CELESTICA

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FIRST QUARTER 2000

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 1999 contained in the Company's form 6-K/A filing for February 2000.

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

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.

Celestica currently operates 31 facilities in ten countries. 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. One facility has been added in 2000.

In 1998 and 1999, Celestica completed three equity offerings, including its initial public offering, issuing a total of 81.9 million subordinate voting shares for net proceeds (after tax) of $1.1 billion. The net proceeds from the initial public offering were used to prepay a significant portion of Celestica's debt. The net proceeds of the follow-on offerings were used to fund organic and acquisition-related growth. In March 2000, Celestica issued 16.6 million subordinate voting shares for net proceeds (after tax) of $740 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 49% at March 31, 2000.

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 since 1997.

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. This 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. in Dallas, Texas. Also in December 1999, Celestica acquired certain assets of Fujitsu-ICL's repair business 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 1999, Celestica established greenfield operations in Brazil and Malaysia.

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 connection with the acquisition agreements, the Company signed two three-year strategic supply agreements with IBM, effective on the purchase of the related assets, 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 and fulfillment. In addition to providing for the transfer of assets, the agreements provide for the employment by Celestica of approximately 1,800 IBM employees. In February 2000, Celestica completed the purchase of the Rochester, Minnesota operation for $135.1 million. The purchase price, including capital assets, working capital and intangible assets, was financed with cash on hand. The 128,000 square foot Rochester, Minnesota operation provides printed circuit board assembly and test services.

The Vimercate operation provides printed circuit board assembly services and the Santa Palomba operation provides system assembly services. Combined, the Italian operations occupy over one million square feet. The purchase of the Italian operations is expected to close by the end of the second quarter.

The Company expects that the acquisition of these operations will be accretive to adjusted net earnings in 2000, provided that the Italian acquisition closes on schedule.

Celestica's 18 acquisitions completed through April 20, 2000 and the three greenfield operations had purchase prices, or initial investment costs, in the case of greenfield operations, ranging from $2.5 million to $135.1 million, totaling $698.6 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.

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. Celestica is currently involved in discussions at an advanced stage concerning certain of these opportunities. The possible purchase prices of the opportunities under discussion range from $100 million to $350 million and a substantial portion of the purchase price for one or more of these acquisitions may be satisfied by the issuance of subordinate voting shares. Celestica does not have any definitive agreement with respect to any such acquisition, although it has a letter of intent with respect to one acquisition. There can be no assurance that any of these discussions or the letter of intent 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 new projects with significant new or existing 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 can vary from period to period as a result of the relative mix of the value add of products and services, the level of business volumes, seasonality of demand, component supply availability, manufacturing effectiveness and efficiency, price competition and the timing of acquisitions and related integration costs. There is no certainty that the historical pace of Celestica’s acquisitions will continue in the future.

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.

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

	Three months ended March 31,	
	1999	**2000**
Revenue	100.0%	100.0%
Cost of sales	93.0	93.1
Gross profit	7.0	6.9
Selling, general and administrative expenses	3.9	3.6
Amortization of intangible assets	1.3	1.0
Integration costs related to acquisitions	-	-
Operating income	1.8	2.3
Interest expense (income), net	0.3	(0.1)
Earnings before income taxes	1.5	2.4
Income taxes	0.6	0.8
Net earnings	0.9%	1.6%

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 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 to adjusted net earnings:

	Three months ended March 31,	
	1999	**2000**
	(in millions)	
Net earnings	$ 9.5	$ 26.1
Amortization of intangible assets	13.8	15.3
Integration costs related to acquisitions	0.4	0.7
Income tax effect of above	(1.8)	(2.6)
Adjusted net earnings	$ 21.9	$ 39.5

Revenue

Revenue increased $530.5 million, or 49.0%, to $1,612.3 million for the three months ended March 31, 2000 from $1,081.8 million for the same period of 1999. This increase resulted from growth achieved both organically and through strategic acquisitions, and an increase in the portion of revenue from customers in the communications industry. Organic revenue growth for the three months ended March 31, 2000 was 38% and represented approximately 77% of the total year-over-year quarterly 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 all geographic segments. Revenue from Celestica's North American operations grew $394.4 million, or 53.1%, to $1,136.5 million for the three months ended March 31, 2000 from $742.1 million for the same period of 1999. Revenue from European operations grew $111.8 million, or 4.7%, to $347.9 million for the three months ended March 31, 2000 from $236.1 million for the same period of 1999. Revenue from Asian operations increased $57.5 million, or 40.7%, to $198.8 million for the three months ended March 31, 2000 from $141.3 million for the same period of 1999. Inter-segment revenue for the three months ended March 31, 2000 was $70.8 million compared to $37.7 million inter-segment revenue for the same period of 1999. Revenue from customers in the communications industry increased to 31% of revenue for the three months ended March 31, 2000 compared to 21% of revenue for the same period of 1999. This increase is consistent with the Company's strategy to increase the portion of its revenue from customers in the communications industry. Typically, revenue is highest in the fourth quarter of the year and lowest in the first quarter of the year; in this regard, the addition of the Rochester, Minnesota revenue in March 2000 assisted in maintaining first quarter 2000 revenue ($1,612.3 million) flat compared to the fourth quarter of 1999 revenue ($1,608.8 million).

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

	Three months ended March 31,	
	1999	**2000**
Hewlett-Packard	X	X
Sun Microsystems	X	X
Cisco Systems	X	

Celestica's top five customers represented in the aggregate 67.4% of total revenue for the three months ended March 31, 2000 compared to 68.5% for the three months ended March 31, 1999. 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 Rochester acquisition in February and the Italy acquisitions scheduled to close in the second quarter.

Gross profit

Gross profit increased $35.4 million, or 47.1%, for the three months ended March 31, 2000 to $110.6 million from $75.2 million for the same period of 1999. Gross margin decreased slightly to 6.9% for the three months ended March 31, 2000 from 7.0% for the same period of 1999. Gross margins in the three months ended March 31, 2000 were affected primarily by the Rochester, Minnesota acquisition, which negatively affected margins by 30 basis points. Gross margins for the three months ended March 31, 2000 were also affected by the start-up costs for new programs in Mexico. The gross margin of 6.9% for the three months ended March 31, 2000 was lower than the 7.5% for the three months ended December 31, 1999 as a result of product mix, new program start-ups and the Rochester, Minnesota acquisition..

Selling, general and administrative expenses

Selling, general and administrative expenses ("SG & A") increased $15.8 million, or 37.4%, for the three months ended March 31, 2000 to $58.0 million (3.6% of revenue) from $42.2 million (3.9% of revenue) for the same period of 1999. The increase in expense was a result of increased staffing levels and higher selling, marketing and administrative costs to support sales growth, as well as the impact of expenses incurred by operations acquired during 1999 and 2000. SG & A expenses decreased $3.3 million, or 5.4%, for the three months ended March 31, 2000 to $58.0 million from $61.3 million for the three months ended December 31, 1999. SG & A expenses have increased at a slower rate than the revenue increases from period to period as a result of continued cost reduction programs and the impact of lower levels of SG & A expense related to the Rochester, Minnesota operations.

Research and development costs of $4.3 million (0.3% of revenue) were incurred for the three months ended March 31, 2000 compared to $4.7 million (0.4% of revenue) for the three months ended March 31, 1999.

Intangible assets and amortization

Amortization of intangible assets increased $1.5 million, or 10.9%, for the three months ended March 31, 2000 to $15.3 million from $13.8 million for the same period of 1999. This increase is attributable to the intangible assets arising from the 1999 and 2000 acquisitions. The excess of the purchase price paid over the fair value of tangible assets acquired in the five acquisitions completed in 1999 and the one acquisition in 2000, totaled $113.8 million and has been allocated to goodwill and other intangible assets. In these acquisitions, Celestica acquired identifiable assets of $120.0 million and assumed liabilities of $33.6 million.

At March 31, 2000, intangible assets represented 11.5% of Celestica's total assets compared to 13.8% at December 31, 1999 and 18.2% at March 31, 1999.

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 increased $0.3 million to $0.7 million for the three months ended March 31, 2000 from $0.4 million for the same period of 1999.

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 (i) operations acquired in 1999, (ii) the Rochester operation acquired in February 2000 and (iii) the Italian operations, scheduled to close by the end of the second quarter. Celestica will incur future additional integration costs as the Company continues to make acquisitions and establish greenfield operations as part of its growth strategy.

Interest expense (income)

Interest income, net of interest expense, for the three months ended March 31, 2000 amounted to $1.8 million. The Company was in a net cash position for the majority of 1999 and 2000 as a result of two equity offerings in 1999 and one in March 2000. The Company has earned interest income on the cash balance, which has more than offset the interest expense incurred on the Company's Senior Subordinated Notes. Cash balances at the end of December 1999 and March 2000 were $371.5 million and $930.4 million, respectively.

Net interest expense for the three months ended March 31, 1999 was $3.2 million. Prior to the March 1999 offering, which raised net proceeds of $254.0 million, the Company utilized more of its borrowing facilities resulting in higher interest expense for the quarter. Since cash balances were lower in the first quarter of 1999 compared to the first quarter of 2000, the Company earned less interest income to offset against the higher interest expense. Cash balances at the end of December 1998 and March 1999 were $31.7 million and $208.7 million, respectively.

Income taxes

Income tax expense for the three months ended March 31, 2000 was $12.3 million, reflecting an effective tax rate of 32%. This income tax expense compares to $6.1 million, or an effective tax rate of 39%, for the same period of 1999. Commencing in the second half of 1999, the Company's effective tax rate decreased from 39% to 32%. The decrease in the Company's effective tax rate was attributable to an increase in relative mix and volume of business in lower tax jurisdictions.

Celestica has recognized a net deferred tax asset at March 31, 2000 of $56.9 million, which relates to the recognition of net operating losses and future income tax deductions available to reduce future years' income for income tax purposes. Celestica's current projections demonstrate that it will generate sufficient taxable income (in excess of $120.0 million) in the future to realize the benefit of these deferred income tax assets in the carry-forward periods, not exceeding 15 years.

Quarterly Results of Operations

The following table sets forth certain unaudited quarterly financial information of Celestica for the eight quarters ended March 31, 2000. Historically, Celestica has experienced some seasonal variation in revenue, with revenue typically being highest in the fourth quarter and lowest in the first quarter. This variation may be offset in part by organic growth and acquisitions. This information has been derived from the quarterly consolidated financial statements of Celestica which are unaudited but which, in the opinion of management, have been prepared on the same basis as the Company's annual Consolidated Financial Statements contained in the Company's form 6-K/A filing for the month of February 2000 and include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the financial results for such periods. This information should be read in conjunction with the annual Consolidated Financial Statements. The operating results for any previous quarter are not necessarily indicative of results for any future period.

	June 30, 1998	September 30, 1998	December 31, 1998	March 31, 1999	June 30, 1999	September 30, 1999	December 31, 1999	March 31, 2000
	Quarter ended[1] (U.S.$ millions, except per share amounts)							
Revenue	$ 773.6	$ 811.6	$ 925.3	$ 1,081.8	$ 1,249.7	$ 1,356.9	$ 1,608.8	$ 1,612.3
Cost of sales	719.9	751.7	856.1	1,006.6	1,161.3	1,258.3	1,488.5	1,501.7
Gross profit	53.7	59.9	69.2	75.2	88.4	98.6	120.3	110.6
% of revenue	6.9%	7.4%	7.5%	7.0%	7.1%	7.3%	7.5%	6.9%
Selling, general and administrative expenses	32.5	35.0	36.6	42.2	47.1	51.6	61.3	58.0
% of revenue	4.2%	4.3%	4.0%	3.9%	3.8%	3.8%	3.8%	3.6%
Amortization of intangible assets	10.6	10.8	10.8	13.8	13.7	14.1	14.0	15.3
Integration costs relating to acquisitions	1.6	1.3	2.5	0.4	3.6	1.3	4.3	0.7
Other charges	17.8 [2]	-	11.9 [3]	-	-	-	-	-
Operating income (loss)	(8.8)	12.8	7.4	18.8	24.0	31.6	40.7	36.6
Interest expense (income)	13.0	3.7	3.2	3.2	2.3	3.0	2.2	(1.8)
Earnings (loss) before tax	(21.8)	9.1	4.2	15.6	21.7	28.6	38.5	38.4
Income taxes (recovery)	(2.6)	2.8	8.0	6.1	8.5	9.1	12.3	12.3
Net earnings (loss)	$ (19.2)	$ 6.3	$ (3.8)	$ 9.5	$ 13.2	$ 19.5	$ 26.2	$ 26.1
Basic earnings (loss) per share	$ (0.26)	$ 0.05	$ (0.03)	$ 0.06	$ 0.08	$ 0.12	$ 0.15	$ 0.14
Adjusted net earnings	$ 4.6	$ 16.2	$ 18.7	$ 21.9	$ 27.5	$ 32.6	$ 41.0	$ 39.5

(1) For 1998, 1999 and 2000, includes the results of operations of (a) the manufacturing operation acquired from Lucent Technologies Inc. in April 1998, (b) Analytic Design, Inc. acquired in May 1998, (c) the manufacturing operation acquired from Silicon Graphics Inc. in June 1998, (d) Accu-Tronics, Inc. acquired in September 1998, and (e) a greenfield operation established in Tennessee in September 1998; for 1999 and 2000, includes the results of operations of (f) International Manufacturing Services , Inc ("IMS", renamed Celestica Asia) acquired December 30, 1998, (g) the manufacturing operation of Gossen-Metrawatt GmbH in the Czech Republic acquired in April 1999, (h) a greenfield operation established in Brazil in June 1999, (i) a greenfield operation established in Malaysia in June 1999, (j) VXI Electronics, Inc. acquired in September 1999, (k) the assets acquired from Hewlett-Packard's Healthcare Group in October 1999, (l) EPS Wireless, Inc. acquired in December 1999 and (m) certain assets and repair operations acquired from Fujitsu-ICL in December 1999; and for 2000, includes the results of operations of (n) certain Rochester, Minnesota assets acquired from IBM in February 2000.

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

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

Liquidity and Capital Resources

For the three months ended March 31, 2000, Celestica generated cash of $25.7 million from operating activities compared to utilizing cash of $32.3 million for the same period of 1999. Higher net earnings and improved working capital deployment resulted in a positive effect on cash. Investing activities for the quarter included capital expenditures of $68.6 million and the acquisition of IBM's operations in Rochester, for a total purchase price of $135.1 million. In March 2000, Celestica completed an equity offering and issued 16.6 million subordinate voting shares, for gross proceeds of $757.4 million less expenses and underwriting commissions of $26.8 million.

For the three months ended March 31, 1999, Celestica's operating activities utilized $32.3 million in cash mainly to support higher working capital requirements. Investing activities for the quarter included capital expenditures of $41.8 million. There were no acquisitions in that quarter. In March 1999, Celestica issued 18.4 million subordinate voting shares in an equity offering for gross proceeds of $263.6 million less expenses and underwriting commissions of $12.7 million.

Capital Resources

Celestica has two $250 million global, unsecured, revolving credit facilities totaling $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 2003 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 April 20, 2000.

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 April 20, 2000.

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 expects capital spending for 2000 to be approximately $160 million to $180 million, excluding any capital expenditures required for the acquisition of certain facilities and operations from IBM. See "Recent Developments". Capital expenditures totaled $68.6 million in the first quarter of 2000 and $40.6 million was committed at March 31, 2000. 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, British pounds sterling and Mexican pesos (including approximately C$400 million, £100 million and MXN500 million on an annualized basis). As a result, Celestica may experience transaction and translation gains or losses because of currency fluctuations. At March 31, 2000, Celestica had forward foreign exchange contracts covering various currencies in an aggregate notional amount of US$638 million with expiry dates up to June 2001. The fair value of these contracts at March 31, 2000 was an unrealized loss of US$10 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, Mexican pesos 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 the related assets, and expects to generate annualized revenue of approximately $1.5 billion, of which approximately $1.0 billion is expected to come from the 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 by the end of the second quarter 2000.

The 128,000 square foot Rochester, Minnesota operation provides printed circuit board assembly and test services. The Vimercate operation provides printed circuit board assembly services and the Santa Palomba operation provides system assembly services. Combined, the Italian facilities occupy over one million square feet. The Italian facilities will be purchased from IBM and the Rochester facility is being leased from IBM.

The purchase price, including capital assets, working capital, intangible assets and acquisition costs, is expected to be approximately $500 million (including $135.1 million paid in connection with the closing of the Rochester, Minnesota acquisition), and will be financed by cash on hand.

The purchase price for the acquisition of the assets represents a premium over the current book value of the tangible assets, which will generate approximately $175 million of intangible assets, including intellectual property, subject to any closing price adjustments that may arise. 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 reflected as 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 the current revenue of the acquired operations. 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 the current revenue. The Company expects that the acquisition of these operations will be accretive to adjusted net earnings in 2000, provided the Italian 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, and fulfillment.

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 December 1999, the SEC issued Staff Accounting Bulletins (SAB) 101 and 101A, " Revenue Recognition", which provide guidelines in applying generally accepted accounting principles to revenue recognition in financial statements. The Company will be required to implement SAB 101 and 101A by the second quarter of 2000. The Company believes that its revenue recognition practices are consistent with these guidelines.

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.