The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the 2003 Consolidated Financial Statements. All dollar amounts are expressed in U.S. dollars.

Certain statements contained in the following Management's Discussion and Analysis of Financial Condition and Results of Operations, and elsewhere in this Annual Report, including, without limitation, statements containing the words believes, anticipates, estimates, expects, and words of similar import, constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties which could cause actual results to differ materially from those anticipated in these forward-looking statements. These risks and uncertainties include, but are not limited to: the ability to achieve the anticipated benefits of the merger with MSL; the challenges of effectively managing our operations during uncertain economic conditions; the challenge of responding to lower-than-expected customer demand; the effects of price competition and other business and competitive factors generally affecting the EMS industry; our dependence on the computing and communications industries; our dependence on a limited number of customers and on industries affected by rapid technological change; component constraints; variability of operating results among periods; the ability to manage our restructuring and the shift of production to lower cost geographies; other economic, business and competitive factors affecting our customers, our industry and business generally; and other factors we may not have currently identified or quantified. These and other risks and uncertainties and factors are discussed in the Company's filings with the Canadian Securities Commissions and the U.S. Securities and Exchange Commission, including the Company's Annual Report on Form 20-F and subsequent reports on Form 6-K filed with the Securities and Exchange Commission.

We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You should read this Annual Report with the understanding that our actual future results may be materially different from what we expect. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

Overview

Celestica is a world leader in providing electronics manufacturing services (EMS) to OEMs in the computing, communications and other industries. Celestica provides a wide variety of products and services to its customers, including the high-volume manufacture of complex printed circuit board assemblies and the system assembly of final products. In addition, the Company is a leading-edge provider of engineering, design and after-market services, supply chain management and power products. Celestica operates facilities in the Americas, Europe and Asia.

During the past three years, the EMS industry has experienced continued demand weakness, particularly in the computing and communications end markets, as spending on higher complexity and infrastructure products was reduced or cut. The Company's concentration of business with customers in these higher complexity products had an adverse effect on the Company's revenue and margins for 2002 and 2003. The downturn also created excess capacity in the EMS industry resulting in continued pricing pressures as EMS providers competed for a reduced amount of business. Declining end markets and volumes have led to lower utilization rates which continue to adversely impact margins. Celestica's revenue for 2003 was $6.7 billion, down 19% from $8.3 billion in 2002.

During these difficult periods, the Company has responded by focusing on improving operating efficiency, rebalancing its global manufacturing network, reducing capacity by restructuring, diversifying into new markets and expanding its customer base. As the Company executes its plan to expand into new end markets and services, and add new customers, margins in the near term will be affected by the start-up costs of these new investments and initiatives. The Company will continue to evaluate acquisition opportunities as a source of future growth. See "Acquisition History."

In 2001, the Company announced its first restructuring plan in response to the weakened end markets. As the downturn continued into 2002, the Company announced its second restructuring plan. In January 2003, the Company announced a further restructuring plan, to be completed by mid-2004. The restructuring plans are focused on consolidating facilities and increasing capacity utilization in lower cost geographies. The Company will have an improved balance in its global manufacturing network when all of the planned restructuring actions are completed. At the end of 2003, the Company had approximately 70% of its production facilities in lower cost geographies, up from approximately 50% a year ago.

As a result of the depressed volumes for 2003 and significant program transfer and ramping activities, gross margins ended at 3.9% compared to 6.7% in 2002. As these activities stabilize, and restructuring benefits materialize, profitability is expected to improve during the next year.

The Company maintained a strong balance sheet in 2003 and finished the year with over $1.0 billion in cash. During the year, the Company continued to utilize its strong financial position to reduce debt by repurchasing convertible debt and expand its share repurchase program. The Company's stronger balance sheet gives it greater flexibility to grow its business, or continue its debt or share repurchases.

Critical Accounting Policies and Estimates

Celestica prepares its financial statements in accordance with Canadian GAAP with a reconciliation to United States GAAP, as disclosed in note 20 to the 2003 Consolidated Financial Statements.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Significant accounting policies and methods used in preparation of the financial statements are described in note 2 to the 2003 Consolidated Financial Statements. The Company evaluates its estimates and assumptions on a regular basis, based on historical experience and other relevant factors. Actual results could differ materially from these estimates and assumptions. The following critical accounting policies are impacted by judgments, assumptions and estimates used in preparation of the Consolidated Financial Statements.

Revenue recognition:
Celestica derives most of its revenue from OEM customers. The contractual agreements with its key customers generally provide a framework for its overall relationship with the customers. Celestica recognizes product manufacturing revenue upon shipment as title has passed, persuasive evidence of an arrangement exists, performance has occurred, customer specified test criteria have been met, and the earnings process is complete. Celestica has contractual arrangements with the majority of its customers that require the customer to purchase unused inventory that Celestica has purchased to fulfill that customer's forecasted manufacturing demand. Celestica accounts for raw material returns as reductions in inventory and does not record revenue on these transactions.

Allowance for doubtful accounts:
Celestica records an allowance for doubtful accounts related to accounts receivable that are considered to be impaired. The allowance is based on the Company's knowledge of the financial condition of its customers, the aging of the receivables, current business environment, customer and industry concentrations, and historical experience. A change to these factors could impact the estimated allowance and the provision for bad debts recorded in selling, general and administrative expenses.

Inventory valuation:
Celestica values its inventory on a first-in, first-out basis at the lower of cost and replacement cost for production parts, and at the lower of cost and net realizable value for work in progress and finished goods. Celestica regularly adjusts its inventory valuation based on shrinkage and management's estimates of net realizable value, taking into consideration factors such as inventory aging, future demand for the inventory, and the nature of the contractual agreements with customers and suppliers, including the ability to return inventory to them. A change to these assumptions could impact the valuation of inventory and have a resulting impact on margins.

Income tax valuation allowance:
Celestica records a valuation allowance against deferred income tax assets when management believes it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Management considers factors such as the reversal of deferred income tax liabilities, projected future taxable income, the character of the income tax asset, tax planning strategies, changes in tax laws and other factors. A change to these factors could impact the estimated valuation allowance and income tax expense.

Goodwill:
Celestica performs its annual goodwill impairment test in the fourth quarter of each year (to correspond with its planning cycle), and more frequently if events or changes in circumstances indicate that an impairment loss may have been incurred. Impairment is tested at the reporting unit level by comparing the reporting unit's carrying amount to its fair value. The fair values of the reporting units are estimated using a combination of a market approach and discounted cash flows. The process of determining fair values is subjective and requires management to exercise judgment in making assumptions about future results, including revenue and cash flow projections at the reporting unit level, and discount rates. Celestica recorded an impairment loss in 2002. There was no impairment identified in 2003. Future goodwill impairment tests may result in further impairment charges.

Long-lived assets:
Celestica performs its annual impairment tests on long-lived assets in the fourth quarter of each year (to correspond with its planning cycle), and more frequently if events or changes in circumstances indicate that an impairment loss may have been incurred. Celestica estimates the useful lives of capital and intangible assets based on the nature of the asset, historical experience and the terms of any related supply contracts. The valuation of long-lived assets is based on the amount of future net cash flows these assets are estimated to generate. Revenue and expense projections are based on management's estimates, including estimates of current and future industry conditions. A significant change to these assumptions could impact the estimated useful lives or valuation of long-lived assets resulting in a change to depreciation or amortization expense and impairment charges. Celestica recorded long-lived impairment losses in 2002 and 2003. Future impairment tests may result in further impairment charges.

Restructuring charges:
Celestica has recorded restructuring charges relating to facility consolidations and workforce reductions. The restructuring charges include employee severance and benefit costs, costs related to leased facilities that have been abandoned or subleased, owned facilities which are no longer used and available-for-sale, cost of leased equipment that has been abandoned, impairment of owned equipment available-for-sale, and impairment of related intangible assets, primarily intellectual property. The recognition of these charges requires management to make certain judgments and estimates regarding the nature, timing and amount associated with these plans. For owned facilities and equipment, the impairment loss recognized was based on the fair value less costs to sell, with fair value estimated based on existing market prices for similar assets. For leased facilities that will be abandoned or subleased, the estimated lease cost represents future lease payments subsequent to abandonment less estimated sublease income. To estimate future sublease income, the Company worked with independent brokers to determine the estimated tenant rents the Company could

be expected to realize. The estimated amount of future liability may change, requiring additional restructuring charges or a reduction of the liabilities already recorded. At the end of each reporting period, the Company evaluates the appropriateness of the remaining accrued balances.

Costs associated with restructuring activities initiated on or after January 1, 2003 are recorded in accordance with CICA Emerging Issues Committee Abstracts EIC-134, "Accounting for Severance and Termination Benefits," and EIC-135, "Accounting for Costs Associated with Exit and Disposal Activities."

Pension and non-pension post-employment benefits:
Celestica has pension and non-pension post-employment benefit costs and liabilities, which are determined from actuarial valuations. Actuarial valuations require management to make certain judgments and estimates on expected plan investment performance, salary escalation, compensation levels at the time of retirement, retirement ages, and expected health care costs. The Company evaluates these assumptions on a regular basis taking into consideration current market conditions and historical data. A change in these factors could impact future pension expense.

Acquisition History

A significant portion of Celestica's growth in prior years was generated by strengthening its customer relationships, building a global manufacturing network, and increasing the breadth of its service offerings through asset and business acquisitions. The Company focused on investing strategically in acquisitions that better positioned the Company for future outsourcing opportunities. Celestica's most active year for acquisitions was 2001. With a global manufacturing network established, the historical pace of Celestica's acquisitions did not continue in 2002 or in 2003, and may not continue in the future.

As a result of the continued downturn in technology manufacturing, some of the sites acquired in prior years have been closed or have experienced headcount reductions. Supply agreements entered into in connection with certain acquisitions were also affected by order cancellations and reschedulings as base-business volumes decreased. See discussion below in "Results of Operations."

In March 2002, the Company acquired certain assets located in Miyagi and Yamanashi, Japan from NEC Corporation and signed a five-year supply agreement. In August 2002, the Company acquired certain assets from Corvis Corporation in the United States and signed a multi-year supply agreement. The aggregate purchase price for these acquisitions in 2002 of $111.0 million was financed with cash and allocated to the net assets acquired, based on their relative fair values at the date of acquisition.

In October 2003, the Company entered into an agreement to acquire all the shares of Manufacturers' Services Limited (MSL), a full-service global electronics manufacturing and supply chain services company, headquartered in Concord, Massachusetts. This acquisition provides Celestica with an expanded customer base and service offerings. This acquisition also supports Celestica's strategy of diversifying its end markets. MSL's customers come from diverse industries including industrial, commercial avionics, automotive, retail systems, medical, communications and network storage, and peripherals. The shareholders of MSL are entitled to receive 0.375 of a subordinate voting share of Celestica for each common share of MSL. Preferred shareholders of MSL are entitled to receive cash or, at the holder's election, subordinate voting shares of Celestica. The company estimates that it will issue approximately 14.3 million subordinate voting shares to the common shareholders and certain preferred shareholders of MSL, including a cash consideration of approximately $50.6 million to certain of MSL's preferred shareholders. The acquisition closed in March 2004.

Celestica may at any time be engaged in ongoing discussions with respect to several possible acquisitions of widely-varying sizes, including small single facility acquisitions, significant multiple facility acquisitions and company acquisitions. Celestica identifies possible acquisitions that would enhance its global manufacturing network, increase its penetration in several industries and establish strategic relationships with new customers. There can be no assurance that any of these discussions will result in a definitive purchase agreement and, if they do, what the terms or timing of any agreement would be. Celestica expects to actively pursue and consider other acquisition opportunities.

Results of Operations

Celestica's annual and quarterly operating results vary from period to period as a result of the level and timing of customer orders, fluctuations in materials and other costs, and the relative mix of value-add products and services. The level and timing of customers' orders will vary due to customers' attempts to balance their inventory, changes in their manufacturing strategies, variation in demand for their products and general economic conditions. Celestica's annual and quarterly operating results are also affected by capacity utilization, geographic manufacturing mix and other factors, including price competition, manufacturing effectiveness and efficiency, the degree of automation used in the assembly process, the ability to manage labour, inventory and capital assets effectively, the timing of expenditures in anticipation of forecasted sales levels, the timing of acquisitions and related integration costs, customer product delivery requirements, shortages of components or labour, the costs of transferring and ramping up programs, and other factors. Weak end-market conditions began to emerge in early to mid-2001 and have continued through 2003 for most of the Company's communications and computing industries' customers. This has resulted in customers rescheduling or cancelling orders which have negatively impacted Celestica's results of operations.

The higher cost manufacturing geographies in Europe and North America experienced the greatest declines in revenue and operating profits due to declining volumes, significant pricing pressures and inefficiencies associated with the Company's product transfer activities to lower cost manufacturing sites. The Company's Asian operations had production levels that enabled the region to maintain profitability throughout 2003. Asia benefited from higher demand and from product transfers from Europe and North America, as customers wanted the benefits from that region's lower cost structure.

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

	Year ended December 31		
	2001	2002	**2003**
Revenue	100.0%	100.0%	**100.0%**
Cost of sales	92.9	93.3	**96.1**
Gross profit	7.1	6.7	**3.9**
Selling, general and administrative expenses	3.2	3.4	**3.7**
Research and development costs	0.2	0.2	**0.4**
Amortization of goodwill and intangible assets	1.3	1.2	**0.7**
Integration costs related to acquisitions	0.2	0.2	**–**
Other charges	2.7	8.2	**2.6**
Operating loss	(0.5)	(6.5)	**(3.5)**
Interest income, net	(0.1)	(0.0)	**(0.1)**
Loss before income taxes	(0.4)	(6.5)	**(3.4)**
Income taxes (recovery)	0.0	(1.1)	**0.5**
Net loss	(0.4)%	(5.4)%	**(3.9)%**

Revenue

Revenue decreased 19%, to $6.7 billion in 2003 from $8.3 billion in 2002. The most significant factors causing the decline were the reductions in volume as a result of the prolonged weakened end-market conditions and reduced prices on components and services caused by continued excess capacity in the EMS industry. The reductions in volume accounted for approximately 75% of the revenue decrease and the rest was reduced pricing driven primarily by lower component costs.

Celestica currently manages its operations on a geographic basis. The three reporting segments are the Americas, Europe and Asia. The following table is a breakdown of revenue by reporting segment:

	Year ended December 31		
	2001	2002	**2003**
		(in billions)	
Americas	$ 6.3	$ 4.6	**$ 3.1**
Europe	3.0	1.8	**1.4**
Asia	1.0	2.1	**2.5**
Inter-segment	(0.3)	(0.2)	**(0.3)**
Total	$ 10.0	$ 8.3	**$ 6.7**

Revenue from the Americas operations decreased 33% from 2002. Revenue from European operations decreased 22% from 2002. Operations in Americas and Europe were significantly impacted by customer order reductions due to the downturn in end-market demand for their products as well as severe pricing pressures. The Company has completed the majority of its plans to reduce its manufacturing capacity in these geographies by downsizing and/or closing facilities. In addition, the customers' continued demands for significantly lower product manufacturing costs has resulted in the transfer of programs from higher cost geographies to lower cost geographies, which further reduced the revenue in these higher cost geographies. Revenue from Asian operations increased 17% from 2002. The Company's Asian operations have benefited from new business wins, the transfer of production from other geographies and the flow-through of acquisitions. Offsetting this is the impact of continued softness in end markets and pricing pressures. Of the net increase in Asian revenue, approximately half resulted from the transfer of programs and from the flow-through of the acquisition in Japan which closed on March 31, 2002.

In 2002, revenue decreased 17% from 2001, primarily due to a reduction in base business volumes as a result of the prolonged weakened end-market conditions. Excess capacity in the EMS industry put pressure on pricing for components and services, also reducing revenue. Revenue from the Americas operations decreased 27% from 2001. Revenue from European operations decreased 40% from 2001. Americas and European operations were hardest hit by customer cancellations and delays of orders because of the downturn in end-market demand for their products, as well as the customers' demands for lower product manufacturing costs. The Company had initiated restructuring actions in 2002 to reduce the manufacturing capacity in these geographies, which included downsizing and closure of manufacturing facilities. The restructuring actions also included transferring programs from higher cost geographies to lower cost geographies. Revenue from Asian operations increased 113% from 2001, primarily due to acquisitions and an increase in base-business volumes.

The industry end-market segmentation as a percentage of revenue for 2003 are: enterprise communications – 25%, telecommunications – 23%, servers – 22%, storage – 13%, other – 10%, and workstations and PCs – 7%. At the beginning of 2003, as the Company continued to diversify into new markets, it separated its communications market segment into enterprise and telecommunications and also separated storage from other. The prior year's comparatives have not been adjusted to reflect the new end-market segmentation. The industry end-market segmentation as a percentage of revenue for 2002 are: communications – 45%, servers – 26%, storage and other – 22%, and workstations and PCs – 7%. For 2001, the end-market industry as a percentage of revenue are communications – 36%, servers – 31%, storage and other – 18%, and workstations and PCs – 15%. Historically, revenue is highest in the fourth quarter, with the exception of 2002, when the Company was hardest hit by the downturn. Throughout 2003, revenue continued to improve sequentially each quarter, with a 17% increase in the fourth quarter of 2003.

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

	Year ended December 31		
	2001	**2002**	**2003**
Sun Microsystems	✓	✓	✓
IBM	✓	✓	✓
Lucent Technologies	✓	✓	✓
Cisco Systems			✓

Celestica's top ten customers represented in the aggregate 73% of total revenue in 2003, compared to 85% in 2002 and 84% in 2001. There has been a steady decline in revenue from the Company's top three customers over the past year, as their volumes were most negatively impacted by the broad-based reductions in corporate spending for computing and communications infrastructure products. At the same time, the Company has been focused on diversifying its customer base by adding new customers in areas outside of the traditional communications and computing end markets, such as aerospace and defense, automotive, industrial, consumer and medical. Revenue from its non-top ten customers represented in the aggregate 27% of total revenue in 2003, up from 15% a year ago.

The Company is dependent upon continued revenue from its top customers. There can be no assurance that revenue from these or any other customers will not decrease in absolute terms or as a percentage of total revenue either individually or as a group. Any material decrease in revenue from these or other customers could have a material adverse effect on the Company's results of operations. See notes 15 (concentration of risk) and 17 to the 2003 Consolidated Financial Statements.

The Company believes its growth depends on increasing sales to existing customers for their current and future product generations, and on successfully attracting new customers. Customer contracts can be cancelled and volume levels can be changed or delayed. The timely replacement of delayed, cancelled or reduced orders with new business cannot be assured. In addition, the Company has no assurance that any of its current customers will continue to utilize its services, which could have a material adverse effect on the Company's results of operations.

The Company has also focused on expanding its product and service offerings. During the year, the Company announced that it would make investments to support the Company's reference design activities for next generation servers, workstations and other products. Revenue earned during the year was minimal, however, management expects revenue to increase as the Company expands this new business. The Company's start-up costs for this business negatively impacted the year's results. The cost of the new investments included in cost of sales, selling, general and administrative expenses, and research and development expenses, totaled approximately 1% of total revenue.

Gross profit

Gross profit decreased 53% to $261.0 million in 2003 from $555.8 million in 2002. Gross margin decreased to 3.9% in 2003 from 6.7% in 2002. Gross margin decreased disproportionately due to the significant reduction in business volumes and corresponding low asset utilization rates, industry pricing pressures, a change in the mix of products manufactured (from higher complexity, higher value-add products to lower complexity, lower value-add products), costs of ramping new customer programs, costs of transferring programs to other geographies and costs to support the new reference design activities. Lower volumes contributed to approximately a 65% decrease in gross profit from 2002, with the remainder, primarily pricing, mix and the cost of new investments, reducing gross profit by approximately a further 20%. This decrease was offset in part by the benefits from the Company's restructuring programs and various other cost reduction initiatives. The benefits from restructuring amounted to approximately $250 million in 2003 of which approximately 75% was realized in lower cost of sales.

The Company's higher cost operations in the Americas and Europe were significantly impacted by reductions in higher complexity and higher value-add products due to the weak demand from the Company's computing and telecommunications customers. As a result of these conditions, volumes declined and pricing pressure increased, driving the majority of the gross margin declines.

European operations continued to be the most adversely affected by lower utilization levels and higher fixed costs. Most of the planned restructuring actions for Europe were announced by year-end 2003. Although the Company realized some benefits of the restructuring during the latter part of the year, further savings will be realized in 2004, as the Company completes its planned actions by mid-2004. Americas operations have also been affected by significant volume reductions, the cost of transferring programs and investments in new product and service offerings, specifically the reference design activities. Asian operations have been affected by program ramping costs and overall pricing pressures offset, in part, by higher production volumes.

Gross profit decreased 22%, to $555.8 million in 2002 from $712.5 million in 2001. Gross margin decreased to 6.7% in 2002 from 7.1% in 2001, primarily due to the significant reduction in business volumes and industry pricing pressures. European operations were most adversely affected as they were operating at lower levels of utilization and higher fixed costs for the year. The volume reductions tended to impact higher value-add products disproportionately, further adversely affecting the European margins. In addition, costs for the Company's European operations were higher than expected due to delays in transferring programs, the slower pace of restructuring and some process scrap and related inventory issues, in the latter part of the year. The margin declines in the Company's European operations were offset partially by improved margins in the Americas and Asian operations. The Americas improved its operating efficiencies, had higher value-add product mix and benefited from restructuring actions. Asian margins improved on higher volumes and utilization rates.

By the end of 2003, the Company had transitioned most of its high volume products to low cost geographies, with approximately 70% of its production facilities in lower cost geographies, up from 50% a year ago. Capacity utilization has improved to between 55% to 60% at the end of 2003 from 45% to 50% at the end of 2002.

For the foreseeable future, the Company's gross margin is expected to be impacted by product volume and mix, production efficiencies, utilization of manufacturing capacity, geographic manufacturing mix, start-up and ramp-up activities, new product introductions, pricing within the electronics industry, cost structures at individual sites, and other factors, including the overall highly competitive nature of the EMS industry. Over time, margins at individual sites and for the Company as a whole are expected to fluctuate. Also, the availability of raw materials, which are subject to lead time and other constraints, could possibly limit the Company's revenue growth. Through the fourth quarter of 2003, increased volumes and improved capacity utilization have stabilized pricing on components and our services. This, together with the continued restructuring benefits, should add to the Company's future profitability.

Selling, general and administrative expenses

Selling, general and administrative (SG&A) expenses decreased 11%, to $249.8 million (3.7% of revenue) in 2003 from $280.3 million (3.4% of revenue) in 2002. SG&A as a percentage of revenue increased as a result of a significant reduction in revenue, higher spending in sales and marketing to support new markets, as well as the benefits from the Company's restructuring activities lagging behind the revenue decline. The decrease in SG&A, on an absolute basis, reflects the benefits from the Company's restructuring programs, offset by higher costs, largely to support new products and new markets.

SG&A expenses decreased 14%, to $280.3 million (3.4% of revenue) in 2002 from $324.3 million (3.2% of revenue) in 2001. SG&A as a percentage of revenue increased as a result of a significant reduction in revenue and the benefits from the Company's restructuring activities lagging behind the revenue decline. The decrease in SG&A, on an absolute basis, reflects the benefits from the Company's restructuring programs and a reduction in spending, which more than offset the increase in expenses due to operations acquired in the latter part of 2001 and in 2002.

Research and development costs

Research and development (R&D) increased 32%, to $24.0 million (0.4% of revenue) in 2003 from $18.2 million (0.2% of revenue) in 2002. The increased spending in R&D was principally to support the Company's reference design activities for next generation servers, workstations and other products.

R&D costs increased slightly to $18.2 million (0.2% of revenue) in 2002, compared to $17.1 million (0.2% of revenue) in 2001.

Amortization of intangible assets

Amortization of intangible assets decreased 49%, to $48.5 million in 2003 from $95.9 million in 2002. In the fourth quarter of 2002, the Company recorded an impairment charge to write down its intangible assets. As a result of the write down in 2002, the amortization expense decreased in 2003. The decrease in expense is partially offset by amortization of intangible assets arising from the 2002 acquisitions.

Amortization of goodwill and intangible assets decreased 23%, to $95.9 million in 2002 from $125.0 million in 2001. The decrease in amortization is the result of a change in accounting for goodwill, offset in part by the amortization of intangible assets arising from the 2001 and 2002 acquisitions. Effective January 1, 2002, the Company adopted the new accounting standards for goodwill and discontinued amortization of all goodwill effective that date. Amortization of goodwill for 2001 was $39.2 million. See note 2(q)(i) to the 2003 Consolidated Financial Statements for the impact of the change in policy on net loss and per share calculations.

Integration costs related to acquisitions

Integration costs related to acquisitions represent one-time 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 the 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.

There were no integration costs in 2003, compared to $21.1 million in 2002 and $22.8 million in 2001. Integration costs vary from period to period due to the timing of acquisitions and related integration activities.

Other charges

	Year ended December 31			
	2001	2002	2003	Total
		(in millions)		
2001 restructuring	$ 237.0	$ 1.9	**$ 7.9**	$ 246.8
2002 restructuring	—	383.5	**15.7**	399.2
2003 restructuring	—	—	71.3	71.3
Total restructuring	$ 237.0	$ 385.4	**$ 94.9**	$ 717.3
2002 goodwill impairment	—	203.7	**—**	203.7
Other impairment	36.1	81.7	**82.8**	200.6
Deferred financing costs and debt redemption fees	—	9.6	**1.3**	10.9
Gain on sale of surplus land	—	(2.6)	**(3.6)**	(6.2)
	$ 273.1	$ 677.8	**$ 175.4**	$ 1,126.3

Further details of the other charges are included in note 11 to the 2003 Consolidated Financial Statements and note 6 to the December 31, 2003 Interim Consolidated Financial Statements.

To date, the Company has recorded charges in connection with three separate restructuring plans in response to the challenging economic climate. These actions, which included reducing workforce, consolidating facilities and changing the number and location of production facilities, were largely intended to align the Company's capacity and infrastructure to anticipated customer requirements for more capacity in lower cost regions, as well as to rationalize its manufacturing network to the lower demand levels. The Company has recorded charges totalling $246.8 million for its 2001 restructuring plan, $399.2 million for its 2002 restructuring plan and $71.3 million relating to its 2003 restructuring plan.

The Company recorded a combined total of $717.3 million for its three restructuring plans. The focus of these restructuring plans was on the Americas and Europe, as they were hit the hardest by the downturn. A total of 18,510 employees have been released from the business as of December 31, 2003. Approximately 620 employee positions remain to be eliminated by mid-2004. Approximately 70% of the employee terminations were in the Americas and 30% in Europe. A total of 29 facilities were closed or downsized in the Americas and Europe, which included the transfer of programs from these higher cost geographies to lower cost geographies. The remaining lease facilities costs are estimated to be paid out through 2015. All cash outlays are expected to be funded from cash on hand.

The Company has and expects to continue to benefit from the restructuring measures taken in prior years through reduced depreciation, lease and labour costs in cost of sales and SG&A expenses, and reduced amortization of intangibles. These benefits amounted to approximately $250 million in 2003, of which approximately 75% was realized in lower cost of sales and the balance in lower SG&A and amortization of intangibles. The Company has completed the major components of the 2001 and 2002 restructuring plans, except for certain employee terminations in the Americas and certain long-term lease and other contractual obligations. The Company expects to complete the remaining 2003 restructuring actions in Europe by mid-2004.

The principal focus of the restructuring actions was in the Americas and European regions. Both regions underwent capacity reductions and program transfers throughout 2002 and 2003. The Company will continue to evaluate its results, and could propose future restructuring actions as a result of further changes in the EMS industry, customer demand or other market conditions. In January 2004, the Company announced that it will incur an additional pre-tax restructuring charge of between $10.0 million and $15.0 million in the first quarter of 2004, predominately for employee termination costs.

The Company conducts an annual review of goodwill and long-lived assets in the fourth quarter of each year to correspond with its planning cycle, absent of any triggering factors which would have necessitated a review earlier in the year. In the course of finalizing its annual plans, the Company made certain decisions regarding its restructuring plans and the transfer of customer programs from higher cost to lower cost geographies. These actions, coupled with weakened end markets, have significantly impacted forecasted revenue and have reduced the net cash flows for certain sites, resulting in impairment when compared to the carrying value of long-lived assets including intangible assets and capital assets. In the fourth quarter of 2003, the Company recorded non-cash charges against intangible assets of $25.3 million, and $57.5 million against capital assets, which included an impairment of $14.3 million relating to the purchase of a leased facility. In the fourth quarter of 2002, the Company recorded non-cash charges of $203.7 million against goodwill, $69.0 million against intangible assets, and $12.7 million against capital assets. In 2001, the Company recorded non-cash charges totaling $36.1 million, primarily against goodwill, intangible assets and other assets.

The Company may continue to experience goodwill and long-lived asset impairment charges in the future as a result of changes in the electronics industry, customer demand and other market conditions, which may have a material adverse effect on the Company's financial condition.

Interest income, net

Interest income in 2003 decreased to $9.4 million compared to $17.2 million in 2002. The reduction in interest income in 2003 is due to lower cash balances being invested at lower interest rates compared to 2002. Interest income was offset by interest expense of $5.4 million in 2003, compared to $16.1 million in 2002.

Interest income in 2002 amounted to $17.2 million, compared to $27.7 million in 2001. Interest income decreased for 2002 compared to 2001, primarily due to lower interest rates on cash balances. Interest income was offset by interest expense incurred on the Company's Senior Subordinated Notes and debt facilities. Interest expense decreased from $19.8 million in 2001 to $16.1 million in 2002, due to the redemption of the Senior Subordinated Notes in August 2002.

Income taxes

Income tax expense in 2003 was $33.1 million on a net loss before tax of $232.7 million, compared to a recovery of $91.2 million on a net loss before tax of $536.4 million in 2002. The effective tax rate for 2003 was negative 14.2% compared to an effective tax rate of 17% in 2002. The tax rate and resulting tax expense were impacted by the increase in the valuation allowance, primarily recorded against existing European deferred tax assets ($35.3 million) and 2003 European restructuring charges and European operating losses.

In addition, the Company's effective tax rate is impacted by the mix and volume of business in lower tax jurisdictions within Europe and Asia, tax holidays and tax incentives that have been negotiated with the respective tax authorities (which expire between 2004 and 2012 – see note 12 to the 2003 Consolidated Financial Statements), restructuring charges, operating losses, the time period in which losses may be used under tax laws, and the impairment of deferred income tax assets. The tax benefit arising from the tax holidays and tax incentives is approximately $17.6 million, or $0.08 diluted per share, for 2003 and $24.9 million, or $0.11 diluted per share, for 2002. Such tax holidays are subject to conditions with which the Company expects to continue to comply.

The net deferred income tax asset for 2003 of $225.0 million ($274.3 million as at December 31, 2002), arises from available income tax losses and future income tax deductions. The Company's ability to use these income tax losses and future income tax deductions is dependent upon the operations of the Company in the tax jurisdictions in which such losses or deductions arose. Management records a valuation allowance against deferred income tax assets when management believes it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Based on the reversal of deferred income tax liabilities, projected future taxable income, and the character of the income tax assets and tax planning strategies, management has determined that a valuation allowance of $185.3 million is required in respect of its deferred income tax assets as at December 31, 2003 ($76.6 million as at December 31, 2002). In order to fully utilize the net deferred income tax assets of $225.0 million, the Company will need to generate future taxable income of approximately $642.5 million. Based on the Company's current projection of taxable income for the periods in which the deferred income tax assets are deductible, it is more likely than not that the Company will realize the benefit of the net deferred income tax assets as at December 31, 2003.

Liquidity and Capital Resources

In 2003, operating activities utilized $158.5 million in cash, compared to providing $982.8 million in cash in 2002. Cash from operations was negatively impacted by depressed volumes and program transfers. $252.6 million was used to support higher inventory levels. Inventory was purchased earlier in the cycle to ensure adequate supply in response to increased customer demand in the fourth quarter of 2003, as well as to support the increasing sales momentum going into the first quarter of 2004. Investing activities for 2003 included capital expenditures of $175.9 million, primarily to expand manufacturing capacity in Asia and to purchase the building in Fort Collins, Colorado which the Company previously leased. Investing activities for 2002 included capital expenditures of $151.4 million and asset acquisitions of $111.0 million, offset in part, by proceeds from the sale-leaseback of machinery and equipment, and the sale of the Company's Columbus, Ohio facility.

The Company continues to focus on efficiency including improving cash cycle days and inventory turns. The Company's average cash cycle, calculated as accounts receivable days plus inventory days minus payable days (defined as current liabilities excluding interest bearing items), for 2003 was 7 days, an improvement of 11 days over 2002.

The Company continued to reduce the leverage on its balance sheet by repurchasing Liquid Yield Option™ Notes (LYONs) in the open market. In 2003, LYONs with a principal amount at maturity of $435.9 million were repurchased at an average price of $512.75 per LYON, for a total cash outlay of $223.5 million. A loss of $2.8 million was recorded for the year. The Company may, from time to time, purchase additional LYONs in the open market. Through December 31, 2003, the Company repurchased LYONs with a total principal amount at maturity of $658.8 million, for a total cash outlay of $323.8 million. The Company currently has pre-approval to spend up to an additional $126.2 million to repurchase LYONs, at management's discretion. The amount and timing of future purchases cannot be determined at this time.

As at December 31, 2003, the Company has outstanding LYONs with a principal amount at maturity of $1,154.7 million payable August 1, 2020. Holders of the instruments have the option to require Celestica to repurchase their LYONs on August 2, 2005, at a price of $572.82 per LYON, or a total of $661.4 million. The Company may elect to settle its repurchase obligation in cash or shares, or any combination thereof. See further details in note 8 to the 2003 Consolidated Financial Statements.

In April 2003, Celestica amended its Normal Course Issuer Bid (NCIB) to permit it to repurchase up to 10% of the public float, or 18.6 million subordinate voting shares, for cancellation, over a period from August 1, 2002 to July 31, 2003. This program was completed in July 2003. In July 2003, Celestica filed a new NCIB to repurchase up to an additional 10% of the public float, or 17.0 million subordinate voting shares, for cancellation, over a period from August 1, 2003 to July 31, 2004. Under these programs, shares are purchased at the market price at the time of purchase. The number of shares to be repurchased during any 30-day period may not exceed 2% of the outstanding subordinate voting shares. A copy of the notices relating to the two NCIB programs may be obtained from Celestica, without charge, by contacting the Company's Investor Relations department at clsir@celestica.com. In 2003, the Company repurchased 20.6 million subordinate voting shares at a weighted average price of $13.35 per share. All of these transactions were funded with cash on hand. Through December 31, 2003, a total of 22.6 million subordinate voting shares have been repurchased pursuant to these NCIBs.

In 2002, Celestica redeemed the entire $130.0 million of outstanding Senior Subordinated Notes which were due in 2006 and paid the contractual premium of 5.25%, or $6.9 million, on redemption.

Since the Company began its share and debt repurchase activities in the third quarter of 2002, a total of $768.1 million was spent to repurchase senior subordinated notes, subordinate voting shares and LYONs.

Capital Resources

At December 31, 2003, the Company had two credit facilities: a $500.0 million four-year revolving term credit facility and a $250.0 million (reduced from $350.0 million in October 2003) revolving term credit facility which expire in July 2005 and October 2004, respectively. The credit facilities permit Celestica and certain designated subsidiaries to borrow funds directly for general corporate purposes (including acquisitions) at floating rates. Under the credit facilities: 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. The Company does not currently anticipate requiring any borrowings from the credit facilities to support existing operations. Based on the required minimum financial ratios, the Company is currently limited to approximately $140 million of borrowings under the facilities. Additional borrowing amounts would be available to support the funding of acquisitions or to support certain other potential refinancing needs. No borrowings were outstanding under the revolving credit facilities and Celestica was in compliance with all covenants at December 31, 2003.

Celestica and certain subsidiaries have additional uncommitted bank overdraft facilities which total $55.1 million that are available for operating requirements.

Celestica believes that cash flow from operating activities, together with cash on hand and borrowings available under its credit facilities, will be sufficient to fund currently anticipated working capital, planned capital spending and debt service requirements for the next 12 months. At December 31, 2003, Celestica had committed $18.7 million in capital expenditures, principally for machinery and equipment and facilities in Asia. The Company expects capital spending for 2004 to be in the range of 1.5% to 2.5% of revenue and it will be funded from cash on hand. In addition, Celestica regularly reviews acquisition opportunities and, as a result, may require additional debt or equity financing.

The Company has an arrangement to sell up to $400.0 million in accounts receivable under a revolving facility which is available until September 2004. As of December 31, 2003, the Company generated cash from the sale of $359.3 million in accounts receivable. The purchaser of the accounts receivable is a division of a Schedule "A" rated Canadian bank, with a Standard and Poor's Rating Service rating of A and Stable outlook, and had assets under management of over $50.0 billion as of the date of its last annual filing. The terms of the arrangement provide that the purchaser may elect not to purchase receivables if Celestica's corporate credit rating falls below BB- as determined by Standard and Poor's Rating Service.

Celestica's corporate, or senior implied, ratings are BB+ from Standard and Poor's and Ba1 from Moody's Investor Services. During 2003, both Moody's and Standard and Poor's revised their outlook on the Company from stable to negative, as a result of reduced revenue and operating profit performance. A reduction in Celestica's credit ratings could impact Celestica's future cost of borrowing.

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 various currencies. The majority of the Company's cash balances are held in U.S. dollars. As a result, Celestica may experience transaction and translation gains or losses because of currency fluctuations. The Company has an exchange risk management policy in place to control its hedging programs and does not enter into speculative trades. At December 31, 2003, Celestica had forward foreign exchange contracts covering various currencies in an aggregate notional amount of $623.2 million with expiry dates up to January 2006. The fair value of these contracts at December 31, 2003 was an unrealized gain of $49.8 million. Celestica's current hedging activity is designed to reduce the variability of its foreign currency costs in the regions in which the Company has manufacturing operations and generally involves entering into contracts to trade U.S. dollars for various currencies at future dates. In general, these contracts extend for periods of up to 25 months. Celestica may, from time to time, enter into additional hedging transactions to minimize its exposure to foreign currency and interest rate risks. There can be no assurance that such hedging transactions will be successful. See notes 2(n) and 15 to the 2003 Consolidated Financial Statements.

As at December 31, 2003, the Company has contractual obligations that require future payments as follows:

(in millions)	Total	2004	2005	2006	2007	2008	Thereafter
Long-term debt	$ 3.4	$ 2.7	$ 0.7	$ –	$ –	$ –	$ –
Operating leases	255.2	60.8	43.1	30.1	21.8	18.9	80.5

As at December 31, 2003, the Company has commitments that expire as follows:

(in millions)	Total	2004	2005	2006	2007	2008	Thereafter
Foreign currency contracts	$ 623.2	$ 585.6	$ 34.9	$ 2.7	$ –	$ –	$ –
Letters of credit, letters of guarantee and surety and performance bonds	55.9	32.6	16.9	–	4.0	2.4	–
Capital expenditures	18.7	18.7	–	–	–	–	–

Cash outlays for the Company's contractual obligations and commitments identified above are expected to be funded by cash on hand. Purchase commitments are not included in the above table as non-cancellable purchase orders are generally short-term in nature and longer term purchase orders are typically cancellable.

The Company's pension funding policy is to contribute amounts sufficient to meet minimum local statutory funding requirements that are based on actuarial calculations. The Company may make additional discretionary contributions based on actuarial assessments. During 2003, the Company made pension contributions of $33.8 million ($13.5 million in 2002), of which $26.7 million was discretionary ($6.7 million in 2002). The Company estimates the 2004 statutory pension contribution to range from $7.0 million to $10.0 million and the voluntary pension contribution to range from $8.0 million to $10.0 million.

The Company has also provided routine indemnifications, whose terms range in duration and often are not explicitly defined. These may include indemnifications against adverse effects due to changes in tax laws and patent infringements by third parties. The maximum amounts from these indemnifications cannot be reasonably estimated. In some cases, the Company has recourse against other parties to mitigate its risk of loss from these indemnifications. Historically, the Company has not made significant payments relating to these indemnifications.

The Company expensed management-related fees charged by its parent company, based on the terms of a management agreement. See note 13 to the 2003 Consolidated Financial Statements.

Controls and Procedures

The Chief Executive Officer and Chief Financial Officer have evaluated the Company's disclosure controls and procedures as of the end of the year, and have concluded that such controls and procedures are effective.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect such controls subsequent to the date of their evaluation.

Recent Development

In October 2003, the Company entered into an agreement to acquire MSL. See "Acquisition History."

Recent Accounting Developments

Stock-based compensation and other stock-based payments:
Effective January 1, 2003, the Company adopted the revised CICA Handbook Section 3870. See note 2(q)(ii) to the 2003 Consolidated Financial Statements.

Hedging relationships:
In January 2002, the CICA issued Accounting Guideline AcG-13. See note 2(r) to the 2003 Consolidated Financial Statements.

Impairment of long-lived assets:
In October 2001, FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." In December 2002, the CICA issued standards similar to SFAS No. 144. See note 2(j) to the 2003 Consolidated Financial Statements.

Guarantees:
In November 2002, FASB issued FIN 45, "Guarantor's Accounting and Disclosure Requirements." In December 2002, the CICA approved AcG-14 which harmonizes Canadian GAAP to the disclosure requirements of FIN 45. See notes 20(l) and 16 to the 2003 Consolidated Financial Statements.

Consolidation of variable interest entities:
In January 2003, FASB issued FIN 46, "Consolidation of Variable Interest Entities." See note 20(l) to the 2003 Consolidated Financial Statements. In June 2003, the CICA issued standards similar to FIN 46, effective for 2005.

Restructuring charges:
In March 2003, the CICA issued EIC-134, "Accounting for Severance and Termination Benefits," and EIC-135, "Accounting for Costs Associated with Exit and Disposal Activities." The FASB issued similar standards in July 2002. See notes 2(p) and 20(l) to the 2003 Consolidated Financial Statements.

Asset retirement obligations:
In March 2003, the CICA issued Handbook Section 3110, "Asset Retirement Obligations." The FASB issued similar standards in August 2001. See notes 2(r) and 20(l) to the 2003 Consolidated Financial Statements.

Liabilities and equity:
In November 2003, the CICA revised Handbook Section 3860, "Financial Instruments – Presentation and Disclosure." See note 2(r) to the 2003 Consolidated Financial Statements.

Revenue recognition:
In December 2003, the CICA issued EIC-141, "Revenue Recognition" and EIC-142, "Revenue Arrangements with Multiple Deliverables." The FASB has similar standards. See note 2(r) to the 2003 Consolidated Financial Statements.

Generally accepted accounting principles:
In July 2003, the CICA issued Handbook Section 1100, "Generally Accepted Accounting Principles." See note 2(r) to the 2003 Consolidated Financial Statements.