

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Celestica Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company's internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our internal control over financial reporting includes those policies and procedures that: pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with applicable accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2017 based on the criteria set forth in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has concluded that, as of December 31, 2017, the Company's internal control over financial reporting is effective. The Company's independent auditors, KPMG LLP, have audited the effectiveness of our internal control over financial reporting as of December 31, 2017, and issued an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of such date.

March 8, 2018

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Celestica Inc.

Opinion on Internal Control Over Financial Reporting

We have audited Celestica Inc.'s (the "Company") internal control over financial reporting as of December 31, 2017, based on the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Report on the Consolidated Financial Statements

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated financial statements of the Company, which comprise the consolidated balance sheets as of December 31, 2017 and December 31, 2016, the consolidated statements of operations, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "consolidated financial statements"), and our report dated March 8, 2018 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB and in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Toronto, Canada March 8, 2018

/s/ KPMG LLP
Chartered Professional Accountants,
Licensed Public Accountants

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Celestica Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Celestica Inc. (the “Company”) as of December 31, 2017 and December 31, 2016 and the related consolidated statements of operations, comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively referred to as the “financial statements”).

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and its financial performance and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on Internal Control over Financial Reporting

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2017, based on the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 8, 2018 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits.

We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB and in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company’s auditor since 1997.

Toronto, Canada March 8, 2018

/s/ KPMG LLP
Chartered Professional Accountants,
Licensed Public Accountants

CELESTICA INC.
CONSOLIDATED BALANCE SHEETS
(in millions of U.S. dollars)

	<u>December 31</u> <u>2016</u>	<u>December 31</u> <u>2017</u>
Assets		
Current assets:		
Cash and cash equivalents (note 21)	\$ 557.2	\$ 515.2
Accounts receivable (note 5)	790.5	764.8
Inventories (note 6)	890.6	1,061.8
Income taxes receivable	5.4	1.6
Assets classified as held for sale (note 7)	28.9	30.1
Other current assets	73.9	82.0
Total current assets	<u>2,346.5</u>	<u>2,455.5</u>
Property, plant and equipment (note 8)	302.7	323.9
Goodwill (note 9)	23.2	23.2
Intangible assets (note 9)	25.5	21.6
Deferred income taxes (note 20)	36.4	39.2
Other non-current assets (note 10)	88.0	81.3
Total assets	<u>\$ 2,822.3</u>	<u>\$ 2,944.7</u>
Liabilities and Equity		
Current liabilities:		
Current portion of borrowings under credit facility and finance lease obligations (notes 4 & 12)	\$ 56.0	\$ 37.9
Accounts payable	876.9	931.1
Accrued and other current liabilities	261.7	233.5
Income taxes payable (note 20)	32.4	37.7
Current portion of provisions (note 11)	18.7	26.6
Total current liabilities	<u>1,245.7</u>	<u>1,266.8</u>
Long-term portion of borrowings under credit facility and finance lease obligations (notes 4 & 12)	188.7	166.5
Pension and non-pension post-employment benefit obligations (note 19)	86.0	97.8
Provisions and other non-current liabilities (note 11)	28.3	35.4
Deferred income taxes (note 20)	34.8	27.5
Total liabilities	<u>1,583.5</u>	<u>1,594.0</u>
Equity:		
Capital stock (note 13)	2,048.2	2,048.3
Treasury stock (note 13)	(15.3)	(8.7)
Contributed surplus	862.6	863.0
Deficit	(1,632.0)	(1,545.2)
Accumulated other comprehensive loss (note 14)	(24.7)	(6.7)
Total equity	<u>1,238.8</u>	<u>1,350.7</u>
Total liabilities and equity	<u>\$ 2,822.3</u>	<u>\$ 2,944.7</u>
Commitments, contingencies and guarantees (note 24)		
Subsequent events (notes 4, 7, 12, 24, and 26)		

Signed on behalf of the Board of Directors
[Signed] William A. Etherington, Director

[Signed] Laurette T. Koellner, Director

The accompanying notes are an integral part of these consolidated financial statements.

CELESTICA INC.
CONSOLIDATED STATEMENT OF OPERATIONS
(in millions of U.S. dollars, except per share amounts)

	Year ended December 31		
	2015	2016	2017
Revenue	\$ 5,639.2	\$ 6,016.5	\$ 6,110.5
Cost of sales (notes 6 & 15)	5,248.1	5,588.9	5,692.7
Gross profit	391.1	427.6	417.8
Selling, general and administrative expenses (SG&A) (note 15)	207.5	211.1	203.2
Research and development	23.2	24.9	26.2
Amortization of intangible assets (note 9)	9.2	9.4	8.9
Other charges (note 16)	35.8	25.5	37.0
Earnings from operations	115.4	156.7	142.5
Refund interest income (notes 17 & 24)	—	(14.3)	—
Finance costs (note 17)	6.3	10.0	10.1
Earnings before income taxes	109.1	161.0	132.4
Income tax expense (recovery) (note 20)			
Current	38.7	14.2	39.1
Deferred	3.5	10.5	(11.7)
	42.2	24.7	27.4
Net earnings	\$ 66.9	\$ 136.3	\$ 105.0
Basic earnings per share	\$ 0.43	\$ 0.96	\$ 0.73
Diluted earnings per share	\$ 0.42	\$ 0.95	\$ 0.72
Shares used in computing per share amounts (in millions):			
Basic (note 23)	155.8	141.8	143.1
Diluted (note 23)	157.9	143.9	145.2

The accompanying notes are an integral part of these consolidated financial statements.

CELESTICA INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(in millions of U.S. dollars)

	Year ended December 31		
	2015	2016	2017
Net earnings	\$ 66.9	\$ 136.3	\$ 105.0
Other comprehensive income (loss), net of tax (note 14)			
Items that will not be reclassified to net earnings:			
Gains (losses) on pension and non-pension post-employment benefit plans (note 19)	(7.0)	17.1	(18.2)
Items that may be reclassified to net earnings:			
Currency translation differences for foreign operations	(1.7)	—	0.7
Changes from derivatives designated as hedges	(6.1)	8.1	17.3
Total comprehensive income	\$ 52.1	\$ 161.5	\$ 104.8

The accompanying notes are an integral part of these consolidated financial statements.

CELESTICA INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(in millions of U.S. dollars)

	Capital stock (note 13)	Treasury stock (note 13)	Contributed surplus	Deficit	Accumulated other comprehensive income (loss) ^(a)	Total equity
Balance — December 31, 2014	\$ 2,609.5	\$ (21.4)	\$ 677.1	\$ (1,845.3)	\$ (25.0)	\$ 1,394.9
Capital transactions:						
Issuance of capital stock	12.6	—	(8.7)	—	—	3.9
Repurchase of capital stock for cancellation	(528.2)	—	157.8	—	—	(370.4)
Purchase of treasury stock for stock-based plans	—	(28.9)	—	—	—	(28.9)
Stock-based compensation and other	—	18.9	20.5	—	—	39.4
Total comprehensive income:						
Net earnings for 2015	—	—	—	66.9	—	66.9
Other comprehensive income (loss), net of tax:						
Losses on pension and non-pension post-employment benefit plans (note 19)	—	—	—	(7.0)	—	(7.0)
Currency translation differences for foreign operations	—	—	—	—	(1.7)	(1.7)
Changes from derivatives designated as hedges	—	—	—	—	(6.1)	(6.1)
Balance — December 31, 2015	\$ 2,093.9	\$ (31.4)	\$ 846.7	\$ (1,785.4)	\$ (32.8)	\$ 1,091.0
Capital transactions:						
Issuance of capital stock	6.4	—	(2.3)	—	—	4.1
Repurchase of capital stock for cancellation	(52.1)	—	17.8	—	—	(34.3)
Purchase of treasury stock for stock-based plans	—	(18.2)	—	—	—	(18.2)
Stock-based compensation and other	—	34.3	0.4	—	—	34.7
Total comprehensive income:						
Net earnings for 2016	—	—	—	136.3	—	136.3
Other comprehensive income (loss), net of tax:						
Gains on pension and non-pension post-employment benefit plans (note 19)	—	—	—	17.1	—	17.1
Changes from derivatives designated as hedges	—	—	—	—	8.1	8.1
Balance — December 31, 2016	\$ 2,048.2	\$ (15.3)	\$ 862.6	\$ (1,632.0)	\$ (24.7)	\$ 1,238.8
Capital transactions:						
Issuance of capital stock	30.4	—	(16.8)	—	—	13.6
Repurchase of capital stock for cancellation	(30.3)	—	10.4	—	—	(19.9)
Purchase of treasury stock for stock-based plans	—	(16.7)	—	—	—	(16.7)
Stock-based compensation and other	—	23.3	6.8	—	—	30.1
Total comprehensive income:						
Net earnings for 2017	—	—	—	105.0	—	105.0
Other comprehensive income (loss), net of tax:						
Losses on pension and non-pension post-employment benefit plans (note 19)	—	—	—	(18.2)	—	(18.2)
Currency translation differences for foreign operations	—	—	—	—	0.7	0.7
Changes from derivatives designated as hedges	—	—	—	—	17.3	17.3
Balance — December 31, 2017	\$ 2,048.3	\$ (8.7)	\$ 863.0	\$ (1,545.2)	\$ (6.7)	\$ 1,350.7

(a)Accumulated other comprehensive income (loss) is net of tax. See note 14.

The accompanying notes are an integral part of these consolidated financial statements.

CELESTICA INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(in millions of U.S. dollars)

	Year ended December 31		
	2015	2016	2017
Cash provided by (used in):			
Operating activities:			
Net earnings	\$ 66.9	\$ 136.3	\$ 105.0
Adjustments to net earnings for items not affecting cash:			
Depreciation and amortization	68.3	75.6	76.5
Equity-settled stock-based compensation (note 13)	37.6	33.0	30.1
Other charges (note 16)	16.3	21.2	5.7
Finance costs, net of refund interest income	6.3	(4.3)	10.1
Income tax expense	42.2	24.7	27.4
Other	(17.5)	(1.1)	(1.6)
Changes in non-cash working capital items:			
Accounts receivable	12.5	(104.6)	25.7
Inventories	(75.6)	(89.5)	(171.2)
Other current assets	38.2	(5.3)	(2.0)
Accounts payable, accrued and other current liabilities and provisions	28.8	75.4	52.1
Non-cash working capital changes	3.9	(124.0)	(95.4)
Net income tax refund (paid), including related refund interest income	(27.7)	11.9	(30.8)
Net cash provided by operating activities	196.3	173.3	127.0
Investing activities:			
Acquisitions (note 3)	—	(14.9)	—
Purchase of computer software and property, plant and equipment ^(a)	(62.8)	(64.1)	(102.6)
Proceeds from sale of assets	2.8	1.0	0.8
Deposit on anticipated sale of real property (note 8)	11.2	—	—
Advances to solar supplier (note 4)	(29.5)	—	—
Repayments from solar supplier (note 4)	3.0	14.0	12.5
Net cash used in investing activities	(75.3)	(64.0)	(89.3)
Financing activities:			
Borrowings under credit facility (note 12)	275.0	40.0	—
Repayments under credit facility (note 12)	(12.5)	(75.0)	(40.0)
Finance lease payments (note 12)	—	(4.5)	(6.5)
Issuance of capital stock (note 13)	3.9	4.1	13.6
Repurchase of capital stock for cancellation (note 13)	(370.4)	(34.3)	(19.9)
Purchase of treasury stock for stock-based plans (note 13)	(28.9)	(18.2)	(16.7)
Finance costs paid	(7.8)	(9.5)	(10.2)
Net cash used in financing activities	(140.7)	(97.4)	(79.7)
Net increase (decrease) in cash and cash equivalents	(19.7)	11.9	(42.0)
Cash and cash equivalents, beginning of year	565.0	545.3	557.2
Cash and cash equivalents, end of year	\$ 545.3	\$ 557.2	\$ 515.2

(a) Additional equipment of \$5.0 was acquired through finance leases in 2017 (2016 — \$3.4; 2015 — \$19.0). See notes 4, 8 and 12. Unpaid purchases of property, plant and equipment at December 31, 2017 were \$18.5 (December 31, 2016 — \$22.6; December 31, 2015 — \$11.2).

The accompanying notes are an integral part of these consolidated financial statements.

CELESTICA INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except percentages and per share amounts)

1. REPORTING ENTITY:

Celestica Inc. (Celestica) is incorporated in Canada with its corporate headquarters currently located at 844 Don Mills Road, Toronto, Ontario, M3C 1V7. Celestica's subordinate voting shares are listed on the Toronto Stock Exchange (TSX) and the New York Stock Exchange (NYSE).

Celestica delivered innovative supply chain solutions globally to customers in the following end markets during 2017: Advanced Technology Solutions (ATS) (consists of our former Diversified and Consumer end markets, and is comprised of our aerospace and defense, industrial, smart energy, healthcare, semiconductor equipment, and consumer businesses), Communications (consists of our enterprise communications and telecommunications businesses), and Enterprise (consists of our servers and storage businesses). Our product lifecycle offerings include a range of services to our customers including design and development, engineering services, supply chain management, new product introduction, component sourcing, electronics manufacturing, assembly and test, complex mechanical assembly, systems integration, precision machining, order fulfillment, logistics and after-market repair and return services.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES:

Statement of compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorized for issuance by our Board of Directors on March 8, 2018.

Functional and presentation currency:

The consolidated financial statements are presented in U.S. dollars, which is also our functional currency. Unless otherwise noted, all financial information is presented in millions of U.S. dollars (except percentages and per share amounts).

Use of estimates and judgments:

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenue and expenses, and the related disclosures of contingent assets and liabilities. We base our estimates and assumptions on current facts, historical experience and various other factors that we believe are reasonable under the circumstances. Our assessment of these factors forms the basis for our judgments on the carrying values of our assets and liabilities, and the accrual of our costs and expenses. Actual results could differ materially from these estimates and assumptions. We review our estimates and underlying assumptions on an ongoing basis and make revisions as determined necessary by management. Revisions are recognized in the period in which the estimates are revised and may impact future periods as well.

Key sources of estimation uncertainty and judgment: We have applied significant estimates and assumptions in the following areas which we believe could have a significant impact on our reported results and financial position: our valuations of inventory, assets held for sale and income taxes; the amount of our restructuring charges or recoveries; the measurement of the recoverable amounts of our cash generating units (CGUs, as defined below), which includes estimating future growth, profitability, discount and terminal growth rates, and the fair value of our real property; our valuations of financial assets and liabilities, pension and non-pension post-employment benefit costs, employee stock-based compensation expense, provisions and contingencies; and the allocation of the purchase price and other valuations related to our business acquisitions.

We define a CGU as the smallest identifiable group of assets that cannot be tested individually and that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs can be comprised of a single site, a group of sites, or a line of business.

CELESTICA INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except percentages and per share amounts)

We have also applied significant judgment in the following areas: the determination of our CGUs and whether events or changes in circumstances during the relevant period are indicators that a review for impairment should be conducted, and the timing of the recognition of charges or recoveries associated with our restructuring actions. The near-term economic environment could also impact certain estimates necessary to prepare our consolidated financial statements, including the estimates related to the recoverable amounts used in our impairment testing of our non-financial assets, and the discount rates applied to our net pension and non-pension post-employment benefit assets or liabilities.

We describe our use of judgment and estimation uncertainties in greater detail in the following accounting policies.

SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies below are in compliance with IFRS and have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of measurement:

The consolidated financial statements have been prepared primarily on the historical cost basis. Other measurement bases, where used, are described in the applicable notes.

(b) Basis of consolidation:

These consolidated financial statements include our direct and indirect subsidiaries, all of which are wholly-owned. Any subsidiaries that are formed or acquired during the year are consolidated from their respective dates of formation or acquisition. Inter-company transactions and balances are eliminated on consolidation.

(c) Business combinations:

We use the acquisition method to account for any business combinations. All identifiable assets and liabilities are recorded at fair value as of the acquisition date. Any goodwill that arises from business combinations is tested annually for impairment (see note 2(l)). Potential obligations for contingent consideration and contingencies are also recorded at fair value as of the acquisition date. We record subsequent changes in the fair value of such potential obligations from the date of acquisition to the settlement date in our consolidated statement of operations. We expense integration costs (for the establishment of business processes, infrastructure and information systems for acquired operations) and acquisition-related consulting and transaction costs as incurred in our consolidated statement of operations.

We use judgment to determine the estimates to value identifiable net assets and the fair value of contingent consideration, if applicable, at the acquisition date. We may engage independent third parties to determine the fair value of property, plant and equipment and intangible assets. We use estimates to determine cash flow projections, including the period of expected future benefit, and future growth and discount rates, among other factors.

(d) Foreign currency translation:

The majority of our subsidiaries have a U.S. dollar functional currency, which represents the currency of the primary economic environment in which they operate. For these subsidiaries, we translate monetary assets and liabilities denominated in foreign currencies into U.S. dollars at the period-end exchange rates. We translate non-monetary assets and liabilities denominated in foreign currencies into U.S. dollars at historic rates, and we translate revenue and expenses into U.S. dollars at the average exchange rates prevailing during the month of the transaction. Exchange gains and losses also arise on the settlement of foreign-currency denominated transactions. We recognize foreign currency differences arising on translation in our consolidated statement of operations.

For our subsidiaries with a non-U.S. dollar functional currency, we translate assets and liabilities into U.S. dollars using the period-end exchange rates, and we translate revenue and expenses into U.S. dollars at the average exchange rates prevailing during the month of the transaction. We defer gains and losses arising from the translation of these operations in the foreign currency translation account included in accumulated other comprehensive income.

CELESTICA INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except percentages and per share amounts)

(e) **Cash and cash equivalents:**

Cash and cash equivalents include cash on account and short-term investments with original maturities of three months or less. These instruments are subject to an insignificant risk of change in fair value over their terms and, as a result, we carry cash and cash equivalents at cost.

(f) **Accounts receivable:**

We initially value our accounts receivable at fair value. We record an allowance for doubtful accounts against accounts receivable that management believes are impaired. We record specific allowances against customer receivables based on our evaluation of the customers' creditworthiness and knowledge of their financial condition. We also consider the aging of the receivables, customer and industry concentrations, the current business environment, and historical experience.

(g) **Inventories:**

We procure inventory and manufacture based on specific customer orders and forecasts and value our inventory on a first-in, first-out basis at the lower of cost and net realizable value. The cost of our finished goods and work-in-progress includes direct materials, labor and overhead. We may require valuation adjustments if actual market conditions or demand for our customers' products or services are less favorable than originally projected. The determination of net realizable value involves significant management judgment. We consider factors such as shrinkage, the aging of and future demand for the inventory, and contractual arrangements with customers. We attempt to utilize excess inventory in other products we manufacture or return inventory to the relevant suppliers or customers. We use future sales volume forecasts to estimate excess inventory on-hand. A change to these assumptions may impact our inventory valuation and our gross margins. Should circumstances change, we may adjust our previous write-downs in our consolidated statement of operations in the period a change in estimate occurs.

(h) **Assets classified as held for sale:**

We classify assets as held for sale if the carrying amount will be recovered principally through a sale transaction rather than through continued use. Management must be committed to the sale transaction and the asset must be immediately available for sale in its present condition to qualify as an asset held for sale. Assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell, and are no longer depreciated. The determination of fair value less costs to sell involves judgment by management of the probability and timing of disposition and the expected amount of recoveries and costs. We may engage independent third parties to assist in the determination of the estimated fair values less costs to sell for assets classified as held for sale. At the end of each reporting period, we evaluate the appropriateness of our estimates and assumptions. We may require adjustments to reflect actual experience or changes in estimates.

(i) **Property, plant and equipment:**

We carry property, plant and equipment at cost less accumulated depreciation and accumulated impairment losses. Cost consists of expenditures directly attributable to the acquisition of the asset, including interest on qualified long-term assets. We capitalize the cost of an asset when the economic benefits associated with that asset are probable and when the cost can be measured reliably. We capitalize the costs of major renovations and we write-off the carrying amount of replaced assets. We expense all other maintenance and repair costs in our consolidated statement of operations as incurred. We do not depreciate land. We recognize depreciation expense on a straight-line basis over the estimated useful life of the asset as follows:

Buildings	25 years
Building/leasehold improvements	Up to 25 years or term of lease
Machinery and equipment	3 to 10 years

CELESTICA INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except percentages and per share amounts)

We estimate the useful life of property, plant and equipment based on the nature of the asset, historical experience, the terms of any related customer contract, and expected changes in technology. When major components of an asset have a significantly different useful life than their primary asset, the components are accounted for and depreciated separately. We review our estimates of residual values, useful lives and the methods of depreciation annually at year end and, if required, adjust for these prospectively. We determine gains and losses on the disposal or retirement of property, plant and equipment by comparing the proceeds from disposal with the carrying amount of the asset and we recognize these gains and losses in our consolidated statement of operations in the period of disposal.

(j) **Leases:**

We are the lessee of property, plant and equipment, primarily buildings and machinery. We classify leases as operating leases where the risks and rewards of ownership are retained by the lessor. We generally treat payments made under operating leases as rentals and recognize them as expenses on a straight-line basis over the term of the lease in our consolidated statement of operations. For operating leases, we do not record the leased asset or associated obligation on our consolidated balance sheet. We classify leases as finance leases if the risks and rewards of ownership have substantially transferred to us. We capitalize finance leases at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments (included in property, plant and equipment in our consolidated balance sheet), and we depreciate finance leases over a period based on the useful life of the asset. We include the corresponding liabilities, net of finance costs, on our consolidated balance sheet. We allocate each finance lease payment between the liability and finance costs. See note 2(x), "Recently issued accounting pronouncements" for the new standard on leases effective January 1, 2019.

(k) **Goodwill and intangible assets:**

Goodwill:

We initially record goodwill related to acquisitions on our consolidated balance sheet in the amount of the excess of the fair value of the aggregate consideration paid (including the fair value of any contingent consideration) over the fair value of the identifiable net assets acquired. In subsequent reporting periods, we measure goodwill at cost less accumulated impairment losses, if any. We do not amortize goodwill. For purposes of impairment testing, we allocate goodwill to the CGU, or group of CGUs, that we expect will benefit from the related acquisition. See note 2(l), "Impairment of goodwill, intangible assets and property, plant and equipment."

Intangible assets:

We record intangible assets on our consolidated balance sheet at fair value on the date of acquisition. We capitalize intangible assets when the economic benefits associated with the asset are probable and when the cost can be measured reliably. We estimate the useful life of intangible assets based on the nature of the asset, historical experience and the projected period of expected future economic benefits to be provided by the asset. In subsequent reporting periods, we measure intangible assets at cost less accumulated amortization and accumulated impairment losses, if any. We amortize these assets on a straight-line basis over their estimated useful lives as follows:

Intellectual property	3 to 5 years
Other intangible assets	4 to 10 years
Computer software assets	1 to 10 years

Intellectual property assets consist primarily of certain non-patented intellectual property and process technology. Other intangible assets consist primarily of customer relationships and contract intangibles. Computer software assets consist primarily of software licenses. We review our estimates of residual values, useful lives and the methods of amortization annually at year end and, if required, adjust for these prospectively. We reflect changes in useful lives on a prospective basis.

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(l) Impairment of goodwill, intangible assets and property, plant and equipment:

We review the carrying amounts of goodwill, intangible assets and property, plant and equipment for impairment on an annual basis and whenever events or changes in circumstances (triggering events) indicate that the carrying amount of an asset or CGU may not be recoverable. If any such indication exists, we test the carrying amount of an asset or a CGU for impairment. In addition to an assessment of triggering events during the year, we conduct an annual impairment assessment in the fourth quarter of the year to correspond with our annual planning cycle. Judgment is required in the determination of our CGUs and whether events or changes in circumstances during the year are indicators that a review for impairment should be conducted prior to the annual assessment.

We recognize an impairment loss when the carrying amount of an asset, CGU or group of CGUs exceeds its recoverable amount. The recoverable amount of an asset, CGU or group of CGUs is measured as the greater of its expected value-in-use and its fair value less costs to sell. The process of determining the recoverable amount is subjective and requires management to exercise significant judgment in estimating future growth, profitability, discount and terminal growth rates, and in projecting future cash flows, among other factors. Our expected value-in-use is determined based on the discounted cash flows of the relevant asset, CGU or group of CGUs. The process of determining fair value less costs to sell requires valuations and use of appraisals. Where applicable, we engage independent brokers to obtain market prices to estimate our real property and other asset values. We recognize impairment losses in our consolidated statement of operations. We first allocate impairment losses in respect of a CGU or group of CGUs to reduce the carrying amount of its goodwill, and then to reduce the carrying amount of other assets in such CGU or group of CGUs generally on a pro rata basis. See notes 9, 16(a) and 16(b).

We do not reverse impairment losses for goodwill in future periods. We reverse impairment losses for property, plant and equipment and intangible assets if the losses we recognized in prior periods no longer exist or have decreased as a result of changes in circumstances. At each reporting date, we review for indicators that could change the estimates we used to determine the recoverable amount of the relevant assets. The amount of the reversal will be limited to the carrying amount that would have been determined, net of depreciation or amortization, had we recognized no impairment loss in prior periods.

(m) Provisions:

We recognize a provision for legal or constructive obligations arising from past events when the amount can be reliably estimated and it is probable that an outflow of resources will be required to settle an obligation. The nature and type of provisions vary and management judgment is required to determine the extent of an obligation and whether the outflow of resources is probable. At the end of each reporting period, we evaluate the appropriateness of the remaining balances. We may require adjustments to the recorded amounts to reflect actual experience or changes in estimates in future periods.

Restructuring:

We incur restructuring charges relating to workforce reductions, site consolidations, and costs associated with businesses we are downsizing or exiting. Our restructuring charges include employee severance and benefit costs, gains, losses or impairments related to owned sites and equipment we no longer use and which are available for sale, impairment of related intangible assets, and costs related to leased sites and equipment we no longer use.

The recognition of restructuring charges requires management to make certain judgments and estimates regarding the nature, timing and amounts associated with our restructuring actions. Our major assumptions include the number of employees to be terminated and the timing of such terminations, the measurement of termination costs, the timing and amount of lease obligations and any anticipated sublease recoveries from exited sites, and the timing of disposition and estimated fair values less costs to sell of assets we no longer use and which are available for sale. We develop detailed plans and record termination costs in the period the employees are informed of their termination. For owned sites and equipment that are no longer in use and are available for sale, we recognize an impairment loss based on their fair value less costs to sell, with fair value estimated based on market prices for similar assets. We may engage independent third parties to determine the estimated fair values less costs to sell for these assets. For leased sites that we intend to exit, we discount the lease obligation costs, which represent future contractual lease payments and cancellation fees, if any, less estimated sublease recoveries, if any. We recognize any change in provisions due to the passage of time as finance costs. To estimate future sublease recoveries, we engage independent brokers to determine the estimated tenant rents we can expect to realize. At the end of each reporting period, we evaluate the

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appropriateness of our restructuring charges and balances. Adjustments to the recorded amounts may be required to reflect actual experience or changes in estimates for future periods. See note 16(a).

Legal and other contingencies:

In the normal course of our operations, we may be subject to lawsuits, investigations and other claims, including environmental, labor, product, customer disputes and other matters. The filing of a suit or formal assertion of a claim does not automatically trigger a requirement to record a provision. We recognize a provision for loss contingencies, including legal claims, based on management's estimate of the probable outcome. Judgment is required when there is a range of possible outcomes. Management considers the degree of probability of the outcome and the ability to make a reasonable estimate of the loss. We may also use third party advisors in making our determination. The ultimate outcome, including the amount and timing of any payments required, may vary significantly from our original estimates. Potential material legal and other contingent obligations that have not been recognized as provisions, as the outcome is remote or not probable, or the amount cannot be reliably estimated, are disclosed as contingent liabilities. See note 24.

Warranty:

We offer product and service warranties to our customers. We record a provision for future warranty costs based on management's estimate of probable claims under these warranties. In determining the amount of the provision, we consider several factors including the terms of the warranty (which vary by customer, product or service), the current volume of products sold or services rendered during the warranty period, and historical warranty information. We review and adjust these estimates as necessary to reflect our experience and new information. The amount and aging of our provision will vary depending on various factors including the length of the warranty offered, the remaining life of the warranty and the extent and timing of warranty claims. We classify the portion of our warranty provision for which payment is expected in the next 12 months as current, and the remainder as non-current.

(n) *Employee benefits:*

Pension and non-pension post-employment benefits:

We classify pension and non-pension post-employment benefits as either defined contribution plans or defined benefit plans.

Under defined contribution plans, our obligation is to make a fixed contribution to a separate entity. The related investment risk is borne by the employee. We recognize our obligations to make contributions to defined contribution plans as an employee benefit expense in our consolidated statement of operations in the period the employee services are rendered.

Under defined benefit plans, our obligation is to provide an agreed upon benefit to specified plan participants. We remain exposed to the actuarial and investment risks with respect to defined benefit plans. Our obligation is actuarially determined using the projected unit credit method, based on service and management's estimates. Actuarial valuations require management to make certain judgments and estimates relating to salary escalation, compensation levels at the time of retirement, retirement ages, the discount rate used in measuring the net interest on the net defined benefit asset or liability, and expected healthcare costs (as applicable). These actuarial assumptions could change from period-to-period and actual results could differ materially from the estimates originally made by management. We evaluate our assumptions on a regular basis, taking into consideration current market conditions and historical data. Market driven changes may affect the actual rate of return on plan assets compared to our assumptions, as well as our discount rates and other variables which could cause actual results to differ materially from our estimates. Changes in assumptions could impact our defined benefit pension plan valuations and our future defined benefit pension expense and required funding.

Our obligation for each defined benefit plan consists of the present value of the defined benefit obligation less the fair value of plan assets, and is presented on a net basis on our consolidated balance sheet. When the actuarial calculation results in a benefit, the asset we recognize is restricted to the present value of economic benefits available in the form of future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, we also consider any minimum funding requirements that apply to the plan. An economic benefit is available if it is realizable during the life of the plan, or on settlement of the plan liabilities.

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We recognize past service costs or credits arising from plan amendments, whether vested or unvested, immediately in our consolidated statement of operations. We determine the net interest expense (income) on the net defined benefit liability (asset) for each year by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the net defined benefit liability (asset) position, taking into account any changes in the net defined benefit liability (asset) during the year as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in our consolidated statement of operations. The difference between the interest income on plan assets and the actual net return on plan assets is included in the re-measurement of the net defined benefit liability (asset). We recognize actuarial gains and losses on plan assets or obligations, as well as any year over year change in the impairment of the balance sheet position in other comprehensive income (OCI) and we reclassify the amounts to deficit. Curtailment gains or losses may arise from significant changes to a plan. We record curtailment gains or losses in our consolidated statement of operations when the curtailment occurs.

To mitigate the actuarial and investment risks of our defined benefit pension plans, we from time to time purchase annuities (using existing plan assets) from third party insurance companies for certain, or all, plan participants. The purchase of annuities by the pension plan substantially hedges the financial risks associated with our pension obligations. Where the annuities are purchased on behalf of, and held by the pension plan, the relevant employer retains the ultimate responsibility for the payment of benefits to plan participants, and we retain the pension assets and liabilities on our consolidated balance sheet. The annuity purchases have resulted in losses in past periods (and may apply to future annuity purchases), as a result of a reduction in the value of the plan assets to the value of the plan obligations as of the date of the annuity purchase. We record these non-cash losses in other comprehensive income (OCI) on our consolidated balance sheet and simultaneously reclassify such amounts to deficit in the same period. Alternatively, where we purchase annuities from insurance companies on behalf of applicable plan participants with the intention of winding-up the relevant plan in the future (with the expectation of transferring the annuities to the individual plan members, as we intend to do with our U.K Supplemental Plan), the insurance company assumes responsibility for the payment of benefits to the relevant plan participants once the wind-up is complete. In this case, settlement accounting is applied to the purchase of the annuities and the non-cash loss (if any) is recorded in other charges in our consolidated statement of operations. In addition, both the pension assets and liabilities will be removed from our consolidated balance sheet once the wind-up of the plan is complete.

Stock-based compensation:

We generally grant stock options, performance share units (PSUs) and restricted share units (RSUs) to employees under our stock-based compensation plans. Stock options and RSUs vest in installments over the vesting period. Stock options generally vest 25% per year over a four-year period, and RSUs generally vest one-third per year over a three-year period. We treat each installment under a grant of stock options and RSUs as a separate grant in determining the compensation expense. PSUs vest at the end of their respective terms, generally three years from the grant date, to the extent that specified performance conditions have been met.

Options are exercisable for subordinate voting shares. We recognize the grant date fair value of options granted to employees as compensation expense in our consolidated statement of operations, with a corresponding charge to contributed surplus on our consolidated balance sheet, over the vesting period. We adjust compensation expense to reflect the estimated number of options we expect to vest at the end of the vesting period. When options are exercised, we credit the proceeds to capital stock on our consolidated balance sheet. We measure the fair value of options using the Black-Scholes option pricing model. Measurement inputs include the price of our subordinate voting shares on the grant date, the exercise price of the option, and our estimates of the following: expected price volatility of our subordinate voting shares (based on weighted average historic volatility), weighted average expected life of the option (based on historical experience and general option holder behavior), and the risk-free interest rate. The cost we record for RSUs and 40% of PSUs granted annually is based on the market value of our subordinate voting shares at the time of grant. The cost we record for these PSUs, which vest based on a non-market performance condition related to the achievement of pre-determined financial targets over a specified period, is based on our estimate of the outcome of such performance condition. We adjust the cost of these PSUs as new facts and circumstances arise; the timing of these adjustments is subject to judgment. We generally record adjustments to the cost of these PSUs during the last year of the three-year term based on management's estimate of the expected level of achievement of such performance condition. We amortize the cost of RSUs and these PSUs to compensation expense in our consolidated statement of operations, with a corresponding charge to contributed surplus on our consolidated balance sheet, over the vesting period. We generally

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settle these awards with subordinate voting shares purchased in the open market by a broker, or by issuing subordinate voting shares from treasury.

We determine the cost we record for 60% of PSUs granted annually using a Monte Carlo simulation model. The number of awards expected to vest is factored into the grant date Monte Carlo valuation for the award. The number of these PSUs that will vest depends on the level of achievement of total shareholder return (TSR), which is a market performance condition, relative to the TSR of a pre-defined group of companies over a three-year period. We do not adjust the grant date fair value regardless of the eventual number of awards that vest based on the level of achievement of the market performance condition. We recognize compensation expense in our consolidated statement of operations on a straight-line basis over the requisite service period and we reduce this expense for the estimated PSU awards that are not expected to vest because the employment conditions are not expected to be satisfied.

The compensation of our Board of Directors in 2017 was comprised of annual Board retainer fees, annual Audit and Compensation Committee Chair retainer fees (for the Chairs of those committees) and travel fees (collectively, Annual Fees) payable in quarterly installments in arrears. Directors must elect to have either 75% or 100% of their Annual Fees paid in deferred share units (DSUs). The number of DSUs we grant is determined by dividing the elected percentage of the dollar value of the Annual Fees earned in the quarter by the closing price of our subordinate voting shares on the New York Stock Exchange (NYSE) on the last business day of such quarter. Each DSU represents the right to receive one subordinate voting share or an equivalent value in cash after the individual ceases to serve as a director. For DSUs granted prior to January 1, 2007, we may settle these share units with subordinate voting shares issued from treasury or purchased in the open market, or with cash (at the discretion of the Company). For DSUs granted after January 1, 2007, we may only settle these share units with subordinate voting shares purchased in the open market, or with cash (at the discretion of the Company). We expense the cost of DSUs through SG&A in our consolidated statement of operations in the period the services are rendered.

(o) *Deferred financing costs:*

Deferred financing costs consist of costs relating to the establishment of the revolving portion of our credit facility (Revolving Facility) which we amortize to our consolidated statement of operations on a straight-line basis over the term of the facility. We record financing costs relating to the issuance of the term loan under our credit facility (Term Loan) as a reduction to the cost of the related debt (see note 12) which we amortize to our consolidated statement of operations using the effective interest rate method over the term of the related debt or when the debt is retired, if earlier.

(p) *Income taxes:*

Our income tax expense for a reporting period is comprised of current and deferred income taxes. Current income taxes and deferred income taxes are recognized in our consolidated statement of operations, except to the extent that they relate to items recognized in OCI or directly in equity, in which case the taxes are also recognized in OCI or directly in equity, respectively.

In the ordinary course of business, there are many transactions for which the ultimate tax outcome is uncertain until we resolve it with the relevant tax authority, which may take many years. The final tax outcome of these matters may be different from the estimates management originally made in determining our tax provision. Management periodically evaluates the positions taken in our tax returns with respect to situations in which applicable tax rules are subject to interpretation. We establish provisions related to tax uncertainties where appropriate, based on our estimate of the amount that ultimately will be paid to or received from the tax authorities. We recognize accrued interest and penalties relating to tax uncertainties in current income tax expense. The various judgments and estimates by management in establishing provisions related to tax uncertainties significantly affect the amounts we recognize in our consolidated financial statements.

We use the liability method of accounting for deferred income taxes. Under this method, we recognize deferred income tax assets and liabilities for future income tax consequences attributable to temporary differences between the financial statement carrying amounts of assets and liabilities and their respective income tax bases, and on unused tax losses and tax credit carryforwards. We measure deferred income taxes using tax rates and laws that have been enacted or substantively enacted at the reporting date and that we expect will apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. We recognize deferred income tax assets to the extent we believe it is probable, based on management's estimates, that future taxable profit will be available against which the deductible temporary differences as well as unused tax losses and tax credit carryforwards can be utilized. Estimates of future taxable profit in different tax jurisdictions are an area of

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estimation uncertainty. We review our deferred income tax assets at each reporting date and reduce them to the extent it is no longer probable that we will realize the related tax benefits. We recognize the effect of a change in income tax rates in the period of enactment or substantive enactment.

We do not recognize deferred income taxes if they arise from the initial recognition of goodwill, or for temporary differences arising from the initial recognition of an asset or a liability in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. We also do not recognize deferred income taxes on temporary differences relating to investments in subsidiaries to the extent we are able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

During each period, we record current income tax expense or recovery based on taxable income earned or loss incurred in each tax jurisdiction where we operate, and for any adjustments to taxes payable in respect of previous years, using tax laws that are enacted or substantively enacted at the balance sheet date.

(g) Financial assets and financial liabilities:

We recognize financial assets and financial liabilities initially at fair value and subsequently measure these at either fair value or amortized cost based on their classification as described below. See note 2(s), "Impairment of financial assets."

Fair value through profit or loss:

Financial assets and financial liabilities that we purchase or incur, respectively, with the intention of generating earnings in the near term, and derivatives other than hedging instruments, are classified as fair value through profit or loss. This category includes short-term investments in money market funds (if applicable) that we group with cash equivalents, and derivative assets and derivative liabilities not qualifying for hedge accounting. We initially recognize investments on our consolidated balance sheet at fair value and recognize subsequent changes in our consolidated statement of operations. We expense transaction costs as incurred in our consolidated statement of operations.

Held-to-maturity investments:

Securities that have fixed or determinable payments and a fixed maturity date, which we intend to and have the ability to hold to maturity, are classified as held-to-maturity investments and include our term deposits that we group with cash equivalents. We initially recognize held-to-maturity financial assets on our consolidated balance sheet at fair value plus directly attributable transaction costs, and subsequently measure these at amortized cost using the effective interest rate method, less any impairment losses.

Loans and receivables:

We classify financial assets with fixed or determinable payments, such as our accounts receivable, as loans and receivables. This category excludes any derivative assets or assets that are quoted in active markets. We initially recognize loans and receivables on our consolidated balance sheet at fair value plus directly attributable transaction costs, and subsequently measure these at amortized cost using the effective interest rate method, less any impairment losses.

Other financial liabilities:

This category is for financial liabilities that are not classified as fair value through profit or loss and includes accounts payable, the majority of our accrued liabilities and certain other provisions, as well as borrowings under our credit facility, including our term loan. We record these financial liabilities at amortized cost on our consolidated balance sheet.

Available-for-sale:

We currently do not hold any financial assets designated as available-for-sale.

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(r) **Derivatives and hedge accounting:**

We enter into forward exchange and swap contracts to hedge the cash flow risk associated with firm purchase commitments and forecasted transactions in foreign currencies that are considered highly probable and to hedge foreign-currency denominated balances. We use estimates to forecast future cash flows and the future financial position of net monetary assets or liabilities denominated in foreign currencies. We apply hedge accounting to those hedge transactions that are considered effective. Management assesses the effectiveness of hedges by comparing actual outcomes against these estimates on a regular basis. Subsequent revisions in estimates of future cash flow forecasts, if significant, may result in the discontinuation of hedge accounting for that hedge. We do not enter into derivative contracts for speculative purposes.

At the inception of a hedging relationship, we formally document the relationship between our hedging instrument and the hedged item, as well as our risk management objectives and strategy for undertaking the various hedge transactions. Our process includes linking all derivatives to specific assets and liabilities on our consolidated balance sheet or to specific firm commitments or forecasted transactions. We also formally assess, both at the hedge's inception and at the end of each quarter, whether the derivatives used in hedged transactions are highly effective in offsetting changes in the cash flows of the hedged items. We record the gain or loss from these forward contracts in the same line item where the underlying exposures are recognized in our consolidated statement of operations. For our non-designated hedges against our balance sheet exposures denominated in foreign currencies, we record the gain or loss from these forward contracts in SG&A.

Forward contracts that are not designated as hedges are marked to market each period, resulting in a gain or loss in our consolidated statement of operations.

We measure all derivative contracts at fair value on our consolidated balance sheet. The majority of our derivative assets and liabilities arise from foreign currency forward contracts that we designate as cash flow hedges. In a cash flow hedge, we defer the changes in the fair value of the hedging derivative, to the extent effective, in OCI until we recognize the asset, liability or forecasted transactions being hedged in our consolidated statement of operations. For hedges that we discontinue before the end of the original hedge term, we amortize the unrealized hedge gain or loss in OCI in our consolidated statement of operations over the remaining duration of the original hedge term. If the hedged item ceases to exist before the end of the original hedge term, we recognize the unrealized hedge gain or loss in OCI immediately in our consolidated statement of operations. For our current cash flow hedges, the majority of the underlying expenses we hedge are included in cost of sales in our consolidated statement of operations.

We value our derivative assets and liabilities based on inputs that are either readily available in public markets or derived from information available in public markets. The inputs we use include discount rates and forward exchange rates. Changes in these inputs can cause significant volatility in the fair value of our financial instruments in the short-term.

(s) **Impairment of financial assets:**

We review financial assets at each reporting date. Financial assets are deemed to be impaired when objective evidence resulting from one or more events subsequent to the initial recognition of the asset indicates the estimated future cash flows of the asset have been negatively impacted. We measure an impairment loss as the excess of the carrying amount over the present value of the estimated future cash flows discounted using the financial asset's original discount rate, and we recognize this loss in our consolidated statement of operations.

(t) **Revenue:**

We derive the majority of our revenue from the sale of electronic products and services that we have manufactured and provided to customer specifications. Our range of services includes, among others, design, engineering, manufacturing, assembly and test, fulfillment and after-market services. We recognized revenue from the sale of products and services rendered when the significant risks and rewards of ownership associated with the products sold or services rendered have passed to the buyer and no material uncertainties remained as to the collection of our receivables and we had no further performance obligations thereunder other than our manufacturing or service warranties. We provide warehousing services in connection with manufacturing services to certain customers. We assess the contracts to determine whether the manufacturing and warehousing services can be accounted for as separate units of accounting. If the services do not constitute separate units of accounting, or the manufacturing services

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do not meet all of the revenue recognition requirements under IFRS, we defer recognizing revenue until we have shipped the products to the customer.

See note 2(x), "Recently issued accounting pronouncements" for the new standard related to revenue that became effective January 1, 2018.

(u) Government grants:

We receive government grants from time to time related to equipment purchases or other expenditures. We recognize these grants when there is reasonable assurance that we will retain the benefits. If we receive a grant but cannot reasonably assure that we will comply with the conditions of the grant, we will defer the grant and record a liability on our consolidated balance sheet until the conditions are fulfilled. For grants that relate to the purchase of equipment, we reduce the cost of the asset in the period the cost is incurred or when the conditions are fulfilled, and we calculate amortization on the net amount. For grants that relate to operating expenditures, we reduce the expense in the period the cost is incurred or when the conditions are fulfilled.

(v) Research and development:

We incur costs relating to research and development activities. We expense these costs as incurred in our consolidated statement of operations unless development costs meet the required criteria under IFRS for capitalization.

(w) Earnings per share (EPS):

We calculate basic EPS by dividing net earnings by the weighted average number of shares (subordinate and multiple voting shares collectively) outstanding during the period. We calculate diluted EPS using the treasury stock method, which reflects the potential dilution from stock-based awards that are issued from treasury.

(x) Recently issued accounting pronouncements:

IFRS 15, Revenue from Contracts with Customers:

In May 2014, the IASB issued this standard, which provides a single, principles-based five-step model for revenue recognition to be applied to all customer contracts, and requires enhanced disclosures. The new standard is effective for annual periods beginning on or after January 1, 2018, and allows for early adoption. We adopted this standard on January 1, 2018, and have elected to use the retrospective approach, pursuant to which we will restate each relevant comparative reporting periods presented and recognize the transitional adjustments through equity at the start of the first comparative reporting period to be presented in our quarterly and annual consolidated financial statements (which will be January 1, 2016 for our annual financial statements). The new standard will change the timing of our revenue recognition for a significant portion of our business, resulting in the recognition of revenue for certain customer contracts earlier than under the previous recognition rules (which was generally upon delivery). The new standard will materially impact our consolidated financial statements, primarily in relation to inventory and accounts receivable balances.

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We currently estimate the following impacts under the new standard:

	January 1	December 31	Year ended
	2016	2016	December 31, 2016
	Increase (decrease)		
Accounts receivable/Contract asset	\$ 197	\$ 227	\$ —
Inventories	(178)	(206)	—
Deferred taxes	(2)	(2)	—
Deficit	(17)	(19)	—
Revenue	—	—	30
Cost of sales	—	—	28
Net earnings	—	—	2

We are currently analyzing and will disclose the anticipated extent of the financial impact of the new standard on the specific line items above as of December 31, 2017 and for the year ended December 31, 2017 when our analysis is completed.

IFRS 9, Financial Instruments:

In July 2014, the IASB issued a final version of this standard, which replaces IAS 39, *Financial Instruments: Recognition and Measurement*, and is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The standard introduces a new model for the classification and measurement of financial assets, a single expected credit loss model for the measurement of the impairment of financial assets, and a new model for hedge accounting that is aligned with a company's risk management activities. We adopted this standard effective January 1, 2018. The adoption of this standard will not have a material impact on our consolidated financial statements.

IFRS 16, Leases:

In January 2016, the IASB issued this standard, which brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. IFRS 16 supersedes IAS 17, *Leases*, and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted. We do not intend to adopt this standard early. We have established a project team to evaluate the anticipated impact of this standard on our consolidated financial statements, as well as any changes to our business processes, systems and controls that may be required to support the recognition and disclosures required by the new standard. Transition efforts are currently underway, and are anticipated to be complete by January 1, 2019.

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3. ACQUISITIONS:

We may, at any time, be engaged in ongoing discussions with respect to possible acquisitions that could expand our revenue base and/or service offerings, increase our penetration in various industries, establish strategic relationships with new or existing customers, enhance our competitiveness and/or enhance our global supply chain network. We incur consulting, transaction and integration costs (Acquisition Costs) relating to potential and completed acquisitions. During 2017, we recorded Acquisition Costs of \$4.5 (2016 — \$1.4) in other charges in our consolidated statement of operations.

In November 2016, we acquired the business assets of Lorenz, Inc. and Suntek Manufacturing Technologies, SA de CV, collectively known as Karel Manufacturing (Karel), for a cash purchase price of \$14.9, and incurred Acquisition Costs of \$1.4 in connection therewith. Karel is a manufacturing services company that specializes in complex wire harness assembly, systems integration, sheet metal fabrication, welding and machining, serving primarily aerospace and defense customers. As part of the acquisition, we acquired \$3.7 of goodwill, representing the specialized knowledge of the acquired workforce and expected synergies. Approximately two-thirds of the goodwill was tax deductible.

Details of the purchase price allocation in the year of acquisition are as follows:

	Karel
Current assets, net of cash acquired	\$ 11.5
Property, plant and equipment and other long-term assets	1.2
Goodwill	3.7
Current liabilities	(1.0)
Deferred income taxes and other-long-term liabilities	(0.5)
	<u>\$ 14.9</u>

The Karel acquisition did not have a significant impact on our consolidated results of operations for 2016, the year of acquisition.

Pro forma disclosure: Revenue and net earnings for 2016 would not have been materially different had the Karel acquisition occurred at the beginning of 2016.

See note 26 for a discussion of our entry into a definitive agreement to acquire Atrenne Integrated Solutions, Inc. (Atrenne).

4. SOLAR PANEL MANUFACTURING BUSINESS:

During the fourth quarter of 2016, due to anticipated prolonged volatility in the solar panel market, we made the decision to exit the solar panel manufacturing business, and terminated (prior to its scheduled expiration) a supply agreement pursuant to which we had made specific cash advances during 2015 to an Asia-based solar cell supplier (Solar Supplier). All such cash advances were repaid in full by the end of the second quarter of 2017 (cash advances outstanding at December 31, 2016 — \$12.5). Under this supply agreement, we also manufactured and sold completed solar panels to the Solar Supplier as a customer (discussed below).

In connection with our exit from this business, we wrote down the carrying values of our inventories and our solar panel manufacturing equipment during 2016 to then-recoverable amounts (see notes 6 and 16(a), respectively), and completed production of the final solar panels in the first quarter of 2017. During the second quarter of 2017, we recorded: (i) additional provisions of \$0.9 in cost of sales, to further write down the carrying value of our remaining solar panel inventory to reflect lower prices obtained in then-current purchase orders, (ii) a provision of \$0.5 in SG&A, to write down the carrying value of solar accounts receivable, primarily as a result of a solar customer's bankruptcy, and (iii) impairment charges of \$5.2 in other charges (through restructuring) to further write down the carrying value of our solar panel manufacturing equipment to its estimated fair value less costs to sell, based on then-broker estimates (see note 16(a)). During the third quarter of 2017, we shipped all of our remaining solar panel inventory to customers, including to the Solar Supplier. As of December 31, 2017, we

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had \$6.7 (December 31, 2016 —\$13.1) of outstanding solar accounts receivable, all from the Solar Supplier. We recorded impairment reversals of \$1.4 with respect to our solar panel manufacturing equipment during the fourth quarter of 2017 in other charges (through restructuring), to reflect its increased estimated fair value less costs to sell based on executed sale agreements. Such equipment, classified as assets held-for-sale, was valued at \$2.6 as of December 31, 2017. We currently expect the sale of such equipment to be completed by the end of the first quarter of 2018. See note 7. A substantial portion of our solar panel manufacturing equipment was subject to finance lease agreements. As of December 31, 2017, our outstanding lease obligations for this equipment totaled \$11.1 (December 31, 2016 — \$15.3), which were recorded as current liabilities on our consolidated balance sheet. In anticipation of the sale, we terminated and settled these lease obligations in full in January 2018. See notes 8, 12 and 24.

5. ACCOUNTS RECEIVABLE:

We have an agreement to sell accounts receivable on an uncommitted basis (subject to pre-determined limits by customer) to two third-party banks. In March 2017, based on a review of our requirements, we amended this agreement to reduce its overall capacity from \$250.0 to \$200.0. The term of this agreement has been annually extended in recent years (including in November 2017) for additional one-year periods (and is currently extendable to November 2019 under specified circumstances), but may be terminated earlier as provided in the agreement. At December 31, 2017, \$80.0 of accounts receivable were sold under this program (December 31, 2016 — \$50.0). We continue to collect cash from our customers and remit the cash to the banks once it is collected.

At December 31, 2017, we also sold \$52.3 of accounts receivable under a customer's supplier financing program (December 31, 2016 — \$51.4), pursuant to which participating suppliers may sell accounts receivable from such customer to a third-party bank on an uncommitted basis in order to receive earlier payment. We utilized this program (commencing in the fourth quarter of 2016) to substantially offset the effect of extended payment terms required by such customer after October 1, 2016 on our working capital for the period. The third-party bank collects the relevant receivables directly from the customer.

The accounts receivable sold under both of these programs are de-recognized from our accounts receivable balance and removed from our consolidated balance sheet, and the proceeds are reflected as cash provided by operating activities in our consolidated statement of cash flows. Upon sale, we assign the rights to the accounts receivable to the banks. We pay interest charges which we record in finance costs in our consolidated statement of operations.

6. INVENTORIES:

Inventories are comprised of the following:

	December 31	
	2016	2017
Raw materials	\$ 577.1	\$ 735.2
Work in progress	133.0	168.3
Finished goods	180.5	158.3
	\$ 890.6	\$ 1,061.8

We record our inventory provisions, net of valuation recoveries, in cost of sales. We record inventory provisions to reflect write-downs in the value of our inventory to net realizable value, and valuation recoveries primarily to reflect realized gains on the disposition of inventory previously written down to net realizable value. During 2017, we recorded net inventory provisions of \$3.3 (2016 — \$12.0; 2015 — \$3.8). We regularly review our estimates and assumptions used to value our inventory through analysis of historical performance. Our inventory provisions for 2017 included provisions of \$0.9 that we recorded in the second quarter of 2017 to further write down the carrying amount of our remaining solar panel inventory to recoverable amounts. Our inventory provisions for 2016 consisted primarily of the write down of our solar panel inventory to then-lower net realizable values. Negative market factors at that time resulted in significant declines in the pricing for solar panels, which ultimately led to our decision to exit the solar panel manufacturing business. See note 4.

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7. ASSETS CLASSIFIED AS HELD FOR SALE:

As a result of previously announced restructuring actions, we have reclassified certain assets as held for sale. These assets were reclassified at the lower of their carrying value and estimated fair value less costs to sell at the time of such reclassification. During the first quarter of 2017, we reclassified \$4.8 of solar panel manufacturing equipment as assets held for sale. Subsequent to this reclassification, we recorded net impairment charges of \$3.8 in other charges (through restructuring) during 2017, to further write down the carrying value of such equipment to its estimated fair value less costs to sell based on executed sale agreements. See note 4. We currently expect the sale of such equipment to be completed by the end of the first quarter of 2018. At December 31, 2017, we had \$30.1 (December 31, 2016 — \$28.9) of assets classified as held for sale, which consisted primarily of land and buildings in Europe and North America, and \$2.6 of solar panel manufacturing equipment in Asia and North America.

8. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment are comprised of the following:

	2016		
Cost	Accumulated Depreciation and Impairment	Net Book Value	
Land	\$ 22.9	\$ 12.0	\$ 10.9
Buildings including improvements	322.0	181.9	140.1
Machinery and equipment	718.7	567.0	151.7
	\$ 1,063.6	\$ 760.9	\$ 302.7

	2017		
Cost	Accumulated Depreciation and Impairment	Net Book Value	
Land	\$ 23.1	\$ 12.0	\$ 11.1
Buildings including improvements	344.0	202.4	141.6
Machinery and equipment	745.5	574.3	171.2
	\$ 1,112.6	\$ 788.7	\$ 323.9

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The following table details the changes to the net book value of property, plant and equipment for the years indicated:

	<u>Land</u>	<u>Buildings including Improvements</u>	<u>Machinery and Equipment</u>	<u>Total</u>
Balance — January 1, 2016	\$ 10.7	\$ 141.7	\$ 162.2	\$ 314.6
Additions	—	21.5	55.7	77.2
Acquisitions through business combinations (note 3)	—	—	1.1	1.1
Depreciation	—	(19.9)	(46.3)	(66.2)
Write down of assets and other disposals ⁽ⁱ⁾	—	(3.4)	(20.3)	(23.7)
Foreign exchange and other	0.2	0.2	(0.7)	(0.3)
Balance — December 31, 2016 ⁽ⁱⁱ⁾	10.9	140.1	151.7	302.7
Additions	—	22.8	72.1	94.9
Depreciation	—	(21.3)	(46.3)	(67.6)
Write down of assets and other disposals ⁽ⁱ⁾	—	(0.2)	(5.3)	(5.5)
Foreign exchange and other	0.2	0.2	(1.0)	(0.6)
Balance — December 31, 2017 ⁽ⁱⁱ⁾	\$ 11.1	\$ 141.6	\$ 171.2	\$ 323.9

(i) Includes \$4.8 of solar panel manufacturing equipment that we reclassified as assets held for sale during 2017. See note 7. In 2016, we recorded impairment losses of \$21.2 primarily to write-down solar panel manufacturing equipment. See note 16(a).

(ii) The net book value of property, plant and equipment at December 31, 2017 included \$7.3 (December 31, 2016 — \$8.2) of assets under finance leases. See note 24 for the future minimum lease payments under these finance leases.

In the fourth quarter of each year, we perform our annual impairment assessment of goodwill, intangible assets and property, plant and equipment (Annual Impairment Assessment). With respect to our 2016 and 2017 Annual Impairment Assessments, we determined that, other than the write down of our solar panel manufacturing equipment in each year, discussed in notes 4 and 16(a) (recorded through restructuring charges) there was no impairment, as the recoverable amount of our assets and CGUs exceeded their respective carrying values. See (i) above and notes 16(a) and 16(b).

On July 23, 2015, we entered into an agreement of purchase and sale to sell our real property located in Toronto, Ontario, which includes the site of our corporate headquarters and our Toronto manufacturing operations. Upon execution of this agreement, the purchaser paid us a cash deposit of \$15 million Canadian dollars (\$11.2 at the then-prevailing exchange rate). Also see notes 16(d) and 18.

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9. GOODWILL AND INTANGIBLE ASSETS:

Goodwill and intangible assets are comprised of the following:

	2016		
	Cost	Accumulated Amortization and Impairment	Net Book Value
Goodwill	\$ 78.6	\$ 55.4	\$ 23.2
Intellectual property	\$ 111.3	\$ 111.3	\$ —
Other intangible assets	237.0	221.1	15.9
Computer software assets	284.1	274.5	9.6
	<u>\$ 632.4</u>	<u>\$ 606.9</u>	<u>\$ 25.5</u>

	2017		
	Cost	Accumulated Amortization and Impairment	Net Book Value
Goodwill	\$ 78.6	\$ 55.4	\$ 23.2
Intellectual property	\$ 111.3	\$ 111.3	\$ —
Other intangible assets	237.0	226.6	10.4
Computer software assets	285.3	274.1	11.2
	<u>\$ 633.6</u>	<u>\$ 612.0</u>	<u>\$ 21.6</u>

The following table details the changes to the net book value of goodwill and intangible assets for the years indicated:

	Goodwill	Other Intangible Assets	Computer Software Assets	Total
Balance — January 1, 2016	\$ 19.5	\$ 21.9	\$ 8.5	\$ 49.9
Additions	—	—	4.5	4.5
Acquisitions through business combinations (note 3)	3.7	—	0.1	3.8
Amortization	—	(6.0)	(3.4)	(9.4)
Foreign exchange and other	—	—	(0.1)	(0.1)
Balance — December 31, 2016	<u>23.2</u>	<u>15.9</u>	<u>9.6</u>	<u>48.7</u>
Additions	—	—	4.9	4.9
Amortization	—	(5.5)	(3.4)	(8.9)
Foreign exchange and other	—	—	0.1	0.1
Balance — December 31, 2017	<u>\$ 23.2</u>	<u>\$ 10.4</u>	<u>\$ 11.2</u>	<u>\$ 44.8</u>

In the fourth quarter of each year, we perform our Annual Impairment Assessment. We recorded no impairment charges against goodwill or intangible assets in 2017, 2016 or 2015.

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10. OTHER NON-CURRENT ASSETS:

	December 31	
	2016	2017
Net pension assets (note 19)	\$ 71.8	\$ 62.9
Land rights	11.0	10.5
Other	5.2	7.9
	\$ 88.0	\$ 81.3

11. PROVISIONS:

Our provisions include restructuring, warranty, legal and other provisions. We have included a description of our restructuring, warranty and legal provisions in note 2(m). We include details of our restructuring provision in note 16(a). The following chart details the changes in our provisions for the year indicated:

	Restructuring	Warranty	Legal ⁽ⁱ⁾	Other ⁽ⁱⁱ⁾	Total
Balance — December 31, 2016	\$ 6.6	\$ 19.6	\$ 3.0	\$ 5.5	\$ 34.7
Provisions	25.4	12.6	0.8	1.3	40.1
Reversal of prior year provisions ⁽ⁱⁱⁱ⁾	(0.3)	(4.6)	(0.2)	—	(5.1)
Payments/usage	(19.0)	(6.5)	(1.1)	—	(26.6)
Accretion, foreign exchange and other	—	0.3	—	—	0.3
Balance — December 31, 2017	\$ 12.7	\$ 21.4	\$ 2.5	\$ 6.8	\$ 43.4
Current	\$ 12.7	\$ 11.4	\$ 2.5	\$ —	\$ 26.6
Non-current ^(iv)	—	10.0	—	6.8	16.8
December 31, 2017	\$ 12.7	\$ 21.4	\$ 2.5	\$ 6.8	\$ 43.4

(i)Legal represents our provisions recorded for various legal actions based on our estimates of the likely outcomes.

(ii)Other represents our asset retirement obligations of \$6.8, relating to sites that we currently lease.

(iii)During 2017, we reversed prior year warranty provisions as a result of expired warranties and changes in estimated costs based on historical experience.

(iv)Non-current balances are included in provisions and other non-current liabilities on our consolidated balance sheet.

At the end of each reporting period, we evaluate the appropriateness of our provisions, and adjustments may be made to reflect actual experience or changes in our estimates.

12. CREDIT FACILITIES AND LONG-TERM DEBT:

Our credit facility consists of a \$250.0 term loan (Term Loan) and a \$300.0 revolving credit facility (Revolving Facility), each maturing in May 2020. At December 31, 2017, \$187.5 was outstanding under the Term Loan and there were no amounts outstanding under the Revolving Facility (December 31, 2016 — \$227.5 outstanding, comprised of \$15.0 under the Revolving Facility and \$212.5 under the Term Loan).

The Revolving Facility has an accordion feature that allows us to increase the \$300.0 limit by an additional \$150.0 on an uncommitted basis upon satisfaction of certain terms and conditions. The Revolving Facility also includes a \$25.0 swing line, subject to the overall revolving credit limit, that provides for short-term borrowings up to a maximum of seven days. The Revolving Facility permits us and certain designated subsidiaries to borrow funds for general corporate purposes, including acquisitions. Borrowings under the Revolving Facility bear interest for the period of the draw at various base rates selected by

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us consisting of LIBOR, Prime, Base Rate Canada, and Base Rate (each as defined in the amended credit agreement), plus a margin. The margin for borrowings under the Revolving Facility ranges from 0.6% to 1.4% (except in the case of the LIBOR base rate, in which case, the margin ranges from 1.6% to 2.4%), based on a specified financial ratio based on indebtedness. The Term Loan bears interest at LIBOR plus a margin ranging from 2.0% to 3.0% based on the same financial ratio.

We are required to comply with certain restrictive covenants under the credit facility, including those relating to the incurrence of senior ranking indebtedness, the sale of assets, a change of control, and certain financial covenants related to indebtedness and interest coverage. Certain of our assets are pledged as security for borrowings under this facility. If an event of default occurs and is continuing, the administrative agent may declare all advances on the facility to be immediately due and payable and may cancel the lenders' commitments to make further advances thereunder.

The following table sets forth our borrowings under the Revolving Facility and Term Loan, and our finance lease obligations, as of December 31, 2017 and 2016:

	December 31 2016	December 31 2017
Borrowings under the Revolving Facility	\$ 15.0	\$ —
Term Loan	212.5	187.5
Total borrowings under credit facility	227.5	187.5
Less: unamortized debt issuance costs ⁽ⁱ⁾	(1.2)	(0.8)
Finance lease obligations (see notes 4 and 24) ⁽ⁱⁱ⁾	18.4	17.7
	<u>\$ 244.7</u>	<u>\$ 204.4</u>
Comprised of:		
Current portion of borrowings under credit facility and finance lease obligations	\$ 56.0	\$ 37.9
Long-term portion of borrowings under credit facility and finance lease obligations	188.7	166.5
	<u>\$ 244.7</u>	<u>\$ 204.4</u>

(i) We incurred debt issuance costs in connection with an amendment of our credit facility in 2015 to add the Term Loan, which we recorded as an offset against the proceeds from the Term Loan. Such costs are deferred and amortized over the term of the Term Loan using the effective interest rate method.

(ii) At December 31, 2017, \$11.1 (December 31, 2016 — \$15.3) of our finance lease obligations related to our solar panel manufacturing equipment. Such solar equipment lease obligations were recorded as current liabilities on our consolidated balance sheet as at December 31, 2017. In connection with the anticipated disposition of such equipment, we terminated and settled these lease obligations in full in January 2018. See note 4.

The amounts outstanding under the Revolving Facility are due upon maturity of the facility in May 2020. We are permitted to repay amounts prior to maturity. Prepayments are also required under certain circumstances.

The Term Loan requires quarterly principal repayments of \$6.25, and a lump sum repayment of the remainder outstanding at maturity. At December 31, 2017, the remaining mandatory principal repayments of the Term Loan were as follows:

Years ending December 31	Amount
2018	\$ 25.0
2019	25.0
2020 (to maturity in May 2020)	137.5
	<u>\$ 187.5</u>

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We are permitted to make voluntary prepayments of the Term Loan, subject to certain terms and conditions. Prepayments on the Term Loan are also required under certain circumstances. Repaid amounts on the Term Loan may not be re-borrowed.

At December 31, 2017, we were in compliance with all restrictive and financial covenants under our credit facility. Commitment fees paid in 2017 were \$1.3 (2016 — \$1.4; 2015 — \$1.3). At December 31, 2017, we had \$23.2 (December 31, 2016 — \$25.8) outstanding in letters of credit under this facility.

We also have a total of \$73.5 (December 31, 2016 — \$70.0) in uncommitted bank overdraft facilities available for intraday and overnight operating requirements. There were no amounts outstanding under these overdraft facilities at December 31, 2017 or December 31, 2016.

The amounts we borrow and repay under these facilities can vary significantly from month-to-month depending upon our working capital and other cash requirements.

13. CAPITAL STOCK:

We are authorized to issue an unlimited number of subordinate voting shares, which entitle the holder to one vote per share, and an unlimited number of multiple voting shares, which entitle the holder to 25 votes per share. The subordinate voting shares and multiple voting shares vote together as a single class on all matters submitted to a vote of shareholders, including the election of directors, except as otherwise required by law. The holders of the subordinate voting shares and multiple voting shares are entitled to share ratably, as a single class, in any dividends declared subject to any preferential rights of any outstanding preferred shares in respect of the payment of dividends. Each multiple voting share is convertible at any time at the option of the holder thereof and automatically, under certain circumstances, into one subordinate voting share. We are also authorized to issue an unlimited number of preferred shares, issuable in series. No preferred shares have been issued to date.

(a) Capital transactions:

<u>Number of shares (in millions)</u>	<u>Subordinate Voting Shares</u>	<u>Multiple Voting Shares</u>
Issued and outstanding at December 31, 2014	155.6	18.9
Issued from treasury ⁽ⁱ⁾	1.3	—
Cancelled under NCIB or SIB (defined below)	(32.4)	—
Issued and outstanding at December 31, 2015	124.5	18.9
Issued from treasury ⁽ⁱ⁾	0.6	—
Cancelled under NCIB (defined below)	(3.2)	—
Issued and outstanding at December 31, 2016	121.9	18.9
Issued from treasury ⁽ⁱ⁾	2.8	—
Cancelled under NCIB	(1.9)	—
Other ⁽ⁱⁱ⁾	0.35	(0.35)
Issued and outstanding at December 31, 2017	123.2	18.6

(i) During 2017, we issued 1.7 million (2016 — 0.6 million; 2015 — 0.5 million) subordinate voting shares from treasury upon the exercise of employee stock options for aggregate cash proceeds of \$13.6 (2016 — \$4.1; 2015 — \$3.9). We also issued 1.1 million (2016 — nil; 2015 — 0.8 million) subordinate voting shares from treasury with ascribed values of \$9.8 (2016 — nil; 2015 — \$6.5) upon the vesting of certain RSUs. We also settled RSUs and PSUs with subordinate voting shares purchased in the open market. Settlement of these awards is described below.

(ii) During 2017, Onex Corporation converted 346,175 multiple voting shares into subordinate voting shares.

We have repurchased subordinate voting shares in the open market and otherwise for cancellation in recent years pursuant to normal course issuer bids (NCIBs) and substantial issuer bids (SIBs), which allow us to repurchase a limited number of subordinate voting shares during a specified period. The maximum number of subordinate voting shares we are permitted to repurchase for cancellation under each NCIB is reduced by the number of subordinate voting shares purchased in the open market

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during the term of such NCIB to satisfy obligations under our stock-based compensation plans. We enter into program share repurchases (PSRs) from time to time as part of the NCIB process (if permitted by the TSX), pursuant to which we make a prepayment to a broker in consideration for the right to receive a variable number of subordinate voting shares upon such PSR's completion. Under such PSRs, the price and number of subordinate voting shares to be repurchased by us is generally determined based on a discount to the volume weighted-average market price of such shares during the term of the PSR, subject to certain terms and conditions. The subordinate voting shares repurchased under any PSR are cancelled upon such PSR's completion.

In November 2017, the TSX accepted our notice to launch a new NCIB (2017 NCIB), which allows us to repurchase, at our discretion, until the earlier of November 12, 2018 or the completion of the purchases thereunder, up to approximately 10.5 million subordinate voting shares (representing approximately 7.3% of our total outstanding subordinate voting and multiple voting shares at the time of launch) in the open market, or as otherwise permitted. Since the commencement of this NCIB through December 31, 2017, we paid \$19.9 (including transaction fees) to repurchase and cancel 1.9 million subordinate voting shares at a weighted average price of \$10.58 per share. In addition, we repurchased 1.4 million subordinate voting shares during 2017 (0.3 million of which were repurchased under the 2017 NCIB in the fourth quarter of 2017) to satisfy delivery obligations under our stock-based compensation plans (see below).

In February 2016, we launched an NCIB (2016 NCIB) which was completed in February 2017. The 2016 NCIB allowed us to repurchase, at our discretion, up to approximately 10.5 million subordinate voting shares in the open market, or as otherwise permitted. During 2016, we paid \$34.3 (including transaction fees) to repurchase and cancel 3.2 million subordinate voting shares under the 2016 NCIB at a weighted average price of \$10.69 per share, including 2.8 million subordinate voting shares repurchased under a \$30.0 PSR we funded in March 2016 (and completed in May 2016) at a weighted average price of \$10.69 per share. We did not repurchase any subordinate voting shares under the 2016 NCIB for cancellation during the remainder of 2016 or during 2017. However, prior to its expiry, we repurchased an aggregate of 1.6 million subordinate voting shares under the 2016 NCIB (2016 — 1.6 million; 2017 — nil), to satisfy delivery obligations under our stock-based compensation plans (see below).

In the second quarter of 2015, we launched and completed an SIB, pursuant to which we repurchased and cancelled approximately 26.3 million subordinate voting shares at a price of \$13.30 per share (for an aggregate purchase price of \$350.0). We funded the share repurchases with the proceeds of the \$250.0 Term Loan, \$25.0 drawn on the Revolving Facility, and \$75.0 of cash on hand. Also during 2015, we repurchased and cancelled a total of 6.1 million subordinate voting shares for \$69.8 (including transaction fees) under an NCIB we launched in September 2014 (and completed in September 2015), at a weighted average price of \$11.46 per share, including 4.4 million subordinate voting shares repurchased under a \$50.0 PSR we funded in December 2014 (and completed in January 2015) at a weighted average price of \$11.38 per share.

(b) Stock-based compensation:

Long-Term Incentive Plan (LTIP):

Under the LTIP, we may grant stock options, stock appreciation rights, RSUs and PSUs to eligible employees, consultants and directors. We may, at the time of grant, authorize the grantees to settle these awards either in cash or in subordinate voting shares. Absent such permitted election, grants under the LTIP will be settled in subordinate voting shares, which we may purchase in the open market, or issue from treasury (up to a maximum aggregate of 29.0 million subordinate voting shares). As of December 31, 2017, 12.4 million subordinate voting shares remain reserved for issuance from treasury, covering potential issuances of subordinate voting shares for outstanding awards and for potential future grants of stock-based compensation under the LTIP.

Celestica Share Unit Plan (CSUP):

Under the CSUP, we may grant RSUs and PSUs to eligible employees. We have the option to settle RSUs and PSUs issued thereunder in subordinate voting shares purchased in the open market, or in cash.

For disclosure regarding DSUs issued to eligible directors under our Directors' Share Compensation Plan (DSC Plan), see paragraph (c) below.

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During 2017, we recorded aggregate employee stock-based compensation expense (excluding DSU expense) through cost of sales and SG&A, of \$30.1 (2016 — \$33.0; 2015 — \$37.6). Employee stock-based compensation expense varies from period-to-period. The portion of such expense that relates to a non-market performance condition varies depending on the level of achievement of pre-determined financial targets.

(i) Stock options:

We grant stock options under our LTIP. Options are granted at prices equal to the closing market price on the day prior to the grant date and are exercisable during a period not to exceed 10 years from the grant date.

Stock option transactions were as follows for the years indicated:

	Number of Options	Weighted Average Exercise Price
	(in millions)	
Outstanding at January 1, 2016	2.9	\$ 8.03
Granted	—	\$ —
Exercised	(0.6)	\$ 6.46
Forfeited/Expired	(0.2)	\$ 9.99
Outstanding at December 31, 2016	2.1	\$ 8.46
Granted	—	\$ —
Exercised	(1.7)	\$ 7.87
Forfeited/Expired	—	\$ —
Outstanding at December 31, 2017	0.4	\$ 12.14

Outstanding stock options were exercised throughout the year. The weighted average closing market price of our subordinate voting shares was \$12.41 during 2017 (2016 — \$10.66).

The following stock options were outstanding as at December 31, 2017:

Range of Exercise Prices	Outstanding Options	Weighted Average Exercise Price	Weighted Average Remaining Life of Outstanding Options	Exercisable Options	Weighted Average Exercise Price
	(in millions)		(years)	(in millions)	
\$6.51 - \$8.24	0.1	\$7.78	3.5	0.1	\$7.78
\$13.38	0.3	\$13.38	7.6	0.1	\$13.38
	0.4			0.2	

We amortize the estimated grant date fair value of options to expense over the vesting period (generally four years). We determined the grant date fair value of the stock options using the Black-Scholes option pricing model with the following weighted average assumptions for the years indicated below:

	Year ended December 31		
	2015	2016 ⁽¹⁾	2017 ⁽¹⁾
Risk-free interest rate	1.6%	N/A	N/A
Expected volatility of the market price of our shares	35%	N/A	N/A
Expected option life (in years)	5.5	N/A	N/A
Weighted average fair value of options granted	\$4.68	N/A	N/A

⁽¹⁾ No stock options were granted in 2016 or 2017.

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We determine the expected volatility of our subordinate voting shares based on an evaluation of the historical volatility of our share price. We determine the expected option life based on historical option holder behavior and the risk-free interest rate is based on U.S. government bond yields.

(ii) RSUs and PSUs:

We grant RSUs and PSUs to our employees pursuant to our LTIP and CSUP. Each vested unit generally entitles the holder to receive one subordinate voting share. Under the CSUP, we have the option to satisfy the delivery of shares upon vesting of the awards by purchasing subordinate voting shares in the open market or by settling such awards in cash. Under the LTIP, we may (at the time of grant) authorize the grantees to settle awards in either cash or subordinate voting shares (absent such permitted election, grants will be settled in subordinate voting shares, which we may purchase in the open market or issue from treasury, subject to certain limits). We have generally settled these awards with subordinate voting shares purchased in the open market by a broker, or by issuing subordinate voting shares from treasury. We amortize the grant date fair value of RSUs and PSUs to expense over the vesting period.

The following table outlines the RSU transactions during the years indicated, under each of the LTIP and CSUP.

<u>Number of awards (in millions)</u>	<u>LTIP</u>	<u>CSUP</u>	<u>Total</u>
Outstanding at January 1, 2016	—	3.5	3.5
Granted	0.8	1.5	2.3
Settled	—	(1.9)	(1.9)
Forfeited/Expired	—	(0.1)	(0.1)
Outstanding at December 31, 2016	0.8	3.0	3.8
Granted	1.4	0.5	1.9
Settled	(0.3)	(2.0)	(2.3)
Forfeited/Expired	(0.2)	—	(0.2)
Outstanding at December 31, 2017	1.7	1.5	3.2

With respect to PSUs, employees are granted a target number of PSUs. The number of PSUs that will actually vest will vary from 0 to 200% of the target amount granted depending on the level of achievement of the relevant performance conditions. During 2017, we granted 0.9 million (2016 — 1.25 million; 2015 — 1.0 million) PSUs (representing 100% of target), primarily granted in the first quarter of each such year, of which 60% vest based on the achievement of a market performance condition tied to TSR, and the balance vest based on a non-market performance condition based on pre-determined financial targets. See note 2(n) for a description of TSR. We estimated the grant date fair value of the TSR-based PSUs using a Monte Carlo simulation model and a premium of 143% (2016 grants — premium of 109%, 2015 grants — premium of 126%). The grant date fair value of the non TSR-based PSUs is determined by the market value of our subordinate voting shares at the time of grant and may be adjusted in subsequent years to reflect a change in the estimated level of achievement related to the applicable performance condition. We expect to settle these awards with subordinate voting shares purchased in the open market by a broker or issued from treasury. During 2017, we settled 0.8 million (2016 — 1.1 million; 2015 — 0.5 million) PSUs with subordinate voting shares. At December 31, 2017, 2.5 million (December 31, 2016 — 3.0 million; December 31, 2015 — 2.7 million) PSUs were outstanding (representing 100% of the target amounts granted). Of the total number of outstanding PSUs at December 31, 2017, 1.4 million PSUs were granted pursuant to the LTIP, and 1.1 million PSUs were granted pursuant to the CSUP.

The weighted average grant date fair value of RSUs awarded in 2017 was \$13.05 per unit (2016 — \$9.29; 2015 — \$11.49). The weighted average grant date fair value of PSUs awarded in 2017 was \$17.18 per unit (2016 — \$9.61; 2015 — \$13.06). As of December 31, 2017, none of the outstanding RSUs or PSUs had vested.

From time-to-time, we pay cash for the purchase by a broker of subordinate voting shares in the open market to satisfy the delivery of subordinate voting shares upon vesting of awards under our stock-based compensation plans. For accounting purposes, we classify these shares as treasury stock until they are delivered pursuant to the plans. During 2017, we purchased 1.4 million (2016 — 1.6 million; 2015 — 2.5 million) subordinate voting shares in the open market through a broker for \$16.7 (2016 — \$18.2; 2015 — \$28.9) (including transaction fees) to satisfy delivery requirements under our stock-based compensation plans.

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At December 31, 2017, the broker held 0.8 million (December 31, 2016 — 1.4 million; December 31, 2015 — 2.8 million) subordinate voting shares with a value of \$8.7 (December 31, 2016 — \$15.3; December 31, 2015 — \$31.4).

As management currently intends to settle all outstanding share unit awards with subordinate voting shares purchased in the open market by a broker or subordinate voting shares issued from treasury, we have accounted for these share unit awards as equity-settled awards.

(c) Deferred share units:

We grant DSUs to certain members of our Board of Directors under our DSC Plan. The DSUs may be settled in cash or with subordinate voting shares issued from treasury or purchased in the open market (at the Company's option). See note 2(n) for details. During 2017, two of our directors resigned from the Board and in connection therewith, we settled their outstanding DSUs in 2017 in accordance with the provisions of the DSC Plan. Specifically, we paid \$1.7 in cash to Joseph M. Natale to settle his outstanding DSUs, and we settled the outstanding DSUs of Thomas S. Gross with 14,098 subordinate voting shares that we purchased in the open market. As Celestica is permitted to, and currently intends to, settle all other DSUs with shares purchased in the open market, we have accounted for these awards as equity-settled awards. In 2017, we recorded DSU expense of \$2.2 (2016 — \$2.1; 2015 — \$1.9) through SG&A. At December 31, 2017, 1.5 million (December 31, 2016 — 1.5 million, December 31, 2015 — 1.3 million) DSUs were outstanding.

14. ACCUMULATED OTHER COMPREHENSIVE LOSS, NET OF TAX:

	Year ended December 31		
	2015	2016	2017
Opening balance of foreign currency translation account	\$ (13.5)	\$ (15.2)	\$ (15.2)
Foreign currency translation adjustments	(1.7)	—	0.7
Closing balance	(15.2)	(15.2)	(14.5)
Opening balance of unrealized net loss on cash flow hedges	(11.5)	(17.6)	(9.5)
Net gain (loss) on cash flow hedges ⁽ⁱ⁾	(39.2)	(2.2)	27.9
Reclassification of net loss (gain) on cash flow hedges to operations ⁽ⁱⁱ⁾	33.1	10.3	(10.6)
Closing balance ⁽ⁱⁱⁱ⁾	(17.6)	(9.5)	7.8
Actuarial gains (losses) on pension and non-pension post-employment benefit plans (note 19)	(7.0)	17.1	(1.2)
Reclassification of actuarial losses (gains) to deficit	7.0	(17.1)	1.2
Settlement loss (note 19)	—	—	(17.0)
Reclassification of settlement loss to deficit (note 19)	—	—	17.0
Closing balance	—	—	—
Accumulated other comprehensive loss	\$ (32.8)	\$ (24.7)	\$ (6.7)

(i) Net of income tax expense of \$2.8 for 2017 (2016 — \$1.2 income tax recovery; 2015 — \$2.8 income tax recovery).

(ii) Net of income tax recovery of \$0.3 for 2017 (2016 — \$1.1 income tax expense; 2015 — \$2.9 income tax expense).

(iii) Net of income tax expense of \$1.2 as of December 31, 2017 (December 31, 2016 — \$1.3 income tax recovery; December 31, 2015 — \$1.2 income tax recovery).

We expect that the majority of net gains or losses on cash flow hedges reported in the 2017 accumulated other comprehensive loss balance will be reclassified to operations during 2018, primarily in cost of sales as the underlying expenses that are being hedged are included in cost of sales.

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15. EXPENSES BY NATURE:

We have presented our consolidated statement of operations by function. Included in our cost of sales and SG&A for the year ended December 31, 2017 were employee-related costs of \$726.4 (2016 — \$711.3; 2015 — \$690.9) including employee stock-based compensation expense of \$30.1 (2016 — \$33.0; 2015 — \$37.6), freight and transportation costs of \$79.3 (2016 — \$80.9; 2015 — \$76.8), depreciation expense of \$67.6 (2016 — \$66.2; 2015 — \$59.1) and rental expense of \$28.5 (2016 — \$27.1; 2015 — \$25.6).

16. OTHER CHARGES:

	Year ended December 31		
	2015	2016	2017
Restructuring charges (a)	\$ 23.9	\$ 31.9	\$ 28.9
Asset impairment (b)	12.2	—	—
Loss (gain) on pension annuity purchase (c)	(0.3)	—	1.9
Toronto transition costs (d)	—	—	1.6
Other (e)	—	(6.4)	4.6
	<u>\$ 35.8</u>	<u>\$ 25.5</u>	<u>\$ 37.0</u>

(a) *Restructuring:*

Our restructuring charges were comprised of the following:

	Year ended December 31		
	2015	2016	2017
Cash charges	\$ 19.5	\$ 10.7	\$ 25.1
Non-cash charges	4.4	21.2	3.8
	<u>\$ 23.9</u>	<u>\$ 31.9</u>	<u>\$ 28.9</u>

We perform ongoing evaluations of our business, operational efficiency and cost structure, and implement restructuring actions as we deem necessary. In response to challenging markets and continued margin pressures, we announced in October 2017 our intention to implement additional restructuring actions in the near term to further streamline our business and improve our margin performance, and our related engagement of an outside consultant to identify cost reduction opportunities throughout our network, including through increased operational efficiencies and productivity improvements. In connection therewith, we have commenced the implementation of additional restructuring actions under a new cost efficiency initiative. Such initiative will include reductions to our workforce, and potential consolidation of certain sites to better align capacity and infrastructure with current and anticipated customer demand, related transfers of customer programs and production, re-alignment of business processes, management reorganizations, and other associated activities.

We recorded restructuring charges of \$28.9 in 2017. Our restructuring charges for 2017 consisted of cash charges of \$25.1, comprised of employee termination costs related to our Organizational Design (OD) and Global Business Services (GBS) initiatives, costs in connection with the rationalization of certain operations in the third quarter of 2017, and \$8.0 of charges in connection with our new cost efficiency initiative (described above) in the fourth quarter of 2017, as well as net non-cash impairment charges of \$3.8, to write down the carrying value of our solar panel manufacturing equipment to its fair value less costs to sell based on executed sale agreements. See note 4. Our restructuring provision at December 31, 2017 was \$12.7 (December 31, 2016 — \$6.6).

During the fourth quarter of 2016, we made the decision to exit the solar panel manufacturing business. We recorded restructuring charges of \$31.9 in 2016. Our restructuring charges for 2016 consisted of cash charges of \$10.7, primarily for employee termination costs relating to our GBS and OD initiatives, our solar panel manufacturing operations (see note 4) and other exited operations, and non-cash charges of \$21.2, to write down certain plant assets and equipment to recoverable amounts, including \$19.0 related to our solar panel manufacturing equipment at our two locations.

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We recorded restructuring charges of \$23.9 in 2015. Our restructuring charges for 2015 consisted of cash charges of \$19.5, primarily for employee termination costs at various sites, including headcount reductions in certain under-utilized manufacturing sites in higher cost locations, and non-cash charges of \$4.4, primarily to write down certain equipment to recoverable amounts. These 2015 charges also included costs associated with the consolidation of two of our semiconductor sites, to reduce the cost structure and improve the margin performance of that business.

See notes 2(m) and 11 for further details regarding our restructuring provisions.

(b) Annual impairment assessment:

We conduct our Annual Impairment Assessment in the fourth quarter of each year (which corresponds to our annual planning cycle), and whenever events or changes in circumstances indicate that the carrying amount of an asset, CGU or a group of CGUs may not be recoverable (triggering events). We recognize an impairment loss when the carrying amount of an asset, CGU or a group of CGUs exceeds its recoverable amount, which is measured as the greater of its expected value-in-use and its fair value less costs to sell. We did not identify any triggering event during the course of 2017 indicating that the carrying amount of our assets or CGUs may not be recoverable, other than with respect to our exit from the solar panel manufacturing business. In connection therewith, we recorded net impairment losses (through restructuring charges) of \$3.8 on our solar panel manufacturing equipment in 2017, to reduce the carrying value of such equipment (recorded in assets held for sale) to its estimated fair value less costs to sell based on executed sale agreements (see notes 4, 7 and 16(a)).

In the fourth quarter of 2017, we performed our Annual Impairment Assessment and determined that there was no additional impairment as the recoverable amount of our assets and CGUs exceeded their respective carrying values as of December 31, 2017.

For our Annual Impairment Assessments, other than with respect to our solar panel manufacturing equipment in 2016 and 2017 (which were based on estimated fair value less costs to sell), we used cash flow projections based primarily on our plan for the following year and, to a lesser extent, on our three-year strategic plan and other financial projections. Our plans are primarily based on financial projections submitted by our subsidiaries in the fourth quarter of each year, together with inputs from our customer teams, and is subjected to in-depth reviews performed by various levels of management as part of our annual planning cycle. The plan for 2018 (used for our 2017 Annual Impairment Assessment) was approved by management and presented to our Board of Directors in December 2017.

In the fourth quarter of 2016, we performed our Annual Impairment Assessment and determined that, other than the write down of our solar panel manufacturing equipment (recorded as restructuring charges and discussed in paragraph (a) above), there was no impairment as the recoverable amount of our assets and CGUs exceeded their respective carrying values.

In the fourth quarter of 2015, we performed our Annual Impairment Assessment, and in connection therewith, recorded non-cash impairment charges totaling \$12.2, comprised of \$6.5 and \$5.7, against the property, plant and equipment of our CGUs in Japan and Spain, respectively. Such charges were primarily due to the reduction of our then-long-term cash flow projections for these CGUs as a result of reduced customer demand and challenging market conditions that we were experiencing in these CGUs at that time, and our assessment of the continued negative impact of these factors on the future profitability of these two CGUs. After recording the 2015 impairment charges, the carrying value of the property, plant and equipment held by each such CGU was reduced to approximate the fair value of its real property at the end of 2015.

The process of determining the recoverable amount of a CGU is subjective and requires management to exercise significant judgment in estimating future growth, profitability, and discount and terminal growth rates, among other factors. The assumptions used in our 2017 Annual Impairment Assessment were determined based on past experiences adjusted for expected changes in future conditions. Where applicable, we engaged independent brokers to obtain market prices to estimate our real property and other asset values. For our 2017 assessment (where cash flow projections were used), we used cash flow projections ranging from 4 to 6 years (2016 — 1 to 7 years; 2015 — 3 to 10 years) for our CGUs, in line with the remaining useful lives of the CGUs' essential assets. Additionally, in order to estimate the cash flows beyond our most recent cash flow projection period used, we have applied a perpetuity growth rate of 2%, which is consistent with long-term inflation guidance. We generally used our weighted average cost of capital of approximately 9% (2016 — approximately 10%; 2015 — approximately 8%) to discount our cash flows. For our semiconductor CGU, however, we applied a discount rate of 17% in 2017 (2015 and 2016 — 17%) reflecting the higher risk inherent in these cash flows, notwithstanding the recent positive performance of this CGU.

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As part of our annual impairment assessment of goodwill, we also perform sensitivity analyses for the relevant CGUs in order to identify the impact of changes in key assumptions, including projected growth rates, profitability, and discount and terminal growth rates. Our goodwill balance at December 31, 2017 of \$23.2 was comprised of \$19.5 (December 31, 2016 — \$19.5) attributable to our semiconductor CGU and \$3.7 (December 31, 2016 — \$3.7) attributable to our November 2016 Karel acquisition. See note 3. For purposes of our 2017 impairment assessment of our semiconductor CGU, we assumed future revenue growth at an average compound annual growth rate of 9% over a 6-year period (2016 — 7% over a 7-year period), representing the remaining life of the CGU's most significant customer contract. We believe that this growth rate is supported by the level of new business awarded in recent years and the expectation of future new business awards. We also assumed that the average annual margins for this CGU over the projection period will be slightly above our overall margin performance in 2017, consistent with the average annual margins we assumed for our 2016 impairment analysis. In our 2017 Annual Impairment Assessment, we did not identify any key assumptions where a reasonable possible change would result in material impairments to our semiconductor CGU. For purposes of our 2017 impairment assessment of our Karel goodwill, we assumed modest revenue growth over a 4-year period, and average margins over the projection period equal to our overall margin performance in 2017. We did not identify any key assumptions where a reasonable possible change would result in material impairments related to the goodwill attributable to our acquisition of Karel.

Impairment assessments inherently involve judgment as to assumptions about expected future cash flows and the impact of market conditions on those assumptions. Future events and changing market conditions may impact our assumptions as to prices, costs or other factors that may result in changes in our estimates of future cash flows. Failure to realize the assumed revenues at an appropriate profit margin of a CGU could result in impairment losses in such CGU in future periods.

(c) *Loss (gain) on pension annuity purchase:*

In March 2017, the Trustees of our U.K. Main pension plan entered into an agreement with a third party insurance company to purchase an annuity for participants of the Main plan who have retired. The purchase of the annuity resulted in a non-cash loss of \$17.0 which we recorded in other comprehensive income and simultaneously re-classified to deficit during 2017, with a corresponding reduction in the value of our pension assets which is recorded in other non-current assets on our consolidated balance sheet. See note 19(a).

In April 2017, the Trustees of our U.K. Supplementary pension plan entered into an agreement with a third party insurance company to purchase an annuity for all participants of this plan. The purchase of the annuity resulted in a non-cash loss of \$1.9 which we recorded during 2017 in other charges in our consolidated statement of operations, with a corresponding reduction in the value of our pension assets which is recorded in other non-current assets on our consolidated balance sheet. This non-cash loss is recorded through our consolidated statement of operations as we anticipate transferring the pension annuity to individual plan members and winding up the plan in 2018. See note 19(a).

In August 2014, we liquidated the asset portfolio for the defined benefit component of a pension plan for certain Canadian employees, following which substantially all of the proceeds were used to purchase annuities from insurance companies for plan participants. The purchase of the annuities resulted in a non-cash settlement loss of \$6.4 in 2014 which we recorded in other charges in our consolidated statement of operations. During 2015, we recorded a recovery of \$0.3 upon final settlement.

(d) *Toronto transition costs:*

In connection with the anticipated sale of our Toronto real property, we entered into a long-term lease in November 2017 (in the Greater Toronto area) for the relocation of our Toronto manufacturing operations, with occupancy anticipated to commence at the end of the first quarter of 2018. We currently expect to complete the transition to this new manufacturing location by the end of the first quarter of 2019. In addition, should the sale be consummated, we will enter into a long-term lease with the purchasers of our Toronto real property for our new corporate headquarters. In connection therewith, we intend to move such headquarters to a temporary location while space in a new office building (to be built by such purchasers on the site of our current location) is under construction. We will incur significant costs throughout the transition period (which commenced in the fourth quarter of 2017) to relocate our corporate headquarters and to transfer our Toronto manufacturing operations to its new location, and as we prepare and customize the new site to meet our manufacturing needs. These costs will consist of building improvements and new equipment which we will capitalize, as well as transition-related costs which we will record in other charges. Transition costs are comprised of direct relocation costs, duplicate costs (such as rent expense, utility costs, depreciation charges, and personnel costs) incurred during the transition period, as well as cease-use costs incurred in connection with idle

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or vacated portions of the relevant premises that we would not have incurred but for these relocations. Any amounts received from the purchasers of our Toronto real property, or gains recorded in connection with its sale, will be recorded as recoveries through other charges (recoveries). During 2017, we recorded \$1.6 of such transition costs, consisting of utility costs related to idle premises, and depreciation charges and personnel costs used in the operation of duplicate production lines in advance of the transition.

(e) *Other:*

During 2017, we recorded \$4.5 (December 31, 2016 — \$1.4) in Acquisition Costs. See note 3. Additionally, during 2016, we received recoveries of damages of \$12.0 in connection with the settlement of class action lawsuits in which we were a plaintiff, related to certain purchases we made in prior periods. These recoveries were offset in part by the cost we recorded to settle an unrelated legal matter during 2016.

17. FINANCE COSTS AND REFUND INTEREST INCOME:

Our finance costs are comprised primarily of interest expenses and fees related to our Term Loan, the Revolving Facility, our accounts receivable sales program and a customer's supplier financing program. See notes 5 and 12.

Refund interest income represents the refund of interest on cash previously held on account with tax authorities in connection with the resolution of certain previously-disputed tax matters in 2016. See notes 20 and 24.

18. RELATED PARTY TRANSACTIONS:

Onex Corporation (Onex) beneficially owns or controls, directly or indirectly, all of our outstanding multiple voting shares. Accordingly, Onex has the ability to exercise significant influence over our business and affairs and generally has the power to determine all matters submitted to a vote of our shareholders where the subordinate voting shares and multiple voting shares vote together as a single class. Mr. Gerald Schwartz, the Chairman of the Board, President and Chief Executive Officer of Onex, and one of our directors until December 31, 2016, indirectly owns shares representing the majority of the voting rights of Onex.

In January 2009, we entered into a Services Agreement with Onex for the services of Mr. Schwartz as a director of Celestica, pursuant to which Onex received compensation for such services. The initial term of this agreement was one year and it automatically renews for successive one-year terms unless either party provides a notice of intent not to renew. In connection with the retirement of Mr. Schwartz from our Board of Directors as of December 31, 2016, and the appointment of Mr. Tawfiq Popatia (also an officer of Onex) as his replacement effective January 1, 2017, the Services Agreement was amended as of such date to replace all references to Mr. Schwartz therein with references to Mr. Popatia, and to increase the annual fee payable to Onex thereunder from \$200,000 per year to \$235,000 per year (to be consistent with current annual Board retainer fees), payable in DSUs in equal quarterly installments in arrears. The Services Agreement terminates automatically and the rights of Onex to receive compensation (other than accrued and unpaid compensation) will terminate (a) 30 days after the first day on which Onex ceases to hold at least one multiple voting share of Celestica or any successor company or (b) the date Mr. Popatia ceases to be a director of Celestica for any reason.

Sale agreement with respect to real property in Toronto:

On July 23, 2015, we entered into an agreement of purchase and sale (the Property Sale Agreement) to sell our real property located in Toronto, Ontario, which includes the site of our corporate headquarters and our Toronto manufacturing operations, to a special purpose entity (the Property Purchaser) to be formed by a consortium of three real estate developers. If the transaction is completed, the purchase price will be approximately \$137 million Canadian dollars (approximately \$109 at year-end exchange rates), exclusive of applicable taxes and subject to adjustment in accordance with the terms of the Property Sale Agreement, including for certain density bonuses and other adjustments in accordance with usual commercial practice.

Upon execution of the Property Sale Agreement, the Property Purchaser paid us a cash deposit of \$15 million Canadian dollars (\$11.2 at the then-prevailing exchange rate), which is non-refundable except in limited circumstances. Upon closing, which is subject to various conditions, including municipal approvals and is currently anticipated to occur in 2018, the Property Purchaser is to pay us an additional \$53.5 million Canadian dollars in cash (approximately \$43 at year-end exchange rates). The

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balance of the purchase price is to be satisfied upon closing by an interest-free, first-ranking mortgage in the amount of \$68.5 million Canadian dollars (approximately \$55 at year-end exchange rates) to be registered on title to the property and having a term of two years from the closing date. We recorded the cash deposit in other non-current liabilities on our consolidated balance sheet and as cash provided by investing activities in our consolidated statement of cash flows for 2015.

As part of the Property Sale Agreement, we have agreed, upon closing, to enter into a short-term interim lease for our existing corporate headquarters and manufacturing premises on a portion of the real estate on a rent-free basis (subject to certain payments including taxes and utilities), which is to be followed by a long-term lease for Celestica's new corporate headquarters, on commercially reasonable arm's-length terms. There can be no assurance that this transaction will be completed within the expected time period or at all. We will incur significant costs related to Toronto transition matters. See note 16(d).

Approximately 30% of the interests in the Property Purchaser are to be held by a privately-held company in which Mr. Schwartz, a controlling shareholder and until December 31, 2016, a director of Celestica, has a material interest. Mr. Schwartz also has a non-voting interest in an entity which is to have an approximate 25% interest in the Property Purchaser. Given the interest in the transaction by a related party, our board of directors formed a Special Committee, consisting solely of independent directors, which retained its own independent legal counsel, to review and supervise a competitive bidding process. The Special Committee, after considering, among other factors, that the purchase price for the property exceeded the valuation provided by an independent appraiser, determined that the Property Purchaser's transaction terms were in the best interests of Celestica. Our board of directors, at a meeting where Mr. Schwartz was not present, approved the transaction based on the unanimous recommendation of the Special Committee.

Compensation of key management personnel:

Our key management team consists of directors and senior executive officers. The aggregate compensation expenses we recognized under IFRS for our directors and key management team were as follows:

	Year ended December 31		
	2015	2016	2017
Short-term employee benefits and costs	\$ 6.8	\$ 6.2	\$ 7.5
Post-employment and other long-term benefits	0.5	0.4	0.6
Stock-based compensation (including DSUs to eligible directors)	16.6	12.3	12.4
	<u>\$ 23.9</u>	<u>\$ 18.9</u>	<u>\$ 20.5</u>

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19. PENSION AND NON-PENSION POST-EMPLOYMENT BENEFIT PLANS:

(a) Plan summaries:

We provide pension and non-pension post-employment benefit plans for our employees. Such plans include defined benefit pension plans for our employees in the United Kingdom (U.K.) that generally provide participants with stated benefits on retirement based on their pensionable service, either in annuities and/or lump sum payments. The U.K defined benefit pension plans are comprised of a Main pension plan and a Supplementary pension plan, both of which are closed to new members. The U.K. Main pension plan is our largest defined benefit pension plan. The Supplementary pension plan does not have any active members. Approximately 1% of the U.K. plan members remain active employees of the Company. Defined contribution pension plans are offered to certain employees, mainly in Canada and the U.S. We provide non-pension post-employment benefits (under other benefit plans) to retired and terminated employees in Canada, the U.S., Mexico and Thailand. These benefits may include one-time retirement and specified termination benefits, medical, surgical, hospitalization coverage, supplemental health, dental and/or group life insurance.

In March 2017, the Trustees of our U.K. Main pension plan entered into an agreement with a third party insurance company to purchase an annuity for participants in such plan who have retired. The cost of the annuity was £123.7 million (approximately \$154.3 at the exchange rate at the time of recording) and was funded with existing plan assets. The annuity is held as an asset of the Main plan. Although we retain ultimate responsibility for the payment of benefits to plan participants, the annuity substantially hedges the financial risk component of the associated pension obligations for such retired participants. The purchase of the annuity resulted in a non-cash loss of \$17.0 which we recorded in other comprehensive income and simultaneously re-classified to deficit during 2017. We also reduced the value of our pension assets by \$17.0 during 2017, which is recorded in other non-current assets on our consolidated balance sheet.

In April 2017, the Trustees of our U.K. Supplementary pension plan entered into an agreement with a third party insurance company to purchase an annuity for all participants of this plan. The cost of the annuity was £9.1 million (approximately \$11.7 at the exchange rate at the time of recording) and was funded with existing plan assets. The annuity is held as an asset of such plan. For the Supplementary pension plan, we anticipate transferring the pension annuity to individual plan members and winding up the plan in 2018. Although we will retain responsibility for the payment of benefits to plan participants until such wind-up is complete, the annuity substantially hedges the financial risk component of the associated pension obligations for such participants. The purchase of the annuity resulted in a non-cash loss of \$1.9 which we recorded during 2017 in other charges (see note 16(c)) in our consolidated statement of operations, with a corresponding reduction in the value of our pension assets which is recorded in other non-current assets on our consolidated balance sheet. This non-cash loss was recorded through our consolidated statement of operations as we anticipate winding up this plan in 2018.

The overall governance of our pension plans is conducted by our Global Compensation Committee which, through annual reviews, approves material plan changes, reviews funding levels, investment performance, compliance matters and plan assumptions, and ensures that the plans are administered in accordance with local statutory requirements. We have established a Pension Committee to govern our Canadian pension plans. The U.K. pension plans are governed by a Board of Trustees, composed of employee and company representation. Both the Canadian Pension Committee and the U.K. Board of Trustees review funding levels, investment performance and compliance matters for their respective plans. Our pension funding policy is to contribute amounts sufficient, at minimum, to meet local statutory funding requirements. For our defined benefit pension plans (primarily U.K.), local regulatory bodies either define the minimum funding requirement or approve the funding plans submitted by us. We may make additional discretionary contributions taking into account actuarial assessments and other factors. The contributions that we make to support ongoing plan obligations are recorded in the respective asset or liability accounts on our consolidated balance sheet.

Our U.K. plans require an actuarial valuation to be completed every three years. The actuarial valuation was completed using a measurement date of April 2016; the next valuation will have a measurement date of April 2019.

We currently fund our non-pension post-employment benefit plans as we incur benefit payment obligations thereunder. Excluding our mandatory plans, the most recent actuarial valuations for our largest non-pension post-employment benefit plans were completed using measurement dates of May 2016 (Canada) and January 2017 (U.S.). The next actuarial valuations for these plans will have measurement dates of May 2019 and January 2018, respectively. We accrue the expected costs of providing non-pension post-employment benefits during the periods in which the employees render service.

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We used a measurement date of December 31, 2017 for the accounting valuation for pension and non-pension post-employment benefits.

Our pension plans are exposed to market risks such as changes in interest rates, inflation, and fluctuations in investment values, as well as financial risks including counterparty risks of financial institutions from which annuities have been purchased for specified plans. See notes 16(c) and 21(c). Our plans are also exposed to non-financial risks, including the membership's mortality and demographic changes, as well as regulatory changes.

We manage the funding level risk of defined benefit pension plans through our asset allocation strategy for each plan. In the U.K., we follow an active de-risking strategy and allocate a higher level of the plan assets to debt instruments if the funding level of the plan improves. During 2017, certain of the obligations under our U.K. defined benefit pension plans have been hedged with the purchase of annuities with insurance companies. See above and note 16(c).

Pension fund assets are invested primarily in fixed income and equity securities. Asset allocation between fixed income and equity securities is adjusted based on the expected life of the plan and the expected retirement dates of the plan participants. Our pension funds do not invest directly in our shares, but may invest indirectly as a result of the inclusion of our shares in certain investment funds. All of our plan assets are measured at their fair value using inputs described in the fair value hierarchy in note 21. At December 31, 2017, \$247.0 (December 31, 2016 — \$351.6) of our plan assets were measured using level 1 inputs of the fair value hierarchy and \$148.5 (December 31, 2016 — nil) of our plan assets (comprised of insurance annuities) were measured using level 3 inputs of the fair value hierarchy. At December 31, 2017, none (December 31, 2016 — \$25.6) of our plan assets were measured using level 2 inputs of the fair value hierarchy. Approximately 96% of our plan assets are held with financial institutions with a Standard and Poor's long-term rating of A- or above at December 31, 2017. The remaining assets are held with financial institutions where ratings are not available or below A-. For these institutions, Celestica monitors counterparty risk based on the diversification of plan assets. These plan assets are maintained in segregated accounts by a custodian that is independent from the fund managers. We believe that the counterparty risk is low.

Plan assets are measured at their fair values; however, the amounts we are permitted to record for defined benefit plan assets may be restricted under IFRS. See note 2(n) for a description of this restriction. Based on a review of the terms, conditions, and statutory minimum funding requirements of our defined benefit plans, we have determined that the present value of future pension refunds or reductions in future contributions to our pension plans exceeds the total of the fair value of plan assets net of the present value of related obligations. This determination was made on a plan-by-plan basis. As a result of our assessment, there were no reductions to the amounts we recorded for defined benefit plan assets as at December 31, 2017 or 2016.

(b) Plan financials:

The table below presents the market value of plan assets:

	Fair Market Value at December 31		Actual Asset Allocation (%) at December 31	
	2016	2017	2016	2017
Quoted market prices:				
Debt investment funds	\$ 283.1	\$ 225.2	75%	57%
Equity investment funds	60.4	7.0	16%	2%
Non-quoted market prices:				
Other investment funds / insurance annuities	25.6	148.5	7%	37%
Other	8.1	14.8	2%	4%
Total	\$ 377.2	\$ 395.5	100%	100%

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The following tables provide a summary of the financial position of our pension and other benefit plans:

	Pension Plans		Other Benefit Plans	
	Year ended December 31		Year ended December 31	
	2016	2017	2016	2017
Plan assets, beginning of year	\$ 365.3	\$ 377.2	\$ —	\$ —
Interest income	12.7	10.0	—	—
Actuarial gains (losses) in other comprehensive income ⁽ⁱ⁾	74.0	(6.1)	—	—
Administrative expenses paid from plan assets	(1.2)	(1.4)	—	—
Employer contributions	7.4	2.4	—	—
Employer direct benefit payments	2.0	0.1	2.2	2.5
Employer direct settlement payments	—	—	—	2.0
Settlement payments from employer	—	—	—	(2.0)
Settlement payments from plan (see note 19(a))	—	(11.7)	—	—
Benefit payments from plan	(14.8)	(10.5)	—	—
Benefit payments from employer	(2.0)	(0.1)	(2.2)	(2.5)
Foreign currency exchange rate changes and other	(66.2)	35.6	—	—
Plan assets, end of year	<u>\$ 377.2</u>	<u>\$ 395.5</u>	<u>\$ —</u>	<u>\$ —</u>

(i) Actuarial gains or losses are determined based on actual return on plan assets less interest income above. For 2017, includes \$17.0 loss resulting from the purchase of annuities in March 2017 (see note 19 (a) above).

	Pension Plans		Other Benefit Plans	
	Year ended December 31		Year ended December 31	
	2016	2017	2016	2017
Accrued benefit obligations, beginning of year	\$ 326.9	\$ 325.6	\$ 62.7	\$ 65.8
Current service cost	1.7	2.1	1.9	2.0
Past service cost and settlement/curtailment losses	—	1.9	—	0.6
Interest cost	11.1	8.7	2.6	2.6
Actuarial losses (gains) in other comprehensive income from:				
— Changes in demographic assumptions	(13.9)	5.4	(6.3)	0.2
— Changes in financial assumptions	82.9	2.9	5.8	2.9
— Experience adjustments	(12.9)	0.1	(0.1)	0.6
Settlement payments from employer	—	—	—	(2.0)
Settlement payments from plan	—	(11.7)	—	—
Benefit payments from plan	(14.8)	(10.5)	—	—
Benefit payments from employer	(2.0)	(0.1)	(2.2)	(2.5)
Foreign currency exchange rate changes and other	(53.4)	31.4	1.4	5.3
Accrued benefit obligations, end of year	<u>\$ 325.6</u>	<u>\$ 355.8</u>	<u>\$ 65.8</u>	<u>\$ 75.5</u>
Weighted average duration of benefit obligations (in years)	19	19	14	14

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The present value of the defined benefit obligations, the fair value of plan assets and the surplus or deficit in our defined benefit pension and other benefit plans are summarized as follows:

	Pension Plans December 31		Other Benefit Plans December 31	
	2016	2017	2016	2017
Accrued benefit obligations, end of year	\$ (325.6)	\$ (355.8)	\$ (65.8)	\$ (75.5)
Plan assets, end of year	377.2	395.5	—	—
Excess (deficiency) of plan assets over accrued benefit obligations	\$ 51.6	\$ 39.7	\$ (65.8)	\$ (75.5)

The following table outlines the plan balances as reported on our consolidated balance sheet:

	December 31 2016			December 31 2017		
	Pension Plans	Other Benefit Plans	Total	Pension Plans	Other Benefit Plans	Total
	Pension and non-pension post-employment benefit obligations	\$ (20.2)	\$ (65.8)	\$ (86.0)	\$ (23.2)	\$ (74.6)
Current other post-employment benefit obligations ⁽ⁱ⁾	—	—	—	—	(0.9)	(0.9)
Non-current net pension assets (note 10)	71.8	—	71.8	62.9	—	62.9
	\$ 51.6	\$ (65.8)	\$ (14.2)	\$ 39.7	\$ (75.5)	\$ (35.8)

(i) In connection with certain restructuring actions announced prior to the end of 2017, we reclassified a current portion of the accumulated post-employment benefits totaling \$0.9 to accrued and other current liabilities on our consolidated balance sheet as of December 31, 2017.

The following table outlines the net expense recognized in our consolidated statement of operations for pension and non-pension post-employment benefit plans:

	Pension Plans Year ended December 31			Other Benefit Plans Year ended December 31		
	2015	2016	2017	2015	2016	2017
Current service cost	\$ 1.7	\$ 1.7	\$ 2.1	\$ 2.0	\$ 1.9	\$ 2.0
Net interest cost (income)	(1.6)	(1.6)	(1.3)	2.6	2.6	2.6
Past service cost and settlement/curtailment losses	1.0	—	1.9	0.1	—	0.6
Plan administrative expenses and other	1.1	1.1	1.3	—	—	—
	2.2	1.2	4.0	4.7	4.5	5.2
Defined contribution pension plan expense (note 19(c))	10.4	10.0	9.4	—	—	—
Total expense for the year	\$ 12.6	\$ 11.2	\$ 13.4	\$ 4.7	\$ 4.5	\$ 5.2

We generally record the expenses for pension plans and non-pension post-employment benefits in cost of sales and SG&A expenses depending on the nature of the expenses. Our settlement loss in 2017 of \$1.9 in pension plans arose as a result of annuity purchases for our U.K. Supplementary plan during 2017. See note 16(c).

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The following table outlines the gains and losses, net of tax, recognized in OCI and reclassified directly to deficit:

	Year ended December 31		
	2015	2016	2017
Cumulative losses, beginning of year	\$ 6.0	\$ 13.0	\$ (4.1)
Loss on pension annuity purchase (see note 16(c))	—	—	17.0
Actuarial losses (gains) recognized during the year ⁽ⁱ⁾	7.0	(17.1)	1.2
Cumulative losses (gains), end of year ⁽ⁱⁱ⁾	<u>\$ 13.0</u>	<u>\$ (4.1)</u>	<u>\$ 14.1</u>

(i) Net of income tax recovery of nil for 2017 (2016 — \$1.4 income tax expense; 2015 — nil income tax recovery).

(ii) Net of income tax recovery of \$0.7 as at December 31, 2017 (December 31, 2016 — \$0.7 income tax recovery; December 31, 2015 — \$2.1 income tax recovery).

The following percentages and assumptions were used in measuring the plans for the years indicated:

	Pension Plans			Other Benefit Plans		
	2015	2016	2017	2015	2016	2017
Weighted average discount rate at December 31 ⁽ⁱ⁾ for:						
Benefit obligations	3.8	2.6	2.5	4.1	3.9	3.6
Net pension cost	3.7	3.8	2.6	3.9	4.1	3.9
Weighted average rate of compensation increase for:						
Benefit obligations	3.8	3.9	4.0	4.6	4.6	4.6
Net pension cost	3.8	3.8	3.9	4.6	4.6	4.6
Healthcare cost trend rates:						
Immediate trend	—	—	—	6.2	5.9	5.8
Ultimate trend	—	—	—	4.5	4.5	4.5
Year the ultimate trend rate is expected to be achieved	—	—	—	2030	2030	2030

(i) The weighted average discount rate is determined using publicly available rates for highly-rated bonds by currency in countries where there is a pension or non-pension benefit plan. A lower discount rate would increase the present value of the benefit obligation.

Management applied significant judgment in determining these assumptions. We evaluate these assumptions on a regular basis taking into consideration current market conditions and historical market data. Actual results could differ materially from those estimates and assumptions.

A one percentage-point increase or decrease to one of the following actuarial assumptions, holding other assumptions constant in each case, would increase (decrease) our benefit obligations as follows:

	Pension Plans		Other Benefit Plans	
	Year ended December 31, 2017		Year ended December 31, 2017	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Discount rate	\$ (58.9)	\$ 77.4	\$ (9.4)	\$ 11.7
Healthcare cost trend rate	\$ —	\$ —	\$ 8.6	\$ (6.7)

The sensitivity figures shown above were calculated by determining the change in the obligation as at December 31, 2017 due to a 100 basis point increase or decrease to each of our significant actuarial assumptions used, primarily the discount rate and healthcare cost trend rate, in isolation, leaving all other assumptions unchanged from the original calculation.

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(c) *Plan contributions:*

In 2017, we made contributions to our pension plans of \$11.9 (2016 — \$19.4) of which \$9.4 (2016 — \$10.0) was for defined contribution plans and \$2.5 (2016 — \$9.4) was for defined benefit plans. In mid-2016, we provided a parental guarantee to the Trustees of our U.K. pension plans, and since the plans were considered sufficiently funded, no further contributions to these plans were required. We may, from time-to-time, make voluntary contributions to the pension plans. In 2017, we made aggregate contributions to our non-pension post-employment benefit plans of \$4.5 (2016 — \$2.2) to fund benefit payments.

We currently estimate that our 2018 contributions will be \$2.5 for defined benefit pension plans, \$9.4 for defined contribution pension plans, and \$4.2 for our non-pension post-employment benefit plans. Our actual contributions could differ materially from these estimates.

20. INCOME TAXES:

	Year ended December 31		
	2015	2016	2017
Current income tax expense:			
Current year ⁽ⁱ⁾	\$ 40.5	\$ 48.3	\$ 39.3
Adjustments for prior years, including changes to net provisions related to tax uncertainties ⁽ⁱⁱ⁾	(1.8)	(34.1)	(0.2)
	38.7	14.2	39.1
Deferred income tax expense:			
Origination and reversal of temporary differences ⁽ⁱ⁾	2.3	20.0	(5.8)
Changes in previously unrecognized tax losses and deductible temporary differences, including adjustments for prior years	1.2	(9.5)	(5.9)
	3.5	10.5	(11.7)
Income tax expense	\$ 42.2	\$ 24.7	\$ 27.4

A reconciliation of income taxes calculated at the statutory income tax rate to the income tax expense at the effective tax rate is as follows:

	Year ended December 31		
	2015	2016	2017
Earnings before income taxes	\$ 109.1	\$ 161.0	\$ 132.4
Income tax expense at Celestica's statutory income tax rate of 26.5% (2016 and 2015 — 26.5%)	\$ 28.9	\$ 42.7	\$ 35.1
Impact on income taxes from:			
Manufacturing and processing deduction	(0.6)	(0.1)	(0.1)
Foreign income taxed at different rates	(19.9)	(0.1)	(7.6)
Foreign exchange	3.4	4.8	(6.8)
Other, including non-taxable/non-deductible items and changes to net provisions related to tax uncertainties ⁽ⁱ⁾⁽ⁱⁱ⁾	15.1	(25.3)	3.4
Change in unrecognized tax losses and deductible temporary differences	15.3	2.7	3.4
Income tax expense	\$ 42.2	\$ 24.7	\$ 27.4

(i) These line items for 2016 in the two tables above were negatively impacted by a deferred tax expense of \$8.0 related to taxable temporary differences associated with the anticipated repatriation of undistributed earnings from certain of our Chinese subsidiaries, of which \$6.0 was realized as a current tax expense in 2017 for withholding tax on dividends paid in 2017.

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- (ii) These line items for 2016 in the two tables above were favorably impacted by the reversal of provisions of \$34 previously recorded for tax uncertainties related to the resolution of a transfer pricing matter for one of our Canadian subsidiaries.

Our effective income tax rate can vary significantly period-to-period for various reasons, including as a result of the mix and volume of business in various tax jurisdictions within the Americas, Europe and Asia, in jurisdictions with tax holidays and tax incentives, and in jurisdictions for which no net deferred income tax assets have been recognized because management believes it is not probable that future taxable profit would be available against which tax losses and deductible temporary differences could be utilized. Our effective income tax rate can also vary due to the impact of restructuring charges, foreign exchange fluctuations, operating losses, cash repatriations, and changes in our provisions related to tax uncertainties.

During 2017, we recorded a net income tax expense of \$27.4 which was favorably impacted by the recognition of a deferred income tax benefit of \$4.3 (Solar Benefit) related to our solar assets (described below), as well as taxable foreign exchange benefits resulting from the strengthening of the Malaysian ringgit and Chinese renminbi relative to the U.S. dollar (our functional currency), which was largely offset by deferred tax expense related to taxable temporary differences associated with the anticipated repatriation of undistributed earnings from certain of our Chinese subsidiaries, and a \$2.0 deferred tax expense related to the recently enacted U.S. Tax Reform (see below).

In connection with our exit from the solar panel manufacturing business, we withdrew one of our tax incentives in Thailand (which related solely to such operations) during the second quarter of 2017. The withdrawal of this incentive allows us to apply future tax losses arising from the ultimate disposition of our solar assets against other fully taxable profits in Thailand, resulting in the recognition of the \$4.3 Solar Benefit.

The United States Tax Cuts and Jobs Act (U.S. Tax Reform) was enacted on December 22, 2017 and became effective January 1, 2018. Although the legislative changes contained in the U.S. Tax Reform are extensive and the interpretation of several aspects of such U.S. Tax Reform is still unclear, we recorded an income tax expense for all significant known and determinable impacts during the fourth quarter of 2017. In connection with the reduction in U.S. federal corporate tax rates from 35% to 21%, we recorded a one-time, non-cash increase to our deferred income tax expense of \$2.0 to re-value our recognized net deferred tax assets. We believe we have recorded all significant one-time impacts resulting from the U.S. Tax Reform in the fourth quarter of 2017, but will continue to assess additional impacts, if any, throughout 2018 as they become known due to changes in our interpretations and assumptions, as well as additional regulatory guidance that may be issued.

During 2016, we recorded a net income tax expense of \$24.7 which was favorably impacted by the reversal of provisions previously recorded for tax uncertainties related to the resolution of a transfer pricing matter for one of our Canadian subsidiaries. In connection therewith, we recorded aggregate income tax recoveries of \$45 million Canadian dollars (approximately \$34 at the exchange rates at the time of recording), as well as aggregate refund interest income of \$14.3 (see note 24). Our net income tax expense for 2016 was negatively impacted by withholding taxes of \$1.5 pertaining to the repatriation of \$50.0 from a U.S. subsidiary, deferred tax expense of \$8.0 related to taxable temporary differences associated with the then-anticipated repatriation of undistributed earnings from certain of our Chinese subsidiaries, as well as taxable foreign exchange impacts of \$7.3 resulting from the weakening of the Malaysian ringgit and Chinese renminbi relative to the U.S. dollar (Currency Tax Expense). Of the \$7.3 net Currency Tax Expense for 2016, \$3.1 represented deferred tax costs primarily related to the revaluation of non-monetary balances (primarily capital assets and inventory on-hand) from historical average exchange rates to the then-current period-end exchange rates, while the remaining \$4.2 primarily represented cash costs resulting from increased local currency taxable profits that arose as a result of translating our U.S. dollar functional currency results to local currency for Chinese and Malaysian tax reporting purposes. There was no tax impact recorded in 2016 associated with the \$21.2 non-cash impairment charges (through restructuring), however, as discussed above, we recorded the Solar Benefit of \$4.3 in 2017. See note 16(a).

During 2015, we recorded a net income tax expense of \$42.2 which was negatively impacted by a \$12.2 Currency Tax Expense. Of the \$12.2 net Currency Tax Expense for 2015, \$4.5 represented deferred tax costs primarily related to the revaluation of non-monetary balances (primarily capital assets and inventory on-hand) from historical average exchange rates to the then-current period-end exchange rates, while the remaining \$7.7 primarily represented cash costs resulting from increased local currency taxable profits that arose as a result of translating our U.S. dollar functional currency results to local currency for Chinese and Malaysian tax reporting purposes. There was no net tax impact associated with the \$12.2 non-cash impairment charge we recorded in the fourth quarter of 2015. See note 16(b).

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Changes in deferred tax assets and liabilities for the periods indicated are as follows:

	Unrealized foreign exchange gains	Accounting provisions not currently deductible	Pensions and non-pension post-retirement benefits	Tax losses carried forward	Property, plant and equipment and intangibles	Other	Reclassification between deferred tax assets and deferred tax liabilities ⁽ⁱ⁾	Total
Deferred tax assets:								
Balance — January 1, 2016	\$ —	\$ 10.8	\$ —	\$ 47.8	\$ —	\$ 20.8	\$ (39.3)	\$ 40.1
Credited (charged) to net earnings	—	0.2	—	(4.5)	—	(8.8)	—	(13.1)
Credited (charged) directly to equity	—	—	—	(13.3)	—	0.6	—	(12.7)
Effects of foreign exchange	—	(0.6)	—	0.2	—	—	—	(0.4)
Other	—	—	—	—	—	—	22.5	22.5
Balance — December 31, 2016	—	10.4	—	30.2	—	12.6	(16.8)	36.4
Credited (charged) to net earnings	—	(1.9)	—	4.5	—	(14.8)	—	(12.2)
Charged directly to equity	—	—	—	(1.7)	—	—	—	(1.7)
Effects of foreign exchange	—	0.3	—	1.6	—	—	—	1.9
Other	—	—	—	—	6.3	2.2	6.3	14.8
Balance — December 31, 2017	\$ —	\$ 8.8	\$ —	\$ 34.6	\$ 6.3	\$ —	\$ (10.5)	\$ 39.2
Deferred tax liabilities:								
Balance — January 1, 2016	\$ 30.6	\$ —	\$ 24.1	\$ —	\$ 10.4	\$ —	\$ (39.3)	\$ 25.8
Charged (credited) to net earnings	(4.3)	—	—	—	2.0	(0.3)	—	(2.6)
Charged (credited) directly to equity	—	—	(11.9)	—	—	0.3	—	(11.6)
Effects of foreign exchange	0.2	—	—	—	0.4	0.1	—	0.7
Other	—	—	—	—	—	—	22.5	22.5
Balance — December 31, 2016	26.5	—	12.2	—	12.8	0.1	(16.8)	34.8
Charged (credited) to net earnings	(2.9)	—	0.1	—	(18.7)	(2.5)	—	(24.0)
Charged (credited) directly to equity	—	—	(1.7)	—	—	2.5	—	0.8
Effects of foreign exchange	1.6	—	—	—	(0.4)	—	—	1.2
Other	—	—	—	—	6.3	2.1	6.3	14.7
Balance — December 31, 2017	\$ 25.2	\$ —	\$ 10.6	\$ —	\$ —	\$ 2.2	\$ (10.5)	\$ 27.5

(i) This reclassification reflects the offsetting of deferred tax assets and deferred tax liabilities to the extent they relate to the same taxing authorities and there is a legally enforceable right to such offset.

The amount of deductible temporary differences and unused tax losses for which no deferred tax assets have been recognized at December 31, 2017 is \$1,977.7 (December 31, 2016 — \$1,863.8). We have not recognized deferred tax assets in respect of these items because, based on management's estimates, it is not probable that future taxable profit will be available against which we can utilize the benefits. A portion of these tax losses expires between 2018 and 2037 and a portion can be carried forward indefinitely to offset taxable profits. The deductible temporary differences do not expire under current tax legislation.

The aggregate amount of temporary differences associated with investments in subsidiaries for which we have not recognized deferred tax liabilities is nil (December 31, 2016 — nil).

We have not recorded any deferred tax assets related to losses realized in the current or prior year for any of our subsidiaries. We recognize deferred tax assets based on our estimate of the future taxable profit we expect our subsidiaries to achieve based on our review of financial projections.

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Certain countries in which we do business grant tax incentives to attract or retain our business. Our tax expense could increase significantly if certain tax incentives from which we benefit are retracted. A retraction could occur if we fail to satisfy the conditions on which these tax incentives are based, or if they are not renewed or replaced upon expiration. Our tax expense could also increase if tax rates applicable to us in such jurisdictions are otherwise increased, or due to changes in legislation or administrative practices. Changes in our outlook in any particular country could impact our ability to meet the required conditions.

Our tax incentives currently consist of tax holidays for the profits of our Thailand and Laos subsidiaries, as well as tax incentives for dividend withholding taxes for these subsidiaries. These tax incentives are subject to certain conditions with which we intend to comply, and expire between 2019 and 2027. We were granted tax incentives for our Malaysian subsidiaries from 2010 to 2014, however, we did not benefit from any Malaysian tax incentives thereafter. The aggregate tax benefit arising from all of our tax incentives was approximately \$7.6 or \$0.05 per diluted share for 2017, \$7.3 or \$0.05 per diluted share for 2016, and \$11.6 or \$0.07 per diluted share for 2015.

We have multiple income tax incentives in Thailand with varying exemption periods. These incentives initially allow for a 100% income tax exemption (including distribution taxes), which after eight years transition to a 50% income tax exemption for the next five years. Upon full expiry of each of the incentives, taxable profits associated with such expired tax incentives become fully taxable. As a result of our exit from the solar panel manufacturing business, we withdrew our tax incentive related to our solar panel manufacturing operations in Thailand during the second quarter of 2017. Two of our remaining three Thailand tax incentives expire between 2019 and 2020, while the third incentive will transition to the 50% exemption in 2022, and expire in 2027.

Our Malaysian income tax incentives expired as of the end of 2014. While negotiations for Malaysian incentives are ongoing, we currently expect to be granted new pioneer incentives for only limited portions of our Malaysian business. As a result, we recorded Malaysian income taxes at full statutory tax rates commencing in 2015. As we continue to negotiate tax incentives with Malaysian authorities, including the activities covered, exemption levels, incentive conditions or commitments, and the effective commencement date of the incentive, we are currently unable to quantify the benefits or applicable periods of any such incentives, and there can be no assurance that any such incentives will be granted.

See note 24 regarding income tax settlements and a Brazilian sales tax contingency.

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:

Our financial assets are comprised primarily of cash and cash equivalents, accounts receivable, and derivatives used for hedging purposes. Our financial liabilities are comprised primarily of accounts payable, certain accrued and other liabilities, the Term Loan, borrowings under the Revolving Facility (when applicable), and derivatives. We record the majority of our financial liabilities at amortized cost except for derivative liabilities, which we measure at fair value. We classify our term deposits as held-to-maturity. We record our short-term investments in money market funds at fair value, with changes recognized in our consolidated statement of operations. The carrying value of the Term Loan approximates its fair value as it bears interest at a variable market rate. We classify the financial assets and liabilities that we measure at fair value based on the inputs used to determine fair value at the measurement date. There have been no significant changes to the classification or to the source of the inputs used to measure our financial assets or liabilities since December 31, 2016.

Cash and cash equivalents are comprised of the following:

	December 31	
	2016	2017
Cash.....	\$ 463.4	\$ 401.5
Cash equivalents.....	93.8	113.7
	\$ 557.2	\$ 515.2

Our current portfolio of cash equivalents consist of bank deposits. The majority of our cash and cash equivalents is held with financial institutions each of which had at December 31, 2017 a Standard and Poor's short-term rating of A-1 or above.

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Financial risk management objectives:

We have exposures to a variety of financial risks through our operations. We regularly monitor these risks and have established policies and business practices to mitigate the adverse effects of these potential exposures. We have used derivative financial instruments, such as foreign currency forward and swap contracts, to reduce the effects of some of these risks. We do not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

(a) *Currency risk:*

Due to the global nature of our operations, we are exposed to exchange rate fluctuations on our financial instruments denominated in various currencies. The majority of our currency risk is driven by operational costs, including income tax expense, incurred in local currencies by our subsidiaries. As part of our risk management program, we attempt to mitigate currency risk through a hedging program using forecasts of our anticipated future cash flows and balance sheet exposures denominated in foreign currencies. We enter into foreign exchange forward contracts and swaps, generally for periods up to 12 months, to lock in the exchange rates for future foreign currency transactions, which is intended to reduce the variability of our operating costs and future cash flows denominated in local currencies. While these contracts are intended to reduce the effects of fluctuations in foreign currency exchange rates, our hedging strategy does not mitigate the longer-term impacts of changes to foreign exchange rates. Although our functional currency is the U.S. dollar, currency risk on our income tax expense arises as we are generally required to file our tax returns in the local currency for each particular country in which we have operations. While our hedging program is designed to mitigate currency risk vis-à-vis the U.S. dollar, we remain subject to taxable foreign exchange impacts in our translated local currency financial results relevant for tax reporting purposes.

Our major currency exposures at December 31, 2017 are summarized in U.S. dollar equivalents in the following table. In this table below, in addition to our financial instruments, we have included certain monetary assets and liabilities, including pension and non-pension post-employment benefits and income taxes that were denominated in non-functional currencies, in order to better reflect our currency exposures. The local currency amounts have been converted to U.S. dollar equivalents using spot rates at December 31, 2017.

	Canadian dollar	British pound sterling	Euro	Thai baht
Cash and cash equivalents	\$ 9.6	\$ 0.3	\$ 8.6	\$ 1.3
Accounts receivable	0.6	—	28.5	1.5
Pension and non-pension post-employment assets	—	55.0	—	—
Income taxes and value-added taxes receivable	16.3	—	18.5	6.3
Other financial assets	6.7	—	1.7	0.2
Pension and non-pension post-employment liabilities	(74.2)	—	(0.5)	(12.0)
Income taxes and value-added taxes payable	(2.6)	—	(1.2)	(0.8)
Accounts payable and certain accrued and other liabilities and provisions	(55.8)	(0.9)	(33.0)	(18.0)
	<u>\$ (99.4)</u>	<u>\$ 54.4</u>	<u>\$ 22.6</u>	<u>\$ (21.5)</u>
Net financial assets (liabilities)				

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Foreign currency risk sensitivity analysis:

The financial impact of a one-percentage point strengthening or weakening of the following currencies against the U.S. dollar for our financial instruments denominated in such non-functional currencies is summarized in the following table as at December 31, 2017. The financial instruments impacted by a change in exchange rates include our exposures to the above financial assets or liabilities denominated in non-functional currencies and our foreign exchange forward contracts and swaps.

	<u>Canadian dollar</u>	<u>British pound sterling</u>	<u>Euro</u>	<u>Thai baht</u>
	Increase (decrease)			
1% Strengthening				
Net earnings	\$ (0.1)	\$ —	\$ —	\$ (0.1)
Other comprehensive income	1.2	—	0.1	0.7
1% Weakening				
Net earnings	0.1	—	—	0.1
Other comprehensive income	(1.2)	—	(0.1)	(0.7)

(b) Interest rate risk:

Borrowings under our credit facility bear interest at specified rates, plus specified margins. See note 12. Our borrowings under this facility, which at December 31, 2017 totaled \$187.5 (December 31, 2016 — \$227.5), expose us to interest rate risk due to potential increases to the specified rates and margins. A one-percentage point increase in these rates would increase interest expense, based on outstanding borrowings of \$187.5 at December 31, 2017, by \$1.9 annually.

(c) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss to us. We believe the credit risk of counterparty non-performance is relatively low, however, if a key supplier (or any company within our supply chain) or customer experiences financial difficulties or fails to comply with their contractual obligations, this could result in a financial loss to us. With respect to our financial market activities, we have adopted a policy of dealing only with credit-worthy counterparties to help mitigate the risk of financial loss from defaults. We monitor the credit risk of the counterparties with whom we conduct business, through a combined process of credit rating reviews and portfolio reviews. To attempt to mitigate the risk of financial loss from defaults under our foreign currency forward contracts and swaps, our contracts are held by counterparty financial institutions, each of which had a Standard and Poor's rating of A-2 or above at December 31, 2017. In addition, we maintain cash and short-term investments in highly-rated investments or on deposit with major financial institutions. Each financial institution with which we have our accounts receivable sales program and the supplier financing program had a Standard and Poor's short-term rating of A-2 or above and a long-term rating of A- or above at December 31, 2017. Each financial institution from which annuities have been purchased for the defined benefit component of our Canadian pension plan had an A.M. Best or Standard and Poor's long-term rating of A- or above at December 31, 2017. In addition, the financial institutions from which annuities have been purchased for the defined benefit component of our U.K. pension plans are governed by local regulatory bodies.

We also provide unsecured credit to our customers in the normal course of business. Customer exposures that potentially subject us to credit risk include our accounts receivable, inventory on hand, and non-cancellable purchase orders in support of customer demand. From time to time, we extend the payment terms applicable to certain customers and/or provide longer payment terms to new customers or with respect to new programs. If this becomes more prevalent, it could adversely impact our working capital requirements, and increase our financial exposure and credit risk. We attempt to mitigate customer credit risk by monitoring our customers' financial condition and performing ongoing credit evaluations as appropriate. In certain instances, we may obtain letters of credit or other forms of security from our customers. We may also purchase credit insurance from a financial institution to reduce our credit exposure to certain customers. We consider credit risk in determining our estimates of reserves for potential credit losses. The carrying amount of financial assets recorded in the consolidated financial statements, net of any allowances or reserves for losses, represents our estimate of maximum exposure to credit risk. At December 31, 2017,

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less than 1% of our gross accounts receivable are over 90 days past due. Accounts receivable are net of an allowance for doubtful accounts of \$4.3 at December 31, 2017 (December 31, 2016 — \$3.1).

(d) *Liquidity risk:*

Liquidity risk is the risk that we may not have cash available to satisfy our financial obligations as they come due. The majority of our financial liabilities recorded in accounts payable, accrued and other current liabilities and provisions are due within 90 days. We manage liquidity risk by maintaining a portfolio of liquid funds and investments and having access to a revolving credit facility, intraday and overnight bank overdraft facilities, an accounts receivable sales program and a customer's supplier financing program. Since our \$200.0 accounts receivable sales program and the customer's supplier financing program are each on an uncommitted basis, there can be no assurance that any participant bank will purchase all the accounts receivable that we wish to sell thereunder. However, we believe that cash flow from operating activities, together with cash on hand, cash from the sale of accounts receivable, and borrowings available under the Revolving Facility and intraday and overnight bank overdraft facilities are sufficient to fund our currently anticipated financial obligations.

Fair values:

We estimate the fair value of each class of financial instruments. The carrying values of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and provisions, and borrowings under the Revolving Facility approximate the fair values of these financial instruments due to the short-term nature of these instruments. The carrying value of the Term Loan approximates its fair value as it bears interest at a variable market rate. The fair values of foreign currency contracts are estimated using generally accepted valuation models based on a discounted cash flow analysis with inputs of observable market data, including currency rates and discount factors. Discount factors are adjusted by our own credit risk or the credit risk of the counterparty, depending on whether the fair values are in liability or asset positions, respectively.

Fair value measurements:

In the table below, we have segregated our financial assets and liabilities that are measured at fair value, based on the inputs used to determine fair value at the measurement date. The three levels within the fair value hierarchy, based on the reliability of inputs, are as follows:

- level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- level 2 inputs are inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly (*i.e.* prices) or indirectly (*i.e.* derived from prices); and
- level 3 inputs are inputs for the asset or liability that are not based on observable market data (*i.e.* unobservable inputs).

	December 31, 2016			December 31, 2017		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Derivatives — foreign currency forwards and swaps.....	\$ —	\$ 5.9	\$ 5.9	\$ —	\$ 12.9	\$ 12.9
Liabilities:						
Derivatives — foreign currency forwards and swaps.....	\$ —	\$ (15.5)	\$ (15.5)	\$ —	\$ (2.6)	\$ (2.6)

See note 19 for the input levels used to measure the fair value of our pension assets.

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Foreign currency forward and swap contracts are valued using an income approach, by comparing the current quoted market forward rates to our contract rates and discounting the values with appropriate market observable credit risk adjusted rates. We have not valued any of our financial instruments described herein using level 3 (unobservable) inputs. There were no transfers of fair value measurements between level 1 and level 2 of the fair value hierarchy in 2017 or 2016.

Derivatives and hedging activities:

We enter into foreign exchange forward contracts to hedge our cash flow exposures and foreign currency swaps to hedge our balance sheet exposures. At December 31, 2017, we had foreign exchange forwards and swaps to trade U.S. dollars in exchange for the following currencies:

Currency	Contract amount of U.S. dollars	Weighted average exchange rate in U.S. dollars	Maximum period in months	Fair value gain/(loss)
Canadian dollar	\$ 204.8	\$ 0.80	12	\$ 4.1
Thai baht	79.0	0.03	12	2.2
Malaysian ringgit	48.4	0.23	12	2.6
Mexican peso	29.3	0.05	12	(0.9)
British pound	56.4	1.34	3	(0.5)
Chinese renminbi	71.6	0.15	12	1.5
Euro	28.7	1.19	12	0.1
Romanian leu	28.4	0.25	12	0.6
Singapore dollar	25.0	0.73	12	0.6
Other	4.5			—
Total	\$ 576.1			\$ 10.3

At December 31, 2017, the fair value of our outstanding contracts was a net unrealized gain of \$10.3 (December 31, 2016 — net unrealized loss of \$9.6). Changes in the fair value of hedging derivatives to which we apply cash flow hedge accounting, to the extent effective, are deferred in other comprehensive income (loss) until the expenses or items being hedged are recognized in our consolidated statement of operations. Any hedge ineffectiveness, which at December 31, 2017 was not significant, is recognized immediately in our consolidated statement of operations. At December 31, 2017, we recorded \$12.9 of derivative assets in other current assets and \$2.6 of derivative liabilities in accrued and other current liabilities (December 31, 2016 — \$5.9 of derivative assets in other current assets and \$15.5 of derivative liabilities in accrued and other current liabilities). The unrealized gains or losses are a result of fluctuations in foreign exchange rates between the date the currency forward or swap contracts were entered into and the valuation date at period end.

Certain forward contracts to trade U.S. dollars do not qualify as hedges, most significantly certain Canadian dollar and British pound sterling contracts, and we have marked these contracts to market each period in our consolidated statement of operations.

22. CAPITAL DISCLOSURES:

Our main objectives in managing our capital resources are to ensure liquidity and to have funds available for working capital or other investments we determine are required to grow our business. Our capital resources consist of cash provided by operating activities, access to the Revolving Facility, intraday and overnight bank overdraft facilities, an accounts receivable sales program, a customer's supplier financing program and our ability to issue debt or equity securities.

We regularly review our borrowing capacity and make adjustments, as permitted, for changes in economic conditions and changes in our requirements. In 2015, we amended our \$300.0 revolving credit facility (which was scheduled to mature in October 2018) to add the Term Loan to fund a portion of our share repurchases under a 2015 SIB, and to extend the maturity of the entire facility to May 2020. The Revolving Facility has an accordion feature that allows us to increase the \$300.0 limit by an additional \$150.0 on an uncommitted basis upon satisfaction of certain terms and conditions. The Revolving Facility also

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includes a \$25.0 swing line, subject to the overall revolving credit limit, that provides for short-term borrowings up to a maximum of seven days. See note 12. At December 31, 2017, we had no outstanding balance under the Revolving Facility and \$23.2 outstanding in letters of credit under the Revolving Facility. As a result, we had \$276.8 available as of December 31, 2017 under the Revolving Facility for future borrowings. We are required to comply with certain restrictive covenants in respect of our credit facility, including those relating to the incurrence of senior ranking indebtedness, the sale of assets, a change of control, and certain financial covenants relating to indebtedness and interest coverage. Certain of our assets are pledged as security for borrowing under this facility. We closely monitor our business performance to evaluate compliance with our restrictive and financial covenants. We were in compliance with all restrictive and financial covenants under our credit facility as of December 31, 2017. We continue to monitor and review the most cost-effective methods of raising capital, taking into account these restrictions and covenants. We also have access to \$73.5 in intraday and overnight bank overdraft facilities, and we may sell up to \$200.0 in accounts receivable under an accounts receivable sales program, or utilize a customer's supplier financing program if available, to provide short-term liquidity. See note 5. At December 31, 2017, we sold \$80.0 of our accounts receivable under our accounts receivable sales program and \$52.3 under a customer's supplier financing program. The term of our \$200.0 accounts receivable sales program has been annually extended by amendment for additional one-year periods (and is currently extendable to November 2019 under specified circumstances), but may be terminated earlier as provided in the agreement governing the program. See note 5. In addition, since our \$200.0 accounts receivable sales program and the customer's supplier financing program are each on an uncommitted basis, there can be no assurance that any participant bank will purchase the accounts receivable we intend to sell thereunder. The timing and amounts we may borrow and repay under these facilities can vary significantly from month-to-month depending on our working capital and other cash requirements.

We have commenced NCIBs or SIBs in the past few years, pursuant to which we are permitted to or have repurchased and canceled subordinate voting shares. See note 13 for details. In addition, we have purchased subordinate voting shares from time-to-time in the open market through a broker for delivery under our stock-based compensation plans. We have not distributed, nor do we have any current plan to distribute, any dividends to our shareholders.

Our strategy on capital risk management has not changed significantly since the end of 2016. Other than the restrictive and financial covenants associated with our credit facility noted above, we are not subject to any contractual or regulatory capital requirements. While some of our international operations are subject to government restrictions on the flow of capital into and out of their jurisdictions, these restrictions have not had a material impact on our operations or cash flows.

23. WEIGHTED AVERAGE NUMBER OF SHARES DILUTED (in millions):

	2015	2016	2017
Weighted average number of shares (basic)	155.8	141.8	143.1
Dilutive effect of outstanding awards under stock-based compensation plans	2.1	2.1	2.1
Weighted average number of shares (diluted)	157.9	143.9	145.2

For the year ended December 31, 2017, we excluded 0.2 million of stock-based awards (year ended December 31, 2016 — 0.3 million; year ended December 31, 2015 — 0.1 million) from the diluted weighted average per share calculation as they were out-of-the-money.

References to shares in this note 23 are to our subordinate voting shares and our multiple voting shares taken collectively.

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24. COMMITMENTS, CONTINGENCIES AND GUARANTEES:

At December 31, 2017, we have future minimum lease payments as follows:

	Operating Leases	Finance Leases
2018	\$ 33.2	\$ 13.2
2019	25.7	2.0
2020	15.5	1.6
2021	9.2	1.1
2022	7.4	0.3
Thereafter	25.4	—
Total future minimum lease payments	<u>\$ 116.4</u>	<u>18.2</u>
Less: amount representing interest		<u>(0.5)</u>
Present value of future minimum finance lease payments (note 12)		17.7
Less: current portion of finance lease obligations		<u>(12.9)</u>
Long-term portion of finance lease obligations		<u>\$ 4.8</u>

Our operating lease commitments primarily relate to premises. Our finance lease commitments relate to equipment, including \$11.1 as at December 31, 2017 for our solar panel manufacturing equipment in Asia (see notes 4 and 12). In connection with the anticipated disposition of such solar equipment, we terminated and settled the lease obligations in full in January 2018. As at December 31, 2017, we had committed \$27.5 for capital expenditures, principally for machinery and equipment to support new customer programs.

We have contingent liabilities in the form of letters of credit, letters of guarantee and surety bonds (collectively, Guarantees) which we have provided to various third parties. The foregoing Guarantees cover various payments, including customs and excise taxes, utility commitments and certain bank guarantees. At December 31, 2017, the Guarantees amounted to \$36.8 (December 31, 2016 — \$37.8), including \$23.2 (December 31, 2016 — \$25.8) of letters of credit outstanding under the Revolving Facility.

We are also required to make contributions under our pension and non-pension post-employment benefit plans (see note 19), and quarterly mandatory principal repayments under the Term Loan (see note 12). See note 21 for our obligations under the foreign exchange contracts we held at December 31, 2017.

In addition to the Guarantees, we provide routine indemnifications, the terms of which range in duration and often are not explicitly defined. These may include indemnifications against third-party intellectual property infringement claims and certain third-party negligence claims for property damage. We have also provided indemnifications in connection with the sale of certain businesses and real property. The maximum potential liability from these indemnifications cannot be reasonably estimated. In some cases, we have recourse against other parties to mitigate our risk of loss from these indemnifications. Historically, we have not made significant payments relating to these types of indemnifications.

Litigation:

In the normal course of our operations, we may be subject to lawsuits, investigations and other claims, including environmental, labor, product, customer disputes and other matters. Management believes that adequate provisions have been recorded where required. Although it is not always possible to estimate the extent of potential costs, if any, management believes that the ultimate resolution of all such pending matters will not have a material adverse impact on our financial performance, financial position or liquidity.

In 2007, securities class action proceedings were initiated against us and our former Chief Executive and Chief Financial Officers in the Ontario Superior Court of Justice. The proceedings were dismissed on January 16, 2017 with no payments by the defendants.

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Income taxes:

We are subject to tax audits of historical information by tax authorities in various jurisdictions, which could result in additional tax expense in future periods relating to prior results. Reviews by tax authorities generally focus on, but are not limited to, the validity of our inter-company transactions, including financing and transfer pricing policies which generally involve subjective areas of taxation and a significant degree of judgment. If any of these tax authorities are successful with their challenges, our income tax expense may be adversely affected and we could also be subject to interest and penalty charges.

As previously disclosed, Canadian tax authorities had taken the position that the income reported by one of our Canadian subsidiaries should have been materially higher in 2001 and 2002 and materially lower in 2003 and 2004 as a result of certain inter-company transactions (Transfer Pricing Matters). In connection therewith, such authorities reassessed tax amounts owed by us, and also imposed limitations on benefits associated with favorable adjustments (Benefits Limitation). We had appealed this decision and sought resolution of the Transfer Pricing Matters from the relevant Competent Authorities under applicable treaty principles. In the third quarter of 2016, the Canadian and U.S. tax authorities informed us that a mutual conclusion had been reached with respect to the Transfer Pricing Matters, and the Canadian tax authorities withdrew their position, reversing the adjustments for the years 2001 through 2004. The Canadian tax authorities also reversed the adverse adjustments related to the Benefits Limitation. In connection therewith, in the second half of 2016, we recorded aggregate current income tax recoveries of \$45 million Canadian dollars (approximately \$34 at the exchange rates at the time of recording) to reverse previously recorded provisions for tax uncertainties related to transfer pricing, as well as aggregate refund interest income of \$19 million Canadian dollars (approximately \$14 at the exchange rates at the time of recording) for cash held on account with the tax authorities in connection with the Benefits Limitation and Transfer Pricing Matters.

Canadian tax authorities had also taken the position that certain interest amounts deducted by one of our Canadian entities in 2002 through 2004 on historical debt instruments should be re-characterized as capital losses (Canadian Interest Matter), a position which we had previously appealed. In 2016, the Canadian tax authorities issued revised reassessments, which primarily had the effect of reducing unrecognized gross deferred tax assets and virtually eliminating the net income tax expense. As the net impact of the revised reassessments was nominal, we accepted them and the matter was closed in 2016.

As a result of the resolution of the Transfer Pricing Matters, Benefits Limitation and the Canadian Interest Matter, we received \$70 million Canadian dollars (approximately \$52 at settlement date exchange rates) during the fourth quarter of 2016, representing the refund of cash previously deposited on account with the Canadian tax authorities and related refund interest income. We also received \$6 million Canadian dollars (approximately \$4 at settlement date exchange rates) in January 2017. The aggregate amount of cash refunds received represented the return of all deposits and related refund interest in respect of the Canadian tax matters.

In 2015, we de-recognized the future benefit of certain Brazilian tax losses, which were previously recognized on the basis that these tax losses could be fully utilized to offset unrealized foreign exchange gains on inter-company debts that would become realized in the fiscal period ending on the date of dissolution of our Brazilian subsidiary. Due to the then-weakening of the Brazilian real against the U.S. Dollar, the unrealized foreign exchange gains had diminished to the point where the tax cost to settle such inter-company debt was significantly reduced. Accordingly, our Brazilian inter-company debts were settled on April 7, 2015 triggering a tax liability of \$1 and the relevant tax costs related to the foreign exchange gains were accrued as at December 31, 2015.

The successful pursuit of the assertions made by any taxing authority could result in our owing significant amounts of tax, interest and possibly penalties. We believe we adequately accrue for any probable potential adverse tax ruling. However, there can be no assurance as to the final resolution of any claims and any resulting proceedings. If any claims and any ensuing proceedings are determined adversely to us, the amounts we may be required to pay could be material, and could be in excess of amounts accrued.

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Other matters:

In 2017, the Brazilian Ministry of Science, Technology, Innovation and Communications (MCTIC) issued assessments seeking to disqualify certain amounts of research and development (R&D) expenses for the years 2006 to 2009, which entitled our Brazilian subsidiary (which ceased operations in 2009) to charge reduced sales tax levies to its customers. The assessments against our Brazilian subsidiary (including interest and penalties) total approximately 39 million Brazilian real (approximately \$12 at year-end exchange rates) for such years. Although we cannot predict the outcome of this matter, we believe that our R&D activities for the period are supportable, and it is probable that our position will be sustained upon full examination by the appropriate Brazilian authorities and, if necessary, upon consideration by the Brazilian judicial courts. Our position is supported by our Brazilian legal advisers.

25. SEGMENT AND GEOGRAPHIC INFORMATION:

We are required to disclose certain information regarding operating segments, products and services, geographic areas and major customers. Operating segments are defined as components of an enterprise for which separate financial information is available that is regularly evaluated by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Although we aligned our end markets into two customer focused areas in 2017, namely Advanced Technology Solutions (ATS) and Connectivity & Cloud Solutions (CCS), we continued to operate as one reportable segment, electronics manufacturing services, for 2017. Our chief operating decision maker is our Chief Executive Officer.

The following table indicates revenue by end market as a percentage of total revenue for the periods indicated. Our revenue fluctuates from period-to-period depending on numerous factors, including but not limited to: the mix and complexity of the products or services we provide, the extent, timing and rate of new program wins, and the execution of our programs and services, follow-on business, program completions or losses, the phasing in or out of programs, the success in the marketplace of our customers' products, changes in customer demand, and the seasonality of our business. We expect that the pace of technological change, the frequency of customers transferring business among EMS competitors, the level of outsourcing by customers (including decisions to insource), and the dynamics of the global economy will also continue to impact our business from period-to-period.

	Year ended December 31		
	2015	2016	2017
Advanced Technology Solutions (ATS)	32%	32%	32%
Communications	40%	42%	43%
Enterprise	28%	26%	25%

For reporting purposes, commencing in 2017, we combined our previously-reported Diversified and Consumer end markets to form our ATS end market, and combined our Servers and Storage end markets into a single "Enterprise" end market. All period percentages herein reflect these changes.

The following table details our external revenue allocated by manufacturing location among countries that generated in excess of 10% of total revenue for the years indicated:

	Year ended December 31		
	2015	2016	2017
Thailand	33%	36%	34%
China	23%	21%	21%
Malaysia	14%	13%	12%

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The following table details our allocation of property, plant and equipment, intangible assets and goodwill among countries that exceeded 10% of total property, plant and equipment, intangible assets and goodwill for the years indicated:

	December 31	
	2016	2017
China	23%	22%
Thailand	17%	17%
Malaysia	17%	14%
Romania	*	14%
United States	13%	12%
Canada	*	*

* Less than 10% in 2016 and 2017.

Customers:

We had two customers that individually represented more than 10% of total revenue in 2017. In the aggregate, those customers comprised 31% of total revenue. Cisco Systems accounted for 18% of total revenue in 2017 (2016 — 19%) and Juniper Networks accounted for 13% of total revenue in 2017 (2016 — 11%). At December 31, 2017, we had two customers that individually represented more than 10% of total accounts receivable.

We had two customers that individually represented more than 10% of total revenue in 2016. In aggregate, those customers comprised 30% of total revenue. At December 31, 2016, we had three customers that individually represented more than 10% of total accounts receivable.

We had three customers that individually represented more than 10% of total revenue in 2015. In aggregate, those customers comprised 38% of total revenue. At December 31, 2015, we had two customers that individually represented more than 10% of total accounts receivable.

26. SUBSEQUENT EVENT:

In January 2018, we entered into a definitive agreement to acquire Atrenne, a U.S.-based designer and manufacturer of ruggedized electromechanical solutions, primarily for military and commercial aerospace applications. The purchase price is approximately \$139 (subject to specific adjustments as set forth in the definitive agreement), which we intend to finance using a combination of cash on hand and our Revolving Facility. The transaction is expected to close in the second quarter of 2018, subject to receipt of applicable regulatory approvals and satisfaction of other customary closing conditions. There can be no assurance that this transaction will be consummated in a timely manner, or at all.