

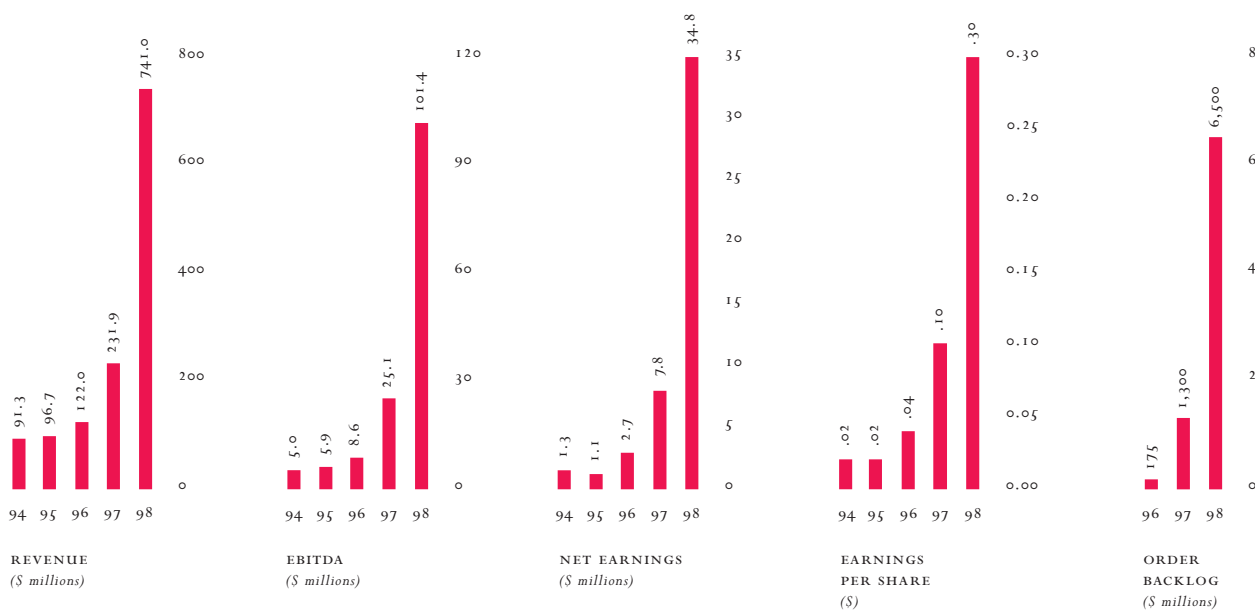
experience the

CGI GROUP INC. 1998 annual report

commitment



Years ended September 30 In thousands of \$, except per share amounts Amounts in Canadian dollars					
	1998	1997	1996	CHANGE 1997-98	AVERAGE COMPOUND GROWTH 1996-98
FINANCIAL PERFORMANCE	\$	\$	\$	%	%
Revenue	740,963	231,916	122,015	219.5	146.4
Operating income ⁽¹⁾	101,367	25,124	8,601	303.5	243.3
Margin	13.7%	10.8%	7.0%		
Net earnings	34,828	7,765	2,718	348.5	258.0
Per share ⁽²⁾	0.30	0.10	0.04	200.0	173.9
Net margin	4.7%	3.3%	2.2%		
Cash flow	75,768	21,767	7,851	248.1	210.7
Per share ⁽²⁾	0.65	0.28	0.11	132.1	143.1
R & D and training expenses	16,538	6,335	3,835	161.1	107.7
FINANCIAL POSITION					
Total assets	744,930	154,143	72,159	383.3	221.3
Shareholders' equity	474,247	72,271	40,789	556.2	241.0
Per share ⁽²⁾	3.55	0.86	0.55	312.8	154.1
Working capital	63,956	16,935	18,823	277.7	84.3
Current ratio	1.24 :1	1.30 :1	1.66 :1		
Total bank indebtedness	1,073	34,822	10,023	-96.9	-67.3
Total bank debt/equity ratio	0.00 :1	0.48 :1	0.25 :1		
<p>(1) Before depreciation, interest, income taxes and share in the results of an entity subject to significant influence.</p> <p>(2) Adjust for 2-for-1 stock splits effective August 12th and December 15th, 1997 as well as May 21st, 1998.</p>				<p>Note : CGI's policy is to reinvest earnings into its expansion rather than pay dividends</p>	



CGI'S MISSION.

The mission of CGI is to assist private and public sector organizations with professional services of outstanding quality, competence, performance and objectivity, delivering the best solutions to fully satisfy client objectives in information technology, telecommunications and management. In all we do, we foster a culture of partnership, intrapreneurship and integrity, building an end-to-end world-class information technology company.

WHO WE ARE.

CGI is the sixth largest information technology (IT) services company in North America based on its \$1.3 billion revenue run-rate at the end of fiscal 1998. It is the largest independent end-to-end IT services company in Canada. CGI shares are listed on the Toronto and Montreal stock exchanges (GIB.A) and on the New York Stock Exchange (GIB).

CGI provides the full range of IT services including outsourcing, systems integration, consulting and business solutions. The company's primary focus is large scale systems integration and outsourcing contracts. Outsourcing contracts now represent 75% (based on the run-rate) of revenue, with systems integration representing 15% and consulting, 10%. Eighty percent of total revenue comes from IT planning, business process engineering, systems architecture, systems development and maintenance. The remaining 20% is facilities management business including state-of-the-art data centres, help desks, call centres and desktop services.

CGI targets niche markets where it has developed specialized expertise – financial services and telecommunications which are its two largest sectors, plus manufacturing, retail and distribution, governments including the health sector, as well as public utilities and services.

CGI was the first IT services company in North America to achieve ISO 9001 certification for its IT Project Management Framework. It currently is implementing ISO processes to its IT outsourcing activities through its Technology Management Framework, and is extending ISO 9001 certification to all functions throughout the company worldwide.

CGI has 8,000 employees located in 30 offices across North America and in the United Kingdom, plus project offices in 20 other countries worldwide. CGI has more than 2,000 clients, most of them major organizations.

OUR STRENGTHS.

- Expertise in strong growth markets in North America and internationally
- Reputation for quality – ISO 9001 certification since 1994
- End-to-end IT services
- Coast-to-coast IT infrastructure in Canada
- Independence from any hardware or software manufacturer
- Strong team of IT professionals
- Commitment to growth CGI professionals partner with clients, and have an ownership position in CGI
- Record of successfully managing growth for 22 years. The CEO is the company founder, the COO and CFO have been with the company since its inception, and 80% of CGI's 110 most senior executives have been with the company at least 10 years

CONTENT.

<i>Operating highlights</i>	2
<i>Message to shareholders</i>	5
<i>Operating strengths</i>	9
<i>Financial highlights</i>	18
<i>Management's discussion and analysis</i>	19
<i>Financial statements and notes</i>	28
<i>Directors and officers</i>	46
<i>The network</i>	48
<i>Shareholder information</i>	49

OUR SERVICES.

As an end-to-end IT services provider, CGI partners with its clients to meet all of their evolving IT services needs. CGI has remained independent of hardware and software manufacturers in order to enable its professionals to recommend the best solutions to clients. CGI is one of a small number of IT services providers qualified to make proposals on major contracts in North America.

OUTSOURCING

Clients delegate the entire or partial responsibility for their IT functions in order to achieve substantial savings and access the best information technology, while maintaining control over their strategic IT functions. Outsourcing contracts are typically for three to 10 years and renewable. They include a range of services such as systems development and maintenance, business solutions and technology management services.

For these services, CGI provides a coast-to-coast Canadian technology infrastructure, with four ultramodern data processing centres, and telecommunications network facilities through its business partnership with Bell Canada.

SYSTEMS INTEGRATION

CGI develops IT systems which respond to clients' strategic needs by integrating different technologies. Comprehensive integrated solutions consist of a complex set of hardware, software, information systems and telecommunications components. CGI brings a complete solution including systems engineering, software development or customization, integration of various software and hardware, and user training. Systems integration contracts are typically for six months to three years, and are projects with a clearly defined beginning and end.

CONSULTING

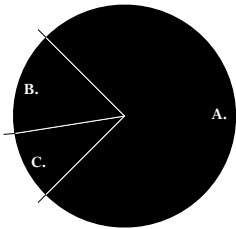
These services comprise IT and management consulting services, including IT strategic planning, business process re-engineering and systems architecture. CGI professionals understand the business issues in a particular industry or sector, in addition to their technical expertise.

BUSINESS SOLUTIONS

CGI has developed, acquired, or negotiated rights to numerous business solutions for complex client applications. These include Retail Financial Systems (RFS), a leading Windows NT® based solution for banking services; leading solutions for the property and casualty insurance industry; solutions for every aspect of interaction between customers and telecom service providers worldwide; and production management for the steel industry.

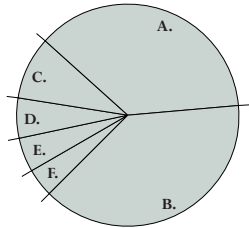
REVENUE MIX.†

SERVICES (%)



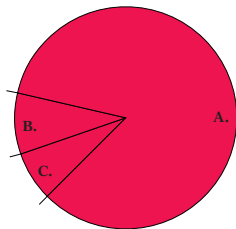
- A. Outsourcing 75%
- B. Systems Integration 15%
- C. Consulting 10%

TARGET MARKETS (%)



- A. Telecommunication 39%
- B. Financial services 37%
- C. Governments 9%
- D. Manufacturing 6%
- E. Distribution 5%
- F. Public utilities and services 4%

REVENUE DISTRIBUTION (%)



- A. Canada 84%
- B. U.S.A. 9%
- C. International 7%

† Based on the revenue run-rate.

through growth

We are committed to achieving exceptional growth for our three primary stakeholders – for our clients, with whom we partner to help achieve exceptional growth in their own businesses; for our members (*employees*) who seek challenging assignments to become ever better professionals; and for shareholders who look for a superior return on their investments. We have always believed that quality is fundamental to growth and we strive to be the benchmark for quality in the sectors we target, internationally. In 1998, this commitment to quality continued to enable us to achieve the growth we seek:

FOR OUR CLIENTS

– who met or exceeded their performance objectives for internal IT systems. They strengthened their competitive position through IT systems that met their own clients' expectations and that were in the forefront of technology in their markets.

FOR OUR MEMBERS

– who are responsible for CGI's accomplishments, and through "the CGI Way" of continuous improvement become better professionals. CGI has a turnover rate well below the industry average and members' accumulated experience is an important strength.

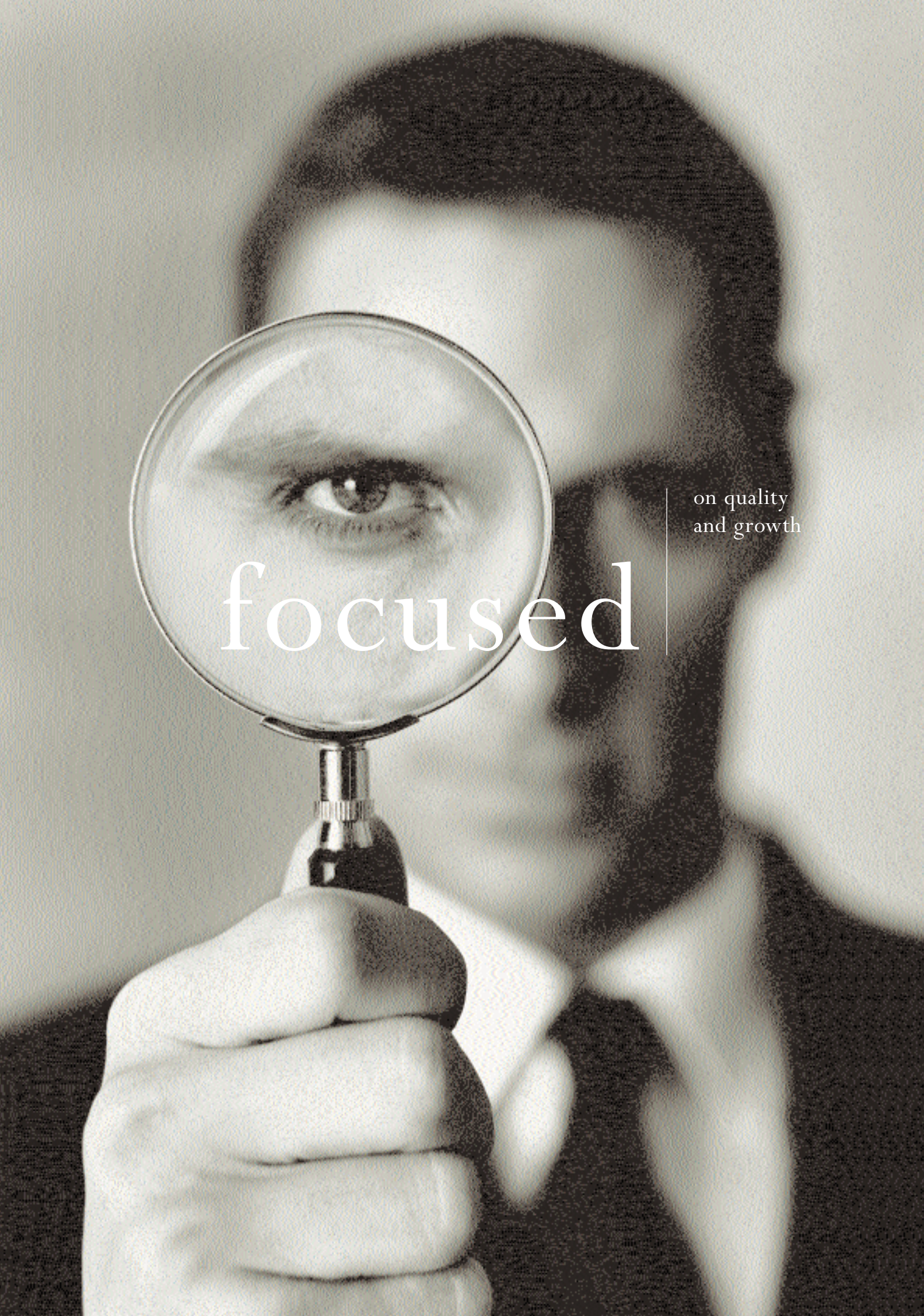
FOR OUR SHAREHOLDERS

– as CGI shares were again one of the best performers on the Toronto and Montreal stock exchanges and were listed on the New York Stock Exchange in October 1998.

NEW CONTRACTS AND OTHER DEVELOPMENTS.

1997 – december		Shares were split two-for-one.	
Signed a five-year master agreement to provide more than 70 Ontario credit unions with an advanced client server banking services system. This state-of-the-art solution allows financial institutions to provide their customers with greater product consistency and to broaden their services while reducing costs and increasing their system's over all efficiency. The agreement is expected to generate revenue of \$50 million over its term.			
Signed an agreement with Quebec-based Mouvement Desjardins to establish a pay services centre to manage and process pay services for Desjardins clients, representing approximately 7,000 companies. The agreement is expected to generate revenues of \$150 million over its 10-year term.			
8661	january	CGI added to the TSE 300 composite index and TSE 200 index.	march
		Signed five-year \$100 million agreement with Credit Union Central of Canada to provide a range of financial switching and telecommunications services to support Interac® shared cash dispensing and point-of-sale Direct Payment services for Credit Union Central of Canada's 900 member credit unions.	Signed several contracts related to financial services business solutions and Year 2000 conversion activities, totaling \$33.4 million over up to five years.
	june	Signed five-year \$20 million partnership agreement with insurance company ING Canada to provide architecture and systems development services to support ING Canada in further enhancing its competitive position in the Canadian insurance market.	
july	Renewed five-year partnership agreement with a minimum value of \$20 million with Industrial-Alliance Group. CGI will continue to operate and manage the IT environment for Industrial-Alliance Life Insurance Company and its National Life subsidiary.		
	Signed seven year, \$20 million-plus agreement with National Research Council of Canada to coordinate the implementation and support the day-		
	to-day operations of its Enterprise Resource Planning (ERP) system. This is the first such project in Canada for which an IT firm is awarded both the implementation and day-to-day support of an ERP system in the federal government sector.		
	Signed 10-year \$16 million outsourcing agreement with Interboro Mutual Indemnity Insurance Company of Long Island, N.Y., to provide a full		
	range of business solutions and outsourcing services. This contract allows the client to provide new and enhanced products and technologically advanced solutions through the Internet to its agents and brokers.		
	Signed two contracts valued at a total of \$6.6 million with Loto-Québec. One contract is to implement a human resources and pay ERP solution at Loto-Québec and its subsidiaries.		

		ACQUISITIONS.	
july <i>(continued)</i>	Announced an agreement to provide electronic commerce and electronic funds transfer services to the Laurentian Bank, Canada's seventh largest financial institution, including support for debit card shared cash dispensing and point-of-sale Direct Payment. The agreement also includes services such as automated teller machine management and overall support of electronic card services. The contract is estimated at \$20 million over five years.	october — 1997	Acquired the Insurance Systems group of Teleglobe Inc., with annual revenue of \$164 million. This strategic acquisition made CGI the third largest IT outsourcer and business solutions provider to the property and casualty insurance industry in North America and the largest in Canada.
		january — 1998	Signed an agreement in principle to merge Bell Canada's IT systems development and maintenance operations (Bell Sygma Telecom Solutions) and its international IT systems integration subsidiary (Bell Sygma International) into CGI in exchange for 17.2 million shares at \$11.49 per share, for a total value of \$197.6 million. The merger includes a 10-year IT outsourcing contract with Bell Canada, estimated at \$4.5 billion, and Bell Canada's international systems integration business with annual revenue of \$80 million. In addition, Bell Canada and CGI agreed to extend their strategic alliance until June 30, 2008.
august	Signed agreement with Public Works and Government Services Canada to provide government departments and agencies with an integrated document management solution. Include the automated transmission, processing and management of documents within a department and among offices across Canada. The initial contract is valued at \$1.7 million but has a potential value of \$109 million over five years.	may	CGI gained 100% ownership of Solfitech which is now integrated into CGI. Solfitech was founded jointly by CGI and the Caisse de dépôt et placement du Québec, which exchanged its interest in Solfitech for CGI shares. Solfitech markets IT services for portfolio management systems to the financial community in North America. CGI has a five year IT services contract with the Caisse de dépôt.
		june	CGI shareholders at a special meeting approved CGI's acquisition of Bell Sygma Telecom Solutions and Bell Sygma International, effective July 1, 1998.
october	Class A shares were listed on the New York Stock Exchange under the trading symbol GIB. The company listed on the NYSE as part of its strategy to further broaden its business and investor base in North America.	august	Signed agreement with the Quebec credit union Mouvement Desjardins to acquire the assets and all contracts of Technologie Desjardins Laurentienne (TDL), with current annual revenue of \$45 million and an order backlog of \$130 million over five years. TDL provides Desjardins Laurentian Financial Corporation and other clients such as Laurentian Bank with information technology, telecommunications, document printing and insertion services.
			Acquired privately-held Perigon Solutions Inc., of Calgary, Alberta, strengthening its position in Western Canada. Perigon has annual revenue of \$8.7 million.



on quality
and growth

focused

SERGE GODIN



JEAN BRASSARD



\$ 1.3 billion
revenue run-rate

major player

In 1998, we achieved a number of milestones which significantly strengthened our position in the information technology (IT) services industry in North America and internationally. We entered fiscal 1999 a much larger company than a year ago, with continuing strong growth momentum.

MILESTONES

This past year, we gained the critical mass that qualifies CGI to make proposals on the major IT services outsourcing and systems integration contracts in North America. We became the sixth largest IT services company on the continent and the largest in Canada, based on the revenue run-rate at year end of \$1.3 billion, which is more than five times our reported revenue for fiscal 1997.

CGI is now a leading IT services provider to the retail banking and property and casualty insurance (P&C) industries in Canada, and the third largest provider to the P&C insurance industry in North America. We also became a leading provider of full IT outsourcing services to the telecommunications industry in Canada.

We additionally gained IT services operations outside North America, focused on financial services and telecommunications in the United Kingdom and other countries.

In October 1998, we listed CGI shares on the New York Stock Exchange as part of our strategy to broaden our business and investor base, and to provide a local currency for acquisitions in the United States.

These milestones were achieved through organic growth and strategic acquisitions. We signed systems integration and outsourcing contracts of increasing average size, and completed our two largest acquisitions to date.

GROWING BACKLOG

Through our initiatives, we increased our order backlog to \$6.5 billion at year end, compared with \$1.3 billion a year earlier and \$175 million two years ago. We consider a large and growing order backlog to be an important strength in all economic environments. It provides not only contracted revenue into the future, but also contributes to stability and predictability of performance. Outsourcing contracts additionally provide access to a large pool of talented IT professionals.

MAJOR DEVELOPMENTS

During the past year, CGI continued to broaden and strengthen its IT services capabilities in all six targeted sectors – telecommunications, financial services, manufacturing, distribution and retail, government, and public utilities and services – especially in financial services and telecommunications.

In the financial services sector, we complemented CGI's expertise in retail banking in Canada with the acquisition in October 1997 of a leading provider to the P&C insurance industry in North America and Europe. We plan to build a single window for IT services for the financial services industry in North America and internationally.

Effective July 1, 1998, we strengthened our relationship with BCE Inc. and its subsidiary Bell Canada. We signed a \$4.5 billion 10-year outsourcing contract to provide systems development and maintenance for Bell Canada. This is the largest outsourcing contract awarded in Canada and one of the largest in North America. We also acquired Bell Sygma International, which provides systems integration and services for international telecommunications clients. Additionally, we extended to the year 2008 our alliance with Bell Canada to bid jointly on large systems integration and outsourcing contracts in North America and internationally.

Drawing on the experience of 14 acquisitions over the past 10 years, and applying the ISO 9001 certified processes to our operations, we are successfully integrating these operations.

We won a number of strategic contracts which keep us in the forefront of IT services – electronic commerce; the wide range of applications of the Internet, intranets and extranets; and Enterprise Resource Planning (ERP) systems. We established alliances with three major providers of ERP systems.

OUTLOOK AND STRATEGY

In Canada, we see considerable opportunity to further build our order backlog in our six targeted sectors. In recent years, we have acquired virtually all the privately owned IT services companies with IT infrastructure and now have a network of data centres in four locations across the country.

In the U.S., we are focusing on the financial services and telecommunications sectors. We expect most growth to come through acquisitions as we broaden our range of IT services and solutions, and as we build infrastructure in this highly fragmented market. Our criteria for all acquisitions is that they must be accretive to earnings.

Outside North America, we will focus on financial services in the U.K. and Europe, and on the telecommunications sector, broadly defined, in these and other markets. We plan to be an end-to-end IT services provider to these two sectors in international markets.

Our solid balance sheet with a strong cash position enables us to capitalize on acquisition opportunities and is an important strength when bidding on large contracts.

We have a number of operating strengths which contribute to our success and we have outlined three of them beginning on page 8. We additionally provide examples of how we partner with our clients.

THANKS TO OUR STAKEHOLDERS

We thank our client partners for their continuing trust and support. We are committed to providing the IT services and solutions that help them achieve or maintain a competitive advantage in their fast evolving business sectors.

CGI is comprised of a team of highly qualified and motivated professionals dedicated to providing the best IT solutions to achieve our clients' business objectives. This past year, we almost doubled the size of our team to 8,000 members, and it is a tribute to all our members that this growth proceeded smoothly and that our new members have embraced "the CGI Way."

We are fortunate to have the guidance of an exceptionally strong board of directors. During the year, we welcomed John MacDonald, President and Chief Operating Officer of Bell Canada, Jean Monty, President and Chief Executive Officer of BCE Inc. and Chairman and Chief Executive Officer of Bell Canada, and Charles Sirois, Chairman and Chief Executive Officer of Teleglobe Inc. Ian McElroy, Pierre Dupuis and Guy Laberge stepped down from the board. We are grateful for their wise counsel.

With our increased focus on developing business in the United States and internationally, in addition to Canada, we see even greater opportunity for growth and for building shareholder value.

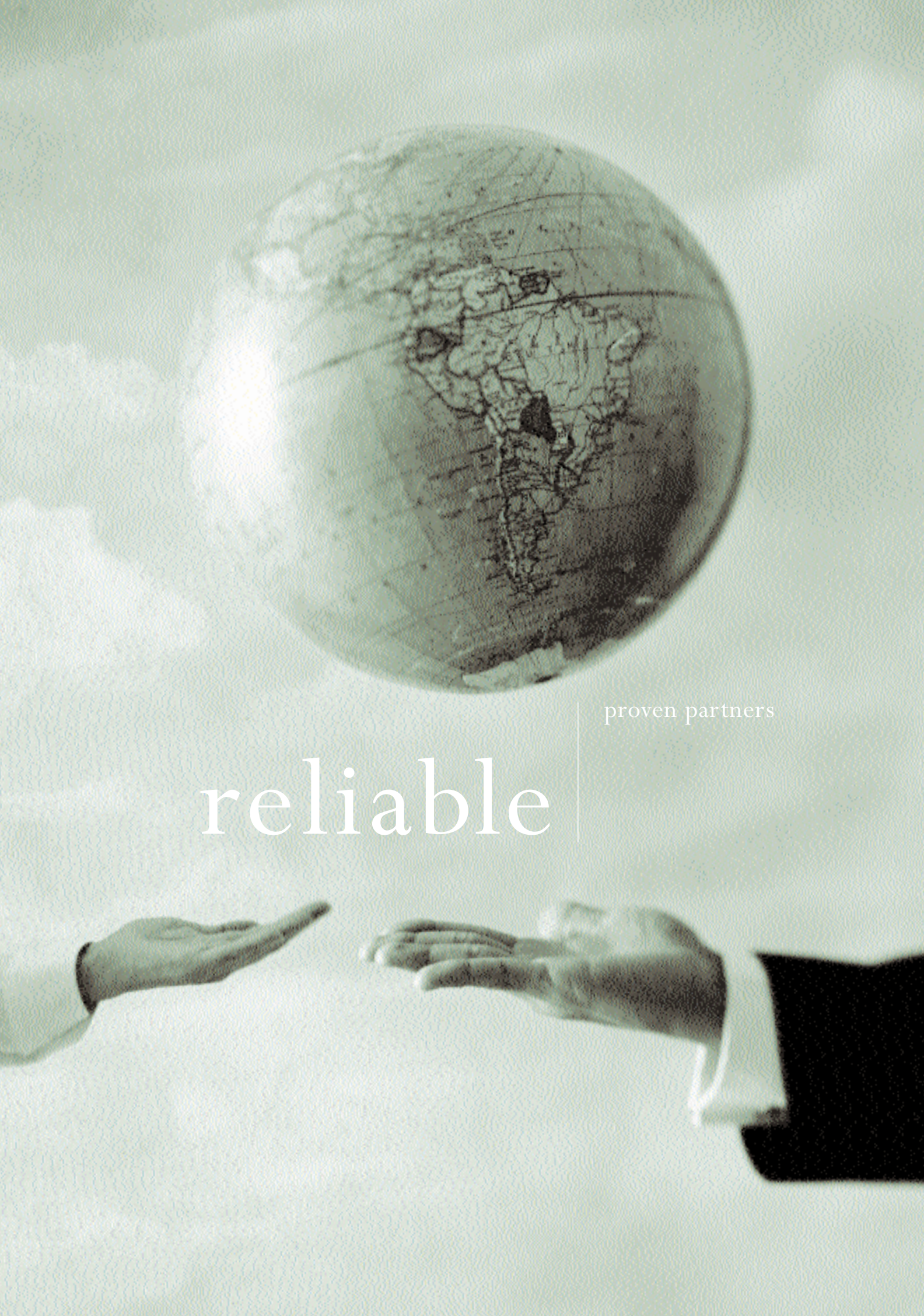
Signature
Serge Godin

SERGE GODIN
Chairman and Chief Executive Officer

Signature
Jean Brassard

JEAN BRASSARD
President and Chief Operating Officer

December 1st, 1998



proven partners

reliable



PROVEN METHODOLOGY

CGI consistently delivers on time and on budget its full range of IT services by applying a proven business methodology which is ISO 9001 certified. CGI was the first IT services company in North America to achieve ISO 9001 certification for its Project Management Framework, which applies to consulting and systems integration projects. We achieved this in 1994, and have now established the ISO 9001 standard for our Technology Management Framework which applies to outsourcing contracts.

IT outsourcing clients gain the benefit of CGI's proven methodology, consistently meeting the requirements of their own internal and external customers. CGI's management processes are automatically transferred to all CGI outsourcing projects.

Our methodology is an important advantage in an industry where independent studies have shown a high failure rate for IT contracts, resulting primarily from deficiencies in project planning and lack of involvement and support by a client's top management.

CGI's methodology ensures that the clients' objectives are clearly defined, and that they are endorsed by senior management; that the project is properly scoped; and that the necessary resources are applied to achieve the stated objectives. Each project has a director, who is the client contact and ensures the clients' requirements are continually being met, and a manager who is responsible for managing implementation of the project. Each project team gains synergies through access to CGI specialists outside the project, as required.

At the start of every project, systems integration and IT outsourcing contract, CGI establishes a Synergy Group comprised of professionals on the delivery team and others who contribute additional expertise. This group performs milestone reviews to ensure the project is on plan, holds multidisciplinary focus sessions with outside experts at critical phases to ensure top quality, and contributes to the professional development of members involved on the project. Clients are met on a regular basis to assess their level of satisfaction.

Additionally, the expertise and experience of CGI professionals in six economic sectors enable CGI to fully understand the challenges clients face and to develop the most effective solutions for those challenges. We ensure that our clients' IT systems meet the expectations of their customers and consequently strengthen our clients' competitive position.

**JOHN KOSTAL**

Chief Information Officer –
The Premier Insurance Company
*"CGI executives are interested
in listening to and working with
their customers to better serve
their business needs."*

**PAUL GUYETTE**

Vice-President
North-East Region, USA – CGI
*"Collaborative Edge is a cost effective
solution for today's market. Transactions
are completed more quickly and accurately,
enabling better customer service."*

THE CLIENT

The Premier Insurance Company, based in Worcester, Massachusetts, is affiliated with Travelers Property Casualty which is now part of CitiGroup. It is a local personal lines insurer serving the homeowner and automotive market through some 400 independent agents. The company has U.S. \$200 million annually of premium revenue.

THE CHALLENGE

Due to the nature of its activities carried out by independent agents outside the company's premises, Premier needed an efficient, cost effective transactional system for its agency base to handle information flows, data processing, and billings. Premier wanted a remote access solution developed which would fit with agents' workflow and require a minimum of user training. Premier's goal was to respond to the marketplace with a technological competitive edge.

THE SOLUTION

CGI provided Premier with a Web-based electronic commerce business solution, by customizing its proprietary Collaborative Edge (CE) business solution to Premier's needs. This allowed Premier to become one of the first insurers carrying out e-commerce on the Web. The CE system is so user-friendly that anyone using Windows™ requires a minimum of training provided in-house to agents. E-commerce allows the insurer to carry out transactions with its agents electronically in any situation and provides fast response to marketplace needs. Agents therefore can take insurance applications on-line while meeting with their clients. They can access rate tables and deliver insurance confirmations on the spot. Cutting-edge technology gives Premier a competitive advantage resulting from faster transaction lead times, improved information flows between the company, agents and clients, and measurable cost savings.

MARTINE CORRIVEAU-GOUGEON

Group Vice-President
Customer Services – Bell Canada
*"The benefits, both in terms
of call length reduction
and sales increase are much
greater than planned."*

**BRIAN CANN**

Project Manager – CGI
*"Through a close partnership with
the customer, we delivered a solution
overcoming many business and
technology issues."*

CLAUDE BLAIS

Vice-President
Customer Care Systems – CGI
*"ARCHI is CGI's first completed client
server-based IS/IT modernization initiative.
Its success confirms that our technology plan
for Bell Canada's company-wide platform
modernization for customer service
is absolutely feasible."*

THE CLIENT

Bell Canada's Direct Marketing Centre for the Consumer Market operates three call centres – two in Quebec and one in Ontario – for telemarketing and consumer service. Seven hundred agents reach customers, answer their questions, win back previous customers, and sell them the products and services that match their particular needs.

THE CHALLENGE

The system used by Bell Canada's Direct Marketing Centre had reached its limitations in terms of expansion, and was not Year 2000 compliant. Bell wanted a new Windows NT®-based system that would help reduce call length, maximize agents' efficiency and the sales potential on every call. It wanted a modern IT platform which would integrate all the information required by customer service agents and provide it instantly and easily. It wanted a modern platform which could be adapted rapidly to the market pressures facing Bell.

THE SOLUTION

CGI designed and implemented what became known as ARCHI, a rich set of applications seamlessly integrated on the direct marketing agent's desktop. The system provides campaign data, customer information, product information, and service availability which is quickly and easily accessible to the agent through the use of a highly effective Graphic User Interface. ARCHI has exceeded expectations in its ability to reduce the length of customer calls and increase sales per call. The platform is more stable than anticipated and training requirements have been reduced dramatically. The experience of developing ARCHI is being applied to the overall Bell Canada Customer Contact System used by 10,000 service representatives and scheduled for completion in 1999.

DR. ROY VANKOUGHNETT

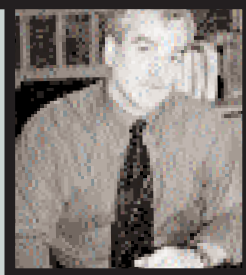
Vice-President – NRC

"Implementing SAP was an important strategic direction for NRC. CGI's experience, commitment and support has helped ease our transition."

**JEAN-CHARLES MONCION**

Vice-President, Consulting Services – CGI

"Implementing the SAP solution at NRC provided the CGI team with an opportunity to further develop its expertise, with the valuable support of our partners and our client, and this has resulted in the delivery of a quality product."

**MIKE LAWLOR**

Project Manager – CGI

"The challenge for me as project manager was to coordinate the timely contribution of our business partners to ensure a successful implementation."

**MICHEL PROULX**

SIGMA Project Team Leader – NRC

"CGI's team contributed its valuable technical and project management expertise; its careful and insightful approach to the problems has meant the difference between project success and project failure."

THE CLIENT

The National Research Council of Canada (NRC) is a government organization whose mission is to improve the quality of life for Canadians through science and research. As a leader in innovation, NRC's operations cover three main areas. The organization operates 16 research institutes specialized in fields such as biotechnology, information technology, aerospace, construction and more; it helps companies develop or acquire new technologies through the Industrial Research Assistance Program; and it maintains and operates Canada's most extensive resource for scientific, technical and medical information. Based in Ottawa, NRC has a staff of over 3,000 and a presence in over a hundred communities across Canada.

THE CHALLENGE

As a client-driven organization, NRC set out to be as leading edge in its business operations as it is in its research activities. However, NRC's existing hardware systems and software were independent of each other, and its financial software had a sunset date of April 1998. So a key IT priority was to acquire, implement and develop a highly performing integrated business system. The goal was to streamline operations, reduce costs of doing business and have relevant, up-to-date information available to users across the organization. With this in mind, NRC decided to integrate its financial systems with human resources, asset management and project management.

THE SOLUTION

CGI recommended a solution based on SAP's Enterprise Resource Planning (ERP) software and has been orchestrating the integration of the hardware and software components of the solution in two stages. Installation of financial and asset management systems was started in May, 1997 and completed almost ten months later. The human resources and project accounting systems are scheduled to be operational by April, 1999. Once the systems are installed, CGI has a seven-year outsourcing contract to maintain NRC's new ERP system and also legacy systems on-site at NRC headquarters in Ottawa. This is the first time an IT services firm has been awarded both the implementation and day-to-day support of an ERP system in the federal government.

ROBERT COURTEAU

Vice-President and CIO – Westburne

"CGI's outsourcing model has allowed Westburne to start the process of standardizing its business systems while maximizing the use of its IT resource investment."

**JOHN A. HANNA**

Executive Vice-President, Finance and Administration, and CFO – Westburne

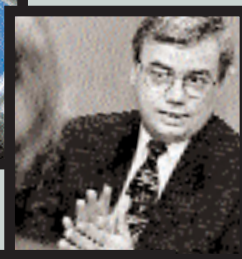
"Outsourcing our information systems with CGI has allowed us to successfully address the Year 2000 issues while achieving sizeable cost reductions."

**PAUL BIRON**

Vice-President

Business Engineering – CGI

"We see significant growth potential in offering solutions such as those identified in Westburne's IT Strategic Plan."

**ROBERT LAPOINTE**

Vice-President

Business Engineering – CGI

"Improving Westburne's competitive advantage through enhanced systems, communications and services, is a continuous process which allows both organizations to grow and prosper."

**THE CLIENT**

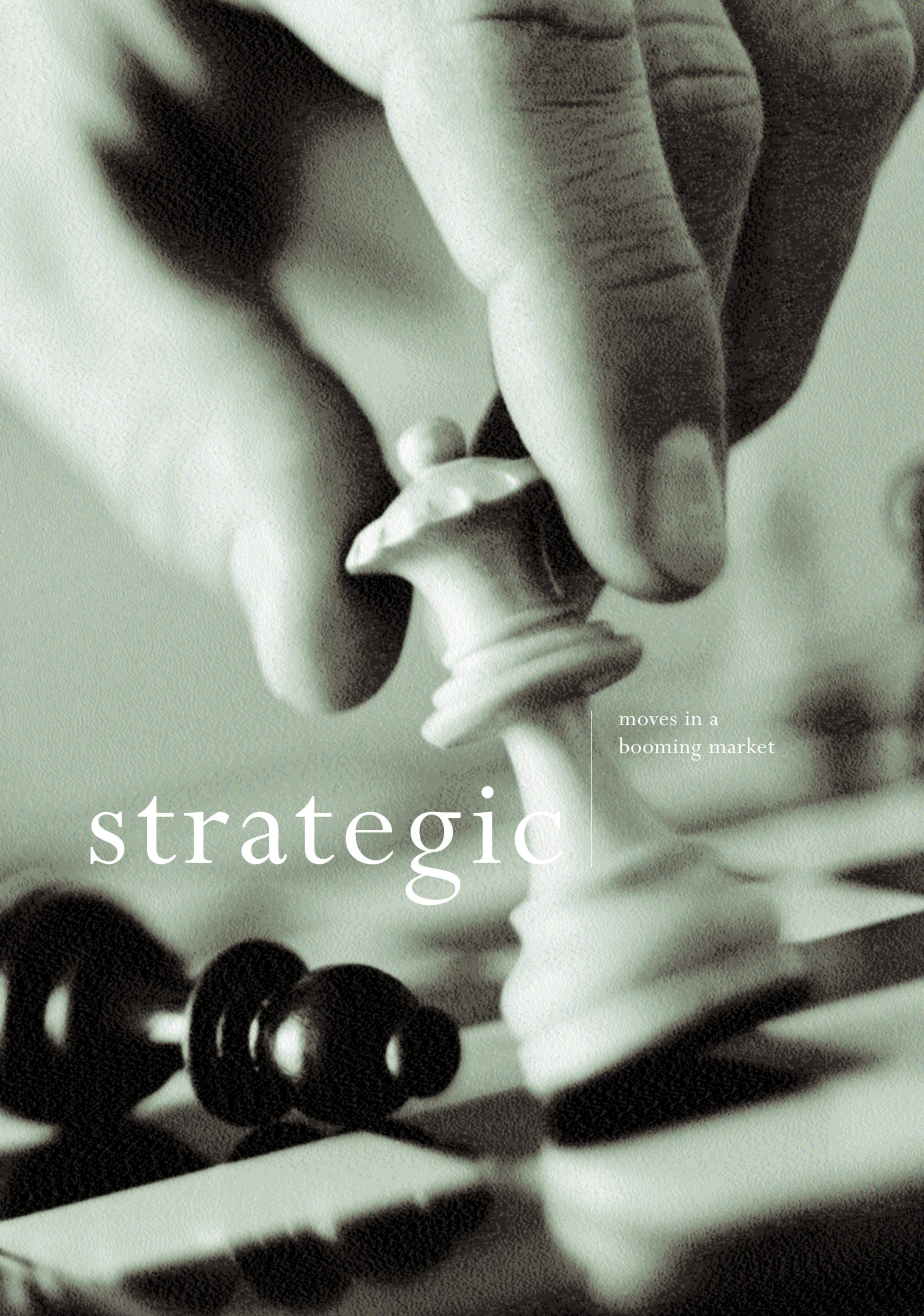
Montreal-based Westburne Inc. is a leading wholesale distributor throughout North America, with \$2.3 billion revenue in 1997. The company has over 25 divisions located throughout the continent. It is focused on four key product lines: electrical supplies, plumbing supplies, refrigeration and HVAC, and industrial supplies.

THE CHALLENGE

Westburne chose to outsource its IT function because it had mushroomed and become fragmented throughout its various divisions. The company felt it needed more control and assessed its in-house IT capabilities as insufficient to achieve its objectives and at the same time recognized the importance of IT to strengthen its position in distribution markets. Meeting the Year 2000 (Y2K) challenge also was a major concern at Westburne, as the company found it did not have the resources to successfully overcome this crucial roadblock.

THE SOLUTION

Westburne turned to CGI, recognizing the close fit of both companies' entrepreneurial cultures, CGI's proven ability to provide end-to-end IT services and its expertise in distribution. CGI's involvement includes the integration of the client's IT function into CGI, the implementation of improved operational procedures and the development of an IT strategic plan. Several projects are also being implemented. Advanced day-to-day management involves the introduction of the Mincron™ distribution software integrating the Infinium™ financial subsystem. This will improve operations and gross margins control, enable EDI (electronic data interchange) with close to 100 trading partners and generate yearly savings of several million dollars. Other projects include a Supply Chain Management Service directed at Westburne's largest customers, Y2K compliance and gradually implementing data mining to further take advantage of company data and industry intelligence.



moves in a
booming market

strategic

SPECIALIZED KNOWLEDGE

We recognized 10 years ago that IT outsourcing services were becoming increasingly strategic. We saw that organizations would want to partner with IT specialists and focus their own efforts and capital on their core businesses.

As a market driven company, we identified six growth sectors to target. We developed specialized knowledge in each of these sectors and identified brand name organizations we wanted to partner with in order to bring complete IT management solutions aligned to their business needs.

Our industry specialization enables us to be on top of the trends and challenges and thereby provide the best solutions to clients in these sectors – telecommunications, financial services, manufacturing, retail and distribution, governments including health care, and public utilities and services.

For example, in the financial services industry we saw that change resulting from deregulation, consolidation and globalization would greatly increase demand for IT services. We therefore set out to become a single window to provide IT services for these players, regardless of their original line of business in financial services.

In Canada, following two major acquisitions in the financial services sector in calendar 1997, we are now the largest independent IT services provider to the retail banking industry and property and casualty (P&C) insurance businesses. We are also the third largest provider to the P&C insurance business in North America and have a presence in this sector in the U.K.

6 sectors

market driven

In July 1998, CGI became a major IT services provider in the telecommunications sector through its contract to provide systems development and maintenance for Bell Canada, and the acquisition of Bell Canada's international systems integration and consulting business. We gained important IT expertise which we are leveraging to become an end-to-end IT services provider to this sector, broadly defined, in North America, the U.K., Europe and other markets.

To support our clients' competitive needs, we target growth areas which include Enterprise Resource Planning systems and Web-based applications such as electronic commerce and IT systems for virtual companies. We exchange and share information with our clients on the latest industry developments, thus allowing them to benefit from the convergence of technologies that enhance the overall efficiency and cost-effectiveness of their operations.



resources for
solving complexity

exceptional

“THE CGI WAY”

Since CGI's inception in 1976, we have always placed tremendous value on our employees – who we refer to as members because they are all team members contributing to the success of CGI. We have 8,000 members located in 30 offices across North America and in the United Kingdom, plus project offices in 20 other countries worldwide. These members provide quality services to more than 2,000 clients, most of them major organizations.

We strive to retain and attract the most qualified people in very competitive markets. We do so by offering: a superior working environment based on strong values; superior career development through training, professional interchange and challenging projects; and aggressive, performance-driven remuneration including profit sharing and share purchase plans. These all result in a strong sense of ownership among our members. As an industry leader, we win major contracts involving the most challenging assignments and this opportunity for career advancement helps attract and retain the most qualified professionals in the industry.

worldwide and
endless possibilities

8,000 members

All members embrace “the CGI Way” of doing business, which is based on our strong values and on clearly defined business processes which meet ISO 9001 standards. We were the first IT services company to achieve ISO 9001 certification for our Project Management Framework for consulting and systems integration. We currently are implementing ISO processes to our IT outsourcing activities and to corporate functions, including human resources management, throughout the company.

Our management frameworks have been an important factor in our ability to successfully manage CGI's rapid growth and to quickly integrate new members. As part of our management processes, we precisely and consistently measure the degree of member satisfaction and the results are linked to management remuneration.

Our turnover rate among members is among the lowest in the IT services industry in North America, at 10%. Eighty percent of our 110 top executives have been with CGI at least 10 years. Importantly, as an outsourcer, we hire the IT human resources of our clients and usually, after the transition period, deploy 60% to 75% of them on the specific outsourcing project and the rest elsewhere within CGI. Our clients' IT people enthusiastically join CGI, where IT is the core competency and there is tremendous opportunity to advance.

FINANCIAL HIGHLIGHTS.

Years ended September 30
\$ thousands except per share amounts
Amounts in Canadian dollars

Years ended September 30 \$ thousands except per share amounts Amounts in Canadian dollars								COUMPOUND ANNUAL GROWTH
	1998	1997	1996	1995	1994	1993		
FINANCIAL PERFORMANCE	\$	\$	\$	\$	\$	\$	%	
Revenue	740,963	231,916	122,015	96,690	91,294	76,233	57.6	
Operating income ⁽¹⁾	101,367	25,124	8,601	5,859	5,023	3,366	97.6	
Margins	13.7%	10.8%	7.0%	6.1%	5.5%	4.4%		
Net earnings	34,828	7,765	2,718	1,059	1,250	401	144.2	
Per share ⁽²⁾	0.30	0.10	0.04	0.02	0.02	0.01	97.4	
Cash flow	75,768	21,767	7,851	4,006	3,036	960	139.6	
Per share ⁽²⁾	0.65	0.28	0.11	0.08	0.06	0.02	100.6	
R&D and training expenses	16,538	6,335	3,835	3,356	3,084	2,706	43.6	
FINANCIAL POSITION								
Total assets	744,930	154,143	72,159	42,785	41,961	33,875	85.5	
Shareholders' equity	474,247	72,271	40,789	16,481	15,313	13,772	103.0	
Per share ⁽²⁾	3.55	0.86	0.55	0.32	0.30	0.28	66.2	
Working capital	63,956	16,935	18,823	8,515	9,038	8,579	49.4	
Current ratio	1.24 :1	1.30 :1	1.66 :1	1.36 :1	1.38 :1	1.51 :1		
Total bank indebtedness	1,073	34,822	10,023	17,409	17,278	10,946	-37.2	
Total bank debt/equity ratio	0.00 :1	0.48 :1	0.25 :1	1.06 :1	1.13 :1	0.80 :1		
				FISCAL 1998	FISCAL 1997			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
QUARTERLY FINANCIAL RESULTS								
Revenue	115,796	142,881	157,757	324,529	42,118	46,564	70,815	72,419
Net earnings	4,950	6,093	7,657	16,128	1,033	1,462	2,407	2,863
Per share ⁽²⁾	0.04	0.06	0.07	0.13	0.01	0.02	0.03	0.04
Cash flow	14,572	14,510	16,711	29,975	2,641	3,592	6,527	9,007
Per share ⁽²⁾	0.13	0.13	0.15	0.24	0.04	0.05	0.08	0.11
(1) Before depreciation, interest, income taxes and share in the results of an entity subject to significant influence.					Note : CGI's policy is to reinvest earnings into its expansion rather than pay dividends			
(2) Adjust for 2-for-1 stock splits effective August 12th and December 15th, 1997 as well as May 21st, 1998.								

ANDRÉ IMBEAU



1998 | performance

continuing strong growth

The following discussion should be read in conjunction with the company's fiscal 1998, 1997 and 1996 Consolidated Financial Statements and Notes to the Consolidated Financial Statements beginning on page 30 of this Annual Report. All dollar amounts are in Canadian dollars unless otherwise indicated.

ORGANIZATIONAL OVERVIEW

CGI is the sixth largest information technology (IT) services company in North America based on its \$1.3 billion revenue run-rate at the end of fiscal 1998, and the largest independent end-to-end IT services company in Canada. Headquartered in Montreal, CGI has strategic business units in North America organized along geographic lines, and a separately incorporated entity called CERTIS based in London, U.K. for operations in European and Asian markets. Business units in Canada provide end-to-end IT services in six economic sectors – telecommunications, financial services, manufacturing, distribution and retail, government, and public utilities and services – while business units in the U.S. and U.K. are focusing on providing end-to-end IT services for the financial services and telecommunications sectors. The company has more than 28 offices in North America, two offices in the U.K., and 20 project offices worldwide. CGI has 8,000 employees, who are referred to as members, and some 2,000 clients worldwide. The company has four state-of-the-art data centres in Canada, providing IT facilities management to clients coast-to-coast.

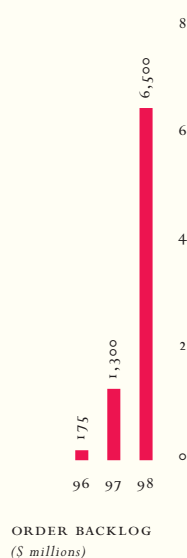
PERFORMANCE OVERVIEW

Fiscal 1998 marked the twenty-second consecutive year of revenue growth for CGI. Revenue increased by 219% to \$741.0 million in fiscal 1998, from \$231.9 million in fiscal 1997.

Earnings before interest, taxes, depreciation and amortization (EBITDA) increased 303% to \$101.4 million in fiscal 1998 from \$25.1 million in fiscal 1997, reflecting strong revenue growth and increasing operating margins. Net earnings increased 349% to \$34.8 million in fiscal 1998 from \$7.8 million one year earlier. Earnings per share increased 200% to \$0.30 in fiscal 1998 from \$0.10 in fiscal 1997, based on a weighted average number of shares 50.8% higher than a year ago. Shares were issued in consideration of acquisitions. These acquisitions were all accretive to earnings. The net profit margin increased to 4.7% from 3.3% the previous year.

In the fourth quarter ended September 30, 1998, revenue increased 348% to \$324.5 million from \$72.4 million in the same quarter of fiscal 1997, and net earnings increased 463% to \$16.1 million (\$0.13 per share) from \$2.9 million (\$0.04 per share) in fiscal 1997. EBITDA increased to \$42.8 million in the fourth quarter of fiscal 1998 from \$8.6 million the previous year. The increase reflects the acquisitions made during the year combined with annual internal growth of 56%.

At September 30, 1998, the order backlog was \$6.5 billion compared with \$1.3 billion one year earlier, and the balance sheet was strong with a cash position of \$121.4 million and virtually no debt.

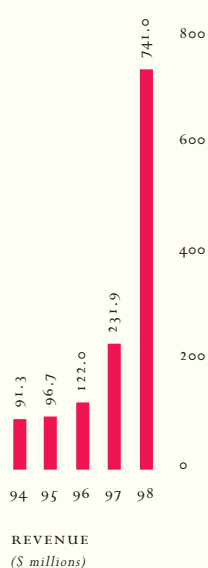


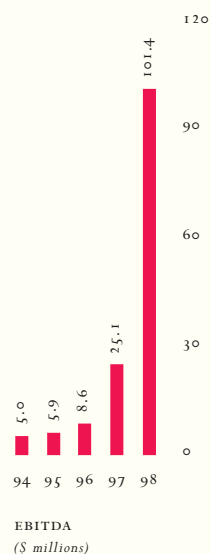
COMPARISON OF OPERATING RESULTS — for the Years ended September 30, 1998 and 1997

REVENUE

Revenue in fiscal 1998 increased by 219% to \$741.0 million. The increase from fiscal 1997 reflects the acquisition effective July 1, 1998 of the operations of Bell Sygma Telecom Solutions and Bell Sygma International. As part of the acquisition of Bell Sygma Telecom Solutions, CGI and Bell Canada entered into a \$4.5 billion 10-year outsourcing contract. Revenue also includes the former Insurance Systems group of Teleglobe Inc. acquired in October 1997, and the first full year of the CDSL acquisition which is focused on retail banking, effective April 1997. These latter two acquisitions are now fully integrated into CGI. Internal growth of \$130 million reflects numerous IT systems integration and outsourcing contracts.

The geographic mix of revenue for fiscal 1998 was 83% from Canada, 13% from the United States and 4% outside of North America, primarily in the U.K. and Europe. Based on the annualized fourth quarter revenue run-rate, the geographic mix is 84% from Canada, 9% from the United States and 7% from international operations.





OPERATING EXPENSES

Direct costs, selling and administrative expenses represented 85.5% of revenue in fiscal 1998, compared with 87.8% the previous year. The improvement reflects efficiencies resulting from: applying ISO 9001 certified business processes, synergies resulting from integration of acquisitions, and increasing economies of scale.

Research and development expenses amounted to \$6.0 million and are related to the ongoing development of IT business solutions.

EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA)

EBITDA increased 303% to \$101.4 million in fiscal 1998, from \$25.1 million a year ago, reflecting strong revenue growth and increasing operating margins.

DEPRECIATION AND AMORTIZATION

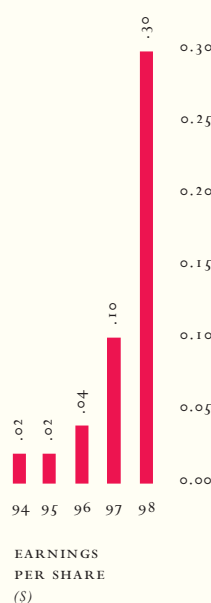
Total depreciation and amortization increased to \$38.7 million in fiscal 1998, from \$9.7 million in fiscal 1997. Depreciation and amortization of fixed assets increased to \$16.9 million from \$3.6 million, with the increase reflecting acquisitions. The increase in the amortization of costs related to outsourcing contracts reflects increase in outsourcing activities which resulted in higher licensing fees, start-up costs and other expenses. The amortization of software and development costs primarily relates to Softkit Technologies Inc., a developer of decision-making software which was consolidated into CGI in June 1997. Goodwill is amortized over 20 years, and the increase in the amortization of goodwill reflects the acquisitions of the past year.

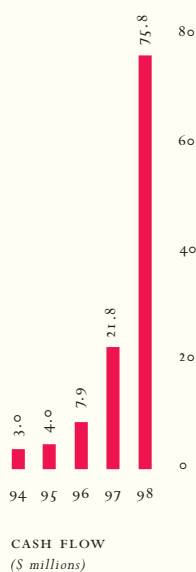
INCOME TAXES

The effective income tax rate increased to 45.8% in fiscal 1998 from 40.9% one year earlier as some of the goodwill related to acquisitions was not deductible for tax purposes. The low tax rate in fiscal 1997 results from the realization of prior year's unrecorded tax benefits acquired as part of the CDSL acquisition.

NET EARNINGS

Net earnings increased 349% to \$34.8 million in fiscal 1998, from \$7.8 million in fiscal 1997. The net profit margin increased to 4.7% in fiscal 1998, and 5.0% in the fourth quarter of fiscal 1998, from 3.3% in fiscal 1997. Earnings per share increased 200% to 30 cents in fiscal 1998, from 10 cents in fiscal 1997, based on 117,307,162 Class A subordinate shares, Class B shares, and first preferred shares, Series 1, outstanding on a weighted average basis (fiscal 1997 – 77,802,808 shares outstanding on a weighted average basis) and adjusted for two-for-one share splits in December 1997 and May 1998. The 50.8% increase in shares outstanding on a weighted average basis results primarily from the issue of shares related to acquisitions.





Reconciled in accordance with U.S. generally accepted accounting policies (GAAP), net earnings were \$32.8 million (\$0.28 per share). The \$0.02 per share variance from earnings per share based on Canadian GAAP reflects the difference in the method used for foreign exchange translation, research and development expenses and the treatment of tax benefits not accounted for at the acquisition of an enterprise.

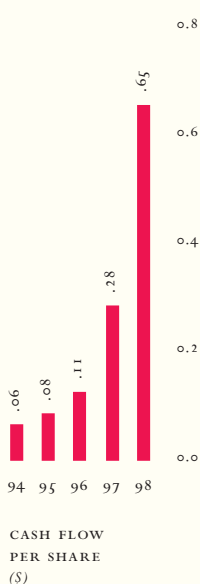
LIQUIDITY AND FINANCIAL RESOURCES

CGI concluded the fiscal year with a strong balance sheet and cash flow which, together with bank lines, is sufficient to support the company's growth strategy. Cash flow increased 248% to \$75.8 million (65 cents per share) compared with \$21.8 million (28 cents per share) in fiscal 1997. When adjusted for changes in non-cash operating working capital items, cash and cash equivalents increased to \$151.7 million from \$8.4 million in fiscal 1997.

Financial activities raised a net amount of \$348.3 million, primarily reflecting the issuance of shares for acquisitions, but also reflecting the issuance of shares for cash to Bell Canada to maintain its proportionate equity interest at the acquisition of Teleglobe's Insurance Systems group, and the issuance of shares for stock options exercised. The company reduced its debt position to \$11.3 million, from \$28.4 million at the end of fiscal 1997.

Investing activities totalled \$363.7 million, including \$317.7 million related to business acquisition costs (net of cash acquired), \$25.5 million related to capital expenditures and \$21.3 million related to outsourcing contracts.

BALANCE SHEET — FISCAL YEAR-ENDS 1998 AND 1997



At September 30, 1998, assets were \$744.9 million, compared with \$154.1 million at the end of fiscal 1997.

Working capital increased to \$64.0 million at the end of fiscal 1998, from \$16.9 million the previous year. At September 30, 1998, CGI had a cash position of \$121.4 million, compared with bank indebtedness of \$14.8 million at the end of fiscal 1997.

CGI further improved its management of current assets with a turnover rate of 52 days for accounts receivable and three days for work in progress, compared with 70 days and 18 days, respectively in fiscal 1997. The progress in receivables reflects the higher proportion of outsourcing business and increase in contracts providing for pre-payment each month. The improvement in work in progress results from increased efficiencies in the project management of systems integration contracts. Increases in current assets and current liabilities components generally reflect the higher level of business. Deferred revenues of \$11.3 million at the end of fiscal 1998 reflect pre-payment on long-term outsourcing contracts.

The increase in goodwill to \$288.1 million from \$40.7 million the previous year, results from the excess of purchase price over fair value of net assets acquired for three acquisitions: Bell Sygma Telecom Solutions and Bell Sygma International, the Insurance Systems group of Teleglobe, and to a small extent, Perigon Solutions Inc. The increase in goodwill also includes the capitalization of estimated integration costs, and is amortized over 20 years on a straight-line basis.

Long-term debt of \$11.3 million mainly comprises capital leases related to equipment. The reduction in debt from one year earlier results from the repayment of a revolving line of credit.

RISKS AND UNCERTAINTIES

YEAR 2000 ISSUE

This section is a Year 2000 Readiness Disclosure Statement.

For CGI, the Year 2000 ("Y2K") issue encompasses the costs required to make its internal systems and where obligated to do so, its clients' systems, Y2K compliant, as well as providing a revenue opportunity. The net cost to CGI of achieving Y2K compliance has not exceeded 1% of annual corporate revenue in any year. The estimated remaining net cost to CGI is \$20 million of which \$10 million is allocated for contingencies. The business opportunity for CGI is being managed not to exceed 5% of annual revenue.

CGI began Y2K remediation at the business unit level in 1995 and in 1997 established a senior-level multi-disciplinary steering committee to ensure standard methodology throughout the company for achieving Y2K compliance and to set and manage milestones leading to Y2K compliance. The corporate steering committee includes an outside counsel. The committee regularly reviews Y2K readiness, and provides a status report to the Board of Directors on a quarterly basis. Each business unit has a steering committee which reports regularly to the corporate steering committee.

CGI's methodology comprises five stages: Assessment, Analysis, Remediation, Testing, and Implementation. As with all projects, CGI applies its ISO 9001 certified Project Management Framework to Y2K compliance. The five stages and the completion dates for each are summarized below. CGI is on track to complete Y2K implementation and testing within the time frame it has established.

Assessment: By June 1998, an assessment was made of the impact of the Y2K issue across the company, including: systems operated for outsourcing clients, financial systems, operating systems, electronic interfaces with customers, suppliers and others; telephone and communications systems; automated security and access systems; and other devices that rely on computer or embedded chip technology. The assessment identified all CGI

controlled internal and CGI client-used computer hardware with embedded chips and software that contain date dependent code, and prioritized mission-critical systems. Other sources of risk such as dependence on suppliers, interconnectivity and the readiness of foreign trading partners were assessed.

Analysis: By mid-July 1998, detailed analysis was completed, including a global conversion strategy, detailed costs and planning, prioritizing of mission critical applications, requests for verification of Y2K compliance from hardware and software vendors, and assessment of the need for contingency plans. Analysis for recent acquisitions is in progress.

Remediation, Testing and Implementation: These three stages of the methodology follow in sequence over differing intervals depending on the complexity of the IT application and whether it is integrated with external applications.

Remediation involves conversion of information systems, codes and computer language to achieve Y2K compliance and replacement of non-compliant hardware and software. In 1997, CGI established two facilities dedicated to fixing codes and converting computer language for CGI internal systems and clients. For the company as a whole, remediation is 90% completed, with the exception being recent acquisitions for which remediation is in progress or already completed.

Testing includes three levels: parallel testing of the converted application with the existing one up to the date when it stops being compliant (the failure date); date advancing to the 1999-2000 boundary and Year 2000 leap year; full date advancing testing on compliant infrastructures. Application level testing of all converted CGI mission critical applications was completed in October 1998. Application level testing of remaining internal systems is scheduled to be completed by March 31, 1999. Testing of infrastructure upgrades and remaining systems testing is scheduled to be completed by September 30, 1999.

Implementation involves installing the remediated code and computer language in the production environment. Most mission critical applications have been returned to production. Migration of all CGI clients to the new compliant business solution applications is scheduled to be completed by September 1999.

Documentation: An important part of CGI's Project Management Framework is documentation. All strategic business units are required to document their Y2K conversion effort in a full Project Management plan, including background, scope, activities, deliverables, project structure, roles and responsibilities, and management procedures. They are also required to produce a Certification Package documenting due process for Y2K readiness of CGI's major systems.

Third party exposures: Suppliers of all products used by CGI and representing a potential risk have been contacted and asked for a formal statement of compliance, including

conformance to a strict definition of Y2K compliance. If the product is not compliant, version number, price and availability date of the compliant version is required and progress to compliance is monitored. Business partners and clients have also been contacted, where appropriate. Conformance by all vendors was largely completed by July 15, 1998, with active follow-up with vendors for which conformance is not yet completed. Some vendor products were also tested by CGI as a precautionary measure.

Exposure to liability: CGI writes its contracts to limit liability. A full examination of all contracts active at any time after January 1, 1996 and all contracts above \$1 million active after January 1, 1994 was undertaken to identify any potential Y2K issues. All contracts where issues were found must receive formal, documented resolution. Identification was completed in August 1998 and resolution is scheduled for completion in the first quarter of 1999.

Contingency Plans: CGI has been developing contingency plans. This is scheduled to be completed by September 1999.

Although CGI currently anticipates that the remedial actions described above will be completed on a timely basis, the failure to do so could have an impact on CGI's business, results of operations or financial condition.

OTHER RISKS AND UNCERTAINTIES

Risks and uncertainties faced by participants in the IT services industry include: competition for contracts, the availability and cost of qualified IT professionals, potential liability if contracts are not successfully carried out, the company's ability to continue to develop and expand its service offerings to address emerging business demand and technological trends, foreign currency fluctuations, and changes in the financial condition of the company's major commercial customers.

CGI mitigates such risks and uncertainties in a number of ways.

CGI has a highly disciplined approach to management of all aspects of its business, with an increasing proportion of this approach codified under ISO 9001 certified processes, and in corporate manuals. These processes were developed to meet CGI's high standards for consistently delivering the specifications and are based on strong values underlying its customer-focused corporate culture. These processes contribute to CGI's high contract win rate and renewal rate. This disciplined approach has additionally been an important factor in the successful integration of the human and capital resources of acquired companies and the IT operations of outsourcing clients.

The fast growth of the IT industry is placing strong demand on qualified people. CGI has been able to successfully staff for its needs because its corporate culture, strong values and emphasis on career development and performance-driven remuneration have made the

company a preferred employer for qualified professionals. CGI has put in place a comprehensive program to attract and retain qualified and dedicated professionals. CGI also gains qualified professionals through outsourcing contracts, and typically deploys 60% to 75% of them on that contract and the rest elsewhere within CGI.

CGI remains in the forefront of IT services in a number of ways, including: its development of leading-edge IT solutions to meet the competitive requirements of clients, primarily major corporations and organizations; regular professional interchange of expertise and experience within CGI; specialization in six target sectors; and alliances with major software and hardware vendors.

Risks from foreign currency fluctuations are mitigated by the diversity of the company's international revenue sources and because the company has operations with offsetting expenses and investments in countries where it derives foreign currency revenue. CGI derives 16% of its revenue outside of Canada, with 9% from the U.S. and 7% from other countries, primarily the U.K. and Europe.

CGI has a strong and growing order backlog of primarily outsourcing contracts with durations of three to 10 years. This backlog provides a base of contracted revenue flow into the future. CGI's increased critical mass and end-to-end services have qualified the company to make proposals for major IT services contracts in North America and this broadened market increases its growth potential.

OUTLOOK

CGI is a growth company in an industry experiencing strong and increasing demand. Industry consolidation in North America and Europe provides the opportunity for added growth for market driven, financially strong players like CGI.

CGI achieved a number of milestones in the past year which significantly strengthen its position in the information technology (IT) services industry in North America and internationally. CGI entered fiscal 1999 a much larger company than a year ago, with continuing strong growth momentum.

CGI considers its order backlog, amounting to \$6.5 billion, to be an important strength in all economic environments. It provides contracted revenue into the future, and contributes to stability and predictability of performance.

In Canada, CGI plans to build its order backlog in its six targeted sectors — telecommunications, financial services, manufacturing, distribution and retail, governments including health care, public utilities and services. In recent years, CGI has acquired privately owned IT services companies with IT infrastructure and now has leading-edge data centres in four

locations across the country. As a result of this infrastructure as well as its critical mass and end-to-end IT services capability, CGI is qualified to bid on the largest IT services contracts in Canada.

In the U.S., CGI is focusing on the financial services and telecommunications sectors. CGI expects most growth in these markets to come through acquisitions as it broadens its range of IT services solutions and as it builds infrastructure in this highly fragmented market.

Outside North America, CGI will focus on financial services in the U.K. and Europe, and on the telecommunications sector, broadly defined, in these and other markets. CGI plans to become an end-to-end IT services provider to these two sectors in international markets, similar to its approach in six targeted sectors in Canada.

CGI's solid balance sheet with a strong cash position enables it to capitalize on acquisition opportunities and is an important strength when bidding on large contracts. CGI maintains a conservative approach to financial management.

All statements contained in this annual report of CGI Group Inc., or in any document filed by the company with the U.S. Securities and Exchange Commission, or in any other written or oral communication by or on behalf of the company, that do not directly and exclusively relate to historical facts, constitute "forward looking statements" within the meaning of the U.S. Private Securities Litigation Report Act of 1995. These statements represent the company's expectations and beliefs, and no assurance can be given that the results described in such statements will be achieved.

This annual report may contain forward looking statements that involve a number of risks and uncertainties, including statements regarding the outlook for the company's business and results of operations. There are a number of factors that could cause actual results to differ materially from those indicated. Such factors include, without limitation, the various factors set forth in the Management's Discussion and Analysis of this report under Risks and Uncertainties.

Signature
André Imbeau

ANDRÉ IMBEAU
Executive Vice-President
and Chief Financial Officer

December 1st, 1998

The management of the Company is responsible for the preparation and integrity of the financial statements contained in the Annual Report. These statements have been prepared in accordance with accounting principles generally accepted in Canada and necessarily include some amounts that are based on management's best estimates and judgment. Management considers that the statements present fairly the financial position of the Company, the results of its operations and the changes in its financial position.

To fulfil its responsibility, management developed and continues to maintain systems of internal accounting controls and establishes policies and procedures to ensure the reliability of financial information and to safeguard assets. The internal control systems and financial records are subject to reviews by external auditors during the examination of the financial statements.

The Audit Committee of the Board of Directors meets regularly with the external auditors and with management to approve the scope of audit work and assess reports on audit work performed. The financial statements have been reviewed and approved by the Board of Directors on the recommendation of the Audit Committee.

Signature
Serge Godin

SERGE GODIN
Chairman of the Board
and Chief Executive Officer

December 1st, 1998

Signature
André Imbeau

ANDRÉ IMBEAU
Executive Vice-President
and Chief Financial Officer

TO THE SHAREHOLDERS OF CGI GROUP INC.

We have audited the consolidated balance sheets of CGI Group Inc. as at September 30, 1998 and 1997 and the consolidated statements of earnings, retained earnings and changes in financial position for each of the years in the three-year period ended September 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 1998 and 1997 and the results of its operations and the changes in its financial position for each of the years in the three-year period ended September 30, 1998 in accordance with generally accepted accounting principles.

Signature
Samson Bélair
Deloitte & Touche

Chartered Accountants
Montreal, Quebec

December 1st, 1998

CONSOLIDATED STATEMENTS OF EARNINGS

<i>Years ended September 30 — In thousands of dollars, except earnings per share</i>	1998	1997	1996
	\$	\$	\$
REVENUE	740,963	231,916	122,015
Operating expenses			
Direct costs, selling and administration expenses	633,616	203,677	111,299
Research and development	5,980	3,115	2,115
	639,596	206,792	113,414
Operating earnings (EBITDA) before:	101,367	25,124	8,601
Depreciation and amortization of fixed assets	16,851	3,583	1,264
Amortization of costs related to outsourcing contracts	11,321	3,985	538
Amortization of software and development costs	2,105	591	86
Amortization of goodwill	8,434	1,517	475
	38,711	9,676	2,363
Earnings before the following items	62,656	15,448	6,238
Interest			
Long-term debt	(816)	(647)	(235)
Other	(107)	(908)	(352)
Revenue	1,987	—	—
	1,064	(1,555)	(587)
Earnings before income taxes, entity subject to significant influence and non-controlling interest	63,720	13,893	5,651
Income taxes (Note 8)	29,189	5,685	2,426
Earnings before entity subject to significant influence and non-controlling interest	34,531	8,208	3,225
Entity subject to significant influence	44	(310)	(507)
Non-controlling interest	253	(133)	—
NET EARNINGS	34,828	7,765	2,718
Weighted average number of outstanding Class A subordinate shares, Class B shares and first preferred shares, Series 1	117,307,162	77,802,808	68,548,688
EARNINGS PER SHARE	0.30	0.10	0.04

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

<i>Years ended September 30 — In thousands of dollars</i>	1998	1997	1996
	\$	\$	\$
BALANCE AT BEGINNING	20,436	12,671	10,303
Net earnings	34,828	7,765	2,718
	55,264	20,436	13,021
Share issue expenses	—	—	(350)
BALANCE AT END	55,264	20,436	12,671

CONSOLIDATED BALANCE SHEETS

As at September 30 – In thousands of dollars

	1998	1997
ASSETS	\$	\$
Current assets		
Cash and short-term investments	121,418	—
Accounts receivable (Note 2)	184,566	54,924
Income taxes	—	1,133
Work in progress	12,209	13,952
Prepaid expenses	10,716	3,402
	328,909	73,411
Investment in an entity subject to significant influence	621	—
Fixed assets (Note 3)	54,231	15,539
Costs related to outsourcing contracts (Note 4)	58,839	18,601
Software and development costs	1,874	3,979
Deferred income taxes	12,391	1,937
Goodwill	288,065	40,676
	744,930	154,143
LIABILITIES		
Current liabilities		
Bank indebtedness (Note 5)	—	14,822
Accounts payable and accrued liabilities	213,912	33,032
Income taxes	26,395	—
Deferred revenues	11,313	—
Deferred income taxes	7,772	5,113
Current portion of long-term debt (Note 6)	5,561	3,509
	264,953	56,476
Long-term debt (Note 6)	5,730	24,896
Non-controlling interest	—	500
	270,683	81,872
SHAREHOLDERS' EQUITY		
Capital stock (Note 7)	418,772	51,624
Contributed surplus	211	211
Retained earnings	55,264	20,436
	474,247	72,271
	744,930	154,143

Approved by the Board

Signature
Serge Godin

Director

Signature
André Imbeau

Director

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

<i>Years ended September 30 – In thousands of dollars</i>	1998	1997	1996
OPERATING ACTIVITIES	\$	\$	\$
Net earnings	34,828	7,765	2,718
Items not affecting cash			
Depreciation and amortization of fixed assets	16,851	3,583	1,264
Amortization of costs related to outsourcing contracts	11,321	3,985	538
Amortization of software and development costs	2,105	591	86
Amortization of goodwill	8,434	1,517	475
Deferred income taxes	2,526	3,883	2,263
Entity subject to significant influence	(44)	310	507
Non-controlling interest	(253)	133	—
	75,768	21,767	7,851
Changes in non-cash operating working capital items	75,886	(13,353)	(5,902)
	151,654	8,414	1,949
FINANCING ACTIVITIES			
Issue of shares	367,148	23,717	21,940
Share issue expenses	—	—	(350)
Increase in long-term debt	6,479	22,640	325
Repayment of long-term debt	(25,321)	(3,107)	(1,482)
	348,306	43,250	20,433
INVESTING ACTIVITIES			
Business acquisitions (Note 9)	(317,708)	(43,684)	(10,818)
Investment in an entity subject to significant influence upon acquisition of control	—	1,301	—
Investment in an entity subject to significant influence	(577)	(44)	(252)
Acquisitions of fixed assets	(25,481)	(5,359)	(1,816)
Proceeds on disposal of fixed assets	1,334	73	84
Costs related to outsourcing contracts	(21,288)	(10,115)	(1,309)
Software and development costs	—	—	(1,270)
	(363,720)	(57,828)	(15,381)
Net cash inflow (outflow)	136,240	(6,164)	7,001
Cash position at beginning	(14,822)	(8,658)	(15,659)
CASH POSITION AT END	121,418	(14,822)	(8,658)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS DESCRIPTION

The Company provides a full range of information technology services to private and public sector organizations.

PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. Significant differences with United States GAAP are described in Note 14.

USE OF ESTIMATES

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect assets and liabilities and disclosure of the contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of earnings during the reporting period. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates.

CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and all its subsidiaries. All significant intercompany accounts and transactions have been eliminated. The Company's investment in a company in which it has the ability to exercise significant influence over operating and financial policies is accounted for using the equity method.

REVENUE RECOGNITION AND WORK IN PROGRESS

Professional service revenue is recognized using the percentage-of-completion method. Work in progress is valued at estimated net realizable value. Revenue from outsourcing contracts is recorded as services are provided. Revenue from the sale of software licences is recognized when the product is delivered to the customer. Work in progress related to the procurement of major outsourcing contracts, which may be as high as 3% of the total services rendered, are amortized over the period covered by the specific contract.

FIXED ASSETS

Fixed assets are recorded at cost. Depreciation and amortization are computed using the straight-line method at rates that will allow for depreciation and amortization of the cost of the assets less their residual values over their estimated useful lives. Leasehold improvements are amortized on a straight-line basis over the term of the respective leases plus the first renewal option.

The periods of depreciation and amortization are as follows:

<i>Leasehold improvements</i>	<i>Term of leases</i>
<i>Furniture and fixtures</i>	<i>3 to 10 years</i>
<i>Computer equipment</i>	<i>3 to 5 years</i>
<i>Software</i>	<i>1 to 5 years</i>

COSTS RELATED TO OUTSOURCING CONTRACTS

These costs include expenses incurred in the course of information technology management contracts obtained by the Company for periods varying from two to ten years. These expenses are recorded at cost and amortized under the straight-line method over the term of the respective contracts.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**SOFTWARE AND DEVELOPMENT COSTS**

The Company capitalizes expenses incurred relating to the design and development of software and products once the technological feasibility is demonstrated, up to the amounts recoverable. These expenses are amortized on a straight-line basis from the time the products and software are in use over a period of three to five years unless future estimated revenue is insufficient, in which case the expenses are written off.

RESEARCH

Research expenses are charged to earnings in the year they are incurred, net of investment tax credits.

GOODWILL

Goodwill, accounted for at cost, is being amortized over 20 years under the straight-line method. It is the Company's policy to write down to its fair value when there is a decrease in value that is considered to be other than temporary based on future cash flows.

INCOME TAXES

The Company accounts for income taxes using the tax allocation method. Deferred income taxes result primarily from timing differences between the methods of valuing work in progress, software and development costs, depreciation of fixed assets and losses carried forward from subsidiaries.

FOREIGN SUBSIDIARIES CURRENCY TRANSLATION

The accounts of the foreign subsidiaries, which are all considered integrated operations, are translated using the temporal method. Under this method, all monetary assets and liabilities are translated into Canadian dollars using the rate of exchange in effect at the balance sheet date and non-monetary items are translated at historical exchange rates. Revenue and expenses of these subsidiaries are translated using the average rates for the year. Gains or losses arising on translation of monetary assets are included in earnings for the year.

FOREIGN CURRENCY TRANSACTIONS

Transactions denominated in foreign currencies are recorded at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. Unrealized gains and losses on translation of monetary assets and liabilities are included in the determination of earnings for the year.

EARNINGS PER SHARE

Earnings per share are calculated using the weighted average number of shares outstanding during the year.

2. ACCOUNTS RECEIVABLE

	1998	1997
	\$	\$
Trade	178,991	52,475
Other	5,575	2,449
	184,566	54,924

3. FIXED ASSETS

			1998	1997
	COST	ACCUMULATED DEPRECIATION AND AMORTIZATION	NET BOOK VALUE	NET BOOK VALUE
	\$	\$	\$	\$
Leasehold improvements	9,247	1,477	7,770	2,365
Furniture and fixtures	15,682	3,473	12,209	3,663
Computer equipment	42,986	12,562	30,424	8,902
Software	6,864	3,036	3,828	609
	74,779	20,548	54,231	15,539

Leasehold improvements, furniture and fixtures, computer equipment and software include assets acquired under capital leases totalling \$6,525,000 (\$5,270,000 in 1997), net of accumulated depreciation and amortization of \$2,704,000 (\$1,744,000 in 1997).

4. COSTS RELATED TO OUTSOURCING CONTRACTS

	1998	1997
	\$	\$
Software acquired and developed	23,569	7,398
Software licences and other expenses	35,270	11,203
	58,839	18,601

5. BANK INDEBTEDNESS

Accounts receivable have been pledged as security for the short and long-term bank loans.

6. LONG-TERM DEBT

	1998	1997
	\$	\$
Term loan, bearing interest at a fixed rate of 9.63%, secured by a specific first charge on certain computer equipment, repayable in monthly instalments, principal and interest, totalling \$112,457, maturing in 1999	1,292	2,466
Term loan, bearing interest at prime rate plus 2¼%, secured by a specific charge on certain computer equipment, repayable in monthly principal instalments totalling \$29,620, maturing in 2002	1,073	—
Other unsecured loans, bearing interest at rates varying from 4% to 5%, repayable up to February 2001	328	370
Obligations under capital leases, bearing interest at an average rate of 7.65% and repayable in monthly instalments totalling approximately \$365,371 maturing up to 2002	8,598	5,569
Revolving credit loans, repaid during the year	—	20,000
	11,291	28,405
Current portion	5,561	3,509
	5,730	24,896

Minimum lease payments required under capital leases due in each of the next four years are: \$4,397,000 for 1999, \$3,271,000 for 2000, \$2,038,000 for 2001 and \$50,000 for 2002.

6. LONG-TERM DEBT – (CONTINUED)

Principal repayments over the next four years are as follows:

	\$
1999	1,890
2000	312
2001	470
2002	21

7. CAPITAL STOCK

Authorized, an unlimited number and without par value

First preferred shares, carrying one vote per share, ranking prior to second preferred shares, Class A subordinate shares and Class B shares with respect to the payment of dividends

Second preferred shares, non-voting, ranking prior to Class A subordinate shares and Class B shares with respect to the payment of dividends

Class A subordinate shares, carrying one vote per share, participating equally with Class B shares with respect to the payment of dividends and convertible into Class B shares under certain conditions in the event of certain takeover bids on Class B shares

Class B shares, carrying ten votes per share, participating equally with Class A subordinate shares with respect to the payment of dividends, convertible at any time at the option of the holder into Class A subordinate shares

		1998	1997
Issued and paid		\$	\$
116,048,848	Class A subordinate shares (43,981,080 in 1997)	418,624	33,037
17,386,826	Class B shares (21,859,312 in 1997)	148	187
None	first preferred shares, Series 1 (18,400,000 in 1997)	–	18,400
		418,772	51,624

On June 18, 1998, the Company modified its authorized capital stock by creating Series 6 first preferred shares. Series 6 first preferred shares are convertible into Class A subordinate shares on the basis of one Class A subordinate share for each first preferred share, Series 6.

On June 29, 1998, the Company modified its authorized capital stock by converting the first preferred shares, Series 1 into Class A shares on a one-for-one basis and cancelling the unissued first preferred shares, Series 1, 2, 3, 4 and 5 from the Company's authorized share capital.

7. CAPITAL STOCK – (CONTINUED)

During the last three years and after giving retroactive effect to the subdivision of the Company's shares that occurred on August 12, 1997, December 15, 1997 and May 21, 1998, the Class A subordinate shares, the Class B shares and the first preferred shares changed as follows:

	CLASS A SUBORDINATE SHARES		CLASS B SHARES		FIRST PREFERRED SHARES	
	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT
Balance as at		\$		\$		\$
September 30, 1995	25,015,504	5,742	26,405,584	225	—	—
Issued for cash	—	—	—	—	18,400,000	18,400
Issued as consideration for business acquisitions	3,413,336	2,920	—	—	359,296	300
Options exercised	871,000	320	—	—	—	—
Conversion	736,776	6	(736,776)	(6)	—	—
Balance as at						
September 30, 1996	30,036,616	8,988	25,668,808	219	18,759,296	18,700
Issued for cash	1,000,000	2,250	—	—	—	—
Issued as consideration for business acquisitions	1,876,672	3,294	—	—	5,960,000	17,508
Options exercised	939,000	665	—	—	—	—
Conversion	10,128,792	17,840	(3,809,496)	(32)	(6,319,296)	(17,808)
Balance as at						
September 30, 1997	43,981,080	33,037	21,859,312	187	18,400,000	18,400
Issued for cash	—	—	—	—	8,756,432	43,672
Issued as consideration for business acquisitions	1,507,856	1,800	—	—	38,260,800	317,628
Options exercised	670,194	4,048	—	—	—	—
Conversion	69,889,718	379,739	(4,472,486)	(39)	(65,417,232)	(379,700)
Balance as at						
September 30, 1998	116,048,848	418,624	17,386,826	148	—	—

STOCK OPTION PLAN

Under a Stock option plan for certain employees and directors of the Company and its subsidiaries, the Board of Directors may grant, at its discretion, options to purchase company stock to certain employees and directors of the Company and its subsidiaries. The exercise price is established by the Board of Directors but may not be lower than 100% of the average closing price for Class A Shares over the five business days preceding the date of the grant. Options are exercisable from date of grant. Each option must be exercised within a ten-year period, except in the event of retirement, termination of employment or death.

7. CAPITAL STOCK – (CONTINUED)

As at September 30, 1998, certain employees, directors and officers of the Company and its subsidiaries held the following stock options for Class A subordinate shares:

	YEAR OF GRANT	YEAR OF EXPIRATION	EXERCISE PRICE	NUMBER
			\$	
	1995	2001	0.45	160,000
	1995	2000	0.25	32,000
	1997	2002	1.95	280,000
	1997	2002	3.75	190,000
	1997	2002	8.25	1,248
	1997	2002	8.88	645,200
	1998	2003	6.29	274,000
	1998	2003	10.94	13,000
	1998	2003	10.77	84,000
	1998	2003	11.49	676,500
	1998	2003	14.20	12,000
	1998	2003	13.05	900
	1998	2003	18.00	20,000
	1998	2003	31.40	2,000
	1998	2003	23.40	353,000
	1998	2003	29.34	5,000
				2,748,848

8. INCOME TAXES

	1998	1997	1996
	\$	\$	\$
Current	26,663	1,802	163
Deferred	2,526	3,883	2,263
	29,189	5,685	2,426

The Company's effective income tax rate differs from the combined statutory tax rate for the following reasons:

	1998	1997	1996
	%	%	%
Combined statutory tax rate	41.9	46.5	40.7
Non-deductible items	6.8	4.9	6.0
Utilization of unrecorded tax benefits arising from			
the acquisition of a subsidiary	(2.6)	(7.0)	—
Other	(0.3)	(3.5)	(3.8)
Effective rate	45.8	40.9	42.9

9. BUSINESS ACQUISITIONS

For the year ended September 30, 1998, the Company made the following acquisitions:

On October 22, 1997, the Company acquired all the outstanding shares of ISI Systems Inc., 3420035 Canada Inc. and Teleglobe Limited, which are the Insurance Systems group of Teleglobe Inc. (Insurance Systems). On May 26, 1998, the Company increased its interest in Solfitech inc. from 50% to 100% following the exercise by Sofinov, Société financière d'Innovation inc. of its option to exchange its Solfitech inc. shares for shares of the Company. Since May 26, 1998, the results of operation have been fully consolidated. On July 1, 1998, the Company acquired all the outstanding shares of 3439470 Canada Inc. (Telecom Solutions), a corporation recently incorporated by Bell Canada and to which the assets of the Bell Sygma Telecom Solutions and the Bell Sygma International operations of Bell Sygma Inc. (with the exception of certain units) were transferred. Finally, on September 1, 1998, the Company acquired all the outstanding shares of Perigon Solutions Inc. All these acquisitions were accounted for using the purchase method of accounting, as follows:

	INSURANCE SYSTEMS	TELECOM SOLUTIONS	OTHER	TOTAL
	\$	\$	\$	\$
Non-cash working capital items	10,494	(21,120)	2,004	(8,622)
Fixed assets	12,702	17,570	1,124	31,396
Costs related to outsourcing contracts	5,000	25,000	271	30,271
Deferred income taxes	9,431	—	890	10,321
Goodwill	90,005	163,593	2,225	255,823
Assumption of long-term debt	(636)	—	(1,092)	(1,728)
Non-controlling interest	—	—	247	247
	126,996	185,043	5,669	317,708
Cash position at acquisition	23,334	29,356	(1,255)	51,435
	150,330	214,399	4,414	369,143
Consideration				
Cash	30,330	16,771	2,614	49,715
Issuance of 1,507,856 Class A subordinate shares	—	—	1,800	1,800
Issuance of 21,060,800 first preferred shares, Series 4 and 5	120,000	—	—	120,000
Issuance of 17,200,000 first preferred shares, Series 6	—	197,628	—	197,628
	150,330	214,399	4,414	369,143

9. BUSINESS ACQUISITIONS – (CONTINUED)

During 1997, the Company acquired all the outstanding shares of C.G.O. Consulting Group for Organizations Inc. and of CDSL Holdings Limited (CDSL) for a cash consideration and capital stock issuance. The results of C.G.O. Consulting Group for Organizations Inc. have been included in the Company's results since December 1, 1996 and those of CDSL Holdings Limited since April 1, 1997. Further, on June 9, 1997, the Company acquired control of Softkit Technologies Inc. when the latter proceeded with the partial buy back of its shares, increasing its participation from 37.8% to 54%. The Company subsequently increased its participation to 86.9% by converting advances into capital. The net assets acquired, using the purchase method of accounting, are as follows:

	CDSL	OTHER	TOTAL
	\$	\$	\$
Non-cash working capital items	(3,371)	183	(3,188)
Fixed assets	10,162	169	10,331
Costs related to outsourcing contracts	8,451	—	8,451
Software and development costs	—	3,291	3,291
Deferred income taxes	3,463	(20)	3,443
Goodwill	26,999	1,114	28,113
Assumption of long-term debt	(6,314)	(76)	(6,390)
Non-controlling interest	—	(367)	(367)
	39,390	4,294	43,684
Cash position at acquisition	(2,082)	155	(1,927)
	37,308	4,449	41,757
Consideration			
Cash	16,800	2,560	19,360
Issuance of 1,876,792 Class A subordinate shares	3,000	294	3,294
Issuance of 5,960,000 first preferred shares, Series 3	17,508	—	17,508
Balance of purchase price	—	294	294
Value of investment in an entity subject to significant influence upon acquisition of control	—	1,301	1,301
	37,308	4,449	41,757

9. BUSINESS ACQUISITIONS – (CONTINUED)

During 1996, the Company acquired all the outstanding shares of IST Group (IST) and Optel P.M.L. Telecommunication Consultants Inc. for cash consideration and capital stock issuance. The results of IST Group Inc. have been included in the Company's results since May 1, 1996 and those of Optel P.M.L. Telecommunication Consultants Inc. since June 1, 1996. The Company acquired a 50% interest in Solfitech inc. in consideration of shares. The net assets acquired, using the purchase method of accounting, are as follows:

	IST	OTHER	TOTAL
	\$	\$	\$
Non-cash working capital items	(2,304)	358	(1,946)
Fixed assets	45	436	481
Costs related to outsourcing contracts	–	1,600	1,600
Deferred income taxes	80	(10)	70
Goodwill	9,930	877	10,807
Assumption of long-term debt	–	(194)	(194)
	7,751	3,067	10,818
Cash position at acquisition	(1,401)	(167)	(1,568)
	6,350	2,900	9,250
Consideration			
Cash	3,430	2,600	6,030
Issuance of 3,413,336 Class A subordinate shares	2,920	–	2,920
Issuance of 359,296 first preferred shares, Series 2	–	300	300
	6,350	2,900	9,250

10. SEGMENTED INFORMATION

The Company provides information technology services. The following presents information on the Company's operations in different geographic areas:

As of and for the year ended September 30, 1998:

	CANADA	U.S.	OTHER	TOTAL
	\$	\$	\$	\$
Revenue	614,911	94,535	31,517	740,963
Operating earnings (EBITDA)	91,350	6,175	3,842	101,367
Identifiable assets	586,607	107,100	51,223	744,930

10. SEGMENTED INFORMATION – (CONTINUED)

As of and for the year ended September 30, 1997:

	CANADA	U.S.	OTHER	TOTAL
	\$	\$	\$	\$
Revenue	221,529	7,281	3,106	231,916
Operating earnings (EBITDA)	23,754	904	466	25,124
Identifiable assets	147,563	6,280	300	154,143

As of and for the year ended September 30, 1996:

	CANADA	U.S.	OTHER	TOTAL
	\$	\$	\$	\$
Revenue	114,164	5,460	2,391	122,015
Operating earnings (EBITDA)	7,364	878	359	8,601
Identifiable assets	69,396	2,685	78	72,159

11. RELATED PARTIES

The Company is party to an outsourcing contract with one of its shareholder's subsidiaries, Bell Canada, pursuant to which the Company will be the preferred supplier for Bell Canada's information systems and information technology needs. Pursuant to this agreement, approximately \$140,000,000 of revenue was recognized for the year ended September 30, 1998. In the normal course of business, the Company has acquired services for an amount of \$12,213,000 from Bell Canada. The balance sheet includes \$11,313,000 of deferred revenue related to Bell Canada.

12. COMMITMENTS

The Company has commitments under operating leases, primarily for business premises, totalling approximately \$191,754,000. Minimum lease payments due in each of the next five years are as follows:

	\$
1999	36,576
2000	34,159
2001	29,959
2002	20,782
2003	17,997

The Company concluded operating leases representing a total commitment of \$15,689,000 for computer equipment used in outsourcing contracts. The rate structure of these outsourcing contracts includes these lease expenses. Minimum lease payments due in each of the forthcoming years are as follows:

	\$
1999	8,295
2000	5,486
2001	1,908

12. COMMITMENTS – (CONTINUED)

The Company concluded a long-term services agreement representing a total commitment of \$41,265,000. Minimum lease payments due in each of the forthcoming years are as follows:

	\$
1999	17,075
2000	17,075
2001	7,115

13. FINANCIAL INSTRUMENTS

FAIR VALUE

At September 30, 1998, the estimated fair market value of accounts receivable, work in progress, bank indebtedness and accounts payable and accrued liabilities is equal to the book value given the short-term nature of these items.

The fair value of long-term debt and obligations under capital leases is not significantly different than the book value.

The Company does not hold or issue financial instruments for trading purposes.

CREDIT RISK

Credit risk concentration with respect to trade receivables is limited due to the Company's large client base.

14. RECONCILIATION OF RESULTS REPORTED IN ACCORDANCE WITH CANADIAN GAAP TO UNITED STATES GAAP

The Company's accounting policies are consistent in all material aspects with United States GAAP with the following exceptions:

NET EARNINGS RECONCILIATION	1998	1997	1996
	\$	\$	\$
Net earnings – Canadian GAAP	34,828	7,765	2,718
Adjustments			
Income taxes (i)	(1,649)	(1,357)	–
Research and development (ii)	264	196	(915)
Purchased in-process R&D (iii)	1,220	(479)	–
Foreign exchange (iv)	(1,869)	–	–
Net earnings – United States GAAP	32,794	6,125	1,803
Variation in cumulative translation adjustment	2,908	–	–
Comprehensive earnings – United States GAAP	35,702	6,125	1,803
Basic EPS - United States GAAP (v)	0.28	0.08	0.03
Fully diluted EPS - United States GAAP (v)	0.28	0.08	0.03

**14. RECONCILIATION OF RESULTS REPORTED IN ACCORDANCE WITH CANADIAN GAAP TO
UNITED STATES GAAP – (CONTINUED)**

SHAREHOLDERS' EQUITY RECONCILIATION	1998	1997	1996
	\$	\$	\$
Shareholders' equity – Canadian GAAP	474,247	72,271	40,789
Adjustments			
Income taxes (i)	(3,006)	(1,357)	–
Research and development (ii)	(2,178)	(2,442)	(2,638)
Purchased in-process R&D (iii)	741	(479)	–
Foreign exchange (iv)	1,039	–	–
Shareholders' equity – United States GAAP	470,843	67,993	38,151

(i) INCOME TAXES

For purposes of reporting under United States GAAP, companies are required to use the liability method in accounting for income taxes. Under the liability method, deferred income taxes are recognized for the future income tax consequences attributable to deferred income tax assets and liabilities measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under the liability method, the effect on deferred income tax assets and liabilities of a change in income tax rates is included in earnings in the period that includes the enactment date.

Under United States GAAP, a deferred income tax asset or liability is recognized for the difference between the assigned values and the tax bases of assets acquired and liabilities assumed in a purchase business combination. Under Canadian GAAP, the carrying value of the related asset or liability is adjusted for such future tax effects.

The adjustment represents the difference between the deferral and liability methods.

(ii) RESEARCH AND DEVELOPMENT

For purposes of reporting under United States GAAP, the software and development costs incurred by Softkit Technologies Inc. would have been expensed. The adjustment represents the reversal of the amortization expense, net of income tax of \$162,000 (\$250,000 in 1997).

(iii) PURCHASED IN-PROCESS R&D

An amount was allocated to software and development costs incurred by Softkit Technologies Inc. prior to its acquisition. For purposes of reporting under United States GAAP, this charge would be considered as purchased in-process R&D. Purchased in-process R&D that represents products in the development stage and not considered to have reached technological feasibility at the time of acquisition is required to be expensed. The adjustment represents the reversal of the amortization expense, net of income taxes of \$459,000.

**14. RECONCILIATION OF RESULTS REPORTED IN ACCORDANCE WITH CANADIAN GAAP TO
UNITED STATES GAAP – (CONTINUED)**

(IV) FOREIGN CURRENCY TRANSLATION

The financial statements of the foreign subsidiaries which are all considered integrated operations have been translated using the temporal method. Under this method, all monetary assets and liabilities are translated into Canadian dollars using the rate of exchange in effect at the balance sheet date and non-monetary items are translated at historical exchange rates. Revenue and expenses are translated using the average rates for the year. Gains or losses arising on translation of monetary assets are included in earnings for the year.

For purposes of reporting under United States GAAP, FASB Statement No. 52, "Foreign Currency Translation", requires companies to translate functional-currency financial statements into reporting currency using the current exchange rate method whereby the rates in effect on the balance sheet date for assets and liabilities and the weighted average rate for income statement elements are used. Any translation adjustments, resulting from the process of translating the financial statements of foreign subsidiaries into Canadian dollars, are excluded from the determination of net earnings and are reported as a separate component in shareholders' equity.

(V) EARNINGS PER SHARE

For the purposes of reporting under United States GAAP, FASB Statement No. 128, "Earnings Per Share", requires companies to replace the presentation of primary earnings per share (EPS) with a presentation of basic EPS. This is consistent with the calculation for Canadian GAAP. The statement also requires dual presentation of basic and fully diluted EPS (which includes the effect of stock options having a dilutive impact) for all entities with complex capital structures. For 1998, 1997 and 1996, the number of shares used to calculate basic earnings per share under United States GAAP was not materially different from the number of shares used to calculate earnings per share under Canadian GAAP.

15. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which affect an entity's ability to conduct normal business operations. It is not possible to ensure that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

SERGE GODIN ²

Chairman of the Board and
Chief Executive Officer
CGI

CLAUDE BOIVIN ¹

Director of Companies

JEAN BRASSARD

Vice-Chairman of the Board
President and
Chief Operating Officer
CGI

CLAUDE CHAMBERLAND ²

Executive Vice-President
Smelting & Power
Alcan Aluminum Ltd.

PAULE DORÉ

Secretary and
Executive Vice-President
Corporate Affairs
CGI

W. KEITH GRAY ¹

Investment Advisor and Chair
Wyoming Associates Ltd.

ANDRÉ IMBEAU

Treasurer
Executive Vice-President
and Chief Financial Officer
CGI

DAVID L. JOHNSTON, O.C. ²

Professor, Faculty of Law
McGill University

GUY LABERGE*

Executive Vice-President and
General Manager
Quebec
CGI

JOHN A. MacDONALD

President and
Chief Operating Officer
Bell Canada

EILEEN A. MERCIER ¹

President
Finvoy Management Inc.

JEAN C. MONTY ²

President and
Chief Executive Officer
BCE Inc.

CHARLES SIROIS [†]

Chairman and
Chief Executive Officer
Telelobe Inc.

LOUIS A. TANGUAY

President and
Chief Operating Officer
Bell Canada International

¹ Member of the Audit Committee

² Member of the Human Resources Committee

* Resigned from the Board on December 1st, 1998

[†] Nominated to the Board on December 1st, 1998

CORPORATE SERVICES

SERGE GODIN
Chairman of the Board and
Chief Executive Officer

PAULE DORÉ
Executive Vice-President
Corporate Affairs

ANDRÉ IMBEAU
Executive Vice-President and
Chief Financial Officer

ANDRÉ NADEAU
Executive Vice-President
Corporate and International
Development

STRATEGIC BUSINESS UNITS

JEAN BRASSARD
President and
Chief Operating Officer

GLOBAL FUNCTIONS

LUC PINARD
Senior Vice-President
Solutions Development and
Best Practices

WILLIAM D. PITKIN
Senior Vice-President
Markets and Technology

DANIEL ROCHELEAU
Senior Vice-President
Outsourcing and
Business Engineering

QUEBEC

GUY LABERGE
Executive Vice-President and
General Manager

DANIEL CRÉPEAU
Senior Vice-President
Montreal/Saguenay-
Lac-St-Jean

Jimmy Foley
Vice-President
Saguenay-Lac-St-Jean

CLAUDE MARCOUX
Senior Vice-President
Quebec City

LUC VILANDRÉ
Senior Vice-President
Technology Management

PIERRE VINET
Senior Vice-President
Global Outsourcing Services

ONTARIO — ATLANTIC
AND WESTERN CANADA

FRANÇOIS CHASSÉ
Executive Vice-President and
General Manager

HICHAM ADRA
Senior Vice-President
Ottawa / Atlantic

Paul Raymond
Vice-President
Atlantic Region

TERRY JOHNSON
Senior Vice-President
Western Canada

Bill Clark
Vice-President
Edmonton

Jim Dundas
Vice-President
Saskatchewan and Manitoba

Terry Nette
Vice-President
Calgary

Michel Proulx
Vice-President
British Columbia

DAVID PATRICK
Senior Vice-President
Insurance Solutions and Services

LEON SHAPIRO
Senior Vice-President
Banking Solutions and Services

MARK STUART
Senior Vice-President
Consulting and Systems Integration
Toronto

OLIVA TANGUAY
Senior Vice-President
Technology Management

TELECOMMUNICATION
INFORMATION SYSTEMS
AND SERVICES — CANADA

MICHAEL ROACH
Executive Vice-President and
General Manager

Joseph Csafordi
Vice-President
Telecommunications Services

ANDRÉ CHATELAIN
Senior Vice-President

Robert Benoit
Vice-President
Project Management Office

Claude Blais
Vice-President
Customer Care Systems

Robert Dufresne
Vice-President
Data Warehousing and
Quality Management

Ron Hartnoll
Vice-President
Year 2000

Clive Howard
Vice-President
Architecture and Technology

Roman Klein
Vice-President
Office Systems and Services

Craig Leech
Vice-President
Enterprise Systems

Mike Maggs
Vice-President
Customer Service

Eva Maglis
Vice-President
Systems Development

Diane Weber
Vice-President
Account Management

UNITED STATES

ROBERT STEEL
Senior Vice-President and
General Manager

Bob Casagrande
Vice-President
Client Services

Paul Guyette
Vice-President
North-East Region

Robert McBay
Vice-President
South-East Region

PIERRE TURCOTTE
Senior Vice-President

EUROPE AND INTERNATIONAL

PETER LANGENBERG
Senior Vice-President and
General Manager
Telecommunications

GILLES LAPIERRE
Senior Vice-President and
General Manager
Europe

DAVID THOMAS
Senior Vice-President
Insurance Business Development

CANADA

Head Office

1130 Sherbrooke Street West
5th Floor
Montreal, Quebec
H3A 2M8
Tel.: (514) 841-3200
Fax: (514) 841-3299

Halifax

The Brewery Market
1489 Hollis Street
Halifax, Nova Scotia
B3J 3M5
Tel.: (902) 423-2862
Fax: (902) 423-2899

Fredericton

10 Knowledge Park Drive
3rd Floor
Fredericton, New Brunswick
E3C 2M7
Tel.: (506) 458-5020
Fax: (506) 458-5059

Quebec City

5400 des Galeries Blvd.
Suite 400
Quebec, Quebec
G2K 2B4
Tel.: (418) 623-0101
Fax: (418) 623-4114

Document Technology

140 Grande-Allée East
Suite 120
Quebec, Quebec
G1R 5M8
Tel.: (418) 649-9999
Fax: (418) 522-8048

Saguenay-Lac-St-Jean

2028 Mellon Blvd.
Jonquière, Quebec
G7S 4S8
Tel.: (418) 548-4634
Fax: (418) 548-6466

Montreal*Systems Integration
and Consulting*

1130 Sherbrooke Street West
7th Floor
Montreal, Quebec
H3A 2M8
Tel.: (514) 841-3210
Fax: (514) 841-3299

Telecommunications

1800 McGill College
15th Floor
Montreal, Quebec
H3A 3J6
Tel.: (514) 281-6885
Fax: (514) 281-9305

Technology Management

1611 Crémazie Blvd. East
Montreal, Quebec
H2M 2P2
Tel.: (514) 383-1611
Fax: (514) 383-7234

Document Technology

3565 Jarry Street East
Suite 108
Montreal, Quebec
H1Z 2J1
Tel.: (514) 374-7777
Fax: (514) 374-1265

Management Services

2001 McGill College
12th Floor
Montreal, Quebec
H3A 1G1
Tel.: (514) 847-7950

Pay Services Centre

Place Le Carillon
7151 Jean-Talon East
10th Floor
Anjou, Quebec
H1M 3N8
Tel.: (514) 356-5000
Fax: (514) 356-5001

Ottawa

275 Slater Street
14th Floor
Ottawa, Ontario
K1P 5H9
Tel.: (613) 234-2155
Fax: (613) 234-6934

Telecommunications

160 Elgin Street
5th Floor
Ottawa, Ontario
K2P 2C4
Tel.: (613) 781-7136

Toronto*Systems Integration
and Consulting*

4 King Street West
Suite 1900
Toronto, Ontario
M5H 1B6
Tel.: (416) 862-0430
Fax: (416) 862-2321

Telecommunications

20 Queen Street West
4th Floor
Toronto, Ontario
M5H 3R3
Tel.: (416) 215-2194
Fax: (416) 979-0569

Mississauga*Technology Management*

6820 Century Avenue
Mississauga, Ontario
L5N 2V8
Tel.: (905) 821-2252
Fax: (905) 858-7171

Richmond Hill*Insurance Systems
and Services*

95 Mural Street
Suite 600
Richmond Hill, Ontario
L4B 3G2
Tel.: (905) 882-6300
Fax: (905) 771-5311

Regina

1900 Albert Street
Regina, Saskatchewan
S4P 4K8
Tel.: (306) 761-4000
Fax: (306) 761-4329

Edmonton

10180-101 Street
Suite 1720
Edmonton, Alberta
T5J 3S4
Tel.: (403) 425-1494
Fax: (403) 425-1498

Calgary

6715 – 8th Street N.E.
Suite 350
Calgary, Alberta
T2E 7H7
Tel.: (403) 295-5900
Fax: (403) 295-5999

Vancouver

3398 Lake City Way
Burnaby, British Columbia
V5A 3A6
Tel.: (604) 420-0108
Fax: (604) 444-7611

UNITED STATES

Boston, MA

Two Tech Drive
Andover, MA 01810
Tel.: (978) 682-5500
1-800-637-3799
Fax: (978) 686-0130

103 Stiles Road
Salem, NH 03079
Tel.: (603) 893-7446
Fax: (603) 893-5793

Anaheim, CA

741 E. Ball Road
Suite 205
Anaheim, CA 92805
Tel.: (714) 491-0992
Fax: (714) 491-1994

Melville, NY

1 Huntington Quadrangle
Suite 1N12
Melville, NY 11747
Tel.: (516) 756-2520
Fax: (516) 756-2531

Atlanta, GA

3080 Northwoods Circle
Suite 200
Norcross, GA 30071
Tel.: (770) 246-3000
Fax: (770) 246-3107

Minneapolis, MN

600 South Highway 169
Suite 1700
St. Louis Park, MN 55426
Tel.: (612) 542-8601
1-800-642-8228
Fax: (612) 542-9657

Chicago, IL

2443 Warrenville Road
Suite 600
Lisle, IL 60532
Tel.: (630) 955-3767
Fax: (630) 955-3789

Canton, MA

275 Turnpike Street
Suite 305
Canton, MA 02021
Tel.: (617) 828-8835
Fax: (617) 828-6587

INTERNATIONAL

London

CERTIS
One Warwick Row
4th Floor
Victoria, London, England
SW1E 5ER
Tel.: 44 171 630 0271
Fax: 44 171 630 7521

Bristol

CERTIS
730 Waterside Drive
Aztec West, Almondsbury
Bristol, England
BS32 4UE
Tel.: 44 145 445 4454
Fax: 44 145 445 4400

Singapore

CERTIS
7 Temasek Blvd.
The Penthouse
44-01 Suntec Tower One
Singapore 038 192
Tel.: 65-430-6646
Fax: 65-430-6697

Kuala Lumpur

CERTIS
Level 18, CP Tower
Jalan Damansara
46350 Petaling Jaya
Kuala Lumpur, Malaysia
Tel.: 02-03-716 7971
Fax: 02-03-716 7975

Montevideo

Edificio Torre Libertad
Plaza de Cagancha 1335
Oficina 1003, C.P. 11100
Montevideo, Uruguay
Tel.: 5982-903-0950
Fax: 5982-902-2608

GENERAL INFORMATION

AUDITORS

Samson Bélair/Deloitte & Touche

TRANSFER AGENT AND REGISTRAR

Montreal Trust

FINANCIAL COMMUNICATIONS

The Barnes Organization Inc., Toronto

ANNUAL AND SPECIAL GENERAL MEETING OF SHAREHOLDERS

Wednesday, January 27, 1999
at 11:00 a.m.

Westin Mont-Royal Hotel

Salon A

1050 Sherbrooke Street West

Montreal, Quebec

This annual report is also on the
Internet at the following address:
www.cgi.ca

*Le rapport annuel 1998 de CGI
est aussi publié en français.*

LISTING

The Montreal Exchange, December 1986	GIB.A
The Toronto Stock Exchange, April 1992	GIB.A
The New York Stock Exchange, October 1998	GIB
Number of Shares Outstanding as at November 30, 1998	116,048,848 Class A subordinate shares 17,386,826 Class B shares
High/low of share price from October 1, 1997 to November 30, 1998	
ME, TSE:	34.25 / 8.50
October 7 to November 30, 1998	
NYSE (US\$)	17 ¹³ / ₁₆ / 10 ¹³ / ₁₆

GRAPHIC DESIGN:

NOLIN LAROSÉE DESIGN COMMUNICATIONS



RECYCLED INTERIOR PAPER



PLEASE RECYCLE

PRINTED IN CANADA

CGI and you | growing

