

REPORT ON EXECUTIVE COMPENSATION

This report of the Compensation Committee of Celestica's Board of Directors sets out the policies of the Compensation Committee for determining compensation of Celestica's executive officers. Compensation paid to Celestica's chief executive officer, chief financial officer, the three other most highly compensated executive officers and Mr. Delaney during 2006 is set out in the section entitled *Executive Compensation* on page 29 of this Circular.

Composition of the Compensation Committee

The members of the Compensation Committee are William Etherington (Chairman), Robert Crandall, Charles Szuluk and Don Tapscott, each of whom is an independent director.

Mandate of the Compensation Committee

It is the responsibility of the Compensation Committee to define and communicate compensation policies and principles that reflect and support the Corporation's strategic direction, business goals and desired culture. Pursuant to its mandate, the Compensation Committee reviews and makes recommendations to the Board with respect to the following matters:

- an overall reward/compensation policy for the Corporation, including an executive compensation policy that is consistent with competitive practice and supports organizational objectives and shareholder interests;
- the elements of the Corporation's annual, mid-term and long-term equity-based incentive compensation plans, including plan design, performance targets, administration and total funds/shares reserved for payment;
- the compensation of the Chief Executive Officer (the "CEO") based on the Board of Directors' assessment of the annual performance of the CEO;
- the compensation of the Corporation's most senior executives;
- the Corporation's succession plans for key executive positions; and

- material changes to the Corporation's organizational structure and human resource policies.

Independent Advice

The Compensation Committee has engaged Towers Perrin as its independent compensation consultant to assist it in identifying appropriate comparator companies against which to evaluate Celestica's compensation levels, to provide data about those companies, and to provide observations and recommendations with respect to Celestica's compensation practices versus the comparator group. Towers Perrin replaced Mercer effective July 2006 as independent compensation consultant.

Towers Perrin provides advice to the Committee on policy recommendations prepared by management. Towers Perrin or Mercer attended portions of all Committee meetings held in 2006, in person or by telephone, as requested by the Committee Chair.

Decisions made by the Compensation Committee, however, are the responsibility of the Committee and may reflect factors and considerations other than the information and recommendations provided by Towers Perrin or Mercer.

In 2006, the Committee's compensation advisor fees totalled approximately C\$233,532 (C\$183,397 — Towers Perrin; C\$50,135 — Mercer). Celestica also paid Mercer approximately \$1.6 million in 2006 for various compensation and benefits administration, actuarial and compliance tasks completed for management at various locations around the world, unrelated to the compensation of the Corporation's executives.

In 2006, the mandate of the Compensation Committee was amended to reflect changes in the

process relating to independent advisors to the Committee. These changes included:

- a requirement that the Committee engage an independent advisor;
- approval of the annual scope of activity by the independent consultant and corresponding budget as approved by the Chair;
- pre-approval by the Chair of any services, and associated fees, not related to executive compensation;
- annual meeting schedule, standing agenda items, and agenda items for individual meetings to be developed in consultation with the independent advisor;
- *in camera* meetings with the independent advisor to be part of every Committee meeting; and
- an annual performance assessment of the independent advisor by the Committee.

Compensation Objectives

The Corporation's executive compensation policies and practices are designed to:

- align the interests of the executive officers with the interests of the Corporation's

shareholders by ensuring that there is a significant component of compensation that is performance-based;

- link executive compensation to the performance of the Corporation relative to that of its competitors and the contribution of the individual to such performance;
- compensate executive officers at a level and in a manner that ensures the Corporation is capable of attracting, motivating and retaining individuals with exceptional executive skills and abilities; and
- ensure direct accountability for the overall results of Celestica.

The compensation of Celestica's executive officers is comprised of the following elements: base salary, short-term incentives (annual variable cash payments), mid-term incentives (performance and restricted share units), long-term incentives (regular and performance stock options) and benefits. The following chart summarizes each element of compensation.

Table 7: Compensation Elements

Element	Form	Eligibility	Performance Period	Determination
Base Salary	Cash	All executives, up to and including CEO	1 year	<ul style="list-style-type: none"> Salary benchmarking at market median and individual performance determines pay level.
Annual Incentive	Cash	All executives, up to and including CEO	1 year	<ul style="list-style-type: none"> Various combinations of corporate and business unit results, depending on position. Individual results. Performance relative to key competitors for SVP level and above.
Mid-Term Incentive	Restricted Share Units (“RSUs”)	All executives, up to and including CEO	Typically 3 years, released at end of the period	<ul style="list-style-type: none"> Each RSU entitles the holder to receive one Subordinate Voting Share of Celestica on the release date. Initial grant value is based on market median compensation and individual performance. Final value is based on the share price at time of release.
Mid-Term Incentive	Performance Share Units (“PSUs”)	All executives, up to and including CEO	Typically 3 years, released at end of the period	<ul style="list-style-type: none"> Each PSU entitles the holder to receive one Subordinate Voting Share of Celestica on the release date. Initial grant value is based on market median compensation and individual performance. Number of shares vested varies based on specific performance measure of return on invested capital in year 3 relative to those of direct electronics manufacturing service competitors and can range from 0 to 200% of grant. Final value is based on share price at time of release.
Long-Term Incentive	Stock Options	All executives, up to and including CEO	Vest at a rate of 25% annually over the first four years with a 10-year term.	<ul style="list-style-type: none"> Initial grant value is based on market median compensation and individual performance. Final value is based on share price at time of exercise relative to the exercise price, which is the closing market price on the business day prior to the date of the grant.
Long-Term Incentive	Performance Contingent Stock Options (“PCOs”)	Executive Vice Presidents and CEO	Vest at a rate of 33⅓% annually, subject to a performance multiplier, over the first 3 years and have a 10-year term.	<ul style="list-style-type: none"> Initial grant value is based on market median compensation and individual performance. Number of PCOs that vest varies based on specific performance measure of return on invested capital in year 3 relative to those of direct electronics manufacturing service competitors and can range from 0 to 200% of grant, subject to a “catch up” provision. Final value is based on share price at time of exercise relative to the exercise price, which is the closing market price on the business day prior to the date of grant.
Benefits	Health, dental, pension, life insurance and long-term disability programs.	All employees	Ongoing	<ul style="list-style-type: none"> Based on market median in local geography.

Comparator Companies and Market Positioning

The Compensation Committee benchmarks all elements of executive compensation against executive compensation of a comparator group of North American companies in the technology sector with revenue similar to Celestica and including four of the Corporation's direct competitors in the electronics manufacturing services industry (the "EMS Competitors"). The Compensation Committee reviews and approves the comparator companies each year.

For executive positions where no direct comparison exists or where there is insufficient data within that group, benchmarking is done using executive salary survey data for organizations similar in size to Celestica pursuant to a process approved by the Compensation Committee.

Target compensation is benchmarked at the market median (50th percentile) for both executive and non-executive levels.

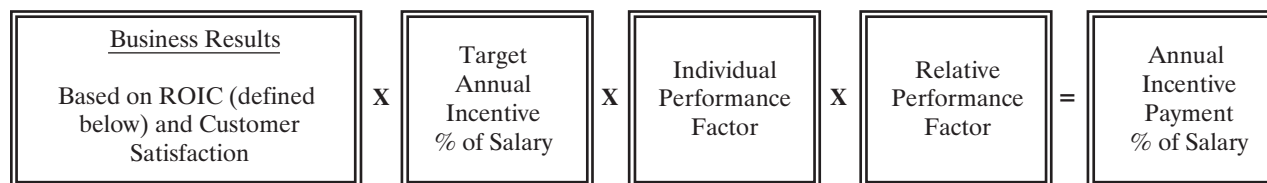
Weighting of Compensation Elements

At the executive levels, a high portion of the weighting includes "at risk" components which comprise an annual cash incentive and equity-based incentive awards. The variable portion of total compensation has the highest weighting at the most senior levels.

Annual Incentive Plans

Celestica Executive Team Incentive Plan

Executives of the Corporation participate in the Celestica Executive Team Incentive Plan. Payments under this plan are tied to achievement relative to pre-determined targets for financial and customer results at a corporate or business unit level, individual performance and the Corporation's performance relative to that of EMS Competitors on key financial metrics.



Corporate and business unit targets are based on returns on invested capital ("ROIC") and customer satisfaction. Targets are approved by the Board on

Rewards are contingent on organizational performance and ensure a strong alignment with shareholder interests. The average Celestica weighting of compensation elements is set out in the following chart.

Table 8: Weighting of Compensation Elements

	Base Salary	Annual Incentive	Equity
CEO	20%	20%	60%
EVP	25%	20%	55%
SVP	35%	15%	50%
VP	50%	15%	35%

Base Salary

Base salaries are established by taking into account individual performance and experience, level of responsibility and competitive pay practices through market median benchmarking. Base salaries are reviewed annually and adjusted as appropriate. Although base salaries are not directly linked to corporate performance, the Corporation considers the level of corporate performance achieved in the prior year as well as the expected level of performance in making any adjustments. The Compensation Committee reviews and recommends to the Board individual salary increases for the CEO, as well as all Executive and Senior Vice Presidents.

the recommendation of the Compensation Committee.

Results for these metrics determine the amount of the annual cash incentive. In addition, each metric of the incentive plan is capped at a target level of achievement unless a profitability threshold is met. In 2006, corporate business results were below target.

For those executives at the level of Senior Vice President and higher, the Compensation Committee reviews each executive's individual performance relative to business results, teamwork and the executive's key accomplishments. This assessment is factored into the executive's actual award and can increase or decrease the value of the incentive award.

Mid-Term and Long-Term Incentives

Celestica's mid-term and long-term equity-based incentives for senior executives consist of RSUs, PSUs, stock options and PCOs. The objectives of the mid-term and long-term equity-based incentive plans are to:

- align employee interests with those of shareholders and incent appropriate behaviours for long-term performance;
- reward employees for their contribution to Celestica's success; and
- enable the Corporation to attract and retain the qualified and experienced employees who are critical to the Corporation's success.

The equity mix varies by employee level and targets a higher percentage of performance elements at the senior levels where there is a stronger influence on results.

The Compensation Committee recommends to the Board of Directors for approval all awards under equity-based incentive plans for the CEO and the Executive and Senior Vice Presidents.

Mid-term and long-term incentives to employees are issued under the LTIP, which allows Celestica to satisfy its obligations by issuing shares from treasury, acquiring shares in the market or paying cash. Incentives are also issued under the Celestica Share Unit Plan (the "CSUP"), which provides for the issuance of RSUs and PSUs in the same manner as provided in the LTIP, except that Celestica may not issue shares from treasury to satisfy its obligations under the CSUP and there is no limit on the Subordinate Voting Shares that may be issued under the terms of the CSUP. In determining the number of equity grants to be made in a given year, Celestica

The Compensation Committee also evaluates the Corporation's performance for the year relative to that of the EMS Competitors. This evaluation is based on performance metrics relating to ROIC and adjusted earnings per share ("EPS") but is ultimately within the Committee's discretion. In 2006, the Corporation's performance relative to that of the EMS Competitors resulted in a relative performance factor of 25% based on the ROIC and EPS metrics. In 2006, annual incentive payments to most executives were substantially below target. The average senior executive payment was less than 10% of the target annual incentive amount.

targets a maximum level for both "burn rate" and "overhang" after taking into account competitive practice with reference to a comparison group that includes its direct competitors. "Burn rate" refers to the number of shares reserved for issuance under equity plans in a given year relative to the total number of shares outstanding. "Overhang" refers to the total number of shares reserved for issuance under equity plans at any given time relative to the total number of shares outstanding. Celestica is taking measures to lower the "overhang" and "burn rate" and has considerably reduced the number of stock option grants it now awards. In 2005, Celestica amended the LTIP to provide that the number of grants awarded under the plan in any given year cannot exceed 1.2% of the total number of shares outstanding.

The following table shows the equity incentive mix for executives that has been approved for the 2006 annual grant.

Table 9: Equity-Based Compensation

Percentage of Equity-Based Compensation Granted for 2006				
	PSUs	RSUs	PCOs	Stock Options
CEO	40%	20%	40%	0%
EVPs	40%	0%	40%	20%
SVPs	27%	43%	0%	30%
VPs	13%	55%	0%	32%

The foregoing table does not include grants to Mr. Muhlhauser in respect of his promotion to CEO. The terms and other information relating to all equity-based grants to the CEO are contained in the

Restricted Share Units

RSUs are granted annually at the VP level and above based on the recommendation of the CEO and subject to the approval of the Board. These grants are to be paid in the form of Subordinate Voting Shares ("SVS") at the release date, which is approximately three years from the date of the grant. The number of RSUs granted is determined with consideration to individual performance and with reference to grants at the median level for the comparator group. The percentage of total equity-based compensation represented by RSUs is outlined in Table 9.

The total number of RSUs granted to executives, including the CEO, for the 2006 annual grant was 666,528.

Throughout the year, Celestica also grants RSUs for new hire or retention purposes.

Performance Share Units

The use of PSUs allows Celestica to link rewards for executives more closely with individual and corporate performance. PSUs are granted annually to employees at the VP level and above based on the recommendation of the CEO and subject to the approval of the Board. The number of PSUs granted is determined with consideration to individual performance and with reference to grants at the median level for the comparator group. These grants convert into Subordinate Voting Shares and are released in full at the end of the performance period (approximately three years).

- The number of PSUs granted is based on consideration of individual performance.
- The number of PSUs that vest is determined by Celestica's rank compared to the EMS Competitors on a ROIC performance metric as outlined in Table 10.
- High performance means units vest above the target level and results in an award above market median. Conversely, low performance will result in an award below market median or no award.

The total number of PSUs granted for the 2006 annual grant to executives, including the CEO, was 375,262 units. This represents a vesting level of 100%, which is the target compensation value for this grant. The number of PSUs that vest will range from 0 to 200% depending on the Corporation's relative performance ranking.

Table 10: Performance Vesting

PSU and PCO Vesting Schedule	
Performance	Performance Multiplier
1 st Ranked	200% of target
2 nd Ranked	150% of target
3 rd Ranked	100% of target
4 th Ranked	50% of target
5 th Ranked	0% of target

Stock Options

Stock options are granted annually under Celestica's LTIP, based on the recommendation of the CEO and subject to the approval of the Board. Stock options vest 25% annually over four years.

The total number of stock options granted to executives for the 2006 annual grant was 1,194,656, including a special grant to Mr. Muhlhauser upon his promotion to CEO. Throughout the year, Celestica also grants stock options for new hire or retention purposes.

Performance Contingent Stock Options

PCOs provide the opportunity for significant gains for superior performance and reduced gain for lower performance. PCOs vest annually over three years.

The number of PCOs granted is determined with consideration to individual performance and with reference to grants at the median level for the comparator group. PCOs are granted to the CEO and Executive Vice Presidents, and comprise the percentage of their total equity grant indicated in Table 9.

The number of PCOs that vest each year is dependent on Celestica's performance on a return on capital measure relative to that of the EMS Competitors for the relevant year as outlined in Table 10. A "catch up" provision applies such that PCOs that did not vest in a prior year due to

performance will vest if, after year two or three, Celestica ranks first or second on its ROIC performance metric.

High performance means PCOs vest at above the target level and results in an award above market median compensation. Conversely, low performance will result in an award below market median or no award.

The total number of PCOs granted to executives, including the CEO, for 2006 was 282,828. This represents a median vesting level of 100%, which is the target compensation value for this grant. The number of PCOs that vest will range from 0 to 200% depending on the Corporation's relative performance rating.

In 2006, Celestica was ranked as "4" of "5" when compared against the EMS Competitors. This means only 50% of 33%, or 16.7%, of Subordinate Voting Shares of PCOs that were granted in previous years vested in 2006 (33% of Subordinate Voting Shares vest annually at target achievement levels).

Employee Share Purchase and Option Plans (the "ESPO Plans")

Celestica has issued Subordinate Voting Shares and has granted options to acquire Subordinate Voting Shares for the benefit of certain of its employees and executives pursuant to the ESPO Plans which were in effect prior to Celestica's initial public offering. No further options or Subordinate Voting Shares (other than pursuant to outstanding options) may be issued under these ESPO Plans.

Pursuant to the ESPO Plans, employees and executives of Celestica were offered the opportunity to purchase Subordinate Voting Shares and, in connection with such purchase, receive options to acquire an additional number of Subordinate Voting Shares based on the number of Subordinate Voting Shares acquired by them under the ESPO Plans (on average, approximately 1.435 options for each Subordinate Voting Share acquired under the ESPO Plans). In each case, the exercise price for the options is equal to the price per share paid for the Subordinate Voting Shares acquired under the ESPO Plans.

Upon the completion of Celestica's initial public offering, certain options became exercisable. The

balance of the options issued under the ESPO Plans were fully vested as of December 31, 2002. All Subordinate Voting Shares acquired by employees under the ESPO Plans are held either by the employee or by HSBC Securities (Canada) Inc. in trust for Celestica Employee Nominee Corporation as agent for and on behalf of such employees.

Celestica Employee Share Ownership Plan (the "CESOP")

The CESOP enables eligible employees, including executive officers, to acquire Subordinate Voting Shares, so as to encourage continued employee interest in Celestica's operation, growth and development. Under the CESOP, an eligible participant may elect to contribute an amount representing no more than 10% of his or her salary. The Corporation will contribute 25% of the amount of the employee contributions, up to a maximum of 1% of the employee's salary for the relevant payroll period. Contributions are used to purchase Subordinate Voting Shares of the Corporation on the open market.

Executive Share Ownership

The Corporation has share ownership guidelines for the CEO and Executive Vice Presidents. The guidelines provide that these individuals are to hold a multiple of their salary in Celestica stock as shown in Table 11 below. Executives subject to ownership guidelines are expected to achieve the specified ownership within a period of five years following the latest of: implementation of the guidelines (January 26, 2005); date of hire; or promotion to a level subject to ownership guidelines.

Table 11: Share Ownership Guidelines

	Ownership Guidelines
CEO	3 × Salary
EVPs	2 × Salary

Compliance is reviewed annually on January 31. In assessing compliance, Celestica shares beneficially owned by the executive and all RSUs (vested and unvested) are included.