Celestica

Management's Discussion and Analysis of Condition
and Results of Operations

FIRST QUARTER 1999

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the Celestica Consolidated Financial Statements.

Certain statements contained in the following Management’s Discussion and Analysis of Financial Condition and Results of Operations, including, without limitation, statements containing the words "believes", "anticipates," "estimates," "expects," and words of similar import, constitute forward-looking statements which involve risks and uncertainties. Celestica’s actual results could differ materially from those anticipated in these forward looking statements as a result of certain factors, which are detailed in Celestica’s Form 20-F and its previous F-1 filing.

General

Celestica is a leading provider of electronics manufacturing services to OEMs worldwide and is the third-largest EMS provider in the world with 1998 revenue of $3.2 billion. Celestica provides a wide variety of products and services to its customers, including the high-volume manufacture of complex PCAs and the full system assembly of final products. In addition, the Company is a leading edge provider of design, repair and engineering services, supply chain management and power products. Celestica operates 24 facilities located in the United States, Canada, Mexico, the United Kingdom, Ireland, Thailand, China and Hong Kong.

In July 1998, Celestica completed its initial public offering and issued 23.7 million shares for net proceeds of $389 million, which were used to prepay debt, support its growth strategy and decrease its total net debt to capitalization ratio from 53% to 11%.

In March 1999, Celestica completed an equity offering and issued 9.2 million subordinate voting shares for net proceeds of $251 million. The net proceeds will be used for capital expenditures, working capital and general corporate purposes, including acquisitions. Celestica’s total net debt to capitalization ratio at March 31, 1999 was – 7%.

Celestica prepares its financial statements in accordance with accounting principles which are generally accepted in Canada and which, in all material respects, conform to accounting principles generally accepted in the United States.

Acquisitions Continue in 1998

A significant portion of Celestica's growth has been generated by the strengthening of its customer relationships and increases in the breadth of its service offerings through facilities acquisitions completed in 1997 and 1998.

In February 1998, Celestica acquired a manufacturing facility in Ireland from Madge Networks N.V.’s ("Madge Networks"), a manufacturer of token ring communication products, asynchronous transfer mode products and related derivative products, for a total purchase price of $23.1 million. The acquisition provided Celestica with a facility in a key geographic area and strengthened its relationship with Madge Networks.

In June 1998, Celestica acquired certain assets of Silicon Graphics Inc.’s ("SGI") manufacturing facility in Chippewa Falls, Wisconsin for a total purchase price of $14.9 million. This acquisition strengthened the Company's relationship with a strategic customer and provided Celestica with additional advanced manufacturing capabilities.

In December 1998, Celestica acquired International Manufacturing Services, Inc. ("IMS") through a merger of IMS with Celestica Asia Inc., a subsidiary of the Company ("Celestica Asia"). The Company issued 7.6 million subordinate voting shares with a value of $124.0 million as consideration for the acquisition, and reserved an additional 0.8 million subordinate voting shares with a value of $9.5 million which are issuable upon the exercise of certain IMS options. IMS is an EMS provider with five facilities in China, Thailand, Hong Kong, the United States and Mexico and has approximately 3,600 employees. In addition to providing an important Asian presence, this acquisition also expanded Celestica's customer base, diversified its end-product markets and broadened its advanced manufacturing capabilities/low cost offerings.

Celestica's acquisitions of Hewlett-Packard Company’s ("Hewlett-Packard") PCA-layout design operation in Fort Collins, Colorado in February 1998 and its embedded systems organization in Chelmsford, Massachusetts in March 1998 have broadened Celestica's service offerings and strengthened its relationships with Hewlett-Packard. Celestica also acquired "Customer Gateway Centres" in Santa Clara, California and Raleigh, North Carolina through its 1998 acquisitions of Analytic Design, Inc. ("Analytic Design") and Accu-Tronics, Inc. ("Accu-Tronics"). These Customer Gateway Centres are design and prototype centers that are conveniently located relative to the Company's customers and serve as an entry to Celestica's full suite of services and large-scale production facilities. In April 1998, the Company acquired a manufacturing facility in Monterrey, Mexico, which provided it with a presence in a low-cost geography. The aggregate purchase price paid by Celestica for these acquisitions was $17.9 million.

Celestica's 12 acquisitions completed in 1997 and 1998 had purchase prices ranging from $2.5 million to $133.7 million, totaling $471.3 million. Celestica continues to examine numerous acquisition opportunities in order to:

• expand into new geographies to enhance its global presence;

• create strategic relationships with new customers and diversify end-product programs with existing customers;

• expand its capacity in selected geographic regions to take advantage of existing infrastructure or low cost manufacturing;

• diversify its business by entering new market sectors and increasing penetration in the telecommunications and other non-computer market sectors; and

• broaden service offerings.

Celestica announced three acquisitions at the end of March 1999. Celestica entered into a letter of intent leading to the long-term supply agreement with Cabletron Systems of Rochester, New Hampshire to provide electronics manufacturing services. Under the terms of the agreement, it is expected that substantially all of Cabletron’s electronics manufacturing will be outsourced to Celestica. Celestica also entered into letters of intent to purchase the printed circuit board assembly operation from Hewlett-Packard’s Medical Products Group in Andover, Massachusetts, and a manufacturing facility from Gossen-Metrawatt in the Czech Republic. All three of these transactions are expected to close over the next few months.

Celestica expects each acquisition to be accretive to earnings and cash flow after a transition period for the acquisition, generally approximately one year. The initial margins from a newly acquired facility historically have been lower than Celestica's overall margins for several reasons: frequently, the acquired facility is underutilized; some business at the new facility may be lower margin business (such as system assembly); some newly acquired facilities may be less efficient initially; and Celestica may accept lower initial margins on large-scale projects with significant new customers. The risks of lower margins frequently are mitigated during transition periods by supply arrangements agreed to in connection with a particular acquisition. These arrangements may include limited overhead contribution commitments, take or pay arrangements or limited revenue or product volume guarantees to support the financial viability of the facility until it reaches self-sufficiency. Celestica expects that the results for the acquired facilities will improve over the transition period as Celestica: (i) increases capacity utilization and reduces cost; (ii) completes integration activities; (iii) implements Celestica's processes and disciplines to reduce costs and obtain the cost benefits of its procurement leverage; and (iv) introduces new business from the original customer and others.

In connection with certain acquisitions, Celestica has entered into production agreements with its OEM customers with terms of one to three years in duration. These agreements contain limited overhead contribution provisions or product volume guarantees for only a short period following the purchases. Celestica may enter into similar agreements in connection with future facility acquisitions.

Results of Operation

Celestica's revenue and margins from period to period are affected by the volume of turnkey versus consignment sales and the mix of business between system assembly and printed circuit assemblies. With turnkey manufacturing, where Celestica purchases the materials and components, revenue is higher and margins are generally lower. With consignment sales, where the customer purchases all or a portion of the materials and components necessary for production, revenue is lower, since Celestica records only the value-added portion as revenue, and margins are generally higher. The majority of Celestica's revenue is generated from turnkey sales. Moreover, system assembly business typically generates lower margins than printed circuit assemblies because of the high material content in system assembly as a percentage of revenue and the lower value-added content.

Celestica's contracts with its key customers generally provide a framework for its overall relationship with the customer. Actual production volumes are based on purchase orders for delivery of products. These orders typically do not commit to firm production schedules for more than 30 to 90 days in advance. Celestica minimizes risk relative to its inventory by usually ordering materials and components only to the extent necessary to satisfy existing customer orders. Celestica is largely protected from the risk of inventory cost fluctuations as these costs are generally passed through to customers.

Celestica's annual and quarterly results are primarily affected by the level and timing of customer orders, fluctuations in materials costs and the mix of materials and labor and manufacturing overhead costs. The level and timing of a customer's orders will vary due to the customer's attempt to balance its inventory, changes in its manufacturing strategy and variation in demand for its products. Celestica's annual and quarterly operating results are also affected by capacity utilization and other factors, including price competition, experience in manufacturing a particular product, the degree of automation used in the assembly process, the efficiencies achieved by Celestica in managing inventories and capital assets, the timing of expenditures in anticipation of increased sales, the timing of acquisitions and related integration costs, customer product delivery requirements and shortages of components or labor. Historically, Celestica has experienced some seasonal variation in revenue, with revenue typically being highest in the fourth quarter and lowest in the first quarter.

The comparison of results of operations from period to period is significantly affected by the timing of Celestica's acquisitions. There is no certainty that the historical pace of Celestica's acquisitions will continue in the future.

The table below sets forth certain operating data expressed as a percentage of revenue for the periods indicated:

	Three Months Ended March 31	
	1998	1999
Revenue	100.0%	100.0%
Cost of sales	93.5	93.0
Gross profit	6.5	7.0
Selling, general and administrative expenses	3.6	3.9
Amortization of intangible assets	1.8	1.3
Integration costs related to acquisitions	0.4	—
Other charges	4.7	—
Operating income (loss)	(4.0)	1.8
Interest expense, net	1.7	0.3
Earnings (loss) before income taxes	(5.7)	1.5
Income taxes (recovery)	(1.4)	0.6
Net earnings (loss)	(4.3)%	0.9%

As a result of the significant number of acquisitions made by Celestica over the past two years, management of Celestica uses adjusted net earnings as a measure of operating performance on an enterprise-wide basis. Adjusted net earnings excludes the effects of acquisition related charges (most significantly, amortization of intangible assets and integration costs related to acquisitions) and other charges (the write-down of intellectual property and goodwill, and the write-off of deferred financing costs and debt redemption fees) and the related income tax effect of these adjustments. Adjusted net earnings is not a measure of performance under Canadian GAAP or U.S. GAAP. Adjusted net earnings should not be considered in isolation or as a substitute for net earnings prepared in accordance with Canadian GAAP or U.S. GAAP or as a measure of operating performance or profitability. The following table reconciles net earnings (loss) to adjusted net earnings:

	Three Months ended March 31,	
	1998	1999
	(in millions)	
Net earnings (loss)	$ (31.8)	$ 9.5
Amortization of intangible assets	13.2	13.8
Integration costs related to acquisitions	2.7	0.4
Other charges	35.0	—
Income tax effect of above	(13.3)	(1.8)
Adjusted net earnings	$ 5.8	$ 21.9

Revenue

Revenue increased $343.1 million, or 46.4%, for the three months ended March 31, 1999 to $1,081.8 million from $738.7 million for the same period last year. Revenue increased $156.5 million, or 16.9% compared to revenue of $925.3 million for the three months ended December 31, 1998. Revenue for Celestica's North American operations increased by 26.6% to $750.8 million in the three months ended March 31, 1999 from $593.2 million for the same period last year. Revenue from European operations grew 62.2%, to $236.1 million in the three months ended March 31, 1999 from $145.5 million in the same period last year. Revenue growth from both North America and European operations is primarily attributable to organic growth. The IMS acquisition (Celestica Asia) completed on December 30, 1998 contributed $141.3 million in revenue for the three months ended March 31, 1999, principally from Asian operations. Inter-segment revenue for the three months ended March 31, 1999 was $46.4 million. There was no inter-segment revenue during the three months ended March 31, 1998.

The following customers represented more than 10% of total revenue for each of the indicated periods:

	Three months ended March 31,	
	1998	1999
Hewlett-Packard	X	X
Sun Microsystems		X
Cisco Systems	X	X
IBM	X	

Celestica's top five customers represented in the aggregate 67.1% of total revenue for the three months ended March 31, 1999, compared to 71.2% for the three months ended March 31, 1998.

Gross profit

Gross profit increased $27.5 million, or 57.7%, for the three months ended March 31, 1999 to $75.2 million from $47.7 million for the same period last year. Gross margin increased to 7.0% for the three months ended March 31, 1999 from 6.5% for the same period last year. The increase in gross margin from the prior year was due to improved cost management and facility utilization in Canada and Europe, partially offset by lower margin business associated with the U.S. operations and the transitioning of operations from the 1998 acquisitions. Gross margin declined to 7.0% for the three months ended March 31, 1999 from 7.5% for the three months ended December 31, 1998 as a result of seasonal mix and new program start-ups.

Selling, general and administrative expenses

Selling, general and administrative expenses increased $15.8 million, or 59.8%, for the three months ended March 31, 1999 to $42.2 million (3.9% of revenue) from $26.4 million (3.6% of revenue) for the same period last year. The increase, both in amount and as a percentage of revenue, was a result of higher selling and marketing expenses incurred to support both current and future EMS growth as well as expenses incurred by the operations acquired during 1998.

Research and development costs of $4.7 million (0.4% of revenue) were incurred for the three months ended March 31, 1999 compared to $4.2 million (0.6% of revenue) for the three months ended March 31, 1998.

Intangible assets and amortization

Amortization of intangible assets increased $0.6 million, or 4.5%, for the three months ended March 31, 1999 to $13.8 million from $13.2 million for the same period last year. This increase is attributable to the intangible assets arising from the 1998 acquisitions, partially offset by the reduction in amortization attributable to the write-off of goodwill of $6.8 million in the fourth quarter of 1998. The excess of the purchase price paid over the fair value of tangible assets acquired in the acquisitions completed in 1998 amounted to $105.5 million and has been allocated to goodwill and other intangible assets. Of this amount, $92.3 million related to the acquisition of IMS. In the IMS acquisition, Celestica acquired $169.7 million of identifiable assets and assumed liabilities of $128.3 million.

At March 31, 1999, intangible assets represented 18.2% of Celestica's total assets compared to 22.9% at December 31, 1998 and 22.0% at March 31, 1998.

Integration costs related to acquisitions

Integration costs related to acquisitions represent costs incurred within 12 months of the acquisition date, such as the costs of implementing compatible information technology systems in newly acquired operations, establishing new processes related to marketing and distribution processes to accommodate new customers and salaries of personnel directly involved with integration activities. All of the integration costs incurred related to newly acquired facilities, and not to the Company's existing operations.

Integration costs decreased $2.3 million to $0.4 million for the three months ended March 31, 1999 from $2.7 million for the same period last year.

Celestica expects to incur additional integration costs in 1999 as it completes the integration of operations acquired in 1998. Celestica expects to continue to incur additional integration costs in the future as acquisitions remain an important part of the Company's growth strategy.

Other charges

Other charges are non-recurring items or items that are unusual in nature.

During the three months ended March 31, 1999 Celestica did not incur any unusual charges. For the three months ended March 31, 1998, Celestica incurred $35.0 million related to the write down of the carrying value of intellectual property.

Interest expense

Interest expense, net of interest income, decreased $9.2 million, or 74.2%, for the three months ended March 31, 1999 to $3.2 million from $12.4 million for the same period last year. Debt levels for the first quarter of 1999 were much lower than those for the first quarter of 1998 due to the prepayment of debt from the net proceeds from the initial public offering in July 1998 of approximately $389 million and the March 1999 equity offering with net proceeds of approximately $251 million. Interest income was earned in the three months ended March 31, 1999 on the net cash position as a result of the offering.

Income taxes

Income tax expense for the three months ended March 31, 1999 was $6.1 million compared to a recovery of $10.2 million for the same period last year. The income tax recovery in the first quarter of 1998 was primarily a result of the tax effect of the write down of intellectual property.

Celestica has recognized a net deferred tax asset at March 31, 1999 of $49.4 million which relates to the recognition of net operating losses and future income tax deductions available to reduce future years' income for income tax purposes. Celestica's current projections demonstrate that it will generate sufficient taxable income (in excess of $120.0 million) in the future to realize the benefit of these deferred income tax assets in the carry-forward periods, not exceeding 15 years.

Quarterly Results of Operation

The following table sets forth certain unaudited quarterly financial information of Celestica. Historically, Celestica has experienced some seasonal variation in revenue, with revenue typically being highest in the fourth quarter and lowest in the first quarter. This variation may be offset in part by organic growth and acquisitions. This information has been derived from the quarterly consolidated financial statements of Celestica which are unaudited but which, in the opinion of management, have been prepared on the same basis as the Celestica Consolidated Financial Statements and include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the financial results for such periods. The operating results for any previous quarter are not necessarily indicative of results for any future period.

Quarter Ended[1]

	June 30, 1997	September 30, 1997	December 31, 1997	March 31, 1998	June 30, 1998	September 30, 1998	December 31, 1998	March 31, 1999	June 30, 1999
				(in millions)					
Revenue	$430.7	$409.1	$683.2	$738.7	$773.6	$811.6	$925.3	$1,081.8	$1,249.7
Cost of sales	399.8	375.3	634.6	691.0	719.9	751.7	856.1	1,006.6	1,161.3
Gross profit	30.9	33.8	48.6	47.7	53.7	59.9	69.2	75.2	88.4
%	*7.2%*	*8.3%*	*7.1%*	*6.5%*	*6.9%*	*7.4%*	*7.5%*	*7.0%*	*7.1%*
Selling, general and administrative expenses	19.0	16.2	18.3	26.4	32.5	35.0	36.6	42.2	47.1
%	*4.4%*	*4.0%*	*2.7%*	*3.6%*	*4.2%*	*4.3%*	*4.0%*	*3.9%*	*3.8%*
Amortization of intangible assets[2]	3.3	3.9	4.8	13.2	10.6	10.8	10.8	13.8	13.7
Integration costs related to acquisitions	0.5	2.1	10.4	2.7	1.6	1.3	2.5	0.4	3.6
Other charges	13.9[3]	—	—	35.0[4]	17.8[5]	—	11.9[6]	—	—
Operating income (loss)	(5.8)	11.6	15.1	(29.6)	(8.8)	12.8	7.4	18.8	24.0
Interest expense	6.9	7.9	11.8	12.4	13.0	3.7	3.2	3.2	2.3
Earnings (loss) before tax	(12.7)	3.7	3.3	(42.0)	(21.8)	9.1	4.2	15.6	21.7
Income taxes (recovery) (7)	(2.9)	2.3	1.3	(10.2)	(2.6)	2.8	8.0	6.1	8.5
Net earnings (loss)	$ (9.8)	$ 1.4	$ 2.0	$ (31.8)	$ (19.2)	$ 6.3	(3.8)	9.5	13.2
Basic earnings (loss) per share	$(0.27)	$0.04	$0.05	$(0.87)	$(0.52)	$0.10	$(0.06)	$0.12	$0.16
Adjusted net earnings	$2.2	$6.2	$12.3	$5.8	$4.6	$16.2	$18.7	$21.9	$27.5

---

(1) For 1997, 1998 and 1999 includes the results of operations of (a) the assets acquired from Hewlett-Packard in Colorado and New England in multi-stage transactions in July, August and October 1997, on a consignment basis

prior to October 31, 1997 and on a turnkey basis thereafter, (b) Ascent Power Technologies Inc. acquired in October 1997, (c) the manufacturing operation of Madge Networks acquired in February 1998, (d) the manufacturing operation acquired from Lucent Technologies Inc. in April 1998, (e) Analytic Design acquired in May 1998, (f) the manufacturing operation acquired from SGI in June 1998, (g) Accu-Tronics (Celestica North Carolina) acquired in September 1998, and (h) the manufacturing operations acquired from IMS acquired on December 30, 1998.

(2) Effective January 1, 1998, Celestica revised the estimated useful life of goodwill and intellectual property for accounting purposes from 20 years to 10 years and 5 years, respectively.

(3) Represents a credit loss of $13.9 million relating to a customer which filed for bankruptcy.

(4) Effective March 31, 1998, Celestica completed a review of the carrying value of its intellectual property. As a result of this review, Celestica concluded that certain processes and technologies acquired from IBM in 1996 were no longer in use and the future benefit of other technologies was less certain than was previously the case. Accordingly, Celestica's results of operations for the three months ended March 31, 1998 included an unusual non-cash charge of $35.0 million to reflect a write-down of the carrying value of this intellectual property.

(5) Celestica incurred $17.8 million of other charges related to a write-off of deferred financing fees and debt redemption fees associated with the prepayment of debt from the proceeds of the Company's initial public offering.

(6) Represents a $6.8 million write-off of goodwill and $5.1 million of other charges arising from the merger with IMS.

(7) Celestica changed its method of accounting for income taxes in accordance with a new accounting standard issued under Canadian GAAP in the fourth quarter of 1997 and applied this change retroactively to all quarters in 1997.

Liquidity and Capital Resources

For the three months ended March 31, 1999, Celestica’s operating activities utilized $32.3 million in cash mainly to support higher working capital requirements. Investing activities for the quarter included fixed asset purchases of $41.8 million. There were no acquisitions recorded this quarter. In March 1999, Celestica completed an equity offering and issued a total of 9.2 million subordinate voting shares, for gross proceeds of $263.6 million less expenses and underwriting commissions of $12.7 million.

For the first quarter of 1998, the Company generated cash of $7.6 million from operating activities as a result of a net loss of $31.8 million, deferred income taxes of $11.3 million and an increase in working capital requirements of $5.7 million, offset by depreciation and amortization of $21.4 million and a non-cash charge of $35.0 million relating to the write-down of intellectual property. Investing activities during the first quarter of 1998 consisted primarily of capital expenditures of $18.4 million and the acquisition of Celestica Ireland, for a total purchase price, net of cash on hand, of $19.9 million. During the first quarter of 1998, the Company’s net borrowings were $25.0 million to finance acquisitions and fund operations.

In April 1999, Celestica completed a new $225 million global revolving credit facility which is available for general corporate purposes, including acquisitions. This financing was provided by a syndicate of banks led by the Bank of Nova Scotia. The facility is unsecured and is available to Celestica Inc. and certain designated subsidiaries. It has an initial term of 364 days, which is renewable annually; and may be extended to two years as a term loan at Celestica’s option after any 364 day period. This new credit facility is in addition to the $250 million five-year global revolving credit facility established in July 1998.

In July 1998, Celestica replaced its then outstanding credit facilities with a global, unsecured, revolving credit facility of $250 million provided by a syndicate of lenders. The credit facility permits Celestica and certain designated subsidiaries to borrow funds directly for general corporate purposes (including acquisitions) at floating rates. The credit facility is available for a period of five years. Under the credit facility, Celestica is required to maintain certain financial ratios; its ability and that of certain of its subsidiaries to grant security interests, dispose of assets, change the nature of its business or enter into business combinations, is restricted; and a change in control is an event of default. No borrowings were outstanding under the credit facility at March 31, 1999.

The only other financial covenant in effect is a debt incurrence covenant contained in Celestica's Senior Subordinated Notes due 2006. This covenant is based on Celestica's fixed charge coverage ratio, as defined in the indenture governing the Senior Subordinated Notes.

Celestica was in compliance with all covenants as at March 31, 1999.

Celestica believes that cash flow from the recent offering, operating activities and borrowings available under its global, unsecured, revolving credit facilities, will be sufficient to fund currently anticipated working capital, planned capital spending and debt service requirements for the next 12 months. The Company's planned capital spending for 1999 is approximately $125 million, of which $41.8 million was spent in the first quarter of 1999 and $23.2 million was committed at March 31, 1999. In addition, Celestica regularly reviews acquisition opportunities, and may therefore require additional debt or equity financing.

Celestica prices the majority of its products in U.S. dollars, and the majority of its material costs are also denominated in U.S. dollars. However, a significant portion of its non-material costs (including payroll, facilities costs and costs of locally sourced supplies and inventory) are denominated in Canadian dollars and British pounds sterling (including approximately C$320 million and £84.0 million on an annualized basis). As a result, Celestica may experience transaction and translation gains or losses because of currency fluctuations. At March 31, 1999, Celestica had forward foreign exchange contracts covering various currencies with expiry dates up to June 2000 in a notional amount of $218.9 million.Celestica may, from time to time, enter into hedging transactions to minimize its exposure to foreign currency and interest rate risks. Celestica's current hedging activity is designed to reduce the variability of its foreign currency costs and involves entering into contracts to sell U.S. dollars to purchase Canadian dollars and British pounds sterling at future dates. In general, these contracts extend for periods of less than 18 months. There can be no assurance that such hedging transactions, if entered into, will be successful.

A portion of the costs of the operations of Celestica Asia are denominated in other currencies, such as the Thai baht, the Hong Kong dollar and the Chinese renminbi. The recent economic problems in Hong Kong and Thailand, including the devaluation of the Thai baht, did not adversely impact Celestica Asia. Celestica does not expect the impact of future exchange rate changes in these currencies to have a material effect on Celestica's operations.

Year 2000

General

The year 2000 issue concerns the potential exposures related to the automated generation of business and financial misinformation resulting from the fact that certain computer systems, embedded systems and hardware use two digits, rather than four, to define the applicable year. On January 1, 2000, these systems and programs may recognize the date as January 1, 1900 and may process data incorrectly or stop processing data altogether. Celestica relies upon vendor-supplied technology and recognizes the potential business risk to its assets and systems associated with the arrival of the year 2000.

Celestica’s year 2000 plans described below do not include any plans relating to acquisitions announced in March 1999 since these acquisitions are not closed and Celestica has not had an opportunity to review their plans concerning the year 2000.

Status of Remediation

Celestica has identified three phases in its year 2000 project: identify, test and validate. The identification phase involves the collection and validation of an inventory of computer related devices and an evaluation and assessment of each inventoried item. The testing phase includes remediation (repair, replace or retire) and various levels of testing for compliance. The validation phase includes the verification that the system or process will continue to function in year 2000 and beyond.

As of March 31, 1999, Celestica had identified approximately 750 year 2000 projects that were considered mission critical — that is, projects where the failure to complete the year 2000 remediation on a timely basis would cause a substantial disruption in, or cessation of, a significant portion of Celestica's business. Mission critical projects include remediation of all hardware and software for all information technology ("IT") applications and systems, all manufacturing processes and all production facility processes. As of March 31, 1999, Celestica had completed assessment on approximately 99% of mission critical projects, testing on approximately 85% and validation on approximately 79%.

Non-mission critical projects include non-IT systems such as those which may be used in the operation of certain non-production machinery and equipment. As of March 31, 1999, Celestica had completed assessment on approximately 99% of such non-mission critical projects, testing on approximately 93% and validation on approximately 90%.

Celestica expects to complete all year 2000 remediation for these projects by the end of June 1999. The failure to complete the remedial actions on a timely basis could have a material adverse effect on Celestica's business, results of operations and financial condition.

Third Party Compliance

Celestica's year 2000 project scope extends to assessing issues affecting suppliers' and customers' products, services, systems and operations. In early 1998, Celestica sent questionnaires to substantially all of its vendors and suppliers requesting information regarding their year 2000 compliance, and Celestica is following up on all unsatisfactory responses. Based on information available to it at March 31, 1999, Celestica believes that approximately 75% of its suppliers are year 2000 compliant. Celestica will undertake on-site supplier reviews to confirm compliance where it considers it appropriate.

In addition to these formal inquiries, Celestica has been working closely on year 2000 issues with those third parties with which Celestica has significant relationships, including, in particular, significant customers and suppliers. Mutual testing of electronic data interfaces between Celestica and its significant customers and suppliers is being performed in an effort to ensure their year 2000 compliance.

Contingency Plans

Celestica is developing contingency plans for potential year 2000 failures. Celestica intends to develop, where practicable, contingency plans for all mission critical processes. Celestica plans to complete these contingency plans by September 1999.

Estimated Costs

Celestica currently estimates that the total costs for its year 2000 remediation projects will be approximately $10.0 million. As of March 31, 1999, Celestica has incurred approximately $8.0 million of costs for year 2000 projects. Year 2000 expenditures are financed through funds generated from operations, and are capitalized to the extent they enhance the capabilities and useful life of the underlying systems. Celestica has not deferred any major information technology projects as a result of its year 2000 remediation efforts.

Part of Celestica's overall acquisition strategy is to implement common technology platforms across all of its major locations. In addition, Celestica has been refreshing many of its existing systems (supply chain systems, engineering systems and office systems) in support of its corporate growth strategies. Since the migration to common technology platforms is part of Celestica's overall acquisition and integration strategies and no significant systems implementation was accelerated as a result of year 2000 issues, none of these costs have been included in Celestica's estimate of year 2000 remediation costs noted above.

Celestica has not assessed the financial impact of not being year 2000 compliant. Failure to be year 2000 compliant could have a material adverse effect on Celestica's business, results of operations and financial condition.

Euro Conversion

Effective January 1, 1999, 11 of the 15 member countries of the European Union (the participating countries) established fixed conversion rates between their existing sovereign currencies and the euro. For three years after the introduction of the euro, the participating countries can perform financial transactions in either the euro or their original local currencies. This will result in a fixed exchange rate among the participating countries, whereas the euro (and the participating countries' currencies in tandem) will continue to float freely against the U.S. dollar and other currencies of non-participating countries.

Management are periodically monitoring and evaluating the effects of the euro conversion on the Company. Celestica does not believe that significant modifications of its information technology systems are needed in order to handle euro transactions and reporting at this time. The Company does not expect the euro conversion to have a significant impact on its derivatives as the Company has already modified its hedging policies to take the euro conversion into account. While the Company currently believes that the effects of the conversion do not have a significant adverse material effect on the Company's business and operations, there can be no assurances that such conversion will not have an adverse material effect on the Company's results of operations and financial position due to competitive and other factors that may be affected by the conversion that cannot be predicted by the Company.

Backlog

Although Celestica obtains firm purchase orders from its customers, OEM customers typically do not make firm orders for delivery of products more than 30 to 90 days in advance. Celestica does not believe that the backlog of expected product sales covered by firm purchase orders is a meaningful measure of future sales since orders may be rescheduled or cancelled.