loss of $0.04 per share) in the second quarter, compared to a net income of $2.9 million ($0.12 per share) last year.

For the six-month period, the Company recorded sales of $105.5 million compared to $131.5 million a year ago. As a result of lower sales, it reported a net loss of $1.6 million (loss of $0.07 per share), compared to a net income of $5.9 million ($0.24 per share) last year.

Two fundamental trends are emerging from the current stagnant market, which bodes well for the future of Héroux-Devtek. First, our share of the market is improving as evidenced by the latest signed contracts. Second, OEMs are increasingly outsourcing their manufacturing operations to specialized and financially solid companies such as ours. Even though our current results are affected by the realities of this market, we believe that the initiatives we have implemented over the last year have positioned us for the future in our core businesses.

Acquisition of NMF Canada Inc.

Héroux-Devtek has not been retained for the acquisition of NMF Canada Inc. Even though this represents a short-term setback in growing our Aerostructure business, we believe that our bid was competitive. However, this situation does not change our focus as we will remain on the lookout for complementary acquisitions to funnel this division's growth.

Outlook

Basically, our message has not changed since the beginning of the year. We believe that the steps we have taken to streamline our cost structure will enable us to increase our market share and to return to profitability. We also continue to manage our operations very effectively, thus maintaining our strong financial position, a definite asset for Héroux-Devtek.

However, the timing in achieving revenue growth and profitability is harder to predict in this rapidly changing environment. The following will give you an idea of what to expect for the next six months. With the new contracts scheduled for delivery in fiscal 2005 and a significant level of order push-outs, Landing Gear sales are expected to remain at approximately the same level as in the first six months of the year. Aerostructure sales are expected to grow by approximately 10% for the current year and Gas Turbine Components Division sales should be some 10% above sales to date given the Company's recent gains in engine parts market share.

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 and profitability objectives in these challenging times.

Gilles Labbé
President and Chief Executive Officer
October 31, 2003

Consolidated balance sheets

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

	September 2003 (Unaudited)	March 2003 (Audited)
Assets		
Current assets		
Cash and temporary investments	**$ 41,902**	$ 52,972
Accounts receivable	**30,300**	36,323
Income taxes receivable	**3,794**	3,785
Other receivables	**2,356**	4,010
Inventories	**58,712**	58,650
Prepaid expenses	**1,348**	2,212
Future income taxes	**5,871**	5,930
	144,283	163,882
Capital assets, net	**92,715**	97,397
Other assets	**817**	962
Future income taxes	**6,710**	4,766
Goodwill, net	**22,060**	22,060
	$ 266,585	$ 289,067
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 62,917**	$ 73,115
Customers' advances	**4**	3,912
Income taxes payable	**244**	1,275
Future income taxes	**368**	380
Current portion of long-term debt	**3,639**	3,340
	67,172	82,022
Long-term debt	**59,204**	63,650
Other liabilities	**7,308**	7,348
Future income taxes	**11,392**	11,128
	145,076	164,148
Shareholders' Equity		
Capital stock (Note 4)	**71,029**	71,317
Contributed surplus (Note 4)	**141**	81
Cumulative translation adjustment	**308**	1,803
Retained earnings	**50,031**	51,718
	121,509	124,919
	$ 266,585	$ 289,067

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

Consolidated statements of income

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

	Quarters ended September 30		Six months ended September 30	
	2003	2002	**2003**	2002
Sales	**$ 53,159**	$ 62,299	**$ 105,544**	$ 131,459
Cost of sales	**44,450**	49,096	**87,561**	103,975
Amortization	**3,434**	3,723	**6,941**	7,379
Gross profit	**5,275**	9,480	**11,042**	20,105
Selling and administrative expenses	**5,649**	5,034	**11,640**	10,566
Operating income (loss)	**(374)**	4,446	**(598)**	9,539
Financial expenses (Note 5)	**519**	400	**1,034**	904
Income (loss) before restructuring charges and income taxes	**(893)**	4,046	**(1,632)**	8,635
Restructuring charges (Note 3)	**461**	-	**835**	-
Income (loss) before income taxes	**(1,354)**	4,046	**(2,467)**	8,635
Income taxes (recovery)	**(499)**	1,156	**(825)**	2,728
Net income (loss)	**$ (855)**	$ 2,890	**$ (1,642)**	$ 5,907
Earnings (loss) per share	**$ (0.04)**	$ 0.12	**$ (0.07)**	$ 0.24
Earnings (loss) per share – fully diluted	**$ (0.04)**	$ 0.12	**$ (0.07)**	$ 0.24
Weighted-average number of shares outstanding during the periods	**23,454,111**	24,408,495	**23,466,642**	24,426,118

Consolidated statements of retained earnings

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

	Quarters ended September 30		Six months ended September 30	
	2003	2002	**2003**	2002
Balance at beginning of period	**$ 50,902**	$ 56,300	**$ 51,718**	$ 53,283
Repurchase of common shares (Note 4)	**(16)**	(585)	**(45)**	(585)
Net income (loss)	**(855)**	2,890	**(1,642)**	5,907
Balance at end of period	**$ 50,031**	$ 58,605	**$ 50,031**	$ 58,605

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

Consolidated statements of cash flows

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

	Quarters ended September 30		Six months ended September 30	
	2003	2002	**2003**	2002
Cash and cash equivalents provided by (used for):				
Operating activities				
Net income (loss)	**$ (855)**	$ 2,890	**$ (1,642)**	$ 5,907
Items not requiring an outlay of cash				
Amortization	**3,529**	3,773	**7,085**	7,519
Future income taxes	**(1,032)**	(217)	**(1,906)**	(1,135)
Gain on sale of capital assets	**-**	-	**(26)**	(61)
Write-off of loans bearing no interest	**-**	-	**-**	(408)
Stock-based compensation (Note 4)	**33**	24	**60**	32
Cash flow from operations	**1,675**	6,470	**3,571**	11,854
Net change in non-cash items related to operations (Note 6)	**(4,009)**	(7,356)	**(7,317)**	(11,812)
Cash and cash equivalents provided by (used for) operating activities	**(2,334)**	(886)	**(3,746)**	42
Investing activities				
Net change in temporary investments	**6,229**	1,540	**8,461**	2,603
Purchase of capital assets	**(3,162)**	(2,999)	**(4,761)**	(6,171)
Proceeds on disposal of capital assets	**-**	-	**74**	62
Cash and cash equivalents provided by (used for) investing activities	**3,067**	(1,459)	**3,774**	(3,506)
Financing activities				
Increase in long-term debt	**-**	363	**108**	1,834
Repayment of long-term debt	**(555)**	(414)	**(2,046)**	(2,958)
Repurchase of common shares (Note 4)	**(34)**	(1,182)	**(333)**	(1,182)
Issuance of common shares (Note 4)	**-**	148	-	148
Other	**(44)**	(203)	**(236)**	(410)
Cash and cash equivalents used for financing activities	**(633)**	(1,288)	**(2,507)**	(2,568)
Effect of changes in exchange rates on cash and cash equivalents	**94**	390	**(130)**	(42)
Change in cash and cash equivalents	**194**	(3,243)	**(2,609)**	(6,074)
Cash and cash equivalents at beginning of period	**4,978**	10,885	**7,781**	13,716
Cash and cash equivalents at end of period	**$ 5,172**	$ 7,642	**$ 5,172**	$ 7,642
Cash and temporary investments are comprised of:				
Cash and cash equivalents	**$ 5,172**	$ 7,642	**$ 5,172**	$ 7,642
Temporary investments	**36,730**	39,647	**36,730**	39,647
	$ 41,902	$ 47,289	**$ 41,902**	$ 47,289
Interest paid	**$ 748**	$ 658	**$ 1,374**	$ 1,157
Income taxes paid	**$ 1,532**	$ 2,718	**$ 4,310**	$ 8,644

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

Notes to consolidated financial statements

For the periods ended September 30, 2003 and 2002
(All dollar amounts in thousands, except per 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 September 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 September 30, 2003.

Note 3: Restructuring charges

Last fiscal year management decided to consolidate its Gas Turbine operations and transferred all operations of its Tampa plants to the Cincinnati plants. In that fiscal year ended March 31, 2003, the Company recorded restructuring charges to account for the closure of the Tampa plants.

On June 30, 2003 the six-month transition plan was completed and all operations made in Tampa were moved to Cincinnati. In order to minimize the impact on the customer deliveries and to transfer the production expertise, the Company incurred non-recurring expenses that could not be included in the restructuring charges booked last year under GAAP. These expenses are comprised mainly of relocation expenses, retention bonuses, training expenses related to the operations in Cincinnati and other expenses related to the maintenance of the unused production facility in Tampa.

Restructuring charges amounted to $461 in the second quarter ended September 30, 2003 and to $835 for the six-month period ended September 30, 2003. At September 30, 2003 the remaining balance of accrued liabilities related to the restructuring charges amounted to $2,268 ($3,511 at March 31, 2003) and is included in the accounts payable and accrued liabilities.

Note 4 : 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:

	September 30 2003	March 31 2003
23,449,259 common shares (23,544,659 at March 31, 2003)	**71 029 $**	71 317 $

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 and the six-month period ended September 30, 2003 amounted to $33 and $60 respectively ($24 and $32 for the quarter and the six-month period ended September 30, 2002).

During the quarter and the six-month period ended September 30, 2003, the Company issued 179,903 and 199,903 stock options at an average price of $4.96 and $4.78 respectively. The Company also cancelled 263,250 stock options at an average price of $5.95 during the six-month period ended September 30, 2003. No stock options were cancelled in the quarter ended September 30, 2003.

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 quarter and the six-month period ended September 30, 2003.

Repurchase of common shares

Last year, on August 21, 2002, the Company obtained approval from the Toronto Stock Exchange (TSX) 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 TSX approval to increase the number of common shares to be repurchased at 1,585,700. During the twelve-month period ended August 20, 2003, the Company repurchased for cancellation a total of 1,023,478 common shares for a total cash consideration of $4,848.

On September 3, 2003, the Company obtained another approval from the TSX to proceed with its normal course issuer bid to purchase up to 1,172,772 common shares during the twelve-month period ending September 2, 2004. During that period to September 30, 2003, the Company repurchased for cancellation 6,200 common shares for a cash consideration of $34.

During the quarters ended September 30, 2003 and 2002, the Company repurchased for cancellation 6,200 and 197,100 common shares for a total cash consideration of $34 and $1,182 respectively. For the six-month periods ended September 30, 2003 and 2002, the Company repurchased for cancellation a total of 95,400 and 197,100 common shares for a total cash consideration of $333 and $1,182 respectively.

The excess ($16 for the quarter and $45 for the six-month period ended September 30, 2003 and $585 for the quarter and the six-month period ended September 30, 2002) of the cost of the common shares repurchased over their average book value ($18 for the quarter and $288 for the six-month period ended September 30, 2003 and $597 for the quarter and the six-month period ended September 30, 2002) was accounted for in reduction of the Company's retained earnings.

Diluted earnings per share

For the quarter and the six-month period ended September 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 39,367 and 179,573 to 24,447,862 and 24,605,691 for the quarter and the six-month period ended September 30, 2002.

Note 5 : Financial expenses

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

	Quarters ended September 30		Six months ended September 30	
	2003	**2002**	**2003**	**2002**
Interest expense	**$ 825**	$ 736	**$ 1,676**	$ 1,535
Interest revenue	**(306)**	(336)	**(642)**	(631)
Financial expenses	**$ 519**	$ 400	**$ 1,034**	$ 904

Note 6: Net change in non-cash items related to operations

The net change in non-cash items related to operations represents the following:

	Quarters ended September 30		Six months ended September 30	
	2003	**2002**	**2003**	**2002**
Accounts receivable	**$ (3,448)**	$ (4,779)	**$ 6,023**	$ 8,128
Income taxes receivable	**(623)**	(460)	**(9)**	(460)
Other receivables	**668**	(493)	**1,654**	(242)
Inventories	**2,658**	(1,267)	**(62)**	(2,934)
Prepaid	**422**	399	**864**	528
Accounts payable and accrued liabilities and other liabilities	**(1,462)**	(128)	**(9,488)**	(7,801)
Customers' advance	**(1,769)**	(2,318)	**(3,908)**	(6,115)
Income taxes payable	**(426)**	820	**(1,031)**	(2,816)
Effect of changes in exchange rate	**(29)**	870	**(1,360)**	(100)
Net change in non-cash items related to operations	**$ (4,009)**	$ (7,356)	**$ (7,317)**	$ (11,812)

Note 7: Segmented information

Quarters ended September 30

Activity Segments

	2003			**2002**		
	Products related to Aerospace & Defence	Industrial Products	Total	Products related to Aerospace & Defence	Industrial Products	Total
Sales	**$ 47,814**	**$ 5,345**	**$ 53,159**	$ 54,071	$ 8,228	$ 62,299
Operating income (loss)	**526**	**(900)**	**(374)**	4,627	(181)	4,446
Financial expenses			**519**			400
Restructuring charges			**461**			-
Income (loss) before income taxes			**(1,354)**			4,046
Assets	**236,774**	**29,811**	**266,585**	237,780	50,348	288,128
Goodwill	**22,060**	**-**	**22,060**	22,060	2,100	24,160
Purchase of capital assets	**2,859**	**303**	**3,162**	3,737	2,868	6,605
Amortization	**3,012**	**517**	**3,529**	2,869	904	3,773

Note 7: Segmented information (cont'd)

Geographic Segments

	2003			2002		
	Canada	Outside Canada	Total	Canada	Outside Canada	Total
Sales	**$ 42,895**	**$ 10,264**	**$ 53,159**	$ 48,861	$ 13,438	$ 62,299
Operating income (loss)	**1,035**	**(1,409)**	**(374)**	4,857	(411)	4,446
Financial expenses			**519**			400
Restructuring charges			**461**			-
Income (loss) before income taxes			**(1,354)**			4,046
Assets	**217,088**	**49,497**	**266,585**	221,662	66,466	288,128
Goodwill	**20,977**	**1,083**	**22,060**	20,977	3,183	24,160
Purchase of capital assets	**2,590**	**572**	**3,162**	2,462	4,143	6,605
Amortization	**2,544**	**985**	**3,529**	2,498	1,275	3,773

Six months ended September 30

Activity Segments

	2003			2002		
	Products related to Aerospace & Defence	Industrial Products	Total	Products related to Aerospace & Defence	Industrial Products	Total
Sales	**$ 94,488**	**$ 11,056**	**$ 105,544**	$ 110,549	$ 20,910	$ 131,459
Operating income (loss)	**2,331**	**(2,929)**	**(598)**	8,845	694	9,539
Financial expenses			**1,034**			904
Restructuring charges			**835**			-
Income (loss) before income taxes			**(2,467)**			8,635
Assets	**236,774**	**29,811**	**266,585**	237,780	50,348	288,128
Goodwill	**22,060**	**-**	**22,060**	22,060	2,100	24,160
Purchase of capital assets	**4,154**	**607**	**4,761**	6,357	3,420	9,777
Amortization	**5,801**	**1,284**	**7,085**	5,578	1,941	7,519

Geographic Segments

	2003			2002		
	Canada	Outside Canada	Total	Canada	Outside Canada	Total
Sales	**$ 85,116**	**$ 20,428**	**$ 105,544**	$ 101,784	$ 29,675	$ 131,459
Operating income (loss)	**2,822**	**(3,420)**	**(598)**	9,138	401	9,539
Financial expenses			**1,034**			904
Restructuring charges			**835**			-
Income (loss) before income taxes			**(2,467)**			8,635
Assets	**217,088**	**49,497**	**266,585**	221,662	66,466	288,128
Goodwill	**20,977**	**1,083**	**22,060**	20,977	3,183	24,160
Purchase of capital assets	**3,870**	**891**	**4,761**	4,906	4,871	9,777
Amortization	**5,083**	**2,002**	**7,085**	4,993	2,526	7,519

Note 8: Reclassification

Comparative figures for the financial statements as at September 30, 2002 have been reclassified to comply with the September 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 September 30, 2003. It also compares the operating results and cash flows for the quarter and six-month period ended September 30, 2003 to those for the same periods 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 and the interim financial statements and MD&A to June 30, 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.

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

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.

In the aerospace industry, there is a broad trend toward OEMs outsourcing manufacturing activities. Within this general trend, the large civil aerospace and business aircraft markets are presently in a downturn from which they are expected to recover by 2006. Because of the downturn, Héroux-Devtek is experiencing strong competition at the supplier level, which in turn puts pressure on margins. However, there continues to be good activity in the military aerospace market, with a clear interest emerging in unmanned aircraft vehicles ("UAV") and unmanned combat aircraft vehicles ("UCAV") as replacements for fighter aircraft. Héroux-Devtek is positioned to become a key supplier in this emerging market.

Regional airline traffic is still solid with an increase of 27% so far this year in revenue passenger miles (RPMs) on major US negotiated airlines. This suggests that the regional jet manufacturing market will remain strong for the next few years.

On the industrial side, the power generation market is also in a downturn and is not expected to recover before 2006. However, sales appear to have bottomed out in recent months, indicating a possible end to the drastic decline in demand seen in the past year.

With both these markets depressed, Héroux-Devtek is placing a high priority on the cost rationalization process initiated last year. The Company has already closed three of its eleven manufacturing plants and is continually looking for ways to improve its cost structure.

Results of operations

Consolidated Sales

Consolidated sales stood at $53.2 million for the second quarter ended September 30, 2003, down 14.7% from last year's second quarter sales of $62.3 million. For the first six months of the year, the Company recorded sales of $105.5 million, down 19.7% from a figure of $131.5 million for last year.

In the second quarter, Héroux-Devtek's results continued to be negatively impacted by a stronger Canadian dollar, which alone accounted for a $2.3 million decline in sales on a year-over-year basis. So far this year, the strengthening of the Canadian currency is responsible for a $4.3 million decline in the Company's global sales.

Sales by division for the second quarter and first half of the year were as follows:

	Second quarter ended September 30			Six months ended September 30		
Division	**2003 ($'000)**	**2002 ($'000)**	**% Change**	**2003 ($'000)**	**2002 ($'000)**	**% Change**
Landing Gear	**33,253**	37,009	-10.1	**64,382**	77,460	-16.9
Aerostructure	**5,594**	6,519	-14.2	**12,311**	12,110	+1.7
Sub-total	**38,847**	43,528	-10.8	**76,693**	89,570	-14.4
Gas Turbine Components	**10,265**	13,439	-23.6	**20,429**	29,674	-31.1
Logistics & Defence	**4,047**	5,332	-24.1	**8,422**	12,215	-31.1
Total	**53,159**	62,299	-14.7	**105,544**	131,459	-19.7

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

Second quarter sales for the Landing Gear Division were $33.3 million, 10.1% less than sales of $37.0 million a year earlier but 6.8% higher than first quarter sales for the division. The completion of an important military contract, last year, at the Company's Laval operation accounted for a decrease of $1.6 million. At the same time, civil aerospace sales were $2.8 million lower than last year, reflecting slow demand for large civil aerospace product and spare parts for out-of-production aircraft.

Sales for the first six months of the year were down by $13.1 million or 16.9% from last year due to the generally slow demand for large civil aerospace product.

Engineering services posted second quarter sales of $1.4 million compared to $0.7 million last year. For the year to date, these sales amounted to $2.6 million compared to $1.1 million a year ago.

During the second quarter, the Company announced new contracts for the Landing Gear Division totalling $234.2 million including options:

- renewal of the USAF repair & overhaul contract for a 10-year period, totalling $140 million;
- renewal of the B777 manufacturing contract for a total of $20.6 million including options;
- a new, long-term supply agreement with Boeing for the X45 J-UCAS Air Force aircraft for an amount of $17 million plus $50 million in potential options; and
- a new $6.6 million contract for the Global Hawk Unmanned Air Vehicle.

The Landing Gear Division was also awarded Boeing's "Preferred Supplier Certification", which places Héroux-Devtek on an envied list of suppliers to the world's largest aircraft manufacturer.

With the new contracts scheduled for delivery in fiscal 2005 and beyond, Landing Gear sales for the remaining six months of fiscal 2004 are expected to remain at approximately the same level as in the first six months of the current year.

The following table shows the weighting of second quarter and year-to-date Landing Gear sales for fiscal 2004:

	Second quarter ended September 30			Six months ended September 30		
	2003 ($'000)	**2002 ($'000)**	**% Change**	**2003 ($'000)**	**2002 ($'000)**	**% Change**
Military	**16,145**	17,060	-5.4	**31,828**	37,019	-14.0
Commercial	**17,108**	19,949	-14.2	**32,554**	40,441	-19.5
Total	**33,253**	37,009	-10.1	**64,382**	77,460	-16.9
Manufacturing	**25,242**	29,516	-14.5	**48,814**	60,865	-19.8
Repair and overhaul	**8,011**	7,493	6.9	**15,568**	16,595	-6.2
Total	**33,253**	37,009	-10.1	**64,382**	77,460	-16.9

Aerostructure

Aerostructure sales for the second quarter of this year were 14.2% lower than last year, mainly due to customers' inventory adjustments and a weaker business jet market. However, sales for the first six months of the year held at the same level as last year as the Company increased its market share of the regional jet business. This increase in market share is expected to push Aerostructure sales up by approximately 10% for the current year overall relative to last year.

Gas Turbine Components

Gas Turbine Components sales were $10.3 million in the second quarter compared to $13.4 million last year. This represents a 23.6% decrease on a year-over-year basis, attributable to the sharp decline in industrial gas turbine sales that has occurred in large part since the second quarter of last year. However, second quarter sales of industrial gas turbines were essentially the same as first quarter sales, which could indicate that the decline in the gas turbine market has bottomed out, although it is still not expected to recover before 2006.

The stronger Canadian dollar negatively impacted division sales by $1.3 million in the second quarter. Total Aerospace sales in U.S. dollars increased by 6.1% compared to the second quarter of last year and by 15.1% relative to the first quarter of this year, essentially representing a gain in market share of aircraft engine parts. This helped offset the substantial decline in other industrial sales for the second quarter.

For the first six months of the year, sales for the division fell by 31.1% compared to last year, once again due to the severe drop in industrial gas turbine demand.

A breakdown of division sales for the second quarter and year to date is as follows:

	Second quarter ended September 30			Six months ended September 30		
	2003 ($'000)	**2002 ($'000)**	**% Change**	**2003 ($'000)**	**2002 ($'000)**	**% Change**
Aerospace	**4,920**	5,197	-5.3	**9,373**	8,751	+7.1
Industrial Gas Turbine	**4,798**	7,316	-34.4	**9,742**	19,162	-49.2
Other Industrial	**547**	926	-40.9	**1,314**	1,761	-25.4
Total	**10,265**	13,439	-23.6	**20,429**	29,674	-31.1

During the second quarter, the Gas Turbine Components Division announced the signature of a $21.6 million contract with GE Aircraft Engines and a $3.5 million contract with Caterpillar.

Division sales for the remaining six months of the year are expected to be some 10% above sales to date given the Company's recent gains in engine parts market share.

Logistics & Defence
Sales for the Logistics & Defence Division decline by 24.1% to $4.0 million in the second quarter compared to $5.3 million last year, mainly due to the reduced requirements of the Canadian Forces. Sales for the first six months of the year were down 31.1%, in part also due to a special order received in the first quarter of last year from the Norway Special Forces.

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

	Second quarter ended September 30			Six months ended September 30		
Segment	**2003 ($'000)**	**2002 ($'000)**	**% Change**	**2003 ($'000)**	**2002 ($'000)**	**% Change**
Aerospace & Defence						
Civil	**26,665**	29,713	-10.3	**52,117**	57,436	-9.3
Military	**16,156**	18,053	-10.5	**31,928**	39,122	-18.4
Defence	**4,993**	6,305	-20.8	**10,443**	13,991	-25.4
Sub-total	**47,814**	54,071	-11.6	**94,488**	110,549	-14.5
Industrial						
Gas Turbine Components	**4,799**	7,301	-34.3	**9,743**	19,148	-49.1
Other Industrial	**546**	927	-41.1	**1,313**	1,762	-25.5
Sub-total	**5,345**	8,228	-35.0	**11,056**	20,910	-47.1
Total	**53,159**	62,299	-14.7	**105,544**	131,459	-19.7

Sales Destination

	Second quarter ended September 30		Six months ended September 30	
	2003	**2002**	**2003**	**2002**
Canada	**26 %**	28 %	**27 %**	27 %
U.S.	**67 %**	63 %	**65 %**	63 %
International	**7 %**	9 %	**8 %**	10 %
	100 %	100 %	**100 %**	100 %

Gross Profit
In the second quarter of fiscal 2004, consolidated gross profit was 9.9% of sales, down from 15.2% in the second quarter of last year. For the first six months of the year, gross profit represented 10.5% of sales compared to 15.3% last year.

Landing Gear
Expressed as a percentage of sales, second quarter gross profit for the Landing Gear Division decreased by 2.4% relative to last year. This was partly due to unabsorbed overhead costs resulting from reduced deliveries at the Laval plant following the termination of an important military contract, as well as a less favourable sales mix than last year. The weakness of the U.S. dollar also accounted for a decline of approximately 1.2% in gross profit for the division. For the first six months of this year, gross profit for the division is down 1.6% compared to the same period last year.

Aerostructure
Lower business volume resulted in a 24.2% decrease in Aerostructure gross profit in the second quarter due primarily to higher unabsorbed manufacturing overhead costs. To a lesser degree, gross profit for the division was also affected by price concessions granted to its main customer and by the consolidation of the Metro operations into the Dorval plant. Gross profit for the year to date is 11.1% lower than for the same period last year.

Gas Turbine Components
The Gas Turbine Components Division has experienced a dramatic reduction in business volume in the past year, resulting in significant unabsorbed manufacturing overhead costs. As the weak demand is expected to persist for several years, the Company integrated its Tampa operations into its Cincinnati operations over a six-month period that ended on June 30, 2003. During the transition, the two operations were maintained in parallel to ensure on-time deliveries to customers.

In the first six months of fiscal 2004, the division incurred non-recurring expenses for the smooth transfer of know-how and workload from Tampa to Cincinnati. Under GAAP, these charges could not be included in the restructuring charges taken last year. These one-time charges, shown as a separate item on the income statement, amounted to $0.8 million for the first six months of the year, including $0.5 million incurred in the second quarter.

Underutilization of the available production capacity resulted in a 13.8% reduction in second quarter gross profit for the Gas Turbine Components Division. Despite this, the division cut its operating loss by $0.7 million in the second quarter, and expects to return to profitability in the fourth quarter of the year.

For the year to date, the Gas Turbine Components Division is showing a 20.8% decline in gross profit compared to the same period last year.

Logistics & Defence
Gross profit for the Logistics & Defence Division increased by 2.9% due to manufacturing process re-engineering initiatives introduced late last year, as well as to the favourable impact of a stronger Canadian dollar on U.S. purchases.

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

Selling and administrative expenses for the second quarter and year to date are as follows:

	Second quarter ended September 30		Six months ended September 30	
	2003	**2002**	**2003**	**2002**
Selling and administrative expenses ($'000)	**5,649**	5,034	**11,640**	10,566
% of sales	**10.6**	8.1	**11.0**	8.0

The increases in selling and administrative expenses as a percentage of sales for the second quarter and year to date are attributable to the lower sales volumes for the periods, given that such expenses are relatively fixed.

Selling and administrative expenses for the second quarter include $0.3 million in professional fees related to a potential acquisition that did not materialize. Year-to-date expenses include a loss on U.S. exchange of $0.4 million resulting from significant fluctuations in the U.S./CAN exchange rate during the first quarter. This had a negative impact on foreign currency monetary items included under current assets and liabilities and not covered by forward foreign exchange contracts.

Selling and administrative expenses also include expenses related to the granting of stock options. Such expenses amounted to $33,000 in the second quarter compared to $24,000 last year, and $60,000 for the first six months of this year compared to $32,000 the previous year.

Operating Income

For the second quarter of fiscal 2004, the Company posted an operating loss of $0.4 million or 0.7% of sales compared to operating income of $4.4 million or 7.1% of sales last year, for a total drop of 7.8% of sales.

Aerospace & Defense operating income fell from 8.6% of sales for the second quarter of last year to 1.1% this year. Within this segment, civil aerospace operating income fell 8.9%, while military aerospace declined 7.1%.

On the Industrial side, the operating loss reached 16.8% of sales from a loss of 2.2% in the second quarter of last year, due primarily to the second quarter operating loss for industrial gas turbines, which increased by 15.3%.

For the first six months of the year, the operating loss amounted to $0.6 million or 0.6% of sales compared to an operating income of $9.5 million or 7.3% of sales for the same period last year. Aerospace & Defense operating income fell by $6.5 million to $2.3 million, while Industrial operating income decline by $3.6 million to an operating loss of $2.9 million.

Income Taxes

Expressed as a percentage of the income (loss) before income taxes, the Company posted an income tax recovery of 36.9% for the second quarter of 2004. In the second quarter of fiscal 2003, income taxes amounted to 28.6% of the Company's income before income taxes. For the six-month period ended September 30, 2003, the income tax recovery, expressed as a percentage of income (loss) before income taxes amounted to 33.4% compared to an income tax provision of 31.6% for the same period a year earlier.

Net Income (Loss)

The table below shows net income (loss) and earnings (loss) per share on a fully diluted basis. The diluted losses per share are based on weighted averages of 23,454,111 common shares outstanding in the second quarter and 23,466,642 common shares outstanding in the first six months of fiscal 2004. Diluted earnings per share for last year are based on weighted averages of 24,408,495 common shares outstanding for the second quarter and 24,426,118 common shares outstanding for the six months ended September 30, 2002.

	Second quarter ended September 30		Six months ended September 30	
	2003	**2002**	**2003**	**2002**
Net income (loss) ($'000)	**(855)**	2,890	**(1,642)**	5,907
Earnings (loss) per share, fully diluted ($)	**(0.04)**	0.12	**(0.07)**	0.24

Liquidity and Capital Resources

At September 30, 2003, the Company had cash and temporary investments of $41.9 million, of which $36.7 million was invested in temporary investments.

Operating Activities

The Company generated and used cash flow in its operating activities as follows:

	Second quarter ended September 30		Six months ended September 30	
	2003	**2002**	**2003**	**2002**
	($'000)	**($'000)**	**($'000)**	**($'000)**
Cash flow from operations	**1,675**	6,470	**3,571**	11,854
Net change in non-cash items related to operations	**(4,009)**	(7,356)	**(7,317)**	(11,812)
Cash flow provided by (used for) operating activities	**(2,334)**	(886)	**(3,746)**	42

In the second quarter of fiscal 2004, cash flow from operations was primarily impacted by the $3.7 million decline in year-over-year net income. A $1.0 million net increase in future income tax assets resulting from operating losses in the Gas Turbine Components Division also had a negative impact on the Company's cash flow from operations in the second quarter.

Cash flow of $2.3 million was used for operating activities, reflecting a negative net change of $4.0 million in non-cash items related to operations. The main factors in this change were a $3.4 million increase in accounts receivable mainly at our Landing Gear Division due to higher sales in the last month of the quarter, a $1.8 million decrease in customers' advances, and a decrease in accounts payable and accrued liabilities and other liabilities of $1.5 million, offset by a $2.7 million decrease in inventories, mainly for the Landing Gear Division. In the second quarter of last year, operating activities used $0.9 million of cash and cash equivalents, after accounting for a $7.4 million unfavourable net change in non-cash items related to operations (see Note 6 to the consolidated financial statements).

In the first six months of the year, cash flow from operations was negatively impacted by a decrease of $7.5 million in year-over-year net income as well as by a $1.9 million net increase in future income tax assets. Cash flow used for operating activities during the period amounted to $3.7 million, in part reflecting an unfavourable net change of $7.3 million in non-cash items related to operations. For the same period last year, operating activities generated $42,000 despite an $11.8 million unfavourable net change in non-cash items related to operations (see under Consolidated Balance Sheets below, and Note 6 to the consolidated financial statements).

Investing Activities

The Company's investing activities provided $3.1 million and $3.7 million in cash and cash equivalents in the second quarter and the six-month period ended September 30, 2003 respectively compared to $1.5 million and $3.5 million used for these activities in the quarter and the six-month period ended September 30, 2002 respectively.

The net change in temporary investments for the quarter provided $6.2 million in cash and cash equivalents this year compared to $1.5 million last year. For the first six months ended September 30, 2003 and 2002, the net change in temporary investments provided $8.5 million and $2.6 million respectively.

Purchase of capital assets totalled $3.2 million for the second quarter of the year compared to $3.0 million for the same period last year. Of this, $1.7 million was invested in the Landing Gear Division, $0.9 million in the Aerostructure Division, and $0.6 million in the Gas Turbine Components Division. For the first six months of the year, purchase of capital assets amounted to $4.8 million, including $2.3 million invested in the Landing Gear Division, $1.4 million in the Aerostructure Division, and $0.9 million 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.

Financing Activities

In the second quarter of this year, $0.6 million in cash and cash equivalents were used for financing activities, compared to $1.3 million in the same period last year.

The Company repaid $0.6 million in long-term debt during the quarter compared to $0.4 million last year. In the first six months of this year, the Company repaid a total of $2.0 million in long-term debt, compared to $3.0 million 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 April 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 period from August 21, 2002 to August 20, 2003, a total of 1,023,478 shares were repurchased for $4.8 million or $4.72 per share. On September 3, 2003, the Company obtained approval from the TSX to repurchase up to 1,172,772 common shares prior to September 2, 2004. During the quarter ended September 30, 2003, 6,200 shares had been repurchased for cancellation pursuant to the new approval, for $34,000 or $5.50 per share.

Consolidated Balance Sheets

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

Item	Change ($ million)	Explanation
Cash and temporary investments	(11.1)	See statement of cash flows.
Accounts receivable	(6.0)	Related to reduced business volume in the six-month period ended September 30, 2003.
Other receivables	(1.6)	Collection of a cash deposit for the purchase of equipment.
Inventories	0.1	Increase of $1.8 million due to the closing of the Tampa plants. As part of the transition plan and in order to mitigate the impact on customers and maintain on-time deliveries, the Gas Turbine Components Division produced ahead of customer requirements (kept-safe inventory). Offset by increased progress billings for the Landing Gear Division collected during the second quarter of this year.
Capital assets	(4.7)	Decrease due to: • Lower U.S. exchange rate used to convert the net assets of self-sustaining U.S. subsidiaries (-$2.0 million). • Amortization of capital assets (-$7.0 million). • Write-off of two pieces of equipment not required due to the transfer of Metro operations to Dorval (-$0.5 million). • Purchase of capital assets (+$4.8 million).
Accounts payable and accrued liabilities	(10.2)	Reduction related to reduced business volume in 2003. $1.2 million reduction in the restructuring charge accrued liabilities recorded last year at the Gas Turbine Components Division.
Customers' advances	(3.9)	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). The Company does not expect to receive any customer advances before the fourth quarter of the current fiscal year.
Long-term debt (including current portion)	(4.1)	Decrease due to: • Favourable impact of $2.2 million on net assets of self-sustaining U.S. subsidiaries resulting from a lower U.S. exchange rate. • Capital repayments of $2.0 million. • Increase of $0.1 million in non-interest-bearing loans.

Capital stock	(0.3)	Represents the repurchase of 95,400 common shares at average book value during the quarter.
Cumulative translation adjustment	(1.5)	Reflects the counterpart of the impact of foreign exchange rate fluctuations on the net assets of self-sustaining U.S. subsidiaries.
Retained earnings	(1.7)	See statements of retained earnings.

The Company continues to enjoy a strong balance sheet position.

The Company's long-term debt-to-equity ratio was 0.49:1 on September 30, 2003 compared to 0.51:1 on March 31, 2003. At September 30, 2003, the balance sheet included cash and temporary investments of $41.9 million, of which $36.7 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

Héroux-Devtek has operating lease obligations for machinery and equipment amounting to $16.4 million as of September 30, 2003. These amounts are mainly repayable over the next five years.

The Company has also entered into leases on buildings used for manufacturing operations and administration. Its total lease commitments at September 30, 2003 amounted to $1.2 million, excluding escalation clauses.

At September 30, 2003, the Company held forward foreign exchange contracts totalling U.S. $89.5 million at an average exchange rate of 1.4586. These contracts relate to its export sales and mature at various dates between October 2003 and October 2008. 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 that could have a material adverse effect on the Company's business, financial condition and results of operations. Such risks and uncertainties include, but are not limited to, those mentioned below, which are more fully described in the Company's MD&A for the year ended March 31, 2003.

- 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

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