



Quebec

**A Dynamic and Profitable
Business Environment**

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Home

Quebec has become one of North America's leading high-technology centres. The information-, communications- and computer-technologies sectors are all incredibly dynamic.

International industry giants like **SAP, Ericsson, Motorola, CSC** and **Matrox** have elected to set up research and development operations in Montreal.

"IBM and Groupe LGS's choice of Quebec as the site of a Global Technology Integration Centre is justified by the expertise resulting from judicious collaboration between the Quebec government and the private sector, and Quebec's position as a technology hub serving both Europe and the U.S."
— Marc-André Bélanger, Regional Vice-President, LGS Group, March 2003

Quebec firms like **CGI, DMR Conseil**, a subsidiary of Fujitsu, and **LGS**, (a subsidiary of IBM), have become world leaders in the IT industry.

Quebec's high-quality, skilled workforce is a major contributor to the success of these firms. Montreal ranks third in North America for the density of high-tech jobs. (E&B Data et Montréal International, 2006)

Quebec's most attractive assets, such as its talented, reliable workforce, low operating costs and very favourable R&D incentives, not to mention its unique multicultural cachet, make it a premier location.

Right from the start, we were impressed by Quebec in terms of the quality of its highly educated labour force and competitive wages. In a competitive, innovative industry like ours, recruiting of high-level talent is a key success factor. Here, we can find creative, ingenious software designers and managers who perfectly match our corporate profile: the programmer-analysts, project architects and leaders who can help us improve how we do business and realize our full technology potential."
— Laure Le Bars, Director, Sap Labs, Canada

Your company is growth-minded. Expand your horizons in Quebec.

July 2007

Sector Profile

The term information technologies refers here to integration and subcontracting services in the following niches:

- Integrated resource management;
- E-business;
- Customer relations management;
- Computer security;
- Knowledge management;
- Supply chain management.

The Quebec industry is primarily active in development of vertical application software (addressing organization-wide needs) and generic software (delivering word processing software, spreadsheet software, accounting software, etc.).

In 2005, there were about 5,800 information technology & telecom firms in Quebec, employing more than 120,000 people.

Of these, more than 4,200 firms (and their 60,000 employees) were dedicated to subcontracting services and software development.

The software industry's 335 businesses employ over 6,900 people. Most of the businesses, generally SMBs, are located in the Montréal area.

Exports generate over 50% of the software industry revenues.

Industry-leading Companies

A large number of international companies make up a dynamic critical mass around which thousands of smaller companies are clustered.

CGI

CGI is now Canada's largest independent information technology (IT) firm and the eighth largest in the world. CGI and its affiliates employ about 25,500 people worldwide and have revenues of CDN\$3.5 billion (2006). Services include technology management, application management, system integration and development, and business-process management.

CSC Canada

Computer Sciences Corporation Canada provides application and business-processes outsourcing, management consulting and network-integration services. With 900 employees in Quebec (2006), it has customers in the fields of chemistry, energy, financial services, public administration, manufacturing and transportation. In 2000 the firm opened a software development centre in Montreal specializing in enterprise resource planning (ERP) applications and e-business applications.

DMR Consulting

DMR Consulting is a division of Fujitsu Consulting Canada. Its offices in Montreal and Quebec City employ 1,200. It is one of the leading IT consulting, solutions and management providers for businesses and public organizations.

Ericsson Research Canada

Sweden-based Ericsson has 90,000 employees in more than 140 countries. Canadian subsidiary Ericsson Canada is one of Canada's fifth biggest investors in R&D, with expenditures of CDN\$270 million. The Ericsson Research Canada research and development centre in Montreal employs 1,500 people. It develops and tests systems for multiple wireless standards as well as technology for future third-generation (3G) telecommunications solutions.

IBM

IBM Canada is one of Canada's largest IT firms. IBM Canada and its wholly owned subsidiaries employ 19,000 people, 5,500 of them Quebec-based. The IBM plant in Bromont specializes in the assembly and functional testing of electronic components. Bromont-built components are found in most IBM products and, increasingly, in the customer products of many original equipment manufacturers.

Matrox Graphics

Matrox Graphics has close to 900 employees in Quebec. It has a network of sales offices in North America, Europe and Asia. Matrox produces software and components in the fields of graphics, video editing, image processing and new business media.

Motorola Canada (MCSC)

Motorola's Montreal Software Centre focuses on research and development of modules that will form the core of next-generation multimedia-enabled communications devices, as well as new applications. The Centre is part of Motorola's Global Software Group (GSG), which employs specialists in wireless communications techniques who work on software development. The company has more than 220 employees in Quebec. Its Montreal-based software development centre has achieved the Software Engineering Institute's highest ranking, CMM 5.

SAP Canada

SAP Canada is a subsidiary of SAP AG (Germany), the world's largest inter-enterprise software company and third-largest independent software supplier overall. The firm develops and delivers platforms for business applications such as e-commerce, client management, financial management, human-resources and payroll management, and operations management. It also provides consulting services.

In Canada, SAP employs about 270 people in Quebec. The SAP Labs division in Montreal develops cutting-edge software products that integrate with SAP platforms.

Groupe LGS

Groupe LGS is a consulting firm specializing in systems integration, e-business, support services, application innovation, and remote-technology development. The firm is now part of the IBM group.

PCO Technologies Canada

The subsidiary of a French company, PCO Technologies Canada provides consulting, technologies integration, application development and training. It has close to 100 employees in Montreal. Relying on information technologies (e.g., PLM, CAD/CAM/CAE, ERP) as a key vector for efficiency and productivity, PCO Technologies perfects solutions enabling development of increasingly complex industrial products with increasingly shorter lead times.

Silicomp Canada

Silicomp Canada is a subsidiary of Groupe Silicomp (France), operating in seven countries. The firm specializes in embedded systems, high-throughput networks and new technologies for management operations and Internet transaction security. It primarily serves R&D and production departments of equipment manufacturers and industrial concerns, and handles major public accounts.

Softimage (Avid Technology)

Founded in Montreal in 1986, Softimage is a pioneer in 3-D animation. Now owned by Avid Technology, it has developed a range of content-creation and digital animation tools that offer fully integrated 3-D production environments encompassing video, composition, sound and editing functionalities.

Labour

Quebec possesses Canada's second-largest labour pool: a workforce that is qualified, dynamic, creative and available.

Overall,

- The labour market comprises more than 4 million people;
- 328,700 are available for work;
- Quebec is home to the highest number of engineers in Canada.

**Labour Force Distribution by Level of Education
Quebec 2006¹**

Level of education	Employed	Available	Workforce
University diploma	824,500	42,100	866,600 (21%)
Post-secondary certificate or diploma	1,527,400	107,600	1,635,000 (40%)
Post-secondary (partial)	260,600	29,500	290,100 (7%)
Secondary (completed)	601,600	50,200	651,800 (16%)
Secondary (partial)	302,500	65,900	457,400 (11%)
0 to 8 years of schooling	160,000	33,400	193,400 (5%)
TOTAL	3,765,600	328,700	4,094,300

¹ Average for 2006

Source: Statistics Canada, *Labour Force Survey*

Labour Training

A Well-Developed Education System

Quebec boasts an education system that is able to supply and replenish a skilled and multidisciplinary labour force. The province's 12 universities offer numerous programs in applied sciences, and eight of them offer a complete range of engineering programs. A variety of cooperative university programs for engineering and computer sciences also support Quebec-based companies.

In 2006, Quebec universities awarded more than 3,000 diplomas in computer sciences, more than 60% of them in the Montreal area.

Number of Students Enrolled (Autumn 2006) and Diplomas Awarded (2006)						
Computer sciences, computer engineering and electrical engineering						
Program	Bachelor's degree		Master's degree and PhD		Total	
	Student enrolment	Graduates	Student enrolment	Graduates	Student enrolment	Graduates
Computer Sciences	1,736	1,088	1,176	410	2,912	1,498
Computer Sc. Engineering	1,409	444	131	81	1,540	525
Electrical Engineering	3,027	835	1,311	401	4,338	1,236
Total	6,172	2,367	2,618	892	8,790	3,259

Source: Quebec Ministry of Education, *Système de recensement des clientèles universitaires*, 2007

Research & Development

In addition to private-sector firms doing intensive R&D, Quebec has a number of highly regarded public-sector research institutions. Many university faculties also house leading-edge researchers who work in partnership with industry.

Private-Sector Research Centres

- **SAP Labs Canada** is part of the SAP AG worldwide R&D network. Its mission is to create and deliver business solutions that allow customers to rationalize their business processes, optimize supply chain management and build strong customer relations.
- **Motorola** 's Montreal-based Software Development Centre is one of the most advanced in Canada. It has achieved a Level 5 rating in the Software Engineering Institute's Capability Maturity Model*, in recognition of its capacity for continual software process improvement.

* The Software Engineering Institute, a research and development centre, is sponsored by the U.S. government.

- The **Ericsson Research Canada** research centre in Montreal spends CDN\$270 million a year on research and development in Canada, making it the country's fourth-largest R&D investor.

Research & Development Research Centres

Public-Sector Research Centre and Association

Centre de recherche informatique de Montréal (CRIM)

The Computer Research Centre of Montreal (CRIM) is a major contributor to the IT industry in Quebec. Its mission is to contribute to the growth in value of businesses (especially small companies) and organizations through networking, research and the transfer of skills, knowledge, and technologies in the field of information technology. CRIM activities focus on three main areas:

- Transfer of technologies;
- Establishment of alliances among businesses, universities, research centres and other industry partners;
- Technology monitoring.

Inter logiQ Network

The Inter logiQ Network is Canada's largest association of software companies. Its mission is to help members sell their IT products and services.

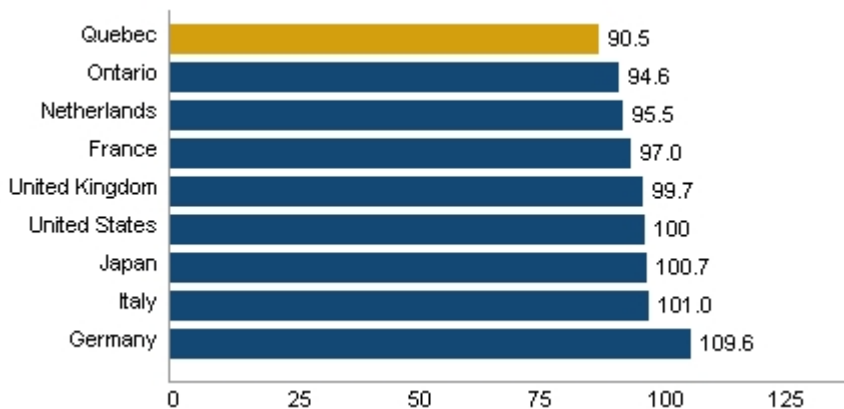
The Network, whose expertise is grounded in extensive experience nationally and internationally, collaborates in establishing partnerships and strategic alliances, and facilitates networking. This approach helps its members optimize the process of identifying partners and business opportunities to break into new markets.

Operating Costs

According to a comparative study published by the firm KPMG in 2006, annual operating costs for leading-edge software development companies are, on average, 9.5% lower in Quebec than in the United States.

Comparison of Annual Operating Costs, Quebec, Ontario and Industrialized Countries

Typical model: Advanced software. Index: US = 100



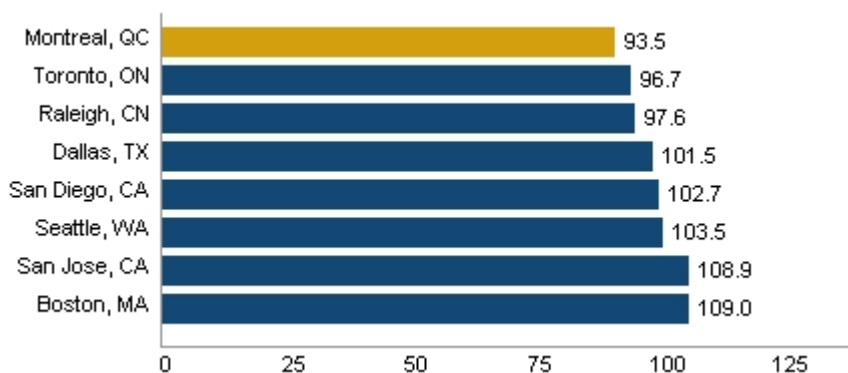
Note: Model accounts for cost of labour, electricity, transportation, telecommunications, interest, depreciation and taxes
 Source: KPMG's Guide to International Business Costs—2006 Edition

Lower Costs in Montreal

Labour costs and the cost of renting office space are much lower in Montreal than in other North American cities, according to a KPMG study (2006).

Comparison of Annual Operating Costs

Typical model: Advanced software. Index: US = 100



Note: Model accounts for cost of labour, electricity, transportation, telecommunications, interest, depreciation and taxes
 Source: KPMG's Guide to International Business Costs—2006 Edition

Operating Costs Labour

Competitive Labour Costs

According to a KPMG study (2006), labour costs are more competitive in Quebec than in other industrialized countries.

These costs are, on average, 11.8% lower in Quebec than in the United States for the advanced software industry, partly because salaries are lower.

Here is an example of cost differential and distribution in total pay for a worker in Quebec and in the United States.

Comparison of Average Salary in Quebec and in the United States (US\$, Advanced Software Industry)

	Average salary (KPMG)	Statutory benefits	Optional benefits	Sub-total: Social benefits (Statutory & optional)	Total pay
Montreal, QC	69,145	5,727	12,945	18,672	87,817
Toronto, ON	72,218	3,882	13,591	17,473	89,691
Boston, MA	81,955	6,255	20,909	27,164	109,119
Dallas, TX	72,946	5,936	18,346	24,282	97,228
Raleigh, NC	73,582	5,782	11,582	17,364	90,946
San Diego, CA	76,564	6,418	13,000	19,418	95,982
San Jose, CA	87,100	6,991	14,800	21,791	108,891
Seattle, WA	80,836	6,900	13,727	20,627	101,463

Source: KPMG's Guide to International Business Costs-2006 Edition

Operating Costs Space Rental

Cost-effective Space Rental

Rental Cost, Industrial and Office Space, 2006

	US\$/ft ²	US\$/m ²
Montreal, QC	30.33	326.47
Toronto, ON	43.01	462.96
Boston, MA	42.20	454.24
Dallas, TX	19.10	205.59
Raleigh, CN	19.00	204.51
San Francisco, CA	27.80	299.24
Seattle, WA	25.70	276.63
Amsterdam, Netherlands	19.81	213.23
Brussels, Belgium	28.06	302.04
Frankfurt, Germany	31.69	341.11
London, England (City)	109.45	1 178.11
London, England (Docklands)	52.57	565.86
Paris, France	72.62	781.68

Source: Colliers International, *North American Industrial Real Estate Highlights*, *North American Office Real Estate Highlights* and *Global Office Real Estate Review 2007*, March 2007. Exchange rate (march 2007): CDN\$1= US\$0.856< /SUB>

*Data as of 4th quarter of 20

Financial Solutions and Taxation

Financial Solutions

Investissement Québec can assist you with your expansion plans, providing consulting services as well as financing assistance. In addition to being an economic development agency, we are also a financial institution. We have several financial solutions for you.

SMB Financial

We can provide a loan guarantee, i.e. a guarantee applicable to a loan, line of credit or letter of credit granted by a financial institution. We also offer loans. Two components of our SMB Financial program are likely to interest you:

- Interim financing of tax credits
- Technological and design innovation

Tax credit for major employment-generating projects

This fiscal measure encourages the creation and expansion of companies in the information technology (IT) sector. This refundable credit is equal to 25% of eligible salaries paid by the corporation to employees working to carry out a contract.

Strategic Support for Investment Program

If your company is planning an investment or seeking to develop a new product, we can provide various types of loans, a loan guarantee or a non-repayable contribution.

The Strategic Support for Investment Program (PASI) favours investments that target diversification or consolidation of a particular sector, and product development that is distinctive because of its innovative nature and commercial potential.

Financial Solutions and Taxation Measures to Stimulate R&D

The Quebec and Canadian governments support R&D by granting individuals and businesses tax incentives designed to foster scientific or technological development in Quebec. As a result, the real cost of a CDN\$100 R&D expenditure can be as low as CDN\$35.

Net cost of CDN\$100,000 R&D expenditures incurred in Quebec by a large corporation or by a foreign-controlled corporation in the non-manufacturing sector

Example 1: A corporation incurs expenditures of \$100,000 on R&D; i.e., \$65,000 for the salary of a researcher, \$15,000 for subcontracting services in Quebec and \$20,000 for materials.

Example 2: A corporation incurs expenditures of \$100,000 on R&D; i.e., \$60,000 for the salary of a researcher, \$30,000 for materials and \$10,000 for equipment.

Expenses	Example 1 \$	Example 2 \$
A - Salaries	65,000	60,000
B - Subcontracting services	15,000	—
- Materials	20,000	30,000
- Equipment	—	10,000
C - Total R&D expenditures	100,000	100,000
Quebec tax credit (A + B/2) X 17.5%	12,688	10,500
Federal tax credit		
Total expenditures (C)	100,000	100,000
Overhead (A X 65% ¹)	42,250	39,000
Less Quebec credit	<u>(12,688)</u>	<u>(10,500)</u>
D - Expenditures eligible for credit	129,562	128,500
E - (D X 20%)	25,912	25,700
F - Total tax credits	<u>38,600</u>	<u>36,200</u>
Net cost for the corporation (C-F)	<u>61,400</u>	<u>63,800</u>
Tax savings (when profits are earned)		
Federal ((C - F) X 22.12%)	13,582	14,113
Quebec ((C - E) X 9.90%)	<u>7,335</u>	<u>7,356</u>
G - Total tax savings	20,917	21,469
Net cost for the corporation (C-F-G)	<u>40,483</u>	<u>42,331</u>

¹ Proxy method used to calculate overhead. Under this method, overhead actually incurred is replaced by 65% of R&D salaries.

Source: Investissement Québec and Raymond Chabot Grant Thornton, August 2006

Financial Solutions and Taxation Corporate Tax Rates

Comparison of Corporate Tax Rates, 2006 Quebec, Ontario and American States Manufacturing Companies

	Effective Tax Rate (%)			TOTAL
	Federal ¹	Province/ State	City/ Certain states	
Quebec	22.12	9.90	—	32.02
Ontario	22.12	12.00	—	34.12
California	31.91	8.84	—	40.75
North Carolina	32.59	6.90	—	39.49
Massachusetts	31.68	9.50 ²	—	41.18
Texas	33.43	4.50 ³	—	37.93
Washington	33.95	—	—	33.95

1. In Canada, the federal tax rate is 13.12% for Canadian-controlled private corporations with taxable income of less than CDN\$250 000. Reduced rates also apply in certain provinces for small businesses. In the United States, the general rate of 35% depends on the company's income. For U.S. manufacturing companies, a deduction corresponding to 3% of profits related to production activities or of taxable income is available as of 2005, resulting in a reduction in the effective rate of 1.05%

2. The rate includes the surtax of 14%

3. This tax is equal to 0.25% of net taxable capital or 4.5% of taxable net earned surplus, whichever is greater. Consequently, the tax rate shown above applies only when the earned surplus component of the tax is higher than the taxable capital component.

Source: Investissement Québec and Raymond Chabot Grant Thornton, March 2006

Financial Solutions and Taxation

Tax Holiday for Foreign Researchers

Foreign researchers employed by a company in Canada that does R&D in Quebec benefit from a provincial tax holiday on their salary for five consecutive years. It is a declining tax holiday computed as follows: 100% of employment income the first two years, 75% the third year, 50% the fourth year and 25% the fifth year. This measure also applies to other foreign experts; e.g., managers working in innovative fields.

Venture Capital

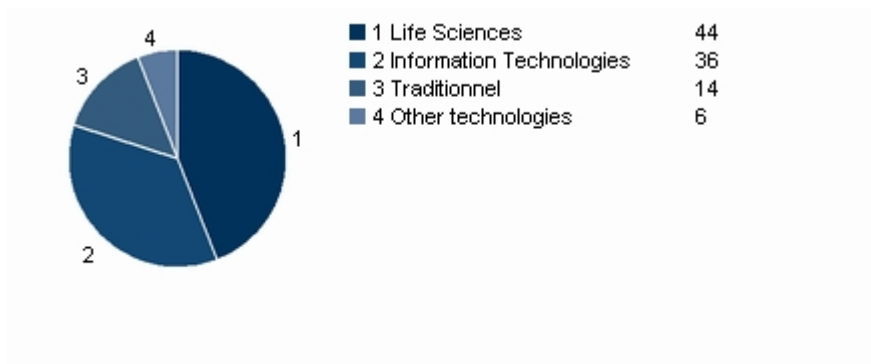
Quebec is Canada's leading venture capital manager.

In December 2006, capital assets under management in Quebec totalled CDN\$10.6 billion. Quebec manages 48% of the CDN\$22.1 billion in Canadian venture capital and has been the leader in this respect for several years.

In 2006, venture capitalists injected CDN\$603 million into 179 Quebec businesses.

The software and other technologies sectors were in second place with 36% of investments, slightly less than in 2005 when they received 40% of all investments.

Breakdown of Venture Capital Investments in Quebec, by Sector, 2006 (%)
(\$603 million)



Source: Thomson Financial, 2007

Venture Capital Leading Public-sector Financiers

Leading Venture-Capital Companies in Quebec and their Sectors of Activity

Company	Sectors
Argo Global Capital	Information technologies
CAI Capital	All sectors
Capimont	All sectors
CIBC Partenaires financiers	All sectors
Desjardins Capital de risque	Industrial sector, information technologies, telecommunications, health sciences and cooperatives
EdgeStone Capital	All sectors
Fondaction – CSN	All sectors
Fonds de solidarité des travailleurs du Québec	All sectors except retail sales
GE Capital Canada	All sectors
GTI Capital	Information technologies
HQ Capitech	All sectors
McLean Watson Capital	Information technologies
Novacap	All sectors
RBC Technologie Capital de Risque	Information technologies
ROYNAT Capital	Information technologies
Schroders & Associates Canada Inc.	All sectors
T2C2	Biotechnologies, information technologies
Technocap	Information technologies, multimedia
Telsoft	Information technologies
Vantage Point Venture Partners	Life sciences and information technologies

Leading Public-Sector Venture-Capital Partners in Quebec

Company	Sectors
Business Development Bank of Canada	All sectors
Investissement Québec	All sectors (FIER)