CONSTELLATION SOFTWARE INC.

TO OUR SHAREHOLDERS

I recently flew to the UK for business using an economy ticket. For those of you who have seen me (I'm 6'5", and tip the non-metric scale at 280 lbs.) you know that this is a bit of a hardship. I can personally afford to fly business class, and I could probably justify having Constellation buy me a business class ticket, but I nearly always fly economy. I do this because there are several hundred Constellation employees flying every week, and we expect them to fly economy when they are spending Constellation's money. The implication that I hope you are drawing, is that the standard we use when we spend our shareholders' money is even more stringent than that which we use when we are spending our own.

This "Annual Report" is an example of that standard at work. Public companies are required by securities regulators to produce a variety of documents (Management Information Circular, Annual Information Form, Proxy, Quarterly MD&A, etc.) the contents of which are often formulaic and obscure but capture most of the key information that shareholders require. Companies nearly always augment these documents with attractive, multi-coloured annual reports replete with charts that demonstrate that their favourite metrics have performed well over the prior N periods. Most annual reports strike me as expensive yet superficial. In reducing our annual report to this "Letter to Shareholders", I'm hoping that we'll deliver a lot more bang for our shareholders' buck. In it we will review our annual attrition data, expand upon "Amortisation" (a topic which we raised in the Q4 Letter to Shareholders), discuss Constellation's evolving capital structure, and provide a few of the requisite charts of our favourite metrics.

Annual Attrition Survey: We believe that attrition is one of the most important measures of a software company's health. If attrition is high, then customers are either moving to competitive products or are going out of business, neither of which bode well for the company. Each year we survey our operating groups, often on a product by product basis, to determine attrition. The data isn't perfect, but we do reconcile it to our GAAP maintenance revenues, and we use it internally to judge the progress of our businesses. Despite its imperfections, we believe that this information provides shareholders with insight into our long-term prospects.

Attrition in 2007 was approximately 6%, the same as in 2006. This came as a bit of a surprise to me… I was expecting worse due to the downturn in the Homebuilding and Building Products related verticals (jointly "Building" verticals). As you can see in the table below, the attrition in the Building verticals accelerated from 10% in 2006 to 12% in 2007, while in the non-Building

Maintenance Revenue	**Total**		**Excluding Building Verticals**		**Building Verticals**	
Growth From:	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**
a) Acquisitions	16%	11%	22%	12%	0%	6%
b) "New" Maintenance	16%	10%	14%	9%	21%	13%
c) Price Increases	5%	8%	6%	9%	2%	7%
d) Attrition	-6%	-6%	-5%	-4%	-10%	-12%
Organic Growth	15%	12%	15%	14%	13%	8%
Total Growth	**31%**	**23%**	**36%**	**26%**	**13%**	**14%**

verticals attrition decreased from 5% in 2006 to 4% in 2007. With or without the Building verticals included, we believe that Constellation's attrition is low by software industry standards and reflects well upon our employees, our managers and our strategy.

The table also demonstrates that Organic growth in maintenance has remained strong (at 12% in 2007), while acquired growth (11% during the year) was much lower than in 2006. We made a number of acquisitions at the end of 2007, so we expect acquired maintenance growth to rebound during 2008.

In total, maintenance revenues grew 23% to $142 million during 2007. They constituted 59% of our total revenues, up from 55% in 2006.

<u>Amortisation:</u> In the fourth quarter Letter to Shareholders we pointed out that the amortisation of acquired intangibles is the major difference between Adjusted Net Income and GAAP Net Income. Investors often ignore the GAAP amortisation of intangibles due to an implicit assumption that purchased software assets/businesses do not experience economic deterioration. This assumption is consistent with our strategy, but there are instances where it does not hold.

Of the more than 45 acquisitions that we have made in the last four years, we flagged two small acquisitions (jointly comprising intangible assets at the time of investment of less than $2.5 million) in the Q4 letter where we felt that purchased intangibles had suffered some economic impairment. The tool that we used to identify these impaired assets was the internal rate of return ("IRR") that we are forecasting/experiencing for these acquisitions.

Another tool for identifying impairment is Organic maintenance revenue contraction. When maintenance revenue contraction has occurred, then there has almost certainly been impairment in the underlying intangible asset. At this time, we have two Building related acquisitions, with an aggregate original intangible value of approximately $6 million, that are experiencing significant organic contraction in their maintenance revenues. We believe that this is a temporary impairment – i.e. as the Building markets recover, so will their maintenance revenues. Time will tell, and we will update you if we believe that these intangible assets have suffered permanent impairment.

Neither acceptable forecast IRR's nor Organic maintenance revenue growth alone are proof of unimpaired intangible assets: A business must have both an acceptable forecast IRR and Organic maintenance revenue growth to clearly have unimpaired intangible assets. It is worth wading through a couple of examples and how they would each measure economic earnings.

IRR can be high while maintenance contraction is also high if a business with a poor strategic position and/or a deteriorating market is being "milked out" (i.e. run to generate very rapid payback of the original investment). This would likely be the right strategy to pursue with such an asset. However, the right economic accounting to pursue, would be to amortise the goodwill against the income of the business over the relatively short economic life of that asset. You should not use "Adjusted Net Income" (i.e. Net Income plus Amortisation) when judging the economic earnings of a business such as this.

Similarly, IRR can be low while Organic maintenance is growing rapidly if a company is either investing irrationally in organic growth, or paying too much for acquisitions with high organic growth. At the margin, we would argue that the majority of multi-product software businesses over-invest in their Organic growth initiatives. This doesn't give rise to misleading Net Income figures unless the companies are also capitalising R&D – which we do not do. If too high a price is paid for a growing acquisition, then there is going to be intangible asset impairment. GAAP often allows this impairment to be averaged out against a broader intangibles pool, or quickly amortised before the impairment is apparent (at which point GAAP ceases to care, since it has already been written off).

If it becomes evident that any of our Operating Groups are milking out a business, or have overpaid for acquisitions, we will provide Constellation's shareholders with the historical cost of the intangibles that we purchased with that business, and we will reduce the Average Invested Capital that we report. For competitive reasons, we will not advertise the names of the businesses where impairment has occurred.

Capital Structure: Private Equity firms are finding it both more difficult and more expensive to raise debt capital. A year ago, when we competed for a good software business, private equity firms might have outbid us by 40%. Now, they are increasingly paying prices that we find attractive. Stock price multiples are also coming down, so "cheap equity" is no longer as commonly available to public acquirors. While strategic acquirors with good balance sheets are still active, they seem to be straying less into our markets. We believe that this is an attractive time for Constellation to be making acquisitions. Since the end of Q3 of 2007, we have invested approximately $45 million in new acquisitions, more than double our historical investment rate. Given the attractive valuations that we are seeing, we would like to continue to be able to invest at a rate that exceeds our ability to internally generate cash. We are negotiating with a syndicate of banks to increase our revolving line of credit to accommodate this. The Constellation board believes that using a prudent amount of debt is justified based upon our consistent record of revenue and earnings growth.

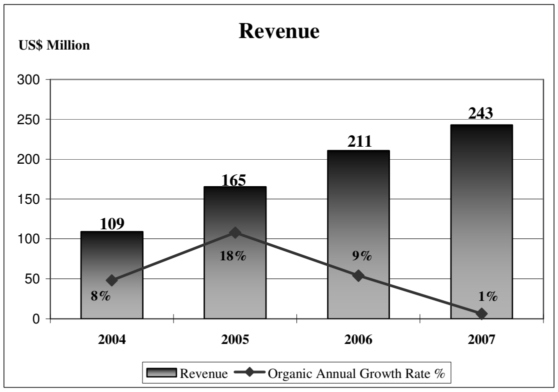
Our financial objective is to generate in excess of 20% average annual revenue and EBITDA growth per share for the period January 1, 2006 through December 31, 2010. The "per share" component of these objectives makes us very sensitive about issuing new equity. We would consider an equity issue if it gives us competitive advantage when we are buying a business: e.g. we occasionally offer long-term shareholders of good businesses the opportunity to "roll-over" their shares on a tax free basis for shares of Constellation. As Constellation becomes larger and more diversified, and if our track record of growth and profits continue, I can foresee some entrepreneurs opting for this type of transaction.

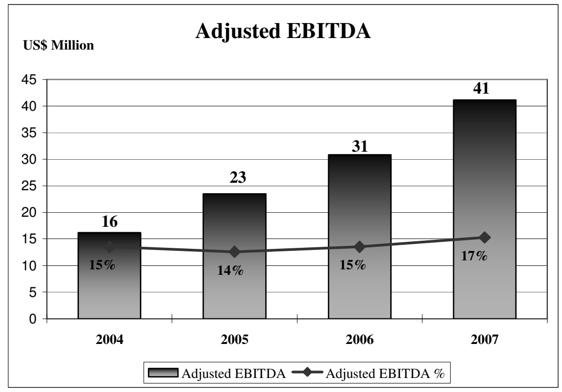
Our capital structure is evolving from the minimal use of debt to the consistent modest use of debt. This is due primarily to the current attractive environment for acquisitions rather than to a permanent commitment by either the board or management to maintain debt as a significant portion of our capital structure.

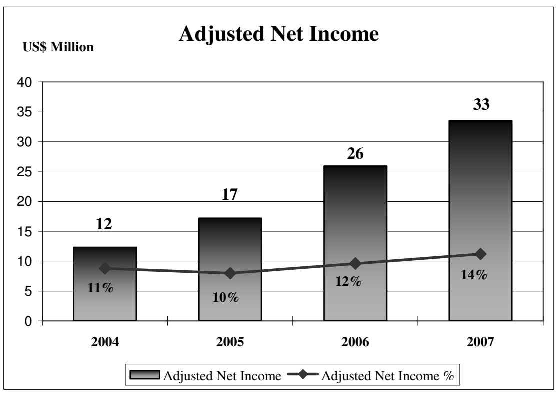
And, as promised, a few graphs are appended that illustrate our growing revenues, invested capital and earnings per share over the last few years. After looking them over, I hope you'll join me in thanking the Constellation employees for producing another great year for shareholders.

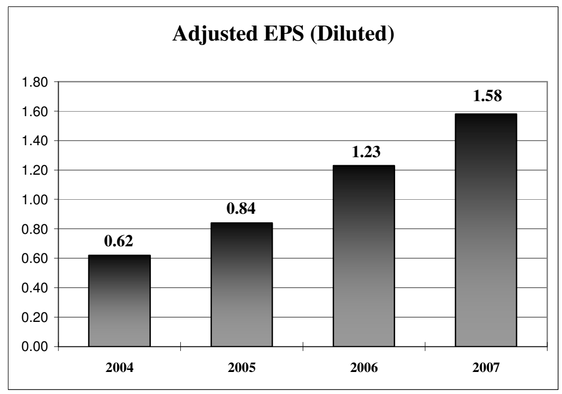
We will be hosting the annual general meeting in early May. A number of our directors and officers will also be in attendance. We are all looking forward to answering any questions that you may have. I hope to see you there.

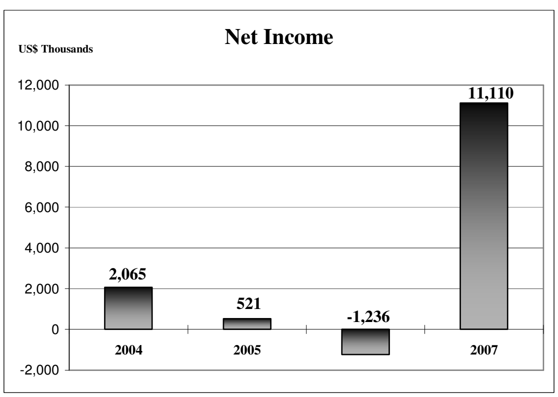
Mark Leonard April 8, 2008
President
Constellation Software Inc.

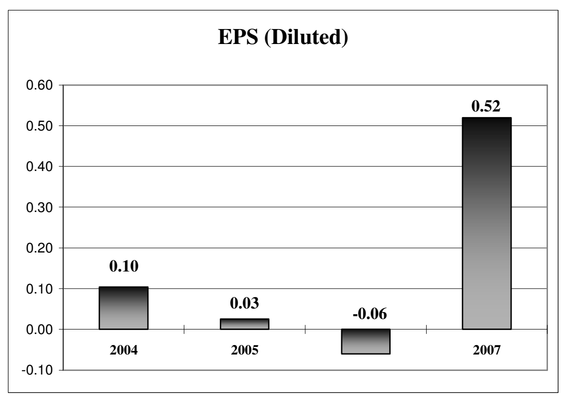


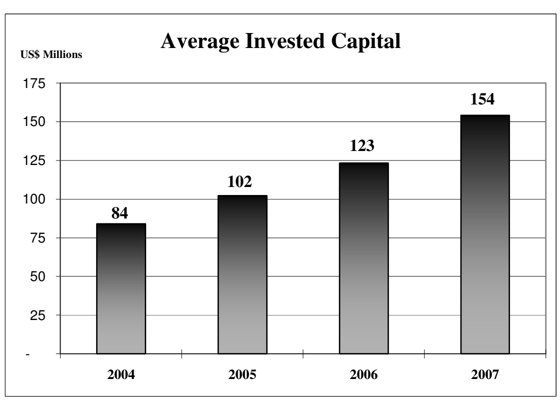












Please refer to Constellation's Management Discussion and Analysis for each of the years ended December 31, 2007 and 2006 for a reconciliation between the GAAP and non-GAAP measures referred to above.

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 / Quarterly Net Revenue" provides a measure of our Tangible Net Assets as a proportion of Quarterly Net Revenue. Tangible Net Assets is calculated by taking Total Assets for GAAP purposes, and subtracting (i) intangible assets and goodwill, (ii) cash and short term investments, (iii) future income tax assets, (iv) all customer, trade and government liabilities that do not bear a coupon, excluding future income tax liabilities and acquisition holdbacks.

"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, except as required by law, 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.