



**MANAGEMENT'S  
DISCUSSION AND ANALYSIS**

**Q3 2015**

July 29, 2015

## Basis of Presentation

This Management's Discussion and Analysis of the Financial Position and Results of Operations ("MD&A") is the responsibility of management and has been reviewed and approved by the Board of Directors. This MD&A has been prepared in accordance with the requirements of the Canadian Securities Administrators. The Board of Directors is ultimately responsible for reviewing and approving the MD&A. The Board of Directors carries out this responsibility mainly through its Audit and Risk Management Committee, which is appointed by the Board of Directors and is comprised entirely of independent and financially literate directors.

Throughout this document, CGI Group Inc. is referred to as "CGI", "we", "our" or "Company". This MD&A provides information management believes is relevant to an assessment and understanding of the consolidated results of operations and financial condition of the Company. This document should be read in conjunction with the interim condensed consolidated financial statements and the notes thereto for the three and nine months ended June 30, 2015 and 2014. CGI's accounting policies are in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All dollar amounts are in Canadian dollars unless otherwise indicated.

## Materiality of Disclosures

This MD&A includes information we believe is material to investors. We consider something to be material if it results in, or would reasonably be expected to result in, a significant change in the market price or value of our shares, or if it is likely that a reasonable investor would consider the information to be important in making an investment decision.

## Forward-Looking Statements

All statements in this MD&A that do not directly and exclusively relate to historical facts constitute "forward-looking statements" within the meaning of that term in Section 27A of the United States Securities Act of 1933, as amended, and Section 21E of the United States Securities Exchange Act of 1934, as amended, and are "forward-looking information" within the meaning of Canadian securities laws. These statements and this information represent CGI's intentions, plans, expectations and beliefs, and are subject to risks, uncertainties and other factors, of which many are beyond the control of the Company. These factors could cause actual results to differ materially from such forward-looking statements or forward-looking information. These factors include but are not restricted to: the timing and size of new contracts; acquisitions and other corporate developments; the ability to attract and retain qualified employees; market competition in the rapidly evolving information technology industry; general economic and business conditions; foreign exchange and other risks identified in the MD&A, in the Company's Annual Information Form filed with the Canadian securities authorities (filed on SEDAR at [www.sedar.com](http://www.sedar.com)), CGI's Annual Report on Form 40-F filed with the U.S. Securities and Exchange Commission (filed on EDGAR at [www.sec.gov](http://www.sec.gov)), as well as assumptions regarding the foregoing. The words "believe", "estimate", "expect", "intend", "anticipate", "foresee", "plan", and similar expressions and variations thereof, identify certain of such forward-looking statements or forward-looking information, which speak only as of the date on which they are made. In particular, statements relating to future performance are forward-looking statements and forward-looking information. CGI disclaims any intention or obligation to publicly update or revise any forward-looking statements or forward-looking information, whether as a result of new information, future events or otherwise, except as required by applicable law. Readers are cautioned not to place undue reliance on these forward-looking statements or on this forward-looking information. You will find more information about the risks that could cause our actual results to differ significantly from our current expectations in Section 8 – Risk Environment.

## Non-GAAP and Key Performance Measures

The reader should note that the Company reports its financial results in accordance with IFRS. However, we use a combination of financial measures, ratios, and non-GAAP measures to assess our Company's performance. The non-GAAP measures used in this MD&A do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. These measures should be considered as supplemental in nature and not as a substitute for the related financial information prepared in accordance with IFRS.

The table below summarizes our non-GAAP measures and most relevant key performance measures:

Profitability	<ul style="list-style-type: none"> <li>Adjusted EBIT (non-GAAP) – is a measure of earnings before integration-related costs, net finance costs and income tax expense as these items are not directly related to the cost of operations. Management believes this measure is useful to investors as it best reflects the profitability of our operations and allows for better comparability from period to period as well as to trend analysis in our operations. A reconciliation of the current quarter's adjusted EBIT to its closest IFRS measure can be found on page 22.</li> <li>Net earnings prior to specific items<sup>1</sup> (non-GAAP) – is a measure of earnings before the integration-related costs, adjustments related to tax and the resolution of acquisition-related provisions. Management believes that this measure is useful to investors as it best reflects the Company's operating profitability and allows for better comparability from period to period. A reconciliation of the current quarter's net earnings prior to specific items to its closest IFRS measure can be found on page 24.</li> <li>Basic and diluted earnings per share prior to specific items<sup>1</sup> (non-GAAP) – is defined as the net earnings excluding integration-related costs, adjustments related to tax and the resolution of acquisition-related provisions on a per share basis. Management believes that this measure is useful to investors as it best reflects the Company's operating profitability on a per share basis and allows for better comparability from period to period. The current quarter's basic and diluted earnings per share reported in accordance with IFRS can be found on page 22 while the current quarter's basic and diluted earnings per share prior to specific items can be found on page 24.</li> <li>Net earnings – is a measure of earnings generated for shareholders.</li> <li>Diluted earnings per share – is a measure of earnings generated for shareholders on a per share basis, assuming all dilutive elements are exercised.</li> </ul>
Liquidity	<ul style="list-style-type: none"> <li>Cash provided by operating activities – is a measure of cash generated from managing our day-to-day business operations. We believe strong operating cash flow is indicative of financial flexibility, allowing us to execute our corporate strategy.</li> <li>Days sales outstanding ("DSO") (non-GAAP) – is the average number of days needed to convert our trade receivables and work in progress into cash. DSO is obtained by subtracting deferred revenue from trade accounts receivable and work in progress; the result is divided by the quarter's revenue over 90 days. Deferred revenue is net of the fair value adjustments on revenue-generating contracts. Management tracks this metric closely to ensure timely collection, healthy liquidity, and is committed to a DSO target of 45 days or less. We believe this measure is useful to investors as it demonstrates the Company's ability to timely convert its trade receivables and work in progress into cash.</li> </ul>

<sup>1</sup> Specific items related to the resolution of acquisition-related provisions are described on page 24.

Growth	<ul style="list-style-type: none"> <li>• Constant currency growth (non-GAAP) – is a measure of revenue growth before foreign currency impacts. This growth is calculated by translating current period results in local currency using the conversion rates in the equivalent period from the prior year. Management believes that it is helpful to adjust revenue to exclude the impact of currency fluctuations to facilitate period-to-period comparisons of business performance. We believe that this measure is useful to investors for the same reason.</li> <li>• Backlog (non-GAAP) – Backlog includes new contract wins, extensions and renewals (“bookings”(non-GAAP)), partially offset by the backlog consumed during the quarter as a result of client work performed and adjustments related to the volume, cancellation and/or the impact of foreign currencies to our existing contracts. Backlog incorporates estimates from management that are subject to change. Management tracks this measure as it is a key indicator of management's best estimate of revenue to be realized in the future and believes that this measure is useful to investors for the same reason.</li> <li>• Book-to-bill ratio (non-GAAP) – is a measure of the proportion of the value of our bookings to our revenue in the period. This metric allows management to monitor the Company's business development efforts to ensure we grow our backlog and our business over time. Management remains committed to maintaining a target ratio greater than 100% over a trailing 12-month period. Management believes that the longer period is a more effective measure as the size and timing of bookings could cause this measurement to fluctuate significantly if taken for only a three-month period.</li> </ul>
Capital Structure	<ul style="list-style-type: none"> <li>• Net debt (non-GAAP) – is obtained by subtracting our cash and cash equivalents, short-term investments and long-term investments from our debt. Management uses the net debt metric to monitor the Company's financial leverage. We believe that this metric is useful to investors as it provides insight into our financial strength. A reconciliation of net debt to its closest IFRS measure can be found on page 32.</li> <li>• Net debt to capitalization ratio (non-GAAP) – is a measure of our level of financial leverage and is obtained by dividing the net debt by the sum of shareholder's equity and debt. Management uses the net debt to capitalization metric to monitor the proportion of debt versus capital used to finance our operations and to assess the Company's financial strength. We believe that this metric is useful to investors as it provides insight into our financial strength.</li> <li>• Return on equity ("ROE") (non-GAAP) – is a measure of the rate of return on the ownership interest of our shareholders and is calculated as the proportion of earnings for the last 12 months over the last four quarter's average equity. Management looks at ROE to measure its efficiency at generating earnings for the Company's shareholders and how well the Company uses the invested funds to generate earnings growth. We believe that this measure is useful to investors for the same reasons.</li> <li>• Return on invested capital ("ROIC") (non-GAAP) – is a measure of the Company's efficiency at allocating the capital under its control to profitable investments and is calculated as the proportion of the after-tax adjusted EBIT for the last 12 months, over the last four quarter's average invested capital, which is defined as the sum of equity and net debt. Management examines this ratio to assess how well it is using its funds to generate returns. We believe that this measure is useful to investors for the same reason.</li> </ul>

## Reporting Segments

The Company is managed through the following seven operating segments, namely: United States of America (“U.S.”); Nordics, Southern Europe and South America (“NSESAS”); Canada; France (including Luxembourg and Morocco) (“France”); United Kingdom (“U.K.”); Central and Eastern Europe (primarily the Netherlands and Germany) (“CEE”); and Asia Pacific (including Australia, India and the Philippines) (“Asia Pacific”). Please refer to section 3.4 and 3.6 of the present document and to Note 10 of our interim condensed consolidated financial statements for additional information on our segments.

## MD&A Objectives and Contents

- Provide a narrative explanation of the interim condensed consolidated financial statements through the eyes of management;
- Provide the context within which the interim condensed consolidated financial statements should be analyzed, by giving enhanced disclosure about the dynamics and trends of the Company's business; and
- Provide information to assist the reader in ascertaining the likelihood that past performance is indicative of future performance.

In order to achieve these objectives, this MD&A is presented in the following main sections:

Section	Contents	Pages
1. Corporate Overview	This includes a description of our business and how we generate revenue as well as the markets in which we operate.	
	1.1. About CGI	6
	1.2. Vision and Strategy	6
	1.3. Competitive Environment	7
2. Highlights and Key Performance Measures	A summary of key achievements during the quarter, the past eight quarters' key performance measures as well as CGI's share performance.	
	2.1. Q3 2015 Highlights	8
	2.2. Selected Quarterly Information & Key Performance Measures	9
	2.3. Stock Performance	10
	2.4. Client Arbitration Award	11
	2.5. Subsequent Event	11
3. Financial Review	A discussion of year-over-year changes to operating results between the three and nine months ended June 30, 2015 and 2014, describing the factors affecting revenue and adjusted EBIT on a consolidated and reportable segment basis, and also by describing the factors affecting changes in the major expense categories. Also discussed are bookings broken down by geography, by vertical market, by contract type and by service type.	
	3.1. Bookings and Book-to-Bill Ratio	12
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	3.7. Earnings before Income Taxes	22
	3.8. Net Earnings and Earnings Per Share ("EPS")	22

Section	Contents	Pages
4. Liquidity	<p>This includes a discussion of changes in cash flows from operating, investing and financing activities. This section also describes the Company's available capital resources, financial instruments, and off-balance sheet financing and guarantees. Measures of liquidity (days sales outstanding) and capital structure (return on equity, net debt to capitalization, and return on invested capital) are analyzed on a year-over-year basis.</p> <p>4.1. Interim Condensed Consolidated Statements of Cash Flows</p> <p>4.2. Capital Resources</p> <p>4.3. Contractual Obligations</p> <p>4.4. Financial Instruments and Hedging Transactions</p> <p>4.5. Selected Measures of Liquidity and Capital Resources</p> <p>4.6. Off-Balance Sheet Financing and Guarantees</p> <p>4.7. Capability to Deliver Results</p>	<p>25</p> <p>30</p> <p>31</p> <p>31</p> <p>32</p> <p>32</p> <p>33</p>
5. Changes in Accounting Policies	A summary of the future accounting standard changes.	34
6. Critical Accounting Estimates and Judgments	A discussion of the estimates and judgments made in the preparation of the interim condensed consolidated financial statements.	35
7. Integrity of Disclosure	A discussion of the existence of appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete and reliable.	38
8. Risk Environment	<p>A discussion of the risks affecting our business activities and what may be the impact if these risks are realized.</p> <p>8.1. Risks and Uncertainties</p> <p>8.2. Legal Proceedings</p>	<p>39</p> <p>45</p>

# 1. Corporate Overview

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## 1.1. ABOUT CGI

Founded in 1976 and headquartered in Montreal, Canada, CGI is among the largest independent information technology (“IT”) and business process services (“BPS”) firms in the world. CGI has approximately 68,000 employees, whom we refer to as members, worldwide. The Company’s client-proximity model provides for CGI services and solutions to be delivered in a number of ways and considering a number of factors: onsite at clients’ premises; or from any combination of onsite, near-shore and/or offshore delivery centers. We also have a number of leading business solutions that support long-term client relationships. Our services are broken down as:

- Consulting - CGI provides a full range of IT and management consulting services, including business transformation, IT strategic planning, business process engineering and systems architecture.
- Systems integration - CGI integrates and customizes leading technologies and software applications to create IT systems that respond to clients’ strategic needs.
- Management of IT and business functions (“outsourcing”) - Clients delegate entire or partial responsibility for their IT or business functions to CGI to achieve significant savings and access the best suited technology, while retaining control over strategic IT and business functions. As part of these agreements, we implement our quality processes and practices to improve the efficiency of the clients’ operations. We may also integrate clients’ operations into our technology network. Finally, we may take on specialized professionals from our clients, enabling our clients to focus on key operations. Services provided as part of an outsourcing contract may include development and integration of new projects and applications; applications maintenance and support; technology infrastructure management (enterprise and end-user computing and network services); transaction and business processing such as payroll, claims processing, and document management services. Outsourcing contracts typically have terms from five to ten years.

CGI offers its end-to-end services to a focused set of industry vertical markets where we have developed extensive and deep subject matter expertise. This allows us to fully understand our clients’ business realities and to have the knowledge and solutions needed to advance their business goals. Our targeted vertical markets include: financial services, government, health, telecommunications & utilities and manufacturing, retail & distribution (“MRD”), which together account for more than 90% of global IT spend.

CGI has a wide range of proprietary business solutions that help shape opportunities and drive value for our clients and shareholders. Examples of these include Enterprise Resource Planning (“ERP”) solutions, energy management, credit and debt collections, tax management, claims auditing and fraud detection.

We take great pride in delivering high quality services to our clients. To do so consistently, we have implemented and continue to maintain the International Organization for Standardization (“ISO”) quality program. By designing and implementing rigorous service delivery and quality standards, followed by monitoring and measurement, we are better able to satisfy our clients’ needs.

## 1.2. VISION AND STRATEGY

Our strategy has always been based on long-term fundamentals. For further details please refer to the heading “Vision and Strategy” on page 6 of Volume 2 entitled “Fiscal 2014 Results” of our 2014 Annual Report, which can be found on CGI’s web site at [www.cgi.com](http://www.cgi.com) and filed with Canadian securities regulatory authorities at [www.sedar.com](http://www.sedar.com) and with the U.S. Securities and Exchange Commission at [www.sec.gov](http://www.sec.gov).

### **1.3. COMPETITIVE ENVIRONMENT**

There have been no significant changes to the description outlined in our September 30, 2014 Annual Report. For further details please refer to the heading "Competitive Environment" on page 7 of Volume 2 entitled "Fiscal 2014 Results" of our 2014 Annual Report which can be found on CGI's web site at [www.cgi.com](http://www.cgi.com) and filed with Canadian securities regulatory authorities at [www.sedar.com](http://www.sedar.com) and with the U.S. Securities and Exchange Commission at [www.sec.gov](http://www.sec.gov).

## 2. Highlights and Key Performance Measures

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### 2.1. Q3 2015 HIGHLIGHTS

Key performance figures for the period include:

- Revenue of \$2.6 billion;
- Bookings of \$2.2 billion;
- Backlog of \$19.7 billion, up \$916.4 million;
- Adjusted EBIT of \$371.2 million, up \$28.9 million;
- Adjusted EBIT margin of 14.5%, up 170 basis points;
- Net earnings of \$257.2 million, up 14.3%;
- Net earnings margin of 10.1%, up 170 basis points;
- Diluted EPS of \$0.80, up 12.7%;
- Cash provided by operating activities of \$214.1 million;
- Return on invested capital of 14.8%, up 150 basis points; and
- Return on equity of 18.2%, up 10 basis points.

## 2.2. SELECTED QUARTERLY INFORMATION & KEY PERFORMANCE MEASURES

As at and for the three months ended,	June 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sept. 30, 2014	June 30, 2014	Mar. 31, 2014	Dec. 31, 2013	Sept. 30, 2013
<i>In millions of dollars unless otherwise noted</i>								
<b>Growth</b>								
Backlog	19,697	20,000	20,175	18,237	18,781	19,476	19,253	18,677
Bookings	2,227	2,253	4,304	2,049	2,451	2,850	2,818	2,501
Book-to-bill ratio	87.0%	86.6%	169.4%	82.5%	91.9%	105.4%	106.5%	101.7%
Book-to-bill ratio trailing twelve months	106.4%	107.4%	112.1%	96.8%	101.4%	105.3%	100.8%	102.2%
Revenue	2,559.4	2,601.2	2,541.3	2,483.7	2,667.0	2,704.3	2,644.7	2,458.2
Year-over-year growth	(4.0%)	(3.8%)	(3.9%)	1.0%	3.9%	7.0%	4.4%	52.7%
Constant currency growth <sup>1</sup>	(3.5%)	(3.5%)	(6.0%)	(3.4%)	(3.9%)	(2.3%)	(1.9%)	48.2%
<b>Profitability</b>								
Adjusted EBIT <sup>2</sup>	371.2	363.1	344.0	370.2	342.2	341.5	302.9	313.4
<i>Adjusted EBIT margin</i>	14.5%	14.0%	13.5%	14.9%	12.8%	12.6%	11.5%	12.7%
Net earnings	257.2	251.2	236.3	213.7	225.1	230.9	189.8	141.0
<i>Net earnings margin</i>	10.1%	9.7%	9.3%	8.6%	8.4%	8.5%	7.2%	5.7%
Basic EPS (in dollars)	0.82	0.80	0.76	0.69	0.73	0.75	0.62	0.46
Diluted EPS (in dollars)	0.80	0.78	0.74	0.67	0.71	0.73	0.60	0.44
<b>Liquidity</b>								
Cash provided by operating activities	214.1	284.7	339.2	412.0	345.9	350.7	66.3	166.4
<i>As a % of revenue</i>	8.4%	10.9%	13.3%	16.6%	13.0%	13.0%	2.5%	6.8%
Days sales outstanding <sup>3</sup>	46	41	42	43	47	47	55	49
<b>Capital structure</b>								
Net debt <sup>4</sup>	1,791.4	1,869.8	1,924.5	2,113.3	2,389.0	2,678.2	2,890.4	2,739.9
Net debt to capitalization ratio <sup>5</sup>	22.7%	24.4%	25.1%	27.6%	32.6%	35.6%	38.9%	39.6%
Return on equity <sup>6</sup>	18.2%	18.4%	18.9%	18.8%	18.1%	17.9%	16.0%	12.3%
Return on invested capital <sup>7</sup>	14.8%	14.6%	14.7%	14.5%	13.3%	13.4%	12.7%	11.8%
<b>Balance sheet</b>								
Cash and cash equivalents, and short-term investments	264.7	223.5	489.6	535.7	131.3	133.8	206.5	106.2
Total assets	11,190.4	10,985.8	11,171.9	11,234.1	11,162.2	11,560.4	11,801.0	10,879.3
Long-term financial liabilities <sup>8</sup>	1,765.8	2,067.7	2,451.5	2,748.4	2,164.8	2,562.4	2,796.6	2,489.5

<sup>1</sup> Constant currency growth is adjusted to remove the impact of foreign currency exchange rate fluctuations. Please refer to page 15 for details.

<sup>2</sup> Adjusted EBIT is a measure for which we provide the reconciliation to its closest IFRS measure on page 22.

<sup>3</sup> Days sales outstanding ("DSO") is a measure which is discussed on page 32.

<sup>4</sup> Net debt is a measure for which we provide the reconciliation to its closest IFRS measure on page 32.

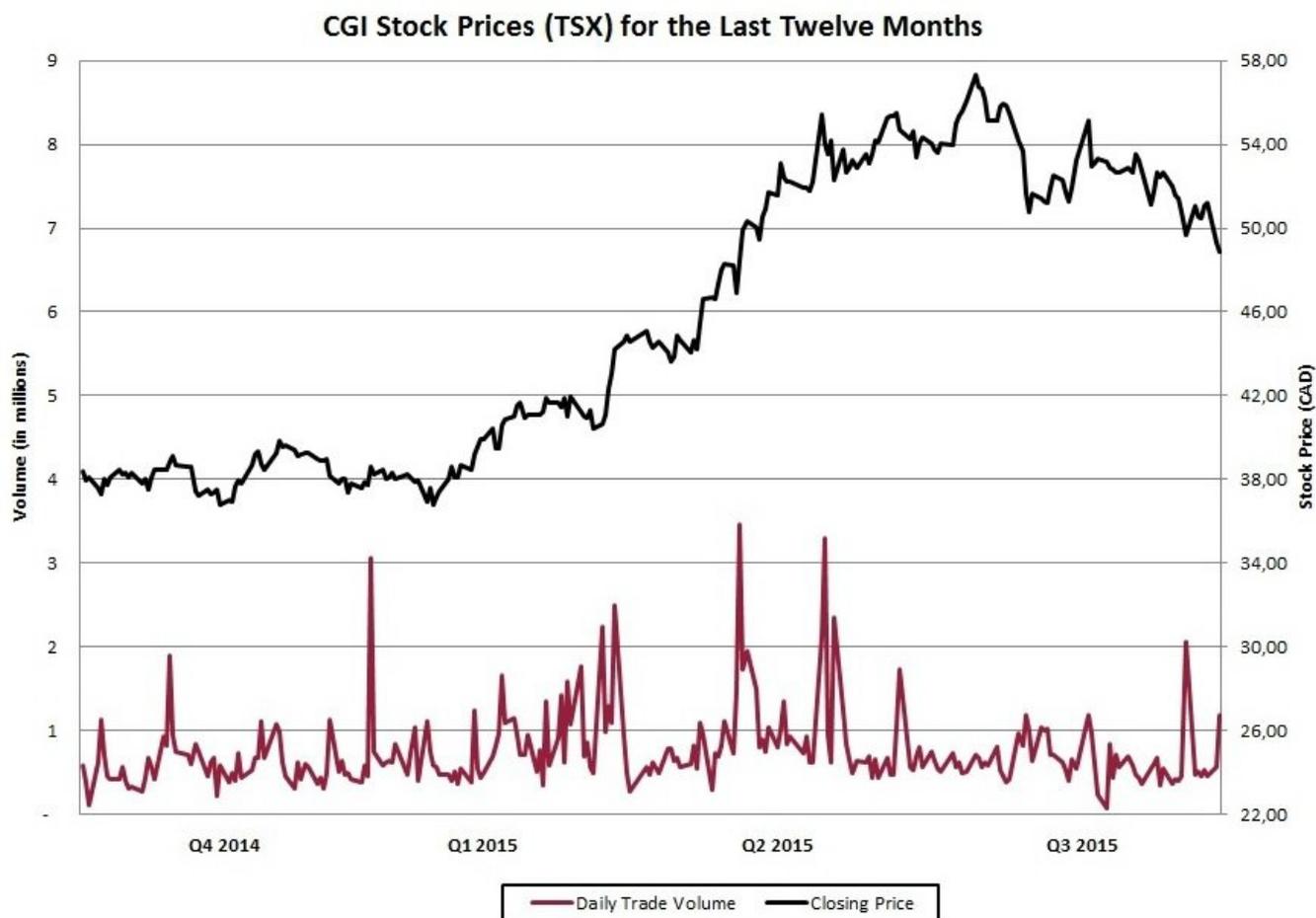
<sup>5</sup> The net debt to capitalization ratio is a measure which is discussed on page 32.

<sup>6</sup> The return on equity ratio is a measure which is discussed on page 32.

<sup>7</sup> The return on invested capital ratio is a measure which is discussed on page 32.

<sup>8</sup> Long-term financial liabilities include the long-term portion of the debt and the long-term derivative financial instruments.

## 2.3. STOCK PERFORMANCE



### 2.3.1. Q3 2015 Trading Summary

CGI's shares are listed on the Toronto Stock Exchange ("TSX") (stock quote – GIB.A) and the New York Stock Exchange ("NYSE") (stock quote – GIB) and are included in various indexes such as the S&P/TSX 60 Index.

<b>TSX</b>	<b>(CDN\$)</b>	<b>NYSE</b>	<b>(US\$)</b>
Open:	53.57	Open:	42.28
High:	57.40	High:	46.30
Low:	48.61	Low:	38.93
Close:	48.85	Close:	39.08
CDN average daily trading volumes <sup>1</sup> :	873,291	NYSE average daily trading volumes:	264,488

<sup>1</sup> Includes the average daily volumes of both the TSX and alternative trading systems.

### 2.3.2. Share Repurchase Program

On January 28, 2015, the Company's Board of Directors authorized and subsequently received the approval from the TSX for the renewal of the Normal Course Issuer Bid ("NCIB") to purchase up to 19,052,207 Class A subordinate voting shares for cancellation, representing 10% of the Company's public float as of the close of business on January 23, 2015. The Class A subordinate voting shares may be purchased under the NCIB commencing February 11, 2015 and ending on the earlier of February 10, 2016, or the date on which the Company has either acquired the maximum number of Class A subordinate voting

shares allowable under the NCIB, or elects to terminate the NCIB. On May 25, 2015, CGI announced its intention to acquire shares through private agreements as part of the NCIB.

For the three and nine months ended June 30, 2015, CGI repurchased 1,875,333 Class A subordinate voting shares for approximately \$94.0 million at an average price of \$50.14 under the current NCIB.

### **2.3.3. Capital Stock and Options Outstanding**

The following table provides a summary of the Capital Stock and Options Outstanding as at July 24, 2015:

<b>Capital Stock and Options Outstanding</b>	<b>As at July 24, 2015</b>
Class A subordinate voting shares	<b>280,098,393</b>
Class B multiple voting shares	<b>33,272,767</b>
Options to purchase Class A subordinate voting shares	<b>17,538,815</b>

### **2.4 CLIENT ARBITRATION AWARD**

During the quarter, CGI was granted an arbitration award in the amount of \$26.9 million dollars to compensate for its work on a client project in the Canadian health vertical market.

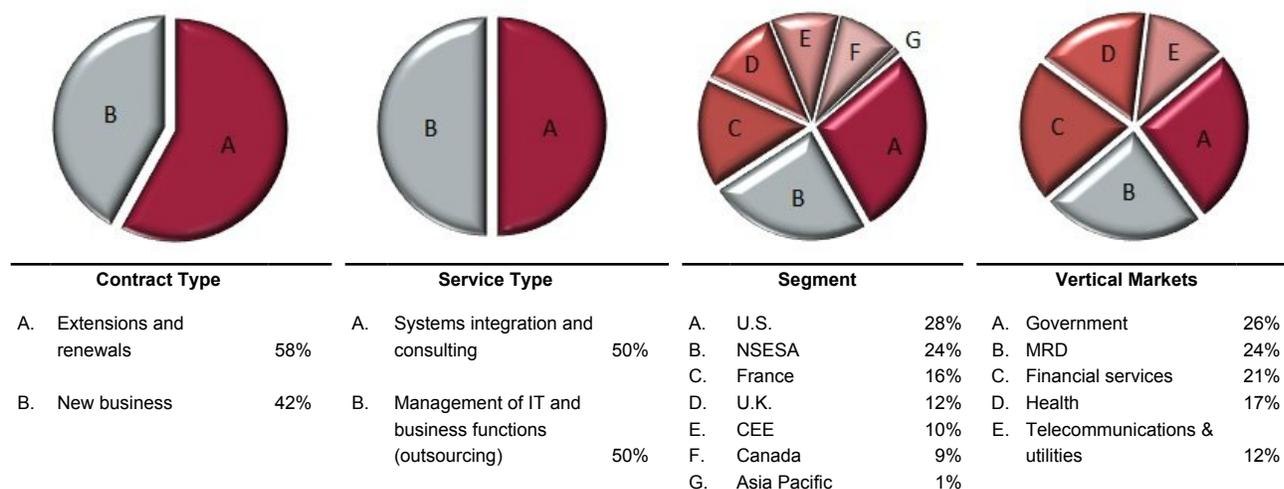
### **2.5 SUBSEQUENT EVENT**

On July 28, 2015, the Company announced it will take up to a \$60 million pre-tax charge over the next six months to advance the realization of benefits associated with productivity enablers and other cost initiatives expected to yield savings throughout fiscal 2016.

### 3. Financial Review

#### 3.1. BOOKINGS AND BOOK-TO-BILL RATIO

Bookings for the quarter were \$2.2 billion, representing a book-to-bill ratio of 87.0%. The breakdown of the new bookings signed during the quarter is as follows:



Information regarding our bookings is a key indicator of the volume of our business over time. However, due to the timing and transition period associated with outsourcing contracts, the realization of revenue related to these bookings may fluctuate from period to period. The values initially booked may change over time due to their variable attributes, including demand-driven usage, modifications in the scope of work to be performed caused by changes in client requirements as well as termination clauses at the option of the client. As such, information regarding our bookings is not comparable to, nor should it be substituted for an analysis of our revenue; it is instead a key indicator of our future revenue used by the Company's management to measure growth. For the trailing twelve-month period ended June 30, 2015, our book-to-bill ratio was at 106.4%.

The following table provides a summary of the bookings and book-to-bill ratio by segment:

<i>In thousands of dollars except for percentages</i>	Bookings for the three months ended June 30, 2015	Bookings for the trailing twelve months ended June 30, 2015	Book-to-bill ratio for the trailing twelve months ended June 30, 2015
<b>Total CGI</b>	<b>2,227,432</b>	<b>10,833,626</b>	<b>106.4%</b>
<b>U.S.</b>	621,635	1,928,367	68.8%
<b>NSESA</b>	527,840	2,091,094	107.3%
<b>Canada</b>	208,719	3,081,565	189.4%
<b>France</b>	353,905	1,273,946	99.1%
<b>U.K.</b>	272,283	1,288,766	91.9%
<b>CEE</b>	213,239	1,070,970	111.4%
<b>Asia Pacific</b>	29,811	98,918	63.2%

### 3.2. FOREIGN EXCHANGE

The Company operates globally and is exposed to changes in foreign currency rates. We report all dollar amounts in Canadian dollars. Accordingly, we value assets, liabilities and transactions that are measured in foreign currencies using various exchange rates as prescribed by IFRS.

#### *Closing foreign exchange rates*

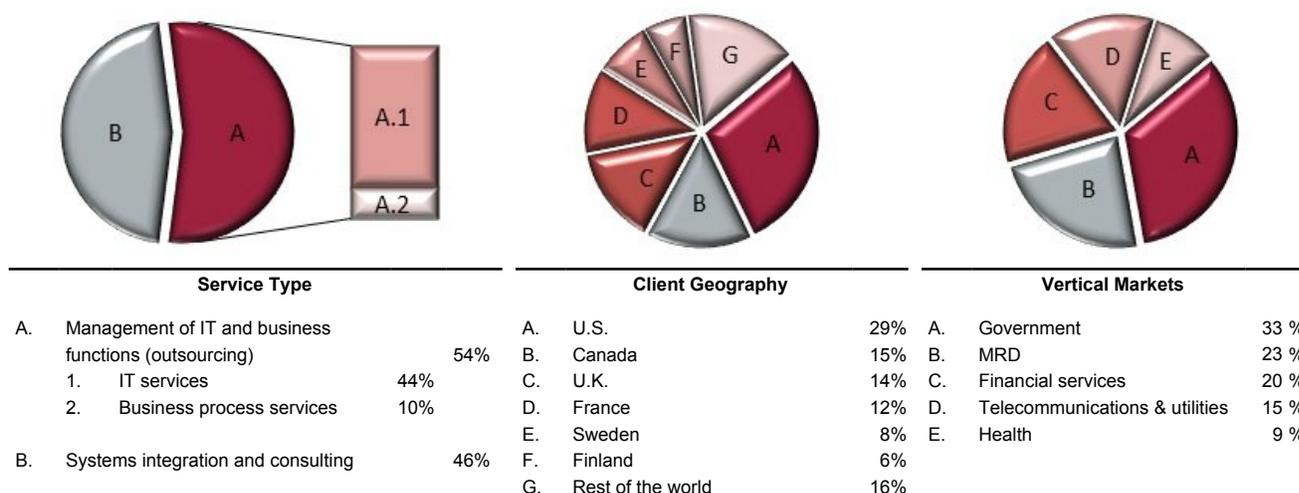
<b>As at June 30,</b>	<b>2015</b>	<b>2014</b>	<b>Change</b>
U.S. dollar	<b>1.2478</b>	1.0679	<b>16.8%</b>
Euro	<b>1.3914</b>	1.4622	<b>(4.8%)</b>
Indian rupee	<b>0.0196</b>	0.0178	<b>10.1%</b>
British pound	<b>1.9623</b>	1.8271	<b>7.4%</b>
Swedish krona	<b>0.1504</b>	0.1597	<b>(5.8%)</b>
Australian dollar	<b>0.9614</b>	1.0064	<b>(4.5%)</b>

#### *Average foreign exchange rates*

	<b>For the three months ended June 30,</b>			<b>For the nine months ended June 30,</b>		
	<b>2015</b>	<b>2014</b>	<b>Change</b>	<b>2015</b>	<b>2014</b>	<b>Change</b>
U.S. dollar	<b>1.2296</b>	1.0907	<b>12.7%</b>	<b>1.2024</b>	1.0813	<b>11.2%</b>
Euro	<b>1.3601</b>	1.4958	<b>(9.1%)</b>	<b>1.3920</b>	1.4793	<b>(5.9%)</b>
Indian rupee	<b>0.0194</b>	0.0182	<b>6.6%</b>	<b>0.0192</b>	0.0177	<b>8.5%</b>
British pound	<b>1.8848</b>	1.8360	<b>2.7%</b>	<b>1.8544</b>	1.7877	<b>3.7%</b>
Swedish krona	<b>0.1462</b>	0.1653	<b>(11.6%)</b>	<b>0.1493</b>	0.1658	<b>(10.0%)</b>
Australian dollar	<b>0.9566</b>	1.0173	<b>(6.0%)</b>	<b>0.9681</b>	0.9937	<b>(2.6%)</b>

### 3.3. REVENUE DISTRIBUTION

The following charts provide additional information regarding our revenue mix for the quarter:



#### 3.3.1. Client Concentration

IFRS guidance on segment disclosures defines a single customer as a group of entities that are known to the reporting enterprise to be under common control. The Company considers the federal, regional or local governments each to be a single customer. Our work for the U.S. federal government including its various agencies represented 14.2% of our revenue for the current quarter as compared to 13.0% in Q3 2014. For the nine months ended June 30, 2015 and 2014, we generated 13.7% and 13.3%, respectively, of our revenue from the U.S. federal government including its various agencies.

### 3.4. REVENUE VARIATION AND REVENUE BY SEGMENT

Our seven segments are based on our geographic delivery model: U.S., NSESA, Canada, France, U.K., CEE and Asia Pacific.

The following table provides a summary of the year-over-year changes in our revenue, in total and by segment, separately showing the impacts of foreign currency exchange rate variations between Q3 2015 and Q3 2014. The Q3 2014 revenue by segment was recorded reflecting the actual foreign exchange rates for that period. The foreign exchange impact is the difference between the current period's actual results and the current period's results converted with the prior year's foreign exchange rates.

<i>In thousands of dollars except for percentages</i>	For the three months ended June 30,			For the nine months ended June 30,		
	2015	2014	Change	2015	2014	Change
<b>Total CGI revenue</b>	<b>2,559,358</b>	2,667,047	<b>(4.0%)</b>	<b>7,701,821</b>	8,016,023	<b>(3.9%)</b>
Variation prior to foreign currency impact	<b>(3.5%)</b>			<b>(4.3%)</b>		
Foreign currency impact	<b>(0.5%)</b>			<b>0.4%</b>		
<b>Variation over previous period</b>	<b>(4.0%)</b>			<b>(3.9%)</b>		
<b>U.S.</b>						
Revenue prior to foreign currency impact	<b>627,359</b>	678,785	<b>(7.6%)</b>	<b>1,853,083</b>	2,009,781	<b>(7.8%)</b>
Foreign currency impact	<b>80,294</b>			<b>207,813</b>		
<b>U.S. revenue</b>	<b>707,653</b>	678,785	<b>4.3%</b>	<b>2,060,896</b>	2,009,781	<b>2.5%</b>
<b>NSESA</b>						
Revenue prior to foreign currency impact	<b>518,782</b>	530,405	<b>(2.2%)</b>	<b>1,580,156</b>	1,644,094	<b>(3.9%)</b>
Foreign currency impact	<b>(54,153)</b>			<b>(124,511)</b>		
<b>NSESA revenue</b>	<b>464,629</b>	530,405	<b>(12.4%)</b>	<b>1,455,645</b>	1,644,094	<b>(11.5%)</b>
<b>Canada</b>						
Revenue prior to foreign currency impact	<b>393,398</b>	412,818	<b>(4.7%)</b>	<b>1,160,985</b>	1,255,433	<b>(7.5%)</b>
Foreign currency impact	<b>376</b>			<b>910</b>		
<b>Canada revenue</b>	<b>393,774</b>	412,818	<b>(4.6%)</b>	<b>1,161,895</b>	1,255,433	<b>(7.5%)</b>
<b>France</b>						
Revenue prior to foreign currency impact	<b>343,763</b>	330,984	<b>3.9%</b>	<b>1,029,620</b>	1,021,793	<b>0.8%</b>
Foreign currency impact	<b>(30,512)</b>			<b>(60,467)</b>		
<b>France revenue</b>	<b>313,251</b>	330,984	<b>(5.4%)</b>	<b>969,153</b>	1,021,793	<b>(5.2%)</b>
<b>U.K.</b>						
Revenue prior to foreign currency impact	<b>323,358</b>	337,962	<b>(4.3%)</b>	<b>941,956</b>	962,165	<b>(2.1%)</b>
Foreign currency impact	<b>8,406</b>			<b>34,236</b>		
<b>U.K. revenue</b>	<b>331,764</b>	337,962	<b>(1.8%)</b>	<b>976,192</b>	962,165	<b>1.5%</b>
<b>CEE</b>						
Revenue prior to foreign currency impact	<b>250,780</b>	269,678	<b>(7.0%)</b>	<b>776,105</b>	808,722	<b>(4.0%)</b>
Foreign currency impact	<b>(22,175)</b>			<b>(45,367)</b>		
<b>CEE revenue</b>	<b>228,605</b>	269,678	<b>(15.2%)</b>	<b>730,738</b>	808,722	<b>(9.6%)</b>
<b>Asia Pacific</b>						
Revenue prior to foreign currency impact	<b>115,042</b>	106,415	<b>8.1%</b>	<b>326,540</b>	314,035	<b>4.0%</b>
Foreign currency impact	<b>4,640</b>			<b>20,762</b>		
<b>Asia Pacific revenue</b>	<b>119,682</b>	106,415	<b>12.5%</b>	<b>347,302</b>	314,035	<b>10.6%</b>

We ended Q3 2015 with revenue of \$2,559.4 million, a decrease of \$107.7 million or 4.0% over Q3 2014. On a constant currency basis, revenue decreased by \$94.6 million or 3.5%, as foreign currency rate fluctuations unfavorably impacted our revenue by \$13.1 million or 0.5%. The change in revenue was due to lower work volume and to the additional efforts needed in fiscal 2014 to complete the Patient Protection and Affordable Care Act ("ACA") projects in our U.S. segment.

For the nine months ended June 30, 2015, revenue was \$7,701.8 million, a decrease of \$314.2 million or 3.9% over the same period of fiscal 2014. On a constant currency basis, revenue decreased by \$347.6 million or 4.3%, as foreign currency rate fluctuations favorably impacted our revenue by \$33.4 million or 0.4%. The change in revenue was due to the same factors identified for the quarter.

#### **3.4.1. U.S.**

Revenue in our U.S. segment was \$707.7 million in Q3 2015, an increase of \$28.9 million or 4.3% over Q3 2014. On a constant currency basis, revenue decreased by \$51.4 million or 7.6%. The change in revenue was mostly driven by the continued procurement delays in the Federal market and to the completion of ACA related projects in fiscal 2014. This was partly offset by an increase in Intellectual Property ("IP") services and solutions revenue within the financial services vertical market.

For the nine months ended June 30, 2015, revenue in our U.S. segment was \$2,060.9 million, an increase of \$51.1 million or 2.5% over the same period of fiscal 2014. On a constant currency basis, revenue decreased by \$156.7 million or 7.8%. The change in revenue was mostly due to the completion of ACA related projects in fiscal 2014.

For the three and nine months ended June 30, 2015, the top two U.S. vertical markets were government and financial services, which together accounted for approximately 76% of revenue in both periods.

#### **3.4.2. NSESA**

Revenue in our NSESA segment was \$464.6 million in Q3 2015, a decrease of \$65.8 million or 12.4% over Q3 2014. On a constant currency basis, revenue decreased by \$11.6 million or 2.2%. The decrease in revenue was mainly due to lower work volume in Sweden and Denmark, partly offset by the favorable impact of higher work volume in Portugal.

For the nine months ended June 30, 2015, revenue in our NSESA segment was \$1,455.6 million, a decrease of \$188.4 million or 11.5% over the same period of fiscal 2014. On a constant currency basis, revenue decreased by \$63.9 million or 3.9%. The decrease in revenue was due to the same factors identified for the quarter as well as the increased use of our delivery centers in Asia Pacific.

For the three and nine months ended June 30, 2015, NSESA's top two vertical markets were MRD and government, which together accounted for approximately 61% of revenue in both periods.

#### **3.4.3. Canada**

Revenue in our Canada segment was \$393.8 million in Q3 2015, a decrease of \$19.0 million or 4.6% over Q3 2014. The revenue decrease was mainly due to lower work volume and the expiration of certain infrastructure outsourcing contracts, partly offset by a client arbitration award within the health vertical market, as well as an increase in our IP services and solution related revenue within the financial services vertical market.

For the nine months ended June 30, 2015, revenue in our Canada segment was \$1,161.9 million, a decrease of \$93.5 million or 7.5% over the same period of fiscal 2014. The decrease in revenue was due to the same factors identified for the quarter.

For the three and nine months ended June 30, 2015, Canada's top two vertical markets were financial services and telecommunications & utilities, which together accounted for approximately 57% of revenue in both periods.

#### **3.4.4. France**

Revenue in our France segment was \$313.3 million in Q3 2015, a decrease of \$17.7 million or 5.4% over Q3 2014. On a constant currency basis, revenue increased by \$12.8 million or 3.9%. The increase in revenue is mostly due to higher work volume in our government vertical market.

For the nine months ended June 30, 2015, revenue in our France segment was \$969.2 million, a decrease of \$52.6 million or 5.2% over the same period of fiscal 2014. On a constant currency basis, our revenue increased by \$7.8 million or 0.8% when compared to the same period of fiscal 2014 due to the same factor identified for the quarter.

For the three and nine months ended June 30, 2015, France's top two vertical markets were MRD and financial services, which together accounted for approximately 63% of revenue in both periods.

#### **3.4.5. U.K.**

Revenue in our U.K. segment was \$331.8 million in Q3 2015, a decrease of \$6.2 million or 1.8% over Q3 2014. On a constant currency basis, revenue decreased by \$14.6 million or 4.3% mainly due to lower work volume in the government vertical market due to a slowdown in government spending as a consequence of the recent U.K. election.

For the nine months ended June 30, 2015, revenue in our U.K. segment was \$976.2 million, an increase of \$14.0 million or 1.5% over the same period of fiscal 2014. On a constant currency basis, revenue decreased by \$20.2 million or 2.1%. The decrease in revenue was due to lower work volume with certain clients in the commercial sector primarily within the MRD vertical market.

For the three and nine months ended June 30, 2015, U.K.'s top two vertical markets were government and telecommunications & utilities, which together accounted for approximately 65% and 68% of revenue respectively.

#### **3.4.6. CEE**

Revenue in our CEE segment was \$228.6 million in Q3 2015, a decrease of \$41.1 million or 15.2% over Q3 2014. On a constant currency basis, revenue decreased by \$18.9 million or 7.0%. The decrease in revenue was due to lower volume on existing contracts in the Netherlands partly offset by growth across Eastern Europe.

For the nine months ended June 30, 2015, revenue in our CEE segment was \$730.7 million, a decrease of \$78.0 million or 9.6% over the same period of fiscal 2014. On a constant currency basis, revenue decreased by \$32.6 million or 4.0%. The decrease in revenue was due to the same factors identified for the quarter.

For the three and nine months ended June 30, 2015, CEE's top two vertical markets were MRD and government, which together accounted for approximately 58% of revenue in both periods.

#### **3.4.7. Asia Pacific**

Revenue in our Asia Pacific segment was \$119.7 million in Q3 2015, an increase of \$13.3 million or 12.5% over Q3 2014. On a constant currency basis, revenue increased by \$8.6 million or 8.1%. The change in revenue was due to the increased use of our delivery centers across the segments as our clients continue taking advantage of our global delivery centers.

For the nine months ended June 30, 2015, revenue in our Asia Pacific segment was \$347.3 million, an increase of \$33.3 million or 10.6% over the same period of fiscal 2014. On a constant currency basis, revenue increased by \$12.5 million or 4.0%. The increase in revenue was due to the same factor identified for the quarter.

For the three and nine months ended June 30, 2015, Asia Pacific's top two vertical markets were telecommunications & utilities and MRD, which together accounted for approximately 80% of revenue in both periods.

### 3.5. OPERATING EXPENSES

<i>In thousands of dollars except for percentages</i>	For the three months ended June 30,				For the nine months ended June 30,			
	2015	% of Revenue	2014	% of Revenue	2015	% of Revenue	2014	% of Revenue
Costs of services, selling and administrative	2,189,462	85.5%	2,320,363	87.0%	6,616,283	85.9%	7,024,451	87.6%
Foreign exchange (gain) loss	(1,283)	(0.1%)	4,441	0.2%	7,194	0.1%	4,937	0.1%

#### 3.5.1. Costs of Services, Selling and Administrative

Costs of services, selling and administrative expenses amounted to \$2,189.5 million in Q3 2015, a decrease of \$130.9 million or 5.6% compared to Q3 2014. As a percentage of revenue, cost of services, selling and administrative expenses improved from 87.0% in Q3 2014 to 85.5% in Q3 2015. As a percentage of revenue, our costs of services improved compared to the same period last year mainly due to the extra resources and expenses needed in fiscal 2014 to complete the ACA related projects, a higher proportion of IP services and solutions revenue and a client arbitration award in Canada. Our selling and administrative expenses as a percentage of revenue remained stable when compared to the same period last year.

For the nine months ended June 30, 2015, costs of services, selling and administrative expenses amounted to \$6,616.3 million, a decrease of \$408.2 million or 5.8% over the same period of fiscal 2014. As a percentage of revenue, cost of services, selling and administrative expenses improved from 87.6% to 85.9%. As a percentage of revenue, our costs of services improved compare to the same period last year mainly due to extra resources and expenses needed in fiscal 2014 to complete the ACA related projects. Our selling and administrative expenses as a percentage of revenue also improved as a result of the realization of the business synergies and the implementation of CGI's Management Foundation from the integration of Logica plc ("Logica"). More information on the integration can be found on page 22.

During the three months ended June 30, 2015, the translation of the results of our foreign operations from their local currencies to the Canadian dollar favorably impacted costs by \$24.5 million. During the nine months ended June 30, 2015 the translation of the results of our foreign operations from their local currencies to the Canadian dollar unfavorably impacted costs by \$11.5 million.

#### 3.5.2. Foreign Exchange (Gain) Loss

The Company, in addition to its natural hedges, has a strategy in place to manage its exposure, to the extent possible, to exchange rate fluctuations through the effective use of derivatives. During the nine months ended June 30, 2015, CGI incurred \$7.2 million of foreign exchange losses mainly driven by the timing in payments combined with the volatility and fluctuation of foreign exchange rates.

### 3.6. ADJUSTED EBIT BY SEGMENT

<i>In thousands of dollars except for percentages</i>	For the three months ended June 30,			For the nine months ended June 30,		
	2015	2014	Change	2015	2014	Change
U.S.	133,383	98,782	35.0%	337,012	205,940	63.6%
<i>As a percentage of U.S. revenue</i>	18.8%	14.6%		16.4%	10.2%	
NSESA	38,732	48,472	(20.1%)	144,253	161,861	(10.9%)
<i>As a percentage of NSESA revenue</i>	8.3%	9.1%		9.9%	9.8%	
Canada	108,359	90,062	20.3%	266,242	274,076	(2.9%)
<i>As a percentage of Canada revenue</i>	27.5%	21.8%		22.9%	21.8%	
France	29,037	18,163	59.9%	110,809	116,552	(4.9%)
<i>As a percentage of France revenue</i>	9.3%	5.5%		11.4%	11.4%	
U.K.	28,441	44,389	(35.9%)	101,197	104,312	(3.0%)
<i>As a percentage of U.K. revenue</i>	8.6%	13.1%		10.4%	10.8%	
CEE	14,235	26,644	(46.6%)	60,667	81,413	(25.5%)
<i>As a percentage of CEE revenue</i>	6.2%	9.9%		8.3%	10.1%	
Asia Pacific	18,992	15,731	20.7%	58,164	42,481	36.9%
<i>As a percentage of Asia Pacific revenue</i>	15.9%	14.8%		16.7%	13.5%	
<b>Adjusted EBIT</b>	<b>371,179</b>	<b>342,243</b>	<b>8.5%</b>	<b>1,078,344</b>	<b>986,635</b>	<b>9.3%</b>
<b>Adjusted EBIT margin</b>	<b>14.5%</b>	<b>12.8%</b>		<b>14.0%</b>	<b>12.3%</b>	

Adjusted EBIT for Q3 2015 was \$371.2 million, an increase of \$28.9 million or 8.5% from Q3 2014. When excluding \$9.3 million of non-recurring items from the previous fiscal year, mainly from benefits related to the resolution of acquisition-related provisions, adjusted EBIT increased by \$38.2 million. When excluding the same non-recurring items in Q3 2014, adjusted EBIT margin increased to 14.5% from 12.5% over the same period last year. The favorable variance is mostly due to a higher proportion of IP services and solutions revenue in our U.S. segment and a client arbitration award in Canada.

For the nine months ended June 30, 2015, adjusted EBIT was \$1,078.3 million, an increase of \$91.7 million or 9.3% from the nine months ended June 30, 2014. When excluding \$43.9 million of non-recurring benefits during the first nine months of 2014, mainly from benefits related to the resolution of acquisition-related provisions, adjusted EBIT increased by \$135.6 million. When excluding the same non-recurring items of 2014, adjusted EBIT margin increased to 14.0% from 11.8% over the same period last year. The favorable variance was primarily due to the U.S. segment as a result of the completion of the ACA related projects which required additional resources and expenses in fiscal 2014.

#### 3.6.1. U.S.

Adjusted EBIT in the U.S. segment was \$133.4 million in Q3 2015, an increase of \$34.6 million compared to Q3 2014, while the margin increased to 18.8% from 14.6%. The favorable variance was mainly due to a higher proportion of IP services and solutions revenue.

For the nine months ended June 30, 2015, adjusted EBIT in the U.S. segment was \$337.0 million, an increase of \$131.1 million over the same period of fiscal 2014, while the margin increased to 16.4% from 10.2%. The favorable variance is mainly due to the extra resources and expenses needed in fiscal 2014 to complete the ACA related projects, the increase in volume from existing and new business mainly in the financial services vertical market, and a growing proportion of IP based services and solutions revenue.

### **3.6.2. NSESA**

Adjusted EBIT in the NSESA segment was \$38.7 million in Q3 2015 as compared to \$48.5 million in the same quarter last year. When excluding the \$1.3 million curtailment gain on a pension plan obligation in the third quarter of fiscal 2014, adjusted EBIT decreased by \$8.4 million which was mainly due to the decrease in revenue and to the performance of our Latin American operations where there was an unfavorable variance of \$4.2 million. Adjusted EBIT margin increased to 9.2% from 8.9% when excluding the factors mentioned above.

For the nine months ended June 30, 2015, adjusted EBIT in the NSESA segment was \$144.3 million, as compared to \$161.9 million for the same period last year. Adjusted EBIT decreased by \$4.7 million when excluding the \$8.1 million curtailment gain on a pension plan obligation and \$4.8 million of non-recurring benefits related to the resolution of acquisition-related provisions in the first nine months of fiscal 2014. Adjusted EBIT margin was 9.9%, an improvement from 9.1% for the same period a year ago when excluding the non-recurring benefits in the first nine months of fiscal 2014. The increase in adjusted EBIT and adjusted EBIT margin was mainly attributable to the realization of the cost synergies implemented as part of the integration and the increased use of offshoring to lower our cost base.

### **3.6.3. Canada**

Adjusted EBIT in the Canada segment was \$108.4 million in Q3 2015, an increase of \$18.3 million compared to Q3 2014, while the margin increased to 27.5% from 21.8% in Q3 2014. The increase in adjusted EBIT margin was mainly due to a client arbitration award which partly offset efforts and costs incurred leading up to the award.

For the nine months ended June 30, 2015, adjusted EBIT in the Canada segment was \$266.2 million, a decrease of \$7.8 million compared to Q3 2014 which mainly resulted from the revenue decrease identified in the revenue section.

### **3.6.4. France**

Adjusted EBIT in the France segment was \$29.0 million in Q3 2015, as compared to \$18.2 million in the same quarter last year representing an increase of \$10.9 million. Adjusted EBIT margin was 9.3%, up from 5.5% for the same period a year ago. This increase in adjusted EBIT margin was primarily due to the improved utilization on a year-over-year basis.

For the nine months ended June 30, 2015, adjusted EBIT in the France segment was \$110.8 million as compared to \$116.6 million for the same period last year. When excluding the \$12.8 million of non-recurring benefits related to the resolution of acquisition-related provisions mainly for the settlement of tax credits, as well as a favorable impact from the renegotiation of a low margin contract, adjusted EBIT increased by \$7.0 million. When excluding the non-recurring benefits in the first nine months of fiscal 2014, adjusted EBIT margin increased to 11.4%, from 10.2%. This increase in both adjusted EBIT and margin was mainly attributable to the realization of the cost synergies implemented as part of the integration and improved year-over-year utilization rates.

### **3.6.5. U.K.**

Adjusted EBIT in the U.K. segment was \$28.4 million in Q3 2015, as compared to \$44.4 million in the same quarter last year while its margin decreased to 8.6% from 13.1% the prior year. This decrease was mainly the result of the revenue factors identified in the revenue section.

For the nine months ended June 30, 2015, adjusted EBIT in the U.K. segment was \$101.2 million, as compared to \$104.3 million for the same period last year. When excluding the \$5.9 million of non-recurring benefits related to the resolution of acquisition-related provisions mainly for the renegotiation of office leases during the first nine months of 2014, adjusted EBIT increased by \$2.8 million and adjusted EBIT margin increased to 10.4% from 10.2%.

### **3.6.6. CEE**

Adjusted EBIT in the CEE segment was \$14.2 million in Q3 2015, as compared to \$26.6 million for the same quarter last year. When excluding the \$8.0 million of non-recurring benefits related to the resolution of acquisition-related provisions in Q3 2014, adjusted EBIT decreased by \$4.4 million. Adjusted EBIT margin decreased to 6.2%, from 6.9% when excluding the non-recurring benefits in the third quarter of fiscal 2014. The variance is mostly due to lower utilization rates in the Netherlands and severance costs incurred in Q3 2015.

For the nine months ended June 30, 2015, adjusted EBIT in the CEE segment was \$60.7 million, as compared to \$81.4 million for the same period last year. When excluding the \$12.3 million of non-recurring benefits related to the resolution of acquisition-related provisions in fiscal 2014, adjusted EBIT decreased by \$8.4 million. Adjusted EBIT margin decreased to 8.3% from 8.5% when excluding the non-recurring benefits. The variance is due to the same factors identified for the quarter.

### **3.6.7. Asia Pacific**

Adjusted EBIT in the Asia Pacific segment was \$19.0 million in Q3 2015, an increase of \$3.3 million compared to Q3 2014. Adjusted EBIT margin increased to 15.9% from 14.8%. The favorable variance was mainly the result of revenue growth and the implementation of additional productivity improvements in the global delivery centers.

For the nine months ended June 30, 2015, adjusted EBIT in the Asia Pacific segment was \$58.2 million, an increase of \$15.7 million, while the margin increased to 16.7% from 13.5%. This increase in adjusted EBIT margin for the nine months ended June 30, 2015 was due to the same factors identified for the quarter.

### 3.7. EARNINGS BEFORE INCOME TAXES

The following table provides a reconciliation between our adjusted EBIT and earnings before income taxes, which is reported in accordance with IFRS.

<i>In thousands of dollars except for percentages</i>	For the three months ended June 30,				For the nine months ended June 30,			
	2015	% of Revenue	2014	% of Revenue	2015	% of Revenue	2014	% of Revenue
Adjusted EBIT	371,179	14.5%	342,243	12.8%	1,078,344	14.0%	986,635	12.3%
<i>Minus the following items:</i>								
Integration-related costs	—	0.0%	14,503	0.5%	—	0.0%	63,082	0.8%
Net finance costs	20,822	0.8%	24,106	0.9%	68,873	0.9%	76,481	1.0%
<b>Earnings before income taxes</b>	<b>350,357</b>	<b>13.7%</b>	<b>303,634</b>	<b>11.4%</b>	<b>1,009,471</b>	<b>13.1%</b>	<b>847,072</b>	<b>10.6%</b>

#### 3.7.1. Integration-Related Costs

For the three and nine months ended June 30, 2014, the \$14.5 million and \$63.1 million of integration-related costs incurred pertained to the restructuring and transformation of Logica's operations to the CGI operating model. In September 2014, we completed the integration of Logica at a total cost of \$575.5 million to drive annual savings in excess of \$400 million and enhanced EPS accretion. At the end of Q3 2015, a balance of \$40.2 million related to the integration remains to be disbursed. Further details are provided in section 4.1.1 of the present document.

#### 3.7.2. Net Finance Costs

Net finance costs mainly include the interest on our long-term debt. The decrease in net finance costs for the three and nine months ended June 30, 2015 was mainly the result of long-term debt repayments.

### 3.8. NET EARNINGS AND EARNINGS PER SHARE

The following table sets out the information supporting the earnings per share calculations:

<i>In thousands of dollars except for percentages</i>	For the three months ended June 30,			For the nine months ended June 30,		
	2015	2014	Change	2015	2014	Change
Earnings before income taxes	350,357	303,634	15.4%	1,009,471	847,072	19.2%
Income tax expense	93,120	78,540	18.6%	264,804	201,337	31.5%
<i>Effective tax rate</i>	26.6%	25.9%		26.2%	23.8%	
<b>Net earnings</b>	<b>257,237</b>	<b>225,094</b>	<b>14.3%</b>	<b>744,667</b>	<b>645,735</b>	<b>15.3%</b>
<i>Net earnings margin</i>	10.1%	8.4%		9.7%	8.1%	
<b>Weighted average number of shares outstanding</b>						
Class A subordinate voting shares and Class B multiple voting shares (basic)	312,771,723	308,542,827	1.4%	312,198,807	308,211,606	1.3%
Class A subordinate voting shares and Class B multiple voting shares (diluted)	322,661,908	318,519,083	1.3%	322,134,637	318,722,881	1.1%
<b>Earnings per share (in dollars)</b>						
Basic	0.82	0.73	12.3%	2.39	2.10	13.8%
Diluted	0.80	0.71	12.7%	2.31	2.03	13.8%

### **3.8.1. Income Tax Expense**

For Q3 2015, the income tax expense was \$93.1 million, an increase of \$14.6 million compared to \$78.5 million in Q3 2014, while our effective tax rate increased from 25.9% to 26.6%. The increase in the income tax rate was mainly attributable to the increased profitability of our U.S. operations where the enacted income tax rate is higher.

For the nine months ended June 30, 2015, the income tax expense was \$264.8 million, an increase of \$63.5 million compared to \$201.3 million over the same period last year, while our effective tax rate increased from 23.8% to 26.2%. When excluding the favorable tax adjustment of \$11.9 million in the first nine months of 2014, the income tax rate would have been 25.2% compared to 26.2% for the nine months ended June 30, 2015. The increase in income tax expense and the income tax rate was due to the same factor as identified for the quarter.

The table on page 24 shows the year-over-year comparison of the tax rate with the impact of all specific items removed.

On July 8, 2015, the United Kingdom Finance Bill which includes the reduction in the U.K. corporate tax rate from 20% to 19%, effective April 1, 2017 and from 19% to 18%, effective April 1, 2020 was released and is expected to be substantially enacted in Q4 2015 or Q1 2016. As a result, the Company expects an additional income tax expense for an amount of approximately \$6.5 million resulting from the re-evaluation of its deferred tax assets.

Based on the enacted rates at the end of Q3 2015 and our current business mix, we expect our effective tax rate before any significant adjustments to be in the range of 25% to 27% in subsequent periods.

### **3.8.2. Weighted Average Number of Shares**

For Q3 2015, CGI's basic and diluted weighted average number of shares increased compared to Q3 2014 due to the effect of issuance and exercise of stock options partly offset by the repurchase of Class A subordinate voting shares.

### 3.8.3. Net Earnings and Earnings per Share Prior to Specific Items

Below is a table showing the year-over-year comparison prior to specific items such as the integration-related costs, the benefits related to the resolution of acquisition-related provisions and the tax adjustments:

<i>In thousands of dollars except for percentages</i>	For the three months ended June 30,			For the nine months ended June 30,		
	2015	2014	Change	2015	2014	Change
Earnings before income taxes	350,357	303,634	15.4%	1,009,471	847,072	19.2%
<i>Add back:</i>						
Integration-related costs	—	14,503	(100.0%)	—	63,082	(100.0%)
<i>Remove:</i>						
Resolution of acquisition-related provisions <sup>1</sup>	—	8,022	(100.0%)	—	28,084	(100.0%)
<b>Earnings before income taxes prior to specific items</b>	<b>350,357</b>	<b>310,115</b>	<b>13.0%</b>	<b>1,009,471</b>	<b>882,070</b>	<b>14.4%</b>
<b>Margin</b>	<b>13.7%</b>	<b>11.6%</b>		<b>13.1%</b>	<b>11.0%</b>	
Income tax expense	93,120	78,540	18.6%	264,804	201,337	31.5%
<i>Add back:</i>						
Tax adjustments	—	—		—	11,900	(100.0%)
Tax deduction on integration-related costs	—	3,003	(100.0%)	—	14,355	(100.0%)
<i>Remove:</i>						
Income taxes on the resolution of acquisition-related provisions	—	1,223	(100.0%)	—	5,006	(100.0%)
<b>Income tax expense prior to specific items</b>	<b>93,120</b>	<b>80,320</b>	<b>15.9%</b>	<b>264,804</b>	<b>222,586</b>	<b>19.0%</b>
<b>Effective tax rate prior to specific items</b>	<b>26.6%</b>	<b>25.9%</b>		<b>26.2%</b>	<b>25.2%</b>	
<b>Net earnings prior to specific items</b>	<b>257,237</b>	<b>229,795</b>	<b>11.9%</b>	<b>744,667</b>	<b>659,484</b>	<b>12.9%</b>
<b>Net earnings margin</b>	<b>10.1%</b>	<b>8.6%</b>		<b>9.7%</b>	<b>8.2%</b>	
<b>Weighted average number of shares outstanding</b>						
Class A subordinate voting shares and Class B multiple voting shares (basic)	312,771,723	308,542,827	1.4%	312,198,807	308,211,606	1.3%
Class A subordinate voting shares and Class B multiple voting shares (diluted)	322,661,908	318,519,083	1.3%	322,134,637	318,722,881	1.1%
<b>Earnings per share prior to specific items (in dollars)</b>						
Basic	0.82	0.74	10.8%	2.39	2.14	11.7%
Diluted	0.80	0.72	11.1%	2.31	2.07	11.6%

<sup>1</sup> These benefits came from the adjustment of provisions that were established as part of the purchase price allocation for the Logica acquisition. Subsequent to the finalization of the purchase price allocation such adjustments flow through the statement of earnings. Examples of the items that may be included in these benefits comprise the resolution of provisions on client contracts, the settlement of tax credits and the early termination of lease agreements.

## 4. Liquidity

### 4.1. INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

CGI's growth is financed through a combination of our cash flow from operations, borrowing under our existing credit facilities, the issuance of long-term debt, and the issuance of equity. One of our financial priorities is to maintain an optimal level of liquidity through the active management of our assets and liabilities as well as our cash flows.

As at June 30, 2015, cash and cash equivalents were \$264.7 million. The following table provides a summary of the generation and use of cash for the three and nine months ended June 30, 2015 and 2014.

<i>In thousands of dollars</i>	For the three months ended June 30,			For the nine months ended June 30,		
	2015	2014	Change	2015	2014	Change
Cash provided by operating activities	214,090	345,876	(131,786)	838,000	762,835	75,165
Cash used in investing activities	(59,067)	(85,683)	26,616	(177,788)	(254,714)	76,926
Cash used in financing activities	(105,686)	(253,033)	147,347	(937,571)	(461,202)	(476,369)
Effect of foreign exchange rate changes on cash and cash equivalents	(8,148)	(9,304)	1,156	6,339	(21,826)	28,165
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>41,189</b>	<b>(2,144)</b>	<b>43,333</b>	<b>(271,020)</b>	<b>25,093</b>	<b>(296,113)</b>

#### 4.1.1. Cash Provided by Operating Activities

For the three months ended June 30, 2015, and 2014, cash provided by operating activities was \$214.1 million compared to \$345.9 million, or 8.4% of revenue compared to 13.0% last year. This decrease was mainly due to the net change in our DSO in the amount of \$167.0 million as compared to \$55.6 million for the same period last year. The timing of our working capital inflows and outflows will always have an impact on the cash flow from operations. Excluding the integration-related cash disbursements in respect of the integration program of \$12.8 million in Q3 2015 and the \$35.9 million in Q3 2014, the cash provided by operating activities would have been \$226.9 million in Q3 2015, representing 8.9% of revenue compared to \$381.8 million or 14.3% of revenue in Q3 2014.

For the nine months ended June 30, 2015, and 2014, cash provided by operating activities was \$838.0 million compared to \$762.8 million, or 10.9% of revenue compared to 9.5% last year. This increase was mainly due to the improvement in net earnings. Excluding the integration-related cash disbursements in respect of the integration program for the nine months ended June 30, 2015 and 2014 of \$63.6 million and \$139.0 million respectively, the cash provided by operating activities would have been \$901.6 million representing 11.7% of revenue compared to \$901.8 million or 11.3% of revenue respectively.

The following table provides a summary of the generation and use of cash from operating activities:

<i>In thousands of dollars</i>	For the three months ended June 30,			For the nine months ended June 30,		
	2015	2014	Change	2015	2014	Change
Net earnings	257,237	225,094	32,143	744,667	645,735	98,932
Amortization and depreciation	102,378	108,436	(6,058)	316,479	336,355	(19,876)
Other adjustments <sup>1</sup>	43,804	54,115	(10,311)	71,204	66,671	4,533
<b>Cash flow from operating activities before net change in non-cash working capital items</b>	<b>403,419</b>	<b>387,645</b>	<b>15,774</b>	<b>1,132,350</b>	<b>1,048,761</b>	<b>83,589</b>
<i>Net change in non-cash working capital items:</i>						
Accounts receivable, work in progress and deferred revenue	(166,998)	(55,637)	(111,361)	(129,536)	31,291	(160,827)
Accounts payable and accrued liabilities, accrued compensation, provisions and long-term liabilities	(4,915)	23,142	(28,057)	(140,580)	(320,358)	179,778
Other <sup>2</sup>	(17,416)	(9,274)	(8,142)	(24,234)	3,141	(27,375)
<b>Net change in non-cash working capital items</b>	<b>(189,329)</b>	<b>(41,769)</b>	<b>(147,560)</b>	<b>(294,350)</b>	<b>(285,926)</b>	<b>(8,424)</b>
<b>Cash provided by operating activities</b>	<b>214,090</b>	<b>345,876</b>	<b>(131,786)</b>	<b>838,000</b>	<b>762,835</b>	<b>75,165</b>

<sup>1</sup> Other adjustments are comprised of deferred income taxes, foreign exchange (gain) loss and share-based payment costs.

<sup>2</sup> Comprised of prepaid expenses and other assets, long-term financial assets, retirement benefits obligations, derivative financial instruments and income taxes.

For the three months ended June 30, 2015, the net \$189.3 million of cash used in non-cash working capital items was mostly due to cash used for the accounts receivable, work in progress and deferred revenue of \$167.0 million mainly due to the increase in our DSO from 41 days in Q2 2015 to 46 days in Q3 2015.

For the nine months ended June 30, 2015, the net \$294.4 million of cash used in non-cash working capital items was mostly due to :

- Cash used for the accounts receivable, work in progress and deferred revenue of \$129.5 million was mainly due to an increase in our DSO from 43 days in Q4 2014 to 46 days in Q3 2015.
- Cash used for accounts payable and accrued liabilities, accrued compensation, provisions and long-term liabilities of \$140.6 million was mostly due to payments for integration-related items and the payment of performance-based compensation to our members.

The following table provides a summary of the movements in the integration-related provision:

<i>In millions of dollars</i>	For the three months ended June 30,		For the nine months ended June 30,	
	2015	2014	2015	2014
<b>Integration-related provision at the beginning of the period</b>	<b>52.5</b>	<b>90.5</b>	<b>105.6</b>	<b>135.8</b>
Integration-related expenses	—	14.5	—	63.1
Integration-related payments	(12.8)	(35.9)	(63.6)	(139.0)
<b>Net impact on non-cash working capital</b>	<b>(12.8)</b>	<b>(21.4)</b>	<b>(63.6)</b>	<b>(75.9)</b>
<i>Plus: FX impact</i> <sup>1</sup>	0.5	(3.6)	(1.8)	5.6
<i>Minus: Non-cash integration-related costs</i>	—	1.2	—	1.2
<b>Integration-related provision at the end of the period</b>	<b>40.2</b>	<b>64.3</b>	<b>40.2</b>	<b>64.3</b>

<sup>1</sup> The foreign currency translation was recorded in other comprehensive income.

#### 4.1.2. Cash Used in Investing Activities

For the three and nine months ended June 30, 2015, \$59.1 million and \$177.8 million were used in investing activities while \$85.7 million and \$254.7 million were used over the same periods of last year. The following table provides a summary of the generation and use of cash from investing activities.

<i>In thousands of dollars</i>	For the three months ended June 30,			For the nine months ended June 30,		
	2015	2014	Change	2015	2014	Change
Proceeds from sale of property, plant and equipment	—	9,193	(9,193)	15,255	9,193	6,062
Purchase of property, plant and equipment	(22,239)	(48,586)	26,347	(90,018)	(140,731)	50,713
Additions to contract costs	(19,766)	(24,604)	4,838	(51,212)	(58,938)	7,726
Additions to intangible assets	(15,666)	(23,528)	7,862	(50,653)	(61,117)	10,464
Net change in short-term investments and net purchase of long-term investments	(2,725)	335	(3,060)	(4,516)	(8,262)	3,746
Payments received from long-term receivables	1,329	1,507	(178)	3,356	5,141	(1,785)
<b>Cash used in investing activities</b>	<b>(59,067)</b>	<b>(85,683)</b>	<b>26,616</b>	<b>(177,788)</b>	<b>(254,714)</b>	<b>76,926</b>

For the three months ended June 30, 2015, we used \$59.1 million in our investing activities, compared to \$85.7 million for the three months ended June 30, 2014 which represented a decrease of \$26.6 million. The decrease was mainly due to increased volume in finance leases.

For the nine months ended June 30, 2015, we used \$177.8 million in our investing activities, compared to \$254.7 million for the nine months ended June 30, 2014 which represented a decrease of \$76.9 million. The decrease was due to the same factor identified for the quarter.

#### 4.1.3. Cash Used in Financing Activities

For the three and nine months ended June 30, 2015, \$105.7 million and \$937.6 million were used in financing activities while \$253.0 million and \$461.2 million were used over the same periods of last year. The following table provides a summary of the generation and use of cash from financing activities.

<i>In thousands of dollars</i>	For the three months ended June 30,			For the nine months ended June 30,		
	2015	2014	Change	2015	2014	Change
Net change in unsecured committed revolving credit facility	—	205,976	(205,976)	—	97,308	(97,308)
Net change in long-term debt	(16,337)	(480,281)	463,944	(780,794)	(474,097)	(306,697)
	(16,337)	(274,305)	257,968	(780,794)	(376,789)	(404,005)
Settlement of derivative financial instruments	—	—	—	(98,322)	—	(98,322)
Purchase of Class A subordinate voting shares held in trust	—	—	—	(11,099)	(23,016)	11,917
Resale of Class A subordinate voting shares held in trust	—	—	—	—	1,390	(1,390)
Repurchase of Class A subordinate voting shares	(94,028)	—	(94,028)	(94,028)	(111,468)	17,440
Issuance of Class A subordinate voting shares	4,679	21,272	(16,593)	46,672	48,681	(2,009)
<b>Cash used in financing activities</b>	<b>(105,686)</b>	<b>(253,033)</b>	<b>147,347</b>	<b>(937,571)</b>	<b>(461,202)</b>	<b>(476,369)</b>

In Q3 2015, \$16.3 million was used to reduce our outstanding long-term debt, while in Q3 2014 we drew on our credit facilities a net amount of \$206.0 million and repaid \$480.3 million of long-term debt mostly due to the repayment of the May maturing tranche of the unsecured committed term loan.

For the current quarter, we have used \$94.0 million to repurchase 1,875,333 Class A subordinate voting shares under the current NCIB while in Q3 2014 we did not repurchase any. Finally, in Q3 2015, we received \$4.7 million in proceeds from the exercise of stock options, compared to \$21.3 million in Q3 2014.

For the nine months ended June 30, 2015, \$780.8 million was used to reduce our outstanding long-term debt mainly driven by \$759.6 million in repayments under the term loan credit facility, while we made net repayments of \$376.8 million on our long-term debt for the same period last year. Following the net repayments on our outstanding long-term debt, the Company used \$98.3 million to settle the related cross-currency swaps contract during the nine months ended June 30, 2015.

For the nine months ended June 30, 2015, we have used \$94.0 million to repurchase 1,875,333 Class A subordinate voting shares under the current NCIB, while for the nine months ended June 30, 2014, \$111.5 million was used to purchase 2,837,360 Class A subordinate voting shares under the annual aggregate limit of the NCIB then in effect. For the nine months ended June 30, 2015, an amount of \$11.1 million was used to purchase CGI shares under the Company's Performance Share Unit Plan (the "PSU" Plan) which is part of the compensation package of certain senior executive officers, while for the comparable period of last year, a net amount of \$21.6 million was used to purchase shares under the PSU Plan.

Finally, for the nine months ended June 30, 2015, we received \$46.7 million in proceeds from the exercise of stock options, compared to \$48.7 million during the nine months ended June 30, 2014.

#### **4.1.4. Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents**

For the three and nine months ended June 30, 2015, the effect of foreign exchange rate changes on cash and cash equivalents was negligible. These amounts had no effect on net earnings as they were recorded in other comprehensive income.

## 4.2. CAPITAL RESOURCES

As at June 30 2015,	Total commitment	Available	Outstanding
<i>In thousands of dollars</i>			
Cash and cash equivalents	—	264,695	—
Long-term investments	—	38,978	—
Unsecured committed revolving facilities <sup>a</sup>	1,500,000	1,458,457	41,543
<b>Total</b>	<b>1,500,000</b>	<b>1,762,130</b>	<b>41,543</b>

<sup>a</sup> Consists of Letters of Credit for \$41.5 million outstanding on June 30, 2015.

Our cash position and bank lines are sufficient to support our growth strategy. At June 30, 2015, cash and cash equivalents and long-term marketable investments represented \$303.7 million.

Cash equivalents typically include term deposits, all with maturities of 90 days or less. Long-term marketable investments include corporate and government bonds with maturities ranging from one to five years, rated "A" or higher.

The amount of capital available was \$1,762.1 million. The long-term debt agreements contain covenants, which require us to maintain certain financial ratios. At June 30, 2015, CGI was in compliance with these covenants.

Total debt decreased by \$35.1 million to \$2,095.1 million at June 30, 2015, compared to \$2,130.2 million at March 31, 2015. The variation was mainly due to the unrealized gain of \$21.7 million on foreign exchange translation.

As at June 30, 2015, CGI is showing a negative working capital<sup>1</sup> of \$202.2 million. The Company has also \$1.5 billion available under its unsecured revolving facilities and is generating a significant level of cash that will allow it to fund its operations and further decrease the amount of debt outstanding in the foreseeable future while maintaining adequate levels of liquidity.

As at June 30, 2015, the Company did not have material cash balances subject to tax implications on repatriation.

<sup>1</sup> Working capital is defined as total current assets minus total current liabilities.

### **4.3. CONTRACTUAL OBLIGATIONS**

We are committed under the terms of contractual obligations with various expiration dates, primarily for the rental of premises, computer equipment used in outsourcing contracts and long-term service agreements. There have been no material changes to these obligations since our year ended September 30, 2014.

### **4.4. FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS**

We use various financial instruments to manage our exposure to fluctuations of foreign currency exchange rates and interest rates. We do not hold or use any derivative instruments for trading purposes.

Foreign exchange translation gains or losses on the net investments and the effective portions of gains or losses on instruments hedging the net investments are recorded in the consolidated statement of comprehensive income. Any realized or unrealized gains or losses on instruments covering the U.S. denominated debt are also recognized in the consolidated statement of comprehensive income.

The majority of our costs are denominated in currencies other than the Canadian dollar. The risk of foreign exchange fluctuation impacting the results is substantially mitigated by a natural hedge in matching our costs with revenue denominated in the same currency. In certain cases where there is a substantial imbalance between the costs incurred and the revenue earned in a specific currency, the Company may enter into foreign exchange forward contracts to hedge its cash flows.

The following financial instruments have been materially changed since our year ended September 30, 2014:

#### **Hedges on net investments in foreign operations**

- \$219.0 million cross-currency swap in euro designated as a hedging instrument of the Company's net investment in European operations (\$968.8 million as at September 30, 2014).

#### **Cash flow hedges on unsecured committed term loan credit facility**

- \$219.0 million interest rate swap floating-to-fixed (\$484.4 million as at September 30, 2014).

#### **Cash flow hedges on future revenue**

- \$168.6 million foreign currency forward contracts to hedge the variability in the expected foreign currency exchange rate between the Canadian dollar and the Indian rupee (\$94.6 million as at September 30, 2014).
- €10.4 million foreign currency forward contracts to hedge the variability in the expected foreign currency exchange rate between the euro and the Indian rupee (nil as at September 30, 2014).
- £30.9 million foreign currency forward contracts to hedge the variability in the expected foreign currency exchange rate between the British pound and the Indian rupee (nil as at September 30, 2014).
- €93.3 million foreign currency forward contracts to hedge the variability in the expected foreign currency exchange rate between the euro and the British pound (€121.1 million as at September 30, 2014).

#### 4.5. SELECTED MEASURES OF LIQUIDITY AND CAPITAL RESOURCES

As at June 30,	2015	2014
<i>In thousands of dollars except for percentages</i>		
<b>Reconciliation between net debt and long-term debt including the current portion:</b>		
Net debt	1,791,418	2,389,024
<i>Add back:</i>		
Cash and cash equivalents	264,695	131,292
Short-term investments	—	23
Long-term investments	38,978	29,440
<b>Long-term debt including the current portion</b>	<b>2,095,091</b>	<b>2,549,779</b>
Net debt to capitalization ratio	22.7%	32.6%
Return on equity	18.2%	18.1%
Return on invested capital	14.8%	13.3%
Days sales outstanding (in days)	46	47

We use the net debt to capitalization ratio as an indication of our financial leverage in order to pursue any large outsourcing contracts, expand global delivery centers, or make acquisitions. On August 20, 2012, we acquired Logica using a combination of debt and shares, causing our net debt to capitalization ratio to increase significantly. The net debt to capitalization ratio decreased from 32.6% in Q3 2014 to 22.7% in Q3 2015 due to the improved cash generation allowing us to reduce our net debt by \$597.6 million.

Return on equity is a measure of the return we are generating for our shareholders. ROE increased from 18.1% in Q3 2014 to 18.2% in Q3 2015. The increase was mainly due to the higher net earnings over the last four quarters.

ROIC is a measure of the Company's efficiency in allocating the capital under our control to profitable investments. The return on invested capital was 14.8% as at June 30, 2015, compared to 13.3% a year ago. The improvement in the ROIC was mainly the result of our higher after-tax adjusted EBIT compared to last year.

DSO decreased from 47 days in Q3 2014 to 46 days at the end of Q3 2015. In calculating the DSO, we subtract the deferred revenue balance from trade accounts receivable and work in progress; for that reason, the timing of payments received from outsourcing clients in advance of the work to be performed and the timing of payments related to project milestones can affect the DSO fluctuations. We remain committed to manage our DSO within our 45 day target or less.

#### 4.6. OFF-BALANCE SHEET FINANCING AND GUARANTEES

CGI engages in the practice of off-balance sheet financing in the normal course of operations for a variety of transactions such as operating leases for office space, computer equipment and vehicles as well as accounts receivable factoring. From time to time, we also enter into agreements to provide financial or performance assurances to third parties on the sale of assets, business divestitures, guarantees and government and commercial contracts.

In connection with sales of assets and business divestitures, we may be required to pay counterparties for costs and losses incurred as the result of breaches in our contractual obligations, representations and warranties, intellectual property right infringement and litigation against counterparties, among others. While some of the agreements specify a maximum potential exposure totalling \$10.3 million, others do not specify a maximum amount or limited period. It is impossible to reasonably estimate the maximum amount that may have to be paid under such guarantees. The amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. The Company does not expect to incur any potential payment in connection with these guarantees that could have a materially adverse effect on its consolidated financial statements.

We are also engaged to provide services under contracts with governments including the U.S. Government. The contracts are subject to extensive legal and regulatory requirements and, from time to time, agencies of such governments investigate whether our operations are being conducted in accordance with these requirements. Generally, such governments have the right to change the scope of, or terminate, these projects at its convenience. The termination or a reduction in the scope of a major government project could have a material adverse effect on our results of operations and financial condition.

In the normal course of business, we may provide certain clients, principally governmental entities, with bid and performance bonds. In general, we would only be liable for the amount of the bid bonds if we refuse to perform the project once the bid is awarded. We would also be liable for the performance bonds in the event of default in the performance of our obligations. As at June 30, 2015, we had committed for a total of \$56.4 million for these bonds. To the best of our knowledge, we complied with our performance obligations under all service contracts for which there was a performance or bid bond, and the ultimate liability, if any, incurred in connection with these guarantees would not have a material adverse effect on our consolidated results of operations or financial condition.

#### **4.7. CAPABILITY TO DELIVER RESULTS**

Sufficient capital resources and liquidity are required for supporting ongoing business operations and to execute our build and buy growth strategy. The Company has sufficient capital resources coming from the cash generated from operations, credit facilities, long-term debt agreements and invested capital from shareholders. Our principal uses of cash are for procuring new large outsourcing and managed services contracts; investing in our business solutions; pursuing accretive acquisitions; buying back CGI shares and paying down debt. Funds were also used to expand our global delivery network as more and more of our clients demand lower cost alternatives. In terms of financing, we are well positioned to continue executing our four-pillar growth strategy in fiscal 2015.

Strong and experienced leadership is essential to successfully implement our corporate strategy. CGI has a strong leadership team with members who are highly knowledgeable and have gained a significant amount of experience within the IT industry via various career paths and leadership roles. CGI fosters leadership development to ensure a continuous flow of knowledge and strength is maintained throughout the organization. As part of our succession planning in key positions, we established the Leadership Institute, our own corporate university, to develop leadership, technical and managerial skills inspired by CGI's roots and traditions.

As a Company built on human capital, our professionals and their knowledge are critical to delivering quality service to our clients. Our human resources program provides competitive compensation and benefits, a favorable working environment, and our training and career development programs combine to allow us to attract and retain the best talent. Employee satisfaction is monitored regularly through a Company-wide survey and issues are addressed immediately. Approximately 47,000 of our members, representing 76% of eligible members, are also owners of CGI through our Share Purchase Plan. The Share Purchase Plan, along with the Profit Participation Program, allows members to share in the success of the Company and aligns member objectives with our strategic goals.

In addition to our capital resources and the talent of our human capital, CGI has established a Management Foundation encompassing governance policies, sophisticated management frameworks and an organizational model for its business units and corporate processes. This foundation, along with our appropriate internal systems, helps in providing a disciplined high standard of quality service to our clients across all of our operations, and additional value to our stakeholders. CGI's operations maintain appropriate certifications in accordance with service requirements such as the ISO and Capability Maturity Model Integration quality programs.

## 5. Changes in Accounting Policies

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The interim condensed consolidated financial statements for the three and nine months ended June 30, 2015 include all adjustments that CGI's management considers necessary for the fair presentation of its financial position, results of operations, and cash flows.

### **FUTURE ACCOUNTING STANDARD CHANGES**

The following standards have been issued but are not yet effective:

#### **IFRS 15 - Revenue from Contracts with Customers**

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers", to specify how and when to recognize revenue as well as requiring the provision of more informative and relevant disclosures. IFRS 15 supersedes IAS 18, "Revenue", IAS 11, "Construction Contracts", and other revenue related interpretations. In May 2015, the IASB published an Exposure Draft proposing a one-year deferral of the effective date of the standard. In July 2015, the IASB confirmed the deferral making the standard effective on October 1, 2018 for the Company, with earlier adoption permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

## 6. Critical Accounting Estimates and Judgments

The Company's significant accounting policies are described in Note 3 of the audited consolidated financial statements for the year ended September 30, 2014. The preparation of the consolidated financial statements requires management to make judgments and estimates that affect the reported amounts of assets, liabilities and equity and the accompanying disclosures at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Because the use of judgments and estimates is inherent in the financial reporting process, actual results could differ.

An accounting estimate is considered critical if the estimate requires management to make assumptions about matters that were highly uncertain at the time the estimate was made, if different estimates could reasonably have been used in the period, or changes in the accounting estimates that are reasonably likely to occur, could have a material impact on the presentation of our financial condition, changes in financial condition or results of operations.

Areas impacted by estimates	Consolidated balance sheets	Consolidated statements of earnings		
		Revenue	Cost of services, selling and administrative	Income taxes
Revenue recognition <sup>1</sup>	✓	✓	✓	
Estimated losses on revenue-generating contracts	✓		✓	
Goodwill impairment	✓		✓	
Business combinations	✓	✓	✓	✓
Income taxes	✓			✓
Litigations and claims	✓	✓	✓	

<sup>1</sup> Affects the balance sheet through accounts receivable, work in progress and deferred revenue.

The use of judgments, apart from those involving estimations, that have the most significant effect on the amounts recognized in the financial statements are:

### Multiple component arrangements

Assessing whether the deliverables within an arrangement are separately identifiable components requires judgment by management. A component is considered as separately identifiable if it has value to the client on a stand-alone basis. The Company first reviews the contract clauses to evaluate if the deliverable is accepted separately by the client. Then, the Company assesses if the deliverable could have been provided by another vendor and if it would have been possible for the client to decide to not purchase the deliverable.

### Deferred tax assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Management judgment is required concerning uncertainties that exist with respect to the timing of future taxable income required to recognize a deferred tax asset. The Company recognizes an income tax benefit only when it is probable that the tax benefit will be realized in the future. In making this judgment, the Company assesses forecasts and the availability of future tax planning strategies.

Significant estimates about the future and other major sources of estimation uncertainty at the end of the reporting period could have a significant risk of causing a material adjustment to the carrying amounts of the following:

#### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable net of discounts, volume rebates and sales related taxes.

The Company's arrangements often include a mix of the services and products. If an arrangement involves the provision of multiple components, the total arrangement value is allocated to each separately identifiable component based on its relative selling price. When estimating the selling price of each component, the Company maximizes the use of observable prices which are established using the Company's prices for the same or similar components. When observable prices are not available, the Company estimates selling prices based on its best estimate. The best estimate of selling price is the price at which the Company would normally expect to offer the services or products and is established by considering a number of internal and external factors including, but not limited to, geographies, the Company's pricing policies, internal costs and margins.

Revenue from systems integration and consulting services under fixed-fee arrangements where the outcome of the arrangements can be estimated reliably is recognized using the percentage-of-completion method over the service periods. The Company uses the labour costs or labour hours to measure the progress towards completion. This method relies on estimates of total expected labour costs or total expected labour hours to complete the service, which are compared to labour costs or labour hours incurred to date, to arrive at an estimate of the percentage of revenue earned to date. Management regularly reviews underlying estimates of total expected labour costs or hours. If the outcome of an arrangement cannot be estimated reliably, revenue is recognized to the extent of arrangement costs incurred that are likely to be recoverable.

#### Estimated losses on revenue-generating contracts

Estimated losses on revenue-generating contracts may occur due to additional contract costs which were not foreseen at inception of the contract. Contract losses are measured at the amount by which the estimated total costs exceed the estimated total revenue from the contract. The estimated losses on revenue-generating contracts are recognized in the period when it is determined that a loss is probable. Management regularly reviews arrangement profitability and the underlying estimates.

#### Goodwill impairment

The carrying value of goodwill is tested for impairment annually on September 30, or earlier if events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of each segment has been determined based on the its value in use ("VIU") calculation which includes estimates about their future financial performance based on cash flows approved by management covering a period of five years as the Company generates revenue mainly through long-term contracts. Key assumptions used in the VIU calculations are the discount rate applied and the long-term growth rate of net operating cash flows. In determining these assumptions, management has taken into consideration the current economic environment and its resulting impact on expected growth and discount rates. The cash flow projections reflect management's expectations of the operating segment's operating performance and growth prospects in the operating segment's market. The discount rate applied to an operating segment is the weighted average cost of capital ("WACC"). Management considers factors such as country risk premium, risk-free rate, size premium and cost of debt to derive the WACC.

For goodwill impairment testing purposes, the group of cash-generating units that represent the lowest level within the Company at which management monitors goodwill is the operating segment level.

#### Business combinations

Management makes assumptions when allocating the fair value of the consideration to tangible and intangible assets acquired and liabilities assumed. The goodwill recognized is composed of the future economic value associated to acquire work force and synergies with the Company's operations which are primarily due to reduction of costs and new business opportunities.

The determination of fair value involves making estimates relating to acquired intangible assets, property, plant and equipment, litigation, provision for estimated losses on revenue-generating contracts, other onerous contracts and contingency reserves. Estimates include the forecasting of future cash flows and discount rates.

#### Income taxes

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Once this assessment is made, the Company considers the analysis of forecast and future tax planning strategies. Such estimates are made based on the forecast by jurisdiction on an undiscounted basis. Management considers factors such as the number of years to include in the forecast period, the history of the taxable profits and availability of tax strategies.

The Company is subject to taxation in numerous jurisdictions and there are transactions and calculations for which the ultimate tax determination is uncertain. When a tax position is uncertain, the Company recognizes an income tax benefit or reduces an income tax liability only when it is probable that the tax benefit will be realized in the future or that the income tax liability is no longer probable. The provision for uncertain tax position is made using the best estimate of the amount expected to be paid based on qualitative assessment of all relevant factors.

#### Litigations and claims

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Provisions are discounted using a current pre-tax rate when the impact of the time value of money is material.

The accrued litigation and legal claim provisions are based on historical experience, current trends and other assumptions that are believed to be reasonable under the circumstances. Estimates include the period in which the underlying cause of the claim occurred and the degree of probability of an unfavorable outcome.

## 7. Integrity of Disclosure

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Our management assumes the responsibility for the existence of appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete and reliable.

CGI has a formal corporate disclosure policy whose goal is to raise awareness of the Company's approach to disclosure among the members of the Board of Directors, senior management and employees.

The Board of Directors has the responsibility under its charter and under the securities laws that govern CGI's continuous disclosure obligations to oversee CGI's compliance with its continuous and timely disclosure obligations as well as the integrity of the Company's internal controls and management information systems. The Board of Directors carries out this responsibility mainly through its Audit and Risk Management Committee.

The Audit and Risk Management Committee of CGI is composed entirely of independent directors who meet the independence and experience requirements of the New York Stock Exchange as well as those that apply under Canadian securities regulation. The role and responsibilities of the Committee include: (a) reviewing all public disclosure documents containing audited or unaudited financial information concerning CGI; (b) identifying and examining the financial and operating risks to which the Company is exposed, reviewing the various policies and practices of the Company that are intended to manage those risks, and reporting on a regular basis to the Board of Directors concerning risk management; (c) reviewing and assessing the effectiveness of CGI's accounting policies and practices concerning financial reporting; (d) reviewing and monitoring CGI's internal control procedures, programs and policies and assessing their adequacy and effectiveness; (e) reviewing the adequacy of CGI's internal audit resources including the mandate and objectives of the internal auditor; (f) recommending to the Board of Directors the appointment of the external auditors, asserting the external auditors' independence, reviewing the terms of their engagement, assessing the quality of their performance, and pursuing ongoing discussions with them; (g) reviewing all related party transactions in accordance with the rules of the New York Stock Exchange and other applicable laws and regulations; (h) reviewing the audit procedures including the proposed scope of the external auditors' examinations; and (i) performing such other functions as are usually attributed to audit committees or as directed by the Board of Directors. In making its recommendation to the Board of Directors in relation to the annual appointment of the external auditor, the Audit and Risk Management Committee conducts an annual assessment of the external auditor following the recommendations of the Chartered Professional Accountants of Canada. The formal assessment is concluded in advance of the Annual General Meeting of Shareholders and is conducted with the assistance of key CGI personnel.

As reported in our 2014 Annual Report, the Company evaluated the effectiveness of its disclosure controls and procedures and internal controls over financial reporting, supervised by and with the participation of the Chief Executive Officer and the Chief Financial Officer as of September 30, 2014. The Chief Executive Officer and Chief Financial Officer concluded that, based on this evaluation, the Company's disclosure controls and procedures and internal controls over financial reporting were adequate and effective, at a reasonable level of assurance, to ensure that material information related to the Company and its consolidated subsidiaries would be made known to them by others within those entities.

For the quarter ended June 30, 2015, there was no change in our internal control over financial reporting that materially affected, or is reasonably likely to materially affect the Company's internal controls over financial reporting.

## 8. Risk Environment

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### 8.1. RISKS AND UNCERTAINTIES

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

#### 8.1.1. Risks Related to the Market

##### Economic risk

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

#### 8.1.2. Risks Related to our Industry

##### The competition for contracts

CGI operates in a global marketplace in which competition among providers of IT services is vigorous. Some of our competitors possess greater financial, marketing, sales resources, and larger geographic scope in certain parts of the world than we do, which, in turn, provides them with additional leverage in the competition for contracts. In certain niche, regional or metropolitan markets, we face smaller competitors with specialized capabilities who may be able to provide competing services with greater economic efficiency. Some of our competitors have more significant operations than we do in lower cost countries that can serve as a platform from which to provide services worldwide on terms that may be more favorable. Increased competition among IT services firms often results in corresponding pressure on prices. There can be no assurance that we will succeed in providing competitively priced services at levels of service and quality that will enable us to maintain and grow our market share.

##### The availability and retention of qualified IT professionals

There is strong demand for qualified individuals in the IT industry. Hiring and retaining a sufficient amount of individuals with the desired knowledge and skill set may be difficult. Therefore, it is important that we remain able to successfully attract and retain highly qualified professionals and establish an effective succession plan. If our comprehensive programs aimed at attracting and retaining qualified and dedicated professionals do not ensure that we have staff in sufficient numbers and with the appropriate training, expertise and suitable government security clearances required to serve the needs of our clients, we may have to rely on subcontractors or transfers of staff to fill resulting gaps. If our succession plan fails to identify those with potential or to develop these key individuals, we may lose key members and be required to recruit and train these new resources. This might result in lost revenue or increased costs, thereby putting pressure on our earnings.

##### The ability to continue developing and expanding service offerings to address emerging business demands and technology trends

The rapid pace of change in all aspects of IT and the continually declining costs of acquiring and maintaining IT infrastructure mean that we must anticipate changes in our clients' needs. To do so, we must adapt our services and our solutions so that we maintain and improve our competitive advantage and remain able to provide cost effective services. The market for the

services and solutions we offer is extremely competitive and there can be no assurance that we will succeed in developing and adapting our business in a timely manner. If we do not keep pace, our ability to retain existing clients and gain new business may be adversely affected. This may result in pressure on our revenue, profit margin and resulting cash flows from operations.

#### *Infringing on the intellectual property rights of others*

Despite our efforts, the steps we take to ensure that our services and offerings do not infringe on the intellectual property rights of third parties may not be adequate to prevent infringement and, as a result, claims may be asserted against us or our clients. We enter into licensing agreements for the right to use intellectual property and may otherwise offer indemnities against liability and damages arising from third-party claims of patent, copyright, trademark or trade secret infringement in respect of our own intellectual property or software or other solutions developed for our clients. In some instances, the amount of these indemnity claims could be greater than the revenue we receive from the client. Intellectual property claims or litigation could be time-consuming and costly, harm our reputation, require us to enter into additional royalty or licensing arrangements, or prevent us from providing some solutions or services. Any limitation on our ability to sell or use solutions or services that incorporate software or technologies that are the subject of a claim could cause us to lose revenue-generating opportunities or require us to incur additional expenses to modify solutions for future projects.

#### *Benchmarking provisions within certain contracts*

Some of our outsourcing contracts contain clauses allowing our clients to externally benchmark the pricing of agreed upon services against those offered by other providers in a peer comparison group. The uniqueness of the client environment should be factored in and, if results indicate a difference outside the agreed upon tolerance, we may be required to work with clients to reset the pricing for their services. There can be no assurance that benchmarks will produce accurate or reliable data, including pricing data. This may result in pressure on our revenue, profit margin and resulting cash flows from operations.

#### *Protecting our intellectual property rights*

Our success depends, in part, on our ability to protect our proprietary methodologies, processes, know-how, tools, techniques and other intellectual property that we use to provide our services. CGI's business solutions will generally benefit from available copyright protection and, in some cases, patent protection. Although CGI takes reasonable steps to protect and enforce its intellectual property rights, there is no assurance that such measures will be enforceable or adequate. The cost of enforcing our rights can be substantial and, in certain cases, may prove to be uneconomic. In addition, the laws of some countries in which we conduct business may offer only limited intellectual property rights protection. Despite our efforts, the steps taken to protect our intellectual property may not be adequate to prevent or deter infringement or other misappropriation of intellectual property, and we may not be able to detect unauthorized use of our intellectual property, or take appropriate steps to enforce our intellectual property rights.

### **8.1.3. Risks Related to our Business**

#### *Risks associated with our growth strategy*

CGI's Build and Buy strategy is founded on four pillars of growth: first, organic growth through contract wins, renewals and extensions in the areas of outsourcing and system integration; second, the pursuit of new large outsourcing contracts; third, acquisitions of smaller firms or niche players; and fourth, transformational acquisitions.

Our ability to grow through organic growth and new large outsourcing transactions is affected by a number of factors outside of our control, including a lengthening of our sales cycle for major outsourcing contracts.

Our ability to grow through niche and transformational acquisitions requires that we identify suitable acquisition targets and that we correctly evaluate their potential as transactions that will meet our financial and operational objectives. There can be no assurance that we will be able to identify suitable acquisition candidates and consummate additional acquisitions that meet our economic thresholds, or that future acquisitions will be successfully integrated into our operations and yield the tangible accretive value that had been expected.

If we are unable to implement our Build and Buy strategy, we will likely be unable to maintain our historic or expected growth rates.

#### *The variability of financial results*

Our ability to maintain and increase our revenues is affected not only by our success in implementing our Build and Buy strategy, but also by a number of other factors, including: our ability to introduce and deliver new services and products; a lengthened sales cycle; the cyclical nature of purchases of technology services and products; the nature of a customer's business; and the structure of agreements with customers. These, and other factors, make it difficult to predict financial results for any given period.

#### *Business mix variations*

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

#### *The financial and operational risks inherent in worldwide operations*

We manage operations in numerous countries around the world. The scope of our operations subjects us to various issues that can negatively impact our operations: the fluctuations of currency (see foreign exchange risk); the burden of complying with a wide variety of national and local laws (see regulatory risk); the differences in and uncertainties arising from local business culture and practices; political, social and economic instability including the threats of terrorism, civil unrest, war, natural disasters and pandemic illnesses. Any or all of these risks could impact our global business operations and cause our profitability to decline.

#### *Organizational challenges associated with our size*

Our culture, standards, core values, internal controls and our policies need to be instilled across newly acquired businesses as well as maintained within our existing operations. To effectively communicate and manage these standards throughout a large global organization is both challenging and time consuming. Newly acquired businesses may be resistant to change and may remain attached to past methods, standards and practices which may compromise our business agility in pursuing opportunities. Cultural differences in various countries may also present barriers to introducing new ideas or aligning our vision and strategy with the rest of the organization. If we cannot overcome these obstacles in maintaining a strategic bond throughout the Company worldwide, we may not be able to achieve our growth and profitability objectives.

#### *Taxes*

In estimating our income tax payable, management uses accounting principles to determine income tax positions that are likely to be sustained by applicable tax authorities. However, there is no assurance that our tax benefits or tax liability will not materially differ from our estimates or expectations. The tax legislation, regulation and interpretation that apply to our operations are continually changing. In addition, future tax benefits and liabilities are dependent on factors that are inherently uncertain and subject to change, including future earnings, future tax rates, and anticipated business mix in the various jurisdictions in which we operate. Moreover, our tax returns are continually subject to review by applicable tax authorities; it is these tax authorities that will make the final determination of the actual amounts of taxes payable or receivable, of any future tax benefits or liabilities and of income tax expense that we may ultimately recognize. Any of the above factors could have a material adverse effect on our net income or cash flows by affecting our operations and profitability, the availability of tax credits, the cost of the services we provide, and the availability of deductions for operating losses as we develop our international service delivery capabilities.

#### *Credit risk with respect to accounts receivable and work in progress*

In order to sustain our cash flows and net earnings from operations, we must invoice and collect the amounts owed to us in an efficient and timely manner. Although we maintain provisions to account for anticipated shortfalls in amounts collected, the provisions we take are based on management estimates and on our assessment of our clients' creditworthiness which may

prove to be inadequate in the light of actual results. To the extent that we fail to perform our services in accordance with our contracts and our clients' reasonable expectations, and to the extent that we fail to invoice clients for our services correctly in a timely manner, our collections could suffer resulting in a direct and adverse effect to our revenue, net earnings and cash flows. In addition, a prolonged economic downturn may cause clients to curtail or defer projects, impair their ability to pay for services already provided, and ultimately cause them to default on existing contracts, in each case, causing a shortfall in revenue and impairing our future prospects.

*Material developments regarding major commercial clients resulting from such causes as changes in financial condition, mergers or business acquisitions*

Consolidation among our clients resulting from mergers and acquisitions may result in loss or reduction of business when the successor business' IT needs are served by another service provider or are provided by the successor Company's own personnel. Growth in a client's IT needs resulting from acquisitions or operations may mean that we no longer have a sufficient geographic scope or the critical mass to serve the client's needs efficiently, resulting in the loss of the client's business and impairing our future prospects. There can be no assurance that we will be able to achieve the objectives of our growth strategy in order to maintain and increase our geographic scope and critical mass in our targeted markets.

*Early termination risk*

If we should fail to deliver our services according to contractual agreements, some of our clients could elect to terminate contracts before their agreed expiry date, which would result in a reduction of our earnings and cash flow and may impact the value of our backlog. In addition, a number of our outsourcing contractual agreements have termination for convenience and change of control clauses according to which a change in the client's intentions or a change in control of CGI could lead to a termination of the said agreements. Early contract termination can also result from the exercise of a legal right or when circumstances that are beyond our control or beyond the control of our client prevent the contract from continuing. In cases of early termination, we may not be able to recover capitalized contract costs and we may not be able to eliminate ongoing costs incurred to support the contract.

*Cost estimation risks*

In order to generate acceptable margins, our pricing for services is dependent on our ability to accurately estimate the costs and timing for completing projects or long-term outsourcing contracts. In addition, a significant portion of our project-oriented contracts are performed on a fixed-price basis. Billing for fixed-price engagements is carried out in accordance with the contract terms agreed upon with our client, and revenue is recognized based on the percentage of effort incurred to date in relation to the total estimated costs to be incurred over the duration of the respective contract. These estimates reflect our best judgment regarding the efficiencies of our methodologies and professionals as we plan to apply them to the contracts in accordance with the CGI Client Partnership Management Framework ("CPMF"), a process framework that contains high standards of contract management to be applied throughout the organization. If we fail to apply the CPMF correctly or if we are unsuccessful in accurately estimating the time or resources required to fulfil our obligations under a contract, or if unexpected factors, including those outside of our control, arise, there may be an impact on costs or the delivery schedule which could have an adverse effect on our expected profit margins.

*Risks related to teaming agreements and subcontracts*

We derive substantial revenues from contracts where we enter into teaming agreements with other providers. In some teaming agreements we are the prime contractor whereas in others we act as a subcontractor. In both cases, we rely on our relationships with other providers to generate business and we expect to do so in the foreseeable future. Where we act as prime contractor, if we fail to maintain our relationships with other providers, we may have difficulty attracting suitable participants in our teaming agreements. Similarly, where we act as subcontractor, if our relationships are impaired, other providers might reduce the work they award to us, award that work to our competitors, or choose to offer the services directly to the client in order to compete with our business. In either case, our business, prospects, financial condition and operating results could be harmed.

#### Our partners' ability to deliver on their commitments

Increasingly large and complex contracts may require that we rely on third party subcontractors including software and hardware vendors to help us fulfill our commitments. Under such circumstances, our success depends on the ability of the third parties to perform their obligations within agreed upon budgets and timeframes. If our partners fail to deliver, our ability to complete the contract may be adversely affected, which may have an unfavorable impact on our profitability.

#### Guarantees risk

In the normal course of business, we enter into agreements that may provide for indemnification and guarantees to counterparties in transactions such as consulting and outsourcing services, business divestitures, lease agreements and financial obligations. These indemnification undertakings and guarantees may require us to compensate counterparties for costs and losses incurred as a result of various events, including breaches of representations and warranties, intellectual property right infringement, claims that may arise while providing services or as a result of litigation that may be suffered by counterparties.

#### Risk related to human resources utilization rates

In order to maintain our profit margin, it is important that we maintain the appropriate availability of professional resources in each of our geographies by having a high utilization rate while still being able to assign additional resources to new work. Maintaining an efficient utilization rate requires us to forecast our need for professional resources accurately and to manage recruitment activities, professional training programs, attrition rates and restructuring programs appropriately. To the extent that we fail to do so, or to the extent that laws and regulations, particularly those in Europe, restrict our ability to do so, our utilization rates may be reduced; thereby having an impact on our revenue and profitability. Conversely, we may find that we do not have sufficient resources to deploy against new business opportunities in which case our ability to grow our revenue would suffer.

#### Client concentration risk

We derive a significant portion of our revenue from the services we provide to the U.S. federal government and its agencies, and we expect that this will continue for the foreseeable future. In the event that a major U.S. federal government agency were to limit, reduce, or eliminate the business it awards to us, we might be unable to recover the lost revenue with work from other agencies or other clients, and our business, prospects, financial condition and operating results could be materially and adversely affected. Although IFRS considers a national government and its agencies as a single client, our client base in the U.S. government economic sector is in fact diversified with contracts from many different departments and agencies.

#### Government business risk

Changes in government spending policies or budget priorities could directly affect our financial performance. Among the factors that could harm our government contracting business are the curtailment of governments' use of consulting and IT services firms; a significant decline in spending by governments in general, or by specific departments or agencies in particular; the adoption of new legislation and/or actions affecting companies that provide services to governments; delays in the payment of our invoices by government payment offices; and general economic and political conditions. These or other factors could cause government agencies and departments to reduce their purchases under contracts, to exercise their right to terminate contracts, to issue temporary stop work orders, or not to exercise options to renew contracts, any of which would cause us to lose future revenue. Government spending reductions or budget cutbacks at these departments or agencies could materially harm our continued performance under these contracts, or limit the awarding of additional contracts from these agencies.

#### Regulatory risk

Our global operations require us to be compliant with laws in many jurisdictions on matters such as: anti-corruption, trade restrictions, immigration, taxation, securities regulation, antitrust, data privacy and labour relations, amongst others. Complying with these diverse requirements worldwide is a challenge and consumes significant resources. Some of these laws may impose conflicting requirements; we may face the absence in some jurisdictions of effective laws to protect our intellectual property rights; there may be restrictions on the movement of cash and other assets; or restrictions on the import and export

of certain technologies; or restrictions on the repatriation of earnings and reduce our earnings, all of which may expose us to penalties for non-compliance and harm our reputation.

Our business with the U.S. federal government and its agencies requires that we comply with complex laws and regulations relating to government contracts. These laws relate to the integrity of the procurement process, impose disclosure requirements, and address national security concerns, among other matters. For instance, we are routinely subject to audits by U.S. government agencies with respect to compliance with these rules. If we fail to comply with these requirements we may incur penalties and sanctions, including contract termination, suspension of payments, suspension or debarment from doing business with the federal government, and fines.

#### Legal claims made against our work

We create, implement and maintain IT solutions that are often critical to the operations of our clients' business. Our ability to complete large projects as expected could be adversely affected by unanticipated delays, renegotiations, and changing client requirements or project delays. Also, our solutions may suffer from defects that adversely affect their performance; they may not meet our clients' requirements or may fail to perform in accordance with applicable service levels. Such problems could subject us to legal liability, which could adversely affect our business, operating results and financial condition, and may negatively affect our professional reputation. We typically use reasonable efforts to include provisions in our contracts which are designed to limit our exposure to legal claims relating to our services and the applications we develop. We may not always be able to include such provisions and, where we are successful, they may not protect us adequately or may not be enforceable under some circumstances or under the laws of some jurisdictions.

#### Information and infrastructure risks

Our business often requires that our clients' applications and information, which may include their proprietary information and personal information they manage, be processed and stored on our networks and systems, and in data centres that we manage. We also process and store proprietary information relating to our business, and personal information relating to our members. Digital information and equipment are subject to loss, theft or destruction, and services that we provide may become temporarily unavailable as a result of those risks, or upon an equipment or system malfunction. The causes of such failures include human error in the course of normal operations, maintenance and upgrading activities, as well as hacking, vandalism (including denial of service attacks and computer viruses), theft, and unauthorized access ("cyber-security risks"), as well as power outages or surges, floods, fires, natural disasters and many other causes. Cyber-security risks including intrusion carried out by well-organized and well-funded private sector and government agencies, is an escalating risk which is becoming more prevalent. Cyber-security incidents often exploit previously unknown vulnerabilities and may go undetected for extended periods. Like other companies, we are subject to cyber attacks and expect to face an increasing number of such attacks in the future. The measures that we take to protect against all information infrastructure risks, including both physical and logical controls on access to premises and information may prove in some circumstances to be inadequate to prevent the loss, theft or destruction of information, or service interruptions. Such events may expose the Company to financial loss arising from the costs of remediation and those arising from litigation, claims and damages, as well as expose the Company to government sanctions and damage to our brand and reputation.

#### Risk of harm to our reputation

CGI's reputation as a capable and trustworthy service provider and long term business partner is key to our ability to compete effectively in the market for IT services. The nature of our operations exposes us to the potential loss, unauthorized access to, or destruction of our clients' information, as well as temporary service interruptions. Depending on the nature of the information or services, such events may have a negative impact on how the Company is perceived in the marketplace. Under such circumstances, our ability to obtain new clients and retain existing clients could suffer with a resulting impact on our revenue and profit.

### Risks associated with the integration of new operations

The successful integration of new operations arising from our acquisition strategy or from large outsourcing contracts requires that a substantial amount of management time and attention be focused on integration tasks. Management time that is devoted to integration activities may detract from management's normal operations focus with resulting pressure on the revenues and earnings from our existing operations. In addition, we may face complex and potentially time-consuming challenges in implementing the uniform standards, controls, procedures and policies across new operations to harmonize their activities with those of our existing business units. Integration activities can result in unanticipated operational problems, expenses and liabilities. If we are not successful in executing our integration strategies in a timely and cost-effective manner, we will have difficulty achieving our growth and profitability objectives.

### Internal controls risks

Due to the inherent limitations of internal controls including the circumvention or overriding of controls, or fraud, there can only be reasonable assurance that the Company's internal controls will detect and prevent a misstatement. If the Company is unable to design, implement, monitor and maintain effective internal controls throughout its different business environments, the efficiency of our operations might suffer, resulting in a decline in revenue and profitability, and the accuracy of our financial reporting could be impaired.

### Liquidity and funding risks

The Company's future growth is contingent on the execution of its business strategy, which, in turn, is dependent on its ability to grow the business organically as well as conclude business acquisitions. By its nature, our growth strategy requires us to fund the investments required to be made using a mix of cash generated from our existing operations, money borrowed under our existing or future credit agreements, and equity funding generated by the issuance of shares of our share capital to counterparties in transactions, or to the general public. Our ability to raise the required funding depends on the capacity of the capital markets to meet our financing needs in a timely fashion and on the basis of interest rates and share prices that are reasonable in the context of profitability objectives. Increasing interest rates, volatility in our share price, and the capacity of our current lenders to meet our liquidity requirements are all factors that may have an adverse effect on our access to the funding we require. If we are unable to obtain the necessary funding, we may be unable to achieve our growth objectives.

### Foreign exchange risk

The majority of our revenue and costs are denominated in currencies other than the Canadian dollar. Foreign exchange fluctuations impact the results of our operations as they are reported in Canadian dollars. This risk is partially mitigated by a natural hedge in matching our costs with revenue denominated in the same currency and through the use of derivatives in our hedging strategy. As we continue our global expansion, natural hedges may begin to diminish and the use of hedging contracts exposes us to the risk that financial institutions will fail to perform their obligations under our hedging instruments. Other than the use of financial products to deliver on our hedging strategy, we do not trade derivative financial instruments.

Our functional and reporting currency is the Canadian dollar. As such, our American, European and Asian investments, operations and assets are exposed to net change in currency exchange rates. Volatility in exchange rates could have an adverse effect on our business, financial condition and results of our operations.

## **8.2. LEGAL PROCEEDINGS**

The Company is involved in legal proceedings, audits, claims and litigation arising in the ordinary course of its business. Certain of these matters seek damages in significant amounts. Although the outcome of such matters is not predictable with assurance, the Company has no reason to believe that the disposition of any such current matter could reasonably be expected to have a material adverse effect on the Company's financial position, results of operations or the ability to carry on any of its business activities.

**Transfer Agent**

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