

# Management's discussion and analysis

*Fiscal year ended September 30, 2005  
November 7, 2005*

## **BASIS OF PRESENTATION**

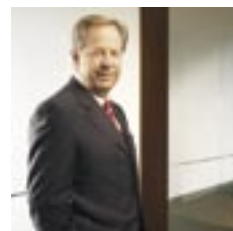
Throughout this document, CGI Group Inc. is referred to as “CGI”, “we” or “Company”. This management’s discussion and analysis of financial position and results of operations (“MD&A”) describes our business, the business environment as we see it today, our vision and strategy, as well as the critical accounting policies used in our Company that will help you understand our consolidated financial statements, the principal factors affecting the results of operations, and liquidity and capital resources. This discussion should be read in conjunction with the consolidated financial statements of our fiscal years 2005, 2004 and 2003 and the notes beginning on page 58 of this annual report. CGI’s accounting policies are in accordance with Canadian generally accepted accounting principles (“GAAP”) of the Canadian Institute of Chartered Accountants (“CICA”). These differ in some respects from GAAP in the United States (“US GAAP”). All dollar amounts are in Canadian dollars unless otherwise indicated.

Except as otherwise specified, references to years indicate our fiscal year ended September 30, 2005, or September 30 of the year referenced, and all comparisons are to prior years.

## **FORWARD-LOOKING STATEMENTS**

All statements in this MD&A that do not directly and exclusively relate to historical facts constitute “forward-looking statements” within the meaning of that term in Section 27A of the United States Securities Act of 1933, as amended, and Section 21E of the United States Securities Exchange Act of 1934, as amended. These statements represent CGI Group Inc.’s (“CGI”) intentions, plans, expectations and beliefs, and are subject to risks, uncertainties and other factors, of which many are beyond the control of the Company. These factors could cause actual results to differ materially from such forward-looking statements. These factors include and are not restricted to the timing and size of new contracts, acquisitions and other corporate developments; the ability to attract and retain qualified members; market competition in the rapidly-evolving information technology industry; general economic and business conditions, foreign exchange and other risks identified in the MD&A, in CGI’s Annual Report or Form 40-F filed with the U.S. Securities and Exchange Commission (filed on EDGAR at [www.sec.gov](http://www.sec.gov)), the Company’s Annual Information Form filed with the Canadian securities authorities (filed on SEDAR at [www.sedar.com](http://www.sedar.com)),

as well as assumptions regarding the foregoing. The words “believe,” “estimate,” “expect,” “intend,” “anticipate,” “foresee,” “plan,” and similar expressions and variations thereof, identify certain of such forward-looking statements, which speak only as of the date on which they are made. In particular, statements relating to future performance are forward-looking statements. CGI disclaims any intention or obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Readers are cautioned not to place undue reliance on these forward-looking statements. You will find more information about the risks that could cause our actual results to significantly differ from our current expectations in the Risks and Uncertainties section.



## **NON-GAAP MEASURES**

The Company reports its financial results in accordance with GAAP. However, in this MD&A we also use certain non-GAAP financial measures which include: adjusted earnings before interest on

long-term debt, other income, net, gain on sale of investment in an entity subject to significant influence, entity subject to significant influence, income taxes and discontinued operations ("adjusted EBIT") and net earnings from continuing operations before amortization of finite-life intangibles ("cash net earnings").

Adjusted EBIT is used by our management as a measure of our operating performance as it provides information that can be used to evaluate the effectiveness of our business from an operational perspective, exclusive of the costs to finance our activities and exclusive of income taxes, neither of which are directly relevant to the operations. A reconciliation of this item to its closest GAAP measure may be found on page 42.

Cash net earnings is used as management believes that this measure provides better visibility of our ability to generate cash from our assets. Amortization of finite-life intangibles is a non-cash item that relates mainly to the estimated value of internal software, business solutions and customer relationships gained through acquisitions and new outsourcing contracts. A reconciliation of this item to its closest GAAP measure may be found on page 43.

Our management believes that these non-GAAP financial measures provide useful information to investors regarding the Company's financial condition and results of operations as they provide additional measures of its performance. These non-GAAP financial measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. They should be considered as supplemental in nature and not a substitute for the related financial information prepared in accordance with GAAP.

#### CORPORATE OVERVIEW AND BUSINESS

Headquartered in Montreal, Canada, CGI provides end-to-end information technology services (commonly referred to

as IT services) and business process services ("BPS") to clients worldwide, utilizing a highly customized, cost efficient delivery model. The Company's delivery model provides for work to be carried out onsite at client premises, or through one of our centers of excellence located in North America, Europe and India. We also have a number of leading business solutions that support long-term client relationships. Our services are generally broken down as:

- Consulting – CGI provides a full range of IT and management consulting services, including business transformation, IT strategic planning, business process engineering and systems architecture.
- Systems integration – We integrate and customize leading technologies and software applications to create IT systems that respond to clients' strategic needs.
- Management of IT and business functions (outsourcing) – Clients delegate entire or partial responsibility for their IT or business functions to CGI to achieve significant savings and access the best information technology, while retaining control over strategic IT and business functions. As part of such agreements, we implement our quality processes and best-of-breed practices to improve the efficiency of the clients' operations. We also integrate the clients' operations into our technology network. Finally, we hire clients' IT and specialized professionals, enabling clients to focus on mission critical operations. Services provided as part of an outsourcing contract may include development and integration of new projects and applications; applications maintenance and support; technology management (enterprise and end-user computing, network services); transaction and business processing for the financial services sector, as well as other services such as payroll and document management services.

Outsourcing contracts typically last from five to ten years and are renewable. Our operations are managed through two lines of business ("LOB"), in addition

to Corporate services, namely: IT services and BPS. The focus of these LOBs is as follows:

- The IT services LOB provides a full range of IT services, including systems integration, consulting and outsourcing, to clients located in Canada, the United States of America ("US"), Europe and Asia Pacific. Our professionals and facilities in centres of excellence in North America, Europe and India also provide IT and business process services to clients as an integral part of our homeshore, nearshore and offshore delivery model.
- Services provided by the BPS LOB include business processing for the financial services sector, as well as other services such as payroll and document management services.

As at September 30, 2005, we employed approximately 25,000 members. We believe that our success depends on our continuing ability to attract and retain skilled technical and management personnel and that our strong corporate culture has been the key to our success to date.

#### COMPETITIVE ENVIRONMENT

We operate in a competitive and rapidly evolving global industry and compete with a variety of organizations that offer some or all of the services we provide. While the market is highly fragmented, there are several large global players and regional or niche players that we compete with most often, when not engaged in sole source negotiations with potential clients. The mix of competitors varies somewhat according to the type of services provided and geographic markets served.

There are many factors involved in winning and retaining IT and business process services contracts. These include a service provider's total cost of services, its ability to deliver, track record, vertical sector expertise, investment in business solutions, local presence, global delivery capability, and the strength of the client-provider relationship. We believe that we compare favourably based on these factors. Our value

proposition includes our end-to-end IT and business process services capability, our expertise and proprietary business solutions in five industry sectors, our global delivery model which includes the industry's leading nearshore services delivery capability, our disciplined management foundation, and our client focus which is supported by our metropolitan markets business model. We have built critical mass in our three main markets—Canada, the US and Europe—which positions us to win large contracts.

Our focus is on higher-end systems integration, consulting and outsourcing business where vertical industry knowledge and expertise is required. We are cost competitive in part through our global delivery model which provides clients with a blend of homeshare, nearshore and offshore delivery which meets their strategic and cost requirements.

#### VISION, MISSION AND STRATEGY

CGI's vision is to be a world-class IT and BPS leader helping its clients win and grow.

Our mission is to help our clients with professional services of outstanding quality, competence and objectivity, delivering the best solutions to fully satisfy client objectives in information technology, business processes and management. In all we do, we foster a culture of partnership, intrapreneurship, teamwork and integrity, building a world class IT and BPS company.

CGI is a domain consolidator through its four-pillar growth strategy that combines organic growth and acquisitions. The first driver, focused on organic growth, is comprised of systems integration and consulting ("SI&C") contract wins, renewals and extensions, and outsourcing contracts valued under \$50 million a year. This business is mainly identified and won at the local and regional level of our operations. We are growing our sales funnel of contract proposals across all of our geographic markets.

The second element of our growth strategy is the pursuit of new large outsourcing contracts, valued at more than \$50 million a year. In addition to Canada, we now have the greater critical mass required to bid on large opportunities in the US and Europe.

The third and fourth drivers of our growth strategy focus on acquisitions—of smaller firms or niche players and of larger companies with annual revenue of more than \$50 million, respectively. We identify niche company acquisitions through our strategic mapping program that systematically searches for targets that could strengthen our geographic presence, vertical market knowledge or increase the richness of our service offering. Currently, we are focused on acquisitions in our targeted verticals and metropolitan markets in the US and Europe, as well as on expanding our BPS capabilities. Through large acquisitions, we are seeking to increase our geographic presence and critical mass in order to further qualify ourselves for larger outsourcing deals. CGI has a disciplined approach to its growth strategy, focused on increasing shareholder value.

#### DEVELOPMENTS IN 2005 ACQUISITIONS

In fiscal 2005, we made the following strategic small acquisitions:

AGTI Consulting Services Inc. ("AGTI")—On December 1, 2004, we announced we had completed the acquisition of AGTI in which we previously held a 49% equity position. Founded in 1996, AGTI was a privately-held, Montreal-based information technology consulting company with revenue of \$50 million. Total consideration for this acquisition was \$47.2 million.

MPI Professionals ("MPI")—On August 10, 2005, we announced the acquisition of MPI with revenue of approximately US\$17 million for a total consideration of \$13.0 million. Founded in 2001, MPI was a privately-held, Manhattan-based SI&C firm focused on the financial services sector.

Silver Oak Partners Inc. ("Silver Oak")—On September 2, 2005, we announced the acquisition of Silver Oak with revenue of approximately US\$23 million for a total consideration of \$21.8 million. Founded in 1999, Silver Oak was a privately-held corporation. It employed 100 senior-level professionals serving clients from offices in Boston, New York, Philadelphia and San Francisco. Silver Oak is a leading provider of spend management solutions that identify, create and sustain measurable cost savings in procurement spending for clients in both the government and commercial sectors.

#### DIVESTITURES

On March 8, 2005, we announced that Garda World Security Corporation had entered into an agreement to acquire the principal assets of Keyfacts Enterprises Canada Inc. ("Keyfacts"), one of our wholly-owned subsidiaries, valued at \$3.5 million. We retained the working capital of Keyfacts valued at approximately \$4.0 million as at December 31, 2004. The transaction resulted in a net loss of \$1.6 million.

On March 10, 2005, we announced the signing of an asset sale agreement with Open Solutions Inc. involving our US Services to Credit Unions business unit and our CyberSuite product line for a cash consideration of approximately US\$24.0 million. The US Services to Credit Unions business had revenue of approximately US\$16.0 million. The net assets disposal has resulted in a net loss of \$1.4 million.

During the second quarter of 2005, following Bell Canada's offer to acquire all the outstanding common shares of Nexxlink Technologies Inc. ("Nexxlink"), we tendered all 3,446,072 shares which we held in Nexxlink, representing 34.3% of Nexxlink's total issued and outstanding shares. The shares tendered by us were taken up and paid for by Bell Canada on January 25, 2005. Proceeds from the transaction amounted to \$20.8 million, resulting in a pre-tax gain of \$4.2 million.

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### SUBSEQUENT EVENT

On October 26, 2005, the Company reached an agreement to sell a large portion of its electronic switching services for proceeds of \$28.0 million, subject to adjustment. The transaction will close when all required approvals are obtained by the Company.

### NEW CONTRACTS

Contracts announced in the US during the year included a US\$166 million seven-year contract with John Hancock Life Insurance ("John Hancock"), effective July 1, 2005; several contracts with the Centers for Medicare & Medicaid Services totaling over US\$100 million; contracts for our AMS Advantage enterprise resource planning ("ERP") solution for financial management with seven state or local governments—Los Angeles County (five-year US\$33 million contract), Commonwealth of Kentucky, State of Utah, San Bernardino County, City of Austin, City of Dallas and Baltimore County and Baltimore County Public Schools; and BPS contracts to administer multi-family housing under the US Department of Housing and Urban Development for the State of Ohio (five-year US\$22 million contract), Tampa Housing Authority (five-year US\$30 million contract), and the Oakland Housing Authority (five-year US\$45 million contract). We also announced that we were one of 12 companies selected to provide information technology support services under the U.S. Department of Justice's Information Technology Support Services contract, potentially worth a total of US\$980 million over the seven-year contract.

Contracts announced in Canada included the renewal in March 2005 of our partnership with the Canadian Payments Association, Canada's operator of clearing and settlement systems, for a 10-year term valued at \$23 million. Also, on January 31, 2005, we renewed our partnership with

Yellow Pages Group Co., Canada's largest telephone directories publisher, for a seven-year term; and, in December 2004, we announced that the Canada Revenue Agency ("CRA"), the federal body that administers tax laws and several social economic programs delivered through the tax system, had chosen CGI for a multi-year, multi-million dollar SI&C contract.

### SHARE REPURCHASE PROGRAM

On February 1, 2005, we announced that the Board of Directors had authorized the purchase of up to 10% of the public float of the Company's Class A subordinate shares during the next year through a Normal Course Issuer Bid ("issuer bid"). The Company had received approval from the Toronto Stock Exchange for its intention to make an issuer bid. The issuer bid enables CGI to purchase on the open market, through the facilities of the Toronto Stock Exchange, up to 27,834,417 Class A subordinate shares for cancellation. As of January 28, 2005, there were 410,902,202 Class A subordinate shares of the Company outstanding, of which approximately 68% were widely held. The Class A subordinate shares may be purchased under the issuer bid commencing February 3, 2005, and ending no later than February 2, 2006, or on such earlier date when the Company completes its purchases or elects to terminate the bid. The total of Class A subordinate shares repurchased during fiscal 2005 was 14,896,200, at an average market price plus commission of \$7.82, for an aggregate consideration of \$116.4 million. The total Class A subordinate shares repurchased included 846,200 shares bought for cancellation at the end of the year, all of which were cancelled October 6, 2005.

### NEW CREDIT FACILITIES

On December 20, 2004, we announced that we had concluded five-year unsecured revolving credit facilities, which replaced the previous syndicated bank facilities.

These committed banking facilities are for our operating activity needs, working capital purposes and for the financing of acquisitions and outsourcing contracts. The new credit facilities are comprised of a US tranche worth the equivalent of \$300.0 million and a Canadian tranche worth \$500.0 million.

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### RESTATEMENT

The Company provides a centralized service to the Canadian property and casualty insurance industry for the purpose of ordering abstracts of driving records from government authorities. Following its ongoing accounting reviews, the Company revised its interpretation of the accounting treatment related to those services. The revised interpretation required that the revenue and applicable costs of services charged to clients be presented on a net basis rather than on a gross basis as they had been presented previously. For comparative purposes, the reclassification amounts to \$52.9 million for the year ended September 30, 2004, as well as \$54.1 million for the year ended September 30, 2003. The revised presentation is in accordance with Emerging Issue Committee ("EIC") Abstract 123, "Reporting Revenue Gross as a Principal versus Net as an Agent", which addresses whether an enterprise should recognize revenue based upon the gross amount billed to the client or the net amount retained. This reclassification had no impact on net earnings or cash flows. Had it not been for this revised interpretation, fiscal 2005, 2004 and 2003 revenue would have been \$3,740.5 million, \$3,203.0 million and \$2,644.0 million, respectively.

### CHANGE IN ACCOUNTING POLICIES

1. The CICA amended Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments", effective for fiscal years beginning on or after

January 1, 2004. The amendments of the section required the adoption of the fair-value based method for all stock-based awards and the recognition of an expense in the financial statements. The Company adopted the amendments of this section on a retroactive basis effective on October 1, 2004, for employee stock options granted since October 1, 2001, and beyond. As a result of applying this change, the Company has reflected an additional expense of \$20.6 million recorded in cost of services, selling and administrative expenses for the year ended September 30, 2005, and restated comparative figures for September 30, 2004 and 2003 by \$25.6 million (basic and diluted earnings per share of \$0.06) and \$8.2 million (basic and diluted earnings per share of \$0.02), respectively. An adjustment to retained earnings and contributed surplus of \$37.9 million as at September 30, 2004, has been made to reflect the application of this change. For years ended September 30, 2004 and 2003, retained earnings, beginning of period, have been reduced by \$12.3 million and \$4.1 million, respectively.

ii. The CICA issued Handbook Section 3110, "Asset Retirement Obligations", effective for fiscal years beginning on or after January 1, 2004. The section focuses on the recognition and measurement of liabilities for obligations associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operation of the assets. The Company adopted the recommendations of the section on a retroactive basis effective on October 1, 2004. As a result, the Company recorded as at September 30, 2004: an increase in capital assets of \$0.9 million, an increase in

accrued integration charges and other long-term liabilities of \$1.7 million and a decrease in retained earnings of \$0.8 million. The impact on the Company's consolidated statements of earnings for comparative periods was negligible. The impact of this accounting change on the Company's consolidated financial statements as at and for the year ended September 30, 2005, is disclosed in Note 4 to the consolidated financial statements.

iii. The CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities", which provides clarification on the consolidation of entities when equity investors are not considered to have a controlling financial interest or they have not invested enough equity to allow the entity to finance its activities without additional subordinated financial support from other parties. This guideline came into effect for interim periods beginning on or after November 1, 2004. The adoption of this guideline did not have any impact on the Company's consolidated financial statements.

iv. The CICA issued EIC Abstract 150, "Determining when an arrangement contains a lease", which provides guidance on how to determine whether an arrangement contains a lease that is within the scope of CICA Handbook Section 3065, "Leases". The guidance in EIC 150 is based on whether the arrangement conveys to the purchaser the right to use a tangible asset, and is effective for the Company for arrangements entered into or modified after January 1, 2005.

The adoption of this EIC did not have any impact on the Company's consolidated financial statements.

#### USE OF ESTIMATES

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates. Significant estimates include, but are not limited to, the measurement of allowance for doubtful accounts, tax credits, work in progress, deferred revenue, long-term asset valuations and impairment assessments, income taxes, provisions and contingencies.

#### BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All intercompany transactions and balances have been eliminated. The Company accounts for its jointly-controlled investments using the proportionate consolidation method. For investments whereby the Company has the ability to exercise significant influence, the Company accounts for these under the equity method. In situations whereby the Company does not exercise significant influence, the investments are recorded at cost. The carrying amount of the investments is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable.



## Management's discussion and analysis

### REVENUE RECOGNITION, WORK IN PROGRESS AND DEFERRED REVENUE

The Company generates revenue principally through the provision of IT services and BPS.

The IT services include a full range of information technology services, namely i) outsourcing ii) systems integration and consulting iii) software licenses and iv) maintenance. The BPS unit provides business processing for the financial services sector, as well as other services such as payroll and document management services.

The Company provides services under contracts that contain various pricing mechanisms. The Company recognizes revenue when persuasive evidence of an arrangement exists, services or products have been provided to the client, the fee is fixed or determinable, and collectibility is reasonably assured. If an arrangement involves the provision of multiple elements, the total arrangement value is allocated to each element as a separate unit of accounting, if 1) the delivered item has value to the client on a stand-alone basis; 2) there is objective and reliable evidence of the fair value of the undelivered item; and 3) the arrangement includes a general right of return relative to the delivered item and delivery or performance of the undelivered item is considered probable and substantially in the control of the vendor. If these criteria are met, then the total consideration of the arrangement is allocated among the separate units of accounting based on their fair value.

Provisions for estimated contract losses, if any, are recognized in the period in which the loss is determined. Contract losses are measured at the amount by which the estimated total costs exceed the estimated total revenue from the contract.

### OUTSOURCING AND BPS ARRANGEMENTS

Revenue from outsourcing and BPS arrangements under time and materials and unit-priced arrangements are recognized as the services are provided

at the contractual stated price. If the contractual per-unit prices within a unit-priced contract change during the term of the arrangement, the Company evaluates whether it is more appropriate to record revenue based on the average per-unit prices during the term of the contract or based on the actual amounts billed.

Revenue from outsourcing and BPS arrangements under fixed fee arrangements is recognized on a straight-line basis over the term of the arrangement, regardless of the amounts billed, unless there is a better measure of performance or delivery.

### SYSTEMS INTEGRATION AND CONSULTING SERVICES

Revenue from systems integration and consulting services under time and material arrangements is recognized as the services are rendered and revenue under cost-based arrangements is recognized as reimbursable costs are incurred.

Revenue from systems integration and consulting services under fixed fee arrangements is recognized using the percentage-of-completion method over the implementation period. The Company uses the labor costs or labor hours incurred to date to measure the progress towards completion. This method relies on estimates of total expected labor costs or total expected labor hours to complete the service, which are compared to labor costs or labor hours incurred to date, to arrive at an estimate of the percentage of revenue earned to date. Management regularly reviews underlying estimates of total expected labor costs or hours. Revisions to estimates are reflected in the statement of earnings in the period in which the facts that give rise to the revision become known.

Revenue from systems integration and consulting services under benefits-funded arrangements is recognized only to the extent it can be predicted, with reasonable certainty, that the benefit stream will generate amounts sufficient to fund the value on which revenue recognition is based.

### SOFTWARE LICENSES AND MAINTENANCE ARRANGEMENTS

Revenue from software license arrangements is recognized upon delivery of software if persuasive evidence of an arrangement exists, collection is probable, the fee is fixed or determinable and vendor-specific evidence of an arrangement exists to allocate the total fee to the different elements of an arrangement. Vendor-specific objective evidence is typically based on the price charged when an element is sold separately.

In circumstances where the implementation services are essential to the functionality of the software or where the software requires significant customization, the Company recognizes software license revenue using the percentage-of-completion method over the implementation period as previously described.

Revenue from maintenance services for licenses sold and implemented is recognized ratably over the term of the contract.

### WORK IN PROGRESS AND DEFERRED REVENUE

Amounts recognized as revenue in excess of billings are classified as work in progress. Amounts received in advance of the delivery of products or performances of services are classified as deferred revenue.

### REIMBURSEMENTS

Reimbursements, including those relating to travel and other out-of-pocket expenses, and other similar third party costs, such as the cost of hardware and software resales, are included in revenue and the corresponding expense is included in costs of services.

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist primarily of unrestricted cash and short-term investments having an initial maturity of three months or less at the time of acquisition.

## Management's discussion and analysis

### CAPITAL ASSETS

Capital assets are recorded at cost and are amortized over the following estimated useful lives of the assets, using principally the straight-line method:

Buildings	10 to 40 years
Leasehold improvements	Lesser of the useful life or lease term plus first renewal option
Furniture and fixtures	3 to 10 years
Computer equipment	3 to 5 years

### FUNDS HELD FOR CLIENTS AND CLIENTS' FUNDS OBLIGATIONS

In connection with the Company's payroll and tax filing services, the Company collects funds for payment of payroll and taxes, temporarily holds such funds until payment is due, remits the funds to the clients' employees and appropriate tax authorities, files federal and local tax returns, and handles related regulatory correspondence and amendments. The Company presents separately the payroll funds held for clients and related obligations.

### CONTRACT COSTS

Contract costs are mainly incurred in the course of two to ten year IT services and BPS contracts. These assets are recorded at cost and amortized using the straight-line method over the term of the respective contracts. Contract costs are comprised primarily of incentives and transition costs.

Occasionally, incentives are granted to clients upon signing of outsourcing contracts. These incentives can be granted either in the form of cash payments, issuance of equity instruments, or discounts awarded principally over a transition period as negotiated in the contract. In the case of an incentive taking the form of equity instruments, cost is measured at the estimated fair value of the equity instruments at the time they are issued. For incentives in the form of discounts, cost is measured at the value of the financial commitment granted and a corresponding

amount is recorded in other long-term liabilities. As services are provided to the client, the amount is amortized and recorded as a reduction of revenue.

Capital assets acquired from a client in connection with outsourcing contracts are capitalized to capital assets and amortized, consistent with the amortization policies described previously. The excess of the amount paid over the fair value of capital assets acquired in connection with outsourcing contracts are considered as an incentive granted to the client and are recorded as described in the preceding paragraph.

Transition costs include the expenses associated with certain activities performed after completion of a competitive selection process such as architecture and engineering work engaged prior to the final award of a large outsourcing contract as well as costs incurred during the transition period such as installation of systems and processes deployed after the award of the outsourcing contracts, relocation of transitioned employees, and exit from client facilities. These incremental costs are comprised essentially of labor cost including total compensation and related fringe benefits as well as subcontractor costs.

### FINITE-LIFE INTANGIBLE ASSETS

Finite-life intangible assets consist mainly of internal software, business solutions, software licenses and customer relationships.

Internal software, business solutions and software licenses are recorded at cost. Business solutions and software licenses acquired through a business combination are initially recorded at fair value based on the estimated net future income-producing capabilities of the software products. Customer relationships are acquired through business combinations and are initially recorded at their fair value based on their present value of expected future cash flows.

The Company amortizes its finite-life intangible assets using the straight-line

method over the following estimated useful lives:

Internal software	2 to 7 years
Business solutions	2 to 10 years
Software licenses	3 to 8 years
Customer relationships and other	2 to 15 years

### IMPAIRMENT OF LONG-LIVED ASSETS

In the event indications exist that the carrying amount of long-lived assets may not be recoverable, undiscounted estimated cash flows are projected over their remaining term and compared to the carrying amount. To the extent such projections indicate that future undiscounted cash flows are not sufficient to recover the carrying amounts of related assets, a charge is recorded to reduce the carrying amount to equal projected future discounted cash flows.

### BUSINESS COMBINATIONS AND GOODWILL

The Company accounts for its business combinations using the purchase method of accounting. Under this method, the Company allocates the purchase price to tangible and intangible assets acquired and liabilities assumed based on estimated fair values at date of acquisition with the excess of the purchase price amount being allocated to goodwill. Goodwill is assessed for impairment at least annually for each reporting unit. An impairment charge is recorded for any goodwill that is considered impaired.

### ACCRUED INTEGRATION CHARGES

Accrued integration charges are comprised of liabilities for costs incurred on business combinations, such as severance payments related to the termination of certain employees of the acquired business performing functions already available through the Company's existing structure and provisions related to leases for premises occupied by the acquired businesses which the Company plans to vacate.

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### EARNINGS PER SHARE

Basic earnings per share are based on the weighted-average number of units outstanding during the period. The dilutive effect of stock options is determined using the treasury stock method.

### RESEARCH AND SOFTWARE DEVELOPMENT COSTS

Research costs are charged to earnings in the period in which they are incurred, net of related tax credits. Included in costs of services, selling and administrative expenses are research expenses in the amount of \$21.9 million (\$26.7 million in 2004 and \$22.0 million in 2003). During the year, the Company incurred direct research and software development costs of \$78.2 million (\$64.5 million in 2004).

Software development costs are charged to earnings in the year they are incurred, net of related tax credits unless they meet specific capitalization criteria related to technical, market and financial feasibility in order to be capitalized. Deferred development costs are included as part of finite-life intangibles. Tax credits amounting to \$1.4 million were recorded against these assets for the year ended September 30, 2004, and there are no tax credits for these assets for the year ended September 30, 2005.

### INCOME TAXES

Income taxes are accounted for using the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are determined based on deductible or taxable temporary differences between the amounts reported for financial statement purposes and tax values of assets and liabilities using enacted or substantively enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse. A valuation allowance is recorded for the portion of the future income tax assets if its realization is not considered more likely than not.

### TRANSLATION OF FOREIGN CURRENCIES

Revenue and expenses denominated in foreign currencies are recorded at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates prevailing at the balance sheet dates. Unrealized translation gains and losses are reflected in net earnings.

Self-sustaining subsidiaries whose economic activities are largely independent of the parent company are accounted for using the current-rate method. Under this method, assets and liabilities of subsidiaries denominated in a foreign currency are translated into Canadian dollars at exchange rates in effect at the balance sheet dates. Revenue and expenses are translated at average exchange rates prevailing during the period. Resulting unrealized gains or losses are accumulated and reported as foreign currency translation adjustment in shareholders' equity. As a result of differences in the translation of the financial statements of foreign subsidiaries, the foreign currency translation adjustment varied by \$92.1 million and \$69.2 million in 2005 and 2004, respectively. These variations resulted principally from translating US dollar denominated goodwill.

The accounts of foreign subsidiaries, which are financially or operationally dependent on the parent company, are accounted for using the temporal method. Under this method, monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet dates and non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expenses are translated at average rates for the period. Translation exchange gains or losses of such subsidiaries are reflected in net earnings.

### FINANCIAL INSTRUMENTS

The Company uses various financial instruments to manage its exposure to fluctuations in foreign currency exchange

rates. The Company does not hold or use any derivative instruments for trading purposes.

The Company enters into financial instrument contracts to hedge its net investment in foreign subsidiaries. Foreign exchange translation gain or loss on the net investment is recorded under foreign currency translation adjustment. Any realized or unrealized gain or loss on instruments covering the net investment is also recognized in foreign currency translation adjustment.

The Company also enters into forward contracts to hedge forecasted cash flows denominated in currencies other than the functional currency of its subsidiaries. Gains and losses on foreign exchange contracts designated as hedges for firm commitments or forecasted transactions are recorded in costs of services, selling and administrative expenses when the related transaction is realized.

Periodic assessments of each hedge's effectiveness are performed during the year.

### FUTURE ACCOUNTING CHANGES

The CICA has issued the following new Handbook Sections:

- a) Handbook Section 3855, "Financial Instruments—Recognition and Measurement", effective for interim periods beginning on or after October 1, 2006. The section describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial assets, except for those classified as held-to-maturity, and derivative financial instruments must be measured at their fair value. All financial liabilities must be measured at their fair value if they are classified as held for trading purposes, if not, they are measured at their carrying value. The Company is currently evaluating the impact of the adoption of this new section on the consolidated financial statements.
- b) Handbook Section 1530, "Comprehensive Income", and Section 3251,



"Equity", effective for interim periods beginning on or after October 1, 2006. Comprehensive income is the change in equity of an enterprise during a period arising from transactions and other events and circumstances from non-owner sources. It includes items that would normally not be included in net income such as changes in the foreign currency translation adjustment relating to self-sustaining foreign operations and unrealized gains or losses on available for sale financial instruments. This section describes how to report and disclose comprehensive income and its components. Section 3251, "Equity", replaces Section 3250, "Surplus", and describes the changes in how to report and disclose equity and changes in equity as a result of the new requirements of Section 1530, "Comprehensive Income". Upon adoption of this section, the consolidated financial statements will include a statement of comprehensive income.

c) Handbook Section 3865, "Hedges", effective for interim periods beginning on or after October 1, 2006. This section describes when hedge accounting is appropriate. Hedge accounting ensures that all gains, losses, revenues and expenses from the derivative and the item it hedges are recorded in the statement of earnings in the same period. The Company is currently evaluating the impact of the adoption of this section on the consolidated financial statements.

d) Handbook Section 3831, "Non-Monetary Transactions", effective for transactions initiated in periods beginning on or after January 1, 2006. This section prescribes to record non-monetary transactions at fair value unless the transaction has no commercial substance, it is an exchange of inventory, it is a non-monetary, non-reciprocal transfer to owners or it is not reliably measurable. The Company does not believe that the adoption of this section will have a significant impact on the consolidated financial statements.

e) EIC 156, "Accounting by a Vendor for Consideration Given to a Customer (Including a Reseller of the Vendor's Product)", was issued and provides guidance to companies that give incentives to customers or resellers in the form of cash, equity, free gifts, coupons and other. The adoption of EIC 156 is effective for all interim and annual financial statements for fiscal years beginning on or after January 1, 2006. There will be no impact on the consolidated financial statements since the Company already adopted the US equivalent of EIC 156 which is the EITF 01-9 "Accounting for Consideration Given by a Vendor to a Customer" issued by the Financial Accounting Standards Board's Emerging Issues Task Forces as at September 30, 2002.

#### PERFORMANCE OVERVIEW

Revenue for fiscal 2005 totaled \$3,686.0 million, up 17.0% from revenue of \$3,150.1 million in fiscal 2004. Internal growth was 2.2% compared with fiscal 2004, while external growth was 18.3%, partially offset by the 3.5% negative impact of foreign currency fluctuations.

Net earnings from continuing operations increased 18.5% to \$219.7 million compared with \$185.4 million a year ago. Basic and diluted earnings per share from continuing operations were \$0.50, compared with \$0.44 in the previous year, adjusted to reflect the expensing of stock options. The net earnings from continuing operations margin was 6.0% compared with 5.9% a year ago. Net earnings including discontinued operations increased 11.6% to \$216.5 million or \$0.49 per share from \$194.0 million or \$0.46 a year ago.

Cash net earnings increased by 21.4% to \$302.0 million or \$0.69 per share. This compares with cash net earnings of \$248.8 million or \$0.59 per share in fiscal 2004. The cash net earnings margin increased to 8.2% in fiscal 2005, from 7.9% in fiscal 2004.

Cash provided by continuing operating activities was \$479.7 million in fiscal 2005, compared with \$229.8 million a year ago.

At September 30, 2005, cash and cash equivalents were \$240.5 million. Long-term debt was \$249.7 million and the net debt to capitalization ratio was 0.3%. At year end, total credit facilities available amounted to \$817.8 million.

Total bookings were \$3.6 billion, compared with bookings of \$3.0 billion in fiscal 2004. The order backlog at year end was \$12.9 billion, with an average duration of 6.7 years, compared with \$13.0 billion in fiscal 2004.

#### OUTLOOK

Most of the recent studies and surveys conducted by market research firms show that a larger proportion of corporations than previously will increase their information technology spending over the coming quarters, a trend which is good news for SI&C practices. In addition, the outsourcing outlook both for IT and business process services remains strong.

Demand for SI&C services in North America is expected to grow by approximately 4% to 5% annually, according to industry analysts. Demand growth for IT and business process services outsourcing is projected to be stronger.

In a study commissioned by CGI, market research firm IDC found that IT spending not yet outsourced by organizations amounts to US\$60 billion a year in Canada, US\$682 billion a year in the US and US\$476 billion a year in Western Europe. Regarding business process services, IDC found that the annual spending not yet outsourced amounts to US\$80 billion a year in Canada, US\$1.5 trillion in the US and US\$480 billion in Western Europe. This is one estimate of the market potential, a portion of which will be outsourced over the coming years.

## Management's discussion and analysis

CGI's 2006-2008 business plan reaffirms its successful four pillar growth strategy, with CGI being a consolidator in its industry

through a balance of organic and external growth. While CGI already has critical mass in its main geographies, it will continue to

increase its presence through acquisitions in selected metropolitan markets where it sees the greatest potential to drive organic growth.

### FINANCIAL REVIEW

#### SELECTED ANNUAL INFORMATION

<i>Years ended September 30</i>	2005	2004	2003	CHANGE 2005/2004	CHANGE 2004/2003
(IN '000 OF DOLLARS EXCEPT SHARE DATA AND PERCENTAGES)					
Revenue <sup>1</sup>	<b>3,685,986</b>	3,150,070	2,589,905	<b>17.0%</b>	21.6%
Net earnings from continuing operations	<b>219,698</b>	185,386	166,115	<b>18.5%</b>	11.6%
Net earnings from continuing operations margin	<b>6.0%</b>	5.9%	6.4%		
Net earnings	<b>216,488</b>	194,041	169,198	<b>11.6%</b>	14.7%
Net earnings margin	<b>5.9%</b>	6.2%	6.5%		
Basic and diluted earnings per share from continuing operations	<b>0.50</b>	0.44	0.42	<b>0.06</b>	0.02
Basic and diluted earnings per share	<b>0.49</b>	0.46	0.43	<b>0.03</b>	0.03
Total assets	<b>3,986,659</b>	4,316,515	3,136,683	<b>(7.6%)</b>	37.6%
Total long-term liabilities	<b>583,594</b>	881,982	453,072	<b>(33.8%)</b>	94.7%

<sup>1</sup> Restated in accordance with EIC abstract 123, Reporting Revenue Gross as a Principal versus Net as an Agent, as noted above as well as the discontinued operations of Keyfacts and our US Services to Credit Unions business.

#### BOOKINGS AND BACKLOG

<i>Years ended September 30</i>	2005	2004	2003	PERCENT CHANGE 2005/2004	PERCENT CHANGE 2004/2003
(IN '000 OF DOLLARS EXCEPT PERCENTAGES)					
Bookings	<b>3,572,700</b>	3,040,900	4,018,500	<b>17.5</b>	(24.3)
Backlog	<b>12,863,500</b>	12,964,800	12,251,600	<b>(0.8)</b>	5.8

Our backlog includes new contract wins, extensions and renewals of \$3.6 billion and fluctuations to existing contracts. This is offset by the backlog consumed during the fiscal year as a result of client work performed. As at September 30, 2005, our backlog of signed contracts

for work that had yet to be delivered was \$12.9 billion, with an average duration of 6.7 years. Contract bookings included new seven-year contracts with John Hancock (US\$166 million) and the CRA (\$210 million). The bookings for 2004 included 10-year contracts with

Cox Insurance Holdings Plc ("Cox") (£138 million), Cott Corporation ("Cott") (\$210 million) and Robert Plan Corporation ("Robert Plan") (US\$ 167 million) while the bookings for 2003 included the \$1.5 billion contract extension with BCE inc. ("BCE").

## Management's discussion and analysis

### COMPARISON OF OPERATING RESULTS FOR FISCAL YEARS 2005, 2004 AND 2003

#### REVENUE

<i>Years ended September 30</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
<i>(IN '000 OF DOLLARS EXCEPT PERCENTAGES)</i>			
Revenue <sup>1</sup>	<b>3,685,986</b>	3,150,070	2,589,905
Internal growth <sup>2</sup>	<b>2.2%</b>	2.5%	3.8%
External growth <sup>3</sup>	<b>18.3%</b>	21.3%	20.5%
Growth prior to foreign currency impact	<b>20.5%</b>	23.8%	24.3%
Foreign currency impact	<b>(3.5%)</b>	(2.2%)	(0.9%)
Growth over previous year	<b>17.0%</b>	21.6%	23.4%

<sup>1</sup> Restated in accordance with EIC abstract 123, Reporting Revenue Gross as a Principal versus Net as an Agent, as noted above as well as the discontinued operations of Keyfacts and our US Services to Credit Unions business.

<sup>2</sup> Internal growth relates to the growth of our revenue from existing contracts as well as new contracts for SI&C and outsourcing services. It is calculated as total revenue less the revenue run-rate from acquired companies as at the transaction date, and adjusted for the impact from the fluctuations of foreign currencies against the Canadian dollar.

<sup>3</sup> External growth relates to the growth of our revenue from acquisitions.

For fiscal 2005, revenue was \$3,686.0 million. On a constant currency basis, revenue increased by 20.5% (\$645.1 million) from revenue reported in fiscal 2004. External revenue growth was 18.3% (\$576.2 million), primarily attributable to our acquisition of American Management Systems, Inc. ("AMS") in May 2004. Year-over-year, organic growth of 2.2% (\$68.9 million) was driven by the combination of new client wins during the fiscal year, notably with John Hancock and the CRA, as well

as contract renewals, extensions and add-on projects from existing clients. The currency exchange rate fluctuations, mainly between the Canadian and US dollars, reduced the year-over-year growth by 3.5%, resulting in net revenue growth of 17.0% (\$535.9 million).

For fiscal 2004, revenue was \$3,150.1 million. On a constant currency basis, the growth between 2003 and 2004 was 23.8% (\$617.2 million). External growth was 21.3% (\$552.5 million), mainly attributable to our

acquisition of AMS and COGNICASE Inc. ("Cognicase") (January 2003). Organic growth was 2.5% (\$64.8 million) resulting from the signing of new outsourcing contracts, namely with Bombardier Aerospace, Robert Plan, Alcan Inc.'s Rolled Products North America division ("Alcan") and Cox. This growth was partially offset by the negative foreign currencies fluctuations of 2.2% (\$57.1 million) mainly between the Canadian and US dollars, resulting in net revenue growth of 21.6% (\$560.2 million).

## Management's discussion and analysis

### REVENUE MIX

The revenue mix by line of business, client geography, contract type, and targeted vertical sector is shown below:

Years ended September 30 (IN '000 OF DOLLARS EXCEPT PERCENTAGES)				AS A PERCENTAGE OF TOTAL REVENUE	AS A PERCENTAGE OF TOTAL REVENUE	AS A PERCENTAGE OF TOTAL REVENUE
	2005	2004	2003	2005	2004	2003
		RESTATED	RESTATED			
By line of business						
IT services	3,239,656	2,721,306	2,182,568	88	86	84
BPS	446,330	428,764	407,337	12	14	16
Total revenue	3,685,986	3,150,070	2,589,905	100	100	100
By client geography						
Canada	2,235,465	2,161,818	2,024,901	61	69	78
US	1,171,072	797,411	432,256	32	25	17
Europe and Asia Pacific	279,449	190,841	132,748	7	6	5
Total revenue	3,685,986	3,150,070	2,589,905	100	100	100
By contract type						
IT	1,589,880	1,525,681	1,445,663	43	49	56
BPS	414,639	389,410	411,947	11	12	16
Outsourcing	2,004,519	1,915,091	1,857,611	54	61	72
SI&C	1,681,467	1,234,979	732,294	46	39	28
Total revenue	3,685,986	3,150,070	2,589,905	100	100	100
By targeted vertical						
Financial services	1,245,179	1,156,822	1,044,251	34	37	40
Government and healthcare	1,075,743	731,293	438,075	29	23	17
Telecommunications and utilities	839,611	728,611	575,762	23	23	22
Retail and distribution	307,421	331,843	325,055	8	11	13
Manufacturing	218,032	201,501	206,762	6	6	8
Total revenue	3,685,986	3,150,070	2,589,905	100	100	100

### Revenue by LOB

As discussed in an earlier section, we have two LOBs, reflecting the global delivery approach that we take in providing IT and business process services to our clients. We manage our operations, evaluate each LOB's performance and report segmented revenue and adjusted EBIT according to this approach.

Revenue growth in fiscal 2005 was driven by a combination of IT and BPS contract wins, renewals and add-on projects, in addition to acquisitions. CGI's performance benefited from its position as a leading end-to-end IT services provider in its markets, as well as from strong client relationships and high client satisfaction ratings.

In fiscal 2005, revenue from IT services on a constant currency basis increased 22.6% (\$615.1 million) compared with last year, reflecting mostly the acquisitions of AMS and AGTI and new outsourcing and SI&C contracts. The foreign currency fluctuations had a 3.6% (\$96.7 million) negative impact on revenue for a net revenue growth of 19.0% (\$518.4 million).

In 2004, on a constant currency basis, revenue from the delivery of IT services was up 26.7% (\$582.6 million) compared with 2003, reflecting mainly the acquisitions of AMS and Cognicase, new large outsourcing contracts signed as well as an increase in business solutions sales. The foreign currency fluctuations had a 2.0% (\$43.9 million) negative impact

on revenue for a net growth of 24.7% (\$538.7 million).

In fiscal 2005, on a constant currency basis, revenue from BPS increased 7.0% (\$30.0 million) compared with last year, reflecting the acquisition of AMS and revenue increases in the government and healthcare and financial services sectors. The foreign currency fluctuations had a negative impact on revenue amounting to 2.9% (\$12.5 million) for a net revenue growth of 4.1% (\$17.5 million).

In 2004, on a constant currency basis, revenue from the delivery of business process services was up 8.5% (\$34.6 million) compared with 2003. This growth was the result of the acquisition of AMS, Cognicase and

## Management's discussion and analysis

Underwriters Adjustment Bureau Ltd. ("UAB"), as well as new contracts in the government and healthcare sector. The foreign currency fluctuations had a negative impact on revenue amounting to 3.2% (\$13.1 million) for a net revenue growth of 5.3% (\$21.4 million).

### Revenue by client geography

Compared with fiscal 2004, the change in the revenue mix based on our clients' geography reflects mainly a full year's revenue from the former AMS, whose business is concentrated on serving clients located mostly in the US and Europe. As a result, in fiscal 2005, revenue from clients located primarily in Canada represented \$2,235.5 million (61% of revenue), compared with \$2,161.8 million (69% of revenue) in fiscal 2004. Revenue from clients located in the US totaled \$1,171.1 million (32% of revenue), compared with \$797.4 million (25% of revenue) in fiscal 2004. Revenue from clients located in Europe and Asia Pacific represented \$279.5 million (7% of revenue), compared with \$190.8 million

(6% of revenue) in the previous fiscal year. Similarly, the variance in 2004, when compared with 2003, resulted from the acquisition of AMS.

### Revenue by contract type

During the fiscal year ended September 30, 2005, revenue derived from our long-term outsourcing contracts represented 54% of total revenue, down from 61% when compared with the same period in the prior year, and included approximately 43% from IT services and 11% from BPS. Meanwhile, SI&C work represented 46% of revenue compared with 39% for the fiscal year ended September 30, 2004. The increase in SI&C work in fiscal 2005 was mainly due to the acquisition of AMS, whose operations were principally concentrated in the SI&C business.

### Revenue by targeted vertical

For the fiscal year ended September 30, 2005, the proportion of revenue from the government and healthcare vertical increased to 29%, from 23% for the same

period in the prior year. Revenue from the financial services vertical was down three percentage points to 34%; and from the retail and distribution vertical, it was down three percentage points to 8%. Telecommunications and utilities and manufacturing remained stable at 23% and 6% respectively. The primary reason for the revenue shift within the vertical sectors in fiscal 2005 and fiscal 2004 was the acquisition of the AMS operations, with a higher concentration in the government and healthcare vertical.

### Revenue attributable to the BCE family of companies and top five clients

Combined revenue attributable to contracts from the BCE family of companies decreased to 14.3% of our total revenue, compared with 16.4% in 2004 and 19.3% in 2003. However, compared with 2004, on a dollar to dollar basis, the revenue from the BCE family of companies increased marginally. Our top five clients represented 26.5% of total revenue in 2005, compared with 31.5% in 2004 and 35.1% in 2003.

## OPERATING EXPENSES AND ADJUSTED EBIT

Years ended September 30 (IN '000 OF DOLLARS EXCEPT PERCENTAGES)	2005	2004 RESTATED	2003 RESTATED	AS A PERCENTAGE OF TOTAL REVENUE 2005	AS A PERCENTAGE OF TOTAL REVENUE 2004	AS A PERCENTAGE OF TOTAL REVENUE 2003
Costs of services, selling and administrative expenses	3,151,558	2,677,396	2,182,447	85.5	85.0	84.3
Amortization expenses						
Capital assets	41,420	46,804	42,332	1.1	1.5	1.6
Contract costs related to transition costs	14,548	9,633	4,219	0.4	0.3	0.2
Finite-life intangibles and other long-term assets	125,049	102,120	72,546	3.4	3.2	2.8
Impairment of contract costs and finite-life intangibles	18,266	4,034	—	0.5	0.1	—
Amortization expenses	199,283	162,591	119,097	5.4	5.2	4.6
Sale of right	(11,000)	—	—	(0.3)	—	—
Adjusted EBIT	346,145	310,083	288,361	9.4	9.8	11.1



## Management's discussion and analysis

In fiscal 2005, costs of services, selling and administrative expenses were \$3,151.6 million, or 85.5% of revenue, compared with \$2,677.4 million, or 85.0% of revenue in fiscal 2004. The change in costs of services, selling and administrative expenses, compared with fiscal 2004, was mainly a result of the acquired AMS operations and the new outsourcing contracts initiated during that period. Similarly, the variance in 2004, when compared with 2003, resulted from the acquisition of AMS.

Total amortization expenses include the amortization of capital assets, contract costs related to transition costs, finite-life intangibles and other long-term assets. Total amortization expenses were \$199.3 million, up \$36.7 million compared with 2004. This is broken down as follows: an increase of \$22.9 million related to the amortization of finite-life intangibles and other long term assets; an increase of \$14.3 million related to the impairment of contract costs and finite-life intangibles; an increase of \$4.9 million for the amortization of contract costs related to transition costs and a decrease of \$5.4 million for the amortization of capital assets.

In 2005, amortization of capital assets decreased \$5.4 million to \$41.4 million,

resulting from computer equipment which is now fully amortized, our leasing strategy for new computer requirements and the disposal of certain assets.

The amortization of contract costs related to transition costs, representing \$14.5 million for the year, is related to costs incurred in the initial phase of new large outsourcing contracts.

The amortization of finite-life intangibles and other long-term assets increased to \$125.0 million, up \$22.9 million from fiscal 2004, and up \$29.6 million in 2004 compared with 2003. The primary cause of these increases was the addition of finite-life intangible assets from acquisitions, namely client relationships and business solutions.

The \$18.3 million impairment of contract costs and finite-life intangibles resulted mainly from a \$5.0 million impairment charge related to an unprofitable contract and an adjustment of contract costs and business solutions related to our Canadian credit unions business following a strategic alliance made with a financial institution. As part of this strategic alliance, CGI agreed to market this financial institution's technology and banking solutions for

credit unions to its current client base of approximately 200 Canadian credit unions. In 2005, CGI recognized \$11.0 million from the sale of this right. CGI will receive additional sums as credit unions adopt this portfolio of solutions. Regardless of whether they migrate to the new solutions, CGI will continue to host the credit unions on its infrastructure. With the signing of this agreement and the potential conversion of clients to these solutions, we recognized that the current investment in our banking solutions needed to be reduced to reflect our revised cash flow estimates. Accordingly, we took a \$9.6 million impairment charge as incremental amortization against contract costs and finite-life intangibles. The net gain from the transaction amounted to \$1.4 million.

Total amortization expenses were \$162.6 million in 2004, up \$43.5 million compared with 2003. This change resulted mainly from the addition of intangible assets from acquisitions, namely client relationships and business solutions, and additional transition costs and fixed assets related to the start-up of new outsourcing contracts and business acquisitions.

In addition to the analysis above, the following table provides an alternate view of our results:

Years ended September 30 (IN '000 OF DOLLARS EXCEPT PERCENTAGES)				AS A PERCENTAGE OF TOTAL REVENUE 2005	AS A PERCENTAGE OF TOTAL REVENUE 2004	AS A PERCENTAGE OF TOTAL REVENUE 2003
	2005	2004 RESTATED	2003 RESTATED			
Revenue	<b>3,685,986</b>	3,150,070	2,589,905	<b>100.0</b>	100.0	100.0
Cost of services <sup>1</sup>	<b>2,655,243</b>	2,267,237	1,851,760	<b>72.0</b>	72.0	71.5
Gross profit	<b>1,030,743</b>	882,833	738,145	<b>28.0</b>	28.0	28.5
Selling, general and administrative <sup>2</sup>	<b>684,598</b>	572,750	449,784	<b>18.6</b>	18.2	17.4
Adjusted EBIT	<b>346,145</b>	310,083	288,361	<b>9.4</b>	9.8	11.1

<sup>1</sup> Cost of services is composed of charges related to providing IT and business process services to clients, such as employee compensation and subcontractor costs, support and maintenance expenses, amortization costs and research expenses.

<sup>2</sup> Selling, general and administrative expenses are composed of expenses which are not directly related to providing IT and business process services to clients, such as compensation costs for selling and administrative staff and amortization related to corporate information systems.

## Management's discussion and analysis

In 2005, gross profit was \$1,030.7 million (28.0% of revenue), up from \$882.8 million (28.0% of revenue) in 2004 and \$738.1 million or 28.5% in 2003. The primary drivers for the growth in gross profit over the last two fiscal years resulted from the business acquisitions and newly signed contracts. The change in gross profit percentage over that period was mainly

attributable to the savings that we generated for our outsourcing clients and the amortization of the intangible assets related to the acquisition of AMS.

In 2005, selling, general and administrative expenses were \$684.6 million or 18.6% of revenue, up from \$572.8 million or 18.2% of revenue in 2004 and \$449.8 million or 17.4% in 2003. The increase in

selling, general and administrative expenses resulted from the growth of our business as discussed above. The increase in selling, general and administrative expenses as a percentage of revenue in 2005 and 2004 resulted from the acquisition of AMS whose costs remain temporarily higher as we still have not yet fully materialized all of the savings on some back office activities.

### Adjusted EBIT

<i>Years ended September 30</i>	2005	2004	2003
<i>(IN '000 OF DOLLARS EXCEPT PERCENTAGES)</i>			
IT services	<b>360,379</b>	326,043	289,117
As a percentage of IT services revenue	<b>11.1%</b>	12.0%	13.2%
BPS	<b>70,401</b>	72,394	70,179
As a percentage of BPS revenue	<b>15.8%</b>	16.9%	17.2%
Corporate	<b>(84,635)</b>	(88,354)	(70,935)
As a percentage of total revenues	<b>(2.3%)</b>	(2.8%)	(2.7%)
Adjusted EBIT	<b>346,145</b>	310,083	288,361
As a percentage of total revenues	<b>9.4%</b>	9.8%	11.1%

Adjusted EBIT was \$346.1 million in 2005, representing an increase of \$36.1 million or 11.6% compared with 2004 and an increase of \$21.7 million or 7.5% in 2004 compared with 2003. The adjusted EBIT margin (i.e. adjusted EBIT over revenue) was 9.4% for the year, compared with 9.8% in 2004 and 11.1% in 2003. On a constant currency basis, the adjusted EBIT for fiscal 2005 was \$356.5 million or 9.4% of revenue.

### Adjusted EBIT by LOB

For fiscal 2005, the IT services LOB reported an adjusted EBIT of \$360.4 million, up \$34.3 million from \$326.0 million in the prior year and, in 2004, up \$36.9 million from \$289.1 million in 2003. The primary drivers for the growth in EBIT were the business acquisitions and newly signed contracts initiated in the respective

periods. The adjusted EBIT margin was 11.1% in 2005, compared with 12.0% last year and 13.2% in 2003. When compared with last year, the change in the adjusted EBIT margin was mainly a result of the non-recurring license sale which was completed in the second quarter of fiscal 2004, the impairment charge related to a contract and a slightly higher cost structure resulting from the AMS integration completed in the second quarter of 2005.

For fiscal 2005, the BPS LOB reported an adjusted EBIT of \$70.4 million, compared with \$72.4 million last year and \$70.2 million in 2003. The adjusted EBIT margin was 15.8% in 2005, compared with 16.9% in 2004 and 17.2% in 2003. The change in adjusted EBIT and adjusted EBIT margin observed in 2005 resulted

mainly from a decline in the volume of transactions processed in the insurance sector and the impairment charge related to contracts and business solutions resulting from the strategic alliance referenced above, partially offset by new projects initiated in the government and healthcare and financial services sectors. Meanwhile, the \$2.2 million increase in adjusted EBIT in 2004 resulted from the growth in our BPS activities, mainly following the acquisition of Cognicase and UAB in 2003.

For the current fiscal year, corporate expenses were \$84.6 million (2.3% of revenue), compared with \$88.4 million (2.8% of revenue) for the year ended September 30, 2004. The reduction in corporate expenses is a result of carefully managing corporate spending.

## Management's discussion and analysis

The following table provides, for the periods indicated, a reconciliation between our adjusted EBIT and earnings from continuing operations before income taxes, reported in accordance with GAAP:

<i>Years ended September 30</i>	2005	2004	2003	PERCENT CHANGE 2005/2004	PERCENT CHANGE 2004/2003
(IN '000 OF DOLLARS EXCEPT PERCENTAGES)					
Adjusted EBIT	<b>346,145</b>	310,083	288,361	<b>11.6</b>	7.5
Interest on long-term debt	<b>(24,014)</b>	(20,672)	(12,578)	<b>16.2</b>	64.4
Other income, net	<b>7,156</b>	8,728	3,094	<b>(18.0)</b>	182.1
Gain on sale of investment in an entity subject to significant influence	<b>4,216</b>	—	—	—	—
Entity subject to significant influence	<b>321</b>	488	295	<b>(34.2)</b>	65.4
Earnings from continuing operations before income taxes	<b>333,824</b>	298,627	279,172	<b>11.8</b>	7.0

### INTEREST

In fiscal 2005, interest on long-term debt increased to \$24.0 million from \$20.7 million in fiscal 2004 and \$12.6 million in fiscal 2003, mainly as a result of the additional debt issued to partially finance the AMS acquisition. Interest income for the year was \$7.2 million, compared with \$8.7 million in the previous year resulting from lower interest rates on our investments.

### GAIN ON SALE OF INVESTMENT IN AN ENTITY SUBJECT TO SIGNIFICANT INFLUENCE

Following Bell Canada's offer to acquire all the outstanding common shares of Nexxlink, we tendered all 3,446,072 shares which we held in Nexxlink, representing 34.3% of Nexxlink's total issued and outstanding shares. The proceeds from the sale of the investment in an entity subject to significant influence amounted to \$20.8 million. The disposition of our interest in Nexxlink yielded a pre-tax gain of \$4.2 million in 2005.

### INCOME TAXES

Our effective income tax rate in 2005 was 34.2%, compared with 37.9% in 2004 and 40.5% in 2003. The decrease in our tax rate compared with last year and fiscal 2003 reflects the reduction in the Canadian combined federal and provincial statutory tax rates and a more balanced distribution of our earnings across our major geographic markets.

### NET EARNINGS AND EARNINGS PER SHARE

<i>Years ended September 30</i>	2005	2004	2003	CHANGE 2005/2004	CHANGE 2004/2003
(IN '000 OF DOLLARS EXCEPT SHARE DATA AND PERCENTAGES)					
Cash net earnings	<b>301,996</b>	248,782	209,220	<b>21.4%</b>	18.9%
Cash net earnings margin	<b>8.2%</b>	7.9%	8.1%		
Net earnings from continuing operations	<b>219,698</b>	185,386	166,115	<b>18.5%</b>	11.6%
Net earnings from continuing operations margin	<b>6.0%</b>	5.9%	6.4%		
Net earnings	<b>216,488</b>	194,041	169,198	<b>11.6%</b>	14.7%
Net earnings margin	<b>5.9%</b>	6.2%	6.5%		
Weighted average number of Class A subordinate shares and Class B shares	<b>439,349,210</b>	419,510,503	395,191,927	<b>4.7%</b>	6.2%
Basic and diluted cash net earnings per share	<b>0.69</b>	0.59	0.53	<b>0.10</b>	0.06
Basic and diluted earnings per share from continuing operations	<b>0.50</b>	0.44	0.42	<b>0.06</b>	0.02
Basic and diluted earnings per share	<b>0.49</b>	0.46	0.43	<b>0.03</b>	0.03

## Management's discussion and analysis

In fiscal 2005, net earnings from continuing operations were \$219.7 million, up \$34.3 million or 18.5% from the prior year and, in 2004, up \$19.3 million or 11.6% from 2003. The increase in net earnings from continuing operations, compared with the fiscal years 2004 and 2003, resulted primarily from the acquisition of AMS, as well as the ramping up of new contracts and, to a lesser extent, from a reduction of our income tax rate. The net earnings from continuing operations margin for fiscal 2005 was 6.0%, compared with 5.9% in fiscal 2004 and 6.4% in fiscal 2003.

Cash net earnings were \$302.0 million (8.2% of revenue), up from \$248.8 million (7.9% of revenue) in 2004 and \$209.2 million (8.1% of revenue) in 2003. The increase over the two previous years was mainly driven by the acquisition of AMS in 2004 and Cognicase in 2003, as well as newly-signed contracts. Cash net earnings per share were \$0.69 in 2005, up by \$0.10 from 2004 and the fiscal 2004 cash net earnings were \$0.06 higher when compared with 2003. Compared with 2004 and 2003, the increase in cash net earnings reflected mainly the acquisition of AMS and newly-signed contracts, partially offset by the increase in the weighted average number

of shares outstanding. The basic weighted average number of shares outstanding for fiscal 2005 was 439,349,210, which was up 4.7% from 2004, reflecting the full year impact of the additional shares issued as part of the AMS acquisition, partially offset by the share repurchase program. In 2004, the basic weighted average number of shares outstanding was 419,510,503, up 6.2% from 2003, following the issuance of shares noted above and the exercise of stock options. As at November 7, 2005, the Company had 430,431,022 shares outstanding, comprised of 396,658,854 Class A subordinate shares and 33,772,168 Class B shares.

The following table provides, for the periods indicated, a reconciliation between cash net earnings and net earnings from continuing operations which is reported in accordance with GAAP:

<i>Years ended September 30</i>	2005	2004	2003	PERCENT CHANGE 2005/2004	PERCENT CHANGE 2004/2003
(IN '000 OF DOLLARS EXCEPT PERCENTAGES)					
Cash net earnings	<b>301,996</b>	248,782	209,220	<b>21.4</b>	18.9
Amortization of finite-life intangibles	<b>(125,049)</b>	(102,120)	(72,546)	<b>22.5</b>	40.8
Tax impact of amortization	<b>42,751</b>	38,724	29,441	<b>10.4</b>	31.5
Net earnings from continuing operations	<b>219,698</b>	185,386	166,115	<b>18.5</b>	11.6

There was a net loss from discontinued operations of \$3.2 million in fiscal 2005, resulting from the sale of the US Services to Credit Unions business unit and the sale of the principal assets of Keyfacts. In 2004, net earnings from discontinued operations of \$8.7 million resulted from assets sold to Nexxlink and the sale of our Starquote market data services business. In line with GAAP with respect to the disposal of long-lived assets and discontinued operations, our yearly revenue and net earnings were adjusted to present these results as net

earnings from discontinued operations. In 2005, net earnings increased \$22.4 million or 11.6% to \$216.5 million from \$194.0 million in 2004. Net earnings for 2004 were up 14.7% over net earnings of 2003. In fiscal 2005, basic and diluted earnings per share of \$0.49 were up from \$0.46 in 2004 and up from basic and diluted earnings per share of \$0.43 in 2003. CGI's basic weighted average number of shares outstanding at the end of the year was 439,349,210, up by 19,838,707 shares when compared

with the previous year. This increase reflected the issuance of 41.3 million shares on May 3, 2004 to partially finance the acquisition of AMS and the exercise of stock options, both of which were partially offset by the Company's share repurchase program, whereby 14.9 million Class A subordinate shares were repurchased for cancellation. The increase in the number of shares outstanding between 2004 and 2003 was mainly the result of the shares issued for the acquisition of AMS.

## Management's discussion and analysis

The following table provides net earnings from continuing operations data under US GAAP for the periods indicated.

<i>Years ended September 30</i>	2005	2004	2003	CHANGE 2005/2004	CHANGE 2004/2003
(IN '000 OF DOLLARS EXCEPT SHARE DATA AND PERCENTAGES)					
Net earnings from continuing operations under US GAAP	240,992	209,557	170,210	15.0%	23.1%
Net earnings from continuing operations margin under US GAAP	6.5%	6.7%	6.6%		
Net earnings under US GAAP	237,782	218,212	173,293	9.0%	25.9%
Net earnings margin under US GAAP	6.5%	6.9%	6.7%		
Basic and diluted earnings per share from continuing operations under US GAAP	0.55	0.50	0.43	0.05	0.07
Basic and diluted earnings per share under US GAAP	0.54	0.52	0.44	0.02	0.08

Net earnings from continuing operations under US GAAP were \$241.0 million or \$0.55 per share in 2005, up from \$209.6 million or \$0.50 per share in 2004 and \$170.2 million or \$0.43 per share in 2003. Taking into account discontinued operations, net earnings under US GAAP were \$237.8 million or \$0.54 per share in 2005, compared with \$218.2 million or \$0.52 per share in 2004 and \$173.3 million or \$0.44 per share in 2003. The net earnings variance under Canadian GAAP, when

compared with US GAAP, resulted mainly from the accounting for stock-based compensation expense whereby, under Canadian GAAP, stock-based compensation has been accounted for using the fair value based method since October 1, 2004. The non-tax deductible adjustment to stock-based compensation was \$20.6 million in 2005, compared with \$25.6 million in 2004 and \$8.2 million in 2003 and fully impacted net earnings.

### LIQUIDITY AND CAPITAL RESOURCES

We finance the growth of our business through cash flow from operations combined with the issuance of debt, borrowing under our existing credit facilities or the issuance of equity. One of our primary financial goals is to maintain the optimal level of liquidity through the active management of our assets and liabilities as well as cash flows.

As at September 30, 2005, we held \$240.5 million in cash and cash equivalents, an increase of \$39.8 million from September 30, 2004.

The following table summarizes the changes in cash and cash equivalents over the past three fiscal years:

<i>Years ended September 30</i>	2005	2004	2003
(IN '000 OF DOLLARS)			
Net cash provided by (used in):			
Continuing operating activities	479,677	229,804	230,074
Continuing investing activities	(105,245)	(700,627)	(463,579)
Continuing financing activities	(329,188)	583,683	205,702
Effect of foreign exchange rate changes on cash and cash equivalents of continuing operations	(6,167)	186	917
Net increase (decrease) in cash and cash equivalents from continuing activities	39,077	113,046	(26,886)
Net cash and cash equivalents provided by discontinued operations	759	4,068	6,174
Cash and cash equivalents, beginning of year	200,623	83,509	104,221
Cash and cash equivalents, end of year	240,459	200,623	83,509



## Management's discussion and analysis

### OPERATING ACTIVITIES

In fiscal 2005, cash flow from continuing operating activities of \$479.7 million increased \$249.9 million over 2004. This increase was driven by higher net earnings from continuing operations before amortization of \$72.9 million over fiscal 2004. In addition, non-cash working capital items increased by \$200.8 million over last year mainly due to the impact of last year's income tax payments related to the AMS sale of the defense business, representing \$78.6 million, the timing of payroll related payments of \$35.5 million and an improvement in our days sales outstanding ("DSO") representing approximately \$66.4 million.

DSO was 48 days, down six days from September 30, 2004. This decrease in DSO was mainly the result of an overall improvement in collections. In calculating

DSOs, we subtract the deferred revenue balance and the tax credits receivable from the accounts receivable and work in progress. Payments from clients in advance of work being performed and deferred revenue may fluctuate from year to year depending on the timing of payments received from outsourcing clients. Cash flow from accounts receivable was impacted by a reduction in the amount of tax credits received in the year. Some \$48.1 million of the receivable for tax credits on salaries was received during the year, compared with \$87.3 million received in fiscal 2004 and \$43.0 million received in fiscal 2003. The decrease from 2004 is mainly due to the timing of tax returns while tax credits earned have remained stable year-over-year.

Another significant improvement in the fiscal 2005 net change in non-cash working

capital was with income tax payable. In 2004, following the acquisition of AMS, we paid \$78.6 million as a result of the sale of the AMS defense business. This liability had been set up at the acquisition date and did not have an impact on cash flow at that time; however it did impact our cash flow from continuing operating activities when the payment was made in September 2004. Finally, the change in accrued compensation had a positive impact of \$35.5 million on the net change in non-cash working capital items. This is due to the timing of payroll related payments made during fiscal 2005, versus the prior year.

### INVESTING ACTIVITIES

Cash used in continuing investing activities was \$105.2 million in 2005, a decrease of \$595.4 million compared with the prior fiscal year.

The following table includes further detail on the cash used in continuing investing activities:

<i>Years ended September 30</i>	2005	2004	2003
(IN '000 OF DOLLARS)			
Finite-life intangibles and other long-term assets	(88,000)	(84,696)	(149,951)
Capital assets	(25,314)	(59,829)	(61,226)
Contract costs	(27,304)	(76,260)	(29,211)
Sub-total	(140,618)	(220,785)	(240,388)
Business acquisitions (net of cash)	(66,229)	(589,678)	(233,512)
Proceeds from sale of investment in an entity subject to significant influence	20,849	—	—
Proceeds from sale of assets and businesses (net of cash)	29,521	87,503	—
Other proceeds <sup>1</sup>	51,232	22,333	10,321
Cash used in continuing investing activities	(105,245)	(700,627)	(463,579)

<sup>1</sup> Other proceeds include the sale of right, the reimbursement of contract costs following the termination of a contract, proceeds from the disposal of capital assets, proceeds from the disposal of finite-life intangibles and the decrease in other long-term assets.

The investment in finite-life intangibles and other long-term assets was \$3.3 million higher when compared with last year. The detail of what is included in this category is provided in the section "Summary of significant accounting policies." As per normal business, we acquired software licenses for \$13.9 million and invested \$52.3 million internally to develop business solutions, in order to deliver IT outsourcing

services and business solutions services to our clients. The development costs are capitalized as they meet specific criteria related to technical, market and financial feasibility. These solutions are developed as a result of taking our research findings and translating them into plans or designs for new processes or systems which will contribute to better servicing new and existing IT and BPS clients. In 2005,

significant investments in business solutions included \$25.1 million in our federal and state and local government ERP solutions.

We also incurred research expenses net of related tax credits of \$21.9 million within our costs of services, selling and administrative expenses, while seeking applications of new technology, or conceptually formulating and designing possible products or process alternatives that could

potentially lead to new solutions for existing or new clients. The combined research and development spending incurred by CGI was \$78.2 million, up 21.3% from the \$64.5 million spending in 2004. Further to the research and capitalized development costs noted above, there are additional research and development costs incurred which are initiated as part of client projects and are included in our costs of services.

In 2005, our investment in finite-life intangibles and other long-term assets were essentially stable over 2004. The 2003 investment was mainly due to the fact that, in 2003, as part of our Innovapost joint venture, we made a \$47.3 million investment in an enterprise resource system used by Canada Post Corporation. In addition, our 2003 investments in internal financial systems represented approximately \$12.0 million more than such investments in 2005.

The \$25.3 million investment in capital assets included improvements to our facilities totaling \$15.0 million. In addition, computer equipment purchases of \$10.3 million were required to support the growth in our operations. The year-over-year decrease was mainly due to the completion of the major improvements carried out to our Montreal offices, beginning in 2004. Furthermore, fiscal 2004 numbers included purchases of computer equipment to support new large outsourcing contracts with Cott and Robert Plan.

The \$27.3 million investment in contract costs was related mainly to capitalized start-up costs on certain outsourcing contracts, and was down \$49.0 million from last year. In fiscal 2004, our \$76.3 million investment in contract costs included approximately

\$59.8 million of transition costs incurred with outsourcing clients in their initial contract period. Additionally, \$18.6 million in incentives were granted to clients as part of outsourcing contracts announced during 2004.

In fiscal 2005, we completed the acquisition of AGTI for a consideration of \$47.2 million. We also acquired MPI and Silver Oak for \$13.0 million and \$21.8 million, respectively. In 2005, the net cash flow impact from these three acquisitions was \$66.7 million, with the remaining purchase price of \$9.9 million to be paid in future periods according to the purchase agreements. We also used \$2.1 million to increase our interest in one of our joint ventures and to complete two niche acquisitions. In fiscal 2004, we made one major acquisition and several niche acquisitions, for a total net cash consideration of \$589.7 million. AMS, acquired on May 3, 2004, was purchased for a net cash consideration of \$584.0 million. Some \$325.2 million was raised through an equity private placement and \$255.8 million was raised through a debt private placement with the balance coming from existing cash resources. Other business acquisitions represented a net cash investment of \$5.7 million. In fiscal 2003, we completed the acquisitions of five IT consulting firms, the largest being Cognicase. The cash used for these acquisitions was \$233.5 million.

The \$20.8 million proceeds from the sale of an investment in an entity subject to significant influence were related to the sale of our investment in Nexxlink. The 2005 proceeds from the sale of assets and businesses, totaling \$29.5 million, were

mainly generated from the sale of the US Services to Credit Unions and Keyfacts businesses. The 2004 proceeds from the sale of assets and businesses, totaling \$87.5 million, were generated from the sale of operations acquired with Cognicase, as well as the sale of the Starquote business and the Clearwater, Florida building that was acquired with IMRglobal Corp. in July 2001. Finally, other proceeds generated in 2005 included the sale of right to access clients, the reimbursement of contract costs following the termination of an outsourcing contract and the sale of other long-term assets.

#### FINANCING ACTIVITIES

Cash used by continuing financing activities was \$329.2 million in 2005, compared with cash provided of \$583.7 million in 2004. The continuing financing activities required cash mainly due to the repayment of our credit facilities, representing \$207.6 million, and the purchase of outstanding CGI shares for cancellation representing \$109.5 million as discussed in the "Share repurchase program" section. In 2004, continuing financing activities provided cash via the issuance of a debt private placement for \$255.8 million, a net drawdown of \$21.5 million from our unsecured committed credit facilities and a \$325.2 million equity private placement (net of fees). The cash provided was used primarily to finance the acquisition of AMS and to strengthen our cash position for future growth. The debt private placement was issued to strengthen capital resources, and to better match the duration of our liabilities with the average term of our backlog.

## Management's discussion and analysis

### SELECTED MEASURES OF LIQUIDITY AND CAPITAL RESOURCES

<i>Years ended September 30</i>	2005	2004	2003
Working capital (IN '000 OF DOLLARS)	<b>\$332,637</b>	\$362,380	\$227,452
Current ratio	<b>1.47</b>	1.47	1.40
Shareholders' equity per common share	<b>\$5.79</b>	\$5.54	\$4.92
Net debt to capitalization ratio <sup>1</sup>	<b>0.3%</b>	9.8%	8.2%
Long-term debt to capitalization ratio <sup>2</sup>	<b>9.1%</b>	16.6%	11.9%
Days sales outstanding (IN DAYS)	<b>48</b>	54	52
Return on invested capital <sup>3</sup>	<b>8.7%</b>	7.8%	8.3%
Return on equity <sup>4</sup>	<b>8.8%</b>	8.2%	8.7%

<sup>1</sup> The net debt to capitalization ratio represents the proportion of long-term debt net of cash and cash equivalents over the sum of shareholders' equity and long-term debt.

<sup>2</sup> The long-term debt to capitalization ratio represents the proportion of long-term debt over the sum of shareholders' equity and long-term debt.

<sup>3</sup> The return on invested capital ratio represents the proportion of the last four quarters' after-tax adjusted EBIT over the last four quarters' average invested capital (sum of equity and debt less cash and cash equivalents).

<sup>4</sup> The return on equity ratio represents the proportion of the last four quarters' net earnings from continuing operations over the last four quarters' average equity.

CGI's shareholders' equity per common share of \$5.79, based on a total of 431,220,497 shares outstanding at September 30, 2005, was up \$0.25 when compared with September 30, 2004. This change was due to the net earnings reported in the last twelve months, partially offset by the reduction in equity following the share repurchase and by the change in the foreign currency translation adjustment of \$92.1 million. The change in the foreign currency translation adjustment mainly reflected the 8.1% depreciation of the

US dollar versus the Canadian dollar between September 30, 2004 and September 30, 2005. We translate the assets denominated in foreign currencies using the year-end exchange rates.

Following the 2005 reimbursement of our credit facilities, the Company's net debt was \$9.2 million at September 30, 2005, as illustrated by the net debt to capitalization ratio of 0.3%.

The return on invested capital ratio was 8.7% for the year, compared with 7.8% in the prior year. The year-over-year change

reflected the increased profitability after a successful integration of AMS operations and, to a lesser extent, the impact of the share repurchase program. The return on equity ratio was 8.8% for the year, compared with 8.2% last year. This improvement demonstrates the increased profitability and cash generation of the operations following the integration of AMS, as well as the impact of the share repurchase program.

### CONTRACTUAL OBLIGATIONS

COMMITMENT TYPES (IN '000 OF DOLLARS)	TOTAL	PAYMENTS DUE BY PERIOD				
		LESS THAN 1 YEAR	2ND AND 3RD YEARS	4TH AND 5TH YEARS	YEARS 6 TO 10	AFTER 10 YEARS
Long-term debt	247,695	13,653	11,110	98,759	124,173	—
Capital lease obligations	2,005	1,246	749	10	—	—
Operating leases rental of office space <sup>1</sup>	1,107,822	130,380	234,637	196,869	286,989	258,947
Computer equipment	162,584	82,226	72,203	6,225	1,930	—
Long-term service agreements <sup>1</sup>	117,528	43,674	66,020	7,834	—	—
Total contractual obligations	1,637,634	271,179	384,719	309,697	413,092	258,947

<sup>1</sup> Included in these obligations: \$82.1 million of office space leases and \$11.4 million of long-term service agreements which are accounted for within accounts payable and accrued liabilities, accrued integration charges and other long-term liabilities and long-term debt.

We are committed under the terms of contractual obligations with various expiration dates, primarily for the rental of premises, computer equipment used in outsourcing contracts and long-term service

agreements in the aggregate amount of \$1,637.6 million. Of this, rental of office space represents \$1,107.8 million, computer equipment totals \$162.6 million and long-term service agreements,

which are comprised of enterprise license and maintenance contracts, represent \$117.5 million. In 2005, total contractual obligations decreased by \$289.8 million, mainly due to the reimbursement of

## Management's discussion and analysis

our credit facilities, the foreign currency translation impact on US dollar commitments and payments related

to other contractual obligations in the normal course of business. Computer equipment leases pertain

to hardware leased from manufacturers or financial institutions in the course of business activities.

### CAPITAL RESOURCES

Available at September 30  
(IN '000 OF DOLLARS)

	TOTAL COMMITMENT <sup>1</sup>	2005	2004	2003
Cash and cash equivalents	–	240,459	200,623	83,509
Unsecured committed revolving facilities	800,000	786,669	283,608	285,500
Lines of credit and other facilities	31,720	31,109	29,607	27,700
Total	831,720	1,058,237	513,838	396,709

<sup>1</sup> Excluding any existing credit facility for non-majority owned entities.

Our cash position, together with bank lines, are sufficient to support our growth strategy. At September 30, 2005, cash and cash equivalents were \$240.5 million and the total credit facilities available amounted to \$817.8 million. Cash equivalents consist primarily of unrestricted cash and short-term investments having an initial maturity of three months or less at the time of acquisition.

Total long-term debt decreased by \$240.1 million to \$249.7 million at September 30, 2005, compared with \$489.8 million at September 30, 2004. The decrease resulted primarily from the repayment of our outstanding credit facilities and the impact from the fluctuations of foreign currencies against the Canadian dollar.

The \$800.0 million committed banking facilities are for our operating activity needs, working capital purposes and the financing of acquisitions and outsourcing contracts. The agreement is comprised of a Canadian tranche with a limit of \$500.0 million and a US tranche equivalent to \$300.0 million. As at September 30, 2005, an amount of \$786.7 million was available under this agreement. The agreement has a five-year term, expiring in December 2009. We also have access to a \$25.0 million demand line of credit for cash management purposes and \$6.7 million of other facilities to cover other requirements. The long-term debt agreements contain covenants, which

require us to maintain certain financial ratios. At September 30, 2005, CGI was in compliance with these covenants.

We continuously review our cash management and financing strategy in order to optimize the use of funds generated from operations and could modify the current financial structure if we deemed it beneficial to the Company. We expect new large outsourcing contracts or large acquisitions to be financed by the issuance of debt or equity, should additional cash resources be required.

In fiscal 2006, considering the needs for reinvestment in our operations and the size of the investment projects, we do not expect to pay a dividend. In the future, we will evaluate annually whether or not to pay a dividend or to continue with the share repurchase program; this is subject to regular review by our Board of Directors.

### FINANCIAL INSTRUMENTS

The Company uses various financial instruments to manage its exposure to fluctuations in foreign currency exchange rates. The Company does not hold or use any derivative instruments for speculative trading purposes. The Company enters into financial instrument contracts to hedge its net investment in foreign subsidiaries. Foreign exchange translation gain or loss on the net investment is recorded under foreign currency translation adjustment. Any realized or unrealized gain or loss on

instruments covering the net investment is also recognized in foreign currency translation adjustment. The Company also enters into forward contracts to hedge forecasted cash flows denominated in currencies other than the functional currency of its subsidiaries. Gains and losses on foreign exchange contracts designated as hedges for firm commitments or forecasted transactions are recorded in costs of services, selling and administrative expenses when the related transaction is realized. Periodic assessments of each hedge's effectiveness are performed during the year.

### OFF-BALANCE SHEET FINANCING AND GUARANTEES

We do not engage in the practice of off-balance sheet financing, except for the use of operating leases for office space, computer equipment and vehicles. In accordance with GAAP, neither the lease liability nor the underlying asset is carried on the balance sheet as the terms of the leases do not meet the threshold for capitalization.

We enter into agreements to provide financial or performance assurances to third parties. This includes the sale of assets, business divestitures guarantees and US government contracts.

In the sale of assets or business divestitures, we may be required to pay counterparties for costs and losses incurred as the result of breaches in representations

## Management's discussion and analysis

and warranties, intellectual property right infringement and litigation against counterparties. Also, in the normal course of business, we may provide certain clients, principally governmental entities, with financial performance guarantees, which are generally backed by surety bonds. In general, we would only be liable for the amount of these guarantees in the event of default in the performance of our obligations, the probability of which is remote in our opinion. We do not expect to incur any potential payment in connection with these guarantees which could have a materially adverse effect on our consolidated financial statements.

We are also engaged in providing services under certain contracts with the U.S. government. The contracts are subject to extensive legal and regulatory requirements and, from time to time, agencies of the U.S. government investigate whether our operations are being conducted in accordance with these requirements. Generally, the government has the right to change the scope of, or terminate, these contracts at its convenience. While we do not expect to realize any significant changes to these contracts, the termination or a reduction in the scope of a major government project could have a material adverse effect on our results of operations and financial condition.

### CAPABILITY TO DELIVER RESULTS

We believe that we have the capital resources and liquidity necessary to meet our commitments and existing obligations as well as to support our operations and to finance our growth strategies. We also believe that we have the required non-capital resources necessary to achieve our goals for continued growth. These non-capital resources include a strong management team with a very low historical turnover rate, sophisticated management frameworks for a consistent high standard of client service and ongoing managerial training, as well as quality processes that help us integrate and retain new members as part of large outsourcing contract wins or acquisitions.

### RELATED SUMMARY OF QUARTERLY RESULTS

QUARTERLY RESULTS (IN '000 OF DOLLARS EXCEPT PERCENTAGES)	2005				2004			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	904,840	936,394	915,662	929,090	936,888	842,358	702,322	668,502
Net earnings from continuing operations	56,415	56,621	53,591	53,071	52,861	43,970	45,768	42,787
Net earnings from continuing operations margin	6.2%	6.0%	5.9%	5.7%	5.6%	5.2%	6.5%	6.4%
Basic and diluted earnings per share from continuing operations	0.13	0.13	0.12	0.12	0.12	0.10	0.11	0.11
Net earnings	55,792	57,759	49,594	53,343	52,909	52,959	45,646	42,527
Net earnings margin	6.2%	6.2%	5.4%	5.7%	5.6%	6.3%	6.5%	6.4%
Basic and diluted earnings per share	0.13	0.13	0.11	0.12	0.12	0.12	0.11	0.11

During the last eight quarters, the compound quarterly growth rate of our revenue has been 4.4%. Our revenue growth was primarily driven by the timing of new large outsourcing contracts, business renewals and acquisitions, offset by the fluctuation of foreign currencies against the Canadian dollar. There has been some impact of seasonality, with fiscal fourth quarter SI&C revenue impacted by the summer vacation period. As was the case for revenue growth, net earnings from continuing operations were affected by the timing of large outsourcing contracts and acquisitions and, to a lesser extent, by the fluctuations of foreign

currencies. The compound quarterly growth rate of our net earnings from continuing operations was 4.0% over the last eight quarters. The net earnings from continuing operations margin reached a peak of 6.5% in 2004. The acquisition of AMS in the third quarter of 2004 impacted temporarily our profitability, while contributing to the growth in revenue. However, with the completion of the integration, we have maintained the acquired revenue base while improving profitability in every quarter following the acquisition. Our net earnings from continuing operations margin is now approaching the pre-acquisition level.

### RELATED PARTY TRANSACTIONS

In the normal course of business, the Company is party to contracts with certain subsidiaries and affiliated companies of BCE (a shareholder), pursuant to which the Company is its preferred IT supplier. BCE exercises significant influence over the Company's operating, financing and investing activities through its 29.75% (2004 - 28.86%) ownership interest and through the significant business volume originating from BCE, together with its subsidiaries and affiliates.



## Management's discussion and analysis

Transactions and resulting balances, which were measured at commercial rate (exchange amount), are presented below:

### BCE

<i>Years ended September 30</i>	2005	2004	2003
(IN '000 OF DOLLARS)			
Revenue	526,935	516,968	500,068
Purchase of services	121,184	99,881	91,471
Accounts receivable	21,632	16,730	21,659
Work in progress	14,209	5,894	1,123
Contract costs	14,103	17,916	21,373
Accounts payable and accrued liabilities	1,018	8,343	5,161
Deferred revenue	1,978	1,249	1,330

During the year, the Company disposed of its investment in Nexxlink. This investment was sold to BCE pursuant to a public tender offering and was accounted for at the exchange amount.

In the normal course of business, the Company is also party to contracts with Innovapost, a joint venture, pursuant to which the Company is its preferred

IT supplier. The Company exercises significant influence over Innovapost's operating, financing and investing activities through its 49% ownership interest.

Transactions and resulting balances, which were measured at commercial rate (exchange amount), are presented below:

### INNOVAPOST

<i>Years ended September 30</i>	2005	2004	2003
(IN '000 OF DOLLARS)			
Revenue	102,699	94,607	62,653
Accounts receivable	4,112	3,622	5,086
Work in progress	1,290	1,988	361
Prepaid expenses and other current assets	2,019	1,815	—
Contract costs	17,301	19,696	21,989
Accounts payable and accrued liabilities	1,254	1,113	227
Deferred revenue	—	946	2,125
Other long-term liabilities	—	—	4,463

During the year, CGI incurred a general and administrative expense in the amount of \$2.5 million with a company owned by one of its directors. The transaction was incurred in the normal course of operations and measured at the commercial rate (exchange amount).

### RISKS AND UNCERTAINTIES

While we are confident about our long-term prospects, the following risks and uncertainties could affect our ability to achieve our strategic vision and objectives for growth and should be considered when evaluating our potential as an investment.

### RISKS RELATED TO OUR INDUSTRY

The competition for contracts—We have a disciplined approach to the management of all aspects of our business, with an increasing proportion of our operations codified under ISO 9001 certification. Our management processes were developed to help us ensure that our members consistently deliver services according to our high standards and they are based on strong values underlying our client-focused culture. These processes have contributed to our high contract win rate and renewal rate to date. Additionally, we have developed a deep strategic understanding of the five

economic sectors we target, and this helps enhance our competitive position. CGI is a leading provider of IT and business process services in Canada, and through a combination of organic growth and acquisitions, we continue to strengthen our position in the US outsourcing market. We have made good progress in growing our revenue from the US and internationally over the past three years and expect this trend to continue. However, the market for new IT and BPS outsourcing contracts remains very competitive and there can be no assurances that we will continue to compete successfully.

The long sales cycle for major outsourcing contracts—The sales cycle for large outsourcing contracts typically ranges from six to 18 months, with some extending over 24 months. The sales cycle could become even longer, thus affecting our ability to meet our annual growth targets.

The availability and cost of qualified IT professionals—There is strong demand for qualified individuals in the IT industry. Over the years, we have been able to successfully attract and retain qualified staff, thanks to our solid culture, strong values and emphasis on career development, as well as performance-driven remuneration. In addition, we have implemented a comprehensive program aimed at attracting and retaining qualified and dedicated professionals. We believe that we are a preferred employer in the IT services industry. We also secure access to additional qualified professionals through outsourcing contract wins and business acquisitions.

The ability to continue developing and expanding service offerings to address emerging business demands and technology trends—We strive to remain at the forefront of developments in the IT services industry, thus ensuring that we can meet the evolving needs of our clients. We achieved this expertise as a result of our specialization in five targeted economic sectors; our non-exclusive commercial alliances with hardware and software vendors and strategic alliances with major partners; our development of proprietary IT solutions to meet the needs of our clients; regular training and sharing of professional expertise across our network of offices; and business acquisitions that provide specific knowledge or added geographic coverage.

Infringing on the intellectual property rights of others—We cannot be sure that our services and offerings do not infringe on the intellectual property rights of third parties, and we may have infringement claims asserted against us. These claims may be costly, harm our reputation, and prevent us from providing some services

and offerings. We enter into licensing agreements with our clients for the right to use intellectual property that includes a commitment to indemnify the licensee against liability and damages arising from any third-party claims of patent, copyright, trademark or trade secret infringement. In some instances, the amount of these indemnity claims could be greater than the revenue we receive from the client. Any claims or litigation in this area, whether we ultimately win or lose, could be time-consuming and costly, injure our reputation, or require us to enter into royalty or licensing arrangements. Any limitation on our ability to sell or use products or services that incorporate challenged software or technologies could cause us to lose revenue-generating opportunities or require us to incur additional expenses to modify solutions for future projects.

Limited ability to protect our intellectual property rights—Our success depends, in part, on our ability to protect our proprietary methodologies and other intellectual property that we use to provide our services. Our general practice is to pursue patent or other appropriate intellectual property protection that is reasonable and necessary to protect and leverage our intellectual assets. We assert trademark rights in and to our name, product names, logos and other markings used to identify our goods and services in the marketplace. We routinely file for and have been granted trademark registrations from the U.S. Patent and Trademark Office and other trademark offices worldwide. However, the laws of some countries in which we conduct business may offer only limited protection of our intellectual property rights; and despite our efforts, the steps taken to protect our intellectual property may not be adequate to prevent or deter infringement or other misappropriation of intellectual property, and we may not be able to detect unauthorized use of our intellectual

property, or take appropriate steps to enforce our intellectual property rights.

#### RISKS RELATED TO OUR BUSINESS

Business mix variations—The proportion of revenue that we generate from shorter-term SI&C projects, versus revenue from long-term outsourcing contracts, will fluctuate at times, affected by acquisitions or other transactions. An increased exposure to revenue from SI&C projects may result in greater quarterly revenue variations.

The financial and operational risks inherent in worldwide operations—We manage operations in 17 countries worldwide, with less than 10% of revenue coming from outside North America. We believe that our Management Foundation, which includes management frameworks and processes that guide business unit leaders in managing our members and clients, helps ensure worldwide operational efficiency and consistency. However, the immense scope of our worldwide operations makes us subject to currency fluctuations; price controls or restrictions on the exchange of foreign currency; the burden of complying with a wide variety of national and local laws; differences in, and uncertainties arising from local business culture and practices; multiple and sometimes conflicting laws and regulations, including tax laws; operating losses incurred in certain countries as we develop our international service delivery capabilities and the non-deductibility of these losses for tax purposes; the absence in some jurisdictions of effective laws to protect our intellectual property rights; restrictions on the movement of cash and other assets; restrictions on the import and export of certain technologies; restrictions on the repatriation of earnings; and political, social and economic instability. We have a hedging strategy in place to protect ourselves, to the extent possible, against foreign currency exposure; but, other than the use of financial products to deliver on our hedging strategy, we do not trade

derivative financial instruments. While we believe we have effective management processes in place in each office worldwide, any or all of these risks could impact our global business operations and cause our profitability to decline.

The ability to successfully integrate business acquisitions and the operations of IT outsourcing clients—The integration of acquired operations has become a core competency for us as we have acquired a large number of companies since our inception. Our disciplined approach to management, largely based on our management frameworks, has been an important factor in the successful integration of human resources of acquired companies and the IT operations of outsourcing clients. As at September 30, 2005, the majority of our operations had received ISO 9001 certification.

Material developments regarding major commercial clients resulting from such causes as changes in financial condition, mergers or business acquisitions—With the exception of BCE Inc., its subsidiaries and affiliates, no one company or group of related companies represents more than 10% of our total revenue.

Early termination risk—If we should fail to deliver our services according to contractual agreements, some of our clients could elect to terminate contracts before their agreed expiry date, which would result in a reduction of our earnings and cash flow. We have a strong record of successfully meeting or exceeding our clients' needs. We take a professional approach to business, and our contracts are written to clearly identify the scope of our responsibilities and minimize risks. In addition, a number of our outsourcing contractual agreements have change of control clauses according to which a change in control of CGI could lead to a termination of the said agreements.

Credit risk concentration with respect to trade receivables—We generate a significant portion of our revenue from the subsidiaries and affiliates of one of our large

shareholders, namely BCE Inc. However, it is our belief that we are not subject to any significant credit risk, especially in view of our large and diversified client base.

Short-term, project-related contract risks—With the acquisition of AMS, the percentage of revenue that CGI derives from shorter-term, project-oriented contracts increased substantially. We manage all client contracts utilizing the Client Partnership Management Framework ("CPMF"), a process framework which helps ensure that client projects are all managed according to the same high standards throughout the organization. As a result of the CPMF, there is a high degree of rigour and discipline used to accurately estimate the cost of client engagements. However, a significant portion of engagements acquired with AMS are performed on a fixed-price basis. Billing for fixed-price engagements is made in accordance with the contract terms agreed upon with our client, and revenue is recognized based on the percentage of effort incurred to date in relation to the total estimated costs to be incurred over the duration of the respective contract. When making proposals for these types of engagements, we rely on our estimates of costs and timing for completing the projects. These estimates reflect our best judgment regarding the efficiencies of our methodologies and professionals as we plan to apply them to the projects. Any increased or unexpected costs or unanticipated delays in connection with the performance of fixed-price contracts, including delays caused by factors outside our control, could make these contracts less profitable or unprofitable.

Guarantees risk—In the normal course of business, we enter into agreements that may provide for indemnification and guarantees to counterparties in transactions such as consulting and outsourcing services, business divestitures, lease agreements and financial obligations. These indemnification undertakings and

guarantees may require us to compensate counterparties for costs and losses incurred as a result of various events, including breaches of representations and warranties, intellectual property right infringement, claims that may arise while providing services or as a result of litigation that may be suffered by counterparties.

Government tax credits risk—An acquisition of control of CGI could translate into a loss of provincial tax credits related to E-Commerce Place and the Cité Multimédia in Montréal, the Carrefour de la nouvelle économie in Saguenay and the Carrefour national des nouvelles technologies de Québec.

Government business risk—Changes in federal, provincial or state government spending policies or budget priorities could directly affect our financial performance. Among the factors that could harm our government contracting business are the curtailment of the government's use of consulting and technology services firms; a significant decline in spending by the governments, in general, or by specific departments or agencies in particular; the adoption of new laws or regulations that affect companies that provide services to governments; delays in the payment of our invoices by government payment offices; and general economic and political conditions. These or other factors could cause government agencies and departments to reduce their purchases under contracts, to exercise their right to terminate contracts, to issue temporary stop work orders, or not to exercise options to renew contracts, any of which would cause us to lose future revenue. Our client base in the government vertical is very diversified with contracts from many different departments and agencies in the US and Canada; however, government spending reductions or budget cutbacks at these departments or agencies could materially harm our continued performance under these contracts, or limit the awarding of additional contracts from these agencies.

Legal claims made against our work—We create, implement and maintain IT solutions that are often critical to the operations of our clients' business. Our ability to complete large projects as expected could be adversely affected by unanticipated delays, renegotiations, and changing client requirements or project delays. Such problems could subject us to legal liability, which could adversely impact our business, operating results and financial condition, and may negatively affect our professional reputation. We typically include provisions in our contracts which are designed to limit our exposure to legal claims relating to our services and the applications we develop. These provisions may not protect us or may not be enforceable under some circumstances or under the laws of some jurisdictions.

#### **RISKS RELATED TO BUSINESS ACQUISITIONS**

Difficulties in executing our acquisition strategy—A significant part of our growth strategy is dependent on our ability to continue making niche acquisitions to increase the breadth and depth of our service offerings as well as large acquisitions to specifically increase our critical mass in the US and Europe. We cannot, however, make any assurances that we will be able to identify any potential acquisition candidates, consummate any additional acquisitions or that any future acquisitions will be successfully integrated into our operations and provide the tangible value that had been expected. Without additional acquisitions, we are unlikely to maintain our historic or expected growth rates.

Realization of acquisition benefits—The acquisition of AMS has provided certain benefits to CGI that include both operational and service enhancements as well as financial efficiencies. As a result of increasing our critical mass in the US and Europe, enhancing our services and capabilities and adding to our client base,

we believe that we are better positioned to bid on and win new outsourcing contracts. Additionally, operational and administrative efficiency gains have been realized during the integration of AMS.

Our management faces a complex and potentially time-consuming task in implementing uniform standards, controls, procedures and policies across our business units. Integrating businesses can result in unanticipated operational problems, expenses and liabilities. In addition, to the extent that management is required to devote significant time, attention and resources to the integration of operations, personnel and technology, our ability to service current clients may be reduced, which may adversely affect our revenue and profitability.

#### **RISKS RELATED TO THE MARKET**

Economic risk—An economic downturn may cause our revenue to decline. The level of business activity of our clients, which is affected by economic conditions, has a bearing upon the results of our operations. We can neither predict the impact that current economic conditions will have on our future revenue, nor predict when economic conditions will show meaningful improvement. During an economic downturn, our clients and potential clients often cancel, reduce or defer existing contracts and delay entering into new engagements. In general, companies also decide to undertake fewer IT systems projects during difficult economic times, resulting in limited implementation of new technology and smaller engagements. Because there are fewer engagements in a downturn, competition usually increases and pricing for services may decline as competitors, particularly companies with significant financial resources, decrease rates to maintain or increase their market share in our industry. Our pricing, revenue and profitability could be negatively impacted as a result of these factors.

#### **INTEGRITY OF DISCLOSURE**

Our management assumes the responsibility for the existence of appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete and reliable. The Board of Directors' duties include the assessment of the integrity of the Company's internal control and information system.

The Audit and Risk Management Committee of CGI is composed entirely of unrelated directors who meet the independence and experience requirements of the New York Stock Exchange and the Toronto Stock Exchange. The responsibilities of our Audit and Risk Management Committee include: a) the review of all our public disclosure documents containing audited or unaudited financial information, b) the review and assessment of the effectiveness of our accounting policies and practices concerning financial reporting, c) the review and monitoring of our internal control procedures, programs and policies and assessment of the adequacy and effectiveness thereof, d) recommendation to the Board of Directors of CGI on the appointment of external auditors, assertion of the independence thereof, review of the terms of engagement thereof and ongoing discussions therewith, e) the review of the audit procedures, and f) such other responsibilities usually attributed to audit and risk committees or as directed by our Board of Directors.

#### **LEGAL PROCEEDINGS**

From time to time, the Company is involved in various litigation matters arising in the ordinary course of its business. The Company has no reason to believe that the disposition of any such current matters could reasonably be expected to have a material adverse impact on CGI's financial position, results of operations, or the ability to carry on any of its business activities.

Additional information on CGI can be found in the Annual Information Form which is posted on our Web site at [www.cgi.com](http://www.cgi.com), and is filed with SEDAR and EDGAR.