

Notes for Remarks by

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**CGI's Winning Strategy for Becoming a Global Information
Technology and Business Processing Services Outsourcing
Champion**

The Canadian Club of Toronto

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Mister President,
Mister President Elect,
Distinguished Head Table guests,
Ladies and gentlemen,
Good afternoon,

It is an honor for me to speak to you today in this distinguished forum.
First, I would like to take this opportunity to thank each and every one of you for taking the time from your busy schedules to join me here today.
I will do my best to share with you all of my enthusiasm and my passion for CGI.

CGI opened an office in Toronto in 1983. At the time, I came alone to open the office. As I drove along the Gardiner Expressway on my way from the airport, I saw the names of Toronto's marquee brands displayed on the grass along the side of the road. Immediately, I got very excited by the thought that, one day, Toronto would become CGI's home and that we too would have our own name on the grass! Later, as I wandered around downtown on the same day, the number and quality of brand name companies that could eventually become CGI clients amazed me. I kept on saying to myself, "If only ten of those companies would work with us, only ten, then CGI will be a great success..."

Today, twenty-one years later, we have a very strong presence in Toronto, with close to 4,000 people in the city. And, our logo is on the grass. While our head office is in Montreal, our worldwide operations are managed from Toronto, under the very strong leadership of our President and Chief Operating Officer, Michael Roach. Mike joined us 6 years ago through an acquisition.

You can expect Mike to remain with us for at least 14 more years, as by that time, he will be fully amortized! You may guess that Mike is a very close friend of mine.

If we have a strong presence here, it is because Toronto is a huge market. As a matter of fact, 70 % of new investments in Canada in IT are done here in the Greater Toronto Area. We're convinced that this is just the beginning. We've just skimmed the surface of this market.

Some of my colleagues from our Toronto office have joined us here today. I am proud to acknowledge them. They are very dedicated and work with brand name clients in all of our vertical sectors, namely financial services, telecom and utilities, government and healthcare, retail, distribution, and manufacturing.

Also with us at the Head Table are David Johnston and Paule Doré.

David is President of the University of Waterloo. He has been a member of our Board of Directors for many years. I really have no choice but to mention his name since he is also the Chair of our Human Resources Committee!

Paule is also a very close friend of mine. She is our Executive Vice-President and Chief Corporate Officer. She is the conceiver and guardian of CGI's Management Framework, including all of its cultural elements. She also heads the CGI Leadership Institute. If the 20,000 members of CGI live and breathe the same corporate culture and if they all work under the same Management Foundation, it is due to her.

Since many of you are shareholders of CGI, I feel it is important to give you a status report on your company. Expect some numbers!!!

With more than 20,000 employees worldwide – or members as we call them, CGI is now the largest independent information technology (IT) and business processing services (BPS) firm in Canada and the fifth largest in North America.

Last year, we had revenue of \$2.7 billion dollars. We have a backlog of signed contracts of \$12.2 billion dollars. The company's market capitalization is \$ 3.6 billion dollars and we are listed on the Toronto Stock Exchange and the New York Stock Exchange. Of the top 10 North American IT services companies in 2003, we ranked first in revenue growth, at 25.4%; second in net income margin, at 6.5%; and third in cash flow from operations, at 10.4% of our revenue.

Very often, when analyzing performance, all of us look at foreign companies as a reference. One of the examples often used is the return on investments of Berkshire Hathaway. Well, I have an interesting statistic for you. Since CGI was listed on the Toronto Stock Exchange in 1992, Berkshire Hathaway's rate of return has been nine hundred percent (900 %). During the same period, CGI's growth has been more than four times greater than Berkshire Hathaway, at thirty-eight hundred percent (3,800 %). When analyzing CGI's performance, let's never forget that our stock has split four times between 1998 and 2000. However, we still trade at a strong discount as compared to our North American peers. Our P/E ratio, at 17.4, is the second lowest of the peer group. We believe that this represents significant potential as, sooner or later, the market is bound to recognize our full potential. For a while now, the market has been waiting for us to deliver a blockbuster deal in the US. Well, the good news is that we are in the process of doing just that!

As set out in our last three-year strategic plan, we wanted to acquire a large player in the U.S. That's why a few weeks ago we entered into an agreement to acquire American Management Systems (AMS). If the AMS shareholders agree – and this is likely to happen since, as we announced last Friday, we now have 85.7 % of the outstanding shares - this merger will bring us to 25 000 members worldwide, double our US and European footprint, and make CGI one of the ten largest independent information technology and business process services firms in the world. It will bring CGI among the Top 5 employers in technology in Canada right besides other names such as Bell, Nortel, Telus and Celestica.

To give you a little bit of background, AMS is a publicly-traded IT services company, founded in 1970 and headquartered in Fairfax, Virginia. AMS specializes in the financial services and telecommunications as well as the public sector.

CGI and AMS have a very good overall strategic fit. Our services are complementary and our combined client base, talents and expertise will enable us to exploit new opportunities in high-growth areas.

AMS currently provides services to 7 of the 10 largest banks in the world, 8 of the 10 largest telecommunications companies in the world and to more than 150 healthcare organizations in the U.S. It also serves many U.S. federal government departments and agencies; 44 state governments; over 200 cities, counties, universities, and local agencies in North America.

(PAUSE)

So far, I have spoken mostly about CGI's commitment to realizing the highest returns for shareholders. But, I'd like to share a few more numbers with you that are equally as vital to our success. Embedded in CGI's DNA is the obligation to carefully balance the interests of our three stakeholders: our clients, our members and our shareholders. Therefore, we constantly measure, with discipline, the satisfaction of our clients and our members. Last Quarter, our client satisfaction rate was of 8.7 out of ten. Last year, our member satisfaction rate was 7.15 out of 10. In addition, we have the lowest voluntary turnover rate in the industry, at 5%. Taken together with our financial results, this tells me that the dream we were pursuing when we founded this company almost three decades ago is still very much alive.

The Dream

Indeed, since the very beginning, our dream has been to create an environment in which our members enjoy working together and building a company they can be proud of. This was and still is our dream. It has guided us in defining every CGI policy.

For instance, since our people represent our most important asset, we have encouraged, right from the start, our members to be owners of the company. For each dollar a CGI member invests in CGI shares, CGI matches the same amount. As a result, more than 90% of our members are currently CGI shareholders. CGI members own 60 million shares of CGI— or 15% of all outstanding shares.

This founding dream has inspired us through years of rapid growth and it continues to work. Only eight years ago, our annual revenue was 122 million dollars and we had a backlog of 175 million dollars. For fiscal 2004, and assuming that the deal with AMS is concluded, our annualized revenue should be 3.8 billion dollars, with a backlog of 13 billion.

Our clients

I am often asked how CGI continues to deliver such high growth and such a good performance despite economic downturns, the tech bubble and intense global competition.

I give a very simple answer: we always listen to our clients. It is our clients who have successfully helped us guide our business right from the beginning. And, with a lot of discipline, we ask them to help us in every strategic planning exercise. During these planning processes, we invite them to share their vision of the future and to express how they would like CGI to evolve.

Someone who is with us today and who can testify about this process is M. Eugene Roman. M. Roman is Group President, Systems and Technology with Bell Canada - CGI's largest client. He has been invited to take part in these exercises on some occasions. Eugene – I thank you very much for your confidence and for helping us to evolve.

Listening to our clients has resulted in two significant outcomes. The first is that we have been able to build a culture of partnership. Our clients have trusted us and have entered into partnerships that are becoming much more strategic. Today, 70% of our revenue comes from our long-term partnerships with our clients.

The second result is that, by remaining close to our clients, it is much easier to understand their needs. They simply tell us which direction to take.

Over time, what they have told us is very straightforward. They said: “We need a true partner who can give us access to state of the art solutions, technologies and intellectual properties (IP). We need to share R&D investments. We need to share the risks associated with technology. We need to access a pool of world-class IT talents. Finally, we need all of this while significantly reducing our costs.

And you, CGI, you need to become much more timely and much more agile in implementing solutions. Moreover, you have to transform yourself from a consultant and systems integrator into a consultant, systems integrator and outsourcer.”

CGI's answer to clients' perspective

With such good advice, we have focused on developing our company to meet those needs and to evolve with client demands. If we had not listened to our clients, chances are that we would have been consolidated, i.e. acquired.

Since we do prefer to be in a position to read the menu instead of being on the menu, we listened to them! In concrete term, our clients' advices have led us:

- To develop an outsourcing model that is flexible,
- To gain the critical mass required to work on more complex mandates and to provide significant reductions of costs, and

- To build a global delivery model that reduces costs while increasing productivity.

Outsourcing

Our clients convinced us to develop our outsourcing offering as early as 1985. They told us that it was more than a passing trend.

The majority of them told us that, while IT was highly strategic, it was not core to them.

As competition is globalizing, companies cannot afford to invest alone in IT and business processes. They need to share services. They need to share their investments.

At the moment, nearly two thirds of Fortune 500 companies in the United States have already outsourced at least some of their IT functions.

But, in 90% of cases, businesses have outsourced only a portion. However, more and more, companies are looking to full outsourcing, whereby companies select one partner to provide all their information technology and business processes needs.

As globalization, competition and economic pressures intensify, the need for full information technology and business processes outsourcing will become stronger and stronger.

We recently commissioned a study from industry research firm IDC, which provides us with information technology and business process services spending in Canada, the U. S. and Western Europe, our key markets.

According to IDC, annual IT spending, excluding hardware and software and excluding IT spending already outsourced, is in the range of 700 billion dollars per year for the United States, 500 billion dollars for

Western Europe and 60 billion dollars for Canada, all in US dollars. These numbers represent a huge and untapped market.

As for business process services, annual spending is 1.4 trillion dollars for the United States , 480 billion dollars for Western Europe, and 80 billion dollars for Canada, again in US dollars. Another huge untapped market...

Gaining Critical Mass

When our clients told us that they needed access to state of the art technologies along with significant cost reductions, they essentially hinted that they needed to share their services and investments with partners who had more critical mass. For CGI, it meant accelerating our drive to critical mass and we've been at it ever since.

Let me give you an example to illustrate this point.

Some ten years ago, as a systems integrator, we had about fifty senior consultants working with Air Canada on a highly strategic assignment. Despite the fact that Air Canada was fully satisfied with our work, when they decided to outsource their complete information technology functions, Air Canada did not invite us to join the race. They believed that we did not have the required critical mass. We lost all the business we had with them three months after the contract was awarded. The contract in question was valued at \$150 million dollars per year and our annual sales totalled no more than \$100 million dollars.

Without critical mass, some clients thought that we were not qualified for larger IT outsourcing initiatives. Even worse, every time a client outsourced to another company, we lost market share. Losing this bid taught us a very valuable lesson: we were condemned to grow. Since our company has never been for sale, we had to increase our critical mass to be successful.

Our concern was not with respects to growing too quickly but rather with not growing fast enough in order to meet the critical mass requirements of our global clients.

This is why CGI has directly acquired close to 60 companies. Some of these firms had themselves completed over a hundred acquisitions over the last fifteen years. We have integrated, both directly and indirectly, more than 150 companies. These acquisitions have represented 50% of our growth over the last fifteen years. The other 50% has come from organic growth.

If we have seen thousands of similar mergers in the IT industry, it is a simple case of responding to the evolving needs of clients worldwide. This evolution has required that IT companies join forces and build critical mass to answer the demand.

I strongly believe that this consolidation will continue and that it will continue rapidly. As markets globalize, our clients globalize. We have no choice but to follow our clients as they increase their size. If we don't follow them, we lose them.

I would go so far as to say that, in ten years' time, only of a handful of independent firms, or pure players, will remain in our industry. At the moment, there are a dozen pure players. I would expect this number will quickly shrink to 5 or 6. Our goal is to ensure that CGI is one of them.

We are at the beginning of a revolution in our field.

Global Delivery model

Our clients' desire to reduce costs and increase productivity has also brought us to offer them nearshore and offshore services.

Today, businesses can conduct engineering, technology and software manufacturing activities from any corner of the globe. With the computerization of most business services, 40 to 60% of any given IT project can be carried out from just about anywhere in the world. And the low cost of long-distance data telecommunications makes it viable. Leading systems integrators and outsourcers, including CGI, have developed truly global supply chains capable of servicing clients from multiple geographies, allowing clients the best combination of control, skills, flexibility and cost savings.

With our Global Delivery Model, we are able to develop systems for our US or British clientele using experts in our centers of excellence, located in Toronto, Montreal, Quebec City, Saguenay, Fredericton and Regina, as well as in Bangalore and Mumbai in India.

A few examples:

As the result of a ten year infrastructure outsourcing contract with California-based Fireman's Fund, work is managed in Toronto while the data resides in our Phoenix Data Center. For our partner British Telecom in the U.K., we are developing online government services solutions in Fredericton. Deutsche Bank New-York has outsourced the maintenance, support and development of some of their applications to us – our experts in Montreal do this work. In other cases, many brand name clients have work that is done out of India.

Here, I feel the need to stop and to comment on offshoring. I'm amazed. I'm amazed to see how a natural and gradual evolution could rapidly become a bubble. I see the exact same phenomenon as the bubbles associated with Y2K and with e-commerce.

Did all your data disappear when you woke up on January 1st, 2000? The answer is no, obviously. Are you doing all your shopping and all your business transactions on the internet? The answer is no.

The market created bubbles on these two occasions and here it goes again.

Every day, the American newspapers depict horror stories about offshoring. It has even become a hot issue in the upcoming American elections. It has already started creating a stir in Canada.

Of course, some work is gradually being sent to India, China and other offshore locations. But, some work obviously is going to come here. A recent study by PricewaterhouseCoopers and David Ticoll forecasts that as many as seventy-five thousand (75, 000) IT jobs will be lost in Canada over the course of the next six years. The same report shows that, however, for the same time period, two-hundred and forty thousand (240, 000) jobs in IT will be created. We still have a net gain of one-hundred and sixty-five thousand (165, 000) jobs over six years.

Talk to the IT project managers, the IT architects and designers who work with the users. Ask the people mastering IT what they think of it...then you will see the bubble disappear quickly.

There is just no reason to panic.

Rather, this is giving us the chance to position ourselves as a leading offshore destination by developing numerous competitive centers of excellence in IT.

Offshoring is not a revolution. It is a gradual and natural evolution. It will create changes in our sector, but manageable ones. It will not revolutionize the IT sector.

The real revolution is the outsourcing trend I mentioned earlier.

CGI Management Foundation

Some of you might wonder how this company has evolved so quickly, consistently delivered solid results, earned high satisfaction ratings from clients and members, and maintained the lowest turnover rate in the industry. Some of you might ask yourselves how CGI will be ready to handle the potential high growth I depicted earlier.

Well, I have already showed you how we listen to our clients and how they are the ones who really direct our evolution. They are the driving force behind our growth. In order to put their advice into action, meet their needs, and absorb such high growth, we needed to create the right structure. So, we built a business model that is very entrepreneurial and decentralized. Each one of our business units is autonomous and has control of its activities, its operations and its financial results.

In this decentralized context, we developed the CGI Management Foundation in order to maintain cohesiveness and to ensure that the company's culture remained intact.

This business model rests on the company's mission and on a solid set of values which are: partnership, objectivity, intrapreneurship, respect, financial strength, and social responsibility. The CGI Management Foundation is also anchored on very well-defined business processes and best practices used by each and every one of our business units throughout the world. The CGI Management Foundation thus shapes the relationships with each of our three stakeholders: our clients, our members and our shareholders. It has been designed in the spirit of continuous improvement.

The CGI Management Foundation also allowed us to accelerate the integration of our acquisitions and large outsourcing contracts. A massive number of professionals are coming from these two pillars of growth.

To give you an idea, 2 years ago, we integrated around 5 000 professionals. Last year, we integrated 5 500 professionals. This year, with AMS, we expect to integrate a minimum of 5000 professionals.

Each time, we thoroughly apply the best-in-class business practices of the Management Foundation and, each time, all our new professionals have applied our business processes and deliver services in exactly the same way as the rest of CGI within nine to twelve months after the date of an acquisition or after the beginning of a large outsourcing contract. In order to ensure that the CGI Management Foundation is applied uniformly and effectively, we count on our CGI Leadership Institute. The Institute is also ensuring the continuous development of quality leadership, inspired by CGI's roots and traditions. This is how our new leaders acquire CGI's management philosophy and practices. Over the course of the last two years, close to seven hundred (700) of our managers have graduated from the CGI Leadership Institute.

Conclusion

As I have tried to demonstrate to you, we have applied a very simple recipe in order to achieve growth. We have constantly maintained a careful equilibrium between the interests of our three stakeholders. More importantly, we listened to our clients and we followed their suggestions. As we grow and play a larger role on the global scene, I promise you that we will continue to listen to our clients. Why change a winning formula?

Almost three decades ago, when we founded the company in my basement, I would have never imagined that we would be where we are today.

This is why I am so grateful to all our clients who have put their confidence in us. And, I am so lucky to count on such a talented team of leaders and professionals. I thank them very warmly.

And, on behalf of CGI's Management Team and all CGI members, I promise you that – with your ongoing support – we will do everything possible to continue to build CGI as a world class champion in its field.

A champion that you will be proud of.

A unique champion since it will be the only one that is based in Canada in this group of five or six pure global players.

This is our commitment.

Merci beaucoup.