

*The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the 2002 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. 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 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 computer 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; and the ability to manage expansion, consolidation and the integration of acquired businesses. These and other risks and uncertainties and factors are discussed in the Company's filings with the Canadian Securities Commission 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 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.*

## **Overview**

Celestica is a world leader in providing electronics manufacturing services to OEMs in the information technology and communications 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 full system assembly of final products. In addition, the Company is a leading-edge provider of design, repair and engineering services, supply chain management and power products. Celestica operates facilities in the Americas, Europe and Asia.

2002 was a challenging year as the information technology and communications end markets remained weak. Revenue for 2002 was \$8.3 billion, down 17% from \$10.0 billion for 2001. The reduced demand for Celestica's products and services contributed to the decrease in revenue and margins for 2002. Revenue from existing customers decreased for the second consecutive year.

Historically, acquisitions have contributed significantly to the Company's growth, with 2001 being the most active year for acquisitions, in terms of the number of acquisitions closed and the total purchase price. Growth from acquisitions in 2002, however, was minimal. Celestica continues to evaluate acquisition opportunities and anticipates that acquisitions will continue to contribute to its future growth.

In 2001, the Company announced its first restructuring plan in response to the weakened end markets. The continued downturn into 2002 resulted in the Company announcing further restructuring actions, which it expects to complete by the end of 2003. The restructurings were focused on consolidating facilities and increasing capacity in lower cost geographies. The Company expects that it will have a better-balanced manufacturing footprint when all of the planned restructuring actions are completed.

In the fourth quarter of 2002, Celestica recorded impairment losses totaling \$285.4 million, in connection with its annual impairment tests of goodwill and long-lived assets, based on factors and conditions at the time the assessments were performed. Conditions in the marketplace deteriorated significantly from January 1, 2002, when the Company completed its evaluation of the transitional goodwill impairment, as required by the new goodwill standards. Future impairment tests may result in additional impairment charges.

In 2002, management focused on reducing working capital, and increased its cash balance to its highest level in the Company's history. Cash earned from operations in 2002 fully funded the Company's 2002 acquisitions of \$111.0 million, repayment of \$130.0 million of subordinated debt, the repurchase of \$32.5 million in capital stock and the repurchase of convertible debt for an aggregate purchase price of \$100.3 million.

## **Critical Accounting Policies and Estimates**

Celestica prepares its financial statements in accordance with generally accepted accounting principles (GAAP) in Canada with a reconciliation to United States GAAP, as disclosed in note 22 to the 2002 Consolidated Financial Statements.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 2002 Consolidated Financial Statements. The Company evaluates its estimates and assumptions on a regular basis, based on historical experience and other relevant factors. Significant estimates are used in determining, but not limited to, the allowance for doubtful accounts, inventory valuation, income tax valuation allowances, the fair value of reporting units for purposes of goodwill impairment tests, the useful lives and valuation of intangible assets, and restructuring charges. Actual results could differ materially from those estimates and assumptions.

**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 customer. Celestica recognizes product revenue upon shipment to the customer as performance has occurred, all customer specified acceptance criteria have been tested and met, and the earnings process is considered complete. 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 its risk relative to its inventory by 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.

**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 and tax planning strategies. A change to these factors could impact the estimated valuation allowance and income tax expense.

**Goodwill:**

Celestica performs its annual goodwill impairment tests in the fourth quarter of each year, 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 the fourth quarter of 2002. Future goodwill impairment tests may result in further impairment charges.

**Intangible assets:**

Celestica performs its annual impairment tests on long-lived assets in the fourth quarter of each year, and more frequently if events or changes in circumstances indicate that an impairment loss may have been incurred. Celestica estimates the useful lives of intangible assets based on the nature of the asset, historical experience and the terms of any related supply contracts. The valuation of intangible 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 intangible assets resulting in a change to amortization expense and impairment charges.

**Restructuring charges:**

Celestica recorded restructuring charges in 2001 and 2002, relating to facility consolidations and workforce reductions. These charges are recorded based on detailed plans approved and committed to by management. The restructuring charges include employee severance and benefit costs, costs related to leased facilities that will be abandoned or subleased, owned facilities which are no longer used and will be held for disposition, cost of leased equipment that will be abandoned, impairment of owned equipment that will be held for disposition, 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. The estimates 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.

**Recent Acquisitions**

A significant portion of Celestica's growth in prior years was generated by strengthening its customer relationships 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. The historical pace of Celestica's acquisitions did not continue in 2002 and may not continue in the future.

As a result of the continued downturn in the economy, some of the sites acquired in prior years have been impacted by the Company's latest round of restructuring. Supply agreements entered into in connection with certain acquisitions were also affected by order cancellations and reschedulings as base-business volumes have decreased. See discussion below in "Results of Operations."

**2001 Asset Acquisitions:**

In February 2001, Celestica acquired certain manufacturing assets in Dublin, Ireland and Mt. Pleasant, Iowa from Motorola Inc. and signed supply agreements. In March 2001, Celestica acquired certain assets relating to N.K. Techno Co. Ltd 's repair business, which expanded the Company's presence in Japan, and established a greenfield operation in Shanghai. In May 2001, Celestica acquired certain assets from Avaya Inc. in Little Rock, Arkansas and Denver, Colorado, and, in August 2001, acquired certain assets in Saumur, France. The Company signed a five-year supply agreement with Avaya. In August 2001, Celestica acquired certain assets in Columbus, Ohio and Oklahoma City, Oklahoma from Lucent Technologies Inc. and signed a five-year supply agreement. The aggregate purchase price for these asset acquisitions in 2001 of \$834.1 million was financed with cash.

**2001 Business Combinations:**

In January 2001, Celestica acquired Excel Electronics, Inc. through a merger with Celestica (U.S.) Inc., which enhanced the Company's prototype service offering in the southern region of the United States. In June 2001, Celestica acquired Sagem CR s.r.o., in the Czech Republic, from Sagem SA, of France, which enhanced the Company's presence in central Europe. In August 2001, Celestica acquired Primetech Electronics Inc. (Primetech), an EMS provider in Canada. The purchase price for Primetech was financed primarily with the issuance of 3.4 million subordinate voting shares and the issuance of options to purchase 0.3 million subordinate voting shares of the Company.

In October 2001, Celestica acquired Omni Industries Limited (Omni). Omni is an EMS provider, headquartered in Singapore, with locations in Singapore, Malaysia, China, Indonesia and Thailand, and had approximately 9,000 employees at the date of acquisition. Omni provides printed circuit board assembly and system assembly services, as well as other related supply chain services including plastic injection molding and distribution. Omni manufactures products for industry-leading OEMs in the PC, storage and communications sectors. The acquisition significantly enhanced Celestica's EMS presence in Asia. The purchase price for Omni of \$865.8 million was financed with the issuance of 9.2 million subordinate voting shares and the issuance of options to purchase 0.3 million subordinate voting shares of the Company, and \$479.5 million in cash.

The aggregate purchase price for these business combinations in 2001 was \$1,093.3 million, of which \$526.3 million was financed with cash.

**2002 Asset Acquisitions:**

In March 2002, the Company acquired certain assets located in Miyagi and Yamanashi, Japan from NEC Corporation. The Company signed a five-year supply agreement to provide a complete range of electronics manufacturing services for a broad range of NEC's optical backbone and broadband access equipment. In August 2002, the Company acquired certain assets from Corvis Corporation in the United States. The Company signed a multi-year supply agreement with Corvis, which positioned Celestica as the exclusive manufacturer of Corvis' terrestrial optical networking products and sub-sea terminating equipment. 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.

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 corporate acquisitions. Celestica has identified several possible acquisitions that would enhance its global operations, 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 continue any current discussions and actively pursue 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 and other factors. Weak end-market conditions began to emerge in early to mid-2001 and have continued to weaken for the communications and information technology industries. This resulted in customers rescheduling or cancelling orders which negatively impacted Celestica's results of operations.

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

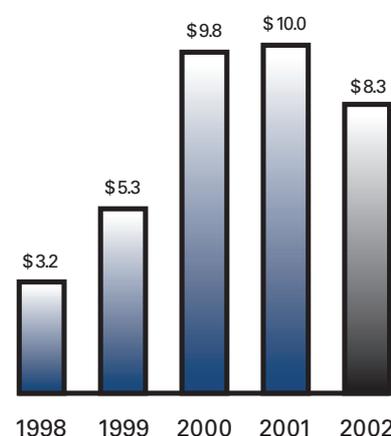
	Year ended December 31		
	2000	2001	2002
Revenue	100.0%	100.0%	100.0%
Cost of sales	92.9	92.9	93.3
Gross profit	7.1	7.1	6.7
Selling, general and administrative expenses	3.3	3.4	3.6
Amortization of goodwill and intangible assets	1.0	1.3	1.2
Integration costs related to acquisitions	0.2	0.2	0.2
Other charges	0.0	2.7	8.2
Operating income (loss)	2.6	(0.5)	(6.5)
Interest income, net	(0.2)	(0.1)	(0.0)
Earnings (loss) before income taxes	2.8	(0.4)	(6.5)
Income taxes (recovery)	0.7	0.0	(1.1)
Net earnings (loss)	2.1%	(0.4)%	(5.4)%

**Revenue**

Revenue decreased 17%, to \$8,271.6 million in 2002 from \$10,004.4 million in 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 also put pressure on pricing for components and services, thereby reducing revenue. The visibility of end-market conditions remains limited.

Celestica manages its operations on a geographic basis. The three reporting segments are the Americas, Europe and Asia. Revenue from the Americas operations decreased 27%, to \$4,640.8 million in 2002 from \$6,334.6 million in 2001. Revenue from European operations decreased 40%, to \$1,786.5 million in 2002 from \$3,001.3 million in 2001. The Americas and European operations have been 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. As a result, the Company has initiated restructuring actions to reduce the manufacturing capacity in these geographies, which includes downsizing and closure of manufacturing facilities. The restructuring actions also include transferring programs from higher cost geographies to lower cost geographies. Revenue from Asian operations increased 113%, to \$2,109.7 million in 2002 from \$991.1 million in 2001. The increase in revenue from Asian operations is primarily due to acquisitions and an increase in base-business volumes. The effect of the 2002 acquisitions and the shifting of program activities from other geographies are expected to increase revenue in the Asian operations in 2003.

**revenue**  
(in billions)



Revenue increased 3%, to \$10,004.4 million in 2001 from \$9,752.1 million in 2000. Acquisition revenue grew by 14%, offset by an 11% decline in base-business volumes. The acquisition growth was a result of strategic acquisitions in the communications industry, primarily in the U.S. and Asia. Base-business revenue declined in 2001 due to the softening of end markets. Revenue from the Americas operations decreased 3%, to \$6,334.6 million in 2001 from \$6,542.7 million in 2000, primarily due to continued end-market softening which was partially offset by acquisitions. Revenue from European operations increased 6%, to \$3,001.3 million in 2001 from \$2,823.3 million in 2000, due to the flow through of the IBM acquisition from 2000, and from the 2001 acquisitions, partially offset by the general industry downturn. Revenue from Asian operations increased 14%, to \$991.1 million in 2001 from \$871.6 million in 2000, primarily due to the Omni acquisition offset in part by the general industry downturn.

The following represents the end-market industries as a percentage of revenue for the indicated periods:

	Year ended December 31		
	2000	2001	2002
Communications	31%	36%	45%
Servers	33%	31%	26%
Storage and other	14%	18%	22%
Workstations and PCs	22%	15%	7%

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

	Year ended December 31		
	2000	2001	2002
Sun Microsystems	✓	✓	✓
IBM	✓	✓	✓
Lucent Technologies		✓	✓

Celestica's top five customers represented in the aggregate 66% of total revenue in 2002, compared to 67% in 2001 and 69% in 2000. 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 increase or decrease 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 17 (concentration of risk) and 19 to the 2002 Consolidated Financial Statements.

**Gross profit**

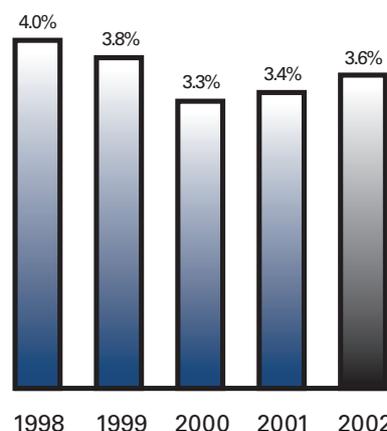
Gross profit decreased 22%, to \$555.8 million in 2002 from \$712.5 million in 2001. Gross margin decreased to 6.7% in 2002 from 7.1% in 2001. Gross margins decreased 0.4% from prior year, primarily due to the significant reduction in business volumes and industry pricing pressures. The European operations 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-added products, disproportionately, further adversely affecting the European margins. In addition, costs for the 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 European operations were offset partially by improved margins in the Americas and Asian operations. The Americas improved its operating efficiencies, had higher value-added product mix and benefited from restructuring actions. Asian margins improved on higher volumes and utilization rates.

Gross profit increased 4%, to \$712.5 million in 2001 from \$688.0 million in 2000. Gross margin was 7.1% in 2001, consistent with 2000. Margins were maintained due to continued focus on costs and supply chain initiatives, and the benefits of the 2001 restructuring actions.

For the foreseeable future, the Company's gross margin is expected to depend on product mix, production efficiencies, utilization of manufacturing capacity, geographic manufacturing mix, start-up activity, new product introductions, pricing within the electronics industry, cost structure at individual sites and other factors. Over time, gross margins at individual sites and for the Company as a whole are expected to fluctuate. Also, the availability of labour and raw materials, which are subject to lead time and other constraints, could possibly limit the Company's revenue growth.

**SG & A percentage**

(percentage of revenue)



**Selling, general and administrative expenses**

Selling, general and administrative (SG&A) expenses decreased 13%, to \$298.5 million (3.6% of revenue) in 2002 from \$341.4 million (3.4% of revenue) in 2001. SG&A as a percentage of revenue increased as certain elements of expenses were fixed over this period. The decrease in SG&A, on an absolute basis, reflects the benefits from the Company's restructuring programs and a reduction in discretionary spending, which more than offset the increase in expenses due to operations acquired in the latter part of 2001 and in 2002.

SG&A increased 5%, to \$341.4 million (3.4% of revenue) in 2001 from \$326.1 million (3.3% of revenue) in 2000. The increase in expenses was primarily due to operations acquired during 2000 and 2001.

Research and development costs increased to \$18.2 million (0.2% of revenue) in 2002, compared to \$17.1 million (0.2% of revenue) in 2001 and \$19.5 million (0.2% of revenue) in 2000.

**Amortization of goodwill and intangible assets**

Amortization of goodwill and intangible assets decreased 23%, to \$95.9 million in 2002 from \$125.0 million in 2001. Effective January 1, 2002, the Company fully 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 "Recent Accounting Developments." The decrease in amortization is the result of this change in accounting for goodwill, offset in part by the amortization of intangible assets arising from the 2001 and 2002 acquisitions. See note 2(q)(ii) to the 2002 Consolidated Financial Statements for the impact of the change in policy on net earnings (loss) and per share calculations.

Amortization of goodwill and intangible assets increased 41%, to \$125.0 million in 2001 from \$88.9 million in 2000. The increase is attributable to the goodwill and intangible assets arising from 2000 and 2001 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. All of the integration costs incurred related to newly acquired facilities, and not to the Company's existing operations.

Integration costs were \$21.1 million in 2002, compared to \$22.8 million in 2001 and \$16.1 million in 2000. The integration costs incurred in 2002 primarily relate to the Lucent, NEC Japan and Omni acquisitions.

Integration costs vary from period to period due to the timing of acquisitions and related integration activities.

**Other charges**

In 2002, Celestica incurred \$677.8 million in other charges, compared to \$273.1 million in 2001.

	Year ended December 31	
	2001	2002
	(in millions)	
2001 restructuring	\$ 237.0	\$ 1.9
2002 restructuring	—	383.5
2002 goodwill impairment	—	203.7
Other impairment	36.1	81.7
Deferred financing costs and debt redemption fees	—	9.6
Gain on sale of surplus land	—	(2.6)
	\$ 273.1	\$ 677.8

Further details of the other charges are included in note 13 to the 2002 Consolidated Financial Statements.

To date, the Company has announced two restructuring plans in response to the economic climate. These actions, which included reducing the workforce, consolidating facilities and changing the strategic focus of the number and geography of sites, was largely intended to align the Company's capacity and infrastructure to anticipated customer demand, as well as to rationalize its footprint worldwide. The 2001 restructuring plan amounted to \$237.0 million. The 2002 restructuring plan amounted to \$383.5 million. Cash outlays are funded from cash on hand.

The Company has and expects to continue to benefit from the restructuring measures taken in 2001 and 2002 through reduced operating costs. The Company has completed the major components of the 2001 restructuring plan, except for certain long-term lease and other contractual obligations. The Company expects to complete the major components of the 2002 restructuring plan by the end of 2003, except for certain long-term lease and other contractual obligations. The Company continues to evaluate its cost structure relative to its revenue levels and may take additional restructuring charges in the future. See "Recent Developments."

In the fourth quarter of 2002, the Company recorded a non-cash charge against goodwill of \$203.7 million, in connection with its annual impairment assessments of goodwill. An independent third-party valuation confirmed the fair value of the reporting units and the impairment assessment. In the fourth quarter of 2002, the Company also recorded a non-cash charge of \$81.7 million, primarily against intangible assets. In 2001, the Company recorded a non-cash charge of \$36.1 million, primarily against goodwill and intangible assets. See note 7 to the 2002 Consolidated Financial Statements.

The Company may continue to experience goodwill and intangible asset impairment charges in the future as a result of adverse 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 2002 amounted to \$17.2 million, compared to \$27.7 million in 2001, and \$36.8 million in 2000. Interest income decreased for 2002 compared to 2001, primarily due to lower interest rates on cash balances. Interest income was offset by interest expense on the Company's Senior Subordinated Notes and debt facilities, which has 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. Interest expense is expected to decrease for 2003 as a result of the full-year effect of the redemption.

**Income taxes**

The income tax recovery in 2002 was \$91.2 million, reflecting an effective tax recovery rate of 17%. This is compared to an income tax recovery of \$2.1 million in 2001, reflecting an effective tax recovery rate of 5%.

The Company's effective tax rate is the result of the mix and volume of business in lower tax jurisdictions within Europe and Asia. These lower tax rates include tax holidays and tax incentives that Celestica has negotiated with the respective tax authorities which expire between 2004 and 2012. The tax benefit arising from these incentives is approximately \$24.9 million, or \$0.11 diluted per share for 2002 and \$9.6 million, or \$0.04 diluted per share for 2001. The Company expects the current tax rate of 17% to continue for the

foreseeable future based on the anticipated nature and conduct of its business and the tax laws, administrative practices and judicial decisions now in effect in the countries in which the Company has assets or conducts business, all of which are subject to change or differing interpretation, possibly with retroactive effects.

The net deferred income tax asset as at December 31, 2002 of \$274.3 million 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, the character of the income tax asset and tax planning strategies, management has determined that a valuation allowance of \$76.6 million is required in respect of its deferred income tax assets as at December 31, 2002. No valuation allowance was required for the deferred income tax assets as at December 31, 2001. In order to fully utilize the net deferred income tax assets of \$274.3 million, the Company will need to generate future taxable income of approximately \$741.0 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, 2002.

### **Liquidity and Capital Resources**

In 2002, operating activities provided Celestica with \$982.8 million in cash, compared to \$1,290.5 million in 2001. Cash was generated from earnings and a reduction in working capital, primarily inventory, due to improved inventory management, and the collection of accounts receivable. The Company will continue to focus on improving working capital management. Cash generated from operations was sufficient to fully fund the Company's investing and financing activities for 2002.

Investing activities for 2002 included capital expenditures of \$151.4 million, and asset acquisitions of \$111.0 million offset by proceeds from the sale of the Company's Columbus, Ohio facility and from the sale-leaseback of machinery and equipment.

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. The Company also reduced the leverage on its balance sheet by repurchasing Liquid Yield Option™ Notes (LYONs) in the open market. These LYONs, having a principal amount at maturity of \$222.9 million, were repurchased at an average price of \$450.10 per LYON, for a total of \$100.3 million. A gain of \$6.7 million, net of taxes of \$3.9 million, was recorded. See further details in note 10 to the 2002 Consolidated Financial Statements. The Company may, from time to time, purchase additional LYONs in the open market. Subsequent to year-end, the board of directors authorized the Company to spend up to an additional \$100.0 million to repurchase LYONs, at management's discretion. This is in addition to the amounts authorized in October 2002, of which \$48.0 million remains available for future purchases. The amount and timing of future purchases cannot be determined at this time.

In July 2002, Celestica filed a Normal Course Issuer Bid to repurchase up to 9.6 million subordinate voting shares, for cancellation, over a period from August 1, 2002 to July 30, 2003. The shares will be 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 our Notice relating to the Normal Course Issuer Bid may be obtained from Celestica, without charge, by contacting the Company's Investor Relations Department at [clsir@celestica.com](mailto:clsir@celestica.com). In 2002, the Company repurchased 2.0 million subordinate voting shares at a weighted average price of \$16.23 per share. All of these transactions were funded with cash on hand.

In 2001, operating activities provided Celestica with \$1,290.5 million in cash principally from earnings and a reduction in working capital. The primary factors contributing to the positive cash flow for the year were the reduction of inventory due to better inventory management, strong accounts receivable collections and the sale of \$400.0 million in accounts receivable under a revolving facility, offset by a decrease in accounts payable and accrued liabilities. Investing activities in 2001 included capital expenditures of \$199.3 million and \$1,299.7 million for acquisitions. See "Recent Acquisitions." The Company fully funded the 2001 acquisitions with cash from operations. The Company's 2001 financing activities included the issuance in May of 12.0 million subordinate voting shares for gross proceeds of \$714.0 million and the repayment of \$56.0 million of debt acquired in connection with the acquisition of Omni.

### **Capital Resources**

During the year, Celestica amended its credit facilities. At December 31, 2002, the Company had two credit facilities: a \$500 million four-year revolving term credit facility and a \$350 million revolving term credit facility which expire in 2005 and 2004, respectively. The Company elected to cancel its third credit facility which was originally entered into in July 1998. 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. No borrowings were outstanding under the revolving credit facilities at December 31, 2002.

Celestica and certain subsidiaries have uncommitted bank facilities which total \$47.1 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. The Company expects capital spending for 2003 to be in the range of 1.5% to 2.0% of revenue. At December 31, 2002, Celestica had committed \$30.3 million in capital expenditures. In addition, Celestica regularly reviews acquisition opportunities, and therefore, 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 year-end, the Company generated cash from the sale of \$320.5 million in accounts receivable. The terms of the arrangement provide that the purchaser may elect not to purchase receivables if Celestica's credit rating falls below a specified threshold. Celestica's credit rating is significantly above that threshold.

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.

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, 2002, Celestica had forward foreign exchange contracts covering various currencies in an aggregate notional amount of \$669.1 million with expiry dates up to March 2004, except for one contract for \$10.6 million that expires in January 2006. The fair value of these contracts at December 31, 2002, was an unrealized gain of \$18.9 million. Celestica's current hedging activity is designed to reduce the variability of its foreign currency costs and generally involves entering into contracts to trade U.S. dollars for Canadian dollars, British pounds sterling, Mexican pesos, euros, Thailand baht, Singapore dollars, Brazilian reais, Japanese yen and Czech koruna at future dates. In general, these contracts extend for periods of less than 19 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. See note 2(n) to the 2002 Consolidated Financial Statements.

As at December 31, 2002, the Company has contractual obligations that require future payments as follows:

(in millions)	Total	2003	2004	2005	2006	2007	Thereafter
Long-term debt	\$ 6.9	\$ 2.7	\$ 2.5	\$ 1.5	\$ 0.1	\$ 0.1	\$ -
Operating leases	338.3	106.5	59.5	38.9	23.0	18.9	91.5

As at December 31, 2002, the Company has convertible instruments, the LYONs, with an outstanding principal amount at maturity of \$1,590.6 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 \$911.1 million. The Company may elect to settle in cash or shares or any combination thereof. See further details in note 10 to the 2002 Consolidated Financial Statements.

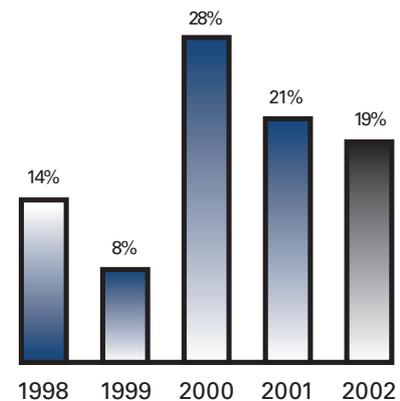
Under the terms of an existing real estate lease which expires in 2004, Celestica has the right to acquire the real estate at a purchase price equal to the lease balance which currently is approximately \$37.3 million. In the event that the lease is not renewed, subject to certain conditions, Celestica may choose to market and complete the sale of the real estate on behalf of the lessor. If the highest offer received is less than the lease balance, Celestica would pay the lessor the lease balance less the gross sale proceeds, subject to a maximum of \$31.5 million. In the event that no acceptable offers are received, Celestica would pay the lessor \$31.5 million and return the property to the lessor. Alternatively, Celestica may choose to acquire the real estate at the expiration for a price equal to the then current lease balance. The future lease payments under this lease are included in the total operating lease commitments.

As at December 31, 2002, the Company has commitments that expire as follows:

(in millions)	Total	2003	2004	2005	2006	2007	Thereafter
Foreign currency contracts	\$ 669.1	\$ 621.5	\$ 39.6	\$ 5.3	\$ 2.7	\$ -	\$ -
Letters of credit, letters of guarantee and surety and performance bonds	61.2	37.6	1.0	16.9	-	3.9	1.8

The Company has also provided routine indemnifications, whose terms range in duration and often are not explicitly defined. These guarantees 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 guarantees. Historically, the Company has not made significant payments relating to these indemnifications.

**debt to capital improves (1)**  
(percentage)



(1) Calculated as debt/capital. Debt includes long-term debt and convertible debt. Capital includes total shareholder's equity and long-term debt.

The Company expenses management related fees charged by its parent company. Management believes that the fees charged are reasonable in relation to the services provided. See note 15 to the 2002 Consolidated Financial Statements.

### **Recent Developments**

In January 2003, the Company made the following announcements:

In response to the continued limited visibility in end markets, the Company plans to further reduce its manufacturing capacity. The reduction in capacity will result in a pre-tax restructuring charge of between \$50.0 million and \$70.0 million, to be recorded during 2003, of which approximately 80% will be cash costs.

The Company has, from time to time, purchased LYONs on the open market. The Company has been authorized by the board of directors to spend up to an additional \$100.0 million to repurchase LYONs, at management's discretion. This is in addition to the amounts authorized in October 2002, of which \$48.0 million remains available for future purchases.

### **Recent Accounting Developments**

#### **Business combinations, goodwill and other intangible assets:**

In September 2001, the CICA issued Handbook Sections 1581, "Business Combinations" and 3062, "Goodwill and Other Intangible Assets." The FASB issued similar standards in July 2001. See notes 2(q)(ii) and 22(k) to the 2002 Consolidated Financial Statements.

#### **Stock-based compensation and other stock-based payments:**

Effective January 1, 2002, the Company adopted the new CICA Handbook Section 3870. See note 2(q)(iii) to the 2002 Consolidated Financial Statements.

#### **Foreign currency translation and hedging relationships:**

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

#### **Impairment of long-lived assets:**

In August 2001, FASB approved SFAS No. 143, "Accounting for Asset Retirement Obligations" and 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 notes 22(k) and 2(r) to the 2002 Consolidated Financial Statements.

#### **Costs associated with exit or disposal activities:**

In July 2002, FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," effective for exit or disposal activities that are initiated after December 31, 2002. See note 22(k) to the 2002 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 22(k) and 2(r) to the 2002 Consolidated Financial Statements.

#### **Consolidation of variable interest entities:**

In January 2003, FASB issued FIN 46, "Consolidation of Variable Interest Entities." See note 22(k) to the 2002 Consolidated Financial Statements.