



Remarks by
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**CGI: CREATING VALUE IN
A KNOWLEDGE-BASED ECONOMY**

Presented to
The Canadian Club of Montreal
May 12, 2008

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“Think globally, act locally.”

Marshall McLuhan

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CHECK AGAINST DELIVERY



Merci, François, for your kind introduction. I would like to express my appreciation to the sponsors Bell Canada, RBC, McCarthy Tétrault and Sun Life Financial, all of whom I am proud to say are valued partners of CGI.

Mr. President,
Distinguished guests,
Good afternoon,
Bonjour à tous,

It is a special honour for me to address the Canadian Club of Montreal. I have been looking forward to this opportunity, as the Canadian Club is the ideal venue to reflect on the challenges and opportunities facing our great country.

As a nation, we have done a lot of good things over the years and, as a result, Canada has long fought above its weight. From the very origins of Confederation when our ancestors broke away from Europe and decided to be independent of the U.S., Canadians have dreamed big and have made some very significant and risky bets in order to pursue the unique and high quality of life we enjoy in Canada – which, in my opinion, is second to none.

Internationally, Canada's influence within the G7 is recognized by our global leadership in areas such as science and technology, business and our strong fiscal position... and, yes, for our abundance of natural resources.

Canada is great because Canadians made it great. We are ambitious and our people and organizations have all the ingredients necessary to succeed on the world stage. We are building from a position of strength. But we must maintain our resolve – for things have changed – and changed dramatically.



These changes represent both challenges and opportunities for all of us. In the interest of time, I will focus my remarks on two of these changes which are important and impactful to Canada and to our company, CGI.

First, Canada is rapidly moving towards a knowledge-based economy built on the innovation and creativity of our people. The new economy is a 'smarter' economy. We can no longer rely on our traditional strengths or proximity to markets to compete and win.

The ground rules for success need to be adjusted to face the rapid rise of emerging economies such as China and India. For example, China is on the verge of surpassing Canada as America's biggest trading partner. Today, highly skilled people and capital are mobile – know-how is the most critical asset in the modern economy – and a favourable business environment and aggressive leadership are essential to remaining competitive on the global stage.

Canada has a well educated and highly skilled workforce. However, a significant change in labour markets is creating new challenges. A decade ago, the biggest challenge facing Canada was creating enough jobs for our workers. Now, there are skill shortages in many regions of the country – shortages that will further intensify as the population ages and baby boomers begin to retire in large numbers.

While efforts to attract skilled immigrants and assist those entering the workforce will help, these efforts will not be enough to keep our standard of living growing at its current pace. Higher skills and knowledge will become increasingly important. Going forward, we need to focus on the quantity and the quality of our workforce.

If we look at our industry as an example, the demand for IT professionals is at a 25 year high – higher than at the height of the dot-com boom. Between 1990 and 2004, the



growth for IT jobs was four times higher than the overall employment growth in Canada. And across North America this trend continues.

More job openings, fewer students. In the U.S. there was a 23% drop in computer science enrolment in 2003 and a 10% drop in 2004. In Canada the statistics are even more alarming. In the five years between 2000 and 2005, enrolment in computer science declined by 70%.

The decline in computer science enrolment in North America coincided with the tech bubble burst and with the rise of India. We believe that careers in technology can still offer significant opportunities for young people across Canada and, specifically, here in Québec. However, we must demonstrate to them that by participating in the technology sector, they are securing themselves a bright future in the Knowledge economy. To realize this goal, we need to rethink our attitude and our approach to education.

Throughout Canada's history of excellence in education, we have produced graduates recognized for their highly developed communication, creative problem-solving and critical thinking skills. However, we are at risk of losing our competitive position as emerging countries increase their investments in science and technology.

For example, each year India graduates over 400,000 high quality science and technology professionals. By comparison, Canada graduates 35,000 students each year who specialize in math, engineering and related fields. We need to do more.

In order to compete with these emerging countries, we must differentiate our graduates in the knowledge economy and invest in building a high potential talent pool with the critical business skills needed to succeed. This means we need to focus on enhancing the education and skills of Canadians so they get the best jobs, earn a better living and build a strong future for their children. These are the opportunities and challenges education and labour market policy need to address.



One unique approach to addressing this critical issue is the “Learning and Innovation Act” or “Smart Nation Act” proposed by Dr. David Johnston, President of the University of Waterloo...and a CGI board member. Dr. Johnston’s premise is:

- that every Canadian has the right to learn;
- that embracing this right over a lifetime will create a prosperous society; and
- the national treasures of knowledge and innovation are best fostered by engaging all citizens in this pursuit.

This act recognizes the social and economic importance of investing in the education of all Canadians. To succeed, some form of accountability must be attached. Dr. Johnston has proposed innovative ways to measure both the efficiency and effectiveness of such investments on a national scale.

The federal government’s role is important in this initiative. It must commit to coordinating and harmonizing the efforts at all levels of government across the country to make it as effective as possible. I applaud Dr. Johnston for his initiative and would support advancement of his proposal as part of a broader solution to ensure Canadians remain leaders in the Knowledge economy.

A second change impacting Canada and CGI is globalization. Goods and services now move independent of political boundaries, and the emergence of mega multi-national corporations has shifted our economic reality.

For example, Wal-Mart has a staggering 2 million employees. And recently, when GE announced financial results below Wall Street expectations, their market cap dropped by \$48 billion in a matter of hours, larger than the gross national product of Ecuador.



Inco, Falconbridge, Alcan – Canadian giants once thought to be untouchable – have all been acquired by foreign companies who waited patiently for these Canadian firms to grow and expand before swallowing them up as part of their international growth strategy. We need to ensure that Canada and its businesses – established and emerging – do not become essentially farm teams for international titans. Again, we need to focus on long-term vision to create long-term, sustainable value.

Recently, there has been no shortage of headlines debating the hollowing out of Canadian companies. On balance, and by the numbers, some will say that there are as many Canadian companies acquiring as being acquired. Superficially, that may be true, but if we analyze more closely, we will find that most of the Canadian buyers are either regulated or closely held companies with multiple voting rights. In other words, they are in a position to buy while not exposed to being easily acquired.

Yes, we need to be concerned about the hollowing out of Canada, but we do not need to hide behind protectionist barriers. Canadian companies must be aggressive... We need to dream big dreams...

Like Canada, CGI is impacted by the emergence of the Knowledge economy and is also directly impacted by globalization. In the face of these two realities, we see numerous challenges and some great opportunities. I would now like to share with you how CGI has been designed, built and is evolving in light of these two realities.

CGI has been executing a long term business strategy which has enabled us to rapidly expand our business globally, while retaining our headquarters in Canada.

As some of you may know, CGI was founded in a basement in Québec City in 1976 by two young entrepreneurs: Serge Godin and André Imbeau. From these modest beginnings, we have been steadily growing our company for over 32 years.



Our total revenues in 1976 were \$138,000. Today, we generate that same amount of revenue in 5 minutes as we approach \$4B in global revenue. We currently operate in 16 countries, and employ over 27,000 people of which approximately 16,000 are Canadians working coast-to-coast.

Our business is essentially focused on leveraging the know-how of our people in the fields of business and information technology services to help our clients win and grow. For CGI, global growth is not an option, it's a necessity. As markets globalize, so do our clients... and, accordingly, we are dedicated to growing and expanding our capabilities to serve our clients as they increase their size and reach.

For example, when we look at our top 100 clients, 66 of them have operations in both North America and Europe, and 30 of them have operations in North America, Europe and Asia. If we don't follow them, we run the risk of losing them and foregoing a significant growth opportunity. Against this backdrop, we have always realized that we were, in fact, condemned to grow.

As a further point of reference, a decade ago, our competitive landscape was composed of a multitude of regional companies, serving local clients with local resources. Most of these one-time competitors have been sold or merged, leaving CGI as one of the very few end-to-end IT and business process services firms operating and competing on a global basis. In fact, 5 of our largest Canadian competitors whose head offices were located in Montreal, Vancouver and Ottawa have all been acquired – 4 by foreign competitors and 1 by CGI. CGI is the last Canadian, publicly-traded IT services company headquartered in Canada.

This consolidation in our industry is not a Canadian phenomenon. In fact, our industry has been consolidating rapidly on a global scale to the point where we believe in the near future, there will essentially be 5 to 8 global IT services companies. Our



commitment to our stakeholders and to Canada is indeed to be one of these remaining global leaders.

Another reality in our operating environment is that businesses can conduct approximately 40% of software development and maintenance activities from anywhere in the world.

To meet our client demands in this area, CGI has developed a truly global supply chain capable of serving clients from multiple geographies, allowing for the best combination of quality, flexibility and cost. We leverage our client proximity model and our unique Canadian nearshore presence to differentiate our end-to-end delivery solution.

We are the only global player who has built out centres of excellence in Canada which has, in turn, helped address a different hollowing out phenomenon – that is, the hollowing out of our smaller, less urban communities in favour of large metropolitan cities.

At CGI, approximately 40% of our workforce in Canada is located outside the major metro networks of Toronto, Montreal and Vancouver as we have been able to use technology to move work to communities like Québec City, Charlottetown, Saguenay, Regina and soon a new centre in Québec.

We have always been determined to become a global leader and have embedded in our strategies a commitment to ensure that we are always looking at the menu – and not on the menu – when it comes to acquisitions. In short, we have always been a consolidator having acquired more than 60 companies around the globe in the past 20 years. It is in our corporate DNA to be a builder! To be the hunter... not the hunted.

From the beginning, we have been pursuing a dream to create an environment in which our members – as we refer to our people – enjoy working together and, as owners, build



a company they can be proud of. With this commitment, we have been able to build a company with a high degree of loyalty amongst our three key stakeholders: our clients, our employees and our shareholders.

We have further consolidated the commitment to our dream by sharing the value created by our people, with our people, through an aggressive approach to share ownership. In fact, approximately 80% of our employees are also shareholders. This represents approximately 60 million shares, or 17% of our float, which is the largest single ownership block of CGI.

We have always understood that our most important asset is the talent and capability of our people. We have found that if you want to get the most out of people ... don't merely rent their hands, as their true value rests in engaging the total person... hands, heart and mind. People today do not want to work in an environment where they are told what to do and how to do it. If you share with them – as owners – why you are doing something... they can use their innovation and, yes, their minds to do it better.

Our approach has resulted in the lowest turnover rate in the industry and has, in fact, galvanized our people around our long-term build and buy growth strategy. This commitment is important because in the services industry, you don't just acquire a company – you acquire its people. For this reason, it is virtually impossible and highly risky to engage in a hostile takeover in the services industry, in general, and on CGI more specifically.

This fact, combined with our management approach, provides CGI with the operating flexibility and the time horizon necessary to successfully become a Canadian-based global leader in our field.



To complement this strategy, we have also maintained our multiple voting structure which is an additional measure to ensure we are able to control our own destiny... and deliver on our long-term growth strategy.

As Michael Porter said in speaking on the subject of ownership in “Canada at the crossroads”:

“The long-term interests of companies would be better served by having a smaller number of long-term near permanent owners, whose goals are better aligned with those of the corporation....These long-term owners would commit to maintaining ownership for an extended period, and to becoming fully informed about the company...Management will be judged on the basis of its ability to build long-term competitive position and earning power, not current earnings or stock price”.

Against this standard, CGI has done very well. In a time when companies are under pressure to sell their businesses at one-time premiums of 30-40%, CGI stock has appreciated by an average of 30% in each of the last 15 years. In return for your \$100 investment in CGI 15 years ago, you would now receive more than \$5,000.

The execution of our strategy has resulted over time in a market valuation at the high end of our peer group which in itself represents a natural deterrent to consolidation by some of our global competitors.

As you can see, we have always believed it is highly important for Canada to create more global champions in strategic industries such as technology. It is not by chance that some of the global leaders in the knowledge-based industries are located here in Canada.



Like the early builders of Canada, we need to take advantage of our strong work ethic, healthy economy, and strong Canadian dollar to ensure that the Canadian destiny remains firmly in the hands of Canadians for generations to come.

As Canadians and business leaders, we need to preserve for future generations as many choices and options as we benefit from today. From a CGI perspective, we remain confident in the future of our company and in the future of Canada as we move ahead together on the global stage.

Before I finish, I would also like to take this opportunity to congratulate one of CGI's founders and my good friend, Serge Godin, on his recent appointment to the Canadian Business Hall of Fame. Serge has worked tirelessly over the past 32 years to build CGI into what it is today. And he did it for all the right reasons. He worked towards creating a world leader right here in Québec... in Canada, to provide Canadians with high value opportunities, and to secure Canada's position in the Knowledge based economy. Merci, Serge, and congratulations.

I would like to end by sharing with you how privileged I feel to have the opportunity to be part of a great company like CGI. We remain committed to maintaining CGI's deep roots in Québec, and its headquarters in Montreal.

Thank you. Merci beaucoup.

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