

CGI GROUP INC  
Form 40-F  
December 21, 2016  
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**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 40-F**

(Check one)

Registration statement pursuant to Section 12 of the Securities Exchange Act of 1934

or

Annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended September 30, 2016

Commission file number 1-14858

**GROUPE CGI INC./CGI GROUP INC.**

*(Exact name of Registrant as specified in its charter)*

CGI Group Inc.

*(Translation of Registrant's name into English)*

Québec, Canada

*(Province or other jurisdiction of incorporation or organization)*

7374

*(Primary Standard Industrial Classification Code Number)*

98-0406227

*(I.R.S. Employer Identification Number)*

1350 René-Lévesque Boulevard West, 25<sup>th</sup> Floor

Montréal, Québec

Canada H3G 1T4

(514) 841-3200

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(Address and telephone number of Registrant's principal executive offices)

CGI Technologies and Solutions Inc.

11325 Random Hills

Fairfax, VA22030

(703) 267-8679

(Name, address and telephone number of agent for service in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

| <u>Title of each class</u>        | <u>Name of each exchange on which registered</u> |
|-----------------------------------|--|
| Class A Subordinate Voting Shares | New York Stock Exchange                          |

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

For annual reports, indicate by check mark the information filed with this form:

Annual Information Form      Audited Annual Financial Statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 271,956,913 Class A Subordinate Shares, 32,852,748 Class B Shares

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days.    Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the Registrant was required to submit and post such files). Yes  No

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### **Undertaking**

Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

### **Controls and Procedures**

The Registrant has established a system of controls and other procedures designed to ensure that information required to be disclosed in its periodic reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. These disclosure controls and procedures have been evaluated under the direction of the Registrant's Chief Executive Officer and Chief Financial Officer as of the end of the Registrant's most recently completed fiscal year on September 30, 2016. Based on such evaluations, the Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures are effective. No change was made in the Registrant's internal controls over financial reporting during the fiscal year ended September 30, 2016 that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting. No significant changes were made in the Registrant's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

### **Audit Committee**

The Audit and Risk Management Committee of the Board of Directors is composed entirely of unrelated directors who meet the independence and experience requirements of the New York Stock Exchange, the Toronto Stock Exchange, the U.S. Securities and Exchange Commission rules and National Instrument 52-110, as amended.

The Audit and Risk Management Committee is composed of Mr. Gilles Labbé, Chair of the Committee, and Messrs. Jean Brassard, Richard B. Evans, Timothy J. Hearn and Joakim Westh.

The Registrant's Board of Directors has determined that the following members of the Audit and Risk Management Committee of the Board of Directors are audit committee financial experts within the meaning of paragraph (8) of General Instruction B to Form 40-F:

Gilles Labbé

Please refer to the Registrant's Management Proxy Circular dated December 12, 2016 under the heading *Nominees for Election as Directors* for a brief summary of Mr. Labbé's relevant experience.

### **Principal Accountant Fees and Services**

In order to satisfy itself as to the independence of the external auditors, the Audit and Risk Management Committee has adopted an auditor independence policy which covers (a) the services that may and may not be performed by the external auditors, (b) the governance procedures to be followed prior to retaining services from the external auditors, and (c) the responsibilities of the key participants. The following is a summary of the material provisions of the policy.

#### *Performance of Services*

Services are either acceptable services or prohibited services.

The acceptable services are (a) audit and review of financial statements, (b) prospectus work, (c) audit of pension plans, (d) special audits on control procedures, (e) tax planning services on mergers and acquisitions activities, (f) due diligence relating to mergers and acquisitions, (g) tax services related to transfer pricing, (h) sales tax planning and returns, (i) research and interpretation related to taxation, (j) research relating to accounting issues, (k) tax planning services, (l) preparation of tax returns and (m) all other services that are not prohibited services.

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The prohibited services are (a) bookkeeping services, (b) design and implementation of financial information systems, (c) appraisal or valuation services or fairness opinions, (d) actuarial services, (e) internal audit services, (f) management functions, (g) human resources functions, (h) broker-dealer services, (i) legal services, (j) services based on contingency fees and (k) expert services.

*Governance Procedures*

The following control procedures are applicable when considering whether to retain the external auditors' services:

For all services falling within the permitted services category, whether they are audit or non-audit services, a request for approval must be submitted to the Audit and Risk Management Committee through the Executive Vice-President and Chief Financial Officer prior to engaging the auditors to perform the services.

In the interests of efficiency, certain permitted services are pre-approved quarterly by the Audit and Risk Management Committee and thereafter only require approval by the Executive Vice-President and Chief Financial Officer as follows:

The Audit and Risk Management Committee can pre-approve envelopes for certain services to pre-determined dollar limits on a quarterly basis;

Once pre-approved by the Audit and Risk Management Committee, the Executive Vice-President and Chief Financial Officer may approve the services prior to the engagement;

For services not covered by the pre-approved envelopes and for costs in excess of the pre-approved amounts, separate requests for approval must be submitted to the Audit and Risk Management Committee; and

At each quarterly meeting of the Audit and Risk Management Committee, a consolidated summary of all fees by service type is presented including a breakdown of fees incurred within each of the pre-approved envelopes.

*Fees Billed by the External Auditors*

During the years ended September 30, 2016 and September 30, 2015, CGI's external auditors billed the following fees for their services:

| Service retained                  | Fees billed and percentage |        |             |        |
|-----------------------------------|----------------------------|--------|-------------|--------|
|                                   | 2016                       |        | 2015        |        |
| Audit fees                        | \$7,454,707                | 78.45% | \$7,661,802 | 77.88% |
| Audit related fees <sup>(a)</sup> | \$1,494,486                | 15.73% | \$1,546,116 | 15.72% |
| Tax fees <sup>(b)</sup>           | \$538,641                  | 5.67%  | \$630,218   | 6.41%  |

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|                           |                    |             |                    |             |
|---------------------------|--------------------|-------------|--------------------|-------------|
| Other fees <sup>(c)</sup> | \$14,900           | 0.15%       |                    |             |
| <b>Total fees billed</b>  | <b>\$9,502,734</b> | <b>100%</b> | <b>\$9,838,136</b> | <b>100%</b> |

(a) The audit related fees billed by the external auditors for the years ended September 30, 2016 and 2015 were in relation to service organization control procedures audits and assistance.

(b) The tax fees billed by the external auditors for the years ended September 30, 2016 and 2015 were in relation to tax compliance and advisory services.

(c) The other fees billed by the external auditors for the year ended September 30, 2016 related to services in connection with CGI's corporate social responsibility program.

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### **Code of Ethics**

In addition to its Code of Ethics and Business Conduct (which incorporates the CGI Anti-Corruption Policy) that applies to all the Registrant's employees, officers and directors, the Registrant has adopted an Executive Code of Conduct that applies specifically to the Registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or other persons performing similar functions (collectively, the Officers). The Executive Code of Conduct is designed to deter wrongdoing and to promote:

- Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- Full, fair, accurate, timely, and understandable disclosure in reports and documents that the Registrant files with, or submits to, the Securities and Exchange Commission and in other public communications made by the Registrant;
- Compliance with applicable governmental laws, rules and regulations;
- The prompt internal reporting of violations of the Executive Code of Conduct to an appropriate person or persons identified in the Executive Code of Conduct; and
- Accountability for adherence to the Executive Code of Conduct.

The Registrant's Executive Code of Conduct and its Code of Ethics and Business Conduct (which incorporates the CGI Anti-Corruption Policy) have been posted on the Registrant's website at <http://www.cgi.com>.

The Board of Directors monitors compliance with the Executive Code of Conduct and the Code of Ethics and Business Conduct (which incorporates the CGI Anti-Corruption Policy) and, under the Board of Directors charter, is responsible for any waivers of such codes' provisions granted to directors or Officers. No such waivers have been granted to date.

### **Corporate Governance Practices**

CGI's corporate governance practices conform to those followed by U.S. domestic companies under the *New York Stock Exchange* listing standards.

### **Off-balance sheet arrangements**

The Registrant does not enter into off-balance sheet financing as a matter of practice except for the use of operating leases for office space, computer equipment and vehicles as well as the sale of accounts receivable, none of which are off-balance sheet arrangements within the meaning of paragraph (11) of General Instruction B to Form 40-F.

As disclosed in note 29 to the Registrant's Consolidated Financial Statements, in the normal course of business, the Registrant enters 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 the Company 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. The nature of most indemnification undertakings prevent the Registrant from making a reasonable estimate of the maximum potential amount the Registrant could be required to pay counterparties, as the agreements do not specify a maximum amount and the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. The Registrant does not expect that any sum it may have to pay in connection with these guarantees will have a materially adverse effect on its Consolidated Financial Statements.

**Table of Contents****Tabular Presentation of Contractual Obligations**

As of September 30, 2016, the Registrant's commitments 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, were as follows:

| Commitment type  | Total            | Less than 1 year | 2nd and 3rd years | 4th and 5th years | After 5 years    |
|--|------------------|------------------|-------------------|-------------------|------------------|
| <i>In thousands of CAD</i>                                     |                  |                  |                   |                   |                  |
| Long-term debt   | 1,861,880        | 173,362          | 423,464           | 342,285           | 922,769          |
| Estimated interest on long-term debt                           | 361,842          | 69,010           | 124,309           | 97,673            | 70,850           |
| Finance lease obligations                                      | 42,172           | 18,738           | 17,183            | 5,489             | 762              |
| Estimated interest on finance lease obligations                | 2,033            | 978              | 878               | 171               | 6                |
| Operating leases   |                  |                  |                   |                   |                  |
| Rental of office space (excluding costs of services and taxes) | 573,957          | 154,247          | 209,521           | 117,861           | 92,328           |
| Computer equipment   | 15,562           | 7,941            | 6,350             | 976               | 295              |
| Automobiles  | 97,775           | 39,256           | 49,072            | 9,111             | 336              |
| Long-term service agreements and other                         | 189,676          | 85,825           | 93,446            | 10,092            | 313              |
| <b>Total contractual obligations</b>                           | <b>3,144,897</b> | <b>549,357</b>   | <b>924,223</b>    | <b>583,658</b>    | <b>1,087,659</b> |

Our required benefit plan contributions have not been included in this table as such contributions depend on periodic actuarial valuations for funding purposes. Our contributions to defined benefit plans are estimated at \$19.2 million for fiscal 2017 as described in note 16 of the audited consolidated financial statements.

**Information to be Filed on This Form**

The following materials are filed as a part of this Annual Report:

Annual Information Form for the fiscal year ended September 30, 2016

Audited Annual Financial Statements for the fiscal year ended September 30, 2016

Management's Discussion and Analysis of Financial Position and Results of Operations for the fiscal year ended September 30, 2016  
The following documents are filed as exhibits to this Annual Report:

23.1 Consent of Ernst & Young LLP

99.1 Certification of the Registrant's Chief Executive Officer required pursuant to Rule 13a-14(a)

99.2 Certification of the Registrant's Chief Financial Officer required pursuant to Rule 13a-14(a)

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- 99.3 Certification of the Registrant's Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
  
- 99.4 Certification of the Registrant's Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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This Annual Information Form is dated December 12, 2016 and, unless specifically stated otherwise, all information disclosed in this form is provided as at September 30, 2016, the end of CGI's most recently completed fiscal year. All dollar amounts are in Canadian dollars, unless otherwise stated.

**CORPORATE STRUCTURE****Incorporation and Registered Office**

CGI Group Inc. (the Company, CGI, we, us or our) was incorporated on September 29, 1981 under Part IA Companies Act (Quebec), predecessor to the Business Corporations Act (Quebec), which came into force on February 14, 2011 and which now governs the Company. The Company continued the activities of Conseillers en gestion et informatique CGI inc., which was originally founded in 1976. The executive and registered offices of the Company are situated at 1350 René-Lévesque Blvd. West, 25<sup>th</sup> Floor, Montreal, Quebec, Canada, H3G 1T4. CGI became a public company on December 17, 1986, upon completing an initial public offering of its Class A subordinate voting shares (Class A subordinate voting shares).

**Subsidiaries**

The activities of the Company are conducted either directly or through subsidiaries. The table below lists the principal subsidiaries of the Company as at September 30, 2016, each of which is directly or indirectly wholly-owned by the Company. Certain subsidiaries whose total assets did not represent more than 10% of the Company's consolidated assets or whose revenues did not represent more than 10% of the Company's consolidated revenues as at September 30, 2016<sup>1</sup>, have been omitted. The subsidiaries that have been omitted represent, as a group, less than 20% of the consolidated assets and revenues of the Company as at September 30, 2016. This table omits subsidiaries whose primary role is to hold investments in other CGI subsidiary entities.

| Name of Subsidiary                                      | Jurisdiction of Incorporation |
|---|-------------------------------|
| Conseillers en gestion et informatique CGI inc.         | Canada                        |
| CGI Information Systems and Management Consultants Inc. | Canada                        |
| CGI Technologies and Solutions Inc.                     | United States of America      |
| CGI Federal Inc.  | United States of America      |
| CGI Suomi Oy  | Finland                       |
| CGI Sverige AB  | Sweden                        |
| CGI Nederland B.V.                                      | Netherlands                   |
| CGI IT UK Limited                                       | United Kingdom                |
| CGI France SAS  | France                        |

<sup>1</sup>Based on the Company's audited consolidated financial statements for the fiscal year ended September 30, 2016 filed with Canadian securities regulatory authorities and which are available at [www.sedar.com](http://www.sedar.com) and on CGI's web site at [www.cgi.com](http://www.cgi.com).

**Table of Contents****Capital Structure**

The Company's authorized share capital consists of an unlimited number of Class A subordinate voting shares carrying one vote per share and an unlimited number of Class B shares (multiple voting) ( Class B shares ) carrying 10 votes per share, all without par value, of which, as of December 12, 2016, 270,316,749 Class A subordinate voting shares and 32,852,748 Class B shares, were issued and outstanding. These shares represent respectively 45.14% and 54.86% of the aggregate voting rights attached to the outstanding Class A subordinate voting shares and Class B shares. Two classes of preferred shares also form part of CGI's authorized capital: an unlimited number of First Preferred Shares, issuable in series, and an unlimited number of Second Preferred Shares, also issuable in series. As of December 12, 2016 there were no preferred shares outstanding.

The Company incorporates by reference the disclosure contained under the headings *Class A Subordinate Voting Shares and Class B Shares* on pages 3 to 5, and *First Preferred Shares and Second Preferred Shares* on page 5 of CGI's Management Proxy Circular dated December 12, 2016 which was filed with Canadian securities regulatory authorities and which is available at [www.sedar.com](http://www.sedar.com) and on CGI's web site at [www.cgi.com](http://www.cgi.com).

**Stock Splits**

As of December 12, 2016, the Company had proceeded with four subdivisions of its issued and outstanding Class A subordinate voting shares as follows:

- August 12, 1997 on a two for one basis;
- December 15, 1997 on a two for one basis;
- May 21, 1998 on a two for one basis; and
- January 7, 2000 on a two for one basis.

**Market for Securities, Trading Price and Volume**

CGI's Class A subordinate voting shares are listed for trading on the Toronto Stock Exchange ( TSX ) under the symbol GIB.A and on the New York Stock Exchange, under the symbol GIB. A total of 160,839,640 Class A subordinate voting shares were traded on the TSX during the year ended September 30, 2016 as follows:

| Month        | High <sup>(a)</sup><br>(\$) | Low <sup>(a)</sup><br>(\$) | Volume     |
|--------------|-----------------------------|----------------------------|------------|
| October 2015 | 47.91                       | 46.91                      | 12,202,615 |

|               |       |       |            |
|---------------|-------|-------|------------|
| November 2015 | 58.59 | 48.25 | 21,226,070 |
| December 2015 | 59.39 | 55.11 | 16,486,268 |
| January 2016  | 60.29 | 52.61 | 16,643,026 |
| February 2016 | 61.50 | 55.00 | 14,007,336 |
| March 2016    | 62.66 | 56.12 | 13,161,987 |
| April 2016    | 63.62 | 57.23 | 14,017,150 |
| May 2016      | 61.57 | 56.65 | 10,533,014 |



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| Month          | High <sup>(a)</sup><br>(\$) | Low <sup>(a)</sup><br>(\$) | Volume     |
|----------------|-----------------------------|----------------------------|------------|
| June 2016      | 61.74                       | 53.55                      | 13,217,601 |
| July 2016      | 64.48                       | 54.85                      | 11,078,054 |
| August 2016    | 65.17                       | 62.39                      | 8,917,600  |
| September 2016 | 65.84                       | 60.50                      | 9,348,919  |

Source: NASDAQ

- (a) The high and low prices reflect the highest and lowest prices at which a board lot trade was executed in a trading session during the month.

**Normal Course Issuer Bid and Share Repurchases**

On January 27, 2016, CGI announced that it was renewing its normal course issuer bid ( NCIB ) to repurchase up to 10% of the Company's public float of its issued and outstanding Class A subordinate voting shares during the normal course issuer bid term that commenced on February 11, 2016 and will expire on February 3, 2017 at the latest. On December 2, 2016, the Company entered into a specific share repurchase program with a third party, which will form part of the NCIB. See *Description of CGI's Business - Significant developments of the Three Most Recent Fiscal Years Fiscal Year ended September 30, 2016 - Share Repurchase Program* later in this document.

**CORPORATE GOVERNANCE****Board and Standing Committee Charters and Codes of Ethics**

CGI's Codes of Ethics, including its Code of Ethics and Business Conduct (which incorporates the CGI Anti-Corruption Policy) and its Executive Code of Conduct, the charter of the Board of Directors and the charters of the standing committees of the Board of Directors, including the charter of the Audit and Risk Management Committee, are set out in CGI's Fundamental Texts which are annexed as Appendix A to this Annual Information Form.

### **Audit Committee Information**

The Company incorporates by reference the disclosure contained under the heading *Expertise and Financial and Operational Literacy* on pages 41 and 42 and the disclosure under the heading *Report of the Audit and Risk Management Committee* on page 50 and following of CGI's Management Proxy Circular dated December 12, 2016.

### **Directors and Officers**

#### **Directors**

The Company incorporates by reference the disclosure under the heading *Nominees for Election as Directors* relating to the Company's directors contained on pages 8 to 15, and the table on Board of Directors committee membership on page 39 of CGI's Management Proxy Circular dated December 12, 2016.

**Table of Contents****Officers**

The following table states the names of CGI's senior officers, their place of residence, their principal occupation within the Company as of December 12, 2016 and, where required, any other previously held positions in the last five years with the Company or one of its affiliates, or outside of the Company:

| Name and Province/State<br>and Country of Residence | Principal Occupation<br>with the Company                                    | Previously held position<br>(last five years)  |
|---|---|--|
| Jean-Michel Baticle<br>Oise, France                 | President, France, Luxembourg and<br>Morocco Operations                     | Senior Vice-President, Regions<br><br>Vice-President, Regions  |
| François Boulanger<br>Quebec, Canada                | Executive Vice-President and Chief<br>Financial Officer                     | Senior Vice-President and<br>Corporate Controller  |
| Mark Boyajian<br>Toronto, Ontario                   | President, Canada Operations  | Senior Vice-President &<br>Mid-Atlantic Business Unit<br>Leader<br><br>Senior Vice-President,<br>US Mid-Atlantic     |
| Benoit Dubé<br>Quebec, Canada                       | Executive Vice-President, Chief<br>Legal Officer and Corporate<br>Secretary | --   |
| Stuart Forman<br>Quebec, Canada                     | Senior Vice-President and Global<br>Chief Information Officer               | Regional Chief Information<br>Officer, North America<br><br>Sector Vice-President, Global<br>Infrastructure Services |

|  |   |  |
|--|---|--|
|  |   | Sector Vice-President, Global SAP Practice   |
| Julie Godin<br>Quebec, Canada              | Vice-Chair of the Board, Chief Planning and Administration Officer        | Executive Vice-President, Global Human Resources and Strategic Planning                                    |
|  |   | Senior Vice-President, Human Resources and Strategic Planning  |
| Serge Godin<br>Quebec, Canada              | Founder and Executive Chairman of the Board                               | --   |
| Lorne Gorber<br>Quebec, Canada             | Executive Vice-President, Global Communications and Investor Relations    | Senior Vice-President, Global Communications and Investor Relations  |
| Timothy W. Gregory<br>Kent, United Kingdom | Executive Vice-President, Business Engineering, Marketing and IP Strategy | President, United Kingdom Operations<br><br>President, Europe and Australia<br><br>Business Unit Leader UK |

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| Name and Province/State<br>and Country of Residence | Principal Occupation<br>with the Company                     | Previously held position<br>(last five years)  |
|---|--|--|
| David L. Henderson<br>Virginia, United States       | President, United States Operations                          | Senior Vice-President US Central<br>and South<br><br>Vice-President US Central and<br>South  |
| Colin Holgate<br>Sydney, Australia                  | President, Asia Pacific Operations                           | Managing Director, Asia Pacific,<br>Middle East and Africa of Logica<br>plc<br><br>Chief Executive Officer Asia<br>Pacific of Logica plc |
| Kevin Linder<br>Quebec, Canada                      | Senior Vice-President and<br>Corporate Controller            | Vice-President Financial Business<br>Services<br><br>Vice-President Finance, Canada<br><br>Vice-President Corporate<br>Reporting         |
| Douglas McCuaig<br>Ontario, Canada                  | President, Eastern Central and<br>Southern Europe Operations | Executive Vice-President, Global<br>Client Transformation Services<br><br>President, Canada  |
| Heikki Nikku<br>Tuusula, Finland                    | President, Nordics Operations                                | Senior Vice-President of Finland<br>and Estonia Operations   |

|  |  |  |
|--|--|--|
|  |  | Managing Director of Logica<br>Finland Operations                            |
| Steve Perron<br>Quebec, Canada                 | Senior Vice-President, Finance and<br>Treasury                     | Vice-President, Corporate<br>Accounting and Taxation                         |
| Luc Pinard<br>Quebec, Canada                   | Executive Vice-President, Corporate<br>Performance                 | Executive Vice-President, Chief<br>Technology and Quality Officer            |
| Daniel Rocheleau<br>Quebec, Canada             | Executive Vice-President and Chief<br>Business Engineering Officer | --   |
| George D. Schindler<br>Virginia, United States | President and Chief Executive<br>Officer                           | President and Chief Operating<br>Officer                                     |
|  |  | Chief Operating Officer  |
|  |  | President, United States and<br>Canada                                       |
|  |  | President, CGI Federal   |
| Claude Séguin<br>Quebec, Canada                | Advisor to the Executive Chairman                                  | Senior Vice-President, Corporate<br>Development and Strategic<br>Investments |

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| Name and Province/State<br>and Country of Residence | Principal Occupation<br>with the Company        | Previously held position<br>(last five years)                            |
|---|---|--|
| Stanley L. Sims<br>Fairfax, United States           | Chief Security Officer                          | Director, Defense Security Services, a U.S. Department of Defense agency |
| Steve Thorn<br>Surrey, United Kingdom               | President, United Kingdom Operations            | Senior Vice-President, UK Public Sector Business                         |
|   |   | Senior Vice-President, Application Services                              |
|   |   | Vice-President, Logica UK Delivery                                       |
| Guy Vigeant<br>Quebec, Canada                       | Senior Vice-President, Mergers and Acquisitions | Senior Vice-President, Greater Montreal                                  |
|   |   | Financial Sector Vice-President  |

**Ownership of Securities on the Part of Directors and Officers**

The Company incorporates by reference the disclosure under the heading *Principal Holders of Class A Subordinate Voting Shares and Class B Shares* on pages 5 and 6 of CGI's Management Proxy Circular dated December 12, 2016.

**DESCRIPTION OF CGI'S BUSINESS****Mission, Vision and Strategy**

The mission of CGI is to help its clients with professional services of outstanding quality, competence and objectivity, delivering the best solutions to fully satisfy client objectives in information technology (IT), business processes and management. In all we do, we foster a culture of partnership, intrapreneurship and integrity, building a global IT and business process services company.

CGI is unique compared to most companies. We not only have a vision, but also a dream: To create an environment in which we enjoy working together and, as owners, contribute to building a company we can be proud of. This dream

has motivated us since our founding in 1976 and drives our vision: To be a global, world-class IT and business process services leader helping our clients succeed.

In pursuing this dream and vision, CGI has been highly disciplined throughout its history in executing a Build and Buy profitable growth strategy comprised of four pillars that combine profitable organic growth ( Build ) and accretive acquisitions ( Buy ):

**Pillar 1:** Smaller contract wins, renewals and extensions;

**Pillar 2:** Large, long-term transformational outsourcing contracts;

**Pillar 3:** Small firm or niche player acquisitions; and

**Pillar 4:** Large, transformational acquisitions.



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The first two pillars relate to driving profitable organic growth through the pursuit of contracts-both large and small-with new and existing clients in our targeted industries.

The last two pillars focus on growth through niche and large acquisitions. We identify niche acquisitions through a strategic qualification process that systematically searches for targets to strengthen our local proximity in metro markets, our industry expertise and enhance our services and solutions. We also pursue large acquisitions to further expand our geographic presence and critical mass, which enables us to compete for large outsourcing contracts and broaden our client relationships. CGI will continue to be a consolidator in the IT services industry.

Since 1976, our professionals have been working toward the same dream and vision. Today, with a presence in hundreds of global locations and more than \$10 billion in revenue, our aspiration is to double our size over a five to seven year period.

CGI's Mission, Vision, Dream and Values are explained in the Company's Fundamental Texts, which are annexed as Appendix A, and are available on the Company's web site at [www.cgi.com](http://www.cgi.com).

### **Executing our strategy**

CGI's strategy is executed through a unique business model that combines client proximity with an extensive global delivery network to deliver the following benefits:

**Local responsiveness and accountability:** We live and work near our clients to provide a high level of responsiveness. Our local CGI teams speak our clients' language, understand their business environment, and collaborate to meet their goals and advance their business.

**Global reach:** Our local presence is complemented by an expansive global delivery network that ensures our clients have 24/7 access to best-fit digital capabilities and resources to meet their end-to-end needs.

**Committed experts:** One of our key strategic goals is to be our clients' expert of choice. To achieve this, we invest in recruiting professionals with extensive industry, business and technology expertise, particularly in high-demand areas, such as agile services, robotics process automation, cloud, mobile computing, cybersecurity, data analytics and the Internet of Things. In addition, a majority of CGI professionals are also shareholders, providing an added level of commitment to the success of our clients.

**Comprehensive quality processes:** CGI's investment in quality frameworks and rigorous client satisfaction assessments has resulted in a consistent track record of on-time and within-budget project delivery.

### **Business Structure**

The Company's operations are managed through the following seven operating segments, referred to as our Strategic Business Units, 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 ). For additional information on our operating segments, please refer to sections 3.4 and 3.6 of CGI s Management s Discussion and Analysis for Fiscal Year 2016 and to note 27 of our audited consolidated financial statements for the years ended September 30, 2016 and 2015, which were filed with Canadian securities regulatory authorities and are available at [www.sedar.com](http://www.sedar.com) and on CGI s web site at [www.cgi.com](http://www.cgi.com).

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The following table provides a summary of the year-over-year changes in our revenue, in total and by segment, in fiscal 2016 and 2015:

| Segment Revenue            | 2016              | 2015              |
|----------------------------|-------------------|-------------------|
| <i>In thousands of CAD</i> |                   |                   |
| U.S.                       | 2,878,661         | 2,813,127         |
| Nordics                    | 1,651,322         | 1,638,985         |
| Canada                     | 1,536,331         | 1,533,719         |
| France                     | 1,444,966         | 1,283,387         |
| U.K.                       | 1,431,739         | 1,331,287         |
| ECS                        | 1,198,854         | 1,211,228         |
| Asia Pacific               | 541,391           | 475,363           |
| <b>Total</b>               | <b>10,683,264</b> | <b>10,287,096</b> |

**Services Offered by CGI**

Through high-end consulting, systems integration, transformational outsourcing and intellectual property ( IP ) solutions, combined with in-depth industry expertise, CGI works with clients across the globe through a unique client proximity and best-fit global delivery model to accelerate their digital transformation and drive competitive advantage.

CGI delivers end-to-end services that cover the full spectrum of delivery; from solution design and development, to implementation, integration and technology operations. Our portfolio encompasses:

**High-end consulting and system integration:** CGI helps clients form their digital roadmap, adopting an agile, iterative approach that enables them to innovate, connect and rationalize legacy systems to deliver enterprise-wide change.

**Transformational outsourcing:** Our clients entrust us with full or partial responsibility for their IT and business functions. In return, we deliver significant efficiency improvements and cost savings. Typical services in an end-to-end engagement include: application development, integration and maintenance; technology infrastructure management; and business process services, such as collections and payroll management. Outsourcing contracts are long-term in nature, with a typical duration of five to ten or more years allowing our clients to reinvest savings, further driving digital transformation.

CGI has a wide range of CGI-built IP-based business solutions that help shape opportunities and drive value for its clients and shareholders, including the following:

*CGI Advantage* is a leading enterprise resource planning ( ERP ) solution that helps state and local governments improve their back-office operations and better serve their citizens. Its full suite of built-for-government applications includes financial management, payroll, budgeting, human resources management, procurement, permitting, case management and business intelligence. *CGI Advantage* has had 400+ successful implementations spanning U.S. states, cities and

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counties. Clients include 22 state governments, the two largest U.S. cities by population and four of the six largest U.S. counties by population, including the largest. *CGI Advantage* delivery options include on-premises implementation, managed services hosted in a CGI data center, or as a software as a service ( SaaS ) offering.

*Momentum* is an integrated ERP suite trusted by 100+ organizations across the three branches of the U.S. federal government, including intelligence and defense organizations. *Momentum* provides comprehensive capabilities to improve federal back-office operations. Its delivery options include on-premises implementation, managed services hosted in a CGI data center, or as a SaaS subscription-based offering.

CGI's Credit Services Solutions, including *CGI Collections360*, *CGI Gateway360*, *CACS*, *ACAPS*, *Bureaulink*, *Strata* and other applications, are in use by hundreds of enterprises around the world to improve their consumer and small business credit operations.

*CGI Atlas360* is used in 70 countries (39 languages) to provide a cost-efficient, global contact center network via SaaS and omni-channel customer relationship management solutions, as well as business process services. *CGI Atlas360* business process services include global call center support, fee processing, cash management and complex scheduling, all supported by a cloud-based customer relationship management software. *CGI Atlas360* specializes in applicant processes such as customer applications for credit cards, government IDs, insurance cards, etc. *CGI Atlas360* is an end-to-end outsourcing solution with the ability to deliver individual components to support the needs of clients who require one or more specialized services.

*CGI Trade360* delivers all of the software, infrastructure and support resources necessary to power a bank's global trade business. Delivered as a SaaS offering, *CGI Trade360* enables banks to provide the full range of traditional trade, payables, receivables and cash management services to their customers anywhere, anytime on a single, integrated and global platform. The *CGI Trade360* platform is built uniquely for multi-bank, multi-currency and multi-time zone processing, and supports more than 33,000 portal users in 90 countries.

*ACAPS*, *BureauLink*, *CACS*, *CGI Advantage*, *CGI Atlas360*, *CGI Collections360*, *CGI Gateway360*, *CGI Trade360*, *Momentum* and *Strata* are trademarks or registered trademarks of CGI Group Inc. or its related companies.

### **Markets for CGI's Services**

CGI has long and focused practices in all of its core industries, providing clients with a partner that is not only expert in IT, but expert in their industries. This combination of business knowledge and digital technology expertise allows us to help our clients adapt as their industries change and, in the process, allows us to evolve the industries in which we operate.

Our targeted industries include: government, financial services, health, utilities, telecommunications, oil & gas, manufacturing, retail & consumer services, transportation and post and logistics. While these represent our go to market industry targets, we group these industries into the following: government; financial services; health; telecommunications & utilities; and manufacturing, retail & distribution ( MRD ).

As the move toward digitalization continues to increase across industries, CGI partners with clients to support their strategic initiatives. We provide extensive expertise to guide them in becoming customer-centric digital organizations.

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### **Intangible Properties**

We own and use various intangible assets which include, without limitation, brand names, trademarks, patents and patent applications, copyrights and copyrighted material, domain names, customer lists, know-how, tools, techniques, software, processes and methodologies. We derive value through the use of these assets in our business activities and they are central to our operations.

Our success depends, in part, on our ability to protect our proprietary intangible assets that we use to provide our services. We rely on a combination of contractual and licensing agreements and trademarks, copyright and patent laws to protect these assets against infringement.

Our general practice is to pursue trademark, patent, copyright, or other appropriate intellectual property protection that is timely and necessary to protect and leverage our intellectual assets for the longest possible period. We will continue to seek intellectual property protection for our technology, software, methodologies, processes, know-how, tools, techniques and other proprietary information and that throughout the various countries within which CGI operates.

### **Human Resources**

As of September 30, 2016, CGI had approximately 68,000 employees, whom we refer to as members. In order to encourage the high degree of commitment necessary to ensure the quality and continuity of client service, CGI offers its members the right to acquire Class A subordinate voting shares pursuant to a *Share Purchase Plan*. Among the countries in which we currently offer the Share Purchase Plan, approximately 52,000 of our members own Class A subordinate voting shares. The Company also has a *Profit Participation Plan* which reinforces our ownership culture by distributing a portion of the Company's profits based on business performance.

### **Specialized Skills and Knowledge**

The skills, expertise and competencies required by clients in the IT industry are constantly evolving. CGI strives to be one step ahead and adopts a proactive approach, not only by recruiting engaged and skilled professionals but more importantly developing and retaining them to meet our clients' needs. In addition to training and development activities and participation in professional associations, our talent management strategy includes stretch project assignments (local and abroad), job shadowing, coaching, mentoring and access to leadership and core competencies development programs through CGI's Leadership Institute. Over the years, we have put in place multiple initiatives to ensure we are able to meet our clients' needs, fulfill our business plans, maintain and develop professionals of the highest calibre for the benefits of our clients, members and shareholders.

### **CGI Offices and Global Delivery Model**

CGI serves its clients from global delivery centers located on four continents. These delivery centers enable CGI to provide its clients with the right mix of onshore, near-shore and off-shore IT services that best suits their business needs.





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CGI's delivery centers and its main offices are listed below:

**Canada**

|                 |                 |                 |                |
|-----------------|-----------------|-----------------|----------------|
| Burnaby, BC     | Markham, ON     | Quebec City, QC | Stratford, PEI |
| Calgary, AB     | Mississauga, ON | Regina, SK      | Toronto, ON    |
| Edmonton, AB    | Moncton, NB     | Saguenay, QC    | Victoria, BC   |
| Fredericton, NB | Montréal, QC    | Shawinigan, QC  |                |
| Halifax, NS     | Ottawa, ON      | Sherbrooke, QC  |                |

**United States**

|                         |                 |                      |                  |
|-------------------------|-----------------|----------------------|------------------|
| Albany, NY              | Fairfax, VA     | New York, NY         | Sierra Vista, AZ |
| Atlanta, GA             | Houston, TX     | North Charleston, SC | Somersworth, NH  |
| Belton, TX              | Huntsville, AL  | Phoenix, AZ          | Sterling, VA     |
| Cleveland, OH           | Lafayette, LA   | Pittsburg, PA        | Troy, AL         |
| Columbia, SC            | Lakewood, CO    | Sacramento, CA       | Tuscon, AZ       |
| Columbus, OH            | Lebanon, VA     | San Angelo, TX       | Washington, DC   |
| Dallas / Fort Worth, TX | Los Angeles, CA | San Antonio, TX      | Wilmington, MA   |
| Durham, NC              | Manasses, VA    | San Diego, CA        |                  |

**Europe, Asia Pacific, Latin America, Middle East and Africa**

|                          |                        |                      |                               |
|--------------------------|------------------------|----------------------|-------------------------------|
| Aarhus, Denmark          | Düsseldorf, Germany    | Lille, France        | Rabat, Morocco                |
| Amiens, France           | Edinburgh, U.K.        | Linköping, Sweden    | Reading, U.K.                 |
| Arnhem, Netherlands      | Eindhoven, Netherlands | Lisbon, Portugal     | Rennes, France                |
| Aix-Marseille, France    | Espoo, Finland         | London, U.K.         | Riihimäki, Finland            |
| Ballerup, Denmark        | Gävle, Sweden          | Lyon, France         | Rotterdam, Netherlands        |
| Bangalore, India         | Gloucester, U.K.       | Madrid, Spain        | Sacavém, Portugal             |
| Bertrange, Luxembourg    | Göteborg, Sweden       | Málaga, Spain        | São Paulo, Brazil             |
| Birmingham, U.K.         | Grenoble, France       | Malmö, Sweden        | Sintra, Portugal              |
| Bordeaux, France         | Groningen, Netherlands | Manila, Philippines  | Stockholm, Sweden             |
| Borlänge, Sweden         | Hamburg, Germany       | Melbourne, Australia | Strasbourg, France            |
| Bratislava, Slovakia     | Heerlen, Netherlands   | Milton Keynes, U.K.  | Sulzback (Taunus),<br>Germany |
| Bremen, Germany          | Helsinki, Finland      | Montpellier, France  | Sundsvall, Sweden             |
| Bridgend, U.K.           | Hoofddorp, Netherlands | Mumbai, India        | Sydney, Australia             |
| Bristol, U.K.            | Hyderabad, India       | Munich, Germany      | Tallinn, Estonia              |
| Brno, Czech Republic     | Karlstad, Sweden       | Nantes, France       | Tampere, Finland              |
| Bromölla, Sweden         | Köln / Bonn, Germany   | Nice, France         | Tartu, Estonia                |
| Casablanca, Morocco      | Krakow, Poland         | Oslo, Norway         | Toulouse, France              |
| Chennai, India           | Kuala Lumpur, Malaysia | Östersund, Sweden    | Turku, Finland                |
| Clermont-Ferrand, France | Lahti, Finland         | Oulu, Finland        | Warsaw, Poland                |
| Darmstadt, Germany       | Le Mans, France        | Paris, France        |                               |
| Didsbury, U.K.           | Leatherhead, U.K.      | Porto, Portugal      |                               |

Diegem, Belgium

Leinfelden-Echterdingen, Prague, Czech Republic  
Germany

indicates cities where CGI operates global delivery centers.

All of CGI's offices are located in rented premises with the exception of the following properties, which are owned by CGI: one property in Belton, Texas; one property in Lebanon, Virginia where the land is leased with a right to acquire; one property in Phoenix, Arizona which is a data center; one property in Montreal, Quebec, which is a data center; one data center in Mississauga, Ontario; one property in Riihimäki, Finland; one office building in Mumbai, India that is built on land that we lease; two properties in Odivelas, Portugal; one property in Bromölla, Sweden; and two properties in Bridgend, United Kingdom, one of which is an office building and the other of which is a parcel of land.

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**Commercial Alliances**

CGI currently has commercial alliance agreements with various business partners. These non-exclusive commercial agreements with hardware and software providers allow the Company to provide its clients with high quality technology, often on advantageous commercial terms. CGI's business partners include prominent hardware and software providers.

**Quality Processes**

CGI's ISO 9001 certified operations that are reflected in its management frameworks ensure that its clients' objectives are clearly defined, that projects are properly scoped and that the necessary resources are applied to meet objectives. These processes ensure that clients' requirements drive CGI's solutions. Clients are constantly kept informed; their degree of satisfaction is regularly measured and part of the incentive compensation of CGI managers is linked to the results.

In 1993, the Company began working towards obtaining ISO 9001 certification for the portion of its operations covered by its *Project Management Framework*. CGI's Quebec City office was granted ISO 9001 certification in June 1994, which allowed CGI to become North America's first organization in the IT consulting field to receive ISO 9001 certification for the way in which it managed projects. Since 1995, CGI expanded the ISO 9001 certification throughout its Canadian, U.S. and international offices as well as its corporate headquarters. Over the past several years, in the context of CGI's high growth rate, its ISO certified quality system has been a key ingredient in spreading its culture, in part because it helps to integrate new members successfully.

As clients grow and IT projects become increasingly complex, CGI strives to further refine its quality processes while allowing them to branch out across all its activities. CGI's enhanced quality system of which the *Client Partnership Management Framework* forms part, is simpler and provides the Company's business units with greater autonomy in a context of decentralized activities. One of CGI's key focus areas remains the successful management of client relationships, leading to long-term partnerships. CGI applications development centers in Mumbai, Hyderabad, Chennai and Bangalore in India, have achieved SEI CMMi DEV Level 5 quality certification and ISO 27001 security management system certification.

CGI also obtained ISO 9001 certification for the application of its *Member Partnership Management Framework* in its operations and, in 2004, we similarly obtained ISO 9001 certification for the portion of our operations covered by our *Shareholder Partnership Management Framework* ( SPMF ). The SPMF structures the processes and information flows between CGI and its shareholders as well as with the investment community.

CGI now holds ISO quality certification for the management of its partnerships with each of its three major stakeholder groups, namely clients, members and shareholders.

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### **The IT Services Industry**

#### **Trends and Outlook**

Although the current state of the economy makes it difficult to predict future trends in IT spending, CGI intends to continue its Build and Buy growth strategy, expanding both through profitable organic growth (Build) and through accretive acquisitions (Buy). Today more than ever, technology is essential to enabling and driving change for both businesses and governments. Any new service, program or efficiency improvement brings a need for additional IT.

As part of our annual strategic planning activities in 2016, we held 1,024 face-to-face interviews with our executive-level clients. A few key trends and priorities, common across industries and geographies emerged from these conversations: the need for digital transformation brought about by an increasingly mobile and digital world; the ever increasing regulatory compliance requirements not only in finance but in a broad range of domains; and the growth in cybersecurity threats.

These trends, along with the rise of technology innovation in areas such as analytics and the Internet of Things, combine to create a need to ensure that IT is more secure than ever, from infrastructures to applications. Achieving this requires significant investments and understanding that IT is not a commodity but a crucial asset to be protected.

Budget pressures and the need to improve performance remain an ongoing trend across industries, thereby presenting opportunities that the Company has successfully exploited in the past. We believe that the potential in IT and business process services outsourcing remains enormous. CGI has from time to time commissioned a study from *International Data Corp.* (IDC) which provides CGI with insight as to spending on IT and business process services in Canada, the United States and Europe.

According to IDC's research conducted in 2015, the IT domain spending was estimated to be US\$690 billion in the U.S. and US\$613 billion in Europe (in countries where CGI is present) and US\$74 billion in Canada. These numbers exclude the value of services already outsourced and indicate a large untapped potential market for outsourcing services.

#### **Competitive Environment**

In today's digital era, there is a competitive urgency for organizations across industries to become digital in a sustainable way. The pressure is on to modernize legacy assets and connect them to digital business and operating models. Central to this massive transformation is the evolving role of technology. Traditionally viewed as an enabler, technology is now being recognized as a business driver. The promise of digital creates an enormous opportunity to transform organizations end-to-end, and CGI is well-positioned to serve as a digital partner and expert of choice. We are working with clients across the globe to implement digital strategies, roadmaps and solutions that revolutionize the customer/citizen experience, drive the launch of new products and services, and deliver efficiencies and cost savings.

As the demand for digitalization increases, competition within the global IT industry is intensifying. CGI's competition comprises a variety of players; from niche companies providing specialized services and software, to global, end-to-end IT service providers, to large consulting firms. All of these players are competing to deliver some or all of the services we provide. Many factors distinguish the industry leaders, including the following:

Industry and technology expertise;

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On-time, within-budget delivery;

Total cost of services;

Breadth of digital IP solutions;

Global delivery capabilities; and

Local presence and strength of client relationships.

CGI compares very favourably with the competition with respect to all of these factors. We are not only delivering all of the capabilities clients need to compete in a digital world, but the immediate results and long-term value they expect. We are helping clients to better run, change and grow their businesses providing a competitive differentiator.

**Significant Developments of the Three Most Recent Fiscal Years****Key Performance Measures**

The Company reports its financial results in accordance with International Financial Reporting Standards ( 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 to report our financial results 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**

*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 Company's operating profitability and allows for better comparability from period to period as well as to trend analysis in our operations. A reconciliation of the adjusted EBIT to its closest IFRS measure can be found in section 3.7 of CGI's Management's Discussion and Analysis for Fiscal Year 2016.

*Net earnings* is a measure of earnings generated for shareholders.

*Diluted earnings per share* is a measure of earnings generated for shareholders on a per share basis, assuming all dilutive elements are exercised.

*Net earnings excluding specific items (non-GAAP)* is a measure of net earnings excluding certain items not considered by management to be part of the day to day operations. By

excluding these items, it provides a better evaluation of operating performance using the same measures as management. Management believes that, as a result, the investors are afforded greater transparency in assessing the true operation performance of the Company also providing better comparability from period to period. A reconciliation of the net earnings excluding specific items (non-GAAP) to its closest IFRS measure can be found in section 3.8.3. of CGI's Management's Discussion and Analysis for Fiscal Year 2016.

*Basic and diluted earnings per share excluding specific items (non-GAAP)* is defined as the net earnings excluding specific items 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

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period to period. The basic and diluted earnings per share reported in accordance with IFRS can be found on section 3.8 of CGI's Management's Discussion and Analysis for Fiscal Year 2016, while the basic and diluted earnings per share excluding specific items can be found in section 3.8.3. of CGI's Management's Discussion and Analysis for Fiscal Year 2016.

**Liquidity**

*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 Company's strategy.

*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 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.

**Growth**

*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.

*Backlog (non-GAAP)* includes new contract wins, extensions and renewals ( bookings ) (non-GAAP), partially offset by the backlog consumed during the period 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.

*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 services and contract type, size and timing of bookings could cause this measurement to fluctuate significantly if taken for only a three-month period.

**Capital Structure** *Net debt (non-GAAP)* is obtained by subtracting from our debt our cash and cash equivalents, short-term investments, long-term investments and fair value of foreign currency derivative financial instruments related to 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 CGI's Management's Discussion and Analysis for Fiscal Year 2016.





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*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.

*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.

*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 reasons.

**Fiscal Year ended September 30, 2016***Highlights and Key Performance Measures*

Key performance figures for the year include:

- Revenue of \$10.7 billion, up 3.9%;
- Bookings of \$11.7 billion, or 110% of revenue;
- Backlog of \$20.9 billion; up \$181.8 million;
- Adjusted EBIT of \$1,560.3 million, up 7.1%;
- Adjusted EBIT margin of 14.6%, up 40 basis points;
- Net earnings of \$1,068.7 million, up 9.3%;
- Net earnings margin of 10.0%, up 50 basis points;
- Diluted EPS of \$3.42, up 12.5%;
- Cash provided by operating activities of \$1,333.1 million, or 12.5% of revenue;
- Net debt of \$1.3 billion, down \$446.3 million; and
- Return on equity of 17.2%.

*Long-term Debt*

On November 8, 2016, the unsecured committed revolving facility of \$1,500 million of the Company was extended by two years to December 2021 and can be further extended. There were no material changes in the terms and conditions including interest rates and banking covenants.

For the year ended September 30, 2016, \$182.7 million was used to reduce our outstanding long-term debt mainly driven by \$129.7 million in repayment under the term loan credit facility, while we made net repayments of

\$901.6 million to reduce our long-term debt last year. During the years ended September 30, 2016 and 2015, the Company used \$24.1 million and \$121.6 million respectively to settle the cross-currency swaps related to the outstanding long-term debt repaid during these periods. There is no outstanding amount under our revolving credit facility other than pursuant to letters of credit.

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*Share Repurchase Program*

On January 27, 2016, the Company's Board of Directors authorized and subsequently received the approval from the TSX for the renewal of its NCIB to purchase up to 21,425,992 Class A subordinate voting shares for cancellation, representing 10% of the Company's public float as of the close of business on January 22, 2016. The Class A subordinate voting shares may be purchased under the NCIB between February 11, 2016 and the earlier of February 3, 2017 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 fiscal 2016, the Company repurchased 9,319,875 Class A subordinate voting shares for approximately \$517.8 million at an average price of \$55.56 under the previous and current NCIB. The repurchased shares included 7,112,375 Class A subordinate voting shares repurchased from Caisse de dépôt et placement du Québec (the Caisse) for cash consideration of \$400.0 million. In accordance with the TSX rules, the repurchase is considered in the annual aggregate limit that the Company is entitled to repurchase under its current NCIB. The NCIB allows for purchases outside of the facilities of the TSX by private agreements pursuant to exemption orders issued by securities regulatory authorities. As at September 30, 2016, the Company could repurchase up to 14,313,617 Class A subordinate voting shares under the current NCIB.

*Bookings and Book-To-Bill Ratio*

Bookings for the year were \$11.7 billion representing a book-to-bill ratio of 109.8%. Of the \$11.7 billion in bookings signed during this year, 43% came from new business, while 57% came from extensions and renewals.

Our largest verticals for bookings were Government, MRD and Financial services, making up approximately 33%, 30% and 20% of total bookings, respectively. From a reporting segment perspective, the U.S. accounted for 25% of total bookings, followed by Canada at 21% and the Nordics at 15%.

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.

*Foreign currency impact*

Foreign currency rate fluctuations favourably impacted our revenue by 3.7%. This compares with a favourable impact of 2.0% in fiscal 2015 and a favourable impact of 7.0% in fiscal 2014.

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**Fiscal Year ended September 30, 2015**

*Significant Developments*

Key performance figures for the year include:

Revenue of \$10,287.1 million;  
Bookings of \$11.6 billion; representing a book-to-bill ratio of 113.2%;  
Backlog of \$20.7 billion, up \$2.5 billion;  
Adjusted EBIT of \$1,457.3 million, up \$100.4 million;  
Adjusted EBIT margin of 14.2%, up 130 basis points;  
Net earnings prior to specific items<sup>1</sup> of \$1,005.1 million, up 12.5%;  
Net earnings margin prior to specific items<sup>1</sup> of 9.8% up 130 basis points;  
Diluted EPS prior to specific items<sup>1</sup> of \$3.13, up 11.8%;  
Cash provided by operating activities of \$1,289.3 million representing 12.5% of revenue;  
Return on invested capital of 14.5%;  
Net debt of \$1,779.6 million, down \$333.7 million; and  
Return on equity of 17.7%.

<sup>1</sup> Specific items include the integration-related costs net of tax, the restructuring costs net of tax, the resolution of acquisition-related provisions net of tax and the tax adjustments which are discussed on page 23 of CGI's Management's Discussion and Analysis for Fiscal Year 2015.

*Long-term Debt*

On November 9, 2015, the unsecured revolving credit facility of \$1,500 million was extended by one year to December 2019 under the same terms and conditions and can be further extended annually. All other terms and conditions, including interest rates and banking covenants, remain unchanged.

For the year ended September 30, 2015, \$901.6 million was used to reduce our outstanding long-term debt mainly driven by \$879.7 million in repayments under the term loan credit facility, while we made net repayments of \$308.4 million on our long-term debt for the same period for Fiscal Year 2014. Following the net repayments on our outstanding long-term debt, the Company used \$121.6 million to settle the related cross-currency swaps contract during fiscal 2015. Remaining outstanding amount under our loan credit facility was \$129.2 million net of financing fees of \$163,000. The unsecured committed term loan credit facility expired on May 2016.

*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 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 could be purchased under the NCIB commencing February 11, 2015 and ended on the earlier of February 10, 2016, or the date on which the Company had either acquired the maximum number of Class A

subordinate voting shares allowable under the then current NCIB, or elected to terminate the NCIB.

During fiscal 2015, CGI repurchased 6,925,735 Class A subordinate voting shares for approximately \$332.5 million at an average price of \$48.01 under the then current NCIB. This included a total of 6,350,735 Class A subordinate voting shares acquired for cancellation between May and September 2015 pursuant to issuer bid orders issued by the Ontario Securities Commission at a price representing a discount to the prevailing market price of the shares on the TSX. The NCIB allowed for

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purchases outside the facilities of the TSX by private agreements pursuant to exemption orders issued by securities regulatory authorities. As at September 30, 2015, the Company could purchase up to 12,126,472 shares under the then current NCIB.

*Bookings and Book-To-Bill Ratio*

Bookings for the year were \$11.6 billion representing a book-to-bill ratio of 113.2%. Of the \$11.6 billion in bookings signed during this year, 36% came from new business, while 64% came from extensions and renewals.

Our largest verticals for bookings were Government, Telecommunications & Utilities and Financial services, making up approximately 28%, 27% and 20% of total bookings, respectively. From a geographical perspective, Canada accounted for 29% of total bookings, followed by the U.S. at 21% and the Nordics at 14%.

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.

*Foreign currency impact*

Foreign currency rate fluctuations favourably impacted our revenue by 2.0%. This compared with a favourable impact of 7.0% in fiscal 2014 and a favourable impact of 1.2% in fiscal 2013.

**Fiscal Year ended September 30, 2014**

*Significant Developments*

Key performance figures for the year include:

- Revenue of \$10,499.7 million, up 4.1%;
- Adjusted EBIT of \$1,356.9 million, up 26.1%;
- Adjusted EBIT margin of 12.9%, up 220 basis points;
- Net earnings prior to specific items<sup>1</sup> of \$893.5 million, or diluted EPS of \$2.80, up 22.8%;
- Net earnings of \$859.4 million, or diluted EPS of \$2.69, up 88.5%;
- Cash provided by operating activities of \$1,174.8 million, up 75.0%;
- Bookings of \$10.2 billion and backlog of \$18.2 billion;
- Net debt reduced by \$626.6 million;
- Return on invested capital of 14.5%; and
- Return on equity of 18.8%.

- <sup>1</sup> Specific items include the integration costs related to the acquisition of Logica plc (« Logica »), the tax adjustments and the resolution of acquisition-related provisions which are discussed on page 20 of CGI's Management's Discussion and Analysis for Fiscal Year 2014.

*Acquisition of Logica plc*

On August 20, 2012, CGI completed its acquisition of Logica for 105 pence (\$1.63) per ordinary share which is equivalent to a total purchase price of \$2.7 billion plus the assumption of Logica's net debt of \$0.9 billion. Subsequent to August 20, 2012, our results incorporated the operations of Logica.



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As of September 30, 2014, we completed the integration of Logica, a full year earlier than planned. In addition to the previously announced \$525 million program, we actioned an incremental \$26.5 million of new opportunities while foreign currency fluctuations unfavorably impacted the program by approximately \$24.0 million over the two-year period. In summary, a total of \$575.5 million in one-time costs were spent to drive annual savings in excess of \$400 million and EPS accretion to CGI.

### *Long-term Debt*

In the first quarter of Fiscal Year 2014, the unsecured revolving credit facility of \$1,500 million was extended by one year to December 2017. On July 25, 2014, the facility was further extended by another year to December 2018 and can be further extended annually. All other terms and conditions including interest rates and banking covenants remain unchanged.

In April 2014, we repaid the first maturing tranche of the term loan credit facility of \$486.7 million using the proceeds from our credit facilities.

In September 2014, the Company entered into a \$955 million debt private placement comprised of four tranches of Senior U.S. unsecured notes for US\$745 million, and one tranche of Senior euro unsecured note for 85 million, with a weighted average maturity of 7.9 years and a weighted average fixed coupon of 3.62%. The Company used the proceeds of the issuance of the new private placement notes to repay the May 2015 maturing tranche of the term loan credit facility of \$494.7 million and the outstanding balance of the credit facilities. Further details are provided in section 4.1.3 of CGI's Management's Discussion and Analysis for Fiscal Year 2014.

### *Share Repurchase Program*

On January 29, 2014, the Company's Board of Directors authorized and subsequently received the approval from the TSX for the renewal of the NCIB to purchase up to 21,798,645 Class A subordinate shares for cancellation, representing 10% of the Company's public float as of the close of business on January 24, 2014. The Class A subordinate shares could be purchased under the NCIB commencing February 11, 2014 and ended on the earlier of February 10, 2015, or the date on which the Company had either acquired the maximum number of Class A subordinate shares allowable under the NCIB, or elected to terminate the NCIB.

During fiscal 2014, the Company repurchased 2,837,360 Class A subordinate shares for \$111.5 million at an average price of \$39.29 under the annual aggregate limit of the then current NCIB. Included in this number are 2,490,660 Class A subordinate voting shares sold by the Caisse and purchased by the Company for cancellation on November 29, 2013. In accordance with TSX rules, the repurchase by the Company of the shares held by the Caisse were taken into account when calculating the annual aggregate limit that the Company was entitled to repurchase under its then current NCIB. As at September 30, 2014, the Company could purchase up to 21.8 million shares under the then current NCIB.

### *Significant Share Transactions*

On November 29, 2013, the Caisse reduced its holding in the Company by 9,962,660 Class A subordinate voting shares. The reduction was in accordance with the Caisse's portfolio rebalancing policy based on the increase in the share price for the Company's Class A subordinate voting shares that nearly doubled since the private placement by the

Caisse in May of 2012. As indicated in the above paragraph, 25% of the shares sold by the Caisse were purchased by the Company for cancellation under its then current NCIB at a price per share of \$40.15 corresponding to the net price that the Caisse obtained from the broker who acquired the remaining 75% of the shares.

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*Bookings and Book-To-Bill Ratio*

Bookings for the year were \$10.2 billion, representing a book-to-bill ratio of 96.8%. Of the \$10.2 billion in bookings signed during this year, 39% came from new business, while 61% came from extensions and renewals.

Our largest verticals for bookings were MRD, Government and Financial services, making up approximately 28%, 28% and 20% of total bookings, respectively. From a geographical perspective, Nordics, Southern Europe and South America ( NSESA ) accounted for 26% of total bookings, followed by the U.S. at 19% and France at 15%.

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 year ended September 30, 2014, the book-to-bill ratio of our North American operations was at 76.0% while it was at 112.2% for our European operations for a total book-to-bill ratio of 96.8%.

*Foreign currency impact*

Foreign currency rate fluctuations favourably impacted our revenue by 7.0%. This compares with a favourable impact of 1.2% in fiscal 2013, and a favourable impact of 0.9% in fiscal 2012. The foreign currency impact in 2014 was mainly due to the strengthening of the euro, U.S. dollar and British pound.

**FORWARD LOOKING INFORMATION AND RISKS AND UNCERTAINTIES**

**Forward-Looking Information**

All statements in this Annual Information Form 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 this Annual Information Form, in CGI's annual and quarterly Management's Discussion and Analysis and in other

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public disclosure documents filed with the Canadian securities authorities (on SEDAR at [www.sedar.com](http://www.sedar.com)) and with the U.S. Securities and Exchange Commission (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 their derivatives, 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.

## **Risks and Uncertainties**

The description of risks affecting CGI and its activities can be found in section 10 at pages 47 to 54 of CGI's Management's Discussion and Analysis for Fiscal Year 2016, which pages are incorporated by reference herein.

## **LEGAL PROCEEDINGS**

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

## **TRANSFER AGENT AND REGISTRAR**

The Company's transfer agent for the Company's Class A subordinate voting shares and Class B shares is Computershare Investor Services Inc. whose head office is situated in Toronto, Ontario. Share transfer service is available at Computershare's Montreal, Quebec, and Toronto, Ontario, offices as well as at the offices of Computershare Trust Company, N.A. in Canton, MA, Jersey City, NJ and College Station, TX.

## **AUDITORS**

The auditors of the Company are Ernst & Young LLP. They have confirmed their independence to the Audit and Risk Management Committee of the Company's Board of Directors.

The Company incorporates by reference the disclosure under the heading *Fees Billed by Auditors* on page 52 of CGI's Management Proxy Circular dated December 12, 2016.

## **ADDITIONAL INFORMATION**

The Company will provide to any person, upon request to the Company, (i) a copy of this Annual Information Form of the Company, together with a copy of any document incorporated by reference therein, (ii) a copy of the audited consolidated financial statements of the Company for the year ended September 30, 2016 together with the accompanying report of the auditor and a copy of any subsequent interim financial statements, (iii) a copy of the Management Proxy Circular dated December 12, 2016 and (iv) a copy of the Management's Discussion and Analysis

of the Company for the year ended September 30, 2016.

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Additional information regarding, among others, directors and named executive officers' compensation and indebtedness, securities authorized for issuance under equity compensation plans and principal holders of the Company's shares, is included in the Management Proxy Circular dated December 12, 2016.

Additional financial information in relation to the last fiscal year ended September 30, 2016 is presented in the audited consolidated financial statements of the Company and in the related Management's Discussion and Analysis of the Company.

The documents mentioned above are available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's web site at [www.cgi.com](http://www.cgi.com). You can also obtain a copy of such documents by contacting Investor Relations by sending an e-mail to [ir@cgi.com](mailto:ir@cgi.com), by visiting the Investors section on the Company's web site at [www.cgi.com](http://www.cgi.com) or by contacting us by mail or telephone:

Investor Relations

1350 René-Lévesque Blvd. West

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**Appendix A**

**CGI GROUP INC.**

**Fundamental Texts**

The following documents form part of CGI's Fundamental Texts and may be found on the pages indicated below:

|   |    |
|---|----|
| Dream, Vision, Mission and Values                         | 2  |
| CGI Management Foundation                                 | 10 |
| Documents and Policies Pertaining to Corporate Governance |    |
| Charter of the Board of Directors                         | 15 |
| Charter of the Corporate Governance Committee             | 23 |
| Charter of the Human Resources Committee                  | 29 |
| Charter of the Audit and Risk Management Committee        | 34 |
| Codes of Ethics   |    |
| Code of Ethics and Business Conduct                       | 44 |
| Executive Code of Conduct                                 | 61 |
| CGI Anti-Corruption Policy                                | 64 |



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This set of documents presents the fundamental texts that define CGI and its management approach. The fundamental texts address not only members of the board of directors, CGI's executive team and the company's shareholders, but also all CGI members as well as anyone who wishes to consult them. Their main objective is to provide a better understanding of the most essential aspects of the company. It is our hope that this understanding will generate a shared vision of what constitutes CGI and of the community of thought that is essential to the company's success. The document will also provide all CGI members with an understanding that will allow them to participate fully in the life of the company and to better represent CGI.

**THE FUNDAMENTAL TEXTS INCLUDE:**

|  |           |
|--|-----------|
| <b><u>Presentation</u></b>   | <b>i</b>  |
| <b><u>1. Dream, Vision, Mission, and Values</u></b>                        | <b>1</b>  |
| <b><u>2. CGI Management Foundation</u></b>                                 | <b>9</b>  |
| <b><u>3. Documents and Policies Pertaining to Corporate Governance</u></b> | <b>14</b> |
| <u>3.1 Charter of the Board of Directors</u>                               | 15        |
| <u>3.2 Charter of the Corporate Governance Committee</u>                   | 23        |
| <u>3.3 Charter of the Human Resources Committee</u>                        | 29        |
| <u>3.4 Charter of the Audit and Risk Management Committee</u>              | 34        |
| <b><u>4. Codes of Ethics</u></b>   | <b>43</b> |
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### **Dream, Vision, Mission and Values**

This document constitutes Chapter 1 of the Fundamental Texts of CGI Group Inc. It begins with the mission statement of the company and is followed by the vision, the dream and the values of CGI. By “dream”, we essentially mean the intent or initial desire that led to the creation of our company and continues to drive its operation and growth. It also extends to the main principles and governing ideas that define the company’s philosophy in its important cultural and organic aspects. This presentation of CGI’s dream and values is therefore intended to impart in a succinct manner the company’s character, essence, dynamism, values and culture, and the creative impulse that culminated in its creation and of which it is an extension.

#### **A. THE CGI DREAM**

A number of governing ideas inspired the creation of CGI and continue to drive its development. These ideas constitute what we call the CGI “dream”. It is a dream based on a set of values to which we are profoundly attached.

The dream has allowed us to assemble, all around the world, a team of extraordinary men and women who share it and are building a company that reflects their aspirations - who are, in fact, building their own company. Over the years, our team has built a clientele we are extremely proud of and whom we are dedicated to serving with the utmost skill.

This dream has its roots in the original and simple idea that first motivated CGI’s founders when they created the company:

**To create an environment in which we enjoy working together and, as owners, contribute to building a company we can be proud of.**

From this very basic idea grew an entire business philosophy.

It goes without saying that creating this type of environment is particularly challenging in consulting companies such as ours. Personnel generally work at client locations, making it difficult to develop a sense of belonging through a shared workplace. There is the risk of certain people being “forgotten” when they spend long periods at a client site, and this risk is amplified when these individuals have few CGI colleagues working on the same engagement.

#### **B. THE CGI VISION AND MISSION**

Our vision is to be a global world class information technology and business process services leader helping our clients succeed.

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The mission of CGI is to help our clients succeed through outstanding quality, competence and objectivity, providing thought leadership and delivering the best services and solutions to fully satisfy client objectives in information technology, business processes and management.

In all we do, we foster a culture of partnership, intrapreneurship, teamwork and integrity, building a global world class information technology and business process services company.

With this mission statement, we are endeavouring to describe not only the company's purpose, but also our ambition and values. In doing so, we hope, in a few words, to advance an overall understanding of these essential aspects of CGI.

The following section will foster a more thorough comprehension of the dream associated with this mission and the values referred to in the mission statement.

### **C. THE CGI CULTURE AND VALUES**

To succeed in creating a highly favourable environment within such a context, CGI has fostered a corporate culture rooted in participation in the company and focused on each of its members. Developing a corporate culture, despite members often working at a distance, began with explicitly defining and then sharing common values. Our fundamental belief is that a company with an inspiring dream, unparalleled integrity, a caring, humane management philosophy and solid values is better able to attract and respond to the profound aspirations of remarkably high-calibre, competent people. These people in turn will seek out a select clientele, one aware of the company's values, and will deliver high-quality services at a competitive price, while meeting the company's profitability objectives. The growth and profitability generated as a result will allow CGI to offer its shareholders a superior and sustained return on their investment.

To support our dream and to create such an environment, we have adhered to a number of principles or governing ideas:

1. Sharing the same values
2. Embracing the objectives of our clients
3. Adopting a caring, humane approach towards our members
4. Focusing on synergy and the strength of teamwork
5. Participating in the development of our company as its owner-shareholders, and sharing in its wealth

6. Promoting robust, healthy and sustainable growth to the benefit of all stakeholders
7. Implementing a management model aligned with our dream and values

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### **1. Sharing the same values**

Sharing the same values allows us to enjoy considerable autonomy and swiftness of action without compromising our cohesiveness. It also allows us to mobilize teams more rapidly and bring together the most experienced individuals from across the company, who are able to quickly work as one to address a given challenge. And, of course, these values also guide our decisions and actions.

### **PARTNERSHIP AND QUALITY**

For us, partnership and quality are both a philosophy and a way of life. We constantly deepen our understanding of our clients' business and we develop and follow the best management practices. We entrench these approaches into client relationship and service delivery frameworks in order to foster long term and strong partnerships with our clients. We listen to our clients and we are committed to their total satisfaction in everything we do.

### **OBJECTIVITY AND INTEGRITY**

We exercise the highest degree of independent thinking in selecting the products, services and solutions we recommend to clients. In doing so, we adhere to the highest values of quality, objectivity and integrity. We do not accept any remuneration from suppliers. We always act honestly and ethically. We never seek to gain undue advantages and we avoid conflicts of interest, whether real or perceived.

### **INTRAPRENEURSHIP AND SHARING**

Our collective success is based on our competence, commitment and enthusiasm. We promote a culture of innovation and initiative where we are empowered with a sense of ownership in supporting clients, thus ensuring our profitable growth. Through teamwork, sharing our know-how and expertise across our global operations, we bring the best of CGI to our clients. As members, we share in the value we create through equity ownership and profit participation.

### **RESPECT**

In all we do, we are respectful of our fellow members, clients, business partners and competitors. As a global company, we recognize the richness that diversity brings to the company and welcome this diversity while embracing the overall CGI business culture.

### **FINANCIAL STRENGTH**

We strive to deliver strong, consistent financial performance which sustains long term growth and benefits both members and shareholders. Financial strength enables us to continuously invest in our members' capabilities, our services and our business solutions to the benefit of our clients. To this end, we manage our business to generate industry superior returns.

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**CORPORATE SOCIAL RESPONSIBILITY**

Our business model is designed to ensure that we are close to our clients and communities. As members, we embrace our social responsibilities and contribute to the continuous development of the communities in which we live and work.

**2. Embracing the objectives of our clients**

At CGI, we believe that accomplishing outstanding work provides one with a strong sense of fulfilment. Our high-quality work allows us to forge rewarding relationships with our colleagues and clients and to experience the pleasure of our own creativity when we find an ideal solution to address our clients' needs.

To this end, we strongly encourage our members to develop a listening attitude to ensure that an understanding of the client's particular situation and needs takes priority in all that we do. For this reason, we foster a culture of independence, objectivity and integrity. We want our clients to know that we understand their objectives and are committed to finding the solution that is right for them. Our flexibility in establishing customized business relationships demonstrates our keen interest in our clients' objectives, cultural environment and values.

This in-depth understanding of our clients' objectives is one of the keys to our success and is as present in our short-term engagements as it is in our outsourcing contracts extending over multiple years.

However, embracing the objectives of our clients goes far beyond simply understanding them. It demands, for example, that we sincerely commit to offering the very best of ourselves in order to demonstrate to clients that we support them as completely as if we were their own employees. It is essential that they experience our commitment.

**3. Adopting a caring, humane approach towards our members**

Although the demands of our industry are considerable, CGI has always believed that this in no way conflicts with the very humane and caring approach we take in all of the relationships we foster. And while our human resources policies and Member Partnership Management Framework embody this concern and commitment, for CGI, this is also an issue of maturity and genuine leadership. It is a question of the quality of being. To foster this attitude of caring and sensitivity towards others, CGI has led by example. Since the inception of the company, this approach has been transmitted, most notably through the example set by our founders as well as by teamwork and the CGI Leadership Institute, and is today an integral component of CGI's spirit and culture.



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### **4. Focusing on synergy and the strength of teamwork**

CGI favours the accomplishment of work through synergy, which refers to the pooling of our members' skills, experience and creative abilities in all aspects of corporate life. Whether deciding on the direction to take in a service proposal or determining the best solution for a client, we incorporate synergy into everything we do.

Normally, a synergy group will hold meetings at key milestones throughout the entire lifespan of a given engagement. The group not only includes subject matter experts, but also less experienced members, who gain knowledge from their colleagues and are therefore able to more rapidly hone their own expertise. The objective is always to find appropriate and proven solutions for our clients. This practice is entrenched in our Quality System, which has earned ISO 9001 certification.

The practice of synergy underscores an outstanding cultural trait: at CGI, we believe that we are stronger and that everyone benefits when we work as a team. Our clients receive services of higher quality, and our members constantly learn from one another through concrete achievements.

### **5. Participating in the development of our company as its owner-shareholders, and sharing in its wealth**

It is important that our members consider CGI as their company and that they participate in its growth and development. Involvement in professional groups that help maintain CGI's leadership position is just one of the many such forms of participation.

However, for this involvement in the company to be complete and rewarding, we feel it necessary that all CGI members be able to also share in the benefits generated by their activities. For this reason, since its founding, CGI has offered all of its members the opportunity to be shareholders and owners of their company. To this end, CGI has implemented a Share Purchase Plan, through which it pays half the cost of shares up to a certain amount. Members also qualify for a portion of the company's annual profits when objectives are met (Profit Participation Plan). This capital sharing opportunity has existed since CGI was established.

**It is an approach that incorporates many advantages:**

#### **FOR OUR CLIENTS**

Because of this approach, CGI has very few freelance or contract employees. This helps assure our clients that the experience we acquire through working with them is more likely to remain in the company. Moreover, the people they deal with at CGI are also owners of the company and are therefore completely committed to producing high-quality, dependable work in order to strengthen the client relationship.

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### FOR OUR SHAREHOLDERS

Our external shareholders can rest assured that, as fellow owners, all of CGI's members have their mutual interests at heart, i.e. a desire to see the company grow and the drive to execute each contract in a way that will yield the targeted profit margin. This also impacts business development, for, as shareholders, our members strive to promote the company's growth, but will not sacrifice profitability by submitting counter-productive bids. And finally, shareholders are also assured that all of our members will manage the company's costs as if they were their own.

### FOR OUR MEMBERS

As members and shareholders, we feel above all that the growth in value, which we are contributing to, does provide us with a lucrative return over the long term. It is indeed more stimulating to work for a company that values the sharing of wealth. This also guarantees greater transparency in the management of the company. Because we must communicate our financial results to everyone, all of CGI's managers are more accountable to the people they lead and are more likely to involve them in the decision process. We believe that our approach to corporate ownership fosters greater overall dynamism and cohesiveness of action. This also allows us to attract and retain individuals with a genuine desire to build and develop the company.

### **6. Promoting robust, healthy and sustainable growth to the benefit of all stakeholders**

Robust, healthy and sustained growth is vital to the company's success. Much of our clientele consists of large companies with operations extending over many countries. We are committed to serving these clients well, often through long-term relationships that require us to deploy professionals in sufficient numbers where clients operate. The growth of our clients' business requires that we grow with them. Also, as a result of our success, an increasing number of clients call upon us to provide them with services. Robust growth is therefore intrinsic to the nature of the business we are in.

Growth is not only a vital component of our activities and essential to our clients, it also benefits our members. It provides them with an opportunity to embark upon new and stimulating challenges and develop their own potential. And growth, when financially healthy and profitable, clearly benefits all of our shareholders (including our member shareholders) through the value it generates.

To maintain healthy and sustained growth, it is important that the companies or groups that join our ranks be welcomed and well integrated into our operations. In order to succeed in its growth strategy, CGI has developed its integration capability into a core competency. This capacity to integrate is based on three main axes. The first axis is aimed primarily at welcoming newcomers, answering their legitimate questions, confirming their new conditions of employment and, above all, allowing them to discover CGI by sharing its dream and values. The second axis is directed towards establishing the various synergy goals linked to an acquisition or an outsourcing deal. This encourages all parties to understand that this combination of strengths offers new, stimulating opportunities. The third axis is aimed at assuring the organizational transition and a rapid transfer to the CGI Management Foundation, especially with regards to the Quality System.



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It follows that there ought to be an equilibrium of interests among all of the company's core stakeholders: clients, members and shareholders.

It is of course also essential that, as it grows, our company continues to act as a responsible corporate citizen by respecting and supporting the communities in which it operates and by respecting the environment.

The following are a few concrete examples of how this balanced approach promotes the healthy and sustained growth of CGI:

We must ensure, at every step of our growth that we preserve the quality of the services we offer to our current and future clients.

We must also ensure that our members are adequately prepared to face the new challenges we offer them and that they have the resources needed to accomplish their work.

Growth must not come at the expense of the communities where we do business, or of the environment in general. In fact, we are committed to participating in the development of these communities and the protection of the environment.

We strive to ensure that our growth and development efforts provide short-term benefits without negatively impacting our long-term performance. We believe this also to be in the best interests of our shareholders. When the above conditions are met, robust, healthy, balanced and sustainable growth will follow.

**7. Implementing a management model aligned with our dream and values**

CGI's dream is being fulfilled every day through the constant efforts of our members who share and believe in this dream. It is also achieved through a disciplined management approach that is based on the company's objectives to produce high quality work for its clients, promote the development of its members and provide high value to its shareholders

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**CGI Management Foundation**

**INTRODUCTION**

In the above diagram, we have assembled the key elements that define and guide the management of CGI. For this reason, these elements have been called the CGI Management Foundation. They reflect our collective experience and have been developed to make our actions as efficient as possible. This efficiency must first and foremost respect a number of principles, which are themselves integrated into the CGI Management Foundation and deserve to be emphasized:

- 1) the primacy of the dream, the vision, the mission and the values of the company;
- 2) the equilibrium between the legitimate interests of our clients, members and shareholders;
- 3) the balance between the need to assure cohesiveness and rigour in the management of the company and the commitment to promote autonomy, initiative and entrepreneurship.

The CGI Management Foundation intends to guide rather than prescribe.

Thus, it offers a certain amount of freedom in order to remain focused on our essential goal: to provide high-quality services truly adapted to our clients' needs.

We will now examine the individual elements of the Foundation.

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### **DREAM, VISION, MISSION, VALUES, QUALITY POLICY, STRATEGIC DIRECTIONS AND PLANS**

The first section of the diagram aims at ensuring that all decisions are well aligned on the dream, vision, mission, and values of the company. These are described in the first section of this document.

The next component is our Quality Policy. It has earned ISO 9001 certification, which requires that CGI demonstrate every year to external evaluators that its Quality Policy is applied across all of its operations.

The final component of this uppermost section focuses on Strategic Directions and Plans. These are established on an annual and triennial basis according to a rigorous process that includes extensive participation from within the company as well as from our clients and our shareholders. The emphasis placed on involving all business units and corporate services in the planning process helps ensure that the objectives established and methods selected are shared by all to the fullest extent possible and that they generate enthusiastic commitment in their implementation.

### **GOVERNANCE POLICIES AND FRAMEWORKS, HUMAN RESOURCES POLICIES, FINANCIAL POLICIES AND ORGANIZATIONAL MODEL**

The first component of the second section refers to the company's governance policies and frameworks. These policies and frameworks are comprised of the following documents:

- 1) the Charters of the Board of Directors and its standing committees;
- 2) the Codes of Ethics, to which members, officers and directors of the company must adhere;
- 3) the Operations Management Framework, which outlines the delegation framework with respect to decision making (e.g. who may authorize and sign a million dollar proposal; who may authorize promotion to a vice-president's position).

The second component involves human resources policies. CGI members can access all of the company's human resources policies, from compensation and training to career development, on CGI's internal portal.

The third component focuses on financial policies. It covers how we determine our profitability objectives, target ratios (e.g. profit margins, maximum percentage allotted to certain expenses), how and when our financial results are prepared, the rules governing disclosure of results, etc. These policies and rules are outlined in a document under the responsibility of the Chief Financial Officer, and the most pertinent elements are communicated to all of our members.

Finally, the organizational model favoured by CGI is one that provides considerable autonomy to our business units. This model consists of creating business units in major cities in the regions that we serve. We also put a high priority on establishing solid business relationships within these regions, particularly with the decision makers from the companies operating in these cities. Each of these metropolitan business units is structured according to the key economic sectors served by CGI (finance, telecommunications, etc.). The implementation of a service offering for clients which have operations in multiple regions or countries is achieved through collaboration among business units,

which, in the case of large contracts and particularly those involving outsourcing, can result in entire business units being dedicated to our major clients or to groups of clients who share the same needs. Consulting services and centres of expertise throughout CGI ensure that knowledge, strategies and leading-edge solutions are shared within the entire company.



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**BUSINESS UNIT PROCESSES AND PARTNERSHIP MANAGEMENT FRAMEWORKS**

The Business Unit Processes explain how the Client Partnership Management Framework and the Member Partnership Management Framework are applied locally in each business unit. They also describe how business development activities and other initiatives crucial to the smooth operation of each business unit should be managed.

The activities at the core of the operational management of CGI are aligned onto three management frameworks: the Client Partnership Management Framework, the Member Partnership Management Framework and the Shareholder Partnership Management Framework. These frameworks are the cornerstones of a continuous improvement process that is supported by the documentation and the systematic, audited application of our best practices. The process is also constantly fuelled by client, member and shareholder evaluations of our activities and performance.

The first is the Client Partnership Management Framework. CGI's leadership position in its industry is contingent upon its ability to deliver services of the highest quality to its clients at competitive prices and within the established time frames. The Client Partnership Management Framework is the basis of how we manage our relationships with our clients. For each of type of mandates (outsourcing, projects, and consulting services), this framework guides our teams in the achievement of all phases of their work, from the proposal to its completion of the mandate. It is based not only on our best practices, but also relies on the industry's best standards and practices. A rigorous, regular program to evaluate the satisfaction of our clients allows us to measure our progress and continuously improve our practices. This evaluation is conducted on a face-to-face basis with the client, who must sign the evaluation. Each year, CGI establishes improvement objectives based on the results obtained the previous year.

The Member Partnership Management Framework guides all of our managers through the communications and dialogue activities they have with their teams. This cycle begins with welcoming activities and is followed by informal meetings, team meetings at various levels, career planning and performance reviews. We measure the satisfaction of our members annually through a survey conducted by an outside firm. Members

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can also use the survey to communicate their observations and suggestions to the head of their business unit or the CGI executive team. The results are published, and commitments are made by the leaders of both the business units and the company itself to address the comments submitted and make needed improvements.

The Shareholder Partnership Management Framework describes our information and relationship program with our investors beyond the prescribed activities associated with corporate governance, transparency and the disclosure of results.

The final section refers to the way we measure our results. First and foremost, we systematically measure the satisfaction levels of active clients regularly. We also measure member satisfaction annually, and we are currently developing a shareholder satisfaction measurement tool.

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**Documents and Policies Pertaining to Corporate Governance**

**3.1 Charter of the Board of Directors**

**Important note**

Chapter 1, Dream, Vision, Mission, and Values of the CGI Group Inc. Fundamental Texts constitutes the fundamental principles of this Charter. This Charter should therefore be read in conjunction with Chapter 1.

**1. INTERPRETATION**

**Financially Literate** means the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements.

**Independent Director** means a director who meets the independence criteria set out in section 1.4 of Multilateral Instrument 52-110 Audit Committees adopted by the Canadian Securities Administrators and as amended and in effect as of June 30, 2005, which is reproduced in Appendix A.

**2. OBJECTIVES**

CGI's shareholders are the first and most important element in the Company's governance structures and processes. At each annual general meeting, the Company's shareholders elect the members of the Company's Board of Directors and give them a mandate to manage and oversee the management of the Company's affairs for the coming year.

In the normal course of operations, certain corporate actions which may be material to CGI are initiated from time to time by the Company's senior management and, at the appropriate time, are submitted to CGI's Board of Directors for consideration and approval. When appropriate, such matters are also submitted for consideration and approval by CGI's shareholders. All such approvals are sought in accordance with the charters of the Board of Directors and standing committees, CGI's corporate governance practices and applicable corporate and securities legislation.

The overall stewardship of the Company is the responsibility of the Board of Directors. In accomplishing the mandate it receives from the Company's shareholders, the Board of Directors may delegate certain of its authority and responsibilities to committees and management and reserve certain powers to itself. Nonetheless, it will retain full effective control over the Company.

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**Table of Contents****3. COMPOSITION**

- 3.1 The majority of the Board of Directors shall be comprised of Independent Directors. The application of the definition of Independent Director to the circumstances of each individual director is the responsibility of the Board of Directors which will disclose on an annual basis whether it is constituted with the appropriate number of directors which are Independent Directors and the basis for its analysis. The Board of Directors will also disclose which directors are Independent Directors or not and provide a description of the business, family, direct and indirect shareholding or other relationship between each director and the Company.
- 3.2 The Company expects and requires directors to be and remain free of conflictual interests or relationships and to refrain from acting in ways which are actually or potentially harmful, conflictual or detrimental to the Company's best interests. Each director shall comply with the Company's formal code of ethics and business conduct that governs the behaviour of members, directors and officers and shall complete and file annually with the Company any and all documents required pursuant to such formal code of ethics and business conduct with respect to conflict of interests. This matter will also be reviewed annually by the Corporate Governance Committee. The Board of Directors will monitor compliance with said code as well as with the Company's executive code of conduct applicable to its principal executive officer, principal financial officer, principal accounting officer or controller, or other persons performing similar functions within the Company. The Board will also be responsible for the granting of any waivers from compliance with the codes for directors and officers. The Board of Directors will disclose in due time the adoption of such codes as well as all waivers and specify the circumstances and rationale for granting the waiver.
- 3.3 The Board of Directors, following advice of its Corporate Governance Committee, is responsible for evaluating its size and composition and establishing a Board comprised of members who facilitate effective decision-making, have appropriate skills and diverse background. The Company's target is to have women represent at least 30% of its directors. The Board of Directors has the ability to increase or decrease its size.
- 3.4 CGI's corporate governance practices require that all members of CGI's Board of Directors be both financially and operationally literate. Financial Literacy means that the director has the knowledge and skills necessary to read and understand CGI's financial statements. Operational literacy means that the director has substantial experience in the execution of day to day business decisions and strategic business objectives acquired as a result of meaningful past experience as a chief executive officer or as a senior executive officer in another capacity but with a broad responsibility for operations. The members of the Board of Directors who serve on the Company's Audit and Risk Management Committee must be operationally literate and be financially literate in the sense of having the ability to read and understand a set of financial statements that present a breadth and level of complexity of



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accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by CGI's financial statements, and otherwise in keeping with applicable governance standards under applicable securities laws and regulations.

- 3.5 A director who makes a major change in principal occupation will forthwith disclose this fact to the Board of Directors and will offer his or her resignation to the Board of Directors for consideration. It is not intended that directors who retire or whose professional positions change should necessarily leave the Board of Directors. However, there should be an opportunity for the Board of Directors to review the continued appropriateness of the Board of Directors membership under such circumstances.
- 3.6 The Board of Directors is responsible for approving new nominees to the Board. New directors will be provided with an orientation and education program which will include written information about the duties and obligations of directors, the business and operations of the Company, documents from recent Board of Directors meetings and opportunities for meetings and discussion with senior management and other directors. The details of the orientation of each new director will be tailored to that director's individual needs and areas of interest. The prospective candidates should fully understand the role of the Board of Directors and its committees and the contribution expected from individual directors and the Board of Directors will ensure that they are provided with the appropriate information to that effect. In addition, the Board of Directors will ascertain and make available to its members, when required, continuing education as per the business and operations of the Company.

**4. RESOURCES**

- 4.1 The Board of Directors will implement structures and procedures to ensure that it functions independently of management.
- 4.2 The Board of Directors appreciates the value of having certain members of senior management attend each Board of Directors meeting to provide information and opinion to assist the directors in their deliberations. The Executive Chairman of the Board will seek the Board of Directors' concurrence in the event of any proposed change to the management attendees at Board of Directors meetings. Management attendees will be excused for any agenda items which are reserved for discussion among directors only.

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**5. RESPONSIBILITIES AND DUTIES**

The principal responsibilities and duties of the Board of Directors include the following, it being understood that in carrying out their responsibilities and duties, directors may consult with management and may retain external advisors at the expense of the Company in appropriate circumstances. Any engagement of external advisors shall be subject to the approval of the Chair of the Corporate Governance Committee.

**5.1 General Responsibilities**

- 5.1.1 The Board of Directors will oversee the management of the Company. In doing so, the Board of Directors will establish a productive working relationship with the Executive Chairman of the Board and the Chief Executive Officer and other members of senior management.
- 5.1.2 The Board of Directors will oversee the formulation of long-term strategic, financial and organizational goals for the Company. It shall approve the Company's strategic plan and review same on at least an annual basis. This plan will take into account the opportunity and risks of the Company's business.
- 5.1.3 As part of the responsibility of the Board of Directors to oversee management of the Company, the Board of Directors will engage in active monitoring of the Company and its affairs in its stewardship capacity.
- 5.1.4 The Board of Directors will engage in a review of short and long-term performance of the Company in accordance with approved plans.
- 5.1.5 The officers of the Company, headed by the Executive Chairman of the Board and the Chief Executive Officer, shall be responsible for general day to day management of the Company and for making recommendations to the Board of Directors with respect to long term strategic, financial, organizational and related objectives.
- 5.1.6 The Board of Directors will periodically review the significant risks and opportunities affecting the Company and its business and oversee the actions, systems and controls in place to manage and monitor risks and opportunities. The Board of Directors may impose such limits as may be in the interests of the Company and its shareholders.
- 5.1.7 The Board of Directors will oversee how the Company communicates its goals and objectives to its shareholders and other relevant constituencies.



- 5.1.8 The Board of Directors will oversee the succession planning including appointing, training and monitoring senior management and the Executive Chairman of the Board in particular.

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- 5.1.9 The Board of Directors is responsible for overseeing a Communication Policy for the Company. In doing so, the Board of Directors will ensure that the policy (i) addresses how the Company interacts with analysts, investors, other key stakeholders and the public, (ii) contains measures for the Company to comply with its continuous and timely disclosure obligations and to avoid selective disclosure, and (iii) is reviewed at least annually.
- 5.1.10 The Board of Directors will oversee the integrity of the Company's internal control and management information systems.
- 5.1.11 The Board of Directors will make sure that the Company adopt prudent financial standards with respect to the business of the Company and prudent levels of debt in relation to the Company's consolidated capitalization.
- 5.1.12 The Board of Directors will also consider and approve:
- i) transactions out of the ordinary course of business including, without limitation, proposals on mergers, acquisitions or other major investments or divestitures;
  - ii) all matters that would be expected to have a major impact on shareholders;
  - iii) the appointment of any person to any position that would qualify such person as an officer of the Company; and
  - iv) any proposed changes in compensation to be paid to members of the Board of Directors on the recommendation of the Human Resources Committee.
- 5.1.13 The Board of Directors will also receive reports and consider:
- i) The quality of relationships between the Company and its key customers;
  - ii) Changes in the shareholder base of the Company from time to time and relationships between the Company and its significant shareholders;
  - iii)

Periodic reports from Board of Directors committees with respect to matters considered by such committees;

- iv) Health, safety and environmental matters as they affect the Company and its business; and
- v) Such other matters as the Board of Directors may, from time to time, determine.

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- 5.1.14 The Board of Directors will oversee management through an ongoing review process.
- 5.1.15 The Board of Directors will, together with the Executive Chairman of the Board develop a position descriptions for the Executive Chairman of the Board and the Chief Executive Officer. The Board of Directors will also approve the corporate objectives that the Executive Chairman of the Board is responsible for meeting and assess management's performance in relation to such objectives. The Board of Directors will raise any concerns related to the performance of the Chief Executive Officer with the Executive Chairman of the Board as appropriate.
- 5.1.16 The Board of Directors will receive a report from its Human Resources Committee on succession planning as set forth in such committee's mandate.

**5.2 Self-Assessment of the Board of Directors and Peer Review**

The Board of Directors will annually review the assessment of the Board of Directors' performance and recommendation provided by the Corporate Governance Committee, and every two years, conduct a peer review of the independent directors. The objective of this review is to increase the effectiveness of the Board of Directors and contribute to a process of continuous improvement in the Board of Directors' execution of its responsibilities. It is expected that the result of such reviews will be to identify any areas where the directors and/or management believe that the Board of Directors and/or the directors individually could make a better contribution to the affairs of the Company. The Board of Directors will take appropriate action based upon the results of the review process.

**5.3 Committees**

- 5.3.1 The Board of Directors shall appoint committees to assist it in performing its duties and processing the quantity of information it receives.
- 5.3.2 Each committee operates according to a Board of Directors approved written mandate outlining its duties and responsibilities. This structure may be subject to change as the Board of Directors considers from time to time which of its responsibilities can best be fulfilled through more detailed review of matters in committee.
- 5.3.3 The Board of Directors will review annually the work undertaken by each committee and the responsibilities thereof.
- 5.3.4 The Board of Directors will annually evaluate the performance and review the work of its committees, including their respective mandates and the sufficiency of such mandates.

5.3.5 The Board of Directors will annually appoint a Lead Director as well as a member of each of its committees to act as Chair of the committee.

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5.3.6 Subject to subsection 5.3.8, committees of the Board of Directors shall be composed of a majority of Independent Directors.

5.3.7 The Board of Directors shall appoint members of committees after considering the recommendations of the Corporate Governance Committee and the Executive Chairman of the Board, the skills and desires of individual Board members, and the diversity of their background (including in terms of gender, ethnicity, age, experience and geographical representation), all in accordance with the mandates of such committees approved by the Board.

5.3.8 The Audit Committee shall be composed only of Independent Directors. All members of the Audit Committee shall be Financially Literate and at least one member shall be a financial expert within the meaning of applicable regulatory requirements.

**5.4 Lead Director**

5.4.1 The Lead Director shall be an Independent Director. He will oversee that the Board of Directors discharges its responsibilities, ensure that the Board of Directors evaluates the performance of management objectively and that the Board of Directors understands the boundaries between the Board of Directors and management responsibilities.

5.4.2 The Lead Director will chair periodic meetings of the Independent Directors and assume other responsibilities which the Independent Directors as a whole might designate from time to time.

5.4.3 The Lead Director should be able to stand sufficiently back from the day-to-day running of the business to ensure that the Board of Directors is in full control of the Company's affairs and alert to its obligations to the shareholders.

5.4.4 The Lead Director shall provide input to the Executive Chairman of the Board on preparation of agendas for Board and committee meetings.

5.4.5 The Lead Director shall chair Board meetings when the Executive Chairman of the Board is not in attendance, subject to the provisions of the by-laws of the Company.

5.4.6 The Lead Director shall provide leadership for the independent directors and ensure that the effectiveness of the Board is assessed on a regular basis.

- 5.4.7 The Lead Director shall set the agenda for the meetings of the Independent Directors.
- 5.4.8 The Lead Director shall report to the Board concerning the deliberations of the independent directors as required.

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- 5.4.9 The Lead Director shall, in conjunction with the Executive Chairman of the Board, facilitate the effective and transparent interaction of Board members and management;
- 5.4.10 The Lead Director shall provide feedback to the Executive Chairman of the Board and act as a sounding board with respect to strategies, accountability, relationships and other issues.

**5.5 Review of the Board Mandate**

In order to ensure that this mandate is kept current in the light of changes which may occur in corporate practice or the structure of the Company, the Board of Directors will annually reconfirm this mandate or initiate a review to revise it.

**5.6 Board of Directors Compensation**

The Human Resources Committee will review the adequacy and form of compensation of the senior management and directors each year. The Committee shall make recommendations to the Board of Directors for consideration when it believes changes in compensation are warranted. Furthermore, the Board of Directors will ensure the compensation realistically reflects the responsibility and risk involved in being a director.

**6. COMMUNICATIONS POLICY**

- 6.1 The Board of Directors will consider and review the means by which shareholders can communicate with the Company including the opportunity to do so at the annual meeting, communications interfaces through the Company's website and the adequacy of resources available within the Company to respond to shareholders through the office of the Corporate Secretary and otherwise. However, the Board of Directors believes that it is the function of the management to speak for the Company in its communications with the investment community, the media, customers, suppliers, employees, governments and the general public. It is understood that individual directors may from time to time be requested by management to assist with such communications. It is expected, if communications from stakeholders are made to individual directors, management will be informed and consulted to determine any appropriate response.
- 6.2 The Board of Directors has the responsibility for monitoring compliance by the Company with the corporate governance requirements and guidelines of the Toronto Stock Exchange and the New York Stock Exchange. The Board of Directors will approve the disclosure of the Company's system of governance and the operation of such system.



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**3.2 Charter of the Corporate Governance Committee**

**Important note**

Chapter 1, Dream, Vision, Mission, and Values of the CGI Group Inc. Fundamental Texts constitutes the fundamental principles of this Charter. This Charter should therefore be read in conjunction with Chapter 1.

**1. INTERPRETATION**

**Committee** means the Corporate Governance Committee of the Board of Directors of the Company.

**Independent Director** means a director who meets the independence criteria set out in section 1.4 of Multilateral Instrument 52-110 Audit Committees adopted by the Canadian Securities Administrators and as amended and in effect as of June 30, 2005, which is reproduced in Appendix A.

**2. OBJECTIVES**

The Committee is responsible for: (a) developing the Company's approach to Board governance issues and the Company's response to the corporate governance guidelines; (b) reviewing the composition and contribution of the Board and its members and recommending Board nominees; (c) overseeing the orientation program for new directors; and (d) helping to maintain an effective working relationship between the Board of Directors and management.

**3. COMPOSITION**

3.1 The Committee shall be composed of a majority of Independent Directors.

3.2 The Board of Directors shall appoint an independent director as the Chair of the Committee. If the Chair is absent from a meeting, the members shall select a Chair from those in attendance to act as Chair of the meeting.

**4. MEETINGS**

4.1 Meetings of the Committee shall be held at the call of the Chair, but not less than twice annually. Meetings of the Committee may be called by the Chair of the Committee, the Executive Chairman of the Board or the Chief Executive Officer.



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- 4.2 The powers of the Committee shall be exercisable by a meeting at which a quorum is present. A quorum shall be not less than two members of the Committee from time to time. Subject to the foregoing requirement, unless otherwise determined by the Board of Directors, the Committee shall have the power to fix its quorum and to regulate its procedure. Matters decided by the Committee shall be decided by majority vote.
- 4.3 Notice of each meeting shall be given to each member, to the Executive Chairman of the Board, to the Chief Executive Officer and to the Corporate Secretary of the Company.
- 4.4 The Committee may invite from time to time such persons as it may see fit to attend its meetings and to take part in discussion and consideration of the affairs of the Committee, including in particular the Chief Executive Officer.
- 4.5 The Committee shall appoint a secretary to be the secretary of all meetings of the Committee and to maintain minutes of all meetings and deliberations of the Committee.

**5. RESPONSIBILITIES AND DUTIES**

**5.1 Role and responsibilities of the Committee Chair:**

- 5.1.1 The Chair of the Committee:
- 5.1.1.1 Provides leadership for the Committee by ensuring that:
- (i) The responsibilities of the Committee are well understood by Committee members and management.
  - (ii) The Committee works as a cohesive team.
  - (iii) Adequate resources and timely and relevant information are available to the Committee to support its work.
  - (iv) The effectiveness of the Committee is assessed on a regular basis.

- (v) The Committee's structure and mandate is appropriate and adequate to support the discharge of the Committee's responsibilities.
  
- (vi) The scheduling, organization and procedures of Committee meetings provide adequate time for the consideration and discussion of relevant issues.

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- 5.1.1.2 Works with the Executive Chairman of the Board and Corporate Secretary to set the calendar of the Committee's regular meetings.
- 5.1.1.3 Has the authority to convene special meetings as required.
- 5.1.1.4 Sets the agenda in collaboration with the Executive Chairman of the Board and the Corporate Secretary.
- 5.1.1.5 Presides at meetings.
- 5.1.1.6 Acts as liaison with management with regard to the work of the Committee.
- 5.1.1.7 Reports to the Board concerning the work of the Committee.
- 5.1.1.8 Exercises the authority specifically delegated to the Chair by the Committee, if any.

**5.2 General Responsibilities**

**BOARD MEMBERS**

- 5.2.1 Review criteria regarding the composition of the Board of Directors and committees of the Board of Directors, such as size, proportion of Independent Directors, and criteria to determine and promote relatedness as well as the diversity of Board members' background, including in terms of gender (with a target of women representing at least 30% of the directors), ethnicity, age, experience and geographical representation), while seeking to facilitate effective decision-making. Given the Board of Directors' composition and history of long-term succession planning, no date has yet been set to meet the target of women's representation at Board level but progress will be monitored periodically.
- 5.2.2 Review criteria relating to tenure as a director, such as limitations on the number of times a director may stand for re-election, and the continuation of directors in an honorary or similar capacity.
- 5.2.3 Review criteria for retention of directors unrelated to age or tenure, such as attendance at Board of Directors and committee meetings, health or the assumption of responsibilities which are incompatible with effective Board of Directors membership; and assess the effectiveness of the Board of Directors as a whole, the committees of the Board of Directors, the contribution of individual

directors on an ongoing basis and establish in light of the opportunities and risks facing the Company, what competencies, skills and personal qualities it seeks in new Board members in order to add value to the Company.

- 5.2.4 Recommend to the Board of Directors the list of candidates for directors to be nominated for election by shareholders at annual meetings of shareholders.

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- 5.2.5 Recommend to the Board of Directors candidates to fill vacancies on the Board of Directors occurring between annual meetings of shareholders.
- 5.2.6 Recommend to the Board of Directors the removal of a director in exceptional circumstances, for example (a) such director is in a position of conflict of interest or (b) the criteria underlying the appointment of such director change.
- 5.2.7 Ensure that the Board of Directors can function independently of management. To this end, arrange for meetings on a regular basis of the Independent Directors without management present. In such cases, meetings will be chaired by the Lead Director.

## **DIRECTOR ORIENTATION**

- 5.2.8 As an integral element of the process for appointing new directors, put in place an orientation and education program for new recruits to the Board of Directors and review from time to time the value and benefit of such program.

## **COMPLIANCE**

- 5.2.9 Ensure corporate compliance with applicable legislation including director and officer compliance.
- 5.2.10 Review proposed amendments to the Company's by-laws before making recommendations to the Board of Directors.

## **CODES OF BUSINESS CONDUCT**

- 5.2.11 Periodically review and make recommendations to the Board of Directors with respect to the Company's formal code of ethics and business conduct for its members, directors and officers and its executive code of conduct applicable to the Company's principal executive officer, principal financing officer, principal accounting officer or controller, or other persons performing similar functions within the Company; including the disclosure of the adoption of such codes.
- 5.2.12 Monitor adherence to the codes and review potential situations related thereto brought to the attention of the Committee by the Corporate Secretary of the Company in order to recommend or not in certain circumstances to the Board of Directors to grant or not waivers from compliance with the codes for directors and officers. The Committee shall also ensure that when such waivers are granted, the Board of Directors shall disclose same in due time and specify the circumstances and rationale for granting the waiver.





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**CORPORATE GOVERNANCE PRINCIPLES**

- 5.2.13 Make recommendations to the Board of Directors as deemed appropriate in the context of adherence to corporate governance guidelines in effect from time to time.
- 5.2.14 In conjunction with the Executive Chairman of the Board, recommend to the Board of Directors the membership and chairs of the committees of the Board of Directors.
- 5.2.15 Review annually the Board/management relationship.
- 5.2.16 On a yearly basis, review the measures applied by the Company to promote diversity, their effectiveness, and annual and cumulative progress made in achieving their objectives.
- 5.2.17 Advise the Board of Directors on the disclosure to be contained in the Company's public disclosure documents, such as the Company's annual management proxy circular or annual report, on matters of corporate governance as required by the Toronto Stock Exchange, the New York Stock Exchange or any other applicable exchange or regulator.
- 5.2.18 Generally advise the Board of Directors on all other matters of corporate governance.

**EXTERNAL AND INTERNAL RESOURCES**

- 5.2.19 Retain such independent external advisors as it may deem necessary and advisable for its purposes.
- 5.2.20 Report to the Board of Directors on its proceedings, reviews undertaken, and any associated recommendations.
- 5.2.21 Have adequate resources to discharge its responsibilities;
- 5.2.22 Have the right, for the purposes of discharging the powers and responsibilities of the Committee, to inspect any relevant records of the Company and its subsidiaries.
- 5.2.23

The Chair of the Committee shall review the opportunity for the Board of Directors of the Company or individual directors to retain external advisors at the expense of the Company in certain appropriate circumstances in carrying out their responsibilities.

**SHAREHOLDER PROPOSALS**

- 5.2.24 Review and make recommendations on shareholder proposals to the Board of Directors or refer them to the Executive Chairman of the Board as appropriate.

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**5.3 Other Responsibilities**

The Committee shall carry out such other mandates as the Board of Directors may request from time to time.

**5.4 Review of Mandate of the Committee**

The Board of Directors should review and reassess the adequacy of the mandate on an annual basis.

**5.5 Compensation**

Members of the Committee shall be entitled to receive such remuneration for acting as members of the Committee as the Board of Directors may determine from time to time.

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### **3.3 Charter of the Human Resources Committee**

#### **Important note**

Chapter 1, Dream, Vision, Mission, and Values of the CGI Group Inc. Fundamental Texts constitutes the fundamental principles of this Charter. This Charter should therefore be read in conjunction with Chapter 1.

#### **1. INTERPRETATION**

**Committee** means the Human Resources Committee of the Board of Directors of the Company.

**Executive Officer** means an individual who is:

- (a) a Chair, Vice-Chair or President;
- (b) a leader in charge of a principal business unit or function; or
- (c) performing a policy-making function in respect of the Company.

*Note: The definition is derived from the definition contained in National Instrument 51-102 adopted by the Canadian Securities Administrators.*

**Independent Director** means a director who meets the independence criteria set out in section 1.4 of Multilateral Instrument 52-110 Audit Committees adopted by the Canadian Securities Administrators, as amended, which is reproduced in Appendix A.

#### **2. OBJECTIVES**

The Committee is responsible for reviewing and making recommendations to the Board of Directors of the Company for the appointment of officers of the Company and for determining terms of employment of senior executives whose remuneration must be disclosed as per applicable legislation, and such other senior executives as may be proposed by the Executive Chairman of the Board and the Chief Executive Officer. It shall also perform functions such as reviewing succession planning and matters of compensation as well as such other matters the Committee may consider suitable with respect to compensation or as may be specifically directed by the Board of Directors from time to time.

#### **3. COMPOSITION**

- 3.1 The Committee shall be composed of a majority of Independent Directors.

- 3.2 The Board of Directors shall appoint one of the Independent Directors as the Chair of the Committee. If the Chair is absent from a meeting, the members shall select a Chair from those in attendance to act as Chair of the meeting.

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**4. MEETINGS**

- 4.1 Meetings of the Committee shall be held at the call of the Chair, but not less than three times annually. Meetings of the Committee may be called by the Chair of the Committee, the Executive Chairman of the Board or the Chief Executive Officer.
- 4.2 The powers of the Committee shall be exercisable by a meeting at which a quorum is present. A quorum shall be not less than two members of the Committee from time to time. Subject to the foregoing requirement, unless otherwise determined by the Board of Directors, the Committee shall have the power to fix its quorum and to regulate its procedure. Matters decided by the Committee shall be decided by majority vote.
- 4.3 Notice of each meeting shall be given to each member, to the Executive Chairman of the Board, to the Chief Executive Officer and to the Corporate Secretary of the Company.
- 4.4 The Committee may invite from time to time such persons as it may see fit to attend its meetings and to take part in discussion and consideration of the affairs of the Committee, including in particular the Executive Chairman of the Board.
- 4.5 The Committee shall appoint a secretary to be the secretary of all meetings of the Committee and to maintain minutes of all meetings and deliberations of the Committee.

**5. RESPONSIBILITIES AND DUTIES**

**5.1 Role and responsibilities of the Committee Chair:**

- 5.1.1 The Chair of the Committee:
- 5.1.1.1 Provides leadership for the Committee by ensuring that:
- (i) The responsibilities of the Committee are well understood by Committee members and management.
  - (ii) The Committee works as a cohesive team.

- (iii) Adequate resources and timely and relevant information are available to the Committee to support its work.

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- (iv) The effectiveness of the Committee is assessed on a regular basis.
- (v) The committee's structure and mandate is appropriate and adequate to support the discharge of the Committee's responsibilities.
- (vi) The scheduling, organization and procedures of Committee meetings provide adequate time for the consideration and discussion of relevant issues.

5.1.1.2 Works with the Executive Chairman of the Board and Corporate Secretary to set the calendar of the Committee's regular meetings.

5.1.1.3 Has the authority to convene special meetings as required.

5.1.1.4 Sets the agenda in collaboration with the Executive Chairman of the Board and the Corporate Secretary.

5.1.1.5 Presides at meetings.

5.1.1.6 Acts as liaison with management with regard to the work of the Committee.

5.1.1.7 Reports to the Board concerning the work of the Committee.

5.1.1.8 Exercises the authority specifically delegated to the Chair by the Committee, if any.

**5.2 General Responsibilities**

5.2.1 The Committee shall, among other things, have responsibility to advise the Board of Directors on human resources planning, compensation of members of the Board of Directors, Executive Officers and other employees, short and long-term incentive plans, benefit plans, and Executive Officer appointments.

5.2.2 The Committee shall review and report to the Board of Directors on:



- 5.2.2.1 Management's succession plans for Executive Officers, with special emphasis on the Executive Chairman of the Board and Chief Executive Officer succession;
  
- 5.2.2.2 Compensation philosophy of the organization, including a remuneration strategy and remuneration policies for the Executive Officer level, as proposed by the Executive Chairman of the Board and the Chief Executive Officer;

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- 5.2.2.3 Recommendations to the Board of Directors for the appointment of the Executive Chairman of the Board, the Chief Executive Officer and other Executive Officers, corporate objectives which the Executive Chairman of the Board and such other Executive Officers, as the case may be, are responsible for meeting, assessment of the Executive Chairman of the Board and of the Chief Executive Officer against these objectives, monitoring of the Executive Chairman of the Board's performance and providing advice and counsel in the execution of his duties;
- 5.2.2.4 Total remuneration plan including adequacy and form of compensation realistically reflecting the responsibilities and risks of the position for the Executive Chairman of the Board and for the Chief Executive Officer of the Company and, in connection therewith, consider appropriate information, including information from the Board of Directors with respect to the overall performance of the Executive Chairman of the Board and of the Chief Executive Officer;
- 5.2.2.5 Remuneration for Executive Officers, annual adjustment to executive salaries, and the design and administration of short and long-term incentive plans, stock options, benefits and perquisites as proposed by the Executive Chairman of the Board and the Chief Executive Officer;
- 5.2.2.6 Employment and termination arrangements for senior management;
- 5.2.2.7 Adoption of new, or significant modifications to, pay and benefit plans;
- 5.2.2.8 Appointment of officers and executive officers as appropriate, while considering and promoting the diversity of the executive team's background, including in terms of gender, ethnicity, age and experience;
- 5.2.2.9 Significant organizational changes;
- 5.2.2.10 The Committee's proposed executive compensation report to be contained in the Company's annual proxy circular;
- 5.2.2.11 Management development programs for the Company;
- 5.2.2.12 Any special employment contracts or arrangements with officers of the Company including any contracts relating to change of control; and

- 5.2.2.13 Remuneration for members of the Board of Directors and committees thereof, including adequacy and form of compensation realistically reflecting the responsibilities and risks of the positions and recommend changes where applicable.

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- 5.2.3 The Committee shall perform such other duties as may from time to time be assigned to it by the Board of Directors including those relating to compensation of officers and senior employees and the manpower resources of the Company.

**5.3 Other Responsibilities**

- 5.3.1 The Committee shall have the right to retain such independent external advisors as it may deem necessary and advisable for its purposes and to assess and review, on an annual basis or as deemed appropriate, the independence of such external advisors.
- 5.3.2 The Committee shall report to the Board of Directors on its proceedings, reviews undertaken, and any associated recommendations.
- 5.3.3 The Committee shall have adequate resources to discharge its responsibilities.
- 5.3.4 The Committee shall have the right, for the purposes of discharging the powers and responsibilities of the Committee, to inspect any relevant records of the Company and its subsidiaries.

**5.4 Review of Mandate of the Committee**

The Board of Directors should review and reassess the adequacy of this mandate on an annual basis.

**5.5 Compensation**

Members of the Committee shall be entitled to receive such remuneration for acting as members of the Committee as the Board of Directors may determine from time to time.

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**3.4 Charter of the Audit and Risk Management Committee**

**Important note**

Chapter 1, Dream, Vision, Mission, and Values of the CGI Group Inc. Fundamental Texts constitutes the fundamental principles of this Charter. This Charter should therefore be read in conjunction with Chapter 1.

**1. INTERPRETATION**

**Committee** means the Audit and Risk Management Committee of the Board of Directors of the Company.

**Financially Literate** means the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements.

**Independent Director** means a director who meets the independence criteria set out in section 1.4 of Multilateral Instrument 52-110 Audit Committees adopted by the Canadian Securities Administrators and as amended and in effect as of June 30, 2005, which is reproduced in Appendix A.

**2. OBJECTIVES**

The Committee will assist the Board of Directors in fulfilling its oversight responsibilities. In performing its duties, the Committee will maintain effective working relationships with the Board of Directors, management, the internal auditors and the external auditors.

**3. COMPOSITION**

- 3.1 The Committee shall consist solely of Independent Directors, all of whom shall be Financially Literate and at least one of whom shall be a financial expert as defined in the applicable corporate governance rules imposed by regulatory bodies.
- 3.2 Following each annual meeting of shareholders, the Board of Directors shall elect three or more directors, who shall meet the independence and experience requirements of the New York Stock Exchange and the Toronto Stock Exchange as well as the other similar requirements under applicable securities regulations, to serve on the Committee until the close of the next annual meeting of shareholders of the Company or until the member ceases to be a director, resigns or is replaced, whichever first occurs. Any member may be removed from office or replaced at any time by the Board of Directors.



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- 3.3 The Board of Directors shall appoint one of the members of the Committee as the Chair of the Committee. If the Chair is absent from a meeting, the members shall select a Chair from those in attendance to act as Chair of the meeting.

**4. MEETINGS AND RESOURCES**

- 4.1 Regular meetings of the Committee shall be held quarterly. Special meetings of the Committee may be called by the Chair of the Committee, the external auditors, the Executive Chairman of the Board, the Chief Executive Officer or the Chief Financial Officer of the Company.

- 4.2 The powers of the Committee shall be exercisable by a meeting at which a quorum is present. A quorum shall be not less than two members of the Committee from time to time. Subject to the foregoing requirement, unless otherwise determined by the Board of Directors, the Committee shall have the power to fix its quorum and to regulate its procedure. Matters decided by the Committee shall be decided by majority vote.

- 4.3 Notice of each meeting shall be given to each member, the external auditors, the Executive Chairman of the Board, the Chief Executive Officer and the Chief Financial Officer of the Company, any or all of whom shall be entitled to attend. Notice of each meeting shall also be given, as the case may be, to the internal auditor who shall also attend whenever requested to do so by the Chair of the Committee or the Corporate Secretary.

- 4.4 Notice of meeting may be given orally or by letter, telephone facsimile transmission, telephone or electronic device not less than 24 hours before the time fixed for the meeting. Members may waive notice of any meeting. The notice need not state the purpose or purposes for which the meeting is being held.

- 4.5 Opportunities should be afforded periodically to the external auditors and, as the case may be, to the internal auditor and the senior management to meet separately with the Committee. In addition, the Committee may meet in camera, with only members of the Committee present, whenever the Committee determines that it is appropriate to do so.

- 4.6 The Committee shall have the authority to retain special legal counselling, accounting or other consultants as it may see fit to attend its meetings and to take part in discussion and consideration of the affairs of the Committee at the Company's expense.

- 4.7

The Corporate Secretary of the Company or designate of the Corporate Secretary shall be the Secretary of all meetings of the Committee and shall maintain minutes of all meetings and deliberations of the Committee.



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**5. RESPONSIBILITIES AND DUTIES**

**5.1 Role and responsibilities of the Committee Chair:**

5.1.1 The Chair of the Committee:

5.1.1.1 Provides leadership for the Committee by ensuring that:

- (i) The responsibilities of the Committee are well understood by Committee members and management.
- (ii) The Committee works as a cohesive team.
- (iii) Adequate resources and timely and relevant information are available to the Committee to support its work.
- (iv) The effectiveness of the Committee is assessed on a regular basis.
- (v) The committee's structure and mandate is appropriate and adequate to support the discharge of the Committee's responsibilities.
- (vi) The scheduling, organization and procedures of Committee meetings provide adequate time for the consideration and discussion of relevant issues.

5.1.1.2 Works with the Executive Chairman of the Board, the Chief Financial Officer and the Corporate Secretary to set the calendar of the Committee's regular meetings.

5.1.1.3 Has the authority to convene special meetings as required.

5.1.1.4 Sets the agenda in collaboration with the Executive Chairman of the Board, the Chief Financial Officer and the Corporate Secretary.

- 5.1.1.5 Presides at meetings.
- 5.1.1.6 Acts as liaison with management with regard to the work of the Committee.
- 5.1.1.7 Reports to the Board concerning the work of the Committee.
- 5.1.1.8 Exercises the authority specifically delegated to the Chair by the Committee, if any.

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**Table of Contents****5.2 General responsibilities**

While the Committee has the responsibilities and powers set forth below, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate. This is the responsibility of management and the external auditors. Nor is it the duty of the Committee to conduct investigations, or to assure compliance with laws and regulations. The Committee shall review disagreements, if any, between management and the external auditors and shall make recommendations to resolve such disagreements. In the event that any such disagreement persists, the matter will be referred by the Committee to the Board of Directors for a final determination.

**5.3 Review of mandate of the committee**

The Board of Directors and the Committee shall review and reassess the adequacy of this mandate on an annual basis.

**5.4 Publicly disclosed financial information**

- 5.4.1 The Committee shall review and recommend for approval by the Board of Directors, before release to the public:
- 5.4.1.1 interim unaudited financial statements;
  - 5.4.1.2 audited annual financial statements, in conjunction with the report of the external auditors;
  - 5.4.1.3 all public disclosure documents containing audited or unaudited financial information, including any prospectus, the annual information form and management's discussion and analysis of financial condition and results of operations, as well as related press releases, including earnings guidance; and
  - 5.4.1.4 the compliance of management certification of financial reports with applicable legislation and attestation of the Company's disclosure controls and procedures.
- 5.4.2 The Committee shall review any report which accompanies published financial statements (to the extent such a report discusses financial condition or operating results) for consistency of disclosure with the financial statements themselves.
- 5.4.3 In its review of financial statements, the Committee should obtain an explanation from management of all significant variances between comparative reporting periods and an explanation from

management for items which vary from expected or budgeted amounts as well as from previous reporting periods.

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- 5.4.4 In its review of financial statements, the Committee should review unusual or extraordinary items, transactions with related parties, and adequacy of disclosures, asset and liability carrying values, income tax status and related reserves, qualifications, if any, contained in letters of representation and business risks, uncertainties, commitments and contingent liabilities.
- 5.4.5 In its review of financial statements, the Committee shall review the appropriateness of the Company's significant accounting principles and practices, including acceptable alternatives, and the appropriateness of any significant changes in accounting principles and practices.
- 5.4.6 The Committee shall satisfy itself that adequate procedures are in place for the review of the Company's public disclosure of financial information extracted or derived from the Company's financial statements, and shall periodically assess the adequacy of those procedures.

**5.5 Financial reporting and accounting trends**

The Committee shall:

- 5.5.1 Review and assess the effectiveness of accounting policies and practices concerning financial reporting;
- 5.5.2 Review with management and with the external auditors any proposed changes in major accounting policies, the presentation and impact of significant risks and uncertainties, and key estimates and judgments of management that may be material to financial reporting;
- 5.5.3 Question management and the external auditors regarding significant financial reporting issues discussed and the method of resolution; and
- 5.5.4 Review general accounting trends and issues of accounting policy, standards and practices which affect or may affect the Company.

**5.6 Internal controls**

- 5.6.1 The Committee shall review and monitor the Company's internal control procedures, programs and policies, and assess the adequacy and effectiveness of internal controls over the accounting and financial reporting systems, with particular emphasis on controls over computerized systems.

5.6.2 The Committee shall review:

5.6.2.1 The evaluation of internal controls by the external auditors, together with management's response;

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- 5.6.2.2 The working relationship between management and external auditors;
- 5.6.2.3 The appointments of the Chief Financial Officer and any key financial executives involved in the financial reporting process;
- 5.6.2.4 The review and approval of the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Company;
- 5.6.2.5 Any decisions related to the need for internal auditing, including whether this function should be outsourced and, in such case, approving the supplier which shall not be the external auditors; and
- 5.6.2.6 Internal control procedures to ensure compliance with the law and avoidance of conflicts of interest.
- 5.6.3 The Committee shall undertake private discussions with staff of the internal audit function to establish internal audit independence, the level of co-operation received from management, the degree of interaction with the external auditors, and any unresolved material differences of opinion or disputes.

**5.7 Internal Auditor**

The Committee shall:

- 5.7.1 Review the mandate and annual objectives of the internal auditor, if the appointment of an internal auditor is deemed appropriate;
- 5.7.2 Review the adequacy of the Company's internal audit resources; and
- 5.7.3 Ensure the internal auditor has ongoing access to the Chair of the Committee as well as all officers of the Company, particularly the Executive Chairman of the Board and the Chief Executive Officer.
- 5.7.4 Review the audit plans, performance and summaries of the reports of the internal audit function as well as management's response including follow-up to any identified weakness.

**5.8 External Auditors**

5.8.1 The Committee shall recommend to the Board of Directors the appointment of the external auditors, which firm is ultimately accountable to the Committee and the Board of Directors.



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- 5.8.2 The Committee shall i) receive periodic reports from the external auditors regarding the auditors independence, the performance of the auditors, the qualifications of the key audit partner and audit managers, a periodic review of the auditors quality control procedures, material issues arising from the periodic quality control review and the steps taken by the auditors to address such findings, ii) discuss such reports with the auditors, and if so determined by the Committee, iii) recommend that the Board of Directors take appropriate action to satisfy itself as to the independence of the auditors and the quality of their performance.
- 5.8.3 The Committee shall take appropriate steps to assure itself that the external auditors are satisfied with the quality of the Company s accounting principles and that the accounting estimates and judgments made by management reflect an appropriate application of generally accepted accounting principles.
- 5.8.4 The Committee shall undertake private discussions on a regular basis with the external auditors to review, among other matters, the quality of financial personnel, the level of co-operation received from management, any unresolved material differences of opinion or disputes with management regarding financial reporting and the effectiveness of the work of the internal audit function.
- 5.8.5 The Committee shall review the terms of the external auditors engagement and the appropriateness and reasonableness of the proposed audit fees as well as the compensation of any advisors retained by the Committee.
- 5.8.6 The Committee shall review and pre-approve any engagements for non-audit services provided by the external auditors or their affiliates to the Company or its subsidiaries, together with the fees for such services, and consider the impact of this on the independence of the external auditors. The Committee shall determine which non-audit services the external auditors are prohibited from providing.
- 5.8.7 When a change of auditors is proposed, the Committee shall review all issues related to the change, including the information required to be disclosed by regulations and the planned steps for an orderly transition.
- 5.8.8 The Committee shall review all reportable events, including disagreements, unresolved issues and consultations on a routine basis whether or not there is to be a change of auditors.
- 5.8.9 When discussing auditor independence, the Committee will consider both rotating the lead audit partner or audit partner responsible for reviewing the audit after a number of years and establishing hiring policies for employees or former employees of its external auditor.



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**5.9 Audit Procedures**

- 5.9.1 The Committee shall review the audit plans of the internal and external audits, including the degree of co-ordination in those plans, and shall inquire as to the extent to which the planned audit scope can be relied upon to detect weaknesses in internal control or fraud or other illegal acts. The audit plans should be reviewed with the external auditors and with management, and the Committee should recommend to the Board of Directors the scope of the external audit as stated in the audit plan.
- 5.9.2 The Committee shall review any problems experienced by the external auditors in performing the audit, including any restrictions imposed by management or significant accounting issues on which there was a disagreement with management.
- 5.9.3 The Committee shall review the post-audit or management letter containing the recommendations of the external auditors, and management's response and subsequent follow-up to any identified weakness.

**5.10 Risk management and other responsibilities**

- 5.10.1 The Committee shall put in place procedures to receive and handle complaints or concerns received by the Company about accounting or audit matters including the anonymous submission by employees of concerns respecting accounting or auditing matters.
- 5.10.2 The Committee shall review such litigation, claims, transactions or other contingencies as the internal auditor, external auditors or any officer of the Company may bring to its attention, and shall periodically review the Company's risk management programs. In that regard the Committee shall review the Company's major risk exposures and the steps taken by management to monitor, control and report such exposures.
- 5.10.3 The Committee shall review the policy on use of derivatives and monitor the risk.
- 5.10.4 The Committee shall review the related party transactions in line with the New York Stock Exchange rules and regulations and those of any other applicable exchange or regulator.
- 5.10.5 The Committee shall review assurances of compliance with covenants in trust deeds or loan agreements.

- 5.10.6 The Committee shall review business risks that could affect the ability of the Company to achieve its business plan.
  
- 5.10.7 The Committee shall review uncertainties, commitments, and contingent liabilities material to financial reporting.

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- 5.10.8 The Committee shall review the effectiveness of control and control systems utilized by the Company in connection with financial reporting and other identified business risks.
- 5.10.9 The Committee shall review incidents of fraud, illegal acts, conflicts of interest and related-party transactions.
- 5.10.10 The Committee shall review material valuation issues.
- 5.10.11 The Committee shall review the quality and accuracy of computerized accounting systems, the adequacy of the protections against damage and disruption, and security of confidential information through information systems reporting.
- 5.10.12 The Committee shall review material matters relating to audits of subsidiaries.
- 5.10.13 The Committee shall review cases where management has sought accounting advice on a specific issue from an accounting firm other than the one appointed as auditor.
- 5.10.14 The Committee shall review any legal matters that could have a significant impact on the financial statements.
- 5.10.15 The Committee shall consider other matters of a financial nature it feels are important to its mandate or as directed by the Board of Directors.
- 5.10.16 The Committee shall report regularly to the Board of Directors on its proceedings, reviews undertaken and any associated recommendations.
- 5.10.17 The Committee shall have the right, for the purpose of discharging the powers and responsibilities of the Committee, to inspect any relevant records of the Company and its subsidiaries.

**5.11 Compensation**

Members of the Committee shall be entitled to receive such remuneration for acting as members of the Committee as the Board of Directors may determine from time to time.



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### **Codes of Ethics**

#### **4.1 Code of Ethics and Business Conduct**

for members, officers and directors of CGI

##### **To the CGI Team**

This Code of Ethics and Business Conduct is based on the values and philosophy that have guided CGI successfully since the Company's inception in 1976. It constitutes a unique repository where the combination of CGI policies, guidelines, principles of conduct and best practices have been regrouped under one umbrella document, for the benefit of our members, officers and directors.

CGI's operations have grown significantly and now extend worldwide, and our business environment has become increasingly competitive and complex. The scope and pace of our business requires us to make quick and informed decisions, in a manner consistent with our values.

This Code provides guidance - and a global view - for CGI members, officers and directors to consistently achieve the professionalism that has earned our Company an enviable reputation among our clients and within our industry. It also provides guidance for CGI directors when acting for the Company.

This Code is not meant to be a complete list of ethics and business conduct covering every eventuality. It highlights situations that CGI's members, officers and directors may face in their duties and provides the basic principles to guide their actions. CGI recognizes the importance of supporting these individuals as ethical issues arise, and has an open door policy for resolving such issues with integrity.

Upon joining CGI, all members, as part of their employment contract, undertake to observe this Code in all aspects of their work. Furthermore, annually, all members shall renew such undertaking.

We must always behave responsibly and in line with the Company's core values when working on behalf of CGI for its clients and other stakeholders. By preserving our personal integrity and the professional reputation of CGI, I am confident that together we will succeed in achieving the Company's mission and vision.

Serge Godin

**Founder and Executive Chairman of the Board**



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### **Important note**

Chapter 1, Dream, Vision, Mission, and Values of the CGI Group Inc. Fundamental Texts constitutes the fundamental principles of this Code of Ethics and Business Conduct. This Code should therefore be read in conjunction with Chapter 1.

## **1. VALUES, PHILOSOPHY, VISION AND MISSION**

### **Values**

CGI has always believed in investing in the future to ensure continued success. From the beginning, the Company has invested in developing a strong corporate culture, based on six core values that reflect its approach to business. These values are: quality and partnership, intrapreneurship and sharing, respect, objectivity and integrity, financial strength and corporate social responsibility. These values are at the heart of CGI's success. They ensure that CGI takes a long-term view on business issues, and builds long-lasting partnerships with its clients.

### **Philosophy**

The success of CGI Group Inc. and its subsidiaries is based on the knowledge, creativity and commitment of its members. CGI ensures this success by recruiting the most qualified people available. CGI's members share in the risks and rewards of CGI's business as partners of CGI and are committed to its objectives. They take a disciplined approach to their work and constantly strive for excellence to achieve the best results for every client. In exchange, CGI strives to recognize the value of its members by offering them a stimulating work environment that fosters their personal and professional development.

### **Vision**

To be a global world class information technology and business process services leader helping our clients succeed.

### **Mission**

To help our clients succeed through outstanding quality, competence and objectivity, providing thought leadership and delivering the best services and solutions to fully satisfy client objectives in information technology, business processes and management.

In all we do, we foster a culture of partnership, intrapreneurship, teamwork and integrity, building a global world class information technology and business process services company

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### **2. PURPOSE AND SCOPE OF THE CODE**

This Code of Ethics and Business Conduct (the Code) defines CGI's character and guides the actions and decisions of the salaried employees (members), officers and directors of CGI. Compliance with the Code is essential for many reasons and notably to preserve and enhance CGI's reputation and maximize shareholder value. In keeping with CGI's values, the Code outlines the essential rules and guidelines necessary to preserve CGI's enviable reputation among its clients and within its industry. The Code is not meant to be a complete list of ethics and business conduct covering every eventuality. It highlights situations that CGI members, officers and directors may face in their duties. The code is meant to give them a broad and clear understanding of the conduct expected of them, wherever CGI does business. While the specific illustrations are primarily addressed to members, they should be read as being equally applicable to the members of CGI's Board of Directors to the extent that they may be applicable in the circumstances.

Should a member be confronted with a situation where further guidance is required, the matter should be discussed with the member's manager. CGI recognizes its obligation to support its members, officers and directors as ethical issues arise.

### **3. MEMBER'S CONDUCT AND BEHAVIOUR**

#### **General conduct**

Upon joining CGI and annually thereafter, all members are by virtue of the Member Commitment to the Code of Ethics and Business Conduct, which must be signed where permitted locally, subject to the Company Code of Ethics and Business Conduct and related policies and guidelines.

If a member ceases to be employed by CGI for any reason, the Member Commitment specifies which elements continue to apply, namely those related to the confidentiality obligations.

#### **Respect and integrity**

All members of CGI support the Company's philosophy and contribute to CGI's development and good reputation by promoting synergy and teamwork, by expressing their ideas and by adopting the highest standards of service quality and integrity. The members of CGI are its ambassadors. They must always behave responsibly and demonstrate courtesy, honesty, civility and respect for other members of CGI, for its clients and for its suppliers.

#### **Loyalty**

Members are expected to act at all times with diligence and loyalty towards CGI and in such a way as to safeguard CGI's interests. Members should not act in a way or publicly hold a position that might harm the image or reputation of CGI.

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### **Relations with clients**

CGI's services often involve visiting or working at a client's place of business. A member working at a client's site must comply with the client's practices and procedures and treat the client's facilities with respect. The member must work as efficiently and meticulously as possible and leave the client's premises and property as he or she found them. As well, members must use the client's information and systems infrastructures for the sole purpose of the client's contract and protect those infrastructures and information at all times.

### **Relations with competitors**

If a member is working with a competitor of CGI on a joint project for a client, the member must avoid any situations that could cause conflicts. The member must respect the roles that the client has assigned to each party and work as a team in the client's best interests. CGI's members also have both an ethical and a legal responsibility to portray the Company's competitors fairly and accurately. CGI does not tolerate its members using improper means for gathering information about its competitors.

### **Maintenance of assets**

All members of CGI have a responsibility to protect CGI's assets against loss, theft, abuse and unauthorized use or disposal. If, in the course of his or her work, a member of CGI is supplied with any property belonging to CGI or to a third party, the member must use said property in accordance with CGI's Security and acceptable use policy, and as may otherwise be specified in the binding agreement he or she signed with CGI the member must use said property solely for work-related purposes as specified in the binding agreement he or she signed upon joining CGI. More specifically, the members must use CGI's systems infrastructures in a manner consistent with legal requirements, professional ethics, the policies established by the administrators of CGI's network and of any external networks that the member uses, and must respect the copyrights protecting any software that the member also uses. As well, members must never use the clients' systems infrastructures, including the clients' software, for any purpose that is not work-related. CGI applies a zero-tolerance policy to any abuse of its systems infrastructures or those of its clients.

At the end of employment, members are required to return all CGI property and assets in their possession to their manager or to a designated CGI representative.

### **Health and Safety**

CGI is committed to providing a safe and healthy work environment for all members. Accordingly, members are expected to observe the following rules:

#### **Drug-Free Workplace**

CGI maintains a drug-free workplace. Accordingly, in the workplace, members may not:

Use, sell, or possess illegal drugs;



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Abuse or misuse controlled substances, prescription drugs, or over-the-counter medications; or

Abuse alcohol.

**Restrictions on Alcohol Use**

With the exception of specially-authorized CGI functions, no member may consume, serve, or be under the influence of alcohol while on CGI property or while performing CGI business.

Alcohol may be served at CGI functions only with the prior approval of a Senior Vice President. In such circumstances, CGI strongly encourages members to use discretion, act responsibly, and behave in a manner becoming to the Company. When working in parts of the world where alcohol use or possession is prohibited, CGI members must comply with local laws.

**4. INTEGRITY OF BOOKS AND RECORDS AND COMPLIANCE WITH SOUND ACCOUNTING PRACTICES**

**Preparation of books and records**

Accuracy and reliability in the preparation of all business records is of critical importance to the decision-making process and to the proper discharge of financial, legal and reporting obligations. All business records, expense accounts, invoices, bills, payroll and member records and other reports are to be prepared with care and honesty. False or misleading entries are not permitted in CGI's books and records.

**Financial transactions**

All financial transactions are to be properly recorded in the books of account and accounting procedures are to be supported by the necessary internal controls. In turn, all books and records of CGI must be available for audit.

**In relation to CGI's books and records, members must:**

- i) not intentionally cause Company documents to be incorrect in any way;
- ii) not create or participate in the creation of any records that are intended to conceal anything that is improper;
- iii) properly and promptly record all disbursements of funds;
- iv) co-operate with internal and external auditors;

- v) report any knowledge of any untruthful or inaccurate statements or records or transactions that do not seem to serve a legitimate commercial purpose; and
- vi) not make unusual financial arrangements with a client or a supplier (such as, over-invoicing or under-invoicing) for payments on their behalf to a party not related to the transaction.

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The nature of CGI's business places special importance on the accuracy of time keeping and expense reporting.

### **Accurate Timekeeping**

Client billing, member compensation, and cost estimating depends on CGI's ability to record and account for member time worked accurately.

Accordingly, CGI is committed to accurate total time accounting and reporting within all of its subsidiaries.

All members are required to comply with CGI's timekeeping policy and procedures and any applicable contract requirements. Members must record all time worked daily and submit reports weekly, accurately reflecting all time worked on both direct and indirect projects. Managers are responsible for ensuring that members know the correct project code for each project assignment.

Knowingly mischarging your time or falsifying time records violates CGI policy and may also violate the law. No member may knowingly charge time inaccurately or knowingly approve mischarging. Similarly, shifting time worked on one project to another project also is strictly prohibited.

To ensure accurate time reporting, members must be sure that they understand and carefully follow CGI's timekeeping policy and procedures. Members must obtain the correct charge code before starting work on any new direct or indirect project. If a member has any questions regarding time charging, the question should be raised with their manager. In all cases, members must take the steps necessary to ensure that their time records are current, accurate, and complete.

### **Expense Reimbursement**

Members must honestly and accurately report their business-related expenses for reimbursement. A member's signature on an expense report certifies that the information provided is complete and accurate and represents a valid business expense.

### **Breaches**

Suspected breaches of the Code which directly or indirectly affect CGI's business must be reported to the Chief Financial Officer, the Chief Executive Officer or the Chief Legal Officer, or alternatively to the Chair of the Audit and Risk Management Committee and CGI's Corporate Secretary.

In addition, CGI has established a policy for incident reporting (often referred to as a whistleblower policy) as well as a process under that policy which allows any person who has direct knowledge of specific facts to report incidents where the Company is exposed to a serious risk in matters of accounting, auditing, internal accounting controls, finance, banking or financial corruption. The process in place protects the incident reporter and ensures the confidentiality of the report. See the heading "Compliance with the Code" below.





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**5. CONFIDENTIAL INFORMATION AND INTELLECTUAL PROPERTY**

**Definitions**

**Confidential Information**

Confidential Information means information about the Company's business dealings, development strategies and financial results; products or processes; client lists; vendor lists or purchase prices; cost, pricing, marketing or service strategies; results of research and development work, technical know-how, manufacturing processes, computer software; reports and information related to mergers, acquisitions and divestitures. Confidential Information also includes information that relates to intellectual property and may include, but is not limited to: business strategies, product marketing and costing information and information provided by suppliers and competitors. In addition, the way the Company puts publicly-known information together, to achieve a particular result, is often a valuable trade secret.

The following information and documents constitute confidential information or documents of CGI or its clients, as the case may be:

- i) methodologies;
- ii) all information related to: processes, formulas, research and development, products, financials, marketing; names and lists of customers, employees and suppliers as well as related data; computer programs, all software developed or to be developed including flow charts, source and object codes;
- iii) all information related to projects undertaken by the Company whether they are merger and acquisition or divestiture projects or projects related to large client contracts, including all information obtained in due diligence initiatives, whether such information pertains to CGI or to any third party; and
- iv) all other information or documents that, if disclosed, could be prejudicial to CGI or its clients.

**Intellectual Property**

Intellectual Property (IP) means patents, copyrights, trademarks, trade secrets and industrial designs of CGI.

**Non-disclosure undertaking**

**CGI Confidential Information**

During the normal course of business, members will have access to confidential information about CGI. In some cases, the information may affect the value of CGI shares. Each member must protect the confidentiality of all confidential CGI information and documents. Members cannot discuss them away from work, and cannot divulge any confidential CGI information or any information that could harm CGI.



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Confidential CGI information could include information from other members or information acquired from outside sources, sometimes under obligations of secrecy. Members are expected to use such information exclusively for business purposes and this information must not be disclosed externally without the approval of a member's manager.

### **Third Party Agreements**

In cases where information or records are obtained under an agreement with a third party, such as software licenses or technology purchases, members must ensure that the provisions of such agreements are strictly adhered to so that CGI will not be deemed to be in default. Unauthorized disclosure or use of information or records associated with these agreements could expose the member involved and/or CGI to serious consequences.

### **Disclosure guidelines**

#### **Insider Information**

Confidential information about CGI or other public companies may not be used as a basis for trading in CGI securities, or the securities of any other company in respect of which CGI or its members, consultants or advisers are in possession of insider information. For this purpose, CGI has an established policy regarding the use of insider information and trading in securities. This policy is entitled "Guidelines on Timely Disclosure of Material Information and Transactions in Securities by Insiders" which extends to all directors, officers and, when in possession of Confidential Information, members, those authorized to speak on behalf of CGI and all other insiders. It is designed to protect the integrity of the Company and its directors, officers and members while ensuring compliance with all applicable securities legislation in Canada, the United States and other countries. The law stipulates that insiders may not take advantage of inside information to trade in the securities of a company. Likewise, employees must not provide third parties with any information that would give them an unfair advantage when trading in securities of the company, including client companies or any other company that is the subject of an acquisition, divestiture or client related project.

#### **Material Information**

CGI's guidelines on disclosure also cover the disclosure of information with a material impact, defined as any information that, if disclosed to a potential investor, could affect his or her perception of the value of the Company as an investment. Because CGI is a publicly traded company, any information that may have a material impact on CGI's results or on the perception of the value of the stock must be communicated in accordance with CGI's "Guidelines on Timely Disclosure of Material Information and Transactions in Securities of CGI by Insiders". If a member thinks that he or she is in possession of a piece of information that is not known to management and may have a material impact on the Company, the member must communicate it immediately to either the Executive Chairman of the Board, the Chief Executive Officer, the Chief Legal Officer, or the Chief Financial Officer, without divulging it to anyone else.

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### **Client Information**

Just as CGI's members must protect confidential information about CGI, they must also show discretion at all times with regard to the client's business affairs. Unless a member has the client's express authorization, he or she should never reveal any information that could harm the client's interests and should never use any information that he or she obtains in the course of a project or assignment for any purpose other than that project or assignment. If the client restricts the distribution of certain information within its own organization, the member must comply with those restrictions as well.

### **Member Information**

Subject to applicable law, CGI collects and maintains personal information relating to its members, including medical and benefits information. Access to such information is restricted to CGI personnel on a need-to-know basis. They must ensure that this information is not disclosed in violation of CGI's policies and practices. Personal information is released to outside parties only with the member's approval, except to satisfy the requirements considered by CGI to be appropriate for legal reasons.

### **Intellectual Property**

In the course of their duties, members may develop or create new designs, inventions, systems or processes, products or documents. When these achievements have been made as a direct result of a member's employment with the Company and through use of CGI's resources, they belong to CGI. Moreover, CGI is free to use this work as it so wishes and members cannot use nor divulge, publish or otherwise disseminate it without prior written consent from CGI. Upon request, members will execute documents made necessary to confirm or complete the assignment of rights to CGI.

### **Suppliers and Partners Information**

All information on CGI suppliers and partners is also confidential and must not be disclosed without the express consent of the persons concerned.

## **6. CONFLICTS OF INTEREST**

### **Definitions**

The members of CGI must avoid any actual or apparent conflicts of interest and should never engage in any conduct which is, or could potentially be, harmful to CGI or its reputation. A conflict of interest exists when a member favours his or her personal interests over those of CGI or its clients or when an obligation or situation arising from a member's personal activities or financial affairs may adversely influence the member's judgement in the performance of his or her duties at CGI.



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Particular caution should be taken when dealing with initiatives involving contracts with any governmental or quasi-governmental agency.

### **Guidelines**

The following guidelines provide guidance for members to avoid situations which are or may appear to be in conflict with their responsibility to act in the best interest of the Company.

**Financial Interests** - A conflict of interest exists when a member who is able to influence business with CGI owns, directly or indirectly, a beneficial interest in an organization which is a competitor of CGI, or which has current or prospective business as a supplier, customer or contractor with CGI. This does not include the situation where the financial interest in question consists of shares, bonds or other securities of a company listed on a securities exchange and where the amount of this interest is less than one percent of the value of the class of security involved.

**Outside Work** - When a member, directly or indirectly, acts as a director, officer, employee, consultant or agent of an organization that is a competitor of CGI, or which has current or prospective business as a supplier, customer or contractor with CGI, there is a conflict of interest. Similarly, a conflict of interest may exist when a member undertakes to engage in an independent business venture or to perform work or services for another entity should that activity prevent such member from devoting the time and effort to the conduct of CGI's business, which his or her position requires.

**Gifts or Favours** - A conflict of interest will arise when a member, either directly or indirectly, solicits or accepts any gift or favour from any person or organization which is a competitor of CGI, or which has current or prospective business with CGI as a customer, supplier, partner or contractor.

For this purpose, a gift or favour includes any gratuitous service, loan, discount, money or article of value. It does not include articles of nominal value normally used for sales promotion purposes, ordinary business meals or reasonable entertainment consistent with local, social or business customs if received in a sporadic manner. Refer to CGI's Anti-Corruption Policy under Section 4.3 below for further information on this topic.

**Commissions** - CGI or its members will never accept any commissions from a third-party vendor when recommending software, hardware or any equipment to a client as part of a service agreement.

**Trading with CGI** - A conflict of interest may exist when a member is directly or indirectly a party to a transaction with CGI.

**Misappropriation of Business Opportunities** - A conflict of interest will exist when a member, without the knowledge and consent of CGI, appropriates for his or her own use, or that of another person or organization, the benefit of any business venture, opportunity or potential opportunity about which the member may have learned or that he or she may have developed during the course of his or her employment.

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**Bribes** - Neither CGI nor its members will pay bribes to clients or client representatives to obtain business from them. Refer to CGI's Anti-Corruption Policy under Section 4.3 below for further information on this topic.

**Former Employees of Customers** Hiring or retaining the services of former employees of customers, whether in the private or public sector (including quasi-government agencies), may result in actual or perceived conflicts of interest. Accordingly, any such person may not: (i) for a period of two years from the termination of his or her employment with a former customer be assigned to work on, or in any way contribute to, a CGI project or contract that is linked to his or her former functions, unless the customer's prior written consent is obtained and the hire is not prohibited by any code of ethics or other restrictions or undertakings applicable to such person; and (ii) disclose to any CGI member any confidential information such person obtained during the course of his or her former functions with the customer.

## **Reporting**

If a member thinks that he or she has been placed in a conflict of interest, the member must inform his or her manager and work with him or her to determine how the situation may be corrected.

## **7. LAWS, STATUTES AND REGULATIONS**

### **Compliance with the law**

It is CGI's policy to comply, not merely with the letter, but also with the spirit of the law. CGI is required to maintain compliance with various acts, statutes and regulations governing activities in the jurisdictions in which it carries on business and expects members acting on its behalf to do likewise. Members are also expected to report any situation of concern to [ethics.crp@cgi.com](mailto:ethics.crp@cgi.com) or to the CGI Legal Department.

### **Guidelines for compliance**

This Code does not seek to provide legal guidance for all laws, statutes and regulations that impact CGI's activities. Specialized resources - legal, tax, environmental, government relations, personnel - are available within CGI for that purpose. There are, however, several items of legislation that warrant specific mention. These are listed below along with some general guidelines for compliance.

### **Health and safety laws**

CGI is committed to creating and maintaining healthy and safe workplaces for its members. Members are expected to comply with all safety laws, regulations and directives from their managers (which may not necessarily be a law or regulation).

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### **Environmental laws**

CGI is committed to preserving and enhancing the environment in the communities where its various businesses operate through responsible and environmentally-oriented operating practices. Members are encouraged to participate in undertakings geared to improving the environment in both their workplace and their community.

### **Human rights legislation**

Every person has the right to equal treatment with respect to employment and the right to be free of discrimination because of race, ancestry, place of origin, colour, ethnic origin, citizenship, religion, sex, sexual orientation, age, pregnancy, record of offences, marital status, social conditions, political beliefs, language, veteran status (U.S. only), family status, disability or means used to overcome a disability. The following are CGI's policies on equal employment opportunity, anti-discrimination and anti-harassment as well as the procedure for reporting any breach or violation of these policies:

- i) **Equal Employment Opportunity** - CGI is committed to treating all people fairly and equitably, without discrimination. The company has established a program to ensure that groups which are often subject to discrimination are equitably represented within CGI and to eliminate any employment rules and practices that could be discriminatory. CGI regards diversity among its members as a priceless resource and one which enables the Company to work harmoniously with clients from around the world.
- ii) **Anti-Harassment and Anti-Discrimination Policies** - CGI recognizes that everyone has the right to work in an environment free of sexual, psychological and racial harassment. CGI will do everything in its power to prevent its members from becoming victims of such harassment. CGI defines sexual, psychological or racial harassment as any behaviour, in the form of words, gestures, or actions, generally repeated, that has undesired sexual, psychological or racial connotations, that has a negative impact on a person's dignity or physical or psychological integrity, or that results in that person being subjected to unfavourable working conditions or dismissal.

CGI will prevent any form of harassment or discrimination against job candidates and members on any of the grounds mentioned above, whether during the hiring process or during employment. This commitment applies to such areas as training, performance assessment, promotions, transfers, layoffs, remuneration and all other employment practices and working conditions.

All CGI managers are personally accountable for enforcing this policy and must make every effort to prevent discriminatory or harassing behaviour and to intervene immediately if they observe a problem or if a problem is reported to them.

CGI requires that all members refrain from any form of harassment or discrimination against anyone else. CGI will not tolerate any violations of this policy whatsoever.





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- iii) **Procedure for Reporting Discrimination or Harassment** Any member of CGI who feels discriminated against or harassed can and should, in all confidence and without fear of reprisal, personally report the facts to the vice-president of his or her business unit and to the human resources leader either in that business unit, in the country or at the corporate head office. The facts will be examined carefully by these two individuals. Neither the name of the person reporting the facts nor the circumstances surrounding them will be disclosed to anyone whatsoever, unless such disclosure is necessary for an investigation or disciplinary action. Any disciplinary action will be determined by these same two people and will be proportional to the seriousness of the behaviour concerned. CGI will also provide appropriate assistance to any member who is a victim of discrimination or harassment. In addition, retaliation against persons who make complaints of harassment, witness harassment, offer testimony or are otherwise involved in the investigation of harassment complaints will not be tolerated.

### **Competition act**

CGI is required to make its own decisions on the basis of its best interest and must do so independent of agreements or understandings with competitors. The Competition Act (Canada) or corresponding provisions of foreign legislation in matters of competition prohibit certain arrangements or agreements with others regarding product prices, terms of sale, division of markets, allocation of customers or other practices that restrain competition. It is the responsibility of each manager to comply with the letter and spirit of all competition laws as they apply to CGI.

Questions concerning competition-sensitive issues must be addressed to [ethics.crp@cgi.com](mailto:ethics.crp@cgi.com) or the CGI Legal Department.

### **Securities laws and insider trading**

Members who possess material non-public information may not buy or sell CGI securities while such information remains non-public and must refrain from passing such information on to others, including family and friends. These trading prohibitions apply to members at all levels - not just officers or managers. The prohibition on such trading is based on such information potentially providing an unfair advantage to the member.

Material non-public information is non-public information that is significant enough that, if publicly known, is likely to affect the market price of any of CGI's securities. CGI has adopted Guidelines on Timely Disclosure of Material Information and Transactions in Securities of CGI by Insiders. Each member, officer and director must abide by the provisions of these guidelines, when applicable.

### **Export and import laws**

CGI members may find themselves dealing with goods or services that are the subject of export or import restrictions, such as, for example, information or technology that has military or state security applications. Members who deal with controlled goods and services must comply with the CGI policies and procedures that are designed to ensure that the controls are respected.

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**Laws that protect classified information**

In the normal course of CGI's business with government clients, our members may be required to hold government security clearances and they may have access to information that is classified or facilities that are restricted. Members must comply with the letter and with the spirit of the laws, rules and regulations that apply to classified information and facilities that are restricted.

Whether a member holds a security clearance or not, members must not seek access to classified information or restricted facilities unless that access is required in order to allow them to carry out their assigned tasks. Members must not accept access to, retain, or otherwise deal with classified information, or enter restricted facilities, unless they hold a current and valid security clearance that entitles them to have the appropriate degree of access. If there is any doubt about whether information is classified or whether facilities are restricted, about the restrictions that may apply to information or facilities, or whether the member's security clearance is adequate in the circumstances, the member must first consult with the CGI security officer who has the authority to advise the member.

**8. INVESTOR AND MEDIA RELATIONS**

**Authorized Spokespersons**

Initiatives relating to investor and media communications are the responsibility of CGI's authorized spokespersons. Therefore, members are not allowed to make any public statement about CGI without first obtaining the authorization of such authorized spokespersons.

**9. COMMUNITY ACTIVITIES AND POLITICAL AND PUBLIC CONTRIBUTIONS**

As a global organization conducting business throughout the world, CGI is committed to the charitable donation of funds and services for humanitarian and other social needs, particularly in cases of emergencies or disasters. Monetary and other contributions to charities, social projects and funds, including schools, educational funds and infrastructure projects, should occur outside of work hours and be handled with caution as they can be conduits for corrupt payments. In order to minimize this risk, CGI requires appropriate due diligence be conducted into such charities and projects prior to the approval of any charitable contributions made on its behalf. No contributions of any kind may be made on CGI's behalf to any political party, candidate or campaign. In no event shall any charitable or political donations be made for the purpose of gaining any improper business advantage.

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**Questions to consider when making charitable payments:**

1. Is the organization or body receiving the payment duly registered and does it otherwise comply with applicable law?
2. Is the organization or body, including its board of directors and other representatives, free of any political or other undue influence?
3. What is the purpose of the payment?
4. Is the payment consistent with CGI's internal guidelines on charitable giving?
5. Is the payment at the request of a foreign official?
6. Is a foreign official associated with the charity and, if so, can the foreign official make decisions regarding CGI's business in that country?
7. Is the payment conditioned on receiving business or other benefits?

**10. COMPLIANCE WITH THE CODE**  
**Management responsibilities**

CGI's managers have a special duty to be role models of appropriate business conduct and to see that the principles and policies of this Code and of other CGI guidelines and policies referred to in this Code are upheld. This means:

- i) **Copy of the Code** - Ensuring that all members have a copy of the Code, and that they understand and comply with its provisions.
- ii) **Assistance** - Offering assistance and explanations to any member who has questions, doubts or is in a difficult situation. Managers are also required to counsel members promptly when their conduct or behaviour is inconsistent with the Code.

- iii) **Enforcement** - Taking prompt and decisive action when a violation of the Code has occurred, in consultation with the CGI Legal Department. If a manager knows a member is contemplating a prohibited action and does nothing, the manager will be held responsible along with the member.

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### **Member responsibilities**

Each member is accountable for observing the rules of conduct that are normally accepted as standard in a business enterprise. In addition they must abide by the following:

- i) **Compliance** - CGI's members are expected to comply with the Code and all policies and procedures of the company as well as to actively promote and support CGI's values.
- ii) **Preventing** - Members should take all necessary steps to prevent a Code violation.
- iii) **Reporting** - Subject to applicable law, members must immediately report to their manager (i) situations of non-compliance with respect to this Code of which they become aware and (ii) suspected violations of the Code. All information will, to the extent possible, be received in confidence. It is corporate policy not to take action against a member who reports in good faith unless unusual circumstances warrant such action.

In addition, CGI has established a policy for incident reporting (often referred to as a whistleblower policy) as well as a process under that policy which allows any person who has direct knowledge of specific facts to report incidents in which the Company is exposed to a serious risk in matters of accounting, auditing, internal accounting controls, finance, banking or financial corruption. The process in place protects the incident reporter and ensures the confidentiality of the report.

Incident reports may be submitted either by telephone by dialing 1 800 422 3076 toll free, by dialing (503) 748-0564 and reversing the long distance charges, or by submitting an incident report online. For telephone reports, all long distances charges will be at the expense of CGI. For those who wish to submit incident reports online, a link to the incident reporting web site is provided on CGI's Enterprise Portal or members may access the incident reporting system directly at <https://ethicspoint.com> or such other site as is communicated by CGI from time to time.

CGI's incident reporting system is managed by EthicsPoint, Inc., a company unrelated to CGI which has undertaken to ensure the confidentiality of all incident reporters as well as the confidentiality of the reports they submit.

CGI's policy on incident reporting is entitled the Serious Ethical Incidents Reporting Policy and is available on the CGI Enterprise Portal.

- iv) **Consequences** - Unethical behaviour, violations of this Code and of CGI's other guidelines and policies, as well as withholding information during the course of an investigation regarding a possible violation of the Code, may result in disciplinary action which will be commensurate with the seriousness of the behaviour. Such action could include termination as well as civil or criminal action.

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**11. ADMINISTRATION OF THE CODE**

**Periodic review**

Responsibility for the periodic review and revision of the Code lies with CGI's Corporate Governance Committee.

**Monitoring compliance**

The Board of Directors of CGI will monitor compliance with the Code and will be responsible for the granting of any waivers from compliance with the Code for directors and officers of CGI. The Corporate Secretary of CGI shall, when deemed appropriate, make reports to the Board of Directors of CGI with respect to compliance with this Code.

**Questions**

Questions concerning this Code should be referred to a member's manager who, when warranted, shall report to CGI's Corporate Secretary.



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### **4.2 Executive Code of Conduct**

#### **Important note**

Chapter 1, Dream, Vision, Mission, and Values of the CGI Group Inc. Fundamental Texts constitutes the fundamental principles of this Executive Code of Conduct. This Code should therefore be read in conjunction with Chapter 1.

This Executive Code of Conduct (the Code) is part of the commitment of CGI Group Inc. (CGI) to ethical business conduct and practices. This Code reflects CGI's firm commitment, not only to adherence to the law, but also to the highest standards of ethical conduct.

This Code specifically covers CGI's principal executive officer, principal financial officer, principal accounting officer or controller, or other persons performing similar functions (collectively, the officers).

#### **1. HONEST AND ETHICAL CONDUCT**

##### **Respect and integrity**

The officers of CGI are its ambassadors. They must always behave responsibly and demonstrate courtesy, honesty, civility and respect for all other employees of CGI, for its clients and for its suppliers.

##### **Ethics**

Supporting CGI's objectives, officers in performing their duties will carry out their responsibilities at all times in a way that promotes ethics in their leadership. The officers will:

- (i) Undertake their responsibilities in a vigilant manner in the interests of CGI and to avoid any real or perceived impression of personal advantage;
- (ii) Advance CGI's legitimate interests when the opportunity arises at all times ahead of their own interests;
- (iii) Proactively promote ethical behavior among subordinates and peers; and
- (iv) Use corporate assets and resources in a responsible and fair manner, having regard for the interests of CGI.



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### **Avoidance of conflict of interest**

Officers must avoid any actual or apparent conflicts of interest and should never engage in any conduct that is harmful to CGI or its reputation. Such a conflict would exist when an officer favours his or her personal interests over those of CGI or its clients or when an obligation or situation arising from an officer's personal activities or financial affairs may adversely influence the officer's judgment in the performance of his or her duties to CGI.

Officers will not knowingly do business with any parties related to CGI, any of CGI's clients or any firms with which CGI does business if such business would be material or would be outside of normal client related activity.

Officers shall not solicit or accept gifts or favours from related parties, clients or firms with which CGI does business beyond customary courtesies. For this purpose, a gift or favour includes any gratuitous service, loan, discount, money or article of value. It does not include articles of nominal value normally used for sales promotion purposes, ordinary business meals or reasonable entertainment consistent with local, social or business customs if received in a sporadic manner.

Officers will not perform work or render services for, or knowingly make a material investment in, organizations that compete with CGI or with which CGI does business without appropriate approval from CGI's Executive Chairman of the Board, Chief Executive Officer, Chief Financial Officer or Chief Legal Officer.

If an officer thinks that he has been placed in a conflict of interest, the Officer must inform one of the officers identified in the preceding paragraph.

## **2. FULL, FAIR, ACCURATE, TIMELY AND UNDERSTANDABLE DISCLOSURE**

### **Annual and quarterly reports**

Each officer shall read each annual or quarterly report filed or submitted under the applicable securities laws and satisfy himself or herself that the report does not contain any untrue statement of a material fact or omit to state a material fact that is necessary in order for the statements made not to be misleading, in light of the circumstances in which such statements were made.

### **Financial statements**

Each officer shall satisfy himself or herself that the financial statements, and other financial information included in the report, fairly present in all material respects the financial condition and results of operations of CGI as of, and for, the periods presented in the report.

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**Reports to securities regulators**

Officers shall perform their responsibilities with a view to causing periodic reports filed with securities regulators to contain information which is accurate, complete, fair and understandable and to be filed in a timely fashion.

**Reporting concerns and complaints**

An officer who believes it is necessary or appropriate to do so can refer concerns about the quality and scope of financial or related reporting requirements to the Chair of the Audit Committee. Any officer who receives a bona fide material complaint about financial reporting from any employee shall report such complaints to the Audit Committee. Any officer who has disclosed such concerns in good faith shall not face any form of retribution.

**3. COMPLIANCE WITH LAWS, RULES AND REGULATIONS**

The officers are cognizant of their leadership roles within the organization and the importance of compliance with the letter and spirit of applicable laws, rules and regulations relating to financial and related reporting.

**4. COMPLIANCE WITH THE CODE**

**General responsibilities**

Officers have a special duty to be role models of appropriate business conduct and see that the principles and policies of this Code and other CGI guidelines and policies are upheld.

**Reporting**

Any violation or suspected violation of the Code should be personally reported by an officer to CGI's Executive Chairman of the Board, Chief Executive Officer, Chief Financial Officer or Chief Legal Officer.

**Accountability**

Non-compliance with this Code in every respect by an officer will be a matter for consideration and review by the Board of Directors of CGI.

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### 4.3 CGI Anti-Corruption Policy

#### Policy statement

CGI is committed to conducting its activities free from the illegal and improper influence of bribery and to ensuring compliance with all anti-bribery and anti-corruption laws and regulations that may be applicable to its business world-wide (collectively, **Anti-Corruption Laws** ). It is essential that our members, officers, and directors, as well as all third parties who act on behalf of CGI, comply at all times with the letter and the spirit of all Anti-Corruption Laws.

#### Overview

Bribery is offering, giving, receiving, or soliciting **any item of value** to improperly influence the actions of a person **in order to obtain or retain business or an unfair advantage in the conduct of business; or to induce or reward improper conduct**. Kickback is another term for bribery. Bribery can arise in both the public and the private sphere. It can take place directly or indirectly (e.g. through a Third Party). It can take many forms. Anti-Corruption Laws require companies like CGI to have proactive measures to prevent, detect, and address bribery and corrupt practices.

There are many reasons to care about bribery and corruption.

Bribery and corruption are crimes punishable by fines and/or imprisonment. CGI officers, directors and members, as well as Third Parties, must not engage in any form of bribery or corruption. Whenever members are asked to approve or make a payment, they must ensure that they fully understand the reason for the payment and that the payment is legitimate. If in doubt, they should not make or agree to make the payment and contact the CGI Legal Department or [ethics.crp@cgi.com](mailto:ethics.crp@cgi.com) for guidance.

Bribery and corruption have been identified as key factors that limit economic growth and contribute to inequality. By wrongfully benefiting a few individuals, they limit competition, undermine innovation, and corrupt societies. Bribery is also detrimental to our business studies show that companies where bribery is condoned have lower levels of productivity and lower employee morale. Put simply, it is unethical and against CGI's values.

Individuals and companies can face civil and criminal charges resulting in large fines, imprisonment, and suspension or debarment from government contract processes. Failure to comply puts members, their colleagues, and CGI at risk. This could have a very serious impact on members, and CGI's business.

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### Key principles

#### **1. BRIBES MUST NOT BE OFFERED OR ACCEPTED**

CGI prohibits the offering, giving, receiving, or soliciting of any item of value to improperly influence the actions of a person in order to obtain or retain business or an unfair advantage in the conduct of business; or to induce or reward improper conduct. Items of value can include:

payments of money;

extension of credit or loans;

travel and accommodations expenses;

gifts, meals, and entertainment;

political contributions and charitable donations;

free use of company services, facilities or property;

favors that are of value to a recipient (e.g., offering a job to a member of a person's family); or

anything else of value.

Bribery and corruption can take many forms. Red flags can include cash payments or gifts to individuals or family members; inflated commissions; inflated invoices; fake consultancy agreements; unauthorized rebates; political or charitable donations; and excessive payment of travel expenses for inappropriate non-business related travel. In some cases, simply offering an inducement is unlawful, even if not accepted. **This Policy is intended to help you understand how to apply this prohibition in our business.** It explores the areas identified above in more depth.

#### **2. UNDERSTANDING CGI POLICIES AND IDENTIFYING RISKS**

The first step in compliance is to understand our Code of Ethics, including this Policy, and how it impacts your responsibilities on a day-to-day basis. Knowing what steps to take to prevent risk and to ensure the proper handling of any issues relating to bribery and corruption is essential to compliance.

**3. RESPOND**

CGI will assess bribery and corruption risks on an ongoing basis within each Strategic Business Unit. CGI will implement mitigation plans and training programs as part of its system of internal controls. CGI will also monitor compliance at the local level to ensure that this Policy is being followed by all members. You should always complete all required training and cooperate with ongoing monitoring.

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**4. DOCUMENT AND REPORT**

All documentation of financial transactions must be accurate and complete. You should always document your transactions in compliance with the Code of Ethics, and report any issues arising under this Policy that you become aware of as required by CGI's Serious Ethical Incidents Reporting Policy. Questions under this Policy can be addressed to [ethics.crp@cgi.com](mailto:ethics.crp@cgi.com).

**Areas of Focus**

CGI has established procedures and guidelines to translate this Policy and our principles into practice. This section outlines the general requirements and procedures for the following risk areas:

**1. Gifts Policy**

Though gifts are recognized as appropriate ways of developing business relationships and promoting the CGI brand, we must ensure that the offering, solicitation and receipt of gifts does not give rise to even an appearance of impropriety. Particular vigilance must be exercised where gifts are extended to Government Officials.

**Gifts Offered by CGI**

All gifts offered by CGI must:

- (i) be permitted under local law and the Anti-Corruption Laws and conform to generally accepted local customs;
- (ii) have a clear business purpose which is directly related to CGI's commercial objectives;
- (iii) be reasonable in value and not appear lavish or extravagant; and
- (iv) not be intended to create any obligation on behalf of the recipient or to result in CGI receiving any favour or advantage in return.

Typically, small gifts containing the CGI logo (such as coffee mugs, t-shirts, pens, and the like) offered sporadically to persons at CGI promotional events (such as trade shows) will not violate this Policy as long as they are not excessive.

A chart attached as **Appendix B** to this Policy provides limits on gifts to Government Officials allowed under the laws of various jurisdictions. All Members must adhere to these limits when offering gifts to Government





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Officials. When dealing with private parties, these limits should also be used as guidelines for determining if the value of a gift is reasonable. You should consult with the CGI Legal Department if you have any questions related to offering any gifts to Government Officials to ensure that they comply with local laws and the Anti-Corruption Laws. You can also direct inquiries to [ethics.crp@cgi.com](mailto:ethics.crp@cgi.com).

### **Gifts Offered to CGI Members by Third Parties**

The CGI Code of Ethics specifically states that a conflict of interest will arise when a CGI member, either directly or indirectly, solicits or accepts any gifts from any person or organization which is a competitor to CGI, or which has current or prospective business with CGI as a customer, supplier, partner, or contractor. The Code of Ethics prohibits the solicitation or acceptance of such gifts unless they are:

- (i) of nominal value normally used for sales promotion purposes, or are ordinary and reasonable business meals or travel expenses with a clear business purpose;
- (ii) permitted under the Anti-Corruption Laws and local laws and conform to generally accepted local customs; and
- (iii) received in a sporadic manner.

### **Full Transparency Required**

If offering or accepting a gift meets these standards, it must be made or accepted in a fully transparent way. Gifts which are excessive, frequent, or intended to create an obligation on the part of the recipient are strictly prohibited.

### **How we ensure compliance**

No reimbursement or payment for any gifts offered by a CGI member that otherwise comply with this Policy will be made without adequate approvals in compliance with the Operations Management Framework and supporting documentation / receipts.

### **Red flags**

Examples of common red flags that could indicate bribery or corruption include the following:

Gifts that would be illegal under local or Anti-Corruption Laws;

Gifts to or from parties engaged in a public tender or competitive bidding process;

Any gift of cash or cash equivalents, or securities;

Any gift where something is expected in return;

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Any gift that appears excessive based on common sense standards or local custom;

Any gift that is paid for personally.

**2. Hospitality, travel, entertainment and meals Policy**

As with gifts, providing hospitality, travel, entertainment, and meals (collectively, **Hospitality** ) to any person may be a violation of the law if they are excessive, unreasonable, or do not have a valid business purpose. The same principle applies to soliciting or receiving Hospitality from existing or potential clients. CGI prohibits payment or reimbursement of expenses for any person to attend site visits or other CGI business events unless the expenses are reasonable, reflect actual costs incurred, directly relate to CGI business, and are permissible under local law and custom. CGI discourages the providing of Hospitality to the family members or guests of clients unless a clear business purpose for the Hospitality can be demonstrated.

**Hospitality Offered by or to CGI Members**

All Hospitality offered by or to CGI members must meet these requirements:

- (i) The Hospitality must be permitted under local law and the Anti-Corruption Laws and conform to generally accepted local customs;
- (ii) The host offering the Hospitality must be present;
- (iii) The purpose is to hold a genuine business discussion or foster better business relations and do not develop any form of obligation;
- (iv) The Hospitality is openly offered and not solicited; and
- (v) The Hospitality is not frequent or excessive, and is reasonable in value, so as to not raise questions of impropriety.

As with gifts, the chart in **Appendix B identifies permissible limits on Hospitality for Government Officials** in specific jurisdictions. All Members must adhere to these guidelines when providing Hospitality to Government Officials. When dealing with private parties, these limits should also be used as guidelines for determining if the value of any Hospitality.



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### **Full Transparency Required**

If offering or receiving Hospitality meets these standards, it must be made or accepted in a fully transparent way. Hospitality which is excessive, frequent, or intended to create an obligation on the part of the recipient is strictly prohibited.

### **How we ensure compliance**

Approval for the payment or reimbursement of bona fide and actual Hospitality expenses for clients, potential clients, and Government Officials must be obtained from the Legal Department prior to offering such a payment or reimbursement. All travel expenses must comply with the CGI Travel Policy. Expenses related to Hospitality offered by CGI must be submitted and approved in accordance with CGI expense reporting guidelines so that the expenses are properly categorized and auditable.

### **Red flags**

Examples of common red flags that could indicate bribery or corruption include the following:

Hospitality expenses for persons for which there is not a legitimate business purpose;

Hospitality expenses for family members of any person;

Hospitality expenses submitted on behalf of non-CGI members (as opposed to being paid by CGI directly);

Payment for flights and accommodations for potential or existing CGI clients to meet with CGI representatives when the CGI representatives could just as easily have met with the clients at the client's site;

Use of travel agencies not approved by CGI for arranging or paying for Hospitality of Government Officials.

### **3. Third parties Policy**

Most Anti-Corruption Laws impose liability on companies which become involved in direct or indirect bribery. This means that CGI may incur liability where a Third Party engaged to represent or provide a service to, or on behalf of, CGI makes an improper payment or otherwise engages in improper conduct in the course of its work for CGI. This exposure may arise notwithstanding that the payment or conduct in question is prohibited by CGI and/or that CGI had no knowledge of this payment. All CGI dealings with Third Parties must be carried out with the highest degree of integrity, visibility, and in compliance with all relevant laws and regulations.



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### How we ensure compliance

Professional integrity is a prerequisite for the selection and retention of Third Parties by CGI. Prior to the retention of any Third Party, the CGI member responsible for such retention must ensure that **appropriate due diligence** is conducted on such Third Party and any compliance red flags that are identified are properly addressed. In certain circumstances, Third Parties will receive compliance training, and all Third Parties are subject to CGI's monitoring requirements and audit to ensure compliance with Anti-Corruption Laws and this Policy. Contracts with Third Parties must, where appropriate, contain appropriate terms to mitigate corruption risks.

CGI's approach to retaining, training and monitoring Third Parties is risk-based, which takes into account a number of factors, including the corruption risk in the country in which the Third Party conducts its activities for CGI, the nature of CGI's relationship with the Third Party, the reputation and notoriety of the Third Party and the value and prospects of CGI's relationship with the Third Party. In higher risk situations, enhanced due diligence, training and monitoring, including the Third Party's agreement to comply with **CGI's Third-Party Code of Ethics**, will be required in accordance with procedures and protocols to be issued by the CGI Legal Department.

### Red flags

Examples of common red flags that could indicate bribery or corruption include the following:

Excessive commissions to third-party representatives or consultants;

Third-party consulting agreements that include only vaguely described services;

Family, business, or other special ties with government or political officials;

Reputation for violating local law or company policy;

Negative press, rumors, allegations or sanctions;

Requests from government officials or clients to engage or hire specific Third Parties;

Lack of credentials for the nature of the work being performed by the Third Party;

Request to make payment to an entity located in an off-shore tax haven;



Lack of an office or established place of business, or a shell-company incorporated in an offshore jurisdiction;

Requests for payment of non-contracted amounts, or lack of documentation for services performed;

Convolutd or complex payment requests (such as payments to third parties or to accounts in other countries, requests for payments in cash, or requests for up-front payments);

Requests for political or charitable contributions or other favors as a way of influencing official action;

Requests for specific sums of money to fix problems or make them go away.

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### **4. Facilitation payments Policy**

**Facilitation Payments** are payments made to secure, facilitate or speed-up routine, non-discretionary government actions (e.g. payments for speeding up customs clearance, loading and unloading cargo or scheduling government inspections or issuing government licenses or port documentation). **CGI regards Facilitation Payments to be a form of corruption and strictly prohibits them.**

#### **How we ensure compliance**

CGI members who are requested to make a facilitation payment should make a report to [ethics.crp@cgi.com](mailto:ethics.crp@cgi.com) immediately. In addition, any CGI member that makes a payment that could reasonably be misunderstood as a Facilitation Payment should make a report to [ethics.crp@cgi.com](mailto:ethics.crp@cgi.com) and ensure that the payment transaction is completely and accurately documented in CGI's books and records.

#### **Red flags**

Examples of common red flags that could indicate bribery or corruption include the following:

Payments to obtain permits, licenses, or work orders to which you are already entitled;

Payments to receive police protection or mail pickup/delivery;

Payments to receive phone service or water/power supply;

Payments to schedule inspections or transit of goods across border controls.

### **5. Anti-money laundering**

Money laundering is the process by which one conceals the existence of an illegal source of income and then disguises that income to make it appear legitimate. Use by CGI of proceeds tainted by illegality can give rise to liability in the countries in which CGI operates. CGI members should make a report pursuant to the Serious Ethical Incidents Reporting Policy or to [ethics.crp@cgi.com](mailto:ethics.crp@cgi.com) if they become aware of suspicious circumstances leading them to believe that any transaction might involve the payment or the receipt of proceeds of any unlawful activity.

#### **Red flags**

Examples of common red flags that could indicate money laundering include the following:

Refusal to disclose the source of funds or the beneficial ownership of funds;

Uncertain qualifications of a participant for a proposed transaction; for example, if the principal business of such participant appears to be unrelated to such transaction;

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Cash payments;

Payments to and from tax haven jurisdictions;

Complicated payment and transaction structures, including the use of multiple parties in transactions where payments and shipments are made to or from third parties which are not parties to the underlying contract;

Criminal connections of transaction participants.

### **Training and Monitoring**

In furtherance of CGI's commitment to compliance with the law, this Anti-Corruption Policy is communicated to all CGI directors, officers, members and Third Parties, and is available on the CGI Enterprise Portal. Responsibility for compliance with this Policy, including the duty to seek guidance when in doubt, rests with the members or relevant Third Parties.

CGI will provide regular training on this Policy. When necessary, specialized training will be provided to members, directors and/or officers with significant compliance responsibilities or in high risk functions.

CGI will audit and monitor compliance with this Policy on an ongoing basis.

### **Reporting of Suspected Violations**

Subject to applicable law, any suspected breaches of this Policy which directly or indirectly affect CGI's business must be reported consistent with CGI's Serious Ethical Incidents Reporting Policy. The process in place protects the incident reporter and ensures the confidentiality of the report. There will be no retaliation for making a report. According to our Serious Ethical Incidents Reporting Policy, you can make confidential reports of misconduct by calling a toll-free hotline number (see policy for numbers to call) or online (at [ethicspoint.com](http://ethicspoint.com)).

### **Consequences of Misconduct**

The consequences of violating applicable Anti-Corruption Laws are potentially very serious for CGI and individual members. CGI will vigorously enforce compliance with this Policy. Violations may result in disciplinary action, including in serious cases, termination of employment. Violations may also result in criminal and civil exposure for CGI and any individuals involved, including imprisonment, fines and damages actions, and can cause significant damage to CGI's reputation in the market place. CGI may also face suspension and disbarment from public sector contracts as a result of violations by CGI members.

Third Parties who breach the CGI Third Party Code of Ethics may also be subject to prosecution and severe penalties, including the termination of their contract with CGI.



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**Questions about this Policy**

Questions about the application of this Policy to specific circumstances can be directed to [ethics.crp@cgi.com](mailto:ethics.crp@cgi.com).  
Questions can also be directed to your local CGI Legal Department or Human Resources representative.

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**APPENDIX A**

**Definition of Independence in effect as of June 30, 2005 under CSA Multilateral Instrument 52-110, as amended**

1.4 Meaning of independence

- (1) An audit committee member is independent if he or she has no direct or indirect material relationship with the issuer.
- (2) For the purposes of subsection (1), a material relationship is a relationship which could, in the view of the issuer's board of directors, be reasonably expected to interfere with the exercise of a member's independent judgement.
- (3) Despite subsection (2), the following individuals are considered to have a material relationship with an issuer:
  - (a) an individual who is, or has been within the last three years, an employee or executive officer of the issuer;
  - (b) an individual whose immediate family member is, or has been within the last three years, an executive officer of the issuer;
  - (c) an individual who:
    - (i) is a partner of a firm that is the issuer's internal or external auditor,
    - (ii) is an employee of that firm, or
    - (iii) was within the last three years a partner or employee of that firm and personally worked on the issuer's audit within that time;

(d)



an individual whose spouse, minor child or stepchild, or child or stepchild who shares a home with the individual:

- (i) is a partner of a firm that is the issuer's internal or external auditor,
- (ii) is an employee of that firm and participates in its audit, assurance or tax compliance (but not tax planning) practice, or
- (iii) was within the last three years a partner or employee of that firm and personally worked on the issuer's audit within that time;

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- (e) an individual who, or whose immediate family member, is or has been within the last three years, an executive officer of an entity if any of the issuer's current executive officers serves or served at that same time on the entity's compensation committee; and
  - (f) an individual who received, or whose immediate family member who is employed as an executive officer of the issuer received, more than \$75,000 in direct compensation from the issuer during any 12 month period within the last three years.
- (4) Despite subsection (3), an individual will not be considered to have a material relationship with the issuer solely because
  - (a) he or she had a relationship identified in subsection (3) if that relationship ended before March 30, 2004; or
  - (b) he or she had a relationship identified in subsection (3) by virtue of subsection (8) if that relationship ended before June 30, 2005.
- (5) For the purposes of clauses (3)(c) and (3)(d), a partner does not include a fixed income partner whose interest in the firm that is the internal or external auditor is limited to the receipt of fixed amounts of compensation (including deferred compensation) for prior service with that firm if the compensation is not contingent in any way on continued service.
  - (a) remuneration for acting as a member of the board of directors or of any board committee of the issuer, and
  - (b) the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the issuer if the compensation is not contingent in any way on continued service.
- (7) Despite subsection (3), an individual will not be considered to have a material relationship with the issuer solely because the individual or his or her immediate family member
  - (a) has previously acted as an interim chief executive officer of the issuer, or
  - (b)

acts, or has previously acted, as a chair or vice-chair of the board of directors or of any board committee of the issuer on a part-time basis.

- (8) For the purpose of section 1.4, an issuer includes a subsidiary entity of the issuer and a parent of the issuer.

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1.5 additional independence requirements

- (1) Despite any determination made under section 1.4, an individual who
  - (a) accepts, directly or indirectly, any consulting, advisory or other compensatory fee from the issuer or any subsidiary entity of the issuer, other than as remuneration for acting in his or her capacity as a member of the board of directors or any board committee, or as a part time chair or vice-chair of the board or any board committee; or
  - (b) is an affiliated entity of the issuer or any of its subsidiary entities, is considered to have a material relationship with the issuer.
- (2) For the purposes of subsection (1), the indirect acceptance by an individual of any consulting, advisory or other compensatory fee includes acceptance of a fee by
  - (a) an individual's spouse, minor child or stepchild, or a child or stepchild who shares the individual's home; or
  - (b) an entity in which such individual is a partner, member, an officer such as a managing director occupying a comparable position or executive officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the issuer or any subsidiary entity of the issuer.
- (3) For the purposes of subsection (1), compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the issuer if the compensation is not contingent in any way on continued service.

**Table of Contents****Appendix B:****Limits on Permissible Gifts and Hospitalities for Government Officials**

The following table sets forth guidelines contained in applicable local law for permissible limits on Gifts and Hospitalities being offered or made by CGI members to Government Officials in select jurisdictions where CGI operates its business:

| Country   | Limit for Gifts  | Limits for Hospitality   |
|-----------|--|--|
| Australia | AUD 38 (approximately CAD 30)  | AUD 125 (approximately CAD 100)                                      |
| Austria   | requires opinion of local counsel, except for items of symbolic value, such as pens, calendars and other items with the Company logo | requires opinion of local counsel                                    |
| Brazil    | BRL 100 (CAD 55)   | BRL 100 (approximately CAD 55) recommended                           |
| Canada    | CAD 24   | CAD 47 breakfast; CAD 70 lunch; CAD 95 dinner; CAD 29 refreshments   |
| China     | RMB 200 (approximately CAD 29)   | RMB 515 (approximately CAD 75)                                       |
| France    | EUR 21 (approximately CAD 30)  | EUR 65 (approximately CAD 100)                                       |
| Germany   | items of symbolic value EUR 35 (approximately CAD 50), such as pens, calendars and other items with the Company logo                 | EUR 65 (approximately CAD 100), opinion of local counsel recommended |

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|             |   |   |
|-------------|---|---|
| India       | INR 1,000 (approximately CAD 22)  | INR 1,000 (approximately CAD 22) recommended  |
| Ireland     | EUR 30 (approximately CAD 42)   | EUR 100 (approximately CAD 141)   |
| Japan       | requires opinion of local counsel, except gift items distributed widely for commemorative purposes, and commemorative gifts at a buffet party where more than 20 guests are in attendance | requires opinion of local counsel, except refreshments at Company premises, <i>e.g.</i> , cup of coffee                 |
| Netherlands | EUR 50 (approximately CAD 70), with prior approval of recipient's supervisor  | meals not permissible, except as part of a seminar, fair or similar event with prior approval of recipient's supervisor |

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| Country        | Limit for Gifts  | Limits for Hospitality  |
|----------------|--|---|
| New Zealand    | NZD 30 (approximately CAD 19)  | NZD 80 (approximately CAD 52)*  |
| Philippines    | gifts, such as Company souvenirs of minor value, <i>e.g.</i> , PHP 1,500 (approximately CAD 30)                                      | PHP 1,500 (approximately CAD 30)  |
| Poland         | Requires opinion of local counsel, except for small Company souvenirs of minor value, <i>e.g.</i> , pen                              | PLN 240 (approximately CAD 100)   |
| Russia         | RUB 500 (approximately CAD 20)   | RUB 2,500 (approximately CAD 100)   |
| Singapore      | requires opinion of local counsel, except for items of symbolic value, such as pens, calendars and other items with the Company logo | requires opinion of local counsel, except for modest working lunch/refreshments at Company premises |
| South Africa   | ZAR 350 (approximately CAD 44)   | ZAR 815 (approximately CAD 75)  |
| Spain          | EUR 21 (approximately CAD 30)  | EUR 65 (approximately CAD 100)  |
| United Kingdom | requires opinion of CGI Legal Department   | requires opinion of CGI Legal Department  |
| United States  | Requires opinion of CGI Legal Department   | requires opinion of CGI Legal Department  |

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**CONSOLIDATED FINANCIAL STATEMENTS**

Management's and Auditors' Reports

**MANAGEMENT'S STATEMENT OF RESPONSIBILITY FOR FINANCIAL REPORTING**

The management of CGI Group Inc. (the Company) is responsible for the preparation and integrity of the consolidated financial statements and the Management's Discussion and Analysis (MD&A). The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and necessarily include some amounts that are based on management's best estimates and judgement. Financial and operating data elsewhere in the MD&A are consistent with that contained in the accompanying consolidated financial statements.

To fulfill its responsibility, management has developed, and continues to maintain, systems of internal controls reinforced by the Company's standards of conduct and ethics, as set out in written policies to ensure the reliability of the financial information and to safeguard its assets. The Company's internal control over financial reporting and consolidated financial statements are subject to audit by the independent auditors, Ernst & Young LLP, whose report follows. They were appointed as independent auditors, by a vote of the Company's shareholders, to conduct an integrated audit of the Company's consolidated financial statements and of the Company's internal control over financial reporting. In addition, the Audit and Risk Management Committee of the Board of Directors reviews the disclosure of financial information and oversees the functioning of the Company's financial disclosure controls and procedures.

Members of the Audit and Risk Management Committee of the Board of Directors, all of whom are independent of the Company, meet regularly with the independent auditors and with management to discuss internal controls in the financial reporting process, auditing matters and financial reporting issues and formulates the appropriate recommendations to the Board of Directors. The independent auditors have unrestricted access to the Audit and Risk Management Committee. The consolidated financial statements and MD&A have been reviewed and approved by the Board of Directors.

**George D.Schindler**

**François Boulanger**

President and Chief Executive  
Officer

Executive Vice-President and Chief  
Financial Officer

November 8, 2016



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**FISCAL 2016 RESULTS**

Management's and Auditor's Reports

**MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements for external reporting purposes in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Company's internal control over financial reporting includes policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of the assets of the Company;
  - Provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and,
  - Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's consolidated financial statements.
- All internal control systems have inherent limitations; therefore, even where internal control over financial reporting is determined to be effective, it can provide only reasonable assurance. Projections of any evaluation of effectiveness to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As of the end of the Company's 2016 fiscal year, management conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the framework established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 COSO Framework). Based on this assessment, management has determined the Company's internal control over financial reporting as at September 30, 2016, was effective.

The effectiveness of the Company's internal control over financial reporting as at September 30, 2016, has been audited by the Company's independent auditors, as stated in their report appearing on page 56.

**George D.Schindler**

**François Boulanger**

President and Chief Executive Officer      Executive Vice-President and Chief Financial Officer

November 8, 2016

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**CONSOLIDATED FINANCIAL STATEMENTS**

**Management's and Auditors' Reports**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

To the Board of Directors and Shareholders of CGI Group Inc.

We have audited CGI Group Inc.'s (the Company) internal control over financial reporting as of September 30, 2016, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 COSO Framework) (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records, that in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2016 based on the COSO criteria.

We also have audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as at and for the year ended September 30, 2016, and our report dated November 8, 2016 expressed an unqualified opinion thereon.

**Ernst & Young LLP**

Montréal, Canada

November 8, 2016

1. CPA auditor, CA, public accountancy permit No. A122227

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**FISCAL 2016 RESULTS**

Management's and Auditors' Reports

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENTS**

To the Board of Directors and Shareholders of CGI Group Inc.

We have audited the accompanying consolidated financial statements of CGI Group Inc. (the Company), which comprise the consolidated balance sheets as of September 30, 2016 and 2015 and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years ended September 30, 2016 and 2015, and a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of CGI Group Inc. as at September 30, 2016 and 2015, and its financial performance and its cash flows for the years ended September 30, 2016 and 2015, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

**Other matter**

We have also audited, in accordance with the standards of the Public company Accounting Oversight Board (United States), CGI Group Inc.'s internal control over financial reporting as of September 30, 2016, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 COSO Framework) and our report dated November 8, 2016 expressed an unqualified opinion on the Company's internal control over financial reporting.

**Ernst & Young LLP**

Montréal, Canada

November 8, 2016

1. CPA auditor, CA, public accountancy permit No. A122227

**Table of Contents****CONSOLIDATED FINANCIAL STATEMENTS**

Consolidated Statements of Earnings

For the years ended September 30

(in thousands of Canadian dollars, except per share data)

|   | 2016              | 2015       |
|---|-------------------|------------|
|   | \$                | \$         |
| <b>Revenue</b>  | <b>10,683,264</b> | 10,287,096 |
| Operating expenses                                      |                   |            |
| Costs of services, selling and administrative (Note 22) | <b>9,120,929</b>  | 8,819,055  |
| Restructuring costs (Note 12)                           | <b>29,100</b>     | 35,903     |
| Net finance costs (Note 24)                             | <b>78,426</b>     | 92,857     |
| Foreign exchange loss                                   | <b>2,024</b>      | 10,733     |
|   | <b>9,230,479</b>  | 8,958,548  |
| Earnings before income taxes                            | <b>1,452,785</b>  | 1,328,548  |
| Income tax expense (Note 15)                            | <b>384,069</b>    | 350,992    |
| <b>Net earnings</b>                                     | <b>1,068,716</b>  | 977,556    |
| <b>Earnings per share (Note 20)</b>                     |                   |            |
| Basic earnings per share                                | <b>3.51</b>       | 3.14       |
| Diluted earnings per share                              | <b>3.42</b>       | 3.04       |

See Notes to the Consolidated Financial Statements.

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## Consolidated Statements of Comprehensive Income

For the years ended September 30

(in thousands of Canadian dollars)

|  | <b>2016</b>      | <b>2015</b>      |
|--|------------------|------------------|
|  | <b>\$</b>        | <b>\$</b>        |
| <b>Net earnings</b>  | <b>1,068,716</b> | <b>977,556</b>   |
| Items that will be reclassified subsequently to net earnings (net of income taxes):  |                  |                  |
| Net unrealized (losses) gains on translating financial statements of foreign operations  | <b>(274,283)</b> | 599,650          |
| Net gains (losses) on derivative financial instruments and on translating long-term debt designated as hedges of net investments in foreign operations | <b>18,446</b>    | (246,662)        |
| Net unrealized (losses) gains on cash flow hedges  | <b>(18,297)</b>  | 17,708           |
| Net unrealized gains on available-for-sale investments   | <b>229</b>       | 142              |
| Items that will not be reclassified subsequently to net earnings (net of income taxes):  |                  |                  |
| Net remeasurement losses on defined benefit plans  | <b>(20,193)</b>  | (1,236)          |
| Other comprehensive (losses) income  | <b>(294,098)</b> | 369,602          |
| <b>Comprehensive income</b>  | <b>774,618</b>   | <b>1,347,158</b> |

See Notes to the Consolidated Financial Statements.



**Table of Contents****CONSOLIDATED FINANCIAL STATEMENTS**

## Consolidated Balance Sheets

As at September 30

(in thousands of Canadian dollars)

|  | 2016              | 2015              |
|--|-------------------|-------------------|
|  | \$                | \$                |
| <b>Assets</b>  |                   |                   |
| Current assets   |                   |                   |
| Cash and cash equivalents (Note 26)                        | 596,529           | 305,262           |
| Accounts receivable (Note 4)                               | 1,101,606         | 1,097,863         |
| Work in progress   | 935,496           | 873,099           |
| Current derivative financial instruments (Note 30)         | 22,226            | 26,567            |
| Prepaid expenses and other current assets                  | 170,393           | 160,638           |
| Income taxes   | 7,876             | 5,702             |
| Total current assets before funds held for clients         | 2,834,126         | 2,469,131         |
| Funds held for clients (Note 5)                            | 369,530           | 496,397           |
| Total current assets                                       | 3,203,656         | 2,965,528         |
| Property, plant and equipment (Note 6)                     | 439,293           | 473,109           |
| Contract costs (Note 7)                                    | 211,018           | 189,235           |
| Intangible assets (Note 8)                                 | 509,781           | 568,811           |
| Other long-term assets (Note 9)                            | 86,970            | 69,353            |
| Long-term financial assets (Note 10)                       | 129,383           | 122,820           |
| Deferred tax assets (Note 15)                              | 179,898           | 261,431           |
| Goodwill (Note 11)   | 6,933,333         | 7,136,983         |
|  | <b>11,693,332</b> | <b>11,787,270</b> |
| <b>Liabilities</b>   |                   |                   |
| Current liabilities  |                   |                   |
| Accounts payable and accrued liabilities                   | 1,107,863         | 1,113,636         |
| Accrued compensation                                       | 523,553           | 571,883           |
| Current derivative financial instruments (Note 30)         | 4,517             | 28,106            |
| Deferred revenue   | 390,367           | 416,329           |
| Income taxes   | 159,410           | 159,562           |
| Provisions (Note 12)                                       | 34,924            | 94,398            |
| Current portion of long-term debt (Note 13)                | 192,036           | 230,906           |
| Total current liabilities before clients funds obligations | 2,412,670         | 2,614,820         |
| Clients funds obligations                                  | 365,994           | 492,965           |
| Total current liabilities                                  | <b>2,778,664</b>  | <b>3,107,785</b>  |

|  |                   |            |
|--|-------------------|------------|
| Long-term provisions (Note 12)                       | <b>40,454</b>     | 62,637     |
| Long-term debt (Note 13)                             | <b>1,718,939</b>  | 1,896,181  |
| Other long-term liabilities (Note 14)                | <b>244,307</b>    | 277,223    |
| Long-term derivative financial instruments (Note 30) | <b>46,473</b>     | 225        |
| Deferred tax liabilities (Note 15)                   | <b>183,579</b>    | 170,987    |
| Retirement benefits obligations (Note 16)            | <b>216,308</b>    | 190,063    |
|  | <b>5,228,724</b>  | 5,705,101  |
| <b>Equity</b>  |                   |            |
| Retained earnings                                    | <b>3,778,848</b>  | 3,057,578  |
| Accumulated other comprehensive income (Note 17)     | <b>304,128</b>    | 598,226    |
| Capital stock (Note 18)                              | <b>2,194,731</b>  | 2,254,245  |
| Contributed surplus                                  | <b>186,901</b>    | 172,120    |
|  | <b>6,464,608</b>  | 6,082,169  |
|  | <b>11,693,332</b> | 11,787,270 |

See Notes to the Consolidated Financial Statements.

Approved by the Board

**George D. Schindler**  
Director

**Serge Godin**  
Director

**Table of Contents****FISCAL 2016 RESULTS**

## Consolidated Statements of Changes in Equity

For the years ended September 30

(in thousands of Canadian dollars)

|  | Accumulated<br>other<br>comprehensive |                | Capital          | Contributed    | Total            |
|--|---------------------------------------|----------------|------------------|----------------|------------------|
|  | Retained<br>earnings                  | income         | stock            | surplus        | equity           |
|  | \$                                    | \$             | \$               | \$             | \$               |
| Balance as at September 30, 2015                               | 3,057,578                             | 598,226        | 2,254,245        | 172,120        | 6,082,169        |
| Net earnings   | 1,068,716                             |                |                  |                | 1,068,716        |
| Other comprehensive loss                                       |                                       | (294,098)      |                  |                | (294,098)        |
| Comprehensive income (loss)                                    | 1,068,716                             | (294,098)      |                  |                | 774,618          |
| Share-based payment costs                                      |                                       |                |                  | 38,299         | 38,299           |
| Income tax impact associated with stock options                |                                       |                |                  | 19,704         | 19,704           |
| Exercise of stock options (Note 18)                            |                                       |                | 111,405          | (21,972)       | 89,433           |
| Exercise of performance share units ( PSUs ) (Note 18)         |                                       |                | 21,250           | (21,250)       |                  |
| Repurchase of Class A subordinate shares (Note 18)             | (347,446)                             |                | (170,374)        |                | (517,820)        |
| Purchase of Class A subordinate shares held in trust (Note 18) |                                       |                | (21,795)         |                | (21,795)         |
| <b>Balance as at September 30, 2016</b>                        | <b>3,778,848</b>                      | <b>304,128</b> | <b>2,194,731</b> | <b>186,901</b> | <b>6,464,608</b> |

|                                  | Accumulated<br>other<br>comprehensive |         | Capital   | Contributed | Total     |
|----------------------------------|---------------------------------------|---------|-----------|-------------|-----------|
|                                  | Retained<br>earnings                  | income  | stock     | surplus     | equity    |
|                                  | \$                                    | \$      | \$        | \$          | \$        |
| Balance as at September 30, 2014 | 2,356,008                             | 228,624 | 2,246,197 | 157,896     | 4,988,725 |

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|  |           |         |           |         |           |
|--|-----------|---------|-----------|---------|-----------|
| Net earnings   | 977,556   |         |           |         | 977,556   |
| Other comprehensive income                                     |           | 369,602 |           |         | 369,602   |
| Comprehensive income   | 977,556   | 369,602 |           |         | 1,347,158 |
| Share-based payment costs                                      |           |         |           | 30,414  | 30,414    |
| Income tax impact associated with stock options                |           |         |           | 5,952   | 5,952     |
| Exercise of stock options (Note 18)                            |           | 67,028  | (13,474)  |         | 53,554    |
| Exercise of PSUs (Note 18)                                     |           | 8,668   | (8,668)   |         |           |
| Repurchase of Class A subordinate shares (Note 18)             | (275,986) |         | (56,549)  |         | (332,535) |
| Purchase of Class A subordinate shares held in trust (Note 18) |           |         | (11,099)  |         | (11,099)  |
| Balance as at September 30, 2015                               | 3,057,578 | 598,226 | 2,254,245 | 172,120 | 6,082,169 |

See Notes to the Consolidated Financial Statements.

**Table of Contents****CONSOLIDATED FINANCIAL STATEMENTS**

Consolidated Statements of Cash Flows

For the years ended September 30

(in thousands of Canadian dollars)

|  | 2016      | 2015        |
|--|-----------|-------------|
|  | \$        | \$          |
| <b>Operating activities</b>  |           |             |
| Net earnings   | 1,068,716 | 977,556     |
| Adjustments for:   |           |             |
| Amortization and depreciation (Note 23)                              | 400,060   | 424,044     |
| Deferred income taxes (Note 15)                                      | 96,490    | 61,718      |
| Foreign exchange gain  | (2,618)   | (2,681)     |
| Share-based payment costs  | 38,299    | 30,414      |
| Net change in non-cash working capital items (Note 26)               | (267,873) | (201,741)   |
| Cash provided by operating activities                                | 1,333,074 | 1,289,310   |
| <b>Investing activities</b>  |           |             |
| Business acquisitions  | (38,442)  |             |
| Purchase of property, plant and equipment                            | (165,516) | (122,492)   |
| Proceeds from sale of property, plant and equipment                  | 10,254    | 12,910      |
| Additions to contract costs  | (103,156) | (78,815)    |
| Additions to intangible assets                                       | (100,963) | (71,357)    |
| Proceeds from sale of intangible assets                              |           | 2,345       |
| Purchase of long-term investments                                    | (14,701)  | (14,995)    |
| Proceeds from sale of long-term investments                          | 29,629    | 10,259      |
| Payments received from long-term receivables                         | 164       | 5,018       |
| Cash used in investing activities                                    | (382,731) | (257,127)   |
| <b>Financing activities</b>  |           |             |
| Increase of long-term debt   | 40,508    | 62,506      |
| Repayment of long-term debt  | (223,159) | (964,072)   |
| Settlement of derivative financial instruments (Note 30)             | (24,057)  | (121,615)   |
| Purchase of Class A subordinate shares held in trust (Note 18)       | (21,795)  | (11,099)    |
| Repurchase of Class A subordinate shares (Note 18)                   | (527,286) | (323,069)   |
| Issuance of Class A subordinate shares                               | 89,485    | 53,686      |
| Cash used in financing activities                                    | (666,304) | (1,303,663) |
| Effect of foreign exchange rate changes on cash and cash equivalents | 7,228     | 41,027      |
| Net increase (decrease) in cash and cash equivalents                 | 291,267   | (230,453)   |

|  |                |         |
|--|----------------|---------|
| Cash and cash equivalents, beginning of year   | <b>305,262</b> | 535,715 |
| <b>Cash and cash equivalents, end of year</b>  | <b>596,529</b> | 305,262 |
| Supplementary cash flow information (Note 26). |                |         |

See Notes to the Consolidated Financial Statements.

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**FISCAL 2016 RESULTS**

Notes to the Consolidated Financial Statements

For the years ended September 30, 2016 and 2015

(tabular amounts only are in thousands of Canadian dollars, except per share data)

**1. Description of business**

CGI Group Inc. (the Company), directly or through its subsidiaries, manages information technology (IT) services as well as business process services (BPS) to help clients effectively realize their strategies and create added value. The Company's services include the management of IT and business functions (outsourcing), systems integration and consulting, as well as the sale of software solutions. The Company was incorporated under Part IA of the Companies Act (Québec) predecessor to the Business Corporations Act (Québec) which came into force on February 14, 2011 and its shares are publicly traded. The executive and registered office of the Company is situated at 1350 René-Lévesque Blvd. West, Montréal, Québec, Canada, H3G 1T4.

**2. Basis of preparation**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The accounting policies were consistently applied to all periods presented.

The Company's consolidated financial statements for the years ended September 30, 2016 and 2015 were authorized for issue by the Board of Directors on November 8, 2016.

**3. Summary of significant accounting policies**

**BASIS OF CONSOLIDATION**

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances have been eliminated on consolidation.

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed or has right, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the relevant activities of the entity. Subsidiaries are fully consolidated from the date of acquisition and continue to be consolidated until the date control over the subsidiaries ceases.

**BASIS OF MEASUREMENT**

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities, which have been measured at fair value as described below.

## **USE OF JUDGEMENTS AND ESTIMATES**

The preparation of the consolidated financial statements requires management to make judgements and estimates that affect the reported amounts of assets, liabilities, equity and the accompanying disclosures at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Because the use of judgements and estimates is inherent in the financial reporting process, actual results could differ.

Significant judgements and estimates about the future and other major sources of estimation uncertainty at the end of the reporting period could have a significant risk of causing a material adjustment to the carrying amounts of the following within the next financial year: deferred tax assets, revenue recognition, estimated losses on revenue-generating contracts, goodwill impairment, provisions for income tax uncertainties and litigation and claims.

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

### **Multiple component arrangements**

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



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**CONSOLIDATED FINANCIAL STATEMENTS**

Notes to the Consolidated Financial Statements

For the years ended September 30, 2016 and 2015

(tabular amounts only are in thousands of Canadian dollars, except per share data)

**3. Summary of significant accounting policies (continued)**

**USE OF JUDGEMENTS AND ESTIMATES (CONTINUED)**

**Deferred tax assets**

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

A description of estimations is included in the respective sections within the Notes to the Consolidated Financial Statements and in Note 3, Summary of significant accounting policies .

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

The Company generates revenue principally through the provision of IT services and BPS as described in Note 1.

The Company provides services and products under arrangements that contain various pricing mechanisms. The Company recognizes revenue when the following criteria are met: there is clear evidence that an arrangement exists, the amount of revenue and related costs can be measured reliably, it is probable that future economic benefits will flow to the Company, the stage of completion can be measured reliably where services are delivered and the significant risks and rewards of ownership, including effective control, are transferred to clients where products are sold. Revenue is measured at the fair value of the consideration received or receivable net of discounts, volume rebates and sales related taxes.

Some of the Company's arrangements may include client acceptance clauses. Each clause is analyzed to determine whether the earnings process is complete when the service is performed. Formal client sign-off is not always necessary to recognize revenue provided that the Company objectively demonstrates that the criteria specified in the acceptance provisions are satisfied. Some of the criteria reviewed include historical experience with similar types of arrangements, whether the acceptance provisions are specific to the client or are included in all arrangements, the length of the acceptance term and historical experience with the specific client.

Revenue from sales of third party vendor products, such as software licenses, hardware or services is recorded gross when the Company is a principal to the transaction and is recorded net of costs when the Company is acting as an agent between the client and vendor. Factors generally considered to determine whether the Company is a principal or an agent are if the Company, has the primary responsibility for providing the product or service, adds meaningful value to the vendor's product or service, has discretion in supplier selection and assumes credit risks.

### **Relative selling price**

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

### **Outsourcing**

Revenue from outsourcing and BPS arrangements is generally recognized as the services are provided at the contractually stated price, unless there is a better measure of performance or delivery.

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**FISCAL 2016 RESULTS**

Notes to the Consolidated Financial Statements

For the years ended September 30, 2016 and 2015

(tabular amounts only are in thousands of Canadian dollars, except per share data)

**3. Summary of significant accounting policies (continued)**

**REVENUE RECOGNITION, WORK IN PROGRESS AND DEFERRED REVENUE (CONTINUED)**

**Systems integration and consulting services**

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

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

Revenue from benefits-funded arrangements is recognized only to the extent that it is probable that the benefit stream associated with the transaction will generate amounts sufficient to fund the value on which revenue recognition is based.

**Software licenses**

Most of the Company's software license arrangements include other services such as implementation, customization and maintenance. For these types of arrangements, revenue from a software license is recognized upon delivery if it has been identified as a separately identifiable component. Otherwise, it is combined with the implementation and customization services and is accounted for as described in *Systems integration and consulting services* above. Revenue from maintenance services for software licenses sold and implemented is recognized ratably over the term of the maintenance period.

### **Work in progress and deferred revenue**

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

### **Estimated losses on revenue-generating contracts**

Estimated losses on revenue-generating contracts may occur due to additional contract costs which were not foreseen at inception of the contract. Contract losses are measured at the amount by which the estimated total costs exceed the estimated total revenue from the contract. The estimated losses on revenue-generating contracts are recognized in the period when it is determined that a loss is probable. The expected loss is first applied to impair the related capitalized contract costs with the excess recorded in accounts payable and accrued liabilities and in other long-term liabilities. Management regularly reviews arrangement profitability and the underlying estimates.

### **CASH AND CASH EQUIVALENTS**

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

### **FUNDS HELD FOR CLIENTS AND CLIENTS FUNDS OBLIGATIONS**

In connection with the Company's payroll, tax filing and claims services, the Company collects funds for payment of payroll, taxes and claims, temporarily holds such funds until payment is due, remits the funds to the clients employees, appropriate tax authorities or claim holders, and files federal and local tax returns and handles related regulatory correspondence and amendments. The funds held for clients include cash and long-term bonds. The Company presents the funds held for clients and related obligations separately. Funds held for clients are classified as current assets since, based upon management's intentions, these funds are held solely for the purpose of satisfying the clients' funds obligations, which will be repaid within one year of the consolidated balance sheets date.

Interest income earned and realized gains and losses on the disposal of bonds are recorded in revenue in the period that the income is earned, since the collecting, holding and remitting of these funds are critical components of providing these services.

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Notes to the Consolidated Financial Statements

For the years ended September 30, 2016 and 2015

(tabular amounts only are in thousands of Canadian dollars, except per share data)

**3. Summary of significant accounting policies (continued)****PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment ( PP&E ), including those under finance leases, are recorded at cost and are depreciated over their estimated useful lives using the straight-line method.

|                                   |   |
|-----------------------------------|---|
| Buildings                         | 10 to 40 years                          |
| Leasehold improvements            | Lesser of the useful life or lease term |
| Furniture, fixtures and equipment | 3 to 20 years                           |
| Computer equipment                | 3 to 5 years                            |

**LEASES**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized in PP&E at an amount equal to the fair value of the leased assets or, if lower, the present value of minimum lease payments at the inception of the lease, and then depreciated over the economic useful life of the asset or term of the lease, whichever is shorter. The capital element of future lease payments is included in the consolidated balance sheets within long-term debt. Interest is charged to the consolidated statements of earnings so as to achieve a constant rate of interest on the remaining balance of the liability.

Lease payments under operating leases are charged to the consolidated statements of earnings on a straight-line basis over the lease term. Operating lease incentives, typically for premises, are recognized as a reduction in the rental expense over the lease term.

**CONTRACT COSTS**

Contract costs are mainly incurred when acquiring or implementing long-term outsourcing contracts. Contract costs are comprised primarily of transition costs and incentives.

### **Transition costs**

Transition costs consist mostly of costs associated with the installation of systems and processes, as well as conversion of the client's applications to the Company's platforms incurred after the award of outsourcing and BPS contracts. Transition costs are comprised essentially of labour costs, including compensation and related fringe benefits, as well as subcontractor costs.

### **Incentives**

Occasionally, incentives are granted to clients upon the signing of outsourcing contracts. These incentives are granted in the form of cash payments.

### **Pre-contract costs**

Pre-contract costs associated with acquiring or implementing long-term outsourcing contracts are expensed as incurred except where it is virtually certain that the contracts will be awarded and the costs are directly related to the acquisition of the contract. For outsourcing contracts, the Company is virtually certain that a contract will be awarded when the Company is selected by the client but the contract has not yet been signed.

### **Amortization of contract costs**

Contract costs are amortized using the straight-line method over the period services are provided. Amortization of transition costs and pre-contract costs, if any, is included in costs of services, selling and administrative and amortization of incentives is recorded as a reduction of revenue.

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**FISCAL 2016 RESULTS**

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For the years ended September 30, 2016 and 2015

(tabular amounts only are in thousands of Canadian dollars, except per share data)

**3. Summary of significant accounting policies (continued)**

**CONTRACT COSTS (CONTINUED)**

**Impairment of contract costs**

When a contract is not expected to be profitable, the expected loss is first applied to impair the related capitalized contract costs. The excess of the expected loss over the capitalized contract costs is recorded as estimated losses on revenue-generating contracts in accounts payable and accrued liabilities and in other long-term liabilities. If at a future date the contract returns to profitability, the previously recognized impairment loss must be reversed. First the estimated losses on revenue-generating contracts must be reversed, and if there is still additional projected profitability then any capitalized contract costs that were impaired must be reversed. The reversal of the impairment loss is limited so that the carrying amount does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized for the contract costs in prior years.

**INTANGIBLE ASSETS**

Intangible assets consist mainly of internal-use software, business solutions, software licenses and client relationships. Internal-use software, business solutions and software licenses are recorded at cost. Business solutions developed internally and marketed are capitalized when they meet specific capitalization criteria related to technical, market and financial feasibility. Internal-use software developed internally is capitalized when it meets specific capitalization criteria related to technical and financial feasibility and when the Company demonstrates its ability and intention to use it. Internal-use software, business solutions, software licenses and client relationships acquired through business combinations are initially recorded at their fair value based on the present value of expected future cash flows, which involve making estimates about the future cash flows and discount rates.

**Amortization of intangible assets**

The Company amortizes its intangible assets using the straight-line method over their estimated useful lives:

|                                |               |
|--------------------------------|---------------|
| Internal-use software          | 2 to 7 years  |
| Business solutions             | 2 to 10 years |
| Software licenses              | 3 to 8 years  |
| Client relationships and other | 2 to 10 years |

## **IMPAIRMENT OF PP&E, INTANGIBLE ASSETS AND GOODWILL**

### **Timing of impairment testing**

The carrying values of PP&E, intangible assets and goodwill are reviewed for impairment when events or changes in circumstances indicate that the carrying value may be impaired. The Company assesses at each reporting date whether any such events or changes in circumstances exist. The carrying value of PP&E and intangible assets not available for use and goodwill is tested for impairment annually as at September 30.

### **Impairment testing**

If any indication of impairment exists or when annual impairment testing for an asset is required, the Company estimates the recoverable amount of the asset or cash-generating unit ( CGU ) to which the asset relates to determine the extent of any impairment loss. The recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use ( VIU ) to the Company. The Company mainly uses the VIU. In assessing VIU, estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In determining fair value less costs of disposal, recent market transactions are taken into account, if available. If the recoverable amount of an asset or a CGU is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statements of earnings.

Goodwill acquired through business combinations is allocated to the CGU or group of CGUs that are expected to benefit from synergies of the related business combination. The group of CGUs that benefit from the synergies correspond to the Company's operating segments. For goodwill impairment testing purposes, the group of CGUs that represent the lowest level within the Company at which management monitors goodwill is the operating segment level.



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**3. Summary of significant accounting policies (continued)**

**IMPAIRMENT OF PP&E, INTANGIBLE ASSETS AND GOODWILL (CONTINUED)**

**Impairment testing (continued)**

The recoverable amount of each operating segment has been determined based on the VIU calculation which includes estimates about their future financial performance based on cash flows approved by management covering a period of five years as the Company generates revenue mainly through long-term contracts. Key assumptions used in the VIU calculations are the discount rate applied and the long-term growth rate of net operating cash flows. In determining these assumptions, management has taken into consideration the current economic environment and its resulting impact on expected growth and discount rates. The cash flow projections reflect management's expectations of the segment's operating performance and growth prospects in the operating segment's market. The discount rate applied to an operating segment is the weighted average cost of capital ( WACC ). Management considers factors such as country risk premium, risk-free rate, size premium and cost of debt to derive the WACC. Impairment losses relating to goodwill cannot be reversed in future periods.

For impaired assets, other than goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of earnings.

**LONG-TERM FINANCIAL ASSETS**

Long-term investments presented in long-term financial assets are comprised of bonds which are classified as long-term based on management's intentions.

## **BUSINESS COMBINATIONS**

The Company accounts for its business combinations using the acquisition method. Under this method the consideration transferred is measured at fair value. Acquisition-related and integration costs associated with the business combination are expensed as incurred. The Company recognizes goodwill as the excess of the cost of the acquisition over the net identifiable tangible and intangible assets acquired and liabilities assumed at their acquisition-date fair values. The fair value allocated to tangible and intangible assets acquired and liabilities assumed are based on assumptions of management. These assumptions include the future expected cash flows arising from the intangible assets identified as client relationships, business solutions, and trademarks. The preliminary goodwill recognized is composed of the future economic value associated to acquired work force and synergies with the Company's operations which are primarily due to reduction of costs and new business opportunities. The determination of fair value involves making estimates relating to acquired intangible assets, PP&E, litigation, provision for estimated losses on revenue-generating contracts, other onerous contracts, tax and other contingency reserves. Estimates include the forecasting of future cash flows and discount rates. Subsequent changes in fair values are adjusted against the cost of acquisition if they qualify as measurement period adjustments. The measurement period is the period between the date of acquisition and the date where all significant information necessary to determine the fair values is available, not to exceed 12 months. All other subsequent changes are recognized in the consolidated statements of earnings.

## **EARNINGS PER SHARE**

Basic earnings per share is based on the weighted average number of shares outstanding during the period. Diluted earnings per share is determined using the treasury stock method to evaluate the dilutive effect of stock options and PSUs.

## **RESEARCH AND SOFTWARE DEVELOPMENT COSTS**

Research costs are charged to earnings in the period in which they are incurred, net of related tax credits. Software development costs are charged to earnings in the year they are incurred, net of related tax credits, unless they meet specific capitalization criteria related to technical, market and financial feasibility.

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**FISCAL 2016 RESULTS**

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**3. Summary of significant accounting policies (continued)**

**TAX CREDITS**

The Company follows the income approach to account for tax credits, whereby investment tax credits are recorded when there is a reasonable assurance that the assistance will be received and that the Company will comply with all relevant conditions. Under this method, tax credits related to operating expenditures are recorded as a reduction of the related expense and recognized in the period in which the related expenditures are charged to operations. Tax credits related to capital expenditures are recorded as a reduction of the cost of the related asset. The tax credits recorded are based on management's best estimates of amounts expected to be received and are subject to audit by the taxation authorities.

**INCOME TAXES**

Income taxes are accounted for using the liability method of accounting.

Current income taxes are recognized with respect to the amounts expected to be paid or recovered under the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax assets and liabilities are determined based on deductible or taxable temporary differences between the amounts reported for financial statement purposes and tax values of the assets and liabilities using enacted or substantively enacted tax rates that will be in effect for the year in which the differences are expected to be recovered or settled. Deferred income tax assets and liabilities are recognized in earnings, other comprehensive income or in equity based on the classification of the item to which they relate.

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

The Company is subject to taxation in numerous jurisdictions and there are transactions and calculations for which the ultimate tax determination is uncertain. When a tax position is uncertain, the Company recognizes an income tax benefit or reduces an income tax liability only when it is probable that the tax benefit will be realized in the future or that the income tax liability is no longer probable. The provision for uncertain tax positions is made using the best

estimate of the amount expected to be paid based on qualitative assessment of all relevant factors such as experience of previous tax audits or interpretations of tax regulations.

## **PROVISIONS**

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 Company's provisions consist of liabilities for leases of premises that the Company has vacated, litigation and claim provisions arising in the ordinary course of business and decommissioning liabilities for operating leases of office buildings. The Company also records restructuring provisions related to business combinations and termination of employment costs incurred as part of the Company's productivity improvement initiatives.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Provisions are discounted using a current pre-tax rate when the impact of the time value of money is material. The increase in the provision due to the passage of time is recognized as finance cost.

The Company accrues provisions for onerous leases which consist of estimated costs associated with vacated premises. The provisions reflect the present value of lease payments in excess of the expected sublease proceeds on the remaining term of the lease.

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 unfavourable outcome.

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**3. Summary of significant accounting policies (continued)**

**PROVISIONS (CONTINUED)**

Decommissioning liabilities pertain to operating leases of buildings where certain arrangements require premises to be returned to their original state at the end of the lease term. The provision is determined using the present value of the estimated future cash outflows.

Restructuring provisions, consisting of severances, are recognized when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs, appropriate timelines and has been communicated to those affected by it.

**TRANSLATION OF FOREIGN CURRENCIES**

The Company's consolidated financial statements are presented in Canadian dollars, which is also the parent company's functional currency. Each entity in the Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Functional currency is the currency of the primary economic environment in which the entity operates.

**Foreign currency transactions and balances**

Revenue, expenses and non-monetary assets and liabilities denominated in foreign currencies are recorded at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates prevailing at the balance sheet date. Unrealized and realized translation gains and losses are reflected in the consolidated statements of earnings.

**Foreign operations**

For foreign operations that have functional currencies different from the Company, assets and liabilities denominated in a foreign currency are translated at exchange rates in effect at the balance sheet date. Revenue and expenses are translated at average exchange rates prevailing during the period. Resulting unrealized gains or losses on translating financial statements of foreign operations are reported in other comprehensive income.

For foreign operations with the same functional currency as the Company, monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date and non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expenses are translated at average exchange rates for the period. Translation exchange gains or losses of such operations are reflected in the consolidated statements of earnings.

## **SHARE-BASED PAYMENTS**

### **Equity-settled plans**

The Company operates equity-settled stock option and PSU plans under which the Company receives services from employees, officers and directors as consideration for equity instruments.

The fair value of those share-based payments is established on the grant date using the Black-Scholes option pricing model for the stock options and the closing price of Class A subordinate shares of the Company on the Toronto Stock Exchange ( TSX ) for the PSUs. The number of stock options and PSUs expected to vest are estimated on the grant date and subsequently revised on each reporting date. For stock options, the estimation of fair value requires making assumptions for the most appropriate inputs to the valuation model including the expected life of the option and expected stock price volatility. The fair values, adjusted for expectations related to performance conditions and for expected forfeitures, are recognized as share-based payment costs in earnings with a corresponding credit to contributed surplus on a graded-vesting basis over the vesting period.

When stock options are exercised, any consideration paid is credited to capital stock and the recorded fair value of the stock option is removed from contributed surplus and credited to capital stock. When PSUs are exercised, the recorded fair value of PSUs is removed from contributed surplus and credited to capital stock.

### **Share purchase plan**

The Company operates a share purchase plan for eligible employees. Under this plan, the Company matches the contributions made by employees up to a maximum percentage of the employee's salary. The Company contributions to the plan are recognized in salaries and other member costs within costs of services, selling and administrative.

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**FISCAL 2016 RESULTS**

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(tabular amounts only are in thousands of Canadian dollars, except per share data)

**3. Summary of significant accounting policies (continued)**

**SHARE-BASED PAYMENTS (CONTINUED)**

**Cash-settled deferred share units**

The Company operates a deferred share unit ( DSU ) plan to compensate the members of the Board of Directors. The expense is recognized, within costs of services, selling and administrative, for each DSU granted equal to the closing price of Class A subordinate shares of the Company on the TSX at the date on which DSUs are awarded and a corresponding liability is recorded in accrued compensation. After the grant date, the DSU liability is remeasured for subsequent changes in the fair value of the Company's shares.

**FINANCIAL INSTRUMENTS**

All financial instruments are initially measured at their fair values. Subsequently, financial assets classified as loans and receivables and financial liabilities classified as other liabilities are measured at their amortized cost using the effective interest rate method. Financial assets and liabilities classified as fair value through earnings ( FVTE ) and classified as available-for-sale are measured subsequently at their fair values.

Financial instruments may be designated on initial recognition as FVTE if any of the following criteria are met: i) the financial instrument contains one or more embedded derivatives that otherwise would have to be accounted for separately; ii) the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial asset or liability or recognizing the gains and losses on them on a different basis; or iii) the financial asset and financial liability are part of a group of financial assets or liabilities that is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. Gains and losses related to periodic revaluations of financial assets and liabilities designated as FVTE are recorded in the consolidated statements of earnings.

The unrealized gains and losses, net of applicable income taxes, on available-for-sale assets are reported in other comprehensive income. Interest income earned and realized gains and losses on the sale of available-for-sale assets are recorded in the consolidated statements of earnings.

Transaction costs are comprised primarily of legal, accounting and other costs directly attributable to the issuance of the respective financial assets and liabilities. Transaction costs are capitalized to the cost of financial assets and liabilities classified as other than FVTE.

Financial assets are derecognized if the contractual rights to the cash flows from the financial asset expire or the asset is transferred and the transfer qualifies for derecognition. The transfer qualifies for derecognition if substantially all the risks and rewards of ownership of the financial asset are transferred.

The Company has made the following classifications:

**FVTE**

Cash and cash equivalents and derivative financial instruments (unless they qualify for hedge accounting). In addition, deferred compensation plan assets within long-term financial assets were designated by management as FVTE upon initial recognition as this reflected management's investment strategy.

**Loans and receivables**

Trade accounts receivable, cash included in funds held for clients and long-term receivables within long-term financial assets.

**Available-for-sale**

Long-term bonds included in funds held for clients and in long-term investments within long-term financial assets.

**Other liabilities**

Accounts payable and accrued liabilities, accrued compensation, long-term debt and clients' funds obligations.



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**3. Summary of significant accounting policies (continued)**

**FINANCIAL INSTRUMENTS (CONTINUED)**

**Fair value hierarchy**

Fair value measurements recognized in the balance sheet are categorized in accordance with the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included in Level 1, but that are observable for the asset or liability, either directly or indirectly; and

Level 3: inputs for the asset or liability that are not based on observable market data.

**DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS**

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency exchange risks. No derivative financial instruments are held or used for trading purposes.

Derivative financial instruments are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting date. The resulting gain or loss is recognized in the consolidated statements of earnings unless the derivative is designated and is effective as a hedging instrument, in which event the timing of the recognition in the consolidated statements of earnings depends on the nature of the hedge relationship. At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Company will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The cash flows of the hedging transactions are classified in the same manner as the cash flows of the position being hedged. Derivative financial instruments used as hedging items are recorded at fair value in the consolidated balance sheets under current derivative financial instruments, long-term financial assets or long-term derivative financial instruments. Valuation models, such as discounted cash flow analysis using observable market inputs, are utilized to determine the fair values of the derivative financial instruments.

## **NET INVESTMENT HEDGES**

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

The Company uses cross-currency swaps and foreign currency denominated long-term debt to hedge portions of the Company's net investments in its U.S. and European operations. 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 other comprehensive income. To the extent that the hedge is ineffective, such differences are recognized in consolidated statements of earnings. When the hedged net investment is disposed of, the relevant amount in other comprehensive income is transferred to earnings as part of the gain or loss on disposal.

## **CASH FLOW HEDGES**

### **Cash flow hedges on future revenue and long-term debt**

The majority of the Company's costs are denominated in currency other than the Canadian dollar. The risk of foreign exchange fluctuation impacting the results is substantially mitigated by matching the Company's costs with revenue denominated in the same currency. In certain cases where there is a substantial imbalance for a specific currency, the Company enters into foreign currency forward contracts to hedge the variability in the foreign currency exchange rates.

The Company also uses interest rate and cross currency swaps to hedge either the cash flow exposure or the foreign exchange exposure of the long-term debt.

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**3. Summary of significant accounting policies (continued)**

**DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS (CONTINUED)**

**CASH FLOW HEDGES (CONTINUED)**

Those derivatives are documented as cash flow hedges and no component of the derivative contracts' fair value are excluded from the assessment and measurement of hedge effectiveness. The effective portion of the change in fair value of the derivative financial instruments is recognized in other comprehensive income and the ineffective portion, if any, in the consolidated statements of earnings. The effective portion of the change in fair value of the derivatives is reclassified out of other comprehensive income into the consolidated statements of earnings when the hedged element is recognized in the consolidated statements of earnings.

**FAIR VALUE HEDGES**

**Fair value hedges on Senior U.S. unsecured notes**

The Company entered into interest rate swaps to hedge the fair value exposure of the issued fixed rate Senior U.S. unsecured notes. Under the interest rate swaps, the Company receives a fixed rate of interest and pays interest at a variable rate on the notional amount.

The changes in the fair value of the interest rate swaps are recognized in the consolidated statements of earnings as finance costs. The changes in the fair value of the hedged items attributable to the risk hedged is recorded as part of the carrying value of the Senior U.S. unsecured notes and are also recognized in the consolidated statements of earnings as finance costs. If the hedged items are derecognized, the unamortized fair value is recognized immediately in the consolidated statements of earnings.

**EMPLOYEE BENEFITS**

The Company operates post-employment benefit plans of both a defined contribution and defined benefit nature.

The cost of defined contribution plans is charged to the consolidated statements of earnings on the basis of contributions payable by the Company during the year.

For defined benefits plans, the defined benefit obligations are calculated by independent actuaries using the projected unit credit method. The retirement benefits obligations in the consolidated balance sheets represent the present value of the defined benefit obligation as reduced by the fair value of plan assets. The retirement benefits assets are recognized to the extent that the Company can benefit from refunds or a reduction in future contributions. Retirement benefit plans that are funded by the payment of insurance premiums are treated as defined contribution plans unless the Company has an obligation either to pay the benefits directly when they fall due or to pay further amounts if assets accumulated with the insurer do not cover all future employee benefits. In such circumstances, the plan is treated as a defined benefit plan.

Insurance policies are treated as plan assets of a defined benefit plan if the proceeds of the policy:

- Can only be used to fund employee benefits;
- Are not available to the Company's creditors; and
- Either cannot be paid to the Company unless the proceeds represent surplus assets not needed to meet all the benefit obligations or are a reimbursement for benefits already paid by the Company.

Insurance policies that do not meet the above criteria are treated as non-current investments and are held at fair value as long-term financial assets in the consolidated balance sheets.

The actuarial valuations used to determine the cost of defined benefit pension plans and their present value involve making assumptions about discount rates, future salary and pension increases, inflation rates and mortality. Any changes in these assumptions will impact the carrying amount of pension obligations. In determining the appropriate discount rate management considers the interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

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**3. Summary of significant accounting policies (continued)**

**EMPLOYEE BENEFITS (CONTINUED)**

The current service cost is recognized in the consolidated statements of earnings under costs of services, selling and administrative. The net interest cost calculated by applying the discount rate to the net defined benefit liability or asset is recognized as net finance cost or income. When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in the consolidated statements of earnings. The gains or losses on the settlement of a defined benefit plan are recognized when the settlement occurs.

Remeasurements on defined benefit plans include actuarial gains and losses, changes in the effect of the asset ceiling and the return on plan assets, excluding the amount included in net interest on the net defined liability or assets. Remeasurements are charged or credited to other comprehensive income in the period in which they arise.

**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 adoption 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 adoption 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*, *Leases*, and other lease related Interpretations. The standard will be effective on October 1, 2019 for the Company with earlier adoption permitted only if IFRS 15 *Revenue from Contracts with Customers* is also applied. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

#### 4. Accounts receivable

|                    | As at<br>September 30, 2016 | As at<br>September 30, 2015 |
|--------------------|-----------------------------|-----------------------------|
|                    | \$                          | \$                          |
| Trade (Note 30)    | <b>816,885</b>              | 889,192                     |
| Other <sup>1</sup> | <b>284,721</b>              | 208,671                     |
|                    | <b>1,101,606</b>            | 1,097,863                   |

<sup>1</sup> Other accounts receivable include tax credits for the Development of E-Business, other tax credits for Research and Development and job and economic growth initiatives. The tax credits represent approximately \$187,047,000 and \$139,972,000 of other accounts receivable in 2016 and 2015, respectively.

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**5. Funds held for clients**

|                           | As at<br>September 30, 2016 | As at<br>September 30, 2015 |
|---------------------------|-----------------------------|-----------------------------|
|                           | \$                          | \$                          |
| Cash                      | 173,554                     | 299,433                     |
| Long-term bonds (Note 30) | 195,976                     | 196,964                     |
|                           | <b>369,530</b>              | <b>496,397</b>              |

**6. Property, plant and equipment**

|   | Land and<br>buildings | Leasehold<br>improvements | Furniture,<br>fixtures and<br>equipment | Computer<br>equipment | Total            |
|---|-----------------------|---------------------------|---|-----------------------|------------------|
|   | \$                    | \$                        | \$                                      | \$                    | \$               |
| <b>Cost</b>                             |                       |                           |   |                       |                  |
| As at September 30, 2015                | 84,432                | 209,594                   | 159,947                                 | 665,633               | 1,119,606        |
| Additions                               | 650                   | 18,987                    | 19,085                                  | 134,322               | 173,044          |
| Disposals/retirements                   | (12,947)              | (16,123)                  | (9,278)                                 | (114,575)             | (152,923)        |
| Foreign currency translation adjustment | (3,559)               | (6,265)                   | (3,947)                                 | (33,638)              | (47,409)         |
| <b>As at September 30, 2016</b>         | <b>68,576</b>         | <b>206,193</b>            | <b>165,807</b>                          | <b>651,742</b>        | <b>1,092,318</b> |
| <b>Accumulated depreciation</b>         |                       |                           |   |                       |                  |
| As at September 30, 2015                | 14,589                | 147,219                   | 89,121                                  | 395,568               | 646,497          |
| Depreciation expense (Note 23)          | 5,590                 | 19,860                    | 17,187                                  | 120,468               | 163,105          |
| Disposals/retirements                   | (3,673)               | (16,123)                  | (6,522)                                 | (102,245)             | (128,563)        |
| Foreign currency translation adjustment | (1,505)               | (4,120)                   | (2,212)                                 | (20,177)              | (28,014)         |
| <b>As at September 30, 2016</b>         | <b>15,001</b>         | <b>146,836</b>            | <b>97,574</b>                           | <b>393,614</b>        | <b>653,025</b>   |

| <b>Net carrying amount as at September 30, 2016</b> | <b>53,575</b>      | <b>59,357</b>          | <b>68,233</b>                     | <b>258,128</b>     | <b>439,293</b> |
|---|--------------------|------------------------|-----------------------------------|--------------------|----------------|
|   | Land and buildings | Leasehold improvements | Furniture, fixtures and equipment | Computer equipment | Total          |
|   | \$                 | \$                     | \$                                | \$                 | \$             |
| <b>Cost</b>   |                    |                        |                                   |                    |                |
| As at September 30, 2014                            | 72,357             | 205,242                | 150,419                           | 603,646            | 1,031,664      |
| Additions   | 6,542              | 4,556                  | 8,944                             | 120,434            | 140,476        |
| Disposals/retirements                               |                    | (13,491)               | (10,693)                          | (108,695)          | (132,879)      |
| Foreign currency translation adjustment             | 5,533              | 13,287                 | 11,277                            | 50,248             | 80,345         |
| As at September 30, 2015                            | 84,432             | 209,594                | 159,947                           | 665,633            | 1,119,606      |
| <b>Accumulated depreciation</b>                     |                    |                        |                                   |                    |                |
| As at September 30, 2014                            | 10,142             | 125,381                | 72,790                            | 336,471            | 544,784        |
| Depreciation expense (Note 23)                      | 3,183              | 26,982                 | 20,723                            | 122,778            | 173,666        |
| Disposals/retirements                               |                    | (13,444)               | (10,497)                          | (92,367)           | (116,308)      |
| Foreign currency translation adjustment             | 1,264              | 8,300                  | 6,105                             | 28,686             | 44,355         |
| As at September 30, 2015                            | 14,589             | 147,219                | 89,121                            | 395,568            | 646,497        |
| Net carrying amount as at September 30, 2015        | 69,843             | 62,375                 | 70,826                            | 270,065            | 473,109        |



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**6. Property, plant and equipment (continued)**

Property, plant and equipment include the following assets acquired under finance leases:

|                                   | As at September 30, 2016 |                          |                     | As at September 30, 2015 |                          |                     |
|-----------------------------------|--------------------------|--------------------------|---------------------|--------------------------|--------------------------|---------------------|
|                                   | Cost                     | Accumulated depreciation | Net carrying amount | Cost                     | Accumulated depreciation | Net carrying amount |
|                                   | \$                       | \$                       | \$                  | \$                       | \$                       | \$                  |
| Furniture, fixtures and equipment | 18,030                   | 9,082                    | 8,948               | 14,033                   | 7,953                    | 6,080               |
| Computer equipment                | 64,484                   | 40,668                   | 23,816              | 85,318                   | 53,533                   | 31,785              |
|                                   | 82,514                   | 49,750                   | 32,764              | 99,351                   | 61,486                   | 37,865              |

**7. Contract costs**

|                  | As at September 30, 2016 |                          |                     | As at September 30, 2015 |                          |                     |
|------------------|--------------------------|--------------------------|---------------------|--------------------------|--------------------------|---------------------|
|                  | Cost                     | Accumulated amortization | Net carrying amount | Cost                     | Accumulated amortization | Net carrying amount |
|                  | \$                       | \$                       | \$                  | \$                       | \$                       | \$                  |
| Transition costs | 392,908                  | 189,381                  | 203,527             | 414,604                  | 235,640                  | 178,964             |
| Incentives       | 97,140                   | 89,649                   | 7,491               | 100,811                  | 90,540                   | 10,271              |
|                  | 490,048                  | 279,030                  | 211,018             | 515,415                  | 326,180                  | 189,235             |

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**8. Intangible assets**

|   | <b>Internal-use<br/>Internal-use<br/>software<br/>acquired</b> | <b>software<br/>internally<br/>developed</b>        | <b>Business<br/>solutions<br/>acquired</b> | <b>Business<br/>solutions<br/>internally<br/>developed</b> | <b>Software<br/>licenses</b> | <b>Client<br/>relationships<br/>and<br/>other</b> | <b>Total</b>     |
|---|--|---|--|--|------------------------------|---|------------------|
|   | \$   | \$  | \$   | \$   | \$                           | \$  | \$               |
| <b>Cost</b>   |  |   |  |  |                              |   |                  |
| As at September 30, 2015                                | 92,959   | 55,340  | 128,370                                    | 388,040  | 174,095                      | 954,667   | 1,793,471        |
| Additions   | 5,669  | 17,112  | 1,943                                      | 37,501   | 68,683                       | 8,984   | 139,892          |
| Disposals/retirements                                   | (629)  |   | (34,190)                                   | (36,062)   | (22,795)                     |   | (93,676)         |
| Foreign currency translation<br>adjustment              | (5,175)  | (120)   | (1,914)                                    | (7,099)  | (6,206)                      | (28,551)  | (49,065)         |
| <b>As at September 30, 2016</b>                         | <b>92,824</b>  | <b>72,332</b>                                       | <b>94,209</b>                              | <b>382,380</b>   | <b>213,777</b>               | <b>935,100</b>                                    | <b>1,790,622</b> |
| <b>Accumulated amortization</b>                         |  |   |  |  |                              |   |                  |
| As at September 30, 2015                                | 66,481   | 42,464  | 110,818                                    | 247,518  | 100,616                      | 656,763   | 1,224,660        |
| Amortization expense (Note<br>23)                       | 9,880  | 4,066   | 6,467                                      | 30,341   | 35,583                       | 90,558  | 176,895          |
| Disposals/retirements                                   | (629)  |   | (34,190)                                   | (36,062)   | (22,196)                     |   | (93,077)         |
| Foreign currency translation<br>adjustment              | (3,364)  | (17)  | (1,484)                                    | (3,844)  | (2,410)                      | (16,518)  | (27,637)         |
| <b>As at September 30, 2016</b>                         | <b>72,368</b>  | <b>46,513</b>                                       | <b>81,611</b>                              | <b>237,953</b>   | <b>111,593</b>               | <b>730,803</b>                                    | <b>1,280,841</b> |
| <b>Net carrying amount as at<br/>September 30, 2016</b> | <b>20,456</b>  | <b>25,819</b>                                       | <b>12,598</b>                              | <b>144,427</b>   | <b>102,184</b>               | <b>204,297</b>                                    | <b>509,781</b>   |
|   | Internal-use<br>software<br>acquired                           | Internal-use<br>software<br>internally<br>developed | Business<br>solutions<br>acquired          | Business<br>solutions<br>internally<br>developed           | Software<br>licenses         | Client<br>relationships<br>and other              | Total            |

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|  | \$       | \$      | \$      | \$      | \$       | \$       | \$        |
|--|----------|---------|---------|---------|----------|----------|-----------|
| <b>Cost</b>                                  |          |         |         |         |          |          |           |
| As at September 30, 2014                     | 102,686  | 50,736  | 126,715 | 310,486 | 164,461  | 896,359  | 1,651,443 |
| Additions                                    | 2,241    | 7,269   | 369     | 38,100  | 38,409   |          | 86,388    |
| Disposals/retirements                        | (17,206) | (2,902) | (7,691) | (5,050) | (40,373) | (26,213) | (99,435)  |
| Foreign currency translation adjustment      | 5,238    | 237     | 8,977   | 44,504  | 11,598   | 84,521   | 155,075   |
| As at September 30, 2015                     | 92,959   | 55,340  | 128,370 | 388,040 | 174,095  | 954,667  | 1,793,471 |
| <b>Accumulated amortization</b>              |          |         |         |         |          |          |           |
| As at September 30, 2014                     | 69,447   | 42,143  | 99,778  | 195,085 | 100,920  | 513,996  | 1,021,369 |
| Amortization expense (Note 23)               | 10,666   | 3,125   | 10,391  | 25,460  | 30,664   | 106,000  | 186,306   |
| Impairment (Note 23)                         |          |         |         | 5,289   |          |          | 5,289     |
| Disposals/retirements                        | (17,206) | (2,902) | (7,691) | (5,050) | (38,028) | (26,213) | (97,090)  |
| Foreign currency translation adjustment      | 3,574    | 98      | 8,340   | 26,734  | 7,060    | 62,980   | 108,786   |
| As at September 30, 2015                     | 66,481   | 42,464  | 110,818 | 247,518 | 100,616  | 656,763  | 1,224,660 |
| Net carrying amount as at September 30, 2015 | 26,478   | 12,876  | 17,552  | 140,522 | 73,479   | 297,904  | 568,811   |

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**9. Other long-term assets**

|   | As at<br>September 30, 2016<br>\$ | As at<br>September 30, 2015<br>\$ |
|---|-----------------------------------|-----------------------------------|
| Insurance contracts held to fund defined benefit pension and life assurance arrangements - reimbursement rights (Note 16) | 24,435                            | 24,225                            |
| Retirement benefits assets (Note 16)  | 8,797                             | 9,096                             |
| Deferred financing fees   | 2,882                             | 3,286                             |
| Long-term maintenance agreements  | 20,942                            | 14,971                            |
| Deposits  | 9,893                             | 9,747                             |
| Other   | 20,021                            | 8,028                             |
|   | <b>86,970</b>                     | <b>69,353</b>                     |

**10. Long-term financial assets**

|   | As at<br>September 30, 2016<br>\$ | As at<br>September 30, 2015<br>\$ |
|---|-----------------------------------|-----------------------------------|
| Deferred compensation plan assets (Note 16 and Note 30) | 42,139                            | 38,238                            |
| Long-term investments (Note 30)                         | 27,246                            | 42,202                            |
| Long-term receivables                                   | 10,239                            | 11,609                            |
| Derivative financial instruments (Note 30)              | 49,759                            | 30,771                            |
|   | <b>129,383</b>                    | <b>122,820</b>                    |

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**11. Goodwill**

The Company's operations are managed through the following seven operating segments referred to as our Strategic Business Units, 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 operating segments reflect the current management structure and the way that the chief operating decision-maker, who is the President and Chief Executive Officer of the Company, evaluates the business.

The Company completed the annual impairment test as at September 30, 2016 and did not identify any impairment.

The variations in goodwill were as follows:

|   | <b>U.S.</b>      | <b>Nordics</b>   | <b>Canada</b>    | <b>France</b>  | <b>U.K.</b>    | <b>ECS</b>     | <b>Asia Pacific</b> | <b>Total</b>     |
|---|------------------|------------------|------------------|----------------|----------------|----------------|---------------------|------------------|
|   | <b>\$</b>        | <b>\$</b>        | <b>\$</b>        | <b>\$</b>      | <b>\$</b>      | <b>\$</b>      | <b>\$</b>           | <b>\$</b>        |
| As at September 30, 2015                              | 1,779,793        | 1,214,993        | 1,111,702        | 866,688        | 992,662        | 865,113        | 306,032             | 7,136,983        |
| Business acquisitions                                 |                  |                  | 444              | 26,964         |                |                |                     | 27,408           |
| Foreign currency translation adjustment               | (36,773)         | (24,378)         |                  | (12,025)       | (153,646)      | (11,802)       | 7,566               | (231,058)        |
| <b>As at September 30, 2016</b>                       | <b>1,743,020</b> | <b>1,190,615</b> | <b>1,112,146</b> | <b>881,627</b> | <b>839,016</b> | <b>853,311</b> | <b>313,598</b>      | <b>6,933,333</b> |
| <b>Key assumptions in goodwill impairment testing</b> |                  |                  |                  |                |                |                |                     |                  |

The key assumptions for the CGUs are disclosed in the following table:

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| <b>As at September 30, 2016</b>                                      | <b>U.S.</b> | <b>Nordics</b> | <b>Canada</b> | <b>France</b> | <b>U.K.</b> | <b>ECS</b>  | <b>Asia Pacific</b> |
|--|-------------|----------------|---------------|---------------|-------------|-------------|---------------------|
|  | <i>%</i>    | <i>%</i>       | <i>%</i>      | <i>%</i>      | <i>%</i>    | <i>%</i>    | <i>%</i>            |
| <b>Pre-tax WACC</b>  | <b>11.8</b> | <b>10.0</b>    | <b>9.0</b>    | <b>9.2</b>    | <b>8.1</b>  | <b>9.1</b>  | <b>19.2</b>         |
| <b>Long-term growth rate of net operating cash flows<sup>1</sup></b> | <b>2.0</b>  | <b>1.9</b>     | <b>2.0</b>    | <b>2.0</b>    | <b>1.9</b>  | <b>1.9</b>  | <b>2.0</b>          |
| <br>   |             |                |               |               |             |             |                     |
| <b>As at September 30, 2015</b>                                      | <b>U.S.</b> | <b>Nordics</b> | <b>Canada</b> | <b>France</b> | <b>U.K.</b> | <b>ECS</b>  | <b>Asia Pacific</b> |
|  | <i>%</i>    | <i>%</i>       | <i>%</i>      | <i>%</i>      | <i>%</i>    | <i>%</i>    | <i>%</i>            |
| <b>Pre-tax WACC</b>  | <b>11.3</b> | <b>11.4</b>    | <b>9.0</b>    | <b>10.6</b>   | <b>9.9</b>  | <b>10.8</b> | <b>19.5</b>         |
| <b>Long-term growth rate of net operating cash flows<sup>1</sup></b> | <b>2.0</b>  | <b>1.8</b>     | <b>2.0</b>    | <b>1.9</b>    | <b>1.8</b>  | <b>1.7</b>  | <b>2.0</b>          |

<sup>1</sup> The long-term growth rate is based on published industry research.

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**12. Provisions**

|   | <b>Onerous<br/>leases<sup>1, 4</sup></b> | <b>Litigation<br/>and claims<sup>2</sup></b> | <b>Decommissioning<br/>liabilities<sup>3</sup></b> | <b>Restructuring<sup>4</sup></b> | <b>Total</b>  |
|---|--|--|--|----------------------------------|---------------|
|   | <b>\$</b>                                | <b>\$</b>                                    | <b>\$</b>  | <b>\$</b>                        | <b>\$</b>     |
| As at September 30, 2015                      | 39,483                                   | 24,159                                       | 38,753   | 54,640                           | 157,035       |
| Additional provisions                         | 2,639                                    | 2,168  | 4,891  | 29,100                           | 38,798        |
| Utilized amounts                              | (13,492)                                 | (10,553)                                     | (2,278)  | (69,724)                         | (96,047)      |
| Reversals of unused amounts                   | (10,480)                                 | (6,160)                                      | (1,593)  |                                  | (18,233)      |
| Discount rate adjustment and imputed interest | 184                                      |  | 433  |                                  | 617           |
| Foreign currency translation adjustment       | (2,088)                                  | (614)  | (3,500)  | (590)                            | (6,792)       |
| <b>As at September 30, 2016</b>               | <b>16,246</b>                            | <b>9,000</b>                                 | <b>36,706</b>                                      | <b>13,426</b>                    | <b>75,378</b> |
| <b>Current portion</b>                        | <b>6,362</b>                             | <b>9,000</b>                                 | <b>8,582</b>                                       | <b>10,980</b>                    | <b>34,924</b> |
| <b>Non-current portion</b>                    | <b>9,884</b>                             |  | <b>28,124</b>                                      | <b>2,446</b>                     | <b>40,454</b> |

|   | <b>Onerous<br/>leases<sup>1, 4</sup></b> | <b>Litigation<br/>and<br/>claims<sup>2</sup></b> | <b>Decommissioning<br/>liabilities<sup>3</sup></b> | <b>Restructuring<sup>4</sup></b> | <b>Total</b> |
|---|--|--|--|----------------------------------|--------------|
|   | <b>\$</b>                                | <b>\$</b>  | <b>\$</b>  | <b>\$</b>                        | <b>\$</b>    |
| As at September 30, 2014                      | 45,649                                   | 31,593   | 44,781   | 91,872                           | 213,895      |
| Additional provisions                         | 8,468                                    | 4,902  | 362  | 32,836                           | 46,568       |
| Utilized amounts                              | (15,262)                                 | (2,919)  | (489)  | (70,416)                         | (89,086)     |
| Reversals of unused amounts                   | (2,957)                                  | (9,803)  | (8,875)  |                                  | (21,635)     |
| Discount rate adjustment and imputed interest | 319                                      |  | 431  |                                  | 750          |
| Foreign currency translation adjustment       | 3,266                                    | 386  | 2,543  | 348                              | 6,543        |
| As at September 30, 2015                      | 39,483                                   | 24,159   | 38,753   | 54,640                           | 157,035      |
| Current portion                               | 15,408                                   | 24,159   | 7,460  | 47,371                           | 94,398       |
| Non-current portion                           | 24,075                                   |  | 31,293   | 7,269                            | 62,637       |

<sup>1</sup>As at September 30, 2016, the timing of cash outflows relating to these provisions ranges between one and seven years (one and eight years as at September 30, 2015) and they were discounted at a weighted average rate of 0.77% (0.85% as at September 30, 2015). The reversals of unused amounts are mostly due to favourable settlements.

<sup>2</sup>As at September 30, 2016, litigation and claims include provisions related to tax exposure (other than those related to income tax), contractual disputes, employee claims and other of nil, \$5,289,000 and \$3,711,000, respectively (as at September 30, 2015, \$9,854,000, \$6,405,000 and \$7,900,000, respectively). The reversals of unused amounts are mostly due to favourable settlements of tax exposures and employee claims.

<sup>3</sup>As at September 30, 2016, the decommissioning liability was based on the expected cash flows of \$37,472,000 (\$39,574,000 as at September 30, 2015) and was discounted at a weighted average rate of 0.98% (1.13% as at September 30, 2015). The timing of the settlement of these obligations ranges between one and eleven years as at September 30, 2016 (one and eight years as at September 30, 2015). The reversals of unused amounts are mostly due to favourable settlements.

<sup>4</sup>During the year ended September 30, 2015, the Company announced a restructuring program of approximately \$60,000,000 to advance the realization of benefits associated with productivity enablers and other cost initiatives expected to yield savings throughout fiscal 2016. For the year ended September 30, 2016, the Company incurred \$29,100,000 of the announced program (\$35,903,000 during the year ended September 30, 2015) of which \$29,100,000 (\$32,836,000 for the year ended September 30, 2015) was accounted for in the provision for restructuring and nil (\$3,067,000 for the year ended September 30, 2015) was accounted for in the provision for onerous leases.

During the year ended September 30, 2016, the Company paid in total \$57,353,000 related to the restructuring program (\$1,567,000 during the year ended September 30, 2015) of which \$55,568,000 (\$1,567,000 for the year ended September 30, 2015) was for restructuring and \$1,785,000 (nil for the year ended September 30, 2015) was for onerous leases. In addition, during the year ended September 30, 2016, the Company paid in total \$19,431,000 related to the integration of Logica plc (\$74,363,000 during the year ended September 30, 2015) of which \$14,156,000 (\$68,849,000 for the year ended September 30, 2015) was for restructuring and \$5,275,000 (\$5,514,000 for the year ended September 30, 2015) was for onerous leases.



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**13. Long-term debt**

|   | As at<br>September 30, 2016<br>\$ | As at<br>September 30, 2015<br>\$ |
|---|-----------------------------------|-----------------------------------|
| Senior U.S. unsecured notes repayable in December by tranches of \$111,529 (U.S.\$85,000) in 2016, \$183,694 (U.S.\$140,000) in 2018 and \$328,025 (U.S.\$250,000) in 2021 <sup>1</sup>   | <b>630,881</b>                    | 640,693                           |
| Senior unsecured notes repayable in September by tranches of \$52,484 (U.S.\$40,000) in 2019, \$72,166 (U.S.\$55,000) in 2021, \$393,630 (U.S.\$300,000) in 2024, \$459,235 (U.S.\$350,000) in 7 yearly payments of U.S.\$50,000 from 2018 to 2024 and \$125,350 (85,000) in 2021 | <b>1,102,155</b>                  | 1,124,487                         |
| Unsecured committed term loan credit facility <sup>3</sup>  |                                   | 129,222                           |
| Obligations repayable in blended monthly installments maturing at various dates until 2021, bearing a weighted average interest rate of 2.57% (2.70% in 2015)   | <b>111,205</b>                    | 152,078                           |
| Obligations under finance leases repayable in blended monthly installments maturing at various dates until 2022, bearing a weighted average interest rate of 3.40% (3.48% in 2015)  | <b>42,172</b>                     | 57,170                            |
| Other long-term debt  | <b>24,562</b>                     | 23,437                            |
|   | <b>1,910,975</b>                  | 2,127,087                         |
| Current portion   | <b>192,036</b>                    | 230,906                           |
|   | <b>1,718,939</b>                  | 1,896,181                         |

The Company has an unsecured committed revolving credit facility available for an amount of \$1,500,000,000 that expires in December 2019. This facility bears interest at Bankers' acceptance, LIBOR or Canadian prime, plus a variable margin that is determined based on the Company's leverage ratio. As at September 30, 2016, no amount was drawn upon this facility. Also, an amount of \$33,914,000 has been committed against this facility to cover various letters of credit issued for clients and other parties. On November 8, 2016, the facility was extended by two years to December 2021 and can be further extended. There were no material changes in the terms and conditions including

interest rates and banking covenants. The unsecured committed revolving credit facility contains covenants that require the Company to maintain certain financial ratios (Note 31). As at September 30, 2016, the Company was in compliance with these covenants.

<sup>1</sup> As at September 30, 2016, an amount of \$623,248,000 was drawn, plus fair value adjustments relating to interest rate swaps designated as fair value hedges of \$7,992,000 less financing fees of \$359,000. The private placement financing with U.S. institutional investors is comprised of three tranches of Senior U.S. unsecured notes, with a weighted average maturity of 3.4 years and a weighted average interest rate of 4.57% (4.57% in 2015). The Senior U.S. unsecured notes contain covenants that require the Company to maintain certain financial ratios (Note 31). As at September 30, 2016, the Company was in compliance with these covenants.

<sup>2</sup> As at September 30, 2016, an amount of \$1,102,865,000 was drawn, less financing fees of \$710,000. The private placement is comprised of four tranches of Senior U.S. unsecured notes and one tranche of Senior euro unsecured note, with a weighted average maturity of 5.9 years and a weighted average interest rate of 3.62% (3.62% in 2015). The Senior unsecured notes contain covenants that require the Company to maintain certain financial ratios (Note 31). As at September 30, 2016, the Company was in compliance with these covenants.

<sup>3</sup> In January 2016, the Company repaid in advance, without penalty, the remaining portion of the May 2016 maturing tranche of unsecured committed term loan credit facility for a total amount of \$129,736,000. Following the debt repayment, the Company settled the related floating-to-fixed interest rate swap with a notional amount of \$109,730,000 with no material impact, and settled the related cross-currency swap with a notional amount of \$109,730,000 (Note 30).

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(tabular amounts only are in thousands of Canadian dollars, except per share data)

**13. Long-term debt (continued)**

Principal repayments on long-term debt, excluding fair value hedges, obligations under finance leases and financing fees, over the forthcoming years are as follows:

|  | \$        |
|--|-----------|
| Less than one year                         | 173,362   |
| Between one and two years                  | 101,253   |
| Between two and five years                 | 664,496   |
| Beyond five years                          | 922,769   |
| Total principal payments on long-term debt | 1,861,880 |

Minimum finance lease payments are as follows:

|                                      | Principal<br>\$ | Interest<br>\$ | Payment<br>\$ |
|--------------------------------------|-----------------|----------------|---------------|
| Less than one year                   | 18,738          | 978            | 19,716        |
| Between one and two years            | 11,193          | 596            | 11,789        |
| Between two and five years           | 11,479          | 453            | 11,932        |
| Beyond five years                    | 762             | 6              | 768           |
| Total minimum finance lease payments | 42,172          | 2,033          | 44,205        |

**14. Other long-term liabilities**

|  | As at<br>September 30, 2016<br>\$ | As at<br>September 30, 2015<br>\$ |
|--|-----------------------------------|-----------------------------------|
| Deferred revenue                                 | 151,292                           | 167,576                           |
| Deferred compensation plan liabilities (Note 16) | 43,844                            | 40,940                            |
| Deferred rent                                    | 43,118                            | 56,165                            |
| Other  | 6,053                             | 12,542                            |
|  | 244,307                           | 277,223                           |



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**15. Income taxes**

|  | <b>Year ended September 30</b> |             |
|--|--------------------------------|-------------|
|  | <b>2016</b>                    | <b>2015</b> |
|  | <b>\$</b>                      | <b>\$</b>   |
| Current income tax expense   |                                |             |
| Current income tax expense in respect of the current year  | <b>294,992</b>                 | 302,813     |
| Adjustments recognized in the current year in relation to the income tax expense of prior years          | <b>(7,413)</b>                 | (13,539)    |
| Total current income tax expense   | <b>287,579</b>                 | 289,274     |
| Deferred income tax expense  |                                |             |
| Deferred income tax expense relating to the origination and reversal of temporary differences            | <b>106,939</b>                 | 76,953      |
| Deferred income tax expense relating to changes in tax rates   | <b>7,776</b>                   | 1,456       |
| Adjustments recognized in the current year in relation to the deferred income tax expense of prior years | <b>928</b>                     | (901)       |
| Recognition of previously unrecognized temporary differences   | <b>(19,153)</b>                | (15,790)    |
| Total deferred income tax expense  | <b>96,490</b>                  | 61,718      |
| Total income tax expense   | <b>384,069</b>                 | 350,992     |

The Company's effective income tax rate differs from the combined Federal and Provincial Canadian statutory tax rate as follows:

|   | <b>Year ended September 30</b> |             |
|---|--------------------------------|-------------|
|   | <b>2016</b>                    | <b>2015</b> |
|   | <b>%</b>                       | <b>%</b>    |
| Company's statutory tax rate  | <b>26.9</b>                    | 26.9        |
| Effect of foreign tax rate differences  | <b>0.9</b>                     | 0.3         |
| Final determination from agreements with tax authorities and expirations of statutes of limitations | <b>(0.4)</b>                   | (1.1)       |
| Non-deductible and tax exempt items   | <b>(1.0)</b>                   | 0.5         |
| Recognition of previously unrecognized temporary differences  | <b>(1.3)</b>                   | (1.2)       |

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|   |             |      |
|---|-------------|------|
| Minimum income tax charge   | <b>0.8</b>  | 0.9  |
| Impact on future tax assets and liabilities resulting from tax rate changes | <b>0.5</b>  | 0.1  |
| Effective income tax rate   | <b>26.4</b> | 26.4 |

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**15. Income taxes (continued)**

The continuity of deferred income tax balances is as follows:

|  | As at<br>September<br>30, 2015 | Additions<br>from<br>business<br>acquisition | Recognized<br>earnings | Recognized<br>in other<br>comprehensive<br>income | Recognized<br>in<br>equity | Foreign currency<br>translation<br>adjustment<br>and<br>other | As at<br>September 30,<br>2016 |
|--|--------------------------------|--|------------------------|---|----------------------------|---|--------------------------------|
|  |                                |  | \$                     | \$  | \$                         | \$  | \$                             |
| Accounts payable,<br>accrued liabilities and<br>other long-term<br>liabilities | 73,483                         |  | 10,259                 |   |                            | (2,650)   | <b>81,092</b>                  |
| Tax benefits on losses<br>carried forward                                      | 224,397                        |  | (76,391)               |   |                            | (13,281)  | <b>134,725</b>                 |
| Accrued compensation   | 57,439                         | 93   | (23,819)               |   | 8,468                      | (401)   | <b>41,780</b>                  |
| Retirement benefits<br>obligations   | 32,491                         |  | 3,041                  | 6,565   |                            | (832)   | <b>41,265</b>                  |
| Allowance for<br>doubtful accounts   | 4,400                          |  | (3,698)                |   |                            | (104)   | <b>598</b>                     |
| PP&E, contract costs,<br>intangible assets and<br>other long-term assets       | (145,720)                      | (2,576)                                      | 13,632                 |   |                            | (1,999)   | <b>(136,663)</b>               |
| Work in progress   | (68,167)                       |  | (12,921)               |   |                            | 1,538   | <b>(79,550)</b>                |
| Goodwill   | (54,807)                       |  | (2,309)                |   |                            | 1,066   | <b>(56,050)</b>                |
| Refundable tax credits<br>on salaries  | (21,131)                       |  | (1,085)                |   |                            |   | <b>(22,216)</b>                |
| Cash flow hedges   | (14,061)                       |  | 265                    | 3,959   |                            | 802   | <b>(9,035)</b>                 |
| Other liabilities  | 2,120                          | 154  | (3,464)                | 1,196   |                            | 367   | <b>373</b>                     |
| Deferred income<br>taxes, net  | <b>90,444</b>                  | <b>(2,329)</b>                               | <b>(96,490)</b>        | <b>11,720</b>                                     | <b>8,468</b>               | <b>(15,494)</b>   | <b>(3,681)</b>                 |

|   | As at<br>September 30,<br>2014<br>\$ | Recognized in<br>earnings<br>\$ | Recognized<br>in other<br>comprehensive<br>income<br>\$ | Recognized in<br>equity<br>\$ | Foreign currency<br>translation<br>adjustment<br>and<br>other<br>\$ | As at<br>September 30,<br>2015<br>\$ |
|---|--------------------------------------|---------------------------------|---|-------------------------------|---|--------------------------------------|
| Accounts payable, accrued liabilities and other long-term liabilities | 79,971                               | (14,397)                        |   |                               | 7,909   | 73,483                               |
| Tax benefits on losses carried forward                                | 269,134                              | (58,650)                        |   |                               | 13,913  | 224,397                              |
| Accrued compensation  | 57,406                               | (7,846)                         |   | (386)                         | 8,265   | 57,439                               |
| Retirement benefits obligations                                       | 35,315                               | (3,267)                         | (519)   |                               | 962   | 32,491                               |
| Allowance for doubtful accounts                                       | 3,827                                | 210                             |   |                               | 363   | 4,400                                |
| PP&E, contract costs, intangible assets and other long-term assets    | (160,592)                            | 27,278                          |   |                               | (12,406)  | (145,720)                            |
| Work in progress  | (56,068)                             | (1,992)                         |   |                               | (10,107)  | (68,167)                             |
| Goodwill  | (46,757)                             | 211                             |   |                               | (8,261)   | (54,807)                             |
| Refundable tax credits on salaries                                    | (17,966)                             | (3,165)                         |   |                               |   | (21,131)                             |
| Cash flow hedges  | (2,417)                              | (33)                            | (11,176)  |                               | (435)   | (14,061)                             |
| Other liabilities   | 5,591                                | (67)                            | (2,578)   |                               | (826)   | 2,120                                |
| Deferred income taxes, net  | 167,444                              | (61,718)                        | (14,273)  | (386)                         | (623)   | 90,444                               |

The deferred income taxes are presented as follows in the consolidated balance sheets:

|                          | As at<br>September 30, 2016<br>\$ | As at<br>September 30, 2015<br>\$ |
|--------------------------|-----------------------------------|-----------------------------------|
| Deferred tax assets      | 179,898                           | 261,431                           |
| Deferred tax liabilities | (183,579)                         | (170,987)                         |
|                          | (3,681)                           | 90,444                            |



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**15. Income taxes (continued)**

As at September 30, 2016, the Company had \$744,092,000 (\$1,104,894,000 as at September 30, 2015) in operating tax losses carried forward, of which \$105,505,000 (\$131,980,000 as at September 30, 2015) expire at various dates up to 2036 and \$638,587,000 (\$972,914,000 as at September 30, 2015) have no expiry dates. The Company recognized a deferred tax asset of \$170,075,000 (\$267,350,000 as at September 30, 2015) on the losses carried forward and recognized a valuation allowance of \$39,430,000 (\$48,653,000 as at September 30, 2015). The resulting net deferred tax asset of \$130,645,000 (\$218,697,000 as at September 30, 2015) is the amount that is more likely than not to be realized, based on deferred tax liabilities reversal and future taxable profits. The unrecognized losses amounted to \$143,700,000 (\$167,100,000 as at September 30, 2015).

As at September 30, 2016, the Company had \$662,334,000 (\$663,275,000 as at September 30, 2015) in non-operating tax losses carried forward that have no expiry dates. The Company recognized a deferred tax asset of \$113,125,000 (\$130,903,000 as at September 30, 2015) on the losses carried forward and recognized a valuation allowance of \$109,045,000 (\$125,203,000 as at September 30, 2015). The resulting net deferred tax asset of \$4,080,000 (\$5,700,000 as at September 30, 2015) is the amount that is more likely than not to be realized, based on deferred tax liabilities reversal and future taxable profits. The unrecognized losses amounted to \$638,300,000 (\$634,800,000 as at September 30, 2015).

As at September 30, 2016, the Company has not recorded deferred tax liabilities on undistributed earnings of its foreign subsidiaries when they are considered indefinitely reinvested, unless it is probable that these temporary differences will reverse. Upon distribution of these earnings in the form of dividends or otherwise, the Company may be subject to taxes. The temporary differences associated with investments in foreign subsidiaries for which a deferred tax liability has not been recognized amounted to \$2,339,815,000 (\$2,031,729,000 as at September 30, 2015).

The cash and cash equivalents held by foreign subsidiaries were \$557,800,000 as at September 30, 2016 (\$263,607,000 as at September 30, 2015). The tax implications and impact related to its repatriation have been accounted for and will not materially affect the Company's liquidity.

**16. Employee benefits**

The Company operates various post-employment plans, including defined benefit and defined contribution pension plans as well as other benefit plans for its employees.

**DEFINED BENEFIT PLANS**

The Company operates defined benefit pension plans primarily for the benefit of employees in U.K., Germany, France, with smaller plans in other countries. The benefits are based on pensionable salary and years of service. U.K. and Germany plans are funded with the assets held in separate funds. The plan in France is unfunded.

The defined benefit plans expose the Company to interest risk, inflation risk, longevity risk, currency risk and market investment risk.

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**16. Employee benefits (continued)**

**DEFINED BENEFIT PLANS (CONTINUED)**

The following description focuses mainly on plans registered in U.K., Germany and France:

**U.K.**

In U.K., the Company has three defined benefit pension plans, CMG U.K. Pension Scheme, Logica U.K. Pension & Life Assurance Scheme and Logica Defined Benefit Pension Plan.

The CMG U.K. Pension Scheme is closed to new members and is closed to further accrual of rights for existing members. The Logica U.K. Pension & Life Assurance Scheme is still open but only for employees who come from the civil service with protected pensions. Logica Defined Benefit Pension Plan was created to mirror the Electricity Industry pension scheme and was created for employees that worked for National Grid and Welsh Water with protected benefits.

Both the Logica U.K. Pension & Life Assurance Scheme and Logica Defined Benefit Pension Plan are employer and employee based contribution plans.

The trustees are the custodians of the defined benefit pension plans and are responsible for the plan administration, including investment strategies. The trustees review periodically the investment and the asset allocation policies. As such, CMG U.K. Pension Scheme policy is to target an allocation of 35% to return-seeking assets such as equities and 65% towards a mixture of assets such as bonds and liability-driven investments such as investment funds; Logica Defined Benefit Pension plan policy is to invest 30% of the plan's assets in equities and 70% in bonds; Logica U.K. Pension & Life Assurance Scheme target is to invest 20% of the Scheme's assets in equities and 80% in bonds.

U.K. Pensions Act 2004 requires that full formal actuarial valuations are carried out at least every three years to determine the contributions that the Company should pay in order for the plan to meet its statutory objective, taking into account the assets already held. In the interim years, the trustees need to obtain estimated funding updates unless the scheme has less than 100 members in total.

The latest funding actuarial valuations of the CMG U.K. Pension Scheme as well as the Logica U.K. Pension & Life Assurance Scheme was performed in September 2015 and the results are expected to be available by the end of the 2016 calendar year. In the meantime, the Company continues to contribute to the CMG U.K. Pension Scheme in line with the last funding actuarial valuation, the quarterly payments of \$3,074,000 to cover the deficit and approximately \$342,000 to cover administration expenses.

The latest funding actuarial valuation for the Logica Defined Benefit Pension Plan was performed in June 2014 and reported a deficit of \$3,074,000. During the year ended September 30, 2016, the Company contributed monthly payments of \$102,000 to eliminate the funding shortfall and \$10,000 to cover administration expenses.

### **Germany**

In Germany, the Company has numerous defined benefit pension plans which are all closed to new members. In the majority of the plans, upon retirement of employees, the benefits are in the form of a monthly pension and in a few plans, the employees will receive an indemnity in the form of a lump-sum payment. About one third of the plans are bound by the former works council agreements. There are no mandatory funding requirements. The plans are funded by the contributions made by the Company. In some plans, insurance policies are taken out to fund retirement benefit plans. These do not qualify as plan assets and are presented as reimbursement rights.

### **France**

In France, the retirement indemnities are provided in accordance with the Labour Code. Upon retirement, employees will receive an indemnity (depending on the salary and seniority in the Company) in the form of a lump-sum payment.

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**16. Employee benefits (continued)****DEFINED BENEFIT PLANS (CONTINUED)**

The following table presents amounts for post-employment benefits plans included in the consolidated balance sheets:

| <b>As at September 30, 2016</b>               | <b>U.K.</b> | <b>Germany</b> | <b>France</b> | <b>Other</b> | <b>Total</b> |
|---|-------------|----------------|---------------|--------------|--------------|
|   | \$          | \$             | \$            | \$           | \$           |
| Defined benefit obligations                   | (814,156)   | (97,392)       | (58,565)      | (60,041)     | (1,030,154)  |
| Fair value of plan assets                     | 792,665     | 12,403         |               | 17,575       | 822,643      |
|   | (21,491)    | (84,989)       | (58,565)      | (42,466)     | (207,511)    |
| Fair value of reimbursement rights            |             | 23,269         |               | 1,166        | 24,435       |
| Net liability recognized in the balance sheet | (21,491)    | (61,720)       | (58,565)      | (41,300)     | (183,076)    |

Presented as:

**Other long-term assets (Note 9)**

Insurance contracts held to fund defined benefit pension and life assurance arrangements - reimbursement rights

|                                 |          |          |          |          |           |
|---------------------------------|----------|----------|----------|----------|-----------|
|                                 |          | 23,269   |          | 1,166    | 24,435    |
| Retirement benefits assets      | 8,797    |          |          |          | 8,797     |
| Retirement benefits obligations | (30,288) | (84,989) | (58,565) | (42,466) | (216,308) |
|                                 | (21,491) | (61,720) | (58,565) | (41,300) | (183,076) |

| <b>As at September 30, 2015</b> | <b>U.K.</b> | <b>Germany</b> | <b>France</b> | <b>Other</b> | <b>Total</b> |
|---------------------------------|-------------|----------------|---------------|--------------|--------------|
|                                 | \$          | \$             | \$            | \$           | \$           |

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|   |           |          |          |          |           |
|---|-----------|----------|----------|----------|-----------|
| Defined benefit obligations                   | (753,583) | (82,380) | (49,603) | (48,727) | (934,293) |
| Fair value of plan assets                     | 726,224   | 12,046   |          | 15,056   | 753,326   |
|   | (27,359)  | (70,334) | (49,603) | (33,671) | (180,967) |
| Fair value of reimbursement rights            |           | 23,074   |          | 1,151    | 24,225    |
| Net liability recognized in the balance sheet | (27,359)  | (47,260) | (49,603) | (32,520) | (156,742) |

Presented as:

Other long-term assets (Note 9)

Insurance contracts held to fund defined benefit pension and life assurance arrangements - reimbursement rights

|  |  |        |  |       |        |
|--|--|--------|--|-------|--------|
|  |  | 23,074 |  | 1,151 | 24,225 |
|--|--|--------|--|-------|--------|

|                                 |          |          |          |          |           |
|---------------------------------|----------|----------|----------|----------|-----------|
| Retirement benefits assets      | 9,096    |          |          |          | 9,096     |
| Retirement benefits obligations | (36,455) | (70,334) | (49,603) | (33,671) | (190,063) |
|                                 | (27,359) | (47,260) | (49,603) | (32,520) | (156,742) |

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**16. Employee benefits (continued)****DEFINED BENEFIT PLANS (CONTINUED)**

| <b>Defined benefit obligations</b>   | <b>U.K.</b>    | <b>Germany</b> | <b>France</b> | <b>Other</b>  | <b>Total</b>     |
|--|----------------|----------------|---------------|---------------|------------------|
|  | <b>\$</b>      | <b>\$</b>      | <b>\$</b>     | <b>\$</b>     | <b>\$</b>        |
| As at September 30, 2015   | 753,583        | 82,380         | 49,603        | 48,727        | 934,293          |
| Liabilities assumed in a business acquisition                                  |                |                | 381           |               | 381              |
| Current service cost   | 1,133          | 808            | 4,314         | 5,720         | 11,975           |
| Interest cost  | 26,177         | 1,911          | 1,172         | 2,529         | 31,789           |
| Actuarial losses due to change in financial assumptions <sup>1</sup>           | 199,229        | 15,576         | 8,178         | 4,849         | 227,832          |
| Actuarial (gains) losses due to change in demographic assumptions <sup>1</sup> | (8,853)        |                | (3,870)       | 121           | (12,602)         |
| Actuarial losses due to experience <sup>1</sup>                                | 64             | 257            | 43            | 209           | 573              |
| Past service cost  |                |                |               | 3,552         | 3,552            |
| Plan participant contributions   | 181            |                |               | 22            | 203              |
| Benefits paid from the plan  | (21,781)       | (225)          |               | (2,085)       | (24,091)         |
| Benefits paid directly by employer   |                | (1,926)        | (577)         | (1,882)       | (4,385)          |
| Foreign currency translation adjustment <sup>1</sup>                           | (135,577)      | (1,389)        | (679)         | (1,721)       | (139,366)        |
| <b>As at September 30, 2016</b>  | <b>814,156</b> | <b>97,392</b>  | <b>58,565</b> | <b>60,041</b> | <b>1,030,154</b> |
| Defined benefit obligation of unfunded plans                                   |                |                | 58,565        | 34,436        | 93,001           |
| Defined benefit obligation of funded plans                                     | 814,156        | 97,392         |               | 25,605        | 937,153          |
| <b>As at September 30, 2016</b>  | <b>814,156</b> | <b>97,392</b>  | <b>58,565</b> | <b>60,041</b> | <b>1,030,154</b> |
| Defined benefit obligations  | U.K.           | Germany        | France        | Other         | Total            |

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|  | \$             | \$            | \$            | \$            | \$             |
|--|----------------|---------------|---------------|---------------|----------------|
| As at September 30, 2014   | 643,857        | 78,035        | 42,540        | 49,370        | 813,802        |
| Obligations extinguished on settlement                                       |                |               |               | (15,201)      | (15,201)       |
| Settlement gain  |                |               |               | (1,819)       | (1,819)        |
| Current service cost   | 1,102          | 938           | 3,253         | 3,303         | 8,596          |
| Interest cost  | 25,883         | 1,936         | 1,005         | 1,875         | 30,699         |
| Actuarial losses (gains) due to change in financial assumptions <sup>1</sup> | 14,421         | 1,206         | (2,884)       | 4,134         | 16,877         |
| Actuarial losses due to change in demographic assumptions <sup>1</sup>       | 5,496          |               | 4,556         | 1,568         | 11,620         |
| Actuarial losses (gains) due to experience <sup>1</sup>                      | 2,120          | (2,328)       | (928)         | 1,171         | 35             |
| Past service cost  |                |               | (343)         | (103)         | (446)          |
| Plan participant contributions   | 196            |               |               | 143           | 339            |
| Benefits paid from the plan  | (15,380)       | (448)         |               | (925)         | (16,753)       |
| Benefits paid directly by employer   |                | (1,732)       | (152)         | (1,647)       | (3,531)        |
| Foreign currency translation adjustment <sup>1</sup>                         | 75,888         | 4,773         | 2,556         | 6,858         | 90,075         |
| As at September 30, 2015   | 753,583        | 82,380        | 49,603        | 48,727        | 934,293        |
| Defined benefit obligation of unfunded plans                                 |                |               | 49,603        | 26,891        | 76,494         |
| Defined benefit obligation of funded plans                                   | 753,583        | 82,380        |               | 21,836        | 857,799        |
| As at September 30, 2015   | <b>753,583</b> | <b>82,380</b> | <b>49,603</b> | <b>48,727</b> | <b>934,293</b> |

<sup>1</sup> Amounts recognized in other comprehensive income.



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**16. Employee benefits (continued)****DEFINED BENEFIT PLANS (CONTINUED)**

| <b>Plan assets and reimbursement rights</b>             | <b>U.K.</b>    | <b>Germany</b> | <b>France</b> | <b>Other</b>  | <b>Total</b>   |
|---|----------------|----------------|---------------|---------------|----------------|
|   | <b>\$</b>      | <b>\$</b>      | <b>\$</b>     | <b>\$</b>     | <b>\$</b>      |
| As at September 30, 2015                                | 726,224        | 35,120         |               | 16,207        | 777,551        |
| Interest income on plan assets                          | 25,494         | 813            |               | 1,087         | 27,394         |
| Employer contributions                                  | 17,896         | 2,024          | 577           | 5,302         | 25,799         |
| Return on assets excluding interest income <sup>1</sup> | 178,033        | 437            |               | 597           | 179,067        |
| Plan participants contributions                         | 181            |                |               | 22            | 203            |
| Benefits paid from the plan                             | (21,781)       | (225)          |               | (2,085)       | (24,091)       |
| Benefits paid directly by employer                      |                | (1,926)        | (577)         | (1,882)       | (4,385)        |
| Administration expenses paid from the plan              | (1,839)        |                |               | (3)           | (1,842)        |
| Foreign currency translation adjustment <sup>1</sup>    | (131,543)      | (571)          |               | (504)         | (132,618)      |
| <b>As at September 30, 2016</b>                         | <b>792,665</b> | <b>35,672</b>  |               | <b>18,741</b> | <b>847,078</b> |
| Plan assets   | 792,665        | 12,403         |               | 17,575        | 822,643        |
| Reimbursement rights                                    |                | 23,269         |               | 1,166         | 24,435         |
| <b>As at September 30, 2016</b>                         | <b>792,665</b> | <b>35,672</b>  |               | <b>18,741</b> | <b>847,078</b> |
| <br>  |                |                |               |               |                |
| <b>Plan assets and reimbursement rights</b>             | <b>U.K.</b>    | <b>Germany</b> | <b>France</b> | <b>Other</b>  | <b>Total</b>   |
|   | <b>\$</b>      | <b>\$</b>      | <b>\$</b>     | <b>\$</b>     | <b>\$</b>      |
| As at September 30, 2014                                | 601,313        | 33,000         |               | 26,888        | 661,201        |
| Assets distributed on settlement                        |                |                |               | (15,201)      | (15,201)       |
| Interest income on plan assets                          | 24,287         | 818            |               | 1,204         | 26,309         |

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|   |          |         |       |         |          |
|---|----------|---------|-------|---------|----------|
| Employer contributions                                  | 17,975   | 2,191   | 152   | 1,863   | 22,181   |
| Return on assets excluding interest income <sup>1</sup> | 27,586   | 84      |       | 376     | 28,046   |
| Plan participants contributions                         | 196      |         |       | 143     | 339      |
| Benefits paid from the plan                             | (15,380) | (1,154) |       | (925)   | (17,459) |
| Benefits paid directly by employer                      |          | (1,732) | (152) | (1,214) | (3,098)  |
| Administration expenses paid from the plan              | (2,161)  |         |       | (6)     | (2,167)  |
| Foreign currency translation adjustment <sup>1</sup>    | 72,408   | 1,913   |       | 3,079   | 77,400   |
| As at September 30, 2015                                | 726,224  | 35,120  |       | 16,207  | 777,551  |
| Plan assets   | 726,224  | 12,046  |       | 15,056  | 753,326  |
| Reimbursement rights                                    |          | 23,074  |       | 1,151   | 24,225   |
| As at September 30, 2015                                | 726,224  | 35,120  |       | 16,207  | 777,551  |

<sup>1</sup> Amounts recognized in other comprehensive income.

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**16. Employee benefits (continued)****DEFINED BENEFIT PLANS (CONTINUED)**

The plan assets at the end of the year consist of:

| <b>As at September 30, 2016</b> | <b>U.K.</b> | <b>Germany</b> | <b>France</b> | <b>Other</b> | <b>Total</b> |
|---------------------------------|-------------|----------------|---------------|--------------|--------------|
|                                 | \$          | \$             | \$            | \$           | \$           |
| Quoted equities                 | 200,163     |                |               |              | 200,163      |
| Quoted bonds                    | 188,674     |                |               | 162          | 188,836      |
| Property                        | 30,004      |                |               |              | 30,004       |
| Cash                            | 62,708      |                |               | 55           | 62,763       |
| Other <sup>1</sup>              | 311,116     | 12,403         |               | 17,358       | 340,877      |
|                                 | 792,665     | 12,403         |               | 17,575       | 822,643      |
| <br>                            |             |                |               |              |              |
| <b>As at September 30, 2015</b> | <b>U.K.</b> | <b>Germany</b> | <b>France</b> | <b>Other</b> | <b>Total</b> |
|                                 | \$          | \$             | \$            | \$           | \$           |
| Quoted equities                 | 180,891     |                |               |              | 180,891      |
| Quoted bonds                    | 331,677     |                |               | 141          | 331,818      |
| Property                        | 37,740      |                |               |              | 37,740       |
| Cash                            | 43,490      |                |               | 10           | 43,500       |
| Other <sup>1</sup>              | 132,426     | 12,046         |               | 14,905       | 159,377      |
|                                 | 726,224     | 12,046         |               | 15,056       | 753,326      |

<sup>1</sup> Other is mainly composed of various insurance policies and quoted investment funds to cover some of the defined benefit obligations.

Plan assets do not include any shares of the Company, property occupied by the Company or any other assets used by the Company.

The following table summarizes the expense<sup>1</sup> recognized in the consolidated statements of earnings:

|  | <b>Year ended<br/>September 30</b> |             |
|--|------------------------------------|-------------|
|  | <b>2016</b>                        | <b>2015</b> |
|  | <b>\$</b>                          | <b>\$</b>   |
| Current service cost                                   | <b>11,975</b>                      | 8,596       |
| Settlement gain  |                                    | (1,819)     |
| Past service cost                                      | <b>3,552</b>                       | (446)       |
| Net interest on net defined benefit liability or asset | <b>4,395</b>                       | 4,390       |
| Administration expenses                                | <b>1,842</b>                       | 2,167       |
|  | <b>21,764</b>                      | 12,888      |

<sup>1</sup> The expense was presented as costs of services, selling and administrative for an amount of \$15,527,000 and as net finance costs for an amount of \$6,237,000 (\$6,331,000 and \$6,557,000, respectively, for the year ended September 30, 2015) (Note 24).

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**16. Employee benefits (continued)****DEFINED BENEFIT PLANS (CONTINUED)****Actuarial assumptions**

The following are the principal actuarial assumptions (expressed as weighted averages). The assumed discount rates, future salary and pension increases, inflation rates and mortality all have a significant effect on the accounting valuation.

| <b>As at September 30, 2016</b> | <b>U.K.</b> | <b>Germany</b> | <b>France</b> | <b>Other</b> |
|---------------------------------|-------------|----------------|---------------|--------------|
|                                 | <b>%</b>    | <b>%</b>       | <b>%</b>      | <b>%</b>     |
| Discount rate                   | <b>2.31</b> | <b>1.04</b>    | <b>1.04</b>   | <b>3.86</b>  |
| Future salary increases         | <b>3.15</b> | <b>2.50</b>    | <b>2.17</b>   | <b>4.49</b>  |
| Future pension increases        | <b>3.11</b> | <b>1.50</b>    |               |              |
| Inflation rate                  | <b>3.15</b> | <b>2.00</b>    | <b>2.00</b>   | <b>3.10</b>  |
| <br>                            |             |                |               |              |
| <b>As at September 30, 2015</b> | <b>U.K.</b> | <b>Germany</b> | <b>France</b> | <b>Other</b> |
|                                 | <b>%</b>    | <b>%</b>       | <b>%</b>      | <b>%</b>     |
| Discount rate                   | 3.78        | 2.40           | 2.40          | 4.93         |
| Future salary increases         | 3.27        | 2.50           | 3.14          | 4.66         |
| Future pension increases        | 3.21        | 2.00           |               |              |
| Inflation rate                  | 3.27        | 2.00           | 2.00          | 3.29         |

The average longevity over 65 of a member presently at age 45 and 65 are as follows:

| As at September 30, 2016                | U.K.       | Germany |
|---|------------|---------|
|   | (in years) |         |
| Longevity at age 65 for current members |            |         |
| Males                                   | 22.2       | 20.0    |
| Females                                 | 24.2       | 24.0    |
| Longevity at age 45 for current members |            |         |
| Males                                   | 23.9       | 22.0    |
| Females                                 | 26.1       | 26.0    |

| As at September 30, 2015                | U.K.       | Germany |
|---|------------|---------|
|   | (in years) |         |
| Longevity at age 65 for current members |            |         |
| Males                                   | 22.4       | 19.0    |
| Females                                 | 24.4       | 23.0    |
| Longevity at age 45 for current members |            |         |
| Males                                   | 24.1       | 22.0    |
| Females                                 | 26.3       | 26.0    |

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**16. Employee benefits (continued)****DEFINED BENEFIT PLANS (CONTINUED)****Actuarial assumptions (continued)**

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each country. Mortality assumptions for the most significant countries are based on the following post-retirement mortality tables for the year ended September 30, 2016: (1) U.K.: 100% S2PxA (year of birth) plus CMI\_2015 projections with 1.25% p.a. minimum long term improvement rate, (2) Germany: Heubeck RT2005G (3) and France: INSEE TVTD 2009-2011.

The following table shows the sensitivity of the defined benefit obligations to changes in the principal actuarial assumptions:

| <b>As at September 30, 2016</b>         | <b>U.K.</b> | <b>Germany</b> | <b>France</b> |
|---|-------------|----------------|---------------|
|   | \$          | \$             | \$            |
| Increase of 0.25% in the discount rate  | (36,935)    | (3,556)        | (2,476)       |
| Decrease of 0.25% in the discount rate  | 39,406      | 3,762          | 2,612         |
| Salary increase of 0.25%                | 724         | 80             | 2,588         |
| Salary decrease of 0.25%                | (714)       | (78)           | (2,466)       |
| Pension increase of 0.25%               | 17,860      | 1,802          |               |
| Pension decrease of 0.25%               | (16,963)    | (1,721)        |               |
| Increase of 0.25% in inflation rate     | 28,843      | 1,802          | 2,588         |
| Decrease of 0.25% in inflation rate     | (27,303)    | (1,721)        | (2,466)       |
| Increase of one year in life expectancy | 24,093      | 2,918          | 444           |
| Decrease of one year in life expectancy | (23,900)    | (2,601)        | (485)         |

| As at September 30, 2015                | U.K.     | Germany | France  |
|---|----------|---------|---------|
|   | \$       | \$      | \$      |
| Increase of 0.25% in the discount rate  | (32,458) | (2,832) | (2,154) |
| Decrease of 0.25% in the discount rate  | 34,580   | 2,990   | 2,275   |
| Salary increase of 0.25%                | 759      | 58      | 2,274   |
| Salary decrease of 0.25%                | (747)    | (57)    | (2,163) |
| Pension increase of 0.25%               | 14,804   | 1,452   |         |
| Pension decrease of 0.25%               | (14,089) | (1,390) |         |
| Increase of 0.25% in inflation rate     | 25,155   | 1,452   | 2,274   |
| Decrease of 0.25% in inflation rate     | (23,829) | (1,390) | (2,163) |
| Increase of one year in life expectancy | 17,627   | 2,145   | 395     |
| Decrease of one year in life expectancy | (17,656) | (1,927) | (426)   |

The sensitivity analysis above have been based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the year.

The weighted average durations of the defined benefit obligations are as follows:

|         | Year ended September 30 |      |
|---------|-------------------------|------|
|         | 2016                    | 2015 |
|         | (in years)              |      |
| U.K.    | 20                      | 19   |
| Germany | 15                      | 15   |
| France  | 18                      | 18   |
| Other   | 13                      | 14   |



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**16. Employee benefits (continued)****DEFINED BENEFIT PLANS (CONTINUED)**

The Company expects to contribute \$19,161,000 to defined benefit plans during the next year, of which \$16,046,000 relates to the U.K. plans, and \$3,115,000 relating to the other plans. The contributions will include new benefit accruals and deficit recovery payments.

**DEFINED CONTRIBUTION PLANS**

The Company also operates defined contribution retirement plans. In some countries, contributions are made into state pension plans. The pension cost for defined contribution plans amounted to \$236,678,000 in 2016 (\$228,746,000 in 2015).

In addition, in Sweden the Company contributes to a multi-employer plan, Alecta SE ( Alecta ) pension plan, which is a defined benefit pension plan. This pension plan is classified as a defined contribution plan as sufficient information is not available to use defined benefit accounting. Alecta lacks the possibility of establishing an exact distribution of assets and provisions to the respective employers. The Company's proportion of the total contributions to the plan is 0.77% and the Company's proportion of the total number of active members in the plan is 0.56%.

Alecta uses a collective funding ratio to determine the surplus or deficit in the pension plan. Any surplus or deficit in the plan will affect the amount of future contributions payable. The collective funding is the difference between Alecta's assets and the commitments to the policy holders and insured individuals. The collective solvency is normally allowed to vary between 125% and 155%, with the target being 140%. At September 30, 2016, Alecta's collective funding ratio was 142% (148% in 2015). The plan expense was \$34,528,000 in 2016 (\$38,052,000 in 2015). The Company expects to contribute \$30,028,000 to the plan during the next year.

**OTHER BENEFIT PLANS**

The Company maintains deferred compensation plans covering some of its U.S. and Germany management. Some of the plans include assets that will be used to fund the liabilities. As at September 30, 2016, the deferred compensation liability totaled \$43,844,000 (\$40,940,000 as at September 30, 2015) (Note 14) and the deferred compensation assets totaled \$42,139,000 (\$38,238,000 as at September 30, 2015) (Note 10).

For the deferred compensation plan in U.S., a trust was established so that the plan assets could be segregated; however, the assets are subject to the Company's general creditors in the case of bankruptcy. The assets composed of investments vary with employees' contributions and changes in the value of the investments. The change in liabilities associated with the plan is equal to the change of the assets. The assets in the trust and the associated liabilities totaled \$41,423,000 as at September 30, 2016 (\$37,439,000 as at September 30, 2015).

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**17. Accumulated other comprehensive income**

|   | As at<br>September 30, 2016 | As at<br>September 30, 2015 |
|---|-----------------------------|-----------------------------|
|   | \$                          | \$                          |
| <b>Items that will be reclassified subsequently to net earnings:</b>  |                             |                             |
| Net unrealized gains on translating financial statements of foreign operations, net of accumulated income tax expense of \$69,777 as at September 30, 2016 (\$72,873 as at September 30, 2015)  | <b>837,056</b>              | 1,111,339                   |
| Net losses on derivative financial instruments and on translating long-term debt designated as hedges of net investments in foreign operations, net of accumulated income tax recovery of \$72,490 as at September 30, 2016 (\$75,316 as at September 30, 2015) | <b>(466,799)</b>            | (485,245)                   |
| Net unrealized gains on cash flow hedges, net of accumulated income tax expense of \$8,876 as at September 30, 2016 (\$13,732 as at September 30, 2015)   | <b>13,931</b>               | 32,228                      |
| Net unrealized gains on available-for-sale investments, net of accumulated income tax expense of \$965 as at September 30, 2016 (\$925 as at September 30, 2015)  | <b>2,947</b>                | 2,718                       |
| <b>Items that will not be reclassified subsequently to net earnings:</b>  |                             |                             |
| Net remeasurement losses on defined benefit plans, net of accumulated income tax recovery of \$25,160 as at September 30, 2016 (\$19,820 as at September 30, 2015)  | <b>(83,007)</b>             | (62,814)                    |
|   | <b>304,128</b>              | 598,226                     |

For the year ended September 30, 2016, \$11,834,000 of the net unrealized gains previously recognized in other comprehensive income, net of income tax expense of \$6,725,000, were reclassified to net earnings for derivative financial instruments designated as cash flow hedges (\$9,092,000 of the net unrealized gains net of income tax

expense of \$4,101,000 for the year ended September 30, 2015).

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**18. Capital stock**

Authorized, an unlimited number without par value:

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

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

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

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

For 2016 and 2015, the Class A subordinate and the Class B shares varied as follows:

|  | Class A subordinate shares |                      | Class B shares |                      | Total       |                      |
|--|----------------------------|----------------------|----------------|----------------------|-------------|----------------------|
|  | Number                     | Carrying value<br>\$ | Number         | Carrying value<br>\$ | Number      | Carrying value<br>\$ |
| As at September 30, 2014                           | 279,311,564                | 2,199,778            | 33,272,767     | 46,419               | 312,584,331 | 2,246,197            |
| Issued upon exercise of stock options <sup>1</sup> | 3,187,455                  | 67,028               |                |                      | 3,187,455   | 67,028               |
| PSUs exercised <sup>2</sup>                        |                            | 8,668                |                |                      |             | 8,668                |
| Repurchased and cancelled <sup>3</sup>             | (6,725,735)                | (54,918)             |                |                      | (6,725,735) | (54,918)             |

|  |                    |                  |                   |               |                    |                  |
|--|--------------------|------------------|-------------------|---------------|--------------------|------------------|
| Repurchased and not cancelled <sup>3</sup>         |                    | (1,631)          |                   |               |                    | (1,631)          |
| Purchased and held in trust <sup>4</sup>           |                    | (11,099)         |                   |               |                    | (11,099)         |
| As at September 30, 2015                           | 275,773,284        | 2,207,826        | 33,272,767        | 46,419        | 309,046,051        | 2,254,245        |
| Issued upon exercise of stock options <sup>1</sup> | 5,283,485          | 111,405          |                   |               | 5,283,485          | 111,405          |
| PSUs exercised <sup>2</sup>                        |                    | 21,250           |                   |               |                    | 21,250           |
| Repurchased and cancelled <sup>3</sup>             | (9,519,875)        | (170,374)        |                   |               | (9,519,875)        | (170,374)        |
| Purchased and held in trust <sup>4</sup>           |                    | (21,795)         |                   |               |                    | (21,795)         |
| Conversion of shares <sup>5</sup>                  | 420,019            | 586              | (420,019)         | (586)         |                    |                  |
| <b>As at September 30, 2016</b>                    | <b>271,956,913</b> | <b>2,148,898</b> | <b>32,852,748</b> | <b>45,833</b> | <b>304,809,661</b> | <b>2,194,731</b> |

<sup>1</sup> The carrying value of Class A subordinate shares includes \$21,972,000 (\$13,474,000 in 2015), which corresponds to a reduction in contributed surplus representing the value of accumulated compensation costs associated with the stock options exercised during the year.

<sup>2</sup> During the year ended September 30, 2016, 969,241 PSUs were exercised (316,857 during the year ended September 30, 2015) with a recorded value of \$21,250,000 (\$8,668,000 as at September 30, 2015) that was removed from contributed surplus. As at September 30, 2016, 1,192,308 Class A subordinate shares were held in trust under the PSU plan (1,719,827 as at September 30, 2015) (Note 19b).

<sup>3</sup> On January 27, 2016, the Company's Board of Directors authorized the renewal of a Normal Course Issuer Bid (NCIB) for the purchase of up to 21,425,992 Class A subordinate shares for cancellation on the open market through the TSX. The Class A subordinate shares are available for purchase commencing February 11, 2016, until no later than February 3, 2017, or on such earlier date when the Company completes its purchases or elects to terminate the bid.

During the year ended September 30, 2016, the Company repurchased 7,112,375 Class A subordinate shares from the Caisse de dépôt et placement du Québec for a cash consideration of \$400,000,000. The excess of the purchase price over the carrying value in the amount of \$247,893,000 was charged to retained earnings. In accordance with the requirements of TSX, the repurchase is considered in the annual aggregate limit that the Company is entitled to repurchase under its current NCIB. In addition, during the year ended September 30, 2016, the Company repurchased 2,207,500 Class A subordinate shares under the previous NCIB for cash consideration of \$117,820,000 and the excess of the purchase price over the carrying value in the amount of \$99,553,000 was charged to retained earnings.

During the year ended September 30, 2015 the Company repurchased 6,925,735 Class A subordinate shares under the previous NCIB for cash consideration of \$332,535,000 and the excess of the purchase price over the carrying value in the amount of \$275,986,000 was charged to retained earnings. As of September 30, 2015, 200,000 of repurchased Class A subordinate shares with a carrying value of \$1,631,000 and a purchase value of \$9,466,000 were held by the Company and were paid and cancelled during the year ended September 30, 2016 under the previous NCIB.

- <sup>4</sup> The trustee, in accordance with the terms of the PSU plan and a Trust Agreement, purchased 441,722 Class A subordinate shares of the Company on the open market for cash consideration of \$21,795,000 during the year ended September 30, 2016 (288,535 Class A subordinate shares for \$11,099,000 during the year ended September 30, 2015).
- <sup>5</sup> During the year ended September 30, 2016, a shareholder converted 420,019 Class B shares into 420,019 Class A subordinate shares.

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**19. Share-based payments****a) Stock options**

Under the Company's stock option plan, the Board of Directors may grant, at its discretion, stock options to purchase Class A subordinate shares to certain employees, officers and directors of the Company and its subsidiaries. The exercise price is established by the Board of Directors and is equal to the closing price of the Class A subordinate shares on the TSX on the day preceding the date of the grant. Stock options generally vest over four years from the date of grant conditionally upon achievement of objectives and must be exercised within a ten-year period, except in the event of retirement, termination of employment or death. As at September 30, 2016, 35,145,143 Class A subordinate shares have been reserved for issuance under the stock option plan.

The following table presents information concerning all outstanding stock options granted by the Company:

|                                | Number of options | 2016<br>Weighted<br>average exercise<br>price per share<br>\$ | Number of options | 2015<br>Weighted<br>average exercise<br>price per share<br>\$ |
|--------------------------------|-------------------|---|-------------------|---|
| Outstanding, beginning of year | 20,629,392        | 29.23   | 19,728,106        | 22.88   |
| Granted                        | 3,882,977         | 62.53   | 7,061,519         | 44.20   |
| Exercised                      | (5,283,485)       | 16.93   | (3,187,455)       | 16.80   |
| Forfeited                      | (2,558,272)       | 39.39   | (2,972,778)       | 35.85   |
| Expired                        | (46,993)          | 14.22   |                   |   |
| Outstanding, end of year       | 16,623,619        | 39.40   | 20,629,392        | 29.23   |
| Exercisable, end of year       | 7,798,604         | 24.10   | 10,612,717        | 18.55   |

The weighted average share price at the date of exercise for share options exercised in 2016 was \$58.65 (\$46.48 in 2015).

The following table summarizes information about outstanding stock options granted by the Company as at September 30, 2016:



| Range of exercise price<br>\$ | Number of options | Weighted average remaining contractual life (years) | Options outstanding                   |                   | Options exercisable                   |  |
|-------------------------------|-------------------|---|---------------------------------------|-------------------|---------------------------------------|--|
|                               |                   |   | Weighted average exercise price<br>\$ | Number of options | Weighted average exercise price<br>\$ |  |
| 7.72 to 9.41                  | 395,531           | 1.78  | 9.12                                  | 395,531           | 9.12                                  |  |
| 11.39 to 13.26                | 822,710           | 2.49  | 12.28                                 | 822,710           | 12.28                                 |  |
| 14.48 to 15.96                | 1,328,787         | 4.00  | 15.48                                 | 1,328,787         | 15.48                                 |  |
| 19.28 to 21.31                | 376,291           | 5.00  | 19.74                                 | 376,291           | 19.74                                 |  |
| 23.65 to 30.79                | 2,772,192         | 6.21  | 23.88                                 | 2,772,192         | 23.88                                 |  |
| 34.68 to 38.79                | 2,246,237         | 7.31  | 37.19                                 | 1,496,521         | 37.13                                 |  |
| 39.47 to 47.36                | 1,205,116         | 8.13  | 39.66                                 | 576,167           | 39.71                                 |  |
| 47.81 to 56.69                | 3,844,955         | 8.99  | 48.45                                 | 30,405            | 51.37                                 |  |
| 57.21 to 63.23                | 3,631,800         | 9.99  | 63.20                                 |                   |                                       |  |
|                               | 16,623,619        | 7.47  | 39.40                                 | 7,798,604         | 24.10                                 |  |

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**19. Share-based payments (continued)****a) Stock options (continued)**

The fair value of stock options granted in the year and the weighted average assumptions used in the calculation of their fair value on the date of grant using the Black-Scholes option pricing model were as follows:

|                                      | <b>Year ended September 30</b> |             |
|--------------------------------------|--------------------------------|-------------|
|                                      | <b>2016</b>                    | <b>2015</b> |
| Grant date fair value (\$)           | <b>13.11</b>                   | 9.38        |
| Dividend yield (%)                   | <b>0.00</b>                    | 0.00        |
| Expected volatility (%) <sup>1</sup> | <b>25.41</b>                   | 24.90       |
| Risk-free interest rate (%)          | <b>0.56</b>                    | 0.98        |
| Expected life (years)                | <b>4.00</b>                    | 4.00        |
| Exercise price (\$)                  | <b>62.53</b>                   | 44.20       |
| Share price (\$)                     | <b>62.53</b>                   | 44.20       |

<sup>1</sup> Expected volatility was determined using statistical formulas and based on the weekly historical average of closing daily share prices over the period of the expected life of stock option.

**b) Performance share units**

Under the PSU plan, the Board of Directors may grant PSUs to senior executives and other key employees ( participants ) which entitle them to receive one Class A subordinate share for each PSU. The vesting performance conditions are determined by the Board of Directors at the time of each grant. PSUs expire on the business day preceding December 31 of the third calendar year following the end of the fiscal year during which the PSU award was made, except in the event of retirement, termination of employment or death. Granted PSUs vest annually over a period of four years from the date of grant conditionally upon achievement of objectives.

Class A subordinate shares purchased in connection with the PSU plan are held in trust for the benefit of the participants. The trust, considered as a structured entity, is consolidated in the Company's consolidated financial

statements with the cost of the purchased shares recorded as a reduction of capital stock (Note 18).

The following table presents information concerning the number of outstanding PSUs granted by the Company:

|   |                  |
|---|------------------|
| Outstanding as at September 30, 2014        | 1,748,149        |
| Granted <sup>1</sup>                        | 530,000          |
| Exercised                                   | (316,857)        |
| Forfeited                                   | (241,465)        |
| Outstanding as at September 30, 2015        | 1,719,827        |
| Granted <sup>1</sup>                        | 570,000          |
| Exercised                                   | (969,241)        |
| Forfeited                                   | (128,278)        |
| <b>Outstanding as at September 30, 2016</b> | <b>1,192,308</b> |

<sup>1</sup> The PSUs granted in 2016 had a grant date fair value of \$48.35 per unit (\$37.84 in 2015).

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**19. Share-based payments (continued)****c) Share purchase plan**

Under the share purchase plan, the Company contributes an amount equal to a percentage of the employee's basic contribution, up to a maximum of 3.5%. An employee may make additional contributions in excess of the basic contribution however the Company does not match contributions in the case of such additional contributions. The employee and Company contributions are remitted to an independent plan administrator who purchases Class A subordinate shares on the open market on behalf of the employee through either the TSX or New York Stock Exchange.

**d) Deferred share unit plan**

External members of the Board of Directors ( participants ) are entitled to receive part or their entire retainer fee in DSUs. DSUs are granted with immediate vesting and must be exercised no later than December 15 of the calendar year immediately following the calendar year during which the participant ceases to act as a Director. Each DSU entitles the holder to receive a cash payment equal to the closing price of Class A subordinate shares on the TSX on the payment date. As at September 30, 2016, the number of outstanding DSUs was 107,856 (124,354 DSUs as at September 30, 2015).

**e) Share-based payment costs**

The share-based payment expense recorded in costs of services, selling and administrative expenses is as follows:

|                     | <b>Year ended September 30</b> |             |
|---------------------|--------------------------------|-------------|
|                     | <b>2016</b>                    | <b>2015</b> |
|                     | <b>\$</b>                      | <b>\$</b>   |
| Stock options       | <b>17,720</b>                  | 17,027      |
| PSUs                | <b>20,579</b>                  | 13,387      |
| Share purchase plan | <b>87,683</b>                  | 78,342      |

|      |                |         |
|------|----------------|---------|
| DSUs | <b>2,916</b>   | 2,307   |
|      | <b>128,898</b> | 111,063 |

## 20. Earnings per share

The following table sets forth the computation of basic and diluted earnings per share for the years ended September 30:

|   | 2016             |   |                       | 2015         |   |                       |
|---|------------------|---|-----------------------|--------------|---|-----------------------|
|   | Net earnings     | Weighted average<br>number of<br>shares<br>outstanding <sup>1</sup> | Earnings per<br>share | Net earnings | Weighted average<br>number of<br>shares<br>outstanding <sup>1</sup> | Earnings per<br>share |
|   | \$               |   | \$                    | \$           |   | \$                    |
| Basic   | <b>1,068,716</b> | <b>304,808,130</b>  | <b>3.51</b>           | 977,556      | 311,477,555   | 3.14                  |
| Net effect of dilutive<br>stock options and PSUs <sup>2</sup> |                  | <b>7,965,026</b>  |                       |              | 9,944,889   |                       |
|   | <b>1,068,716</b> | <b>312,773,156</b>  | <b>3.42</b>           | 977,556      | 321,422,444   | 3.04                  |

<sup>1</sup> During the year ended September 30, 2016, 9,519,875 Class A subordinate shares repurchased and 1,192,308 Class A subordinate shares held in trust were excluded from the calculation of weighted average number of shares outstanding as of the date of transaction (6,925,735 and 1,719,827, respectively, during year ended September 30, 2015).

<sup>2</sup> The calculation of the diluted earnings per share excluded 3,842,800 stock options for the year ended September 30, 2016 (3,801,637 for the year ended September 30, 2015), as they were anti-dilutive.

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**21. Construction contracts in progress**

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. If the outcome of an arrangement cannot be estimated reliably, revenue is recognized to the extent of arrangement costs incurred that are likely to be recoverable.

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

The status of the Company's construction contracts still in progress at the end of the reporting period was as follows:

|  | As at<br>September 30, 2016<br>\$ | As at<br>September 30, 2015<br>\$ |
|--|-----------------------------------|-----------------------------------|
| Recognized as:   |                                   |                                   |
| Revenue in the respective year                                       | 1,443,169                         | 1,416,488                         |
| Recognized as:   |                                   |                                   |
| Amounts due from customers under construction contracts <sup>1</sup> | 414,427                           | 351,246                           |
| Amounts due to customers under construction contracts                | (105,187)                         | (90,973)                          |

<sup>1</sup> As at September 30, 2016, retentions held by customers for contract work in progress amounted to \$72,277,000 (\$65,989,000 as at September 30, 2015).

**22. Costs of services, selling and administrative**

|  | Year ended September 30<br>2016<br>\$ | 2015<br>\$ |
|--|---------------------------------------|------------|
|--|---------------------------------------|------------|

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|  |                  |           |
|--|------------------|-----------|
| Salaries and other member costs <sup>1</sup>     | <b>6,254,917</b> | 6,050,985 |
| Professional fees and other contracted labour    | <b>1,243,143</b> | 1,220,994 |
| Hardware, software and data center related costs | <b>795,347</b>   | 708,206   |
| Property costs                                   | <b>399,682</b>   | 390,728   |
| Amortization and depreciation (Note 23)          | <b>394,054</b>   | 418,011   |
| Other operating expenses                         | <b>33,786</b>    | 30,131    |
|  | <b>9,120,929</b> | 8,819,055 |

<sup>1</sup> Net of tax credits of \$174,199,000 in 2016 (\$113,416,000 in 2015).

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**23. Amortization and depreciation**

|   | <b>Year ended September 30</b> |             |
|---|--------------------------------|-------------|
|   | <b>2016</b>                    | <b>2015</b> |
|   | \$                             | \$          |
| Depreciation of PP&E <sup>1</sup> (Note 6)  | <b>163,105</b>                 | 173,666     |
| Amortization of intangible assets (Note 8)  | <b>176,895</b>                 | 186,306     |
| Impairment of intangible assets <sup>2</sup> (Note 8)   |                                | 5,289       |
| Amortization of contract costs related to transition costs  | <b>54,054</b>                  | 52,750      |
| Included in costs of services, selling and administrative (Note 22)   | <b>394,054</b>                 | 418,011     |
| Amortization of contract costs related to incentives (presented as a reduction of revenue)  | <b>3,221</b>                   | 3,327       |
| Amortization of deferred financing fees (presented in finance costs)  | <b>1,154</b>                   | 1,188       |
| Amortization of premiums and discounts on investments related to funds held for clients (presented net as a reduction of revenue) | <b>1,631</b>                   | 1,518       |
|   | <b>400,060</b>                 | 424,044     |

<sup>1</sup> Depreciation of PP&E acquired under finance leases was \$14,471,000 in 2016 (\$16,895,000 in 2015).

<sup>2</sup> The impairment of intangible assets, for the year ended September 30, 2015, relates to a business solution that was no longer expected to generate future economic benefits, and is included in the U.S. segment.

**24. Net finance costs**

|  | <b>Year ended September 30</b> |             |
|--|--------------------------------|-------------|
|  | <b>2016</b>                    | <b>2015</b> |
|  | \$                             | \$          |
| Interest on long-term debt                                   | <b>70,257</b>                  | 86,252      |
| Net interest cost on the net defined benefit plans (Note 16) | <b>6,237</b>                   | 6,557       |
| Other finance costs  | <b>3,542</b>                   | 766         |



|                |                |        |
|----------------|----------------|--------|
| Finance costs  | <b>80,036</b>  | 93,575 |
| Finance income | <b>(1,610)</b> | (718)  |
|                | <b>78,426</b>  | 92,857 |

## 25. Investments in subsidiaries

There were no significant acquisitions or disposals for the year ended September 30, 2016 and 2015.

On November 4, 2016, the Company announced the closing of the acquisition of Collaborative Consulting, LLC ( Collaborative Consulting ), a system integration and consulting company headquartered in Boston, Massachusetts. The cash acquisition of all unit holder positions of Collaborative Consulting was completed effective November 3, 2016.

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**26. Supplementary cash flow information**

a) Net change in non-cash working capital items is as follows for the years ended September 30:

|  | <b>2016</b>      | 2015     |
|--|------------------|----------|
|  | \$               | \$       |
| Accounts receivable                      | <b>(35,829)</b>  | 23,335   |
| Work in progress                         | <b>(102,354)</b> | 23,553   |
| Prepaid expenses and other assets        | <b>(18,573)</b>  | 39,157   |
| Long-term financial assets               | <b>(4,802)</b>   | 979      |
| Accounts payable and accrued liabilities | <b>16,764</b>    | (36,720) |
| Accrued compensation                     | <b>(43,528)</b>  | (46,399) |
| Deferred revenue                         | <b>3,551</b>     | (72,405) |
| Provisions                               | <b>(77,192)</b>  | (63,385) |
| Long-term liabilities                    | <b>(11,897)</b>  | (57,665) |

|                                  |           |           |
|----------------------------------|-----------|-----------|
| Retirement benefits obligations  | (1,150)   | 444       |
| Derivative financial instruments | (2,256)   | (919)     |
| Income taxes                     | 9,393     | (11,716)  |
|                                  | (267,873) | (201,741) |

b) Non-cash operating, investing and financing activities related to operations are as follows for the years ended September 30:

|  | 2016     | 2015     |
|--|----------|----------|
|  | \$       | \$       |
| <b>Operating activities</b>                  |          |          |
| Accounts receivable                          | (15)     | (67)     |
| Accounts payable and accrued liabilities     | 36,139   | 17,774   |
| Provisions                                   | 1,074    |          |
|  | 37,198   | 17,707   |
| <b>Investing activities</b>                  |          |          |
| Purchase of property, plant and equipment    | (15,427) | (20,044) |
| Additions of intangible assets               | (32,608) | (13,720) |
| Additions of long-term financial assets      |          | (5,608)  |
|  | (48,035) | (39,372) |
| <b>Financing activities</b>                  |          |          |
| Increase in obligations under finance leases | 9,238    | 20,336   |

|  |               |         |
|--|---------------|---------|
| Increase in obligations other than finance leases  |               | 10,728  |
|  | <b>1,584</b>  |         |
| Issuance of shares                                 |               | 67      |
|  | <b>15</b>     |         |
| Repurchase of Class A subordinate shares (Note 18) |               | (9,466) |
|  | <b>10,837</b> | 21,665  |

c) Interest paid and received and income taxes paid are classified within operating activities and are as follows for the years ended September 30:

|                   | 2016           | 2015    |
|-------------------|----------------|---------|
|                   | \$             | \$      |
| Interest paid     | <b>82,369</b>  | 88,894  |
| Interest received | <b>1,455</b>   | 273     |
| Income taxes paid | <b>246,134</b> | 289,405 |

d) Cash and cash equivalents consisted fully of unrestricted cash as at September 30, 2016 and 2015.

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**27. Segmented information**

The following tables present information on the Company's operations based on its current management structure managed through seven operating segments. Segment results are based on the location from which the services are delivered - the geographic delivery model (Note 11).

|  | Year ended September 30, 2016 |               |              |              |            |                          |         |             |
|--|-------------------------------|---------------|--------------|--------------|------------|--------------------------|---------|-------------|
|  | U.S.<br>\$                    | Nordics<br>\$ | Canada<br>\$ | France<br>\$ | U.K.<br>\$ | ECSAsia Pacific<br>\$ \$ |         | Total<br>\$ |
| Segment revenue  | 2,878,661                     | 1,651,322     | 1,536,331    | 1,444,966    | 1,431,739  | 1,198,854                | 541,391 | 10,683,264  |
| Earnings before restructuring costs, net finance costs and income tax expense <sup>1</sup> | 486,295                       | 186,742       | 345,483      | 174,685      | 154,262    | 114,256                  | 98,588  | 1,560,311   |
| Restructuring costs  |                               |               |              |              |            |                          |         | (29,100)    |
| Net finance costs  |                               |               |              |              |            |                          |         | (78,426)    |
| Earnings before income taxes   |                               |               |              |              |            |                          |         | 1,452,785   |

<sup>1</sup> Total amortization and depreciation of \$398,906,000 included in the in U.S., Nordics, Canada, France, U.K., ECS and Asia Pacific operating segments was \$94,744,000, \$69,385,000, \$58,695,000, \$34,542,000, \$79,342,000, \$40,427,000 and \$21,771,000, respectively for the year ended September 30, 2016.

|  | Year ended September 30, 2015 |               |              |              |            |           |                    | Total      |
|--|-------------------------------|---------------|--------------|--------------|------------|-----------|--------------------|------------|
|  | U.S.<br>\$                    | Nordics<br>\$ | Canada<br>\$ | France<br>\$ | U.K.<br>\$ | ECS<br>\$ | Asia Pacific<br>\$ |            |
| Segment revenue  | 2,813,127                     | 1,638,985     | 1,533,719    | 1,283,387    | 1,331,287  | 1,211,228 | 475,363            | 10,287,096 |
| Earnings before restructuring costs, net finance costs and income tax expense <sup>1</sup> | 454,325                       | 153,841       | 343,692      | 146,615      | 163,603    | 118,141   | 77,091             | 1,457,308  |
| Restructuring costs  |                               |               |              |              |            |           |                    | (35,903)   |
| Net finance costs  |                               |               |              |              |            |           |                    | (92,857)   |
| Earnings before income taxes   |                               |               |              |              |            |           |                    | 1,328,548  |

<sup>1</sup> Total amortization and depreciation of \$422,856,000 included in the in U.S., Nordics, Canada, France, U.K., ECS and Asia Pacific operating segments was \$115,367,000, \$66,910,000, \$69,152,000, \$31,933,000, \$71,888,000, \$42,722,000 and \$24,884,000, respectively for the year ended September 30, 2015.

The accounting policies of each operating segment are the same as those described in the summary of significant accounting policies (Note 3). Intersegment revenue is priced as if the revenue was from third parties.

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**27. Segmented information (continued)****GEOGRAPHIC INFORMATION**

The following table provides external revenue information based on the client's location which is different from the revenue presented under operating segments, due to the intersegment revenue:

|                | 2016<br>\$       | 2015<br>\$ |
|----------------|------------------|------------|
| <b>U.S.</b>    | <b>2,969,506</b> | 2,985,577  |
| <b>Nordics</b> |                  |            |
| Sweden         | 829,080          | 847,737    |
| Finland        | 648,981          | 637,564    |
| Others         | 248,826          | 242,609    |
|                | <b>1,726,887</b> | 1,727,910  |
| <b>Canada</b>  | <b>1,643,680</b> | 1,507,326  |
| <b>France</b>  |                  |            |
| France         | 1,433,354        | 1,259,975  |
| Others         | 38,690           | 33,893     |
|                | <b>1,472,044</b> | 1,293,868  |
| <b>U.K.</b>    | <b>1,568,323</b> | 1,419,276  |
| <b>ECS</b>     |                  |            |
| Netherlands    | 397,059          | 382,276    |
| Germany        | 449,031          | 462,616    |
| Others         | 318,991          | 348,423    |

|                     |                   |            |
|---------------------|-------------------|------------|
|                     | <b>1,165,081</b>  | 1,193,315  |
| <b>Asia Pacific</b> |                   |            |
| Others              | <b>137,743</b>    | 159,824    |
|                     | <b>137,743</b>    | 159,824    |
|                     | <b>10,683,264</b> | 10,287,096 |

The following table provides information for PP&E, contract costs and intangible assets based on their location:

|                   | As at<br>September 30, 2016<br>\$ | As at<br>September 30, 2015<br>\$ |
|-------------------|-----------------------------------|-----------------------------------|
| U.S.              | <b>290,303</b>                    | 304,571                           |
| Canada            | <b>283,121</b>                    | 243,838                           |
| U.K.              | <b>234,743</b>                    | 267,714                           |
| France            | <b>76,654</b>                     | 85,752                            |
| Sweden            | <b>72,795</b>                     | 92,823                            |
| Finland           | <b>34,745</b>                     | 53,168                            |
| Germany           | <b>46,825</b>                     | 53,176                            |
| Netherlands       | <b>30,487</b>                     | 35,912                            |
| Rest of the world | <b>90,419</b>                     | 94,201                            |
|                   | <b>1,160,092</b>                  | 1,231,155                         |



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**27. Segmented information (continued)****INFORMATION ABOUT SERVICES**

The following table provides revenue information based on services provided by the Company:

|                                    | <b>2016</b>       | 2015       |
|------------------------------------|-------------------|------------|
|                                    | \$                | \$         |
| Outsourcing                        |                   |            |
| IT Services                        | <b>4,680,329</b>  | 4,543,278  |
| BPS                                | <b>1,099,342</b>  | 1,042,352  |
| Systems integration and consulting | <b>4,903,593</b>  | 4,701,466  |
|                                    | <b>10,683,264</b> | 10,287,096 |

**MAJOR CLIENT INFORMATION**

Contracts with the U.S. federal government and its various agencies, included within the U.S. segment, accounted for \$1,405,955,000 (13.2%) of revenues for the year ended September 30, 2016 (\$1,437,877,000 (14%) for the year ended September 30, 2015).

**28. Related party transactions****a) Transactions with subsidiaries**

Balances and transactions between the Company and its subsidiaries have been eliminated on consolidation. The Company owns 100% of the equity interests of its principal subsidiaries.

The Company's principal subsidiaries whose revenues, based on the geographic delivery model, represent more than 3% of the consolidated revenues are as follows:

| <b>Name of subsidiary</b>  | <b>Country of incorporation</b> |
|--|---------------------------------|
| CGI Technologies and Solutions Inc.                                | United States                   |
| CGI Federal Inc.   | United States                   |
| CGI Suomi Oy   | Finland                         |
| CGI Sverige AB   | Sweden                          |
| Conseillers en gestion et informatique CGI Inc.                    | Canada                          |
| CGI Information Systems and Management Consultants Inc.            | Canada                          |
| CGI France SAS   | France                          |
| CGI IT UK Limited  | United Kingdom                  |
| CGI Nederland BV   | Netherlands                     |
| CGI Deutschland Ltd & Co KG  | Germany                         |
| CGI Information Systems and Management Consultants Private Limited | India                           |

**b) Compensation of key management personnel**

Compensation of key management personnel, defined as the Executive Vice President and Chief Financial Officer, the Chief Operating Officer and the Board of Directors including the President and Chief Executive Officer, was as follows:

|                              | <b>2016</b>   | <b>2015</b> |
|------------------------------|---------------|-------------|
|                              | <b>\$</b>     | <b>\$</b>   |
| Short-term employee benefits | <b>6,224</b>  | 5,087       |
| Share-based payments         | <b>23,803</b> | 15,165      |

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**29. Commitments, contingencies and guarantees****a) Commitments**

At September 30, 2016, the Company is committed under the terms of operating leases with various expiration dates up to 2026, primarily for the rental of premises and computer equipment used in outsourcing contracts, in the aggregate amount of approximately \$687,294,000, excluding costs for services and taxes.

The future minimum lease payments under non-cancellable operating leases are due as follows:

|                            |         |
|----------------------------|---------|
|                            | \$      |
| Less than one year         | 201,444 |
| Between one and two years  | 160,133 |
| Between two and five years | 232,758 |
| Beyond five years          | 92,959  |

The majority of the lease agreements are renewable at the end of the lease period at market rates. The lease expenditure charged to the earnings, during the year was \$223,289,000 (\$290,713,000 in 2015), net of sublease income of \$19,220,000 (\$29,256,000 in 2015). As at September 30, 2016, the total future minimum sublease payments expected to be received under non-cancellable sublease were \$25,801,000 (\$97,442,000 as at September 30, 2015).

The Company entered into long-term service and other agreements representing a total commitment of \$189,676,000. Minimum payments under these agreements are due as follows:

|                            |        |
|----------------------------|--------|
|                            | \$     |
| Less than one year         | 85,825 |
| Between one and two years  | 64,719 |
| Between two and five years | 38,819 |

**b) Contingencies**

From time to time, the Company is involved in legal proceedings, audits, claims and litigation which primarily relate to tax exposure, contractual disputes and employee claims arising in the ordinary course of its business. Certain of these matters seek damages in significant amounts and will ultimately be resolved when one or more future events occur or fail to occur. 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 materially adverse impact on the Company's financial position, results of operations or the ability to carry on any of its business activities. Claims for which there is a probable unfavourable outcome are recorded in provisions (Note 12).

In addition, the Company is engaged to provide services under contracts with the U.S. Government. The contracts are subject to extensive legal and regulatory requirements and, from time to time, agencies of the U.S. Government investigate whether the Company's operations are being conducted in accordance with these requirements. Generally, the Government has the right to change the scope of, or terminate, these projects at its convenience. The termination or reduction in the scope, of a major government project could have a materially adverse effect on the results of operations and financial condition of the Company.

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**29. Commitments, contingencies and guarantees (continued)**

**c) Guarantees**

**Sale of assets and business divestitures**

In connection with the sale of assets and business divestitures, the Company may be required to pay counterparties for costs and losses incurred as the result of breaches in 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 of approximately \$10,753,000 in total, others do not specify a maximum amount or limited period. It is not possible 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. No amount has been accrued in the consolidated balance sheets relating to this type of indemnification as at September 30, 2016. 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.

**Other transactions**

In the normal course of business, the Company may provide certain clients, principally governmental entities, with bid and performance bonds. In general, the Company would only be liable for the amount of the bid bonds if the Company refuses to perform the project once the bid is awarded. The Company would also be liable for the performance bonds in the event of default in the performance of its obligations. As at September 30, 2016, the Company had committed a total of \$30,877,000 of these bonds. To the best of its knowledge, the Company is in compliance with its performance obligations under all service contracts for which there is 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 the Company's consolidated results of operations or financial condition.

Moreover, the Company has letters of credit for a total of \$94,983,000 in addition to the letters of credit covered by the unsecured committed revolving credit facility (Note 13). These guarantees are required in some of the Company's contracts with customers.



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**30. Financial instruments  
FAIR VALUE MEASUREMENTS**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following table presents certain financial liabilities measured at amortized cost categorized using the fair value hierarchy:

|  | Level   | As at<br>September 30, 2016 |                  | As at September 30,<br>2015 |                  |
|--|---------|-----------------------------|------------------|-----------------------------|------------------|
|  |         | Carrying amount<br>\$       | Fair value<br>\$ | Carrying amount<br>\$       | Fair value<br>\$ |
| <b>Financial liabilities for which fair value is disclosed</b> |         |                             |                  |                             |                  |
| <b>Other liabilities</b>                                       |         |                             |                  |                             |                  |
| Senior U.S. and euro unsecured notes                           | Level 2 | 1,733,036                   | 1,855,143        | 1,765,180                   | 1,839,478        |
| Unsecured committed term loan credit facility                  | Level 2 |                             |                  | 129,222                     | 129,385          |
| Other long-term debt   | Level 2 | 24,562                      | 22,843           | 23,437                      | 22,049           |
|  |         | <b>1,757,598</b>            | <b>1,877,986</b> | 1,917,839                   | 1,990,912        |

The following table presents financial assets and liabilities measured at fair value categorized using the fair value hierarchy:

|  | Level   | As at September 30, 2016<br>\$ | As at September 30, 2015<br>\$ |
|--|---------|--------------------------------|--------------------------------|
| <b>Financial assets</b>                                |         |                                |                                |
| <b>Financial assets at fair value through earnings</b> |         |                                |                                |
| Cash and cash equivalents                              | Level 2 | 596,529                        | 305,262                        |
| Deferred compensation plan assets                      | Level 1 | 42,139                         | 38,238                         |

|   |         |                |         |
|---|---------|----------------|---------|
|   |         | <b>638,668</b> | 343,500 |
| <b>Derivative financial instruments designated as hedging instruments</b> |         |                |         |
| Current derivative financial instruments                                  | Level 2 | <b>22,226</b>  | 26,567  |
| Long-term derivative financial instruments                                | Level 2 | <b>49,759</b>  | 30,771  |
|   |         | <b>71,985</b>  | 57,338  |
| <b>Available-for-sale</b>   |         |                |         |
| Long-term bonds included in funds held for clients                        | Level 2 | <b>195,976</b> | 196,964 |
| Long-term investments   | Level 2 | <b>27,246</b>  | 42,202  |
|   |         | <b>223,222</b> | 239,166 |
| <b>Financial liabilities</b>  |         |                |         |
| <b>Derivative financial instruments designated as hedging instruments</b> |         |                |         |
| Current derivative financial instruments                                  | Level 2 | <b>4,517</b>   | 28,106  |
| Long-term derivative financial instruments                                | Level 2 | <b>46,473</b>  | 225     |
|   |         | <b>50,990</b>  | 28,331  |

There have been no transfers between Level 1 and Level 2 for the years ended September 30, 2016 and 2015.



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**30. Financial instruments (continued)****FAIR VALUE MEASUREMENTS (CONTINUED)**

The following table summarizes the fair value of outstanding derivative financial instruments:

| Recorded in derivative financial instruments   | As at September 30, at September 30,   |  |
|--|--|--|
|  | 2016   | 2015   |
|  | \$   | \$   |
| <b>Hedges on net investments in foreign operations</b>   |  |  |
| \$831,400 cross-currency swaps in euro designated as a hedging instrument of the Company's net investment in European operations (\$109,730 as at September 30, 2015)  | Long-term assets<br>Current liabilities  | 31,603<br>22,297                             |
| <b>Cash flow hedges on future revenue</b>  |  |  |
| nil foreign currency forward contracts to hedge the variability in the expected foreign currency exchange rate between the U.S. dollar and the Canadian dollar (U.S.\$9,000 as at September 30, 2015)        | Current liabilities  | 2,478  |
| U.S.\$31,033 foreign currency forward contracts to hedge the variability in the expected foreign currency exchange rate between the U.S. dollar and the Indian rupee (U.S.\$42,296 as at September 30, 2015) | Current assets<br>Long-term assets<br>Current liabilities<br>Long-term liabilities | 3,358<br>1,388<br>1,284<br>58<br>1,220<br>86 |

|  |                       |               |        |
|--|-----------------------|---------------|--------|
| \$116,700 foreign currency forward contracts to hedge the variability in the expected foreign currency exchange rate between the Canadian dollar and the Indian rupee (\$151,916 as at September 30, 2015) | Current assets        | <b>11,935</b> | 14,795 |
|  | Long-term assets      | <b>7,429</b>  | 16,212 |
| kr55,500 foreign currency forward contracts to hedge the variability in the expected foreign currency exchange rate between the Swedish krona and the Indian rupee (kr77,100 as at September 30, 2015)     | Current assets        | <b>1,463</b>  | 1,279  |
|  | Long-term assets      |               | 879    |
| 8,900 foreign currency forward contracts to hedge the variability in the expected foreign currency exchange rate between the euro and the Indian rupee ( 7,300 as at September 30, 2015)                   | Current assets        | <b>376</b>    |        |
|  | Current liabilities   |               | 441    |
| £15,200 foreign currency forward contracts to hedge the variability in the expected foreign currency exchange rate between the British pound and the Indian rupee (£25,200 as at September 30, 2015)       | Current assets        | <b>5,094</b>  | 59     |
|  | Long-term assets      |               | 12     |
|  | Current liabilities   |               | 47     |
|  | Long-term liabilities |               | 139    |
| 52,700 foreign currency forward contracts to hedge the variability in the expected foreign currency exchange rate between the euro and the British pound ( 84,000 as at September 30, 2015)                | Current assets        |               | 9,044  |
|  | Long-term assets      |               | 8,254  |
|  | Current liabilities   | <b>3,626</b>  |        |
|  | Long-term liabilities | <b>350</b>    |        |
| nil foreign currency forward contracts to hedge the variability in the expected foreign currency exchange rate between the euro and the Swedish krona ( 5,000 as at September 30, 2015)                    | Current liabilities   |               | 339    |
| 8,300 foreign currency forward contracts to hedge the variability in the expected foreign currency exchange rate between the euro and the Moroccan dirham ( 7,000 as at September 30, 2015)                | Current assets        |               | 2      |
|  | Current liabilities   | <b>710</b>    | 198    |
| 8,300 foreign currency forward contracts to hedge the variability in the expected foreign currency exchange rate between the euro and the Czech koruna (nil as at September 30, 2015)                      | Current liabilities   | <b>123</b>    |        |
| <b>Cash flow hedges on unsecured committed term loan credit facility</b>   |                       |               |        |
| nil interest rate swaps floating-to-fixed (\$109,730 as at September 30, 2015)   | Current liabilities   |               | 1,086  |

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(tabular amounts only are in thousands of Canadian dollars, except per share data)

**30. Financial instruments (continued)****FAIR VALUE MEASUREMENTS (CONTINUED)**

|  |  | As at September 30, | at September 30, |
|--|--|---------------------|------------------|
|  | Recorded in derivative financial instruments | 2016                | 2015             |
|  |  | \$                  | \$               |
| <b>Cash flow hedges on Senior U.S. unsecured notes</b>                                       |  |                     |                  |
| U.S.\$600,000 cross-currency swaps to Canadian dollar (nil as at September 30, 2015)         | Long-term liabilities                        | <b>46,123</b>       |                  |
| <b>Fair value hedges on Senior U.S. unsecured notes</b>                                      |  |                     |                  |
| U.S.\$250,000 interest rate swaps fixed-to-floating (U.S.\$250,000 as at September 30, 2015) | Long-term assets                             | <b>10,727</b>       | 4,130            |

Valuation techniques used to value financial instruments are as follows:

- The fair value of Senior U.S. and euro unsecured notes, the unsecured committed term loan credit facility and the other long-term debt is estimated by discounting expected cash flows at rates currently offered to the Company for debts of the same remaining maturities and conditions;
- The fair value of long-term bonds included in funds held for clients and in long-term investments is determined by discounting the future cash flows using observable inputs, such as interest rate yield curves or credit spreads, or according to similar transactions on an arm's-length basis;
- The fair value of foreign currency forward contracts is determined using forward exchange rates at the end of

the reporting period;

- The fair value of cross-currency swaps and interest rate swaps is determined based on market data (primarily yield curves, exchange rates and interest rates) to calculate the present value of all estimated flows;
- The fair value of cash and cash equivalents is determined using observable quotes.

As at September 30, 2016, there were no changes in valuation techniques.

The Company expects that approximately \$18,530,000 of the accumulated net unrealized gain on derivative financial instruments designated as cash flow hedges as at September 30, 2016 will be reclassified in the consolidated statements of earnings in the next 12 months.

During the year ended September 30, 2016, the Company's hedging relationships were effective.

## **MARKET RISK**

Market risk incorporates a range of risks. Movements in risk factors, such as interest rate risk and currency risk, affect the fair values of financial assets and liabilities.

### **Interest rate risk**

The Company has interest rate swaps whereby the Company receives a fixed rate of interest and pays interest at a variable rate on the notional amount of a portion of its Senior U.S. unsecured notes. These swaps are being used to hedge the exposure to changes in the fair value of the debt.

The Company was also exposed to interest rate risk on its unsecured committed term loan credit facility and held interest rate swaps that mitigated this risk on a portion of that debt. Under these interest rate swaps, the Company received a variable rate of interest and paid interest at a fixed rate on the notional amount. Following the repayment of this debt during the year ended September 30, 2016, the Company settled the related floating-to-fixed interest rate swap with a notional amount of \$109,730,000 (Note 13).

The Company analyzes its interest rate risk exposure on an ongoing basis using various scenarios to simulate refinancing or the renewal of existing positions. Based on these scenarios, a change in the interest rate of 1% would not have had a significant impact on net earnings and comprehensive income.

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**30. Financial instruments (continued)**

**MARKET RISK (CONTINUED)**

**Currency risk**

The Company operates internationally and is exposed to risk from changes in foreign currency exchange rates. The Company mitigates this risk principally through foreign currency denominated debt and derivative financial instruments. The Company uses the following derivative financial instruments which are foreign currency forward contracts to hedge contractual cash flows or forecasted cash flows in currencies other than the functional currency of its subsidiaries.

The Company hedges a portion of the translation of the Company's net investments in its U.S. and European operations into Canadian dollar with unsecured committed term loan credit facility, Senior U.S. and euro unsecured notes. The Company also hedges a portion of the translation of the Company's net investments in its European operations with cross-currency swaps.

During the year ended September 30, 2016, the Company entered into Canadian dollar to euro cross-currency swap agreements for a notional amount of \$831,400,000 designated as hedging instruments of the Company's net investment in European operations.

During the year ended September 30, 2016, the Company settled cross-currency swaps with a notional amount of \$109,730,000 (\$859,070,000 for the year ended September 30, 2015) for a net amount of \$24,057,000 (\$121,615,000 for the year ended September 30, 2015). The loss on settlements was recognized in other comprehensive income and will be transferred to earnings when the net investment is disposed of.

During the year ended September 30, 2016, the Company has entered into cross-currency swap agreements, for a notional amount of U.S.\$600,000,000, related to its Senior U.S. unsecured notes. The cross-currency swaps are designated as cash flow hedges to offset the variability in the exchange rate between the U.S. and Canadian dollar.

The Company has also entered into foreign currency forward contracts to hedge the variability in various foreign currency exchange rates on future revenues.

Hedging relationships are designated and documented at inception and quarterly effectiveness assessments are performed during the year.

The Company is mainly exposed to fluctuations in the Swedish krona, the U.S. dollar, the euro and the British pound. The following table details the Company's sensitivity to a 10% strengthening of the Swedish krona, the U.S. dollar, the euro and the British pound foreign currency rates on net earnings and comprehensive income against the Canadian dollar. The sensitivity analysis on net earnings presents the impact of foreign currency denominated financial instruments and adjusts their translation at period end for a 10% strengthening in foreign currency rates. The sensitivity analysis on other comprehensive income presents the impact of a 10% strengthening in foreign currency rates on the fair value of foreign currency forward contracts designated as cash flow hedges and on net investment hedges.

|  | 2016                 |                    |             |                      | 2015                 |                    |             |                      |
|--|----------------------|--------------------|-------------|----------------------|----------------------|--------------------|-------------|----------------------|
|  | Swedish krona impact | U.S. dollar impact | euro impact | British pound impact | Swedish krona impact | U.S. dollar impact | euro impact | British pound impact |
| (Decrease) increase in net earnings    | (913)                | (1,581)            | 2,964       | (450)                | 12                   | (2,095)            | (6,014)     | (3,645)              |
| Decrease in other comprehensive income | (847)                | (85,380)           | (92,264)    | (2,581)              | (1,223)              | (170,039)          | (41,048)    | (6,149)              |

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## Notes to the Consolidated Financial Statements

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**30. Financial instruments (continued)****LIQUIDITY RISK**

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at excessive cost. The Company's activities are financed through a combination of the cash flows from operations, borrowing under existing credit facilities, the issuance of debt and the issuance of equity. One of management's primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as the cash flows.

The following table summarizes the carrying amount and the contractual maturities of both the interest and principal portion of significant financial liabilities. All amounts contractually denominated in foreign currency are presented in Canadian dollar equivalent amounts using the period-end spot rate.

| <b>As at September 30, 2016</b>             | <b>Carrying<br/>amount</b> | <b>Contractual<br/>cash flows</b> | <b>Less than one<br/>year</b> | <b>Between one<br/>and<br/>two years</b> | <b>Between<br/>two and five<br/>years</b> | <b>Beyond<br/>five years</b> |
|---|----------------------------|-----------------------------------|-------------------------------|--|---|------------------------------|
|   | \$                         | \$                                | \$                            | \$                                       | \$  | \$                           |
| <b>Non-derivative financial liabilities</b> |                            |                                   |                               |  |   |                              |
| Accounts payable and accrued liabilities    | <b>1,107,863</b>           | 1,107,863                         | 1,107,863                     |  |   |                              |
| Accrued compensation                        | <b>523,553</b>             | 523,553                           | 523,553                       |  |   |                              |
| Senior U.S. & euro unsecured notes          | <b>1,733,036</b>           | 2,083,673                         | 178,105                       | 130,140                                  | 786,108                                   | 989,320                      |
| Obligations other than finance leases       | <b>111,205</b>             | 115,362                           | 48,860                        | 35,668                                   | 30,834                                    |                              |

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|                                    |                  |           |           |          |           |           |
|------------------------------------|------------------|-----------|-----------|----------|-----------|-----------|
| Obligations under finance leases   | <b>42,172</b>    | 44,205    | 19,716    | 11,789   | 11,932    | 768       |
| Other long-term debt               | <b>24,562</b>    | 24,687    | 15,404    | 1,187    | 3,797     | 4,299     |
| Clients funds obligations          | <b>365,994</b>   | 365,994   | 365,994   |          |           |           |
| Derivative financial (assets)      |                  |           |           |          |           |           |
| liabilities                        |                  |           |           |          |           |           |
| Cash flow hedges on future revenue | <b>(24,788)</b>  |           |           |          |           |           |
| Outflow                            |                  | 4,813     | 4,454     | 359      |           |           |
| (Inflow)                           |                  | (31,221)  | (22,510)  | (3,945)  | (4,766)   |           |
| Cross-currency swaps               | <b>14,520</b>    |           |           |          |           |           |
| Outflow                            |                  | 865,655   | 17,906    | 83,678   | 536,888   | 227,183   |
| (Inflow)                           |                  | (917,944) | (30,315)  | (95,920) | (558,094) | (233,615) |
| Interest rate swaps                | <b>(10,727)</b>  |           |           |          |           |           |
| Outflow                            |                  | 68,273    | 12,413    | 12,413   | 37,240    | 6,207     |
| (Inflow)                           |                  | (90,025)  | (16,368)  | (16,368) | (49,105)  | (8,184)   |
|                                    | <b>3,887,390</b> | 4,164,888 | 2,225,075 | 159,001  | 794,834   | 985,978   |

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For the years ended September 30, 2016 and 2015

(tabular amounts only are in thousands of Canadian dollars, except per share data)

**30. Financial instruments (continued)****LIQUIDITY RISK (CONTINUED)**

| As at September 30, 2015                         | Carrying amount<br>\$ | Contractual cash flows<br>\$ | Less than one year<br>\$ | Between one and two years<br>\$ | Between two and five years<br>\$ | Beyond five years<br>\$ |
|--|-----------------------|------------------------------|--------------------------|---------------------------------|----------------------------------|-------------------------|
| <b>Non-derivative financial liabilities</b>      |                       |                              |                          |                                 |                                  |                         |
| Accounts payable and accrued liabilities         | 1,113,636             | 1,113,636                    | 1,113,636                |                                 |                                  |                         |
| Accrued compensation                             | 571,883               | 571,883                      | 571,883                  |                                 |                                  |                         |
| Senior U.S. & euro unsecured notes               | 1,765,180             | 2,196,917                    | 70,053                   | 181,860                         | 618,368                          | 1,326,636               |
| Unsecured committed term loan credit facility    | 129,222               | 131,161                      | 131,161                  |                                 |                                  |                         |
| Obligations other than finance leases            | 152,078               | 159,839                      | 63,901                   | 43,991                          | 51,552                           | 395                     |
| Obligations under finance leases                 | 57,170                | 59,615                       | 32,719                   | 14,492                          | 10,535                           | 1,869                   |
| Other long-term debt                             | 23,437                | 23,711                       | 10,335                   | 3,916                           | 4,079                            | 5,381                   |
| Clients funds obligations                        | 492,965               | 492,965                      | 492,965                  |                                 |                                  |                         |
| <b>Derivative financial (assets) liabilities</b> |                       |                              |                          |                                 |                                  |                         |
| Cash flow hedges on future revenue               | (48,260)              |                              |                          |                                 |                                  |                         |
| Outflow  |                       | 5,094                        | 4,840                    | 254                             |                                  |                         |

|                      |           |           |           |          |           |
|----------------------|-----------|-----------|-----------|----------|-----------|
| (Inflow)             | (57,516)  | (27,374)  | (19,461)  | (10,681) |           |
| Cross-currency swaps | 22,297    |           |           |          |           |
| Outflow              | 134,049   | 134,049   |           |          |           |
| (Inflow)             | (112,276) | (112,276) |           |          |           |
| Interest rate swaps  | (3,044)   |           |           |          |           |
| Outflow              | 631,605   | 232,764   | 11,612    | 34,836   | 352,393   |
| (Inflow)             | (663,713) | (236,804) | (16,715)  | (50,146) | (360,048) |
|                      | 4,276,564 | 4,686,970 | 2,481,852 | 219,949  | 658,543   |
|                      |           |           |           |          | 1,326,626 |

As at September 30, 2016, the Company held cash and cash equivalents and long-term investments of \$623,775,000 (\$347,464,000 as at September 30, 2015). The Company also had available \$1,466,086,000 in unsecured committed revolving credit facility (\$1,456,776,000 as at September 30, 2015). The funds held for clients of \$369,530,000 (\$496,397,000 as at September 30, 2015) fully covered the clients' funds obligations. As at September 30, 2016, trade accounts receivable amounted to \$816,885,000 (\$889,192,000 as at September 30, 2015). Given the Company's available liquid resources as compared to the timing of the payments of liabilities, management assesses the Company's liquidity risk to be low.

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## Notes to the Consolidated Financial Statements

For the years ended September 30, 2016 and 2015

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**30. Financial instruments (continued)****CREDIT RISK**

The Company takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents, accounts receivable and long-term investments. The maximum exposure of credit risk is generally represented by the carrying amount of these items reported on the consolidated balance sheets.

The Company is exposed to credit risk in connection with long-term investments through the possible inability of borrowers to meet the terms of their obligations. The Company mitigates this risk by investing primarily in high credit quality corporate and government bonds with a credit rating of A or higher.

The Company has accounts receivable derived from clients engaged in various industries including governmental agencies, finance, telecommunications, manufacturing and utilities that are not concentrated in any specific geographic area. These specific industries may be affected by economic factors that may impact trade accounts receivable. However, management does not believe that the Company is subject to any significant credit risk in view of the Company's large and diversified client base. Overall, management does not believe that any single industry or geographic region represents a significant credit risk to the Company.

The following table sets forth details of the age of trade accounts receivable that are past due:

|                            | 2016           | 2015    |
|----------------------------|----------------|---------|
|                            | \$             | \$      |
| Not past due               | <b>684,454</b> | 737,332 |
| Past due 1-30 days         | <b>76,339</b>  | 84,425  |
| Past due 31-60 days        | <b>19,415</b>  | 28,825  |
| Past due 61-90 days        | <b>10,749</b>  | 13,046  |
| Past due more than 90 days | <b>31,241</b>  | 30,741  |

|                                 |                |         |
|---------------------------------|----------------|---------|
|                                 | <b>822,198</b> | 894,369 |
| Allowance for doubtful accounts | <b>(5,313)</b> | (5,177) |
|                                 | <b>816,885</b> | 889,192 |

The carrying amount of trade accounts receivable is reduced by an allowance account and the amount of the loss is recognized in the consolidated statements of earnings within costs of services, selling and administrative. When a receivable balance is considered uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against costs of services, selling and administrative in the consolidated statements of earnings.

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**31. Capital risk management**

The Company is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth. The main objectives of the Company's risk management process are to ensure that risks are properly identified and that the capital base is adequate in relation to these risks.

The Company manages its capital to ensure that there are adequate capital resources while maximizing the return to shareholders through the optimization of the debt and equity balance. As at September 30, 2016, total managed capital was \$8,999,358,000 (\$8,556,720,000 as at September 30, 2015). Managed capital consists of long-term debt, including the current portion (Note 13), cash and cash equivalents, long-term investments (Note 10) and shareholders equity. The basis for the Company's capital structure is dependent on the Company's expected business growth and changes in the business environment. When capital needs have been specified, the Company's management proposes capital transactions for the approval of the Company's Audit and Risk Management Committee and Board of Directors. The capital risk policy remains unchanged from prior periods.

The Company monitors its capital by reviewing various financial metrics, including the following:

- Net Debt/Capitalization

- Debt/EBITDA

Net debt, capitalization and EBITDA are additional measures. Net debt represents debt (including the current portion and the fair value of derivative financial instruments) less cash and cash equivalents and long-term investments. Capitalization is shareholders' equity plus debt. EBITDA is calculated as earnings from continuing operations before income taxes, finance costs, depreciation, amortization and restructuring costs. The Company believes that the results of the current internal ratios are consistent with its capital management objectives.

The Company is subject to external covenants on its Senior U.S. and euro unsecured notes and unsecured committed term loan credit facility. The ratios are as follows:

- A leverage ratio, which is the ratio of total debt to EBITDA for the four most recent quarters<sup>1</sup>.

- An interest and rent coverage ratio, which is the ratio of the EBITDAR for the four most recent quarters to the total finance costs and the operating rentals in the same periods. EBITDAR, a non-GAAP measure, is calculated as EBITDA before rent expense<sup>1</sup>.
- In the case of the Senior U.S. and euro unsecured notes, a minimum net worth is required, whereby shareholders equity, excluding foreign exchange translation adjustments included in accumulated other comprehensive income, cannot be less than a specified threshold.

These ratios are calculated on a consolidated basis.

The Company is in compliance with these covenants and monitors them on an ongoing basis. The ratios are also reviewed quarterly by the Company's Audit and Risk Management Committee. The Company is not subject to any other externally imposed capital requirements.

<sup>1</sup> In the event of an acquisition, the available historical financial information of the acquired Company will be used in the computation of the ratios.

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**FISCAL 2016 RESULTS**

Management's Discussion and Analysis

**November 9, 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 audited consolidated financial statements and the notes thereto for the years ended September 30, 2016 and 2015. 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 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 10 Risk Environment.



**Table of Contents****MANAGEMENT'S DISCUSSION AND ANALYSIS****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**

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 Company's operating profitability and allows for better comparability from period to period as well as to trend analysis in our operations. A reconciliation of the adjusted EBIT to its closest IFRS measure can be found in section 3.7 of the present document.

Net earnings is a measure of earnings generated for shareholders.

Diluted earnings per share is a measure of earnings generated for shareholders on a per share basis, assuming all dilutive elements are exercised.

Net earnings excluding specific items (non-GAAP) is a measure of net earnings excluding certain items not considered by management to be part of the day to day operations. By excluding these items, it provides a better evaluation of operating performance using the same measures as management. Management believes that, as a result, the investors are afforded greater transparency in assessing the true operation performance of the Company also providing better comparability from period to period. A reconciliation of the net earnings excluding specific items to its closest IFRS measure can be found in section 3.8.3. of the present document.

Basic and diluted earnings per share excluding specific items (non-GAAP) is defined as the net earnings excluding specific items (non-GAAP) 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 basic and diluted

earnings per share reported in accordance with IFRS can be found in section 3.8 of the present document while the basic and diluted earnings per share excluding specific items can be found in section 3.8.3.

Liquidity

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 Company's strategy.

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.

**Table of Contents****FISCAL 2016 RESULTS****Growth**

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.

Backlog (non-GAAP) includes new contract wins, extensions and renewals ( bookings (non-GAAP)), partially offset by the backlog consumed during the period 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.

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 a longer period is a more representative measure as the services and contract type, size and timing of bookings could cause this measurement to fluctuate significantly if taken for only a three-month period.

**Capital Structure**

Net debt (non-GAAP) is obtained by subtracting from our debt our cash and cash equivalents, short-term investments, long-term investments and fair value of foreign currency derivative financial instruments related to 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.

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.

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.

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.

### **Reporting segments**

The Company s operations are managed through the following seven operating segments, referred to as our Strategic Business Units, 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 ). Please refer to sections 3.4 and 3.6 of the present document and to note 27 of our audited consolidated financial statements for additional information on our segments.

**Table of Contents****MANAGEMENT'S DISCUSSION AND ANALYSIS****MD&A Objectives and Contents**

Provide a narrative explanation of audited consolidated financial statements through the eyes of management;

Provide the context within which audited 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  | 8     |
| 2. Highlights and Key Performance Measures | A summary of key highlights during the year, the past three years' key performance measures, and CGI's stock performance. | 9     |
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| 3. |      | Financial Review   |    |
|    |      | A discussion of year-over-year changes to financial results between the years ended September 30, 2016 and 2015, 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, service type, segment, and by vertical market. |    |
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FISCAL 2016 RESULTS

| Section                   | Contents  | Pages |
|---------------------------|---|-------|
| 4. Liquidity              | 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. |       |
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| 5. Fourth Quarter Results | A discussion of year-over-year changes to operating results between the three months ended September 30, 2016 and 2015, describing the factors affecting revenue, adjusted EBIT earnings on a consolidated and reportable segment basis as well as cash from operating, investing and financing activities.   |       |

|                                   |   |    |
|-----------------------------------|---|----|
|                                   | 5.1. Foreign Exchange   | 29 |
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|                                   | 5.4. Net Earnings and EPS   | 35 |
|                                   | 5.5. Consolidated Statements of Cash Flows  | 37 |
| 6. Eight Quarter Summary          | A summary of the past eight quarters' key performance measures and a discussion of the factors that could impact our quarterly results.   | 39 |
| 7. Changes in Accounting Policies | A summary of the future accounting standard changes.  | 41 |
| 8. Critical Accounting Estimates  | A discussion of the critical accounting estimates made in the preparation of the audited consolidated financial statements.   | 42 |
| 9. 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. | 45 |
| 10. Risk Environment              | A discussion of the risks affecting our business activities and what may be the impact if these risks are realized.   |    |
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### MANAGEMENT'S DISCUSSION AND ANALYSIS

## 1. Corporate Overview

### 1.1. ABOUT CGI

Founded in 1976 and headquartered in Montréal, Canada, CGI is among the largest Information Technology ( IT ) and business process service providers in the world, with approximately 68,000 professionals. Through high-end consulting, systems integration, transformational outsourcing and Intellectual Property ( IP ) solutions, combined with in-depth industry expertise, CGI works with clients across the globe through a unique client proximity and best-fit global delivery model to accelerate their digital transformation and drive competitive advantage.

#### **End-to-end services**

CGI delivers end-to-end services that cover the full spectrum of delivery; from solution design and development, to implementation, integration and technology operations. Our portfolio encompasses:

**High-end consulting and system integration:** CGI helps clients form their digital roadmap, adopting an agile, iterative approach that enables them to innovate, connect and rationalize legacy systems to deliver enterprise-wide change.

**Transformational outsourcing:** Our clients entrust us with full or partial responsibility for their IT and business functions. In return, we deliver significant efficiency improvements and cost savings. Typical services in an end-to-end engagement include: application development, integration and maintenance; technology infrastructure management; and business process services, such as collections and payroll management. Outsourcing contracts are long term in nature, with a typical duration of 5 to 10 or more years, allowing our clients to reinvest savings, further driving digital transformation.

#### **Deep industry expertise**

CGI has long and focused practices in all of our core industries, providing clients with a partner that is not only expert in IT, but expert in their industries. This combination of business knowledge and digital technology expertise allows us to help our clients adapt as their industries change and, in the process, allows us to evolve the industries in which we operate.

Our targeted industries include: government, financial services, health, utilities, telecommunications, oil & gas, manufacturing, retail & consumer services, transportation and post & logistics. While these represent our go-to-market industry targets, we group these industries into the following: government; financial services; health; telecommunications & utilities; and manufacturing, retail & distribution ( MRD ).

As the move toward digitalization continues to increase across industries, CGI partners with clients to support their strategic initiatives. We provide extensive industry expertise to guide them in becoming customer-centric digital organizations.

### **Digital IP solutions**

CGI's comprehensive portfolio of IP solutions support our clients' mission-critical business functions and accelerate their digital transformation. We offer more than 150 IP-based solutions for the industries we serve, as well as cross-industry solutions. These solutions include digital-enabling software applications, reusable frameworks and innovative delivery methodologies - like Software as a Service.

### **Client-inspired innovation**

CGI is a trusted partner with more than 40 years of experience in delivering innovative, client-inspired business services and solutions. Through innovation programs and investments, CGI supports clients with their most strategic initiatives. We help develop, innovate and protect the technology that enables clients to achieve their digital transformation goals faster with reduced risk and enduring results.

### **Quality processes**

CGI clients expect consistency of service wherever and whenever they engage us. We have an outstanding track record of on-time, within-budget delivery as a result of our commitment to excellence and our robust governance model - the CGI Management Foundation. The CGI Management Foundation provides a common business language, frameworks and

**Table of Contents****FISCAL 2016 RESULTS**

practices for managing all operations consistently across the globe, driving a focus on continuous improvement. We also invest in rigorous quality and service delivery standards (including ISO and Capability Maturity Model Integration ( CMMI ) certification programs), as well as a comprehensive Client Satisfaction Assessment Program, to ensure high client satisfaction on an ongoing basis.

**1.2. VISION AND STRATEGY**

CGI is unique compared to most companies. We not only have a vision, but also a dream: *To create an environment in which we enjoy working together and, as owners, contribute to building a company we can be proud of.* This dream has motivated us since our founding in 1976 and drives our vision: *To be a global, world-class information technology and business process services leader helping our clients succeed.*

In pursuing this dream and vision, CGI has been highly disciplined throughout its history in executing a Build and Buy profitable growth strategy comprised of four pillars that combine profitable organic growth (Build) and accretive acquisitions (Buy):

**Pillar 1:** Smaller contract wins, renewals and extensions

**Pillar 2:** Large, long-term transformational outsourcing contracts

**Pillar 3:** Small firm or niche player acquisitions

**Pillar 4:** Large, transformational acquisitions

The first two pillars relate to driving profitable organic growth through the pursuit of contracts - both large and small - with new and existing clients in our targeted industries.

The last two pillars focus on growth through niche and large acquisitions. We identify niche acquisitions through a strategic qualification process that systematically searches for targets to strengthen our local proximity in metro markets, our industry expertise and enhance our services and solutions. We also pursue large acquisitions to further expand our geographic presence and critical mass, which enables us to compete for large outsourcing contracts and broaden our client relationships. CGI will continue to be a consolidator in the IT services industry.

Since 1976, our professionals have been working toward the same dream and vision. Today, with a presence in hundreds of global locations and more than \$10 billion in revenue, our aspiration is to double our size over a 5 to 7 year period.

**Executing our strategy**

CGI's strategy is executed through a unique business model that combines client proximity with an extensive global delivery network to deliver the following benefits:

**Local responsiveness and accountability:** We live and work near our clients to provide a high level of responsiveness. Our local CGI teams speak our clients' language, understand their business environment, and collaborate to meet their goals and advance their business.

**Global reach:** Our local presence is complemented by an expansive global delivery network that ensures our clients have 24/7 access to best-fit digital capabilities and resources to meet their end-to-end needs.

**Committed experts:** One of our key strategic goals is to be our clients' expert of choice. To achieve this, we invest in recruiting professionals with extensive industry, business and technology expertise, particularly in high-demand areas, such as agile services, robotics process automation, cloud, mobile computing, cybersecurity, data analytics and the Internet of Things. In addition, a majority of CGI professionals are also shareholders, providing an added level of commitment to the success of our clients.

**Comprehensive quality processes:** CGI's investment in quality frameworks and rigorous client satisfaction assessments has resulted in a consistent track record of on-time and within-budget project delivery.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**1.3. COMPETITIVE ENVIRONMENT**

In today's digital era, there is a competitive urgency for organizations across industries to become digital in a sustainable way. The pressure is on to modernize legacy assets and connect them to digital business and operating models. Central to this massive transformation is the evolving role of technology. Traditionally viewed as an enabler, technology is now being recognized as a business driver. The promise of digital creates an enormous opportunity to transform organizations end-to-end, and CGI is well-positioned to serve as a digital partner and expert of choice. We're working with clients across the globe to implement digital strategies, roadmaps and solutions that revolutionize the customer/citizen experience, drive the launch of new products and services, and deliver efficiencies and cost savings.

As the demand for digitalization increases, competition within the global IT industry is intensifying. CGI's competition comprises a variety of players; from niche companies providing specialized services and software, to global, end-to-end IT service providers, to large consulting firms. All of these players are competing to deliver some or all of the services we provide. Many factors distinguish the industry leaders, including the following:

Industry and technology expertise;

On-time, within-budget delivery;

Total cost of services;

Breadth of digital IP solutions;

Global delivery capabilities; and

Local presence and strength of client relationships.

CGI compares very favourably with the competition with respect to all of these factors. We're not only delivering all of the capabilities clients need to compete in a digital world, but the immediate results and long-term value they expect. We're helping clients to better run, change and grow their businesses providing a competitive differentiator.

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**FISCAL 2016 RESULTS**

**2. Highlights and Key Performance Measures**

**2.1. FISCAL 2016 YEAR-OVER-YEAR HIGHLIGHTS**

Key performance figures for the period include:

Revenue of \$10.7 billion, up 3.9%;

Bookings of \$11.7 billion, or 110% of revenue;

Backlog of \$20.9 billion; up \$181.8 million;

Adjusted EBIT of \$1,560.3 million, up 7.1%;

Adjusted EBIT margin of 14.6%, up 40 basis points;

Net earnings of \$1,068.7 million, up 9.3%;

Net earnings margin of 10.0%, up 50 basis points;

Diluted EPS of \$3.42, up 12.5%;

Cash provided by operating activities of \$1,333.1 million, or 12.5% of revenue;

Net debt of \$1.3 billion, down \$446.3 million; and

Return on equity of 17.2%.





**Table of Contents****MANAGEMENT'S DISCUSSION AND ANALYSIS****2.2. SELECTED YEARLY INFORMATION & KEY PERFORMANCE MEASURES**

| As at and for the years ended<br>September 30, | 2016 | 2015 | 2014 | Change<br>2016 / 2015 | Change<br>2015 / 2014 |
|--|------|------|------|-----------------------|-----------------------|
|--|------|------|------|-----------------------|-----------------------|

*In millions of CAD unless otherwise noted*

| <b>Growth</b>  |                 |          |          |               |         |
|--|-----------------|----------|----------|---------------|---------|
| Revenue  | <b>10,683.3</b> | 10,287.1 | 10,499.7 | <b>396.2</b>  | (212.6) |
| Year-over-year revenue growth                                  | <b>3.9%</b>     | (2.0%)   | 4.1%     | <b>5.9%</b>   | (6.1%)  |
| Constant currency year-over-year revenue growth <sup>1</sup>   | <b>0.2%</b>     | (4.0%)   | (2.9%)   | <b>4.2%</b>   | (1.1%)  |
| Backlog  | <b>20,893</b>   | 20,711   | 18,237   | <b>182</b>    | 2,474   |
| Bookings   | <b>11,731</b>   | 11,640   | 10,169   | <b>91</b>     | 1,471   |
| Book-to-bill ratio   | <b>109.8%</b>   | 113.2%   | 96.8%    | <b>(3.4%)</b> | 16.4%   |
| <b>Profitability</b>   |                 |          |          |               |         |
| Adjusted EBIT <sup>2</sup>                                     | <b>1,560.3</b>  | 1,457.3  | 1,356.9  | <b>103.0</b>  | 100.4   |
| Adjusted EBIT margin <sup>2</sup>                              | <b>14.6%</b>    | 14.2%    | 12.9%    | <b>0.4%</b>   | 1.3%    |
| Net earnings   | <b>1,068.7</b>  | 977.6    | 859.4    | <b>91.2</b>   | 118.2   |
| Net earnings margin  | <b>10.0%</b>    | 9.5%     | 8.2%     | <b>0.5%</b>   | 1.3%    |
| Diluted EPS (in dollars)                                       | <b>3.42</b>     | 3.04     | 2.69     | <b>0.38</b>   | 0.35    |
| Net earnings excluding specific items <sup>3</sup>             | <b>1,081.5</b>  | 1,005.1  | 893.5    | <b>76.4</b>   | 111.6   |
| Net earnings margin excluding specific items <sup>3</sup>      | <b>10.1%</b>    | 9.8%     | 8.5%     | <b>0.3%</b>   | 1.3%    |
| Diluted EPS excluding specific items (in dollars) <sup>3</sup> | <b>3.46</b>     | 3.13     | 2.80     | <b>0.33</b>   | 0.33    |
| <b>Liquidity</b>   |                 |          |          |               |         |

|   |                 |          |          |                |         |
|---|-----------------|----------|----------|----------------|---------|
| Cash provided by operating activities                 | <b>1,333.1</b>  | 1,289.3  | 1,174.8  | <b>43.8</b>    | 114.5   |
| <i>As a % of revenue</i>                              | <b>12.5%</b>    | 12.5%    | 11.2%    |                | 1.3%    |
| Days sales outstanding <sup>4</sup>                   | <b>44</b>       | 44       | 43       |                | 1       |
| <b>Capital structure</b>                              |                 |          |          |                |         |
| Net debt <sup>5</sup>                                 | <b>1,333.3</b>  | 1,779.6  | 2,113.3  | <b>(446.3)</b> | (333.7) |
| Net debt to capitalization ratio <sup>6</sup>         | <b>15.8%</b>    | 21.7%    | 27.6%    | <b>(5.9%)</b>  | (5.9%)  |
| Return on equity <sup>7</sup>                         | <b>17.2%</b>    | 17.7%    | 18.8%    | <b>(0.5%)</b>  | (1.1%)  |
| Return on invested capital <sup>8</sup>               | <b>14.5%</b>    | 14.5%    | 14.5%    |                |         |
| <b>Balance sheet</b>                                  |                 |          |          |                |         |
| Cash and cash equivalents, and short-term investments | <b>596.5</b>    | 305.3    | 535.7    | <b>291.2</b>   | (230.4) |
| Total assets  | <b>11,693.3</b> | 11,787.3 | 11,234.1 | <b>(94.0)</b>  | 553.2   |
| Long-term financial liabilities <sup>9</sup>          | <b>1,765.4</b>  | 1,896.4  | 2,748.4  | <b>(131.0)</b> | (852.0) |

<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 year ended 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> Net earnings excluding specific items is a measure for which we provide the reconciliation to its closest IFRS measure in section 3.8.3 for the years ended September 30, 2016 and 2015. For the year ended September 30, 2014 specific items includes integration-related costs and resolution of acquisition-related provisions net of taxes as well as tax adjustments. 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.

<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.

- 6 The net debt to capitalization ratio is a measure which is discussed in section 4.5.
- 7 ROE is a measure which is discussed in section 4.5.
- 8 ROIC is a measure which is discussed in section 4.5.
- 9 Long-term financial liabilities include the long-term portion of the debt and the long-term derivative financial instruments.

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**Table of Contents****FISCAL 2016 RESULTS****2.3. STOCK PERFORMANCE****2.3.1. Fiscal 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)     |
| Open:  | 48.35     |
| High:  | 65.84     |
| Low:   | 46.91     |
| Close:   | 62.49     |
| CDN average daily trading volumes <sup>1</sup> : | 1,001,525 |
| <b>NYSE</b>                                      | (USD)     |
| Open:  | 36.34     |
| High:  | 50.58     |
| Low:   | 35.38     |
| Close:   | 47.63     |
| NYSE average daily trading volumes:              | 199,750   |

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

**Table of Contents****MANAGEMENT'S DISCUSSION AND ANALYSIS****2.3.2. Share Repurchase Program**

On January 27, 2016, 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 21,425,992 Class A subordinate voting shares for cancellation, representing 10% of the Company's public float as of the close of business on January 22, 2016. The Class A subordinate voting shares may be purchased under the NCIB commencing February 11, 2016 and ending on the earlier of February 3, 2017 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 fiscal 2016, the Company repurchased 9,319,875 Class A subordinate voting shares for approximately \$517.8 million at an average price of \$55.56 under the previous and current NCIB. The repurchased shares included 7,112,375 Class A subordinate voting shares repurchased from Caisse de dépôt et placement du Québec for cash consideration of \$400.0 million. In accordance with the TSX rules, the repurchase is considered in the annual aggregate limit that the Company is entitled to repurchase under its current NCIB. As at September 30, 2016, the Company may repurchase up to 14,313,617 Class A subordinate voting shares under the current NCIB.

**2.3.3. Capital Stock and Options Outstanding**

The following table provides a summary of the Capital Stock and Options Outstanding as at November 4, 2016:

| Capital Stock and Options Outstanding                 | As at November 4, 2016 |
|---|------------------------|
| Class A subordinate voting shares                     | 272,103,193            |
| Class B multiple voting shares                        | 32,852,748             |
| Options to purchase Class A subordinate voting shares | 16,546,269             |

**2.4. INVESTMENTS IN SUBSIDIARIES**

On November 4, 2016, the Company announced the closing of the acquisition of Collaborative Consulting, a system integration and consulting company headquartered in Boston, Massachusetts. With approximately 400 professionals and annualized revenues of approximately US\$76.0M, Collaborative Consulting will enhance and accelerate CGI's position as a provider of digital transformation services.

The cash acquisition of all unit holder positions of Collaborative Consulting was completed effective November 3, 2016.



**Table of Contents****FISCAL 2016 RESULTS****3. Financial Review****3.1. BOOKINGS AND BOOK-TO-BILL RATIO**

Bookings for the year were \$11.7 billion representing a book-to-bill ratio of 109.8%. The breakdown of the new bookings signed during the year is as follows:

| <b>Contract Type</b>       | <b>Service Type</b>                        | <b>Segment</b>  | <b>Vertical Market</b> |
|----------------------------|--|-----------------|------------------------|
| A. Extensions and renewals | A. Systems integration and consulting      | A. U.S.         | A. Government          |
| 57%                        | 53%  | 25%             | 33%                    |
| B. New business            | B. Management of IT and business functions | B. Canada       | B. MRD                 |
| 43%                        | 47%  | 21%             | 30%                    |
|                            |  | C. Nordics      | C. Financial services  |
|                            |  | 15%             | 20%                    |
|                            |  | D. France       | D. Telecommunications  |
|                            |  | 14%             |                        |
|                            |  | E. U.K.         | & utilities            |
|                            |  | 14%             | 11%                    |
|                            |  | F. ECS          | E. Health              |
|                            |  | 10%             | 6%                     |
|                            |  | G. Asia Pacific |                        |
|                            |  | 1%              |                        |

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.

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> | <b>Bookings for the year<br/>ended September 30, 2016</b> | <b>Book-to-bill ratio for the year<br/>ended September 30, 2016</b> |
|---|---|---|
| <b>Total CGI</b>                                  | <b>11,730,713</b>   | <b>109.8%</b>   |
| <b>U.S.</b>                                       | <b>2,978,558</b>  | <b>100.3%</b>   |
| <b>Nordics</b>                                    | <b>1,736,860</b>  | <b>100.6%</b>   |
| <b>Canada</b>                                     | <b>2,495,550</b>  | <b>151.4%</b>   |
| <b>France</b>                                     | <b>1,584,578</b>  | <b>107.6%</b>   |
| <b>U.K.</b>                                       | <b>1,650,659</b>  | <b>105.6%</b>   |
| <b>ECS</b>  | <b>1,128,600</b>  | <b>96.8%</b>  |
| <b>Asia Pacific</b>                               | <b>155,908</b>  | <b>113.4%</b>   |



**Table of Contents****MANAGEMENT'S DISCUSSION AND ANALYSIS****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*

| As at September 30, | 2016          | 2015   | Change         |
|---------------------|---------------|--------|----------------|
| U.S. dollar         | <b>1.3121</b> | 1.3399 | <b>(2.1%)</b>  |
| Euro                | <b>1.4747</b> | 1.4958 | <b>(1.4%)</b>  |
| Indian rupee        | <b>0.0197</b> | 0.0205 | <b>(3.9%)</b>  |
| British pound       | <b>1.7076</b> | 2.0252 | <b>(15.7%)</b> |
| Swedish krona       | <b>0.1531</b> | 0.1596 | <b>(4.1%)</b>  |
| Australian dollar   | <b>1.0061</b> | 0.9405 | <b>7.0%</b>    |

*Average foreign exchange rates*

| For the years ended September 30, | 2016          | 2015   | Change        |
|-----------------------------------|---------------|--------|---------------|
| U.S. dollar                       | <b>1.3255</b> | 1.2294 | <b>7.8%</b>   |
| Euro                              | <b>1.4722</b> | 1.4081 | <b>4.6%</b>   |
| Indian rupee                      | <b>0.0198</b> | 0.0195 | <b>1.5%</b>   |
| British pound                     | <b>1.8876</b> | 1.8983 | <b>(0.6%)</b> |
| Swedish krona                     | <b>0.1574</b> | 0.1506 | <b>4.5%</b>   |
| Australian dollar                 | <b>0.9760</b> | 0.9634 | <b>1.3%</b>   |

**3.3. REVENUE DISTRIBUTION**

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

| Service Type |   | Client Geography |         | Vertical Market |                                |
|--------------|---|------------------|---------|-----------------|--------------------------------|
| A.           | Management of IT and business functions |                  | U.S.    |                 | Government                     |
|              |   | 54%              | A.      | 28%             | A.                             |
| 1.           | IT services                             |                  | Canada  |                 | MRD                            |
|              |   |                  |         |                 | 34%                            |
|              |   | 44%              | B.      | 15%             | B.                             |
| 2.           | Business process services               |                  | U.K.    |                 | Financial services             |
|              |   |                  |         |                 | 23%                            |
|              |   | 10%              | C.      | 15%             | C.                             |
|              |   |                  | France  |                 | Telecommunications & utilities |
|              |   |                  |         |                 | 21%                            |
|              |   |                  | D.      | 13%             | D.                             |
| B.           | Systems integration and consulting      |                  | Sweden  |                 | Health                         |
|              |   | 46%              | E.      | 8%              | E.                             |
|              |   |                  | Finland |                 | 7%                             |
|              |   |                  | F.      | 6%              |                                |
|              |   |                  | G.      | 15%             | Rest of the world              |

### 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 entity to be under common control. As a consequence, our work for the U.S. federal government including its various agencies represented 13.2% of our revenue for fiscal 2016 as compared to 14.0% in fiscal 2015.

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## FISCAL 2016 RESULTS

**3.4. REVENUE VARIATION AND REVENUE BY SEGMENT**

Our seven segments are reported based on where the client's work is delivered from - our geographic delivery model.

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 fiscal 2016 and fiscal 2015. The fiscal 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 same period's results converted with the prior year's foreign exchange rate.

| For the years ended September 30,                 | 2016              | 2015       | Change           |               |
|---|-------------------|------------|------------------|---------------|
|   |                   |            | \$               | %             |
| <i>In thousands of CAD except for percentages</i> |                   |            |                  |               |
| <b>Total CGI revenue</b>                          | <b>10,683,264</b> | 10,287,096 | <b>396,168</b>   | <b>3.9%</b>   |
| Variation prior to foreign currency impact        | <b>0.2%</b>       |            |                  |               |
| Foreign currency impact                           | <b>3.7%</b>       |            |                  |               |
| <b>Variation over previous period</b>             | <b>3.9%</b>       |            |                  |               |
| <b>U.S.</b>                                       |                   |            |                  |               |
| Revenue prior to foreign currency impact          | <b>2,673,658</b>  | 2,813,127  | <b>(139,469)</b> | <b>(5.0%)</b> |
| Foreign currency impact                           | <b>205,003</b>    |            |                  |               |
| <b>U.S. revenue</b>                               | <b>2,878,661</b>  | 2,813,127  | <b>65,534</b>    | <b>2.3%</b>   |

|  |                  |           |                 |               |
|--|------------------|-----------|-----------------|---------------|
| <b>Nordics</b>                           |                  |           |                 |               |
| Revenue prior to foreign currency impact | <b>1,583,199</b> | 1,638,985 | <b>(55,786)</b> | <b>(3.4%)</b> |
| Foreign currency impact                  | <b>68,123</b>    |           |                 |               |
| <b>Nordics revenue</b>                   | <b>1,651,322</b> | 1,638,985 | <b>12,337</b>   | <b>0.8%</b>   |
| <b>Canada</b>                            |                  |           |                 |               |
| Revenue prior to foreign currency impact | <b>1,535,498</b> | 1,533,719 | <b>1,779</b>    | <b>0.1%</b>   |
| Foreign currency impact                  | <b>833</b>       |           |                 |               |
| <b>Canada revenue</b>                    | <b>1,536,331</b> | 1,533,719 | <b>2,612</b>    | <b>0.2%</b>   |
| <b>France</b>                            |                  |           |                 |               |
| Revenue prior to foreign currency impact | <b>1,381,004</b> | 1,283,387 | <b>97,617</b>   | <b>7.6%</b>   |
| Foreign currency impact                  | <b>63,962</b>    |           |                 |               |
| <b>France revenue</b>                    | <b>1,444,966</b> | 1,283,387 | <b>161,579</b>  | <b>12.6%</b>  |
| <b>U.K.</b>                              |                  |           |                 |               |
| Revenue prior to foreign currency impact | <b>1,445,329</b> | 1,331,287 | <b>114,042</b>  | <b>8.6%</b>   |
| Foreign currency impact                  | <b>(13,590)</b>  |           |                 |               |
| <b>U.K. revenue</b>                      | <b>1,431,739</b> | 1,331,287 | <b>100,452</b>  | <b>7.5%</b>   |
| <b>ECS</b>                               |                  |           |                 |               |
| Revenue prior to foreign currency impact | <b>1,152,070</b> | 1,211,228 | <b>(59,158)</b> | <b>(4.9%)</b> |

|  |                  |           |                 |               |
|--|------------------|-----------|-----------------|---------------|
| Foreign currency impact                  | <b>46,784</b>    |           |                 |               |
| <b>ECS revenue</b>                       | <b>1,198,854</b> | 1,211,228 | <b>(12,374)</b> | <b>(1.0%)</b> |
| <b>Asia Pacific</b>                      |                  |           |                 |               |
| Revenue prior to foreign currency impact | <b>533,059</b>   | 475,363   | <b>57,696</b>   | <b>12.1%</b>  |
| Foreign currency impact                  | <b>8,332</b>     |           |                 |               |
| <b>Asia Pacific revenue</b>              | <b>541,391</b>   | 475,363   | <b>66,028</b>   | <b>13.9%</b>  |

For the year ended September 30, 2016 revenue was \$10,683.3 million, an increase of \$396.2 million, or 3.9% over the same period of fiscal 2015. On a constant currency basis, revenue increased by 0.2%. Foreign currency rate fluctuations favourably impacted our revenue by \$379.4 million or 3.7%. The revenue growth in U.K., France and the increased use of our offshore global delivery centers in Asia Pacific compensated for the non-renewal of contracts in the U.S. federal defense market and lower work volumes in the Nordics and ECS segments.

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**Table of Contents****MANAGEMENT'S DISCUSSION AND ANALYSIS****3.4.1. U.S.**

For the year ended September 30, 2016 revenue in our U.S. segment was \$2,878.7 million, an increase of \$65.5 million or 2.3% over fiscal 2015. On a constant currency basis, revenue decreased by \$139.5 million or 5.0%. The change in revenue was mainly driven by the non-renewal of contracts in the U.S. government market, mainly in the defense sector. This was partly offset by an increased volume of work within the U.S. federal civilian agencies.

For the year ended September 30, 2016, the top two U.S. vertical markets were government and financial services, which together accounted for approximately 77% of revenue.

**3.4.2. Nordics**

For the year ended September 30, 2016, revenue in our Nordics segment was \$1,651.3 million, an increase of \$12.3 million or 0.8% over the same period of fiscal 2015. On a constant currency basis, revenue decreased by \$55.8 million or 3.4%. The change in revenue was mostly due to the expiration of certain infrastructure contracts, lower work volumes, and an increased usage of our offshore delivery centers in Asia Pacific. This was partly offset by an increased work volume in Denmark mainly in the MRD vertical market.

For the year ended September 30, 2016, Nordics' top two vertical markets were MRD and government, which together accounted for approximately 65% of revenue.

**3.4.3. Canada**

For the year ended September 30, 2016, revenue in our Canada segment was \$1,536.3 million, an increase of \$2.6 million or 0.2% compared to the same period last year. When considering the higher proportion of revenues delivered from our offshore delivery centers in Asia Pacific, our client revenue grew by 2.3%. This increase was mainly due to growth in the financial services market, including IP-based services and solutions revenue and new outsourcing contracts within the MRD vertical market. This was partly offset by expiration of certain infrastructure outsourcing contracts and the positive impact on revenue of a client arbitration award in Q3 2015.

For the year ended September 30, 2016, Canada's top two vertical markets were financial services and telecommunications & utilities, which together accounted for approximately 62% of revenue.

**3.4.4. France**

For the year ended September 30, 2016, revenue in our France segment was \$1,445.0 million, an increase of \$161.6 million or 12.6% over the same period of fiscal 2015. On a constant currency basis, revenue increased by \$97.6 million or 7.6%. The increase in revenue was mostly due to more work volume across the majority of their vertical markets and, to a lesser extent, to a recent business acquisition.

For the year ended September 30, 2016, France's top two vertical markets were MRD and financial services, which together accounted for approximately 63% of revenue.

**3.4.5. U.K.**

For the year ended September 30, 2016, revenue in our U.K. segment was \$1,431.7 million, an increase of \$100.5 million or 7.5% over fiscal 2015. On a constant currency basis, revenue increased by \$114.0 million or 8.6%. The increase in revenue was mainly due to new outsourcing contracts in the government market combined with higher work volume in the telecommunication & utilities and financial services vertical markets. This was partly offset by lower work volume with a client in the MRD vertical market.

For the year ended September 30, 2016, U.K.'s top two vertical markets were government and telecommunications & utilities, which together accounted for approximately 68% of revenue.

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## FISCAL 2016 RESULTS

**3.4.6. ECS**

For the year ended September 30, 2016, revenue in our ECS segment was \$1,198.9 million, a decrease of \$12.4 million or 1.0% over fiscal 2015. On a constant currency basis, revenue decreased by \$59.2 million or 4.9%. The change in revenue was mostly due to lower work volume and projects completed in the Netherlands, lower work volume combined with the divesting of certain low margin contracts in Southern Europe and the wind-down of the majority of our operations in South America. This was partly offset by increased work volume in Germany mainly in the MRD and telecommunication & utilities vertical markets.

For the year ended September 30, 2016, ECS top two vertical markets were MRD and telecommunications & utilities, which together accounted for approximately 63% of revenue.

**3.4.7. Asia Pacific**

For the year ended September 30, 2016, revenue in our Asia Pacific segment was \$541.4 million, an increase of \$66.0 million or 13.9% over the same period of fiscal 2015. On a constant currency basis, revenue increased by \$57.7 million or 12.1%. The increase in revenue was due the continued increased demand of our offshore delivery centers across our segments, as our clients continue taking advantage of our global delivery network. This was partly offset by lower work volumes in Australia.

For the year ended September 30, 2016, Asia Pacific's top two vertical markets were telecommunications & utilities and MRD, which together accounted for approximately 72% of revenue.

**3.5. OPERATING EXPENSES**

| For the years ended<br>September 30,              | % of      |         | % of      |         | Change  |         |
|---|-----------|---------|-----------|---------|---------|---------|
|   | 2016      | Revenue | 2015      | Revenue | \$      | %       |
| <i>In thousands of CAD except for percentages</i> |           |         |           |         |         |         |
| Costs of services, selling and administrative     | 9,120,929 | 85.4%   | 8,819,055 | 85.7%   | 301,874 | 3.4%    |
| Foreign exchange loss                             | 2,024     | 0.0%    | 10,733    | 0.1%    | (8,709) | (81.1%) |



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

For the year ended September 30, 2016, costs of services, selling and administrative expenses amounted to \$9,120.9 million, an increase of \$301.9 million over the same period last year. As a percentage of revenue, cost of services, selling and administrative expenses improved to 85.4% from 85.7%. As a percentage of revenue, our costs of services improved compared to the same period last year mainly due to savings related to the recent restructuring program, improved utilization rates and the increased use of our global delivery network. Our selling and administrative expenses, as a percentage of revenue, remained stable.

During the year ended September 30, 2016 the translation of the results of our foreign operations from their local currencies to the Canadian dollar unfavourably impacted costs by \$325.5 million substantially offsetting the favourable translation impact of \$379.4 million on our revenue.

**3.5.2. Foreign Exchange Loss**

During the year ended September 30, 2016, CGI incurred \$2.0 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.

**Table of Contents****MANAGEMENT'S DISCUSSION AND ANALYSIS****3.6. ADJUSTED EBIT BY SEGMENT**

| For the years ended September 30,                 | 2016           | 2015    | Change         |               |
|---|----------------|---------|----------------|---------------|
|   |                |         | \$             | %             |
| <i>In thousands of CAD except for percentages</i> |                |         |                |               |
| <b>U.S.</b>                                       | <b>486,295</b> | 454,325 | <b>31,970</b>  | <b>7.0%</b>   |
| <i>As a percentage of U.S. revenue</i>            | <i>16.9%</i>   | 16.2%   |                |               |
| <b>Nordics</b>                                    | <b>186,742</b> | 153,841 | <b>32,901</b>  | <b>21.4%</b>  |
| <i>As a percentage of Nordics revenue</i>         | <i>11.3%</i>   | 9.4%    |                |               |
| <b>Canada</b>                                     | <b>345,483</b> | 343,692 | <b>1,791</b>   | <b>0.5%</b>   |
| <i>As a percentage of Canada revenue</i>          | <i>22.5%</i>   | 22.4%   |                |               |
| <b>France</b>                                     | <b>174,685</b> | 146,615 | <b>28,070</b>  | <b>19.1%</b>  |
| <i>As a percentage of France revenue</i>          | <i>12.1%</i>   | 11.4%   |                |               |
| <b>U.K.</b>                                       | <b>154,262</b> | 163,603 | <b>(9,341)</b> | <b>(5.7%)</b> |
| <i>As a percentage of U.K. revenue</i>            | <i>10.8%</i>   | 12.3%   |                |               |
| <b>ECS</b>  | <b>114,256</b> | 118,141 | <b>(3,885)</b> | <b>(3.3%)</b> |
| <i>As a percentage of ECS revenue</i>             | <i>9.5%</i>    | 9.8%    |                |               |
| <b>Asia Pacific</b>                               | <b>98,588</b>  | 77,091  | <b>21,497</b>  | <b>27.9%</b>  |

*As a percentage of Asia Pacific revenue***18.2%**

16.2%

|                             |                  |           |                |             |
|-----------------------------|------------------|-----------|----------------|-------------|
| <b>Adjusted EBIT</b>        | <b>1,560,311</b> | 1,457,308 | <b>103,003</b> | <b>7.1%</b> |
| <b>Adjusted EBIT margin</b> | <b>14.6%</b>     | 14.2%     |                |             |

For the year ended September 30, 2016, adjusted EBIT margin increased to 14.6% from 14.2% for the same period last year. The favourable variance in adjusted EBIT margin was primarily due to productivity improvements, the savings driven by our restructuring program and a better mix of profitable revenue.

### 3.6.1. U.S.

For the year ended September 30, 2016, adjusted EBIT in the U.S. segment was \$486.3 million, an increase of \$32.0 million. Adjusted EBIT margin increased to 16.9% from 16.2% mostly due to additional research and development tax credits and the decrease in amortization of client relationships related to the acquisition of Stanley, Inc.

### 3.6.2. Nordics

For the year ended September 30, 2016, adjusted EBIT in the Nordics segment was \$186.7 million, an increase of \$32.9 million, while the adjusted EBIT margin improved to 11.3% from 9.4%. The increase in adjusted EBIT margin came mainly from the ongoing cost synergies within our infrastructure business, the improved delivery performance, and the savings generated from the restructuring program.

**Table of Contents****FISCAL 2016 RESULTS****3.6.3. Canada**

For the year ended September 30, 2016, adjusted EBIT in the Canada segment was \$345.5 million, an increase of \$1.8 million compared to the same period last year, while the adjusted EBIT margin was stable when compared to fiscal 2015. When excluding the positive impact of a client arbitration award in Q3 2015, adjusted EBIT increased by 1.1% due to a better mix of profitable revenue, and growth in the financial services sector.

**3.6.4. France**

For the year ended September 30, 2016, adjusted EBIT in the France segment was \$174.7 million, an increase of \$28.1 million when compared to the same period last year. Adjusted EBIT margin improved to 12.1% from 11.4%. The increase in adjusted EBIT margin was mostly due to improved utilization rates on a year-over-year basis.

**3.6.5. U.K.**

For the year ended September 30, 2016, adjusted EBIT in the U.K. segment was \$154.3 million, a decrease of \$9.3 million when compared to fiscal 2015. Adjusted EBIT margin decreased to 10.8% from 12.3% mostly due to the positive impact of additional change orders on certain large contracts in fiscal 2015.

**3.6.6. ECS**

For the year ended September 30, 2016, adjusted EBIT was \$114.3 million, a decrease of \$3.9 million when compared to the same period last year. Adjusted EBIT margin was essentially stable with productivity improvements being offset by revenue impacts in the Netherlands as described in the revenue section.

**3.6.7. Asia Pacific**

For the year ended September 30, 2016, adjusted EBIT in the Asia Pacific segment was \$98.6 million an increase of \$21.5 million, while the margin improved to 18.2% from 16.2% compared to the same period last year mostly due to productivity improvements across their global delivery centers.

**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 years ended<br>September 30, | 2016% of Revenue | 2015% of Revenue | Change |   |
|--------------------------------------|------------------|------------------|--------|---|
|                                      |                  |                  | \$     | % |
|                                      |                  |                  |        |   |

| <i>In thousands of CAD except for percentage</i> |                  |              |           |       |                 |                |
|--|------------------|--------------|-----------|-------|-----------------|----------------|
| Adjusted EBIT                                    | <b>1,560,311</b> | <b>14.6%</b> | 1,457,308 | 14.2% | <b>103,003</b>  | <b>7.1%</b>    |
| <i>Minus the following items:</i>                |                  |              |           |       |                 |                |
| Restructuring costs                              | <b>29,100</b>    | <b>0.3%</b>  | 35,903    | 0.3%  | <b>(6,803)</b>  | <b>(18.9%)</b> |
| Net finance costs                                | <b>78,426</b>    | <b>0.7%</b>  | 92,857    | 0.9%  | <b>(14,431)</b> | <b>(15.5%)</b> |
| <b>Earnings before income taxes</b>              | <b>1,452,785</b> | <b>13.6%</b> | 1,328,548 | 12.9% | <b>124,237</b>  | <b>9.4%</b>    |

### 3.7.1. Restructuring Costs

In Q1 2016, we completed the previously announced restructuring program for productivity improvement initiatives. For the year ended September 30, 2016, the Company incurred \$29.1 million of restructuring costs for a total expense of \$65.0 million over the entire program.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

**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 year ended September 30, 2016 was mainly the result of the early 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 years ended September 30,  | 2016               | 2015        | Change         |               |
|--|--------------------|-------------|----------------|---------------|
|  |                    |             | \$             | %             |
| <i>In thousands of CAD except for percentage and shares data</i>               |                    |             |                |               |
| Earnings before income taxes   | <b>1,452,785</b>   | 1,328,548   | <b>124,237</b> | <b>9.4%</b>   |
| Income tax expense   | <b>384,069</b>     | 350,992     | <b>33,077</b>  | <b>9.4%</b>   |
| <i>Effective tax rate</i>  | <b>26.4%</b>       | 26.4%       |                |               |
| <b>Net earnings</b>  | <b>1,068,716</b>   | 977,556     | <b>91,160</b>  | <b>9.3%</b>   |
| <b>Net earnings margin</b>   | <b>10.0%</b>       | 9.5%        |                |               |
| <b>Weighted average number of shares outstanding</b>                           |                    |             |                |               |
| Class A subordinate voting shares and Class B multiple voting shares (basic)   | <b>304,808,130</b> | 311,477,555 |                | <b>(2.1%)</b> |
| Class A subordinate voting shares and Class B multiple voting shares (diluted) | <b>312,773,156</b> | 321,422,444 |                | <b>(2.7%)</b> |

| <b>Earnings per share (in dollars)</b> |             |      |             |              |
|--|-------------|------|-------------|--------------|
| Basic                                  | <b>3.51</b> | 3.14 | <b>0.37</b> | <b>11.8%</b> |
| Diluted                                | <b>3.42</b> | 3.04 | <b>0.38</b> | <b>12.5%</b> |

### 3.8.1. Income Tax Expense

For the year ended September 30, 2016, the income tax expense was \$384.1 million compared to \$351.0 million over the same period last year, while our effective tax rate remained stable. The income tax expense was impacted by a favourable tax adjustment of \$14.4 million in Q2 2016 attributable to the recognition of deferred tax assets following an agreement with the U.K. tax authority and an additional tax expense for an amount of \$5.9 million in Q1 2016 resulting from the re-evaluation of our deferred tax assets following the U.K. corporate tax reduction enacted in November 18, 2015. When excluding these tax adjustments and the tax effects from restructuring costs incurred in both years, the income tax rate would have been 27.0% during fiscal 2016 compared to 26.3% in fiscal 2015. The increase in the income tax expense and the income tax rate was mainly attributable to the increased profitability of our U.S., India and France operations where enacted income tax rates are higher.

The table in section 3.8.3. shows the year-over-year comparison of the tax rate with the impact of specific items removed.

Based on the enacted rates at the end of fiscal 2016 and our current business mix, we expect our effective tax rate before any significant adjustments to be in the range of 27.0% to 29.0% in subsequent periods.

### 3.8.2. Weighted Average Number of Shares

For fiscal 2016, CGI's basic and diluted weighted average number of shares decreased compared to fiscal 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.

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## FISCAL 2016 RESULTS

**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 tax adjustments:

| For the years ended September 30,                                 | 2016             | 2015      | Change         |                |
|---|------------------|-----------|----------------|----------------|
|   |                  |           | \$             | %              |
| <i>In thousands of CAD except for percentages and shares data</i> |                  |           |                |                |
| Earnings before income taxes                                      | <b>1,452,785</b> | 1,328,548 | <b>124,237</b> | <b>9.4%</b>    |
| <i>Add back:</i>  |                  |           |                |                |
| Restructuring costs <sup>1</sup>                                  | <b>29,100</b>    | 35,903    | <b>(6,803)</b> | <b>(18.9%)</b> |
| <b>Earnings before income taxes excluding specific items</b>      | <b>1,481,885</b> | 1,364,451 | <b>117,434</b> | <b>8.6%</b>    |
| Income tax expense  | <b>384,069</b>   | 350,992   | <b>33,077</b>  | <b>9.4%</b>    |
| <i>Add back:</i>  |                  |           |                |                |
| Tax adjustments <sup>2</sup>                                      | <b>8,500</b>     |           | <b>8,500</b>   |                |
| Tax deduction on restructuring costs                              | <b>7,858</b>     | 8,352     | <b>(494)</b>   | <b>(5.9%)</b>  |
|   | <b>400,427</b>   | 359,344   | <b>41,083</b>  | <b>11.4%</b>   |



|  |                    |             |               |               |
|--|--------------------|-------------|---------------|---------------|
| <b>Income tax expense excluding specific items</b>                             |                    |             |               |               |
| <i>Effective tax rate excluding specific items</i>                             | <b>27.0%</b>       | 26.3%       |               |               |
| <b>Net earnings excluding specific items</b>                                   |                    |             |               |               |
|  | <b>1,081,458</b>   | 1,005,107   | <b>76,351</b> | <b>7.6%</b>   |
| <i>Net earnings excluding specific items margin</i>                            | <b>10.1%</b>       | 9.8%        |               |               |
| <b>Weighted average number of shares outstanding</b>                           |                    |             |               |               |
| Class A subordinate voting shares and Class B multiple voting shares (basic)   | <b>304,808,130</b> | 311,477,555 |               | <b>(2.1%)</b> |
| Class A subordinate voting shares and Class B multiple voting shares (diluted) | <b>312,773,156</b> | 321,422,444 |               | <b>(2.7%)</b> |
| <b>Earnings per share excluding specific items (in dollars)</b>                |                    |             |               |               |
| Basic  | <b>3.55</b>        | 3.23        | <b>0.32</b>   | <b>9.9%</b>   |
| Diluted  | <b>3.46</b>        | 3.13        | <b>0.33</b>   | <b>10.5%</b>  |

<sup>1</sup> Refer to section 3.7.1.

<sup>2</sup> Refer to section 3.8.1.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

**4. Liquidity****4.1. 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 September 30, 2016, cash and cash equivalents were \$596.5 million. The following table provides a summary of the generation and use of cash for the years ended September 30, 2016 and 2015.

| For the years ended September 30,                                    | 2016             | 2015        | Change           |
|--|------------------|-------------|------------------|
| <i>In thousands of CAD</i>   |                  |             |                  |
| Cash provided by operating activities                                | <b>1,333,074</b> | 1,289,310   | <b>43,764</b>    |
| Cash used in investing activities                                    | <b>(382,731)</b> | (257,127)   | <b>(125,604)</b> |
| Cash used in financing activities                                    | <b>(666,304)</b> | (1,303,663) | <b>637,359</b>   |
| Effect of foreign exchange rate changes on cash and cash equivalents | <b>7,228</b>     | 41,027      | <b>(33,799)</b>  |
| <b>Net increase (decrease) in cash and cash equivalents</b>          | <b>291,267</b>   | (230,453)   | <b>521,720</b>   |

**4.1.1. Cash Provided by Operating Activities**

For the year ended September 30, 2016, cash provided by operating activities was \$1,333.1 million or 12.5% of revenue as compared to \$1,289.3 million or 12.5% from the prior year.

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

| For the years ended September 30,  | 2016             | 2015          | Change           |
|--|------------------|---------------|------------------|
| <i>In thousands of CAD</i>   |                  |               |                  |
| Net earnings   | <b>1,068,716</b> | 977,556       | <b>91,160</b>    |
| Amortization and depreciation  | <b>400,060</b>   | 424,044       | <b>(23,984)</b>  |
| Other adjustments <sup>1</sup>   | <b>132,171</b>   | <u>89,451</u> | <b>42,720</b>    |
| <b>Cash flow from operating activities before net change in non-cash working capital items</b>       | <b>1,600,947</b> | 1,491,051     | <b>109,896</b>   |
| <i>Net change in non-cash working capital items:</i>   |                  |               |                  |
| Accounts receivable, work in progress and deferred revenue   | <b>(134,632)</b> | (25,517)      | <b>(109,115)</b> |
| Accounts payable and accrued liabilities, accrued compensation, provisions and long-term liabilities | <b>(115,853)</b> | (204,169)     | <b>88,316</b>    |
| Other <sup>2</sup>   | <b>(17,388)</b>  | <u>27,945</u> | <b>(45,333)</b>  |
| <b>Net change in non-cash working capital items</b>  | <b>(267,873)</b> | (201,741)     | <b>(66,132)</b>  |
| <b>Cash provided by operating activities</b>   |                  | 1,289,310     |                  |
|  | <b>1,333,074</b> |               | <b>43,764</b>    |

<sup>1</sup> Comprised of deferred income taxes, foreign exchange gain and share-based payment costs.

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

For the year ended September 30, 2016, the \$267.9 million of net change in non-cash working capital items was mostly due to :

The increase in other receivables comprised mainly of tax credits receivable; and,

The decrease in accounts payable and accrued liabilities, accrued compensation, provisions and long-term liabilities mainly driven by the net decrease in provisions including the payments of the restructuring provision and the timing of payroll accruals.

The timing of our working capital inflows and outflows will always have an impact on the cash flow from operations.

**Table of Contents****FISCAL 2016 RESULTS****4.1.2. Cash Used in Investing Activities**

For the year ended September 30, 2016, \$382.7 million were used in investing activities while \$257.1 million were used in the prior year.

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

| For the years ended September 30,                          | 2016             | 2015             | Change           |
|--|------------------|------------------|------------------|
| <i>In thousands of CAD</i>                                 |                  |                  |                  |
| Business acquisitions                                      | (38,442)         |                  | (38,442)         |
| Proceeds from sale of capital assets                       | 10,254           | 15,255           | (5,001)          |
| Purchase of property, plant and equipment                  | (165,516)        | (122,492)        | (43,024)         |
| Additions to contract costs                                | (103,156)        | (78,815)         | (24,341)         |
| Additions to intangible assets                             | (100,963)        | (71,357)         | (29,606)         |
| Net proceeds from sale (purchase) of long-term investments | 14,928           | (4,736)          | 19,664           |
| Payments received from long-term receivables               | 164              | 5,018            | (4,854)          |
| <b>Cash used in investing activities</b>                   | <b>(382,731)</b> | <b>(257,127)</b> | <b>(125,604)</b> |

The increase of \$125.6 million in cash used in investing activities during the year ended September 30, 2016 was mainly due to :

The purchase of property, plant and equipment due to investments across our data center infrastructure operations and global delivery centers;

Cash used in business acquisitions;

Investments in intangible assets for the purchase of software licenses used mainly in the delivery of client contracts as well as investment in internal-use software; and,

Cash used in contract costs for new clients.

This was partially offset by the net proceeds from the sale of long-term investments.

**Table of Contents****MANAGEMENT'S DISCUSSION AND ANALYSIS****4.1.3. Cash Used in Financing Activities**

For the year ended September 30, 2016, \$666.3 million were used in financing activities while \$1,303.7 million were used in the prior year.

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

| For the years ended September 30,                           | 2016             | 2015               | Change         |
|---|------------------|--------------------|----------------|
| <i>In thousands of CAD</i>                                  |                  |                    |                |
| Net change in long-term debt                                | (182,651)        | (901,566)          | 718,915        |
| Settlement of derivative financial instruments              | (24,057)         | (121,615)          | 97,558         |
| Purchase of Class A subordinate voting shares held in trust | (21,795)         | (11,099)           | (10,696)       |
| Repurchase of Class A subordinate voting shares             | (527,286)        | (323,069)          | (204,217)      |
| Issuance of Class A subordinate voting shares               | 89,485           | 53,686             | 35,799         |
| <b>Cash used in financing activities</b>                    | <b>(666,304)</b> | <b>(1,303,663)</b> | <b>637,359</b> |

For the year ended September 30, 2016, \$182.7 million was used to reduce our outstanding long-term debt mainly driven by the \$129.7 million repayment under the term loan credit facility, while we made net repayments of \$901.6 million to reduce our long-term debt last year. During the years ended September 30, 2016 and 2015, the Company used \$24.1 million and \$121.6 million respectively to settle the cross-currency swaps related to the outstanding long-term debt repaid during these periods.

For the year ended September 30, 2016, 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. More information concerning the PSU Plan can be found in note 19 of the audited consolidated financial statements.

For the year ended September 30, 2016, we used \$517.8 million to repurchase 9,319,875 Class A subordinate voting shares under the previous and 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 year ended September 30, 2015, \$323.1 million was used to repurchase 6,725,735 Class A subordinate voting shares under the annual aggregate limit of the NCIB then in effect.

Finally, for the year ended September 30, 2016, we received \$89.5 million in proceeds from the exercise of stock options, compared to \$53.7 million during the year ended September 30, 2015.

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

For the year ended September 30, 2016, the effect of foreign exchange rate changes on cash and cash equivalents was \$7.2 million. This amount had no effect on net earnings as it was recorded in other comprehensive income.



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FISCAL 2016 RESULTS

**4.2. CAPITAL RESOURCES**

| As at September 30, 2016                            | Total            | Available        | Outstanding   |
|---|------------------|------------------|---------------|
| <i>In thousands of CAD</i>                          |                  |                  |               |
| Cash and cash equivalents                           |                  | 596,529          |               |
| Long-term investments                               |                  | 27,246           |               |
| Unsecured committed revolving facility <sup>a</sup> | <b>1,500,000</b> | 1,466,086        | 33,914        |
| <b>Total</b>  | <b>1,500,000</b> | <b>2,089,861</b> | <b>33,914</b> |

<sup>a</sup> Consists of Letters of Credit for \$33.9 million outstanding as at September 30, 2016.

Our cash position and bank lines are sufficient to support our growth strategy. At September 30, 2016, cash and cash equivalents and long-term investments represented \$623.8 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 \$2,089.9 million. The long-term debt agreements contain covenants, which require us to maintain certain financial ratios. As at September 30, 2016, CGI was in compliance with these covenants.

Total debt decreased by \$216.1 million to \$1,911.0 million as at September 30, 2016, compared to \$2,127.1 million as at September 30, 2015. The variation was mainly due to the \$129.7 million repayment under the unsecured committed revolving credit facility combined with other repayments.

As at September 30, 2016, CGI was showing a positive working capital<sup>1</sup> of \$425.0 million. The Company also had \$1,466.1 million 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 8, 2016, the unsecured committed revolving facility was extended by two years to December 2021 and can be further extended. There were no material changes in the terms and conditions including interest rates and banking covenants.

As at September 30, 2016, the cash and cash equivalents held by foreign subsidiaries were \$557.8 million (\$263.6 million as at September 30, 2015). The tax implications and impact related to its repatriation will not materially affect

the Company's liquidity.

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

**Table of Contents****MANAGEMENT'S DISCUSSION AND ANALYSIS****4.3. CONTRACTUAL OBLIGATIONS**

We are committed under the terms of contractual obligations which have various expiration dates, primarily for the rental of premises, computer equipment used in outsourcing contracts and long-term service agreements. For the year ended September 30, 2016, the Company decreased its commitments by \$770.2 million mainly due to a decrease in rental office space commitments and repayments of long-term debt.

| <b>Commitment type</b>   | <b>Total</b>     | <b>Less than 1 year</b> | <b>2nd and 3rd years</b> | <b>4th and 5th years</b> | <b>After 5 years</b> |
|--|------------------|-------------------------|--------------------------|--------------------------|----------------------|
| <i>In thousands of CAD</i>                                     |                  |                         |                          |                          |                      |
| Long-term debt   | 1,861,880        | 173,362                 | 423,464                  | 342,285                  | 922,769              |
| Estimated interest on long-term debt                           | 361,842          | 69,010                  | 124,309                  | 97,673                   | 70,850               |
| Finance lease obligations                                      | 42,172           | 18,738                  | 17,183                   | 5,489                    | 762                  |
| Estimated interest on finance lease obligations                | 2,033            | 978                     | 878                      | 171                      | 6                    |
| Operating leases   |                  |                         |                          |                          |                      |
| Rental of office space (excluding costs of services and taxes) | 573,957          | 154,247                 | 209,521                  | 117,861                  | 92,328               |
| Computer equipment   | 15,562           | 7,941                   | 6,350                    | 976                      | 295                  |
| Automobiles  | 97,775           | 39,256                  | 49,072                   | 9,111                    | 336                  |
| Long-term service agreements and other                         | 189,676          | 85,825                  | 93,446                   | 10,092                   | 313                  |
| <b>Total contractual obligations</b>                           | <b>3,144,897</b> | <b>549,357</b>          | <b>924,223</b>           | <b>583,658</b>           | <b>1,087,659</b>     |

Our required benefit plan contributions have not been included in this table as such contributions depend on periodic actuarial valuations for funding purposes. Our contributions to defined benefit plans are estimated at \$19.2 million for fiscal 2017 as described in note 16 of the audited consolidated financial statements.

**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. Please refer to notes 3 and 30 of our audited consolidated financial statements for additional information on our financial instruments.



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FISCAL 2016 RESULTS

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

| As at September 30,  | 2016                         | 2015           |
|--|------------------------------|----------------|
| <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   | <b>1,333,323</b>             | 1,779,623      |
| <i>Add back:</i>   |                              |                |
| Cash and cash equivalents  | <b>596,529</b>               | 305,262        |
| Long-term investments  | <b>27,246</b>                | 42,202         |
| Fair value of foreign currency derivative financial instruments related to debt          | <b>(46,123)</b>              |                |
| <b>Long-term debt including the current portion</b>                                      | <b>1,910,975</b>             | 2,127,087      |
| Net debt to capitalization ratio   | <b>15.8%</b>                 | 21.7%          |
| Return on equity   | <b>17.2%</b><br><b>14.5%</b> | 17.7%<br>14.5% |

|                            |    |    |
|----------------------------|----|----|
| Return on invested capital |    |    |
| Days sales outstanding     | 44 | 44 |

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 15.8% in 2016 from 21.7% in 2015. The change in the net debt to capitalization ratio was mostly due to our improved cash generation allowing us to reduce our net debt by \$446.3 million.

ROE is a measure of the return we are generating for our shareholders. ROE decreased to 17.2% in fiscal 2016 from 17.7% in fiscal 2015. The change was mostly the result of an increase in average capital driven by accumulated earnings.

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 fiscal 2015 at 14.5%.

DSO of 44 days was stable when compared to fiscal 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 of approximately \$10.8 million, others do not specify a maximum amount or limited period. It is not possible 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 audited 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 September 30, 2016, we had committed a total of \$30.9 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.

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**Table of Contents****MANAGEMENT'S DISCUSSION AND ANALYSIS****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 2017.

Strong and experienced leadership is essential to successfully implement our Company's 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 favourable 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 52,000 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 CMMI certification programs.

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## FISCAL 2016 RESULTS

**5. Fourth Quarter Results****5.1. 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.

*Average foreign exchange rates*

| For the three months ended September 30, | 2016          | 2015   | Change         |
|--|---------------|--------|----------------|
| U.S. dollar                              | <b>1.3054</b> | 1.3095 | <b>(0.3%)</b>  |
| Euro                                     | <b>1.4570</b> | 1.4565 | <b>0.0%</b>    |
| Indian rupee                             | <b>0.0195</b> | 0.0202 | <b>(3.5%)</b>  |
| British pound                            | <b>1.7135</b> | 2.0285 | <b>(15.5%)</b> |
| Swedish krona                            | <b>0.1532</b> | 0.1544 | <b>(0.8%)</b>  |
| Australian dollar                        | <b>0.9901</b> | 0.9494 | <b>4.3%</b>    |



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

**5.2. REVENUE VARIATION AND REVENUE BY SEGMENT**

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 the Q4 2016 and Q4 2015 periods. The Q4 2015 revenue by segment was recorded reflecting the actual average 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 average foreign exchange rates.

| For the three months ended September 30,          | 2016             | 2015      | Change<br>\$    | %             |
|---|------------------|-----------|-----------------|---------------|
| <i>In thousands of CAD except for percentages</i> |                  |           |                 |               |
| <b>Total CGI revenue</b>                          | <b>2,582,429</b> | 2,585,275 | <b>(2,846)</b>  | <b>(0.1%)</b> |
| Variation prior to foreign currency impact        | <b>2.8%</b>      |           |                 |               |
| Foreign currency impact                           | <b>(2.9%)</b>    |           |                 |               |
| <b>Variation over previous period</b>             | <b>(0.1%)</b>    |           |                 |               |
| <b>U.S.</b>                                       |                  |           |                 |               |
| Revenue prior to foreign currency impact          | <b>725,638</b>   | 752,231   | <b>(26,593)</b> | <b>(3.5%)</b> |
| Foreign currency impact                           | <b>(4,146)</b>   |           |                 |               |
| <b>U.S. revenue</b>                               | <b>721,492</b>   | 752,231   | <b>(30,739)</b> | <b>(4.1%)</b> |
| <b>Nordics</b>                                    |                  |           |                 |               |
| Revenue prior to foreign currency impact          | <b>361,126</b>   | 368,109   | <b>(6,983)</b>  | <b>(1.9%)</b> |
| Foreign currency impact                           | <b>(2,546)</b>   |           |                 |               |
| <b>Nordics revenue</b>                            | <b>358,580</b>   | 368,109   | <b>(9,529)</b>  | <b>(2.6%)</b> |

|  |                 |         |                 |               |
|--|-----------------|---------|-----------------|---------------|
| <b>Canada</b>                            |                 |         |                 |               |
| Revenue prior to foreign currency impact | <b>387,476</b>  | 371,824 | <b>15,652</b>   | <b>4.2%</b>   |
| Foreign currency impact                  | <b>(432)</b>    |         |                 |               |
| <b>Canada revenue</b>                    | <b>387,044</b>  | 371,824 | <b>15,220</b>   | <b>4.1%</b>   |
| <b>France</b>                            |                 |         |                 |               |
| Revenue prior to foreign currency impact | <b>342,165</b>  | 314,234 | <b>27,931</b>   | <b>8.9%</b>   |
| Foreign currency impact                  | <b>(493)</b>    |         |                 |               |
| <b>France revenue</b>                    | <b>341,672</b>  |         | <b>27,438</b>   |               |
|  |                 | 314,234 |                 | <b>8.7%</b>   |
| <b>U.K.</b>                              |                 |         |                 |               |
| Revenue prior to foreign currency impact | <b>406,207</b>  | 355,095 | <b>51,112</b>   | <b>14.4%</b>  |
| Foreign currency impact                  | <b>(63,120)</b> |         |                 |               |
| <b>U.K. revenue</b>                      | <b>343,087</b>  |         | <b>(12,008)</b> |               |
|  |                 | 355,095 |                 | <b>(3.4%)</b> |
| <b>ECS</b>                               |                 |         |                 |               |
| Revenue prior to foreign currency impact | <b>288,202</b>  | 295,721 | <b>(7,519)</b>  | <b>(2.5%)</b> |
| Foreign currency impact                  | <b>185</b>      |         |                 |               |
| <b>ECS revenue</b>                       | <b>288,387</b>  |         | <b>(7,334)</b>  |               |
|  |                 | 295,721 |                 | <b>(2.5%)</b> |
| <b>Asia Pacific</b>                      |                 |         |                 |               |
| Revenue prior to foreign currency impact | <b>146,270</b>  | 128,061 | <b>18,209</b>   | <b>14.2%</b>  |
| Foreign currency impact                  | <b>(4,103)</b>  |         |                 |               |
| <b>Asia Pacific revenue</b>              | <b>142,167</b>  | 128,061 | <b>14,106</b>   | <b>11.0%</b>  |

We ended the fourth quarter of fiscal 2016 with revenue of \$2,582.4 million, essentially stable when compared to the same period of fiscal 2015. On a constant currency basis, revenue increased by \$71.8 million or 2.8%. Foreign currency rate fluctuations unfavourably impacted our revenue by \$74.7 million or 2.9%.



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**Table of Contents****FISCAL 2016 RESULTS****5.2.1. U.S.**

Revenue in our U.S. segment was \$721.5 million in Q4 2016, a decrease of \$30.7 million or 4.1% compared to the same period of fiscal 2015. On a constant currency basis, revenue decreased by \$26.6 million or 3.5%. The change in revenue was mostly due to the non-renewal of contracts in the U.S. government market, mainly in the defense sector, partly offset by an increased volume of work within the U.S. federal civilian agencies.

For the current quarter, the top two U.S. vertical markets were government and financial services, which together accounted for approximately 77% of its revenue.

**5.2.2. Nordics**

Revenue from our Nordics segment was \$358.6 million in Q4 2016, a decrease of \$9.5 million or 2.6% compared to the same period of fiscal 2015. On a constant currency basis, revenue decreased by \$7.0 million or 1.9%. The change in revenue is mainly due to the expiration of certain infrastructure outsourcing contracts and an increased usage of our offshore delivery centers in Asia Pacific. This was partly offset by an increased work volume within the MRD vertical market for both Sweden and Denmark.

For the current quarter, the Nordics' top two vertical markets were MRD and government, which together accounted for approximately 65% of its revenue.

**5.2.3. Canada**

Revenue in our Canada segment for Q4 2016 was \$387.0 million, an increase of \$15.2 million or 4.1% compared to the same period of fiscal 2015. The increase of revenue was mostly due to an increase in financial services, including IP-based services and solutions revenue, as well as new outsourcing contracts within the MRD vertical market. This was partly offset by the expiration of certain infrastructure outsourcing contracts.

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

**5.2.4. France**

Revenue from our France segment was \$341.7 million in Q4 2016 an increase of \$27.4 million or 8.7% compared to the same period of fiscal 2015. On a constant currency basis, revenue increased by \$27.9 million or 8.9%. The increase in revenue was mostly due to an increase in work volume across the majority of its vertical markets and, to a lesser extent, a recent business acquisition.

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

**5.2.5. U.K.**

Revenue from our U.K. segment was \$343.1 million in Q4 2016, a decrease of \$12.0 million or 3.4% compared to the same period of fiscal 2015. On a constant currency basis, revenue increased by \$51.1 million or 14.4%. The increase in revenue was mainly due to new outsourcing contracts in the government market combined with higher work volume in telecommunications & utilities. In addition, revenue in Q4 2016 was favourably impacted by the sale of additional equipment. The growth was partly offset by lower work volume with a client in the MRD vertical market.

For the current quarter, U.K.'s top two vertical markets were government and telecommunications & utilities, which together accounted for approximately 73% of its revenue.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**5.2.6. ECS**

Revenue from our ECS segment was \$288.4 million in Q4 2016, a decrease of \$7.3 million or 2.5% when compared to fiscal 2015. The change in revenue was mostly due to lower work volume and projects completed in the Netherlands, lower work volume combined with the divesting of certain low margin contracts in Southern Europe and the wind-down of the majority of our operations in South America. This was partly offset by an increased work volume in Germany mainly in MRD and telecommunications & utilities vertical markets.

For the current quarter, ECS' top two vertical markets were MRD and telecommunications & utilities, which together accounted for approximately 64% of its revenue.

**5.2.7. Asia Pacific**

Revenue from our Asia Pacific segment was \$142.2 million in Q4 2016, an increase of \$14.1 million or 11.0% compared to the same period of fiscal 2015. On a constant currency basis, revenue increased by \$18.2 million or 14.2%. The increase in revenue was due to the continued increased demand of our offshore delivery centers across our segments, as our clients continue taking advantage of our global delivery network. This was partly offset by lower work volumes in Australia.

For the current quarter, Asia Pacific's top two vertical markets were telecommunications & utilities and MRD, which together accounted for approximately 69% of its revenue.

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## FISCAL 2016 RESULTS

## 5.3. ADJUSTED EBIT BY SEGMENT

| For the three months ended September 30,          | 2016           | 2015    | Change          |                |
|---|----------------|---------|-----------------|----------------|
|   |                |         | \$              | %              |
| <i>In thousands of CAD except for percentages</i> |                |         |                 |                |
| <b>U.S.</b>                                       | <b>128,494</b> | 117,313 | <b>11,181</b>   | <b>9.5%</b>    |
| <i>As a percentage of U.S. revenue</i>            | <b>17.8%</b>   | 15.6%   |                 |                |
| <b>Nordics</b>                                    | <b>43,784</b>  | 30,176  | <b>13,608</b>   | <b>45.1%</b>   |
| <i>As a percentage of Nordics revenue</i>         | <b>12.2%</b>   | 8.2%    |                 |                |
| <b>Canada</b>                                     | <b>94,136</b>  | 77,450  | <b>16,686</b>   | <b>21.5%</b>   |
| <i>As a percentage of Canada revenue</i>          | <b>24.3%</b>   | 20.8%   |                 |                |
| <b>France</b>                                     | <b>43,067</b>  | 35,806  | <b>7,261</b>    | <b>20.3%</b>   |
| <i>As a percentage of France revenue</i>          | <b>12.6%</b>   | 11.4%   |                 |                |
| <b>U.K.</b>                                       | <b>28,698</b>  | 62,406  | <b>(33,708)</b> | <b>(54.0%)</b> |
| <i>As a percentage of U.K. revenue</i>            | <b>8.4%</b>    | 17.6%   |                 |                |
| <b>ECS</b>  | <b>30,302</b>  | 36,886  | <b>(6,584)</b>  | <b>(17.8%)</b> |
| <i>As a percentage of ECS revenue</i>             | <b>10.5%</b>   | 12.5%   |                 |                |
| <b>Asia Pacific</b>                               | <b>26,598</b>  | 18,927  | <b>7,671</b>    | <b>40.5%</b>   |
| <i>As a percentage of Asia Pacific revenue</i>    | <b>18.7%</b>   | 14.8%   |                 |                |
| <b>Adjusted EBIT</b>                              | <b>395,079</b> | 378,964 | <b>16,115</b>   | <b>4.3%</b>    |
| <b>Adjusted EBIT margin</b>                       | <b>15.3%</b>   | 14.7%   |                 |                |

Adjusted EBIT for the quarter was \$395.1 million an increase of \$16.1 million or 4.3% from Q4 2015, while the margin improved to 15.3% from 14.7%.

## 5.3.1. U.S.

Adjusted EBIT in the U.S. segment was \$128.5 million for Q4 2016, an increase of \$11.2 million year-over-year. Adjusted EBIT margin increased to 17.8% from 15.6% when compared to Q4 2015 mostly due to additional research and development tax credits and the decrease in amortization of client relationships related to the acquisition of Stanley, Inc.

### **5.3.2. Nordics**

Adjusted EBIT in the Nordics segment was \$43.8 million for Q4 2016, an increase of \$13.6 million year-over-year, while adjusted EBIT margin increased to 12.2% from 8.2% in Q4 2015. The increase in adjusted EBIT margin came mainly from the ongoing cost synergies within our infrastructure business and the savings generated from the restructuring program.

### **5.3.3. Canada**

Adjusted EBIT in the Canada segment was \$94.1 million for Q4 2016, an increase of \$16.7 million year-over-year while adjusted EBIT margin increased to 24.3% from 20.8%. This increase was mostly the result of an improved mix of IP-based services and solutions revenue related to license sales.

### **5.3.4. France**

Adjusted EBIT in the France segment was \$43.1 million for Q4 2016, an increase of \$7.3 million year-over-year. Adjusted EBIT margin improved to 12.6% from 11.4%. The increase in adjusted EBIT margin was mostly due to improved utilization rates on a year-over-year basis.



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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**5.3.5. U.K.**

Adjusted EBIT in the U.K. segment was \$28.7 million for Q4 2016, a decrease of \$33.7 million year-over-year. Adjusted EBIT margin decreased to 8.4% from 17.6% due mostly to the positive impact of additional change orders on certain large contracts in Q4 2015 and a provision taken on a client contract in Q4 2016.

**5.3.6. ECS**

Adjusted EBIT in the ECS segment was \$30.3 million for Q4 2016, a decrease of \$6.6 million year-over-year, while the margin was 10.5% compared to 12.5% in Q4 2015. The change in margin was mostly due to the revenue impacts from the Netherlands described in the revenue section.

**5.3.7. Asia Pacific**

Adjusted EBIT in the Asia Pacific segment was \$26.6 million for Q4 2016, an increase of \$7.7 million year-over-year, while the margin increased to 18.7% from 14.8%. This was mainly due to productivity improvements across their global delivery centers. In addition, during Q4 2015, adjusted EBIT margin was unfavourably impacted by of a provision on a contract in the Middle East.

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## FISCAL 2016 RESULTS

**5.4. NET EARNINGS AND EARNINGS PER SHARE**

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

| For the three months ended September 30,                         | 2016           | 2015    | Change          |                 |
|--|----------------|---------|-----------------|-----------------|
|  |                |         | \$              | %               |
| <i>In thousands of CAD except for percentage and shares data</i> |                |         |                 |                 |
| Adjusted EBIT  | <b>395,079</b> | 378,964 | <b>16,115</b>   | <b>4.3%</b>     |
| <i>Minus the following items:</i>                                |                |         |                 |                 |
| Restructuring costs  |                | 35,903  | <b>(35,903)</b> | <b>(100.0%)</b> |
| Net finance costs  | <b>17,623</b>  | 23,984  | <b>(6,361)</b>  | <b>(26.5%)</b>  |
| <b>Earnings before income taxes</b>                              | <b>377,456</b> | 319,077 | <b>58,379</b>   | <b>18.3%</b>    |
| Income tax expense   | <b>103,021</b> | 86,188  | <b>16,833</b>   | <b>19.5%</b>    |
| <i>Effective tax rate</i>  | <b>27.3%</b>   | 27.0%   |                 |                 |
| <b>Net earnings</b>  | <b>274,435</b> | 232,889 | <b>41,546</b>   | <b>17.8%</b>    |
| <b>Margin</b>  | <b>10.6%</b>   | 9.0%    |                 |                 |
| <b>Weighted average number of shares</b>                         |                |         |                 |                 |

|  |                    |             |             |               |
|--|--------------------|-------------|-------------|---------------|
| Class A subordinate voting shares and Class B multiple voting shares (basic)   | <b>303,203,548</b> | 309,337,317 |             | <b>(2.0%)</b> |
| Class A subordinate voting shares and Class B multiple voting shares (diluted) | <b>309,569,738</b> | 318,572,873 |             | <b>(2.8%)</b> |
| <b>Earnings per share (in dollars)</b>   |                    |             |             |               |
| Basic EPS  | <b>0.91</b>        | 0.75        | <b>0.16</b> | <b>21.3%</b>  |
| Diluted EPS  | <b>0.89</b>        | 0.73        | <b>0.16</b> | <b>21.9%</b>  |

For the current quarter, the increase in earnings before income taxes mainly came from the increase in adjusted EBIT as described in section 5.3 of the present document. In addition, \$35.9 million of restructuring costs were incurred in Q4 2015.

In Q4 2016, the income tax expense was \$103.0 million, an increase of \$16.8 million compared to \$86.2 million in Q4 2015, while our effective income tax rate increased from 27.0% to 27.3%. The increase in income tax rate was mainly attributable to the decrease in U.K earnings where the enacted tax rate is lower.

Net earnings were \$274.4 million, an increase of \$41.5 million compared to \$232.9 million last year.

The table in section 5.4.1 shows the quarterly year-over-year comparison of the tax rate with the impact of restructuring costs removed.

During the quarter, no Class A subordinate voting shares were repurchased while 924,816 stock options were exercised.

**Table of Contents****MANAGEMENT'S DISCUSSION AND ANALYSIS****5.4.1. 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 :

| For the three months ended September 30,                         | 2016           | 2015           | Change        |             |
|--|----------------|----------------|---------------|-------------|
|  |                |                | \$            | %           |
| <i>In thousands of CAD except for percentage and shares data</i> |                |                |               |             |
| Earnings before income taxes                                     | 377,456        | 319,077        | 58,379        | 18.3%       |
| <i>Add back:</i>   |                |                |               |             |
| Restructuring costs  |                | 35,903         | (35,903)      | (100.0%)    |
| <b>Earnings before income taxes excluding specific items</b>     | <b>377,456</b> | <b>354,980</b> | <b>22,476</b> | <b>6.3%</b> |
| Income tax expense   | 103,021        | 86,188         | 16,833        | 19.5%       |
| <i>Add back:</i>   |                |                |               |             |
| Tax deduction on restructuring                                   |                | 8,352          | (8,352)       | (100.0%)    |
| <b>Income tax expense excluding specific items</b>               | <b>103,021</b> | <b>94,540</b>  | <b>8,481</b>  | <b>9.0%</b> |
| <i>Effective tax rate excluding specific items</i>               | <i>27.3%</i>   | <i>26.6%</i>   |               |             |
| <b>Net earnings excluding specific items</b>                     | <b>274,435</b> | <b>260,440</b> | <b>13,995</b> | <b>5.4%</b> |
| <i>Net earnings excluding specific items margin</i>              | <i>10.6%</i>   | <i>10.1%</i>   |               |             |
| <b>Weighted average number of shares outstanding</b>             |                |                |               |             |

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|  |                    |             |             |               |
|--|--------------------|-------------|-------------|---------------|
| Class A subordinate voting shares and Class B multiple voting shares (basic)   | <b>303,203,548</b> | 309,337,317 |             | <b>(2.0%)</b> |
| Class A subordinate voting shares and Class B multiple voting shares (diluted) | <b>309,569,738</b> | 318,572,873 |             | <b>(2.8%)</b> |
| <b>Earnings per share excluding specific items (in dollars)</b>                |                    |             |             |               |
| Basic EPS  | <b>0.91</b>        | 0.84        | <b>0.07</b> | <b>8.3%</b>   |
| Diluted EPS  | <b>0.89</b>        | 0.82        | <b>0.07</b> | <b>8.5%</b>   |

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## FISCAL 2016 RESULTS

**5.5. CONSOLIDATED STATEMENTS OF CASH FLOWS**

As at September 30, 2016, cash and cash equivalents were \$596.5 million. The following table provides a summary of the generation and use of cash and cash equivalents for the quarters ended September 30, 2016 and 2015.

| For the three months ended September 30,                             | 2016             | 2015      | Change          |
|--|------------------|-----------|-----------------|
| <i>In thousands of CAD</i>   |                  |           |                 |
| Cash provided by operating activities                                | <b>401,806</b>   | 451,310   | <b>(49,504)</b> |
| Cash used in investing activities                                    | <b>(101,300)</b> | (79,339)  | <b>(21,961)</b> |
| Cash used in financing activities                                    | <b>(1,473)</b>   | (366,092) | <b>364,619</b>  |
| Effect of foreign exchange rate changes on cash and cash equivalents | <b>13,815</b>    | 34,688    | <b>(20,873)</b> |
| <b>Net increase in cash and cash equivalents</b>                     | <b>312,848</b>   | 40,567    | <b>272,281</b>  |

**5.5.1. Cash Provided by Operating Activities**

For Q4 2016, cash provided by operating activities was \$401.8 million compared to \$451.3 million in Q4 2015, or 15.6% of revenue compared to 17.5% last year.

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

| For the three months ended September 30, | 2016 | 2015 | Change |
|--|------|------|--------|
|--|------|------|--------|

| <i>In thousands of CAD</i>   |                  |               |                  |
|--|------------------|---------------|------------------|
| Net earnings   | <b>274,435</b>   | 232,889       | <b>41,546</b>    |
| Amortization and depreciation  | <b>98,385</b>    | 107,565       | <b>(9,180)</b>   |
| Other adjustments <sup>1</sup>   | <b>41,896</b>    | <u>18,247</u> | <b>23,649</b>    |
| <b>Cash flow from operating activities before net change in non-cash working capital items</b>       | <b>414,716</b>   | 358,701       | <b>56,015</b>    |
| <i>Net change in non-cash working capital items:</i>   |                  |               |                  |
| Accounts receivable, work in progress and deferred revenue   | <b>49,524</b>    | 104,019       | <b>(54,495)</b>  |
| Accounts payable and accrued liabilities, accrued compensation, provisions and long-term liabilities | <b>(118,621)</b> | (63,589)      | <b>(55,032)</b>  |
| Other <sup>2</sup>   | <b>56,187</b>    | 52,179        | <b>4,008</b>     |
| <b>Net change in non-cash working capital items</b>  | <b>(12,910)</b>  | 92,609        | <b>(105,519)</b> |
| <b>Cash provided by operating activities</b>   | <b>401,806</b>   | 451,310       | <b>(49,504)</b>  |

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

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

For the three months ended September 30, 2016, the \$12.9 million of net change in non-cash working capital items was mostly due to:

The change in accounts payable and accrued liabilities, accrued compensation, provisions and long-term liabilities, mainly driven by the reduction in vacation accruals, the timing of payments of sales and payroll taxes, and payroll accruals.

This was partially offset by :

The favourable change in accounts receivable, work in progress and deferred revenue mainly due to a decrease in our DSO from 45 days in Q3 2016 to 44 days in Q4 2016;

The net decrease in prepaid expenses and other assets mostly due to the timing of payments of software license maintenance and rent; and,

The increase in income tax accruals.

The timing of our working capital inflows and outflows will always have an impact on the cash flow from operations.

**Table of Contents****MANAGEMENT'S DISCUSSION AND ANALYSIS****5.5.2. Cash Used in Investing Activities**

For Q4 2016, \$101.3 million were used in investing activities while \$79.3 million were used in the prior year.

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

| For the years ended September 30,            | 2016             | 2015            | Change          |
|--|------------------|-----------------|-----------------|
| <i>In thousands of CAD</i>                   |                  |                 |                 |
| Proceeds from sale of capital assets         | 980              |                 | 980             |
| Purchase of property, plant and equipment    | (41,578)         | (32,474)        | (9,104)         |
| Additions to contract costs                  | (29,327)         | (27,603)        | (1,724)         |
| Additions to intangible assets               | (28,802)         | (20,704)        | (8,098)         |
| Net purchase of long-term investments        | (2,573)          | (220)           | (2,353)         |
| Payments received from long-term receivables |                  | 1,662           | (1,662)         |
| <b>Cash used in investing activities</b>     | <b>(101,300)</b> | <b>(79,339)</b> | <b>(21,961)</b> |

The increase of \$22.0 million in cash used in investing activities during Q4 2016 was mainly due to :

The purchase of property, plant and equipment due to investments across our data center infrastructure operations and global delivery centers; and,

Investments in intangible assets for the purchase of software licenses used mainly in the delivery of client contracts as well as investment in internal-used software.

**5.5.3. Cash Used in Financing Activities**

| For the three months ended September 30, | 2016 | 2015 | Change |
|--|------|------|--------|
|--|------|------|--------|



|   |                |                  |                |
|---|----------------|------------------|----------------|
| <i>In thousands of CAD</i>                      |                |                  |                |
| Net change in long-term debt                    | (16,718)       | (120,772)        | 104,054        |
| Settlement of derivative financial instruments  |                | (23,293)         | 23,293         |
| Repurchase of Class A subordinate voting shares |                | (229,041)        | 229,041        |
| Issuance of Class A subordinate voting shares   | 15,245         | 7,014            | 8,231          |
| <b>Cash used in financing activities</b>        | <b>(1,473)</b> | <b>(366,092)</b> | <b>364,619</b> |

During Q4 2016, \$16.7 million was used to reduce our outstanding long-term debt while for the same period last year \$120.8 million was used mainly driven by \$121.9 million in repayments under the term loan credit facility.

During Q4 2016, we did not repurchase Class A subordinate voting shares under the NCIB. For the same period last year, we used \$229.0 million to repurchase 4,850,402 Class A subordinate voting shares under the NCIB.

In Q4 2016, we received \$15.2 million in proceeds from the exercise of stock options, compared to \$7.0 million during the same period last year.

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## FISCAL 2016 RESULTS

**6. Eight Quarter Summary**

| As at and for<br>the three<br>months<br>ended, | Sept. 30,<br>2016 | June 30,<br>2016 | Mar. 31,<br>2016 | Dec. 31,<br>2015 | Sept. 30,<br>2015 | June 30,<br>2015 | Mar. 31,<br>2015 | Dec. 31,<br>2014 |
|--|-------------------|------------------|------------------|------------------|-------------------|------------------|------------------|------------------|
|--|-------------------|------------------|------------------|------------------|-------------------|------------------|------------------|------------------|

*In millions of CAD unless  
otherwise noted*

| <b>Growth</b>   |                |         |         |         |         |         |         |         |
|---|----------------|---------|---------|---------|---------|---------|---------|---------|
| Revenue   | <b>2,582.4</b> | 2,667.1 | 2,750.0 | 2,683.7 | 2,585.3 | 2,559.4 | 2,601.2 | 2,541.3 |
| Year-over-year<br>revenue growth                            | <b>(0.1%)</b>  | 4.2%    | 5.7%    | 5.6%    | 4.1%    | (4.0%)  | (3.8%)  | (3.9%)  |
| Constant<br>currency<br>year-over-year<br>revenue<br>growth | <b>2.8%</b>    | 0.6%    | (1.0%)  | (1.8%)  | (3.1%)  | (3.5%)  | (3.5%)  | (6.0%)  |
| Backlog   | <b>20,893</b>  | 20,614  | 20,705  | 21,505  | 20,711  | 19,697  | 20,000  | 20,175  |
| Bookings  | <b>2,858</b>   | 2,940   | 2,734   | 3,199   | 2,856   | 2,227   | 2,253   | 4,304   |
| Book-to-bill<br>ratio                                       | <b>110.7%</b>  | 110.2%  | 99.4%   | 119.2%  | 110.5%  | 87.0%   | 86.6%   | 169.4%  |
| Book-to-bill<br>ratio trailing<br>twelve months             | <b>109.8%</b>  | 109.8%  | 104.1%  | 101.0%  | 113.2%  | 106.4%  | 107.4%  | 112.1%  |

**Profitability**

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|   |              |       |       |       |       |       |       |       |
|---|--------------|-------|-------|-------|-------|-------|-------|-------|
| Adjusted EBIT                                       | <b>395.1</b> | 390.5 | 390.6 | 384.1 | 379.0 | 371.2 | 363.1 | 344.0 |
| <i>Adjusted EBIT margin</i>                         | <b>15.3%</b> | 14.6% | 14.2% | 14.3% | 14.7% | 14.5% | 14.0% | 13.5% |
| Net earnings  | <b>274.4</b> | 273.8 | 282.7 | 237.7 | 232.9 | 257.2 | 251.2 | 236.3 |
| <i>Net earnings margin</i>                          | <b>10.6%</b> | 10.3% | 10.3% | 8.9%  | 9.0%  | 10.1% | 9.7%  | 9.3%  |
| Diluted EPS (in dollars)                            | <b>0.89</b>  | 0.89  | 0.90  | 0.75  | 0.73  | 0.80  | 0.78  | 0.74  |
| Net earnings excluding specific items               | <b>274.4</b> | 273.8 | 268.3 | 264.9 | 260.4 | 257.2 | 251.2 | 236.3 |
| <i>Net earnings margin excluding specific items</i> | <b>10.6%</b> | 10.3% | 9.8%  | 9.9%  | 10.1% | 10.1% | 9.7%  | 9.3%  |
| Diluted EPS excluding specific items (in dollars)   | <b>0.89</b>  | 0.89  | 0.86  | 0.84  | 0.82  | 0.80  | 0.78  | 0.74  |

**Liquidity**

|                                       |              |       |       |       |       |       |       |       |
|---------------------------------------|--------------|-------|-------|-------|-------|-------|-------|-------|
| Cash provided by operating activities | <b>401.8</b> | 351.7 | 251.4 | 328.2 | 451.3 | 214.1 | 284.7 | 339.2 |
| <i>As a % of revenue</i>              | <b>15.6%</b> | 13.2% | 9.1%  | 12.2% | 17.5% | 8.4%  | 10.9% | 13.3% |
| Days sales outstanding                | <b>44</b>    | 45    | 41    | 44    | 44    | 46    | 41    | 42    |

**Capital structure**

|                                  |                |         |         |         |         |         |         |         |
|----------------------------------|----------------|---------|---------|---------|---------|---------|---------|---------|
| Net debt                         | <b>1,333.3</b> | 1,648.7 | 1,926.7 | 1,573.7 | 1,779.6 | 1,791.4 | 1,869.8 | 1,924.5 |
| Net debt to capitalization ratio | <b>15.8%</b>   | 20.5%   | 23.8%   | 18.3%   | 21.7%   | 22.7%   | 24.4%   | 25.1%   |
| Return on equity                 | <b>17.2%</b>   | 16.9%   | 16.9%   | 16.9%   | 17.7%   | 18.2%   | 18.4%   | 18.9%   |
| Return on invested capital       | <b>14.5%</b>   | 14.4%   | 14.4%   | 14.5%   | 14.5%   | 14.8%   | 14.6%   | 14.7%   |

**Balance sheet**

|   |                 |          |          |          |          |          |          |          |
|---|-----------------|----------|----------|----------|----------|----------|----------|----------|
| Cash and cash equivalents, and short-term investments | <b>596.5</b>    | 283.7    | 168.9    | 552.4    | 305.3    | 264.7    | 223.5    | 489.6    |
| Total assets  | <b>11,693.3</b> | 11,434.0 | 11,417.9 | 12,130.3 | 11,787.3 | 11,190.4 | 10,985.8 | 11,171.9 |
| Long-term financial liabilities                       | <b>1,765.4</b>  | 1,764.5  | 1,928.5  | 1,822.1  | 1,896.4  | 1,765.8  | 2,067.7  | 2,451.5  |

There are factors causing quarterly variances which may not be reflective of the Company's future performance. First, there is seasonality in systems integration and consulting work, and the quarterly performance of these operations is impacted by occurrences such as vacations and the number of statutory holidays in any given quarter. Outsourcing contracts including BPS contracts are affected to a lesser extent by seasonality. Second, the workflow from some clients may fluctuate from quarter to quarter based on their business cycle and the seasonality of their own operations. Third, the savings that we generate for a client on a given outsourcing contract may temporarily reduce our revenue stream from this client, as these savings may not be immediately offset by additional work performed for this client.

In general, cash flow from operating activities could vary significantly from quarter to quarter depending on the timing of monthly payments received from large clients, cash requirements associated with large acquisitions, outsourcing contracts

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

and projects, the timing of the reimbursements for various tax credits as well as profit sharing payments to members and the timing of restructuring cost payments.

Foreign exchange fluctuations can also contribute to quarterly variances as our percentage of operations in foreign countries evolves. The effect from these variances is primarily on our revenue and to a much lesser extent, on our margin as we benefit from natural hedges.

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FISCAL 2016 RESULTS

**7. Changes in Accounting Policies**

The audited consolidated financial statements for the year ended September 30, 2016 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 adoption 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 adoption 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 adoption permitted only if IFRS 15 *Revenue from Contracts with Customers* is also applied. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

**Table of Contents****MANAGEMENT'S DISCUSSION AND ANALYSIS****8. 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, 2016. 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<br>balance sheets | Consolidated statements of earnings |   |
|--|--------------------------------|-------------------------------------|---|
|  |                                | Revenue                             | Cost of services,<br>selling and<br>administrative<br>Income<br>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 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 on projects are reflected in the period in which the facts that give rise to the revision occur. Whenever the total costs are forecasted to be higher than the total revenues, estimated losses on revenue-generating contracts is accounted for as described below.



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**Table of Contents****FISCAL 2016 RESULTS****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 project managers on a monthly basis. Some of the indicators reviewed are: current financial results, delays in reaching milestones, new complexities in the project delivery 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 continue developing and expanding service offered to address emerging business demands and technology trends, a lengthened sales cycle and our ability to hire and retain qualified IT professionals affect future cash flow, and actual results might differ from future cash flows used in the goodwill impairment test. Key assumptions used in goodwill impairment testing are presented in note 11 of audited consolidated financial statements for the fiscal year ended September 30, 2016. Historically the Company has not recorded an impairment charge on goodwill. As at September 30, 2016, the fair value of each segment represents between 180% and 350% of its carrying value.

**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

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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 unfavourable outcome. Management reviews assumptions and facts surrounding outstanding litigation and claims on a quarterly basis, involves external counsel when necessary and adjusts the provision accordingly. The Company has to be compliant with applicable law in many jurisdictions which increases the complexity of determining adequate provision following 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.

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**Table of Contents****FISCAL 2016 RESULTS****9. Integrity of Disclosure**

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

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 of 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.

The Company evaluated the effectiveness of its disclosure controls and procedures and internal controls over financial reporting based on the framework established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 COSO Framework), supervised by and with the participation of the Chief Executive Officer and the Chief Financial Officer as of September 30, 2016. 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.

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**Table of Contents****MANAGEMENT'S DISCUSSION AND ANALYSIS****10. Risk Environment****10.1. 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.

**10.1.1. 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.

**10.1.2. 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 favourable. 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.

We derive significant revenue from contracts awarded through competitive bidding processes, which require the Company to estimate accurately the resource and costs that will be required to service any contracts it is awarded, based on the client's bid specification and sometimes, in advance of the final determination of the full scope and design of the contract ( see Cost estimation risks ), and which limit the Company's ability to negotiate certain contractual terms and conditions. Risks related to competitive bidding processes also include the substantial cost and managerial time and effort spent by the Company to prepare bids and proposals for contracts that may or may not be awarded to the Company, as well as expenses and delays that may arise if the Company's competitors protest or challenge awards made to the Company pursuant to competitive bidding process.

*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 new resources. This might result in lost revenue or increased costs, thereby putting pressure on our net earnings.

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**Table of Contents****FISCAL 2016 RESULTS****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 and solutions. 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, net earnings 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, net earnings 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.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**10.1.3. 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 transformational outsourcing contracts; third, acquisitions of smaller firms or niche players; and fourth, transformational acquisitions.

Our ability to have organic growth 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 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 including offshore delivery centers. 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 and tax credit programs

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

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**Table of Contents****FISCAL 2016 RESULTS**

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.

We benefit from government sponsored programs designed to support research and development and labour and economic growth in jurisdictions where we operate. Government programs reflect government policy and depend on various political and economic factors. There can be no assurance that such government programs will continue to be available to the Company in the future, or will not be reduced, amended or eliminated. Any future government program reductions or eliminations or other amendments to the tax credit programs could increase operating or capital expenditures incurred by the Company and have a material adverse effect on its net earnings or cash flows.

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

In order to sustain our net earnings and cash flows 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 efforts 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

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**Table of Contents****MANAGEMENT'S DISCUSSION AND ANALYSIS**

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 net earnings.

**Risks related to teaming agreements and subcontracts**

We derive 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 unfavourable 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 net earnings, 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

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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.

**Data Protection 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 centers that we manage. We also process and store proprietary information relating to our business, and personal



information relating to our members. The Company faces risk inherent in protecting the security of such personal data. 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 (including from advertent or inadvertent actions or inactions by our members), maintenance and upgrading activities, as well as hacking, vandalism (including denial of service attacks and computer viruses), theft, and unauthorized access, as well as power outages or surges, floods, fires, natural disasters and many other causes. 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 improper disclosure, loss, theft, misappropriation of, unauthorized access to, 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 (including under the laws that protect the privacy of personal information), claims and damages, as well as expose the Company to government sanctions and damage to our brand and reputation.

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**Table of Contents****MANAGEMENT'S DISCUSSION AND ANALYSIS****Security and cybersecurity risks**

In the current environment, there are numerous and evolving risks to cybersecurity, including criminal hackers, hacktivists, state sponsored organizations, industrial espionage, employee misconduct, and human or technological error. Our business could be negatively impacted by these physical and cybersecurity threats, and could affect our future sales and financial position or increase our costs and expenses. The risks to the Company include attempted breaches not only of our own products, services and systems, but also those of our customers, contractors, business partners, vendors and other third parties. We seek to detect and investigate all security incidents and to prevent their occurrence or recurrence. We continue to invest in and improve our threat protection, detection and mitigation policies, procedures and controls, and work with industry and government on increased awareness and enhanced protections against cybersecurity threats. However, because of the evolving nature and sophistication of these security threats, there can be no assurance that we can detect or prevent all of these threats. As the cybersecurity landscape evolves, the Company may also find it necessary to make significant further investments to protect data and infrastructure. Occurrence of any of these aforementioned security threats could expose the Company, our customers or other third parties to potential liability, litigation, and regulatory action, as well as the loss of customer confidence, loss of existing or potential customers, loss of sensitive government contracts, damage to brand and reputation, and other financial loss.

**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 net earnings.

**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

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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.

**10.2. LEGAL PROCEEDINGS**

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

**Transfer Agent**

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(800) 564-6253

**Investor Relations**

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

Groupe CGI inc./CGI Group Inc.

Date: December 21, 2016

By: /s/ Benoit Dubé

Name: Benoit Dubé

Title: Executive Vice-President, Chief Legal Officer  
and Corporate Secretary

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**EXHIBIT INDEX**

23.1 Consent of Ernst & Young LLP

99.1 Certification of the Registrant's Chief Executive Officer required pursuant to Rule 13a-14(a)

99.2 Certification of the Registrant's Chief Financial Officer required pursuant to Rule 13a-14(a)

99.3 Certification of the Registrant's Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

99.4 Certification of the Registrant's Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002