Constellation Software Inc.

INTERIM FINANCIAL REPORT

Second Quarter Fiscal Year 2017

For the three and six month periods ended
June 30, 2017
(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, 2017, 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, 2017. 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,		Period-Over-Period Change		Six months ended June 30,		Period-Over-Period Change	
	2017	2016	$	%	2017	2016	$	%
	(Unaudited)				(Unaudited)			
Revenue	**600.1**	**528.7**	**71.4**	**14%**	**1,155.4**	**1,015.7**	**139.8**	**14%**
Expenses	445.5	398.2	47.3	12%	870.3	777.5	92.8	12%
Adjusted EBITA	**154.6**	**130.5**	**24.1**	**18%**	**285.1**	**238.2**	**46.9**	**20%**
Adjusted EBITA margin	26%	25%			25%	23%		
Amortization of intangible assets	55.7	42.2	13.5	32%	108.0	89.3	18.7	21%
Foreign exchange (gain) loss	1.9	6.6	(4.7)	-72%	3.4	25.8	(22.4)	-87%
TSS membership liability revaluation charge	15.4	1.7	13.7	814%	28.5	6.9	21.7	315%
Share in net (income) loss of equity investees	(0.1)	(0.1)	0.0	-7%	(0.1)	(0.3)	0.2	-59%
Finance and other income	(0.4)	(0.3)	(0.1)	55%	(0.4)	(0.3)	(0.2)	58%
Finance costs	5.5	5.3	0.2	4%	10.7	11.0	(0.3)	-3%
Income before income taxes	76.6	75.0	1.5	2%	135.1	105.8	29.3	28%
Income taxes expense (recovery)								
Current income tax expense (recovery)	30.1	23.9	6.2	26%	54.2	40.7	13.5	33%
Deferred income tax expense (recovery)	(4.7)	(3.9)	(0.8)	21%	(10.7)	(8.6)	(2.2)	25%
Income tax expense (recovery)	25.4	20.0	5.4	27%	43.5	32.1	11.4	35%
Net income	**51.2**	**55.0**	**(3.8)**	**-7%**	**91.6**	**73.7**	**17.9**	**24%**
Adjusted net income	**112.3**	**89.9**	**22.4**	**25%**	**206.8**	**152.5**	**54.4**	**36%**
Adjusted net income margin	19%	17%			18%	15%		
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	$ 2.41	$ 2.60	$ (0.18)	-7%	$ 4.32	$ 3.48	$ 0.85	24%
Adjusted EBITA per share								
Basic and diluted	$ 7.29	$ 6.16	$ 1.14	18%	$ 13.46	$ 11.24	$ 2.22	20%
Adjusted net income per share								
Basic and diluted	$ 5.30	$ 4.24	$ 1.06	25%	$ 9.76	$ 7.19	$ 2.57	36%
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, 2017 and 2016

Revenue:

Total revenue for the quarter ended June 30, 2017 was $600.1 million, an increase of 14%, or $71.4 million, compared to $528.7 million for the comparable period in 2016. For the first six months of 2017 total revenues were $1,155.4 million, an increase of 14%, or $139.8 million, compared to $1,015.7 million for the comparable period in 2016. 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 1% in both the three and six month periods, 2% after adjusting for the impact of the net appreciation 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 following table displays the breakdown of our revenue according to revenue type:

	Three months ended June 30,		Period-Over-Period Change		Q216 Proforma Adjustment (Note 1)	Organic Growth	Six months ended June 30,		Period-Over-Period Change		H1 2016 Proforma Adjustment (Note 2)	Organic Growth
	2017	2016	$	%		%	2017	2016	$	%		%
	($M, except percentages)						($M, except percentages)					
Licenses	40.9	35.1	5.8	17%	8.2	-6%	76.0	67.8	8.2	12%	16.0	-9%
Professional services	120.7	111.2	9.5	9%	12.6	-3%	233.1	207.6	25.5	12%	26.8	-1%
Hardware and other	41.9	39.0	2.9	8%	2.7	1%	73.4	69.5	3.8	6%	3.5	0%
Maintenance and other recurring	396.6	343.4	53.2	15%	43.7	2%	772.9	670.7	102.2	15%	81.7	3%
	600.1	528.7	71.4	14%	67.2	1%	1,155.4	1,015.7	139.8	14%	128.0	1%

$M - Millions of dollars

Note 1: Estimated pre-acquisition revenues from companies acquired after March 31, 2016. (Obtained from unaudited vendor financial information.)

Note 2: Estimated pre-acquisition revenues from companies acquired after December 31, 2015. (Obtained from unaudited vendor financial information.)

For comparative purposes the table below shows the quarterly organic growth by revenue type since Q1 2016.

	Quarter Ended					
	Mar. 31 2016	Jun. 30 2016	Sep. 30 2016	Dec. 31 2016	Mar. 31 2017	Jun. 30 2017
Licenses	-14%	-15%	-11%	-1%	-13%	-6%
Professional services	-7%	2%	5%	1%	2%	-3%
Hardware and other	-10%	14%	2%	-29%	0%	1%
Maintenance and other recurring	2%	3%	4%	3%	3%	2%
Revenue	**-2%**	**2%**	**3%**	**-1%**	**1%**	**1%**
Adjusted for FX	**0%**	**3%**	**4%**	**1%**	**3%**	**2%**

We aggregate our business into two distinct reportable 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, 2017 compared to the same periods in 2016:

	Three months ended June 30, 2017	Three months ended June 30, 2016	Period-Over-Period Change $	Period-Over-Period Change %	Q216 Proforma Adjustment (Note 1)	Organic Growth %	Six months ended June 30, 2017	Six months ended June 30, 2016	Period-Over-Period Change $	Period-Over-Period Change %	H1 2016 Proforma Adjustment (Note 2)	Organic Growth %
	($M, except percentages)						($M, except percentages)					
Public Sector												
Licenses	24.7	21.3	3.5	16%	6.9	-12%	46.5	41.2	5.3	13%	13.4	-15%
Professional services	96.0	87.2	8.8	10%	10.7	-2%	185.2	163.0	22.2	14%	22.5	0%
Hardware and other	34.6	31.9	2.7	9%	1.9	2%	59.2	55.4	3.9	7%	2.4	3%
Maintenance and other recurring	251.0	213.2	37.7	18%	32.3	2%	489.6	417.0	72.6	17%	60.8	2%
	406.3	353.5	52.7	15%	51.8	0%	780.5	676.5	103.9	15%	99.1	1%
Private Sector												
Licenses	16.1	13.8	2.3	17%	1.3	7%	29.5	26.6	2.9	11%	2.6	1%
Professional services	24.7	24.1	0.7	3%	1.9	-5%	47.9	44.6	3.3	7%	4.3	-2%
Hardware and other	7.3	7.1	0.2	3%	0.8	-8%	14.1	14.2	(0.0)	0%	1.1	-8%
Maintenance and other recurring	145.6	130.2	15.5	12%	11.4	3%	283.3	253.8	29.6	12%	20.9	3%
	193.8	175.1	18.7	11%	15.5	2%	374.9	339.1	35.8	11%	28.9	2%

Note 1: Estimated pre-acquisition revenues from companies acquired after March 31, 2016. (Obtained from unaudited vendor financial information.)
Note 2: Estimated pre-acquisition revenues from companies acquired after December 31, 2015. (Obtained from unaudited vendor financial information.)

Public Sector

For the quarter ended June 30, 2017, total revenue in the public sector reportable segment increased 15%, or $52.7 million to $406.3 million, compared to $353.5 million for the quarter ended June 30, 2016. For the six months ended June 30, 2017, total revenue increased by 15%, or $103.9 million to $780.5 million, compared to $676.5 million for the comparable period in 2016. For purposes of calculating organic growth, estimated pre-acquisition revenues included from the relevant companies acquired in 2016 and 2017 was $51.8 million and $99.1 million for the three and six month periods ended June 30, 2016, respectively. Organic revenue growth was 0% and 1% respectively for the three and six months ended June 30, 2017 compared to the same periods in 2016, and 2% for both periods after adjusting for the impact of the appreciation of the US dollar against most major currencies in which the Company transacts business.

Private Sector

For the quarter ended June 30, 2017, total revenue in the private sector reportable segment increased 11%, or $18.7 million to $193.8 million, compared to $175.1 million for the quarter ended June 30, 2016. For the six months ended June 30, 2017, total revenue increased by 11%, or $35.8 million to $374.9 million, compared to $339.1 million for the comparable period in 2016. For purposes of calculating organic growth, estimated pre-acquisition revenues included from the relevant companies acquired in 2016 and 2017 was $15.5 million and $28.9 million for the three and six month periods ended June 30, 2016, respectively. Organic revenue growth was 2% for both the three and six months ended June 30, 2017 compared to the same periods in 2016, and 3% after adjusting for the impact of the appreciation 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	
	2017	2016	$	%	2017	2016	$	%
	($M, except percentages)				($M, except percentages)			
Expenses								
Staff	296.8	260.4	36.4	14%	586.1	515.6	70.5	14%
Hardware	23.1	21.9	1.2	6%	39.4	40.1	(0.7)	-2%
Third party license, maintenance and professional services	50.5	47.0	3.5	8%	100.5	91.6	9.0	10%
Occupancy	14.4	12.5	1.9	15%	27.9	24.5	3.3	14%
Travel, Telecommunications, Supplies & Software and equipment	36.8	32.9	3.9	12%	71.1	62.4	8.6	14%
Professional fees	6.8	6.8	0.0	0%	13.7	13.5	0.2	1%
Other, net	11.8	11.7	0.1	1%	21.0	19.8	1.2	6%
Depreciation	5.3	5.1	0.2	4%	10.6	10.0	0.6	6%
	445.5	398.2	47.3	12%	870.3	777.5	92.8	12%

Overall expenses for the quarter ended June 30, 2017 increased 12%, or $47.3 million to $445.5 million, compared to $398.2 million during the same period in 2016. As a percentage of total revenue, expenses decreased to 74% for the quarter ended June 30, 2017 from 75% for the same period in 2016. During the six months ended June 30, 2017, expenses increased 12%, or $92.8 million to $870.3 million, compared to $777.5 million during the same period in 2016. As a percentage of total revenue, expenses decreased to 75% for the six months ended June 30, 2017 from 77% for the same period in 2016. For the three and six months ended June 30, 2017 the appreciation of the US dollar against most major currencies in which the Company transacts business resulted in an approximate 2% reduction in expenses compared to the comparable periods of 2016.

Staff expense – Staff expenses increased 14% or $36.4 million for the quarter ended June 30, 2017 and 14% or $70.5 million for the six months ended June 30, 2017 over the same periods in 2016. 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	
	2017	2016	$	%	2017	2016	$	%
	($M, except percentages)				($M, except percentages)			
Professional services	64.6	59.8	4.8	8%	127.7	115.8	11.9	10%
Maintenance	61.2	53.6	7.7	14%	120.4	104.0	16.4	16%
Research and development	81.6	72.5	9.1	13%	162.9	145.6	17.3	12%
Sales and marketing	43.1	37.1	6.0	16%	85.1	71.6	13.5	19%
General and administrative	46.3	37.5	8.8	23%	90.0	78.7	11.3	14%
	296.8	260.4	36.4	14%	586.1	515.6	70.5	14%

The increase in staff expenses for the three and six months ended June 30, 2017 was primarily due to the growth in the number of employees compared to the same periods in 2016 primarily due to acquisitions.

Hardware expenses – Hardware expenses increased 6% or $1.2 million for the quarter ended June 30, 2017 and decreased 2% or $0.7 million for the six months ended June 30, 2017 over the same periods in 2016 as compared with the 8% and 6% increase in hardware and other revenue for the three and six month periods ending June 30, 2017 respectively over the comparable periods in 2016. Hardware margins for the three and six months ended June 30, 2017 were 45% and 46% respectively as compared to 44% and 42% for the comparable periods in 2016.

Third party license, maintenance and professional services expenses – Third party license, maintenance and professional services expenses increased 8% or $3.5 million for the quarter ended June 30, 2017 and 10% or $9.0 million for the six months ended June 30, 2017 over the same periods in 2016. The increase is primarily due to third party license, maintenance and professional services expenses of acquired businesses.

Occupancy expenses – Occupancy expenses increased 15% or $1.9 million for the quarter ended June 30, 2017 and 14% or $3.3 million for the six months ended June 30, 2017 over the same periods in 2016. 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 12% or $3.9 million for the quarter ended June 30, 2017 and 14% or $8.6 million for the six months ended June 30, 2017 over the same periods in 2016. The increase in these expenses is primarily due to expenses incurred by acquired businesses.

Professional fees – There was no increase in professional fees for the quarter ended June 30, 2017 over the same period in 2016. The increase in professional fees for the six months ended June 30, 2017 was 1% or $0.2 million over the same period in 2016. There are no individually material reasons contributing to this variance.

Other, net – Other expenses increased 1% or $0.1 million for the quarter ended June 30, 2017 and 6% or $1.2 million for the six months ended June 30, 2017 over the same periods in 2016. 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	
	2017	2016	$	%	2016	2015	$	%
	($M, except percentages)				($M, except percentages)			
Advertising and promotion	8.2	7.3	0.9	12%	15.4	13.4	2.0	15%
Recruitment and training	2.8	3.0	(0.2)	-6%	5.6	5.5	0.2	3%
Bad debt expense	1.8	0.8	1.0	124%	3.0	1.4	1.5	109%
R&D tax credits	(3.4)	(3.4)	(0.0)	1%	(6.7)	(6.0)	(0.7)	12%
Contingent consideration	0.1	0.1	(0.1)	-47%	(0.1)	(0.1)	0.0	-1%
Other expense, net	2.3	3.8	(1.5)	-40%	3.8	5.6	(1.8)	-32%
	11.8	11.7	0.1	1%	21.0	19.8	1.2	6%

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

Depreciation – Depreciation of property and equipment increased 4% or $0.2 million for the quarter ended June 30, 2017 and 6% or $0.6 million for the six months ended June 30, 2017 over the same periods in 2016. 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, 2017	Three months ended June 30, 2016	Period-Over-Period Change $	Period-Over-Period Change %	Six months ended June 30, 2017	Six months ended June 30, 2016	Period-Over-Period Change $	Period-Over-Period Change %
	($M, except percentages)				($M, except percentages)			
Amortization of intangible assets	55.7	42.2	13.5	32%	108.0	89.3	18.7	21%
Foreign exchange (gain) loss	1.9	6.6	(4.7)	-72%	3.4	25.8	(22.4)	-87%
TSS membership liability revaluation charge	15.4	1.7	13.7	814%	28.5	6.9	21.7	315%
Share in net (income) loss of equity investees	(0.1)	(0.1)	0.0	-7%	(0.1)	(0.3)	0.2	-59%
Finance and other expense (income)	(0.4)	(0.3)	(0.1)	55%	(0.4)	(0.3)	(0.2)	58%
Finance costs	5.5	5.3	0.2	4%	10.7	11.0	(0.3)	-3%
Income tax expense (recovery)	25.4	20.0	5.4	27%	43.5	32.1	11.4	35%
	103.4	75.5	28.0	37%	193.6	164.5	29.0	18%

Amortization of intangible assets – Amortization of intangible assets increased 32% or $13.5 million for the quarter ended June 30, 2017 and 21% or $18.7 million for the six months ended June 30, 2017 over the same periods in 2016. The increase in amortization expense for the three and six months ended June 30, 2017 is primarily attributable to an increase in the carrying amount of our intangible asset balance over the twelve-month period ended June 30, 2017 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, 2017, we realized foreign exchange losses of $1.9 million and $3.4 million respectively compared to $6.6 million and $25.8 million for the same periods in 2016. The following table provides a breakdown of these amounts.

	Three months ended June 30, 2017	Three months ended June 30, 2016	Period-Over-Period Change $	Period-Over-Period Change %	Six months ended June 30, 2017	Six months ended June 30, 2016	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)	(5.4)	7.1	(12.5)	NM	(6.7)	8.4	(15.1)	NM
- revaulation of the Company's unsecured subordinated floating rate debentures as a result of the appreciation (depreciation) of the Canadian dollar against the US dollar.	6.0	0.2	5.8	3190%	7.9	15.5	(7.5)	-49%
Remaining foreign exchange (gain) loss	1.3	(0.7)	2.0	NM	2.2	1.9	0.3	16%
	1.9	6.6	(4.7)	-72%	3.4	25.8	(22.4)	-87%

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 17% from Q1 2017 or $15.4 million, and increased by approximately 37% from Q4 2016 or $28.5. The increases are primarily the result of an increase in the net tangible assets of TSS and the growth in TSS' reported trailing twelve month maintenance revenue, which are the two main drivers in the calculation of the liability, primarily due to acquisitions. The liability increased less for the three and six months ended June 30, 2016 over Q1 2016 and Q4 2015 respectively, as TSS' growth in net tangible assets and reported trailing twelve month maintenance revenue for those periods was less primarily as a result of less acquisition activity. The liability recorded on the balance sheet increased by 49% or $36.0 million over the six month period ending June 30, 2017 from $72.9 million to $108.9 million as a result of the revaluation charge of $28.5 million and a $7.5 million foreign exchange loss that was recorded through other comprehensive income. The TSS membership liability is denominated in Euros and the Euro appreciated 7% versus the US dollar during the first six months of 2017.

Share in net (income) loss of equity investees – Share in the net (income) loss of equity investees was income of $0.1 million for the three and six month periods ended June 30, 2017 respectively, compared to income of $0.1 million and $0.3 million for the same periods in 2016 in line with the decreased profitability of equity investees.

Finance and other expense (income) – Finance and other income increased 55% or $0.1 million for the quarter ended June 30, 2017 and 58% or $0.2 million for the six months ended June 30, 2017 over the same periods in 2016. Interest earned on cash balances totalling $0.9 million and $1.7 million was recorded for the three and six month periods ended June 30, 2017 respectively, compared to $0.1 million and $0.2 million recorded for the same periods in 2016, in line with the increase in cash balances in 2017 as compared to 2016. Realized losses of $0.7 million and $1.5 million relating to the sale of available-for-sale equity securities was also recorded for the three and six month periods ended June 30, 2017 respectively, and no similar loss was recorded for the same periods in 2016.

Finance costs – Finance costs for the quarter ended June 30, 2017 increased $0.2 million to $5.5 million, compared to $5.3 million for the same period in 2016. During the six months ended June 30, 2017, finance costs decreased $0.3 million to $10.7 million, from $11.0 million over the same period in 2016. 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, 2017, income tax expense increased $5.4 million to $25.4 million compared to $20.0 million for the same period in 2016. During the six months ended June 30, 2017, income tax expense increased $11.4 million to $43.5 million compared to $32.1 million for the same period in 2016. Current tax expense as a percentage of adjusted net income before tax was 21% for both the three and six months ended June 30, 2017 and 21% for the same periods in 2016. 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. As a result of the depletion of tax credits available to certain of our Canadian entities and a proportionately higher level of profitability in the US, the annual rate has gradually increased since 2013. 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. The deferred income tax recovery increases of $0.8 million and $2.2 million for the three and six months ended June 30, 2017 respectively, relates to various items including changes in recognition of certain deferred income tax assets.

Net Income and Earnings per Share:

Net income for the quarter ended June 30, 2017 was $51.2 million compared to net income of $55.0 million for the same period in 2016. On a per share basis this translated into a net income per diluted share of $2.41 in the quarter ended June 30, 2017 compared to net income per diluted share of $2.60 for the same period in 2016. For the six months ended June 30, 2017, net income was $91.6 million or $4.32 per diluted share compared to $73.7

million or $3.48 per diluted share for the same period in 2016. There was no change in the number of shares outstanding.

Adjusted EBITA:

For the quarter ended June 30, 2017, Adjusted EBITA increased to $154.6 million compared to $130.5 million for the same period in 2016 representing an increase of 18%. Adjusted EBITA margin was 26% for the quarter ended June 30, 2017 and 25% for the same period in 2016. For the first six months of 2017, Adjusted EBITA increased to $285.1 million compared to $238.2 million during the same period in 2016, representing an increase of 20%. Adjusted EBITA margin was 25% in the first six months of 2017 and 23% for the same period in 2016. 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,	
	2017	2016	2017	2016
	($M, except percentages)		($M, except percentages)	
Total revenue	600.1	528.7	1,155.4	1,015.7
Net income	51.2	55.0	91.6	73.7
Adjusted for:				
Income tax expense (recovery)	25.4	20.0	43.5	32.1
Foreign exchange (gain) loss	1.9	6.6	3.4	25.8
TSS membership liability revaluation charge	15.4	1.7	28.5	6.9
Share in net (income) loss of equity investees	(0.1)	(0.1)	(0.1)	(0.3)
Finance and other income	(0.4)	(0.3)	(0.4)	(0.3)
Finance costs	5.5	5.3	10.7	11.0
Amortization of intangible assets	55.7	42.2	108.0	89.3
Adjusted EBITA	154.6	130.5	285.1	238.2
Adjusted EBITA margin	26%	25%	25%	23%

Adjusted net income:

For the quarter ended June 30, 2017, Adjusted net income increased to $112.3 million from $89.9 million for the same period in 2016, representing an increase of 25%. Adjusted net income margin was 19% for the quarter ended June 30, 2017 and 17% for the same period in 2016. For the first six months of 2017, Adjusted net income increased to $206.8 million from $152.5 million during the same period in 2016, representing an increase of 36%. Adjusted net income margin was 18% in the first six months of 2017 and 15% for the same period in 2016. Excluding the impact of the unrealized foreign exchange loss recorded in each of the three and six month periods ended June 30, 2016 and 2017 the margins would have been 19% and 18% for the respective periods in 2017, and 18% for both the respective periods in 2016. 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, 2017 was $5.3 million and $10.6 million respectively, as compared to $5.1 million and $8.8 million for the same periods in 2016.

The following table reconciles Adjusted net income to Net income:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
	($M, except percentages)		($M, except percentages)	
Total revenue	600.1	528.7	1,155.4	1,015.7
Net income	51.2	55.0	91.6	73.7
Adjusted for:				
Amortization of intangible assets	55.7	42.2	108.0	89.3
TSS membership liability revaluation charge	15.4	1.7	28.5	6.9
Less non-controlling interest in the Adjusted net income of TSS	(5.3)	(5.1)	(10.6)	(8.8)
Deferred income tax expense (recovery)	(4.7)	(3.9)	(10.7)	(8.6)
Adjusted net income	112.3	89.9	206.8	152.5
Adjusted net income margin	19%	17%	18%	15%

Quarterly Results

	Quarter Ended								
	Jun. 30 2015	Sep. 30 2015	Dec. 31 2015	Mar. 31 2016	Jun. 30 2016	Sep. 30 2016	Dec. 31 2016	Mar. 31 2017	Jun. 30 2017
	($M, except per share amounts)								
Revenue	443.5	460.4	511.6	487.0	528.7	545.6	563.8	555.3	600.1
Net income	32.7	45.7	66.0	18.7	55.0	67.5	65.7	40.4	51.2
Adjusted net income	79.7	98.9	117.7	62.5	89.9	120.7	121.8	94.5	112.3
Adjusted net income margin	18%	21%	23%	13%	17%	22%	22%	17%	19%
Net income per share									
Basic & diluted	1.54	2.16	3.11	0.88	2.60	3.18	3.10	1.91	2.41
Adjusted net income per share									
Basic & diluted	3.76	4.67	5.55	2.95	4.24	5.70	5.75	4.46	5.30

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) increased by $69.4 million to $296.7 million in the six months ended June 30, 2017 resulting from cash flows from operations exceeding capital deployed on acquisitions. A repayment of €3.5 million ($3.9 million) was made in Q2 2017 on our CNH Facility (as defined below) however the impact of foreign exchange on this facility resulted in a net increase in the fair value of $6.9 million to $133.1 million at June 30, 2017 compared to $126.2 million at December 31, 2016. In addition, cash increased by $76.3 million to $429.8 million at June 30, 2017 compared to $353.5 million at December 31, 2016.

Total assets increased $219.4 million, from $1,883.5 million at December 31, 2016 to $2,102.9 million at June 30, 2017. The increase is primarily due to an increase in cash of $76.3 million, and an increase in intangible assets of $111.6 million primarily relating to acquisitions made since December 31, 2016. At June 30, 2017 TSS held a cash balance of $59.5 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 $119.9 million, from $873.2 million at December 31, 2016 to $993.1 million at June 30, 2017. The increase is primarily due to an increase in deferred revenue of $105.2 million mainly due to acquisitions made since December 31, 2016 and the timing of maintenance and other billings versus performance and delivery under those customer arrangements.

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

	Six months ended June 30, 2017	Six months ended June 30, 2016
Net cash provided by operating activities	242.4	219.3
Net cash from (used in) financing activities	(57.4)	(59.9)
Net cash from (used in) acquisition activities	(131.1)	(72.9)
Net cash from (used in) other investing activities	14.4	(22.2)
Net cash from (used in) investing activities	(116.7)	(95.2)
Effect of foreign currency	8.0	0.3
Net increase (decrease) in cash and cash equivalents	**76.3**	**64.5**

The net cash flows from operating activities were $242.4 million for the six months ended June 30, 2017. The $242.4 million provided by operating activities resulted from $91.6 million in net income plus $204.2 million of non-cash adjustments to net income and $0.4 million of cash from non-cash operating working capital, offset by $53.0 million in taxes paid. Of the $53.0 million in taxes paid $35.0 million related to prior year tax return filings.

The net cash flows used in financing activities in the six months ended June 30, 2017 were $57.4 million, which is mainly a result of dividends paid of $42.4 million, interest paid of $11.1 million on bank indebtedness and the Company's unsecured subordinated floating rate debentures, and a $3.9 million principal repayment on the CNH Facility (as defined below).

The net cash flows used in investing activities in the six months ended June 30, 2017 were $116.7 million. The cash used in investing activities was primarily due to acquisitions for an aggregate of $131.1 million (including payments for holdbacks relating to prior acquisitions). Cash from other investing activities included $18.8 million of proceeds received from the sale of an equity accounted investee.

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 February 25, 2016, we completed an amendment and restatement of our revolving credit facility agreement (the "CSI Facility"), extending its maturity date to August 11, 2020. The CSI Facility limit was increased from $300 million to $485 million with a syndicate of new and existing Canadian chartered banks and U.S. banks. 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, 2017, no amounts were drawn on the CSI Facility, and letters of credit totalling $19.3 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, 2017, the carrying amount of such costs totalling $0.9 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 (approximately $168 million) term and €10 million (approximately $11 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. At June 30, 2017, €116.5 million (approximately $133 million) remains outstanding on the term component of the CNH Facility. €16.5 million must be repaid in instalments prior to June 24, 2020, and €100 million is non-amortizing and due on June 24, 2021. The remaining €20 million term component of the CNH Facility remains undrawn. If drawn, principal must be repaid in five equal instalments starting on June 24, 2018. As at June 30, 2017 no amounts had been drawn on the €10 million multicurrency revolving component of the CNH Facility. The revolving component of the CNH Facility is available for acquisitions, working capital needs, and other general corporate purposes until June 24, 2020. Transaction costs associated with the 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. As at June 30, 2017, the carrying amount of such costs relating to this CNH Facility totalling $3.3 million (€2.9 million) has been classified as part of non-current CNH Facility in the statement of financial position.

The CSI Facility and CNH Facility are independent of each other. The CNH Facility is not guaranteed by Constellation or its subsidiaries nor is Constellation or any subsidiary subject to the terms of the 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 CNH Facility imposes limitations on the amount of distributions that CNH and its subsidiaries may make to Constellation.

On July 14, 2017, CNH completed an amendment and restatement of the CNH Facility. The original term loan of €116.5 million was repaid in full and concurrently replaced by a new revolving credit facility (the "New CNH Facility"). As a result of entering into the New CNH Facility with a number of European financial institutions, CNH will be 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 drawn balance amounts to €72.5 million at July 14, 2017. 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.

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, 3015, 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 €39.4 million ($48.5 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 $15.9 million at June 30, 2017. 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, 2017.

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, 2017. See the "Critical Accounting Estimate" section of the Company's 2016 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 2016 to 2017 suggests that the impact to Adjusted EBITA margins for both the three and six months ended June 30, 2017 was less than 1%. The impact to organic revenue growth for both the three and six months ended June 30, 2017 was approximately negative 2%. 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, 2017, 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, 2017:

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2017	
Currencies	% of Revenue	% of Expenses	% of Revenue	% of Expenses
USD	58%	51%	58%	51%
CAD	6%	11%	6%	12%
GBP	6%	7%	7%	7%
EURO	20%	20%	20%	20%
CHF	0%	2%	0%	2%
Others	9%	8%	0%	0%
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.

Recent Accounting Pronouncements

A number of new standards, and amendments to standards and interpretations, are not yet effective for the quarter ended June 30, 2017, and have not been applied in preparing our consolidated financial statements. The relevant standards are listed below.

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. The Standard 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.

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). 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.

The standard has a mandatory effective date for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is assessing the impact of this standard on its consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

On May 28, 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. The new standard is effective for fiscal years beginning on or after January 1, 2018 and is available for early adoption. 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 judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. As a result, the Company is continuing to assess the impact of this standard on its consolidated financial statements. The Company has not selected a transition methodology.

The Company has a team focused on the adoption and compliance with IFRS 15. This team is responsible for determining existing policies, differences between existing policies and IFRS 15, ensuring the Company's data collection is appropriate, and communicating the upcoming changes with various stakeholders. In addition, this team is assisting with the development of processes and policies that will help ensure an effective transition and the related impacts are reliably assessed.

While the Company continues to assess all potential impacts of the new revenue recognition standard, the Company currently believes the most significant impacts will relate to accounting for term based licenses, capitalization of contract costs and expanded disclosure on revenue, performance obligations and contract balances. Under current revenue recognition policies, license revenue from term based licenses is generally deferred and amortized over the period of post-contract customer support. Under IFRS 15, the Company expects the timing of license revenue recognition for term based licenses to change. Under the Company's current accounting policies, the Company generally expenses incremental commission costs paid to employees. Under IFRS 15, the Company expects to capitalize and amortize certain incremental commission costs that are paid to employees. The Company expects to start quantifying any impact of the new standard in the near term.

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 and amortization (due to amortization of the right-of-use asset).

Share Capital

As at July 26, 2017, 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, 2017, 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, 2017 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, 2017 and 2016
Unaudited

CONSTELLATION SOFTWARE INC.

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

Unaudited

	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash	$ 429,764	$ 353,499
Equity securities available-for-sale (note 5)	-	4,236
Accounts receivable, net	262,393	243,554
Work in progress	59,225	56,541
Inventories	30,881	19,667
Other assets (note 6)	105,475	96,181
	887,738	773,678
Non-current assets:		
Property and equipment	50,162	46,395
Deferred income taxes	38,336	49,863
Other assets (note 6)	21,334	19,782
Intangible assets	1,105,303	993,743
	1,215,135	1,109,783
Total assets	$ 2,102,873	$ 1,883,461
Liabilities and Shareholders' Equity		
Current liabilities:		
CSI Facility (note 7)	$ -	$ -
CNH Facility (note 7)	7,424	7,361
TSS Membership Liability (note 9)	39,478	26,435
Accounts payable and accrued liabilities	273,522	291,697
Dividends payable (note 12)	21,518	21,051
Deferred revenue	566,150	460,975
Provisions (note 10)	7,939	7,955
Acquisition holdback payments	29,624	17,056
Income taxes payable	47,429	40,634
	993,084	873,164
Non-current liabilities:		
CNH Facility (note 7)	122,302	115,336
TSS Membership Liability (note 9)	69,446	46,502
Debentures (note 8)	230,233	223,870
Deferred income taxes (note 11)	137,055	129,585
Acquisition holdback payments	4,576	855
Other liabilities (note 6)	31,397	36,640
	595,009	552,788
Total liabilities	1,588,093	1,425,952
Shareholders' equity (note 12):		
Capital stock	99,283	99,283
Accumulated other comprehensive income (loss)	(28,036)	(36,108)
Retained earnings	443,533	394,334
	514,780	457,509
Subsequent events (notes 7, 12 and 19)		
Total liabilities and shareholders' equity	$ 2,102,873	$ 1,883,461

See accompanying notes to the condensed consolidated interim financial statements.

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, 2017 and 2016
Unaudited

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Revenue				
License	$ 40,872	$ 35,053	$ 76,004	$ 67,825
Professional services	120,705	111,230	233,118	207,592
Hardware and other	41,930	38,995	73,356	69,515
Maintenance and other recurring	396,577	343,390	772,932	670,718
	600,084	528,668	1,155,410	1,015,650
Expenses				
Staff	296,769	260,375	586,084	515,602
Hardware	23,091	21,869	39,411	40,065
Third party license, maintenance and professional services	50,539	46,990	100,542	91,584
Occupancy	14,434	12,502	27,870	24,543
Travel	18,068	15,634	33,892	29,321
Telecommunications	5,267	5,864	10,335	10,822
Supplies	3,608	2,255	7,480	4,687
Software and equipment	9,819	9,109	19,356	17,590
Professional fees	6,768	6,751	13,693	13,494
Other, net	11,814	11,735	20,986	19,766
Depreciation	5,321	5,109	10,620	9,982
Amortization of intangible assets	55,738	42,239	108,023	89,311
	501,236	440,432	978,292	866,767
Foreign exchange loss (gain)	1,865	6,598	3,359	25,804
TSS membership liability revaluation charge (note 9)	15,415	1,687	28,530	6,867
Share in net (income) loss of equity investee (note 6)	(77)	(83)	(126)	(307)
Finance and other expense (income) (note 13)	(408)	(263)	(429)	(272)
Finance costs (note 13)	5,473	5,266	10,731	11,021
	22,268	13,205	42,065	43,113
Income before income taxes	76,580	75,031	135,053	105,770
Current income tax expense (recovery)	30,108	23,917	54,216	40,671
Deferred income tax expense (recovery)	(4,678)	(3,881)	(10,746)	(8,567)
Income tax expense (recovery) (note 11)	25,430	20,036	43,470	32,104
Net income	51,150	54,995	91,583	73,666
Earnings per share				
Basic and diluted (note 14)	$ 2.41	$ 2.60	$ 4.32	$ 3.48

See accompanying notes to the condensed consolidated interim financial statements.

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, 2017 and 2016
Unaudited

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Net income	$ 51,150	$ 54,995	$ 91,583	$ 73,666
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	-	334	(1,314)	334
Net change in fair value of derivatives designated as hedges during the period	181	84	345	(23)
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	4,956	(692)	7,847	3,037
Deferred income tax recovery (expense)	(102)	(65)	(94)	(37)
Other comprehensive (loss) income for the period, net of income tax	5,444	(339)	8,072	3,311
Total comprehensive income (loss) for the period	$ 56,594	$ 54,656	$ 99,655	$ 76,977

See accompanying notes to the condensed consolidated interim financial statements.

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 (loss) for the period	**-**	**7,847**	**(17)**	**242**	**8,072**	**-**	**8,072**
Total comprehensive income (loss) 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.

CONSTELLATION SOFTWARE INC.

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

Unaudited
Six months ended June 30, 2016

	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, 2016	**$ 99,283**	**$ (33,614)**	**$ -**	**$ (705)**	**$ (34,319)**	**$ 272,318**	**$ 337,282**
Total comprehensive income for the period:							
Net income	-	-	-	-	-	73,666	73,666
Other comprehensive income (loss)							
Net change in fair value of available-for-sale financial asset during the period	-	-	334	-	334	-	334
Net change in fair value of derivatives designated as hedges during the period	-	-	-	(23)	(23)	-	(23)
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	-	3,037	-	-	3,037	-	3,037
Deferred tax recovery (expense)	-	-	(44)	7	(37)	-	(37)
Total other comprehensive income for the period	**-**	**3,037**	**290**	**(16)**	**3,311**	**-**	**3,311**
Total comprehensive income for the period	**-**	**3,037**	**290**	**(16)**	**3,311**	**73,666**	**76,977**
Transactions with owners, recorded directly in equity							
Dividends to shareholders of the Company (note 12)	-	-		-	-	(42,384)	(42,384)
Balance at June 30, 2016	**$ 99,283**	**$ (30,577)**	**$ 290**	**$ (721)**	**$ (31,008)**	**$ 303,600**	**$ 371,875**

See accompanying notes to the condensed consolidated interim financial statements.

CONSTELLATION SOFTWARE INC.

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

Three and six months ended June 30, 2017 and 2016
Unaudited

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Cash flows from operating activities:				
Net income	$ 51,150	$ 54,995	$ 91,583	$ 73,666
Adjustments for:				
Depreciation	5,321	5,109	10,620	9,982
Amortization of intangible assets	55,738	42,239	108,023	89,311
TSS membership liability revaluation charge	15,415	1,687	28,530	6,867
Share in net (income) loss of equity investee	(77)	(83)	(126)	(307)
Finance and other income	(408)	(263)	(429)	(272)
Finance costs	5,473	5,266	10,731	11,021
Income tax expense (recovery)	25,430	20,036	43,470	32,104
Foreign exchange loss (gain)	1,865	6,598	3,359	25,804
Change in non-cash operating working capital exclusive of effects of business combinations (note 18)	(71,569)	(53,144)	(352)	(11,248)
Income taxes paid	(27,881)	(9,553)	(52,978)	(17,598)
Net cash flows from operating activities	60,457	72,887	242,431	219,330
Cash flows from (used in) financing activities:				
Interest paid	(5,684)	(5,743)	(11,135)	(11,848)
Repayments of CNH facility	(3,929)	(4,495)	(3,929)	(4,495)
Credit facility transaction costs	-	-	-	(1,212)
Dividends paid	(21,192)	(21,192)	(42,384)	(42,384)
Net cash flows from (used in) in financing activities	(30,805)	(31,430)	(57,448)	(59,939)
Cash flows from (used in) investing activities:				
Acquisition of businesses, net of cash acquired (note 4)	(65,362)	(42,870)	(114,199)	(66,698)
Post-acquisition settlement payments, net of receipts	(11,533)	(4,688)	(16,888)	(6,233)
Purchases of available-for-sale equity securities	-	(12,694)	-	(12,694)
Proceeds from sale of available-for-sale equity securities	815	-	2,828	-
Interest, dividends and other proceeds received (note 6)	902	145	20,455	150
Property and equipment purchased	(4,522)	(6,517)	(8,932)	(9,687)
Net cash flows from (used in) investing activities	(79,700)	(66,624)	(116,736)	(95,162)
Effect of foreign currency on cash and cash equivalents	5,923	(2,955)	8,018	274
Increase (decrease) in cash and cash equivalents	(44,125)	(28,122)	76,265	64,503
Cash, beginning of period	473,889	271,096	353,499	178,471
Cash, end of period	$ 429,764	$ 242,974	$ 429,764	$ 242,974

See accompanying notes to the condensed consolidated interim financial statements.

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, 2017 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
Higher 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		

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		

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 2016 annual consolidated financial statements.

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, 2017, 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 2016 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, equity securities available-for-sale, 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 2016 annual consolidated 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

The significant accounting policies used in preparing these condensed consolidated interim financial statements are unchanged from those disclosed in the Company's 2016 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.

New standards and interpretations not yet 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.

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). 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.

The standard has a mandatory effective date for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is assessing the impact of this standard on its consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

On May 28, 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. The new standard is effective for fiscal years beginning on or after January 1, 2018 and is available for early adoption. 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 judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. As a result, the Company is continuing to assess the impact of this standard on its consolidated financial statements. The Company has not selected a transition methodology.

The Company has a team focused on the adoption and compliance with IFRS 15. This team is responsible for determining existing policies, differences between existing policies and IFRS 15, ensuring the Company’s data collection is appropriate, and communicating the upcoming changes with various stakeholders. In addition, this team is assisting with the development of processes and policies that will help ensure an effective transition and the related impacts are reliably assessed.

While the Company continues to assess all potential impacts of the new revenue recognition standard, the Company currently believes the most significant impacts will relate to accounting for term based licenses, capitalization of contract costs and expanded disclosure on revenue, performance obligations and contract balances. Under current revenue recognition policies, license revenue from term based licenses is generally deferred and amortized over the period of post-contract customer support. Under IFRS 15, the Company expects the timing of license revenue recognition for term based licenses to change. Under the Company’s current accounting policies, the Company generally expenses incremental commission costs paid to employees. Under IFRS 15, the Company expects to capitalize and amortize certain incremental commission costs that are paid to employees. The Company expects to start quantifying any impact of the new standard in the near term.

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 and amortization (due to amortization of the right-of-use asset).

4. Business acquisitions

(a) During the six-month period ended June 30, 2017, the Company completed twenty-eight acquisitions for aggregate cash consideration of $133,558 plus cash holdbacks of $28,424 and contingent consideration with an estimated fair value of $3,342 resulting in total consideration of $165,324. 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 period ended June 30, 2017 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 $15,492. Aggregate contingent consideration of $15,850 (December 31, 2016 - $15,538) 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 expenses, net in the condensed consolidated interim statements of income. An expense of $68 and income of $118 has been recorded for the three and six months ended June 30, 2017, as a result of such changes (an expense of $128 and income $118 for the three and six months ended June 31, 2016).

There were no acquisitions during the period that were deemed to be individually significant. Of the twenty-eight acquisitions, the Company acquired 100% of the shares of twenty businesses and acquired the net assets of eight businesses. 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, 2017 include software companies catering to the following markets; communications, local government, school administration, electric utilities, design and welding, public safety, manufacturing plant performance, marine asset management, fitness, agriculture equipment dealers, automotive, retail management and distribution, school and special library information systems, transit, asset management, food services, oil and gas, and healthcare, 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 condensed consolidated interim financial statements from the date of each acquisition. Twenty-two of the acquisitions have been included in the Public reportable segment and six have been included in the Private reportable segment.

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 $5,656 is expected to be deductible for income tax purposes.

The gross contractual amounts of acquired receivables was $25,301; however, the Company has recorded an allowance of $653 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 2017 and the last two quarters of 2016. 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 $240,243.

The aggregate impact of acquisition accounting applied in connection with business acquisitions in the six-month period ended June 30, 2017 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	$ 14,104	$ 5,255	$ 19,359
Accounts receivable	19,721	4,927	24,648
Other current assets	17,552	1,595	19,147
Property and equipment	3,229	475	3,704
Other non-current assets	2,221	-	2,221
Deferred income taxes	-	4,004	4,004
Technology assets	75,400	36,261	111,661
Customer assets	32,765	22,543	55,308
	164,992	75,060	240,052
Liabilities assumed:			
Current liabilities	21,017	3,864	24,881
Deferred revenue	22,122	12,645	34,767
Deferred income taxes	13,547	13,558	27,105
	56,686	30,067	86,753
Goodwill	3,221	8,804	12,025
Total consideration	**$ 111,527**	**$ 53,797**	**$ 165,324**

(b) The 2017 business acquisitions did not have a material impact to either the consolidated revenue or the consolidated net income for the three and six months ended June 30, 2017. 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.

5. Equity securities available-for-sale

During 2016, the Company made investments in two public companies listed in the U.S. and Canada, both of which develop and sell software solutions. These investments have been designated as available-for-sale. The unrealized gains/losses related to the available-for-sale equity securities have been recorded in Accumulated other comprehensive income. In 2016, the Company fully disposed of one of these investments and in the six months ended June 30, 2017, the Company fully disposed of its remaining investment. The realized gain or loss upon disposition was recorded in Finance and other expense (income) in the Condensed Consolidated Interim Statement of Income. Note 13 of the condensed consolidated interim financial statements outlines the gains and losses on the equity securities available-for-sale in each of the applicable periods.

	June 30, 2017		December 31, 2016	
	Cost	Fair Value	Cost	Fair Value
Common shares	$ -	$ -	$ 4,419	$ 4,236

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

6. Other assets and other non-current liabilities

(a) Other assets

	June 30, 2017	December 31, 2016
Prepaid and other current assets	$ 60,754	$ 46,931
Other assets	-	18,779
Investment tax credits recoverable	22,961	21,140
Sales tax receivable	7,986	3,971
Other receivables	13,774	5,360
Total other current assets	$ 105,475	$ 96,181
Investment tax credits recoverable	$ 11,335	$ 10,670
Non-current trade and other receivables and other assets	8,265	7,842
Equity accounted investees (i)	1,734	1,270
Total other non-current assets	$ 21,334	$ 19,782

(i) The Company's share of net income (loss) in its investments currently being accounted for as equity investees for the three and six-month period ended June 30, 2017 was $77 and $126 respectively (June 30, 2016 – $83 and $307 respectively).

As at December 31, 2016, one of our investments (which was historically classified as a non-current asset and accounted for as an equity investee) was classified as an other current asset. In the six-month period ended June 30, 2017, this balance was collected. The cash proceeds of $18,779 have been reflected as an investing activity in the condensed consolidated interim statement of cash flows.

(b) Other non-current liabilities

	June 30, 2017	December 31, 2016
Contingent consideration	$ 10,395	$ 8,793
Acquired contract liabilities	1,137	9,056
Other non-current liabilities	19,865	18,791
Total other non-current liabilities	$ 31,397	$ 36,640

7. CSI Facility and CNH Facility

On February 25, 2016, Constellation completed an amendment and restatement of the revolving credit facility agreement (the "CSI Facility"), extending its maturity date to August 11, 2020. The facility limit was increased from $300,000 to $485,000 with a syndicate of new and existing Canadian chartered banks and U.S. banks. The CSI Facility bears a variable interest rate and is due in full on August 11, 2020 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, 2017, $nil (December 31, 2016 – $nil) had been drawn from this credit facility, and letters of credit totaling $19,290 (December 31, 2016 - $15,377) were issued, which limits the borrowing capacity on a dollar-for-dollar basis. Transaction costs associated with the CSI Facility in the amount of $1,212 have been capitalized and 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, 2017 relating to this line-of-credit amounted to $67 and $134 (June 30, 2016 - $67 and $89 respectively). As at June, 2017 the carrying amount of such costs is $853 (December 31 2016 - $987).

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. As at June 30, 2017, €116,500 ($133,067) (December 31, 2016 - €120,000 ($126,183)) had been drawn from this credit facility. The terms of the CNH Facility require that €16,500 must be repaid in instalments between now and June 2020, and €100,000 is non-amortizing and due in June 2021. The remaining €20,000 term component of the CNH Facility is currently available and if drawn must be repaid in five equal instalments starting on June 24, 2018. As at June 30, 2017 no amounts had been drawn on the €10,000 multicurrency revolving component of the CNH Facility (December 31, 2016 - $nil). The revolving component of the CNH Facility is available for acquisitions, working capital needs, and other general corporate purposes until June 24, 2020. Transaction costs associated with the 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, 2017 relating to this facility amounted to $207 and $423 (June 30, 2016 - $218 and $434 respectively). As at June 30, 2017, the carrying amount of such costs relating to this facility totaling approximately $3,341 (€2,925) has been classified as part of the CNH Facility in the consolidated statement of financial position (December 31, 2016 - $3,486 (€3,316)).

The CNH Facility and CSI Facility are independent of each other. The CNH Facility is not guaranteed by Constellation or its subsidiaries nor is Constellation or its subsidiaries subject to the terms of the 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 CNH Facility imposes limitations on the amount of distributions that CNH and its subsidiaries may make to Constellation.

On July 14, 2017, CNH completed an amendment and restatement of the CNH Facility. The original term loan of €116,500 was repaid in full and concurrently replaced by a new revolving credit facility (the “New CNH Facility”). As a result of entering into the New CNH Facility with a number of European financial institutions, 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 drawn balance amounts to €72,500 at July 14, 2017. 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.

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%. From and including March 31, 2018 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 six months ended June 30, 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 six-month period ended June 30, 2017 and June 30, 2016, no options were exercised.

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

10. Provisions

At January 1, 2017	$	9,034
Reversal		(686)
Provisions recorded during the period		6,101
Provisions used during the period		(6,065)
Effect of movements in foreign exchange and other		434
At June 30, 2017	$	8,818
Provisions classified as current liabilities		7,939
Provisions classified as other non-current liabilities		879

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, 2017 was 33% and 32% (three and six months ended June 30, 2016 was 27% and 30% respectively).

12. Capital and other components of equity

	Common Shares		
	Number		Amount
June 30, 2017	21,191,530	$	99,283
December 31, 2016	21,191,530	$	99,283

Dividends and other distributions to shareholders

During the three months ended June 30, 2017 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, 2017 representing $21,192 was paid and settled on July 6, 2017. The dividend declared in the quarter ended March 31, 2017 representing $21,192 was paid and settled on April 5, 2017.

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

A dividend of $1.00 per share representing $21,192 was accrued as at December 31, 2016 and subsequently paid and settled on January 5, 2017.

13. Finance and other income and finance costs

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Losses (gains) on sale of available-for-sale financial assets transferred from other comprehensive income	$ 661	$ -	$ 1,540	$ -
Interest income on cash	(903)	(71)	(1,670)	(155)
Finance and other income	(166)	(192)	(299)	(117)
Finance and other income	$ (408)	$ (263)	$ (429)	$ (272)
Interest expense on bank indebtedness and debentures	$ 5,170	$ 5,713	$ 10,625	$ 11,810
Amortization of debt related transaction costs	274	288	557	526
Amortization of debenture discount (premium) and associated rights offering, net	(1,005)	(1,035)	(2,016)	(2,037)
Other finance costs	1,034	300	1,565	722
Finance costs	$ 5,473	$ 5,266	$ 10,731	$ 11,021

During 2014, the Company entered into a floating-to-fixed interest rate swap to manage its cash-flow interest rate risk associated with the CNH Facility. The notional principal amount of the outstanding floating to fixed interest rate swap contract at June 30, 2017 was €116,500. The fair value of the interest rate swap contract at June 30, 2017 was $187 (December 31, 2016 - $503) and is recorded in accumulated other comprehensive income (loss).

14. Earnings per share

Basic and diluted earnings per share

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Numerator:				
Net income	$ 51,150	$ 54,995	$ 91,583	$ 73,666
Denominator:				
Basic and diluted shares outstanding	21,192	21,192	21,192	21,192
Earnings per share				
Basic and diluted	$ 2.41	$ 2.60	$ 4.32	$ 3.48

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

15. Financial instruments

Fair values versus carrying amounts

The carrying values of cash, accounts receivable, accounts payable, accrued liabilities, dividends 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 equity securities available for sale and the TSS Membership Liability approximates their fair value.

The Company has capitalized transaction costs associated with the CSI Facility and CNH Facility. As at June 30, 2017, the fair value of the CNH Facility is $133,067 and the carrying value is $129,726 (December 31, 2016: fair value of $126,183 and carrying value of $122,697). As at June 30, 2017, the fair value of the Debentures is $255,458 and the carrying value is $230,233 (December 31, 2016: fair value of $243,514 and carrying value of $223,870).

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.

Financial assets and financial liabilities measured at fair value as at June 30, 2017 and December 31, 2016 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, 2017				December 31, 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Available-for-sale equity securities	$ -	$ -	$ -	$ -	$ 4,236	$ -	$ -	$ 4,236
	-	**-**	**-**	**-**	**4,236**	**-**	**-**	**4,236**
Liabilities:								
Contingent consideration	$ -	$ -	$ 15,850	$ 15,850	$ -	$ -	$ 15,538	$ 15,538
Interest rate swap contract	-	187	-	187	-	503	-	503
	-	**187**	**15,850**	**16,037**	**-**	**503**	**15,538**	**16,041**

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, 2017 and 2016.

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

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, 2017	15,538
Increase from business acquisitions	2,894
Cash payments	(4,524)
Charges through profit or loss	454
Foreign exchange and other movements	1,488
Balance at June 30, 2017	15,850
Contingent consideration classified as current liabilities	5,455
Contingent consideration classified as other non-current liabilities	10,395

Estimates of the fair value of contingent consideration is 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, 2017	Public Sector	Private Sector	Other	Consolidated Total
Revenue	$ 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 income	(35)	(109)	(264)	(408)
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	$ 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 income	(135)	(150)	(144)	(429)
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)

Three months ended June 30, 2016	Public Sector	Private Sector	Other	Consolidated Total
Revenue	$ 353,533	$ 175,135	$ -	$ 528,668
Expenses				
Staff	172,989	86,248	1,138	260,375
Hardware	17,638	4,231	-	21,869
Third party licenses, maintenance and professional services	26,660	20,330	-	46,990
Occupancy	7,680	4,738	84	12,502
Travel	11,332	4,257	45	15,634
Telecommunications	3,674	2,177	13	5,864
Supplies	1,501	745	9	2,255
Software and equipment	7,241	1,832	36	9,109
Professional fees	4,694	1,298	759	6,751
Other, net	5,339	5,503	893	11,735
Depreciation	3,655	1,454	-	5,109
Amortization of intangible assets	27,797	14,442	-	42,239
	290,200	147,255	2,977	440,432
Foreign exchange (gain) loss	(129)	(589)	7,316	6,598
TSS membership liability revaluation charge	1,687	-	-	1,687
Equity in net (income) loss of equity investees	(83)	-	-	(83)
Finance and other income	(80)	(46)	(137)	(263)
Finance costs	1,564	169	3,533	5,266
Inter-company expenses (income)	10,072	3,482	(13,554)	-
	13,031	3,016	(2,842)	13,205
Profit before income tax	50,302	24,864	(135)	75,031
Current income tax expense (recovery)	11,556	6,856	5,505	23,917
Deferred income tax expense (recovery)	(209)	944	(4,616)	(3,881)
Income tax expense (recovery)	11,347	7,800	889	20,036
Net income	38,955	17,064	(1,024)	54,995

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

Six months ended June 30, 2016	Public Sector	Private Sector	Other	Consolidated Total
Revenue	$ 676,538	$ 339,112	$ -	$ 1,015,650
Expenses				
Staff	342,275	171,118	2,209	515,602
Hardware	31,302	8,763	-	40,065
Third party licenses, maintenance and professional services	51,622	39,962	-	91,584
Occupancy	15,022	9,372	149	24,543
Travel	21,046	8,189	86	29,321
Telecommunications	6,671	4,123	28	10,822
Supplies	3,032	1,638	17	4,687
Software and equipment	14,047	3,469	74	17,590
Professional fees	9,527	2,589	1,378	13,494
Other, net	8,316	10,347	1,103	19,766
Depreciation	7,076	2,902	4	9,982
Amortization of intangible assets	58,772	30,539	-	89,311
	568,708	293,011	5,048	866,767
Foreign exchange (gain) loss	807	2,459	22,538	25,804
TSS membership liability revaluation charge	6,867	-	-	6,867
Equity in net (income) loss of equity investees	(157)	-	(150)	(307)
Finance and other income	(98)	(37)	(137)	(272)
Finance costs	3,128	477	7,416	11,021
Intercompany expenses (income)	19,850	6,951	(26,801)	-
	30,397	9,850	2,866	43,113
Profit before income tax	77,433	36,251	(7,914)	105,770
Current income tax expense (recovery)	23,767	12,950	3,954	40,671
Deferred income tax expense (recovery)	(2,664)	(1,167)	(4,736)	(8,567)
Income tax expense (recovery)	21,103	11,783	(782)	32,104
Net income	56,330	24,468	(7,132)	73,666

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, 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.

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

18. Changes in non-cash operating working capital

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Decrease (increase) in accounts receivable	$ 17,047	$ 867	$ 14,709	$ 4,465
Decrease (increase) in work in progress	7,576	(317)	4,716	(2,896)
Decrease (increase) in other current assets	(3,556)	6,878	(16,212)	1,136
Decrease (increase) in inventory	(1,828)	1,695	(3,734)	569
Decrease (increase) in non-current assets	802	(2,384)	1,435	(2,579)
Increase (decrease) in other non-current liabilities	(1,189)	2,153	(1,483)	(3,399)
Increase (decrease) in accounts payable and accrued liabilities, excluding holdbacks from acquisitions	(7,589)	(6,358)	(53,763)	(44,612)
Increase (decrease) in deferred revenue	(84,190)	(54,885)	54,481	38,697
Increase (decrease) in provisions	1,358	(793)	(501)	(2,629)
Change in non-cash operating working capital	$ (71,569)	$ (53,144)	$ (352)	$ (11,248)

19. Subsequent events

On July 26, 2017 the Company declared a $1.00 per share dividend that is payable on October 4, 2017 to all common shareholders of record at close of business on September 15, 2017.