



PRESS RELEASE

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FOR IMMEDIATE RELEASE

**HÉROUX-DEVTEK ANNOUNCES FIRST QUARTER RESULTS**  
**Consolidation in Gas Turbine Components and Aerostructure Divisions substantially complete**

Longueuil, Quebec, July 31, 2003—Héroux-Devtek Inc. (TSX: HRX), a leading Canadian manufacturer of aerospace and industrial products, today announced its results for the 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.

Financial highlights (in thousands of dollars, except per share data)	First quarter ended June 30	
	2003	2002
Sales	52,385	69,160
Operating income (loss)	(598)	5,093
Net income (loss)	(787)	3,017
Per share (\$)	(0.03)	0.12

"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," commented Gilles Labbé, President and CEO of Héroux-Devtek. "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," concluded Mr. Labbé. "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."

## Conference Call

Héroux-Devtek Inc. will hold a conference call to discuss these results today at 10:00 A.M. Eastern Time. Interested parties can join the call by dialing (514) 807-8791 (Montreal or overseas) or 1-800-814-4861 (elsewhere in North America). The conference call can also be accessed via live webcast at [www.newswire.ca](http://www.newswire.ca) or [www.q1234.com](http://www.q1234.com).

If you are unable to call in at this time, you may access a tape recording of the meeting by calling 1-877-289-8525 and entering the passcode 21011663# on your phone. This tape recording will be available on Thursday, July 31 as of noon until 11:59 PM on Monday, August 4.

## Profile

**Héroux-Devtek Inc.** is a Canadian company specialized in the design, development, manufacture and repair of aerospace and industrial products. The Company's head office is located in Longueuil, Québec. Héroux-Devtek operates eight business units grouped under four divisions: the Landing Gear Division, the Aerostructure Division, the Gas Turbine Components Division and the Logistics and Defence Division. Approximately 75% of the Company's sales are outside Canada, mainly in the United States. Héroux-Devtek's shares trade on the Toronto Stock Exchange under the symbol HRX.

## Forward-looking statement

Except for historical information provided herein, this press release may contain information and statements of a forward-looking nature concerning the future performance of the Company. These statements are based on suppositions and uncertainties as well as on management's best possible evaluation of future events. Such factors may include, without excluding other considerations, fluctuations in quarterly results, evolution in customer demand for the Company's products and services, the impact of price pressures exerted by competitors, and general market trends or economic changes. As a result, readers are advised that actual results may differ from expected results.

**HEROUX-DEVTEK INC.**  
consolidated **BALANCE SHEETS**  
As at June 30, 2003 and March 31, 2003  
(In thousands of dollars)

	June 2003	March 2003
	(Unaudited)	(Audited)
<b>Assets</b>		
<b>Current assets</b>		
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
	<b>149,923</b>	<b>163,882</b>
<b>Capital assets, net</b>	<b>93,490</b>	<b>97,397</b>
<b>Other assets</b>	<b>888</b>	<b>962</b>
<b>Future income taxes</b>	<b>5,533</b>	<b>4,766</b>
<b>Goodwill, net</b>	<b>22,060</b>	<b>22,060</b>
	<b>\$ 271,894</b>	<b>\$ 289,067</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
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
	<b>71,337</b>	<b>82,022</b>
<b>Long-term debt</b>	<b>59,778</b>	<b>63,650</b>
<b>Other liabilities</b>	<b>7,318</b>	<b>7,348</b>
<b>Future income taxes</b>	<b>11,146</b>	<b>11,128</b>
	<b>149,579</b>	<b>164,148</b>
<b>Shareholders' Equity</b>		
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
	<b>122,315</b>	<b>124,919</b>
	<b>\$ 271,894</b>	<b>\$ 289,067</b>

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

**HEROUX-DEVTEK INC.****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

**HEROUX-DEVTEK INC.****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.

**HEROUX-DEVTEK INC.****consolidated STATEMENTS OF CASH FLOWS**

For the years ended June 30, 2003 and 2002

(In thousands of dollars)

(Unaudited)

	2003	2002
<b>Cash and cash equivalents provided by (used for):</b>		
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)
<b>Cash and cash equivalents used for operating activities</b>	<b>(1,412)</b>	<b>(122)</b>
<b>Investing activities</b>		
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
<b>Cash and cash equivalents provided by (used for) investing activities</b>	<b>707</b>	<b>(2,047)</b>
<b>Financing activities</b>		
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)
<b>Cash and cash equivalents used for financing activities</b>	<b>(1,874)</b>	<b>(230)</b>
<b>Effect of changes in exchange rates on cash and cash equivalents</b>	<b>(224)</b>	<b>(432)</b>
<b>Change in cash and cash equivalents</b>	<b>(2,803)</b>	<b>(2,831)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>7,781</b>	<b>13,716</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 4,978</b>	<b>\$ 10,885</b>
<b>Cash and temporary investments are comprised of:</b>		
Cash and cash equivalents	\$ 4,978	\$ 10,885
Temporary investments	42,959	41,187
	<b>\$ 47,937</b>	<b>\$ 52,072</b>
<b>Interest paid</b>	<b>\$ 626</b>	<b>\$ 499</b>
<b>Income taxes paid</b>	<b>\$ 2,778</b>	<b>\$ 5,926</b>

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

**HEROUX-DEVTEK INC.****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)	<b>\$ 71,047</b>	\$ 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 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.

### Note 3: Capital stock (Cont'd)

#### Stock-based compensation

##### *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)
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.