CELESTICA INC
Form 20-F
March 20, 2007

QuickLinks -- Click here to rapidly navigate through this document

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

o Registration statement pursuant to Section 12(b) or (g)
of the Securities Exchange Act of 1934
or
ý Annual report pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
for the fiscal year ended December 31, 2006
or
o Transition report pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
or
o Shell company report pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of event requiring this shell company report:

Commission file number: 1-14832

CELESTICA INC.

(Exact name of registrant as specified in its charter)

Ontario, Canada

(Jurisdiction of incorporation or organization)

12 Concorde Place, 5th Floor
Toronto, Ontario, Canada M3C 3R8

(Address of principal executive offices)

SECURITIES REGISTERED OR TO BE REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Subordinate Voting Shares	The Toronto Stock Exchange New York Stock Exchange
(Title of Class)	*(Name of each Exchange on which Registered)*

SECURITIES REGISTERED OR TO BE REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
N/A

SECURITIES FOR WHICH THERE IS A REPORTING OBLIGATION PURSUANT TO SECTION 15(d) OF THE ACT:

N/A

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

198,215,551 Subordinate Voting Shares

0 Preference Shares

29,637,316 Multiple Voting Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes o No ý

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

ý Large accelerated filer o Accelerated filer o Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 o Item 18 ý

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

TABLE OF CONTENTS

PART I

In this Annual Report, "Celestica," the "Company," "we," "us" and "our" refer to Celestica Inc. and its subsidiaries.

In this Annual Report, all dollar amounts are expressed in United States dollars, except where we state otherwise. All references to "U.S.$" or "$" are to U.S. dollars and all references to "C$" are to Canadian dollars. Unless we indicate otherwise, any reference in this Annual Report to a conversion between U.S.$ and C$ is a conversion at the average of the exchange rates in effect for the year ended December 31, 2006. During that period, based on the relevant noon buying rates in New York City for cable transfers in Canadian dollars, as certified for customs purposes by the Federal Reserve Bank of New York, the average daily exchange rate was U.S.$1.00 = C$1.1340.

Unless we indicate otherwise, all information in this Annual Report is stated as of February 19, 2007, the date as of which we prepared information for our annual report to shareholders and management information circular and proxy statement.

Forward-Looking Statements

Item 4, "Information on the Company," "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 5 and other sections of this Annual Report contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the U.S. Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the U.S. Exchange Act, including (without limitation) statements concerning possible or assumed future results of operations of Celestica preceded by, followed by or that include the words "believes," "expects," "anticipates," "estimates," "intends," "plans," or similar expressions. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the U.S. Private Securities Litigation Reform Act of 1995.

Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions. You should understand that the following important factors, in addition to those discussed in Item 3, "Key Information   Risk Factors," and elsewhere in this Annual Report, could affect our future results and could cause those results to differ materially from those expressed in such forward-looking statements: inability to retain or grow our business due to execution problems resulting from significant headcount reductions, plant closures and product transfers associated with major restructuring activities; the effects of price competition and other business and competitive factors generally affecting the electronics manufacturing services (EMS) industry; the challenges of effectively managing our operations during uncertain economic conditions; our dependence on a limited number of customers; variability of operating results among periods; our dependence on industries affected by rapid technological change; the challenge of responding to lower-than-expected customer demand; our ability to successfully manage our international operations; and delays in the delivery and/or general availability of various components used in the manufacturing process.

Except as required by applicable law, we disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You should read this Annual Report and the documents, if any, that we incorporate by reference with the understanding that the actual future results may be materially different from what we expect. We may not update these forward-looking statements, even if our situation changes in the future. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

You should read the following selected financial data together with Item 5, "Operating and Financial Review and Prospects," the Consolidated Financial Statements in Item 18, and the other information in this

Annual Report. The selected financial data is derived from the consolidated financial statements for the years we present.

The Consolidated Financial Statements have been prepared in accordance with Canadian GAAP. These principles conform in all material respects with U.S. GAAP except as described in note 20 to the Consolidated Financial Statements in Item 18. For all the years presented, the selected financial data is prepared in accordance with Canadian GAAP unless otherwise indicated.

	Year ended December 31				
	2002[1]	**2003[1]**	**2004[1]**	**2005[1]**	**2006[1]**
	(in millions, except per share amounts)				
Consolidated Statements of Operations Data (Canadian GAAP):					
Revenue	$ 8,271.6	$ 6,735.3	$ 8,839.8	$ 8,471.0	$ 8,811.7
Cost of sales	7,716.5	6,475.2	8,431.9	7,989.9	8,359.9
Gross profit	555.1	260.1	407.9	481.1	451.8
Selling, general and administrative expenses[2]	298.5	273.8	331.6	296.9	285.6
Amortization of intangible assets[3]	95.9	48.5	34.6	28.4	27.0
Integration costs related to acquisitions[4]	21.1		3.1	0.6	0.9
Other charges[5]	665.7	151.6	603.2	130.9	211.8
Accretion of convertible debt	28.7	23.4	17.6	7.6	
Interest expense (income), net[6]	(1.1)	(4.0)	19.7	42.2	62.6
Loss before income taxes	(553.7)	(233.2)	(601.9)	(25.5)	(136.1)
Income tax expense (recovery)[7]	(98.3)	33.5	252.2	21.3	14.5
Net loss	$ (455.4)	$ (266.7)	$ (854.1)	$ (46.8)	$ (150.6)
Other Financial Data:					
Basic loss per share	$ (1.98)	$ (1.23)	$ (3.85)	$ (0.21)	$ (0.66)
Diluted loss per share	$ (1.98)	$ (1.23)	$ (3.85)	$ (0.21)	$ (0.66)
Capital expenditures	$ 151.4	$ 175.9	$ 142.2	$ 158.5	$ 189.1
Consolidated Statements of Operations Data (U.S. GAAP)[8]:					
Net loss	$ (494.9)	$ (269.2)	$ (867.5)	$ (42.8)	$ (149.3)
Shares used in computing per share amounts (in millions):					
Basic	229.8	216.5	222.1	226.2	227.2
Diluted	229.8	216.5	222.1	226.2	227.2

	As at December 31				
	2002(1)	2003(1)	2004(1)	2005(1)	2006(1)
	(in millions)				
Consolidated Balance Sheet Data (Canadian GAAP):					
Cash and short-term investments	$ 1,851.0	$ 1,028.8	$ 968.8	$ 969.0	$ 803.7
Working capital(9)	$ 2,093.2	$ 1,513.6	$ 1,458.3	$ 1,488.1	$ 1,394.9
Capital assets	$ 730.2	$ 681.4	$ 569.3	$ 544.8	$ 567.1
Total assets	$ 5,811.4	$ 5,137.4	$ 4,939.8	$ 4,857.8	$ 4,686.3
Total long-term debt, including current portion(10)	$ 269.0	$ 213.9	$ 627.5	$ 751.4	$ 750.8
Shareholders' equity	$ 3,941.7	$ 3,255.9	$ 2,488.8	$ 2,214.4	$ 2,094.6
Consolidated Balance Sheet Data (U.S. GAAP)(8):					
Total assets	$ 5,805.6	$ 5,182.2	$ 4,988.7	$ 4,876.2	$ 4,708.1
Total long-term debt, including current portion	$ 831.7	$ 626.4	$ 846.1	$ 751.4	$ 750.8
Shareholders' equity	$ 3,344.4	$ 2,844.4	$ 2,257.6	$ 2,176.9	$ 1,960.4

(1) Changes in accounting policies:

(i) Effective January 1, 2003, we adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3063, "Impairment or disposal of long-lived assets," and the revised Section 3475, "Disposal of long-lived assets and discontinued operations," which are consistent with U.S. GAAP. These sections establish standards for recognizing, measuring and disclosing impairment for long-lived assets held-for-use, and for measuring and separately classifying assets available-for-sale. Previously, long-lived assets were written down to net recoverable value if the undiscounted future cash flows were less than net book value. Under the new standards, assets must be classified as either held-for-use or available-for-sale. Impairment losses for assets held-for-use are measured based on fair value, which is measured by discounted cash flows when quoted market prices are not available. Available-for-sale assets are measured based on fair value less costs to sell.

(ii) Effective January 1, 2003, we adopted the CICA Emerging Issues Committee (EIC) Abstracts EIC-134, "Accounting for severance and termination benefits," and EIC-135, "Accounting for costs associated with exit and disposal activities," which establish standards for recognizing, measuring and disclosing costs relating to an exit or disposal activity. These standards are similar to U.S. GAAP. These EICs allow recognition of a liability for an exit or disposal activity only when the costs are incurred and can be measured at fair value. Previously, a commitment to an exit or disposal plan was sufficient to record the majority of costs.

(iii) Effective January 1, 2003, we adopted the revised CICA Handbook Section 3870, "Stock-based compensation," which requires that a fair-value method of accounting be applied to all stock-based compensation to employees. In accordance with the transitional provisions, we have prospectively applied the fair-value method of accounting for stock option awards granted after January 1, 2003 and, accordingly, have recorded compensation expense of $5.1 million in 2006 ($9.0 million 2005; $7.6 million 2004; and $0.3 million 2003). Prior to January 1, 2003, we accounted for our stock options using the settlement method and no compensation expense was recognized.

(iv) Effective January 1, 2004, we retroactively adopted the CICA Handbook Section 3110, which requires the recognition of liabilities for asset retirement obligations and the associated retirement costs, and have retroactively restated our results of operations for prior periods. The impact to our cost of sales and net loss for Canadian GAAP for 2004 was $0.9 million (2003 $0.9 million; and 2002 $0.7 million).

(v) Effective December 31, 2004, we adopted the amendment to CICA Handbook Section 3860, "Financial instruments presentation and disclosure." The revised standard requires obligations of a fixed amount that may be settled, at the issuer's option, by a variable number of the issuer's own equity instruments to be presented as liabilities. The standard was effective on a retroactive basis with restatement of prior periods. As a result of adopting this standard, we reclassified the principal component of our Liquid Yield Option Notes due 2020 (LYONs) in 2004 as a debt instrument and recorded all accretion charges, amortization of deferred financing costs, gains and losses on repurchases relating to the principal component and related tax effects as charges to operations. The option component of the LYONs continued to be accounted for as an equity instrument. The remaining LYONs were redeemed in the third quarter of 2005.

	As at December 31		
	2002	2003	2004
	(in millions)		
(a) Reclassified from equity to debt	$ 262.1	$ 210.5	$ 124.1
(b) Reclassified deferred financing costs from equity to other assets	$ 4.1	$ 2.8	$ 1.3
(c) Reduced deferred income tax assets and equity	$ 1.9	$ 1.9	$ 1.9

	Year ended December 31		
	2002	2003	2004
	(in millions)		
(d) Recorded accretion charges and amortization of deferred financing costs, net of tax	$ 17.8	$ 16.1	$ 12.0
(e) Reclassified gain on repurchases of LYONs and related tax from equity to other charges and tax expenses, net of tax	$ (8.3)	$ (16.1)	$ (22.0)

The consolidated statements of operations data for:

2002, 2003, 2004, 2005 and 2006 include the results of operations of certain assets of NEC Corporation in Japan acquired in March 2002 and certain assets of Corvis Corporation in the United States acquired in August 2002;

2004, 2005 and 2006 include the results of operations of Manufacturers' Services Limited (MSL) acquired in March 2004 and certain assets of NEC Corporation in the Philippines acquired in April 2004;

2005 and 2006 includes the results of operations of Ramnish Electronics Private Limited acquired in July 2005, CoreSim Inc. acquired in August 2005 and Displaytronix Inc. acquired in November 2005; and

2006 includes the results of operations of certain assets of Powerwave Technologies, Inc. acquired in March 2006.

(2)

Selling, general and administrative expenses include research and development costs.

(3)

We adopted the CICA Handbook Sections 1581, "Business Combinations," and 3062, "Goodwill and Other Intangible Assets" which were substantially consistent with U.S. GAAP.

As required, we discontinued the amortization of goodwill effective January 1, 2002. At that time, we evaluated our existing intangible assets and reclassified $9.1 million from intellectual property to goodwill to conform with the standards. We also completed a transitional goodwill impairment evaluation and determined that no impairment existed as of the date of adoption.

(4)

These costs include costs to implement new information systems and business processes, including salary and other costs, directly related to the integration activities in newly acquired facilities.

(5)

In 2002, Other charges totaled $665.7 million, comprised primarily of: (a) a $385.4 million restructuring charge; (b) a non-cash write-down of $203.7 million relating to the annual goodwill impairment assessment; and (c) a non-cash write-down of $81.7 million relating to the annual impairment assessment of long-lived assets, primarily intangible and capital assets; offset, in part, by (d) a $12.1 million gain on repurchase of LYONs.

In 2003, Other charges totaled $151.6 million, comprised primarily of: (a) a $94.9 million restructuring charge; and (b) a non-cash write-down of $82.8 million relating to the annual impairment assessment of long-lived assets, primarily intangible and capital assets; offset, in part, by (c) a $23.8 million gain on repurchase of LYONs.

In 2004, Other charges totaled $603.2 million, comprised primarily of: (a) a $153.7 million restructuring charge; (b) a non-cash write-down of $288.0 million relating to the annual goodwill impairment assessment; (c) a non-cash write-down of $99.3 million relating to the annual impairment assessment of long-lived assets, primarily intangible and capital assets; and (d) a $116.8 million non-cash write-down of receivables for a specific customer risk (see note 11(e) to the Consolidated Financial Statements in Item 18); offset, in part, by (e) a $32.9 million gain on repurchase of LYONs.

In 2005, Other charges totaled $130.9 million, comprised primarily of: (a) a $160.1 million restructuring charge; offset, in part, by (b) a $13.9 million gain on repurchase of LYONs; and (c) a $13.8 million recovery of additional amounts realized relating to a specific customer risk.

In 2006, Other charges totaled $211.8 million, comprised primarily of: (a) a $178.1 million restructuring charge; and (b) a $33.2 million non-cash loss resulting from the sale of our plastics business.

(6)

Interest expense (income), net is comprised of interest expense incurred on indebtedness and debt facilities, less interest income earned on cash and short-term investments.

(7)

The income tax expense for 2004 included a charge of $248.2 million relating to a valuation allowance for deferred income tax assets. The reduced future expected profits and the cost of restructuring actions and planned program transfers negatively impacted our previous estimates of taxable income, particularly in the United States and Europe. We determined the more likely than not criteria was no longer met and accordingly increased the valuation allowance.

(8) The significant differences between the line items under Canadian GAAP and those as determined under U.S. GAAP arise primarily from:

For 2002: non-cash charges for compensation expense, interest on convertible debt classified as a long-term liability rather than as a bifurcated instrument, impairment charges to write-down certain assets and gain on repurchase of convertible debt;

For 2003 and 2004: interest and deferred taxes on convertible debt classified as a long-term liability rather than as a bifurcated instrument, impairment on certain long-lived assets, gain (loss) on repurchase of convertible debt, and the adoption of fair-value accounting for stock-based compensation for Canadian GAAP only;

For 2003: net loss in accordance with U.S. GAAP is after the cumulative effect of a change in accounting policy;

For 2005: interest on convertible debt classified as a long-term liability rather than as a bifurcated instrument, reversal of deferred taxes on convertible debt, loss on repurchase of convertible debt, and the adoption of fair-value accounting for stock-based compensation for Canadian GAAP only; and

For 2006: the transition adjustment resulting from adopting the fair-value accounting for stock-based compensation for U.S. GAAP in 2006.

Refer to note 20 to the Consolidated Financial Statements in Item 18.

(9) Calculated as current assets less current liabilities.

(10) Long-term debt includes capital lease obligations and the principal component of convertible debt instruments. For convertible debt amounts see footnote (1)(v)(a). All remaining LYONs were redeemed in the third quarter of 2005.

Exchange Rate Information

The rate of exchange as of February 16, 2007 for the conversion of Canadian dollars into United States dollars was U.S.$1.1638 and for the conversion of United States dollars into Canadian dollars was C$0.8592. The following table sets forth the exchange rates for the conversion of U.S.$1.00 into Canadian dollars for the following periods. The rates of exchange set forth herein are shown as, or are derived from, the reciprocals of the noon buying rates in New York City for cable transfers payable in Canadian dollars, as certified for customs purposes by the Federal Reserve Bank of New York. The source of this data is the Federal Reserve Bank of New York's website (http://www.ny.frb.org).

	2002	2003	2004	2005	2006
Average[1]	1.5704	1.3916	1.2984	1.2083	1.1307

	February 2007	January 2007	December 2006	November 2006	October 2006	September 2006
High	1.1852	1.1824	1.1652	1.1474	1.1384	1.1272
Low	1.1586	1.1647	1.1415	1.1275	1.1154	1.1052

(1) Calculated by using the averages of the exchange rates as of the last day of each month during the period.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for Offer and Use of Proceeds

Not applicable.

5

D. Risk Factors

Our shareholders and prospective investors should carefully consider each of the following risks and all of the other information set forth in this Annual Report.

We have had significant restructuring charges and losses for several years and may experience restructuring charges and losses in future periods.

We recorded losses in each of the last six years resulting primarily from restructuring charges and the write-down of goodwill, capital and intangible assets. These amounts have varied from period to period. In 2004, we also recorded a write-down of accounts receivable for one specific customer. We have undertaken numerous initiatives to restructure and reduce our capacity and cost structures in response to changes in the EMS industry and end-market demand, with the intention of improving utilization and realizing cost savings in the future. We will continue to evaluate our operations and may propose additional restructuring actions in the future. Any failure to successfully execute these initiatives, including any delay in effecting these initiatives, can have a material adverse impact on our results. Furthermore, we may not be profitable in future periods.

We are in a highly competitive industry which has resulted in lower prices, reduced gross margins, and loss of revenue or customers.

We are in a highly competitive industry. We compete on a global basis to provide electronics manufacturing services and solutions to original equipment manufacturers (OEMs) in the communications, computing, industrial and consumer markets. Our competitors include major domestic and foreign companies such as Flextronics International Ltd., Hon Hai Precision Industry Co., Ltd., Jabil Circuit, Inc., Sanmina-SCI Corporation and Solectron Corporation, as well as smaller EMS companies that often have a regional, product, service or industry specific focus. In addition, original design manufacturers (ODMs), companies that provide internally designed products and manufacturing services to OEMs, continue to increase their share of outsourced manufacturing services across several markets and product groups, including notebook and desktop computers, personal computer motherboards, and consumer electronics such as cell phones. While we have not, to date, encountered significant direct competition from ODMs in the end-markets in which we participate, such competition may increase if our business in these markets grows, or if ODMs expand further into, or beyond, these markets. We also face indirect competition from the manufacturing operations of our current and prospective customers, as these companies could choose to manufacture products internally rather than to outsource to EMS providers.

Some of our competitors have a greater production presence in lower-cost geographies, as well as greater manufacturing, financial, procurement, research and development and marketing resources than we have. Accordingly, our current or potential competitors may develop or acquire services comparable or superior to those we develop, combine or merge to form larger competitors, or adapt more quickly than we will to new technologies, evolving industry trends and changing customer requirements. Competition has caused and may continue to cause excessive pricing pressures, increased working capital requirements, reduced profits or loss of market share (from both program and customer disengagements), any of which could materially and adversely affect us. In addition, the EMS industry has excess manufacturing capacity and has seen increased competition from Asian competitors. This has exerted and will continue to exert additional pressures on pricing for components and services, thereby increasing the competitive pressures in the EMS industry. We may not be able to compete successfully against our current and future competitors, and the competitive pressures we face may have a material adverse effect on us.

We are dependent on selected industries which are exposed to changes in conditions that can continue to adversely impact our business, operating results and financial condition.

During the past few years, we have been negatively impacted by the reduced demand for technology capital goods and proprietary computing products. Our financial performance depends on our customers' viability and financial stability, and the end-market demand for our customers' products. A majority of our customer base, in turn, depends substantially on the recovery and growth in these industries.

The communications and computing industries are characterized by rapid changes in technologies, increased standardization of technologies and shortening of product lifecycles. These industries have experienced severe revenue erosion, pricing and margin pressures, and excess inventories during the past few years. More recently, some of our customers in the communications sector merged or were acquired by third parties that are not our customers. Future mergers and acquisitions could result in a decrease in demand from our customers or a loss of business to our competitors as customers rationalize their business and consolidate their suppliers.

During the fourth quarter of 2006, we experienced unexpected volatility in demand from the telecommunications segment, driven primarily by the challenging end-market demand in North America, and from recent consolidations in the marketplace. We expect this volatility in demand to continue into 2007.

We are dependent on a limited number of customers, primarily within the communications and computing markets, for a substantial portion of our revenue. A decline in revenue from these customers or a loss of a large customer could have a material adverse affect on our financial condition and results of operations.

Our two largest customers in 2006 were Cisco Systems and IBM, each of which represented 10% of total 2006 revenue and in aggregate represented 20% of total 2006 revenue. Our top 10 customers in 2006 represented 59% of our total 2006 revenue. Our two largest customers in 2005 were Cisco Systems and IBM, each of which represented more than 10% of our total 2005 revenue and in aggregate represented 27% of our total 2005 revenue. Our top 10 customers represented 63% of our total 2005 revenue. We expect to continue to depend upon a relatively small number of customers for a significant percentage of our revenue. To reduce this reliance, we have been targeting new customers in the industrial and consumer markets.

Mergers among our customers or our customers' customers could increase concentration and/or reduce total demand as the combined entities rationalize their business and consolidate their suppliers. In addition, some of our customers in the computing and communications markets have, during the past several years, significantly reduced or delayed the volume of manufacturing services ordered from us. There is no assurance that present or future large customers will not terminate their manufacturing arrangements with us or significantly change, reduce, or delay the amount of manufacturing services ordered from us, any of which would adversely affect our operating results. Significant reductions in, or the loss of, revenue to any of our large customers would have a material adverse effect on us.

Although we enter into master supply agreements with our customers, the level of business to be transacted under those agreements is not guaranteed. Instead, we bid on a project basis and typically have supply contracts or purchase orders in place for the project. We are dependent on customers to fulfill the terms associated with these orders and/or contracts.

Inherent difficulties in managing capacity utilization and unanticipated changes in customer orders place strains on our planning and supply chain execution and may affect our results of operations.

Our customers are increasingly dependent on EMS providers for new product introductions and rapid response times to meet changes in volume requirements. Most of our customers typically do not commit to firm production schedules for more than 30 to 90 days in advance and we often experience reduced lead-times in customers' orders. Additionally, a significant portion of our revenue can occur in the last month of the quarter and could be subject to change or cancellation that will affect our quarter-to-quarter results. Accordingly, we cannot always forecast the level of customer orders with certainty. This can make it difficult to order appropriate levels of materials and to schedule production and maximize utilization of our manufacturing capacity.

In addition, customers may cancel their orders, change production quantities, or delay production for a number of reasons. Furthermore, in order to guarantee continuity of supply for many of our customers, we are required to manufacture and hold a specified amount of finished goods in our warehouses for our customers. The uncertain economic condition of our customers' end-markets, intense competition with respect to some of our customers' products and general order volume volatility have resulted, and may continue to result, in some of our customers delaying or canceling the delivery of some of the products we manufacture for them, and placing purchase orders for lower volumes of products than previously anticipated.

Cancellations, reductions or delays by a significant customer, by a group of customers, or by a single customer whose production is significant to an individual facility would seriously harm results of that operation in that period. Such order changes could also cause a delay in the repayment to us for inventory expenditures we incurred in preparation for the customer's orders or, in certain circumstances, require us to return the inventory to our suppliers, re-sell the inventory to another customer or continue to hold the inventory, any of which may result in our taking additional provisions for the inventory should it become excess or obsolete. Order cancellations and delays could also lower our asset utilization, resulting in higher levels of unproductive assets and lower margins. In some cases, changes in circumstances for a customer could also negatively impact the collectability of receivables or carrying value of our inventory for that customer. On other occasions, customers have required rapid and sudden increases in production, which have placed an excessive burden on our manufacturing capacity. Rapid changes in product ramps and/or the weakening financial condition or deterioration of any single customer's financial condition could prevent us from collecting receivables or realizing the value of inventory on hand. Any of these factors or a combination of these factors could have a material adverse effect on our results of operations.

We may encounter difficulties expanding and/or restructuring our operations which could adversely affect our results of operations.

As we expand our business, enter into new market segments and products, or transfer our business from one region to another, we may encounter difficulties that result in higher than expected costs associated with our growth and customer dissatisfaction with performance. Potential difficulties related to our growth and/or operational restructuring could include:

- lack of trained personnel to manage the operations and customer contracts appropriately;
- maintaining customer, supplier and other favorable business relationships during a period of transition;
- effective training of staff to manage new customers and products;
- unanticipated disruptions in our operations which may impact our ability to deliver to the customer on time, to produce quality products and to ensure overall customer satisfaction; and
- losing programs and customers who reduce their business risk by resourcing or dual sourcing their business with us due to unforeseen disruptions in our operations.

Any of these factors could prevent us from realizing the anticipated benefits of growth in new markets or the benefits we expected to realize from our restructurings and could adversely affect our business and operating results.

The complexity of moving our manufacturing base to lower-cost regions could have a material adverse effect on our financial condition and results of operations.

Due to significant and severe weakness in technology end-markets over the past few years and the highly competitive nature of their businesses, our customers required more lower-cost solutions from their EMS providers in order for them to maintain sales and improve their financial performance. This environment resulted in an accelerated movement of our production from higher-cost regions such as North America and Western Europe to lower-cost regions such as Asia, Latin America and Eastern Europe. This accelerated move has had and could continue to have a negative impact on current and future results by increasing the risks associated with, among other things, transferring production to new regions where skills or experience may be more limited than in higher-cost regions, incurring higher operating expenses during the transition, incurring additional restructuring costs associated with, among other things, the decrease in production levels in higher-cost geographies and the risks of operating in new foreign jurisdictions. In certain situations, product transfers have, and may in the future, result in our inability to retain our existing business or grow future revenue due to potential execution problems resulting from significant headcount reductions, plant closures and product transfers associated with major restructuring activities.

Restrictions on our ability to restructure quickly enough can delay the timing and affect the benefits we expect from our restructuring efforts.

We have operations in multiple regions around the world. As a result, we are subject to different regulatory requirements and labor laws governing how quickly we are able to reduce manufacturing capacity and terminate related employees. These requirements are particularly stringent in Europe. Restrictions on our ability to close under-performing facilities have resulted in higher expenses associated with carrying excess capacity and

infrastructure while we were conducting our restructuring activities. The speed of our restructuring can also be impeded by delays in customers' agreement to the product transfers and volatility in our customers' demand which can prevent us from transferring products to our other facilities in a timely and cost-effective manner. Since the restructuring of our plants requires some of our customers to move their production from one of our facilities to another, customers have, and may in the future, use this opportunity to shift their production to competitors' facilities.

Our results can be affected by limited availability of components.

A significant portion of our costs is for the purchase of electronic components. All of the products we manufacture or assemble require one or more components that we order from component suppliers. In many cases, there may be only one supplier of a particular component. Supply shortages for a particular component can delay production and thus delay the revenue of all products that use that component or can cause price increases in the products and services we provide. In the past, we have secured sufficient allocations of constrained components so that revenue was not materially impacted. In addition, at various times there have been industry-wide shortages of electronic components. Such shortages, or future fluctuations in the cost of components, may have a material adverse effect on our business or cause our results of operations to fluctuate from period to period.

Any failure to successfully manage our international operations would have a material adverse effect on our financial condition and results of operations.

During 2006, approximately two-thirds of our revenue was produced from locations outside of North America. We also purchase material from international suppliers for much of our business, including our North American business. We believe that our future growth depends largely on our ability to increase our business and penetration with global OEMs and, as we describe above, to continue to shift production to lower-cost geographies.

This international expansion has had and will continue to require significant management attention and financial resources. International operations are subject to inherent risks which may adversely affect us, including:

- labor unrest and differences in regulations and statutes governing employee relations;
- changes in regulatory requirements;
- difficulties in staffing and managing foreign sales and support operations;
- changes in local tax rates and other potentially adverse tax consequences, including the cost of repatriation of earnings;
- burdens of complying with a wide variety of foreign laws, including changing import and export regulations, which could erode our profit margins or restrict exports;
- adverse changes in trade policies between countries in which we maintain operations;
- political instability;
- potential restrictions on the transfer of funds;
- inflexible employee contracts that restrict our flexibility in responding to business downturns; and
- foreign exchange risks.

We have either purchased or built manufacturing facilities in numerous countries, including Thailand, Malaysia, China, Singapore, India, the Philippines, Brazil, Mexico, the Czech Republic and Romania, and could be subject to the political, economic and legal risks associated with doing business in these countries. Each of these regions has a history of promoting foreign investment but has experienced economic and political turmoil and fluctuations in the value of its currencies in the recent past. There is a potential risk that economic and political turmoil may result in the reversal of current policies encouraging foreign investment and trade, restrictions on the transfer of funds overseas, employee turnover, labor unrest or other domestic problems that could adversely affect us.

We face financial risks due to foreign currency fluctuations.

The principal currency in which we conduct our operations is the U.S. dollar. However, some of our subsidiaries transact business in foreign currencies, such as Canadian dollars, Thai baht, Euros, Mexican pesos, Czech koruna, Singapore dollars, Japanese yen, Malaysian ringgits, Chinese renminbi, Brazilian reai, Philippine pesos, Romanian lei and Indian rupees. We often enter into hedging transactions to minimize our exposure to foreign currency risks. Our current hedging activity is designed to reduce the variability of our foreign currency costs and consists of contracts to purchase or sell these foreign currencies at future dates. These contracts generally extend for periods ranging from one to 15 months. Our hedging transactions may not successfully minimize foreign currency risk, which could have a material adverse effect on our results of operations.

Our customers may be adversely affected by rapid technological changes which have an adverse impact on our business.

Many of our customers compete in markets that are characterized by rapidly changing technology, evolving industry standards and continuous improvements in products and services. These conditions frequently result in short product lifecycles. Our success will depend largely on the success achieved by our customers in developing and marketing their products. If technologies or standards supported by our customers' products become obsolete or fail to gain widespread commercial acceptance, our business could be materially adversely affected. In addition, an accelerating decline in end-market demand in proprietary systems in favor of open systems with standardized technologies could have a material adverse impact on our business.

Our investment in Lean and Six Sigma initiatives may not produce the anticipated cost benefits or achieve the working capital benefits we expect.

We are continually investing in training, business process and information technology tools to eliminate waste, increase quality and reduce defects in the manufacturing process. This investment is critical in our industry, as our customers require us to continually produce cost savings through the elimination of waste and improved efficiencies. Failure to deliver these cost savings could affect our relationships with our customers in a manner which would adversely affect our volumes and operating results. The deployment of Lean and Six Sigma initiatives is part of the roadmap we are using to improve our own operating margin. Failure to achieve the anticipated benefits could have a negative impact on our margin improvement.

Failure of our customers to pay the amounts owed to us in a timely manner may adversely affect our financial condition and results of operations.

We generally provide payment terms ranging from 30 to 60 days. As a result, we generate significant accounts receivable from sales to our customers, historically representing 22% to 39% of current assets. Accounts receivable from sales to customers at December 31, 2006 were $973.2 million (December 31, 2005 $982.6 million; and December 31, 2004 $1,023.3 million). At December 31, 2006, no customer represented more than 10% of total accounts receivable (December 31, 2005 one customer represented 12% of total accounts receivable; and December 31, 2004 two customers represented 25% of total accounts receivable). If any of our customers has insufficient liquidity, we may encounter significant delays or defaults in payments owed to us by customers, and may extend our payment terms or restructure the debt, which may have a significant adverse impact on our financial condition and results of operations. We regularly review our accounts receivable valuations and make adjustments when necessary. Our allowance for doubtful accounts at December 31, 2006 was $21.4 million (December 31, 2005 $21.1 million; and December 31, 2004 $140.1 million), which represented 2% of the gross accounts receivable balance (December 31, 2005 2%; and December 31, 2004 12%). In 2004, the allowance for doubtful accounts included a charge of $116.8 million relating to one specific customer that ceased business in 2005.

We may encounter difficulties completing or integrating our acquisitions which could adversely affect our results of operations.

Some of our growth may occur through acquisitions. These transactions may involve acquisitions of entire companies and/or acquisitions of selected assets from OEMs. Potential difficulties related to our acquisitions include:

- integrating acquired operations, systems and businesses;
- maintaining customer, supplier or other favorable business relationships of acquired operations and restructuring or terminating unfavorable relationships;
- addressing unforeseen liabilities of acquired businesses;
- losing customers who want to transfer their business because of the change in ownership;
- losing key employees of acquired operations; and
- not achieving anticipated business volumes.

Any of these factors could prevent us from realizing the anticipated benefits of an acquisition, including operational synergies and economies of scale. Our failure to realize the anticipated benefits of acquisitions could adversely affect our business and operating results.

Implementation of a new information system could adversely impact our results.

We currently have various instances of an Enterprise Resource Planning system in most of our manufacturing sites. We intend to install a single version of this system in most of our plants over the next two years. This new system will replace the current Enterprise Resource Planning system, and financial information systems. Our ability to properly implement this new information system could have a material adverse impact to our results.

If our products or services are subject to warranty claims, our business reputation may be damaged and we may incur significant costs.

In certain of our sales contracts, we provide warranties against defects or deficiencies in our products, services or designs. A successful claim for damages arising as a result of such defects or deficiencies, for which we are not insured or where the damages exceed our insurance coverage, or any material claim for which insurance coverage is denied or limited and for which indemnification is not available, could have a material adverse effect on our business, results of operations and financial condition.

We are subject to the risk of increased income taxes which could adversely affect our financial condition and results of operations.

We conduct business operations in a number of countries, including countries where tax incentives have been extended to encourage foreign investment or income tax rates are low.

We develop our tax position based upon the anticipated nature and structure of our business and the tax laws, administrative practices and judicial decisions now in effect in the jurisdictions in which we have assets or conduct business, all of which are subject to change or differing interpretations, possibly with retroactive effect. We are subject to audits of historical information by local tax authorities which could result in additional tax expense in future periods relating to prior results. Any such increase in our income tax expense and related interest and penalties could have a significant impact on our future earnings and future cash flows.

Certain of our subsidiaries provide financing, products and services to, and may from time to time undertake certain significant transactions with, other subsidiaries in different jurisdictions. In general, related party transactions, and in particular, related party financing transactions, are subjected to close review by tax authorities. Moreover, several jurisdictions in which we operate have tax laws with detailed transfer pricing rules which require that all transactions with non-resident related parties be priced using arm's length pricing principles, and that contemporaneous documentation must exist to support such pricing.

International taxation authorities could challenge the validity of our related party financing and related party transfer pricing policies. Such a challenge generally involves a subjective area of taxation and generally involves a significant degree of judgement. If any of these taxation authorities are successful in challenging our financing or transfer pricing policies, our income tax expense may be adversely affected and we could also be subjected to interest and penalty charges. In connection with ongoing tax audits in the United States, taxing authorities have asserted that our United States subsidiaries owe significant amounts of tax, interest and penalties arising from related party transactions. A significant portion of these asserted deficiencies were resolved in our favor in the fourth quarter of 2006. We believe we have substantial defenses to the remaining asserted deficiencies and have adequately accrued for any likely potential losses. However, there can be no assurance as to the final resolution of these remaining asserted deficiencies and any resulting proceedings, and if these remaining asserted deficiencies and proceedings are determined adversely to us, the amounts we may be required to pay may be material.

Recently enacted changes and potential future changes in the securities laws and regulations have and can increase costs.

In the United States, the U.S. regulators introduced the Sarbanes-Oxley Act in 2002. In Canada, Bill 198 was effective for 2006. These regulations have required us to change some of our corporate governance, securities disclosure and compliance practices. Compliance with these new regulations has increased our legal, financial and accounting costs, and we expect these increased costs to continue indefinitely.

The efficiency of our operations could be adversely affected by any delay in delivery from our transportation suppliers, including delays caused by work stoppages and natural disasters.

We rely on a variety of common carriers for the transportation of materials and products and for their ability to route these materials and products through various international ports. A work stoppage, strike or shutdown of any important supplier's facility or operations, or at any major port or airport, could result in manufacturing and shipping delays or expediting charges, which could have a material adverse effect on our results of operations. Natural disasters such as tsunamis and earthquakes in the regions where our facilities or our suppliers' facilities are located, could have an adverse impact on our ability to deliver products to our customers. Such events could disrupt supply to us, and from us to our customers, and adversely affect our operations.

The efficiency of our operations could be adversely affected by any disruptions from our third-party IT providers.

We have outsourced certain IT systems support which include database management as well as application development support for our production control and inventory management systems. If these third-party providers are unable to fulfill their obligations on a timely and reliable basis, we may experience disruptions to our operations. Any inefficiencies or production down times resulting from these disruptions could have a negative impact on our ability to meet customers' orders, resulting in a delay or decrease to our revenue and our operating margins.

If we are unable to recruit or retain highly skilled personnel, our business could be adversely affected.

The recruitment of personnel in the EMS industry is highly competitive. We believe that our future success will depend, in part, on our ability to continue to attract and retain highly skilled executive, technical and management personnel. We generally do not have employment or non-competition agreements with our employees. To date we have been successful in recruiting and retaining executive, managerial and technical personnel; however, the loss of services of certain of these employees could have a material adverse effect on our operations.

We may be unable to keep pace with technology changes.

We continue to evaluate the advantages and feasibility of new manufacturing processes. Our future success will depend, in part, upon our ability to: develop and market electronics manufacturing services that meet our customers' evolving needs; maintain technology leadership; and successfully anticipate or respond to technological changes in production, manufacturing and supply chain processes in cost-effective and timely ways.

Our manufacturing and supply chain processes, test development efforts and design capabilities may not be successful.

We may be unable to protect our intellectual property or the intellectual property of others.

We believe that certain of our proprietary intellectual property rights and information provide us with a competitive advantage. Accordingly, we have taken, and intend to continue to take, appropriate steps to protect this proprietary information. These steps include signing non-disclosure agreements with customers, suppliers, employees, and other parties, and implementing rigid security measures. Our protection measures may not be sufficient to prevent the misappropriation or unauthorized disclosure of our property or information.

There is also a risk that infringement claims may be brought against us, our customers, or our suppliers in the future. If someone does successfully assert an infringement claim, we may be required to spend significant time and money to develop a manufacturing process that does not infringe upon the rights of such other person or to obtain licenses for the technology, process or information from the owner. We may not be successful in such development, or any such licenses may not be available on commercially acceptable terms, if at all. In addition, any litigation could be lengthy and costly and could adversely affect us even if we are successful in such litigation.

We may not be able to increase revenue if the trend of outsourcing by OEMs slows.

Future growth in our revenue includes a dependence on new outsourcing opportunities in which we assume additional manufacturing and supply chain management responsibilities from OEMs. Our future growth will be limited to the extent that these opportunities are not available as a result of OEMs deciding to perform these functions internally or delaying their decision to outsource or our inability to win new contracts. Political pressure or negative sentiment by our customers' customers to the movement of production from the United States or the European Union to lower-cost geographies could also adversely affect the rate of outsourcing generally, or adversely affect the rate of outsourcing to EMS providers, such as Celestica, who have shifted substantial capacity to these lower-cost geographies.

Acts of terrorism and other political and economic developments could adversely affect our business.

Increased international political instability, evidenced by the threat or occurrence of terrorist attacks, enhanced national security measures, conflicts in the Middle East and Asia, strained international relations arising from these conflicts and the related decline in consumer confidence, may hinder our ability to do business. Any escalation in these events or similar future events may disrupt our operations or those of our customers and suppliers and may affect the availability of materials needed to manufacture our products or the means to transport those materials to manufacturing facilities and finished products to customers. These events have had and may continue to have an adverse impact on the U.S. and world economy in general and customer confidence and spending in particular, which in turn could adversely affect our revenue and results of operations. The impact of these events on the volatility of the U.S. and world financial markets could increase the volatility of the market price of our securities and may limit the capital resources available to us and our customers and suppliers.

Our compliance with environmental laws could be costly.

We are subject to extensive environmental laws and regulations in numerous jurisdictions. Our environmental approach and practices have been designed to ensure compliance with these laws and regulations in a manner consistent with local practice. Future developments and increasingly stringent regulations could require us to incur additional expenditures relating to environmental matters at our facilities. Achieving and maintaining compliance with present, changing and future environmental laws could restrict our ability to modify or expand our facilities or to continue production. This compliance could also require us to acquire costly equipment or to incur other significant expenses.

Certain environmental laws impose liability for the costs of removal or remediation of hazardous or toxic substances on an owner, occupier or operator of real estate, even if such person or company was unaware of or not responsible for the presence of such substances. In addition, in some countries in which we have operations, any person or company who arranges for the disposal or treatment of hazardous or toxic substances at a disposal or treatment facility may be liable for the costs of removal or remediation of such substances at such facility, whether or not the person or company owns or operates the facility.

Some of our operating sites have a history of industrial use. Soil and groundwater contamination have occurred at some of our facilities. From time to time we investigate, remediate, and monitor soil and groundwater contamination at certain of our operating sites. In certain instances where soil or groundwater contamination existed prior to our ownership or occupation of a site, landlords or former owners have typically retained some contractual responsibility and liability for the contamination and its remediation. However, failure of such former owners or landlords to perform, as a result of financial inability, contractual limitations or otherwise, could result in our company being required to remediate such contamination.

We have generally obtained environmental assessments, or reviewed recent assessments initiated by others, for most of the manufacturing facilities that we own or lease at the time we either acquired or leased such facilities. Our assessments may not reveal all environmental liabilities and current assessments were not available for all facilities. Consequently, there may be material environmental liabilities of which we are not aware. In addition, ongoing clean up and containment operations may not be adequate for purposes of future laws. The conditions of our properties could be affected in the future by the condition of the land or operations in the vicinity of the properties, such as the presence of underground storage tanks. These developments and others, such as increasingly stringent environmental laws, increasingly strict enforcement of environmental laws by governmental authorities, or claims for damage to property or injury to persons resulting from the environmental, health or safety impact of our operations, may cause us to incur significant costs and liabilities that could have a material adverse effect on us.

Global environmental legislation continues to emerge. These laws place increased responsibility and requirements on the "producers" of electronic equipment (*i.e.*, the OEMs) and, in turn, their EMS providers and suppliers. On July 1, 2006, the European Union's Restriction of Hazardous Substances (RoHS) came into effect. As a result, the use of lead and certain other specified substances in electronic products is restricted in the European Union. Where appropriate, we have transitioned our manufacturing processes and interfaced with suppliers and customers to review and secure RoHS compliance. In the event we are not in compliance with the RoHS requirements, we could incur substantial costs, including fines and penalties, as well as liability to our customers. In addition, customers who were deemed exempt for certain substances, or beyond the scope of the legislation, are beginning to be impacted by the changing supply chain. In this respect, we may incur costs related to inventories containing restricted substances. There are also European Union requirements with respect to the collection, recycling and management of waste electronic products and components. Under the European Union's Waste Electrical and Electronic Equipment (WEEE) directive, compliance responsibility rests primarily with OEMs rather than with EMS companies, other than products designed and owned by EMS companies. However, OEMs may turn to EMS companies for assistance in meeting their WEEE obligations. Failure by our customers to meet the RoHS or WEEE requirements or obligations could have a negative impact on their businesses and revenue which would adversely impact our financial results. Similar restrictions are being proposed or enacted in other jurisdictions, including several states in the United States and in the Peoples' Republic of China. We continue to monitor other emerging environmental legislation, such as the European Union's Registration, Evaluation and Authorization of Chemicals (REACH) and Energy Using Product (EuP) directives, that may impact the industry going forward. We cannot currently assess the impact of these legislations on our operations.

Our credit agreement, which matures in June 2007, and certain indentures contain restrictive covenants that may impair our ability to conduct our business.

Our outstanding credit agreement, the indenture related to our $7^7/_8$% Senior Subordinated Notes due 2011 (2011 Notes) and the indenture related to our $7^5/_8$% Senior Subordinated Notes due 2013 (2013 Notes) contain financial and operating covenants that limit our management's discretion with respect to certain business matters. Among other things, these covenants restrict our ability and our subsidiaries' ability to incur additional debt, create liens or other encumbrances, change the nature of our business, sell or otherwise dispose of assets, and merge or consolidate with other entities. At February 19, 2007, we were in compliance with these covenants.

At December 31, 2006, we were limited to approximately $60 million of available debt incurrence under our credit facility based on minimum financial ratios.

Our credit facility will mature in June 2007. We are currently renegotiating the terms with the lender. These terms could impose additional restrictions on us. Although we expect to renew our credit facility, such financing may not be available on terms acceptable to us or at all. Based on our current operating needs and our cash on hand, we do not anticipate drawing on this facility in the near future. A reduction or cancellation of the facility is not expected to have a material impact on our liquidity.

We are exposed to interest rate fluctuations.

The primary objectives of our investment activities are to preserve principal and to maximize yields without significantly increasing risk or materially restricting short-term access to cash. To achieve these objectives, we maintain our portfolio of cash equivalents in a variety of securities, including government and corporate obligations, certificates of deposit and money market funds. As of December 31, 2006, our entire portfolio was scheduled to mature in less than three months. As a result, a 10% change in interest rates would not have a material effect on the fair value of our investment portfolios.

As of December 31, 2006, we had no cash equivalents that were subject to interest rate risk. The fair value of our cash equivalents approximated the carrying value as of December 31, 2006.

In June 2004, we issued our 2011 Notes with an aggregate principal amount of $500.0 million bearing a fixed interest rate of 7.875%. We also entered into agreements which hedge the fair value of our 2011 Notes by swapping the fixed rate of interest for a variable rate based on LIBOR plus a margin, thereby subjecting us to interest rate risk due to fluctuations in the LIBOR rate. The average interest rate on our 2011 Notes for 2006 was 8.2% (2005 6.4%) after reflecting the interest rate swap. A one percentage point increase in the LIBOR rate would increase our interest expense by $5.0 million annually.

Shares eligible for public sale could adversely affect our share price.

Future sales of our subordinate voting shares in the public market, or the issuance of subordinate voting shares upon the exercise of stock options or otherwise, could adversely affect the market price of the subordinate voting shares.

At February 19, 2007, we had 198,607,563 subordinate voting shares and 29,637,316 multiple voting shares outstanding. All of the subordinate voting shares are freely transferable without restriction or further registration under the U.S. Securities Act, except for shares held by our affiliates (as defined in the U.S. Securities Act). Shares held by our affiliates include all of the multiple voting shares and 2,167,361 subordinate voting shares held by Onex Corporation. An affiliate may not sell shares in the United States unless the sale is registered under the U.S. Securities Act or an exemption from registration is available. Rule 144 adopted under the U.S. Securities Act permits our affiliates to sell our shares in the United States subject to volume limitations and requirements relating to manner of sale, notice of sale and availability of current public information with respect to us.

In addition, as of February 19, 2007, there were approximately 28,400,000 subordinate voting shares reserved for issuance under our employee share purchase and option plans and for director compensation, including outstanding options to purchase approximately 13,500,000 subordinate voting shares. Moreover, we may, pursuant to our articles of incorporation, issue an unlimited number of additional subordinate voting shares without further shareholder approval (subject to any required stock exchange approvals). As a result, a substantial number of our subordinate voting shares will be eligible for sale in the public market at various times in the future. The issuances and/or sale of such shares would dilute the holdings of our shareholders and could adversely affect the market price of the subordinate voting shares.

The interest of our controlling shareholder may conflict with the interest of the remaining holders of our subordinate voting shares.

Onex owns, directly or indirectly, all of the outstanding multiple voting shares and 1.2% of the outstanding subordinate voting shares. The number of shares owned by Onex, together with those shares Onex has the right to vote, represents 79.1% of the voting interest in Celestica and less than 1% of the voting interest in our outstanding subordinate voting shares. Accordingly, Onex exercises a controlling influence over our business and affairs and has the power to determine all matters submitted to a vote of our shareholders where our shares vote together as a single class. Onex has the power to elect our directors and to approve significant corporate transactions such as certain amendments to our articles of incorporation, the sale of all or substantially all of our assets and plans of arrangement in certain circumstances. Onex's voting power could have the effect of deterring or preventing a change in control of our company that might otherwise be beneficial to our other shareholders. Under our revolving credit facilities, it is an event of default entitling our lenders to demand repayment if Onex ceases to control Celestica unless the shares of Celestica become widely held ("widely held" meaning that no one person owns more than 20% of the votes). Gerald W. Schwartz, the Chairman, President and Chief Executive Officer of Onex and one of our directors, owns shares with a majority of the voting rights of the shares of Onex. Mr. Schwartz, therefore, effectively controls our affairs. The interests of Onex and Mr. Schwartz may differ from the interests of the remaining holders of subordinate voting shares. For additional information about our principal shareholders, see Item 7(A), "Major Shareholders." Onex has, from time to time, issued debentures exchangeable and redeemable under certain circumstances for our subordinate voting shares, entered into forward equity agreements with respect to subordinate voting shares, sold shares (after exchanging multiple voting shares for subordinate voting shares), or redeemed these debentures through the delivery of subordinate voting shares and could do so in the future. These sales could impact our share price, have consequences on our outstanding debt, and change our ownership structure.

We face securities class action and shareholder derivative lawsuits which could result in substantial costs, diversion of management's attention and resources and negative publicity.

We have been named as a defendant in class action lawsuits which assert claims for violations of federal securities laws on behalf of persons who acquired our securities between January 27, 2005 and January 30, 2007. Our former Chief Executive Officer and our current Chief Financial Officer were also named as defendants in these lawsuits. These lawsuits seek unspecified damages. Although we believe the lawsuits are without merit and we intend to defend these claims vigorously, these lawsuits could result in substantial costs to us, divert management's attention and resources from our operations and negatively affect our public image and reputation.

Potential unenforceability of civil liabilities and judgments.

We are incorporated under the laws of the Province of Ontario, Canada. A significant number of our directors, controlling persons and officers are residents of Canada. Also, a substantial portion of our assets and the assets of these persons are located outside of the United States. As a result, it may be difficult to effect service within the United States upon those directors, controlling persons and officers who are not residents of the United States or to realize in the United States upon a judgment of courts of the United States predicated upon the civil liability provisions of the U.S. federal securities laws.

Item 4. Information on the Company

A. History and Development of the Company

We were incorporated in Ontario, Canada under the name Celestica International Holdings Inc. on September 27, 1996. Since that date, we have amended our articles of incorporation on various occasions, principally to modify our corporate name and our share capital. Our legal name and commercial name is Celestica Inc. We are a corporation domiciled in the Province of Ontario, Canada and operate under the Ontario Business Corporations Act. Our principal executive offices are located at 12 Concorde Place, 5th Floor, Toronto, Ontario, Canada M3C 3R8 and our telephone number is (416) 448-5800. Our website is http://www.celestica.com. Information on our website is not incorporated by reference in this Annual Report.

As an important IBM manufacturing unit, we provided manufacturing services to IBM for more than 75 years. In 1993, we began providing EMS services to non-IBM customers. In October 1996, we were purchased from IBM by an investor group, led by Onex, which included our then management.

Celestica provides a range of electronics manufacturing services and solutions to OEMs across several industries. We operate a global manufacturing network with operations in Asia, the Americas and Europe.

Our Acquisitions

In 2002, we acquired certain assets of NEC Corporation in Japan and certain assets from Corvis Corporation in the United States. In 2003, we did not complete any acquisitions. In 2004, we acquired the shares of MSL and certain assets from NEC Corporation in the Philippines. In 2005, we completed three acquisitions: we acquired the shares of Ramnish Electronics Private Limited, CoreSim Inc., and Displaytronix Inc. In 2006, we acquired certain assets from Powerwave Technologies, Inc. The aggregate purchase price for these acquisitions was approximately $466 million.

Certain information concerning capital expenditures, including acquisitions and financing activities, is set forth in notes 3, 7, 8, 9 and 18 to the Consolidated Financial Statements in Item 18, and Item 5, "Operating and Financial Review and Prospects Management's Discussion and Analysis of Financial Condition and Results of Operations."

Certain information concerning our divestiture activities, including our restructurings, is set forth in note 11 to the Consolidated Financial Statements in Item 18, in Item 4, "Information on the Company Description of Property," and Item 5, "Operating and Financial Review and Prospects Management's Discussion and Analysis of Financial Condition and Results of Operations."

B. Business Overview

Through our global manufacturing network, we provide a range of services and solutions to OEMs in the communications, computing, industrial and consumer sectors. These services and solutions are designed to enable our customers to overcome challenges related to cost, quality, time-to-market and rapidly changing technologies with a goal of positioning them more competitively in their respective business environments.

We believe we are well-positioned for success in the EMS industry, given our position as one of the major EMS providers worldwide and our widely recognized services and solutions. Our focus is to (i) improve our operating margins and increase operating efficiency by driving costs lower and delivering market-focused supply chain solutions that provide value for us and our customers, (ii) leverage our best supply chain practices to lower material costs and improve asset utilization, (iii) develop and enhance profitable and key relationships with leading OEMs across our strategic target market segments, and (iv) broaden the range of the services we provide to OEMs in areas that can reduce their overall product lifecycle costs. We believe that success in these areas will allow us to achieve significantly improved financial performance and enhance shareholder value.

We have operations throughout Asia, the Americas and Europe. Through our integrated global solutions, including, design and engineering, manufacturing and systems integration, fulfillment and after-market services, we strive to deliver the speed, solutions and results that can help our customers succeed in their markets.

During the past few years, we have increased our penetration into the industrial market, which includes aerospace and defense, and the consumer market. This diversification has enabled us to reduce the risk associated with reliance on only a few sectors. We now supply products and services to over 100 OEMs. In aggregate, our top 10 customers represented 59% of revenue in 2006. The products we manufacture can be found in a wide array of end products, including networking, wireless, telecommunications and computing equipment; handheld communications devices; peripherals; storage devices; servers; medical products; audio visual equipment, including LCD televisions; printers and related supplies; gaming products; aerospace and defense electronics such as in-flight entertainment and guidance systems; and a range of industrial electronic equipment.

Our principal competitive advantages include our advanced capabilities in the areas of technology and quality, our flexible and low-cost manufacturing network, our broadening service offerings, and our market-focused supply chain management strategy. We use a wide range of advanced manufacturing technologies, including established and emerging process technologies. Our test capabilities enable us to produce highly reliable products, including products that are critical to the functioning of our customers' products and systems. Our size, geographic reach and expertise in supply chain management allow us to purchase materials effectively and to deliver products to customers faster, thereby reducing overall product costs and reducing the time-to-market.

We believe that our highly skilled workforce gives us a distinct competitive advantage. Through innovative compensation and an employee stock ownership plan, we have developed an entrepreneurial, participative and team-based culture, with a focus on continuous improvement, flexibility and customer service excellence.

Electronics Manufacturing Services Industry

Overview

The EMS industry is comprised of companies that provide a broad range of electronics manufacturing services to OEMs. During the past decade, OEMs have become increasingly reliant upon these solutions to enhance their competitive positions. Today, the leading EMS companies have global manufacturing networks with worldwide supply chain management and offer end-to-end services for the entire product lifecycle, including design and engineering, manufacturing and systems integration, fulfillment and after-market services. By outsourcing their manufacturing and related services, OEMs are able to overcome their most pressing business challenges related to cost, quality, time-to-market and rapidly changing technologies, positioning them more competitively in their respective business environments.

We believe outsourcing adoption by OEMs will continue across a number of industries, because it allows OEMs to:

Reduce Operating Costs and Invested Capital. OEMs are under significant pressure to reduce manufacturing costs and capital expenditures as electronic products have become more technically advanced and the manufacturing process has become increasingly automated, which requires greater levels of investment in capital equipment. EMS companies enable OEMs to gain access to advanced manufacturing facilities, supply chain management and engineering capabilities, additional capacity, greater flexibility for product ramp-up and changeover, and the economies of scale which EMS companies provide. As a result, OEMs can reduce their overall product lifecycle and operating costs, working capital and capital investment requirements.

Focus Resources on Core Competencies. The electronics industry is experiencing greater levels of competition and rapid technological change. In this environment, many OEMs are seeking to focus on their core competencies of product development, sales, marketing and customer service, and to outsource design, manufacturing, supply chain and other product support requirements to their EMS partners.

Speed Time-to-Market. Electronic products are experiencing increasingly shorter product lifecycles, requiring OEMs to continually reduce the time required to bring products to market. OEMs can significantly improve product development cycles and enhance time-to-market by benefiting from the expertise and infrastructure of EMS providers. This includes capabilities relating to design services, prototyping and the rapid ramp-up of new products to high-volume production, all with the critical support of global supply chain management.

Utilize EMS Companies' Procurement, Inventory Management and Logistics Expertise. OEMs that manufacture internally are faced with greater complexities in planning, procurement and inventory management due to frequent design changes, shorter product lifecycles and product demand fluctuations. OEMs can address these complexities by outsourcing to EMS providers that (i) possess sophisticated global supply chain management capabilities and (ii) can leverage significant component procurement advantages to lower product costs.

Access Leading Engineering Capabilities and Technologies. Electronic products and electronics manufacturing technology continue to become increasingly sophisticated and complex. As a result, OEMs increasingly rely on EMS companies to provide design, engineering support, manufacturing and technological expertise. Through their design and engineering services, EMS companies can assist OEMs in the development of new product concepts, or the re-design of existing products, as well as with improvements in the performance, cost and time required to bring products to market. In addition, OEMs gain access to high-quality manufacturing expertise and capabilities in the areas of advanced process, interconnect and test technologies.

Improve Access to Global Markets. OEMs are generally increasing their international activities in an effort to expand sales through access to foreign markets. EMS companies with global capabilities are able to offer such OEMs global manufacturing solutions, to meet local content requirements, distribute products efficiently around the world and lower costs.

Access to Broadening Service Offerings. In response to OEMs' continued desire to outsource activities that were traditionally handled in-house, EMS providers are continually expanding their offerings to include services such as design, after-market support and fulfillment. This enables OEMs to outsource more of their cost of goods sold.

Celestica's Focus

We are dedicated to building solid partnerships and providing flexible solutions in electronics manufacturing services. To achieve this goal, we work closely with our OEM customers to proactively identify and fulfill each of their requirements. We strive to exceed our customers' expectations in areas such as service offerings, cost, flexibility, predictability, quality and delivery and invest in their future by continuing to deepen our knowledge of these businesses and to develop solutions to meet their needs. We are constantly advancing our technical capabilities to help our customers have a competitive advantage. By succeeding in the following areas, we believe we will maximize customer satisfaction, achieve superior financial performance and enhance shareholder value:

Steadily Improve Operating Margins and Increase Operating Efficiency. We are still not operating at our target levels. We will continue to focus on: (i) significantly improving the operating and financial performance in Mexico by improving its manufacturing and warehouse logistics, and implementing our best supply chain and materials management practices, (ii) restoring the profitability in Europe by reducing our overhead costs and growing our revenue base, primarily in the communications segment, (iii) completing our restructuring programs ensuring we have the appropriate global manufacturing network and supporting cost structures in place to serve our customers, (iv) leveraging our best supply chain practices globally to lower material costs, minimizing lead times and improving our planning cycle to better meet changes in customers' demand, all of which should lead to increased asset utilization, and (v) compensating our employees based, in part, on the achievement of profitability, return on invested capital and customer satisfaction targets. In order to drive greater efficiency, we are also committed to the continuing deployment of Lean and Six Sigma initiatives, designed to simplify and to improve manufacturing efficiencies by reducing waste and redundancy and to improve quality within our manufacturing facilities. We will continue our intensive focus on maximizing asset utilization, which we believe will, when combined with the margin enhancement measures described above, increase our return on invested capital.

Leverage Expertise in Technology, Quality and Supply Chain Management. We are committed to meeting our customers' needs in the areas of technology, quality and supply chain management. Our global operations and technology leadership enable us to meet the rigorous demands of our OEM customers and to produce a diverse range of electronic products, from high-volume consumer electronics to highly sophisticated, complex products. Our commitment to quality is designed to allow us to deliver consistently reliable products to our customers. The systems and processes associated with our expertise in supply chain management have generally enabled us to rapidly adjust our operations to meet the lead time requirements of our customers, flexibly shift capacity in response to product demand fluctuations and quickly and effectively deliver products directly to end customers. We often work closely with suppliers to influence component design for the benefit of our customers. Based on the successes that we have had in these areas, we have been recognized with numerous customer and industry achievement awards. During 2006, we experienced execution issues at our facility in Mexico. Our top priority is to improve the operations of Mexico by leveraging our successes in Asia.

Develop and Enhance Profitable, Key Relationships with Leading OEMs. We seek to build and sustain profitable, strategic relationships with targeted industry leaders in sectors that can benefit from the delivery of our services and solutions. We conduct ourselves as an extension of our customers' organizations and this enables us to respond to their needs with speed, flexibility and predictability in delivering results. We have established and maintain strong manufacturing relationships with a diverse mix of leading OEMs across several market segments such as Alcatel-Lucent, Cisco Systems, IBM, and Sun Microsystems. Going forward, we believe our customer base will be a strong source of growth for us as we seek to strengthen these relationships through the delivery of additional services. Execution issues in Mexico in 2006 negatively impacted certain customer's satisfaction levels and resulted in our loss of certain programs. We are focused on restoring customer confidence at that site and expect to win back programs and win future new programs.

Expand Range of Service Offerings. We continually look to expand the breadth and depth of the services we provide to OEMs in areas that can reduce their overall product lifecycle costs. In recent years, we have significantly broadened our service offerings to facilitate the manufacture of a broader spectrum of products and to support the full product lines of leading OEMs in a variety of industry segments. During this period, we have also acquired additional capabilities in prototyping, design, systems assembly, logistics, fulfillment and after-market services.

Continue to Penetrate Strategic Target End-Markets. Driven by new or continued demand for outsourced electronics manufacturing services across several industries, we have established a diverse customer base with OEM customers in the communications, computing, industrial and consumer markets. Our legacy of expertise in technology, quality and supply chain management, in addition to our broad service offerings, have positioned us as an attractive partner to companies across these market segments. Our expansion into new markets has reduced the risks associated with reliance on a few sectors. Our acquisition of MSL in 2004 expanded our customer base to include aerospace, automotive, retail systems and peripherals. Our revenue from these non-traditional markets has more than doubled since 2003. In 2006, revenue by end-market users was as follows: enterprise communications 28%; telecommunications 18%; servers 17%; storage 10%; industrial, aerospace and defense 9%; and consumer, automotive and medical 18%.

Selectively Pursue Strategic Acquisitions. We have completed numerous acquisitions and will continue to selectively seek acquisition opportunities in order to (i) further develop strategic relationships with OEMs in our target markets, (ii) expand our capacity and capabilities, (iii) broaden and deepen the scope of our service offerings, and (iv) further optimize our global positioning in line with customer needs. We have developed and deployed a comprehensive integration approach to support our acquisitions. This includes establishing a common culture at all locations with broad-based workforce participation, providing a single "face" to customers worldwide by deploying common information technology platforms, leveraging global procurement and transferring best practices among our global operations.

Celestica's Business

Manufacturing Services and Solutions

We are a global provider of electronics manufacturing services, offering a full spectrum of cost-effective solutions that drive our customers' success. We capitalize on our extensive technological and manufacturing expertise using a team of highly skilled, customer-focused employees. We believe that our ability to deliver a wide spectrum of flexible solutions to our customers across several industries provides us with a competitive advantage over EMS providers focused in fewer service areas or markets. We offer a full range of manufacturing services, including those discussed below.

Supply Chain Management. We utilize enterprise resource planning and supply chain management systems to optimize materials management from supplier to end customer. The effective management of the supply chain is critical to the success of OEMs, as it directly impacts the time required to deliver products to market and the capital requirements associated with carrying inventory. In 2006, we began to implement a new supply chain strategy which we feel will differentiate us from our competitors. We are establishing supply chain networks in close proximity to key facilities across the Americas, Asia and Europe, each with a strong focus on the markets they serve. We believe this strategy will increase the agility and flexibility of our global supply chain and, in turn, our customers' time-to-market and total cost of production.

Design. Our global design services cover the entire product lifecycle. Supported by a disciplined approach to program management, we provide flexible design solutions and expertise to help customers reduce their overall product costs, improve time-to-market and introduce competitively differentiated products. By leveraging our proprietary CoreSim Technology and experience with common technologies across multiple industries and product groups, we can deliver quality and cost-focused solutions to our customers' product lines.

Our design team works with OEM product developers in the early stages of product development. The design team uses advanced design tools to enable new product ideas to progress from electrical and application-specific integrated circuit (ASIC) design, to simulation and physical layout, to design for manufacturing. Electronic linkages between the customer and our design and manufacturing groups help to ensure that new designs are released rapidly, smoothly and cohesively into production.

In 2006, in an effort to enhance our design services offering, we entered into a strategic relationship with HCL Technologies Ltd. (HCL), a global engineering, research and development, IT services and business process outsourcing firm. We believe that by combining our companies' strengths, we can create solutions to help our customers overcome design-related challenges. The new skill areas and scalability offered by HCL will enable us to better manage projects from end-to-end, including software development and systems validation, as well as complete product sustainability.

Other key initiatives aimed at enhancing our design services offering include developing and marketing solutions accelerator platforms for server blades, storage, advanced telecommunications computing architecture (ATCA) and worldwide interoperability for microwave access (WiMAX). These customizable solutions will reduce customers' product design cycles and are intended to achieve full lifecycle solutions at the lowest cost and fastest time-to-market.

Green Services . Since 2004, we have provided a suite of services to help our customers comply with or prepare for environmental legislation, including the European Union's (EU) RoHS and WEEE laws. RoHS mandated the removal of a number of hazardous substances, including the lead commonly found in electronic products, by July 1, 2006. Through WEEE, the EU requires that producers or distributors register with the authorities in each member state and consider recycling costs in the pricing for any products placed in the EU markets after August 12, 2005. In addition, it is expected that producers will establish relationships with regulated collection partners to facilitate recycling of end-of-life electronics. More recently, other legislation has emerged, including China's Administration on the Control of Pollution caused by Electronic Information Products (often referred to as China RoHS), the first phase of which became effective March 1, 2007.

Prototyping. Prototyping is a critical stage in the development of new products. It is enhanced by linkages between OEM and EMS engineers. Our prototyping and new product introduction centers are strategically located, enabling us to provide a quick response to customer demands, facilitating greater collaboration between customers and our engineers and providing a seamless entry into our larger manufacturing facilities.

Product Assembly and Test. We use sophisticated technologies in the assembly and testing of our products, and have continually made significant investments in the development of new assembly and test process techniques to enhance product quality, reduce cost and improve delivery time to customers. We work independently and also collaborate with customers and suppliers to develop leading assembly and test technologies.

Systems Assembly. We provide systems assembly services to OEMs. These services require sophisticated logistics capabilities to rapidly procure components, assemble products, perform complex testing and distribute products to customers around the world. Our full systems assembly services involve combining a wide range of subassemblies (including printed circuit assemblies) and employing advanced test techniques for various subassemblies and final end products. Increasingly, OEMs require custom build-to-order system solutions with very short lead times. We are focused on exploiting this trend through our advanced supply chain management capabilities.

Product Assurance. We provide product assurance to our OEM customers. Our product assurance teams perform product life testing and full circuit characterization to ensure that designs meet or exceed required specifications. We are accredited as a National Testing Laboratory capable of testing to international standards (e.g., Canadian Standards Association and Underwriters Laboratories). We believe that this service allows our customers to attain product certification significantly faster than is customary in the EMS industry.

Failure Analysis. Our extensive failure analysis capabilities concentrate on identifying the root cause of product failures and determining corrective actions. The root causes of failures typically relate to inherent component defects or deficiencies in design robustness. Products are subjected to various environmental extremes, including temperature, humidity, vibration, voltage and rate of use. Field conditions are simulated in failure analysis laboratories which employ advanced electron microscopes, spectrometers and other advanced equipment. We are also able to discover failures before products are shipped and our highly qualified engineers are proactive in working in partnership with suppliers and customers to develop and implement resolutions.

Logistics. We leverage our expertise, relationships and global scale in manufacturing, supply chain management and fulfillment to provide fully integrated logistics solutions to meet all needs. Our logistics offering includes warehouse and distribution, freight management, logistics consulting services, product and materials visibility and reverse logistics.

Packaging and Global Fulfillment. We design and test the packaging of products for bulk shipment or single end-customer use. We have a sophisticated and integrated system for managing complex international order fulfillment which allows us to ship worldwide and, in many cases, directly to OEMs' customers.

After-Market Services. We offer a wide range of after-market services that can be individualized to meet each customer's requirements and which includes field failure analysis, product upgrades, repair and engineering change management.

Quality Management

One of our strengths is our ability to consistently deliver high-quality services and products. We have an extensive quality management system that focuses on continual process improvement and achieving high levels of customer satisfaction. We employ a variety of advanced statistical engineering techniques and other tools to assist in improving product and service quality. All of our principal facilities are ISO certified to ISO 9001 or ISO 9002 standards. Most of our principal facilities are also certified to ISO 14001 (environmental) standards.

In addition to these standards, we are committed to the deployment of Lean and Six Sigma throughout our manufacturing network. The implementation of Lean processes helps to improve efficiency and reduce waste in the manufacturing process in areas such as inventory on hand, set up times, floor space, and the number of people required for production. Six Sigma ensures continuous improvement by reducing process variation. Success in these areas helps our customers lower their costs, positioning them more competitively in their respective business environments.

We believe that our success is directly linked to meeting and exceeding our customers' expectations. As a result, a portion of our employee compensation is based on the results of extensive customer satisfaction surveys conducted on our behalf by an independent consultant.

Geographies

In 2006, approximately one-half of our revenue was produced in Asia and one-third of our revenue was produced in North America. A listing of our principal locations is included in Item 4, "Information on the Company Description of Property." We believe we have a competitive and strategic global manufacturing network. Approximately 85% of our employees at year-end were located in lower-cost regions. Many of our sites have significant technical capabilities, which we believe differentiates us from our competitors. This is complemented by some higher-complexity manufacturing and service offerings provided by sites in higher-cost regions.

Certain information concerning geographic segments is set forth in note 18 to the Consolidated Financial Statements in Item 18.

Sales and Marketing

We have adopted a marketing approach focused at creating profitable, strategic relationships with leading OEMs in targeted end-markets. Our global sales organization leverages an integrated set of processes designed to provide consistency to customers worldwide. Our coordination of efforts with key global customers has been enhanced by the creation of customer-focused teams, each headed by a group general manager who oversees the global relationship with such customers. Our global network is comprised of customer-focused teams, including direct sales representatives, operational and project managers, account executives, supply chain management teams, as well as senior executives.

Customers

We supply products and services to over 100 OEM customers targeting industry leading customers in strategic market segments, who are focused on the key technologies and products that will help support our future growth. Our customers include Alcatel-Lucent, Avaya, Cisco Systems, EMC, Hewlett-Packard, IBM, Microsoft, Motorola, NEC, Raytheon, Research in Motion and Sun Microsystems. We continue to strengthen our relationships with these strategic customers through the delivery of new service offerings. We look beyond the traditional manufacturing services and offer a full-line of end-to-end solutions, including design and engineering, systems integration, fulfillment and after-market services, including managing end-of-life products for our customers.

During 2006, our two largest customers, Cisco Systems and IBM, each represented 10% of total revenue and in aggregate represented 20% of total revenue. During 2005, our two largest customers, Cisco Systems and IBM, each represented in excess of 10% of total revenue and in aggregate represented 27% of total revenue. Our top 10 customers represented approximately 59% of total revenue in 2006, compared with 63% in 2005.

We enter into contractual agreements with our key customers that provide the framework for our overall relationship. The majority of our customer arrangements require the customer to purchase unused inventory that we have purchased to fulfill that customer's forecasted manufacturing demand.

Technology and Research and Development

We use advanced technology in the design, assembly and testing of the products we manufacture. We believe that our processes and skills are among the most sophisticated in the industry. This provides us with advantages over many of our smaller and less sophisticated competitors.

Our customer-focused factories are highly flexible and are reconfigured continually to meet customer specific product requirements and fluctuations in volumes. We have extensive capabilities across a broad range of specialized assembly processes. We work with a variety of substrate types based on the wide range of products we build for our customers, from thin, flexible printed circuit boards to highly complex, dense multi-layer boards.

Our assembly capabilities are complemented by advanced test capabilities. The technologies we use include high-speed functional testing, burn-in, vibration, radio frequency, in-circuit and in-situ dynamic thermal cycling stress testing. We believe that our inspection technology, which includes X-ray laminography, three-dimensional laser paste volumetric inspection and scanning electron microscopy, is among the most sophisticated in the EMS industry. Furthermore, we employ internally developed automated robotic technology to perform in-process repair.

Our ongoing research and development activities include the development of processes and test technologies, as well as some focused product development. We are proactive in developing manufacturing techniques that take advantage of the latest component, product and packaging designs. We often work with, and take a leadership role in, industry groups that strive to advance the state of technology in the industry.

Supply Chain Management

We have strong relationships with suppliers of every commodity we use. We employ electronic data interchange with our key suppliers and ensure speed of supply through strong relationships with our logistics partners and full-service distribution capabilities. During 2006, we procured and managed approximately $7 billion in materials and related services. We view the size and scale of our procurement activities as an important competitive advantage, as it enhances our ability to obtain better pricing, influence component packaging and design and obtain a supply of components in constrained markets.

We utilize two enterprise systems which provide comprehensive information on our logistics, financial and engineering support functions. One system is used in Asia and the other is primarily used in Europe and the Americas. These systems provide management with the data required to manage the logistical complexities of the business and are augmented by and integrated with other applications, such as shop floor controls, component and product database management and design tools.

In order to minimize the risk associated with inventory, we primarily order materials and components only to the extent necessary to satisfy existing customer orders and forecasts covered by the contract terms and conditions. We have implemented specific inventory management strategies with certain suppliers, such as "supplier managed inventory" (pulling inventory at the production line on an as-needed basis) and on-site stocking programs. Our incentives in Lean and Six Sigma also focus on eliminating excess inventory throughout the supply chain. In providing electronics manufacturing services to our customers, we are largely protected from the risk of fluctuations in inventory costs, as these costs are generally passed through to customers.

All of the products we manufacture or assemble require one or more components. In many cases, there may be only one supplier of a particular component. Some of these components could be rationed in response to supply shortages. We attempt to ensure continuity in the supply of these components. In cases where unanticipated customer demand or supply shortages occur, we attempt to arrange for alternative sources of supply, where available, or defer planned production in response to the availability of the critical components. In some cases, supply shortages will substantially curtail production of all assemblies that use that particular component. In addition, at various times there have been industry-wide shortages of electronic components. There can be no assurance that such shortages, or future fluctuations in the cost of materials, will not have a material adverse effect on our results of operations, business, prospects and financial condition.

Intellectual Property

We hold licenses to various technologies which we acquired in connection with acquisitions from Fujitsu-ICL, Hewlett-Packard, IBM, NEC and other companies. We believe that we have secured access to all required technology that is material to the current conduct of our business.

We regard our manufacturing processes and certain designs as proprietary trade secrets and confidential information. We rely largely upon a combination of trade secret laws, non-disclosure agreements with our customers and suppliers and our internal security systems, confidentiality procedures and employee confidentiality agreements to maintain the trade secrecy of our designs and manufacturing processes. Although we take steps to protect our trade secrets, there can be no assurance that misappropriation will not occur.

We currently have a limited number of patents and patent applications pending. However, we believe that the rapid pace of technological change makes patent protection less significant than such factors as the knowledge and experience of management and personnel and our ability to develop, enhance and market manufacturing services.

We license some technology from third parties which we use in providing manufacturing services to our customers. We believe that such licenses are generally available on commercial terms from a number of licensors. Generally, the agreements governing such technology grant to us non-exclusive, worldwide licenses with respect to the subject technologies and terminate upon a material breach by us of the terms of such agreements.

Competition

We compete on a global basis to provide electronics manufacturing services and solutions to OEMs across various end-markets. Our competitors include a large number of domestic and foreign companies, such as Flextronics International, Hon Hai Precision Industry, Jabil Circuit, Sanmina-SCI and Solectron, as well as smaller EMS companies that often have a regional, product, service or industry specific focus. ODMs, companies that provide internally designed products and manufacturing services to OEMs, continue to increase their share of outsourced manufacturing services provided to OEMs in several markets, such as notebook and desktop computers, personal computer motherboards, and consumer electronic products, such as cell phones. While we have not, to date, encountered significant direct competition from ODMs in our primary markets, such competition may increase if our business in these markets grows, or if ODMs expand further into, or beyond, these markets.

We also face competition from current and prospective customers which evaluate our capabilities against the merits of manufacturing products internally. We compete with different companies depending on the type of service or geographic area. Some of our competitors may have greater manufacturing, financial, procurement, research and development, and marketing resources than we do. We believe that the primary basis of competition in our targeted markets is based on our track record in manufacturing technology, quality, responsiveness, and providing cost-effective, value-added services. To remain competitive, we believe we must continue to provide technologically advanced manufacturing services and solutions, maintain quality levels, offer flexible delivery schedules, deliver finished products on time and compete favorably on the basis of price.

Human Resources

As of December 31, 2006, we employed over 42,000 permanent and temporary (contract) employees worldwide. Given the variable nature of our project flow and the quick response time required by our customers, it is critical that we are able to quickly ramp our production up or down to maximize efficiency. To achieve this, our approach has been to employ a skilled temporary labor force, as required.

We believe that our employees are our greatest asset. Culturally, we are team-oriented, values-driven, empowerment-based, dynamic and results-oriented, with a focus on customer service and quality at all levels. This culture is a critical factor for us, as we need to be able to fully utilize the intellectual capital of our employees to be successful. Some of our employees in Mexico, the United States, Japan, Brazil and Spain are represented by unions.

Environmental Matters

We are subject to extensive environmental, health and safety laws and regulations, including measures relating to the release, use, storage, treatment, transportation, discharge, disposal and remediation of contaminants, hazardous substances and waste, as well as practices and procedures applicable to the construction and operation of our plants. We believe that we are currently in compliance in all material respects with applicable environmental laws.

Some of our operating sites have a history of industrial use. As is typical for such businesses, soil and groundwater contamination has occurred. From time to time we investigate, remediate and monitor soil and groundwater contamination at certain of our operating sites.

Except for the facilities that we acquired in the Omni Industries Limited and MSL transactions, Phase I or similar environmental assessments (which involve general inspections without soil sampling or groundwater analysis) were obtained for most of the manufacturing facilities we lease or own in connection with our acquisition or lease of such facilities. Where contamination is suspected, Phase II intrusive environmental assessments (including soil and/or groundwater testing) are usually performed. We expect to conduct such environmental assessments in respect to future property acquisitions where consistent with local practice. These environmental assessments have not revealed any environmental liability that we believe, based on current information, will have a material adverse effect on our results of operations, business, prospects or financial condition, nor are we aware that we have any such material environmental liability, in part because of the contractual retention of liability for some contamination and its remediation by landlords and former owners at some sites. It is possible that our assessments do not reveal all environmental liabilities, or that there are material environmental liabilities of which we are not presently aware, or that future changes in law or enforcement standards will cause us to incur significant costs or liabilities in the future.

With respect to environmental legislation at the product level, since 1999 we have been involved in consortia activity and internal research and development to understand and prepare for the challenges associated with the EU's RoHS legislation. In 2004, we launched our Green Services , offering a suite of services which helps our customers comply with or prepare for new environmental legislation, including the EU's RoHS and WEEE laws that were effective in 2006 and China's Administration on the Control of Pollution caused by Electronic Information Products (often referred to as China RoHS) legislation, the first phase of which became effective March 1, 2007.

Backlog

Although we obtain firm purchase orders from our customers, OEM customers typically do not make firm orders for delivery of products more than 30 to 90 days in advance. We do 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 canceled.

Seasonality

Seasonality is reflected in the mix and complexity of the products we manufacture. With a significant exposure to computing and communications infrastructure products, we have historically seen a level of seasonality in our quarterly revenue patterns. In 2006, we were also impacted by the seasonality of the consumer electronics business which has revenue peaks that are different than those of our traditional market segments. As a result of this mix, our efforts to diversify our revenue base, and limited visibility in technology end-markets, it is difficult to predict the extent and impact of seasonality on our business.

C. Organizational Structure

We conduct our business through subsidiaries operating on a worldwide basis. The following companies are considered significant subsidiaries and each of them is wholly-owned:

Celestica Cayman Holdings 1 Limited, a Cayman Islands corporation.

Celestica Corporation, a Delaware corporation.

Celestica Holdings Pte Ltd., a Singapore corporation.

Celestica Hong Kong Limited, a Hong Kong corporation.

Celestica Liquidity Management Hungary Limited Liability Company, a Hungary corporation.

Celestica (Gibraltar) Limited, a Gibraltar corporation.

Celestica (Luxembourg) S.ÀR.L., a Luxembourg corporation.

Celestica (Thailand) Limited, a Thailand corporation.

Celestica (USA) Inc., a Delaware corporation.

Celestica (US Holdings) Inc., a Delaware corporation.

IMS International Manufacturing Services Limited, a Cayman Islands corporation.

1282087 Ontario Inc., an Ontario corporation.

D. Description of Property

The following table summarizes our principal facilities as of February 19, 2007. Our facilities are used to provide electronic product solutions, such as the manufacture of printed circuit boards, assembly and configuration of final systems and other related manufacturing and customer support activities.

Facility	Manufacturing Square Footage	Owned/Leased
	(in thousands)	
Toronto, Ontario	888	Owned
Ottawa, Ontario	6	Leased
San Jose, California	132	Leased
Oxnard, California	20	Leased
Ontario, California	223	Leased
Charlotte, North Carolina(1)	160	Leased
Arden Hills, Minnesota	154	Leased
Nashville, Tennessee	404	Leased
Austin, Texas	51	Leased
Dallas, Texas	86	Leased
Telford, England(1)	146	Leased
Galway, Ireland	133	Leased
Rajecko, Czech Republic	170	Owned
Kladno, Czech Republic	172	Owned
Oradea, Romania	200	Owned
Valencia, Spain(2)	423	Owned
Monterrey, Mexico(2)	648	Leased
Reynosa, Mexico(2)	158	Leased
Aquadilla, Puerto Rico	94	Leased
Hortolandia, Brazil	105	Leased
Shanghai, China	22	Leased
Dongguan, China(2)	286	Leased
Suzhou, China(2)	459	Owned/Leased
Songshan Lake, China	437	Owned/Leased
Shatin, Hong Kong	53	Leased
Johor Bahru, Malaysia(2)	435	Owned/Leased
Kulim, Malaysia	324	Owned
Singapore(2)	330	Leased
Miyagi, Japan	273	Owned
Kawasaki, Japan	36	Leased
Laem Chabang, Thailand(2)	1,085	Owned/Leased
Cebu, Philippines	125	Owned
Laguna City, Philippines(2)	90	Owned/Leased
Hyderabad, India	45	Owned

(1) As part of our restructuring plans, we are closing this site in 2007.

(2) This represents multiple locations.

Our principal executive office is located at 12 Concorde Place, 5th Floor, Toronto, Ontario M3C 3R8. All of our principal facilities are ISO certified to ISO 9001 or ISO 9002 standards. Most of our principal facilities are also certified to the ISO 14001 (environmental) standards.

Our land and facility leases expire between 2007 and 2056. We currently expect to be able to extend the terms of expiring leases or to find replacement facilities on reasonable terms.

As part of our restructuring plans, we have been focused on increasing production in lower-cost geographies. We will continue to evaluate our operating network to ensure that it meets our customers' requirements. See Item 5, "Operating and Financial Review and Prospects Management's Discussion and Analysis of Financial Condition and Results of Operations Operating Results" for additional information concerning our restructurings.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements, which we prepared in accordance with Canadian GAAP. A reconciliation to United States GAAP is disclosed in note 20 to the 2006 Consolidated Financial Statements. All dollar amounts are expressed in U.S. dollars. The information in this discussion is provided as of February 14, 2007.

Certain statements contained in the following Management's Discussion and Analysis of Financial Condition and Results of Operations constitute forward-looking statements within the meaning of section 27A of the U.S. Securities Act and section 21E of the U.S. Exchange Act, including, without limitation, statements concerning possible or assumed future results of operations preceded by, followed by or that include the words "believes," "expects," "anticipates," "estimates," "intends," "plans," or similar expressions. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the U.S. Private Securities Litigation Reform Act of 1995, and in any applicable Canadian securities legislation. Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions. You should understand that the following important factors could affect our future results and could cause those results to differ materially from those expressed in such forward-looking statements: inability to retain or grow our business due to potential execution problems resulting from significant headcount reductions, plant closures and product transfers associated with major restructuring activities; the effects of price competition and other business and competitive factors generally affecting the EMS industry; the challenges of effectively managing our operations during uncertain economic conditions; our dependence on a limited number of customers; variability of operating results among periods; our dependence on industries affected by rapid technological change; the challenge of responding to lower-than-expected customer demand; our ability to successfully manage our international operations; and the delays in the delivery and/or general availability of various components used in our manufacturing process. These and other risks and uncertainties are discussed in our various filings with the Canadian Securities Commissions and the U.S. Securities and Exchange Commission, including our Annual Report on Form 20-F and subsequent reports on Form 6-K filed with the Securities and Exchange Commission.

Except as required by law, we disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You should read this document with the understanding that our actual future results may be materially different from what we expect. We may not update these forward-looking statements, even if our situation changes in the future. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

Overview

What Celestica does:

We provide a range of electronics manufacturing services and solutions to OEMs in the computing, communications, industrial and consumer markets. We operate a global manufacturing network with operations in Asia, the Americas and Europe.

Overview of *business environment:*

The EMS industry is comprised of companies that provide a broad range of electronics manufacturing services to OEMs. During the past decade, OEMs have become increasingly reliant upon these services to enhance their competitive positions. Today, the leading EMS companies have global manufacturing networks with worldwide supply chain management and offer end-to-end services for the entire product lifecycle, including design and engineering, manufacturing and systems integration, fulfillment and after-market services. By outsourcing their manufacturing and related services, OEMs are able to overcome their most pressing challenges related to cost, quality, time-to-market and rapidly changing technologies, positioning them more competitively in today's fast-paced business environment. As a result of this reliance, the EMS industry experienced rapid change and growth during the past decade.

During the period from 2001 to 2003, the EMS industry experienced significant demand weakness, particularly in the computing and telecommunications end-markets, as spending on higher-complexity and infrastructure products was reduced. Our concentration of business with customers in these end-markets had a significant adverse effect on our revenue and margins for 2002 and 2003. The downturn also created excess capacity in the EMS industry, resulting in industry restructuring and pricing pressures as EMS providers competed for a reduced amount of business. The declining end-markets and volumes led to lower utilization rates which also adversely impacted margins for those years. Although we have seen some signs of recovery and stability during the last few years, we continue to experience unexpected volatility, especially in our computing and telecommunications end-markets.

By focusing our efforts on forming new relationships with customers in non-traditional market segments, along with acquisitions, we have increased our revenue and margins from the historic lows of 2003. Our revenue for 2006 was $8.8 billion, up 31% from $6.7 billion in 2003. Although margins have improved from 2003, we continue to be impacted by inefficiencies and higher costs of transferring programs and ramping new customers in Mexico and the underutilization of facilities in Europe. These operational execution issues have resulted in significant costs to us. This has impacted certain customer relationships in 2006 and will impact our growth momentum into 2007. Our revenue is impacted by the mix and seasonality of business in each of the end-market segments. For the first quarter of 2007, end-market demand continues to be weak, particularly in the telecommunications segment. We also anticipate revenue will decrease in the first quarter of 2007 due to the seasonality of the consumer segment, the impact of some customer disengagements and the implementation of a lean supply chain initiative by one of our communications customers, which as a result of this initiative, will impact our revenue and our inventory in the first quarter of 2007.

Key strategic initiatives:

In response to the downturn in the EMS industry referenced above, we initiated restructuring plans to rebalance our global manufacturing network and reduce capacity. During the technology downturn, the EMS industry began a major transformation of its manufacturing network. OEM customers wanted their EMS providers to shift more production to lower-cost regions in an effort to lower their product costs and allow them to better compete in highly competitive markets.

In 2001, we announced our first restructuring plan. As the downturn continued, and excess capacity in our higher-cost geographies remained, we announced additional restructuring plans that took place through to 2006. These restructuring plans were focused on consolidating facilities, improving capacity utilization, increasing production in lower-cost geographies and accelerating margin expansion. Our capacity utilization in the fourth quarter of 2006 was approximately 60%, down from approximately 65% earlier in the year. Approximately 85% of our employees at December 31, 2006 are in lower-cost geographies, up from approximately 60% at the end of 2002.

Although we completed 2006 with revenue higher than in 2005, our operating margins eroded year-to-year, primarily due to operational challenges in our facilities in Mexico and Europe. The performance in Mexico also impacted our inventory and our customer satisfaction levels during 2006. Our priorities for 2007 are as follows:

- restore customer confidence and improve our operational and financial performance in Mexico;
- return Europe to profitability by generating more business with European OEMs, particularly in the communications segment;
- increase our asset utilization, and in particular our inventory turns; and

drive efficiency through simplicity and the elimination of waste by reducing our overhead structures, streamlining processes and continuing to foster a Lean culture.

In an effort to simplify our operations in Mexico, we are transferring certain customers to our Asian facilities and disengaging with certain non-strategic customers that were adding to the complexity of our operations.

Summary of 2006

Financing and capital structure:

We continued to maintain a strong balance sheet throughout 2006 and finished the year with a cash balance of $803.7 million and an undrawn credit facility. During the year, we generated cash from operations of $39.2 million. In addition, we spent $189.1 million during the year for capital assets to support our current operations and capacity expansion, primarily in our lower-cost regions.

Acquisitions and divestitures:

In June 2006, we sold our plastics injection molding business (which we acquired as part of an EMS acquisition). Our plastics business, which operated primarily in Asia, represented less than 1% of our total revenue.

In March 2006, we acquired certain assets located in the Philippines from Powerwave Technologies, Inc. and signed a multi-year supply agreement. This acquisition strengthened our relationship with an existing customer in the telecommunications segment. Powerwave announced that Celestica would become its global preferred outsourcing partner.

In November 2005, we completed the acquisition of Displaytronix Inc., a repair services company in the United States which expanded our repair capabilities in the growing flat-panel display market.

In August 2005, we completed the acquisition of CoreSim Inc., a leader in advanced design analysis and redesign services based in Canada. This acquisition strengthened our design services offering and provided us with access to an expanded customer base in the telecommunications, aerospace and defense, and enterprise markets.

In July 2005, we completed the acquisition of Ramnish Electronics Private Limited, an EMS provider located in India. This strategic acquisition expanded our low-cost EMS manufacturing capabilities and provided us with access to an established customer base in the Indian market.

We may, at any time, be engaged in ongoing discussions with respect to possible acquisitions that we expect would enhance our global manufacturing network, expand our service offerings, increase our penetration in various 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 such agreement would be.

We will continue to evaluate our operations and we may propose exiting businesses or service offerings in order to better align our operations with our strategic objectives.

Overview of 2006 results:

The following table sets forth, for the periods indicated, certain key operating results and other financial information (in millions, except per share amounts):

	Year ended December 31		
	2004	**2005**	**2006**
Revenue	$ 8,839.8	$ 8,471.0	$ 8,811.7
Gross profit	407.9	481.1	451.8
Selling, general and administrative expenses (SG&A)	331.6	296.9	285.6
Net loss	(854.1)	(46.8)	(150.6)
Diluted loss per share	$ (3.85)	$ (0.21)	$ (0.66)

	As at December 31		
	2004	2005	2006
Total assets	$ 4,939.8	$ 4,857.8	$ 4,686.3
Total long-term financial liabilities	627.5	751.4	750.8

Revenue for 2006 of $8.8 billion increased 4% from $8.5 billion in 2005, primarily due to higher volumes and new customers in Asia, offset in part by lower volumes in Europe. Asia's revenue increased 14% from 2005 and represents over one-half of our total revenue. Revenue for the Americas was essentially flat compared to 2005. Revenue for Europe decreased 18% from 2005 due to weaker demand. In 2006, we continued to diversify our end-market segments. Our year-over-year growth in revenue was driven from new customers in the consumer segment, which more than offset the declines in the telecommunications and computing segments. Revenue from our consumer, automotive and medical segments increased over 50% from the prior year. Revenue from new customers and programs benefited all regions and more than offset declines related to program disengagements. The revenue impact from acquisitions or divestitures was not significant for the year.

Gross margin was 5.1% of revenue in 2006 compared to 5.7% in 2005. Included in cost of sales for 2006 were net inventory charges at two of our Americas facilities totaling approximately $36 million recorded in the second half of 2006. Excluding these inventory charges, the gross margin for 2006 would have been 5.5%. The balance of the decline in gross margin in 2006 reflects the inefficiencies in Mexico and the underutilization of facilities in Europe. These declines offset the margin improvements in Asia and the lower costs resulting from our restructuring actions.

SG&A expenses for 2006 as a percentage of revenue and on an absolute basis decreased compared to the prior year. SG&A expenses decreased from 3.5% of revenue in 2005 to 3.2% of revenue in 2006. The decrease reflects the lower costs resulting from restructuring actions, the exiting of certain businesses, lower performance-based compensation and higher revenue.

We recorded restructuring charges during 2005 and 2006 totaling $338.2 million. A significant restructuring action in 2006 was the completion of the sale of one of our large high-cost European facilities to a third party resulting in a charge of $61.2 million in September 2006. In addition to the prior restructuring programs, for which we had originally estimated costs up to approximately $275 million, we identified restructuring charges of between $60 million and $80 million to further reduce our cost structures, of which approximately $40 million was recorded in the fourth quarter of 2006. We anticipate the remaining $20 million to $40 million in restructuring charges to be incurred during 2007.

We also sold our plastics business in June 2006 which resulted in a loss of $33.2 million recorded as other charges.

Other performance indicators:

In addition to the key financial, revenue and earnings-related metrics described above, management regularly reviews the following working capital metrics:

	1Q05	2Q05	3Q05	4Q05	1