Constellation Software Inc.

INTERIM FINANCIAL REPORT

Second Quarter Fiscal Year 2018

For the three and six month periods ended
June 30, 2018
(UNAUDITED)

CONSTELLATION SOFTWARE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

The following discussion and analysis should be read in conjunction with the Unaudited Condensed Consolidated Interim Financial Statements for the three and six month periods ended June 30, 2018, which we prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain information included herein is forward-looking and based upon assumptions and anticipated results that are subject to uncertainties. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected. See "Forward-Looking Statements" and "Risks and Uncertainties".

Unless otherwise indicated, all dollar amounts are expressed in U.S. dollars. All references to "$" are to U.S. dollars and all references to "C$" are to Canadian dollars. Certain totals, subtotals and percentages may not reconcile due to rounding.

Additional information about Constellation Software Inc. (the "Company" or "Constellation"), including our most recently filed Annual Information Form ("AIF"), is available on SEDAR at www.sedar.com.

Forward Looking Statements

Certain statements in this report may contain "forward looking" statements that involve risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Words such as "may", "will", "expect", "believe", "plan", "intend", "should", "anticipate" and other similar terminology are intended to identify forward looking statements. These statements reflect current assumptions and expectations regarding future events and operating performance as of the date of this MD&A, July 26, 2018. 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, including, but not limited to, the factors discussed under "Risks and Uncertainties". Although the forward looking statements contained in this MD&A are based upon what management of the Company believes are reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward looking statements. These forward looking statements are made as of the date of this MD&A and the Company assumes no obligation, except as required by law, to update any forward looking statements to reflect new events or circumstances. This report should be viewed in conjunction with the Company's other publicly available filings, copies of which can be obtained electronically on SEDAR at www.sedar.com.

Non-IFRS Measures

This MD&A includes certain measures which have not been prepared in accordance with IFRS such as Adjusted EBITA, Adjusted EBITA margin, Adjusted net income, and Adjusted net income margin.

The term ''Adjusted EBITA'' refers to net income before adjusting for finance and other expense (income), bargain purchase gain, finance costs, income taxes, share in net income or loss of equity investees, impairment of non-financial assets, amortization, TSS membership liability revaluation charge, and foreign exchange gain or loss. The Company believes that Adjusted EBITA is useful supplemental information as it provides an indication of the results generated by the Company's main business activities prior to taking into consideration how those activities are financed and taxed and also prior to taking into consideration intangible asset amortization and the other items listed above. ''Adjusted EBITA margin'' refers to the percentage that Adjusted EBITA for any period represents as a portion of total revenue for that period.

‘‘Adjusted net income’’ means net income adjusted for non-cash expenses (income) such as amortization of intangible assets, deferred income taxes, the TSS membership liability revaluation charge, and certain other expenses (income), and excludes the portion of the adjusted net income of Total Specific Solutions (TSS) B.V. (“TSS”) attributable to the minority owners of TSS (see “Capital Resources and Commitments” section). The Company believes that Adjusted net income is useful supplemental information as it provides an indication of the results generated by the Company’s main business activities prior to taking into consideration amortization of intangible assets, deferred income taxes, the TSS membership liability revaluation charge, and certain other non-cash expenses (income) incurred or recognized by the Company from time to time, and adjusts for the portion of TSS’ Adjusted net income not attributable to shareholders of Constellation. ‘‘Adjusted net income margin’’ refers to the percentage that Adjusted net income for any period represents as a portion of total revenue for that period.

Adjusted EBITA and Adjusted net income are not recognized measures under IFRS and, accordingly, readers are cautioned that Adjusted EBITA and Adjusted net income should not be construed as alternatives to net income determined in accordance with IFRS. The Company’s method of calculating Adjusted EBITA and Adjusted net income may differ from other issuers and, accordingly, Adjusted EBITA and Adjusted net income may not be comparable to similar measures presented by other issuers. See ‘‘Results of Operations —Adjusted EBITA’’ and ‘‘— Adjusted net income’’ for a reconciliation of Adjusted EBITA and Adjusted net income to Net income. Adjusted EBITA includes 100% of the Adjusted EBITA of TSS.

Overview

We acquire, manage and build vertical market software (“VMS”) businesses. Generally, these businesses provide mission critical software solutions that address the specific needs of our customers in particular markets. Our focus on acquiring businesses with growth potential, managing them well and then building them, has allowed us to generate significant cash flows and revenue growth during the past several years.

Our revenue consists primarily of software license fees, maintenance and other recurring fees, professional service fees and hardware sales. Software license revenue is comprised of license fees charged for the use of our software products generally licensed under multiple-year or perpetual arrangements in which the fair value of maintenance and/or professional service fees are determinable, where applicable. Maintenance and other recurring revenue primarily consists of fees charged for customer support on our software products post-delivery and also includes, to a lesser extent, recurring fees derived from software as a service, subscriptions, combined software/support contracts, transaction-related revenues, and hosted products. Maintenance and other recurring fee arrangements generally include ongoing customer support and rights to certain product updates “when and if available” and products sold on a subscription basis. Professional service revenue consists of fees charged for implementation and integration services, customized programming, product training and consulting. Hardware sales include the resale of third party hardware that forms part of our customer solutions, as well as sales of customized hardware assembled internally. Our customers typically purchase a combination of software, maintenance, professional services and hardware, although the type, mix and quantity of each vary by customer and by product.

Expenses consist primarily of staff costs, the cost of hardware, third party licenses, maintenance and professional services to fulfill our customer arrangements, travel and occupancy costs and other general operating expenses.

Results of Operations
(In millions of dollars, except percentages and per share amounts)
Unaudited

	Three months ended June 30, 2018	Three months ended June 30, 2017	Period-Over-Period Change $	Period-Over-Period Change %	Six months ended June 30, 2018	Six months ended June 30, 2017	Period-Over-Period Change $	Period-Over-Period Change %
Revenue	**752.0**	**600.1**	**152.0**	**25%**	**1,470.5**	**1,155.4**	**315.1**	**27%**
Expenses	576.7	445.5	131.2	29%	1,136.5	870.3	266.2	31%
Adjusted EBITA	**175.4**	**154.6**	**20.8**	**13%**	**334.0**	**285.1**	**48.9**	**17%**
Adjusted EBITA margin	23%	26%			23%	25%		
Amortization of intangible assets	69.9	55.7	14.2	25%	138.5	108.0	30.5	28%
Foreign exchange (gain) loss	8.7	1.9	6.8	365%	(5.3)	3.4	(8.7)	NM
TSS membership liability revaluation charge	13.9	15.4	(1.5)	-10%	20.7	28.5	(7.8)	-27%
Share in net (income) loss of equity investees	0.0	(0.1)	0.1	NM	(0.2)	(0.1)	(0.1)	85%
Finance and other income	(1.2)	(0.4)	(0.7)	184%	(10.0)	(0.4)	(9.6)	NM
Bargain purchase gain	(0.0)	-	(0.0)	NM	(0.1)	-	(0.1)	NM
Finance costs	5.0	5.5	(0.5)	-9%	10.2	10.7	(0.5)	-5%
Income before income taxes	79.1	76.6	2.5	3%	180.2	135.1	45.2	33%
Income taxes expense (recovery)								
Current income tax expense (recovery)	35.0	30.1	4.9	16%	61.5	54.2	7.2	13%
Deferred income tax expense (recovery)	(7.8)	(4.7)	(3.2)	68%	(15.8)	(10.7)	(5.0)	47%
Income tax expense (recovery)	27.1	25.4	1.7	7%	45.7	43.5	2.2	5%
Net income	**52.0**	**51.2**	**0.8**	**2%**	**134.5**	**91.6**	**43.0**	**47%**
Adjusted net income	**121.9**	**112.3**	**9.6**	**9%**	**264.5**	**206.8**	**57.6**	**28%**
Adjusted net income margin	16%	19%			18%	18%		
Weighted average number of shares outstanding (000's)								
Basic and diluted	21,192	21,192			21,192	21,192		
Net income per share								
Basic and diluted	$ 2.45	$ 2.41	$ 0.04	2%	$ 6.35	$ 4.32	$ 2.03	47%
Adjusted EBITA per share								
Basic and diluted	$ 8.28	$ 7.29	$ 0.98	13%	$ 15.76	$ 13.46	$ 2.31	17%
Adjusted net income per share								
Basic and diluted	$ 5.75	$ 5.30	$ 0.45	9%	$ 12.48	$ 9.76	$ 2.72	28%
Cash dividends declared per share								
Basic and diluted	$ 1.00	$ 1.00	$ -	0%	$ 2.00	$ 2.00	$ -	0%

NM - Not meaningful

Comparison of the three and six month periods ended June 30, 2018 and 2017

Revenue:

Total revenue for the quarter ended June 30, 2018 was $752.0 million, an increase of 25%, or $152.0 million, compared to $600.1 million for the comparable period in 2017. For the first six months of 2018 total revenues were $1,470.5 million, an increase of 27%, or $315.1 million, compared to $1,155.4 million for the comparable period in 2017. The increase for both the three and six month periods compared to the same periods in the prior year is primarily attributable to growth from acquisitions as the Company experienced organic growth of 4% in both the three and six month periods, 1% after adjusting for the impact of changes in the valuation of the US dollar against most major currencies in which the Company transacts business. For acquired companies, organic growth is calculated as the difference between actual revenues achieved by each company in the financial period following acquisition compared to the estimated revenues they achieved in the corresponding financial period preceding the date of acquisition by Constellation. The Company adopted IFRS 15 "Revenue from contracts with customers" ("IFRS 15") effective January 1, 2018 utilizing the cumulative effect method. Under the cumulative effect method comparative periods have not been restated; however, the quantitative differences between reported results under IFRS 15 and those that would have been reported under IAS 11 and IAS 18 ("prior IFRS") have been disclosed. For the three and six months ended June 30, 2018 total revenue was $1.4 million lower and $7.1 million higher respectively than it would have been under prior IFRS. The organic growth figures included above and below exclude the impact of IFRS 15.

The following table displays the breakdown of our revenue according to revenue type:

	Three months ended June 30,		Period-Over-Period Change		Q217 Proforma Adj. (Note 1)	Q218 IFRS 15 Adj. (Note 2)	Organic Growth	Six months ended June 30,		Period-Over-Period Change		Q217 Proforma Adj. (Note 3)	Q218 IFRS 15 Adj. (Note 4)	Organic Growth
	2018	2017	$	%	$	$	%	2018	2017	$	%	$	$	%
	($M, except percentages)							($M, except percentages)						
Licenses	47.9	40.9	7.0	17%	7.5	(1.8)	-5%	91.7	76.0	15.7	21%	15.4	(4.4)	-5%
Professional services	152.6	120.7	31.9	26%	27.8	0.2	3%	294.8	233.1	61.7	26%	53.0	0.1	3%
Hardware and other	43.2	41.9	1.3	3%	6.9	-	-11%	76.0	73.4	2.6	4%	14.6	-	-14%
Maintenance and other recurring	508.3	396.6	111.7	28%	83.6	3.0	6%	1,008.0	772.9	235.1	30%	164.9	(2.8)	7%
	752.0	600.1	152.0	25%	125.9	1.4	4%	1,470.5	1,155.4	315.1	27%	247.9	(7.1)	4%

$M - Millions of dollars

Note 1: Estimated pre-acquisition revenues from companies acquired after March 31, 2017. (Obtained from unaudited vendor financial information.)

Note 2: Adjustment required to revenue figures for the three months ended June 30, 2018 to reverse the impact of adopting IFRS 15.

Note 3: Estimated pre-acquisition revenues from companies acquired after December 31, 2016. (Obtained from unaudited vendor financial information.)

Note 4: Adjustment required to revenue figures for the six months ended June 30, 2018 to reverse the impact of adopting IFRS 15.

For comparative purposes the table below shows the quarterly organic growth as compared to the same period in the prior year by revenue type since Q2 2016.

	Quarter Ended								
	Jun. 30 2016	Sep. 30 2016	Dec. 31 2016	Mar. 31 2017	Jun. 30 2017	Sep. 30 2017	Dec. 31 2017	Mar. 31 2018	Jun. 30 2018
Licenses	-15%	-11%	-1%	-13%	-6%	2%	6%	-4%	-5%
Professional services	2%	5%	1%	2%	-3%	3%	7%	3%	3%
Hardware and other	14%	2%	-29%	0%	1%	1%	17%	-16%	-11%
Maintenance and other recurring	3%	4%	3%	3%	2%	5%	7%	8%	6%
Revenue	**2%**	**3%**	**-1%**	**1%**	**1%**	**4%**	**8%**	**5%**	**4%**

The following table shows the same information adjusting for the impact of foreign exchange movements.

	Quarter Ended								
	Jun. 30 2016	Sep. 30 2016	Dec. 31 2016	Mar. 31 2017	Jun. 30 2017	Sep. 30 2017	Dec. 31 2017	Mar. 31 2018	Jun. 30 2018
Licenses	-14%	-10%	0%	-13%	-4%	1%	3%	-8%	-7%
Professional services	2%	6%	2%	3%	-1%	1%	3%	-3%	0%
Hardware and other	16%	5%	-28%	2%	2%	0%	14%	-20%	-13%
Maintenance and other recurring	3%	5%	5%	4%	4%	3%	4%	4%	4%
Revenue	**3%**	**4%**	**1%**	**3%**	**2%**	**2%**	**5%**	**0%**	**1%**

We aggregate our business into two distinct segments for financial reporting purposes: (i) the public sector reportable segment, which includes business units focused primarily on government and government-related customers, and (ii) the private sector reportable segment, which includes business units focused primarily on commercial customers.

The following table displays our revenue by reportable segment and the percentage change for the three and six months ended June 30, 2018 compared to the same periods in 2017:

	Three months ended June 30,		Period-Over-Period Change		Q217 Proforma Adj. (Note 1)	Q218 IFRS 15 Adj. (Note 2)	Organic Growth	Six months ended June 30,		Period-Over-Period Change		Q217 Proforma Adj. (Note 3)	Q218 IFRS 15 Adj. (Note 4)	Organic Growth
	2018	2017	$	%	$	$	%	2018	2017	$	%	$	$	%
	($M, except percentages)							($M, except percentages)						
Public Sector														
Licenses	28.6	24.7	3.9	16%	5.2	(1.2)	-8%	57.1	46.5	10.7	23%	10.9	(3.6)	-7%
Professional services	114.0	96.0	18.0	19%	20.0	0.2	-2%	224.9	185.2	39.6	21%	38.3	0.1	1%
Hardware and other	35.9	34.6	1.3	4%	3.6	-	-6%	62.4	59.2	3.2	5%	8.1	-	-7%
Maintenance and other recurring	321.8	251.0	70.9	28%	53.1	2.6	7%	641.6	489.6	152.0	31%	106.6	(3.1)	7%
	500.4	406.3	94.1	23%	81.9	1.6	3%	986.0	780.5	205.5	26%	163.9	(6.6)	4%
Private Sector														
Licenses	19.2	16.1	3.1	19%	2.4	(0.6)	1%	34.6	29.5	5.0	17%	4.5	(0.8)	-1%
Professional services	38.7	24.7	13.9	56%	7.8	-	19%	70.0	47.9	22.1	46%	14.6	-	12%
Hardware and other	7.3	7.3	(0.0)	0%	3.3	-	-31%	13.6	14.1	(0.5)	-4%	6.5	-	-34%
Maintenance and other recurring	186.5	145.6	40.9	28%	30.5	0.4	6%	366.4	283.3	83.1	29%	58.4	0.4	7%
	251.7	193.8	57.9	30%	44.0	(0.2)	6%	484.5	374.9	109.6	29%	84.0	(0.5)	5%

Certain totals and percentages may not reconcile due to rounding.
Note 1: Estimated pre-acquisition revenues from companies acquired after March 31, 2017. (Obtained from unaudited vendor financial information.)
Note 2: Adjustment required to revenue figures for the three months ended June 30, 2018 to reverse the impact of adopting IFRS 15.

Note 3: Estimated pre-acquisition revenues from companies acquired after December 31, 2016. (Obtained from unaudited vendor financial information.)
Note 4: Adjustment required to revenue figures for the six months ended June 30, 2018 to reverse the impact of adopting IFRS 15.

Public Sector

For the quarter ended June 30, 2018, total revenue in the public sector reportable segment increased 23%, or $94.1 million to $500.4 million, compared to $406.3 million for the quarter ended June 30, 2017. For the six months ended June 30, 2018, total revenue increased by 26%, or $205.5 million to $986.0 million, compared to $780.5 million for the comparable period in 2017. For purposes of calculating organic growth, estimated pre-acquisition revenues included from the relevant companies acquired in 2017 and 2018 was $81.9 million and $163.9 million for the three and six month periods ended June 30, 2017, respectively. For the three and six months ended June 30, 2018 total revenue was respectively $1.6 million lower and $6.6 million higher than it would have been under prior IFRS. Organic growth excludes the impact of IFRS 15. Organic revenue growth was 3% and 4%, respectively, for the three and six months ended June 30, 2018 compared to the same periods in 2017, and 0% for both periods after adjusting for the impact of changes in the valuation of the US dollar against most major currencies in which the Company transacts business.

Private Sector

For the quarter ended June 30, 2018, total revenue in the private sector reportable segment increased 30%, or $57.9 million to $251.7 million, compared to $193.8 million for the quarter ended June 30, 2017. For the six months ended June 30, 2018, total revenue increased by 29%, or $109.6 million to $484.5 million, compared to $374.9 million for the comparable period in 2017. For purposes of calculating organic growth, estimated pre-acquisition revenues included from the relevant companies acquired in 2017 and 2018 was $44.0 million and $84.0 million for the three and six month periods ended June 30, 2017, respectively. For the three and six months ended June 30, 2018 total revenue was respectively $0.2 million and $0.5 million higher than it would have been under prior IFRS. Organic growth excludes the impact of IFRS 15. Organic revenue growth was 6% and 5% for the three and six months ended June 30, 2018, respectively, compared to the same periods in 2017, and 4% and 3%, respectively, after adjusting for the impact of changes in the valuation of the US dollar against most major currencies in which the Company transacts business.

Expenses:

The following table displays the breakdown of our expenses:

	Three months ended June 30,		Period-Over-Period Change		Six months ended June 30,		Period-Over-Period Change	
	2018	2017	$	%	2018	2017	$	%
	($M, except percentages)				($M, except percentages)			
Expenses								
Staff	390.4	296.8	93.7	32%	779.9	586.1	193.8	33%
Hardware	24.0	23.1	0.9	4%	41.8	39.4	2.3	6%
Third party license, maintenance and professional services	66.6	50.5	16.1	32%	128.1	100.5	27.5	27%
Occupancy	19.8	14.4	5.4	37%	38.9	27.9	11.0	40%
Travel, Telecommunications, Supplies & Software and equipment	45.1	36.8	8.3	23%	87.0	71.1	15.9	22%
Professional fees	8.9	6.8	2.1	32%	19.1	13.7	5.4	39%
Other, net	15.1	11.8	3.3	28%	28.4	21.0	7.4	35%
Depreciation	6.7	5.3	1.4	27%	13.4	10.6	2.8	26%
	576.7	445.5	131.2	29%	1,136.5	870.3	266.2	31%

Overall expenses for the quarter ended June 30, 2018 increased 29%, or $131.2 million to $576.7 million, compared to $445.5 million during the same period in 2017. As a percentage of total revenue, expenses equalled 77% for the quarter ended June 30, 2018 and 74% for the same period in 2017. During the six months ended June 30, 2018, expenses increased 31%, or $266.2 million to $1,136.5 million, compared to $870.3 million during the same period in 2017. As a percentage of total revenue, expenses increased to 77% for the six months ended June 30, 2018 from 75% for the same period in 2017. For the three and six months ended June 30, 2018 the change in valuation of the US dollar against most major currencies in which the Company transacts business resulted in an approximate 3% and 4% respective increase in expenses compared to the comparable periods of 2017.

Staff expense – Staff expenses increased 32% or $93.7 million for the quarter ended June 30, 2018 and 33% or $193.8 million for the six months ended June 30, 2018 over the same periods in 2017. Staff expense can be broken down into five key operating departments: Professional Services, Maintenance, Research and Development, Sales and Marketing, and General and Administrative. Included within staff expenses for each of the above five departments are personnel and related costs associated with providing the necessary services. The table below compares the period over period variances.

	Three months ended June 30,		Period-Over-Period Change		Six months ended June 30,		Period-Over-Period Change	
	2018	2017	$	%	2018	2017	$	%
	($M, except percentages)				($M, except percentages)			
Professional services	87.8	64.6	23.2	36%	169.9	127.7	42.2	33%
Maintenance	78.9	61.2	17.7	29%	162.8	120.4	42.4	35%
Research and development	104.7	81.6	23.2	28%	210.9	162.8	48.1	30%
Sales and marketing	55.7	43.1	12.6	29%	109.6	85.1	24.5	29%
General and administrative	63.4	46.3	17.1	37%	126.6	90.0	36.6	41%
	390.4	296.8	93.7	32%	779.9	586.1	193.8	33%

The increase in staff expenses for the three and six months ended June 30, 2018 was primarily due to the growth in the number of employees compared to the same periods in 2017 primarily due to acquisitions.

Hardware expenses – Hardware expenses increased 4% or $0.9 million for the quarter ended June 30, 2018 and 6% or $2.3 million for the six months ended June 30, 2018 over the same periods in 2017 as compared with the 3% and 4% increase in hardware and other revenue for the three and six month periods ending June 30, 2018 respectively over the comparable periods in 2017. Hardware margins for both the three and six months ended June 30, 2018 were 45% as compared to 45% and 46% for the comparable periods in 2017.

Third party license, maintenance and professional services expenses – Third party license, maintenance and professional services expenses increased 32% or $16.1 million for the quarter ended June 30, 2018 and 27% or $27.5 million for the six months ended June 30, 2018 over the same periods in 2017. The increase is primarily due to third party license, maintenance and professional services expenses of acquired businesses.

Occupancy expenses – Occupancy expenses increased 37% or $5.4 million for the quarter ended June 30, 2018 and 40% or $11.0 million for the six months ended June 30, 2018 over the same periods in 2017. The increase in occupancy expenses is primarily due to the occupancy expenses of acquired businesses.

Travel, Telecommunications, Supplies & Software and equipment expenses – Travel, Telecommunications, Supplies & Software and equipment expenses increased 23% or $8.3 million for the quarter ended June 30, 2018 and 22% or $15.9 million for the six months ended June 30, 2018 over the same periods in 2017. The increase in these expenses is primarily due to expenses incurred by acquired businesses.

Professional fees – Professional fees increased 32% or $2.1 million for the quarter ended June 30, 2018 and 39% or $5.4 million for the six months ended June 30, 2018 over the same periods in 2017. There are no individually material reasons contributing to this variance.

Other, net – Other expenses increased 28% or $3.3 million for the quarter ended June 30, 2018 and 35% or $7.4 million for the six months ended June 30, 2018 over the same periods in 2017. The following table provides a further breakdown of expenses within this category.

	Three months ended June 30,		Period-Over-Period Change		Six months ended June 30,		Period-Over-Period Change	
	2018	2017	$	%	2018	2017	$	%
	($M, except percentages)				($M, except percentages)			
Advertising and promotion	11.2	8.2	3.0	36%	21.6	15.4	6.2	40%
Recruitment and training	4.4	2.8	1.6	55%	7.9	5.6	2.3	40%
Bad debt expense	1.4	1.8	(0.3)	-19%	2.3	3.0	(0.7)	-23%
R&D tax credits	(5.6)	(3.4)	(2.2)	66%	(10.2)	(6.7)	(3.5)	52%
Contingent consideration	0.6	0.1	0.5	NM	0.9	(0.1)	1.0	NM
Other expense, net	3.1	2.3	0.9	38%	5.9	3.8	2.0	53%
	15.1	11.8	3.3	28%	28.4	21.0	7.4	35%

NM - Not meaningful

There are no individually material reasons contributing to the above variances.

Depreciation – Depreciation of property and equipment increased 27% or $1.4 million for the quarter ended June 30, 2018 and 26% or $2.8 million for the six months ended June 30, 2018 over the same periods in 2017. The increase is primarily due to the depreciation expense associated with acquired businesses.

Other Income and Expenses:

The following table displays the breakdown of our other income and expenses:

	Three months ended June 30, 2018	Three months ended June 30, 2017	Period-Over-Period Change $	Period-Over-Period Change %	Six months ended June 30, 2018	Six months ended June 30, 2017	Period-Over-Period Change $	Period-Over-Period Change %
	($M, except percentages)				($M, except percentages)			
Amortization of intangible assets	69.9	55.7	14.2	25%	138.5	108.0	30.5	28%
Foreign exchange (gain) loss	8.7	1.9	6.8	365%	(5.3)	3.4	(8.7)	NM
TSS membership liability revaluation charge	13.9	15.4	(1.5)	-10%	20.7	28.5	(7.8)	-27%
Share in net (income) loss of equity investees	0.0	(0.1)	0.1	NM	(0.2)	(0.1)	(0.1)	85%
Finance and other expense (income)	(1.2)	(0.4)	(0.7)	184%	(10.0)	(0.4)	(9.6)	NM
Bargain purchase gain	(0.0)	-	(0.0)	NM	(0.1)	-	(0.1)	NM
Finance costs	5.0	5.5	(0.5)	-9%	10.2	10.7	(0.5)	-5%
Income tax expense (recovery)	27.1	25.4	1.7	7%	45.7	43.5	2.2	5%
	123.4	103.4	20.0	19%	199.5	193.6	5.9	3%

NM - Not meaningful

Amortization of intangible assets – Amortization of intangible assets increased 25% or $14.2 million for the quarter ended June 30, 2018 and 28% or $30.5 million for the six months ended June 30, 2018 over the same periods in 2017. The increase in amortization expense for the three and six months ended June 30, 2018 is primarily attributable to an increase in the carrying amount of our intangible asset balance over the twelve-month period ended June 30, 2018 as a result of acquisitions completed during this twelve-month period.

Foreign exchange – Most of our businesses are organized geographically so many of our expenses are incurred in the same currency as our revenues, which mitigates some of our exposure to currency fluctuations. For the three and six months ended June 30, 2018, we realized a foreign exchange loss of $8.7 million and gain of $5.3 million respectively compared to losses of $1.9 million and $3.4 million for the same periods in 2017. The following table provides a breakdown of these amounts.

	Three months ended June 30, 2018	Three months ended June 30, 2017	Period-Over-Period Change $	Period-Over-Period Change %	Six months ended June 30, 2018	Six months ended June 30, 2017	Period-Over-Period Change $	Period-Over-Period Change %
	($M, except percentages)				($M, except percentages)			
Unrealized foreign exchange (gain) loss related to:								
- revaluation of intercompany loans between entities with differing functional currencies (1)	13.3	(5.4)	18.7	NM	6.1	(6.7)	12.9	NM
- revaluation of the Company's unsecured subordinated floating rate debentures as a result of the appreciation (depreciation) of the Canadian dollar against the US dollar.	(4.2)	6.0	(10.2)	NM	(10.6)	7.9	(18.5)	NM
Remaining foreign exchange (gain) loss	(0.4)	1.3	(2.2)	NM	(0.9)	2.1	(3.4)	NM
	8.7	1.9	6.4	365%	(5.3)	3.4	(9.1)	NM

NM - Not meaningful

(1) Offsetting amounts recorded in other comprehensive income. Net impact to Total comprehensive income for each period is nil.

The remaining foreign exchange gains and losses per the table above are primarily related to the unrealized foreign exchange translation gains and losses of certain net Canadian dollar denominated liability balances to US dollars as a result of the Canadian dollar's depreciation or appreciation against the US dollar.

TSS membership liability revaluation charge – The valuation of the TSS membership liability that was put in place in Q4 2014 increased by approximately 9% from Q1 2018 or $13.9 million, and approximately 15% from Q4 2017 or $20.7 million. The increases are primarily the result of the growth in TSS' reported trailing twelve month maintenance revenue (primarily due to acquisitions). Maintenance revenue and net tangible assets are the two main drivers in the calculation of the liability. The liability recorded on the balance sheet increased by 13% or $17.0 million over the six month period ended June 30, 2018 from $135.8 million to $152.8 million as a result of the revaluation charge of $20.7 million offset by a $3.7 million foreign exchange gain that was recorded through other comprehensive income. The TSS membership liability is denominated in Euros and the Euro depreciated 2% versus the US dollar during the first six months of 2018.

Share in net (income) loss of equity investees – Share in the net (income) loss of equity investees was income of $nil and $0.2 million for the three and six month periods ended June 30, 2018 respectively, compared to income of $0.1 million for both comparable periods in 2017 in line with changes in the profitability of equity investees.

Finance and other expense (income) – Finance and other income for the three and six month periods ended June 30, 2018 was $1.2 million and $10.0 million respectively compared to $0.4 million for both comparable periods in 2017. In September 2008 the Company acquired certain assets and liabilities of Maximus Inc.'s Asset, Justice, and Education Solutions businesses. As part of the acquisition, the Company recorded an accrual of $7.9 million for financial liabilities potentially due on a long-term acquired contract. No financial liabilities were ever assessed and the statute of limitations now restricts any legal action by the customer with regards to the acquired contract. The $7.9 million accrual was released into income in Q1 2018. Interest earned on cash balances for the three and six months ended June 30, 2018 was $0.7 million and $1.5 million respectively, compared to $0.9 million and $1.7 million for the same periods in 2017. Losses of $0.7 million and $1.5 million relating to the sale of available-for-sale equity securities were also recorded during the three and six months ended June 30, 2017 and no similar losses were recorded in 2018.

Bargain purchase gain – A bargain purchase gain adjustment totalling $0.1 million was recorded in the six month period ended June 30, 2018 relating to one of the acquisitions made during 2017. No similar gain was recognized for the same period in 2017.

Finance costs – Finance costs for the quarter ended June 30, 2018 decreased $0.5 million to $5.0 million, compared to $5.5 million for the same period in 2017. During the six months ended June 30, 2018, finance costs decreased $0.5 million to $10.2 million, from $10.7 million over the same period in 2017. There are no individually material reasons contributing to these variances.

Income taxes – We operate globally and we calculate our tax provision in each of the jurisdictions in which we conduct business. Our effective tax rate on a consolidated basis is, therefore, affected by the realization and anticipated relative profitability of our operations in those various jurisdictions, as well as different tax rates that apply and our ability to utilize tax losses and other credits. For the quarter ended June 30, 2018, income tax expense increased $1.7 million to $27.1 million compared to $25.4 million for the same period in 2017. During the six months ended June 30, 2018, income tax expense increased $2.2 million to $45.7 million compared to $43.5 million for the same period in 2017. Current tax expense as a percentage of adjusted net income before tax was 22% and 19% for the three and six months ended June 30, 2018 respectively, and 21% for the same periods in 2017. This rate has historically approximated our cash tax rate however the quarterly rate can sometimes fall outside of the annual range due to out of period adjustments. Current tax expense reflects gross taxes before the application of R&D tax credits which are classified as part of "other, net" expenses in the statement of income. For the three and six months ended June 30, 2018 current tax expense was $0.4 million lower and $2.7 million higher respectively than it would have been under prior IFRS (IAS 18). The deferred income tax recovery increases of $3.2 million and $5.0 million for three and six months ended June 30, 2018 respectively, relates to various items including changes in recognition of certain deferred income tax assets.

Constellation is subject to tax audits in the countries in which the Company carries on business globally. These tax audits could result in additional tax expense in future periods relating to historical filings. Reviews by tax authorities generally focus on, but are not limited to, the validity of the Company's inter-company transactions, including financing and transfer pricing policies which generally involve subjective areas of taxation and a significant degree of judgment. If any of these tax authorities are successful with their challenges, the Company's income tax expense may be adversely affected and Constellation could also be subject to interest and penalty charges.

Net Income and Earnings per Share:

Net income for the quarter ended June 30, 2018 was $52.0 million compared to net income of $51.2 million for the same period in 2017. On a per share basis, this translated into a net income per diluted share of $2.45 in the quarter ended June 30, 2018 compared to net income per diluted share of $2.41 for the same period in 2017. For the six months ended June 30, 2018, net income was $134.5 million or $6.35 per diluted share compared to $91.6 million or $4.32 per diluted share for the same period in 2017. There was no change in the number of shares outstanding.

Adjusted EBITA:

For the quarter ended June 30, 2018, Adjusted EBITA increased to $175.4 million compared to $154.6 million for the same period in 2017 representing an increase of 13%. For the first six months of 2018, Adjusted EBITA increased to $334.0 million compared to $285.1 million during the same period in 2017, representing an increase of 17%. As discussed in the "Revenue" section above, the Company adopted IFRS 15 effective January 1, 2018 utilizing the cumulative effect method. Under the cumulative effect method comparative periods have not been restated however the quantitative differences between reported results under IFRS 15 and those that would have been reported under prior IFRS have been disclosed. For the three and six months ended June 30, 2018, Adjusted EBITA was $1.5 million lower and $7.3 million higher respectively, than it would have been under prior IFRS. Adjusted EBITA margin was 23% for both the three and six months ended June 30, 2018, compared to 26% and 25% during the same periods in 2017. Excluding the impact of IFRS 15, Adjusted EBITA margin would have been 24% and 22% for the three and six months ended June 30, 2018, respectively. The margin decline is primarily the result of lower margins on recently acquired businesses. See "Non-IFRS Measures" for a description of Adjusted EBITA and Adjusted EBITA margin.

The following table reconciles Adjusted EBITA to net income:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	($M, except percentages)		($M, except percentages)	
Total revenue	752.0	600.1	1,470.5	1,155.4
Net income	52.0	51.2	134.5	91.6
Adjusted for:				
Income tax expense (recovery)	27.1	25.4	45.7	43.5
Foreign exchange (gain) loss	8.7	1.9	(5.3)	3.4
TSS membership liability revaluation charge	13.9	15.4	20.7	28.5
Share in net (income) loss of equity investees	0.0	(0.1)	(0.2)	(0.1)
Finance and other income	(1.2)	(0.4)	(10.0)	(0.4)
Bargain purchase gain	(0.0)	-	(0.1)	-
Finance costs	5.0	5.5	10.2	10.7
Amortization of intangible assets	69.9	55.7	138.5	108.0
Adjusted EBITA	175.4	154.6	334.0	285.1
Adjusted EBITA margin	23%	26%	23%	25%

Certain totals and percentages may not reconcile due to rounding.

Adjusted net income:

For the quarter ended June 30, 2018, Adjusted net income increased to $121.9 million from $112.3 million for the same period in 2017, representing an increase of 9%. Adjusted net income margin was 16% for the quarter ended June 30, 2018 and 19% for the same period in 2017. For the quarter ended June 30, 2018, Adjusted net income was $0.7 million lower than it would have been under prior IFRS (IAS 18). For the first six months of 2018, Adjusted net income increased to $264.5 million from $206.8 million during the same period in 2017, representing an increase of 28%. Adjusted net income margin was 18% for both the six months ended June 30, 2018 and June 30, 2017. For the six months ended June 30, 2018, Adjusted net income was $4.4 million higher than it would have been under prior IFRS (IAS 18). Excluding the impact of the unrealized foreign exchange (gain) loss recorded in each of the three and six month periods ended June 30, 2017 and 2018, the $7.9 million financial liability accrual reversal recorded to finance and other income in Q1 2018, and the impacts of IFRS 15, the margins would have been 18% and 17% for the respective periods in 2018, and 19% and 18% for the respective periods in 2017. See "Non-IFRS Measures" for a description of Adjusted net income and Adjusted net income margin.

Non-controlling interest in the Adjusted net income of TSS - As explained in the "Capital Resources and Commitments" section below, in Q4 2014 33.29% of the voting interests in TSS were sold by us, however no adjustment has been made in the Company's Consolidated Financial Statements to reflect the 33.29% of earnings that are not attributable to Constellation shareholders. Instead, due to an option available to the minority owners to exercise a put option to sell all or a portion of their interests back to Constellation, the minority interest is accounted for as a liability on the Company's balance sheet. The liability is revalued at each period end in accordance with an agreed upon valuation methodology with the change being included in net income. The non-controlling interest in the Adjusted net income of TSS for the three and six months ended June 30, 2018 was $6.0 million and $13.4 million respectively, as compared to $5.3 million and $10.6 million for the same periods in 2017.

The following table reconciles Adjusted net income to Net income:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	($M, except percentages)		($M, except percentages)	
Total revenue	752.0	600.1	1,470.5	1,155.4
Net income	52.0	51.2	134.5	91.6
Adjusted for:				
Amortization of intangible assets	69.9	55.7	138.5	108.0
TSS membership liability revaluation charge	13.9	15.4	20.7	28.5
Bargain purchase gain	(0.0)	-	(0.1)	-
Less non-controlling interest in the Adjusted net income of TSS	(6.0)	(5.3)	(13.4)	(10.6)
Deferred income tax expense (recovery)	(7.8)	(4.7)	(15.8)	(10.7)
Adjusted net income	121.9	112.3	264.5	206.8
Adjusted net income margin	16%	19%	18%	18%

Certain totals and percentages may not reconcile due to rounding.

Quarterly Results

	Quarter Ended								
	Jun. 30 2016	Sep. 30 2016	Dec. 31 2016	Mar. 31 2017	Jun. 30 2017	Sep. 30 2017	Dec. 31 2017	Mar. 31 2018	Jun. 30 2018
	($M, except per share amounts)								
Revenue	528.7	545.6	563.8	555.3	600.1	636.5	687.6	718.5	752.0
Net income	55.0	67.5	65.7	40.4	51.2	54.3	76.1	82.5	52.0
Adjusted net income	89.9	120.7	121.8	94.5	112.3	115.5	140.6	142.6	121.9
Adjusted net income margin	17%	22%	22%	17%	19%	18%	20%	20%	16%
Net income per share									
Basic & diluted	2.60	3.18	3.10	1.91	2.41	2.56	3.59	3.90	2.45
Adjusted net income per share									
Basic & diluted	4.24	5.70	5.75	4.46	5.30	5.45	6.63	6.73	5.75

We experience seasonality in our operating results in that Adjusted net income margins in the first quarter of every year are typically lower than margins achieved in the second, third and fourth quarters. The key drivers for the lower margins are increased payroll tax costs associated with our annual bonus payments that are made in the month of March, and the fact that historically there has been a consistent focus at year end to complete sales implementation projects which generally translates into increased professional services revenue in the fourth quarter and decreased professional services revenue in the first quarter. Our quarterly results may also fluctuate as a result of the various acquisitions which may be completed by the Company in any given quarter. We may experience variations in our net income on a quarterly basis depending upon the timing of certain expenses or gains, which may include changes in provisions, acquired contract liabilities, foreign exchange gains and losses, bargain purchase gains, and gains or losses on the sale of financial and other assets.

Liquidity

Our net cash position (cash less bank indebtedness excluding capitalized transaction costs) decreased by $111.4 million to $279.3 million in the quarter ended June 30, 2018 resulting from capital deployed on acquisitions exceeding cash flows from operations. Bank indebtedness decreased by $34.0 million to $64.2 million at June 30, 2018 compared to $98.2 million at December 31, 2017, and cash decreased by $145.4 million to $343.6 million at June 30, 2018 compared to $489.0 million at December 31, 2017.

Total assets increased $265.3 million, from $2,288.2 million at December 31, 2017 to $2,553.6 million at June 30, 2018. The increase is primarily due to an increase in intangible assets of $263.3 million primarily relating to acquisitions made since December 31, 2017. At June 30, 2018 TSS held a cash balance of $21.8 million. As explained in the "Capital Resources and Commitments" section below, there are limitations on TSS' ability to distribute funds to Constellation.

Current liabilities increased $124.4 million, from $1,172.1 million at December 31, 2017 to $1,296.6 million at June 30, 2018. The increase is primarily due to an increase in deferred revenue of $170.4 million mainly due to acquisitions made since December 31, 2017 and the timing of maintenance and other billings versus performance and delivery under those customer arrangements, offset by a decrease in accounts payable and accrued liabilities of $31.6 million largely relating to the payment of bonuses accrued in 2017.

Net Changes in Cash Flows
(in $M's)

	Six months ended June 30, 2018	Six months ended June 30, 2017
Net cash provided by operating activities	310.6	242.4
Net cash from (used in) financing activities	(87.4)	(57.4)
Net cash from (used in) acquisition activities	(354.6)	(131.1)
Net cash from (used in) other investing activities	(10.6)	14.4
Net cash from (used in) investing activities	(365.1)	(116.7)
Effect of foreign currency	(3.4)	8.0
Net increase (decrease) in cash and cash equivalents	**(145.4)**	**76.3**

The net cash flows from operating activities were $310.6 million for the six months ended June 30, 2018. The $310.6 million provided by operating activities resulted from $134.5 million in net income plus $212.9 million of non-cash adjustments to net income and $45.3 million of cash from non-cash operating working capital, offset by $82.1 million in taxes paid.

The net cash flows used in financing activities in the six months ended June 30, 2018 were $87.4 million, which is mainly a result of dividends paid of $42.4 million, a net decrease in bank indebtedness of $34.5 million, and interest paid on bank indebtedness and the Company's unsecured subordinated floating rate debentures in the period of $10.5 million.

The net cash flows used in investing activities in the six months ended June 30, 2018 were $365.1 million. The cash used in investing activities was primarily due to acquisitions for an aggregate of $354.6 million (including payments for holdbacks relating to prior acquisitions).

We believe we have sufficient cash and available credit capacity to continue to operate for the foreseeable future. Generally our VMS businesses operate with negative working capital as a result of the collection of maintenance payments and other revenues in advance of the performance of the related services. As such, management anticipates that it can continue to grow the business organically without any additional funding. If we continue to acquire VMS businesses we may need additional external funding depending upon the size and timing of the potential acquisitions.

Capital Resources and Commitments

Bank Indebtedness

On October 27, 2017, we completed an amendment and restatement of our revolving credit facility agreement (the "CSI Facility") with a syndicate of Canadian chartered banks and U.S. banks in the amount of $460 million, extending its maturity date to October 27, 2022. The CSI Facility bears a variable interest rate with no fixed repayments required over the term to maturity. Interest rates are calculated at standard U.S. and Canadian reference rates plus interest rate spreads based on a leverage table. The CSI Facility is currently collateralized by the majority of our assets including the assets of certain material subsidiaries. The CSI Facility contains standard events of default which if not remedied within a cure period would trigger the repayment of any outstanding balance. The CSI Facility is available for acquisitions, distributions, working capital needs, and other general corporate purposes and for the needs of our subsidiaries. As at June 30, 2018, no amounts were drawn on the CSI Facility, and letters of credit totalling $16.0 million were issued, which limits the borrowing capacity on a dollar-for-dollar basis. Transaction costs associated with this CSI Facility are being amortized through profit or loss using the effective interest rate method. As at June 30, 2018, the carrying amount of such costs totalling $1.1 million has been classified as part of other non-current assets in the statement of financial position.

On June 24, 2014 Constellation Software Netherlands Holding Cooperatief U.A. ("CNH"), a subsidiary of Constellation and the indirect owner of 100% of TSS, entered into a €150 million term and €10 million multicurrency revolving credit facility (the "CNH Facility") with a number of European and North American financial institutions. The CNH Facility bears interest at a rate calculated at EURIBOR plus interest rate spreads based on a leverage table. The CNH Facility is collateralized by substantially all of the assets owned by CNH and its subsidiaries which includes substantially all of the assets of TSS and its subsidiaries. The CNH Facility contains standard events of default which if not remedied within a cure period would trigger the repayment of any outstanding balance. On July 14, 2017 (in conjunction with the issuance of the New CNH Facility, as defined below), the principal outstanding on the term loan of €116.5 million was repaid in full and the CNH Facility was extinguished. Unamortized transaction costs of $3.3 million associated with the CNH Facility were included in profit or loss for the year ended December 31, 2017.

On July 14, 2017, CNH entered into a new credit facility (the "New CNH Facility") with a number of European financial institutions. Under this credit facility, CNH is able to borrow up to €300 million under a multicurrency revolving loan facility and up to €50 million under an additional uncommitted term loan facility. The New CNH Facility has an initial term of five years with an extension option for two additional one year periods. The New CNH Facility bears interest at a rate calculated at EURIBOR plus interest rate spreads based on a leverage table. The New CNH Facility is collateralized by substantially all of the assets owned by CNH and its subsidiaries which includes substantially all of the assets of TSS and its subsidiaries. The New CNH Facility contains standard events of default which if not remedied within a cure period would trigger the repayment of any outstanding balance. As at June 30, 2018, $64.2 million (€55.0 million) had been drawn from this credit facility. Transaction costs associated with the New CNH Facility have been included as part of the carrying amount of the liability and are being amortized through profit or loss using the effective interest rate method. Amortized costs recognized in the three and six months ended June 30, 2018 relating to this facility amounted to $0.1 million and $0.2 million respectively. As at June 30, 2018, the carrying amount of such costs relating to this facility totaling approximately $1.7 million (€1.4 million) has been classified as part of the New CNH Facility in the consolidated statement of financial position.

The CSI Facility and New CNH Facility are independent of each other. The New CNH Facility is not guaranteed by Constellation or its subsidiaries nor is Constellation or any subsidiary subject to the terms of the New

CNH Facility other than, in each case, CNH and its subsidiaries. Similarly, CNH and its subsidiaries did not guarantee the CSI Facility and are not subject to the provisions thereof. The CSI Facility imposes limitations on the aggregate amount of investment that Constellation may make in CNH and its subsidiaries and the financial results of CNH and its subsidiaries are not included for the purposes of determining compliance by Constellation with the financial covenants in the CSI Facility. The New CNH Facility imposes limitations on the amount of distributions that CNH and its subsidiaries may make to Constellation.

On July 6, 2018 Acceo Solutions, L.P. and its wholly-owned subsidiary Acceo Solutions Inc. (together "Acceo") entered into a $110.5 million (C$145.0 million) term and $7.6 million (C$10.0 million) revolving credit facility (the "Acceo Facility") with two North American lenders. Acceo is indirectly 100% owned by Constellation. The Acceo term facility presently bears interest at a rate calculated at CDOR plus interest rate spreads based on a leverage table. The Acceo Facility is collateralized by substantially all of the assets owned by Acceo and its material subsidiaries. The Acceo Facility contains standard events of default which if not remedied within a cure period would trigger the repayment of any outstanding balance. On July 6, 2018, $110.5 million (C$145.0 million) was drawn on the term component of the Acceo Facility. The term facility requires quarterly principal repayments of $0.3 million (C$0.4 million), commencing on September 30, 2018, with the balance of the term facility to be repaid in full on July 6, 2023. As at July 6, 2018 no amounts had been drawn on the revolving component of the Acceo Facility. The revolving component of the Acceo Facility is available for acquisitions, working capital needs, and other general corporate purposes. Transaction costs associated with the Acceo Facility will be included as part of the carrying amount of the liability and will be amortized through profit or loss using the effective interest rate method. The carrying amount of such costs relating to this facility is estimated to be $2.7 million.

The Acceo Facility is independent of each of the CSI Facility and the New CNH Facility. The obligations of Acceo are not guaranteed by Constellation or its subsidiaries, however a $19 million (C$25 million) Promissory Note issued by N. Harris Computer Corporation to Acceo Solutions Inc. (representing an amount equal to the balance of the purchase price payable by Acceo Solutions to its previous shareholders in relation to Acceo acquisition) has been pledged under the Acceo Facility. In addition, Constellation and its subsidiaries other than Acceo and its subsidiaries are not subject to the terms of the Acceo Facility. Similarily, Acceo and its subsidiaries did not guarantee the CSI Facility or the New CNH Facility and is not subject to the provisions thereof. The Acceo Facility imposes limitations on the amount of distributions that Acceo may make to Constellation.

Debentures

On October 1, 2014 and November 19, 2014, the Company issued unsecured subordinated debentures (the "Debentures") with a total principal value of C$96.0 million for total proceeds of C$91.2 million. The proceeds were used by the Company to pay down $81.2 million of outstanding bank indebtedness.

On September 30, 2015, the Company issued an additional tranche of Debentures with a total principal value of C$186.2 million for total proceeds of C$214.2 million. The proceeds were used by the Company to pay down $130.4 million of outstanding bank indebtedness. The September 30, 2015 issuance formed a single series with the outstanding C$96.0 million aggregate principal amount of Debentures, Series 1 of the Company. The Debentures have a maturity date of March 31, 2040.

TSS Membership Liability

On December 23, 2014, in accordance with the terms of the purchase and sale agreement for the TSS acquisition, and on the basis of the term sheets attached thereto, Constellation and the sellers of TSS along with members of TSS' executive management team (collectively, the "minority owners") entered into a Members Agreement pursuant to which the minority owners acquired 33.29% of the voting interests in CNH. Proceeds from this transaction in the amount of $48.5 million (€39.4 million) were utilized to repay, in part, outstanding bank indebtedness of Constellation. In accordance with IFRS, 100% of the financial results for TSS are included in the consolidated financial results of the Company.

Each of the minority owners may, at any time, exercise a put option to sell all or a portion of their interests in CNH back to Constellation for an amount calculated in accordance with a valuation methodology described within the Members Agreement. Accordingly, the Company classified the proceeds from the Members Agreement as a liability. The main valuation driver in such calculation is the maintenance and other recurring revenue of CNH. Upon the exercise of a put option, Constellation would be obligated to redeem up to 33.33% of the minority owners' interests put, no later than 30 business days from the date notice is received (classified as a current liability), and up to 33.33% on each of the first and second anniversary of the date the first redemption payment is made.

The seller of TSS also has an option available to it to sell approximately 68% of its interests in CNH, for an amount calculated in accordance with a valuation methodology described within the Members Agreement, in the event that Robin Van Poelje, TSS' CEO, is no longer employed by TSS. The approximately 32% remaining interest can be sold via the put option described above.

In the event of a change of control in Constellation, the minority owners would have the option to sell 100% of their interests in CNH for an amount calculated in accordance with a valuation methodology described within the Members Agreement. Constellation would be obligated to remit payment in respect thereof no later than 30 business days from the date notice is given.

Commencing at any time after December 31, 2023, Constellation may exercise a call option to purchase all of the minority owners' interests in CNH, for an amount calculated in accordance with a valuation methodology described within the Members Agreement. Upon exercise of the call option, the full purchase price will be paid within 30 business days of the notice date, following which the minority owners' membership in CNH will be terminated. There is a valuation premium if the call option is exercised versus the put option.

If any of TSS' executive management team that participate in the Members Agreement are terminated for urgent cause as defined in Section 7:678 of the Dutch Civil Code, Constellation shall have the right to purchase all of the interests beneficially owned by the terminated executive for an amount calculated in accordance with the valuation methodology described within the Members Agreement. The full purchase price will be paid within 30 business days from the date notice is given, following which the terminated executive's membership in CNH will be terminated. An option does exist for the terminated executive to elect to be paid in annual installments of 33.33% of his interests in CNH over a 3 year period. The valuation of the interests being purchased will be calculated at each annual payment date.

Other commitments

Commitments include operating leases for office equipment and facilities, letters of credit and performance bonds issued on our behalf by financial institutions in connection with facility leases and contracts with public sector customers. Also, occasionally we structure some of our acquisitions with contingent consideration based on the future performance of the acquired business. The fair value of contingent consideration recorded in our statement of financial position was $18.3 million at June 30, 2018. Aside from the aforementioned, we do not have any other business arrangements, derivative financial instruments, or any equity interests in non-consolidated entities that would have a significant effect on our assets and liabilities as at June 30, 2018.

The TSS membership liability commitment assumes that the minority owners have exercised their put option to sell 100% of their interests back to Constellation. This option however has not been exercised as at July 26, 2018. See the "Critical Accounting Estimate" section of the Company's 2017 Annual Consolidated Financial Statements for a discussion on the valuation methodology utilized.

Foreign Currency Exposure

We operate internationally and have foreign currency risks related to our revenue, operating expenses, assets and liabilities denominated in currencies other than the U.S. dollar. Consequently, we believe movements in the foreign currencies in which we transact will impact future revenue and net earnings. Our analysis related to the change in average exchange rates from 2017 to 2018 suggests that the impact to Adjusted EBITA margins for the three and six months ended June 30, 2018 was less than 1%. The impact to organic revenue growth for both the three and six months ended June 30, 2018 was approximately positive 3%. We cannot predict the effect of foreign exchange gains or losses in the future; however, if significant foreign exchange losses are experienced, they could have a material adverse effect on our business, revenues, results of operations, and financial condition. The Company enters into forward foreign exchange contracts from time to time with the objective of mitigating volatility in profit or loss in respect of financial liabilities. In entering into these forward exchange contracts, the Company is exposed to the credit risk of the counterparties to such contracts and the possibility that the counterparties will default on their payment obligations under these contracts. However, given that the counterparties are Schedule 1 banks or affiliates thereof, the Company believes these risks are not material. During the six months ended June 30, 2018, the Company did not purchase any contracts of this nature.

The following table provides an approximate breakdown of our revenue and expenses by currency, expressed as a percentage of total revenue and expenses, as applicable, for the three and six months ended June 30, 2018:

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
Currencies	% of Revenue	% of Expenses	% of Revenue	% of Expenses
USD	53%	45%	53%	47%
CAD	8%	13%	7%	12%
GBP	7%	8%	7%	8%
EURO	21%	22%	22%	22%
CHF	1%	3%	1%	3%
Others	11%	10%	10%	9%
Total	100%	100%	100%	100%

Off-Balance Sheet Arrangements

As a general practice, we have not entered into off-balance sheet financing arrangements. Except for operating leases and letters of credit, all of our liabilities and commitments are reflected as part of our statement of financial position.

Proposed Transactions

We seek potential acquisition targets on an ongoing basis and may complete several acquisitions in any given fiscal year.

New standards and interpretations adopted

IFRS 9 Financial Instruments

IFRS 9 replaces the guidance in IAS 39 Financial Instruments: Recognition and Measurement, on the classification and measurement of financial assets. IFRS 9 eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivable.

Financial assets will be classified into one of two categories on initial recognition:

- financial assets measured at amortized cost; or
- financial assets measured at fair value.

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

Gains and losses on remeasurement of financial assets measured at fair value will be recognized in profit or loss, except for an investment in an equity instrument which is not held-for-trading. IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income ("OCI") ("FVOCI"). The election is available on an individual investment-by-investment basis. Amounts presented in OCI will not be reclassified to profit or loss at a later date. IFRS 9 also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an expected credit loss ("ECL") model. The new impairment model applies to financial assets at amortized cost, contract assets and debt investments at FVOCI.

The Company adopted this standard on January 1, 2018 and it had a nominal impact on the Company's disclosures.

IFRS 15 Revenue from Contracts with Customers

The Company has adopted IFRS 15 Revenue from Contracts with Customers with an initial adoption date of January 1, 2018. The Company utilized the cumulative effect method to adopt the new standard and therefore, the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. (See Note 20 of the Unaudited Condensed Consolidated Interim Financial Statements for the three and six month periods ended June 30, 2018.)

New standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the quarter ended June 30, 2018, and have not been applied in preparing our consolidated financial statements. The relevant standards are listed below.

IFRS 16 Leases

In January 2016, the IASB issued the final publication of the IFRS 16 Leases standard, which will supersede the current IAS 17, Leases standard. Under IFRS 16, a lease will exist when a customer controls the right to use an identified asset as demonstrated by the customer having exclusive use of the asset for a period of time. IFRS 16 introduces a single accounting model for lessees and all leases will require an asset and liability to be recognized on the statement of financial position at inception. The accounting treatment for lessors will remain largely the same as under IAS 17.

The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted, but only if the entity is also applying IFRS 15. The Company is required to retrospectively apply IFRS 16 to all existing leases as of the date of transition and has the option to either:

- apply IFRS 16 with full retrospective effect; or
- recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application.

As a practical expedient, an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application. The Company is assessing the impact of this standard on its consolidated financial statements; however, the Company believes that on adoption of the standard there will be an increase to assets and liabilities, as the Company will be required to record a right-of-use asset and a corresponding lease liability on its Consolidated Statements of Financial Position, as well as a decrease to operating costs, an increase to finance costs (due to accretion of the lease liability) and an increase to depreciation (due to depreciation of the right-of-use asset).

Share Capital

As at July 26, 2018, there were 21,191,530 common shares outstanding.

Risks and Uncertainties

The Company's business is subject to a number of risk factors which are described in our most recently filed AIF. Additional risks and uncertainties not presently known to us or that we currently consider immaterial also may impair our business and operations and cause the price of the common shares to decline. If any of the noted risks actually occur, our business may be harmed and the financial condition and results of operation may suffer significantly. In that event, the trading price of the common shares could decline, and shareholders may lose all or part of their investment.

Controls and Procedures

Evaluation of disclosure controls and procedures:

Management is responsible for establishing and maintaining disclosure controls and procedures as defined under National Instrument 52-109. At June 30, 2018, the President and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective and that material information relating to the Company, including its subsidiaries, was made known to them and was recorded, processed, summarized and reported within the time periods specified under applicable securities legislation.

Internal controls over financial reporting:

The President and Chief Financial Officer have designed or caused to be designed under their supervision, disclosure controls and procedures which provide reasonable assurance that material information regarding the Company is accumulated and communicated to the Company's management, including its President and Chief Financial Officer in a timely manner.

In addition, the President and Chief Financial Officer have designed or caused it to be designed under their supervision internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements. The President and Chief Financial Officer have been advised that the control framework the President and the Chief Financial Officer used to design the Company's ICFR is recognized by the Committee of Sponsoring Organizations of the Treadway Commission.

The President and the Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, whether or not there were changes to its ICFR during the period ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect the Company's ICFR. No such changes were identified through their evaluation.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that its objectives are met. Due to inherent limitations in all such systems, no evaluations of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Accordingly, our disclosure controls and procedures and our internal controls over financial reporting are effective in providing reasonable, not absolute, assurance that the objectives of our control systems have been met.

Condensed Consolidated Interim Financial Statements
(In U.S. dollars)

CONSTELLATION SOFTWARE INC.

For the three and six months ended June 30, 2018 and 2017
Unaudited

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Financial Position
(In thousands of U.S. dollars)

Unaudited

	June 30, 2018	December 31, 2017*
Assets		
Current assets:		
Cash	$ 343,566	$ 488,964
Accounts receivable	329,650	316,538
Unbilled revenue	83,808	64,109
Inventories	29,503	23,196
Other assets (note 5)	153,484	100,098
	940,011	992,905
Non-current assets:		
Property and equipment	58,129	53,817
Deferred income taxes	54,254	38,362
Other assets (note 5)	56,583	21,801
Intangible assets (note 6)	1,444,583	1,181,333
	1,613,549	1,295,313
Total assets	$ 2,553,560	$ 2,288,218
Liabilities and Shareholders' Equity		
Current liabilities:		
CSI Facility (note 7)	$ -	$ -
New CNH Facility (note 7)	62,551	96,398
TSS Membership Liability (note 9)	55,370	49,215
Accounts payable and accrued liabilities	347,975	379,573
Dividends payable (note 12)	21,235	21,575
Deferred revenue	711,471	541,108
Provisions (note 10)	5,836	10,377
Acquisition holdback payables	61,558	42,867
Income taxes payable	30,588	31,028
	1,296,584	1,172,141
Non-current liabilities:		
TSS Membership Liability (note 9)	97,403	86,575
Debentures (note 8)	224,247	236,462
Deferred income taxes	174,118	148,961
Acquisition holdback payables	14,924	6,480
Other liabilities (note 5)	80,173	33,521
	590,865	511,999
Total liabilities	1,887,449	1,684,140
Shareholders' equity (note 12):		
Capital stock	99,283	99,283
Accumulated other comprehensive income (loss)	(33,547)	(26,739)
Retained earnings	600,375	531,534
	666,111	604,078
Subsequent events (notes 12 and 19)		
Total liabilities and shareholders' equity	$ 2,553,560	$ 2,288,218

See accompanying notes to the condensed consolidated interim financial statements.

* The Company initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See note 20.

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Income
(In thousands of U.S. dollars, except per share amounts)

Three and six months ended June 30, 2018 and 2017
Unaudited

	Three months ended June 30, 2018	Three months ended June 30, 2017*	Six months ended June 30, 2018	Six months ended June 30, 2017*
Revenue				
License	$ 47,861	$ 40,872	$ 91,680	$ 76,004
Professional services	152,644	120,705	294,814	233,118
Hardware and other	43,214	41,930	75,984	73,356
Maintenance and other recurring	508,326	396,577	1,008,026	772,932
	752,045	600,084	1,470,504	1,155,410
Expenses				
Staff	390,441	296,769	779,853	586,084
Hardware	23,961	23,091	41,758	39,411
Third party license, maintenance and professional services	66,611	50,539	128,082	100,542
Occupancy	19,785	14,434	38,917	27,870
Travel	21,006	18,068	39,273	33,892
Telecommunications	6,296	5,267	12,446	10,335
Supplies	4,602	3,608	9,212	7,480
Software and equipment	13,167	9,819	26,079	19,356
Professional fees	8,901	6,768	19,079	13,693
Other, net	15,135	11,814	28,401	20,986
Depreciation	6,747	5,321	13,398	10,620
Amortization of intangible assets	69,898	55,738	138,530	108,023
	646,550	501,236	1,275,028	978,292
Foreign exchange loss (gain)	8,673	1,865	(5,304)	3,359
TSS membership liability revaluation charge (note 9)	13,872	15,415	20,712	28,530
Share in net (income) loss of equity investee (note 5)	2	(77)	(233)	(126)
Finance and other expense (income) (note 13)	(1,157)	(408)	(10,044)	(429)
Bargain purchase gain	(14)	-	(119)	-
Finance costs (note 13)	5,005	5,473	10,221	10,731
	26,381	22,268	15,233	42,065
Income before income taxes	79,114	76,580	180,243	135,053
Current income tax expense (recovery)	34,963	30,108	61,455	54,216
Deferred income tax expense (recovery)	(7,844)	(4,678)	(15,751)	(10,746)
Income tax expense (recovery)	27,119	25,430	45,704	43,470
Net income	51,995	51,150	134,539	91,583
Earnings per share				
Basic and diluted (note 14)	$ 2.45	$ 2.41	$ 6.35	$ 4.32

See accompanying notes to the condensed consolidated interim financial statements.

* The Company initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See note 20.

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Comprehensive Income
(In thousands of U.S. dollars, except per share amounts)

Three and six months ended June 30, 2018 and 2017

Unaudited

	Three months ended June 30,		Six months ended June 30,	
	2018	2017*	2018	2017*
Net income	$ 51,995	$ 51,150	$ 134,539	$ 91,583
Items that are or may be reclassified subsequently to net income:				
Net change in fair value of available-for-sale financial asset during the period	-	-	-	(1,314)
Net change in fair value of derivatives designated as hedges during the period	-	181	-	345
Amounts reclassified to profit during the period related to realized losses (gains) on available-for-sale financial assets	-	409	-	1,288
Foreign currency translation differences from foreign operations	(2,642)	4,956	(6,808)	7,847
Deferred income tax recovery (expense)	-	(102)	-	(94)
Other comprehensive (loss) income for the period, net of income tax	(2,642)	5,444	(6,808)	8,072
Total comprehensive income (loss) for the period	$ 49,353	$ 56,594	$ 127,731	$ 99,655

See accompanying notes to the condensed consolidated interim financial statements.

* The Company initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See note 20.

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Changes in Equity
(In thousands of U.S. dollars)

Unaudited

Six months ended June 30, 2018	Capital stock	Accumulated other comprehensive income/(loss)			Total accumulated other comprehensive income/(loss)	Retained earnings	Total*
		Cumulative translation account	Amounts related to gains/losses on available-for-sale financial assets	Amounts related to gains/(losses) on derivatives designed as hedges			
Balance at January 1, 2018	**$ 99,283**	**$ (26,739)**	**$ -**	**$ -**	**$ (26,739)**	**$ 531,534**	**$ 604,078**
Impact of change in accounting policy (note 20)	-	-	-	-	-	(23,314)	(23,314)
Total comprehensive income for the period:							
Net income	-	-	-	-	-	134,539	134,539
Other comprehensive income (loss)							
Net change in fair value of available-for-sale financial asset during the period	-	-	-	-	-	-	-
Net change in fair value of derivatives designated as hedges during the period	-	-	-	-	-	-	-
Amounts reclassified to profit during the period related to realized losses (gains) on available-for-sale financial assets	-	-	-	-	-	-	-
Foreign currency translation differences from foreign operations	-	(6,808)	-	-	(6,808)	-	(6,808)
Deferred tax recovery (expense)	-	-	-	-	-	-	-
Total other comprehensive income (loss) for the period	**-**	**(6,808)**	**-**	**-**	**(6,808)**	**-**	**(6,808)**
Total comprehensive income (loss) for the period	**-**	**(6,808)**	**-**	**-**	**(6,808)**	**134,539**	**127,731**
Transactions with owners, recorded directly in equity							
Dividends to shareholders of the Company (note 12)	-	-	-	-	-	(42,384)	(42,384)
Balance at June 30, 2018	**$ 99,283**	**$ (33,547)**	**$ -**	**$ -**	**$ (33,547)**	**$ 600,375**	**$ 666,111**

See accompanying notes to the condensed consolidated interim financial statements.
* The Company initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See note 20.

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Changes in Equity
(In thousands of U.S. dollars)

Unaudited

Six months ended June 30, 2017

	Capital stock	Accumulated other comprehensive income/(loss)			Total accumulated other comprehensive income/(loss)	Retained earnings	Total*
		Cumulative translation account	Amounts related to gains/losses on available-for-sale financial assets	Amounts related to gains/(losses) on derivatives designed as hedges			
Balance at January 1, 2017	**$ 99,283**	**$ (35,748)**	**$ 17**	**$ (377)**	**$ (36,108)**	**$ 394,334**	**$ 457,509**
Total comprehensive income for the period:							
Net income	-	-	-	-	-	91,583	91,583
Other comprehensive income (loss)							
Net change in fair value of available-for-sale financial asset during the period	-	-	(1,314)	-	(1,314)	-	(1,314)
Net change in fair value of derivatives designated as hedges during the period	-	-	-	345	345	-	345
Amounts reclassified to profit during the period related to realized losses (gains) on available-for-sale financial assets	-	-	1,288	-	1,288	-	1,288
Foreign currency translation differences from foreign operations	-	7,847	-	-	7,847	-	7,847
Deferred tax recovery (expense)	-	-	9	(103)	(94)	-	(94)
Total other comprehensive income for the period	**-**	**7,847**	**(17)**	**242**	**8,072**	**-**	**8,072**
Total comprehensive income for the period	**-**	**7,847**	**(17)**	**242**	**8,072**	**91,583**	**99,655**
Transactions with owners, recorded directly in equity							
Dividends to shareholders of the Company (note 12)	-	-		-	-	(42,384)	(42,384)
Balance at June 30, 2017	**$ 99,283**	**$ (27,901)**	**$ -**	**$ (135)**	**$ (28,036)**	**$ 443,533**	**$ 514,780**

See accompanying notes to the condensed consolidated interim financial statements.

* The Company initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See note 20.

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Cash Flows
(In thousands of U.S. dollars)

Three and six months ended June 30, 2018 and 2017
Unaudited

	Three months ended June 30, 2018	Three months ended June 30, 2017*	Six months ended June 30, 2018	Six months ended June 30, 2017*
Cash flows from operating activities:				
Net income	$ 51,995	$ 51,150	$ 134,539	$ 91,583
Adjustments for:				
Depreciation	6,747	5,321	13,398	10,620
Amortization of intangible assets	69,898	55,738	138,530	108,023
TSS membership liability revaluation charge	13,872	15,415	20,712	28,530
Share in net (income) loss of equity investee	2	(77)	(233)	(126)
Finance and other expense (income)	(1,157)	(408)	(10,044)	(429)
Bargain purchase gain	(14)	-	(119)	-
Finance costs	5,005	5,473	10,221	10,731
Income tax expense (recovery)	27,119	25,430	45,704	43,470
Foreign exchange loss (gain)	8,673	1,865	(5,304)	3,359
Change in non-cash operating assets and liabilities exclusive of effects of business combinations (note 18)	(101,768)	(71,569)	45,257	(352)
Income taxes paid	(27,475)	(27,881)	(82,090)	(52,978)
Net cash flows from operating activities	52,897	60,457	310,571	242,431
Cash flows from (used in) financing activities:				
Interest paid	(5,267)	(5,684)	(10,535)	(11,135)
Increase (decrease) in New CNH Facility, net	23,174	-	(34,503)	-
Repayments of CNH facility	-	(3,929)	-	(3,929)
Dividends paid	(21,192)	(21,192)	(42,384)	(42,384)
Net cash flows from (used in) in financing activities	(3,285)	(30,805)	(87,422)	(57,448)
Cash flows from (used in) investing activities:				
Acquisition of businesses, net of cash acquired (note 4)	(26,297)	(65,362)	(322,754)	(114,199)
Post-acquisition settlement payments, net of receipts	(15,227)	(11,533)	(31,825)	(16,888)
Proceeds from sale of available-for-sale equity securities	-	815	-	2,828
Interest, dividends and other proceeds received	729	902	1,477	20,455
Property and equipment purchased	(7,567)	(4,522)	(12,033)	(8,932)
Net cash flows from (used in) investing activities	(48,362)	(79,700)	(365,135)	(116,736)
Effect of foreign currency on cash and cash equivalents	(5,210)	5,923	(3,412)	8,018
Increase (decrease) in cash	(3,960)	(44,125)	(145,398)	76,265
Cash, beginning of period	347,526	473,889	488,964	353,499
Cash, end of period	$ 343,566	$ 429,764	$ 343,566	$ 429,764

See accompanying notes to the condensed consolidated interim financial statements.

* The Company initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See note 20.

Notes to the condensed consolidated interim financial statements

1. Reporting entity

Constellation Software Inc. ("Constellation") is a company domiciled in Canada. The address of Constellation's registered office is 20 Adelaide Street East, Suite 1200, Toronto, Ontario, Canada. The condensed consolidated interim financial statements of Constellation as at and for the period ended June 30, 2018 comprise Constellation and its subsidiaries (together referred to as the "Company") and the Company's interest in associates. The Company is engaged principally in the development, installation and customization of software relating to the markets listed below, and in the provision of related professional services and support.

Public Sector:

Public transit operators	Asset management	Municipal systems
Para transit operators	Fleet and facility management	School administration
School transportation	District attorney	Public safety
Non-emergency medical	Taxi dispatch	Healthcare
Ride share	Benefits administration	Rental
Local government	Insurance	Electric utilities
Agri-business	Collections management	Court
Marine asset management	Water utilities	School and special library
Communications	Credit unions	Drink distribution
Education	Financial services	Notaries
Fashion retail	Pharmacies	Long-term care
Home and community care	County systems	Research management
Retail management and distribution	Public housing authorities	Not-for-profit organizations
Automotive	Accountancy	Catering
Small and medium sized businesses	Property management	Food services

Private Sector:

Private clubs and daily fee golf courses	Lease management	Window manufacturers
Construction	Winery management	Cabinet manufacturers
Food services	Buy here pay here dealers	Made-to-order manufacturers
Health clubs	RV and marine dealers	Window and other dealers
Moving and storage	Pulp and paper manufacturers	Multi-carrier shipping
Metal service centers	Agriculture equipment dealers	Supply chain optimization
Attractions	Outdoor equipment dealers	Multi-channel distribution
Leisure centers	Education	Wholesale distribution
Retail management and distribution	Healthcare electronic medical records	Homebuilders
Radiology and laboratory information systems	Pharmaceutical and biotech manufacturers	Third party logistics warehouse management systems
Product licensing	Event management	Financial services
Tire distribution	Salons and spas	Association management
Housing finance agencies	Municipal treasury and debt systems	Public housing authorities
Tour operators	Auto clubs	Real estate brokers and agents
Long-term care	Textiles and apparel	Home and community care
Hospitality	Mining	Ombudsman
Aerospace	Design and welding	Manufacturing plant performance
Oil and gas	Publishing	Marinas
Automotive	Local government	

2. Basis of presentation

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”) and using the accounting policies disclosed in Note 3 of the Company’s 2017 annual consolidated financial statements except as disclosed herein.

The policies applied in these condensed consolidated interim financial statements are based on International Financial Reporting Standards (IFRS), issued and outstanding as of July 26, 2018, the date the Board of Directors approved the condensed consolidated interim financial statements.

These condensed consolidated interim financial statements should be read in conjunction with the Company’s 2017 annual consolidated financial statements.

(b) Basis of measurement

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for certain assets and liabilities initially recognized in connection with business combinations, derivative financial instruments and contingent consideration related to business acquisitions, which are measured at their estimated fair value.

(c) Functional and presentation of currency

The condensed consolidated interim financial statements are presented in U.S. dollars, which is Constellation's functional currency.

(d) Use of estimates and judgements

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses, consistent with those disclosed in the 2017 annual consolidated financial statements and described in these condensed consolidated interim financial statements. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Estimates are based on historical experience and other assumptions that are considered reasonable in the circumstances. The actual amount or values may vary in certain instances from the assumptions and estimates made. Changes will be recorded, with corresponding effect in profit or loss, when, and if, better information is obtained.

3. Significant accounting policies

Except for the adoption of IFRS 15 and IFRS 9, the significant accounting policies used in preparing these condensed consolidated interim financial statements are unchanged from those disclosed in the Company's 2017 annual consolidated financial statements and have been applied consistently to all periods presented in these condensed consolidated interim financial statements.

The accounting policies have been applied consistently by Constellation's subsidiaries.

Revenue recognition

Revenue represents the amount the Company expects to receive for products and services in its contracts with customers, net of discounts and sales taxes. The Company reports revenue under four revenue categories being, License, Hardware and other, Professional services, and Maintenance and other recurring revenue.

Contracts with multiple products or services

Typically, the Company enters into contracts that contain multiple products and services such as software licenses, hosted software-as-a-service, maintenance, professional services, and hardware. The Company evaluates these arrangements to determine the appropriate unit of accounting (performance obligation) for revenue recognition purposes based on whether the product or service is distinct from some or all of the other products or services in the arrangement. A product or service is distinct if the customer can benefit from it on its own or together with other readily available resources and Constellation's promise to transfer the good or service is separately identifiable from other promises in the contractual arrangement with the customer. Non-distinct products and services are combined with other goods or services until they are distinct as a bundle and therefore form a single performance obligation.

Where a contract consists of more than one performance obligation, revenue is allocated to each based on their estimated standalone selling price ("SSP").

Nature of products and services

The Company sells on-premise software licenses on both a perpetual and specified-term basis. Revenue from the license of distinct software is recognized at the time that both the right-to-use the software has commenced and the software has been made available to the customer. Certain of the Company's contracts with customers contain provisions that require the customer to renew optional support and maintenance in order to maintain the active right to use a perpetual or term license. The renewal payments after the initial bundled support and maintenance term in these cases apply to both the continued right-to-use the license and the support and maintenance renewal. Where the fees payable for the initial term are incremental to the fees for the renewal terms, the excess is treated as a prepayment for expected renewals and allocated (amortized) evenly over the expected customer renewals, up to the estimated life of the software that is typically 4-6 years.

Revenue from the license of software that involves complex implementation or customization that is not distinct, and/or includes sales of hardware that is not distinct, is recognized as a combined performance obligation using the percentage-of-completion method based either on the achievement of contractually defined milestones or based on labour hours.

A portion of the Company's sales, categorized as hardware and other revenue, are accounted for as product revenue. Product revenue is recognized when control of the product has transferred under the terms of an enforceable contract.

Revenue related to the customer reimbursement of travel related expenses incurred during a project implementation where the Company is the principal in the arrangement is included in the hardware and other revenue category. Revenue is recognized as costs are incurred which is consistent with the period in which the costs are invoiced. Reimbursable travel expenses incurred for which an invoice has not been issued, are recorded as part of unbilled revenue on the statement of financial position.

Maintenance and other recurring revenue primarily consists of fees charged for customer support on software products post-delivery and also includes, to a lesser extent, recurring fees derived from software licenses that are not distinct from maintenance, transaction revenues, managed services, and hosted products.

Revenue from software-as-a-service (SaaS) arrangements, which allows customers to use hosted software over a term without taking possession of the software, are provided on a subscription basis. Revenue from the SaaS subscription, which includes the hosted software and maintenance is recognized rateably over the term of the subscription. Significant incremental payments for SaaS in an initial term are recognized rateably over the expected renewal periods, up to the estimated life of the software.

Professional Services revenue including installation, implementation, training and customization of software is recognized by the stage of completion of the performance obligation determined using the percentage of completion method noted above or as such services are performed as appropriate in the circumstances. The revenue and profit of fixed price contracts is recognized on a percentage of completion basis when the outcome of a contract can be estimated reliably. When the outcome of the contract cannot be estimated reliably but the Company expects to recover its costs, the amount of expected costs is treated as variable consideration and the transaction price is updated as more information becomes known.

The timing of revenue recognition often differs from contract payment schedules, resulting in revenue that has been earned but not billed. These amounts are included in unbilled revenue. Amounts billed in accordance with customer contracts, but not yet earned, are recorded and presented as part of deferred revenue.

Significant judgments and estimates

The Company uses judgment to assess whether multiple products and services sold in a contract are considered distinct and should be accounted as separate performance obligations or together. Estimates are required to determine the SSP for each distinct performance obligation in order to allocate revenue where multiple performance obligations exist in a contract.

Management exercises judgement in determining whether a contract's outcome can be estimated reliably. Management also applies estimates in the calculation of future contract costs and related profitability as it relates to labour hours and other considerations, which are used in determining the value of amounts recoverable on contracts and timing of revenue recognition. Estimates are continually and routinely revised based on changes in the facts relating to each contract. Judgement is also needed in assessing the ability to collect the corresponding receivables.

New standards and interpretations adopted

IFRS 9 Financial Instruments

IFRS 9 replaces the guidance in IAS 39 Financial Instruments: Recognition and Measurement, on the classification and measurement of financial assets. IFRS 9 eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivable.

Financial assets will be classified into one of two categories on initial recognition:

- financial assets measured at amortized cost; or
- financial assets measured at fair value.

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

Gains and losses on remeasurement of financial assets measured at fair value will be recognized in profit or loss, except for an investment in an equity instrument which is not held-for-trading. IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income (“OCI”) (“FVOCI”). The election is available on an individual investment-by-investment basis. Amounts presented in OCI will not be reclassified to profit or loss at a later date. IFRS 9 also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management.

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an expected credit loss (“ECL”) model. The new impairment model applies to financial assets at amortized cost, contract assets and debt investments measured at FVOCI.

The Company adopted this standard on January 1, 2018 and it had a nominal impact on the Company’s disclosures.

IFRS 15 Revenue from Contracts with Customers

The Company has adopted IFRS 15 Revenue from Contracts with Customers with an initial adoption date of January 1, 2018. The Company utilized the cumulative effect method to adopt the new standard and therefore, the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. See note 20 for further details.

New standards and interpretations not yet adopted

IFRS 16 Leases

In January 2016, the IASB issued the final publication of the IFRS 16 Leases standard, which will supersede the current IAS 17, Leases standard. Under IFRS 16, a lease will exist when a customer controls the right to use an identified asset as demonstrated by the customer having exclusive use of the asset for a period of time. IFRS 16 introduces a single accounting model for lessees and all leases will require an asset and liability to be recognized on the statement of financial position at inception. The accounting treatment for lessors will remain largely the same as under IAS 17.

The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted, but only if the entity is also applying IFRS 15. The Company is required to retrospectively apply IFRS 16 to all existing leases as of the date of transition and has the option to either:

- apply IFRS 16 with full retrospective effect; or
- recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application.

As a practical expedient, an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application. The Company is assessing the impact of this standard on its consolidated financial statements; however, the Company believes that on adoption of the standard there will be an increase to assets and liabilities, as the Company will be required to record a right-of-use asset and a corresponding lease liability on its Consolidated Statements of Financial Position, as well as a decrease to operating costs, an increase to finance costs (due to accretion of the lease liability) and an increase to depreciation (due to depreciation of the right-of-use asset).

4. Business acquisitions

(a) During the six month period ended June 30, 2018, the Company completed a number of acquisitions for aggregate cash consideration of $362,435 plus cash holdbacks of $57,424 and contingent consideration with an estimated fair value of $806 resulting in total consideration of $420,665. The contingent consideration is payable on the achievement of certain financial targets in the post-acquisition periods. The obligation for contingent consideration for acquisitions during the six month period ended June 30, 2018 has been recorded at its estimated fair value at the various acquisition dates. The estimated fair value of the applicable contingent consideration is calculated using the weighted probability of the expected contingent consideration to be paid and inclusion of a discount rate as appropriate. For these arrangements, which include both maximum, or capped, and unlimited contingent consideration amounts, the estimated increase to the initial consideration is not expected to exceed a maximum of $5,580. Aggregate contingent consideration of $18,322 (December 31, 2017 - $24,734) has been reported in the condensed consolidated interim statement of financial position at its estimated fair value relating to applicable acquisitions completed in the current and prior periods. Changes made to the estimated fair value of contingent consideration are included in other, net in the condensed consolidated interim statements of income. An expense of $575 and $920 has been recorded for the three and six months ended June 30, 2018 respectively, as a result of such changes (expense of $68 and income of $118 for the three and six months ended June 30, 2017 respectively).

There were no acquisitions during the six month period that were deemed to be individually significant. 60% of the total businesses acquired during the six month period were acquisitions of shares and the remainder were asset acquisitions. The cash holdbacks are generally payable over a two-year period and are adjusted, as necessary, for such items as working capital or net tangible asset assessments, as defined in the agreements, and claims under the respective representations and warranties of the purchase and sale agreements.

The acquisitions during the six month period ended June 30, 2018 include software companies catering to the following markets; insurance, healthcare, financial services, small and medium sized businesses, health clubs, communications, marinas, oil and gas, pulp and paper manufacturers, retail management and distribution, real estate brokers and agents, public housing authorities, fashion retail, mining, salons and spas, automotive, education, food services, property management, construction, homebuilders, and local government, all of which are software businesses similar to existing businesses operated by the Company. The acquisitions have been accounted for using the acquisition method with the results of operations included in these consolidated financial statements from the date of each acquisition.

The goodwill recognized in connection with these acquisitions is primarily attributable to the application of Constellation's best practices to improve the operations of the companies acquired, synergies with existing businesses of Constellation, and other intangibles that do not qualify for separate recognition including assembled workforce. Goodwill in the amount of $305 is expected to be deductible for income tax purposes.

The gross contractual amounts of acquired receivables was $79,484; however, the Company has recorded an allowance of $2,260 as part of the acquisition accounting to reflect contractual cash flows that are not expected to be collected.

Due to the complexity and timing of certain acquisitions made, the Company is in the process of determining and finalizing the estimated fair value of the net assets acquired as part of the acquisitions closed during the last two quarters of 2017 and first two quarters of 2018. The amounts determined on a provisional basis generally relate to net asset assessments and measurement of the assumed liabilities, including acquired contract liabilities. The cash consideration associated with these provisional estimates totals $498,141.

The aggregate impact of acquisition accounting applied in connection with business acquisitions in the six month period ended June 30, 2018 is as follows:

(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)

	Public Sector	Private Sector	Consolidated
Assets acquired:			
Cash	$ 23,406	$ 16,275	$ 39,681
Accounts receivable	54,849	22,375	77,224
Other current assets	33,326	5,801	39,127
Property and equipment	3,798	3,342	7,140
Other non-current assets	783	239	1,022
Deferred income taxes	113	2,430	2,543
Technology assets	168,998	71,445	240,443
Customer assets	102,329	44,339	146,668
	387,602	166,246	553,848
Liabilities assumed:			
Current liabilities	64,379	16,698	81,077
Deferred revenue	30,323	21,955	52,278
Deferred income taxes	31,944	5,008	36,952
Other non-current liabilities	496	2,682	3,178
	127,142	46,343	173,485
Goodwill	37,888	2,414	40,302
Total consideration	**$ 298,348**	**$ 122,317**	**$ 420,665**

(b) The 2018 business acquisitions did not have a material impact to either the consolidated revenue or the consolidated net income for the six months ended June 30, 2018. The materiality threshold is reviewed on an annual basis taking into account the quantitative (contribution to revenue and net income) and qualitative (size and comparability with other Constellation businesses) factors of current period acquisitions on both an individual and aggregate basis.

(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)

5. Other assets and other non-current liabilities

(a) Other assets

		June 30, 2018		December 31, 2017
Prepaid and other current assets	$	85,603	$	56,520
Investment tax credits recoverable		30,155		19,095
Sales tax receivable		9,750		15,696
Other receivables		27,976		8,787
Total other current assets	$	153,484	$	100,098

		June 30, 2018		December 31, 2017
Investment tax credits recoverable	$	8,584	$	10,646
Costs to obtain a contract (note 20)		32,675	$	-
Non-current trade and other receivables and other assets		14,744		8,896
Equity accounted investees		580		2,259
Total other non-current assets	$	56,583	$	21,801

(b) Other non-current liabilities

		June 30, 2018		December 31, 2017
Contingent consideration	$	12,302	$	12,406
Acquired contract liabilities		-		1,580
Deferred revenue		48,942		1,827
Other non-current liabilities		18,929		17,708
Total other non-current liabilities	$	80,173	$	33,521

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements
(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)
Three and six months ended June 30, 2018 and 2017
(Unaudited)

6. Intangible Assets

	Technology Assets	Customer Assets	Backlog	Non-compete agreements	Trademarks	Goodwill	Total
Cost							
Balance at January 1, 2017	$ 1,176,847	$ 584,056	$ 16,181	$ 2,566	$ 6,667	$ 226,502	$ 2,012,819
Acquisitions through business combinations	226,559	111,289	-	-	-	8,010	345,858
Effect of movements in foreign exchange	46,619	36,060	101	33	923	24,694	108,430
Balance at December 31, 2017	$ 1,450,025	$ 731,405	$ 16,282	$ 2,599	$ 7,590	$ 259,206	$ 2,467,107
Balance at January 1, 2018	$ 1,450,025	$ 731,405	$ 16,282	$ 2,599	$ 7,590	$ 259,206	$ 2,467,107
Acquisitions through business combinations	240,750	146,370	-	-	-	40,449	427,569
Effect of movements in foreign exchange	(19,009)	(16,058)	154	(22)	(188)	(5,363)	(40,486)
Balance at June 30, 2018	$ 1,671,766	$ 861,717	$ 16,436	$ 2,577	$ 7,402	$ 294,292	$ 2,854,190
Accumulated amortization and impairment losses							
Balance at January 1, 2017	$ 746,860	$ 252,433	$ 16,181	$ 2,566	$ 1,036	$ -	$ 1,019,076
Amortization for the period	171,994	57,984	-	-	516	-	230,494
Effect of movements in foreign exchange	26,470	9,600	101	33	-	-	36,204
Balance at December 31, 2017	$ 945,324	$ 320,017	$ 16,282	$ 2,599	$ 1,552	$ -	$ 1,285,774
Balance at January 1, 2018	$ 945,324	$ 320,017	$ 16,282	$ 2,599	$ 1,552	$ -	$ 1,285,774
Amortization for the period	100,817	37,473	94	-	146	-	138,530
Effect of movements in foreign exchange	(10,723)	(4,012)	60	(22)	-	-	(14,697)
Balance at June 30, 2018	$ 1,035,418	$ 353,478	$ 16,436	$ 2,577	$ 1,698	$ -	$ 1,409,607
Carrying amounts							
At January 1, 2017	$ 429,987	$ 331,623	$ -	$ -	$ 5,631	$ 226,502	$ 993,743
At December 31, 2017	$ 504,701	$ 411,388	$ -	$ -	$ 6,038	$ 259,206	$ 1,181,333
At January 1, 2018	$ 504,701	$ 411,388	$ -	$ -	$ 6,038	$ 259,206	$ 1,181,333
At June 30, 2018	$ 636,348	$ 508,239	$ -	$ -	$ 5,704	$ 294,292	$ 1,444,583

7. CSI Facility and New CNH Facility

On October 27, 2017, Constellation completed an amendment and restatement of its revolving credit facility agreement (the "CSI Facility"), with a syndicate of Canadian chartered banks and U.S. banks in the amount of $460,000, extending its maturity date to October 27, 2022. The CSI Facility bears a variable interest rate with no fixed repayments required over the term to maturity. Interest rates are calculated at standard U.S. and Canadian reference rates plus interest rate spreads based on a leverage table. The CSI Facility is currently collateralized by the majority of the Company's assets including the assets of certain material subsidiaries. The CSI Facility contains standard events of default which if not remedied within a cure period would trigger the repayment of any outstanding balance. As at June 30, 2018, $nil (December 31, 2017 – $nil) had been drawn from this credit facility, and letters of credit totaling $16,005 (December 31, 2017 - $17,092) were issued, which limits the borrowing capacity on a dollar-for-dollar basis. Transaction costs associated with the CSI Facility are included in other non-current assets in the consolidated statement of financial position and are being amortized through profit or loss using the effective interest rate method. Amortized costs recognized in the three and six months ended June 30, 2018 relating to this line-of-credit amounted to $65 and $130 (June 30, 2017 - $67 and $134 respectively). As at June 30, 2018 the carrying amount of such costs is $1,099 (December 31 2017 - $1,229).

On June 24, 2014 Constellation Software Netherlands Holding Cooperatief U.A. ("CNH"), a subsidiary of Constellation and the indirect owner of 100% of TSS, entered into a €150,000 term and €10,000 multicurrency revolving credit facility (the "CNH Facility") with a number of European and North American financial institutions. The CNH Facility bears interest at a rate calculated at EURIBOR plus interest rate spreads based on a leverage table. The CNH Facility is collateralized by substantially all of the assets owned by CNH and its subsidiaries which includes substantially all of the assets of TSS and its subsidiaries. The CNH Facility contains standard events of default which if not remedied within a cure period would trigger the repayment of any outstanding balance. On July 14, 2017 (in conjunction with the issuance of the New CNH Facility as defined below), the principal outstanding on the term loan of €116,500 was repaid in full and the CNH Facility was extinguished. Unamortized transaction costs of $3,341 associated with the CNH Facility were included in profit or loss for the twelve months ended December 31, 2017.

On July 14, 2017, CNH entered into a new credit facility (the "New CNH Facility") with a number of European financial institutions. Under this credit facility, CNH will be able to borrow up to €300,000 under a multicurrency revolving loan facility and up to €50,000 under an additional uncommitted term loan facility. The New CNH Facility has an initial term of five years with an extension option for two additional one-year periods. The New CNH Facility bears interest at a rate calculated at EURIBOR plus interest rate spreads based on a leverage table. The New CNH Facility is collateralized by substantially all of the assets owned by CNH and its subsidiaries which includes substantially all of the assets of TSS and its subsidiaries. The New CNH Facility contains standard events of default which if not remedied within a cure period would trigger the repayment of any outstanding balance. As at June 30, 2018, €55,000 ($64,245) had been drawn from this credit facility (December 31, 2017, €82,000 ($98,227)). Transaction costs associated with the New CNH Facility have been included as part of the carrying amount of the liability and are being amortized through profit or loss using the effective interest rate method. Amortized costs recognized in the three and six months ended June 30, 2018 relating to this facility amounted to $100 and $204. As at June 30, 2018, the carrying amount of such costs relating to this facility totaling €1,376 ($1,694) has been classified as part of the New CNH Facility in the consolidated statement of financial position.

The New CNH Facility and CSI Facility are independent of each other. The New CNH Facility is not guaranteed by Constellation or its subsidiaries nor is Constellation or its subsidiaries subject to the terms of the New CNH Facility other than, in each case, CNH and its subsidiaries. Similarly, CNH and its subsidiaries did not guarantee Constellation's other credit facilities and are not subject to the provisions thereof. Constellation's credit facilities impose limitations on the aggregate amount of investment that Constellation may make in CNH and its subsidiaries and the financial results of CNH and its subsidiaries are not included for the purposes of determining compliance by Constellation with the financial covenants in Constellation's other credit facilities. The New CNH Facility imposes limitations on the amount of distributions that CNH and its subsidiaries may make to Constellation.

8. Debentures

On October 1, 2014 and November 19, 2014, the Company issued debentures with a total principal value of C$96,038 for total proceeds of C$91,236. On September 30, 2015, the Company issued another tranche of debentures (collectively with the 2014 issuances called the "Debentures") with a total principal value of C$186,249 for total proceeds of C$214,186.

The Debentures have a maturity date of March 31, 2040 (the "Maturity Date"). From and including the date of issue to but excluding March 31, 2015, the Debentures bore interest at a rate of 7.4% per annum, paid quarterly in arrears. The rate from March 31, 2015 to March 30, 2016 was 8.5% per annum. The rate from March 31, 2016 to March 30, 2017 was 7.6%. The rate from and including March 31, 2017 to but excluding March 31, 2018 is 7.9%. The rate from and including March 31, 2018 to but excluding March 31, 2019 is 8.1%. From and including March 31, 2019 to but excluding the Maturity Date, the interest rate applicable to the Debentures will be reset on an annual basis on March 31 of each year, at a rate equal to the annual average percentage change in the All-items Consumer Price Index during the 12-month period ending on December 31 in the prior year (which amount may be positive or negative) plus 6.5%. Notwithstanding the foregoing, the interest rate applicable to the debentures will not be less than 0%. The Company may, subject to certain approvals, elect the Payment in Kind election ("PIK Election"), in lieu of paying interest in cash, to satisfy all or any portion of its interest obligation payable on an interest payment date by issuing to each Debenture holder PIK Debentures equal to the amount of the interest obligation to be satisfied. The PIK Debentures will have the same terms and conditions as the Debentures and will form part of the principal amount of the Debentures. If, on any interest payment date, the Company fails to pay the amount of interest owing on the Debentures in full in cash, the Company will not (A) declare or pay dividends of any kind on the Common Shares, nor (B) participate in any share buyback or redemption involving the Common Shares, until the date on which the Company pays such interest (or the unpaid portion thereof) in cash to holders of the Debentures; however, where the Company has issued PIK Debentures in respect of all or a portion of the amount of interest owing on the Debentures on an interest payment date, the Company may resume declaring or paying dividends of any kind on the Common Shares and participating in any share buyback or redemption involving the Common Shares beginning on the next earlier of (i) the interest payment date of which the Company pays the amount of interest owing on the Debentures in full in cash and (ii) the date on which the Company repays all amounts owing under the PIK Debenture. All payments in respect of the Debentures will be subordinated in right of payment to the prior payment in full of all senior indebtedness of the Company.

The Debentures will be redeemable in certain circumstances at the option of the Company or the holder. During the period beginning on March 16 and ending on March 31 of each year, the Company will have the right, at its option, to give notice to holders of Debentures of its intention to redeem the Debentures, in whole or in part, on March 31 in the year that is five years following the year in which notice is given, at a price equal to the principal amount thereof plus accrued and unpaid interest up to but excluding the date fixed for redemption. During the period beginning on March 1 and ending on March 15 of each year, holders of Debentures will also have the right, at their option, to give notice to the Company of their intention to require the Company to repurchase (or to "put") the Debentures, in whole or in part, on March 31 in the year that is five years following the year in which notice is given, at a price equal to the principal amount thereof plus accrued and unpaid interest up to but excluding the date fixed for repurchase.

During the periods ended June 30, 2018 and December 31, 2017, no notices for redemption of the Debentures were received or given by the Company.

9. TSS Membership Liability

On December 23, 2014, in accordance with the terms of the purchase and sale agreement for the TSS acquisition, and on the basis of the term sheets attached thereto, Constellation and the sellers of TSS along with members of TSS' executive management team (collectively, the "minority owners") entered into a Members Agreement pursuant to which the minority owners acquired 33.29% of the voting interests in CNH. Total proceeds from this transaction was €39,375 ($48,503).

Commencing any time after December 31, 2014, each of the minority owners may exercise a put option to sell all or a portion of their interests in CNH back to Constellation for an amount calculated in accordance with a valuation methodology described within the Members Agreement. Accordingly, the Company classified the proceeds from the Members Agreement as a liability. The main valuation driver in such calculation is the maintenance and other recurring revenue of CNH. Upon the exercise of a put option, Constellation would be obligated to redeem up to 33.33% of the minority owners' interests put, no later than 30 business days from the date notice is received, and up to 33.33% on each of the first and second anniversary of the date the first redemption payment is made. In determining the valuation of the liability at each reporting period, the Company assumes the minority owners exercised their put option on the last day of the current reporting period, and redeemed 33.33% of their interests on exercise (which is classified as a current liability), and will redeem 33.33% on each of the first and second anniversary dates. Maintenance and recurring revenue of CNH for the trailing twelve months determined at the end of the current reporting period was used as the basis for valuing the interests at each redemption date. Any increase or decrease in the value of the membership liability is recorded as an expense or income in the consolidated statements of income for the period.

The seller of TSS also has an option available to it to sell approximately 68% of its interests in CNH, for an amount calculated in accordance with a valuation methodology described within the Members Agreement, in the event that Robin Van Poelje, TSS' CEO, is no longer employed by TSS. The remaining interest of approximately 32% can be sold via the put option described above.

In the event of a change of control in Constellation, the minority owners would have the option to sell 100% of their interests in CNH for an amount calculated in accordance with a valuation methodology described within the Members Agreement. Constellation would be obligated to remit payment in respect thereof no later than 30 business days from the date notice is given.

Commencing at any time after December 31, 2023, Constellation may exercise a call option to purchase all of the minority owners' interests in CNH, for an amount calculated in accordance with a valuation methodology described within the Members Agreement. Upon exercise of the call option, the full purchase price will be paid within 30 business days of the notice date, following which the minority owners' membership in CNH will be terminated.

If any of TSS' executive management team that participate in the Members Agreement are terminated for urgent cause as defined in Section 7:678 of the Dutch Civil Code, Constellation shall have the right to purchase all of the interests beneficially owned by the terminated executive for an amount calculated in accordance with a valuation methodology described with the Members Agreement. The full purchase price will be paid within 30 business days from the date notice is given, following which the terminated executive's membership in CNH will be terminated. An option does exist for the terminated executive to elect to be paid in annual installments of 33.33% of his interests in CNH over a 3-year period. The valuation of the interests being purchased will be calculated at each reporting period. During the periods ended June 30, 2018 and December 31, 2017, no options were exercised.

(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)

10. Provisions

At January 1, 2018	$	11,456
Reversal		(1,519)
Provisions recorded during the period		3,055
Provisions used during the period		(5,593)
Effect of movements in foreign exchange and other		(934)
At June 30, 2018	$	6,465
Provisions classified as current liabilities		5,836
Provisions classified as other non-current liabilities		629

The provisions balance is comprised of various individual provisions for onerous contracts and other estimated liabilities of the Company of uncertain timing or amount.

11. Income taxes

Income tax expense is recognized based on management's best estimate of the actual income tax rate for the interim period applied to the pre-tax income of the interim period for each entity in the consolidated group. As a result of foreign exchange fluctuations, acquisitions and ongoing changes due to intercompany transactions amongst entities operating in different jurisdictions, the Company has determined that a reasonable estimate of a weighted average annual tax rate cannot be determined on a consolidated basis. The Company's consolidated effective tax rate in respect of continuing operations for the three and six months ended June 30, 2018 was 34% and 25% (three and six months ended June 30, 2017 was 33% and 32% respectively).

Constellation is subject to tax audits in the countries in which the Company does business globally. These tax audits could result in additional tax expense in future periods relating to historical filings. Reviews by tax authorities generally focus on, but are not limited to, the validity of the Company's inter-company transactions, including financing and transfer pricing policies which generally involve subjective areas of taxation and a significant degree of judgment. If any of these tax authorities are successful with their challenges, the Company's income tax expense may be adversely affected and Constellation could also be subject to interest and penalty charges.

12. Capital and other components of equity

	Common Shares		
	Number		Amount
June 30, 2018	21,191,530	$	99,283
December 31, 2017	21,191,530	$	99,283

(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)

Dividends and other distributions to shareholders

During the three months ended March 31, 2018 the Board of Directors approved and the Company declared a dividend of $1.00 per common share. The dividend declared in the quarter ended March 31, 2018 representing $21,192 was paid and settled on April 5, 2018. During the three months ended June 30, 2018 the Board of Directors approved and the Company declared a dividend of $1.00 per common share. The dividend declared in the quarter ended June 30, 2018 representing $21,192 was paid and settled on July 5, 2018.

A dividend of $1.00 per share representing $21,192 was accrued as at December 31, 2017 and subsequently paid and settled on January 5, 2018.

13. Finance and other income and finance costs

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Losses (gains) on sale of available-for-sale financial assets transferred from other comprehensive income	$ -	$ 661	$ -	$ 1,540
Interest income on cash	(740)	(903)	(1,505)	(1,670)
Finance and other income	(417)	(166)	(8,539)	(299)
Finance and other income	$ (1,157)	$ (408)	$ (10,044)	$ (429)
Interest expense on bank indebtedness and debentures	$ 5,282	$ 5,170	$ 10,732	$ 10,625
Amortization of debt related transaction costs	165	274	334	557
Amortization of debenture discount (premium) and associated rights offering, net	(1,018)	(1,005)	(2,050)	(2,016)
Other finance costs	576	1,034	1,205	1,565
Finance costs	$ 5,005	$ 5,473	$ 10,221	$ 10,731

Included in finance and other income is a $7,859 adjustment which was made during the six months ended June 30, 2018 relating to the acquired net tangible assets of an acquisition which closed in a previous year.

(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)

14. Earnings per share

Basic and diluted earnings per share

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Numerator:				
Net income	$ 51,995	$ 51,150	$ 134,539	$ 91,583
Denominator:				
Basic and diluted shares outstanding	21,192	21,192	21,192	21,192
Earnings per share				
Basic and diluted	$ 2.45	$ 2.41	$ 6.35	$ 4.32

15. Financial instruments

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The Company has classified the majority its financial assets and financial liabilities as subsequently measured under amortized cost under IFRS 9.

Fair values versus carrying amounts

The carrying values of cash, accounts receivable, accounts payable, accrued liabilities, dividends payable, income taxes payable and the majority of acquisition holdbacks, approximate their fair values due to the short-term nature of these instruments. The carrying value of the TSS Membership Liability approximates its fair value.

The Company has capitalized transaction costs associated with the CSI Facility and the New CNH Facility. As at June 30, 2018, the fair value of the New CNH Facility is $64,245 and the carrying value is $62,551. As at June 30, 2018, the fair value of the Debentures is $269,336 and the carrying value is $224,247 (December 31, 2017: fair value of $266,478 and carrying value of $236,462).

Fair value hierarchy

The table below analyzes financial instruments carried at fair value, by valuation method.

- level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- level 2 inputs are inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly (i.e. prices) or indirectly (i.e. derived from prices); and
- level 3 inputs are inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

In the table below, the Company has segregated all financial assets and liabilities that are measured at fair value into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date.

(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)

Financial assets and financial liabilities measured at fair value as at June 30, 2018 and December 31, 2017 in the condensed consolidated interim financial statements are summarized below. The Company has no additional financial liabilities measured at fair value after initial recognition other than those recognized in connection with business combinations.

	June 30, 2018				December 31, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities:								
Contingent consideration	$ -	$ -	$ 18,322	$ 18,322	$ -	$ -	$ 24,734	$ 24,734
	-	-	**18,322**	**18,322**	-	-	**24,734**	**24,734**

There were no transfers of fair value measurement between level 1, 2 and 3 of the fair value hierarchy in the periods ended June 30, 2018 and December 31, 2017.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in level 3 of the fair value hierarchy.

Balance at January 1, 2018	24,734
Increase from business acquisitions	806
Cash payments	(8,426)
Charges through profit or loss	1,365
Foreign exchange and other movements	(157)
Balance at June 30, 2018	18,322
Contingent consideration classified as current liabilities	6,020
Contingent consideration classified as other non-current liabilities	12,302

Estimates of the fair value of contingent consideration are performed by the Company on a quarterly basis. Key unobservable inputs include revenue growth rates and the discount rates applied (8% to 11%). The estimated fair value increases as the annual growth rate increases and as the discount rate decreases and vice versa.

16. Operating segments

Segment information is presented in respect of the Company's business. The accounting policies of the segments are the same as those described in the significant accounting policies section of these condensed consolidated interim financial statements.

Reportable segments

The Company has six operating segments, referred to as Operating Groups by the Company, being Volaris, Harris, TSS, Jonas, Perseus, and Vela. The operating segments are aggregated into two reportable segments in accordance with IFRS 8 Operating Segments. The Company‘s Public Sector segment develops and distributes software solutions primarily to government and government-related customers. The Company's Private Sector segment develops and distributes software solutions primarily to commercial customers.

The Operating Groups exhibit similar economic characteristics (such as gross and earnings before income tax and amortization ("EBITA") margins) and are substantially similar in relation to the nature of products and services, the nature of production processes, and the methods used to distribute product; however, the determination that the Company has two reportable segments is based primarily on the assessment that differences in economic cycles and procedures for securing contracts between our governmental clients and commercial, or private sector clients, are significant, thus warranting distinct segmented disclosures. Volaris, Harris and TSS have been aggregated into the Public Sector segment. Jonas, Perseus and Vela have been aggregated into the Private Sector segment.

Intercompany expenses (income) primarily represent Constellation head office management fees and intercompany interest charged on related borrowings to the reportable segments.

(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)

Three months ended June 30, 2018	Public Sector	Private Sector	Other	Consolidated Total
Revenue				
License	28,616	19,245	-	47,861
Professional services	113,987	38,657	-	152,644
Hardware and other	35,932	7,282	-	43,214
Maintenance and other recurring	321,842	186,484	-	508,326
	500,377	251,668	-	752,045
Expenses				
Staff	259,666	129,435	1,340	390,441
Hardware	19,547	4,414	-	23,961
Third party licenses, maintenance and professional services	40,642	25,969	-	66,611
Occupancy	12,726	6,969	90	19,785
Travel	14,814	6,085	107	21,006
Telecommunications	3,764	2,515	17	6,296
Supplies	3,630	956	16	4,602
Software and equipment	10,067	3,085	15	13,167
Professional fees	6,425	2,148	328	8,901
Other, net	6,679	8,176	280	15,135
Depreciation	5,012	1,735	-	6,747
Amortization of intangible assets	46,349	23,549	-	69,898
	429,321	215,036	2,193	646,550
Foreign exchange (gain) loss	(303)	(184)	9,160	8,673
TSS membership liability revaluation charge	13,872	-	-	13,872
Equity in net (income) loss of equity investees	2	-	-	2
Finance and other expense (income)	(573)	151	(735)	(1,157)
Bargain purchase gain	(14)	-	-	(14)
Finance costs	1,039	342	3,624	5,005
Inter-company expenses (income)	5,004	3,294	(8,298)	-
	19,027	3,603	3,751	26,381
Profit before income tax	52,029	33,029	(5,944)	79,114
Current income tax expense (recovery)	19,488	12,644	2,831	34,963
Deferred income tax expense (recovery)	(2,530)	(4,008)	(1,306)	(7,844)
Income tax expense (recovery)	16,958	8,636	1,525	27,119
Net income	35,071	24,393	(7,469)	51,995

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements
(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)
Three and six months ended June 30, 2018 and 2017
(Unaudited)

Six months ended June 30, 2018	Public Sector	Private Sector	Other	Consolidated Total
Revenue				
License	57,130	34,550	-	91,680
Professional services	224,851	69,963	-	294,814
Hardware and other	62,386	13,598	-	75,984
Maintenance and other recurring	641,593	366,433	-	1,008,026
	985,960	484,544	-	1,470,504
Expenses				
Staff	521,502	255,666	2,685	779,853
Hardware	33,331	8,427	-	41,758
Third party licenses, maintenance and professional services	78,886	49,196	-	128,082
Occupancy	25,109	13,658	150	38,917
Travel	27,490	11,618	165	39,273
Telecommunications	7,455	4,964	27	12,446
Supplies	7,167	2,018	27	9,212
Software and equipment	20,112	5,902	65	26,079
Professional fees	13,693	4,678	708	19,079
Other, net	12,075	15,739	587	28,401
Depreciation	9,881	3,516	1	13,398
Amortization of intangible assets	93,203	45,327	-	138,530
	849,904	420,709	4,415	1,275,028
Foreign exchange (gain) loss	348	(1,878)	(3,774)	(5,304)
TSS membership liability revaluation charge	20,712	-	-	20,712
Equity in net (income) loss of equity investees	(233)	-	-	(233)
Finance and other expense (income)	(8,613)	51	(1,482)	(10,044)
Bargain purchase gain	(119)	-	-	(119)
Finance costs	2,277	596	7,348	10,221
Intercompany expenses (income)	10,206	6,528	(16,734)	-
	24,578	5,297	(14,642)	15,233
Profit before income tax	111,478	58,538	10,227	180,243
Current income tax expense (recovery)	38,330	22,105	1,020	61,455
Deferred income tax expense (recovery)	(6,780)	(6,243)	(2,728)	(15,751)
Income tax expense (recovery)	31,550	15,862	(1,708)	45,704
Net income	79,928	42,676	11,935	134,539

(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)

Three months ended June 30, 2017	Public Sector	Private Sector	Other	Consolidated Total
Revenue				
License	24,747	16,125	-	40,872
Professional services	95,935	24,770	-	120,705
Hardware and other	34,620	7,310	-	41,930
Maintenance and other recurring	250,973	145,604	-	396,577
	406,275	193,809	-	600,084
Expenses				
Staff	201,885	93,763	1,121	296,769
Hardware	18,500	4,591	-	23,091
Third party licenses, maintenance and professional services	29,748	20,791	-	50,539
Occupancy	9,387	4,976	71	14,434
Travel	13,244	4,732	92	18,068
Telecommunications	3,171	2,081	15	5,267
Supplies	2,893	702	13	3,608
Software and equipment	7,787	1,983	49	9,819
Professional fees	4,711	1,612	445	6,768
Other, net	6,090	5,486	238	11,814
Depreciation	3,987	1,334	-	5,321
Amortization of intangible assets	38,899	16,839	-	55,738
	340,302	158,890	2,044	501,236
Foreign exchange (gain) loss	16	2,110	(261)	1,865
TSS membership liability revaluation charge	15,415	-	-	15,415
Equity in net (income) loss of equity investees	(77)	-	-	(77)
Finance and other expense (income)	(35)	(109)	(264)	(408)
Bargain purchase gain	-	-	-	-
Finance costs	1,693	208	3,572	5,473
Inter-company expenses (income)	8,752	3,302	(12,054)	-
	25,764	5,511	(9,007)	22,268
Profit before income tax	40,209	29,408	6,963	76,580
Current income tax expense (recovery)	19,584	9,764	760	30,108
Deferred income tax expense (recovery)	(5,630)	(171)	1,123	(4,678)
Income tax expense (recovery)	13,954	9,593	1,883	25,430
Net income	26,255	19,815	5,080	51,150

(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)

Six months ended June 30, 2017	Public Sector	Private Sector	Other	Consolidated Total
Revenue				
License	46,459	29,545	-	76,004
Professional services	185,215	47,903	-	233,118
Hardware and other	59,220	14,136	-	73,356
Maintenance and other recurring	489,589	283,343	-	772,932
	780,483	374,927	-	1,155,410
Expenses				
Staff	395,446	187,985	2,653	586,084
Hardware	30,616	8,795	-	39,411
Third party licenses, maintenance and professional services	59,678	40,864	-	100,542
Occupancy	17,959	9,733	178	27,870
Travel	24,651	9,097	144	33,892
Telecommunications	6,125	4,178	32	10,335
Supplies	5,848	1,605	27	7,480
Software and equipment	15,322	3,935	99	19,356
Professional fees	9,728	3,092	873	13,693
Other, net	10,110	10,274	602	20,986
Depreciation	7,958	2,662	-	10,620
Amortization of intangible assets	75,106	32,917	-	108,023
	658,547	315,137	4,608	978,292
Foreign exchange (gain) loss	140	3,238	(19)	3,359
TSS membership liability revaluation charge	28,530	-	-	28,530
Equity in net (income) loss of equity investees	(126)	-	-	(126)
Finance and other expense (income)	(135)	(150)	(144)	(429)
Bargain purchase gain	-	-	-	-
Finance costs	3,271	484	6,976	10,731
Intercompany expenses (income)	17,416	6,722	(24,138)	-
	49,096	10,294	(17,325)	42,065
Profit before income tax	72,840	49,496	12,717	135,053
Current income tax expense (recovery)	38,099	17,019	(902)	54,216
Deferred income tax expense (recovery)	(11,962)	(594)	1,810	(10,746)
Income tax expense (recovery)	26,137	16,425	908	43,470
Net income	46,703	33,071	11,809	91,583

(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)

17. Contingencies

In the normal course of operations, the Company is subject to litigation and claims from time to time. The Company may also be subject to lawsuits, investigations and other claims, including environmental, labour, income and sales tax, product, customer disputes and other matters. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not always possible to estimate the extent of potential costs, if any, management believes that the ultimate resolution of such contingencies will not have a material adverse impact on the results of operations, financial position or liquidity of the Company.

18. Changes in non-cash operating assets and liabilities

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Decrease (increase) in current accounts receivable	$ 6,031	$ 17,047	$ 51,619	$ 14,709
Decrease (increase) in current unbilled revenue	2,075	7,576	(5,916)	4,716
Decrease (increase) in other current assets	(6,176)	(3,556)	(16,483)	(16,212)
Decrease (increase) in inventory	(3,308)	(1,828)	(5,770)	(3,734)
Decrease (increase) in other non-current assets	(444)	802	2,933	1,435
Increase (decrease) in other non-current liabilities	1,154	(1,189)	(7,013)	(1,483)
Increase (decrease) in current accounts payable and accrued liabilities, excluding holdbacks from acquisitions	(9,979)	(7,589)	(80,613)	(53,763)
Increase (decrease) in current deferred revenue	(89,046)	(84,190)	111,022	54,481
Increase (decrease) in current provisions	(2,075)	1,358	(4,522)	(501)
Change in non-cash operating working capital	$ (101,768)	$ (71,569)	$ 45,257	$ (352)

19. Subsequent events

On July 26, 2018 the Company declared a $1.00 per share dividend that is payable on October 3, 2018 to all common shareholders of record at close of business on September 14, 2018.

On July 6, 2018 Acceo Solutions, L.P. and its wholly-owned subsidiary Acceo Solutions Inc. (together “Acceo”) entered into a C$145,000 ($110,500) term and C$10,000 ($7,600) revolving credit facility (the “Acceo Facility”) with two North American lenders. Acceo is indirectly 100% owned by Constellation. The Acceo term facility presently bears interest at a rate calculated at CDOR plus interest rate spreads based on a leverage table. The Acceo Facility is collateralized by substantially all of the assets owned by Acceo and its material subsidiaries. The Acceo Facility contains standard events of default which if not remedied within a cure period would trigger the repayment of any outstanding balance. On July 6, 2018, C$145,000 ($110,500) was drawn on the term component of the Acceo Facility. The term facility requires quarterly principal repayments of C$362.5 ($276.2), commencing on September 30, 2018, with the balance of the term facility to be repaid in full on July 6, 2023. As at July 6, 2018 no amounts had been drawn on the revolving component of the Acceo Facility. The revolving component of the Acceo Facility is available for acquisitions, working capital needs, and other general corporate purposes. Transaction costs associated with the Acceo Facility will be included as part of the carrying amount of the liability and will be amortized through profit or loss using the effective interest rate method. The carrying amount of such costs relating to this facility is estimated to be C$3,500 ($2,667).

The Acceo Facility is independent of each of the CSI Facility and the New CNH Facility. The obligations of Acceo are not guaranteed by Constellation or its subsidiaries, however a C$25,000 ($19,000) Promissory Note issued by N. Harris Computer Corporation to Acceo Solutions Inc. (representing an amount equal to the balance of the purchase price payable by Acceo Solutions to its previous shareholders in relation to Acceo acquisition) has been pledged under the Acceo Facility. In addition, Constellation and its subsidiaries other than Acceo and its subsidiaries are not subject to the terms of the Acceo Facility. Similarily, Acceo and its subsidiaries did not guarantee the CSI Facility or the New CNH Facility and is not subject to the provisions thereof. The Acceo Facility imposes limitations on the amount of distributions that Acceo may make to Constellation.

20. Explanation of adoption of IFRS 15 Revenue from contracts with customers

On May 28, 2014 the IASB issued IFRS 15, Revenue from Contracts with Customers. The standard contains a single model that applies to contracts with customers. The model features a contract-based five step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgemental thresholds have been introduced, which may affect the amount and timing of revenue recognized. The Company has adopted IFRS 15, effective January 1, 2018, using the cumulative effect method. Under the cumulative effect method, the Company has recognized the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings as at January 1, 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11.

The details of the primary changes on adoption of IFRS 15 are set out below.

A. Software license arrangements (including subscription arrangements):

Under the Company’s previous revenue recognition policies, license revenue from term-based licenses was generally deferred and amortized on a ratable basis over the license term. Under IFRS 15, the Company has deemed the licenses to be generally distinct from other performance obligations. Revenue allocated to the distinct license is recognized at the time that both the right-to-use the software has commenced for the term and the software has been made available to the customer.

Certain of the Company’s contracts with customers contain provisions that require the customer to renew optional support and maintenance in order to maintain the active right-to-use a perpetual or term license. The renewal payments after the initial bundled support and maintenance term in these cases apply to both the continued right-to-use the license and the support and maintenance renewal. Where the fees payable for the initial term are incremental to the fees for the renewal terms, the excess is treated as a prepayment for expected renewals and allocated (amortized) evenly over the expected customer renewals, up to the estimated life of the software, that is typically 4-6 years. The Company’s previous policy with respect to such incremental upfront license fees was to recognize the fee primarily over the initial first year term of the arrangements.

B. Costs to Obtain a Contract

Under the Company’s previous accounting policies, the Company generally expensed incremental commission costs paid to employees or third parties to obtain customer contracts as incurred. Under IFRS 15, the Company allocates these incremental commission costs to the various performance obligations to which they relate using the expected-based allocation for bundled commissions (relative expected margins). For those performance obligations that are expected to be renewed at the end of the initial period without a further commission (such as post-contract customer support), the Company has considered expected renewals over the life of the intellectual property when determining the expected margins from the arrangement. For performance obligations not delivered upfront, the allocated commissions are deferred and amortized over the pattern of transfer of the related performance obligation.

For commissions allocated to term-based license arrangements and post-contract customer support, the amortization period is expected to be approximately 4-6 years. Capitalized costs to obtain a contract are included in other non-current assets on the consolidated balance sheet (note 5).

(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)

The following table details the impact on our opening balance sheet as a result of adopting the new standard.

	January 1, 2018 prior to adoption of IFRS 15	Adjustments		January 1, 2018 after adoption of IFRS 15
Assets				
Current assets:				
Unbilled revenue	$ 64,109	$ 6,651		$ 70,760
Other assets	100,098	2,569		102,667
Non-current assets:				
Deferred income taxes	38,362	8,757	*	47,119
Other assets	21,801	37,878		59,679
Total assets	$ 2,288,218	$ 55,855		$ 2,344,073
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$ 379,573	$ 1,571		$ 381,144
Deferred revenue	541,108	22,478	*	563,586
Non-current liabilities:				
Deferred income taxes	148,961	2,110	*	151,071
Other liabilities (adjustment impacted non-current deferred revenue)	33,521	53,010	*	86,531
Total liabilities	1,684,140	79,169		1,763,309
Shareholders' equity:				
Retained earnings	531,534	(23,314)	*	508,220
	604,078	(23,314)		580,764
Total liabilities and shareholders' equity	$ 2,288,218	$ 55,855		$ 2,344,073

* As part of its adoption of IFRS 15, the Company identified that deferred revenue originally reported under IAS 18 was understated by $25 million as at January 1, 2018 (approximately $19 million as at January 1, 2017) and the corresponding license revenue previously reported was overstated by approximately $6 million in 2017 and $2 million in 2016. The issue had accumulated over a number of years and its impact on individual prior period financial statements was immaterial. Accordingly, in conjunction with the adoption of IFRS 15, the Company recorded an increase to deferred revenues of $25 million, an adjustment to deferred income taxes of $6 million and a decrease to retained earnings of $19 million as at January 1, 2018.

(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)

The following tables summarizes the impacts of adopting IFRS 15 on the Company's consolidated financial statements for the three and six months ended June 30, 2018:

	June 30, 2018 As reported	Adjustments	June 30, 2018 Without adoption of IFRS 15
Assets			
Current assets:			
Unbilled revenue	$ 83,808	$ (5,248)	$ 78,560
Other assets	153,484	(426)	153,058
Non-current assets:			
Deferred income taxes	54,254	(7,202)	47,052
Other assets	56,583	(36,005)	20,578
Total assets	$ 2,553,560	$ (48,881)	$ 2,504,679
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	347,975	(1,628)	$ 346,347
Deferred revenue	711,471	(17,565)	693,906
Non-current liabilities:			
Deferred income taxes	174,118	901	175,019
Other liabilities	80,173	(48,272)	31,901
Total liabilities	1,887,449	(66,564)	1,820,885
Shareholders' equity:			
Accumulated other comprehensive income (loss)	(33,547)	457	(33,090)
Retained earnings	600,375	17,226	617,601
Total liabilities and shareholders' equity	$ 2,553,560	$ (48,881)	$ 2,504,679

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements
(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)
Three and six months ended June 30, 2018 and 2017
(Unaudited)

	Three months ended June 30 2018 As reported	Adjustments	Three months ended June 30, 2018 Without adoption of IFRS 15
Revenue			
License	$ 47,861	$ (1,821)	$ 46,040
Professional services	152,644	183	152,827
Hardware and other	43,214	-	43,214
Maintenance and other recurring	508,326	3,045	511,371
	752,045	1,407	753,452
Expenses			
	646,550	(48)	646,502
Income before income taxes	79,114	1,455	80,569
Current income tax expense (recovery)	34,963	423	35,386
Deferred income tax expense (recovery)	(7,844)	(243)	(8,087)
Income tax expense (recovery)	27,119	180	27,299
Net income	51,995	1,275	53,270
Earnings per share			
Basic and diluted	2.45	0.06	$ 2.51

(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)

	Six months end June 30 2018 As reported	Adjustments	Six months ended June 30, 2018 Without adoption of IFRS 15
Revenue			
License	$ 91,680	$ (4,411)	$ 87,269
Professional services	294,814	104	294,918
Hardware and other	75,984	-	75,984
Maintenance and other recurring	1,008,026	(2,787)	1,005,239
	1,470,504	(7,094)	1,463,410
Expenses			
	1,275,028	178	1,275,206
Income before income taxes	180,243	(7,272)	172,971
Current income tax expense (recovery)	61,455	(2,702)	58,753
Deferred income tax expense (recovery)	(15,751)	1,518	(14,233)
Income tax expense (recovery)	45,704	(1,184)	44,520
Net income	134,539	(6,088)	128,451
Earnings per share			
Basic and diluted	$ 6.35	$ (0.29)	$ 6.06

The adoption of IFRS 15 had no impact to cash from or used in operating, financing, or investing on our condensed consolidated statement of cash flows.