



Dear Shareholders:

We are pleased to present our results for the first quarter of fiscal 2001 ended October 31, 2000.

### ***Financial Highlights***

- Consolidated results represent the 21<sup>st</sup> consecutive quarter (on a comparative year-over-year basis) of record sales and operating income since going public in 1995.
- Sales rose 8% to \$302.1 million compared with \$279.4 million for the first quarter of the previous year.
- Operating income in all segments rose resulting in consolidated operating income of \$36.3 million.
- Net income was a record high \$22.8 million, increasing 15% from \$19.8 million in the prior year.
- Fully diluted earnings per share for the quarter were up 17% to \$0.77 from \$0.66 in 2000 due to higher productivity in our manufacturing facilities.
- Content per vehicle increased 16% and 15% in North America and Europe to \$48.83 and €14.03, respectively versus the comparable period a year ago.
- Gross margin was 24.1%, an increase from 23.6% in the first quarter of fiscal 2000.

### ***North American Operations***

The Company operates 14 manufacturing facilities in North America (12 in Canada and 2 in the U.S.) with 3,200 employees. For the first quarter of fiscal 2001, the Company's North American operations reported sales of \$242.1 million, an increase of 13% over the same period in 2000. This improvement reflects the increased volumes of the GM GEN III V8 engine program on which Tesma has significant content, the launch of the Allison LCT transmission program, increased volumes on certain tensioner and alternator decoupler programs and an increase in exports to customers in Europe and South America, offset by a 3.6% decrease in North American vehicle production volumes to 4.2 million units. Operating income increased 19% to \$31.1 million compared to \$26.2 million a year ago. This increase is attributed to higher sales, improved operating efficiencies and a decrease in interest expense due to lower debt levels.

### ***European Operations***

The Company's 5 European operations located in Germany and Austria employ 960 employees. Sales in Europe decreased 6% to \$48.7 million compared to the first quarter of 2000. Although there was sales growth in all of our European manufacturing facilities and European vehicle production volumes increased approximately 2%, the weakening of the Euro relative to the Canadian dollar caused translated sales to decline by approximately \$10 million versus the comparable quarter a year ago. Despite the decline in sales, operating income rose by 8% to \$4.2 million from \$3.9 million primarily as a result of increased efficiencies in our engine technologies product area.

### ***Asian Operations***

The 2 Asian manufacturing facilities situated in South Korea employ 180 people. The comparative results for the first quarter of fiscal 2000 compared to the first quarter of fiscal 2001, do not reflect the strength of these operations. The sales for this segment were \$11.3 million, a decrease of 14% versus a year ago. However, there is a strengthening of orders within the Korean market, as the Renault-Nissan-Samsung Group restarts production at its Pusan facility and the production of the Ford FN transmission oil pump at our Asan facility reaches full volumes. These operations have been insulated from the latest round of issues surrounding the bankruptcy of Daewoo Motors as they currently have no sales to this company.

## ***Cash Flow***

Cash provided from operations was \$35.5 million, an increase of \$3.9 million over the first quarter of fiscal 2000. However, an increased investment in non-cash working capital resulting from extremely high sales during the month of October and the final payment of fiscal 2000 income taxes resulted in \$10.9 million of cash being used for operating activities in the first quarter of fiscal 2001. Net investment activities for the quarter included \$17.7 million for fixed and other asset additions. As a result, net cash balances at the end of the first quarter were \$58.9 million, a decline of \$34.1 million since July 31, 2000.

## ***Balance Sheet***

Despite the net use of cash during the first quarter, Tesma maintains one of the strongest balance sheets in our industry. Our net debt of \$21.9 million is only 6% of our shareholders' equity and our return on funds employed exceeded 33% in the first quarter.

## ***Dividends***

On November 28, 2000, the Tesma Board of Directors declared a quarterly dividend in respect of the first quarter of fiscal 2001 of \$0.16 per Class A Subordinate Voting and Class B share payable on January 15, 2001 to shareholders of record on December 29, 2000.

## ***Outlook***

As we go to press, many of our North American customers are announcing significant production cutbacks and are increasing pressure on suppliers for pricing concessions, as they combat high inventory levels and in some cases significant losses. Tesma is responding to these issues, but nonetheless, expects to continue to show sales growth in 2001, although at a slower rate than in previous years, as North American OEMs will cut calendar first quarter production schedules in excess of 10% on many product lines. Across the board production declines of the magnitude announced by the North American OEMs will undoubtedly affect all auto parts suppliers, including Tesma. We believe that given Tesma's strong financial position, opportunities may be created for Tesma in the near term as marginal or smaller suppliers struggle to maintain profitability in a lower production, lower cost environment – which still demands “full-service” suppliers. We will continue to build on our past and present successes, as we evolve in the dynamic automotive industry.

This report may contain “forward looking statements” within the meaning of applicable securities legislation. Such statements involve certain risks and uncertainties which may cause actual results or objectives to be materially different from those expressed or implied herein. These factors include the Company's financial performance, changes in the economic and competitive markets in which the Company competes, relationships with customers, currency exposure, and other factors as set out in the Company's Form 40-F for its fiscal year ended July 31, 2000 and subsequent SEC filings.

Manfred Gingl  
President and CEO

Anthony E. Dobranowski  
Executive Vice President and  
Chief Financial Officer

**TESMA INTERNATIONAL INC.**  
**Consolidated Balance Sheets**  
**(Canadian dollars in thousands)**  
**(Unaudited)**

	As at October 31, 2000	As at July 31, 2000
<b>ASSETS</b>		
Cash	<b>\$109,883</b>	\$143,104
Accounts receivable	<b>179,144</b>	142,657
Inventories	<b>91,052</b>	83,632
Prepaid expenses and other	<b>10,900</b>	9,937
	<b>390,979</b>	379,330
Fixed assets	<b>308,607</b>	306,057
Other assets	<b>27,526</b>	27,284
	<b>\$727,112</b>	\$712,671
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Bank indebtedness	<b>\$ 51,057</b>	\$ 50,207
Accounts payable	<b>95,260</b>	85,624
Accrued salaries and wages	<b>31,287</b>	36,019
Other accrued liabilities	<b>45,502</b>	44,014
Income taxes payable	<b>6,628</b>	13,346
Long-term debt due within one year	<b>7,010</b>	8,243
	<b>236,744</b>	237,453
Long-term debt	<b>73,763</b>	74,990
Future tax liabilities	<b>35,607</b>	33,023
<b>SHAREHOLDERS' EQUITY</b>		
Class A Subordinate Voting Shares (authorized: unlimited, issued: 14,978,379)	<b>186,676</b>	185,851
Class B Shares (authorized: unlimited, issued: 14,223,900)	<b>2,583</b>	2,583
Retained earnings	<b>200,698</b>	186,554
Currency translation adjustment	<b>(8,959)</b>	(7,783)
	<b>380,998</b>	367,205
	<b>\$727,112</b>	\$712,671

**TESMA INTERNATIONAL INC.**  
**Consolidated Statements of Income and Retained Earnings**  
**(Canadian dollars in thousands, except per share figures)**  
**(Unaudited)**

	<b>THREE MONTHS ENDED</b>	
	<b>October 31</b>	
	<b>2000</b>	<b>1999</b>
Sales	<b>\$302,107</b>	\$279,424
Cost of goods sold	<b>229,371</b>	213,368
Depreciation and amortization	<b>12,195</b>	10,900
Selling, general and administrative	<b>20,673</b>	18,819
Interest, (net)	<b>(166)</b>	1,417
Affiliation fees and other charges	<b>3,718</b>	3,538
Income before income taxes	<b>36,316</b>	31,382
Income taxes	<b>13,555</b>	11,538
Net income attributable to Class A Subordinate Voting Shares and Class B Shares	<b>22,761</b>	19,844
Retained earnings, beginning of period	<b>186,554</b>	120,595
Dividends on Class A Subordinate Voting Shares and Class B Shares	<b>(4,672)</b>	(2,864)
Cumulative adjustment for change in accounting policy (Note 1)	<b>(3,945)</b>	-
Retained earnings, end of period	<b>\$200,698</b>	\$137,575
Earnings per Class A Subordinate Shares or Class B Shares		
Basic	<b>\$ 0.78</b>	\$ 0.69
Fully diluted	<b>\$ 0.77</b>	\$ 0.66
Average number of Class A Subordinate Voting Shares and Class B Shares outstanding (in millions)		
Basic	<b>29.2</b>	28.6
Fully diluted	<b>30.5</b>	30.2

**TESMA INTERNATIONAL INC.**  
**Consolidated Statements of Cash Flows**  
**(Canadian dollars in thousands)**  
**(Unaudited)**

**THREE MONTHS ENDED**  
**October 31**

**2000** **1999**

**Cash provided from (used for):**

**OPERATING ACTIVITIES**

Net income	<b>\$ 22,761</b>	\$ 19,844
Items not involving current cash flows	<b>12,707</b>	11,712
	<b>35,468</b>	31,556
Changes in non-cash working capital	<b>(46,407)</b>	(9,396)
	<b>(10,939)</b>	22,160

**INVESTING ACTIVITIES**

Fixed asset additions	<b>(16,958)</b>	(15,564)
Purchase of subsidiaries	<b>(800)</b>	-
Increase in other assets	<b>(72)</b>	(118)
Proceeds from disposition of fixed and other assets	<b>82</b>	769
	<b>(17,748)</b>	(14,913)

**FINANCING ACTIVITIES**

Increase in bank indebtedness	<b>1,303</b>	18,755
Issues of long-term debt	<b>-</b>	1,377
Repayments of long-term debt	<b>(1,935)</b>	(1,080)
Issuance of Class A Subordinate Voting Shares	<b>825</b>	735
Dividends on Class A Subordinate Voting Shares and Class B Shares	<b>(4,672)</b>	(2,864)
	<b>(4,479)</b>	16,923
Effect of exchange rate changes on cash	<b>(55)</b>	(519)
Net increase in cash during the period	<b>(33,221)</b>	23,651
Cash, beginning of period	<b>143,104</b>	78,582
Cash, end of period	<b>\$109,883</b>	\$102,233

**TESMA INTERNATIONAL INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Accounting Change**

Effective August 1, 2000, the Company adopted the Canadian Institute of Chartered Accountants new recommendations for the accounting and disclosure of income taxes.

The Company has adopted the new recommendations without restating the financial statements of any prior periods. Accordingly, the Company has recorded the cumulative adjustment as a result of adopting the liability method of tax allocation as a decrease in retained earnings of \$3.9 million and an increase in future tax liabilities of \$3.9 million.

**2. Segmented Information**

The Company currently operates in one industry segment, the automotive powertrain business, designing and manufacturing parts and assemblies primarily for the automotive OEMs or their Tier 1 powertrain component manufacturers.

The Company operates internationally and its manufacturing facilities are arranged geographically to match the requirements of the Company's customers in each market. Each manufacturing facility has the capability to offer many different powertrain parts and assemblies as the technological processes employed can be used to make many different parts and assemblies. Additionally, specific marketing and distribution strategies are required in each geographic region. The Company currently operates in four geographic segments of which only two are reportable segments. The accounting policies for the segments are the same as those described in Note 1 to the July 31, 2000 consolidated financial statements and intersegment sales are accounted for at prices which approximate fair value.

Executive management assesses the performance of each segment based on income before income taxes as the management of income tax expense is centralized.

<b>Three months ended October 31st, 2000</b>	<b>North American Automotive</b>	<b>European Automotive</b>	<b>Other Automotive</b>	<b>Total</b>
[Canadian dollars in thousands]				
Total sales	\$244,074	\$49,248	\$11,264	\$304,586
Intersegment sales	1,926	553	-	2,479
Sales to external customers	\$242,148	\$48,695	\$11,264	\$302,107
Depreciation and amortization	\$ 8,893	\$ 2,062	\$ 1,240	\$ 12,195
Interest, net	\$ (541)	\$ (192)	\$ 567	\$ (166)
Income before income taxes	\$ 31,105	\$ 4,180	\$ 1,031	\$ 36,316
Fixed assets, net	\$212,671	\$54,523	\$41,413	\$308,607
Fixed asset additions	\$ 14,137	\$ 2,577	\$ 244	\$ 16,958
Goodwill, net	\$ 18,835	\$ 1,618	\$ -	\$ 20,453

<b>Three months ended October 31st, 1999</b>	<b>North American Automotive</b>	<b>European Automotive</b>	<b>Other Automotive</b>	<b>Total</b>
[Canadian dollars in thousands]				
Total sales	\$215,447	\$52,431	\$13,124	\$281,002
Intersegment sales	871	707	-	1,578
Sales to external customers	\$214,576	\$51,724	\$13,124	\$279,424
Depreciation and amortization	\$ 7,502	\$ 2,047	\$ 1,351	\$ 10,900
Interest, net	\$ 582	\$ (147)	\$ 982	\$ 1,417
Income before income taxes	\$ 26,210	\$ 3,937	\$ 1,235	\$ 31,382
Fixed assets, net	\$186,793	\$51,378	\$40,093	\$278,264
Fixed asset additions	\$ 9,633	\$ 2,924	\$ 3,007	\$ 15,564
Goodwill, net	\$ 17,907	\$ 1,963	\$ -	\$ 19,870

### 3. Capital Stock

#### Class and Series of Outstanding Securities

The Company's share structure has remained consistent with that in place as at July 31, 2000. For details concerning the nature of the Company's securities, please refer to Note 9 "Convertible Series Preferred Shares" and Note 10 "Capital Stock" of the Company's 2000 Annual Report.

#### Options

The following table presents the maximum number of shares that would be outstanding if all of the outstanding options as at October 31, 2000 were exercised:

	<b>Number of Shares</b>
Class A Subordinate Voting Shares outstanding as at October 31, 2000	14,978,379
Class B Shares outstanding as at October 31, 2000	14,223,900
Options to purchase Class A Subordinate Voting Shares	1,437,900
	<u>30,640,179</u>

The maximum number of shares reserved to be issued for stock options is 3,000,000 Class A Subordinate Voting Shares. The number of reserved but unoptioned shares as at October 31, 2000 is 177,000.

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#### OFFICERS

**Manfred Gingl**

President & Chief Executive Officer

**Anthony E. Dobranowski**

Executive Vice President & Chief Financial Officer

**David J. Carroll**

Vice President, Planning and Corporate Development

**Pasquale Cerullo**

Vice President, Sales & Marketing

**James L. Moulds**

Vice President, Finance and Controller

**Stefan T. Proniuk**

Vice President, Secretary & General Counsel

**Karl H. Steinbauer**

Vice President, Operations

#### TRANSFER AGENTS AND REGISTRARS

#### STOCK LISTINGS

Class A Subordinate Voting Shares  
The Toronto Stock Exchange - **TSM.A**  
NASDAQ - **T SMA**

**Canada** - Class A Subordinate Voting Shares  
Montreal Trust Company of Canada, Toronto, Canada  
**United States** - Class A Subordinate Voting Shares  
Computershare Trust Company, New York, U.S.

#### INVESTOR INFORMATION

Registered shareholders of the Company and non-registered shareholders on our supplementary mailing list automatically receive Tesma's Annual and Quarterly Reports. If you wish to be placed on our supplementary mailing list, please contact:

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#### CORPORATE OFFICE LOCATIONS

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