

MANAGEMENT'S DISCUSSION & ANALYSIS - FOURTH QUARTER 2026

MD&A; — Q4 and Full-Year 2026

For the three and twelve months ended December 31, 2026

1. Overview

Tesma International Inc. ("Tesma", "the Company", "we", "our") is a leading global automotive supplier of powertrain technologies including engine, transmission, driveline, electrification, fueling and thermal management systems. We operate 327 manufacturing operations and 92 product development, engineering and sales centres in 28 countries. This MD&A; should be read together with our audited consolidated financial statements for the year ended December 31, 2026, prepared in accordance with International Financial Reporting Standards (IFRS).

2. Results of Operations — Fourth Quarter

2.1 Sales

Q4 2026 sales of **\$11.21 billion** increased 7.8% over Q4 2025, reflecting a 4.6% increase in global vehicle production in our key markets, \$268 million of incremental program launches, and a \$112 million favourable foreign currency translation, partially offset by \$94 million of customer pricing concessions.

2.2 Cost of Goods Sold

Cost of goods sold was **\$9.42 billion** (84.0% of sales) versus \$8.85 billion (85.1% of sales) in Q4 2025. The 110 basis point improvement reflects operating leverage on higher volumes, productivity initiatives delivering approximately \$52 million in savings, and lower commodity input costs (net of recoveries).

2.3 Selling, General & Administrative

SG&A; of **\$498 million** was 4.4% of sales, in line with the prior year quarter. Continued investment in R&D; for electrified powertrain programs (\$284 million in the quarter, +12% YoY) is partially offset by ongoing operational efficiencies.

2.4 Adjusted EBIT

Adjusted EBIT of **\$1,041 million** generated a margin of 9.3%, up 70 basis points YoY. The improvement was driven by operating leverage, productivity gains, and the absence of certain launch-related inefficiencies that impacted Q4 2025.

3. Segment Analysis

(\$M)	Engine	Transmission	Driveline/EV	Fueling/Thermal
Q4 Sales	3,402	3,891	2,604	1,316
Q4 Adj. EBIT	374	412	189	104
Margin	11.0%	10.6%	7.3%	7.9%
Backlog (3-yr)	21.4B	26.8B	31.2B	14.8B

4. Liquidity and Capital Resources

As of December 31, 2026, Tesma held **\$2.84 billion** in cash and cash equivalents and had **\$3.50 billion** of available capacity under its committed revolving credit facility, providing total liquidity of \$6.34 billion. Total debt was \$4.92 billion, resulting in a net debt to adjusted EBITDA ratio of 0.6x, well within our target range of 1.0x – 1.5x.

4.1 Cash Flow

(\$ millions)	Q4 2026	FY 2026
Operating cash flow	1,184	3,612
Capital expenditures	(544)	(1,504)
Free cash flow	640	2,108
Dividends paid	(264)	(1,012)
Share repurchases	(58)	(228)

5. Critical Accounting Estimates

Critical estimates include warranty provisions, impairment of long-lived assets, deferred tax assets, and pension obligations. There were no material changes to our critical accounting estimates during Q4 2026. See Note 3 of the audited consolidated financial statements for further detail.

6. Risk Factors

- Cyclical and pricing pressure in the global automotive industry
- Customer concentration — top three OEM customers represented 52% of 2026 sales
- Transition risks associated with vehicle electrification and program awards
- Commodity input costs (steel, aluminum, copper, rare earth elements)
- Foreign currency exposure across 28 operating countries
- Cybersecurity and information technology systems

7. Outlook

For 2027, we expect sales of \$44.0 – \$46.5 billion, adjusted EBIT margin of 9.3% – 9.7%, and free cash flow of \$2.2 – \$2.5 billion. Our \$94 billion three-year sales backlog provides strong visibility, with electrified programs now representing 38% of total backlog versus 29% one year ago.

Forward-Looking Information & Disclaimer

This document contains forward-looking statements within the meaning of applicable securities legislation. Such statements involve risks and uncertainties that could cause actual results to differ materially. See Tesma's most recent Annual Information Form for a discussion of such risks. Financial measures referenced include non-IFRS measures; reconciliations are available in the related MD&A.; © 2026 Tesma International Inc. All rights reserved. TSX: TSM.A · NASDAQ: TSM.A.