1999 Financial Information

Certain statements contained in the following Management's Discussion and Analysis of Financial Condition and Results of Operations contain forward-looking statements, including (without limitation) statements concerning possible or assumed future results of operations of the Company preceded by, followed by or that include the words "believes," "expects," "anticipates," "estimates," "intends," "plans" or similar expressions. Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions and the Company's actual results could differ materially from those anticipated in these forward-looking statements.

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

GENERAL

Celestica is a leading provider of electronics manufacturing services to OEMs worldwide and is the third-largest EMS provider in the world with 1999 revenue of $5.3 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, memory and power products.

Historically, Celestica's business consisted of three segments: EMS, memory and power. Over the last three years, Celestica has refined its strategy to focus on its EMS business. Memory and power combined represented less than 8% of Celestica's total revenue in 1999 and less than 10% in 1998.

Celestica operated 30 facilities in ten countries at January 31, 2000. During 1998, Celestica operated 18 facilities across North America and Europe. The acquisition of IMS in December 1998 provided the Company with an immediate and major presence in Asia, increasing the number of facilities to 23. Seven facilities were added in 1999 through five acquisitions and two greenfield establishments.

In July 1998, Celestica completed its initial public offering and issued 47.4 million subordinate voting shares for net proceeds (after tax) of $399 million. The net proceeds were used to prepay a significant portion of Celestica's debt. Celestica completed two additional equity offerings in 1999. In March 1999, Celestica issued 18.4 million subordinate voting shares for net proceeds (after tax) of $254 million and, in November 1999, it issued 16.1 million subordinate voting shares for net proceeds (after tax) of $473 million. These offerings provided Celestica with additional flexibility to support its growth strategy and decreased its total net debt to capitalization ratio from 57% at July 1998 to negative 17% at December 31, 1999.

In December 1999, the Company completed a two-for-one stock split of the subordinate voting and multiple voting shares by way of a stock dividend. All historical share and per share information has been restated to reflect the effects of this stock split on a retroactive basis.

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 except as disclosed in Note 24 to the Consolidated Financial Statements.

ACQUISITIONS

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 facility and business acquisitions completed in 1997, 1998 and 1999.

In February 1998, Celestica acquired a manufacturing facility in Ireland from Madge Networks N.V. ("Madge Networks"), a manufacturer of token ring communication products, asynchronous transfer mode products and related derivative products. The acquisition provided Celestica with a facility in a key geographic area and strengthened its relationship with Madge Networks. 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 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 centres 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 from Lucent Technologies Inc., which provided it with a presence in a low-cost geography. In June 1998, Celestica acquired certain assets of Silicon Graphics Inc.'s ("SGI") manufacturing facility in Chippewa Falls, Wisconsin. This acquisition strengthened the Company's relationship with a strategic customer and provided Celestica with additional advanced manufacturing capabilities. The aggregate purchase price paid by the Company for all of these acquisitions was $55.9 million.

In December 1998, Celestica acquired International Manufacturing Services, Inc. ("IMS") through a merger of IMS with Celestica Asia Inc. ("Celestica Asia"), a subsidiary of the Company. The Company issued 15.2 million subordinate voting shares with a value of $124.0 million as consideration for the acquisition, and reserved an additional 1.5 million subordinate voting shares with a value of $9.5 million for issuance upon the exercise of certain IMS options. IMS was an EMS provider with five facilities in China, Thailand, Hong Kong, Mexico and the United States and approximately 3,600 employees at the time of the acquisition. 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 and low cost offerings.

In April 1999, Celestica acquired certain assets of Gossen-Metrawatt GmbH's ("Gossen-Metrawatt") manufacturing operation in the Czech Republic, which provided Celestica with a strategic presence in a low-cost geography in Central Europe. In connection with the acquisition, Celestica entered into a long-term supply and cooperation agreement with Gossen-Metrawatt. In September 1999, Celestica acquired VXI Electronics, Inc. in Milwaukie, Oregon, which enhanced the Company's power systems product and service operations in North America and expanded its customer base. In October 1999, Celestica acquired certain assets related to Hewlett-Packard's Healthcare Solutions Group's printed circuit board assembly operations in Andover, Massachusetts. The acquisition enhanced the Company's presence in the Northeast region of the United States and provided further product diversification into the medical equipment market segment. In December 1999, Celestica acquired EPS Wireless, Inc. and certain assets of Fujitsu-ICL's repair business, both in Dallas, Texas. These acquisitions enhanced the Company's repair capabilities in North America and diversified its relationships with its customers. The aggregate purchase price paid by the Company for acquisitions in 1999 was $65.1 million.

In 1998, Celestica established a greenfield operation in Nashville, Tennessee and, in 1999, it established greenfield operations in Brazil and Malaysia.

Celestica's 17 acquisitions completed through January 31, 2000 and the three greenfield operations had purchase prices, or initial investments in the case of greenfield operations, ranging from $2.5 million to $133.7 million, totalling $563.5 million. Celestica continues to examine numerous acquisition opportunities in order to:

- 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 customer base to serve a wide variety of end-markets with increasing emphasis on the communications sector;
- broaden its product and service offerings; and
- optimize its global positioning.

In January 2000, the Company announced that it had entered into agreements with the Enterprise Systems Group and Microelectronics Division of IBM to purchase certain assets in Rochester, Minnesota and Vimercate and Santa Palomba, Italy and to enter into related supply agreements. See "Recent Developments."

Consistent with its past practices and as a normal course of business, Celestica is engaged in ongoing discussions with respect to several possible acquisitions of widely varying sizes, including small single facility acquisitions, significant multiple facilities acquisitions and corporate acquisitions. Celestica has identified several possible acquisitions that would enhance its global operations, increase its penetration in the computers and communications 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 continue the current discussions and actively pursue other opportunities.

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 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 the Company: (i) increases capacity utilization; (ii) completes integration activities; (iii) implements Celestica's processes and disciplines to reduce costs; and (iv) introduces new business from the original customer and others.

RESULTS OF OPERATIONS

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 necessary for production, 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 and margins are generally higher, since Celestica records only the value-added portion as revenue. The vast 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 the 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.

The Company believes that it is on track to meet its goal of $10 billion of revenue for the year 2001 and expects organic growth to account for about half of the overall growth. Celestica continues to focus on managing costs to reduce selling, general and administrative expenses as a percentage of revenue. Celestica's goal is to realize year-over-year margin expansion in 2000 at rates at least equal to those achieved in 1999.

Celestica's annual and quarterly operating results are primarily affected by the level and timing of customer orders, fluctuations in materials costs and the mix of materials and labour 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 labour. 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.

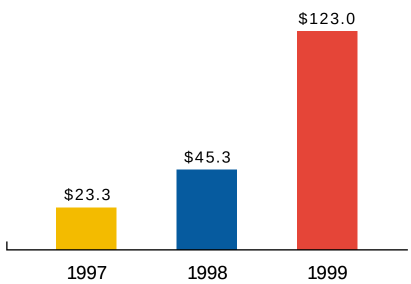
The table below sets forth certain operating data expressed as a percentage of revenue for the years indicated:

	Year ended December 31, 1997	1998	1999
Revenue	100.0%	100.0%	**100.0%**
Cost of sales	93.0	92.9	**92.8**
Gross profit	7.0	7.1	**7.2**
Selling, general and administrative expenses	3.4	4.0	**3.8**
Amortization of intangible assets	0.8	1.4	**1.0**
Integration costs related to acquisitions	0.6	0.3	**0.2**
Other charges	0.7	2.0	**0.0**
Operating income (loss)	1.5	(0.6)	**2.2**
Interest expense, net	1.7	1.0	**0.2**
Earnings (loss) before income taxes	(0.2)	(1.6)	**2.0**
Income taxes (recovery)	0.1	(0.1)	**0.7**
Net earnings (loss)	(0.3)%	(1.5)%	**1.3%**

Adjusted Net Earnings

As a result of the significant number of acquisitions made by Celestica over the past three years, management of Celestica uses adjusted net earnings as a measure of operating performance on an enterprise-wide basis. Adjusted net earnings exclude 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, the write-off of deferred financing costs and debt redemption fees and an unusual credit loss) 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:

Adjusted Net Earnings Increases
(in millions)

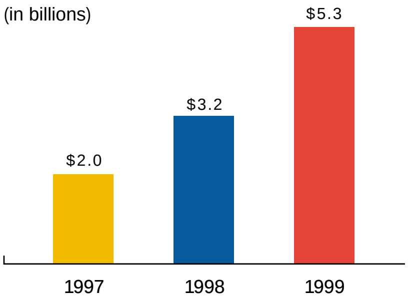


	Year ended December 31, (in millions) 1997	1998	1999
Net earnings (loss)	$ (6.9)	$ (48.5)	**$ 68.4**
Amortization of intangible assets	15.3	45.4	**55.6**
Integration costs related to acquisitions	13.3	8.1	**9.6**
Other charges	13.9	64.7	**-**
Income tax effect of above	(12.3)	(24.4)	**(10.6)**
Adjusted net earnings	$ 23.3	$ 45.3	**$ 123.0**

Revenue

Revenue increased $2,048.0 million, or 63.0%, to $5,297.2 million in 1999 from $3,249.2 million in 1998. This increase resulted from growth achieved both organically and through strategic acquisitions. Organic revenue growth in 1999 was 37.9% and represented 60.2% of the total year-to-year growth. The Company defines organic revenue as revenue which excludes business from operations acquired in the preceding 12 months. The organic growth resulted from new program wins with existing and new customers across the Canadian, U.S. and European geographic segments. Revenue from Asian operations was not considered part of the organic growth since the operations were acquired at the end of 1998. Revenue from Celestica's Canadian operations grew $773.0 million, or 49.7%, to $2,328.6 million in 1999 from $1,555.6 million in 1998, substantially all through organic growth with new program wins from both existing and new customers. Revenue from the Company's U.S. locations increased $495.6 million, or 52.5%, to $1,439.9 million in 1999 from $944.3 million in 1998. Revenue from European operations grew $367.4 million, or 49.0%, to $1,116.7 million in 1999 from $749.3 million in 1998. Organic growth represented 41.0% of the 52.5% growth in the U.S. and substantially all of the 49.0% growth in Europe. Celestica Asia (formerly IMS) contributed $714.1 million in revenue for 1999 after acquisition on December 30, 1998. Inter-segment revenue for 1999 was $302.0 million compared to no inter-segment revenue in 1998. Acquisitions completed in 1999 together with the IMS acquisition contributed $816.4 million of revenue in 1999 with the majority of revenue being from Asian (formerly IMS) operations. Revenue from customers in the communications industry increased to 25% of revenue in 1999 compared to 16% of revenue in 1998 consistent with the Company's strategy to increase the portion of its revenue from customers in the communications industry.

Strong Revenue Growth
(in billions)



Revenue increased $1,242.6 million, or 61.9%, to $3,249.2 million in 1998 from $2,006.6 million in 1997. This increase resulted from new program wins with existing customers, principally at Celestica's U.S. facilities, and growth through strategic acquisitions. Revenue from Celestica's Canadian operations grew $280.9 million, or 22.0%, to $1,555.6 million in 1998 from $1,274.7 million in 1997. This increase was the result of increased business with Celestica's existing customers, partially offset by lower revenue for memory/power resulting from memory price declines in 1998 and the conversion of one IBM memory program from turnkey to consignment sales (for which Celestica records only the value-added portion as revenue) in April 1997, with a revenue impact of approximately $115.0 million. Revenue from Celestica's U.S. operations increased $675.1 million, or 250.8%, to $944.3 million in 1998 from $269.2 million in 1997. The U.S. operations acquired in the second half of 1997 are included for the full year of 1998. The U.S. acquisitions completed in 1998 contributed approximately $68.0 million to U.S. revenue in 1998. The IMS acquisition contributed no revenue in 1998 since the acquisition did not occur until December 30, 1998. Revenue for Europe increased $286.6 million, or 61.9%, to $749.3 million in 1998 from $462.7 million in 1997, primarily as a result of increased business with existing key customers. The acquisition of the Madge Networks facility in Ireland contributed approximately $75.0 million in revenue from the date of its acquisition in February 1998.

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

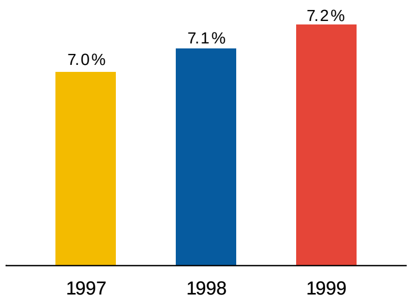
	1997	1998	1999
Hewlett-Packard		✓	✓
Sun Microsystems	✓	✓	✓
Cisco Systems	✓		✓
IBM	✓	✓	

Celestica's top five customers represented in the aggregate 67.6% of total revenue in 1999 compared to 71.8% in 1998 and 70.4% in 1997. The Company is dependent upon continued revenue from its top five customers. There can be no guarantee that revenue from these or any other customers will not increase or decrease as a percentage of consolidated 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. The Company expects a significant increase in revenue from IBM in 2000 as a result of the supply agreements and facilities acquisitions announced in January 2000. See "Recent Developments."

Gross profit

Gross profit increased $152.0 million, or 65.9%, to $382.5 million in 1999 from $230.5 million in 1998. Gross margin increased to 7.2% in 1999 from 7.1% in 1998. The improvement in gross profit and gross margin was due to improved cost management, supply-chain initiatives and increased facility utilization levels in Canada, the United States and Europe, offset by lower Asian margins, greenfield start-up operations in Brazil, Malaysia and Mexico and new product introductions.

Gross Margin Improves
(percentage of revenue)



Gross profit increased $90.8 million, or 65.0%, to $230.5 million in 1998 from $139.7 million in 1997. Gross margin increased to 7.1% in 1998 from 7.0% in 1997. The improvement in gross profit and gross margin was due to improved cost management and increased facility utilization levels in Canada and Europe which was partially offset by a larger percentage of lower margin business associated with the Colorado and New England operations and the transitioning of operations in Celestica's U.S. acquisitions.

For the foreseeable future, the Company's gross margin is expected to depend primarily on product mix, production efficiencies, utilization of manufacturing capacity, start-up activity, new product introductions, the percentage of revenue derived from system build projects and pricing within the electronics industry. Over time, gross margins at individual sites and for the Company as a whole are expected to fluctuate. Changes in product mix, additional costs associated with new product introductions and price erosion within the electronics industry could adversely affect the Company's gross margin. Also, while the availability of raw materials appears adequate to meet the Company's current revenue projections for the foreseeable future, component availability is still subject to lead time and other constraints that could possibly limit the Company's revenue growth.

During 1999, the net change in the Company's allowance for doubtful accounts was an increase of $5.1 million, to $12.8 million at December 31, 1999 from $7.7 million at December 31, 1998. The net change in the Company's reserve for inventory obsolescence was an increase of $7.0 million, to $54.5 million at December 31, 1999 from $47.5 million at December 31, 1998.

During 1998, the net change in the Company's allowance for doubtful accounts was an increase of $4.9 million, to $7.7 million at December 31, 1998 from $2.8 million at December 31, 1997. The net change in the Company's reserve for inventory obsolescence was an increase of $15.6 million, to $47.5 million at December 31, 1998 from $31.9 million at December 31, 1997.

The provision for these reserves had the effect of decreasing gross profit for 1999, 1998 and 1997 by $20.0 million, $28.3 million and $36.7 million, respectively, increasing selling, general and administrative expenses by $5.8 million, $2.8 million and $6.7 million, respectively, and decreasing pre-tax earnings by $25.8 million, $31.1 million and $43.4 million, respectively. The increases in these reserves and the provisions charged to earnings are consistent with the increases in accounts receivable and inventory balances during the year and the Company's historical experience.

Selling, general and administrative expenses

Selling, general and administrative expenses increased $71.7 million, or 54.9%, to $202.2 million (3.8% of revenue) in 1999 from $130.5 million (4.0% of revenue) in 1998. The increase in such expenses was a result of increased staffing levels and higher selling, marketing and administrative costs to support the sales growth of the Company, as well as the impact of expenses incurred by operations acquired during 1998 and 1999. Selling, general and administrative costs increased at a slower rate than the revenue increase in 1999.

Selling, general and administrative expenses increased $62.2 million, or 91.1%, to $130.5 million (4.0% of revenue) in 1998 from $68.3 million (3.4% of revenue) in 1997. The increase, both in amount and as a percentage of revenue, was a result of higher selling and marketing expenses incurred to support future EMS growth as well as expenses incurred by the operations acquired in the last quarter of 1997 and in 1998.

Research and development costs remained flat at $19.7 million (0.4% of revenue) in 1999 compared to $19.8 million (0.6% of revenue) in 1998 and $15.1 million in 1997 (0.8% of revenue).

Intangible assets and amortization

Amortization of intangible assets increased $10.2 million, or 22.5%, to $55.6 million in 1999 from $45.4 million in 1998. This increase is attributable to an increase in the amount of the intangible assets arising from the 1998 and 1999 acquisitions, with the largest portion relating to the intangible assets arising from the IMS acquisition.

Amortization of intangible assets increased $30.1 million, or 196.7%, to $45.4 million in 1998 from $15.3 million in 1997 as a result of two factors: the Company's revision of the estimated useful life of goodwill and other intangible assets from 20 years to 10 years; and the revision of the estimated useful life of intellectual property from 20 years to 5 years. These changes increased amortization expense in 1998 from approximately $22.0 million to approximately $41.3 million, based on the net asset values at January 1, 1998. The balance of the increase from 1997 to 1998 was a result of the amortization of goodwill and other intangible assets arising from the acquisitions completed in the last quarter of 1997 and in 1998.

The excess of the purchase price paid over the fair value of tangible assets acquired in the five acquisitions completed in 1999 amounted to $48.8 million and has been allocated to goodwill and other intangible assets. In these acquisitions, Celestica acquired identifiable assets of $45.4 million and assumed liabilities of $29.1 million.

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 December 31, 1999, intangible assets represented 13.8% of Celestica's total assets compared to 22.9% at December 31, 1998.

In connection with certain acquisitions, Celestica has entered into production agreements with terms of one to three years with some of its OEM customers. These agreements contain limited manufacturing 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.

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 salaries of personnel directly involved with integration activities. Integration costs related to greenfield operations represent costs incurred within three months of commencing operations. All of the integration costs incurred related to either newly acquired facilities or the start-up of greenfield sites, and not to the Company's existing operations.

Integration costs were $9.6 million in 1999 compared to $8.1 million in 1998 and $13.3 million in 1997.

Integration costs vary from period to period due to the timing of acquisitions, the establishment of greenfield operations and related integration activities. Celestica expects to incur additional integration costs in 2000 as it completes the integration of operations acquired in 1999 and the assets that the Company has agreed to acquire from IBM as announced in January 2000. Celestica will incur future additional integration costs as the Company continues to make acquisitions and establish greenfield operations as part of its growth strategy.

Other charges

Other charges are non-recurring items or items that are unusual in nature. Celestica did not incur any other charges in 1999.

Other charges in 1998 totalled $64.7 million, comprised of a write-down of the carrying value of intellectual property and goodwill amounting to $41.8 million, the write-off of deferred financing costs and debt redemption fees of $17.8 million and other charges of $5.1 million. The write-down of the carrying value of intellectual property and goodwill of $41.8 million consisted of a first quarter charge of $35.0 million relating to certain test and process know-how and non-commercial computer programs and a fourth quarter charge of $6.8 million relating to goodwill. The $17.8 million write-off of deferred financing costs and debt redemption fees related to the prepayment of debt with proceeds from the Company's initial public offering.

In the first quarter of 1998, the Company assessed the recoverability of the carrying value of its intellectual property and concluded that a write-down of $35.0 million was required since certain test and process know-how and non-commercial computer programs would no longer be utilized. In December 1998, as a result of the merger with IMS, certain goodwill in the amount of $6.8 million became impaired and was written off.

Other charges of $13.9 million in 1997 resulted from a credit loss relating to a customer, which filed for bankruptcy. Celestica has not experienced any other material credit losses.

Interest expense

Interest expense, net of interest income, decreased $21.6 million, or 66.9%, to $10.7 million in 1999 from $32.3 million in 1998. The Company was in a net cash position for the majority of 1999 as a result of the two equity offerings completed in 1999, resulting in a significant reduction in interest expense for the year. Interest income was earned during 1999 on the Company's cash position, reducing net interest expense for the year.

Interest expense, net of interest income, decreased $1.3 million, or 3.9%, to $32.3 million in 1998 from $33.6 million in 1997. Celestica incurred interest charges of approximately $11.6 million on additional borrowings to finance acquisitions completed in the first half of 1998 and the growth in operations of the Company. Debt levels during the second half of 1998 were lower than in the first half of 1998 as the net proceeds from the initial public offering completed in July 1998 were used to prepay a significant portion of the Company's debt, yielding interest savings of approximately $13.8 million.

Income taxes

Income tax expense in 1999 amounted to $36.0 million, reflecting an effective tax rate for the year of 34.5%. This effective tax rate reflects an effective tax rate of 39% for the first half of 1999 and an effective tax rate of 32% for the second half of 1999.

The decrease in the Company's effective tax rate in 1999 from 39% to 32% is attributable to an increase in the relative mix and volume of business in lower tax jurisdictions. In addition to lower relative corporate income tax rates in the United Kingdom and Ireland, Celestica has obtained tax holidays for periods from one year to ten years in the Czech Republic, Thailand, China and Malaysia. Celestica believes that a 32% effective tax rate is sustainable for the foreseeable future.

Celestica has recognized a net deferred tax asset at December 31, 1999 of $45.4 million ($40.6 million at December 31, 1998), which includes a recognition of benefits derived from net operating losses available to reduce income for income tax purposes in future years. The Company's current projections demonstrate that it will generate sufficient taxable income (approximately $120 million) in the future to realize the benefit of these deferred income tax assets prior to their expiration.

Income tax expense in 1998 was comprised of a current income tax expense of $15.1 million and a recovery of deferred income taxes of $17.1 million, resulting in a net recovery of income taxes of $2.0 million in 1998 compared to a net income tax expense of $2.2 million in 1997. This income tax recovery resulted primarily from the recognition of the tax benefit of net operating losses incurred in 1998 in certain jurisdictions, which exceeded the current income tax expense on operating profits generated in other jurisdictions.

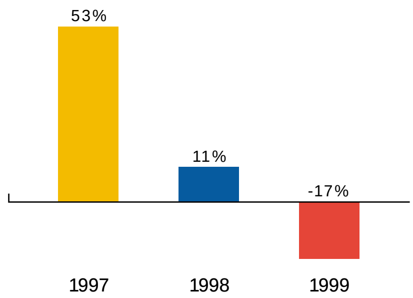
LIQUIDITY AND CAPITAL RESOURCES

During the year ended December 31, 1999, the Company's operating activities utilized $94.4 million in cash, principally to support higher working capital requirements relating to revenue growth offset by other cash from operations. Earnings generated $197.3 million in cash, which was used to fund the growth in operations and acquisitions. Average non-cash working capital as a percentage of revenue increased to 9% for 1999 from 8% for 1998. Investing activities in 1999 included capital expenditures of $211.8 million and $64.8 million for acquisitions. The acquisitions included facilities in the Czech Republic, Oregon, Massachusetts and Texas. Celestica completed two equity offerings in 1999, issuing 34.5 million subordinate voting shares for gross cash proceeds of $751.6 million and incurring $24.2 million in share issuance costs, net of tax.

For the year ended December 31, 1998, Celestica generated cash from operating activities of $81.6 million. Earnings generated $84.9 million in cash, which was used to partially fund the operations and acquisition activities of the Company. Average non-cash working capital as a percentage of revenue decreased to 8% in 1998 from 11% in 1997.

Investing activities in 1998 included the acquisitions of Analytic Design, Accu-Tronics, Celestica Mexico, the SGI facility and the Madge Networks facility which used cash, net of cash acquired, of $48.7 million. The acquisition of IMS was completed by issuing subordinate voting shares with a value of $124.0 million and reserving additional subordinate voting shares with a value of $9.5 million, for issuance upon the exercise of certain IMS options.

Net Debt to Capitalization Strengthens (percentage)



Capital Resources

Celestica has two $250 million global, unsecured, revolving credit facilities totalling $500 million, each provided by a syndicate of lenders. The credit facilities permit Celestica and certain designated subsidiaries to borrow funds directly for general corporate purposes (including acquisitions) at floating rates. The credit facilities are available until April 2002 and July 2003, respectively. 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. No borrowings were outstanding under the revolving credit facilities at December 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 debt covenants as at December 31, 1999.

Celestica believes that cash flow from operating activities, together with cash on hand 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 capital spending totalled $211.8 million for 1999. As of December 31, 1999, Celestica has committed to $35 million of capital spending, expected to be incurred in the first quarter of 2000. The Company expects capital spending for 2000 to be approximately $160 million to $180 million, excluding any capital expenditures required for the acquisition of certain facilities from IBM. See "Recent Developments." 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 primarily denominated in Canadian dollars and British pounds sterling (including approximately C$400 million and £100 million on an annualized basis). As a result, Celestica may experience transaction and translation gains or losses because of currency fluctuations. At December 31, 1999, Celestica had forward foreign exchange contracts covering various currencies with expiry dates up to March 2001 in a notional amount of $494 million. The fair value of these contracts at December 31, 1999 was an unrealized gain of $4.3 million. 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, British pounds sterling and Euros at future dates. In general, these contracts extend for periods of less than 18 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, if entered into, will be successful.

RECENT DEVELOPMENTS

In January 2000, the Company announced that it had entered into agreements with the Enterprise Systems Group and Microelectronics Division of IBM for the purchase of certain assets in Rochester, Minnesota and Vimercate and Santa Palomba, Italy. In addition to providing for the transfer of assets, the agreements provide for the employment by Celestica of approximately 1,800 IBM employees. As part of the transaction, the Company entered into supply agreements with IBM, effective on the purchase of related assets, and expects to generate annualized revenue of approximately $1.5 billion, of which approximately $1.0 billion is expected to come from Italian operations and $500 million from the Rochester operations. The purchase of the Rochester assets closed on February 29, 2000 and the purchase of the Italian operations is expected to close at the end of the second quarter 2000.

The 128,000 square foot Rochester, Minnesota operation provides printed circuit board assembly and test services. The Company plans to relocate the Rochester, Minnesota operations to a new facility in the same vicinity within 18 months of closing the transaction. The Vimercate operation provides printed circuit board assembly services and the Santa Palomba operation provides system assembly services. Combined, the Italian facilities total over one million square feet. The Italian facilities will be purchased from IBM and the Rochester facility will be leased from IBM.

The purchase price, including capital assets, working capital, intangible assets and acquisition costs, is expected to be approximately $500 million, and will be financed by cash on hand and internal cash resources.

The purchase price for the acquisition of the assets represents a premium over the current book value, and will generate approximately $175 million of intangible assets including intellectual property. Information from valuations and other studies currently being undertaken by the Company to determine the fair values of the assets acquired, including intellectual property, and liabilities assumed may affect the amount of intangible assets. Celestica expects that the intangible assets will have an average useful life of approximately ten years and that the intellectual property acquired will have an average useful life of approximately five years.

The Company has not completed its analysis of the integration costs it will incur in connection with the acquisition; however, initial estimates are that integration costs will be 0.75% to 1.25% of revenue. These costs will be expensed in the periods in which they are incurred. The Company expects that the facilities acquired will require capital expenditures consistent with Celestica's historical capital expenditure patterns of 2.0% to 2.5% of revenue. The Company expects that the acquisition of these facilities will be accretive to earnings in 2000, provided the acquisitions close on schedule. The Company also believes that, when the IBM operations are fully integrated, the margins for the acquired operations will be consistent with the margins achieved in Celestica's current operations.

In connection with the acquisition agreements, the Company signed two three-year strategic supply agreements with IBM to provide a complete range of electronics manufacturing services, including comprehensive supply chain management services, early prototyping, new product introduction, printed circuit board assembly and test, system assembly and test, fulfillment and end-of-life support.

YEAR 2000

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. The potential problems associated with date-limited software and hardware did not end with the start of the new millennium. For instance, software and hardware that recognizes dates after January 1, 2000 may not properly deal with February 29, 2000; years that are divisible by 100 are generally not leap years, but years divisible by 400 are leap years and an incomplete implementation of this algorithm could produce errors for periods that include February 29, 2000. Celestica relies upon vendor-supplied technology and recognizes the potential business risk to its assets and systems associated with the year 2000.

As of January 21, 2000, the Company has not experienced any incidents or issues impacting its business operations, infrastructure or business relationships with third parties, as part of the year 2000 rollover. Celestica will continue to monitor all mission critical systems to ensure that no unanticipated year 2000 or other date-related incidents occur at any of its facilities. While there are on-going risks of encountering year 2000 or other date-related issues, the Company believes these issues will not cause any material interruptions to the Company or its customers.

Celestica incurred costs for its year 2000 remediation projects of approximately $10 million. Year 2000 expenditures were financed through funds generated from operations, and were capitalized to the extent they enhanced the capabilities and useful life of the underlying systems. Celestica did not defer 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 and augmenting 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 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.

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 currencies of other non-participating countries.

Management continuously monitors and evaluates 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. The Company has modified its hedging policies to take the Euro conversion into account. While the Company currently believes that the effects of the conversion do not and will not have a material adverse effect on the Company's business and operations, there can be no assurances that such conversion will not have a material adverse effect on the Company's results of operations and financial position due to competitive and other factors that may be affected by the conversion and 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.

RECENT ACCOUNTING DEVELOPMENTS

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes methods of accounting for derivative financial instruments and hedging activities related to those instruments as well as other hedging activities. SFAS No. 137 delays the effective date of SFAS No. 133 to fiscal years beginning after June 15, 2000. The Company will be required to implement SFAS No. 133 for its fiscal year ended December 31, 2001. The Company has not assessed the impact of the adoption of SFAS No. 133 on its financial position, results of operations or cash flows.

In March 1998, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use." SOP 98-1 requires that entities capitalize certain costs related to internal-use software once certain criteria have been met. As required, the Company implemented this standard in 1999.

In April 1998, the AICPA issued SOP 98-5, "Reporting on the Costs of Start-Up Activities." SOP 98-5 requires that all start-up costs related to new operations must be expensed as incurred. In addition, all start-up costs that were capitalized in the past must be written off when SOP 98-5 is adopted. As required, the Company implemented this standard in 1999.