HÉROUX-DEVTEK

2005 Annual General Shareholders Meeting

Speeches

Speech of Gilles Labbé, President & CEO

Thank you, Helmut,

Ladies and gentlemen,

I join Helmut in welcoming you to Héroux-Devtek's annual meeting for our 2004-2005 financial year, which ended on March 31st. Along with Réal Belanger, our CFO, we will spend the next several minutes reviewing the year and providing you with some insight as to where we are headed in the coming years, within the context of our markets as we currently see them. We will also discuss our first quarter results, announced earlier this morning.

The past year presented its set of challenges and disappointments. Like other Canadian manufacturers, we had to deal with the stronger Canadian dollar and a surge in raw material prices. In our case, these factors impeded our efforts to achieve profitability.

The Canadian dollar exchange rate alone had a negative impact of $10.2 million on last year's sales. Meanwhile, the global appetite for raw materials, most notably steel, titanium and aluminium, drove prices up sharply and lengthened, in fact, sometimes doubled, material delivery lead times. This, in turn, pushed out our product deliveries and delayed revenue recognition. Delivery was a significant issue at some facilities through the latter part of last year and into the beginning of this year, although we have made considerable progress in this area.

This being said, one important factor impeding profitability last year was capacity utilization. We are in an industry that has very high fixed costs and we must achieve a certain volume to absorb these costs. In fiscal 2004-2005 our overall capacity utilization still reflected the weak business climate of the last several years in our key markets.

Although these markets remained soft overall last year, clear signs of improvement emerged as the year progressed. Calendar 2004 is now recognized as the beginning of a recovery in the aerospace market. Both China and the US saw good economic growth in 2004. In the airline industry, this translated into 14% growth in passenger traffic and a 13% increase in cargo traffic. Boeing and Airbus, the two manufacturers of large commercial aircraft, both saw deliveries increase in 2004 over the previous year. Improved corporate profitability in the US led to an upsurge in business jet demand. On the industrial side too, the downturn in the power generation market is believed to have ended in 2004, with total deliveries matching the 2003 level.

At Héroux-Devtek last year, we focused on strengthening our core competencies of aerospace and industrial products by further honing and streamlining our operations in order to fully maximize the opportunities we now see developing in our markets. The purchase of Progressive, announced in April 2004, was essential to our strategy. While we are well known for our landing gear capabilities, Progressive was a significant addition to our aerostructure capacity, providing critical mass, further access to the highly important military aerospace sector, and an improved mix of commercial and military sales.

We also added to our landing gear capabilities last year, investing $3 million to accommodate test facilities at our Laval plant. With these improvements, we can now offer our customers a fully integrated service, from initial design to finished product and complete maintenance support.

Meanwhile, at our newly centralized Gas Turbine Components Division, the Cincinnati consolidation began to have a positive impact following its completion mid-year. While the division did not return to profitability in the fourth quarter as anticipated, things are improving, with the first quarter of this year better than Q4 last year.

During the year, we negotiated the sale of our Logistics & Defence Division, which consisted of Diemaco, a small arms manufacturer originally acquired in 2000 as part of the merger with Devtek. Although Diemaco was doing well, we do not consider small arms manufacturing to be part of our core business. The transaction closed subsequent to year-end, during the first quarter of this year, and as a result we recorded a net gain of $8.6 million and reduced our debt by $15 million.

I am pleased to say that Héroux-Devtek's position in the market continued to be recognized as last year we booked contracts worth a minimum of $235 million.

The largest is the $180 million long-term deal with the US Air Force to supply components for the repair and overhaul of landing gear on C-130, KC-135 and E-3 aircraft. Deliveries are expected to be $13 million for this year, with the remainder to be delivered over the next eight years.

This order is particularly significant because it takes us to a new level of involvement with a long-standing customer, and is a perfect example of the direction we are moving in. This is the first time that the USAF has asked us to source the required components to help them speed up production and reduce their operating costs. Clearly, this is an indication of the confidence the USAF has in Héroux-Devtek.

The other contracts signed during the year included two contracts with the US military, each worth a minimum of $22 million. The first was signed in May of last year with the US Air Force and the US Navy to manufacture landing gear components for the B1B, F-15, F-16, E-3, KC-135R and P-3 programs. Deliveries will be ongoing through 2008. The second, to be delivered in fiscal 2006 and the remainder by fiscal 2008, was signed in September with the US Air Force to manufacture landing gear components and complete landing gear assemblies for the F-16 multi-role fighter aircraft. The F-16 is the workhorse of the USAF fighter fleet, with more than 2,900 in active duty.

And finally, the Gas Turbine Components Division was awarded a $10.9 million contract, also by the US Air Force, to manufacture components for the F100 engine. Final delivery of all units is planned in the current 2005-2006 fiscal year.

I will now turn the floor over to Réal who will review last year's financial results as well as the latest results for the first quarter of this year.

Speech of Réal Bélanger, vice-president and chief financial officer

Thank you, Gilles.

First I would like to note that all the figures I will give you are for continuing operations. Because we announced the sale of Diemaco in the last quarter of fiscal 2005, we have reported its results under discontinued operations.

Due essentially to the inclusion of Progressive, sales for last year were stronger than the year before. Overall, sales were up 21% to $233 million, compared to $192.7 million the year prior. Progressive generated $51.4 million in sales for the year. However, our results were negatively affected by the strength of the Canadian dollar relative to the U.S. dollar, which reduced sales figures by $10.2 million or 4.4%.

Looking at sales broken down into our two market segments, aerospace and industrial, we see that Aerospace sales rose 24.1% to $211.7 million last year. This was entirely due to increased Aerostructure sales, which were offset by small declines in Landing Gear and Aircraft Engine Component sales. As explained earlier, a major factor in the higher Aerostructure sales was the additional $51.4 million in sales generated by Progressive, although a better delivery performance at the Dorval plant in the last six months of fiscal 2005 also contributed to the improvement.

Landing Gear sales fell by $10.5 million last year, with $4.1 million due to a lower exchange rate. Military landing gear sales were down from the previous year, mainly due to the completion of P-3 and KC-135R manufacturing contracts, which accounted for a sales decrease of $14.7 million. The decrease in the military sector was partially offset by growing demand in the civil sector, which generated $5.9 million in new sales for the A380 and B777 programs.

The decline in Aircraft Engine Component sales last year was mainly due to a lower exchange rate.

Sales for our Industrial market segment were $21.3 million compared to $22.0 million, although if you allow for the $1.3 million negative impact of the lower currency exchange rate, Industrial sales actually rose slightly. Demand for Industrial Gas Turbine parts sold to GE Power was down for the year, but this was offset by the sale of new manufactured parts to Caterpillar.

The acquisition of Progressive at the beginning of fiscal 2005 strengthened the Company's U.S. sales, as all of Progressive's sales are in the United States. Consequently in fiscal year 2005, we have generated 74% of our sales in the US compared to 70% previously, and 24% in Canada, down from 28%.

Gross profit declined by 1.7% last year to 5.8% of sales from 7.5% the year before. The Canada/U.S. exchange rate accounted for 1% of this 1.7% decline. There are a number of other reasons for the lower gross profit. Market pricing pressures and price concessions granted to customers in a difficult business climate continued to impact our results last year. At the same time, manufacturing costs were up due to the introduction of new landing gear components and sub-assemblies. Gross profit was also negatively impacted by an unfavourable sales mix, particularly at the Landing Gear and Gas Turbine Components divisions, where sales for the military and industrial sectors were lower than last year. Finally, the transfer of the Tampa gas turbine operations to Cincinnati following the closure of the Tampa facility in fiscal 2004 was more difficult than anticipated, and resulted in unforeseen manufacturing inefficiencies, particularly for aircraft engine parts.

For fiscal 2005, we therefore reported a net loss from continuing operations of $4.3 million. This was slightly higher than the net loss of $4 million reported for the previous year. However, we closed the year with a net profit of $514,000 in the fourth quarter, compared to a net loss of $31,000 for the same period the year before. The net loss for the year represents a loss per share from continuing operations of 16¢ compared to 17¢ in fiscal 2004.

Taking Diemaco into account, we reported a net loss of $2.1 million or 8¢ per share for the year compared to $2.3 million or 10¢ per share the year before. The number of common shares outstanding increased during the year by about 3.5 million shares, due to the number of shares issued to acquire Progressive.

At March 31, 2005, we had cash and cash equivalents of $9.6 million. Continuing operations generated $12 million in cash flow during last year. However, growing business volumes toward year-end translated into higher receivable and inventories, resulting in a net use of $6 million in cash and cash equivalents for operating activities.

We used a net $79 million in cash flow for our investing activities last year. This was mainly for the Progressive acquisition but also includes some $13 million in capital investments.

To finance the Progressive acquisition, we drew $36.4 million from our credit facilities last year, issued 3.5 million shares for proceeds of $16.2 million and used $18.7 million of our available cash and cash equivalents.

At the end of the last fiscal year, working capital was $47.1 million, for a working capital ratio of 1.48:1. This compares to a working capital ratio of 1.87:1 a year earlier. Our long-term debt stood at $65.7 million and our long-term debt-to-equity ratio was 0.51:1 on March 31, substantially the same as a year earlier.

Earlier this morning we released our results for the first quarter ended June 30, 2005. Sales were up 3.1% overall at $53.9 million compared to $52.3 million last year. The net loss from continuing operations was $2.4 million or 9¢ per share, which compares to $1.4 million or 5¢ per share last year. However, due to an $8.6 million after-tax gain recorded during the quarter on the sale of Diemaco, we reported net income of $6.4 million or $0.24 per share for the quarter, compared to a net loss of $1.3 million or $0.05 per share last year. Results were affected by delays in deliveries and the persistently high level of the Canadian dollar, which alone reduced sales by $4.1 million..

Sales for our Aerospace segment rose 2% for the quarter. Commercial sales for large aircraft landing gear saw good growth despite the deferral of about $6 million in sales to later quarters due to delayed deliveries. Aerostructure sales declined by $2.6 million, mainly as a result of a shortage of certain raw materials on the market.

In the industrial segment, first quarter sales were 13% higher than last year. Industrial Gas Turbine sales remained stable as expected, while new parts manufactured for Caterpillar resulted in a substantial increase in Other Industrial sales for the quarter.

I will now turn things back to Gilles.

Speech of Gilles Labbé, President & CEO – 2nd part

Thank you, Réal.

As we entered fiscal 2006, we were seeing signs of recovery, either beginning or promised, in both the aerospace and power generation market. In the commercial aircraft market, the first signs of improvement seen in 2004 are expected to strengthen over the next several years, driven by rapid growth in the Asian market as well as continued demand in the more mature markets. Boeing, for instance, is calling for the world's commercial airplane fleet to double by 2024 to accommodate steady growth in passenger traffic. In the very near term, both Boeing and Airbus expect higher production levels in 2005, followed by an even more substantial increase in 2006. The upsurge in business jet demand generated by the strong economic performance of the US in 2004 is also expected to persist.

The Airbus A380 and the Boeing 787 are the 'planes of the future, a further response to the industry's projected upturn as passenger traffic continues to grow post 9/11. Their production is expected to consume tremendous industry capacity and we are well positioned to participate in these programs.

Meanwhile, the military aerospace market remains solid for the near term. The U.S. Department of Defense is still planning to increase its budget by US $102 billion for the period from 2005 to 2011. Significant growth is expected to come from emerging programs for next-generation aircraft, such as the Joint Strike Fighter ("JSF"), which I will talk more about in a moment. There is also continued interest in unmanned aircraft vehicles ("UAV"), and more specifically in unmanned combat aircraft vehicles ("UCAV") as replacements for fighter aircraft. Finally, the U.S. military is still contemplating replacing its aging fleet of tanker aircraft.

On the industrial side, we are expecting power generation deliveries to begin to rise slightly this year and more next year.

As for Héroux-Devtek, we entered fiscal 2006 better focused and better able to benefit from improvements in our markets. The centralization of our gas turbine and aerostructure operations, the acquisition of Progressive and our other efforts of last year have reinforced our three core areas of expertise: landing gear, aerostructure and gas turbine components. In these three pillars of our business, the Company is well-positioned to partner with its customers to meet renewed market demand and to offer additional products and services.

Furthermore, late last year the unionized employees at the landing gear plant in Longueuil voted in favour of renewing their collective agreement through May 2008. This completes the negotiation process at all sites and provides us with important labour relations stability for the next few years.

In the medium term, we see particular potential in the Joint Strike Fighter program, which has been called the largest program in US Department of Defense history. The JSF is expected to be the world's premier strike aircraft through 2040. As its name suggests, the program is a joint initiative of the US Navy, Marines, and Air Force, as well as the British military, all of which are looking to replace large numbers of several models of fighter and attack aircraft in the next decade. Following the contract award, other nations signed up to the SDD phase are: Australia, Canada, Denmark, Italy, Netherlands, Norway and Turkey.

The JSF is presently in the system development and demonstration phase, with the first operational aircraft, the F-35, scheduled for delivery in 2008. The F-35 is actually a family of three aircraft: the F-35A, a conventional takeoff and landing version; the F-35B, a short takeoff and vertical landing version, and the F-35C, a carrier version. At present, about2,600 F-35 aircraft are scheduled for delivery to the US and UK Military markets.Sales to international markets can also be estimated at up to 2,000 planes.

Héroux-Devtek has been involved in the JSF program since February 2004, when Lockheed Martin, the prime JSF contractor, chose our Aerostructure Division to manufacture 43 different structural components and our Landing Gear Division to design, develop and manufacture door lock assemblies.

I am pleased to announce today that Héroux-Devtek has been awarded three additional contracts worth over $60 million, from some of our major customers: Lockheed Martin, Boeing and the United State Air Force.

First, on the JSF Program we have received an order from Lockheed Martin for major structural machined components and assemblies for the first seven JSF F-35 Short-Take-Off/Vertical-Landing (STOVL) aircraft. These components will be produced at our Progressive Aerostructure facility in Arlington, Texas. Deliveries are to commence this fiscal year and will run through the end of fiscal 2008.

This latest order is particularly significant as it confirms our relationship with Lockheed Martin and our positioning to participate in this massive project.

Héroux-Devtek has also been chosen by The Boeing Company to supply components for the B-777 Aircraft. The work will be performed over a period of three years commencing early in calendar 2006.

This contract is in addition to the current production of similar products and will result in a higher utilization of our facilities. The track record of meeting our delivery commitments to the B-777 program as well as the excellent team work developed between our facilities and partners clearly are factors in obtaining this important workload.

In addition, since April the United States Air Force has awarded the Landing Gear Division contracts for the production of landing gear components and complete landing gear assemblies for the F-15 and F-16 fighter aircraft, as well as the KC-135, C-130 and B-1B aircraft, to be delivered over the next three fiscal years.

In light of all this, we are prudently optimistic about the current year. The improvement in market conditions that we have been seeing over the past few quarters persisted into the first quarter of this year. Nonetheless, in the near term, particularly the first half of the year, profits may continue to elude us. Indeed, our first quarter results were hurt by the continued high level of the Canadian dollar and deferred deliveries. The delivery delays negatively impacted our results for the quarter, but should be substantially recovered going forward as deliveries are eventually made in subsequent quarters.

Overall, we expect a return to profitability as business conditions improve and our capacity utilization rises, and as we effectively execute our business plan, which includes improvements in productivity through the on-going deployment of lean manufacturing initiatives throughout all of our operations. We are also working on a number of operational initiatives that should help offset the impact of the stronger Canadian dollar and higher raw materials prices so as to improve profit margins and future results. Another factor that will contribute to improved profitability is the completion of low-margin contracts negotiated during the tough business period.

While profitability is our single most important priority, we remain open to strategic acquisitions. We feel the industry will continue to consolidate, and we want to play a role in that. Héroux-Devtek generates strong cash flow, even in difficult times. Our depreciation charge runs at about $18 million, which gives us good flexibility for investments.

Nevertheless, certain challenges remain for the years ahead. The Canadian dollar is expected to remain relatively high. Long delivery lead times for raw materials will almost certainly impact product shipments and extend contract cycle times. We must also complete delivery on the lower margin contracts booked during the market downturn.

For the coming quarters, rather than concentrating strictly on sales, we plan to further improve the operational side of our business, investing strategically in our plants to prepare for ramp-up over the next three years.

To help us achieve these goals and tackle the challenges that remain, we have made some new additions to the Héroux-Devtek team. I am pleased this morning to introduce Martin Brassard, a long-time Héroux-Devtek executive who has recently been appointed to the position of Vice President, General Manager of our Landing Gear Division. Martin will be responsible for the Longueuil, Kitchener, Laval and Riviere des Prairies facilities.

Michael Meshay has been named to the position of Vice-President and General Manager of the Gas Turbine Components Division. Mike brings a wealth of management experience as senior executive assignments acquired with Honeywell in the United Sates and in Europe.

Also, Rick Rosenjack has been appointed as Vice-President and General Manager of Héroux-Devtek /Progressive in Arlington, Texas. Rick joins us following a career, which included senior manufacturing management roles at The Aerostructures Corporation in Nashville, Tennessee, and more recently as a Vice-President with Bell Helicopter Textron, in Fort Worth, Texas.

With our new team in place, this year will be a transitional period as we continue to prepare for the market recovery, focusing on just in-time delivery, quality, getting our plants into shape and ensuring that Héroux-Devtek is set to benefit from the brighter horizons ahead.

In closing, I wish to sincerely thank our shareholders for staying the course with us. You have been most patient. As I like to say, there is definitely light at the end of the tunnel. We feel the aerospace industry is at the bottom of the cycle and will see significant growth over the next several years. We are most confident that Héroux-Devtek is a good investment vehicle to benefit from this, particularly since our shares are currently trading below book value.

Thank you for being here today and thank you for listening. We will now be pleased to answer your questions.