CONSTELLATION SOFTWARE INC.

TO OUR SHAREHOLDERS

As you will read in our interim MD&A, and as you can see in the table of appended Performance Metrics, our year over year Revenue growth rate slowed in Q1 2007 to 9%, a level that concerns us. The primary reason for the low growth in Revenue was a 1% contraction in Organic Revenue compared to the same period in 2006. One of the causes of declining Organic Revenue is outside of our control: U.S. housing starts declined approximately 28% in Q1 2007 compared to the same period in 2006, and that seems to have depressed spending amongst our homebuilding, construction and building products related customers. For the most part, we are pleased with how our homebuilding and related businesses have responded to the tougher operating environment. We continue to seek acquisition prospects among software companies that service these currently depressed markets.

In addition to the downturn in the homebuilding and related sectors, I believe that our Initiative program also contributed to the current decline in Organic Revenue Growth. In 2003, we instituted a program to forecast and track many of the larger Initiatives that were embedded in our Core businesses (we define Initiatives as significant Research & Development and Sales and Marketing projects). Our Operating Groups responded by increasing the amount of investment that they categorized as Initiatives (e.g. a 3 fold increase in 2005, and almost another 50% increase during 2006). Initially the associated Organic Revenue growth was strong. Several of the Initiatives became very successful. Others languished, and many of the worst Initiatives were terminated before they consumed significant amounts of capital. Examined on a portfolio basis (and to do that we still have to use forecasts, as payback in our business generally requires a 5-7 year time frame) we believe that our Initiatives have generated reasonable internal rates of return. However the Initiative returns have not been as attractive as those generated by our acquisitions. Accordingly, many of our Operating Groups have shifted more of their efforts to growth by acquisition, and have launched increasingly fewer new Initiatives over the last couple of years.

The response of our Operating Groups is what you'd like to see: Now that they have tools for tracking Initiative IRR's, they are optimizing capital allocation by pursuing better returns in the acquisition market. In principle, there is nothing wrong with this shift. In practice, dramatically fewer Initiatives could eventually lead to a loss of market share. The software business has significant economies of scale, so conceding market share to well run competitors could lead to deteriorating economics. I'm not yet worried about our declining investment in Initiatives because I believe that it will be self-correcting. As we make fewer investments in new Initiatives, I'm confident that our remaining Initiatives will be the pick of the litter, and that they are likely to generate better returns. That will, in turn, encourage the Operating Groups to increase their investment in Initiatives. This cycle will take a while to play out, so I do not expect to see increased new Initiative investment for several quarters or even years.

Organic Growth can also be driven or diminished by acquisitions. When we acquire a rapidly growing company we boost Organic Growth. When we acquire an underperforming company that needs to have some of its unpromising lines of business reduced or removed, Organic Growth suffers. History suggests that we generally grow our acquired businesses, frequently providing additional products for them to sell into their installed base, and bringing our increased scale and best practices to bear upon their business. Occasionally however, the reduction of an acquired business to a profitable Core will leave us with a smaller, but usually more profitable business. Q1 2007 had several instances of declining revenues relating to acquired businesses. These acquisition-related declines in Organic Growth are usually transient, generally reversing after a year or less.

In addition to Organic Growth, we also grow our businesses via acquisition. Since inception Constellation has made 57 acquisitions. Software company acquisitions are becoming increasingly popular amongst both corporate and private equity buyers. As Corum, one of the most active M&A brokers in the software sector put it in their Q1 newsletter:

> "Not since the dot-com peak has a year kicked off with as much merger and acquisition activity and value as in 2007"….. "Last year, 1,726 software companies were acquired, which is the highest number since 2000."

We are currently experiencing intense competition in the large company acquisition market and are increasingly focusing upon those opportunities that are smaller or those that may not have a strong track record of positive cash flow. During 2006, we had a 42% increase in the number of "Non-Disclosure Agreements" that we signed with acquisition prospects, when compared to 2005. These NDA's resulted in a >200% increase in the number of "Letters of Intent" that we submitted. My interpretation of this data is that we were working harder to see and bid on more of the available market. What did this work at the front end of the acquisition process produce? We had the same number of LOI's signed back, and we ended up making only 10 acquisitions in 2006, down from the 12 that we made in the prior year. I think two factors were at play in generating the lower close rate in 2006: first, we went further afield (both geographically and strategically) looking for potential investments and second, we ran into more aggressive competition. The same pattern is apparent when we examine the M&A activity by dollar value instead of number of transactions.

In Q1 2007 we increased our M&A activity still further, almost doubling the number of NDA's that we signed compared with Q1 2006, and achieving a new record high for the value of closed acquisitions in a single quarter. Despite the increased competition for acquisitions, we anticipate that our increased focus and discipline around the M&A process will allow us to generate a record year for acquisitions in '07.

While we do not provide short-term forecasts, our objective is to generate 20% average annual Revenue growth per share between January 1, 2006 and December 31, 2010 (our "Planning Period"). During 2006 we exceeded this objective, generating 23% Revenue growth per share. In Q1, we fell far short of the objective, generating only 4% Revenue growth per share. Much of the shortfall in Q1 2007 was due to the 1% decline in Organic Revenue as compared to Q1 2006. Organic Revenue Growth is an important component of our overall Revenue growth objective, and we believe that it needs to average between 5% and 10% per annum for us to both achieve our objective and to have a healthy company. Management continue to believe that the Company will achieve both the Revenue growth per share objective and the Organic Growth targets for the Planning Period.

As is our practice, we have inserted below a table containing our quarterly Performance Metrics. In addition to the Organic Net Revenue Growth discussed above, the metrics that struck me were:

<u>ROIC (Annualized)</u> – 20%. We believe that this is an acceptable level, but would prefer to see higher levels if the low Organic Net Revenue Growth persisted.

<u>Net Maintenance Growth (Y/Y)</u> – 20%. We believe that (adjusted for cash and debt) maintenance revenues are the best indicator of Intrinsic Value. 20% is an acceptable increase, but any further slippage could be cause for concern.

	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007
(US$ millions, except percentages)									
Revenue	37.5	40.7	42.6	44.6	51.2	52.2	53.8	53.5	55.9
Net Income / (Loss)	1.1	(3.5)	2.1	0.8	(8.7)	1.3	2.3	3.8	2.6
Net Revenue	34.5	37.0	39.0	39.8	46.0	47.3	48.4	48.6	50.7
Net Maintenance Revenue	19.3	20.7	21.7	23.0	26.0	26.9	28.1	29.6	31.2
Adjusted Net Income	3.8	4.1	5.2	4.1	5.1	5.1	6.8	9.0	7.0
Average Invested Capital	96	100	105	109	114	119	125	135	143
Net Revenue Growth (Y/Y)	62%	51%	47%	35%	33%	28%	24%	22%	10%
Net Maintenance Growth (Y/Y)	72%	57%	48%	52%	35%	30%	30%	29%	20%
Tangible Net Assets / Net Revenue	(76%)	(69%)	(68%)	(86%)	(63%)	(63%)	(75%)	(91%)	(88%)
Organic Net Revenue Growth (Y/Y)	22%	18%	22%	13%	14%	12%	5%	3%	-1%
ROIC (Annualized)	16%	16%	20%	15%	18%	17%	22%	27%	20%
ROIC + Organic Net Revenue Growth	38%	34%	42%	28%	32%	29%	26%	30%	19%

N.B. Due to an error, the historical figures included in our report to shareholders for the year ended December 31, 2006 for the Tangible Net Assets / Net Revenue metric for the periods Q2 2005 through Q4 2006 were incorrectly reported as (71%), (67%), (66%), (57%), (55%), (54%), and (54%), respectively. The correct figures have been included in the table above.

I encourage you to study the Performance Metrics, the attrition data that we presented in the annual report, and the M&A activity data mentioned above. Don't hesitate to pose any questions that you may have either on our quarterly conference call, or during the question period following our Annual General Meeting.

Mark Leonard
President
May 8, 2007

Performance Metrics Glossary

"Net Revenue" means Revenue for GAAP purposes less third party and flow-through expenses. We use Net Revenue since it captures 100% of the license, maintenance and services revenues associated with Constellation's own products, but only includes the margin on our lower value-added revenues such as commodity hardware or third party software.

"Net Maintenance Revenue" is derived from GAAP Maintenance Revenue by subtracting third party maintenance costs. We believe that Net Maintenance Revenue is one of the best indicators of the intrinsic value of a software company and that the operating profitability of a low growth software business should correlate tightly to Net Maintenance Revenues.

"Adjusted Net Income" is derived by adjusting GAAP net income for the non-cash amortization of intangibles and charges related to appreciation in common shares eligible for redemption (a charge that we no longer incur now that Constellation's common shares are publicly traded). We use Adjusted Net Income because it is generally a better measure of cash flow than GAAP net income and it is closely aligned with the calculation of net income we use for bonus purposes.

"Average Invested Capital" is based on the Company's estimate of the amount of money that our shareholders had invested in Constellation. Subsequent to that estimate, each period we have kept a running tally, adding Adjusted Net Income, subtracting any dividends, adding any amounts related to share issuances and making some small adjustments, including adjustments relating to our use of certain incentive programs and the amortization of impaired intangibles.

"Tangible Net Assets / Net Revenue" provides a measure of our Tangible Net Assets as a proportion of Net Revenue. Tangible Net Assets is calculated by taking Total Assets for GAAP purposes, and subtracting (i) Intangible assets, (ii) cash, and (iii) all customer, trade and government liabilities that do not bear a coupon.

"ROIC (Annualized)" represents a ratio of Adjusted Net Income to Average Invested Capital.

"ROIC + Organic Net Revenue Growth" provides a historical measure of the effectiveness of our capital allocation.

Forward Looking Statements

Certain statements herein may be "forward looking" statements that involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Constellation or the industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These statements reflect current assumptions and expectations regarding future events and operating performance and speak only as of the date hereof. Forward looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to vary significantly from the results discussed in the forward looking statements. These forward looking statements are made as of the date hereof and Constellation assumes no obligation to update any forward looking statements to reflect new events or circumstances.

Non-GAAP Measures

Net Revenue, Net Maintenance Revenue, Adjusted Net Income and Organic Net Revenue Growth are not recognized measures under GAAP and, accordingly, shareholders are cautioned that Net Revenue, Net Maintenance Revenue, Adjusted Net Income and Organic Net Revenue Growth should not be construed as alternatives to revenue or net income determined in accordance with GAAP as an indicator of the

financial performance of the Company or as a measure of the Company's liquidity and cash flows. The Company's method of calculating Net Revenue, Net Maintenance Revenue, Adjusted Net Income and Organic Net Revenue Growth may differ from other issuers and, accordingly, may not be comparable to similar measures presented by other issuers.