



**MANAGEMENT'S  
DISCUSSION AND ANALYSIS**

**Q1 2016**

January 27, 2016

## 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 months ended December 31, 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 and in other public disclosure documents filed with the Canadian securities authorities (filed on SEDAR at [www.sedar.com](http://www.sedar.com)) and 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 excluding restructuring 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 in section 3.7 of the present document.</li> <li>Net earnings excluding specific items (non-GAAP) – is a measure of net earnings excluding restructuring costs net of tax and a tax adjustment. 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 excluding specific items to its closest IFRS measure can be found in section 3.8.3. of the present document.</li> <li>Basic and diluted earnings per share excluding specific items (non-GAAP) – is defined as the net earnings excluding restructuring costs net of tax and a tax adjustment 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 in section 3.8 of the present document while the current quarter's basic and diluted earnings per share excluding specific items can be found in section 3.8.3.</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 established upon a business combination. 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>

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 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 and believes that this measure is useful to investors for the same reason. 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 representative 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 in section 4.5 of the present document.</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 quarters' 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 quarters' 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 segments, namely: United States of America ("U.S."); Nordics; Canada; France (including Luxembourg and Morocco) ("France"); United Kingdom ("U.K."); Eastern, Central and Southern Europe (primarily Netherlands and Germany) ("ECS"); and Asia Pacific (including Australia, India and the Philippines) ("Asia Pacific"). The Company has retrospectively revised the segmented information for the comparative period to conform to the segment information structure in effect as of July 1, 2015. Please refer to sections 3.4 and 3.6 of the present document and to note 9 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	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	7
	1.3. Competitive Environment	7
2. Highlights and Key Performance Measures	A summary of key highlights during the quarter, the past eight quarters' key performance measures, and CGI's stock performance.	
	2.1. Q1 2016 Highlights	8
	2.2. Selected Quarterly Information & Key Performance Measures	9
	2.3. Stock Performance	10
3. Financial Review	A discussion of year-over-year changes to financial results between the three months ended December 31, 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 contract type, services type, segment, and by vertical market.	
	3.1. Bookings and Book-to-Bill Ratio	12
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	3.7. Earnings before Income Taxes	19
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Section	Contents	Pages
4. Liquidity	<p>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 capital structure (net debt to capitalization, ROE, and ROIC) and liquidity (DSO) 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>22</p> <p>24</p> <p>25</p> <p>25</p> <p>26</p> <p>26</p> <p>27</p>
5. Changes in Accounting Policies	A summary of the future accounting standard changes.	28
6. Critical Accounting Estimates	A discussion of the critical accounting estimates made in the preparation of the interim condensed consolidated financial statements.	29
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.	32
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>33</p> <p>40</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 with approximately 65,000 employees worldwide, referred to as members. The Company operates through our client-proximity business model to work closely with clients at the local level, providing deep industry and technology expertise and high responsiveness. This is complemented through CGI's global delivery network, which offers the advantages of best-fit expertise and resources.

Our services can be categorized 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 customizes particular technologies and applications to create responsive technology systems that answer clients' strategic needs.
- **Management of IT and business functions (“outsourcing”)** - Clients delegate entire or partial responsibility for their IT or business functions to CGI. In return, significant efficiency improvements and cost savings are delivered. Service and delivery options includes onsite, onshore, near-shore and/or offshore centers - each offering a unique value equation and proposition for clients. Typical services provided as part of an end-to-end engagement can include: application development, maintenance and integration, technology infrastructure management and transaction and business processing such as collections or payroll functions. At any time, these clients can leverage the global footprint and experience CGI offers, - cloud services, managed security services and/or data analytics. Outsourcing contracts are typically long-term, having a duration of five to ten years.

CGI offers clients deep domain expertise across a set of vertical markets in which we have extensive networks of subject matter experts working to support local client relationships worldwide. This allows us to continuously learn and adapt to our clients' business realities while providing the knowledge and solutions needed to advance their business goals. These vertical markets or targeted industries account for 90% of global IT spend and include: government, financial services, manufacturing, retail and consumer services, utilities, communications, health, oil & gas, transportation and post & logistics. While these represent our go to market industry list, for the purposes of financial reporting they are grouped into the following - financial services, government, health, telecommunications & utilities and manufacturing, retail & distribution (“MRD”).

CGI offers more than 150 mission-critical, IP-based solutions and frameworks for all of the industries we serve and to support clients' cross-industry functions. These CGI-developed solutions include software applications, reusable frameworks and delivery methods. Examples include solutions in the areas of ERP, energy and workforce 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 7 of "Fiscal 2015 Results" report, which can be found on CGI's web site at [www.cgi.com](http://www.cgi.com) and filed with Canadian securities 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, 2015 Annual Report. For further details please refer to the heading "Competitive Environment" on page 7 of "Fiscal 2015 Results" report, which can be found on CGI's web site at [www.cgi.com](http://www.cgi.com) and filed with Canadian securities 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. Q1 2016 HIGHLIGHTS

Key performance figures for the period include:

- Revenue of \$2.7 billion, up 5.6%;
- Bookings of \$3.2 billion, or 119.2% of revenue;
- Backlog of \$21.5 billion, up \$1.3 billion;
- Adjusted EBIT of \$384.1 million, up 11.6%;
- Adjusted EBIT margin of 14.3%, up 80 basis points;
- Net earnings excluding specific items<sup>1</sup> of \$264.9 million, up 12.1%;
- Net earnings margin excluding specific items<sup>1</sup> of 9.9%, up 60 basis points;
- Diluted EPS excluding specific items<sup>1</sup> of \$0.84, up 13.5%;
- Cash provided by operating activities of \$328.2 million or 12.2% of revenue;
- Net debt of \$1.6 billion, down \$350.8 million; and,
- Return on equity of 16.9%.

<sup>1</sup> Specific items include the restructuring costs net of tax and a tax adjustment, which are discussed in section 3.7.1. and 3.8.1. of the present document respectively.

#### 2.1.1. Restructuring Program

During the quarter, we completed the restructuring program as initially announced on July 28, 2015. A total of \$65.0 million in one-time costs were spent to drive annual savings and EPS accretion to CGI. The difference to the planned amount of \$60.0 million is mostly explained by unfavorable foreign currency fluctuations.

## 2.2. SELECTED QUARTERLY INFORMATION & KEY PERFORMANCE MEASURES

As at and for the three months ended,	Dec. 31, 2015	Sept. 30, 2015	June 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sept. 30, 2014	June 30, 2014	Mar. 31, 2014
<i>In millions of CAD unless otherwise noted</i>								
<b>Growth</b>								
Backlog	<b>21,505</b>	20,711	19,697	20,000	20,175	18,237	18,781	19,476
Bookings	<b>3,199</b>	2,856	2,227	2,253	4,304	2,049	2,451	2,850
Book-to-bill ratio	<b>119.2%</b>	110.5%	87.0%	86.6%	169.4%	82.5%	91.9%	105.4%
Book-to-bill ratio trailing twelve months	<b>101.0%</b>	113.2%	106.4%	107.4%	112.1%	96.8%	101.4%	105.3%
Revenue	<b>2,683.7</b>	2,585.3	2,559.4	2,601.2	2,541.3	2,483.7	2,667.0	2,704.3
Year-over-year revenue growth	<b>5.6%</b>	4.1%	(4.0%)	(3.8%)	(3.9%)	1.0%	3.9%	7.0%
Constant currency revenue growth <sup>1</sup>	<b>(1.8%)</b>	(3.1%)	(3.5%)	(3.5%)	(6.0%)	(3.4%)	(3.9%)	(2.3%)
<b>Profitability</b>								
Adjusted EBIT <sup>2</sup>	<b>384.1</b>	379.0	371.2	363.1	344.0	370.2	342.2	341.5
<i>Adjusted EBIT margin<sup>2</sup></i>	<b>14.3%</b>	14.7%	14.5%	14.0%	13.5%	14.9%	12.8%	12.6%
Net earnings excluding specific items <sup>3</sup>	<b>264.9</b>	260.4	257.2	251.2	236.3	234.0	229.8	229.6
<i>Net earnings margin excluding specific items<sup>3</sup></i>	<b>9.9%</b>	10.1%	10.1%	9.7%	9.3%	9.4%	8.6%	8.5%
Diluted EPS excluding specific items (in dollars) <sup>3</sup>	<b>0.84</b>	0.82	0.80	0.78	0.74	0.73	0.72	0.72
Net earnings	<b>237.7</b>	232.9	257.2	251.2	236.3	213.7	225.1	230.9
<i>Net earnings margin</i>	<b>8.9%</b>	9.0%	10.1%	9.7%	9.3%	8.6%	8.4%	8.5%
Diluted EPS (in dollars)	<b>0.75</b>	0.73	0.80	0.78	0.74	0.67	0.71	0.73
<b>Liquidity</b>								
Cash provided by operating activities	<b>328.2</b>	451.3	214.1	284.7	339.2	412.0	345.9	350.7
<i>As a % of revenue</i>	<b>12.2%</b>	17.5%	8.4%	10.9%	13.3%	16.6%	13.0%	13.0%
Days sales outstanding <sup>4</sup>	<b>44</b>	44	46	41	42	43	47	47
<b>Capital structure</b>								
Net debt <sup>5</sup>	<b>1,573.7</b>	1,779.6	1,791.4	1,869.8	1,924.5	2,113.3	2,389.0	2,678.2
Net debt to capitalization ratio <sup>6</sup>	<b>18.3%</b>	21.7%	22.7%	24.4%	25.1%	27.6%	32.6%	35.6%
Return on equity <sup>7</sup>	<b>16.9%</b>	17.7%	18.2%	18.4%	18.9%	18.8%	18.1%	17.9%
Return on invested capital <sup>8</sup>	<b>14.5%</b>	14.5%	14.8%	14.6%	14.7%	14.5%	13.3%	13.4%
<b>Balance sheet</b>								
Cash and cash equivalents, and short-term investments	<b>552.4</b>	305.3	264.7	223.5	489.6	535.7	131.3	133.8
Total assets	<b>12,130.3</b>	11,787.3	11,190.4	10,985.8	11,171.9	11,234.1	11,162.2	11,560.4
Long-term financial liabilities <sup>9</sup>	<b>1,822.1</b>	1,896.4	1,765.8	2,067.7	2,451.5	2,748.4	2,164.8	2,562.4

<sup>1</sup> Constant currency growth is adjusted to remove the impact of foreign currency exchange rate fluctuations. Please refer to section 3.4 for details.

<sup>2</sup> Adjusted EBIT is a measure for which we provide the reconciliation to its closest IFRS measure in section 3.7. For the quarters ended March 31, June 30 and September 30, 2014, adjusted EBIT excludes integration-related costs related to the restructuring and transformation of the operations of Logica plc ("Logica") to the CGI model.

<sup>3</sup> Specific items include the restructuring costs net of tax for the quarters ended September 30, 2015 and December 31, 2015 which are discussed in section 3.7.1. For the quarter ended December 31, 2015, specific items also includes a tax adjustment which is discussed in section 3.8.1. For the quarters ended March 31, June 30 and September 30, 2014 specific items includes integration-related costs and resolution of acquisition-related provisions net of taxes. Resolution of acquisition-related provisions came from adjustments 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.

<sup>4</sup> DSO is a measure which is discussed in section 4.5.

<sup>5</sup> Net debt is a measure for which we provide the reconciliation to its closest IFRS measure in section 4.5.

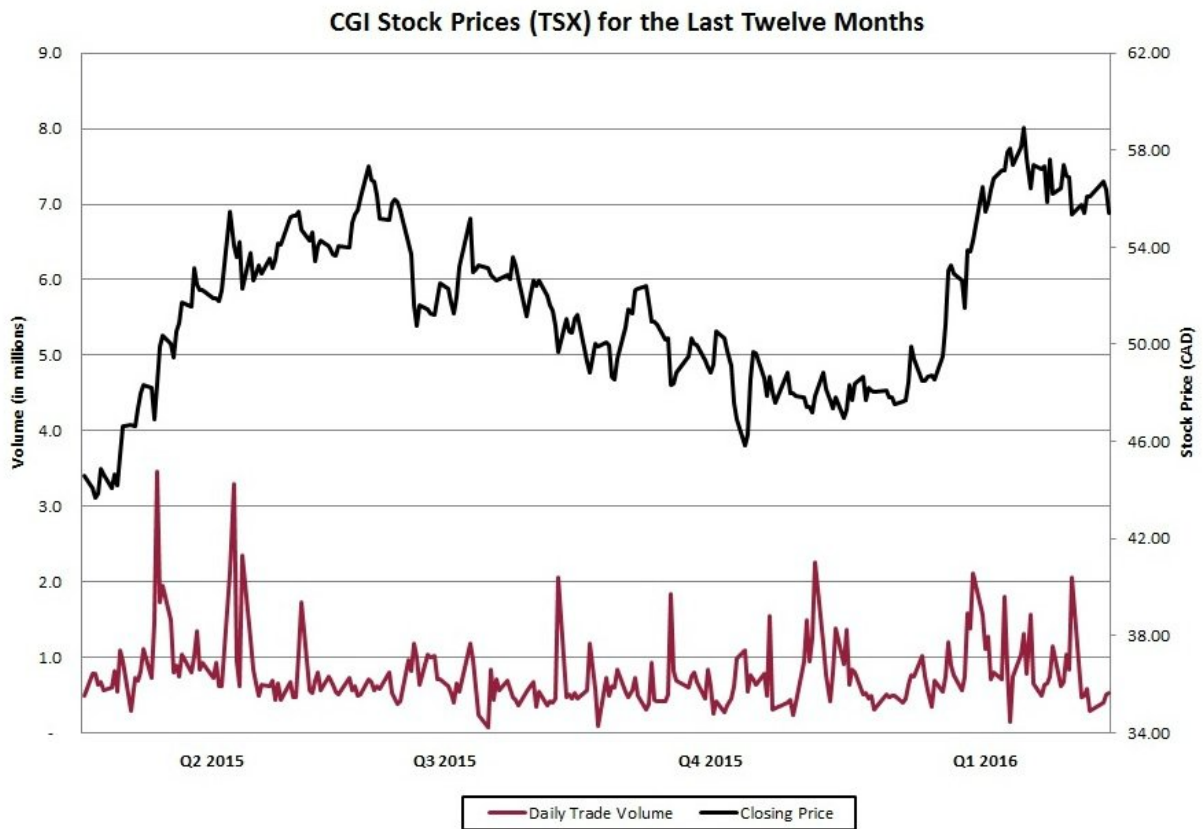
<sup>6</sup> The net debt to capitalization ratio is a measure which is discussed in section 4.5.

<sup>7</sup> ROE is a measure which is discussed in section 4.5.

<sup>8</sup> ROIC is a measure which is discussed in section 4.5.

<sup>9</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. Q1 2016 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>	(CAD)	<b>NYSE</b>	(USD)
Open:	48.35	Open:	36.34
High:	59.39	High:	44.47
Low:	46.91	Low:	35.38
Close:	55.40	Close:	40.03
CDN average daily trading volumes <sup>1</sup> :	988,086	NYSE average daily trading volumes:	218,662

<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.

During the first quarter of fiscal 2016, the Company repurchased 192,500 Class A subordinate voting shares for approximately \$9.1 million at an average price of \$47.44 under the current NCIB. Since the beginning of the current NCIB, CGI repurchased 7,118,235 Class A subordinate voting shares for approximately \$341.7 million at an average price of \$48.00.

On January 27, 2016 the Company's Board of Directors authorized, subject to regulatory approval, the renewal of the NCIB, and the purchase of up to 10%, or approximately 21,425,992 million of the public float of the Company's Class A subordinate voting shares over the next 12 months.

### 2.3.3. Capital Stock and Options Outstanding

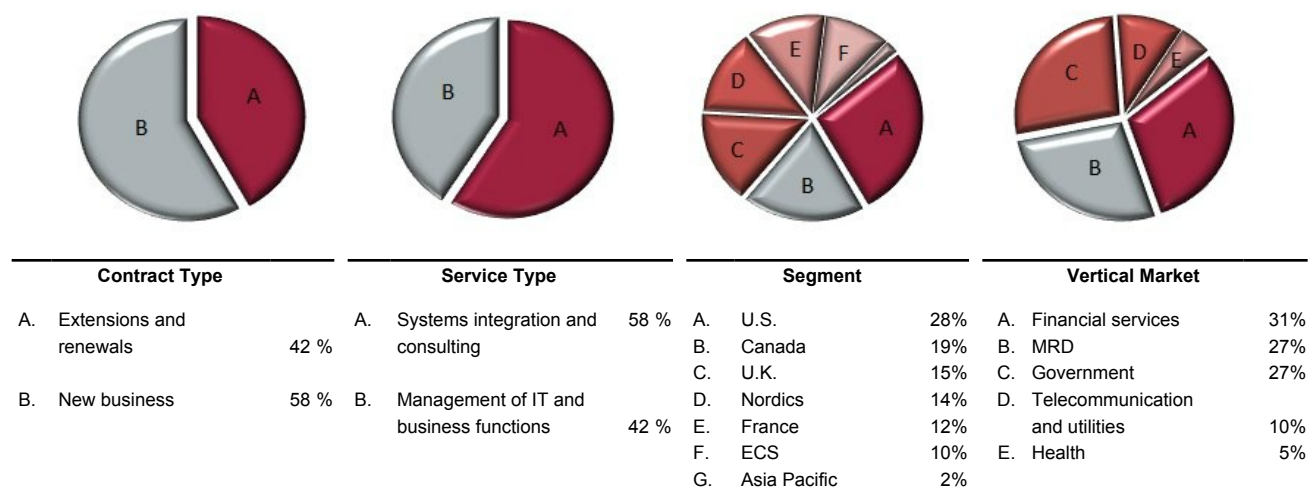
The following table provides a summary of the Capital Stock and Options Outstanding as at January 22, 2016:

<b>Capital Stock and Options Outstanding</b>	<b>As at January 22, 2016</b>
Class A subordinate voting shares	<b>278,383,769</b>
Class B multiple voting shares	<b>32,873,663</b>
Options to purchase Class A subordinate voting shares	<b>15,966,634</b>

### 3. Financial Review

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

Bookings for the quarter were \$3.2 billion representing a book-to-bill ratio of 119.2%. 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 December 31, 2015, our book-to-bill ratio was at 101.0%.

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

<i>In thousands of CAD except for percentages</i>	Bookings for the three months ended December 31, 2015	Bookings for the trailing twelve months ended December 31, 2015	Book-to-bill ratio for the trailing twelve months ended December 31, 2015
<b>Total CGI</b>	<b>3,198,641</b>	<b>10,535,157</b>	<b>101.0 %</b>
<b>U.S.</b>	907,664	<b>2,876,446</b>	<b>96.8 %</b>
<b>Nordics</b>	462,509	<b>1,621,368</b>	<b>95.6 %</b>
<b>Canada</b>	593,619	<b>1,687,333</b>	<b>103.9 %</b>
<b>France</b>	381,661	<b>1,377,996</b>	<b>104.4 %</b>
<b>U.K.</b>	482,292	<b>1,739,958</b>	<b>115.9 %</b>
<b>ECS</b>	317,195	<b>1,099,856</b>	<b>94.1 %</b>
<b>Asia Pacific</b>	53,701	<b>132,200</b>	<b>89.1 %</b>

### 3.2. FOREIGN EXCHANGE

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

#### *Closing foreign exchange rates*

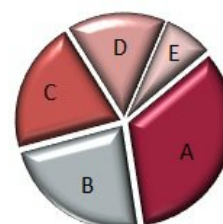
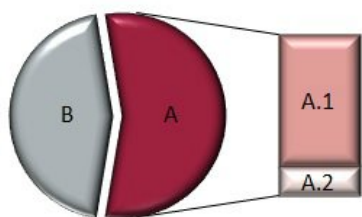
<b>As at December 31,</b>	<b>2015</b>	<b>2014</b>	<b>Change</b>
U.S. dollar	<b>1.3844</b>	1.1604	<b>19.3%</b>
Euro	<b>1.5033</b>	1.4040	<b>7.1%</b>
Indian rupee	<b>0.0209</b>	0.0184	<b>13.6%</b>
British pound	<b>2.0411</b>	1.8078	<b>12.9%</b>
Swedish krona	<b>0.1638</b>	0.1483	<b>10.5%</b>
Australian dollar	<b>1.0092</b>	0.9482	<b>6.4%</b>

#### *Average foreign exchange rates*

<b>For the three months ended December 31,</b>	<b>2015</b>	<b>2014</b>	<b>Change</b>
U.S. dollar	<b>1.3355</b>	1.1359	<b>17.6%</b>
Euro	<b>1.4615</b>	1.4189	<b>3.0%</b>
Indian rupee	<b>0.0203</b>	0.0183	<b>10.9%</b>
British pound	<b>2.0258</b>	1.7981	<b>12.7%</b>
Swedish krona	<b>0.1571</b>	0.1529	<b>2.7%</b>
Australian dollar	<b>0.9614</b>	0.9720	<b>(1.1%)</b>

### 3.3. REVENUE DISTRIBUTION

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



Service Type			Client Geography			Vertical Market		
A.	Management of IT and business functions	55%	A.	U.S.	28%	A.	Government	34 %
	1. IT services	45%	B.	U.K.	15%	B.	MRD	23 %
	2. Business process services	10%	C.	Canada	14%	C.	Financial services	20 %
B.	Systems integration and consulting	45%	D.	France	13%	D.	Telecommunications & utilities	15 %
			E.	Sweden	8%	E.	Health	8 %
			F.	Finland	6%			
			G.	Rest of the world	16%			

#### 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 12.7% of our revenue for the three months ended December 31, 2015 as compared to 12.9% for the three months ended December 31, 2014.

### 3.4. REVENUE VARIATION AND REVENUE BY SEGMENT

Our seven segments are based on our geographic delivery model: U.S., Nordics, Canada, France, U.K., ECS 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 Q1 2016 and Q1 2015. The Q1 2015 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.

For the three months ended December 31,	2015	2014	Change	
			\$	%
<i>In thousands of CAD except for percentages</i>				
<b>Total CGI revenue</b>	<b>2,683,677</b>	2,541,255	<b>142,422</b>	<b>5.6%</b>
Variation prior to foreign currency impact	(1.8%)			
Foreign currency impact	7.4%			
<b>Variation over previous period</b>	<b>5.6%</b>			
<b>U.S.</b>				
Revenue prior to foreign currency impact	608,620	654,584	(45,964)	(7.0%)
Foreign currency impact	107,388			
<b>U.S. revenue</b>	<b>716,008</b>	654,584	<b>61,424</b>	<b>9.4%</b>
<b>Nordics</b>				
Revenue prior to foreign currency impact	426,572	442,840	(16,268)	(3.7%)
Foreign currency impact	10,241			
<b>Nordics revenue</b>	<b>436,813</b>	442,840	<b>(6,027)</b>	<b>(1.4%)</b>
<b>Canada</b>				
Revenue prior to foreign currency impact	382,112	382,149	(37)	—%
Foreign currency impact	787			
<b>Canada revenue</b>	<b>382,899</b>	382,149	<b>750</b>	<b>0.2%</b>
<b>France</b>				
Revenue prior to foreign currency impact	334,700	325,305	9,395	2.9%
Foreign currency impact	10,120			
<b>France revenue</b>	<b>344,820</b>	325,305	<b>19,515</b>	<b>6.0%</b>
<b>U.K.</b>				
Revenue prior to foreign currency impact	324,155	310,698	13,457	4.3%
Foreign currency impact	41,173			
<b>U.K. revenue</b>	<b>365,328</b>	310,698	<b>54,630</b>	<b>17.6%</b>
<b>ECS</b>				
Revenue prior to foreign currency impact	301,757	317,002	(15,245)	(4.8%)
Foreign currency impact	7,005			
<b>ECS revenue</b>	<b>308,762</b>	317,002	<b>(8,240)</b>	<b>(2.6%)</b>
<b>Asia Pacific</b>				
Revenue prior to foreign currency impact	118,661	108,677	9,984	9.2%
Foreign currency impact	10,386			
<b>Asia Pacific revenue</b>	<b>129,047</b>	108,677	<b>20,370</b>	<b>18.7%</b>



We ended Q1 2016 with revenue of \$2,683.7 million, an increase of \$142.4 million or 5.6% over Q1 2015. On a constant currency basis, revenue decreased by \$44.7 million or 1.8%, as foreign currency rate fluctuations favorably impacted our revenue by \$187.1 million or 7.4%. The change in revenue was mostly driven by the continued slowdown of the U.S. federal market and specifically the non-renewal of low margin contracts in the U.S. federal defense market. This was mostly offset by growth in the U.K., France and Asia-Pacific segments.

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

Revenue in our U.S. segment was \$716.0 million in Q1 2016, an increase of \$61.4 million or 9.4% over Q1 2015. On a constant currency basis, revenue decreased by \$46.0 million or 7.0%. The change in revenue was mainly driven by the continued slowdown of the U.S. federal market and specifically the non-renewal of low margin contracts in the U.S. federal defense market. This was partly offset by increased work volume in the financial services vertical.

For the current quarter, the top two U.S. vertical markets were government and financial services, which together accounted for approximately 78% of revenue.

#### **3.4.2. Nordics**

Revenue in our Nordics segment was \$436.8 million in Q1 2016, a decrease of \$6.0 million or 1.4% over Q1 2015. On a constant currency basis, revenue decreased by \$16.3 million or 3.7%. The decrease in revenue was due to lower work volume across the segment as well as the increased use of our delivery centers in Asia-Pacific.

For the current quarter, Nordics' top two vertical markets were MRD and government, which together accounted for approximately 66% of revenue.

#### **3.4.3. Canada**

Revenue in our Canada segment was \$382.9 million in Q1 2016. Revenue was stable when compared to Q1 2015 as an increase in systems integration and consulting services within the government vertical market helped compensate for the expiration of certain infrastructure contracts.

For the current quarter, Canada's top two vertical markets were financial services and telecommunications & utilities, which together accounted for approximately 60% of revenue.

#### **3.4.4. France**

Revenue in our France segment was \$344.8 million in Q1 2016, an increase of \$19.5 million or 6.0% over Q1 2015. On a constant currency basis, revenue increased by \$9.4 million or 2.9%, mainly as the result of an increase in volume of projects within the financial services and the government vertical markets.

For the current quarter, France's top two vertical markets were MRD and financial services, which together accounted for approximately 63% of revenue.

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

Revenue in our U.K. segment was \$365.3 million in Q1 2016, an increase of \$54.6 million or 17.6% over the same period last year. On a constant currency basis, revenue increased by \$13.5 million or 4.3%. The increase in revenue was mainly due to new business in the government and financial services markets combined with the increase of work volume in the telecommunication & utilities vertical market.

For the current quarter, U.K.'s top two vertical markets were government and telecommunications & utilities, which together accounted for approximately 67% of revenue.

### 3.4.6. ECS

Revenue in our ECS segment was \$308.8 million in Q1 2016, a decrease of \$8.2 million or 2.6% over Q1 2015. On a constant currency basis, revenue decreased by \$15.2 million or 4.8%. The decrease in revenue was mainly due to lower work volume and projects completed in the Netherlands and, to a lesser extent, the planned wind down of activities in Switzerland and Latin America with the exception of Brazil.

For the current quarter, ECS's top two vertical markets were MRD and telecommunication & utilities, which together accounted for approximately 61% of revenue.

### 3.4.7. Asia Pacific

Revenue in our Asia Pacific segment was \$129.0 million in Q1 2016, an increase of \$20.4 million or 18.7% over Q1 2015. On a constant currency basis, revenue increased by \$10.0 million or 9.2%. The increase 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 network. This was partly offset by the completion and reduction of projects in Australia.

For the current quarter, Asia Pacific's top two vertical markets were telecommunications & utilities and MRD, which together accounted for approximately 78% of revenue.

## 3.5. OPERATING EXPENSES

For the three months ended December 31,	2015	% of Revenue	2014	% of Revenue	Change	
					\$	%
<i>In thousands of CAD except for percentages</i>						
Costs of services, selling and administrative	2,298,027	85.6%	2,195,385	86.4%	102,642	4.7%
Foreign exchange loss	1,526	0.1%	1,821	0.1%	(295)	(16.2%)

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

For the three months ended December 31, 2015, costs of services, selling and administrative expenses amounted to \$2,298.0 million, an increase of \$102.6 million or 4.7% over the same period last year. As a percentage of revenue, cost of services, selling and administrative expenses improved to 85.6% from 86.4%. As a percentage of revenue, our costs of services improved compared to the same period last year mainly due to improved utilization rates, savings related to the recent restructuring program and the increased use of our global delivery network. Our selling and administrative expenses as a percentage of revenue remained stable.

During the three months ended December 31, 2015, the translation of the results of our foreign operations from their local currencies to the Canadian dollar unfavorably impacted costs by \$165.5 million, substantially offsetting the favourable translation impact of \$187.1 million on our revenue.

### 3.5.2. Foreign Exchange Loss

During Q1 2015, CGI incurred \$1.5 million of foreign exchange loss mainly driven by the timing in payments combined with the volatility and fluctuation of foreign exchange rates. 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.

### 3.6. ADJUSTED EBIT BY SEGMENT

For the three months ended December 31,	2015	2014	Change	
			\$	%
<i>In thousands of CAD except for percentages</i>				
<b>U.S.</b>	<b>109,728</b>	95,127	<b>14,601</b>	<b>15.3%</b>
<i>As a percentage of U.S. revenue</i>	<b>15.3%</b>	14.5%		
<b>Nordics</b>	<b>48,975</b>	39,225	<b>9,750</b>	<b>24.9%</b>
<i>As a percentage of Nordics revenue</i>	<b>11.2%</b>	8.9%		
<b>Canada</b>	<b>80,132</b>	80,740	<b>(608)</b>	<b>(0.8%)</b>
<i>As a percentage of Canada revenue</i>	<b>20.9%</b>	21.1%		
<b>France</b>	<b>45,629</b>	40,877	<b>4,752</b>	<b>11.6%</b>
<i>As a percentage of France revenue</i>	<b>13.2%</b>	12.6%		
<b>U.K.</b>	<b>44,791</b>	35,173	<b>9,618</b>	<b>27.3%</b>
<i>As a percentage of U.K. revenue</i>	<b>12.3%</b>	11.3%		
<b>ECS</b>	<b>34,016</b>	32,735	<b>1,281</b>	<b>3.9%</b>
<i>As a percentage of ECS revenue</i>	<b>11.0%</b>	10.3%		
<b>Asia Pacific</b>	<b>20,853</b>	20,172	<b>681</b>	<b>3.4%</b>
<i>As a percentage of Asia Pacific revenue</i>	<b>16.2%</b>	18.6%		
<b>Adjusted EBIT</b>	<b>384,124</b>	344,049	<b>40,075</b>	<b>11.6%</b>
<b>Adjusted EBIT margin</b>	<b>14.3%</b>	13.5%		

For the three months ended December 31, 2015, adjusted EBIT margin increased to 14.3% from 13.5% for the same period last year. The favorable variance in adjusted EBIT margin was primarily due to improved utilization rates, the savings driven by the restructuring program and the increased use of our global delivery network.

#### 3.6.1. U.S.

Adjusted EBIT in the U.S. segment for Q1 2016 was \$109.7 million, an increase of \$14.6 million compared to Q1 2015, while the margin increased to 15.3% from 14.5%. The change in adjusted EBIT margin is mainly due to a better mix of profitable revenue and was also positively impacted by the decrease in amortization of client relationships related to the acquisition of Stanley, Inc. in fiscal 2010.

#### 3.6.2. Nordics

For the three months ended December 31, 2015, adjusted EBIT in the Nordics segment was \$49.0 million, an increase of \$9.8 million compared to the same period last year. Adjusted EBIT margin was 11.2%, an improvement from 8.9%. The Nordics segment was able to improve adjusted EBIT margin due to the ongoing cost synergies within our infrastructure business, and the savings generated from the restructuring program.

#### 3.6.3. Canada

For the three months ended December 31, 2015, adjusted EBIT in the Canada segment was \$80.1 million and adjusted EBIT margin was 20.9%, both stable when compared to the same period last year.

#### 3.6.4. France

For the three months ended December 31, 2015, adjusted EBIT in the France segment was \$45.6 million, as compared to \$40.9 million for the same period last year. Adjusted EBIT margin increased to 13.2% from 12.6%. The improvement in adjusted EBIT and margin was mainly attributable to factors identified in the revenue section and to year-over-year improvement in utilization rates.

### 3.6.5. U.K.

For the three months ended December 31, 2015, adjusted EBIT in the U.K. segment was \$44.8 million, as compared to \$35.2 million for the same period last year. Adjusted EBIT margin increased to 12.3% from 11.3%. This increase in adjusted EBIT and margin was mainly the result of revenue growth identified in the revenue section.

### 3.6.6. ECS

For the three months ended December 31, 2015, adjusted EBIT in the ECS segment was \$34.0 million, as compared to \$32.7 million for the same period last year. Adjusted EBIT margin for the quarter increased to 11.0% from 10.3% for Q1 2015. The ECS segment was able to increase the adjusted EBIT and margin through year-over-year improvement in utilization rates and cost synergies coming from the restructuring plan. The adjusted EBIT and margin were also positively impacted by a contract settlement.

### 3.6.7. Asia Pacific

For the three months ended December 31, 2015, adjusted EBIT in the Asia Pacific segment was \$20.9 million, an increase of \$0.7 million, while the margin decreased to 16.2% from 18.6% compared to the same period last year. This change in adjusted EBIT margin was mainly due to the completion and reduction of certain projects in Australia.

## 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.

For the three months ended December 31,					Change	
	2015	% of Revenue	2014	% of Revenue	\$	%
<i>In thousands of CAD except for percentages</i>						
Adjusted EBIT	384,124	14.3%	344,049	13.5%	40,075	11.6%
<i>Minus the following items:</i>						
Restructuring costs	29,100	1.1%	—	—	29,100	—
Net finance costs	20,113	0.7%	23,580	0.9%	(3,467)	(14.7%)
<b>Earnings before income taxes</b>	<b>334,911</b>	<b>12.5%</b>	<b>320,469</b>	<b>12.6%</b>	<b>14,442</b>	<b>4.5 %</b>

### 3.7.1. Restructuring Costs

For the three months ended December 31, 2015, the Company incurred \$29.1 million of restructuring costs that pertained to the announced restructuring program for productivity improvement initiatives.

### 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 months ended December 31, 2015 was mainly the result of the partial repayments of the May 2016 maturing tranche of the unsecured committed term loan credit facility.

### 3.8. NET EARNINGS AND EARNINGS PER SHARE

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

For the three months ended December 31,	2015	2014	Change	
			\$	%
<i>In thousands of CAD except otherwise noted</i>				
Earnings before income taxes	334,911	320,469	14,442	4.5%
Income tax expense	97,198	84,213	12,985	15.4%
<i>Effective tax rate</i>	29.0%	26.3%		
<b>Net earnings</b>	<b>237,713</b>	<b>236,256</b>	<b>1,457</b>	<b>0.6%</b>
<b>Net earnings margin</b>	<b>8.9%</b>	<b>9.3%</b>		
<b>Weighted average number of shares outstanding</b>				
Class A subordinate voting shares and Class B multiple voting shares (basic)	307,714,593	311,130,412		(1.1%)
Class A subordinate voting shares and Class B multiple voting shares (diluted)	316,244,857	320,079,669		(1.2%)
<b>Earnings per share (in dollars)</b>				
Basic	0.77	0.76	0.01	1.3%
Diluted	0.75	0.74	0.01	1.4%

#### 3.8.1. Income Tax Expense

For the three months ended December 31, 2015, the income tax expense was \$97.2 million, an increase of \$13.0 million compared to \$84.2 million over the same period last year, while our effective tax rate increased to 29.0% from 26.3%. The increase in income tax rate was mainly attributable to an unfavorable tax adjustment following the United Kingdom Finance Bill that was enacted on November 18, 2015. The United Kingdom Finance Bill 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. As a result, the Company incurred an additional income tax expense for an amount of \$5.9 million resulting from the re-evaluation of its deferred tax assets. The table in section 3.8.3 shows the year-over-year comparison of the tax rate with the impact of specific items removed.

When excluding this unfavorable tax adjustment and the impact of restructuring costs, the income tax rate would have been 27.2% in Q1 2016 compared to 26.3% for the same period last year. The increase in the income tax rate was mainly attributable to the increased profitability of our U.S. operations where the enacted tax rate is higher.

Based on the enacted rates at the end of Q1 2016 and our current business mix, we expect our effective tax rate before any significant adjustments to be in the range of 26% to 28% in subsequent periods.

#### 3.8.2. Weighted Average Number of Shares

For Q1 2016, CGI's basic and diluted weighted average number of shares decreased compared to Q1 2015 due to the impact of the repurchase of Class A subordinate voting shares, partly offset by the grants and the exercise of stock options.

### 3.8.3. Net Earnings and Earnings per Share Excluding Specific Items

Below is a table showing the year-over-year comparison excluding specific items namely, restructuring costs, and a tax adjustment:

For the three months ended December 31,			Change	
	2015	2014	\$	%
<i>In thousands of CAD except otherwise noted</i>				
Earnings before income taxes	334,911	320,469	14,442	4.5%
<i>Add back:</i>				
Restructuring costs	29,100	—	29,100	—
<b>Earnings before income taxes excluding specific items</b>	<b>364,011</b>	320,469	<b>43,542</b>	<b>13.6%</b>
<b>Margin</b>	<b>13.6%</b>	12.6%		
Income tax expense	97,198	84,213	12,985	15.4%
<i>Add back:</i>				
Tax deduction on restructuring costs	7,858	—	7,858	—
<i>Remove:</i>				
Tax adjustment	5,900	—	5,900	—
<b>Income tax expense excluding specific items</b>	<b>99,156</b>	84,213	<b>14,943</b>	<b>17.7%</b>
<b>Effective tax rate excluding specific items</b>	<b>27.2%</b>	26.3%		
<b>Net earnings excluding specific items</b>	<b>264,855</b>	236,256	<b>28,599</b>	<b>12.1%</b>
<b>Net earnings margin</b>	<b>9.9%</b>	9.3%		
<b>Weighted average number of shares outstanding</b>				
Class A subordinate voting shares and Class B multiple voting shares (basic)	307,714,593	311,130,412		(1.1%)
Class A subordinate voting shares and Class B multiple voting shares (diluted)	316,244,857	320,079,669		(1.2%)
<b>Earnings per share excluding specific items (in dollars)</b>				
Basic	0.86	0.76	0.10	13.2%
Diluted	0.84	0.74	0.10	13.5%

## 4. Liquidity

### 4.1. INTERIM CONDENSED 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 December 31, 2015, cash and cash equivalents were \$552.4 million. The following table provides a summary of the generation and use of cash for the three months ended December 31, 2015 and 2014.

For the three months ended December 31,	2015	2014	Change
<i>In thousands of CAD</i>			
Cash provided by operating activities	328,209	339,205	(10,996)
Cash used in investing activities	(83,731)	(63,066)	(20,665)
Cash used in financing activities	(1,540)	(323,459)	321,919
Effect of foreign exchange rate changes on cash and cash equivalents	4,154	1,182	2,972
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>247,092</b>	<b>(46,138)</b>	<b>293,230</b>

#### 4.1.1. Cash Provided by Operating Activities

For the three months ended December 31, 2015, cash provided by operating activities was \$328.2 million or 12.2% of revenue as compared to \$339.2 million, or 13.3% of revenue from the same period last year.

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

For the three months ended December 31,	2015	2014	Change
<i>In thousands of CAD</i>			
Net earnings	237,713	236,256	1,457
Amortization and depreciation	101,859	105,891	(4,032)
Other adjustments <sup>1</sup>	49,927	26,710	23,217
<b>Cash flow from operating activities before net change in non-cash working capital items</b>	<b>389,499</b>	<b>368,857</b>	<b>20,642</b>
<i>Net change in non-cash working capital items:</i>			
Accounts receivable, work in progress and deferred revenue	(58,192)	(46,308)	(11,884)
Accounts payable and accrued liabilities, accrued compensation, provisions and long-term liabilities	(14,409)	(36,754)	22,345
Other <sup>2</sup>	11,311	53,410	(42,099)
<b>Net change in non-cash working capital items</b>	<b>(61,290)</b>	<b>(29,652)</b>	<b>(31,638)</b>
<b>Cash provided by operating activities</b>	<b>328,209</b>	<b>339,205</b>	<b>(10,996)</b>

<sup>1</sup> Comprised of deferred income taxes, foreign exchange loss (gain) 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 December 31, 2015, the net \$61.3 million of cash used in non-cash working capital items was mostly due to an increase in other receivables mainly due to the net increase in tax credits resulting from timing of its collection and to the payment of our performance-based compensation to our members. The timing of our working capital inflows and outflows will always have an impact on the cash flow from operations.

#### 4.1.2. Cash Used in Investing Activities

For three months ended December 31, 2015, \$83.7 million were used in investing activities while \$63.1 million were used over the same period last year. The following table provides a summary of the generation and use of cash from investing activities.

For the three months ended December 31,	2015	2014	Change
<i>In thousands of CAD</i>			
Business acquisition	(4,000)	—	(4,000)
Proceeds from sale of capital assets	—	15,255	(15,255)
Purchase of property, plant and equipment	(31,037)	(45,819)	14,782
Additions to contract costs	(18,403)	(14,677)	(3,726)
Additions to intangible assets	(22,514)	(15,657)	(6,857)
Net purchase of long-term investments	(7,941)	(3,294)	(4,647)
Payments received from long-term receivables	164	1,126	(962)
<b>Cash used in investing activities</b>	<b>(83,731)</b>	<b>(63,066)</b>	<b>(20,665)</b>

The increase of \$20.7 million in cash used in investing activities was mainly due to the sale of capital assets in Q1 2015. The decrease in cash used in the purchase of property, plant and equipment was mainly from a higher level of investments in our data center infrastructure during the same quarter last year.

#### 4.1.3. Cash Used in Financing Activities

For the quarter ended December 31, 2015, \$1.5 million were used in financing activities while \$323.5 million were used over the same period last year. The following table provides a summary of the generation and use of cash from financing activities.

For the three months ended December 31,	2015	2014	Change
<i>In thousands of CAD</i>			
Net change in long-term debt	(3,012)	(290,916)	287,904
Settlement of derivative financial instruments	—	(42,972)	42,972
Purchase of Class A subordinate voting shares held in trust	(21,795)	(11,099)	(10,696)
Repurchase of Class A subordinate voting shares	(18,598)	—	(18,598)
Issuance of Class A subordinate voting shares	41,865	21,528	20,337
<b>Cash used in financing activities</b>	<b>(1,540)</b>	<b>(323,459)</b>	<b>321,919</b>

For the three months ended December 31, 2015, we used \$9.1 million to repurchase 192,500 Class A subordinate voting shares under the current NCIB. We also used \$9.5 million to pay and subsequently cancel 200,000 Class A subordinate voting shares repurchased and held by the Company as at the end of fiscal 2015. For the three months ended December 31, 2014, no shares were repurchased.

For the three months ended December 31, 2015, an amount of \$21.8 million was used to purchase CGI Class A subordinate voting shares in connection with the Company's Performance Share Unit Plan ("PSU Plan"), while for the comparable period last year, an amount of \$11.1 million was used to purchase shares under the PSU Plan. More information concerning the PSU Plan can be found in note 7 of the interim condensed consolidated financial statements.

For the three months ended December 31, 2015, we received \$41.9 million in proceeds from the exercise of stock options, compared to \$21.5 million during the three months ended December 31, 2014.

The decrease of \$321.9 million in cash used in financing activities was mainly due to a repayment of \$298.2 million under the term loan credit facility and the repayment of \$43.0 million to settle the related cross-currency swaps during the same quarter last year.



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

For the three months ended December 31, 2015, the effect of foreign exchange rate changes on cash and cash equivalents was \$4.2 million. These amounts had no effect on net earnings as they were recorded in other comprehensive income.

#### 4.2. CAPITAL RESOURCES

As at December 31, 2015	Total commitment	Available	Outstanding
<i>In thousands of CAD</i>			
Cash and cash equivalents	—	552,354	—
Long-term investments	—	51,413	—
Unsecured committed revolving facility <sup>a</sup>	1,500,000	1,462,577	37,423
<b>Total</b>	<b>1,500,000</b>	<b>2,066,344</b>	<b>37,423</b>

<sup>a</sup> Consists of Letters of Credit for \$37.4 million outstanding as at December 31, 2015.

Our cash position and bank lines are sufficient to support our growth strategy. At December 31, 2015, cash and cash equivalents and long-term investments represented \$603.8 million.

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

The amount of capital available was \$2,066.3 million. The long-term debt agreements contain covenants, which require us to maintain certain financial ratios. As at December 31, 2015, CGI was in compliance with these covenants.

Total debt increased by \$50.4 million to \$2,177.5 million as at December 31, 2015, compared to \$2,127.1 million as at September 30, 2015. The variation was mainly due to an unrealized loss of \$58.5 million on foreign exchange translation.

As at December 31, 2015, CGI is showing a positive working capital<sup>1</sup> of \$55.4 million. The Company also has \$1.5 billion available under its unsecured committed revolving facility and is generating a significant level of cash that will allow it to fund its operations while maintaining adequate levels of liquidity.

On November 9, 2015, the credit facility was extended by one year to December 2019 under the same terms and conditions and can be further extended annually.

On January 5, 2016, CGI repaid in advance, without penalty, the remaining portion of the May 2016 maturing tranche of the unsecured committed term loan credit facility in the amount of \$129.7 million. Following the repayment, CGI settled the related interest rate swaps and cross-currency swap contracts for a total amount of \$24.4 million.

The tax implications and impact on repatriation of the cash and cash equivalent held by foreign subsidiaries as at December 31, 2015 will not materially affect the Company's liquidity.

<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, 2015.

#### **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.

Please refer to note 10 of our interim condensed consolidated financial statements for additional information on our financial instruments.

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

As at December 31,	2015	2014
<i>In thousands of CAD except for percentages</i>		
<b>Reconciliation between net debt and long-term debt including the current portion:</b>		
Net debt	1,573,685	1,924,518
<i>Add back:</i>		
Cash and cash equivalents	552,354	489,577
Long-term investments	51,413	35,020
<b>Long-term debt including the current portion</b>	<b>2,177,452</b>	<b>2,449,115</b>
Net debt to capitalization ratio	18.3%	25.1%
Return on equity	16.9%	18.9%
Return on invested capital	14.5%	14.7%
Days sales outstanding	44	42

We use the net debt to capitalization ratio as an indication of our financial leverage in order to pursue large outsourcing contracts, expand global delivery centers, or make acquisitions. The net debt to capitalization ratio decreased to 18.3% in Q1 2016 from 25.1% in Q1 2015 mostly due the improved cash generation allowing us to reduce net debt by \$350.8 million and to the increase in equity.

ROE is a measure of the return we are generating for our shareholders. ROE decreased to 16.9% in Q1 2016 from 18.9% in Q1 2015. The decrease was mostly the result of the increase in equity coming from the net impact of translating foreign operations as reflected in other comprehensive income.

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 stable when compared to the same period last year.

DSO increased to 44 days at the end of Q1 2016 from 42 days in Q1 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 and guarantees on 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 totaling \$11.5 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.

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 December 31, 2015, we had committed a total of \$53.5 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 materially 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 are 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 2016.

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. Furthermore, approximately 48,000 of our 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 months ended December 31, 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. The standard supersedes IAS 18, "Revenue", IAS 11, "Construction Contracts", and other revenue related Interpretations. The standard will be effective on October 1, 2018 for the Company, with earlier application permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

#### **IFRS 9 - Financial Instruments**

In July 2014, the IASB amended IFRS 9, "Financial Instruments", to bring together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The standard supersedes all previous versions of IFRS 9 and will be effective on October 1, 2018 for the Company with earlier application permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

#### **IFRS 16 - Leases**

In January 2016, the IASB issued IFRS 16, "Leases", to set out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a lease contract. The standard supersedes IAS 17, "Leases", and other lease related Interpretations. The standard will be effective on October 1, 2019 for the Company with earlier application permitted only if IFRS 15 "Revenue from Contracts with Customers" is also applied.

## 6. Critical Accounting Estimates

The Company's significant accounting policies are described in note 3 of the audited consolidated financial statements for the year ended September 30, 2015. Certain of these accounting policies, listed below, require management to make accounting estimates and judgment that affect the reported amounts of assets, liabilities and equity and the accompanying disclosures at the date of the consolidated financial statements as well as the reported amounts of revenue and expenses during the reporting period. These accounting estimates are considered critical because they require management to make subjective and/or complex judgments that are inherently uncertain and because they 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	✓		✓	
Income taxes	✓			✓
Litigation and claims	✓	✓	✓	

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

### Revenue recognition

#### *Multiple component arrangements*

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 at the inception of the contract. At least on a yearly basis, the Company reviews its best estimate of the selling price which is established by using a reasonable range of prices for the various services and products offered by the Company based on local market information available. Information used in determining the range is mainly based on recent contracts signed and the economic environment. A change in the range could have a material impact on the allocation of total arrangement value, and therefore on the amount and timing of revenue recognition.

#### *System integration and consulting services under fixed-fee arrangements*

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 primarily uses labour costs or labour hours to measure the progress towards completion. Project managers monitor and re-evaluate project forecasts at least on a monthly basis. Forecasts are reviewed to consider factors such as: changes to the scope of the contracts, delays in reaching milestones and new complexities in the project delivery. Forecast can also be affected by market risks such as the availability and retention of qualified IT professionals and/or the ability of the subcontractors to perform their obligation within agreed upon budget and timeframes. To the extent that actual labour hours or labour costs could vary from estimates, adjustments to revenues following the review of the costs to complete the projects are reflected in the period in which the facts that give rise to the revision occur. Whenever the costs are forecasted to be higher than the revenues, estimated losses on revenue-generating contracts is accounted for as described below.

### 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. Projects and services are monitored by the respective managers on a monthly basis. Some of the indicators reviewed are: current financial results, client satisfaction and third party deliverables and estimated costs.

In addition, CGI's Engagement Assessment Services ("EAS") team conducts a formal monthly health check assessment on CGI's project portfolio for all contracts that has a value above an established threshold. The reviews are based on a defined set of risk dimensions and assessment categories that results in detailed reports containing actual delivery and current financial status which are reviewed with the Executive management. Due to the variability of the indicators reviewed, and because the estimates are based on many variables, estimated losses on revenue-generating contracts are subject to change.

### 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. In order to determine if a goodwill impairment test is required, management reviews different factors on a quarterly basis such as changes in technological or market environment, changes in assumptions used to derive the weighted average cost of capital ("WACC") and actual financial performance compared to planned performance.

The recoverable amount of each segment has been determined based on its value in use ("VIU") calculation which includes estimates about their future financial performance based on cash flows approved by management. However, factors such as our ability to introduce and deliver new services and business solutions, a lengthened sales cycle, the cyclicity of purchases of technology services and products, the nature of a customer's business and the structure affect future cash flow, and actual results might differ from future cash flows used in the goodwill impairment test.

### Income taxes

Deferred tax assets are recognized for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available for their utilization. The Company considers the analysis of forecast and future tax planning strategies. Estimates of taxable profit are made based on the forecast by jurisdiction which are aligned with goodwill impairment testing assumptions, on an undiscounted basis. In addition, management considers factors such as substantively enacted tax rates, the history of the taxable profits and availability of tax strategies. Due to the uncertainty and the variability of the factors mentioned above, deferred tax asset are subject to change. Management reviews its assumptions on a quarterly basis and adjusts the deferred tax assets when appropriate.

The Company is subject to taxation in numerous jurisdictions and there are transactions and calculations for which the ultimate tax determination is uncertain which occurs when there is uncertainty as to the meaning of the law, or to the applicability of the law to a particular transaction or both. In those circumstances, the Company might review administrative practice, consult tax authorities or advisors on the interpretation of tax legislation. 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 and is subject to change. The review of assumptions is done on a quarterly basis.

### Litigation 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 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. Management reviews quarterly assumptions and facts surrounding outstanding litigation and claims, involves external counsel when necessary and adjusts the provision accordingly. The Company has to be compliant with law in many jurisdictions which

increases the complexity of provision for litigation review. Since the outcome of such litigation and claims are not predictable, those provisions are subject to change. Adjustments to litigation and claims provision are reflected in the period when the facts that give rise to an adjustment occur.



## 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 National Instrument 52-110 adopted by the Canadian Securities Administrators as well as those that apply under the New York Stock Exchange ("NYSE") and the U.S. Securities and Exchange Commission. 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 auditor, asserting the external auditor's independence, reviewing the terms of their engagement, conducting an annual auditor's performance assessment, and pursuing ongoing discussions with them; (g) reviewing all related party transactions in accordance with the rules of the NYSE and other applicable laws and regulations; (h) reviewing the audit procedures including the proposed scope of the external auditor's 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's performance 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 2015 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, 2015. 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 December 31, 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 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 business solutions; 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 these 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 fulfill 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, are 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 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.

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